

# **Bacanora Lithium Plc**

## **Terms of reference of the Audit Committee**

### **1 Purpose**

The Audit Committee's overall goal is to ensure that Bacanora Lithium plc (the "Company") adopts and follows a policy of proper and timely disclosure of material financial information and reviews all material matters affecting the risks and financial position of the Company.

### **2 Scope**

The Committee shall be responsible for overseeing for the Company, major subsidiaries and the Group as a whole, the following matters:

- Financial reporting;
- Internal control and risk management systems;
- Internal audit function;
- External audit and the relationship with the external auditors; and
- Whistleblower and Fraud programme

### **3 Roles and Responsibilities**

#### **3.1 Financial Reporting**

The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly Financial Statements, and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain. 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.

In particular, the Committee shall review and challenge where necessary:-

- Significant accounting policies and practices adopted by the Company, and compliance with financial reporting standards, listing rules and relevant legislation, together with any changes to them;
- the methods used to account for significant or unusual transactions where different approaches are possible for the accounting treatment;
- whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, after considering the views of the external auditor;
- the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;
- all material information presented with the financial statements, including the Strategic Report (insofar as it relates to the audit and risk management), and
- management's assessment of going concern and the company's long-term viability.

The Committee should 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 performance, business model and strategy. The Committee shall recommend to the Board that the financial information in the annual and half-year reports be approved.

#### **3.2 Internal Controls and Risk Management Systems**

The Committee shall:

##### ***Internal Controls***

- Review the adequacy and effectiveness of the Company's internal controls, including financial, operational and compliance controls.
- Review the effectiveness of management processes and internal control over financial reporting, including the estimation and reporting of mineral reserves and resources

***Risk Management***

- Review procedures and systems established by management to identify, assess, monitor and manage risk and monitor the proper implementation of such controls. This will include the adequacy and effectiveness of risk management systems applied to these risks and the conclusions of any testing carried out by internal review or external audit functions.
- Assess whether the level of assurance it receives on risk management and internal controls is sufficient to establish whether the controls are operating effectively.
- Ensure that there are clear procedures for the assessment of material risks at the Board level.
- Oversees the implementation of risk management ensuring the maintenance of the Company's Risk register.
- Review and approve the statements to be included in the annual report concerning internal controls and risk management.

**3.3 Internal Audit**

At the current stage of development of the Company, there is no dedicated Internal Audit function. The Audit Committee, in consultation with the Auditors, believes that the Company's current system of internal controls are sufficient for the time being. The Committee will continue to review this situation on an annual basis and will institute a dedicated Internal Audit function as and when appropriate.

**3.4 External Audit**

The Committee shall oversee the Company's relationship with the external auditor, including:

***Appointment and Tendering***

- Assess on an annual basis, and report to the Board on, the qualification, expertise and resources, and independence of the external auditors and the effectiveness of the audit process.
- Make recommendations to the Board, to be put to shareholders for approval at the annual general meeting of shareholders, in relation to the appointment, re-appointment and removal of the external auditor.
- Conduct a tender process at least once every 10 years to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent external auditor with those of other audit firms. The Committee will endeavour to conduct its process in accordance with guidance provided by the FRC's "Notes on Best Practice" (2017) and the Investment Association's "Guidelines on Audit Tenders (2017)". In respect of such tender:
  - oversee the selection process and
  - ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process;
- If an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required.

***Terms and Remuneration***

- Approve their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit ensuring that it has been updated to reflect any changes in circumstances arising since the previous year;
- Approve the remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted
- Review with the external auditors the scope of their audit and, if not satisfied as to its adequacy, arrange for additional work to be undertaken;

***Independence, including the provision of non-audit services***

- Review and monitor 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;
- Recommend to the Board the policy for the rotation of the external audit partners and disclose to shareholders if the audit partner does not rotate after five years.
- Develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter.

- Satisfy 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);
- Review and approve the Company's hiring policy regarding former employees of the present or former auditor, then monitoring the implementation of this policy;
- Monitor 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;
- Assess annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
- Consider the risk of the withdrawal of the Company's present external auditor from the market; and
- Evaluate the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of their external auditor from the market in that evaluation;

#### ***Annual audit cycle***

- Meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage.
- Review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement; and
- Review the findings of the audit with the external auditor. This shall include:
  - a discussion of any major issues which arose during the audit;
  - any accounting and audit judgements; and
  - levels of errors identified during the audit.
- Review the effectiveness of the audit and obtain feedback from key internal people involved in the audit;
- Review any representation letter(s) requested by the external auditor before they are signed by management;
- Review the management letter and management's response to the auditor's findings and recommendations;
- Meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit;

### **3.5 Whistleblowing and fraud**

The Committee shall:

- Review the adequacy and security of the Company's Whistleblower policy and arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing 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;
- Review the Company's procedures for detecting fraud; and
- Review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

## **4 Membership**

The Committee shall comprise of at least three members, all of whom shall be non-executive directors and, where possible, all of whom should qualify as "independent", as approved by the Board taking into account discussions with the Nomad and guidance provided by the QCA.

A majority of members of the Committee shall be financially literate. For purposes hereof "financially literate" shall mean the ability to read and understand a set of financial statements that present the breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can be reasonably be expected to be raised by the Company's financial statements.

Members of the Committee shall be appointed annually at a meeting of the Board, typically held after the annual shareholders' meeting, on the recommendation of and in consultation with the Committee Chairman. Any member may be removed or replaced at any time by the Board and shall in any event cease to be a member of the Committee upon ceasing to be a member of the Board. Where a vacancy occurs at any time in the membership of the Committee, it may be filled by the Board.

Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chairman, Chief Executive Officer, Chief Financial Officer, other directors, the heads of risk, compliance and internal audit and representatives from the finance function may be invited to attend all or part of any meeting as and when appropriate and necessary.

The Board shall appoint the Committee Chairman, who shall be an independent director. The Chairman shall have responsibility for overseeing that the Committee fulfills its mandate and its duties effectively. In the absence of the Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

## **5 Secretary**

The Company Secretary or his or her nominee 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 all issues.

## **6 Quorum and majority**

The quorum necessary for the transaction of business shall be any two (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.

Members may participate in a meeting of the Committee by means of conference telephone or other communication equipment.

Any matter to be determined by the Committee shall be decided by a majority of the votes cast at a meeting of the Committee called for such purpose. Any action of the Committee may also be taken by an instrument or instruments in writing signed by all of the members of the Committee (including in counterparts) and any such action shall be as effective as if it had been decided by a majority of the votes cast at a meeting of the Committee called for such purpose.

## **7 Meetings**

The Committee shall meet at least four times a year at appropriate times in the reporting and audit cycle and otherwise as required. The Chair of the Committee shall prepare and/or approve an agenda in advance of each meeting.

## **8 Notice of Meetings**

Meetings of the Committee shall be called by the Secretary of the Committee at the request of any of its members or at the request of external or internal auditors if they consider it necessary.

Unless otherwise agreed by consent of all members in writing, 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 and all other non-executive directors, no later than five 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.

## **9 Minutes of Meetings**

The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance. The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee. Once approved, minutes should be circulated to all members of the Board.

## **10 Reporting Responsibilities**

The Committee Chairman shall report formally to the Board on the Committee's proceedings after each meeting on all matters within its duties and responsibilities. The Committee Chairman shall also report to the Board on how it has discharged its responsibilities, as set out herein.

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

The Committee shall compile a report to shareholders on its activities to be included in the Company's Annual Report. The report should include an explanation of how the Committee has addressed the effectiveness of the external audit process; the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the external auditor; and all other information requirements set out in the QCA Guidelines.

In compiling the reports referred to above, the Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the Board's assessment of whether the Company is a going concern. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

## **11 Other Matters**

The Committee shall:

- have access to sufficient resources in order to carry out its duties, including access to the Company's secretary for assistance as required;
- be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- at all times give due consideration to laws and regulations, the provisions of and recommendations in the QCA Code, the requirements of the AIM Rules for Companies and UK Listing Authority's Prospectus and Disclosure and Transparency Rules and any other applicable rules (as appropriate);
- oversee any investigation of activities which are within its terms of reference;
- arrange for periodic review of its own performance and, at least annually, review its 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; and
- work and liaise as necessary with all other Board committees.

## **12 Authority**

The Committee is authorised:-

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

## **13 Review**

The Committee with input by the Chair of the Board will review these terms of reference at least every two years or, where circumstances warrant, at such shorter interval as is necessary, to determine if further additions, deletions or amendments are required and make a recommendation to the Board as to their approval.

## **14 History**

These Terms of Reference were:

- Initially adopted by the Board on 18 February 2018;
- Updated by the Board on 24 July 2019
- Updated by the Board on 30 June 2020