

# Audit and Risk Committee Charter

**Lantern Hotel Group**  
*(Comprising Lantern Hotel Group Limited and Lantern RE Ltd)*  
(Lantern or Group)

Adopted by the Board on 19 August 2016.

## 1. Introduction

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The purpose of this Audit and Risk Committee Charter is to specify the authority delegated to the Audit and Risk Committee (**Committee**) by the Board and to set out the role, responsibilities, membership and operation of the Committee.

The Committee is a committee of the Board and is authorised by the Board to assist it in fulfilling its statutory, fiduciary and regulatory responsibilities. It has the authority and power to exercise the role and responsibilities set out in this charter and granted to it under any separate resolutions of the Board from time to time.

## 2. Role of the Committee

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The role of the Committee is to assist the Board in carrying out its accounting, auditing and financial reporting responsibilities, including oversight of:

- (a) The integrity of Lantern's external financial reporting and financial statements;
- (b) The appointment, remuneration, independence and competence of Lantern's external auditors;
- (c) The performance of the external audit function and review of their audits;
- (d) The effectiveness of Lantern's system of risk management and internal controls; and
- (e) Lantern's systems and procedures for compliance with applicable legal and regulatory requirements.

## 3. Audit and Risk Responsibilities

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### 3.1 External Reporting

The Committee is responsible for:

- (a) Reviewing the appropriateness of the accounting principles adopted by

**LANTERN HOTEL GROUP  
AUDIT AND RISK COMMITTEE CHARTER**

- management in the composition and presentation of financial reports;
- (b) Overseeing the preparation of financial reports and reviewing the results of external audits of these reports;
  - (c) Assessing significant estimates and judgments in financial reports by examining the processes used to derive material estimates and judgments and seeking verification of those estimates from external auditors;
  - (d) Reviewing management's processes for ensuring and monitoring compliance with laws, regulations and other requirements relating to the preparation of accounts and external reporting by Lantern of financial and non-financial information;
  - (e) Assessing (before publication) whether external reporting is consistent with Committee members' information and knowledge and is adequate for securityholder needs;
  - (f) Reviewing material documents and reports prepared for lodgment with regulators, assessing their impact on Lantern and making recommendations to the Board on their approval or amendment;
  - (g) Ensuring that a comprehensive process is established to capture issues for the purpose of continuous reporting to ASX;
  - (h) Reviewing the completeness and accuracy of Lantern's main corporate governance practices as required by ASX Listing Rules;
  - (i) Assessing information from external auditors that affects the quality of financial reports;
  - (j) Asking the external auditor for an independent judgment about the appropriateness of the accounting principles used and the clarity of financial disclosure practices used by Lantern;
  - (k) Assessing solvency and the going concern assumption;
  - (l) Assessing the management of non-financial information in documents to ensure that conflicts with financial statements and other documents do not occur; and
  - (m) Recommending to the Board whether the financial and non-financial statements should be signed based on the Committee's assessment of them.

**3.2 External Audit**

The Committee is responsible for:

- (a) Making recommendations to the Board on the appointment and remuneration

**LANTERN HOTEL GROUP  
AUDIT AND RISK COMMITTEE CHARTER**

- of the external auditor and, if appropriate, recommending that tenders be called to assist in deciding which external auditor should be recommended;
- (b) Agreeing the terms of engagement of the external auditor before the start of each audit;
  - (c) Reviewing the external auditor's fee and being satisfied that an effective, comprehensive and complete audit can be conducted for the external auditor's set fee;
  - (d) Monitoring the effectiveness and independence of the external auditor, and periodically assessing their performance;
  - (e) Reviewing the external auditor's independence based on the external auditor's relationships and services with Lantern and other organisations;
  - (f) Assessing whether the external auditor's provision of non-audit services impairs or appears to impair their judgment or independence and, if required, developing policies for Board approval to ensure this does not occur;
  - (g) Making recommendations to the Board on the removal of the external auditor;
  - (h) Ensuring that any recommendation to replace the external auditor is carefully evaluated before the Board makes a final decision;
  - (i) Inviting the external auditor to attend Committee meetings to review the audit plan, discuss audit results and consider the implications of external audit findings;
  - (j) Reviewing the scope of the external audit, including identified risk areas and any additional procedures, with the external auditor on a periodic basis;
  - (k) Raising with the external auditor any specific points of divergence with Lantern's management;
  - (l) Monitoring and examining management's response to the external auditor's findings and recommendations;
  - (m) Reviewing all representation letters signed by management and ensuring all information provided is complete and appropriate;
  - (n) Ensuring receipt of the CEO and CFO declaration required pursuant to section 295A of the Corporations Act in relation to financial statements for a financial period;
  - (o) Meeting with the external auditor without management present at least once a year; and
  - (p) Establishing procedures for the selection and appointment of the external

**LANTERN HOTEL GROUP  
AUDIT AND RISK COMMITTEE CHARTER**

auditor and for the rotation of external audit engagement partners.

**3.3 Internal Control and Risk Management**

The Committee is responsible for:

- (a) Preparing a risk profile which describes the material risks facing Lantern including financial and non-financial matters;
- (b) Regularly reviewing and updating the risk profile;
- (c) Ensuring that Lantern has an effective risk management system;
- (d) Conducting an annual review of the Group's risk management framework;
- (e) Assessing and ensuring that there are internal processes for determining and managing key risk areas, such as:
  - (i) Non-compliance with laws, regulations, standards and best practice guidelines including industrial relations, occupational health and safety, environmental and trade practices laws;
  - (ii) Important judgments and accounting estimates;
  - (iii) Business licence requirements;
  - (iv) Litigation and claims;
  - (v) Fraud and theft; and
  - (vi) Relevant business risks not dealt with by other Board committees;
- (e) Determining if there is any material exposure to economic, environmental and social sustainability risks, and if so, evaluate the management of those risks;
- (f) Receiving reports concerning material and actual incidents within the risk areas above and ensuring that macro risks are reported to the Board at least annually;
- (g) Conducting investigations of breaches or potential breaches of internal controls, and incidents within the risk areas above, particularly in relation to accounts and financial reporting;
- (h) Evaluating the independence of external auditors;
- (i) Examining and evaluating the effectiveness of the internal control systems and processes with management and external auditors and making improvements;

**LANTERN HOTEL GROUP  
AUDIT AND RISK COMMITTEE CHARTER**

- (j) Making publicly available a description of Lantern’s risk management policy and internal compliance and control system in the corporate governance section of Lantern’s website;
- (k) Encouraging voluntary reporting by employees to the Committee of breaches of internal controls and Lantern’s policies, and incidents within the risk areas above;
- (l) Assessing existing controls that management has in place for unusual transactions or transactions with more than an accepted level of risk;
- (m) Reviewing the delegated levels of authority to management; and
- (n) Meeting periodically with key management, external auditors and compliance staff to understand Lantern’s control environment.

**3.4 Related Party Transactions**

The Committee is responsible for reviewing and monitoring the propriety of related party transactions.

**4. Membership**

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**4.1 Composition and Size**

The Committee shall consist of at least two members, all of whom are independent, non-executive directors. The Board reserves the right to appoint external advisors to this Committee.

Each member must be free from any interest, business or other relationship which, in the opinion of the Board, could, or could reasonable be perceived to, materially interfere with the exercise of his or her independent judgment as a member of the Committee.

The term of service of Committee members will be reviewed by the Board at least annually with a view to rotating members periodically, but without losing the continuity of experience and knowledge gained by the members of the Committee.

If a member of the Committee retires, is removed or resigns from the Board, that member ceases to be a member of the Committee. The Board will appoint the successor.

**4.2 Chairman**

The Chairman of the Committee shall be an independent non-executive director who is not the Chairman of the Board.

The Board will appoint the Chairman of the Committee. If, for a particular Committee meeting the Committee Chairman is not present within 10 minutes of the nominated

**LANTERN HOTEL GROUP  
AUDIT AND RISK COMMITTEE CHARTER**

starting time of the meeting, the Committee may elect a chairman for that meeting.

**4.3 Technical Expertise**

The Committee must be structured so that:

- (a) All members are financially literate, that is, are able to read and understand financial statements;
- (b) At least one member has financial expertise, that is, is an accountant or financial professional with experience of financial and accounting matters; and
- (c) Some members have an understanding of the industry in which Lantern operates.

**4.4 Company Secretary**

The Company Secretary of the Board shall be the Company Secretary of the Committee.

**5. Committee Meetings and Process**

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**5.1 Meetings**

The Committee will meet as frequently as required to perform its functions, but not less than twice per year. The chairman must call a meeting of the Committee if requested by any member of the Committee, the external auditor or the Chairman of the Board.

**5.2 Quorum**

Two members of the Committee constitute a quorum for meetings of the Committee.

**5.3 Attendance by Management and Advisers**

The Chief Executive Officer and Chief Financial Officer are expected to attend each scheduled meeting of the Committee and a standing invitation will be issued to the external auditors.

The Committee Chairman may also invite directors who are not members the Committee, other senior managers and external advisers to attend meetings of the Committee. The Committee may request management and/or others to provide such input and advice as is required.

**5.4 Notice, Agenda and Papers**

The Chairman of the Committee will determine the meeting agenda after appropriate consultation.

**LANTERN HOTEL GROUP  
AUDIT AND RISK COMMITTEE CHARTER**

Unless otherwise agreed or considered necessary by the Chairman, notice of each meeting confirming the venue, date and time together with an agenda of items to be discussed and supporting papers, will be circulated by the Company Secretary to each Committee member and any other individual invited to attend, not less than three business days before the meeting. Copies of the Agenda and supporting papers are also to be circulated to all board members.

**5.5 Minutes**

The Company Secretary will keep minute books to record the proceedings and resolutions of the Committee meetings.

The Chairman of the Committee, or delegate, will report to the Board after each Committee meeting.

The Committee must refer any matter of significant importance to the Board for its consideration and attention.

**5.6 Access to Information and Advisers**

The Chairman of the Committee shall receive all reports between the external auditor and management.

The Committee has the authority to:

- (a) Require management or others to attend meetings and to provide any information or advice that the Committee requires;
- (b) Access Lantern's documents and records;
- (c) Obtain the advice of special or independent counsel, accountants or other experts, without seeking approval of the Board or management; and
- (d) Access management and external auditors.

**6. Committee's Performance and Review and Publication of Charter**

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The performance of the Committee will be reviewed on an annual basis, or earlier if circumstances dictate. The performance evaluation will have regard to the extent to which it has met its responsibilities in terms of this charter.

This charter shall be reviewed on an annual basis and can be amended by resolution of the Board.

This charter will be available on Lantern's website and the key features will be published in the Corporate Governance Statement.