

# NIHAO MINERAL RESOURCES INTERNATIONAL, INC.

## Audit Committee Charter

- i. The Audit Committee shall be composed of at least three (3) members of the Board, who shall preferably have accounting and finance backgrounds, one (1) of whom shall be an Independent Director.

The Chairman of the Audit Committee shall not be the Chairman of the Board.

Each member should have at least an adequate understanding or competence of most of the Corporation's financial management systems and environment.

The Audit Committee may also serve as the Corporation's Board Risk Oversight Committee and Related Party Transaction's Committee, in case none has been separately established.

- ii. Duties and Responsibilities

- o Assist the Board by overseeing the Corporation's financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations;
- o Recommend the approval the Internal Audit Charter, which formally defines the role of Internal Audit and the audit plan as well as oversees the implementation of the Internal Audit Charter;
- o Through the Internal Audit Department, monitor and evaluate the adequacy and effectiveness of the corporation's internal control system, integrity of financial reporting and security of physical and information assets;
- o Develop internal control procedures and processes that will provide a system of checks and balances in order to safeguard the Corporation's resources and ensure their effective utilization, to prevent occurrence of fraud and other irregularities, protect the accuracy and reliability of the Corporation's financial data, and ensure compliance with applicable laws and regulations;
- o Oversee the Internal Audit Department and recommend the appointment and/or grounds for approval of an internal audit head/Chief Audit Executive. The Audit Committee should also approve the terms and conditions for outsourcing internal audit services;

- Establish and identify the reporting line of the Internal Auditor to enable him to properly fulfill his duties and responsibilities. The Internal Auditor should directly report to the Audit Committee;
- Review and monitor Management's responsiveness to the Internal Auditor's findings and recommendations;
- Prior to the commencement of the audit, discuss with the External Auditor the nature, scope and expenses of the audit, and ensure the proper coordination of more than one (1) audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;
- Evaluate and determine the non-audit work, if any, of the External Auditor, and periodically review the non-audit fees paid to the External Auditor in relation to the total fees paid to him and to the Corporation's overall consultancy expenses. The Audit Committee should disallow any non-audit work that will conflict with his duties as an External Auditor or may pose a threat to his independence (As defined by the Code of Ethics for Professional Accountants). The non-audit work, if allowed, should be disclosed in the Corporation's Annual Report and Annual Corporate Governance Report; and
- Review and approve the Interim and Annual Financial Statements before their submission to the Board with particular focus on the following matters:
  - Any change/s in accounting policies and practices;
  - Areas where a significant amount of judgment has been exercised;
  - Significant adjustments resulting from the audit;
  - Going concern assumptions;
  - Compliance with accounting standards; and
  - Compliance with tax, legal and regulatory requirements.
- Review the disposition of the recommendations of the External Auditor's management letter;
- Perform oversight functions over the Corporation's Internal and External Auditors. It should ensure the independence of Internal and External Auditors, and that both auditors are given unrestricted access

to all records, properties and personnel to enable them to perform their respective audit functions;

- Coordinate, monitor and facilitate compliance with laws, rules and regulations;
- Recommend to the Board the appointment, re-appointment, removal and fees of the External Auditor, duly accredited by the Commission, who undertakes an independent audit of the Corporation, and provide an objective assurance on the manner by which the financial statements should be prepared and presented to the Shareholders;
- Assess the integrity and independence of external auditors; and
- Disclose the nature of non-audit services performed by the External Auditor in the Annual Report.

iii. Board Risk Oversight Functions

The Audit Committee shall also serve as the Board Risk Oversight Committee, in the event that no such committee was established. As such, the Audit Committee shall perform the following functions:

- Assist the Board in ensuring that there is an effective and integrated risk management process in place.
- Develop a formal enterprise risk management plan which contains the following elements:
  - Common language or register of risks;
  - Well-defined risk management goals, objectives and oversight;
  - Uniform processes of assessing risks and developing strategies to manage prioritized risks;
  - Designing and implementing risk management strategies; and
  - Continuing assessments to improve risk strategies, processes and measures.
- Oversee the implementation of the enterprise risk management plan through a Management Risk Oversight Committee;
- Conduct regular discussions on the Corporation's prioritized and residual risk exposures based on regular risk management reports, and

assess how the concerned units or offices are addressing and managing these risks;

- Evaluate the risk management plan to ensure its continued relevance, comprehensiveness and effectiveness;
- Revisit defined risk management strategies, look for emerging or changing material exposures, and stay abreast of significant developments that seriously impact the likelihood of harm of loss;
- Advise the Board on its risk appetite levels and risk tolerance limits;
- Review at least annually the Corporation's risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework, the external economic and business environment, and when major events occur that are considered to have major impacts on the Corporation;
- Assess the probability of each identified risk becoming a reality and estimate its possible significant financial impact and likelihood of occurrence. Priority areas of concern are those risks that are the most likely to occur and to impact the performance and stability of the Corporation and its Stakeholders;
- Provide oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risk exposures of the Corporation. This function includes regularly receiving information on risk exposures and risk management activities from the Management; and
- Report to the Board on a regular basis, or as deemed necessary, the Corporation's material risk exposures, the actions taken to reduce the risks, and recommend further action or plans as necessary.

iv. Related Party Transactions Functions

The Audit Committee shall also serve as the Related Party Transactions Committee, in the event that no such committee was established. As such, it shall also perform the following functions:

- Review all material related party transactions of the Corporation;
- Evaluate on an on-going basis existing between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice

versa) are captured. Related parties, RPTs and changes in relationships should be reflected in the relevant reports to the Board and regulators/supervisors;

- Evaluate all material related party transactions to ensure that these are not undertaken on more favorable economic terms (e.g. price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the Corporation are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transaction. In evaluating related party transactions, the Committee takes into account, among other, the following:
  - Related party's relationship to the Corporation and interest in the transaction;
  - Material facts of the related party transaction, including the proposed aggregate value of such transaction;
  - Benefits to the Corporation of the transaction;
  - Availability of other sources of comparable products or services; and
  - Assessment of whether the proposed related party transaction is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The Corporation should have an effective price discovery system in place and exercise due diligence in determining a fair price for related party transactions.
- Ensure that appropriate disclosures is made, and/or information is provided to regulating and supervising authorities relating to the Corporation's related party transaction exposures, and policies on conflicts of interest or potential conflicts of interest. The disclosure should include information on the approach to managing material conflicts of interests that are inconsistent with such policies, and conflicts that could arise as a result of the Corporation's affiliation or transactions with other related parties;
- Report to the Board on a regular basis, the status and aggregate exposures to each related party, as well as the total amount of exposures to all related parties;

- Ensure that transactions with related parties, including write-offs of exposures, are subject to periodic independent review or audit process; and
- Oversee the implementation of the system for identifying, monitoring, measuring, controlling and reporting related party transactions, including a periodic review of related party transaction policies and procedures.