

AUDIT AND RISK COMMITTEE TERMS OF REFERENCE

1. PURPOSE AND MANDATE OF THE COMMITTEE

- 1.1 The Committee is constituted as a Committee of the Board of Directors of the Company. In the context of these terms of reference, “Company” means Petra Diamonds Limited, its subsidiaries and other group business units.
- 1.2 The Committee’s roles and responsibilities are set out hereunder. The duties of the members of the Committee are in addition to those as members of the Board, as applicable.
- 1.3 The Committee will assist the Board in discharging its oversight responsibilities relating to Audit- and Risk matters and such other matters as set out in these terms of reference.
- 1.4 These Terms of Reference are subject to the Company’s bye laws and the UK Corporate Governance Code 2018.

2. COMPOSITION OF THE COMMITTEE

- 2.1 Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the chairperson of the Committee. Appointments to the Committee shall be for a period of up to 3 years extendable by further periods of up to 3 years, so long as members continue to be independent. The Committee will be made up of at least three members, all of whom shall be independent non-executive directors and at least one of whom will have recent and relevant financial expertise. The Committee as a whole shall have competence relevant to the sector in which the Company operates and the Chair of the Board shall not be a member.
- 2.2 Only members of the Committee are entitled to attend and vote at meetings, however other directors, external advisors and senior managers may be invited to the meetings when required.
- 2.3 The external auditors will be invited to attend meetings of the Committee on a regular basis.
- 2.4 The Chairperson of the Committee shall be appointed by the Board and shall be an independent non-executive director. In absence of the Committee Chairperson, the remaining members present shall elect one of the Committee members to chair the meeting.

3. MEETINGS AND QUORUM

- 3.1 The Company Secretary or their nominee shall act as secretary of the Committee.
- 3.2 The Committee shall meet at least three times a year and at such other times as may be required. Notice of a meeting as well as the agenda and working papers shall be sent to the Committee at least 5 days prior to the meeting. Minutes of the meeting shall be distributed to the Members promptly after the meeting.
- 3.3 The quorum required for the transaction of business shall be two members.
- 3.4 Should a meeting of the Committee not be quorate, the actions taken by the Committee in terms of the resolutions taken at such non-quorate meeting shall be ratified by the Board

- 3.5 Committee members are expected to attend all scheduled meetings of the Committee, whether in person or via telephone/video conference. If absent, the submission of a prior apology to the Chairperson or Company Secretary is required.

4. AUTHORITY OF THE COMMITTEE

- 4.1 The Committee is authorised by the Board to investigate any activity or state of affairs within its terms of reference.
- 4.2 The Committee is authorised to seek any information it requires from any employees or officers through any of the Company's executives.
- 4.3 The Committee may obtain, at the Company's expense, subject to any budgetary constraints imposed by the Board, outside expert advice from the Company's auditors, professional advisers or otherwise, and to take independent professional advice and to require the attendance of outsiders with relevant experience and expertise if it considers it necessary.
- 4.4 The Committee may delegate its authority as per the Petra Group Delegation of Authority Policy and Matrix, which is approved by the Board. The Matrix will be attached as an annexure to these terms of reference and will be updated as and when amendments are made to the Matrix through the necessary approval framework.
- 4.5 The Committee shall 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. If the Board has not accepted the Committee's recommendation on the external auditor appointment, reappointment or removal, the Company's annual report should include a statement explaining the Committee's recommendation and the reasons why the Board has taken a different position.

5. DUTIES AND RESPONSIBILITIES OF THE COMMITTEE

5.1 Duties relating to Financial Reporting

- 5.1.1 The Committee shall monitor the integrity of the financial statements of the Company, including its annual report, interim management statements (Trading Updates), interim and preliminary full year results announcements and any other formal announcement relating to its financial performance, reviewing any significant financial reporting issues and judgements which they contain. The Committee will 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.
- 5.1.2 Where requested by the Board, the Committee should review the content of the annual report 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 the Code.
- 5.1.3 In particular, the Committee shall review and challenge where necessary:
- a) the application and consistency of, and any changes to, accounting policies both on a year on year basis and across the Group,

- b) the methods used to account for significant or unusual transactions where different approaches are possible;
- c) whether the Company has adopted and followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- d) the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;
- e) all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management);
- f) whether it is appropriate for the Company to adopt the going concern basis of accounting including consideration of any material uncertainties to the Company's ability to do so over a period of at least 12 months from the date of approval of the financial statements; and
- g) whether it is appropriate for the Board to give its viability statement assessing the prospects of the Company over a given period including its statement that it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of the assessment.

5.1.4 Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.

5.2 Duties relating to External Audit

5.2.1 The Committee shall:

- (a) consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor;
- (b) oversee the selection process for a new auditor in accordance with the Code and ensure that all tendering firms have access to all necessary information and individuals during the selection process;
- (c) if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- (d) oversee the relationship with the external auditor including (but not limited to):
 - (i) recommendation on their remuneration, whether fees are for audit or non-audit services and that the level of fees is appropriate to enable an effective and high-quality audit to be conducted;
 - (ii) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - (iii) assessing annually the external auditor's independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole,

including any threats to the auditor's independence and the safeguards applied to mitigate those threats, including the nature and amount of any approved non-audit services;

- (iv) 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) which could adversely affect the auditor's independence and objectivity;
 - (v) agreeing with the Board a policy on the employment of former employees of the Company's auditor and monitoring the implementation of this policy;
 - (vi) monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners and the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
 - (vii) assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which will include a report from the external auditor on their own internal quality procedures; and
 - (viii) seeking to ensure co-ordination with the activities of Internal Audit.
- (e) evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the Committee;
- (f) 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;
- (g) review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
- (h) discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan ensuring it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
- (i) review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
- (i) a discussion of any major issues which arose during the audit,
 - (ii) the auditor's explanation of how the risks to audit quality were addressed;
 - (iii) any key accounting and audit judgements,

- (iv) the auditor's view of their interactions with senior management;
- (v) levels of errors identified during the audit; and
- (vi) review the effectiveness of the audit;

5.2.7 The Committee shall also:

- (a) review any representation letter(s) requested by the external auditor before signature by management;
- (b) review the management letter and management's response to the external auditor's findings and recommendations;
- (c) develop and implement a policy on the supply of non-audit services by the external auditor, taking into account:
 - (i) threats to the independence and objectivity of the external auditor and any safeguards in place;
 - (ii) the nature of the non-audit services;
 - (iii) whether the external audit firm is the most suitable supplier of the non-audit services;
 - (iv) the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
 - (v) the criteria governing compensation; and
- (d) develop a Company policy with regards to the rotation of the external auditor.

5.3 Duties relating to Internal Audit

The Committee shall:-

- 5.3.1 approve the appointment and removal of the Group's Head of Internal Audit;
- 5.3.2 monitor and review the performance and effectiveness of the Group's internal audit function in the context of its overall risk management system;
- 5.3.3 review and approve the annual internal audit plan;
- 5.3.4 annually review and recommend the internal audit charter to the board for approval;
- 5.3.5 review and confirm the independence of the internal audit function on an annual basis;
- 5.3.6 consider the major findings and recommendations of any internal audit and forensic investigations and management's response thereto and monitor implementation of remedial measures to address adverse findings;

- 5.3.7 ensure that the internal audit function is subject to an independent quality review, at least once every five years;
- 5.3.8 ensure the internal audit process has sufficient skills to address the complexity and risk faced by the Company;
- 5.3.9 ensure that the internal audit function has appropriate standing in the Company and is adequately resourced at all times to deliver on its mandate;
- 5.3.10 ensure that the Head of Internal Audit has unrestricted access to all levels of management, the Chairperson of the Committee and, where necessary, the Chairperson of the Board of Directors;
- 5.3.11 carry out an annual assessment of the effectiveness of the internal audit function and as part of this assessment:
 - a. meet with the head of internal audit without the presence of management to discuss the effectiveness of the function;
 - b. review and assess the annual internal audit work plan;
 - c. receive a report on the results of the internal auditor's work;
 - d. determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business; and
- 5.3.12 review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function;
- 5.3.13 monitor and assess the role and effectiveness of the internal audit function in the overall context of the Company's risk management system and the work of compliance, finance and the external auditor; and
- 5.3.14 consider whether an independent, third party review of processes is appropriate.

5.4 Duties relating to Internal Control

The Committee shall:-

- 5.4.1 review the effectiveness of the Company's system of internal control, including internal financial control and control over financial reporting;
- 5.4.2 review the statements to be included in the annual report concerning internal controls;
- 5.4.3 review management's evaluation of any change in the Company's internal control over financial reporting that occurred during a fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
- 5.4.4 review the operational effectiveness of the policies and procedures for preventing or detecting fraud.

5.5 Duties relating to Compliance, Whistleblowing and Fraud

The Committee shall:-

- 5.5.1 review systems, including the whistleblowing programme, that enable employees and other stakeholders to raise concerns about possible improprieties, including fraud by employees;
- 5.5.2 review how such matters are handled, including reviewing management reports on allegations/investigations of fraud, bribery and other serious wrongdoing;
- 5.5.3 review reports on the Group's compliance with material compliance obligations, including laws and regulations and monitor reporting of fraud, bribery and improper acts;
- 5.5.4 evaluate the effectiveness of the processes and reporting systems put in place by management to deal with inappropriate business conduct and integrity;
- 5.5.5 provide recommendations on any potential conflict of interest or questionable situations of a material nature; and
- 5.5.6 review with management, and any internal or external counsel as the Committee considers appropriate, any legal matters (including the status of pending litigation) that may have a material impact, financial and reputational, on the Company and any material reports or inquiries from regulatory or governmental agencies.

5.6 Duties relating to Risk Management

The Committee shall:-

- 5.6.1 advise the Board on the effectiveness of the risk management processes;
- 5.6.2 consider the risk implications of Board decisions;
- 5.6.3 review, at least annually, the risk management policies, standards and plans and ensure that the policies and standards are widely distributed across the Company, for recommendation to the Board for approval;
- 5.6.4 consider, at least annually, the levels of risk appetite and tolerance and recommend the risk appetite and tolerance levels to the Board;
- 5.6.5 monitor the risk management process and ensure that the risks are within the risk tolerance and appetite levels;
- 5.6.6 advise the Board on Company risk management maturity;
- 5.6.7 ensure that the risk management function is adequately resourced; and
- 5.6.8 review at least annually and ensure the continuous monitoring of the effectiveness and implementation of the risk management plans.

5.7 Duties relating to IT Governance

The Committee shall:-

- 5.7.1 assist the Board to oversee the development and implementation of an IT Governance Charter and policies that are integrated with the business strategy process and which sustain and enhance the Company's strategic objectives, thereby improving the Company's performance and sustainability;

- 5.7.2 oversee the implementation of IT processes and governance mechanisms, IT frameworks, policies, procedures and standards, ensuring IT governance alignment with corporate governance;
- 5.7.3 review the information security strategy (including information security, information management and information privacy) and management's implementation of the strategy; and
- 5.7.4 ensure that there are processes in place to enable complete, timely, relevant, accurate and accessible IT reporting, firstly from management to the Board, and secondly by the Board in the integrated report.

5.8 Duties relating to combined assurance

The Committee shall:-

- 5.8.1 ensure that a combined assurance model is developed to provide a coordinated approach to all assurance activities;
- 5.8.2 oversee and seek suitable assurance regarding:
 - (i) the risk exposures of the Company, including risk to the Company's business model, and solvency and liquidity risks;
 - (ii) the adequacy and effectiveness of the Company's processes and procedures to manage risk and the internal control framework, including the design, implementation and effectiveness of those systems;
 - (iii) the ability of the Company's risk management and internal control systems to identify the risks facing the Company and enable a robust assessment of principal risks;
 - (iv) the Company's capability to identify and manage new and emerging risks;
 - (v) the effectiveness and relative costs and benefits of particular controls;
 - (vi) the efficacy of management's processes for monitoring and reviewing the effectiveness of risk management and internal control systems and ensuring corrective action is taken when necessary;
 - (vii) the Company's ability to reduce the likelihood of principal risks materialising and the impact on the business of risks that do materialise; and
 - (viii) the appropriateness of the Company's values and culture and reward systems for managing risk and internal controls, and the extent to which the culture and values are embedded at all levels of the Company;
- 5.8.3 oversee the effectiveness of assurance services and functions in achieving the following objectives:
 - (i) enabling an effective internal control environment;
 - (ii) supporting the integrity of information used for internal decision making by management, the governing body and its committees; and
 - (iii) supporting the integrity of external reports; and

- 5.8.3 review the process and results of the Combined Assurance Review System to ensure that significant risks facing the Company are addressed and that the model is sufficiently robust in order for reliance to be placed on the statements made by the Company regarding the external reports.

6. REPORTING

- 6.1 The Chairperson shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 6.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is required.
- 6.3 The Committee shall produce a report to be included in the Company's annual report about its activities and the report should include:
- (a) the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed;
 - (b) an explanation of how the Committee has addressed the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the current external audit firm, when a tender was last conducted and any advance notice of any retendering plans;
 - (c) in the case of the Board not accepting the Committee's recommendation on the external auditor appointment, reappointment or removal, a statement from the Committee explaining its recommendation and the reasons why the Board has taken a different position; and
 - (d) an explanation of how auditor independence and objectivity are safeguarded if the external auditor provides non-audit services, having regard to matters communicated to it by the auditor and all other information requirements set out in the Code.
- 6.4 the Chairperson should attend the AGM to answer shareholder questions

7. OTHER

The Committee shall:-

- 7.1 arrange for periodic review of its own performance and at least annually review its terms of reference to ensure its effectiveness and recommend any changes it considers necessary to the Board for approval;
- 7.2 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;
- 7.3 have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required;
- 7.4 be responsible for oversight of the co-ordination of the internal and external auditors;
- 7.5 oversee any investigation of activities which are within its terms of reference;

- 7.6 work and liaise as necessary with all other Board committees ensuring that interaction between committees and with the Board is reviewed regularly, taking particular account of the impact of risk management and internal controls being delegated to different committees; and
- 7.7 give due consideration to relevant laws and regulations, which may be applicable to its scope of work.

8. SOURCES

The Committee should be familiar with the following:

- 8.1 The FRC Guidance on Audit Committees, which is available at <https://www.frc.org.uk/getattachment/6b0ace1d-1d70-4678-9c41-0b44a62f0a0d/Guidance-on-Audit-Committees-April-2016.pdf>
- 8.2 FRC guidance on risk management, internal control and related financial and business reporting, September 2014, which is available at: <https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code/frc-guidance-for-boards-and-board-committees>

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