

**DATED**

**28 NOVEMBER 2011**

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**PETRA DIAMONDS LIMITED**

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**AUDIT COMMITTEE**  
**TERMS OF REFERENCE**

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**PETRA DIAMONDS LIMITED (Company No. EC23123)**

**(the "Company")**

**AUDIT COMMITTEE**

**TERMS OF REFERENCE**

**1. PURPOSE**

**1.1 Primary Functions**

The Audit Committee, (the "**Committee**"), is a Committee of the Board of Directors (the "**Board**"), charged with oversight of financial reporting and disclosure and is responsible for:

- (a) overseeing the financial reporting and disclosure process;
- (b) monitoring choice of accounting polices and principles;
- (c) overseeing hiring, performance and independence of external auditors;
- (d) overseeing regulatory compliance, ethics and whistleblowing;
- (e) monitoring the internal control process;
- (f) maintaining the system of internal financial controls;
- (g) overseeing the performance of the internal audit function; and
- (h) discussing risk management policies and practices with management.

**1.2 Reporting**

- (a) The chairman of the Committee shall report formally to the Board on its proceedings after each meeting on all matters within it duties and responsibilities.
- (b) The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- (c) The Committee shall produce a report on its activities to be included in the Company's annual report.

## 2. THE COMMITTEE

### 2.1 **Membership**

- (a) Members of the Committee will be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the chairman of the Audit Committee. The Committee will be made up of at least three members (at present the Committee comprises two members; this will be revised when the Company appoints a further independent non-executive director to the Board).
- (b) All members of the Committee will be independent non-executive directors at least one of whom will have recent and relevant financial expertise.
- (c) The Chairman of the Board will not be a member of the Committee.
- (d) Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chairman of the Board, chief executive officer, finance director, other directors, 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.
- (e) The external auditors will be invited to attend meetings of the Committee on a regular basis.
- (f) Appointments to the Committee will be for a period of up to three years, which may be extended for further three year periods, provided the director still meets the criteria for membership of the Committee.
- (g) The Board will appoint the Committee chairman who will be an independent non-executive director ("**Committee Chairman**"). In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present will elect one of themselves to chair the meeting.

### 2.2 **Secretary**

The Company secretary, or their nominee, shall act as the secretary of the Committee.

### 2.3 **Quorum**

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

## 2.4 Role of Members

Committee members will utilise their personal skills, knowledge and judgement to perform the responsibilities set out below.

## 2.5 Responsibilities

The Committee should carry out the duties below for the Company, major subsidiary undertakings and the group as a whole (the "**Group**"), as appropriate.

### (a) *Financial Reporting:*

- (i) The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, interim management statements, preliminary 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.
- (ii) In particular, the Committee shall review and challenge where necessary:
  - the consistency of, and any changes to, accounting policies both on a year on year basis and across the Group,
  - the methods used to account for significant or unusual transactions where different approaches are possible;
  - whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - the clarity of disclosure in the Company's financial reports and the context in which statements are made, and
  - 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).

- (iii) The Committee will review the annual financial statements of the pension funds where not reviewed by the Board as a whole.

(b) *Internal Controls and Risk Management Systems:*

- (i) The Committee shall:
- keep under review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems; and
  - review and approve the statements to be included in the annual report concerning internal controls and risk management.

(c) *Compliance, Whistleblowing and Fraud*

- (i) The Committee shall:
- review the adequacy and security of the Company's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee will 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;
  - review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance;
  - review the adequacy and effectiveness of the Company's anti-money laundering systems and controls; and
  - review the adequacy and effectiveness of the Company's compliance function.

(d) *Internal Audit:*

- (i) The Committee shall:
- monitor and review the effectiveness of the Company's internal audit function ("**Internal Audit**") in the context of the Company's overall risk management system;

- approve the appointment and removal of the head of the Internal Audit;
- consider and approve the remit of the Internal Audit and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions;
- review and assess the annual internal audit plan;
- review promptly all reports addressed to the Committee on the Company from the internal auditors;
- review and monitor management's responsiveness to the findings and recommendations of the internal auditor; and
- meet the head of Internal Audit, at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out. In addition, the head of Internal Audit will be given the right of direct access to the Chairman of the Audit Committee.

(e) *External Audit:*

The Committee will:

- (i) 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. The Committee shall oversee the selection process for a new auditor and if an auditor resigns the Committee will investigate the issues leading to this and decide whether any action is required;
- (ii) oversee the relationship with the external auditor including (but not limited to):
  - recommendation on their 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;

- approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the nature and amount of any approved non-audit services;
  - 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);
  - agreeing with the Board a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy;
  - monitoring 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;
  - 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;
  - seeking to ensure co-ordination with the activities of Internal Audit; and
  - considering the risk of the withdrawal of the Company's present auditor from the market;
- (iii) 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;
- (iv) review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;

- (v) review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
- 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;

The Committee shall also:

- (i) review any representation letter(s) requested by the external auditor before they are signed by management;
- (ii) review the management letter and management's response to the auditor's findings and recommendations, and
- (iii) 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.

### **3. MEETINGS**

#### **3.1 Meeting Frequency and Schedule**

The Committee shall meet at least twice a year at appropriate times in the reporting and audit cycle and otherwise as required.

#### **3.2 Notice of Meetings**

- (a) 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.
- (b) Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, will 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 will be sent to Committee members and to other attendees as appropriate, at the same time.

### **3.3 Minutes of meetings**

- (a) The secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- (b) The secretary will ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly
- (c) Draft minutes of Committee meetings will be circulated promptly to all members of the Committee and, once approved, to all other members of the Board, unless a conflict of interest exists or it would be inappropriate to do so.

### **3.4 Annual General Meeting**

- (a) The Committee Chairman should attend the Annual General Meeting to answer shareholder questions on the Committee's activities.

## **4. OTHER**

The Committee will:

- (a) have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required;
- (b) 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;
- (c) give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules, all legal and regulatory requirements applicable in Jersey and Bermuda and any other applicable rules, as appropriate or relevant;
- (d) oversee the co-ordination of the internal and external auditors;
- (e) oversee any investigation of activities which are within its terms of reference and act for internal purposes as a court of the last resort, and
- (f) arrange for periodic reviews of its own performance and, at least once a year, 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.

5. **AUTHORITY**

- 5.1 The Committee is authorised by the Board to investigate any activity or state of affairs within its terms of reference.
- 5.2 The Committee is authorised to seek any information it requires from any employees or officers of the Company in order to perform its duties and to call any such employee or officer to be questioned at a meeting of the Committee as and when required.
- 5.3 The Committee is authorised by the Board, at the Company's expense, to obtain 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.
- 5.4 The Committee has the right to publish in the Company's annual report details of any issues that cannot be resolved between the Committee and the Board.

**These terms of reference were adopted by resolution of the Board passed on 28 November 2011.**