

Cluff Natural Resources PLC (the "Company")

AUDIT COMMITTEE: TERMS OF REFERENCE

1. INTRODUCTION

1.1 At a meeting of the board of directors of the Company (the "**Board**") held on 20 April 2012, the Board resolved to establish a committee known as the Audit Committee (the "**Committee**") and approved the following terms of reference for the Committee.

1.2 In these terms of reference:

"Committee Chairman" means the chairman of the Committee;

"Committee Secretary" means the secretary of the Committee; and

"Director" means a director of the Company.

2. MEMBERSHIP OF THE COMMITTEE

2.1 The members of the Committee shall be appointed by the Board. The Committee shall comprise at least three independent non-executive Directors. At least one member of the Committee should have recent and relevant financial experience.

2.2 The Board shall appoint the Committee Chairman who must also be an independent non-executive Director. In the absence of the Committee Chairman (or any deputy appointed by the Board) from any meeting of the Committee, the members of the Committee participating in the meeting shall elect one of their number (being a member who would qualify under these terms of reference to be appointed as Committee Chairman by the Board) to chair the meeting.

2.3 Only members of the Committee have the right to attend meetings of the Committee. However, other individuals (such as the chairman of the Board, the chief executive of the Company, the finance director of the Company, any other Director and representatives from the Company's risk, compliance, finance and internal audit functions) may be invited by the Committee to attend all or part of any meeting as and when the Committee considers appropriate. The external auditor and the head of the Company's internal audit function shall be invited to attend meetings of the Committee on a regular basis.

2.4 Appointments to the Committee shall be for a period of up to three years which may be extended for two further three-year periods provided the Director continues to meet the criteria for membership of the Committee.

3. **COMMITTEE SECRETARY**

The secretary of the Company (or such other person as the Committee may appoint) shall act as the Committee Secretary.

4. **PROCEEDINGS OF THE COMMITTEE**

4.1 Meetings of the Committee must be held at least three times a year at appropriate times in the reporting and audit cycle and at such additional times as may be required. Meetings of the Committee shall be called by the Committee Secretary at the request of any member of the Committee or at the request of the external or internal auditor if they consider it necessary.

4.2 Unless otherwise agreed by all members of the Committee, notice of a meeting of the Committee shall be given 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. The notice shall state the venue, time and date of the meeting and details of any arrangements for participating in the meeting and shall include or be accompanied by an agenda of items to be discussed at the meeting. Supporting papers shall be sent to members of the Committee and to other attendees as appropriate at the same time as the notice of meeting.

4.3 The quorum necessary for the transaction of business at a meeting of the Committee shall be two. 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.

4.4 Each member of the Committee must, at or prior to the commencement of each meeting of the Committee, disclose to the Committee any interest that he has in any matter or proposal to be considered at the meeting. A member of the Committee must not participate in any discussions concerning, and shall not be entitled to vote in relation to, any matter or proposal to be considered at a meeting of the Committee in which he has an interest unless that interest cannot reasonably be regarded as likely to give rise to a conflict of interest.

4.5 A decision shall be taken at a meeting of the Committee by a majority of the votes of the members of the Committee who are participating in the meeting and, subject to these terms of reference, each member of the Committee participating in the meeting has one vote.

4.6 If the number of votes for and against a proposal are equal, the Committee Chairman (or other person chairing the relevant meeting) shall have a casting vote. However, this

does not apply if, under these terms of reference, the Committee Chairman (or other person chairing the relevant meeting) is not entitled to vote on the relevant proposal.

5. **MINUTES OF MEETINGS OF THE COMMITTEE**

5.1 The Committee Secretary shall minute the proceedings and resolutions of all meetings of the Committee (including the names of those participating in the meeting and any interests disclosed pursuant to paragraph 4.4).

5.2 The Committee Secretary shall circulate draft minutes of each meeting of the Committee to all members of the Committee promptly following the meeting. When finalised and approved, the minutes shall be circulated to all members of the Board unless it would be inappropriate to do so.

6. **DUTIES OF THE COMMITTEE**

6.1 **Financial reporting**

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 announcements 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.

The Committee shall review and challenge where necessary:

- (a) the consistency of, and any changes to, accounting policies or practices both on a year-on-year basis and across the Company;
- (b) the methods used to account for significant or unusual transactions where different approaches are possible;
- (c) major judgmental areas, significant adjustments resulting from the audit and the going concern assumption;
- (d) whether the Company has complied with appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- (e) compliance with relevant financial and governance reporting requirements;

- (f) the clarity of disclosure in the Company's financial reports and the context in which statements are made; and
- (g) all material information presented with the financial statements, such as the business review/operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management).

The Company shall review the annual financial statements of the pension funds where they are not reviewed by the Board as a whole.

6.2 **Internal controls and risk management systems**

The Committee shall:

- (a) review the effectiveness of the Company's internal financial controls and internal control and risk management systems; and
- (b) review and approve the statements to be included in the Company's annual report concerning internal controls and risk management.

6.3 **Compliance, whistleblowing and fraud**

The Committee shall:

- (a) review the adequacy and security of the Company's arrangements for its employees and contractors to raise concerns, in confidence, about possible improprieties 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;
- (b) review the Company's procedures for detecting fraud; and
- (c) review the Company's procedures, systems and controls for the prevention of bribery and receive reports on non-compliance.

6.4 **Internal audit**

If and for so long as the Company has no internal audit function, the Committee shall, at least once a year, consider whether there is a need for such a function and make a recommendation to the Board in this regard.

To the extent that the Company has an internal audit function, the Committee shall:

- (a) monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system;
- (b) approve the appointment and removal of the head of the internal audit function;
- (c) consider and approve the remit of the internal audit function 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;
- (d) review and assess the annual internal audit plan;
- (e) review promptly all reports addressed to the Committee from the internal auditor;
- (f) review and monitor management's responsiveness to the findings and recommendations of the internal auditor; and
- (g) meet the head of internal audit at least once a year, without management being present, to discuss the internal auditor's remit and any issues arising from the internal audits carried out. In addition, the head of internal audit shall be given the right of direct access to the chairman of the Board and to the Committee.

6.5 External audit

The Committee shall:

- (a) consider and make recommendations to the Board, to be put to shareholders for approval at the annual general meeting of the Company, 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 shall investigate the issues leading to this and decide whether any action is required;
- (b) oversee the relationship with the external auditor including (but not limited to):
 - (i) approving their remuneration (whether for audit or non-audit services) and confirming that the level of fees is appropriate to enable an adequate audit to be conducted;
 - (ii) approving their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;

- (iii) 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 provision of any 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);
 - (v) agreeing with the Board a policy on the employment of former employees of the Company's auditor and then monitoring the implementation of this policy;
 - (vi) 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;
 - (vii) assessing 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;
 - (viii) seeking to ensure co-ordination with the activities of the internal audit function; and
 - (ix) considering the risk of the withdrawal of the Company's present auditor from the market;
- (c) 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 the external auditor's remit and any issues arising from the audit;
- (d) review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
- (e) review the findings of the audit with the external auditor. This shall include (but shall not be limited to) the following:
- (i) a discussion of any major issues which arose during the audit;
 - (ii) any accounting and audit judgements;

- (iii) levels of errors identified during the audit; and
- (iv) the effectiveness of the audit.

The Committee shall also:

- (a) review any representation letter(s) requested by the external auditor before they are signed by management;
- (b) review the management letter and management's response to the auditor's findings and recommendations; and
- (c) 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.

6.6 **General**

The Committee shall carry out such other duties as may be assigned to it, and shall consider such other matters as may be referred to it, by the Board from time to time.

In carrying out its duties under these terms of reference, the Committee shall give due regard to all applicable laws, regulations and guidance including the QCA Corporate Governance Guidelines for Smaller Quoted Companies and the London Stock Exchange's rules for AIM companies.

7. **AUTHORITY OF THE COMMITTEE**

The Committee is authorised by the Board:

- (a) to undertake such investigations and research as it considers desirable for the purpose of carrying out its duties under these terms of reference;
- (b) to obtain, at the Company's expense, outside legal or other professional advice on any matter within these terms of reference; and
- (c) to secure the participation of any person with relevant experience and expertise in meetings of the Committee if the Committee considers this appropriate.

In addition, the Committee is authorised by the Board to seek any information it requires from any officer or employee of the Company in order to perform its duties and may call any such officer or employee to be questioned at a meeting of the

Committee. All Company officers and employees will be directed to co-operate with any request for information made by the Committee.

The Company 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.

8. **REPORTING RESPONSIBILITIES**

8.1 The Committee Chairman shall report formally to the Board on the proceedings of the Committee after each meeting on all matters within its duties and responsibilities.

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

8.3 The Committee shall compile a report to shareholders on its activities to be included in the Company's annual report.

8.4 The Committee Chairman shall attend each annual general meeting of the Company prepared to respond to any questions from shareholders concerning the Committee's activities.

9. **OTHER MATTERS**

9.1 The Committee shall be:

- (a) given access to sufficient resources in order to carry out its duties (including access to the secretary of the Company for assistance as required); and
- (b) 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.

9.2 The Committee shall:

- (a) be responsible for co-ordination of the internal and external auditors; and
- (b) oversee any investigation of activities which are within these terms of reference and, for internal purposes, act as a court of last resort.

9.3 The Committee shall, at least once a year, review its own performance, constitution and terms of reference to ensure that it is operating at maximum effectiveness and recommend any changes that it considers necessary to the Board for approval.