

**AUDIT COMMITTEE MANDATE**  
**STORNOWAY DIAMOND CORPORATION**  
(the “Corporation”)

**Purpose**

To assist the board of directors (the “**Board**”) in fulfilling its oversight responsibilities for:

- (a) the integrity, quality and transparency of the Corporation’s financial statements;
- (b) the Corporation’s internal control over financial reporting;
- (c) the Corporation’s compliance with legal and regulatory requirements which relate to financial reporting;
- (d) the recommendation for the appointment of the Corporation’s external auditor made to shareholders and the approval of its compensation, as well as responsibility for its independence, qualifications and performance of all audit and audit related work; and
- (e) such other duties as assigned to it from time to time by the Board.

The function of the audit committee (the “**Committee**”) is oversight. The members of the Committee are not full-time employees of the Corporation. The Corporation’s management is responsible for the preparation of the Corporation’s financial statements in accordance with applicable accounting standards and applicable laws and regulations. The Corporation’s external auditor is responsible for the audit and review, as applicable, of the Corporation’s financial statements in accordance with applicable auditing standards and laws and regulations.

In carrying out its oversight role, the Committee and the Board recognize that the Corporation’s management is responsible for:

- (a) implementing and maintaining suitable internal controls and disclosure controls;
- (b) the preparation, presentation and integrity of the Corporation’s financial statements; and
- (c) the appropriateness of the accounting principles and reporting policies that are used by the Corporation.

**The Committee**

The Committee shall consist of at least three members of the Board. The Board will appoint the Committee members and the Committee Chair.

The Board will confirm that the Chair of the Committee and its members are independent and financially literate. Both independence and financial literacy are defined in National Instrument 52-110 (“**NI 52-110**”).

**Procedures, Powers and Duties**

In carrying out its oversight role, duties and responsibilities, the Committee believes that its policies and procedures should remain flexible, within appropriate regulatory and generally accepted accounting principles guidelines, in order to best react to changing events, conditions and circumstances.

The Committee will meet at least four times a year, with authority to convene additional meetings, as circumstances require. The Committee will invite members of management, the external auditors or others to attend meetings and provide pertinent information, as necessary. The Committee will hold private meetings with external auditors, the chief financial officer, or Vice-President Finance where acting as the

most senior financial officer of the Corporation, and others as considered necessary. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials.

The Chair of the Committee has the authority to convene additional meetings, as circumstances warrant. Any member of the Committee, the Chair of the Board, Chief Executive Officer and the Chief Financial Officer shall be entitled to request that the Chair of the Committee call a meeting within 48 hours of receipt of such request.

No business shall be transacted by the Committee except at a meeting where a majority of the members are present, either in person or by teleconference or video conference.

The Committee may:

- (a) engage outside legal, audit or other counsel and/or advisors at the Corporation's expense, without the prior approval of the directors of the Corporation;
- (b) set and pay the compensation of any advisors employed by the Committee;
- (c) review any corporate counsel's reports of evidence of a material violation of security laws or breaches of fiduciary duty relating to or having an impact on financial reporting;
- (d) seek any information it requires from employees – all of whom are directed to cooperate with the Committee's request – or external party; and
- (e) meet and/or communicate directly with Corporation's officers, external auditors or outside counsel, as necessary.

The Committee's business will be recorded in minutes of the Committee meetings, which shall be submitted to the Board.

## **Responsibilities**

The Committee will carry out the following responsibilities:

### *Financial Statements and Related Disclosure Documents*

- Review and discuss with management and the external auditor the quarterly and annual consolidated financial statements and the related disclosures contained in Management's Discussion and Analysis and news releases and approve, or where required recommend to the Board for approval, in each case subject to any required change being made, prior to the public disclosure of this information by the Corporation. Such discussion shall include:
  - (a) the choice and justification of significant accounting policies and estimates made by management and the quality, not just the acceptability, of the accounting principles applied by the Corporation;
  - (b) the reasonableness of any significant judgments made;
  - (c) the clarity and completeness of the financial statement disclosure;
  - (d) any accounting adjustments that were noted or proposed by the external auditor but were not made (as immaterial or otherwise); and
  - (e) any communication between the audit team and their national office relating to accounting or auditing issues encountered during their work.
- Review and discuss with management and the external auditor the financial information contained in any prospectus, offering memoranda and any other document containing financial information required to be disclosed or filed by the Corporation and recommend to the Board for approval, in each case subject to any required change being made prior to the public disclosure of this information.
- Review disclosure related to any insider and related party transactions, significant non-recurring events,

significant risks and changes in provisions, estimates or reserves included in the Corporation's public disclosure documents.

#### *Internal Controls*

- Review with management and the external auditor the adequacy and effectiveness of the Corporation's systems of internal control over financial reporting and disclosure, including policies, procedures and systems to assess, monitor and manage the Corporation's assets, liabilities, revenues and expenses. In addition, the Committee will review and discuss the appropriateness and timeliness of the disposition of any recommendations for improvements in the Corporation's internal control over financial reporting and disclosure.
- Obtain and review reports of the external auditor on significant findings and recommendations on the Corporation's internal controls, together with management's responses.
- Periodically discuss with management, the Corporation's policies regarding financial risk assessment and financial risk management. While it is the responsibility of management to assess and manage the Corporation's exposure to financial risk, the Committee will discuss and review guidelines and policies that govern the process. The discussion may include the Corporation's financial risk exposures and the steps management has taken to monitor and control such exposures.

#### *External Auditor*

- Receive reports directly from and oversee the external auditor.
- Discuss with representatives of the external auditor the plans for their quarterly reviews and annual audit, including the adequacy of staff and their proposed fees and expenses. The Committee will have separate discussions with the external auditor, without management present, on:
  - (a) the results of their annual audit and quarterly reviews;
  - (b) any difficulties encountered in the course of their work, including restrictions on the scope of activities or access to information;
  - (c) management's response to audit or quarterly review issues; and
  - (d) any disagreements with management.
- Pre-approve all audit and allowable non-audit fees and services to be provided by the external auditor in accordance with securities laws and regulations and the Corporation's policies and procedures pertaining to the pre-approval and reporting of such services.
- Recommend to the Board that it recommend to the shareholders of the Corporation the appointment and termination of the external auditor.
- Approve the external auditor's compensation.
- Receive reports in respect of the quarterly review and audit work of the external auditor and, where applicable, oversee the resolution of any disagreements between management and the external auditor.
- Establish and maintain direct communication channels between the Committee and the external auditor of the Corporation to discuss and review specific issues, as appropriate.
- Meet separately, on a regular basis, with management and the external auditor to discuss any issues or concerns warranting Committee attention. As part of this process, the Committee shall provide sufficient opportunity for the external auditor to meet privately with the Committee.
- At least annually, obtain and review a report from the external auditor describing:
  - (a) any sanctions made by any government or professional authorities, respecting independent audits carried out by the external auditor, and any steps taken to deal with any such issues; and

- (b) all relationships between the external auditor and the Corporation in order to assess external auditor independence and receive a letter each year from the external auditor confirming its continued independence.
- Allow the external auditor of the Corporation to attend and be heard at any meeting of the Committee.
- Review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the external auditor to ensure compliance with NI 52-110.
- At least annually, evaluate the external auditor's qualifications, performance and independence, including that of the external auditor's lead partner, and report the results of such review to the Board; and
- At least every five years, conduct a more comprehensive review of the external auditor's performance and report the results of such review to the Board.

#### *Whistleblower*

- Review procedures established with respect to employees and third parties for:
  - (a) the receipt, retention and treatment of complaints received by the Corporation, confidentially and anonymously, regarding accounting, financial reporting and disclosure controls and procedures, or auditing matters; and
  - (b) dealing with the reporting, handling and taking of remedial action with respect to alleged violations of accounting, financial reporting and disclosure controls and procedures, or auditing matters, as well as certain other alleged illegal or unethical behaviour, in accordance with the Corporation's related policies and procedures.

#### *Compliance*

- Review disclosures made by the Corporation's chief executive officer and chief financial officer, or Vice-President Finance where acting as the most senior financial officer of the Corporation, regarding compliance with their certification obligations as required by the regulators.
- Review the Corporation's chief executive officer and chief financial officer's, or Vice-President Finance where acting as the most senior financial officer of the Corporation, quarterly and annual assessments of the design and operating effectiveness of the Corporation's disclosure controls and procedures and internal control over financial reporting, respectively.
- Review the findings of any examination by regulatory agencies, and any auditor observations.
- Receive reports, if any, from management and corporate legal counsel of evidence of material violation of securities laws or breaches of fiduciary duty.

#### *Reporting Responsibilities*

- Regularly report to the Board on Committee activities, issues and related recommendations.
- Report annually to the shareholders, describing the Committee's composition, responsibilities and how they are discharged, and any other information required by legislation.

#### **Other Responsibilities**

- Perform any other related activities as requested by the Board.
- Review and assess the adequacy of the Committee mandate annually, requesting Board approval for proposed changes.
- Institute and oversee special investigations, as needed.

