

## GULFSANDS PETROLEUM PLC

### AUDIT COMMITTEE TERMS OF REFERENCE

Approved by the Board on 16th March 2016

#### **1. Constitution**

The Audit Committee (the "Committee") is established as a committee of the Board of Directors. The authority of the Audit Committee derives from the Delegation of Board Authority, approved by the Board, and the role and responsibilities of the Committee shall be as detailed in these Terms of Reference and shall not be amended except with the approval of the Board.

#### **2. Role**

The role of the Committee is to:

- (i) To support a culture of integrity, respect and transparency across the Group;
- (ii) Review and challenge the risk identification, risk management and internal control processes across the business, and advise and make recommendations to the Board on related matters;
- (iii) Monitor the integrity of the Company's corporate reporting, including annual and interim report and accounts, and advise and make recommendations to the Board on related matters; and
- (iv) Ensure the relationship with the external auditor is appropriate and the annual audit is effective, objective, independent and of a high quality, and advise and make recommendations to the Board on related matters.

In carrying out the above role, the Committee shall exercise independent judgement to make decisions which are consistent with the underlying performance of the Company.

#### **3. Membership**

Members of the Committee and its Chairman shall be appointed and removed by the Board. Membership and Chairmanship shall be reviewed by the Board each year and changes made as appropriate.

Any member of the Committee shall automatically cease to be a member upon ceasing to be Director of the Company, resign or be removed by the Board from membership on the Committee or as Chair.

The Committee shall comprise at least two Non-Executive Directors, at least one of whom shall have recent and relevant financial experience and the majority shall be independent. In the absence of the Committee Chairman or an appointed Deputy Chairman, the remaining members shall elect one of their number to chair the meeting.

**4. Committee Secretary**

A member of the Committee, or an employee of the Company, shall act as Secretary to the Committee and shall provide all necessary support to the Committee. The Secretary of each meeting shall be appointed by majority vote of the Committee.

**5. Quorum**

The Quorum for a meeting shall be any 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. Recommendations to the Board arising at each meeting of the Committee shall be decided by majority vote.

**6. Frequency of Meetings**

The Committee shall normally meet at least three times a year and at such other times as the Chairman of the Committee considers necessary to discharge its responsibilities.

Meetings may be conducted when members are present at the meeting or by audio or video conference.

**7. Attendance**

Only members of the Committee have the right to attend Committee meetings, but others may be invited to attend all or part of any meeting as appropriate. It is envisaged that the external auditor, the Chairman, CEO and the Senior Financial Executive may be invited to attend meetings on a regular basis at the request of the Committee.

**8. Notice of Meetings**

Meetings of the Committee shall be summoned by the Chairman of the Committee and may be requested by any member of the Committee. At least three working days' notice shall be given for any meeting of the Committee; however the notice period may be waived by unanimous consent of all members of the Committee.

Notice of the Committee meetings, together with an agenda of items to be discussed and supporting documents, shall be circulated to members and other attendees in advance of each scheduled meeting date in a timely manner to enable full and proper consideration of matters to be discussed.

**9. Minutes of Meetings**

Minutes of meetings and resolutions considered and passed shall be taken and shall include names of those present and in attendance. Minutes of Committee meetings, including any analysis, recommendations and advice for the rest of the Board, shall be circulated to all members of the Committee and, when agreed, shall be circulated by the Chairman of the Committee to other members of the Board.

#### **10. Annual General Meeting**

The Chairman of the Committee shall attend the AGM and shall be prepared to respond to any shareholder questions on audit and related matters and on the Committee's activities.

#### **11. Duties of the Committee**

The audit committee shall fulfil the following duties:

##### **a. Risk Management and Internal Controls**

The Committee will keep under review the adequacy and effectiveness of the Company's Internal Control and Risk Management systems. Once a year, the Committee will perform a full review of the Risk Management Framework designed to identify the significant potential risks facing the Group. The Committee, together with management, will also review feedback from the detailed risk analysis performed by the business units under the Risk Management Framework and report these findings to the Board. The information gathered is intended to support better decision-making by the Board and management.

Through this process, the Committee shall consider whether adequate internal controls are in place in respect of:

- i. the operation of risk management processes ; and,
- ii. financial reporting processes and controls;

and shall work with management to introduce changes where processes or controls are not considered strong enough and identify if any aspects or areas of the Gulfsands business should be subject to an audit review outside the normal external audit processes.

##### **b. Financial Reporting**

The Committee shall monitor the integrity of the annual and interim financial statements of the Group and all other announcements containing financial information, prior to their release to the public. In carrying out this duty, the Committee shall:

###### *General*

- i. review significant accounting and financial reporting issues, especially complex, unusual and related party transactions; and
- ii. review and ensure that the accounting policies selected by management and the estimates and judgements made in preparing financial statements are appropriate in accordance with financial reporting standards and other applicable guidance.

###### *Annual and Interim Financial Statements*

- i. review the draft financial statements and provide a recommendation to the Board with respect to the approval of the financial statements;

- ii. meet with management and the external auditors to review the financial statements and, in the case of the annual financial statements, the results of the audit, including any difficulties encountered; and
- iii. review all material information presented with the financial statements including the strategic report, the corporate governance statement and matters relating to audit, risk management and controls prior to their release to the public.

*Release of Financial Information*

- i. where reasonably possible, review and approve all public disclosure, including news releases, containing financial information, prior to its release to the public

**c. External Audit**

The Committee shall be responsible for overseeing the work of the Group's external auditors in conducting the annual audit, including the resolution of disagreements between management and the external auditors regarding financial reporting and audit scope or procedures. In carrying out this duty, the Committee shall:

- i. consider and make recommendations to the Board concerning the appointment, re-appointment or removal of the external auditors to be put to the shareholders for approval in General Meeting;
- ii. review (by discussion and enquiry) the external auditors' proposed audit scope and approach for the annual audit;
- iii. review the findings of the audit with the external auditors, including discussion of any major issues arising, the accounting and audit judgements made, the levels of errors identified during the audit, and the overall effectiveness of the audit;
- iv. meet regularly with the external auditor, and at least once a year, without management being present to discuss the audit process and any issues arising from the audit;
- v. review representation and management letters including any comments from management prior to finalisation;
- vi. review the performance of the external auditors in conducting the audit and report any conclusions to the Board;
- vii. review and recommend to the Board the compensation to be paid to the external auditors for audit services, ensuring these are sufficient to enable an adequate audit to be conducted; and
- viii. review and confirm annually the independence and objectivity of the external auditors by reviewing the non-audit services provided and to be provided, and the external auditors' assertion of their independence in accordance with professional standards.

**d. Whistle-blowing and Fraud**

The Committee shall review:

- i. the adequacy and security of the Group's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting, misuse of the Group's money, assets or other resources;
- ii. any issues referred to it under the Group's Whistle-blowing Policy;
- iii. the Group's procedures for detecting fraud; and
- iv. the Group's systems and controls for the prevention of bribery.

The Committee shall ensure that appropriate arrangements exist for the reporting to the Committee of any instances of non-compliance with the above.

**e. Other Responsibilities**

The Committee shall:

- i. consider on a regular basis the need for an internal audit function and, if such a function is deemed necessary, agree with management the remit, resourcing and modus operandi of the internal audit function;
- ii. review the policies and procedures in effect for considering directors' and officers' expenses and perquisites;
- iii. perform other oversight functions as requested by the Board; and
- iv. review and update these Terms of Reference and receive approval of any changes thereto from the Board.

In carrying out its duties under these Terms of Reference, The Committee will have due regard to any legal requirements, provisions and recommendations of the UK Corporate Governance Code, the AIM Rules and the Listing Rules of the London Stock Exchange ("LSE"), in so far as they apply to (or may be deemed by the Committee for this purpose to apply) to companies whose shares are traded on the LSE's AIM market.

**12. Committee Advisers and Resources**

The Committee shall have the resources appropriate to discharge its responsibilities, including the authority to:

- i. engage at the Company's expense independent counsel and such other advisors as it determines necessary enable it to carry out its duties, and determine their remuneration;
- ii. communicate directly with the internal and external auditors; and
- iii. seek from any employee of the Group any information it requires in order to perform its duties and to call any employee to be questioned at a meeting of the Committee.

**13. Reporting and Disclosure**

The Committee shall report to the Board on its proceedings after each meeting making recommendations as it deems appropriate within its duties and responsibilities. Minutes of meetings will be circulated to the Board.

The Committee shall consider and recommend to the Board the policy on shareholder disclosure and related matters for all audit, risk and control issues including the contents of the Audit Committee Report to be included in the Company's Annual Report and Accounts and shall ensure that such disclosure is clear, transparent and compliant with all relevant statutory legislation.

The Terms of Reference of the Committee will be made available on the Company's website or via the Company Secretary.

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