

**Nostrum Oil & Gas PLC**  
**(the “Company”)**

**Terms of Reference of the Audit Committee**  
**(the “Committee”)**

**(approved at a meeting of the board of directors (the “Board”) held on 23 March 2018)**

**1. Introduction**

- 1.1 These terms of reference have been produced to identify and formalise the roles and responsibilities of the Committee in assisting the Board in relation to risk management, internal control and financial reporting.
- 1.2 These terms of reference are intended to comply with the UK Corporate Governance Code (the “Code”), which provides that “*the board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company’s auditor*” and “*the board should establish an audit committee*”. It goes on to list the main role and responsibilities of such committee.
- 1.3 Should members of the Committee need or want to consult the Code, copies can be obtained from the Company Secretary.

**2. Terms of Reference to be made Available**

- 2.1 The Committee shall make available these terms of reference, explaining its role and the authority delegated to it by the Board.
- 2.2 The requirement to make this information available may be met by making such information available on request and/or including the terms of reference and such explanation on the Company’s website.

**3. Membership**

- 3.1 Members of the Committee shall be appointed by the Board, on the recommendation of the nomination committee of the Company in consultation with the chairman of the Committee (the “**Committee Chairman**”).
- 3.2 The Committee shall comprise at least three members, all of whom being designated by the Board as Independent Non-Executive Directors and at least one of whom shall have recent and relevant financial experience. The Committee as a whole shall have competence relevant to the sector in which the Company operates. The Chairman of the Board or any former Executive Director of the Company shall not be a member of the Committee.
- 3.3 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, Chief Financial Officer, other Directors, the heads of risk, 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.
- 3.4 The external auditors will be invited to attend meetings of the Committee on a regular basis.
- 3.5 In deciding chairmanship and membership of the Committee, the value of ensuring that Committee membership is refreshed and that undue reliance is not placed on particular individuals should be taken into account.

- 3.6 All appointments to the Committee shall be for a period of one year, which may be renewed.
- 3.7 The Committee Chairman shall be appointed by the Board and must be an Independent Non-Executive Director.
- 3.8 If any member of the Committee is unable to act for any reason, the Committee Chairman (or in his absence the Board) may appoint any other Independent Non-Executive Director of the Company to act as his alternate.

#### **4. Secretary**

The Company Secretary or his nominee shall act as the Secretary of the Committee and shall attend all of its meetings and shall prepare and circulate to members and all other Non-Executive Directors (and invitees as appropriate) all information and papers in a timely manner to enable them to be give full and proper consideration to the issues.

#### **5. Quorum**

The quorum necessary for the transaction of business shall be two members (including, whenever possible, at least one member with recent and relevant financial experience). 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. All reasonable efforts shall be made to give notice of meetings of the Committee to all members and invitees and to arrange such meetings so that all members and invitees are able to attend.

#### **6. Voting Arrangements**

- 6.1 Each member of the Committee shall have one vote which may be cast on matters considered at Committee meetings. Votes can only be cast by members attending a Committee meeting (whether in person or by audio or video conference).
- 6.2 If a matter that is considered by the Committee is one where a Committee member, either directly or indirectly has a personal interest, that member shall not be permitted to vote at the meeting.
- 6.3 Except where he has a personal interest, the Committee Chairman shall have a casting vote on all matters in the event of an equality of votes.
- 6.4 Any resolution in writing and signed by all Committee members will be as effective as a resolution passed at a Committee meeting.

#### **7. Frequency of Meetings**

- 7.1 The Committee shall meet as frequently as the Committee Chairman shall require and also at regular intervals to deal with routine matters and, in any event, not less than three times in each financial year. Any member of the Committee or the Company's auditors may request a meeting if he/she considers that one is necessary or expedient.
- 7.2 Meetings shall be arranged to coincide with key dates within the Company's financial reporting and audit cycle where appropriate.
- 7.3 At least once a year, the Committee shall meet with the Company's external auditors without any Executive Directors present.

## **8. Notice of Meetings**

- 8.1 Meetings of the Committee shall be summoned by the Company Secretary at the request of any of the Committee Chairman or its members or at the request of external auditors or head of internal audit if they consider it necessary.
- 8.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee and any other person required to attend and all other Non-Executive Directors, no later than five working days before the date of the meeting to enable full and proper consideration. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.
- 8.3 Notices, agendas and supporting papers can be sent in electronic form where the recipient has agreed to receive documents in such a way.

## **9. Committee Chairman**

In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

## **10. Minutes of Meetings**

- 10.1 The Secretary of the Committee shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 10.2 The Secretary of the Committee shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 10.3 The Secretary of the Committee shall promptly circulate draft minutes of Committee meetings to the Committee Chairman for review and subsequently to all members of the Committee. Once agreed and finalised, the minutes shall be tabled as soon as practicable thereafter at a meeting of the Board.

## **11. Annual General Meeting**

The Committee Chairman shall attend the Annual General Meeting and be prepared to respond to any shareholder questions on the Committee's activities.

## **12. Duties**

The Committee should carry out the duties below for the Company, major subsidiary undertakings and the group as a whole, as appropriate. In carrying out these duties, members of the Committee may also consult the Code.

Without prejudice to the Directors' fiduciary duties, it is not the Committee's duty to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with applicable accounting principles and other rules and regulations. This is the responsibility of management and the Company's external auditors. Furthermore, while the Committee is responsible for reviewing the Company's policies and practices with respect to risk assessment and management, it is not the Committee's responsibility to determine the appropriate level of the Company's exposure to risk.

## 12.1 Financial Reporting

- (a) The Committee shall (provided that such monitoring and review is not inconsistent with any requirement for prompt reporting under the Disclosure Guidance and Transparency Rules (the “DTRs”)) monitor the integrity of the financial statements of the Company, including its annual and interim reports, preliminary results announcements and any 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 announcements of a price sensitive nature.
- (b) The Committee shall review and challenge where necessary:
  - (i) the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company/group;
  - (ii) the methods used to account for significant or unusual transactions where different approaches are possible;
  - (iii) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - (iv) the clarity and completeness of disclosure in the Company’s financial reports and the context in which statements are made;
  - (v) significant adjustments resulting from the audit;
  - (vi) the assumptions or qualifications in support of the going concern statement (including any material uncertainties as to the Company’s ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements) and the longer term viability statement (including the prospects of the Company and the Group looking forward over an appropriate justified period);
  - (vii) compliance with accounting standards taking into account the view of the Company’s auditor;
  - (viii) compliance with UK Listing Authority and other legal and regulatory requirements;
  - (ix) all material information presented with the financial statements, such as the operating and financial review, strategic report and the corporate governance statement (insofar as it relates to the audit and risk management); and
  - (x) the policies and processes for identifying and assessing business risk and the management of those risks by the Company.
- (c) The Committee shall review the annual financial statements of the pension funds (if any) where not reviewed by the Board as a whole.
- (d) Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it should report its views to the Board.

## 12.2 Narrative reporting

Where requested by the Board, the Committee shall review the content of the annual report and accounts 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 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.

### 12.3 **Internal Controls and Risk Management Systems**

The Committee shall:

- (a) keep under review the effectiveness of the Company's internal financial controls and internal control and risk management systems and make such recommendations as the Committee considers desirable;
- (b) review and approve the statements to be included in the annual report concerning internal controls and risk management where not reviewed by the Board as a whole; and
- (c) in terms of the Group's viability and where requested by the Board, provide advice on how, taking into account the Company's position and principal risks, the Company's prospects have been assessed, over what period and why the period is regarded as appropriate. The Committee shall also advise on whether there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the said period, drawing attention to any qualification or assumptions as necessary.

### 12.4 **Compliance, Whistleblowing and Fraud**

The Committee shall:

- (a) Monitor compliance with applicable legal and regulatory requirements and the Group's Code of Conduct.
- (b) review the adequacy and security of the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters, suggesting amendments to the Whistle-blowing Policy where appropriate. The Committee shall ensure that these arrangements allow proportionate and appropriate investigation of such matters and appropriate follow up action;
- (c) be a point of contact for concerns to be brought to in relation to the Whistle-blowing Policy in circumstances where such concerns cannot be brought to the Compliance Liaison (as defined in the Whistle-blowing Policy);
- (d) review the Company's procedures for detecting fraud;
- (e) review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance;
- (f) review reports from the Compliance Officer on the adequacy and effectiveness of the Company's anti-money laundering systems and controls; and
- (g) review regular reports from the Compliance Officer and keep under review the adequacy and effectiveness of the Company's compliance function.

### 12.5 **Internal Audit**

The Committee shall:

- (a) approve the appointment or termination of appointment of the head of internal audit;
- (b) ensure internal audit has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, ensure there is open communication

between different functions and that the internal audit function evaluates the effectiveness of these functions as part of its internal audit plan, and ensure that the internal audit function is equipped to perform in accordance with appropriate professional standards for internal auditors;

- (c) carry out an annual assessment of the effectiveness of the internal audit function, and as part of this assessment:
  - (i) meet with the head of internal audit without the presence of management to discuss the effectiveness of the function;
  - (ii) review and assess the annual internal audit work plan;
  - (iii) receive a report on the results of the internal auditor's work;
  - (iv) determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business; and
  - (v) review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function,
- (d) consider whether an independent, third party review of processes is appropriate;
- (e) monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system;
- (f) 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;
- (g) review and assess the annual internal audit plan;
- (h) review promptly all reports on the Company from the internal auditors;
- (i) review and monitor management's responsiveness to the findings and recommendations of the internal auditor;
- (j) 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 shall be given the right of direct access to the Chairman of the Board and to the Committee; and
- (k) where external auditors are being considered to undertake aspects of the internal audit function, consider the effect this may have on the objectivity and independence of the external auditor, effectiveness of the Company's overall risk management system and investor perceptions.

## 12.6 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, in relation to the appointment, re-appointment and removal of the Company's external auditor. The Committee shall oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- (b) consider and make recommendations to the Board on the periodic tender of audit services;

- (c) oversee the relationship with the external auditor including (but not limited to):
  - (i) approval of 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;
  - (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 their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole and the Group's relationship with the external auditor as a whole, including any threats to the external auditor's independence and the safeguards applied to mitigate those threats, including the provision of any non-audit services;
  - (iv) seek reassurance from the external auditor and their staff that they have no relationships with the Company which could adversely affect the auditor's independence and objectivity and, annually, seek information from the external audit firm about policies and processes for maintaining independence and monitoring compliance;
  - (v) agreeing with the Board a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy;
  - (vi) monitoring the external 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 external auditor from the market;
- (d) satisfy itself that there are no relationships between the external auditor and the Company (other than in the ordinary course of business) which could adversely affect the external auditor's independence and objectivity;
- (e) meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit;
- (f) review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
- (g) 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 external auditor's explanation of how risks to audit quality were addresses;
  - (iii) the external auditor's view of their interactions with senior management;

- (iv) any accounting and audit judgements;
  - (v) levels of errors identified during the audit; and
  - (vi) the effectiveness of the audit;
- (h) review the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgements by the auditor, and the auditor's response to questions from the Committee;
  - (i) obtain from the external auditor a memorandum describing such "relevant audit information" as may be required by the external auditor from time to time for the purposes of any statutory directors' statement in connection therewith, and institute such procedures as it sees fit to enable the Directors to provide such statement;
  - (j) develop and implement a policy for, and external disclosures in relation to, the supply of non-audit services by the external auditor, taking into account applicable law and regulation and the relevant ethical guidance on the matter;
  - (k) review and monitor material communications between the Company and the external auditor; and
  - (l) review the management letter, any representation letter(s) requested by the external auditor and the external auditor's report to the directors including management's response to the external auditor's findings and recommendations before they are signed by management (where relevant).

### **13. Reporting Responsibilities**

- 13.1 The Committee Chairman shall report formally to the Board on its proceedings after each meeting of the Committee on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its responsibilities. This report shall include:
- (a) the significant issues that it considered in relation to the financial statements and how these were addressed;
  - (b) its assessment of the effectiveness of the external audit process, the approach taken to the appointment or reappointment of the external auditor, length of tenure of the audit firm, when a tender was last conducted and advance notice of any retendering plans; and
  - (c) any other issues on which the Board has requested the Committee's opinion.
- 13.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 13.3 The Committee shall compile a report to shareholders on its activities to be included in the Company's annual report. The report should include an explanation of how the Committee has addressed the effectiveness of the external audit process; the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the auditor; and all other information requirements set out in the Code.
- 13.4 In compiling the reports referred to in 13.1 and 13.3 above, the Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the Board's assessment of whether the Company is a going concern and the inputs to the Board's viability



statement. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information. .

## **14. Other Matters**

The Committee shall:

- (a) have access to sufficient resources in order to carry out its duties, including access to the Company Secretary 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, including the general duties of Directors set out in the Companies Act 2006, the provisions of the Code and the requirements of the UK Listing Authority's Listing Rules, Prospectus Rules and DTRs as appropriate;
- (d) be responsible for co-ordination of the internal and external auditors;
- (e) at least once a year, review its own performance, 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;
- (f) work and liaise as necessary with all other board committees, taking particular account of the impact of risk management and internal controls being delegated to different committees;
- (g) make publicly available its terms of reference explaining clearly its role and the authority delegated to it by the Board; and
- (h) perform such further functions related or incidental to its remit as the Committee may agree to undertake at the Board's request.

## **15. Authority**

The Committee is authorised by the Board:

- 15.1 to investigate any activity within its terms of reference;
- 15.2 to seek any information it requires from any employee or Director of the Company, or any consultant or other provider of services to the Company in order to perform its duties. All employees, Directors, consultants and other service providers of services are directed to co-operate with requests for information made by the Committee including requests to attend meetings of the Committee;
- 15.3 to obtain, at the Company's expense, outside legal or other independent professional advice on any matter within its terms of reference;
- 15.4 to call any employee to be questioned at a meeting of the Committee as and when required; and
- 15.5 to 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.