

FAROE PETROLEUM PLC
TERMS OF REFERENCE: AUDIT COMMITTEE

Last Reviewed 14 December 2017

1. Constitution

IT WAS RESOLVED on 20 June 2003 (pursuant to the powers of the Board set out in Article 126.1 of the Articles of Association of the Company) that a Committee of the Board be and is hereby established and it is known as the Audit Committee.

2. Membership

2.1 The Committee shall be appointed by the Board from amongst the Non-Executive Directors of the Company and shall consist of not less than three members or, if there are less than three Non-Executive Directors at any time, all of the Non-Executive Directors of the Company. The members should be independent of management and free of any business or other relationship (including, without limitation, cross-directorships or day-to-day involvement in the running of the business) which could interfere with the exercise of their independent judgement.

2.2 A quorum shall be two members or as governed by the Company's Articles of Association from time to time.

2.3 The overall purpose of the Committee shall be to ensure that the Company's accounting and financial policies and controls are proper and effective, to ensure that the internal and external auditing processes are properly co-ordinated and work effectively and to ensure the integrity of the financial statements and information published by the Company as more fully described in the Duties set down in clause 6 below.

2.4 The Chairman of the Committee shall be appointed by the Board.

2.5 The members of the Committee shall be re-elected each year by the Board and a member of the Committee can be removed by the Board at any time.

3. Attendance at meetings

3.1 The Company's Chief Executive and a representative of the external auditors shall normally attend but not vote at meetings. Other Board members shall also have the right of attendance. However, at least once a year the Committee shall meet with the external auditors without executive Directors present, except by invitation of the Committee.

3.2 The Secretary of the Committee shall be appointed by the Committee.

4. Frequency of meetings

4.1 Meetings shall be held not less than four a year at such times as the Committee sees fit. The external auditors may request a meeting if they consider that one is necessary.

4.2 A meeting may also be requested by any member of the Committee who considers that one is necessary and by any member of the Board if approval is given by the Chairman of the Board.

4.3 Appropriate notice of any meeting of the Committee shall be given, although such notice period may be waived or shortened with the consent of all the members of the Committee for the time being.

5. **Authority**

- 5.1 The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.
- 5.2 The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.
- 5.3 All decisions of the Committee shall be referred to the Board of Directors and shall take effect only upon approval thereof by resolution of the Board at a meeting which is properly convened and constituted and in accordance with the Company's Articles of Association provided that the Board shall only have the power to accept without modification or reject the decisions of the Audit Committee.

6. **Duties**

- 6.1 The duties of the Committee shall be to:

(a) **Auditors**

- (i) to consider the appointment of the external auditor and any questions of resignation or dismissal of the external auditor;
- (ii) to initiate and supervise a competitive tender process for the selection of the auditor;
- (iii) to make recommendations to the board for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor;
- (iv) to negotiate and approve the remuneration and terms of engagement of the external auditor;
- (v) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- (vi) review from time to time the cost effectiveness of the audit and the independence and objectivity of the external auditor;
- (vii) develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken; and

(b) **Audit**

- (i) to discuss and agree with the external auditor before the audit commences the nature and scope of the Company's annual audit, and to ensure and monitor co-ordination where more than one audit firm is involved;
 - (ii) assess and report on the effectiveness of the external audit process;
 - (ii) discuss with the Company's auditors problems and reservations arising from the interim and final audits, and any other matters the auditor may wish to discuss (in the absence of management where necessary);
 - (iii) review the external auditor's management letter and management's response;
 - (iv) consider the major findings of internal investigations and management's response;
 - (v) review any report by the auditors;
- (c) Financial Statements
- (i) to monitor the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance, reviewing significant financial reporting judgements contained in them;
 - (ii) review the Group's operating and financial and accounting policies and practices;
 - (iii) prior to endorsement by the Board, any review of the operations and finances of the Company and its subsidiary undertakings to be published in the annual report;
 - (iv) review the half-year and annual financial statements, and any audited accounts, before submission to the Board, focusing particularly on:
 - (i) any changes in accounting policies and practices;
 - (ii) major judgemental areas;
 - (iii) significant adjustments resulting from the audit;
 - (iv) the going concern assumption;
 - (v) compliance with accounting standards;
 - (vi) compliance with London Stock Exchange, legal and regulatory requirements; and
 - (vii) any matter which ought to be brought to the attention of the Board.
 - (v) to confirm to the board of directors their opinion that the report and accounts are fair, balanced and understandable and contain sufficient information on the company's performance, business model and strategy;
 - (vi) to review and explain the 'significant issues' considered in relation to the financial statements and how they were addressed
- (d) Report on the Audit Committee
- (i) to report to the board on how it has discharged its responsibilities

(ii) to report and account directly to the Company's shareholders for their decisions, including by way of an annual report to the Company's shareholders forming a separate section within, or annexed to, the Company's annual report and accounts setting out the information required by the UK Corporate Governance Code, including details of the role of the Committee and what action has been taken.

(d) Internal Controls

(i) Review, on behalf of the Board, the Group's system of internal control (including financial, operational, compliance and risk management) on an ongoing basis and make recommendations to the Board; and

(ii) Conduct an annual review of the Group's system of internal controls

(e) Internal Audit

Where an internal audit function exists, review the internal audit programme, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company and the Group;

f) General

To consider other topics, as defined by the Board;

6.2 The Chairman of the Committee shall be available at the Annual General Meeting of the Company to answer questions arising from the Committee's annual report to shareholders and generally on audit principles and practice. The Chairman should ensure that the Company maintains good contact with shareholders about audit principles and practice as for other matters.

7. Reporting procedures

The Secretary shall circulate the minutes of meetings of the Committee to all members of the Board and to the Company's external auditors.