

Terms of Reference for the Audit Committee

Document approved at a meeting of the Board of Directors of Sirius Minerals Plc
(the “**Company**”) held on 21 March 2017

1. Constitution

By resolution of the Board of Directors of the Company (the “**Board**”), it has been agreed to establish a committee of the Board, to be called the Audit Committee (the “**Committee**”), to determine and apply policy on behalf of the Board to the financial reporting and internal control principles of the Company and for maintaining an appropriate relationship with the Company’s auditors.

2. Membership

- 2.1 Members of the Committee shall be appointed by the Board on the recommendation of the Nominations Committee in consultation with the chairman of the Committee (the “**Chairman**”), in accordance with the Company's articles of association. The Committee shall be made up of at least three members.
- 2.2 All members of the Committee shall be independent non-executive directors, at least one of whom shall have recent and relevant financial experience ideally with a professional qualification from one of the professional accountancy bodies. The Committee as a whole shall have competence relevant to the sector in which the Company operates. The Chairman of the Board shall not be a member of the Committee.
- 2.3 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chairman of the Board, Chief Executive, Finance Director, other directors, the heads of risk, compliance and internal audit or representatives from the finance function may be invited to attend all or part of any meeting as and when appropriate.
- 2.4 The external auditors will be invited to attend meetings of the Committee on a regular basis.
- 2.5 Appointments to the Committee shall be for a period of up to three years, which may be extended by no more than two further three-year periods, provided the director remains independent.
- 2.6 The Board shall appoint the Chairman on the recommendation of the Nominations Committee. In the absence of the Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.
- 2.7 The Chairman and members shall be listed each year in the Company’s annual report.
- 2.8 If any member of the Committee is unable to act for any reason, the Chairman may appoint another independent non-executive director of the Company agreed by the other members of the Committee to act as that member's alternate.
- 2.9 Each member of the Committee shall disclose to the Committee:
 - 2.9.1 any personal financial interest (other than as a shareholder) in any matter to be decided by the Committee; or

2.9.2 any potential conflict of interest arising from a cross-directorship.

Any such member shall abstain from voting on resolutions of the Committee in relation to which such interest exists and from participating in the discussions concerning such resolutions and (if so requested by the Board) shall resign from the Committee.

3. Secretary

The secretary of the Committee (the “**Secretary**”) will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

4. Quorum and Voting

The quorum necessary for the transaction of business shall be 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. Members may be present via telephone.

5. Frequency of Meetings

5.1 The Committee shall meet at least four times a year at appropriate times in the reporting and audit cycle, and otherwise as required.

5.2 It is expected that the external audit lead partner will be invited regularly to attend meetings, as well as the Finance Director.

6. Notice of Meetings

6.1 Meetings of the Committee shall be summoned by the Secretary at the request of any of its members or at the request of external or internal auditors if they consider it necessary.

6.2 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, any other person required to attend and all other non-executive directors, no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time. Email is an acceptable means of forwarding the agenda and other supporting papers.

7. Minutes of Meetings

7.1 The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.

7.2 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

7.3 Minutes of Committee meetings shall be circulated promptly to all members of the Committee and to the Chairman of the Board, and, once agreed, to all members of the Board, unless it would be inappropriate to do so in the opinion of the Committee Chairman.

8. Annual General Meeting

The Committee Chairman shall attend the annual general meeting prepared to respond to any shareholder questions on the Committee's activities. All members of the Committee shall also attend the annual general meeting.

9. Duties

The Committee should carry out the duties below for the Company and any major subsidiary undertakings, where appropriate.

9.1 Financial Reporting

9.1.1 The Committee shall monitor the integrity of the financial statements of the Company, including its annual and interim reports, preliminary results announcements and any other formal announcement 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.

9.1.2 The Committee shall particularly review and challenge where necessary:

- (a) the consistency of, and any changes to, accounting policies both on a year-on-year basis and across the Company and any significant estimates and judgements;
- (b) the methods used to account for significant or unusual transactions where different approaches are possible;
- (c) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- (d) the clarity and completeness of disclosure in the Company's financial reports and statements and the context in which statements are made; and
- (e) all material information presented with the financial statements, such as an operating and financial review, strategic report, directors' report, and corporate governance statement (insofar as it relates to audit and risk management).

9.1.3 The Committee shall review the annual financial statements of any pension funds not reviewed by the Board as a whole.

9.1.4 The Committee shall report its views to the Board where it is not satisfied with any aspect of the financial reporting by the Company.

9.2 Internal Controls and Risk Management Systems

The Committee shall:

- 9.2.1 keep under review the adequacy and effectiveness of the Company's internal financial controls (that is, the systems established to identify, assess, manage and monitor financial risks) and to review the Company's internal control and risk management systems;
- 9.2.2 review and approve the statements to be included in the annual report concerning internal controls and risk management;
- 9.2.3 review the Company's procedures for detecting fraud;
- 9.2.4 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance; and
- 9.2.5 consider the major findings of internal investigations and management's response.

9.3 Whistleblowing

The Committee shall review the Company's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing 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.

9.4 Internal Audit

The Committee shall:

- 9.4.1 consider the possible need for a formal internal audit function at least annually and make a recommendation to the Board, and then monitor and review the effectiveness of the Company's internal audit function, if any, in the context of the Company's overall risk management system;
- 9.4.2 approve the appointment and removal of the head of the internal audit function, if any;
- 9.4.3 consider and approve the remit of the internal audit function, if any, 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;
- 9.4.4 review and assess the annual internal audit plan, if any;
- 9.4.5 review promptly all reports on the Company from the internal auditors, if any;
- 9.4.6 review and monitor management's responsiveness to the findings and recommendations of the internal auditor, if needed; and
- 9.4.7 meet the head of internal audit, if any, 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, if any,

shall be given the right of direct access to the Chairman of the Board and to the Committee and the Committee shall ensure that the internal auditor has direct access to the Board and Committee Chairman and is accountable to the Committee.

9.5 External Audit

The Committee shall:

- 9.5.1 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;
- 9.5.2 if the Board does not accept the Committee's recommendation on the appointment, re-appointment and removal of external auditors, to prepare a statement explaining the Committee's recommendation which shall be included in the annual report and in any papers recommending appointment or re-appointment together with the Board's reasons for taking a different position;
- 9.5.3 ensure that at least once every ten years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms and that the Company changes its auditor periodically in line with applicable legislation;
- 9.5.4 in respect of any tender of the audit contract, to oversee the auditor selection process and to ensure that all tendering firms have such access as is necessary to information and individuals during the tendering process;
- 9.5.5 if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 9.5.6 oversee the relationship with the external auditor including (but not limited to):
 - (a) negotiating and agreeing their remuneration, whether fees for audit or non-audit services and ensure that the level of fees is appropriate to enable an adequate audit to be conducted;
 - (b) negotiating and agreeing their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - (c) assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
 - (d) 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)

which could adversely affect the auditor's independence and objectivity;

- (e) agreeing with the Board a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy;
- (f) 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;
- (g) 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;
- (h) seeking to ensure co-ordination with the activities of the internal audit function; and
- (i) evaluating the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of the external auditor from the market in that evaluation;

9.5.7 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 their remit and any issues arising from the audit;

9.5.8 review and approve the annual and any interim audit plan and ensure that it is consistent with the scope of the audit engagement having regard to the seniority, expertise and experience of the audit team;

9.5.9 monitor the audit of the Company and consolidated financial statements;

9.5.10 review the findings of the audit with the external auditor. This shall include but not be limited to, the following;

- (a) a discussion of any major issues which arose during the audit,
- (b) any accounting and audit judgements;
- (c) levels of errors identified during the audit, obtaining explanations from management and, where necessary, the external auditors as to why certain errors might remain unadjusted; and
- (d) any reservations that the external auditors may have and other matters that they wish to raise;

9.5.11 review the effectiveness of the audit;

9.5.12 review any representation letter(s) requested by the external auditor before they are signed by management giving particular consideration to matters where representation has been requested that relates to non-standard issues;

- 9.5.13 review the management letter and management's response to the auditor's findings and recommendations; and
- 9.5.14 develop and implement a policy on the supply of non-audit services by the external auditor, in line with relevant legislation and taking into account any relevant ethical guidance on the matter and to report to the Board identifying any matters in respect of which it considers that action or improvement is needed and make recommendations as to the steps to be taken (so as to ensure that the provision of such services does not impair the external auditor's independence and objectivity).

10. Reporting Responsibilities

- 10.1 The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities including 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 and its recommendation on the appointment or reappointment of the external auditor; and
 - (c) any other issues on which the Board has requested the Committee's opinion.
- 10.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 10.3 The Committee shall compile a note to shareholders on its activities to be considered for inclusion in the Company's annual report. The note should include:
 - 10.3.1 an explanation of how the Committee has assessed the effectiveness of the external audit process, the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the current auditor, when a tender was last conducted and advance notice of any retendering plans;
 - 10.3.2 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
 - 10.3.3 all other information requirements set out in the UK Corporate Governance Code.
- 10.4 The Committee has the right to publish in the Company's annual report, details of any issues that cannot be resolved between the Committee and the Board.
- 10.5 The Committee shall review the statement by the directors to be included in the annual accounts on the going concern status of the Company and the Group and any material uncertainties identified to the Company's ability to continue adopting the going concern assumption over a period of at least twelve months of the date of approval of the financial statements.

- 10.6 The Committee shall assist the Board by preparing a statement for inclusion in the annual report describing the roles and responsibilities of the Committee and actions taken by the Committee to discharge those responsibilities; as well as describing how the Committee composition requirements have been addressed and listing the names and qualifications of all members of the Committee, the number of Committee meetings and attendance by each member.
- 10.7 Where there is no internal audit function, the Committee shall set out the reasons for the absence of such a function in the relevant section of the annual report;
- 10.8 If the external auditor provides non-audit services, the Committee shall provide an explanation for inclusion in the annual report of how auditor objectivity and independence is safeguarded.
- 10.9 The Committee shall produce, for inclusion in the annual report, a statement of compliance with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, and, if applicable, a statement to include the disclosures required by Article 4 of that Order.

11. Other Matters

The Committee shall:

- 11.1 have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required;
- 11.2 be provided with appropriate and timely training, both in the form of an induction programme for new members, if considered necessary, and on an on-going basis for all members;
- 11.3 give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code, the requirements of the Financial Conduct Authority's Listing, Prospectus, and Transparency Rules, the guidance in the Financial Conduct Authority's Disclosure Guidance and any other applicable rules and guidance as appropriate;
- 11.4 be responsible for co-ordination of internal and external auditors;
- 11.5 oversee any investigation of activities which are within its terms of reference and act as a court of the last resort;
- 11.6 work and liaise as necessary with all other Board committees; and
- 11.7 at least once a year, review its own performance, constitution and terms of reference to ensure it is operating effectively and recommend any changes it considers necessary to the Board for approval.

12. Authority

The Committee is authorised:

- 12.1 to seek any information it requires from any employee of the Company in order to perform its duties;

- 12.2 to obtain, at the Company's expense, outside legal or other professional advice on any matter within its terms of reference and have access to the external auditors as required;
- 12.3 to call any employee to be questioned at a meeting of the Committee as and when required; and
- 12.4 to publish in the Company's annual report details of any issues that cannot be resolved between the Committee and the Board.