

**STAR DIAMOND CORPORATION**  
**AUDIT COMMITTEE**  
**DUTIES & OBLIGATIONS**

## **INTRODUCTION**

This charter (the “Charter”) has been adopted to govern the composition and mandate responsibilities and authority of the Audit Committee (the “Committee”) of the Board of Directors (the “Board”) of Star Diamond Corporation (the “Company”).

## **COMPOSITION AND PROCEDURES**

1. The Committee shall be appointed by the Board and shall be composed of at least three directors, each of whom is “independent” and “financially literate” as required by National Instrument 52-110 (the “Instrument”) of the Canadian Securities Administrators.
2. The Board will appoint the chair of the Committee.
3. The quorum for meetings shall be a majority of the members of the Committee, present in person or by telephone or other telecommunication device that permits all persons participating in the meeting to speak and to hear each other.
4. Meetings of the Committee shall be conducted as follows:
  - (a) The Committee shall meet at least four times annually at such times and locations as may be requested by the chair of the Committee. Notice of meetings to the members shall be the same as set out in the by-laws of the Company for meetings of the Board. The Auditors or any member of the Committee may request a meeting of the Committee; and
  - (b) Management representatives may be invited to attend meetings (except private sessions with the Auditors).

## **PRIMARY RESPONSIBILITIES OF THE COMMITTEE**

The primary responsibilities of the Committee are:

1. To recommend to the Board:
  - (a) The external auditor (the “Auditors”) to be nominated for appointment by the shareholders of the Company for the purpose of preparing or issuing the auditor’s report or performing other audit, review or attest services for the Company; and
  - (b) The compensation of the Auditors.
2. To be directly responsible for overseeing the work of the Auditors in preparing or issuing the auditor’s report on the Company’s annual consolidated financial statements or performing

other audit, review or attest services for the Company including the resolution of disagreements between management of the Company and the Auditors regarding financial reporting.

3. To pre-approve, as required by the Instrument and subject to the exemptions in the Instrument, all non-audit services to be provided to the Company by the Auditors. The Committee may, in accordance with the requirements of the Instrument, delegate to one or more members of the Committee the authority to pre-approve non-audit services to be provided by the Auditors, provided that all such pre-approvals of non-audit services shall be presented to the Committee at its first scheduled meeting following such pre-approval. The Committee is authorized, at its option, to satisfy the pre-approval requirements for non-audit services in accordance with section 2.6 of the Instrument.
4. To review:
  - (a) the Company's unaudited quarterly consolidated financial statements for the first, second and third quarters of the Company's fiscal year ("quarterly statements") and the Company's audited annual consolidated financial statements ("annual statements");
  - (b) the Management's Discussion and Analysis ("MD&A") prepared in conjunction with the quarterly and annual statements; and
  - (c) all press releases to be issued by the Company with respect to its annual and quarterly earnings.
5. To satisfy itself that adequate procedures are adopted by the Company for the review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements other than the public disclosure referred to in section 4 above and to regularly assess the adequacy of such procedures.
6. To establish and oversee the maintenance of procedures for:
  - (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and
  - (b) the confidential anonymous submission by employees of the Company and its subsidiaries of concerns regarding questionable accounting or auditing matters.
7. To review and approve the Company's and its subsidiaries' hiring policies regarding partners, employees and former partners and employees of the current and former Auditors of the Company and its subsidiaries.

#### **AUTHORITY OF THE COMMITTEE**

Subject to prior consultation with the Chief Executive Officer or the Chief Financial Officer (except in circumstances where the Committee as a whole deems such consultation as impeding their authority), the Committee is authorized to:

1. engage independent counsel and other advisors it determines necessary to carry out the Committee's duties and responsibilities;
2. set and require the Company to pay the compensation and charged expenses for any advisors engaged by the Committee; and
3. communicate directly with the internal audit staff of the Company and its subsidiaries (if any) and the Auditors.

## **ADDITIONAL RESPONSIBILITIES AND DUTIES OF THE COMMITTEE**

### **Auditors**

1. The Committee shall ensure that the Company requires and instructs the Auditors to report directly to the Committee.
2. The Committee is responsible for ensuring the independence of the Auditors. On an annual basis, the Committee shall obtain a formal written statement from the Auditors delineating all relationships between the Auditors and the Company and confirming the independence of the Auditors. This written statement shall be obtained in conjunction with the audit of the annual financial statements after each fiscal year end.

### **Review of Annual Financial Statements**

The Committee shall review the annual financial statements and related MD&A of the Company prior to their public release and shall report the results of its review to the Board and make recommendations to the Board with respect to Board approval of the financial statements and related MD&A. At the Committee meeting at which the Company's annual consolidated financial statements are to be reviewed, the Committee shall meet, in person, with representatives of the Auditors and with the Company's management to assess and understand the annual financial statements and the results of the audit including, but not limited to:

- that the Company's system of internal controls and financial reporting systems are adequate to produce fair and complete disclosure of its financial results;
- that the Company's reporting is complete and fairly presents its financial condition in accordance with generally accepted accounting principles;
- that accounting judgments and estimates used by management are reasonable and do not constitute earnings management;
- that risk management policies are in place to identify and reduce significant financial and business risks; and
- that the Company has in place a system to ensure compliance with applicable laws, regulations and policies.

## **Review of Quarterly Financial Statements**

The Committee shall review the interim quarterly financial statements and related MD&A of the Company prior to their public release and shall report the results of its review to the Board and make recommendations to the Board with respect to Board approval of the quarterly statements and related MD&A unless the Board has delegated to the Committee the authority to approve the quarterly statements and related MD&A, in which case the Committee shall also approve the quarterly statements and related MD&A. The review by the Company shall be substantially completed prior to the issuance of a press release respecting the quarterly financial results. The Committee shall meet with the Company's management to assess and understand the interim quarterly financial statements and to discuss the results of their preparation and review.

## **Other Responsibilities and Duties**

1. The Committee will:

- meet with management in the absence of the Auditors for the annual review;
- meet with the Auditors in the absence of management for the annual review;
- review with management and the Auditors any proposed changes in major accounting policies, the presentation and impact of significant risks and uncertainties, and key estimates and judgments of management that may be material to financial reporting;
- review with management and the Auditors any significant financial reporting issues discussed during the fiscal period and the method of resolution;
- review any problems experienced by the Auditors in performing the annual audit, including any restrictions imposed by management or significant accounting issues on which there was a disagreement with management;
- obtain an explanation from management of all significant variances between comparative reporting periods;
- review the post-audit or management letter, containing the recommendations of the Auditors, and management's response and subsequent follow up to matters raised by the Auditors;
- obtain from management on a quarterly basis confirmation that all wages and remittances (withholdings, GST and PST) have been paid;
- review any evaluation of internal controls by the Auditors, together with management's response;
- review and reassess the Charter for adequacy at least annually and make changes as it deems necessary;

- prior to the commencement of each annual audit, meet with the Auditors to review the Auditors' audit plan for the ensuing audit;
- review with management and the Auditors all material accounting and financial issues affecting the Company not dealt with in annual and quarterly reviews; and
- perform such other duties as may be required by the Board or as may be delegated to the Committee by the Board.