

North Australian Diamonds Ltd Corporate Governance Policies

Audit Committee Charter

1. Policy

- 1.1 The primary purpose of the Audit and Compliance Committee (Committee) is to ensure independent oversight of the accounting functions and internal controls of NADL, its subsidiaries and affiliates and to ensure the objectivity of NADL's financial statements, reporting to the public and regulatory bodies and to make sure adequate procedures are in place to ensure compliance by NADL with its legal requirements and ethical standards.
- 1.2 The Committee shall have the ultimate authority and responsibility in appointing the Auditors. The Committee shall also review NADL's risk management policies and tax policies.

2. Membership

- 2.1 The Committee must comprise at least two members appointed by the Board with at least one member having financial expertise.
- 2.2 The chairperson of the Committee shall be a non-executive director and shall not also be the Chairperson of the Company.
- 2.3 The Company Secretary is Secretary to the Committee.
- 2.4 Further, the chief executive officer and chief financial officer must state in writing to the Board that the Company's financial reports present a true and fair view of North Australian Diamonds Ltd, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.

3. Roles of the Audit Committee

- 3.1 The role of the Audit Committee is to:
 - (a) monitor the integrity of the financial statements of the Company, reviewing significant financial reporting judgments as outlined further in section 5.1;
 - (b) review the Company's internal financial control system and, unless expressly addressed by a separate risk committee or by the Board itself, risk management systems;
 - (c) monitor and review the effectiveness of the Company's internal audit function (if any);
 - (d) monitor and review the external audit function including matters concerning appointment and remuneration, independence and non-audit services as outlined further in section 5.2;
 - (e) monitor and review compliance with the Company's Code of Conduct;
 - (f) perform such other functions as assigned by law, the Company's constitution, or the Board; and
 - (g) review and monitor related party transactions and assess their propriety.

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3.2 The Audit Committee:

- (a) is not required to personally conduct accounting reviews or audits; and
- (b) is entitled to rely on employees of the Company or professional advisers or consultants engaged by the Committee or the Company, where:
 - (i) there are reasonable grounds to believe that the employee, adviser or consultant is reliable and competent; and
 - (ii) the reliance was made in good faith and after making an independent assessment of the information.

4. Operations

- 4.1 The Audit Committee meets at least half yearly, with further meetings on an as required basis.
- 4.2 Minutes of all meetings of the Audit Committee are to be kept.
- 4.3 Committee meetings will be governed by the same rules, as set out in the Company constitution as they apply to the meetings of the Board.
- 4.4 The committee shall meet with the external auditor as required.

5. Authority and Resources

- 5.1 The Company is to provide the Committee with sufficient resources to undertake its duties, including provision of educational information on accounting policies and other financial topics relevant to the Company, and such other relevant materials requested by the committee.
- 5.2 The Committee, in performing its functions and in accordance with any applicable law, may:
 - (a) require the attendance at a meeting of the Committee of:
 - (i) the external auditor;
 - (ii) the internal auditor (if any); and
 - (iii) any employee of the Company
 - (b) access any document, report, material or information in the possession of an employee or external adviser of the Company.
- 5.3 The Committee will have the power to conduct or authorize investigations into any matters within the committee's scope of responsibilities. The committee will have the authority, as it deems necessary or appropriate, to retain independent legal, accounting or other advisors.
- 5.4 The Committee may initiate special investigations as it sees fit, or as directed by the Board, in relation to its responsibilities.

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6. Committee Responsibilities

6.1 External Reporting

The Committee must promote an environment in the Company which is consistent with best practice financial reporting and appropriately reflects the financial status of the Company to users of the financial statements. In particular, the Committee must:

- (a) review all published financial statements which are required to be signed by, or on behalf of, the Directors. The review of financial statements should include a discussion with the external auditor of accounting issues, accounting policies adopted and the proposed audit report;
- (b) review the annual report, directors' report and any report of management which is required by law to accompany any published financial statements (to the extent that such a report discusses the financial position or operating results) before approval by the Board;
- (c) review and assess the appropriateness of the Company's accounting policies. The Committee should discuss with the external auditor their view of the appropriateness of the Company's accounting principles;
- (d) review and consider the processes used by management to monitor and ensure compliance with laws, regulations and other requirements relating to external reporting of financial information; and
- (e) review proposed professional and regulatory pronouncements regarding accounting policies and financial reporting and assess their impact on the Company.

6.2 External Audit

The Committee must review and assess key areas relating to the external audit of the Company. In particular the Committee must:

- (a) make recommendations to the Board on the appointment, reappointment or replacement and remuneration of the external auditor;
- (b) review the terms of engagement for the external auditor, and agree the terms with external auditor;
- (c) monitor the effectiveness and independence of the external auditor;
- (d) review the scope of the external audit with the external auditor including identified risk areas;
- (e) review and assess non-audit services to be provided by the external auditor, with particular consideration to the potential to impair or appear to impair the external auditor's judgment or independence in respect of the Company;
- (f) ensure the external auditor is co-ordinated with any internal audit programs (if any) and;
- (g) review and monitor management's responsiveness to the external audit findings.

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7. Reporting to the Shareholders

The Directors' reports are to contain a separate section that describes the role of the Committee and what action it has taken.

The chairperson of the Audit Committee is to be present at the annual general meeting to answer questions, through the chairperson of the Board.

Adopted: 5 November 2007