

AUDIT COMMITTEE CHARTER

1.0 MANDATE

The Audit Committee (the "Committee") is appointed by the Board of Directors (the "Board") of Dominion Diamond Corporation (the "Company") to:

- (a) assist the Board in fulfilling its financial reporting and risk oversight responsibilities with respect to:
 - (i) the integrity and accuracy of the Company's financial statements,
 - (ii) the Company's compliance with legal and regulatory requirements,
 - (iii) the independent auditor's qualifications and their performance, and
 - (iv) the performance of the Company's Risk & Internal Audit function; and
- (b) prepare the report of the Committee required by regulatory authorities to be included in the Company's management proxy circular;
- (c) oversee the Company's process for identifying and managing enterprise risks;
- (d) serve as an independent and objective party to monitor and be custodian of the Company's operational policies; and
- (e) review and appraise the audit activities of the Company's independent auditors and Risk & Internal Audit function.

2.0 DUTIES AND RESPONSIBILITIES

To fulfill its responsibilities, the Committee shall:

- (a) be directly responsible for the appointment (subject to the rights of the shareholders and applicable law), compensation, retention and oversight of the work of any registered public accounting firm engaged by the Company (including resolution of disagreements between Company management and the independent auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company, and each such registered public accounting firm shall report directly to the Committee;
- (b) at least annually, obtain and review a report by the independent auditors describing: the independent auditors' internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the public accounting firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the public accounting firm, and any steps taken to deal with any such issues; and (to assess the auditors' independence) all relationships between the independent auditors and the Company;
- (c) meet to review and discuss the Company's annual audited financial statements and quarterly financial statements with management and the independent auditors, including the Company's disclosures under "Management's Discussion and Analysis";

- (d) discuss earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies, before they are released;
- (e) discuss policies with respect to risk assessment and risk management;
- (f) review and assess management's overall process to identify principal risks that could affect the achievement of the Company's business plans and to monitor the process to manage such risks;
- (g) be responsible for the determination of whether the Company's Risk & Internal Audit function should be performed by employees of the Company or outsourced to a third party and if the function is outsourced to a third party, be responsible for the appointment, compensation, retention and oversight of the work of such third party;
- (h) meet separately, periodically, with management, with members of the Company's Risk & Internal Audit function and with the independent auditors;
- (i) review with the independent auditors any audit problems or difficulties and management's response;
- (j) set clear hiring policies in respect of the hiring of partners, former partners, employees or former employees of the independent auditors;
- (k) engage independent legal counsel and accounting and other advisers (including, for greater certainty, setting and paying their compensation), as the Committee determines necessary to carry out its duties, at the expense of the Company;
- (l) establish procedures for (1) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and (2) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters;
- (m) approve in advance all audit services, as well as non-audit services, including tax services, to be rendered by the Company's independent auditors to the Company or its subsidiary entities;
- (n) report its activities, conclusions and concerns to the Board regularly;
- (o) conduct, or have conducted, an annual performance evaluation of the Committee;
- (p) oversee and monitor the Company's compliance with legal and regulatory requirements;
- (q) oversee and monitor the integrity of the Company's financial reporting process and system of internal controls regarding financial reporting and accounting compliance; and
- (r) provide an avenue of communication among the independent auditors, management, the Risk & Internal Audit function, and the Board.

3.0 IMPLEMENTATION OF DUTIES AND RESPONSIBILITIES

3.1 *Review Procedures*

The Committee has the authority to conduct any review or investigation appropriate to fulfilment of its responsibilities. The Committee shall have unrestricted access to personnel and information, and any resources necessary to carry out its responsibility. In this regard, the Committee may direct members of the Risk & Internal Audit function to examine particular areas, processes or matters.

The Committee will review and update the Committee's charter at least annually, recommend proposed changes, as applicable, to the Nominating & Corporate Governance Committee for review and recommendation for approval to the Board. The Committee shall provide a summary of the Committee's composition and responsibilities in the Company's annual information form or other public disclosure documentation.

The Committee will provide a summary of all approvals by the Committee for the provision of audit, audit-related, tax and other services by the independent auditors for inclusion in the Company's reports filed with the regulatory authorities in Canada and the United States.

3.2 *Annual Financial Statements*

- (a) Discuss and review with management and the independent auditors the Company's annual audited financial statements and related documents prior to their filing or distribution. Such review is to include:
 - (i) the annual financial statements and related footnotes, including significant issues regarding accounting policies and practices and significant management estimates and judgements, including any significant changes in the Company's selection or application of accounting principles, any major issues as to the adequacy of the Company's internal controls and any specific steps adopted in light of material control weaknesses;
 - (ii) the independent auditors' annual audit plan and approval thereof;
 - (iii) the independent auditors' audit examination of the financial statements and their report thereon;
 - (iv) an evaluation of the audit carried out by the independent auditors against the approved audit plan and a review of any significant changes required in the independent auditors' audit plan;
 - (v) any serious difficulties or disputes with management encountered during the course of the audit, including any restrictions on the scope of the independent auditors' work or access to required information;
 - (vi) other matters related to the conduct of the audit which are to be communicated to the Committee under generally accepted auditing standards;
 - (vii) all alternative disclosures and treatments of financial information (including accounting adjustments) within generally accepted accounting principles that have been discussed with management, and the ramifications of the use of such alternative disclosures and treatments; and
 - (viii) other material written communications between the independent auditors and management, such as any management or internal control letter or schedule of unadjusted differences.
- (b) Review and formally recommend for approval by the Board the Company's:
 - (i) year-end audited financial statements;
 - (ii) annual earnings press releases;
 - (iii) Management's Discussion and Analysis in respect of the year-end audited financial statements;
 - (iv) financial information contained in the Annual Information Form; and

- (v) financial information contained in all prospectuses and proxy circulars.

The Committee's review shall include communications from the independent auditors on the qualitative factors around the selection and application of significant accounting policies upon which the Company's financial status depends, and which involve the most complex, subjective or significant judgemental decisions or assessments.

3.3 *Quarterly Financial Statements*

- (a) Review with management and the independent auditors, and:
 - (i) approve, and report to the Board on, the quarterly unaudited financial statements and related documents, including Management's Discussion and Analysis and interim earnings press releases; and
 - (ii) either approve (such approval to include the authorization for public release) or formally recommend for approval to the Board any significant changes to the Company's accounting principles.
- (b) Review and discuss quarterly reports from the independent auditors regarding:
 - (i) all critical accounting policies and practices to be used;
 - (ii) all alternative disclosures and treatments of financial information within generally accepted accounting principles that have been discussed with management, and the ramifications of the use of such alternative disclosures and treatments; and
 - (iii) other material written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences.

3.4 *Internal Control Environment*

- (a) Ensure that management provides to the Committee an annual report on the Company's internal control environment as it pertains to the Company's financial reporting process and controls.
- (b) Review and discuss significant financial risks or exposures and assess the steps management has taken to monitor, control, report on and mitigate such risks to the Company.
- (c) Review and discuss reliance placed on and the relationship between the Company and the finance group at the Diavik Diamond Mine, including a review of the Diavik enterprise risk assessment.
- (d) Review the effectiveness of the overall process for identifying the principal risks affecting the achievement of the Company's business plans and provide the Committee's view to the Board.
- (e) Review significant findings prepared by the independent auditors and the Risk & Internal Audit function, together with management's responses.

- (f) Review, in consultation with the Risk & Internal Audit function and the independent auditors, the degree of coordination in the audit plans of the Risk & Internal Audit function and the independent auditors, and enquire as to the extent the planned scope can be relied upon to detect weaknesses in internal controls, fraud, or other illegal acts. The Committee will assess the coordination of audit efforts for completeness of coverage and the effective use of audit resources. Any significant recommendations made by the independent auditors and/or the Risk & Internal Audit function for the strengthening of internal controls shall be reviewed and discussed with management.

3.5 Other Review Items

- (a) Review policies and procedures with respect to officers' and directors' expense accounts and perquisites, including their use of corporate assets, and consider the results of any review of these areas by the Risk & Internal Audit function or the independent auditors.
- (b) Review any proposed transactions between the Company or one of its subsidiaries or affiliates with any officer, director or other related party (including any significant shareholder) or any entity in which any of the foregoing persons has a financial interest and any potential conflicts of interest resulting therefrom.
- (c) Review with the Corporate Secretary, as required, and the head of the Risk & Internal Audit function, the result of the review of the Company's compliance with each of the Company's *Code of Ethics and Business Conduct* and applicable legal requirements.
- (d) Review legal and regulatory matters, including correspondence with regulators and governmental agencies that may have a material impact on the interim or annual financial statements, related corporate compliance policies, and programs and reports received from regulators or governmental agencies.
- (e) Review policies and practices with respect to off-balance sheet transactions and trading and hedging activities, and consider the results of any review of these areas by the Risk & Internal Audit function or the independent auditors, if specifically requested to so review.
- (f) Review with the CEO and the Chief Financial Officer of the Company and the independent auditors: (i) all significant deficiencies identified and material weaknesses in the design or operation of the Company's internal controls and procedures for financial reporting which could adversely affect the Company's ability to record, process, summarize and report financial information (including information extracted or derived from the Company's financial statements) required to be disclosed by the Company in the reports that it files or submits under the United States Securities Exchange Act of 1934, as amended, the *Securities Act* (Ontario), and any other laws or regulations within the required time periods; and (ii) any fraud, whether or not material, that involves management of the Company or other employees who have a significant role in the Company's internal controls and procedures for financial reporting.

3.6 Independent Auditors

- (a) Meet on a regular basis with the independent auditors (without management present) and have the independent auditors be available to attend Committee meetings or portions thereof at the request of the Chairman of the Committee or by a majority of the members of the Committee.

- (b) Review and discuss with the independent auditors all significant relationships that the independent auditors and their affiliates have with the Company and its affiliates in order to determine the independent auditors' independence, including, without limitation, (i) receiving and reviewing, as a part of the review described in the foregoing, a formal written statement from the independent auditors delineating all relationships that may reasonably be thought to bear on the independence of the independent auditors with respect to the Company and its affiliates, (ii) discussing with the independent auditors any disclosed relationships or services that the independent auditors believe may affect their objectivity and independence, and (iii) recommending that the Board take appropriate action in response to the independent auditors' report to satisfy itself of the auditors' independence.
- (c) Review and evaluate:
 - (i) the independent auditors' and the team of the lead partner of the independent auditors' performance, and make a recommendation to the Board regarding the reappointment of the independent auditors at the annual meeting of the Company's shareholders or regarding the discharge of such independent auditors;
 - (ii) the terms of engagement of the independent auditors, together with their proposed fees and actual fees;
 - (iii) independent audit plans and results;
 - (iv) any other related audit engagement matters; and
 - (v) the engagement of the independent auditors to perform non-audit services, together with the fees therefor, and the impact thereof, on the independence of the auditors.
- (d) Upon reviewing and discussing the information provided to the Committee in accordance with paragraphs (b) and (c), evaluate the independent auditors' qualifications, performance and independence, and whether the provision of permitted non-audit services is compatible with maintaining auditor independence, taking into account the opinions of management and the head of the Risk & Internal Audit function. The Committee shall present its conclusions with respect to the independent auditors to the Board.
- (e) Ensure the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law. Consider whether, in order to assure continuing independent auditor independence, it is appropriate to adopt a policy of rotating the independent auditing firm on a regular basis.
- (f) Consider with management and the independent auditors the rationale for employing audit firms other than the principal independent auditors, including a review of management consulting services and related fees provided by the independent auditors compared to those of other audit firms.

3.7 *Internal Audit and Legal Compliance*

- (a) Meet with the head of the Risk & Internal Audit function as required, but in any event at least quarterly.
- (b) Review, consider and provide a recommendation in respect of the appointment, replacement, reassignment, or dismissal of the head of the Risk & Internal Audit function or of the third party to whom the Risk & Internal Audit function has been outsourced.

- (c) Where the Risk & Internal Audit function is outsourced to a third party, review and evaluate the terms of engagement of such third party, together with their proposed fees and actual fees.
- (d) Confirm and assure, annually, the independence of the Risk & Internal Audit function.
- (e) Consider and review with management, the independent auditors as appropriate, and the head of the Risk & Internal Audit function:
 - (i) the Risk & Internal Audit function's annual audit plan;
 - (ii) significant findings during the year and management's responses and follow-up thereto;
 - (iii) any difficulties encountered in the course of the audits performed by the Risk & Internal Audit function, including any restrictions on the scope of their work or access to required information;
 - (iv) any changes required in the planned scope of the annual audit plan of the Risk & Internal Audit function;
 - (v) the resources, budget, reporting relationships and planned activities of the Risk & Internal Audit function;
 - (vi) the Risk & Internal Audit function charter and approve such charter; and
 - (vii) the Risk & Internal Audit function's compliance with the IIA's Standards for the Professional Practice of Internal Auditing (Standards).

3.8 *Approval of Audit and Non-Audit Services*

- (a) Review all, and, where appropriate and permitted, approve proposed non-audit services (including the fees and terms thereof) in advance of the provision of those services by the independent auditors (subject to the de minimus exception for non-audit services prescribed in applicable legislation which are approved by the Committee prior to the completion of the audit).
- (b) Review all, and, where appropriate and permitted, approve proposed audit services (including the fees and terms thereof) in advance of the provision of those services by the independent auditors.
- (c) If the pre-approvals contemplated in paragraphs (a) and (b) are not obtained, approve, where appropriate and permitted, the provision of audit and non-audit services for which prior approval was not obtained promptly after the Committee, or a member of the Committee to whom authority has been delegated, becomes aware of the provision of those services. If the provision of any audit or non-audit services for which prior approval was not obtained has commenced and the approval of such audit or non-audit services is determined by the Committee, or a member of the Committee to whom authority has been delegated, not to be appropriate or permitted, the Committee will direct or cause the provision of such services to cease immediately.
- (d) Delegate, if the Committee deems necessary or desirable, to subcommittees consisting of one or more members of the Committee, the authority to grant the pre-approvals and approvals described in paragraphs (a) and (b). The decision of any such subcommittee to grant pre-approval shall be presented to the full Committee at the next scheduled Committee meeting.

3.9 *Other Matters*

- (a) Review, consider and provide a recommendation to the Board in respect of the appointment, replacement, reassignment, or dismissal of the Chief Financial Officer.
- (b) Review, approve and report to the Board on banking authorities for the Company's and its subsidiaries' bank accounts.
- (c) Review, approve and report to the Board on internal controls at the Company's subsidiaries.
- (d) Report Committee actions to the Board with such recommendations as the Committee may deem appropriate.
- (e) Determine the appropriate levels of compensation to be paid by the Company to the independent auditors for the purpose of rendering or issuing an audit report or performing other audit, review or attest services for the Company and to any advisors engaged by the Committee.
- (f) Determine the appropriate levels of compensation to be paid by the Company to a third party to whom the Risk & Internal Audit function has been outsourced.
- (g) Perform such other functions as required by law, the Company's constating documents or bylaws, or the Board.
- (h) Consider any other matters referred to it by the Board.

4.0 OPERATION OF COMMITTEE

4.1 *Reporting*

The Committee shall report to the Board following each Committee meeting.

4.2 *Composition of Committee*

The Committee shall consist of not less than three directors as determined by the Board, all of whom are free from any relationship that would interfere with the exercise of his or her independent judgement and shall qualify as independent directors in accordance with the Securities Act of 1934 as amended by the Sarbanes-Oxley Act of 2002 and any other regulatory requirements and shall have been affirmatively determined by the Board to be an "independent director" under the New York Stock Exchange Corporate Governance Guidelines and other applicable laws.

All members of the Committee shall have the "financial literacy" to be able to read and understand the Company's financial statements and to understand the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements. At least one member shall have acquired, through: (i) education and experience as a principal financial officer, principal accounting officer, controller, public accountant or auditor or experience in one or more positions that involve the performance of similar functions; (ii) experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions; (iii) experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or (iv) other relevant experience, the following abilities:

- (a) An understanding of generally accepted accounting principles and financial statements;
- (b) The ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;

- (c) Experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements, or experience actively supervising one or more persons engaged in such activities;
- (d) An understanding of internal controls and procedures for financial reporting; and
- (e) An understanding of audit committee functions.

Committee members shall not simultaneously serve on the audit committees of more than two other public companies, unless the Board first determines that such simultaneous service will not impair the ability of the relevant members to effectively serve on the Committee, and required public disclosure is made.

4.3 Appointment of Committee Members

Members of the Committee shall be appointed at a meeting of the Board, typically held immediately after the annual shareholders' meeting, provided that any member may be removed or replaced at any time by the Board and shall in any event cease to be a member of the Committee upon ceasing to be a member of the Board.

4.4 Vacancies

Where a vacancy occurs at any time in the membership of the Committee, it may be filled by the Board.

4.5 Chairman

The Nominating & Corporate Governance Committee will recommend an independent and financially literate director as Chairman of the Committee to the Board for approval. The Chairman of the Committee shall be appointed by the Board. If the Chairman of the Committee is not present at any meeting of the Committee, one of the other members of the Committee present at the meeting shall be chosen by the Committee to preside.

The Chairman presiding at any meeting shall not have a casting vote.

4.6 Secretary

The Committee shall appoint a Secretary who need not be a member of the Committee or a director of the Company. The Secretary shall keep minutes of the meetings of the Committee.

4.7 Compensation

Committee members may not, other than in their respective capacities as members of the Committee, the Board or any other committee of the Board, accept any consulting, advisory or other compensatory fee from the Company or its affiliates. For greater certainty, director's fees are the only compensation a Committee member may receive from the Company or its affiliates.

4.8 Committee Meetings

The Committee shall meet at least quarterly at the call of the Chairman. The Chairman of the Committee may call additional meetings as required. In addition, a meeting may be called by any director or by the independent auditors.

Committee meetings may be held in person, by video-conference, by telephone or by any combination of any of the foregoing.

4.9 *Notice of Meeting*

Notice of the time and place of every meeting may be given orally, in writing, by facsimile or by electronic communication to each member of the Committee and to independent auditors at least 48 hours prior to the time fixed for such meeting.

A member of the Committee and the independent auditors may, in any manner, waive notice of the meeting. Attendance of a member at the meeting shall constitute waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting was not lawfully called.

4.10 *Quorum*

A majority of Committee members, present in person, by video-conference, by telephone or by a combination thereof, shall constitute a quorum.

4.11 *Attendance at Meetings*

The CEO and the Chief Financial Officer, as required, and the head of the Risk & Internal Audit function are expected to be available to attend meetings, but a portion of every meeting will be reserved for in-camera discussion without members of management being present.

The Committee should meet, on a regular basis and without management present, with the head of Risk & Internal Audit function, the independent auditors, and management in separate executive sessions to discuss any matters that the Committee or these groups believe should be discussed privately with the Committee.

The Committee may by specific invitation have other resource persons in attendance.

The Committee shall have the right to determine who shall and who shall not be present at any time during a meeting of the Committee.

4.12 *Minutes*

Minutes of Committee meetings shall be sent to all Committee members and to the independent auditors after each meeting.

APPROVED by the Board of Directors of Dominion Diamond Corporation on the 20th day of January, 2016.