

AUDIT COMMITTEE CHARTER
OF
CHARLES & COLVARD, LTD.

(as amended and restated by the Board of Directors on March 15, 2016)

The Purpose of the Audit Committee

The purpose of the Audit Committee is to represent and assist the Board of Directors of Charles & Colvard, Ltd. (the “Company”) in its general oversight of the Company’s accounting and financial reporting processes, audits of the financial statements, and internal control and audit functions. Management is responsible for (a) the preparation, presentation and integrity of the Company’s financial statements; (b) accounting and financial reporting principles; and (c) the Company’s internal controls and procedures designed to promote compliance with accounting standards and applicable laws and regulations. The Company’s independent registered public accounting firm is responsible for performing an independent audit of the consolidated financial statements in accordance with generally accepted auditing standards.

Although the Audit Committee has the powers and responsibilities set forth in this charter, the role of the Audit Committee is oversight. The members of the Audit Committee are not full-time employees of the Company and may or may not be accountants or auditors by profession or experts in the field of accounting or auditing and, in any event, do not serve the Company in such capacity. Consequently, it is not the duty of the Audit Committee to conduct audits, to independently verify management’s representations, or to determine that the Company’s financial statements are complete and accurate, prepared in accordance with generally accepted accounting principles (“GAAP”), or fairly present the financial condition, results of operations, and cash flows of the Company in accordance with GAAP. These are the responsibilities of management and the independent registered public accounting firm. The Audit Committee’s considerations and discussions with management and the independent registered public accounting firm do not assure that the Company’s financial statements are presented in accordance with GAAP, that the audit of the Company’s financial statements has been carried out in accordance with generally accepted auditing standards, or that the Company’s independent registered public accounting firm is in fact “independent.”

Membership

The Audit Committee shall be comprised of at least three independent directors. All of the Audit Committee members must be determined by the Board of Directors to meet the independence and financial literacy requirements of The NASDAQ Stock Market LLC (“NASDAQ”), the Securities and Exchange Commission (the “SEC”) rules and regulations and applicable law. Appointment to the Audit Committee, including the designation of the Chair of the Audit Committee and the designation of any Audit Committee members as “audit committee financial experts” as defined by the SEC, shall be made on an annual basis by the full Board upon recommendation of the Nominating and Governance Committee and members may be removed by the Board of Directors in its discretion. At least one member of the Audit Committee must have, in the judgment of the Board, employment experience in finance or

accounting, requisite professional certification in accounting or any other comparable experience or background that results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities, or otherwise satisfy the applicable NASDAQ experience requirement. In addition, the Board shall use reasonable efforts to appoint at least one Audit Committee member with the requisite accounting or related financial management competency in order to be an "audit committee financial expert" as defined by the SEC.

Responsibilities

The Audit Committee:

- Is directly responsible for the appointment, compensation, retention and oversight of the work of any "registered public accounting firm" (as defined by the SEC) engaged (including resolution of disagreements between management and the registered public accounting firm regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services. Each such registered public accounting firm shall report directly to the Audit Committee.
- Obtains and reviews annually a report by the registered public accounting firm as independent auditor describing (i) the independent auditor's internal quality-control procedures; (ii) any material issues raised by the most recent internal quality-control review or peer review 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 independent auditor; and (iii) any steps taken to deal with any such issues.
- Obtain on an annual basis a formal written statement from the independent auditor delineating all relationships between the independent auditor and the Company consistent with applicable requirements of the Public Company Accounting Oversight Board ("PCAOB"), and review and discuss with the independent auditor all significant relationships the independent auditor has with the Company that may affect the independent auditor's independence. The Audit Committee is responsible for taking, or recommending that the full Board take, appropriate action to oversee the independence of the independent auditor.
- Establishes policies and procedures for the review and pre-approval by the Audit Committee of all auditing services and permissible non-audit services (including the fees and terms thereof) to be performed by the independent auditor, with exceptions provided for de minimis amounts under certain circumstances as described by law.
- Reviews and discusses with the independent auditor: (a) its audit plans, and audit procedures, including the scope, fees and timing of the audit and adequacy of the independent auditor's staffing; (b) the results of the annual audit examination and accompanying management letters; and (c) the results of the independent auditor's procedures with respect to interim periods.

- Reviews and discusses reports from the independent auditor on (a) all critical accounting policies and practices used by the Company, (b) alternative accounting treatments within GAAP related to material items that have been discussed with management, including the ramifications of the use of the alternative treatments and the treatment preferred by the independent auditor, and (c) other material written communications between the independent auditor and management.
- Reviews with the independent auditor its judgments as to the quality, not just the acceptability, of the Company's accounting principles and such matters as are required to be discussed with the Audit Committee under generally accepted auditing standards, including Statement on Auditing Standards No. 1301 (or such successor standard that may be promulgated by the PCAOB), such as any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information, and any significant disagreements with management.
- Reviews and discusses with management and the independent auditor quarterly earnings press releases, including the interim financial information and business outlook included therein (paying particular attention to any use of adjusted pro forma or other non-GAAP information).
- Reviews the Company's quarterly and annual financial statements and related disclosures, including the MD&A portion of the Company's SEC reports (paying particular attention to any use of adjusted pro forma or other non-GAAP information), prior to filing with the SEC, and, if deemed appropriate, recommends to the Board of Directors that the annual audited financial statements be approved for inclusion in the Annual Report on Form 10-K for the year.
- Reviews and discusses with management and the independent auditor various topics and events that may have significant financial impact on the Company or that are the subject of discussions between management and the independent auditor, including but not limited to the Company's internal control over financial reporting and both the independent auditor's and management's internal control reports prepared in accordance with rules promulgated by the SEC pursuant to Section 404 of the Sarbanes-Oxley Act of 2002.
- Reviews and discusses with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures.
- Reviews and approves in advance all transactions between the Company and any "related person" that would be required to be disclosed pursuant to SEC Item 404 of Regulation S-K, and develops policies and procedures regarding the Audit Committee's approval of such transactions.
- Reviews periodically, but no less frequently than annually, a summary of all previously approved transactions between the Company and any "related person" that are required to be disclosed pursuant to SEC Item 404 of Regulation S-K.

- Reviews and discusses with the independent auditor the Audit Committee’s understanding of the Company’s relationships and transactions with “related persons” that are significant to the Company; and reviews and discusses with the independent auditors the auditors’ evaluation of the Company’s identification of, accounting for, and disclosure of its relationships and transactions with related persons, including any significant matters arising from the audit regarding the Company’s relationships and transactions with related persons.
- Reviews and approves policies and procedures regarding officers’ and directors’ expense accounts and perquisites, including their use of Company assets.
- Reviews and discusses with management, the independent auditor, and any provider of internal audit services to the Company: (a) the adequacy and effectiveness of the Company’s internal controls (including any significant deficiencies and significant changes in internal controls reported to the Audit Committee by the independent auditor or management; (b) the Company’s internal audit procedures; and (c) the adequacy and effectiveness of the Company’s disclosures controls and procedures, and management reports thereon.
- Reviews annually with any provider of internal audit services to the Company the scope of the internal audit program, and reviews annually the performance of both the internal audit group and the independent auditor in executing their plans and meeting their objectives.
- Reviews the use of auditors other than the Company’s existing independent auditor in cases such as management’s request for second opinions.
- Reviews matters related to the corporate compliance activities of the Company, including the review of reports from the Company’s Disclosure Committee and other related groups.
- Serves, if and for so long as designated by the full Board, as a “qualified legal compliance committee” as defined by the SEC to respond as it determines to be appropriate to any report of evidence of a material violation of the securities laws that the Audit Committee receives from the Company’s chief legal officer, if any, or from any attorney appearing and practicing before the SEC in the representation of the Company, and establishes written procedures for the confidential receipt, retention and consideration of any such reports.
- Establishes written procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
- Establishes policies for the hiring of employees and former employees of the independent auditor.
- Reviews accounting and financial human resources and succession planning within the Company.

- Submits minutes of all meetings of the Audit Committee to, and discusses matters discussed at each Committee meeting with, the full Board.
- Prepares and publishes the report of the Audit Committee required by the rules of the SEC to be included in the Company's annual proxy statement.
- When appropriate, designates one or more of its members to perform certain of its duties on its behalf, subject to such reporting to or ratification by the Audit Committee as the Audit Committee shall direct.
- Performs any other activities consistent with this Charter, the Company's bylaws and governing law as the Audit Committee or the full Board deems necessary or appropriate.

The Audit Committee will engage in an annual self-assessment with the goal of continuing improvement, and will annually review and reassess the adequacy of its charter, and recommend any changes to the full Board.

The Audit Committee is authorized to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Company. The Audit Committee shall have the authority to engage independent legal, accounting and other advisers, as it determines necessary to carry out its duties. The Company shall provide appropriate funding to the Audit Committee as determined by the Audit Committee, for payment of (1) compensation to any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company, (2) compensation to any advisers retained by the Audit Committee in connection with the discharge of its duties and responsibilities, and (3) ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

The Audit Committee shall meet not less than quarterly at such times and places as the Audit Committee shall determine. The Audit Committee shall meet in executive session with the independent auditor, the provider of internal audit services to the Company and management periodically. The Chairman of the Audit Committee or an Audit Committee member designated by the Chairman shall report on Audit Committee activities to the full Board.

The Chairman of the Audit Committee is to be contacted directly by the provider of internal audit services to the Company or the independent auditor (1) to review items of a sensitive nature that can impact the accuracy of financial reporting or (2) to discuss significant issues relative to the overall Board responsibility that have been communicated to management but, in their judgment, may warrant follow-up by the Audit Committee.