

Clarity Pharmaceuticals Ltd

Audit and Risk Committee Charter

1 PURPOSE AND AUTHORITY

Purpose

- 1.1 The purpose of this Audit and Risk Committee Charter (**Charter**) is to specify the authority delegated to the Audit and Risk Committee (**Committee**) by the board of directors (**Board**) of Clarity Pharmaceuticals Ltd ACN 143 005 341 (**Company**) and to set out the role, responsibilities, membership and operation of the Committee.

Authority

- 1.2 The Committee is a committee of the Board established in accordance with the Company's constitution and is authorised by the Board to assist it in fulfilling its statutory and regulatory responsibilities. It has the authority and power to exercise the responsibilities set out in this Charter and under any separate resolutions of the Board granted to it from time to time.

2 ROLE OF THE COMMITTEE

- 2.1 The role of the Committee is to monitor and review the effectiveness of the Company's control environment in the areas of operational and balance sheet risk, legal and regulatory compliance and financial reporting, including oversight of:
- (a) the integrity of the Company's financial reporting systems, internal and external financial reporting and financial statements;
 - (b) the appointment, remuneration, independence and competence of the Company's external auditors;
 - (c) the performance of the external audit functions and review of their audits;
 - (d) the effectiveness of the Company's system of risk management and internal controls; and
 - (e) the Company's systems and procedures for compliance with applicable legal and regulatory requirements.

3 AUDIT AND RISK RESPONSIBILITIES

External reporting

- 3.1 The Committee is responsible for:
- (a) reviewing the appropriateness of the accounting judgements or choices exercised by management in the composition and presentation of financial reports;
 - (b) overseeing the preparation of financial reports and reviewing the results of external audits of these reports;
 - (c) assessing significant estimates and judgements in financial reports by examining the processes used to derive material estimates and judgements and seeking verification of those estimates from external auditors;
 - (d) reviewing and making recommendations in relation to the adequacy of the Company's corporate reporting processes;

- (e) reviewing management's processes for ensuring and monitoring compliance with laws, regulations and other requirements relating to the preparation of accounts and external reporting by the Company of financial and non-financial information;
- (f) assessing (before publication) whether external reporting is consistent with the understanding of the Committee members and otherwise provides a true and fair view of, the financial position and performance of the Company;
- (g) reviewing material documents and reports prepared for lodgement with regulators, assessing their impact on the Company and making recommendations to the Board for their approval or amendment;
- (h) ensuring that a comprehensive process is established to capture issues for the purposes of continuous reporting to the Australian Securities Exchange (**ASX**);
- (i) ensuring that appropriate risk management and internal control processes are in place to form the basis upon which the Chief Executive Officer and Chief Financial Officer make their declarations to the Board under Section 295A of the *Corporations Act 2001* (Cth) and Principle 4 of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (4th Edition);
- (j) reviewing the completeness and accuracy of the Company's main corporate governance practices as required by the ASX Listing Rules;
- (k) assessing information from external auditors that affects the quality of financial reports;
- (l) asking the external auditor for an independent judgement about the appropriateness of the accounting principles used and the clarity of financial disclosure practices used by the Company;
- (m) assessing solvency and the going concern assumption;
- (n) assessing the management of non-financial information in documents prepared for external to ensure that conflicts with financial statements and other documents do not occur; and
- (o) recommending to the Board whether the financial and non-financial statements should be signed based on the Committee's assessment of them.

External audit

3.2 The Committee is responsible for:

- (a) making recommendations to the Board on the appointment and remuneration of the external auditor and, if appropriate, recommending that tenders be called to assist in deciding which external auditor should be recommended;
- (b) making recommendations to the Board on the rotation of the audit engagement partner;
- (c) agreeing the terms of engagement of the external auditor before the start of each audit;
- (d) reviewing the external auditor's fee and being satisfied that an effective, comprehensive and complete audit can be conducted for the external auditor's set fee;
- (e) monitoring the effectiveness and independence of the external auditor, and periodically assessing their performance;

- (f) reviewing the external auditor's independence based on the external auditor's relationships and services with the Company and other organisations;
- (g) assessing whether the external auditor's provision of non-audit services impairs or appears to impair their judgement or independence and, if required, developing policies for Board approval to ensure this does not occur;
- (h) making recommendations to the Board on the removal of the external auditor;
- (i) ensuring that any recommendation to replace the external auditor is carefully evaluated before the Board makes a final decision;
- (j) inviting the external auditor to attend Committee meetings to review the audit plan, discuss audit results and consider the implications of external audit findings;
- (k) reviewing the scope and adequacy of the external audit, including identified risk areas and any additional procedures, with the external auditor on a periodic basis;
- (l) raising with the external auditor any specific points of divergence with the Company's management;
- (m) monitoring and examining management's response to the external auditor's findings and recommendations;
- (n) reviewing all representation letters signed by management and ensuring all information provided is complete and appropriate; and
- (o) meeting with the external auditor without management present at least once a year.

Risk management

3.3 The Committee is responsible for:

- (a) overseeing the preparation of a risk profile which describes the material risks facing the Company including financial and non-financial matters, and overseeing the regular review and update of that risk profile;
- (b) ensuring that the Company has an effective risk management system;
- (c) assessing and ensuring that there are internal controls for determining and managing key risk areas, such as, for example:
 - (i) non-compliance with laws, regulations, standards and best practice guidelines including industrial relations, occupational health and safety, environmental and trade practices laws (as relevant to the Company from time to time);
 - (ii) important judgements and accounting estimates;
 - (iii) business licence requirements (as relevant to the Company from time to time);
 - (iv) litigation and claims;
 - (v) fraud and theft;
 - (vi) conduct risk, digital disruption, cyber-security, privacy and data breaches, as well as economic, environmental and social risks (in each case, as relevant to the Company from time to time); and

- (vii) any other business risks as may be determined by the Board from time to time;
- (d) receiving reports concerning material and actual incidents or 'near misses' within the risk areas above, material breaches of Company policies relevant to the risk areas above and ensuring that macro risks are reported to the Board at least annually;
- (e) conducting investigations of breaches or potential breaches of any internal controls, and incidents within the risk areas above, particularly in relation to accounts and financial reporting;
- (f) examining and evaluating the effectiveness of the internal control system with management and the external auditors and making improvements;
- (g) assessing existing controls that management has in place for unusual transactions or transactions with more than an accepted level of risk;
- (h) meeting periodically with key management, external auditors and compliance staff to understand the Company's control environment;
- (i) overseeing the preparation of a summary of the main internal and external risk sources that could adversely affect the Company's prospects for future financial years, for inclusion in the operating and financial review section of the directors report;
- (j) assessing and monitoring matters related to the Company's risk appetite and risk culture (in each case, as determined by the Board), and making recommendations to the Board in relation to any changes that should be made in this regard (as may be applicable from time to time); and
- (k) overseeing the Company's insurance program, having regard to the Company's business and the insurable risks associated with its business.

Related party transactions

- 3.4 The Committee is responsible for reviewing and monitoring the propriety of related party transactions.

4 RISK APPETITE STATEMENT AND RISK MANAGEMENT FRAMEWORK

- 4.1 The Board has ultimate responsibility for overseeing the performance of the Company, including monitoring of its risk management systems and internal control systems.
- 4.2 The risk function of the Committee is responsible for preparing a risk appetite statement, identifying the level of risk acceptable to the Company (both financial and non-financial) and making recommendations to the Board in relation to changes that should be made to the Company's risk management framework and the risk appetite statement.
- 4.3 The Committee will recommend the risk appetite statement to the Board for adoption and will review both the risk appetite statement which has been set by the Board and the risk management framework at least annually, and will disclose in each reporting period whether such a review has taken place.
- 4.4 The Committee must satisfy itself that the Company's risk management framework deals adequately with contemporary and emerging risks, including conduct risk, digital disruption, cyber security, privacy and data breaches, sustainability and climate change.
- 4.5 Additionally, the Committee should disclose whether it has any material exposure to environmental or social risks and, if it does, how it manages or intends to manage those risks.

The Committee is required to report to the Board on the Company's activities and risk profile in light of this statement, and to put systems and reporting lines in place to enable it promptly to bring to the Board's attention any departure from the risk appetite statement, including without limitation:

- (a) seeking a quarterly sign-off from senior management on risk; and
- (b) seeking quarterly reporting from the Company's compliance committees.

5 POWERS OF COMMITTEE

5.1 In order to fulfil its functions, the Committee has the right to:

- (a) obtain information;
- (b) interview any member of the Company's management team;
- (c) interview internal and external auditors (as applicable) with or without a member of the management team present, in the discretion of the Committee; and
- (d) seek advice from external consultants or other professionals as the Committee considers necessary or appropriate.

6 MEMBERSHIP

Composition and size

- 6.1 The Committee will consist of at least three members, all of whom being non-executive directors and a majority of whom being independent directors.
- 6.2 Where possible, desirable members will be free from any interest, position, association or relationship which, in the opinion of the Board, could, or could reasonably be perceived to, materially interfere with the exercise of his or her independent judgment as a member of the Committee.
- 6.3 Membership is reviewed periodically and re-appointment to the Committee is not automatic. Appointments and resignations are decided by the Board.

Chairperson

- 6.4 The Chairperson of the Committee should be a non-executive director who is not the Chairperson of the Board.
- 6.5 The Chairperson of the Committee is appointed by the Board. If, for a particular Committee meeting, the committee Chairperson is not present within 10 minutes of the nominated starting time of the meeting, the Committee may elect a Chairperson for the meeting.

Technical expertise

- 6.6 The Committee must be structured so that, between them, the members of the Committee should have the accounting and financial expertise and a sufficient technical knowledge and understanding of the industry in which the Company operates, to be able to discharge the Committee's duties effectively.
- 6.7 The Company will disclose the relevant qualifications and experience of the members of the Committee.

Skills development

- 6.8 If the Chairperson of the Committee approves, a Committee member may attend seminars or training related to the functions and responsibilities of the Committee at the Company's expense.

Commitment of Committee members

- 6.9 Committee members must devote the necessary time and attention for the Committee to carry out its responsibilities.

Secretary

- 6.10 The Company Secretary is the secretary of the Committee unless the Board determines otherwise.

7 COMMITTEE MEETINGS AND PROCESS

Meetings

- 7.1 Meetings and proceedings of the Committee are governed by the provisions in the Company's constitution regulating meetings and proceedings of the Board and committees of the Board in so far as they are applicable and not inconsistent with this Charter.

Frequency and calling of meetings

- 7.2 The Committee will meet (in person or virtually) as frequently as required to undertake its role effectively, but not less than quarterly. The Chairperson must call a meeting of the Committee if requested by any member of the Committee, the external auditor or the chairperson of the Board.
- 7.3 The Company must report in each reporting period the number of times the Committee met throughout the period and the individual attendances of the members at those meetings.
- 7.4 The Company will disclose in the corporate governance section of each annual report the frequency of the Committee meetings, the names, relevant qualifications and experience of members of the Committee and their attendance at meetings of the Committee.

Quorum

- 7.5 Two directors constitute a quorum for meetings of the Committee.

Attendance by management and advisors

- 7.6 The Chief Executive Officer and Chief Financial Officer are expected to attend each scheduled meeting of the Committee and a standing invitation will be issued to the external auditors.
- 7.7 The Chairperson of the Committee may also invite directors who are not members of the Committee, other senior managers and external advisors to attend meetings of the Committee. The Committee may request management and/or others to provide such input and advice as is required.

Agenda and documents

- 7.8 The Chairperson of the Committee will be responsible for determining the meeting agenda after appropriate consultation.
- 7.9 The Company Secretary will be responsible for distributing the agenda and any related documents to all Committee members and other attendees before each proposed meeting.

Access to information and advisers

- 7.10 The Chairperson of the Committee receives all reports between the external auditor and management.
- 7.11 The Committee has the authority to:

- (a) require management or others to attend meetings and to provide any information or advice that the Committee requires;
- (b) access the Company's documents and records;
- (c) obtain the advice of special or independent counsel, accountants or other experts, without seeking approval of the Board or management (where the committee considers that necessary or appropriate); and
- (d) access and interview management and external auditors (with or without management present).

Minutes

- 7.12 The Company Secretary will keep minute books to record the proceedings and resolutions of the Committee's meetings.
- 7.13 The Chairperson of the Committee, or delegate, will report to the Board after each Committee meeting. Minutes of Committee meetings will be included in the papers for the next Board meeting after each Committee meeting.

8 COMMITTEE'S PERFORMANCE EVALUATION

- 8.1 The Committee will review its performance from time to time and whenever there are major changes to the management structure of the Company.
- 8.2 The performance evaluation will have regard to the extent to which the Company has met its responsibilities in terms of this Charter.

9 REVIEW AND PUBLICATION OF CHARTER

- 9.1 The Board will review this Charter annually to ensure it remains relevant to the current needs of the Company.
- 9.2 This Charter may be amended by resolution of the Board.
- 9.3 This Charter is available on the Company's website and the key features may be published in the annual report or a link to the governance section of the website provided.

Adopted by the Board on 16 July 2021