

Clarity Pharmaceuticals Ltd

Auditor Independence Policy

1 PURPOSE

- 1.1 This policy provides guidance on the provision of external audit services for Clarity Pharmaceuticals Ltd ACN 143 005 341 (Clarity) to ensure that Clarity's auditor carries out the statutory audit function in a manner which is at all times demonstrably independent of the Company. This policy will only take effect on the day the company commences trading on the ASX.
- 1.2 Clarity's Board recognises that the ultimate responsibility for the integrity of the Company's financial reporting lies with the Board. The Board (or the Audit & Risk Committee (ARC) where delegated), looks to external audit as one form of assurance that the annual accounts are free from material error and internal controls are operating effectively in all material respects in relation to financial reporting.
- 1.3 The purpose of this policy is to define the criteria to consider in relation to the provision of external audit services.

2 APPOINTMENT AND REMOVAL OF THE EXTERNAL AUDITOR

- 2.1. The Board (and its ARC where delegated) has oversight of the appointment, reappointment, replacement and remuneration of the external auditor as well as evaluating their effectiveness and independence. It will review the appointment of the external auditor annually. Clarity's Board may appoint and terminate the external auditor under certain circumstances, however this capacity ultimately resides with shareholders.
- 2.2. If the role of external auditor becomes vacant, or if the Board otherwise considers it appropriate to do so, a selective tendering process will be conducted. Tenders are not assessed solely on price but on issues including:
 - (a) Skills and knowledge of the proposed external audit team;
 - (b) Independence of the external audit firm and the audit partner in relation to Clarity;
 - (c) Understanding of the industry;
 - (d) Quality and thoroughness of proposed audit coverage; and
 - (e) Value for money.

3 PERFORMANCE OF AUDITOR

- 3.1. In reviewing the performance of the external auditor, the Board (or ARC as delegated) focuses on:
 - (f) The overall comprehensiveness and quality of the audit;
 - (g) The timeliness and quality of communications agreed upon under the plan and delivered during the audit;
 - (h) The competency and industry knowledge of external audit staff;
 - (i) The audit firm's reputation; and
 - (j) The independence of the auditor.
- 3.2. Where the performance of the external auditor is assessed as being unsatisfactory, the courses of action may include:

- (k) Discussion with the external audit firm to resolve performance issues;
- (l) Replacement of members within the external audit team; and/or
- (m) Commencement of a competitive tender process to select a new service provider.

3.3. The Board will seek feedback from management during the assessment process.

4 AUDITOR INDEPENDENCE

4.1. The Board (or ARC as delegated) will review the independence of the external auditor annually.

4.2. The external auditor is precluded from providing any services that might threaten its independence or conflict with its assurance and compliance role. Specifically, any firm providing external audit services to Clarity will need to satisfy that:

- (n) No other services will be provided that will result in a conflict of interest;
- (o) No partner, professional member of staff or superannuation fund of the firm holds any shares or options, either directly or indirectly, in Clarity;
- (p) Any services provided by the firm additional to that of the external audit would not have a material bearing on the external audit and would not create a risk of self-review;
- (q) The firm has an appropriate and agreed audit personnel rotation policy including lead and signing partners;
- (r) There are restrictions on employment of audit personnel. No partner, member of staff, spouse or close relative of an audit partner or member of the audit staff shall hold or have held at any time in the two year period immediately preceding the date of the appointment by Clarity, a position as an employee, consultant, director or executive of Clarity; and
- (s) There will be no situations where the auditor assumes the role of management or where the auditor is placed in the role of advocate for Clarity.

4.3. Attachment A of this Policy highlights those services that are permitted and those that are prohibited.

5 PROVISION OF NON-AUDIT RELATED SERVICES

5.1. The Board (or ARC as delegated) is responsible for oversight of any engagement of the external auditor to supply non-audit services and ensuring compliance with this policy.

5.2. Non-audit services means any services provided by the external auditor which are not included in, or are not necessarily incidental to, the terms of the audit engagement.

5.3. The external auditor can be engaged to perform audit, other regulatory and assurance services or other services in line with the permitted services as detailed in Attachment A of this Policy subject to the prior approval of the Chairman of the board or the ARC. Pre-approval of all services provided by the external auditor, regardless of classification in Attachment A of this Policy, must be obtained prior to work commencing.

5.4. If the annual fees for other services are reasonably likely to exceed 30 per cent of the combined annual fee for audit services and other regulatory and assurance services, prior approval must be received from the Chairman of the board or ARC.

6 Reporting and Monitoring

- 6.1. The Chief Financial Officer (CFO) and the auditor must report to the board (or ARC as delegated) at least annually regarding:
 - (a) The scope of non-audit services provided by the auditor; and
 - (b) The amounts paid to the external auditor for those services.
- 6.2. The ARC (where delegated) must provide an annual report to the Board with respect to the non-audit services provided by the external auditor during the year. The report must include:
 - (a) The amounts paid or payable to the external auditor for non-audit services provided during the year;
 - (b) A statement whether the ARC is satisfied that the provision of those services during the year is compatible with the general standard of independence for auditors; and
 - (c) The reasons for the ARC's opinion.

7 AUDIT DELIVERY AND REPORTING

- 7.1. Each year, as part of the external audit assignment, the external auditors will issue an external audit plan for review and discussion with management. The audit plan should outline the audit approach, areas of focus (with accompanying explanation and justification), proposed materiality, and any other factors deemed relevant to support the plan.
- 7.2. The plan should also include additional audit procedures, based on the external auditor's analysis and understanding of developments during recent months, which require additional emphasis during the audit.
- 7.3. The external audit plan will apply materiality to assist in determining the extent to which the external auditors perform detailed procedures across the financial records.
- 7.4. All audit differences in excess of a set limit each year are to be brought to the attention of management for further consideration and action as appropriate.
- 7.5. On completion of the half-year review and annual audit, the auditors provide the ARC with a closing findings report and review or audit report respectively. The findings report will confirm the audit findings and audit differences that have not been addressed by management, and the potential impact of these on the accounts. The audit report will indicate the auditor's conclusion as to the integrity of the financial statements.

8 RESPONSIBILITY OF THE EXTERNAL AUDITOR

- 8.1. The external audit firm will maintain a quality control system that provides assurance that its independence will not be impaired. The external auditor will provide a letter to the CFO on their independence within the meaning of relevant legislation and professional standards at least annually.

9 REVIEW OF THE POLICY

- 9.1. This Policy will be reviewed in the context of ongoing changes in the legal, accounting and governance requirements applicable to Clarity.

Adopted by the Board on 16 July 2021

Attachment A

Permitted and Prohibited Provision of External Auditor Services

1. PERMITTED SERVICES – GENERAL APPROVAL

1.1. Audit Services

- Audits of consolidated financial statements including interim reviews, and all tasks required to that end;
- Audit of subsidiary financial reports required by local reporting requirements or management;
- Assistance in the interpretation of accounting principles;
- ASIC consultation, including review of correspondence relating to filings;
- Audits of opening balance sheets of acquired companies;
- Audits and accounting consultation on acquisition, dispositions and discontinued operations; and
- Audits of financial statements and transactions that are used by lenders, filed with government and regulatory bodies and similar reports.

1.2. Other regulatory and assurance services

Regulatory and Assurance related services:

- Services that result from the role of the firm as independent auditor;
- Compliance letters, agreed-upon procedures, reviews and similar reports based on audited financial statements, financial information or the role of the independent auditor;
- Acting as scrutineer at general meetings of the company;
- Assistance in the implementation of new accounting pronouncements; and
- Provision of training and technical material in relation to application of accounting principles.

Audit Related Services (prior approval to be obtained from the Chairman of the board):

- Transactional assistance, such as due diligence; and
- Preparation of Investigating Accountant's Reports.

1.3. Other Services

Tax related services:

- Tax return and tax reviews, consultations, and assistance; and
- Tax planning and other consultation or services not related to compliance.

Other services:

- Assistance in reviews and tests of internal control and related systems; and
- Assessment of the design and implementation of internal controls.

2. PROHIBITED SERVICES

- Bookkeeping or other similar services related to the accounting records or financial statements of the audit client;
- Financial information systems design and implementation;
- Appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
- Actuarial services;
- Internal audit outsourcing services;
- Management functions or human resources;
- Broker or dealer, investment adviser, or investment banking services;
- Legal services and expert services unrelated to the audit; and
- Any other service that the Board determines (by regulation or for other reasons) is impermissible.