

## Pharmaxis Ltd Audit Committee Charter

### 1. Purpose

The primary function of the Audit Committee is to assist the Board of Directors to fulfil its corporate governance and oversight responsibilities relating to:

- The integrity of the Company's financial reporting process
- The integrity of the Company's systems for the management of risk and internal control
- The internal and external audit process
- The Company's process for monitoring compliance with laws and regulations and its own Code of Conduct
- Related party transactions

### 2. Membership

2.1. The Audit Committee will:

- Comprise at least three members
- Comprise exclusively Independent Directors who:
  - must not receive directly or indirectly, any compensation from the Company other than in their capacity as a members of the Board and its committees
  - must not be an "affiliated person" of the Company or any of its subsidiaries.
- Have an appropriate mix of skills, experience and other qualities for its role. Composition of the Committee is to be recommended to the Board by the Remuneration and Nomination Committee.
- Include at least one member who has relevant qualifications and experience (see paragraph 10 below)

2.2. Members will be appointed for a three year term of office. Members may be reappointed for additional terms.

2.3. The Board will formally approve all changes to members and their remuneration.

2.4. Members will be financially literate, or become financially literate within a reasonable period of time after their appointment to the Audit Committee.

- 2.5. The Chairman of the Committee will be appointed by the Board from time to time. The Chairman of the Board of Directors should not be the Chairman of the Audit Committee.

### **3. Authority**

- 3.1. The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any requests made by the Committee.
- 3.2. Subject to the requirements of the Corporations Act, the Audit Committee is authorised by the Board to appoint, remove and approve the remuneration of the external auditor. The Audit Committee is authorised to also approve non audit services of the auditor.
- 3.3. The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the assistance of outsiders with relevant experience and expertise if it considers this necessary, after consultation with the Chairman of the Board as required by the Company's policy in relation to Directors' Access to Independent Professional Advice.
- 3.4. The Committee shall have unlimited access to the external auditors and to senior management of the Company.

### **4. Meetings**

- 4.1. The Committee will hold at least three meetings per year. A simple majority of committee members will constitute a quorum. Meetings will normally be held to review the:
- plan for the external audits including fees paid to the external auditors
  - proposed half yearly profit announcement and financial results
  - proposed preliminary annual profit announcement
  - annual financial statements prior to the Board approving the annual report
  - status of internal control and risk management policies and procedures
- 4.2. The Committee may call such additional meetings as the Chairman of the Committee decides are necessary for the Committee to fulfil its duties. In addition, the Chairman is required to call a meeting of the Committee when requested to do so by a Committee member, the Chief Executive Officer ("CEO"), the Chief Financial Officer ("CFO") or the external auditors.
- 4.3. The Company Secretary shall act as secretary to the Committee and shall be responsible, in conjunction with the Chairman, for drawing up the agenda and circulating it, supported by explanatory documentation, to Committee members prior to each meeting. In preparing the agenda, the Chairman and secretary shall consult with the external auditors where appropriate. The secretary will also be responsible for keeping and circulating minutes. The minutes of meetings will be approved by the committee and signed by the Chairman. Copies of the minutes are to be forwarded to the full Board.
- 4.4. It is expected that the CFO will be invited to attend each meeting – in order that, inter alia, the Committee may be made directly aware of the views of the Company's

management. Representatives of the external auditors will also attend at the discretion of the Committee. The Audit Committee may invite such other persons to its meetings as it deems necessary. It is expected that a part of each meeting will be set aside for discussion between the external auditors and the Committee without the presence of the CFO or any other member of management.

## **5. Responsibilities**

### 5.1. Overall Responsibilities

- monitor the establishment of appropriate internal control system and environment by the CFO and CEO
- monitor the ongoing assessment of the internal control environment by the CFO and CEO, and obtain all attestations from management and, if required, the external auditor concerning the effectiveness of the Company's internal controls
- oversee and appraise the coverage and quality of the audits conducted by the Company's internal and external auditors
- consider whether to approve non audit services from the auditor
- maintain, by scheduling regular meetings, open lines of communications among the Board and the external auditors to exchange views and information, as well as confirm the auditors respective authority and responsibilities
- serve as an independent and objective party to review the financial information presented by management to shareholders, analysts and the general public
- consider whether to approve any related party transactions
- appoint and in conjunction with the CEO monitor the performance of the CFO
- consider any other matters referred to it by the Board

### 5.2. External Reporting

- Review the annual and half year financial statements and announcement of results to securities exchanges and regulatory agencies with the Chief Executive Officer, the Chief Financial Officer and the external auditors (as applicable), and recommend acceptance to the Board.

### 5.3. Relationship with the External Auditor

#### Appointment

- The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the work of the independent auditor engaged for the purpose of preparing an audit report or related work or performing other audit, review or attest services for the Company.

- To the extent appointment of the external auditor requires shareholder approval, the Audit Committee will nominate the auditor and/or make a voting recommendation to the shareholders

#### Fees

- The Audit Committee has ultimate authority to approve engagement fees and terms, as well as significant non-audit engagements of the external auditor
- The Audit Committee must pre-approve permitted non-audit services and audit services
- The Audit Committee may establish pre-approval policies for particular services, but may not thereby delegate the responsibility to management. One Audit Committee member may pre-approve services, followed by advice to the full Audit Committee at its next scheduled meeting

#### Liaison with and Access of External Auditor

- The Audit Committee is to discuss with the external auditor before the audit/review commences the nature and scope of the audit/review procedures.
- The Audit Committee is responsible for the resolution of any disagreements between management and the auditors.
- The external auditors will have an unrestricted right to discuss any issues they deem necessary with the Audit Committee, or if deemed appropriate by the external auditors, with the Board. It is expected that the external auditors will immediately contact the Chairman of the Audit Committee if management has placed unreasonable restrictions on access by the external auditors or there are significant unresolved issues between management and the external auditors.
- The Audit Committee will review reports prepared by external audit and management's response. The Audit Committee is also to review all representation letters signed by management and external service providers and be satisfied that the information provided is complete and appropriate.

#### Independence

- The Audit Committee is to periodically assess the external auditor's independence by considering the relationships and services provided by the external auditors and others that may lead to actual or perceived lack of independence. The Audit Committee will require the external auditors to confirm, in writing, that they have complied with all professional and regulatory requirements relating to auditor independence prior to the announcement of the results for each period.
- There will be a mandatory period of two years following resignation from an audit firm before a former partner who was directly involved in the audit of the Company can become a Director of the Company or take a position with the Company involving responsibility for fundamental management decisions.
- The Audit Committee will monitor the number of former employees of the external auditor currently employed in senior positions in the Company and assess

whether this impairs (or appears to impair) the auditor's judgment or independence in respect of the Company. The Company will not engage an independent accounting firm to act as auditor where the Company's CEO, CFO, controller or chief accounting officer has worked for the firm during the preceding year.

- The lead audit partner will be required to rotate off the audit after their involvement for a maximum of 5 years and there will be a period of at least 2 years before that partner can again be involved in the Company's audit.
- The external auditors may be permitted to provide non-audit services where their detailed knowledge of the Company's activities could permit cost and output efficiencies, provided stringent independence requirements are satisfied. These services, based on recommendations from management, must be approved by the Audit Committee. The external auditors shall not provide services which are considered to be in conflict with the role of the statutory auditor. See Non-Audit Services below.

#### 5.4. Risk Management

- Maintain a policy for risk oversight and management of material business risks, including:
  - oversight of risk management
  - risk profile
  - risk management and compliance control
  - assessing the effectiveness of risk management
- Monitor the effective operation of the risk management policy

#### 5.5. Financial Accounting Compliance

- Evaluate the adequacy and effectiveness of the Company's administrative, operating and accounting policies through active communication with management and external auditors, and monitoring management's responses and actions to correct any noted deficiencies
- Review reports from management and external auditors on critical accounting policies and practices used in the financial statements and any significant proposed regulatory, accounting or reporting issue so as to assess the potential impact upon the Company's financial reporting process and/or financial reports

#### 5.6. Complaint Procedures

The Audit Committee must establish procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls, auditing matters, or legal matters including procedures for the confidential anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

## **6. Other Responsibilities of the Audit Committee**

- Perform other oversight functions as requested by the Board
- Identify and direct any special projects or investigations deemed necessary
- Review policies to avoid conflicts of interest and review past or proposed transactions between the Company and members of the Board and management.

## **7. Reporting**

The Committee shall:

### **7.1. Board Reporting**

- Regularly update the Board about Committee activities and make appropriate recommendations
- Ensure the Board is aware of matters which may significantly impact the financial condition or affairs of the Company
- Provide the Board with a copy of the minutes from each of its meetings

### **7.2. External Reporting**

- Disclose the fees received by the external auditor, including an analysis of non-audit services

## **8. Self Assessment**

The Audit Committee will institute a process to review their performance against the content of this Charter annually.

## **9. Access to Charter**

The Audit Committee charter will be made publicly available on the Pharmaxis website.

## **10. Relevant Qualifications and Experience**

In determining whether a person has relevant qualifications and experience the following should be considered:

- 10.1. The person's understanding of generally accepted accounting principles (GAAP) and financial statements;
- 10.2. The person's ability to assess the general application of GAAP in connection with the accounting for estimates, accruals and reserves;
- 10.3. The person's 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 raised by the Company's financial statements, or experience actively supervising;
- 10.4. The person's understanding of internal controls and procedures for financial reporting; and

- 10.5. The person's understanding of Audit Committee functions.
- 10.6. The person's prior experience such as:
- 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;
  - Experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions;
  - Experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or
  - Other relevant experience

## **11. Non-Audit Services:**

### 11.1. Permitted non-audit services:

Permitted non-audit services include:

- Tax compliance
- Tax planning
- Tax advice
- Information Systems advice

### 11.2. Prohibited non-audit services:

Prohibited non-audit services include:

- Bookkeeping or other services related to the accounting records or financial statements
- Financial information systems design and implementation
- Appraisal or valuation services, fairness opinions etc (does not prohibit non-financial purposes such as transfer pricing studies)
- Actuarial services