

**ARIX BIOSCIENCE PLC (the "Company")**

**TERMS OF REFERENCE FOR AUDIT AND RISK COMMITTEE**

**1. CONSTITUTION**

This committee of the board of directors (the "**Board**") known as the Audit and Risk Committee (the "**Committee**") is established by resolution of the Board and in accordance with the Articles of Association of the Company. In these terms of reference, the "**Group**" means the Company and its subsidiaries from time to time.

**2. MEMBERSHIP**

2.1 The Committee shall be appointed by the Board from amongst the independent non- executive directors of the Company. The Committee shall consist of not less than two members. The chairman of the Company may also serve on the committee as an additional member, if (unless otherwise agreed) he is considered independent on appointment as chairman. Committee members should be financially literate and at least one member of the Committee should have recent and relevant financial experience. The Committee as a whole shall have competence relevant to the sector in which the Company operates.

2.2 The chairman of the Committee, who shall be an independent non-executive director, shall be appointed by the Board which will also determine his or her period of office. In the absence of the chairman of the Committee or any deputy appointed by the Board, the remaining members present at any meeting shall elect one of their number to chair the meeting. The chairman of the Company may not be a chairman of the Committee.

2.3 If a regular member is unable to act due to absence, illness or other cause, the chairman of the Committee may, if there are any other independent non-executive directors, appoint another independent non-executive director of the Company to serve as an alternate member.

2.4 The Board shall regularly review the membership of the Committee to ensure that membership is refreshed and undue reliance is not placed on particular individuals.

**3. SECRETARY**

3.1 The secretary of the Committee shall be such person as the Committee shall from time to time decide. The secretary of the Committee shall ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.

3.2 The secretary of the Committee shall keep a record of:

- (a) the membership, and the dates of any changes to the membership, of the Committee; and

- (b) any non-audit services provided by the external auditors (the "**Auditors**") to enable the Company to make the necessary statement in the annual report on safeguarding the Auditors' objectivity and independence.

#### **4. QUORUM**

The quorum necessary for the transactions of the business of the Committee shall be two members, comprising only independent non-executive directors, and, whenever possible, at least one of them should have recent and relevant financial experience. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

#### **5. ATTENDANCE AT MEETINGS**

- 5.1 The Committee shall have discretion to decide who, other than its members, shall attend its meetings. In particular, the Committee may ask, where applicable, the Finance Director, heads of internal audit and representatives of the Auditors to attend meetings either regularly or by invitation. No one other than the members of the Committee is entitled to vote at a meeting of the Committee.
- 5.2 At least once a year the Committee shall meet with the Auditors without any executive member of the Board (or other members of the management team except for the secretary of the Committee) being present.

#### **6. FREQUENCY OF MEETINGS, PROCEEDINGS AND NOTICE**

- 6.1 Meetings shall be held not less than three times a year (to coincide with key dates within the financial reporting and audit cycle of the Company) and shall be convened by the secretary of the Committee at the request of the chairman of the Committee.
- 6.2 In addition to the routine meetings of the Committee, either the chairman of the Committee, the internal auditors, the Auditors or the Finance Director may at any time request the secretary of the Committee to summon a meeting if he, she or they consider it necessary. Further, the internal auditors, the Auditors and the Finance Director may have access to the chairman or any other member of the Committee as required in relation to any matter falling within the remit of the Committee.
- 6.3 Meetings will be arranged to tie in with the publication of the Company's financial statements or otherwise to coincide with key dates in the Company's financial reporting cycle.
- 6.4 Unless varied by these terms of reference, meetings and proceedings of the Committee will be governed by the provisions of the Company's Articles of Association regarding the meetings and proceedings of directors.
- 6.5 Unless otherwise agreed, notice of each meeting confirming the venue, time and date (together with an agenda of items to be discussed and supporting papers, where necessary) shall be forwarded to each member of the Committee and any other person required to attend no fewer than three working days prior to the date of the meeting.

## **7. AUTHORITY**

- 7.1 The Committee is authorised to make such investigations and authorise such research as it considers desirable for the purposes of fulfilling its terms of reference.
- 7.2 The Committee is authorised to seek any information it requires from any employee of the Group in order to perform its duties and all employees are directed to co-operate with any request made by the Committee.
- 7.3 In connection with its duties, the Committee is authorised to obtain internal or external legal, accounting or other independent professional advice on any matters within its terms of reference and to secure the attendance of internal or external professional advisers at its meetings if it considers this necessary.
- 7.4 The Committee has the right to publish in the Group's annual report, details of any issues that cannot be resolved between the Committee and the Board.

## **8. DUTIES**

The Committee shall carry out its duties for the Company and the Group and its duties shall be as described in this Paragraph 8.

### **8.1 Financial statements**

The duties of the Committee shall be:

- (a) to monitor the integrity of the financial statements of the Company (including its annual and half-yearly reports, interim management statements and any other formal announcement relating to its financial performance), and to review and report to the Board on accounting methodologies used, significant financial reporting issues and judgements which such financial statements contain, having regard to matters communicated to the Committee by the Auditors;
- (b) to review, as applicable, summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents;
- (c) to keep under review the consistency of, and changes to, accounting policies both on a year to year basis and across the Group;
- (d) to review and challenge where necessary the financial statements, annual accounts and accompanying reports to shareholders and preliminary announcements of results and any other announcement regarding the Group's results or other financial information to be made public with particular reference to:
  - (i) critical accounting policies, methodologies and practices and any changes to them;
  - (ii) major judgmental decisions or areas;

- (iii) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the Auditors;
  - (iv) the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;
  - (v) the clarity and completeness of disclosures and the context in which statements are made;
  - (vi) significant adjustments resulting from the audit;
  - (vii) the going concern assumption;
  - (viii) compliance with applicable accounting standards; and
  - (ix) compliance with legal requirements and all applicable codes of corporate governance practices;
- (e) to report its views to the Board if it is not satisfied with any aspect of the proposed financial reporting by the Company;
  - (f) to discuss whether the Committee should recommend that the financial statements and accompanying reports should be approved by the Board in the meeting of the Board following the Committee meeting and, if so, whether that approval should be granted subject to any matters discussed by the Committee; and
  - (g) to, where applicable, review the annual financial statements of the pension funds where not reviewed by the Board as a whole.

## **8.2 Internal control and risk assessment**

- (a) To monitor and keep under review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems.
- (b) To promote and review sound risk management and internal control systems, including operational and compliance controls.
- (c) To monitor and keep under review the policies and overall process for identifying and assessing business risks and managing their impact on the Company and the Group.
- (d) To receive and review regular assurance reports from management, internal audit, external audit and others on matters related to risk and control, in particular as to the effectiveness and testing of risk management and internal control systems (including financial controls).
- (e) To review and recommend to the Board the disclosures included in the annual report in relation to internal control, risk management and the viability statement.
- (f) To advise the Board on the Company's overall risk appetite, tolerance and strategy.
- (g) To oversee and advise the Board on the current risk exposures of the Company and the Group and future risk strategy.

### **8.3 Whistleblowing, fraud, bribery and other compliance**

- (h) To review the Company's arrangements for its employees and contractors to raise concerns, in confidence, about possible improprieties in financial reporting or other matters, with the aim of ensuring that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action.
- (i) To review the Company's policies and procedures for preventing and detecting fraud, its systems and controls for preventing bribery, its code of corporate conduct/business ethics and its policies for ensuring that the Group complies with relevant regulatory and legal requirements, receive reports and consider appropriate action.

### **8.4 Internal audit**

Where there is no internal audit function, the Committee shall consider annually whether there is a need for one and make a recommendation to the Board.

Where there is an internal audit function, the duties of the Committee shall be:

- (a) to consider applications for the post of and approve the appointment/removal of the head of internal audit and to ensure the head of internal audit is accountable to the Committee;
- (b) to consider and approve the terms of reference of the internal audit function (and the Committee shall be advised of the planned programme of audits and the reason for any change or delay in the programme);
- (c) to review the management of financial matters and focus upon the freedom allowed to internal auditors;
- (d) to keep under review the operation, effectiveness and integrity of the internal audit function and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;
- (e) to review promptly all reports on the Company from the internal auditors and management's response;
- (f) to review and assess the annual internal audit plan;
- (g) to consider the impact on the effectiveness of the Company's overall arrangements for internal control and on investor perceptions if there is a proposal that the Auditors should undertake aspects of the internal audit function;
- (h) to ensure that the head of internal audit shall be offered direct access to the chairman of the Committee and, where necessary, the chairman of the Board;
- (i) to monitor and review the effectiveness of the head of internal audit in the context of the Group's overall risk management system; and
- (j) to meet the head of internal audit at least twice a year, without management being present, to discuss the function and any issues arising from the internal audits

carried out. In addition, the head of internal audit shall be given the right of direct access, whenever the need arises, to the chairman of the Board and to the Committee.

## **8.5 External audit**

The duties of the Committee shall be:

- (a) to consider and make recommendations to the Board, to be put to shareholders for approval at the annual general meeting, in relation to the appointment, re-appointment and removal of the Auditors;
- (b) to ensure that at least once every 10 years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent Auditors with those of other audit firms; and in respect of such tender oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process;
- (c) if the Auditors resign, to investigate the issues leading to this and decide whether any action is required;
- (d) to oversee the relationship with the Auditors including (but not limited to):
  - (i) recommendations on their remuneration, including both fees for audit and non-audit services, and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
  - (ii) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - (iii) assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the Auditors as a whole, including the provision of any non-audit services;
  - (iv) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the Auditors and the Company (other than in the ordinary course of business) which could adversely affect the Auditors' independence and objectivity;
  - (v) agreeing with the Board a policy on the employment of former employees of the Company's Auditors, and monitoring the implementation of this policy;
  - (vi) monitoring the Auditors' compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;

- (vii) assessing annually the qualifications, expertise and resources of the Auditors and the effectiveness of the audit process, which shall include a report from the Auditors on their own internal quality procedures;
  - (viii) discussing with the Auditors such issues as compliance with accounting standards;
  - (ix) seeking to ensure co-ordination with the activities of the internal audit function; and
  - (x) evaluating the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of their Auditors from the market in that evaluation;
- (e) to meet regularly with the Auditors (including once at the planning stage before the audit and once after the audit at the reporting stage) and at least once a year, without management (except for the secretary of the Committee) being present, to discuss the Auditors' remit and any issues arising from the audit and shall ensure that any Auditors' management letters and management's responses are reviewed;
- (f) to review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
- (g) to review the findings of the audit with the Auditors. This shall include, but not be limited to, the following:
  - (i) a discussion of any major issues which arose during the audit;
  - (ii) key accounting and audit judgements;
  - (iii) levels of errors identified during the audit; and
  - (iv) the effectiveness of the audit process;
- (h) to review any representation letter(s) requested by the Auditors before they are signed by management;
- (i) to review the management letter and management's response to the Auditors' findings and recommendations; and
- (j) to develop and implement policy on the supply of non-audit services by the Auditors in order to avoid any threat to Auditors' objectivity and independence, taking into account any relevant ethical guidance on the matter.

## **8.6 Reporting responsibilities**

The duties of the Committee shall be:

- (a) to report to the Board (through the chairman of the Committee) on its proceedings after each meeting on all matters within its duties and responsibilities.
- (b) to meet (or its chairman shall meet) formally with the Board at least once a year to discuss matters such as any significant issues that it considered in relation to the financial statements and how these were addressed, the annual report and the relationship with Auditors and report to the Board on how it has discharged its responsibilities;
- (c) in light of its other duties, to make whatever recommendations to the Board it deems appropriate and to compile a report to shareholders to be included in the Company's annual report explaining how the Committee addressed the effectiveness of the external audit process; the significant issues that the Committee has considered in relation to the financial statements and how these issues were addressed;
- (d) where requested by the Board, to review the content of the annual report and accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy; and
- (e) The Committee shall, when compiling the reports referred to in this section 8.6, exercise judgement in deciding which of the issues it considers, in relation to the financial statements, are significant, but should include at least these matters that have informed the Board's assessment whether the Company is a going concern.

## **8.7 Other matters**

The Committee shall:

- (a) perform all its duties on the basis of the considerations required to be taken into account by all applicable codes of practice and laws and the Committee's view of good practice at the relevant time;
- (b) be responsible for co-ordination of the internal audit function and the Auditors;
- (c) keep under review the Company's procedures for handling allegations from whistle-blowers;
- (d) keep the Company's treasury management policy under review, advise the Finance Director on the execution of that policy and report to the Board as appropriate; and the Committee shall have the power to establish a Treasury Subcommittee to which these functions may be sub-delegated;
- (e) oversee the establishment and maintenance, and review the operation of good business practices throughout the Group and investigate, at the request of any member of management, any issues of concern to that person relating to the Group's management, reporting, control or business procedures;
- (f) address any other matters relating to its duties referred to the Committee by the Board;



- (g) ensure that its terms of reference are publicly available and include an explanation of its role and the authority delegated to it by the Board; and
- (h) ensure that its terms of reference are reviewed and, where necessary, updated.

## **9. REPORTING TO SHAREHOLDERS**

- 9.1 The chairman of the Committee shall attend the annual general meeting prepared to respond to any shareholder questions on the Committee's activities and responsibilities.
- 9.2 The Committee shall compile an annual report to be included in a separate section of the directors report describing the Committee's role and the action it has taken.
- 9.3 The chairman of the Committee or, as a minimum, another member of the Committee, shall attend the meeting of the Board at which the annual report and accounts are approved.

## **10. MINUTES**

- 10.1 The members of the Committee shall cause minutes to be made of all resolutions and proceedings of the Committee including the names of all those present and in attendance at meetings of the Committee.
- 10.2 The secretary of the Committee shall ascertain, at the beginning of each meeting, the existence of any conflicts of interests and minute them accordingly. The secretary of the Committee shall circulate the minutes of meetings of the Committee to all members of the Committee, all members of the Board and the Auditors, unless in the opinion of the chairman of the Committee it would be inappropriate to do so.

## **11. OTHER MATTERS**

The Committee shall:

- (a) have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- (b) be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- (c) give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code (to the extent voluntarily applied by the Company) and the requirements of the Listing Rules and any other applicable rules, in each case as applicable to, or appropriate for, the Company;
- (d) be responsible for co-ordination of the internal auditors and Auditors;
- (e) oversee any investigation of activities which are within its terms of reference;
- (f) work and liaise as necessary with all other Board committees; and

- (g) arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board.

## **12. AUTHORITY**

The Committee is authorised to:

- (a) seek any information it requires from any employee of the Company or Group in order to perform its duties;
- (b) obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter where it believes it necessary to do so;
- (c) call any employee to be questioned at a meeting of the Committee as and when required; and
- (d) publish in the Company's annual report and accounts details of any issues that cannot be resolved between the Committee and the Board.