



Phosphagenics

Phosphagenics Limited

Audit and Risk Management Committee Charter

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1 Purpose

The audit and risk management committee ("**Committee**") is a committee of the board of directors ("**Board**") of Phosphagenics Limited ("**Company**"). Capitalized terms in this Audit and Risk Management Committee Charter shall be afforded the meaning given to those terms in the Company's Board Charter, unless where specifically indicated otherwise.

- 1.1 The purpose of the Committee is to assist the Board in fulfilling its corporate governance and oversight responsibilities relating to:
- (a) exercising oversight over the compliance of the Company's financial statements with the requirements of the Corporations Act and any other mandatory professional reporting requirements, statutory reporting requirements;
 - (b) the effectiveness of the Company's systems of financial risk management and internal control;
 - (c) the external audit function;
 - (d) the Company's risk profile; and
 - (e) the effectiveness of the Company's risk management framework and supporting risk management systems.
- 1.2 The duties and responsibilities of the Committee to fulfil this purpose are described in sections 2 and 3.

2 Duties and Responsibilities - Audit

2.1 Financial Reporting

The Committee shall:

- (a) Review with management and in conjunction with the external auditor at the completion of the half yearly and the annual audit, and advise and make recommendations to the Board on:
 - (i) The Company's financial statements, and considering whether they are consistent with information known to Committee members and reflect appropriate accounting principles, standards and regulations.
 - (ii) The external auditor's audit of the Company's financial statements; and
 - (iii) Any significant changes required in the external auditor's audit plan, including new or proposed accounting practices, principles or developments, disclosure requirements and legislative or regulatory pronouncements and its effect on the external auditor's audit plan;
- (b) Require management to inform the Committee as to:
 - (i) the compliance with current Australian Accounting Standards and other regulatory requirements;
 - (ii) changes in accounting policies during the period; and
 - (iii) the different methods used in accounting for specific transactions where there is no definitive accounting standard.
- (c) Require external auditors to inform the Committee of their views in relation to the above.
- (d) Review management's representations in respect of the accounts and make recommendations to the Board in connection with adoption of the accounts.

2.2 Assessment of Systems of Financial Risk Management and Internal Control

The Committee shall:

- (a) Discuss with management and the external auditor the Company's accounting and financial controls, including the policies and procedures to assess, monitor and supervise financial risk, business risk, legal and ethical compliance programs for the purpose of forming a view as to the effectiveness of these controls, policies, procedures and programs.
- (b) Discuss with management and the external auditor the objectivity of the Company's accounting policies and methods.
- (c) Discuss with management all reports produced by the external auditor and management's response to the matters raised therein and become satisfied that with the adequacy of the maintenance of the accounting records
- (d) Make any recommendations to the Board, as appropriate, in connection with the items listed in 2.2(a) to 2.2(d).
- (e) Consider and review all related party transactions involving the Company.

2.3 External Audit

The Committee shall:

- (a) Recommend to the Board the appointment and remuneration (and, where appropriate, replacement) of the external auditor and the terms of their engagement.
- (b) Agree with the external auditor the overall scope of the external audit, including identified risk areas and any additional procedures considered necessary.
- (c) Review external audit plans and progress reports prepared by the external auditor and determine whether all matters raised are receiving appropriate attention.
- (d) Monitor and periodically evaluate the effectiveness of the external auditor.

2.4 Independence of the External Auditor and Provision of Non-audit Services

The Committee shall:

- (a) Periodically (at least once per annum) assess the independence of the external auditor by considering the relationships and services provided by the external auditor that may lead to an actual or perceived lack of independence.
- (b) Approve and review the External Auditor Independence Policy (Schedule 1) and monitor compliance with that policy.
- (c) Require that the lead external audit engagement partner be rotated every five years or more frequently if the Committee considers it desirable to maintain the external auditor's independence.
- (d) Require, in addition to normal recruitment due diligence processes, that the appointment of any present or former employee of the external auditor to a senior position within the Company be approved in advance by the Chairman of the Committee.

3 Duties and Responsibilities - Risk Management

3.1 Risk Profile

The Committee shall:

- (a) Review the Company's assessment of material risks with a view to specifically enable the adequacy and effectiveness of the risk assessment.
- (b) Consider the effectiveness of the Company's internal controls, and any relevant reports from Senior Management;
- (c) Review the Company's risk profile as developed by Senior Management and monitor emerging risks and changes in the Company's risk profile.
- (d) Review and discuss with management any material changes in risk profile and risks that exceed risk appetite and tolerance settings.
- (e) Where the Committee identifies opportunities to create value by taking on further or different risks, make recommendations to the Board on the strategies that could be undertaken to capitalise on the identified opportunities.

3.2 Effectiveness of the Risk Management Framework

The Committee shall:

- (a) Consider and review with the Chief Financial Officer, the operation of, risk management policies and procedures:
 - (i) Procedures for identifying risks relevant to the Company's business and controlling their impacts on the Company;
 - (ii) A system of internal control, risk management and safeguarding of assets;
 - (iii) A system of reporting and investigating breaches of risk management policies and procedures;
 - (iv) A review of internal control systems and the operational effectiveness of risk management policies and procedures
 - (v) A culture of risk management and compliance throughout the Company; and
 - (vi) Adequate resources to support the risk management function and enable proper remedial action to be taken to address areas of weakness.
- (b) Review and monitor the Company's risk management performance, including conducting specific investigations where necessary.
- (c) Assess the effectiveness of assurance activities and review assurance reports.
- (d) Evaluate the structure and adequacy of the Company's insurances.
- (e) Recommend to the Board any corrective action resulting from its assessment of the above.

4 Membership and structure

- 4.1 The Board shall appoint the Committee.
- 4.2 The Committee shall consist of at least three members, with at least three being non-executive Directors.
- 4.3 The Committee shall comprise a majority of independent Directors.
- 4.4 Each member will be financially literate (that is, able to read and understand financial statements), have familiarity with financial management and an understanding of the industries in which the Company operates. At least one member should have relevant qualifications and experience (that is, a qualified accountant or other finance professional with experience of financial and accounting matters).

- 4.5 The Chief Executive Officer, Chief Financial Officer, external auditor and other Senior Management will attend Committee meetings as required or invited.
- 4.6 The Board will appoint one of the members of the Committee as chairman, who should not be chairman of the Board. The chairman must be an independent non-executive director. It is the responsibility of the chairman to schedule all meetings of the Committee and, to provide the Committee with a written agenda.
- 4.7 The Company Secretary or his or her appointee will act as secretary of Committee meetings and will circulate minutes of the meeting.
- 4.8 If a member ceases to be a director of the Board of the Company, that member ceases to be a member of the Committee.

5 Administrative Matters

5.1 Meetings

- (a) Any member of the Committee may call a meeting of the Committee with proper notice.
- (b) The Committee will meet at least two times per annum.
- (c) Additional Committee meetings may be convened as the Chair of the Committee considers necessary, taking into account requests from any member, the Chief Executive Officer, the Chief Financial Officer or the external auditor.
- (d) Committee meetings may be held or participated in by conference call or similar means, and decisions may be made by circular or written resolution. A circular or written resolution signed by a majority of all members will be effective as a resolution duly passed at a Committee meeting and may consist of several documents in like form, each signed by one or more members. The expression "written" includes fax or other electronic means.
- (e) A quorum of the Committee will comprise any two members.
- (f) If the chairman of the Committee is unable to attend a Committee meeting, the members present, will appoint another member who is an independent Director to act as chairman at that meeting. However, all members are expected to participate in all Committee meetings.
- (g) All Directors who are not members of the Committee are entitled to attend any meeting of the Committee.
- (h) The Committee may invite any Senior Management or Key management Personnel to attend meetings of the Committee, as they consider appropriate.
- (i) The external auditor will be required to meet separately with the Committee, without management, at least twice per annum or upon the request of the chairman of the Committee.

5.2 Voting

- (a) Each member shall have one vote.
- (b) The chairman of the Committee will not have a second or casting vote.

5.3 Minutes

- (a) Minutes of Committee meetings will be prepared by the Secretary, approved by the chairman of the Committee in draft and circulated to all members.
- (b) Minutes of any private sessions of the Committee (for example, with the external auditor and without management) will be prepared, approved by the chairman of the Committee in draft and circulated to all members.

- (c) The minutes of a Committee meeting and of any private session will be confirmed at the next Committee meeting and then signed by the chairman of the Committee.

5.4 Reporting

- (a) The minutes of each Committee meeting will be included in the papers for the next Board meeting after the Committee meeting.
- (b) The chairman of the Committee will, if requested at the next Board meeting after a Committee meeting, provide a brief oral report as to any material matters arising out of the Committee meeting. All Directors may, within the Board meeting, request information of members of the Committee.

5.5 Authority and Access

- (a) Except where expressly stated in this Charter, the Committee discharges its responsibilities by making recommendations to the Board.
- (b) The Committee may engage separate independent counsel or advisors at the expense of the Company, in appropriate circumstances, with the approval of the Chairman or by resolution of the Board.
- (c) The Committee will have unrestricted access to management and rights to seek explanations and additional information from management. The Committee will also have unrestricted access to the external auditor (with or without the presence of Senior Management, at the Committee's discretion).
- (d) The Committee has authority to conduct or direct investigations into any matters within its Charter. The Committee is entitled to obtain external, independent legal or professional advice as considered necessary or desirable by the Committee to assist it in any investigation or to carry out its duties. As appropriate, the Committee will inform the Chairman of the Board of the Company, the Chief Executive Officer, the Chief Financial Officer and the Company Secretary of its decision to authorise such an investigation or obtain such external advice.

6 Review

- 6.1 The Committee will, on a yearly basis, undertake an evaluation of its performance and effectiveness, review its membership and this Charter and make recommendations to the Board.
- 6.2 The Committee will consider and review the report of the Committee's membership, authority, responsibilities and discharge of those responsibilities for inclusion in Company's financial statements and oversee the preparation of any report or other disclosures to be included in the financial statements of the Company or other communications to Shareholders relating to the external auditor and to risk and risk management.

SCHEDULE 1 - EXTERNAL AUDITOR INDEPENDENCE POLICY

This External Auditor Independence Policy (“**Policy**”) is intended to support the independence of the external auditor by regulating the provision of services by the external auditor. The external auditor will not be engaged to perform any service that may impair or be perceived to impair the external auditor's judgement or independence.

This Policy is to be interpreted in light of the specific requirements of the Corporations Act 2001 (Cth) and should be read in conjunction with the charter of the audit and risk management committee (“**Committee**”) (“**Charter**”).

1 Audit Services

The external audit engagement encompasses the external auditor's review of the half-yearly financial statements and the audit of the annual financial statements in accordance with annual external audit plans and the terms of engagement annually approved by the Committee pursuant to the Charter. Any services included in, or necessarily incidental to, the terms of that engagement are to be regulated as audit services.

2 Prohibited Services

The external auditor must not provide services that are in conflict with the external auditor's role as statutory auditor or that would otherwise impair or be perceived to impair the external auditor's independence. Generally, these services include services where the external auditor:

- (a) Participates in activities that are normally undertaken by management;
- (b) Is remunerated through a "success fee" structure;
- (c) Acts in an advocacy role for the Company; or
- (d) May be required to audit or express an opinion on its own work.

Examples of services that may not be performed by the external auditor include:

- (e) Management consulting;
- (f) IT systems design or implementation;
- (g) Valuation services (except where related solely to tax affairs);
- (h) Bookkeeping, accounting and payroll services;
- (i) Broker, dealer or investment advisory services;
- (j) Litigation or legal advocacy services;
- (k) Recruitment and human resource services;
- (l) Internal audit services;
- (m) Actuarial services;
- (n) Acquisition valuations or valuations for purchase price allocations;
- (o) Fairness opinions; and
- (p) Preparation of sale documentation.

3 Non-Audit Services and Pre-Approval

The external auditor will be permitted to provide non-audit services that are not perceived to be in conflict with the role of auditor. Examples of services that may be provided without Committee approval:

- (a) Tax compliance services;
- (b) Advice on application of appropriate accounting standards;
- (c) Audits or verification of regulatory returns; and
- (d) Other compliance-type activities.

Based on recommendations from management, the Chairman of the Committee may also approve performance of non-audit services by the external auditor, where such services require a detailed knowledge of the Company's activities in order to decrease costs and maximize output efficiencies.

The Chairman of the Committee will also consult with other members of the Committee, the external auditor, and management as appropriate. Examples of such services are:

- (a) Strategic tax advice;
- (b) Due diligence on potential acquisition/investments;
- (c) Investigating accounting assignments; and
- (d) Corporate finance advice (deal structuring and execution).

A report will be given at each Committee Meeting of the services approved since the last meeting.

4 Reporting to Committee

The Chief Financial Officer will provide a report (verbal or written) to the Committee at each meeting which describes any non-audit services approved by the Chief Financial Officer or approved by the chairman of the Committee since the last Committee meeting.