



Sigma Pharmaceuticals Ltd

Risk Management and Audit Committee Charter

1. OVERALL PURPOSE / OBJECTIVES

The risk management and audit committee (“Committee”) will assist the board in fulfilling its responsibilities by its oversight and review of:

- the financial reporting process
- the system of internal control and management of financial risks
- the audit process
- the maintenance of audit independence
- the appointment of internal and external auditors
- corporate governance practices and procedures; and
- risk management, including the company’s process for monitoring compliance with laws and regulations and its own code of business conduct.

In performing its duties, the Committee will maintain effective working relationships with the board of directors, management, and the internal and external auditors.

To perform his or her role effectively, each Committee member will obtain an understanding of the detailed responsibilities of Committee membership as well as the company’s business, operations, and risks.

2. AUTHORITY

The board authorises the Committee within the scope of its responsibilities, to:

- seek any information it requires from any employee (and all employees are directed to co-operate with any request made by the Committee) and from external parties
- obtain outside legal or other professional advice
- require the attendance of company officers at meetings as appropriate

3. ORGANISATION

3.1. Membership

- The Committee will comprise three (3) members, all of whom will be independent non-executive directors who are financially literate and have an understanding of the industry in which Sigma operates
- The chairman of the Committee will have financial expertise and shall be nominated by the board from time to time (however will not be the Chairman of the Board)

- Members will be appointed for a three (3) year term of office but are eligible for re-appointment
- A quorum for any meeting will be two (2) members
- The secretary of the Committee will be the company secretary, or such other person as nominated by the board

3.2. Meetings

- The Committee will invite such other persons (including the CEO and CFO) to its meetings, as it deems necessary
- The internal and external auditors will be invited to make presentations to the Committee as appropriate including in the absence of management
- Meetings shall be held not less than four (4) times a year. Special meetings may be convened as required. Internal or external auditors may request a meeting if they consider it necessary. The Committee may give its approval via circular resolution where it considers appropriate
- The proceedings of all meetings will be minuted.

4. ROLES AND RESPONSIBILITIES

The Committee will have the following roles and responsibilities:

4.1. External Audit

- Review the external auditors' proposed audit scope and approach and ensure no unjustified restrictions or limitations have been placed on the scope
- Review the performance of the external auditors
- Approve audit fees on an annual basis, with due consideration to the scope of the audit required for the cost being quoted
- Review the independence of the external auditors ensuring that the audit firm does not:
 - Audit its own work
 - Have a mutual or conflicting interest with Sigma
 - Act in a management or decision making capacity on behalf of Sigma
 - Act as an advocate for Sigma
 - Exceed the annual audit fee by more than 1.5 times in any one year for non-audit services provided to Sigma
- Approve any non-audit services to be provided to Sigma group companies to ensure independence has been maintained. Non audit services are not to be provided by external auditors without Committee approval.
 - a) The following services may be performed by the audit firm:
 - Statutory audit and reviews
 - Financial accounting/reporting advice
 - Other assurance and advisory services (including risk & control reviews)
 - Taxation compliance services
 - Transaction advice (including due diligence)
 - Financial advisory (including treasury)
 - Wind up and administration of subsidiary entities
 - Legal advisory (including drafting documents)

- Provision of temporary non-managerial staff

b) The following services must not be performed by the audit firm:

- Management consulting
 - IT systems design or implementation
 - Valuation services (except where related solely to tax affairs)
 - Bookkeeping, accounting & payroll services
 - Broker/dealer services
 - Litigation or legal advocacy services
 - Internal audit functions
 - Actuarial services
 - Recruitment of executive level staff
 - Acquisition valuations or valuations for purchase price allocations
 - Fairness opinions
 - Preparation of sale documentation
- Make recommendations to the board regarding the reappointment or method of selection of the external auditors. This includes ensuring that the lead audit partner is rotated at least every five years and does not return to the audit for at least two years
 - Meet separately with the external auditors to discuss any matters that the Committee or auditors believe should be discussed privately
 - Review any significant findings and recommendations made by the external auditors on a timely basis and oversee management's response to any such recommendations

4.2. Internal Control

- Evaluate whether management is setting the appropriate "control culture" by communicating the importance of internal control and the management of risk and ensuring that all employees have an understanding of their roles and responsibilities
- Consider how management is held to account for the security of computer systems and applications, and the contingency plans for processing financial information in the event of a systems breakdown
- Gain an understanding of whether internal control recommendations made by internal and external auditors have been implemented by management

4.3. Financial Reporting

a) General

- Gain an understanding of the current areas of greatest financial risk and how management is managing these effectively
- Consider with the internal and external auditors any fraud, illegal acts, deficiencies in internal control or other similar issues
- Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements
- Ask management and the internal and external auditors about significant risks and exposures and the plans to minimise such risks
- Review any legal matters which could significantly impact the financial statements

b) Annual Financial Statements

- Review the annual financial statements and determine whether they are complete and consistent with the information known to Committee members; obtain advice on whether the financial statements reflect appropriate accounting principles. Ensure appropriate levels of disclosure are made regarding transactions with directors and senior executives
- Pay particular attention to complex and/or unusual transactions such as restructuring charges and derivative disclosures
- Focus on judgmental areas, for example those involving valuation of assets and liabilities; warranty, product or environmental liability; litigation reserves; and other commitments and contingencies
- Meet with management and the external auditors to review the financial statements and the results of the audit
- Review the other sections of the annual report before its release and consider whether the information is understandable and consistent with members' knowledge about the company and its operations and presents a true and fair view of the company and its operations

4.4. Preliminary Announcements, Interim Financial Statements and Analysts' Briefings

- Be briefed on how management develops preliminary announcements, interim financial information and analysts' briefings; the extent of internal or external audit involvement or review.
- Assess the fairness of the preliminary and interim statements and disclosures, and obtain explanations from management and auditors on whether:
 - Actual financial results for the interim period varied significantly from budgeted or projected results
 - Changes in financial ratios and relationships in the interim financial statements are consistent with changes in the company's operations and financing practices
 - Generally accepted accounting principles have been consistently applied
 - There are any actual or proposed changes in accounting or financial reporting practices, and if so, disclosure is adequately made in the accounts
 - There are any significant or unusual events or transactions
 - The company's financial and operating controls are functioning effectively
 - The preliminary announcements and interim financial statements contain adequate and appropriate disclosures
- Provide written sign-off (or delegate such task appropriately) in respect of all ASX and Press Releases involving financial information.

4.5. Internal Audit

- Review the activities and organisational structure of the internal audit function and ensure no unjustified restrictions or limitations are made
- Review the qualifications of internal audit personnel and liaise with management in the appointment, replacement, reassignment or dismissal of any internal auditors
- Approve the annual internal audit work program and any associated fees, and any variations made thereto. Review the effectiveness of the internal audit function

- Meet separately with the lead internal auditor to discuss any matters that the Committee or auditors believe should be discussed privately
- Ensure that significant findings and recommendations made by the internal auditors are received and discussed on a timely basis
- Ensure that management responds to recommendations by the internal auditors
- Where internal audit services are provided by an external firm:
 - Approval of non internal audit services to be provided by the internal auditors is delegated to the Managing Director and Chief Financial Officer. They are to ensure that the internal auditor is not placed in a conflict of interest position on the basis of non internal audit work which it undertakes for the Company.
 - Twice a year the internal auditors are to be requested to provide to the Committee a summary of non-internal audit services provided over the preceding 6 months.

4.6. Corporate Governance

- Review and make recommendations regarding the Company's Corporate Governance policies, practices and procedures
- Review and make recommendations regarding the Corporate Governance Statement in the Companies annual report and in any other statutory report or document

4.7. Compliance with Laws and Regulations

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any fraudulent acts or non-compliance
- Obtain regular updates from management and the company's legal counsel regarding compliance matters
- Be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements
- Review any significant adverse findings or examinations by regulatory agencies, including those resulting from any audit activity
- Review awareness of and compliance with the Company's Code of Conduct
- Evaluate whether management is setting the appropriate example by communicating the importance of the code of conduct and the guidelines for acceptable behaviour
- Review the process for monitoring compliance with the code of conduct
- Review significant tax issues and treatment, in particular in relation to material transactions

4.8. Therapeutic Goods Act Matters

- Review findings of TGA audits and audits of contract customers and evaluate whether management response and action are adequate and appropriate

4.9. Risk Management

- Review the adequacy and effectiveness of Sigma's Risk Management policies, procedures and systems
- Overview the implementation and maintenance of a risk management program throughout the Sigma group that:
 - complements the wider goals, objectives and strategies of Sigma;

- ensures that all significant risks are identified, evaluated, treated, monitored, managed and communicated at a group, divisional and business unit level
- Review the adequacy and effectiveness of Sigma's Crisis Management plans for all key businesses within the Sigma Group.

4.10. Reporting Responsibilities

- Regularly update the board about its findings and activities and make appropriate recommendations
- Ensure the board is aware of matters which may significantly impact the financial condition or affairs of the business

4.11. Other Responsibilities

- Perform other oversight functions as requested by the board
- If necessary, institute special investigations and, if appropriate, hire special counsel or experts to assist
- Review and recommend to the board updates of this charter
- Evaluate the Committee's own performance on a regular basis

Updated: March 2006