



Sigma Pharmaceuticals Ltd

Risk Management and Audit Committee Charter

1. PURPOSE

- 1.1 The risk management and audit committee ('Committee') will assist the board in fulfilling its corporate governance and oversight responsibilities relating to:
 - (a) the financial reporting process
 - (b) the effectiveness of Sigma's systems of internal control and financial risk management
 - (c) the internal and external audit functions
 - (d) corporate governance practices and procedures; and
 - (e) risk management, including Sigma's process for monitoring compliance with laws and regulations and its own code of business conduct.
- 1.2 The duties and responsibilities of the Committee to fulfil this purpose are described in section 4.

2. AUTHORITY

- 2.1 Except where expressly stated in this Charter, the Committee discharges its responsibilities by making recommendations to the Board.
- 2.2 The Committee does not have any executive powers to commit the Board or management to the implementation of its recommendations except where expressly stated in this Charter or as authorised by resolution of the Board.
- 2.3 The Committee is not responsible for supervising the performance of management and does not become involved in day-to-day operations, management functions or decision making. 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 both the internal auditor and the external auditor (with or without the presence of management, at the Committee's discretion).
- 2.4 The Committee has authority to conduct or direct investigations into any matters within this 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 Sigma Pharmaceuticals Limited, 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.

3. ROLES AND RESPONSIBILITIES

3.1 External Audit

- 3.1.1 Review and recommend to the Board the appointment and remuneration (and, where appropriate, replacement) of the external auditor and the terms of their engagement.
- 3.1.2 Review and agree the overall scope of the external audit, including identified risk areas and any additional procedures considered necessary.
- 3.1.3 Review external audit plans, including changes to those plans, and review progress reports prepared by the external auditor and determine whether all matters raised are receiving appropriate attention.
- 3.1.4 Resolve any disagreements between the external auditor and management in relation to financial reporting.
- 3.1.5 Monitor and periodically evaluate the effectiveness of the external auditor.

3.2 Independence of the External Auditor and provision of non-audit services

- 3.2.1 Periodically review and 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.
- 3.2.2 Receive from the external auditor and review a written report stating that the external auditor has complied with all professional and regulatory requirements relating to auditor independence prior to the completion of each year's accounts. The report will also delineate all relationships between the external auditor and the Sigma Group and describe the external auditor's internal quality control procedures. The report is in addition to any other declaration that the external auditor must provide pursuant to the Corporations Act 2001.
- 3.2.3 Approve and review the External Auditor Independence Policy (**Attachment 1**) which regulates the provision of services by the external auditor, and monitor compliance with that policy.
- 3.2.4 Recommend to the Board the appropriate disclosure in each year's accounts of the full details of fees paid to the external auditor, including an analysis of non-audit services, and provide written advice to the Board as to whether the provision of non-audit services by the external auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001, and has not compromised that independence, together with reasons upon which that advice is based.
- 3.2.5 Review and recommend to the Board 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.
- 3.2.6 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 Sigma Group be approved in advance by the Chairman of the Committee.

3.3 Internal Control

- 3.3.1 Review and monitor 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
- 3.3.2 Review and monitor 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
- 3.3.3 Gain an understanding of whether internal control recommendations made by internal and external auditors have been implemented by management

3.4 Financial Reporting

3.4.1 Statutory Financial Reports

- (a) Make recommendations arising for consideration by the Board in connection with adoption of the statutory financial reports.
- (b) Review the annual financial statements and become satisfied that the reports provide a true and fair view of the financial affairs of Sigma.
- (c) Pay particular attention to complex and/or unusual transactions such as restructuring charges and derivative disclosures
- (d) 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
- (e) Meet with management and the external auditors to review the financial statements and the results of the audit
- (f) Review the other sections of the annual report before its release and consider whether the information is understandable and consistent with members’
- (g) Discuss with management significant movements in the financial statements between periods and from budget and ensure that explanations are consistent with the Committee’s understanding of the business.

3.4.2 Preliminary Announcements, Interim Financial Statements and Analysts’ Briefings

- (a) Be briefed on how management develops preliminary announcements, interim financial information and analysts’ briefings; the extent of internal or external audit involvement or review.
- (b) Assess the fairness of the preliminary and interim statements and disclosures, and obtain explanations from management and auditors on whether:
 - (i) Actual financial results for the interim period varied significantly from budgeted or projected results

- (ii) Changes in financial ratios and relationships in the interim financial statements are consistent with changes in the company's operations and financing practices
 - (iii) Generally accepted accounting principles have been consistently applied
 - (iv) There are any actual or proposed changes in accounting or financial reporting practices, and if so, disclosure is adequately made in the accounts
 - (v) There are any significant or unusual events or transactions
 - (vi) The company's financial and operating controls are functioning effectively
 - (vii) The preliminary announcements and interim financial statements contain adequate and appropriate disclosures
- (c) Provide written sign-off (or delegate such task appropriately) in respect of all ASX and Press Releases involving financial information.

3.4.3 Internal Audit

- (a) Review the internal auditor's objectives, competence and resourcing (including determining whether the internal audit function is to be provided by an internal or external party).
- (b) If the internal audit function is to be provided by an external party, recommend to the Board the appointment (and, where appropriate, replacement) of the internal auditor and the terms of their engagement.
- (c) Review and recommend to the Board the annual internal audit plan and work program and any associated fees, and monitor the progress of the work program
- (d) Meet separately with the lead internal auditor to discuss any matters that the Committee or auditors believe should be discussed privately
- (e) Ensure that significant findings and recommendations made by the internal auditors are received and discussed on a timely basis with management
- (f) Ensure that management responds to recommendations by the internal auditors
- (g) Where internal audit services are provided by an external firm:
 - (i) 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.
 - (ii) Once 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. Corporate Governance

- 4.1 Review and make recommendations regarding the Company's Corporate Governance policies, practices and procedures.

- 4.2 Review and make recommendations regarding the Corporate Governance Statement in the Companies annual report and in any other statutory report or document

5. Compliance with Laws and Regulations

- 5.1.1 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.
- 5.1.2 Obtain regular updates from management and the company's legal counsel regarding compliance matters
- 5.1.3 Be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements
- 5.1.4 Review any significant adverse findings or examinations by regulatory agencies, including those resulting from any audit activity
- 5.1.5 Review awareness of and compliance with the Company's Code of Conduct
- 5.1.6 Evaluate whether management is setting the appropriate example by communicating the importance of the code of conduct and the guidelines for acceptable behaviour.
- 5.1.7 Review the process for monitoring compliance with the code of conduct
- 5.1.8 Review significant tax issues and treatment, in particular in relation to material transactions

6. COMPOSITION

6.1 Membership

- 6.1.1 The Committee will comprise three (3) members, all of whom will be independent non-executive directors who are financially literate. For the purposes of this Charter, financially literate means the ability to read and understand financial statements, have familiarity with financial management and an understanding of the industry in which Sigma operates. At least one member will have relevant qualifications and experience (ie a qualified accountant or other finance professional with experience of financial and accounting matters)
- 6.1.2 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)
- 6.1.3 Members will be appointed for a three (3) year term of office but are eligible for re-appointment.

6.2 Meetings

- 6.2.1 A quorum for any meeting will be two (2) members

- 6.2.2 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
- 6.2.3 If the Chair of the Committee is unable to attend a Committee meeting, the Chair, or the members present, will appoint another member who is an independent director to act as Chair at that meeting.
- 6.2.4 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 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

6.3 Attendance

- 6.3.1 Notice of Committee meetings will be provided to all non executive directors of the Board who are not members and all directors may attend Committee meetings.
- 6.3.2 Notice of Committee meetings will also be provided to the Chief Executive Officer, the Chief Financial Officer, the internal auditor and the external auditor, who must attend meetings if requested. Other members of management and advisers may be invited to attend meetings, as the Chair of the Committee thinks fit.
- 6.3.3 The internal auditor and/or the external auditor will be required to meet separately with the Committee, without management, upon the request of the Chair of the Committee.

6.4 Secretary

The Company Secretary will be the Secretary of the Committee.

6.5 Agenda

- 6.5.1 The Secretary, in conjunction with the Chief Financial Officer will prepare an agenda for each Committee meeting for review by the Chair of the Committee.
- 6.5.2 Any member may require business to be included on the agenda provided the Chair of the Committee and the Secretary have been given prior notice.
- 6.5.3 The agenda for each Committee meeting will be issued within a reasonable time prior to that meeting to members, the Chief Executive Officer, the Chief Financial Officer, the internal auditor, the external auditor and other attendees.

6.6 Minutes

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

Committee in draft and circulated to all members.

- 6.6.3 The minutes of a Committee meeting and of any private session will be confirmed at the next Committee meeting and then signed by the Chair of the Committee.

6.7 Reporting

- 6.7.1 The minutes of each Committee meeting will be included in the papers for the next Board meeting after the Committee meeting.
- 6.7.2 The Chair 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.

7. Risk Duties and Responsibilities

7.1 Risk Management

- 7.1.1 Review the adequacy and effectiveness of Sigma's Risk Management policies, procedures and systems
- 7.1.2 Review Sigma's assessment of material risks and form an opinion on the adequacy and effectiveness of the risk assessment based on an evaluation of the rigour and suitability of the process undertaken.
- 7.1.3 Consider the processes that management uses to design and assure controls and to measure their effectiveness together with reports from the Internal Auditor to form an opinion on the reliability of the risk assessment.
- 7.1.4 Review Sigma's risk profiles as developed by management and monitor emerging risks and changes in Sigma's risk profile.
- 7.1.5 Compare the material risk assessment and the risk profile with Sigma's policies and risk appetite and draw conclusions as to their appropriateness.

7.2 Effectiveness of the Risk Management Framework

- 7.2.1 Review, and recommend to the Board the operation of, risk management policies and procedures, so that there is, amongst other things:
- (a) a procedure for identifying risks relevant to Sigma's business and controlling their financial or non-financial impacts on Sigma;
 - (b) an adequate system of internal control, risk management and safeguarding of assets;
 - (c) a system of reporting and investigating breaches of risk management policies and procedures;
 - (d) a review of internal control systems and the operational effectiveness of risk management policies and procedures;
 - (e) a culture of risk management and compliance throughout Sigma; and
 - (f) adequate resources to support the risk management function and enable proper remedial action to be taken to address areas of weakness.
 - (g) Review, recommend to the Board, and monitor Sigma's Whistleblower Policy.
 - (h) Review and monitor Sigma's risk management performance, including conducting specific investigations where necessary.
 - (i) Assess the effectiveness of assurance activities and review assurance reports.

- (j) Recommend to the Board any corrective action resulting from its review and assessment.

8. Reporting Responsibilities

8.1 The Chairman will report to the Board subsequent to each RMAC meeting on:

- (a) results of the internal and external audit processes;
- (b) minutes and formal resolutions; and
- (c) other key activities and major issues of which the Board should be informed.

8.2 The Committee will provide an open avenue of communication between internal audit, the external auditor and the Board.

9. Review

9.1 The Committee will, regularly, undertake an evaluation of its performance and effectiveness, and review its membership and this Charter to determine its adequacy for current circumstances, and make recommendations to the Board.

9.2 The Committee will consider and review the report of the Committee's membership, authority, responsibilities and discharge of those responsibilities for inclusion in Sigma's annual report .

Updated: December 2011

Attachment 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 judgment or independence.

This Policy is to be interpreted in light of the specific requirements of the Corporations Act 2001 and should be read in conjunction with the RMAC Charter.

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 RMAC(Committee) pursuant to the RMAC Charter. Any services included in, or necessarily incidental to, the terms of that engagement are to be regarded as Audit Services.

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:

- participates in activities that are normally undertaken by management;
- is remunerated through a "success fee" structure;
- acts in an advocacy role for entities within the Sigma Group; or
- 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:

- IT systems design or implementation;
- valuation services (except where related solely to tax affairs);
- bookkeeping, accounting and payroll services;
- broker, dealer or investment advisory services;
- litigation or legal advocacy services;
- internal audit services;
- actuarial services;
- acquisition valuations or valuations for purchase price allocations;
- fairness opinions; and
- preparation of sale documentation.

Permissible Non-Audit Services and Pre-Approval

Permissible Non-Audit Services are services which are not Audit Services or Prohibited Services. Such services may include audit-related services such as letters to banks relating to covenants, comfort letters for debt offerings and the like which require the

auditors to make reference to their audit of the financial statements, and other services such as Annual General Meeting scrutineering.

The external auditor will only be engaged to perform Permissible Non-Audit Services outside of those specified in the abovementioned budget with the prior approval of:

- where the proposed fee for the particular service does not exceed an amount of \$100,000 the Chief Financial Officer and with subsequent endorsement by the Chair of the Committee; or
- in all other cases, the Chair of the Committee. If the Chair of the Committee deems it necessary, the matter may be referred to the full Committee for consideration.

In considering whether to grant such approval or endorsement, the Chief Financial Officer and the Chair of the Committee will consider whether such services require a detailed knowledge of the Sigma's activities in order to be efficient.

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 (and endorsed by the Chair of the Committee) or approved by Chair of the Committee since the last Committee meeting.