

DEFENX PLC (Company)

Audit committee

Terms of reference

1. Purpose

The purposes of the audit committee (**Committee**) are:

- 1.1 to monitor the integrity of the financial statements of the Company and any formal announcements relating to its financial performance and to review significant financial reporting judgements contained in any such statements or announcements;
- 1.2 to review the Company's internal financial controls and, unless expressly addressed by the board of directors of the Company (**Board**) or by a separate risk committee of the Board composed of independent directors, the Company's internal control and risk management systems;
- 1.3 to make recommendations to the Board (for it to put to the shareholders of the Company for their approval in general meeting) in relation to the appointment of the external auditors and to approve the remuneration and terms of engagement of the external auditors;
- 1.4 to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- 1.5 to develop and implement policy on the engagement of the external auditors to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external auditors; and
- 1.6 to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and to make recommendations as to steps to be taken.

2. Authority

The Committee is authorised to:

- 2.1 seek any information it requires from any employee of the Company so as to perform its duties;
- 2.2 obtain, at the Company's expense, outside legal or other professional advice on any matter within its terms of reference; and
- 2.3 call any employee to be questioned at a meeting of the Committee as and when required.

3. Composition

- 3.1 The Committee shall consist exclusively of non-executive directors, the majority of whom as determined by the Board shall be (a) independent, and (b) have no personal financial interest (except as to fees, shares and options) in the Company's decisions.
- 3.2 The Committee shall comprise not fewer than two members appointed by the Board in consultation with the chairman of the Committee (**Chairman**).
- 3.3 The Chairman, who will also be an independent non-executive director, will be appointed by the Board. In the absence of the Chairman and any appointed deputy, the remaining members will elect one of themselves to chair the meeting.

- 3.4 At least one member of the Committee must have recent and relevant specialist financial knowledge. Members must be committed, trained, skilled and with sufficient understanding of the issues to be dealt with by the Committee.
- 3.5 Appointments to the Committee will be for a period of up to three years, which may be extended for two further three year periods, but only if the member remains an independent non-executive director.
- 3.6 The secretary to the Committee will be the company secretary if such person is not a member of the Company's finance staff.

4. Meetings

- 4.1 Meetings will be held at least twice a year at appropriate times in the reporting and audit cycle of the Company.
- 4.2 Meetings of the Committee will be summoned by the secretary of the Committee at the request of any of its members or at the request of the external or internal auditors if they consider it necessary.
- 4.3 Only members of the Committee will normally attend Committee meetings but other individuals such as the CEO, CFO, other directors and representatives from the finance function may be invited to attend all or part of any meeting as and when appropriate.
- 4.4 The external auditors will be invited to attend meetings of the Committee on a regular basis.
- 4.5 The quorum of a meeting of the Committee is two members. A duly convened meeting of the Committee at which a quorum is present is competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.
- 4.6 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed will be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, no later than five working days before the date of the meeting. Supporting papers will be sent to Committee members and to other attendees as appropriate, at the same time.
- 4.7 The secretary of the Committee will minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 4.8 The secretary of the Committee must promptly circulate minutes of Committee meetings to all members of the Committee and, once agreed, to all members of the Board.

5. Voting arrangements

- 5.1 Each member of the Committee shall have one vote which may be cast on matters considered at the meeting. Votes can only be cast by members attending a meeting of the Committee.
- 5.2 If a matter that is considered by the Committee is one where a member of the Committee, either directly or indirectly has a personal interest, that member shall not be permitted to vote at the meeting.
- 5.3 Except where he has a personal interest, or where there are only two members of the Committee, the Chairman will have a casting vote.

6. Duties

- 6.1 The Committee will carry out the duties set out in paragraph 6 for the Company, its major subsidiary undertakings and the group as a whole, as appropriate.

Financial reporting

- 6.2 The Committee will monitor the integrity of the financial statements of the Company, including its annual and interim reports, preliminary results' announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain. The Committee will also review summary financial statements and significant financial returns to regulators and any financial information contained in other documents, such as announcements of a price sensitive nature.
- 6.3 The Committee will review and challenge where necessary:
- 6.3.1 the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company and the Company's group;
 - 6.3.2 the methods used to account for significant or unusual transactions where different approaches are possible;
 - 6.3.3 whether the Company has followed appropriate accounting standards and made proper estimates and judgements, taking into account the views of the external auditors;
 - 6.3.4 the clarity of disclosures in the Company's financial reports and the context in which statements are made; and
 - 6.3.5 all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management).
- 6.4 The Committee will review the annual financial statements of any pension funds where these are not reviewed by the Board as a whole.
- 6.5 If the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.
- 6.6 Where requested by the Board, the Committee should 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.

Internal controls and risk management systems

- 6.7 The Committee will:
- 6.7.1 keep under review the effectiveness of the Company's internal controls and risk management systems; and
 - 6.7.2 review and approve the statements to be included in the annual report concerning internal controls and risk management unless this is done by the Board as a whole.

Whistleblowing

- 6.8 The Committee will review the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee must ensure that these arrangements allow proportionate and independent investigation of any such matters and appropriate follow up action.

Fraud and Bribery

- 6.9 The Committee will review the Company's procedures for detecting fraud.

- 6.10 The Committee will review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

External audit

- 6.11 The Committee must give consideration and make recommendations to the Board (to be put to shareholders for approval at the annual general meeting) in relation to the appointment, reappointment and removal of the Company's external auditors. The Committee will oversee the selection process for new auditors and if the auditors resign the Committee will investigate the issues leading to this and decide whether any action is required.
- 6.12 The Committee shall ensure that at least once every ten 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 auditor with those of other audit firms and oversee the selection process and further ensure that all tendering firms have such access as is necessary to information and individuals during the tendering process.
- 6.13 The Committee will oversee the Company's relationship with the external auditors including, but not limited to:
- 6.13.1 approval of the auditors' remuneration (whether fees for audit or non-audit services) and ensuring that the level of fees is appropriate to enable an adequate audit to be conducted;
 - 6.13.2 approval of the auditors' terms of engagement (including any engagement letter issued at the start of each audit and the scope of the audit);
 - 6.13.3 assessing annually the auditors' independence and objectivity taking into account relevant United Kingdom professional and regulatory requirements and the relationship with the auditors as a whole, including the provision of any non-audit services;
 - 6.13.4 seeking reassurance that the auditors and their staff have no family, employment, investment, financial or business relationships with the Company (other than in the ordinary course of business);
 - 6.13.5 agreeing with the Board a policy on the employment of former employees of the auditors and monitoring the implementation of this policy;
 - 6.13.6 monitoring the auditors' compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company in proportion to the overall fee income of the audit firm, office and partner and other related regulatory requirements;
 - 6.13.7 assessing annually the auditors' qualifications, expertise and resources and the effectiveness of the audit process which will include a report from the external auditors on their own internal quality procedures; and
 - 6.13.8 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 auditor from the market on that evaluation.
- 6.14 The Committee will:
- 6.14.1 meet regularly with the external auditors including once at the planning stage before an audit and once after the audit at the reporting stage;
 - 6.14.2 meet the external auditors at least once a year, without management being present, to discuss their terms of reference and any issues arising from the audit;

- 6.14.3 review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
- 6.14.4 review the findings of the audit with the external auditors. This will include but not be limited to a discussion relating to any major issues which arose during the audit, any accounting and audit judgements, and the levels of errors identified during the audit;
- 6.14.5 review the effectiveness of the audit;
- 6.14.6 review any representation letters requested by the external auditors before signature by management;
- 6.14.7 review the management letter and management's response to the auditors' findings and recommendations; and
- 6.14.8 develop and implement a policy on the supply of non-audit services by the external auditors taking into account any relevant ethical guidance.

7. Reporting

- 7.1 The Committee chairman will report formally to the Board on the Committee's proceedings after each meeting on all matters within its duties and responsibilities.
- 7.2 The Committee will make whatever recommendations to the Board it deems appropriate on any area within its terms of reference where action or improvement is needed.
- 7.3 The Committee will compile a report to shareholders on its activities to be included in the Company's annual report.
- 7.4 The Committee chairman will attend the annual general meeting of the Company prepared to respond to any questions of shareholders regarding the Committee's activities.

8. Other matters

The Committee will:

- 8.1 have access to the resources of the Company in order to carry out its duties, including access to the company secretary for assistance as required;
- 8.2 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;
- 8.3 give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code, the Corporate Governance Code for Small and Mid-Size Quoted Companies and the requirements of the AIM Rules as appropriate;
- 8.4 be responsible for co-ordination of the external auditors;
- 8.5 oversee any investigation of activities which are within its terms of reference and act as a court of the last resort; and
- 8.6 at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

Adopted at the meeting of the board of directors held on 22 May 2017.