

# MOTIF BIO PLC

## TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

In this document, the “**Board**” shall mean the Board of Directors of the Company; the “**Committee**” shall mean the Audit Committee of the Board; the “**Company**” shall mean Motif Bio plc. and the “**Group**” shall mean the Company and its subsidiaries.

### 1. **CONSTITUTION**

The Committee was constituted at a full meeting of the Board of Directors held on 25 March 2015 in accordance with the articles of association of the Company.

### 2. **DUTIES AND TERMS OF REFERENCE**

The Committee shall carry out the duties below for the Company and the Group as a whole, as appropriate.

#### 2.1 **Financial Reporting**

2.1.1 The Committee shall monitor the integrity of the financial statements of the Company, including its annual and interim reports, interim management statements, 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 shall also review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature provided that such monitoring is not inconsistent with any requirement for prompt reporting under the AIM Rules for Companies.

2.1.2 The Committee shall review and challenge where necessary:

- (a) the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company and its Group;
- (b) the methods used to account for significant or unusual transactions where different approaches are possible;

- (c) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- (d) the clarity of disclosure in the Company's financial reports and the context in which statements are made; and
- (e) all material information presented with the financial statements, such as the business review and financial review and the corporate governance statement (insofar as it relates to the audit and risk management).

2.1.3 The Committee shall review the annual financial statements of any pension funds where not reviewed by the Board as a whole.

2.1.4 Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.

## 2.2 **Internal Controls and Risk Management Systems**

2.2.1 The Committee shall:

- (a) keep under review the adequacy and effectiveness of the Company's financial internal controls and internal control and risk management systems; and
- (b) review and approve the statements to be included in the annual report concerning internal controls and risk management.

## 2.3 **Narrative Reporting**

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.

## 2.4 **Compliance, whistle blowing and fraud**

2.4.1 The Committee shall review the adequacy and security of the Company's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other

matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

2.4.2 The Committee shall review the Company's procedures for detecting fraud.

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

## 2.5 **Internal Audit**

2.5.1 The Committee shall, if applicable:

- (a) monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system;
- (b) approve the appointment and removal of the head of the internal audit function;
- (c) consider and approve the remit of the internal audit function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions;
- (d) review and assess the annual internal audit plan;
- (e) review promptly all reports on the Company from the internal auditors;
- (f) review and monitor management's responsiveness to the findings and recommendations of the internal auditor; and
- (g) meet the head of internal audit at least once a year, without management being present, to discuss their remit 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 to the Chairman of the board of directors and to the Committee.

## 2.6 External Audit

### 2.6.1 The Committee shall:

- (a) 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 Company's external auditors. The Committee shall oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- (b) oversee the relationship with the external auditors including (but not limited to):
  - (i) approval of their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an adequate 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 auditor 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 auditor and the Company (other than in the ordinary course of business);
  - (v) agreeing with the Board a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy;
  - (vi) monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, 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 their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
  - (viii) seeking to ensure co-ordination with the activities of the internal audit function; and
  - (ix) considering the risks to the quality and effectiveness of the financial reporting process and considering the need to include the risk of the withdrawal of the Company's present auditor from the market in that evaluation;
- (c) meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit;
- (d) review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
- (e) review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
- (i) a discussion of any major issues which arose during the audit;
  - (ii) any accounting and audit judgements;
  - (iii) compliance with accounting standards;
  - (iv) levels of errors identified during the audit; and
  - (v) the effectiveness of the audit;
- (f) the Committee shall also:

- (i) review any representation letter(s) requested by the external auditor before they are signed by management;
- (ii) review the management letter and management's response to the auditor's findings and recommendations; and
- (iii) develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter.

## 2.7 **OTHER MATTERS**

### 2.7.1 The Committee shall:

- (a) have access to sufficient resources in order to carry out its duties, including access to the Company Secretary 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 applicable laws and regulations, the provisions of the UK Corporate Governance Code, the QCA Corporate Governance Guidelines for Smaller Quoted Companies, NAPF Corporate Governance Policy & Voting Guidelines for AIM Companies and the requirements of the London Stock Exchange's rules for AIM companies as appropriate;
- (d) be responsible for co-ordination of the internal and external auditors;
- (e) oversee any investigation of activities which are within its terms of reference and act for internal purposes as a court of the last resort;
- (f) 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; and
- (g) work and liaise as necessary with all other Board committees.

2.7.2 The Committee shall consider such other matters as may be requested by the board of directors.

3. **MEMBERSHIP**

3.1 The members of the Committee shall be appointed by the Board of Directors on the recommendation of the Nomination Committee.

3.2 The Committee shall have at least three members and at least one member should have recent and relevant financial experience ideally with a professional qualification from one of the professional accountancy bodies.

3.3 At least two (2) of the members of the Committee should be independent non-executive directors. The Board of Directors will determine each member's independence in accordance with the Board's Criteria for Independence.

3.4 To the extent that there is an executive director on the committee, such executive director shall not be present at the meetings set forth in Sections 2.5.1(g) and 2.6.1(c), where the meeting is to be held outside the presence of management.

3.5 Appointments to the Committee shall be for a period of up to three years, which may be extended for two further three-year periods, provided the Director still meets the criteria for membership of the Committee.

3.6 The Chairman of the Board of Directors may be a member of the Committee (although not as Committee Chairman).

3.7 The Chairman of the Committee shall be an independent non-executive director who shall be appointed by the Board of Directors. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

3.8 Only members of the Committee have the right to attend Committee meetings. However, the external auditor and financial director will be invited to attend meetings of the Committee on a regular basis and other non-members may be invited to attend all or part of any meeting as and when appropriate.

3.9 Members of the Committee shall be named in the Annual Report and Accounts of the Committee.

4. **SECRETARY**

4.1 The Company Secretary or their nominee shall be the secretary of the Committee and will ensure that the Committee received information and papers in a timely manner to enable full and proper consideration to be given to the issues.

5. **QUORUM**

5.1 A quorum necessary for the transaction of business shall be any two independent, non-executive members of the Committee. 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. The members of the Committee can be varied at any time by a majority resolution of the existing members of the Committee save that any additional appointment must not increase the aggregate number of executive directors to more than one (1).

5.2 Any member of the Committee may validly participate in a meeting of the Committee through the medium of conference telephone or electronic mail or similar form of communication equipment provided that all persons participating in the meeting are able to hear and speak to each other throughout such meeting or are able to receive communications from each of the other Committee members participating in the meeting.

6. **VOTING ARRANGEMENTS**

6.1 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.

6.2 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.

7. **FREQUENCY OF MEETINGS**

7.1 The Committee will meet at least twice a year at appropriate times in the reporting and audit cycle. The Committee may meet at other times during the year as agreed between the members of the Committee or as requested by the Chairman of the Committee.

7.2 Outside of the formal meeting programme, the chairman of the Committee will maintain a dialogue with key individuals involved in the Company's governance, including the Board chairman, the chief executive, the finance director, the external audit lead partner and the head of internal audit, if any.

## 8. **ATTENDANCE AT MEETINGS**

8.1 Other directors including the chief financial officer may be invited to attend all or part of any meeting as and when appropriate.

8.2 The Company's external auditors may be required to attend Committee meetings with a view to consulting with the Committee.

## 9. **NOTICE OF MEETINGS**

9.1 Meetings of the Committee shall be called by the Company Secretary at the request of any of its members or at the request of the external or internal auditors if they consider if necessary.

9.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of the matters to be discussed at the meeting shall be forwarded to each member and any other person required to attend and all other non-executive directors no later than 5 working days before the date of the meeting. Supporting papers shall be sent to each member of the Committee and to other attendees as appropriate at the same time.

## 10. **AUTHORITY**

10.1 The Committee is authorised by the Board of Directors to examine any activity within its terms of reference and is authorised to have unrestricted access to the Company's external auditors and to obtain, at the Company's expense, legal or professional advice on any matter within its terms of reference.

10.2 The Committee is authorised to seek any information it requires from any employee or Director, and all such employees or Directors will be directed to co-operate with any request made by the Committee.

10.3 The Committee is authorised to publish in the Company's annual report, details of any issues that cannot be resolved between the Committee and the Board.

- 10.4 If considered necessary, the Committee is authorised to secure the attendance of outsiders with relevant experience and expertise at Committee meetings.

11. **REPORTING RESPONSIBILITIES**

- 11.1 Draft minutes of each meeting will be circulated to all members of the Committee. On finalisation and signature by the Chairman, the minutes of each meeting will be submitted to the Board of Directors as a formal record of the decisions of the Committee on behalf of the Board of Directors provided that there are no sensitive issues details of which are included in the minutes which the members of the audit committee consider it would be inappropriate to share with the board as a whole.
- 11.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 11.3 The Committee shall ensure that any reporting complies with the requirement of the AIM Rules for Companies and to any laws and regulations as may be applicable.

12. **MINUTES OF MEETINGS**

- 12.1 The Secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.
- 12.2 The secretary of the Committee shall ascertain, at the start of each Committee meeting, the existence of any conflicts of interest and minute them accordingly.

13. **OTHER**

- 13.1 The Committee shall, at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at a maximum effectiveness and recommend any changes it considers necessary to the Board of Directors for approval.

14. **ANNUAL GENERAL MEETING**

- 14.1 The Chairman of the Committee shall attend each Annual General Meeting of the Company to answer any shareholder's questions concerning the Committee's activities.