

Audit and Risk Committee Charter

1. Introduction

The Board of Memphasys Limited (Memphasys) has established an Audit and Risk Committee. The purpose for which the Audit and Risk Committee has been established and the powers of the Committee are set out in this document.

The Board and Officers of Memphasys are committed to managing its risks but ultimately it is the responsibility of the Board for risk management and control. The Board is charged with examining and considering areas of significant business risk on an ongoing basis and to implement policy to minimise exposure to these risks.

1. Role and Objectives

The primary role of the Committee is to monitor and review, on behalf of the Board, the effectiveness of the controlled environment of Memphasys in the areas of operational and balance sheet risk, legal/regulatory compliance and financial reporting.

The overriding objective of the Committee is to provide an independent and objective review of financial and other information prepared by the Company, in particular that to be provided to members and/or filed with regulators, including:

- (a) overseeing Memphasys discharge of its responsibilities with respect to:
 - (i) the financial statements, financial report and annual report;
 - (ii) legal/regulatory compliance;
 - (iii) protection of capital; and
 - (iv) risk management systems,
- (b) overseeing Memphasys relationship with external auditors; and
- (c) determining the independence of the external auditors and the policy for audit partner rotation.

The Committee is also responsible for the review of the Company's risk management program and to ensure that areas of risk have been identified and that the appropriate internal controls have been implemented and are operating efficiently in all material respects.

The Committee will meet and receive regular reports from its external auditors concerning matters that arise in connection with their audit. The Committee is also responsible for review of performance and nomination of the external auditors.

2. Membership and Structure of the Committee

The Committee members are appointed, removed and/or replaced by the Board. The term of an appointment is to be determined by the Board. The Board will appoint the chairperson of the Committee.

The Committee shall comprise the following membership structure:

- (a) at least 3 members;
- (b) a majority of independent non-executive director members; and
- (c) an independent Chairperson appointed by the Board and not the Chairman of the Board.

Other non-executive directors who are not Committee members may attend meetings of the Committee should they wish. The external auditors and other officers of the Company may attend meetings of the Committee by invitation. The Chairman or CEO, CFO and external auditors shall be given notice of all meetings and may be invited to attend.

All persons appointed to the Committee will be financially literate (able to read and understand financial statements) and have sufficient financial knowledge and understanding to allow them to discharge their responsibilities.

The Board will review the membership and charter of the Committee *periodically as required**, in accordance with clause 5.

The Committee has the authority, within the scope of its responsibilities, to seek any information it requires from an employee or external party.

The Committee will have direct access to the Company's senior management. The Committee chairperson will have the authority to directly seek independent, professional or other advisers as required for the Committee to carry out its responsibilities.

3. Administrative matters

It is intended that the Committee will meet at least twice each year, or as often as the Committee members deem necessary in order to fulfil their role and objectives set out in this Charter.

Except as set out in this Charter, the Committee is subject to the Board's general policy for engaging or seeking advice from financial and legal advisers.

The Company Secretary will attend all Committee meetings as minute secretary. All minutes of the Committee will be entered into a minute book maintained for that purpose and will be open at all times for inspection by any director.

4. Reporting

A report of the actions of the Committee and/or a copy of the minutes of the Committee

meeting will be included in the Board papers for the Board meeting next following a meeting of the Committee.

The chairperson will, if requested, 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.

The Committee will conduct a self-appraisal of its performance periodically with respect to the Charter.

5. Responsibilities and functions

5.1 Overview

The Committee's key responsibilities and functions are to:

- (a) oversee Memphasys relationship with the external auditor (including forming a policy on the provision of non-audit services and the rotation of external auditor personnel on a regular basis) and the external audit function generally;
- (b) oversee the adequacy of the control processes in place in relation to the preparation of financial statements and reports;
- (c) ensure that the financial reports comply with accounting and financial reporting standards, ASX and legal requirements;
- (d) oversee the adequacy of the Company's financial controls and systems; and
- (e) oversee the process of identification and management of business, financial and commercial risks (other than credit and trading (financial market) risk).

5.2 Audit

The Committee's specific function on audit is to review and report to the Board that:

- (a) the system of control, which management has established, effectively safeguards the assets of Memphasys;
- (b) processes are in place such that accounting records are properly maintained in accordance with statutory requirements; and
- (c) processes exist to reasonably guarantee that financial information provided to investors and the Board is accurate and reliable.

The following are intended to form part of the normal procedures for the Committee's audit responsibility:

- (a) recommending to the Board the appointment and removal of the external auditors and reviewing the terms of engagement;
- (b) approving the audit plan of the external auditors;
- (c) monitoring the effectiveness and independence of the external auditors;

- (d) obtaining assurances that the audit is conducted in accordance with the Auditing Standards and all other relevant accounting policies and standards;
- (e) providing recommendations to the Board as to the role of the internal auditor/internal audit function, if any;
- (f) reviewing and appraising the quality of audits conducted by Memphasys Limited's external auditors and confirming their respective authority and responsibilities;
- (g) monitoring the relationship between management and the external auditors;
- (h) evaluating the adequacy, effectiveness and appropriateness of Memphasys administrative, operating and accounting control systems and policies;
- (i) reviewing and evaluating controls and processes in place to ensure compliance with approved policies, controls, and with applicable accounting standards and other requirements relating to the preparation and presentation of financial results;
- (j) overseeing Memphasys financial reporting and disclosure processes and the outputs of that process;
- (k) determining the reliability, integrity and effectiveness of accounting policies and financial reporting and disclosure practices; and
- (l) reviewing (in consultation with management and external auditors) the appropriateness of the accounting principles adopted by management in the composition and presentation of financial reports and approving all significant accounting policy changes.

5.3 Appointment of External Auditors

An external audit partner is to be permanently engaged by the Company to provide shareholder and investor confidence in the integrity of the Company's financial reports. The Company requires the external audit partner to maintain independence from the Company in accordance with the Corporations Act and this Policy.

Each year, the Company and the auditors should document the terms of engagement and present them to the Committee for approval. Terms of engagement must include:

- (a) confirmation of the audit firm's continuing independence and the continuing independence of the senior audit partner;
- (b) a requirement for the audit partner to be present at the AGM for the purpose of answering shareholder questions about the conduct of the audit and the preparation and content of the auditor's report. The agenda for the AGM must include provisions for questioning the auditor;
- (c) ready access of the audit partner to the Committee through the chairperson of the Committee;
- (d) a requirement for the auditor to provide the Committee a full and complete report on the audit with a copy presented to management.

On the completion of the year end audit, the Committee is to receive a copy of the audit

closing report which clearly documents any potential issues in the financial statements. The Committee must be satisfied that the decision not to adjust any errors identified by the auditors would not materially impact the financial statements.

5.4 Risk and Compliance

The Committee's specific function with respect to risk management is to review and report to the Board that:

- (a) the Company's ongoing risk management program effectively identifies all areas of potential risk;
- (b) adequate policies and procedures have been designed and implemented to manage identified risks; and
- (c) proper remedial action is undertaken to redress areas of weakness.

The following are intended to form part of the normal procedures for the Committee's risk responsibility:

- (a) evaluating the adequacy and effectiveness of the management reporting and control systems used to monitor adherence to policies and guidelines and limits approved by the Board for management of balance sheet risks;
- (b) evaluating the adequacy and effectiveness of Memphasys financial and operational risk management control systems by reviewing risk registers and reports from management and external auditors;
- (c) evaluating the structure and adequacy of Memphasys own insurances on an annual basis;
- (d) reviewing and making recommendations on the strategic direction, objectives and effectiveness of Memphasys Limited's financial and operational risk management policies;
- (e) overseeing the establishment and maintenance of processes to ensure that there is:
 - (i) an adequate system of internal control, management of business risks and safeguard of assets; and
 - (ii) a review of internal control systems and the operational effectiveness of the policies and procedures related to risk and control;
- (f) evaluating Memphasys Limited 's exposure to fraud and overseeing investigations of allegations of fraud or malfeasance;
- (g) reviewing Memphasys main corporate governance practices for completeness and accuracy;
- (h) overseeing the proper evaluation of the adequacy and effectiveness of Memphasys legal compliance control systems; and
- (i) providing recommendations as to the propriety of related party transactions.

6. Review

The Board will, periodically as required:

- (a) review the membership and charter of the Committee to determine its adequacy for current circumstances. The Board must disclose whether such a review has in fact taken place. Where necessary, the Board, upon the recommendation of the Committee, may by resolution, alter the responsibilities, functions or membership of the Committee. The Committee may also recommend to the Board the formal adoption of the revised charter for future operations of the Committee; and
- (b) oversee the preparation of any report or other disclosures to be included in Memphasys annual report or other communications to shareholders relating to the external auditors and Memphasys financial statements.

7. Risk Profile & Management of Risks

Risk is an inherent part of the business that Memphasys is involved in. Memphasys is in a highly competitive market sector.

Memphasys regards business risks as threats to the achievement of its objectives and goals and to the successful execution of its strategies.

The Committee will oversee the development and implementation of practices and procedures designed to:

- a) effectively identify all material risks to the Company's business, finances, technology, assets and operations, evaluate and rate those risks;
- b) determine and implement methods of controlling or mitigating those risks or other required remedial action for areas of identified weakness; and
- c) effect systems of internal control.

8. Risk Oversight

8.1 General Risks

The Committee reviews and the Board will approve:

- (a) Memphasys risk management strategy and policies;
- (b) Memphasys risk management framework, including key policies and procedures, including any changes to the risk management framework or any key risk policies and procedures; and
- (c) compliance with the endorsed risk management framework through monthly reporting to the Board.

Authority may be delegated to management where appropriate.

8.2 Business risks

The Committee will regularly review business risks applicable to the business and ongoing operations. Additionally, the Committee considers risk profiles as part of the annual strategy review and budget planning review. As part of the monitoring process, the Committee is provided with management reports, documenting as applicable:

- (a) reports on exposures, non-compliance with key policies and general effectiveness of risk management systems, when necessary;
- (b) results of independent reviews of the control environment, if and when conducted; and
- (c) other information considered appropriate.

9. Compliance & Control / Assessment of Effectiveness

The Board has delegated certain activities to the Committee, namely those of a primarily financial nature.

The Committee reviews and reports to the Board on matters including:

- (a) the integrity of Memphasys financial and external reporting;
- (b) the external auditors' selection, scope and independence; and
- (c) the effectiveness and adequacy of management information and internal control structures.

The Committee also plays a key role for the Board in overseeing management's application of the ASX Corporate Governance Council Guidelines in respect of Financial Reporting and Risk oversight.

10. Risk Management

The management of operational risk and the implementation of mitigation measures is the responsibility of management and specifically the CEO.

The risk management and internal control systems within Memphasys encompass all policies, processes, practices and procedures established by management and/or the Board to provide reasonable assurance that:

- (a) established corporate and business strategies and objectives are achieved;
- (b) risk exposure is identified and adequately monitored and managed;
- (c) resources are acquired economically, adequately protected and managed efficiently and effectively in carrying out Memphasys business;
- (d) significant financial, managerial and operating information is accurate, relevant, timely and reliable; and
- (e) there is an adequate level of compliance with policies, standards, procedures and applicable laws and regulations.

Management are responsible to the Board to:

- (a) delegate approvals required under the risk management framework;
- (b) report risk management including operational issues, operational losses;
- (c) monitor operational control weaknesses and breakdowns, including fraud; and
- (d) monitor due diligence conducted for appointment and ongoing monitoring of outsourced arrangements;

11. Publication

A copy of this Charter is available at www.Memphasys.com

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