

Phytopharm plc

Audit Committee Terms of Reference

(as approved by the Board of Directors of the Company on 30 September 2009)

Definitions

“Committee” the Audit Committee

“Company” Phytopharm plc

1 Constitution

The Committee shall be a committee of the board of directors of the Company appointed by the board on the recommendation of the Nomination Committee, in consultation with the chairman of the Committee. The board shall appoint the Committee chairman.

2 Membership

- 2.1** The Committee shall comprise a chairman and up to two other additional members.
- 2.2** All members of the Committee shall be independent non-executive directors and shall have no links with the external auditors. Each member must satisfy the independence and financial literacy requirements of the UK Listing Authority and the NASDAQ Stock Market, Inc, Section 10A of the Securities Exchange Act of 1934, the rules under Section 10A (which rules shall be deemed included in any reference in these terms of reference to Section 10A of the Exchange Act).
- 2.3** At least one member of the Committee shall have accounting or related financial management expertise sufficient to qualify in the judgement of the board as an “audit committee financial expert” as defined by the rules and regulations of the UK Listing Authority and the U. S. Securities Exchange Commission.
- 2.4** Members of the Committee may serve for a period of up to three years. This may be extended for additional periods of three years, provided the director remains independent.
- 2.5** No one other than members of the Committee is entitled to attend meetings of the Committee. The Committee chairman may, as the Committee sees fit, invite other attendees as appropriate. A representative of the external auditors shall, if requested by the Committee, attend the meetings and shall be invited to attend meetings of the Committee on a regular basis.
- 2.6** The Company Secretary or a nominee shall be the secretary of the Committee.

3 Meetings

- 3.1** The Committee shall meet as appropriate, but not less than two times a year.
- 3.2** A meeting of the Committee may be called by the secretary at the request of any member of the Committee, or at the request of the external auditors if they consider it necessary.
- 3.3** Meetings of the Committee shall be called by giving five working days’ written notice unless all the members of the Committee agree to shorter notice. Notice will be given

to all members and attendees, and will confirm the venue, time and date of the proposed meeting and provide the agenda and supporting papers.

- 3.4 Members may participate in a meeting by means of conference telephone, video conference or similar communicating equipment.
- 3.5 The quorum for the Committee meetings shall be two. In the absence of the Chairman or nominated deputy, the remaining members shall elect one of themselves to chair the meeting.
- 3.6 The Committee will meet with the external auditors at least annually without any executive directors present; the external auditors have the right to request such meetings if they consider them necessary.
- 3.7 A sufficient time interval will be allowed between Committee meetings and main board meetings to allow work arising from Committee meetings to be carried out and reported to the board as appropriate. The chairman of the Committee will report to the board at the next board meeting after each committee on the proceedings of the Committee at that meeting, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken. Once a year the Committee will report to the board in writing on its work in the preceding financial year. A summary of such reports including reference to examination of the annual accounts shall be included in a separate section of the Company's annual report and accounts for the year in question. Where the external auditor provides non-audit services, an explanation as to how auditor objectivity and independence is safeguarded will be given.
- 3.8 The secretary will minute the proceedings and resolutions of all meetings as well as keep appropriate records.
- 3.9 The secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 3.10 Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the board.
- 3.11 The chairman of the Committee shall report formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities.

4 Annual General Meeting

The chairman of the Committee shall attend the Annual General Meeting and be prepared to respond to any shareholder questions on the Committee's activities.

5 Terms of Reference

5.1 Financial Reporting

- 5.1.1 The committee shall 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 shall also review summary financial statements, and any financial information contained in certain other documents, such as announcements of a price sensitive nature.
- 5.1.2 The Committee shall review and challenge where necessary.
- 5.1.3 The consistency of, and any changes to, accounting policies both on a year on year basis and across the Group;

- a) the methods used to account for significant or unusual transactions where different approaches are possible;
- b) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- c) the clarity of disclosure in the Company's financial reports and the context in which statements are made; and
- d) All material information presented with the financial statements, such as the operating and financial review and corporate governance statements (insofar as it relates to audit and risk management);

5.2 Internal Controls and Risk Management Systems

The Committee shall:

- 5.2.1** keep under annual review the effectiveness of the Company's internal controls and risk management systems including the need for an internal audit function; and
- 5.2.2** review and approve the statements to be included in the Annual Report concerning internal controls and risk management.
- 5.2.3** review any disclosures made to the Committee by the Chief Executive Officer or the Chief Financial Officer relating to their certification obligations under Rule 13a-14 of the Exchange Act.

5.3 Whistleblowing

The Committee shall review the Company's arrangements for its employees 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.

5.4 External Audit

The Committee shall:

- 5.4.1** consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointments, re-appointment and removal of the Company's external auditor. 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.
- 5.4.2** oversee the relationship with the external auditor including (but not limited to):
 - a) 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;
 - b) assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non audit services;
 - c) 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);

- d) agreeing with the Board a policy on the employment of former employees of the Company's auditor engaged on Phytopharm's account and then monitoring the implementation of this policy;
- e) monitoring the auditor's compliance with relevant ethical and professional guidance, including the requirements on the rotation of audit partners, the level of fees paid by the Company compared to overall fee income of the firm, office and partner and other related requirements; and
- f) assessing annually their qualifications, expertise and resources and the effectiveness of the audit process.

5.4.3 meet regularly with the external auditor, including 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;

5.4.4 review the findings of the audit with the external auditor. This shall include but not limited to the following:

- a) a discussion of any major issues which arose during the audit
- b) a review of the audited financial statements and the matters to be discussed pursuant to Statement on Auditing Standards No. 61, before incorporation into any filings with the Securities and Exchange Commission;
- c) any information obtained with respect to illegal acts in accordance with Section 10A of the Exchange Act;
- d) any accounting and audit judgements, and
- e) levels of errors identified during the audit.

The Committee shall also review the effectiveness of the audit.

5.4.5 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, provided that this policy details the particular service, the Committee is informed of each service and the policy does not include the delegation of the Committees responsibilities to management. Pre-approval of non audit services will be waived where such services are permissible under certain circumstances described in Section 10A of the Exchange Act.

5.5 Reporting Responsibilities

5.5.1 The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

5.5.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where an action or improvement is needed.

5.5.3 The Committee shall compile a report to shareholders on its activities to be included in the Company's Annual Report.

5.6 Other Matters

The Committee shall:

5.6.1 have access to sufficient resources in order to carry out its duties, including access to the company secretary for assistance as required;

- 5.6.2 be provided with appropriate training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- 5.6.3 give due consideration to laws and regulations, the provisions of the Combined Code and the requirements of the UK Listing Authority's Listing Rules, the Exchange Act and the NASDAQ Stock Market Inc Rules as appropriate;
- 5.6.4 oversee any investigation of activities which are within its terms of reference and act as a court of last resort;
- 5.6.5 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
- 5.6.6 to make its terms of reference available publicly.

6 Authority

- 6.1 The Committee is empowered in the articles of association of the Company to discharge its functions on behalf of the board of directors.
- 6.2 The Committee shall:
 - 6.2.1 have the right to seek and to be provided with any necessary information to fulfil its duties;
 - 6.2.2 have the right to obtain outside legal help and any professional advice, at the Company's expense, which might be necessary for the fulfilment of its duties: and
 - 6.2.3 have the power to call any member of staff to be questioned at a meeting of the Committee as and when required.

The Committee may invite anyone with relevant experience to attend of necessary.

7 Decisions

Any decisions of the Committee shall be taken on a simple majority basis. The chairman will have a casting vote in the event of equality voting.