

## **Audit Committee Terms of Reference**

**References to “the Company” and “the Group” are to CLS Holdings plc**

**References to the “Committee” are to the Audit Committee.**

**References to the “Board” are to the board of directors of the Company.**

**References to the “Code” are to the UK Corporate Governance Code.**

### **1. Membership**

- 1.1 Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with Chair of the Committee. The Committee shall have at least 3 members, as required by the Code.
- 1.2 All members of the Committee shall be independent non-executive directors, unless the composition of the Board is such that for the time being that it is not possible or practical, in which case the Committee shall comprise a majority of independent non-executive directors, of whom at least one shall have recent and relevant financial experience. The Chair (or at least one Committee member) must have a professional qualification from one of the of the professional accountancy bodies. The chair of the Board will not be a member. The Committee as a whole shall have competence relevant to the sector in which the Company operates.
- 1.3 Only members of the Committee have the right to attend Committee meetings. Other individuals, such as the Chief Executive Officer, Chief Financial Officer and representatives from the finance function may be invited to attend.
- 1.4 The external auditors will be invited to attend all meetings of the Committee but shall withdraw when any matter touching on their appointment is under consideration.
- 1.5 The Chair of the Committee shall be appointed by the Board, and shall be an independent non-executive director. In the absence of the Chair of the Committee, the members shall elect one of their number to take the Chair for that meeting. Where there is an equal number of independent and non-independent Committee members, the independent non-executive Chair of the Committee shall have the casting vote.

### **2. Secretary**

- 2.1 The Company Secretary, or his nominee, shall act as the Secretary of the Committee.

### **3. Quorum**

- 3.1 The quorum for the transaction of business shall be 2 members present, including at least one member with recent and relevant financial experience, either in person or by telephone.

### **4. Frequency of meetings**

- 4.1 The Committee shall meet at appropriate times in the reporting and audit cycle each year. Ad hoc meetings of the Committee shall be held as considered necessary.
- 4.2 If the external auditors consider it necessary to request a meeting of the Committee, one shall be called without delay.

- 4.3 Outside of the formal meeting programme, the Committee Chair will maintain a dialogue with key individuals involved in the Company's governance, including the Board chair, the Chief Executive Officer, the Chief Financial Officer and the external audit lead partner

## **5. Notice of meetings**

- 5.1 Meetings of the Committee shall be convened by the Secretary at the request of any member of the Committee, or at the request of the external auditors.
- 5.2 Unless otherwise authorised by the Chair of the Committee, notice of each meeting confirming the date, time and venue of the meeting and an agenda of items to be discussed shall be forwarded to each member of the Committee (and other persons invited to attend) no later than 3 days prior to the meeting. The notice shall be accompanied by all supporting papers for the meeting.
- 5.3 Notices, agendas and supporting papers can be sent to each member of the Committee in electronic format where members have agreed to receive documents in such a way.

## **6. Minutes of meetings**

- 6.1 The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including the names of those present and in attendance.
- 6.2 At the beginning of each meeting the Secretary shall ascertain any conflicts of interests arising from items on the agenda, and record them accordingly.
- 6.3 Minutes of the Committee shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board, unless a conflict of interest exists.

## **7. Annual General Meeting**

- 7.1 The Chair of the Committee shall attend the Annual General Meeting with a brief to address shareholder questions on the Committee's activities.

## **8. Duties**

The Committee should have oversight of the Group as a whole and, unless required by regulation, carry out the duties listed below in respect of the parent company, major subsidiary undertakings and the Group as a whole, as appropriate.

### **8.1 Financial Reporting**

- 8.1.1 The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, trading updates and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgments which they contain having regard to matters communicated to it by the auditor.
- 8.1.2 In particular, the Committee shall review, and challenge where necessary:
- 8.1.2.1 the application of significant accounting policies and any changes to them;
  - 8.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;

- 8.1.2.3 whether the Company has followed appropriate accounting policies and made appropriate estimates and judgments, taking into account the views of the external auditor on the financial statements;
  - 8.1.2.4 the clarity and completeness of disclosure in the Company's financial statements and the context in which such statements are made;
  - 8.1.2.5 all material information presented with the financial statements, including the strategic report and the corporate governance statement relating to the audit and risk management; and
- 8.1.3 The Committee shall review any other statements requiring Board approval which contain financial information first, where to carry out a review prior to Board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation including the Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules sourcebook.
- 8.1.4 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.

## 8.2 Narrative Reporting

- 8.2.1 The Committee shall 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 and whether it informs the Board's statement in the annual report on these matters that is required under the Code.

## 8.3. Internal Controls and Risk Management Systems

The Committee shall:

- 8.3.1 keep under review internal financial controls systems that identify, assess, manage and monitor financial risks, and other control and risk management systems; and
- 8.3.2 review and approve the statements to be included in the Annual Report concerning internal controls, risk management, including the assessment of principal risks and emerging risks, and the viability statement.

The Committee shall annually review whether the development of the Company is such that creation of an internal audit function should be recommended to the Board.

## 8.4 Compliance, speaking up and fraud

The Committee shall:

- 8.4.1 review the adequacy and security of the Company's arrangements for employees and contractors and external parties 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
- 8.4.2 review the Company's procedures for detecting fraud;

- 8.4.3 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.
- 8.4.4 review reports from the Company on the adequacy and effectiveness of the company's anti-money laundering systems and controls

**[NOTE-** Section on Internal Audit responsibilities not included, as not currently a function in the Company. The Committee shall review the need for an internal audit function annually and, in the absence of such a function, satisfy itself as to how internal assurance is achieved, and how this affects the work of external audit]

## 8.5 External Audit

The Committee shall:

- 8.5.1 consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the Company's external auditor;
- 8.5.2 develop and oversee the selection process of the audit firm in accordance with the applicable Code and regulatory requirements, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process;
- 8.5.3 if an auditor resigns, investigate the issues involved and determine whether any action is required;
- 8.5.4 oversee the relationship with the external auditor. In this context the Committee shall:
  - 8.5.4.1 approve their, including both fees for audit or non-audit services, and ensure that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
  - 8.5.4.2 approve of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - 8.5.4.3 assess annually the external auditor's independence and objectivity, taking into account relevant law, regulation, relevant FRC Ethical Standard and ISA (UK) 260, and other professional requirements and the Group's relationship with the auditor as a whole, including any threats to the auditor's independence and safeguards applied to mitigate those threats including the provision of any non-audit services provided in accordance with the relevant Policy;
  - 8.5.4.4 satisfy itself that there are no relationships between the auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence or objectivity;
  - 8.5.4.5 agree with the Board a policy on the employment of former employees of the Company's auditor, taking into account the relevant FRC Ethical Standard and monitoring its implementation;
  - 8.5.4.6 monitor the auditor's processes for maintaining independence, its compliance with relevant law, regulation, other professional requirements and the Ethical Standard, including the guidance on the rotation of audit partner and staff;

- 8.5.4.7 monitor the level of fees paid by the Company to the external auditor compared to the overall fee income of the firm, office, partner and assess these in the context of relevant legal, professional and regulatory requirements, guidance and the relevant FRC Ethical Standards;
- 8.5.4.8 assess annually the qualifications, expertise and resources and independence of the external auditor and the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures; and
- 8.5.4.8 evaluate the risks to the quality and effectiveness of the financial reporting process in light of the external auditor's communications with the Committee
- 8.5.4.9 develop and recommend to the Board the Company's formal policy on the provision of non-audit services by the auditor, including prior approval of non-audit services by the Committee and specifying the types of non-audit services to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements. The policy should include consideration of the following matters:
  - 8.5.4.9.1 threats to the independence and objectivity of the external auditor and any safeguards in place
  - 8.5.4.9.2 the nature of the non-audit services
  - 8.5.4.9.3 whether the external audit firm is the most suitable supplier of the non-audit service
  - 8.5.4.9.4 the fees for the non-audit services, both individually and in aggregate, relative to the audit fee
  - 8.5.4.9.5 the criteria governing compensation
- 8.5.5 meet regularly with the external auditor (including once at the planning stage before the audit and once at the end of the audit at the reporting stage) and, at least once a year, without management being present, to discuss their remit and any issues arising from the audit;
- 8.5.6 discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan, and ensure it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
- 8.5.7 review the findings of the audit with the external auditor, including (but not limited to) the following:
  - 8.5.7.1 a discussion of any major issues that arose during the audit;
  - 8.5.7.2 the auditor's explanation of how the risks to the audit quality were addressed;
  - 8.5.7.3 key accounting and audit judgments;
  - 8.5.7.4 the auditor's view of their interactions with senior management; and
  - 8.5.7.5 levels of errors identified during the audit;

- 8.5.8 review any representation letter(s) requested by the external auditor before it is signed by the management;
- 8.5.9 review the management letter and management's response to the auditor's findings and recommendations; and
- 8.5.10 review the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgements by the auditor, and the auditor's response to questions from the Committee.

## **9. Reporting Responsibilities**

- 9.1 The Chair of the Committee shall formally report to the Board on the Committee's proceedings, after each meeting, on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its responsibilities. This report shall include:
  - 9.1.1 the significant issues that it considered in relation to the financial statements (required under paragraph 8.1.1) and how these were addressed;
  - 9.1.2 its assessment of the effectiveness of the external audit process (required under paragraph 8.5.4.7), the approach taken to the appointment or reappointment of the external auditor, length of tenure of audit firm, when a tender was last conducted and advance notice of any retendering plans; and
  - 9.1.3 any other issues on which the Board has requested the Committee's opinion.
- 9.2 The Committee shall make such recommendations to the Board as seem appropriate, on any area within its remit, where action or improvement is needed.
- 9.3 The Committee shall compile a report on its activities to be included in the Company's annual report. The report shall include:
  - 9.3.1 the significant issues that the Committee considered in relation to the financial statements and how these were addressed
  - 9.3.2 an explanation of how the Committee has assessed the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans
  - 9.3.3 an explanation of how auditor independence and objectivity are safeguarded if the external auditor provides non-audit services, having regard to matters communicated to it by the auditor and all other information requirements set out in the Code
- 9.4 In compiling the reports referred to in 9.1 and 9.3, the Committee shall exercise judgement in deciding which of the issues it considers in relation to the financial statements to be significant, but should include at least those matters that have informed the Board's assessment of whether the Company is a going concern and the inputs to the Board's viability statement. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts but could provide cross-references to that information.

## **10. Other Matters**

The Committee shall:

- 10.1 have access to sufficient resources to carry out its duties, including access to the company secretariat for assistance;
- 10.2 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;
- 10.3 give due consideration to the requirements of law and regulations, the provisions of the UK Corporate Governance Code and published guidance, the requirements of the FCA's Listing Rules, the Prospectus Rules and Disclosure Guidance and Transparency Rules sourcebook and any other applicable rules, as appropriate;
- 10.4 be responsible for co-ordination with the external auditors;
- 10.5 oversee any investigation of activities that are within its terms of reference;
- 10.6 work and liaise as necessary with all other board committees ensuring interaction between committees and with the board is reviewed regularly, taking particular account of the impact of risk management and internal controls being delegated to different committees;
- 10.7 ensure that a periodic evaluation of the committee's performance is carried out; and
- 10.8 at least annually, review its constitution and terms of reference to ensure that it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board; and

## **11. Authority**

The Committee is authorised to:

- 11.1 seek any information it requires from any employee of the Company, in order to perform its duties;
- 11.2 obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so;
- 11.3 call any employee to be questioned at a meeting of the Committee; and
- 11.4 have the right to publish in the Company's annual report, details of any issues that cannot be resolved between the Board and the Committee. If the Board has not accepted the Committee's recommendation on the external auditor appointment, reappointment or removal, the annual report should include a statement explaining the Committee's recommendation and the reasons why the board has taken a different position.

**As approved by the Board on 7 March 2023**