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**GALMED PHARMACEUTICALS LTD.**

# Audit Committee Charter

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## **I. Mission Statement**

The primary purposes of the Audit Committee (the “Audit Committee”) of the Board of Directors (the “Board”) of Galmed Pharmaceuticals Ltd. (the “Company”) are to:

- A. assist the Board in fulfilling its responsibility to oversee:
  - (i) management’s conduct of the Company’s accounting and financial reporting processes (including management’s development and maintenance of systems of internal accounting and financial controls) and the audits of the financial statements of the Company;
  - (ii) the integrity of the Company’s financial statements;
  - (iii) the Company’s compliance with legal and regulatory requirements and certain ethical standards;
  - (iv) the qualifications and independence of the Company’s external auditors; and
  - (v) the performance of the Company’s internal audit function and the external auditors;
- B. B. identify flaws in the management of the Company’s business and make recommendations to the Board on how to correct them and provide for arrangements as to the manner in which the Company will deal with employee complaints with respect to deficiencies in the management of the Company’s business and the protection to be provided to such employee; and
- C. C. review and approve actions or transactions which, under Israeli law, require audit committee approval, including certain related party transactions and certain transactions involving conflicts of interest;
- D. D. review and approve the internal auditor’s work plan; and
- E. E. any other additional duties as may be required by the rules of The Nasdaq Stock Market LLC (“Nasdaq”), the Israeli Companies Law, 5759-1999 (the “Companies Law”) or any other applicable law.

## **II. Membership**

The Audit Committee shall consist of at least three directors, the exact number to be determined from time to time by the Board. All of the “external directors” of the Company (as such term is defined in the Israeli Companies Law) will be members of the Audit Committee.

The Audit Committee’s composition shall meet the independence and expertise requirements for audit committees imposed by the listing criteria of the Nasdaq, Section 10A(m)(3) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and Rule 10A-3(b)(1) promulgated thereunder, the Companies Law and any applicable rules or regulations of Nasdaq, the United States Securities and Exchange Commission (the “SEC”) and the Companies Law, in each case as in effect from time to time. The Board shall have at least one member of the Audit Committee who qualifies as an “audit committee financial expert” as defined by the SEC under Item 407(d)(5)(ii) and (iii) of Regulation S-K promulgated under the Exchange Act and who meets the requirements set forth in Nasdaq Rule 5605(d)(2)(A).

Without derogating from the above, each Committee member shall not have participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the past three years, and, in the judgment of the Board, be able to read and understand fundamental financial statements, including the Company’s balance sheet, income statement, and cash flow statement.

The members of the Audit Committee shall be appointed by a majority vote of the Board from among its members based on the recommendations of either the Board, or the Nominating Committee if in existence (other than the Company’s external directors, who shall serve on the Committee by virtue of being external directors and subject to applicable law), and shall serve until such member’s successor is duly appointed and qualified or until such member’s resignation or removal by a majority vote of the Board or until such time as such member ceases to serve as a director for any other reason.

## **III. Authority and Responsibilities**

The Audit Committee’s function is not to replace the Company’s management or its internal auditor (as such term is defined in the Companies Law) or external auditors, but rather one of oversight. It is the responsibility of the

Company's management to prepare the Company's financial statements and to develop and maintain adequate systems of internal accounting and financial controls, and it is the internal and external auditors' responsibility to review and, when appropriate, audit or attest to these financial statements and internal controls. The Audit Committee recognizes that the financial management and the internal and external auditors have more knowledge and information about the Company than do Audit Committee members. Consequently, in carrying out its oversight responsibilities, the Audit Committee cannot provide any expert or special assurance as to the Company's financial statements or internal controls or any professional certification as to the external auditors' work.

In carrying out its oversight responsibilities, the Audit Committee shall undertake the following activities and have the following authorities (in addition to any others that the Board may from time to time delegate to the Audit Committee):

A. Relationship with Auditors

- (i) The Audit Committee shall be directly responsible for the appointment<sup>1</sup>, retention, compensation<sup>2</sup>, oversight, evaluation and termination<sup>3</sup> (subject, if applicable, to shareholder ratification) of the work of the Company's external auditors performed for the purpose of preparing or issuing an audit report or related work or performing other audit, review or attest services for the Company. The Company's external auditors shall report directly to the Audit Committee.
- (ii) The Audit Committee shall review, pre-approve and recommend to the Board to approve (in each case, including fees):
  - (a) all auditing services (including those performed for purposes of providing comfort letters and statutory audits); and
  - (b) all permitted non-auditing services rendered to the Company by its external auditors (other than de minimus non-audit services as defined in Section 10A(i)(1)(B) of the Exchange Act which shall be approved prior to completion of the external auditors' audit).
- (iii) The Audit Committee shall obtain from the external auditors and review, at least annually, a written report describing:
  - (a) the external auditors' internal quality-control procedures;
  - (b) any material issues raised by the most recent internal quality-control review or peer review of the external auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, with respect to any independent audit carried out by the external auditors, and any steps taken to deal with any such issues; and
  - (c) all relationships between the external auditors and the Company, including the matters covered by Independence Standards Board Standard Number 1 and any services that may impact the objectivity and independence of the external auditors.

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1. Under the Companies Law, the appointment of external auditors requires the approval of the shareholders of the Company. Accordingly, the appointment of the external auditors will be required to be approved and recommended to the shareholders by the Audit Committee and approved by the shareholders of the Company.
2. Under the Companies Law, the compensation of external auditors requires the approval of the shareholders of the Company, and the shareholders may delegate this authority to determine the compensation of the external auditors to the Board. Accordingly, the compensation of the external auditors will be required to be approved by the Audit Committee and recommended to the shareholders or, if so authorized by the shareholders, to the Board and approved by the shareholders or the Board of Directors, as the case may be. Under the Companies Law, the compensation of external auditors for non-audit services requires the approval of the board of directors and subject to the Companies Law, may be delegated to the Audit Committee.
3. Under the Companies Law, the termination of external auditors requires the approval of the shareholders of the Company. Accordingly, the termination of the external auditors will be required to be approved and recommended to the shareholders by the Audit Committee and approved by the shareholders of the Company.

After reviewing the foregoing report and the external auditors' work and actively engaging in a dialogue with the external auditors concerning any disclosed relationships that may impact the objectivity and independence of the external auditors, and taking into account the opinions of such persons and taking such additional actions as the Audit Committee deems appropriate, the Audit Committee shall evaluate the external auditors' qualifications, performance and independence (including a review and evaluation of the lead partner) and shall present to the Board its conclusions and recommendations with regard to any appropriate action to oversee the independence of the external auditors.

(v) The Audit Committee should consider whether, in order to assure the continuing independence of the external auditors, there should be regular rotation of the lead and reviewing audit partners (in addition to the rotation every five years required pursuant to Section 10A(j) of the Exchange Act) or of the external audit firm.

(vi) The Audit Committee shall establish clear hiring policies with respect to employees and former employees of the external auditors (including a prohibition, as required pursuant to Section 10A(l) of the Exchange Act, against the Company's chief executive officer, chief financial officer, controller or chief accounting officer (or any person serving in an equivalent position) having worked on the Company's audit as an employee of the external auditors during the one year period preceding the initiation of the current audit).

(vii) The Audit Committee shall discuss with management, the external auditors and the internal auditor and review the performance and adequacy of the Company's internal audit function, including the internal auditor's work plan, responsibilities, budget, staffing and any proposed changes in the audit scope, plan or procedures from the prior period.

(viii) The Audit Committee shall make recommendations to the Board regarding the appointment, replacement, reassignment or dismissal of the Company's internal auditor and periodically review his or her performance.

(viii) Identify defects, to the extent such exist, in the business management of the Company, in consultation with the Company's independent auditors and internal auditor, including by reviewing the status of compliance with laws, regulations, and internal procedures, through receiving reports from management, legal counsel and third parties or in any other manner as determined by the Audit Committee, and proposing to the Board ways of correcting such defects.

#### B. Financial Reporting Process and Financial Statements

(i) The Audit Committee shall meet periodically (and, in any event, not less than annually) with: (a) the management of the Company; (b) the Company's internal auditor; and (c) the external auditors.

(ii) The Audit Committee shall review and discuss with management and the external auditors:

(a) the audited financial statements to be included in the Company's Annual Report on Form 20-F (or the Annual Report to shareholders if distributed prior to the filing of the Form 20-F);

(b) the quarterly financial statements to be included in the Company's periodic reports on Form 6-K; and

(c) in the case of the Company's Annual Report on Form 20-F, the Company's disclosures in the related section titled "Operating and Financial Review and Prospects".

(iii) The Audit Committee shall review:

(a) major issues regarding accounting principles and financial statement presentations, including any changes in the selection or application of accounting principles;

(b) analyses prepared by management and/or the external auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements; and

(c) the effect of regulatory or accounting initiatives, as well as off-balance sheet transactions, on the financial statements.

(iv) In connection with the annual audit the Audit Committee shall, prior to the filing of the Form 20-F, discuss with the external auditors the matters required to be discussed by Statement on Auditing Standards No. 61, as amended or supplemented, including receiving from the external auditors timely reports concerning:

(a) all critical accounting policies and practices to be used;

- (b) all alternative treatments of financial information within generally accepted accounting principles (“GAAP”) that have been discussed with the management of the Company, the ramifications of the use of such alternative treatments and the treatment preferred by the external auditors; and
- (c) other material written communications between the external auditors and the management of the Company (such as any management or internal control letter or schedule of unadjusted differences).
- (v) The Committee shall regularly review with the external and internal auditors any audit problems or difficulties encountered and management’s response (including any restrictions on access, any accounting adjustments noted or proposed but passed as immaterial or for other reasons, any communications between the external audit team and the external auditor’s national office and any management or internal control letters proposed to be but never issued by the external auditor to the Company). The Audit Committee shall be responsible for the resolution of disagreements among the Company’s management, the external auditors and the internal auditor regarding financial reporting.
- (vi) The Audit Committee shall discuss with management, the internal auditor and the external auditors the quality and adequacy of the Company’s internal controls, including reviewing any management internal control report, any significant internal control deficiencies or material weaknesses, any fraud involving management or others significantly involved in the Company’s internal controls and procedures and any changes implemented in light of material control deficiencies or weaknesses.
- (vii) Based on the above review and discussions, the Audit Committee shall make a recommendation to the Board as to whether the Company’s audited financial statements are suitable for inclusion in the Company’s Annual Report on Form 20-F.
- (viii) The Audit Committee shall discuss with management the Company’s policies with regard to the types of information to be disclosed and the types of presentation to be made (including the use of “pro forma” or “adjusted” non-GAAP information) in earnings press releases and with respect to financial information and earnings guidance provided to rating agencies or analysts or otherwise made public, and review particular earnings press releases and, to the extent the Audit Committee deems advisable, earnings guidance.
- (ix) The Audit Committee shall identify flaws in the management of the Company’s business and make recommendations to the Board on how to correct them including, among other means, by consulting with the Company’s internal auditor and/or with its external auditors.

#### C. Compliance with Laws, Regulations and Ethical Standards

- (i) The Audit Committee shall confirm with the external auditors that they are not aware of any matters that might fall under Section 10A(b) of the Exchange Act.
- (ii) The Audit Committee shall receive reports on legal and regulatory compliance and litigation matters.
- (iii) The Audit Committee shall establish and maintain procedures for:
  - (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, auditing or internal accounting control matters; and
  - (b) the confidential, anonymous submission by Company employees of concerns regarding questionable accounting or auditing matters.
- (iv) The Audit Committee shall make recommendations to the Board regarding the adequacy of the Company’s written conduct and ethics policies and the Company’s procedures for ensuring proper distribution, education and compliance with such policies. The Audit Committee shall also make itself available when so requested, to assist the Board in reviewing any requests by a director or executive officer for a waiver from compliance with any such policies.
- (v) The Audit Committee shall review and approve affiliate or related party transactions involving potential conflict of interest situations, including such actions or transactions which pursuant to the Companies Law require the Audit Committee’s approval and such transactions required to be disclosed pursuant to Item 404 of SEC Regulation S-K or Item 7.B of Form 20-F, as applicable.

#### D. Evaluation

The Audit Committee shall review and reassess the adequacy of this Charter at least annually in such manner as it deems appropriate and submit such evaluation, including any recommendations for change, to the Board for review, discussion and approval.

#### E. Access to Advisors; Investigations

(i) The Audit Committee shall have the authority to obtain, at the Company's expense, advice and assistance from internal or external legal, accounting or other advisors as it determines necessary to carry out its duties, without having to seek Board approval.

(ii) The Audit Committee shall determine funding by the Company for the payment of the Company's external auditors and any advisors,

including, but not limited to, those advisors set forth in the preceding paragraph, retained by the Audit Committee and any ordinary administrative expenses necessary or appropriate in carrying out its duties.

(iii) The Audit Committee shall have the authority to conduct or authorize investigations into or studies of any matters within the Audit Committee's scope of responsibilities.

#### IV. Structure and Operations

The Audit Committee shall designate one of its members to act as its chairperson. The Audit Committee shall meet, in person or telephonically, at least quarterly at such times and places as may be determined by the Audit Committee chairperson, with further meetings to occur, or actions to be taken by unanimous written consent, when deemed necessary or desirable by the Audit Committee or its chairperson. The chairperson shall, with input from the other members of the Audit Committee and, where appropriate, members of management and external advisors, set the agendas for Audit Committee meetings.

The Audit Committee may request that any directors, officers or other employees of the Company, or any other persons whose advice and counsel are sought by the Audit Committee, attend any meeting of the Audit Committee to provide such pertinent information as the Audit Committee requests. The Company's external auditors shall be notified of all meetings where the agenda includes a subject related to the audit or review of the Company's financial reports and shall be entitled to participate in such meetings. The Company's internal auditor shall be notified of all meetings of the Audit Committee and shall be entitled to participate in such meetings. Subject to the foregoing, the Audit Committee may exclude from its meetings any persons it deems appropriate.

The Company's internal auditor may request that the chairperson convene a meeting to discuss a specific matter and the chairperson shall, if he or she deems it necessary, convene such meeting within a reasonable time following such request.

Subject to applicable law the Audit Committee may form and delegate authority to subcommittees. In particular, the Audit Committee may delegate to one or more of its members the authority to pre-approve audit and/or non-audit services, provided that the decisions of any member(s) to whom pre-approval authority is delegated shall be presented to the Audit Committee at the next Audit Committee meeting.

The Audit Committee shall maintain minutes or other records of its meetings and shall give regular reports to the Board on these meetings and such other matters as required by this charter or as the Board shall from time to time specify.

Except as expressly provided in this Charter, the Company's Articles of Association or as required by law, regulation or Nasdaq listing standards, the Audit Committee shall set its own rules of procedure.

#### V. Compensation

No member of the Audit Committee may receive, directly or indirectly, any compensation from the Company, as may be applicable and approved pursuant to the Companies Law, other than:

A. fees (including equity based compensation) paid to directors for service on the Board (including customary perquisites and other benefits that all directors receive);

B. additional fees (including equity based compensation) paid to directors for service on a committee of the Board (including the Audit Committee) or as the chairperson of any committee; and

not contingent on continued or future service on the Board or any committee of the Board.