

# **ADIAL PHARMACEUTICALS, INC.**

## **Audit Committee Charter**

### **Purpose of the Committee**

The Board of Directors of Adial Pharmaceuticals, Inc. (the “Company”) has constituted an Audit Committee (the “Committee”). The Committee shall have the purpose of and responsibility for assisting the Board of Directors in its oversight of:

- the accounting and financial reporting processes of the Company;
- the integrity of the Company’s consolidated financial statements;
- the Company’s compliance with legal and regulatory requirements related to financial reporting;
- the independent auditor’s qualifications and independence; and
- the performance of the Company’s internal audit function (if any) and independent auditors.

In addition, the Committee shall prepare the audit committee report that the Securities and Exchange Commission (“SEC”) rules require to be included in the Company’s annual proxy statement. The Committee shall preserve open avenues of communication among the independent auditors, internal auditors (if any), financial management, senior management, the Committee and the Board of Directors. The Committee is to be the Board of Directors’ principal agent in ensuring the independence and objectivity of the independent auditors, the integrity of management with respect to financial matters, and the adequacy of disclosure to stockholders. The independent auditors are ultimately accountable to the Board of Directors and the Committee, as representatives of the Company’s stockholders; moreover, the Committee has the sole authority to select, evaluate, and, where appropriate, replace the independent auditors.

The Committee members are not acting as professional accountants or auditors, and their functions are not intended to duplicate or substitute for the activities of management and the independent auditors. The Committee serves a Board-level oversight role in which it provides advice, counsel and direction to management and the independent auditors on the basis of information it receives, discussions with the auditors and the experience of the Committee’s members in business, financial and accounting matters.

### **Authority of the Committee**

The Committee has the authority to investigate any activity of the Company within its scope of responsibilities, and shall have unrestricted access to members of management and all information relevant to its responsibilities. All employees are directed to cooperate as requested by members

of the Committee. The Committee is empowered to retain persons having special competence as necessary to assist the Committee in fulfilling its responsibility.

### **Composition of the Committee**

The Committee shall be comprised of at least three (3) members, all of whom shall meet the requirements and qualifications of the SEC and The Nasdaq Stock Market LLC (“NASDAQ”).

Specifically, each Committee member must: (1) satisfy the independence requirements of the NASDAQ, except as otherwise permitted by applicable NASDAQ rules; (ii) meet the criteria for independence set forth in Rule 10A-3 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”); (iii) not have participated in the preparation of the financial statements of the Company at any time during the past three (3) years; and (iv) be able to read and understand fundamental financial statements, including a company’s balance sheet, income statement, and cash flow statement.

At least one member of the Committee must have past employment experience in finance or accounting, requisite professional certification in accounting or other comparable experience or background that leads to financial sophistication. In addition, at least one member of the Committee must be an “audit committee financial expert” as such term is defined by the rules and regulations of the SEC. A person who satisfies the definition of “audit committee financial expert” will also be presumed to have financial sophistication. Notwithstanding the foregoing, members who do not meet the NASDAQ definition of independence may serve on the Committee to the extent permitted by NASDAQ rules and SEC rules and regulations, as such rules and regulations are in effect from time to time. The members of the Committee shall be appointed and may be replaced by the Board of Directors.

The members of the Committee are appointed annually by the Board, and serve until their successors are duly elected and qualified, or until their earlier death, resignation or removal, with or without cause, in the discretion of the Board of Directors. Unless a Chair is elected by the Board of Directors, the members of the Committee shall designate a Chair by a majority vote of the full Committee membership.

### **Meetings of the Committee**

The Committee shall meet, either in person or telephonically, as often as the Committee or the Chair of the Committee determines necessary, but not less frequently than quarterly. Prior to each meeting, the Chair of the Committee may communicate with the independent auditors to review the agenda and solicit input on any additional topics that should be covered. The Committee shall also meet periodically, at the discretion of the Chair of the Committee, with Company’s management, and the independent auditor in separate executive sessions. At least two members of the Committee shall constitute a quorum. Any action to be taken at any meeting of the Committee may be taken without a meeting, if all members of the Committee consent thereto in writing and such writing or writings are filed with the minutes of the Committee. A majority of the members present shall decide any question brought before the Committee.

## **Attendance at Meetings of the Committee**

Members of the Committee are expected to use all reasonable efforts to attend each meeting. The Chair may also request that members of management, the Company's outside counsel or the independent auditor attend a meeting of the Committee, or meet with any members of, or consultants to, the Committee.

## **Minutes of Meetings of the Committee**

Minutes of each meeting shall be prepared under the direction of the Chair of the Committee and circulated to Committee members for review and approval. Copies are then to be made available to the Company directors who are not members of the Committee, the independent auditors, the Chief Executive Officer and the Company's Chief Financial Officer.

## **Specific Responsibilities of the Committee**

### ***General Matters***

The Committee shall:

1. Oversee the work and compensation of the independent auditor in connection with the preparation by the independent auditor of its audit report.
2. Review the scope of the independent auditor's audit examination, including their engagement letter, prior to the annual audit. Review and approve the audit fees recommended by management. Review and approve any non-audit services to be provided by the independent auditors. The Chair has the authority to approve any additional audit or permitted non-audit services provided to the Company, subject to the ratification of such services by the entire Committee at the next regularly scheduled Committee meeting for such services to continue. All approved audit and non-audited services shall be in accordance with procedures established by the Committee, which shall include reviewing detailed back-up documentation for audit and permitted non-audit services and compliance with independence rules. The Committee may delegate the authority to grant approval to subcommittees consisting of one or more members of the Committee, and such subcommittees must report any approval decisions to the Committee at its next scheduled meeting.
3. Approve the retention or replacement of the independent auditors, and provide a written summary of the basis for any recommended change (subject, if applicable, to stockholder ratification). The independent auditor shall report directly to the Committee.
4. To review and approve the internal corporate audit staff functions, including: (i) purpose, authority and organizational reporting lines; (ii) annual audit plan, budget and staffing; and (iii) concurrence in the appointment, compensation and rotation of the internal audit staff (if any).

5. Have the authority, to the extent it deems appropriate, to retain independent legal, accounting or other advisors. The Company shall provide for appropriate funding, as determined by the Committee, for payment of compensation to the independent auditor for the purpose of rendering or issuing an audit report and to any advisors employed by the Committee.
6. Review and assess the adequacy of this Charter and the Committee's approval procedures at least annually, and recommend any changes to the Board for approval.

### ***Financial Statement and Disclosure Matters***

The Committee shall:

1. Review and discuss with management and the independent auditor the annual audited financial statements, including disclosures made in management's discussion and analysis of financial condition and results of operations, and recommend to the Board of Directors whether the audited financial statements should be included in the Company's annual report on Form 10-K.
2. Review and discuss with management and the independent auditor the Company's quarterly unaudited financial statements prior to the filing of its Form 10-Q, including the results of the independent auditor's review of the quarterly financial statements.
3. Discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 1301 (*Communications with Audit Committees*), as amended and adopted by the Public Company Accounting Oversight Board, relating to the conduct of the audit, including any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information, and any significant disagreements with management.
4. Discuss with management and the independent auditor significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles, any issues as to the adequacy of the Company's internal controls and any special steps adopted in light of material control deficiencies.
5. Review and discuss quarterly reports from the independent auditors on: (i) all critical accounting policies and practices to be used; (ii) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor; and (iii) other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.

6. Discuss with management the Company's earnings press releases, including the use (if any) of "pro forma" or "adjusted" non-GAAP information, as well as financial information and earnings guidance provided to analysts and rating agencies.
7. Discuss with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements, if any.
8. Discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's financial risk assessment and financial risk management policies.
9. Review disclosures made to the Committee by the Company's Chief Executive Officer and Chief Financial Officer during their certification process for the Annual Report on Form 10-K and Quarterly Reports on Form 10-Q about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls.
10. Review with the outside auditing firm and internal auditing (if any) staff the adequacy of the Company's system of internal controls over financial reporting and disclosure controls and procedures, including computerized information system controls and security, and any related significant findings and recommendations of the outside auditing firm, together with management's responses thereto.

### ***Oversight of the Company's Relationship with the Independent Auditor***

The Committee shall:

1. Review and evaluate the lead partner of the independent auditor team.
2. Obtain and review a report from the independent auditor at least annually regarding: (i) the independent auditor's internal quality-control procedures; (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years with respect to one or more independent audits carried out by the firm; (iii) any steps taken to deal with any such issues; and (iv) all relationships between the independent auditor and the Company. Evaluate the qualifications, performance and independence of the independent auditor, including considering whether the auditor's quality controls are adequate and the provisions of the permitted non-audit services is compatible with maintaining the auditor's independence, taking into account the opinions of management. The Committee shall present its conclusions with respect to the independent auditor to the Board of Directors.
3. The Committee shall monitor the regular rotation of the lead and concurring audit partners as required by the rules and regulations of the SEC and NYSE in order to assure continuing

independence of the independent auditor. The Committees conclusions with respect to this rotation should be presented to the Board of Directors.

4. Meet with the independent auditor to discuss the planning and staffing of the audit.

### ***Internal Audit***

The Committee shall assist in the Board of Directors' oversight of the performance of the Company's internal audit function (if any), including:

1. The internal auditors (if any) shall report directly to the Committee.
2. The Committee shall meet periodically with the internal auditors (if any).
3. The Committee shall, at least annually, evaluate the performance of the Company's internal audit function and review and discuss with the internal auditors (if any) the internal audit plan, activities, responsibilities and staffing (if any) of the internal audit organization.
4. With respect to each fiscal year, the Committee shall meet separately with the internal auditors (if any) and the senior management to review the scope and methodology of the proposed audits for such fiscal year. The internal auditors (if any) shall provide any reports to the Committee during the fiscal year on the underlying process and status of their audits and any findings or preliminary conclusions that have been reached.

### ***Compliance Oversight Responsibilities***

The Committee shall:

1. Obtain from the independent auditor assurance that Section 10A(b) of the Exchange Act has not been implicated.
2. Obtain reports from management and the independent auditor that the Company and its subsidiaries are in conformity with applicable legal requirements and the Company's Code of Ethics for Financial Management. Advise the Board of Directors with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations and with the Company's Code of Ethics for Financial Management.
3. Review on an on-going basis for potential conflicts of interest, and approve if appropriate, all "Related Party Transactions" of the Company as required by the rules of the NASDAQ. For purposes of this Charter, "Related Party Transactions" shall mean those transactions required to be disclosed pursuant to Item 404 of SEC Regulation S-K as well as transactions with beneficial owners of five percent (5%) or more of the Company's outstanding shares of common stock or outstanding voting power. When reviewing a related party transaction, the Committee shall take into account all of the relevant facts and circumstances available to it, including (if applicable), but not limited to (i) the material terms and conditions of the transaction; (ii) the related party's relationship to the Company; (iii) the related party's

interest in the transaction; (iv) the approximate dollar value of the transaction; (v) the availability from other sources of comparable products and services; and (vi) an assessment of whether the transaction is on terms that are comparable to the terms available to the Company from an unrelated third party.

4. Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by the employees of concerns regarding the questionable accounting or auditing matters.
5. Discuss with management and the independent auditor any correspondence with regulators or governmental agencies and any published reports which raise material issues regarding the Company's financial statements or accounting policies.
6. Discuss with the Company's outside counsel legal matters that may have a material impact on the financial statements or the Company's compliance policies.
7. When, and if, required by the rules of the SEC and NASDAQ, the Committee shall review the reports of management and the independent auditors to be included in the Company's Annual Reports on Form 10-K in compliance with Section 404 of the Sarbanes-Oxley Act of 2002 relating to (i) management's assessment of the effectiveness of internal control over financial reporting; and (ii) the effectiveness of internal control over financial reporting. The Committee shall receive periodic updates from management and the independent auditors at each regularly scheduled Committee meeting as to the status of management's review of the effectiveness of internal control over financial reporting.
8. Each year the Chair of the Committee shall discuss the Committee's performance with the Committee members, following which discussions the Chair shall lead the Committee in a review of its performance. The annual evaluation shall include a review of the Committee's charter.

### **Limitation of Committee's Role**

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with the generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the independent auditor.

### **Adoption of Charter**

This Audit Committee Charter was duly approved and adopted by the Board of Directors and is effective immediately upon the closing of the Company's initial public offering on July 31, 2018.