

## Corporate Governance Report

### **pSivida's Corporate Governance Report**

The Board of Directors of pSivida Corp. (the "Board") is responsible for the corporate governance of pSivida Corp. ("pSivida" or "the Company") and is committed to applying the ASX Corporate Governance Council *Principles of Good Corporate Governance and Best Practice Recommendations* ("ASX Principles") where practicable. This Corporate Governance Report should be read together with the Company's Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission ("SEC") on 13 September 2016 (the "10-K Filing") and its 2016 Proxy Statement filed with the SEC on 26 October 2016 (the "2016 Proxy"), copies of which may be accessed through the Company's website at [www.psivida.com](http://www.psivida.com).

The Board guides and monitors the business and affairs of pSivida on behalf of the interests of its stockholders. It is a requirement of the Board that the Company maintains high standards of ethics and integrity at all times.

The following addresses pSivida's corporate governance in the context of the ASX's Corporate Governance Principles and should be read together with the 10-K Filing and the 2016 Proxy.

#### **Principle 1: Lay solid foundations for management and oversight**

pSivida's corporate governance policies and practices are set out on the Company's website at [www.psivida.com](http://www.psivida.com). The following documents are available on the website:

- Audit Committee Charter;
- Compensation Committee Charter;
- Governance and Nominating Committee Charter;
- Science Committee Charter;
- Code of Conduct;
- Disclosure Policy;
- Communications Strategy;
- Securities Trading Policy;
- Communications with Directors Policy;
- Stockholder Nomination Policy; and
- Corporate Governance Guidelines.

The Corporate Governance section of pSivida's website was first made available from 1 July 2003 and the documents referred to above have been available from that date or, if created after such date, as of the date of creation. pSivida has undertaken a review of its corporate governance policies and practices since that date and is continuing to update its policies and practices to reflect developing corporate governance requirements and practices.

#### **The Role of the Board and the Corporate Governance Guidelines**

##### *The Board's Duties*

The role of the Board is to oversee and guide the management of pSivida with the aim of protecting and enhancing the interests of its stockholders. The Board has established four standing committees: the Audit and Compliance Committee, the Compensation Committee, the Governance and Nominating Committee, and the Science Committee. Each committee is comprised entirely of independent directors, and each committee has a written charter. While each committee has designated responsibilities, the committees act on behalf of the entire Board and regularly report on their activities to the entire Board. Details concerning the role and structure of the Board and each Board committee are contained in the Corporate Governance Guidelines and committee charters, available on the "Corporate Governance" section of the Company's website at [www.psivida.com](http://www.psivida.com).

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### *Code of Conduct*

Directors of the Company are also subject to pSivida's Code of Conduct. The Code of Conduct is considered by the Board to be an effective way to guide the behaviour of all directors and employees and demonstrates the Company's commitment to ethical and compliant practices.

### **Principle 2: Structure the Board to add value**

The composition of the Board is determined in accordance with the following principles and guidelines:

- the Board shall comprise of at least one director with the number of directors to be determined from time to time by vote of a majority of the directors then in office;
- the Board shall comprise directors with an appropriate balance of experiences, skills and characteristics;
- the Board shall meet regularly and follow meeting guidelines set down to ensure all directors are made aware of, and have available, all necessary information to participate in an informed discussion of all agenda items; and
- the Board's composition shall adhere to the standards of independence under the NASDAQ Stock Market ("NASDAQ") and the Australian Securities Exchange ("ASX") rules.

As of the date of this report, the Board comprises a non-executive, independent chairperson, the Chief Executive Officer and four non-executive, independent directors. Details of the directors are set forth in the 2016 Proxy.

### *Independence of Directors*

The Board has reviewed the position and associations of each of the six directors in office at the date of this report and considers that five of the directors are independent. In considering whether a director is independent, the Board has regard to the independence criteria in ASX Best Practice Recommendations Principle 2 and other facts, information and circumstances that the Board considers relevant. The Board assesses the independence of new directors upon appointment and reviews their independence, and the independence of other directors, as appropriate.

On 5 February 2016, Mr. Peter Savas resigned as a director. On 14 September 2016, Dr. Paul Ashton resigned as President and Chief Executive Officer of pSivida and also resigned as a director. On 15 September 2016, Ms. Nancy Lurker was hired as President and Chief Executive Officer of pSivida and was appointed as a director. On 26 September 2016, Dr. Jay Duker was appointed as a director of the Board. Descriptions of Ms. Lurker's and Dr. Duker's qualifications as directors to the Board may be found in the 2016 Proxy. On 12 December 2016, pSivida eliminated the position of Vice President of Corporate Affairs and General Counsel and therefore the employment of Lori Freedman, the Company's Vice President of Corporate Affairs, General Counsel and Company Secretary's was terminated effective as of 26 December 2016.

The Board considers that Dr. Mazzo, Mr. Rogers, Mr. Godshall, Dr. Barry and Dr. Duker meet the criteria in Principle 2. None of them has any material business or contractual relationship with the Company, other than as a director, and none of them has any conflicts of interest that could interfere with the exercise of independent judgement. Accordingly, each of them is considered to be independent.

Ms. Lurker is employed as President and Chief Executive Officer of the Company and so is not considered to be independent.

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The pSivida Board had a majority of independent directors throughout the entire 2016 financial year. The Company was therefore in compliance with Best Practice Recommendation 2.1 for the year.

The directors will continue to monitor the composition of the Board to ensure its structure remains appropriate and consistent with effective management and good governance.

### *Nomination and Appointment of New Directors*

The Governance and Nominating Committee has the following duties and responsibilities with respect to Board candidates and nominees:

- identifying, recruiting and interviewing candidates for Board membership;
- reviewing the background and qualifications of individuals being considered as director candidates;
- developing and recommending to the Board guidelines and criteria to determine the qualifications of directors;
- recommending to the Board the director nominees for election by the stockholders or appointment by the Board to fill any vacancies pursuant to the By-Laws of the Company;
- reviewing and considering candidates for election submitted by stockholders;
- reviewing the suitability for continued service as a director of each Board member when his or her term expires, and recommending whether or not the director should be re-nominated.

The Governance and Nominating Committee shall have the following duties and responsibilities with respect to the composition and procedures of the Board as a whole:

- monitoring the independence (within the meaning of the NASDAQ listing requirements) of Board members and the overall Board composition;
- reviewing periodically the size of the Board and to recommend to the Board any appropriate changes;
- making recommendations on the frequency and structure of Board meetings and on the practices of the Board;
- recommending to the Board the directors to be appointed to each committee of the Board, including the Governance and Nominating Committee;
- overseeing an annual self-evaluation of the Board and its committees to determine whether the Board and its committees are functioning effectively;
- performing such other duties and responsibilities as may be assigned to the Governance and Nominating Committee by the Board or as designated in plan documents; and
- forming and delegating authority to subcommittees, comprised of one or more members of the Governance and Nominating Committee, when the Governance and Nominating Committee deems appropriate.

### *Performance Review*

The Corporate Governance Guidelines and the Governance and Nominating Committee Charter contain the process for annual performance evaluations of the directors.

### *Board Members' Rights to Independent Advice*

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The Board has procedures to allow directors, in the furtherance of their duties as directors or members of a Board Committee, to seek independent professional advice at the Company's expense.

### *pSivida's Board Committees*

The Board has established the following standing committees to advise and support the Board in carrying out its duties:

- Audit and Compliance Committee;
- Governance and Nominating Committee;
- Compensation Committee; and
- Science Committee.

#### *Audit and Compliance Committee*

Please see the discussion in the 2016 Proxy.

#### *Governance and Nominating Committee*

Please see the discussion in the 2016 Proxy.

#### *Compensation Committee*

Please see the discussion in the 2016 Proxy.

#### *Science Committee*

Please see the discussion in the 2016 Proxy.

A copy of each Committee's charter has been posted to the Corporate Governance section of the Company's website referenced above.

### **Principle 3: Promote ethical and responsible decision-making**

The pSivida Code of Conduct (the "Code") was adopted on 30 June 2003 and has since then been updated and is available on the Company's website. The Code covers a broad range of issues and refers to those practices necessary to maintain confidence in pSivida's integrity, including procedures in relation to:

- compliance with the law;
- adherence to corporate governance policies;
- financial records;
- safeguarding resources;
- contributions to political parties, candidates or campaigns;
- occupational health and safety;
- confidential information;
- conflict of interest;
- insider trading;
- fair business practices and purchasing;
- equal opportunity;
- corporate bribery or improper payments;
- membership in industry and professional associations;
- compliance with securities laws; and
- amendments and waivers of the Code

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### *Securities Trading by pSivida Directors and Employees*

pSivida's Securities Trading Policy was adopted on 30 June 2003 and has since then been updated and is available on the Company's website. This policy sets out the Company's guidelines for directors, officers, and employees dealing in securities of pSivida.

### **Principle 4: Safeguard integrity in financial reporting**

The Audit and Compliance Committee is responsible for the annual appointment of the independent registered public accounting firm, and for assisting the Board in oversight of the Company's financial reporting, audit and legal and regulatory compliance processes. More specifically, the Audit and Compliance Committee's responsibilities include:

- appointing, overseeing and, if necessary, replacing the independent registered public accounting firm, including evaluating the effectiveness and independence of the firm at least annually, approving or pre-approving all audit and non-audit services provided by the firm and establishing hiring policies for employees or former employees of the firm, and also including resolving any disagreements between management and the firm regarding financial reporting;
- reviewing with the independent registered public accounting firm the scope of, plans for and any difficulties with audits and the adequacy of staffing and compensation;
- reviewing with the independent registered public accounting firm matters required to be communicated to audit committees in accordance with Public Company Accounting Oversight Board (United States) (PCAOB) Auditing Standard No. 1301 Communications With Audit Committees;
- reviewing with management and the independent registered public accounting firm the Company's internal controls, financial and critical accounting policies (including effects of alternate generally accepted accounting principles (GAAP) methods and off-balance sheet structures, if any), risk assessment and management policies;
- reviewing with management and the independent registered public accounting firm the Company's annual and quarterly financial statements and financial disclosure, and preparing the Audit and Compliance Committee report for inclusion in the Company's annual proxy statement;
- reviewing, or establishing standards for, the substance and presentation of information included in earnings press releases and other earnings guidance;
- reviewing material pending legal proceedings and other contingent liabilities;
- implementing appropriate control processes for accounting, disclosures and reporting, review and approval of intercompany, related party and significant unusual transactions;
- establishing procedures for receipt, retention and treatment of complaints, including the confidential and anonymous submission of concerns by employees regarding accounting, internal accounting controls or auditing matters;
- receiving from management a report of any significant deficiencies and material weaknesses in the design or operation of the Company's internal controls, and any fraud involving management or other employees who have a significant role in the Company's internal controls;
- presenting to the Board annually an evaluation of the Audit and Compliance Committee's performance and charter; and
- performing such other activities as the Board or the Audit and Compliance Committee deem appropriate.

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The members of the Audit and Compliance Committee are Mr. Rogers (chair), Dr. Barry and Mr. Godshall. Mr. Rogers and Dr. Barry have each been a member of the Audit and Compliance Committee for the entirety of fiscal 2016, and Mr. Godshall has served on the Committee since 23 February 2016, replacing Mr. Savas who served on the Committee during fiscal 2016 until 23 February 2016.

The Board has determined that all current and fiscal year 2016 members of the Audit and Compliance Committee are independent for purposes of service on the Audit and Compliance Committee as provided in the rules of the SEC, NASDAQ and the ASX. The Board also has determined that Mr. Rogers and Mr. Godshall are audit committee financial experts.

### **Principle 5: Make timely and balanced disclosure**

pSivida has established policies and procedures in order to comply with its continuous and periodic disclosure requirements under the *Corporations Act 2001* (Commonwealth) and the ASX Listing Rules. The pSivida Board has adopted a formal Continuous Disclosure Policy, which is available on the corporate governance section of the Company's website. The Continuous Disclosure Policy was adopted on 26 September 2002 and has been updated.

### **Principle 6: Respect the rights of stockholders**

The Board's policy on communicating with stockholders, its Communications Strategy Policy, is available on the corporate governance section of the Company's website and supplements pSivida's Continuous Disclosure Policy. The aim of the Communications Strategy Policy is to make known pSivida's methods for disclosure to stockholders and the general public.

pSivida's Policy Regarding Communications with Directors describes the process by which stockholders may communicate directly with the Board of Directors.

The Board reviews these policies on an ongoing basis.

### **Principle 7: Recognize and manage risk**

The Audit and Compliance Committee has primary responsibility for oversight of the financial risks of the Company, in accordance with the Audit and Compliance Committee Charter and with particular emphasis on pSivida's accounting, financial and internal controls. The Audit and Compliance Committee will receive regular reports from the independent registered public accounting firm on critical accounting policies and practices of the Company and in relation to alternative treatments of financial information. The Audit and Compliance Committee Charter was adopted on 25 July 2005 and has been updated and is available on the Corporate Governance section of the Company's website.

The Company employs executives and retains consultants each with the requisite experience and qualifications to enable the Board to manage the risks to the Company. In addition, the Company's President and Chief Executive Officer and the Company's Principal Financial and Accounting Officer also submit financial statement certifications as required by the SEC and NASDAQ.

A detailed discussion about the market and business risks the Company faces can be found in its Annual Report on Form 10-K, which is available on the Company's website.

### **Principle 8: Remunerate fairly and responsibly**

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The Compensation Committee is responsible for overseeing executive compensation and benefits. Please see the 2016 Proxy regarding information on the Compensation Committee and executive compensation.

**Twenty Largest Common Stockholders of Record at 30 November 2016, based on information provided by Computershare Investor Services**

| Number | Stockholder   | Number of Shares | % Issued Capital |
|--------|---|------------------|------------------|
| 1      | CEDE & CO   | 28,373,475       | 83.02%           |
| 2      | Chess Depositary Nominees Pty Limited                     | 5,780,649        | 16.91%           |
| 3      | Marshall Wolf   | 14,001           | 0.04%            |
| 4      | Dean Elliott  | 1,388            | 0.00%            |
| 5      | Karine Afopa  | 1,096            | 0.00%            |
| 6      | Karen Boyd  | 822              | 0.00%            |
| 6      | Computershare as Agent for CONTROL DELIVERY SYSTEMS (T05) | 822              | 0.00%            |
| 8      | Vinh T Nguyen   | 612              | 0.00%            |
| 8      | Josh E. York  | 612              | 0.00%            |
| 10     | Mr. & Mrs. Mark K Wilk                                    | 548              | 0.00%            |
| 10     | Dallas Miller   | 548              | 0.00%            |
| 10     | Michael H Cohen   | 548              | 0.00%            |
| 13     | Hunter Doble.   | 528              | 0.00%            |
| 13     | Siri Newman   | 528              | 0.00%            |

**Distribution of Common Stockholders of Record at 30 November 2016, based on information of holders listed on the U.S. Register as provided by Computershare Investor Services**

| Size of Holding  | Number of Holders | Shares Held |
|------------------|-------------------|-------------|
| 1-999            | 10                | 6,390       |
| 1,000-4,999      | 3                 | 4,184       |
| 5,000-9,999      | 0                 | 0           |
| 10,000-99,999    | 0                 | 0           |
| 100,000 and over | 3                 | 34,166,425  |



## Corporate Governance Report

**Beneficial Ownership:** The table below sets forth information regarding beneficial ownership of the Company's shares of common stock as of 15 September 2016 by any person or entity who, to the Company's knowledge, beneficially owned 5% or more of the Company's common stock based on filings with the SEC:

| <b>5% Beneficial Owner</b>       | <b>Number of Shares Beneficially Owned</b> | <b>Percentage of Shares Beneficially Owned</b> |
|----------------------------------|--|--|
| Perceptive Advisors LLC          | 2,665,000                                  | 7.80%  |
| Allan Gray Australia Pty Limited | 2,106,836                                  | 6.16%  |
| North Run Capital, LP            | 1,946,824                                  | 5.70%  |
| Pfizer Inc.                      | 1,862,093                                  | 5.45%  |

### **pSivida's Registered Office:**

c-\ Company Matters Pty Limited  
Level 12  
680 George Street  
Sydney, NSW 2000  
Tel +(02) 8280 7355

### **pSivida's Register/Registrar of Securities**

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