

## 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 11 September 2014 (the "10-K Filing") and its 2014 Proxy Statement filed with the SEC on 24 October 2014 (the "2014 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 2014 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:

- Governance and Nominating Committee Charter
- Audit Committee Charter;
- Compensation 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 three standing committees: the Audit and Compliance Committee, the Compensation Committee and the Governance and Nominating 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).

## Corporate Governance Report

### *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 2014 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.

The Board considers that Dr. Mazzo, Mr. Rogers, Mr. Savas, Mr. Godshall and Dr. Barry 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.

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

The pSivida Board had a majority of independent directors throughout the entire 2014 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:

## Corporate Governance Report

- Identifying, recruiting and interviewing candidates for Board membership.
- Reviewing the background and qualifications of individuals being considered as director candidates. Among the qualifications considered in the selection of candidates, the Governance and Nominating Committee shall look at the following attributes and criteria of candidates: experience, skills, expertise, financial literacy, integrity, character, business judgment, time availability in light of other commitments, dedication, conflicts of interest and such other relevant factors that the Governance and Nominating Committee considers appropriate in the context of the needs of the Board.
- 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 Corporation, which recommendations shall be consistent with the criteria for selecting directors established by the Board from time to time. 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 with the Board the composition of the Board as a whole and recommending, if necessary, measures to be taken so that the Board reflects the appropriate balance of knowledge, experience, skills and expertise required for the Board as a whole and contains at least the minimum number of independent directors required by NASDAQ.
- Reviewing periodically the size of the Board and recommending to the Board any appropriate changes.
- Making recommendations on the frequency and structure of Board meetings and on the practices of the Board.
- Making recommendations concerning any other aspect of the procedures of the Board that the Committee considers warranted, including but not limited to procedures with respect to the waiver by the Board of any corporation rule, guideline, procedure or corporate governance principle.
- Recommending to the Board the directors to be appointed to each committee of the Board, including the Governance and Nominating Committee.
- Overseeing an orientation program for new Board members and continuing education for all Board members.

### *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*

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.

## Corporate Governance Report

### *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; and
- Compensation Committee.

#### *Audit and Compliance Committee*

Please see the discussion in the 2014 Proxy.

#### *Governance and Nominating Committee*

Please see the discussion in the 2014 Proxy.

#### *Compensation Committee*

Please see the discussion in the 2014 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

### *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:

- Annually evaluate, determine the selection of, and if necessary, determine the replacement of or rotation of, the independent auditor.
- Approve or pre-approve all auditing services (including comfort letters and statutory audits) and all permitted non-audit services by the independent auditor.
- Review, evaluate and discuss formal reports, at least annually, from the independent auditor regarding that firm's independence, including a delineation of all relationships between the independent auditor and the Company; and recommend to the Board of Directors actions to satisfy the Board of the independence of the independent auditor.
- Establish hiring policies for employees or former employees of the independent auditors.
- At least annually, receive a report, orally or in writing, from the independent auditor detailing the firm's internal quality control procedures and any material issues raised by the independent auditor's internal quality control review, peer review or any governmental or other professional inquiry performed within the past five years and any remedial actions implemented by the firm.
- Review with independent auditor the overall scope and plans for audits, including authority and organizational reporting lines and adequacy of staffing and compensation. Review with the independent auditor any difficulties with audits and managements' response.
- Review and discuss with management and the independent auditor the Company's system of internal control, its financial and critical accounting policies, and policies relating to risk assessment and management.
- Receive and review reports of the independent auditor discussing 1) all critical accounting policies and practices used in the preparation of the Company's financial statements, 2) all alternative treatments of financial information within GAAP 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 3) other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.
- Discuss with management and the independent auditor any changes in the Company's critical accounting policies and the effects of alternative GAAP methods, off-balance sheet structures and regulatory and accounting initiatives.
- Review and discuss with management and the independent auditor the annual and quarterly financial statements and MD&A of the Company prior to the filing of the Company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q. Discuss results of the annual audit and quarterly reviews and any other matters required to be communicated to the committee by the independent auditor under generally accepted auditing standards. Discuss with management and the independent auditor their judgment about the quality of accounting policies, the reasonableness of significant judgments and the clarity of disclosures in the financial statements, including the Company's disclosures of critical accounting policies and other disclosures under "Management's Discussion and Analysis of Financial Conditions and Results of Operations."

## Corporate Governance Report

- Review, or establish standards for, the type of information and the type of presentation of such information to be included in earnings press releases and earnings guidance provided to analysts and rating agencies.
- Review material pending legal proceedings involving the Company and other contingent liabilities.
- Receive from the CEO/management a report of all significant deficiencies and material weaknesses in the design or operation of internal controls, and any fraud that involves management or other employees who have a significant role in the Company's internal controls.
- Discuss with the independent auditor the matters required to be communicated to audit committees in accordance with Statement on Auditing Standards No. 61.
- 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 submissions by employees of concerns regarding questionable accounting or accounting matters.
- Review the adequacy of the audit committee charter annually and submit the charter to Board of Directors for approval.
- Prepare a report for inclusion in the Company's annual proxy statement as required by the rules of the Securities and Exchange Commission.
- Put in place an appropriate control process for reviewing and approving the Company's internal transactions and accounting.
- Report to the Board on a regular basis.
- Annually perform, or participate in, an evaluation of the performance of the Committee, the results of which shall be presented to the Board.
- Perform any other activities consistent with the Charter, By-laws and governing law as the Board of Directors or the Audit Committee shall deem appropriate.

The members of the Audit and Compliance Committee are currently Mr. Rogers (chair), Mr. Savas and Dr. Barry. From the beginning of the 2014 fiscal year through 16 January 2014, the members of the Audit and Compliance Committee were Mr. Rogers (chair), Mr. Paul Hopper (who resigned as a director on 17 January 2014) and Mr. Savas and from 17 January 2014 until 11 December 2014, the members of the Audit and Compliance Committee were Mr. Rogers, Mr. Savas and Mr. Godshall.

The Board has determined that all current and fiscal year 2014 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, Mr. Godshall and Mr. Savas are audit committee financial experts and that Mr. Hopper was an audit committee financial expert during his tenure.

### **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**

The Compensation Committee is responsible for overseeing executive compensation and benefits. Please see the 2014 Proxy regarding information on the Compensation Committee and executive compensation.

**Twenty Largest Common Stockholders of Record at 30 November 2014, based on information provided by Computershare Investor Services**

Number	Stockholder	Number of Shares	% Issued Capital
1	CEDE & CO	22,193,924	75.59%
2	Chess Depositary Nominees Pty Limited	6,702,044	22.83%
3	Paul Ashton	435,335	1.48%
4	Marshall Wolf	12,301	0.04%
5	Computershare as Agent for SPNSRDS ADR-RADR (T03)	8,729	0.03%
6	Christina T. Morrison	1,644	0.01%
7	Karen Boyd	822	0.00%
7	Richard Broglio	822	0.00%
7	Computershare as Agent for CONTROL DELIVERY SYSTEMS (T05)	822	0.00%
10	Vinh T Nguyen	612	0.00%
10	Antonio Narciso	612	0.00%
10	Susanna Pyatkovskaya	612	0.00%
10	Josh E. York	612	0.00%
14	Mr. & Mrs. Mark K Wilk	548	0.00%
14	Dallas Miller	548	0.00%
14	Michael H Cohen	548	0.00%
17	Frank Doble Jr.	528	0.00%
17	Siri Newman	528	0.00%
17	Emily Yeo Schuls	528	0.00%
20	Brian D Busconi	176	0.00%

**Distribution of Common Stockholders of Record at 12 December 2014, 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	13	7,496
1,000-4,999	1	1,644
5,000-9,999	0	0
10,000-99,999	1	12,301
100,000 and over	3	29,377,973



**Beneficial Ownership:** The table below sets forth information regarding beneficial ownership of the Company's shares of common stock as of 30 September 2014 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>
RA Capital Management, LLC	2,555,659	8.71%
Allan Gray Australia Pty Limited	2,475,483	8.34%
North Run Capital, LP	2,144,086	7.31%
Pfizer Inc.	1,862,093	6.35%

**pSivida's Registered Office:**

c-\ Monsoon Communications Pty Limited  
Level 12  
15 William Street  
Melbourne, VIC 3000  
Tel +03 9620 3333

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

Computershare Investor Services Pty Limited  
Level 2  
45 St Georges Terrace  
Perth WA 6000  
Tel +61 8 9323 2000

Computershare Investor Services  
250 Royall Street  
Canton, MA 02021  
Tel +1 781 575 2000