



Corporate Governance Statement

ABN 28 604 398 423

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of AirXpanders Inc. ("AirXpanders" or "Company") is responsible for the governance of the Company. Good corporate governance is a fundamental part of the culture and business practices of the Company.

The Board of Directors confirms that the Company's corporate governance framework complies in almost all respects with the ASX's Corporate Governance Council's *Corporate Governance Principles and Recommendations* (3rd Edition) ("Recommendations") and that where it does not comply, it is due to the current relative size of the Company, its stage of development, and the scale and nature of its operations. The Council recognises that different entities may legitimately adopt different governance practices, based on a range of factors, including their size, complexity, history and corporate culture.

The Company provides below a review of its corporate governance framework using the same numbering as adopted for the Recommendations.

Further details in relation to the Company's governance framework are set out in a dedicated corporate governance information section of the Company's website http://www.airxpanders.com/corporate_governance.php. This section of the Company's website contains copies of all of the corporate governance policies and Board Committee charters.

This Corporate Governance Statement has been approved by the Board of Directors of the Company and is current as at 13 February 2019 (U.S. Time).

Mr. Scott Dodson, former President and Chief Executive Officer, resigned from the Company on 7 April 2018 (AEST). Mr. Scott Murcay, our current Chief Financial Officer and Chief Operating Officer, served as interim President and Chief Executive Officer from April 2018 until June 2018. Mr. Frank Grillo joined the Company as President and Chief Executive Officer on 12 June 2018.

Principle 1: Lay solid foundations for management and oversight

The Company did not comply with Recommendations 1.3 and 1.5, but did comply with Recommendations 1.1, 1.2, 1.4, 1.6 and 1.7, for the financial year ended 31 December 2018.

Recommendation 1.1:

A listed entity should disclose:

- (a) the respective roles and responsibilities of its board and management; and*
- (b) those matters expressly reserved to the board and those delegated to management.*

The Board's responsibilities are defined in the Board Charter, a copy of which is available at http://www.airxpanders.com/corporate_governance.php, and there is a clear delineation between the functions reserved for the Board and those conferred upon the President & Chief Executive Officer ("CEO") and certain other officers of the Company.

Recommendation 1.2:

A listed entity should:

- (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and*
- (b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.*

The Company undertakes checks the Board considers appropriate before appointing a person, or putting forward to security holders a candidate for election, as a director. However this will not apply to the re-election of existing directors.

Subject to any legal obligations to the contrary, the Company will provide shareholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.

Recommendation 1.3:

A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.

The Company has written agreements with Mr. Barry Cheskin and Mr. Dennis Condon relating to their compensation arrangements as directors of the Company. The Company has written agreements with Ms. Elizabeth Hammack, Ms. Zita Peach and Mr. Gregory Lichtwardt relating to the terms and conditions of their appointment.

The Company has written agreements with its senior executives setting out the key terms and conditions of their appointment.

Recommendation 1.4:

The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.

The Company Secretary is accountable to the Board, through the Chairman, on all matters to do with the proper functioning of the Board.

Recommendation 1.5:

A listed entity should:

- (a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;*
- (b) disclose that policy or a summary of it; and*
- (c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them, and either:*
 - 1) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes);*
 - or*
 - 2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.*

The Company has adopted a Diversity Policy, however the Policy does not require the Board or a relevant committee of the Board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the Company's progress in achieving them.

As a relatively small company (amongst those listed on the ASX), the Company may face particular issues in:

- (a) establishing appropriate and measurable objectives for achieving gender diversity; and
- (b) annually reviewing and assessing those objectives and the Company's progress in achieving them, and reporting on the Company's gender diversity more generally.

The Company's operations are currently at the development and initial commercialisation stage and it has only a small number of employees. As the Company moves closer to achieving its commercialisation goals and increases its number of employees, it will re-examine its approach in this regard.

As at the date of this Corporate Governance Statement, the proportion of women in the Company as a percentage of its total employees was 39 out of 70, or 56%.

As at 31 December 2018, the proportion of women as a total of the senior executive positions (not including the CEO) was 3 out of 5, or 60%. For this purpose, senior executives are members of management who report directly to the CEO.

A copy of the Diversity Policy is available at http://www.airxpanders.com/corporate_governance.php.

Recommendation 1.6:

A listed entity should:

- (a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and*
- (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.*

The Board has in place a process for a formal review to be conducted of the performance of the Board and its Committees. The matters considered in the review include:

- the effectiveness of the Board and each Committee on which they serve;
- the extent to which the responsibilities set forth in the respective charters of the Board and each Committee are met;
- the quality of reporting from and interaction with management; and
- the extent to which substantive issues are appropriately prioritised and considered during Board meetings.

The process provides the opportunity for individual feedback to be provided to and from the Chairman to individual directors and for the Board as a whole to discuss the feedback received.

A review was conducted of the Board and its Committees during the year. The feedback received was reviewed by the Nomination and Remuneration Committee and further considered by the Board.

Based on the assessments performed, it was determined that the Board and its Committees are operating effectively.

Recommendation 1.7:

A listed entity should:

- (a) have and disclose a process for periodically evaluating the performance of its senior executives; and*
- (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.*

The Company's Board Charter requires the Board to be responsible for the evaluation of the performance of the Company's CEO. The Board Charter is available at http://www.airxpanders.com/corporate_governance.php.

The Board and its Nomination and Remuneration Committee in early 2019 conducted a performance evaluation of the CEO for the financial year ended 31 December 2018.

The Board's process to review the performance of the CEO includes the setting of key objectives and performance targets for the Company and the CEO. The Nomination and Remuneration Committee makes recommendations to the Board in relation to the targets and objectives that are set and reviews and assesses the performance of the CEO against each. Following feedback received from the Nomination and Remuneration Committee, the Board determines the final performance evaluation of the CEO and approves the remuneration structure and compensation and reward payments of the CEO. Shareholder approval is sought for the issue of any equity securities where required.

The CEO reviews the performance of the Company's executives against key performance targets set by the Board and CEO. Performance evaluations of executives were conducted early in 2019 in relation to the 2018 financial year.

Principle 2: Structure the Board to add value

The Company did not comply with Recommendation 2.5 but did comply with Recommendations 2.1, 2.2, 2.3, 2.4 and 2.6, for the financial year ended 31 December 2018.

Recommendation 2.1:

The board of a listed entity should:

- (a) have a nomination committee which:*
 - 1) has at least three members, a majority of whom are independent directors; and*
 - 2) is chaired by an independent director,**and disclose:*
 - 3) the charter of the committee;*
 - 4) the members of the committee; and*
 - 5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or*
- (b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.*

The Board has a Nomination and Remuneration Committee which has three members: Ms. Zita Peach (Chair), Mr. Barry Cheskin and Mr. Dennis Condon.

Ms. Peach and Mr. Condon are considered by the Board to be independent non-executive directors.

The Board considers the current composition of the Committee to be appropriate.

The Nomination and Remuneration Committee Charter is available at http://www.airxpanders.com/corporate_governance.php.

Recommendation 2.2:

A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.

The Board has determined that, in terms of the mix of skills and diversity it is looking for in its own membership, it is best served by having a mix of individuals with different perspectives that have expertise and a breadth of experience in:

- leading, managing and overseeing corporations in a range of industry sectors and regulatory regimes (including the healthcare sector);
- the medical device domain;
- business development, licensing, mergers and acquisitions, capital markets;
- sales, marketing and communications (US/Australia/multinational);
- corporate finance / audit and corporate governance;
- strategy and innovation; and
- manufacturing, technical / product development.

The Board has assessed its mix of skills and diversity against the skills areas listed above and considers its current composition to be appropriate given the strategic direction of the Company and its stage of development.

Details in relation to the mix of skills and diversity of the Board can be found at https://www.airxpanders.com/board_of_directors.php.

Recommendation 2.3:

A listed entity should disclose:

- (a) the names of the directors considered by the board to be independent directors;*
- (b) if a director has an interest, position, association or relationship of the type described in [Box 2.3 of the Recommendations] but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and*
- (c) the length of service of each director.*

The Board considers Mr. Dennis Condon, Ms. Elizabeth Hammack, Mr. Gregory Lichtwardt and Ms. Zita Peach to be independent directors for the purpose of the Recommendations. The Board also considers them to be

independent under the Nasdaq listing rules.

The Board has determined that while Mr. Barry Cheskin may be considered independent by the Nasdaq listing rules, he is not considered independent for the purposes of the Recommendations.

Mr. Scott Dodson and Mr. Frank Grillo were not considered to be independent directors due to their executive roles as defined in the Recommendations nor the Nasdaq listing rules.

The current composition of the Board and length of service of each member is as follows:

<i>Name</i>	<i>Position</i>	<i>Date appointed</i>	<i>Independent</i>	<i>Audit & Risk Committee</i>	<i>Nomination & Remuneration Committee</i>
Mr. Barry Cheskin	Chairman (non-executive)	29 December 2006	NO	NO	YES
Mr. Dennis Condon	Director (non-executive)	1 August 2012	YES	YES	YES
Mr. Frank Grillo	Director (Executive)	12 June 2018	NO	NO	NO
Ms. Elizabeth Hammack	Director (non-executive)	23 May 2017	YES	YES	NO
Mr. Gregory Lichtwardt	Director (non-executive)	17 May 2016	YES	CHAIR	NO
Ms. Zita Peach	Director (non-executive)	17 May 2016	YES	NO	CHAIR

The number of meetings of the Board, Audit and Risk Committee and Nomination and Remuneration Committee and number of meetings attended by each of the directors for the 2018 financial year were as follows:

<i>Director</i>	<i>Committee Meetings</i>					
	<i>Board Meetings</i>		<i>Audit & Risk Committee</i>		<i>Nomination and Remuneration Committee</i>	
	<i>A</i>	<i>B</i>	<i>A</i>	<i>B</i>	<i>A</i>	<i>B</i>
Mr. Barry Cheskin	8	8			5	5
Mr. Dennis Condon	8	8	7	7	5	5
Mr. Scott Dodson	3	3				
Mr. Frank Grillo	5	5				
Ms. Elizabeth Hammack	8	8	7	7		
Mr. Gregory Lichtwardt	7	8	7	7		
Ms. Zita Peach	8	8			5	5

A – Number of meetings attended.

B – Number of meetings held during the time the director held office during the reporting period.

Recommendation 2.4:

A majority of the board of a listed entity should be independent directors.

A majority of the Board was independent during the full 2018 financial year.

Recommendation 2.5:

The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.

During the 2018 financial year, the roles of Chairman and CEO were performed by different persons, however the Board does not consider the Company's Chairman to be an independent director under the Recommendations.

Having regard to the Company's stage of development and the experience of the Chairman, the Board considers the current choice of Chairman to be appropriate.

Recommendation 2.6:

A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.

The Company has an induction program for new directors which provide a summary of the Company and its product and activities. The program includes one-on-one meetings with the Chairman, CEO and senior members of management. In addition, the Company is prepared to provide professional development opportunities to directors reasonably requested by directors.

Principle 3: Act ethically and responsibly

The Company complied with Recommendation 3.1 for the financial year ended 31 December 2018.

Recommendation 3.1:

A listed entity should:

- (a) have a code of conduct for its directors, senior executives and employees; and*
- (b) disclose that code or a summary of it.*

The Company has adopted a Code of Conduct which applies to all directors, executives and employees of the Company, as well as a Securities Trading Policy.

Copies of the Code of Conduct and the Securities Trading Policy are available on the Company's website at http://www.airxpanders.com/corporate_governance.php.

Principle 4: Safeguard integrity in corporate reporting

The Company complied with Recommendations 4.1 to 4.3 for the financial year ended 31 December 2018.

Recommendation 4.1:

The board of a listed entity should:

- (a) have an audit committee which:*
 - 1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and*
 - 2) is chaired by an independent director, who is not the chair of the board,**and disclose:*
 - 3) the charter of the committee;*
 - 4) the relevant qualifications and experience of the members of the committee; and*
 - 5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or*
- (b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.*

The Board has an Audit and Risk Committee which throughout 2018, had three independent non-executive members, being Mr. Gregory Lichtwardt (Chair), Mr. Dennis Condon and Ms. Elizabeth Hammack.

The qualifications and experience of the members of the Committee are disclosed on the Company's website at https://www.airxpanders.com/board_of_directors.php.

The Audit and Risk Committee Charter is available http://www.airxpanders.com/corporate_governance.php.

Recommendation 4.2:

The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

Prior to the Board approving the Company's financial statements for the financial year ended 31 December 2018, the CEO and the Chief Financial Officer/Chief Operating Officer declared in writing to the Board that, in their opinion, the financial records of the Company have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company, and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

The CEO and CFO/COO provided the same declaration to the Board in regards to the financials issued for the half year ended 30 June 2018.

Recommendation 4.3:

A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.

The Company's auditor, SingerLewak, is based in California, USA and will attend the Company's Annual Meeting of Stockholders to be held in May 2019 by telephone from the USA. The Company's auditor attended the meeting via teleconference in May 2018.

Australian stockholders may submit questions relevant to the Company's audit to the Company's registered office at level 13, 41 Exhibition Street, Melbourne, Victoria. The Australian Secretary will ensure that the questions are provided to the Company's auditor and co-ordinate responses.

Principle 5: Make timely and balanced disclosure

The Company complied with Recommendation 5.1 for the financial year ended 31 December 2018.

Recommendation 5.1:

A listed entity should:

- (a) *have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and*
- (b) *disclose that policy or a summary of it.*

The Company has adopted a Continuous Disclosure Policy.

A copy of the Company's Continuous Disclosure Policy is available at http://www.airxpanders.com/corporate_governance.php.

Principle 6: Respect the rights of security holders

The Company complied with Recommendations 6.1 to 6.4 for the financial year ended 31 December 2018.

Recommendation 6.1:

A listed entity should provide information about itself and its governance to investors via its website.

Information about the Company and its corporate governance is disclosed on the Company's website at http://www.airxpanders.com/corporate_governance.php.

Recommendation 6.2:

A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.

The Company has established an investor relations program to facilitate engagement with investors and address queries which arise from time to time from security holders. That program includes market updates, financial reporting and a public-facing website. The Company, through its investor relations program and Continuous Disclosure Policy, provides investors with the opportunity to have an understanding of the Company's business, governance and financial performance.

Recommendation 6.3:

A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.

The Company's Continuous Disclosure Policy sets out the Company's policies and processes to facilitate and encourage participation at meetings of security holders.

Recommendation 6.4:

A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.

The Company's contact details are available on its website at <http://www.airxpanders.com/contact.php>.

Security holders will be able to submit an electronic query to the Company via the website or contact its registry, Computershare, by mail, telephone, email or via online access.

All CHESS Depositary Interest (CDI) holders have the option to receive communication from, and send communications to, the Company and Computershare electronically.

Principle 7: Recognise and manage risk

The Company complied with Recommendations 7.1 to 7.4, for the financial year ended 31 December 2018.
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Recommendation 7.1:

The board of a listed entity should:

- (a) have a committee or committees to oversee risk, each of which:*
 - 1) has at least three members, a majority of whom are independent directors; and*
 - 2) is chaired by an independent director,**and disclose:*
 - 3) the charter of the committee;*
 - 4) the members of the committee; and*
 - 5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or*
- (b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.*

Please refer to the response to Recommendation 4.1.

Recommendation 7.2:

The board or a committee of the board should:

- (a) *review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and*
- (b) *disclose, in relation to each reporting period, whether such a review has taken place.*

The Board reviewed the Company's risk management framework and key risks of the Company during the financial year ended 31 December 2018 to satisfy itself that the framework continues to be sound.

Recommendation 7.3:

A listed entity should:

- (a) *if it has an internal audit function, how the function is structured and what role it performs; or*
- (b) *if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.*

The Company does not have an internal audit function.

In conjunction with the Company's other corporate governance policies, the Company has adopted a Risk Management Policy to assist it to identify, evaluate and mitigate technological, economic, operational and other risks. The Audit and Risk Committee with oversight from the Board has responsibility to review and assess the Company's processes for evaluating and continually improving the effectiveness of its risk management and internal control processes. Management reviews and assesses the key risks of the Company together with the controls in place to mitigate these risks prior to presenting the risk management framework to the Audit and Risk Committee for review.

The Company has established a Risk Management Policy. A copy of the Risk Management Policy is available at http://www.airxpanders.com/corporate_governance.php.

Recommendation 7.4:

A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.

The Board has overseen the development by management of a process to identify and manage key risks (including economic sustainability risks). These are the key risks that the directors oversee and the management team focus on when managing the business.

The Board is of the view that the Company operates in a dynamic, highly competitive industry and believes that changes in any of the following areas could have a material adverse effect on the Company's future financial position, results of operations, or cash flows; ability to obtain future financing; advances and trends in new technologies and industry standards; regulatory approval and market acceptance of the Company's products; development of sales channels; certain strategic relationships; litigation or claims against the Company based on intellectual property, patent, product, regulatory, or other factors; and the Company's ability to attract and retain employees necessary to support its growth.

The Company is not subject to material economic, environmental or social sustainability risks.

Principle 8: Remunerate fairly and responsibly

The Company complied with Recommendations 8.1 to 8.3 for the financial year ended 31 December 2018.

Recommendation 8.1:

The board of a listed entity should:

- (a) *have a remuneration committee which:*
 - 1) *has at least three members, a majority of whom are independent directors; and*
 - 2) *is chaired by an independent director,*
- and disclose:*
 - 3) *the charter of the committee;*
 - 4) *the members of the committee; and*

- 5) *as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or*
- (b) *if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.*

Please refer to the response to Recommendation 2.1.

Recommendation 8.2:

A listed entity should disclose policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.

The Board and its Nomination and Remuneration Committee are responsible for reviewing and approving executive remuneration and incentive policies and practices. The Company has a clear distinction between the structure of non-executive directors' remuneration and that of executive directors and senior executives.

Disclosure in relation to the Company's stock incentive plan that provides for the issuance of incentive and non-qualified stock options to employees and directors is provided in the Annual Report.

All senior executives of the Company are subject to an annual performance review. Each year following input from the CEO, the recommendation of the Nomination and Remuneration Committee and approval of the Board, the senior executive key performance targets are set. These targets are aligned to the overall business goals and the Company's requirements. In the case of the CEO, these key performance targets are negotiated between the CEO and the Board. The Nomination and Remuneration Committee reviews the evaluation process as required. Short term and long term incentives are dependent on the outcome of these evaluations. All equity based rewards require the approval of the Board. Shareholder approval is also sought for the issue of any equity securities, where required.

For 2018, the Board of Directors approved annual cash compensation levels for non-executive board members and committee chairs were as follows:

- Chairman - \$106,000 per annum;
- Non-Executive Independent Director - US\$28,325 per annum;
- Audit and Risk Committee Chair – an additional US\$10,300 per annum;
- Nomination and Remuneration Committee Chair - an additional US\$10,300 per annum.

Stockholder approval was granted at the 2018 Annual Meeting for the grant of Options to purchase 83,837 Shares to each of the non-executive directors, being Mr. Barry Cheskin, Mr. Dennis Condon, Ms. Elizabeth Hammack, Mr. Gregory Lichtwardt and Ms. Zita Peach.

No other fees are currently paid to the non-executive directors. Directors may however be reimbursed for travel and other expenses incurred in attending to the Company's affairs.

Recommendation 8.3:

A listed entity which has an equity-based remuneration scheme should:

- (a) *have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and*
- (b) *disclose that policy or a summary of it.*

The Company's Securities Trading Policy prohibits participants in the Company's share or option plans or who otherwise hold securities in the Company from engaging in any conduct that seeks to secure the economic value attaching to the relevant securities and remove the element of price risk inherent in the value of those securities, while the securities remain unvested or subject to escrow. Please refer to the Policy for further details.

A copy of the Policy is available at http://www.airxpanders.com/corporate_governance.php.