



medlab

MEDLAB CLINICAL LIMITED

ABN: 51 169 149 071

**CORPORATE GOVERNANCE STATEMENT
AS AT AUGUST 2017**

CORPORATE GOVERNANCE STATEMENT

Statement

Medlab Clinical Limited ("**Company**") has made it a priority to adopt systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this statement. Commensurate with the spirit of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ("**Principles & Recommendations**"), the Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the Company's corporate governance practices follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation.

Website Disclosures

Further information about the Company's charters, policies and procedures may be found at the Company's website at www.medlab.co, under the section marked Investors.

Disclosure – Principles & Recommendations

The Company reports below on how it has followed (or otherwise departed from) each of the Principles & Recommendations during the 2015/16 financial year ("**Reporting Period**").

Principle 1 – Lay solid foundations for management and oversight

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.

Disclosure:

The Board is ultimately responsible for the operations, management and performance of the Company as a whole. This includes agreeing the Company's strategy and ensuring the strategy is being implemented by the management of the Company. In discharging this responsibility the Board delegates to senior management, whose role is to manage the Company in accordance with the strategy, directions and policies set by the Board. The Board monitors the activities of senior management in the performance of their delegated duties.

It is the responsibility of the Board to determine the strategy, policies, practices, management and the operations of the Company and to ensure that the Company is compliant with statutory, legal and other regulatory obligations.

The Company has established the functions delegated to management and has set out these functions in its Board Charter. Management are responsible for supporting the Managing Director and assisting the Managing Director in implementing the strategy of the Company in accordance with any instructions or directions issued by the Board.

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

Disclosure:

The Company has established a Nomination and Remuneration Committee to review and evaluate any potential candidate to be elected to the Board.

Recommendation 1.3:

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

Disclosure:

The Company has a written agreement with each director and all executive staff setting out the terms 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.

Disclosure:

The Company Secretary is accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board. The role of the Company Secretary is outlined in the Board Charter.

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.

Notification of Departure:

At this point in time, the Company has not developed a written diversity policy.

Explanation for Departure:

Although the Company does not have a written policy, it values and respects the skills that people with diverse backgrounds, experiences and perspectives bring to the organisation. When appointing new staff or promoting people within the organisation the most suitably qualified candidates are selected. As a result, diversity is promoted throughout the organisation. This is illustrated by the fact that at 30 June 2017, the Company had 26 full time employees (13 females and 13 males). There are currently no women on the board but the board has undertaken to include both male and female candidates in the process of selection of new directors. Candidates will continue to be assessed on their skills, knowledge and experience and on the relevance of these to the Company's needs. Given the size of the Company and its market capitalisation as at the date of listing, other priorities have

meant that this recommendation, although important to the Company, must be delayed for a short time period.

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.

Disclosure:

The Company has established a Nomination and Remuneration Committee who each year will review:

- a) the performance, skills, competencies and experience of each Director;
- b) the performance and competency of the board, its committees and Directors as a whole; and
- c) the compensation of Directors,

and will liaise with Directors and the Board on all matters of relevance.

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.

Disclosure:

The Managing Director is responsible for evaluating the senior executives. The Managing Director evaluates the senior executives via meetings held with each executive once a year or more frequently if required.

Principle 2 – Structure the board to add value

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

Notification of Departure:

The Company has an established Nomination and Remuneration Committee, which consists of the full Board. The Company has a formal charter outlining the Committee's function, composition, authority, responsibilities and reporting but is not structured in accordance with Recommendation 2.1. The Committee does not comprise of at least three non-executive directors with a majority being independent directors.

Explanation for Departure:

Given the current market capitalisation and composition of the Company, the Board believes the Committee in its current format acting in accordance with the Charter will be able to effectively bring the transparency, focus and independent judgement needed on decisions regarding the composition of the board. When the Board convenes as the Committee, a separate meeting and agenda will be set, with a different chair. The Company will reconsider the need for further independent directors to sit on the Nomination and Remuneration Committee, at an agreed regular period and as the Company increases in size this Recommendation will be reconsidered.

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.

Disclosure:

The Company has disclosed the mix of skills currently held by the board on the company website www.medlab.co and in the Directors' Report.

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 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

Disclosure:

The Board has assessed the independence of its members and is of the view Drew Townsend is an independent Non-Executive Director despite Drew Townsend or his related entities being substantial security holders of the Company. It is the unanimous view of the Directors that Drew Townsend's pecuniary interest in the Company has not and does not influence the independence of his directorship on the basis that being a shareholder will not affect his independence to act in the best interests of the entity and its security holders. Nor does his shareholding run the risk of him being biased towards the interests of management or any other person or group with whom a non-independent director may be assessed.

The length of service of the board is as follows:

- Sean Michael Hall (appointed 17 April 2014)
- Michal Jack Hall (appointed 17 April 2014)
- Drew Anthony Townsend (appointed 25 June 2014)

Recommendation 2.4:

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

Notification of Departure:

The majority of the board is currently not independent with Drew Townsend currently considered to be the only independent director.

Explanation for Departure:

The Board considers that given the current status and position of the Company, such that it is a small start-up company, it is not necessary or desirable to comply with this recommendation. Additionally, the Board is of the view that non-compliance with this recommendation, will not be detrimental to the shareholders because of the following factors:

- a) Firstly, second Non-Executive Director, Michael Hall, is not involved in managing the day to day business activities of the Company;

- b) secondly, although Michael has a substantial shareholding his value to the business is strategic only, given his history and success in building reputable biotechnology companies;
- c) thirdly, Michael is not an employee of the business he is a consultant; and
- d) finally, Michael's role of Chairman is to ensure the strategy of the Company is executed given his experience and years in the industry

The Company will reconsider the need for further independent directors to sit on the board at regular intervals as and when the Company increases its market capitalisation and profitability.

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.

Notification of Departure:

The chair of the board is Michael Hall, a non-executive currently, but not independent director.

Explanation for Departure:

The Board considers that given the current status and position of the Company, such that it is a small start-up company, it is not necessary or desirable to comply with this recommendation. Additionally, the Board is of the view that non-compliance with this recommendation, will not be detrimental to the shareholders because of the following factors:

- a) Firstly, Non-Executive Director, Michael Hall, is not involved in managing the day to day business activities of the Company;
- b) secondly, although Michael has a substantial shareholding his value to the business is strategic only, given his history and success in building reputable biotechnology companies;
- c) thirdly, Michael is not an employee of the business he is a consultant; and
- d) finally, Michael's role of Chairman is to ensure the strategy of the Company is agreed and executed given his experience and years in the industry

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.

Disclosure:

The Company has established a Nomination and Remuneration Committee of three members, which follows the Nomination and Remuneration Committee Charter. As outlined in the Charter, the Committee will over time develop, implement and maintain a policy for the induction and evaluation of directors within the company. The induction and evaluation of directors will provide a basis for assessment of the expectations and performance of directors.

Principle 3 – Act ethically and responsibly

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.

Disclosure:

The Company has established a Code of Conduct as to the practices necessary to maintain confidence in the Company's integrity, practices necessary to take into account their legal obligations and the expectations of their stakeholders and responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The Code of Conduct covers various aspects of the employment relationship between the Company and the employee or director:

- Presentation at work eg not being affected by alcohol
- The Company does not tolerate unlawful acts against other employees eg discrimination
- Correct use of work equipment
- Incorrect use of social media that implicates the Company
- WHS relating to themselves and others
- The need to disclose any potential conflicts of interest
- Confidentiality requirements
- Ownership and protection of intellectual property
- Solicitation of benefit from others

Principle 4 – Safeguard integrity in corporate reporting

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.

Notification of Departure:

The Company has an established Risk Management and Audit Committee, which has a formal charter outlining the Committee's function, composition, authority, responsibilities and reporting but is not structured in accordance with Recommendation 4.1. The Committee does not comprise of at least three non-executive directors with a majority being independent directors.

Explanation for Departure:

Given the current size and composition of the Company, the Board believes the Committee in its current format acting in accordance with the Charter will be able bring an efficient and effective mechanism to bring the transparency, focus and independent judgement needed to oversee the corporate reporting process. The Committee will work closely with the Company's external auditor. When the Board convenes as the Committee, a separate meeting and agenda will be set, with a different chair.

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.

Disclosure:

The declaration will be provided.

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.

Disclosure:

The company invites its external auditor to attend its AGMs.

Principle 5 – Make timely and balanced disclosure**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.

Disclosure:

The Company has a Communications and Continuous Disclosure Policy designed to ensure compliance with ASX Listing Rule disclosure and accountability at a senior executive level for that compliance. The Policy has been disclosed on the company's website.

Principle 6 – Respect the rights of security holders**Recommendation 6.1:**

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

Disclosure:

Company information is disclosed on the company website www.medlab.co.

Recommendation 6.2:

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

Disclosure:

The Company has implemented a Communications and Continuous Disclosure Policy for promoting effective communication with investors and is disclosed on the company's website.

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.

Disclosure:

The Company has implemented a Communications and Continuous Disclosure Policy for facilitating and encouraging participating at meetings of security holders and is disclosed on the company's website.

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.

Disclosure:

The Company's constitution permits the Company to serve notices on its members electronically if that member has provided its electronic mail address to the Company. The Company provides its electronic contact details on the company website.

Principle 7 – Recognise and manage risk**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.

Notification of Departure:

The Company has an established Risk Management and Audit Committee, which has a formal charter outlining the Committee's function, composition, authority, responsibilities and reporting but is not structured in accordance with Recommendation 7.1. The Committee does not comprise of at least three non-executive directors with a majority being independent directors.

Explanation for Departure:

Given the current size and composition of the Company, the Board believes the Committee in its current format acting in accordance with the Charter will be able to manage the Company's risk profile and risk management system. The Board is confident that the Committee in its current format will be an efficient and effective mechanism to bring the transparency, focus and independent judgement needed to oversee the entity's risk management framework.

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.

Disclosure:

The Risk Management and Audit Committee will meet at least twice a year where the Company's risk management framework will be reviewed at least annually. The Company will disclose the number of meetings convened in the Annual Report.

Recommendation 7.3:

A listed entity should disclose:

- 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.

Disclosure:

The Company does not have an internal audit function. Over time the Company will continually implement and improve internal control procedures. The Risk Management and Audit Committee will review the procedures.

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.

Disclosure:

The Board does not consider it has any material exposure to economic, environmental and social sustainability risks.

Principle 8 – Remunerate fairly and responsibly**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.

Notification of Departure:

The Company has an established Nomination and Remuneration Committee, which consists of the full Board. The Company has a formal charter outlining the Committee's function, composition, authority, responsibilities and reporting but is not structured in accordance with Recommendation 8.1. The Committee does not comprise of at least three non-executive directors with a majority being independent directors.

Explanation for departure:

Given the current size and composition of the Company, the Board believes the Committee in its current format acting in accordance with the Charter will be able to effectively bring the transparency, focus and independent judgement needed on remuneration decisions. When the Board convenes as the Committee, a separate meeting and agenda will be set, with a different chair.

Recommendation 8.2:

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

Disclosure:

A full disclosure of the remuneration of non-executive directors, executive directors and other senior executives will be found in the annual report.

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.

Disclosure:

The Company has an Employee Share Option Plan of which the details will be disclosed in the annual report.