



BOARD OPERATING MANUAL

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1.1 ROLE OF THE BOARD

The role of the board is to:

- Approve strategy and monitor implementation
- Oversee CEO and company performance
- Establish rewards for top management
- Monitor legal and ethical behaviour
- Improve the performance of the company through considering and advising on strategy formulation and policy making.

Specific Activities which the Board undertakes are:

Annual

Considering, advising and approving

- vision and mission
- goals (short, medium and long term)
- strategy

Approving the annual strategic plan and major operating plans

Approving the annual budget.

Reviewing and providing feedback on the performance of the CEO.

Reviewing the performance of the Board, the individual Directors and the Board committees.

Reviewing and approving the full-year financial statements and reports and profit and dividend announcement

Approving the annual report and notice of AGM.

Half-year

- Reviewing/approving the half-year financial statements and reports and profit and dividend announcement.

Quarterly

- Reviewing/approving the quarterly cash flow/cash position statements for announcement, so long as those statements are required to be lodged with ASX.

Monthly

- Reviewing performance of the company in meeting objectives, including presentations on key areas for success, as determined by the Board.
- Considering reports and recommendations from committees.

Ad hoc

Determining all policies governing the company and ensuring that procedures are in place to manage the identified risks.

Appointing and approving the terms and conditions of appointment of the CEO, CFO, and COO.

- Approving the terms and conditions of appointment of all other persons whose annual cost to the company is in excess of \$150,000.
- Establishing and determining powers and functions of committees and reviewing those powers and functions every 2 years or as circumstances demand.
- Approving
 - annual capital and operational expenditure budgets
 - approving capital and operational expenditures, outside of budget, in excess of \$30,000
 - mergers, acquisitions and disposals of businesses
 - all real property acquisitions and disposals
 - financial, operating and real property leases except office equipment leases less than \$20,000
 - sale of assets, value and proceeds in excess of \$20,000
 - sale/licensing of trade marks, patents, and other intellectual property
 - borrowings.
- Ensuring procedures are in place so that the share market is promptly and adequately informed of all material matters.
- Decisions on the following matters in relation to the Board:

the size, composition and terms and conditions of appointment to and retirement from the board. For the level of remuneration for non-executive directors, the committee will have regard to practices of other public companies, external professional advice, if considered necessary, and the aggregate amount of fees approved by shareholders

the criteria for board membership

reviewing the membership of the board and, when necessary, considering candidates for appointment to the board.

1.2 ROLE OF THE CEO

Vision, Mission & Strategy

- Advise the Board as to the proposed vision, mission and strategy.
- Based on the Board's advice, review the vision, mission statement, strategy, and initiate reviews, as appropriate.
- Develop actions with the management team to achieve the vision and implement the strategy as approved by the Board.
- Report to the Board regularly on the Company's progress against the vision and strategy.

Management Team and Employees

- Negotiate terms and conditions of appointment of senior executives for approval, where necessary, by the Board, subject to any guidelines advised by the Board.
- As the Company grows and matures, develop a succession plan and senior executives' development programs.
- Approve general conditions of employment of all other staff members
- Provide strong leadership to the management team and assist all employees to understand the vision and strategy and their part in its achievement
- Ensure procedures and training are in place to provide a safe work environment
- Educate employees on legal requirements and company policies such that compliance is the culture and a high level of ethical behaviour is expected.

Board

- Ensure all matters requiring review or approval by the Board are brought to the Board with adequate information and time to allow proper consideration of such matters
- Advise the Board of any significant change in the risk profile of the Company together with actions taken or proposed, in a timely manner
- Provide, along with the CFO (or equivalent), certification to the Board on the fairness of the financial statements annually and half-yearly and the adequacy of the policies and procedures in place as regards management of risk, and internal controls
- Report to the Board on a monthly basis the performance of the business against budget and the projected performance against budget going forward.
- Ensure all presentations on matters agreed with the Board are made on a timely and in an informative manner

- Being aware of the Directors' level of knowledge of the business of the company, the environments in which it operates, and changes in its legal obligations, and creating opportunities for Directors to further their knowledge in these areas.

External Stakeholders

Liaison with all relevant stakeholders from time to time.

Delegated Authority

The CEO has the following delegated authority as approved by the Board:

- Capital expenditures, outside of budget, of less than \$30,000.
- Operational expenditures, outside of budget, of less than \$30,000.
- Office Equipment Leases less than \$20,000
- Sale of assets – value and proceeds less than \$20,000.
- Appointment and termination of employees, except those senior executives reporting to the CEO such as the COO, CFO and Company Secretary.

Management

- All other matters necessary for the day-to-day management of the company.

1.3 ROLE OF THE CHAIRMAN

Vision, Mission & Strategy

- Lead the Board in reviewing, advising on, and achieving the vision, mission, and strategy of the company.

Board Meetings

- Agree the meeting agenda in consultation with the CEO and the Company Secretary.
- Ensure the Board receives all necessary information to enable effective decision making.
- Chair Board meetings and ensure that they are validly convened, a quorum is present and all directors have a fair opportunity to participate.
- Deal with any conflicts that arise, address differences of opinion and ensure contrary votes are recorded, if so required.
- Ensure Directors with declared material personal interests in a matter leave the meeting while the matter is discussed, unless a resolution has been passed by the non-interested Directors allowing the interested Director to remain in the meeting and participate in discussions and/or vote on the matter

Annual General Meetings

- Chair the meeting and ensure that the shareholders as a whole have an opportunity to speak on matters relevant to the company.
- Ensure the audit partner is invited to be present at the AGM and time is available for the auditor to answer questions in accordance with the *Corporations Law*.

Committee Meetings

- Attend committee meetings in accordance with membership of such committees.

External Contact

- Be a spokesperson, along with the CEO, in respect of the performance and profit figures and any board-related matters, if appropriate.

CEO

- Be the primary point of contact between the Board and CEO.
- Be kept fully informed of all major matters of relevance to Directors, by the CEO and other senior executives
- Chair the performance appraisal process of the CEO

Board

- Initiate the process of Board, committee and Director performance appraisals.
- Initiate action, if required, to maintain the agreed composition of the Board
- Ensure Directors are informed of significant changes to the company's business environment and relevant changes to legislation.
- Advise the Board of developments in governance practice.

2.1 COMPOSITION AND BALANCE OF SKILLS OF DIRECTORS

The Board considers that the number of directors at any time and the composition of the board are critical for the success of the company. It is acknowledged that these aspects could vary from time to time depending on the circumstances of the company.

Number of Directors

The total number of directors permitted by the constitution is not less than 3, nor more than 9. The Board considers that the appropriate number in the foreseeable future, will range from 4 to 7 and that such number will be determined by the directors. The shareholders, in General Meeting, may increase or reduce the total number of directors in accordance with the Constitution (Rule 13.1).

Composition

The board will comprise a variety of persons with diverse sets of skills and experience relevant to the company and the circumstances at the time.

The Board will review its composition from time to time having regard to the requirements of the Company.

The chief executive officer will be a director of the company and will also have the title of Managing Director.

2.2 INDEPENDENCE OF DIRECTORS

The ASX Principles of Good Corporate Governance and Best Practice Recommendations Principle 2 concern the structure of the Board.

- Best Practice Recommendation 2.1 is that a majority of the Board should be independent directors.
- Best practice Recommendation 2.2 is that the chairperson should be an independent director.
- Best Practice Recommendation 2.3 is that the chairperson and CEO should be separate people.

The Board will review at least annually, and more frequently if circumstances determine, whether or not each director is independent. This will include the determination of materiality thresholds for each director and for each particular circumstance, as necessary. The outcome of this determination will be disclosed in the annual report.

Where a director has a material personal interest in a matter and, in accordance with the provisions of the *Corporations Law*, the director is not present when the matter is discussed and does not vote on the matter, or the non-interested directors resolve to allow the director to participate, then the board considers that these circumstances alone may not jeopardise a director's independence.

The board believes that, over time, a renewal of members of the board is beneficial to the ongoing vitality of the company. This policy does not apply to the managing director.

2.2A APPENDIX - DEFINITION OF INDEPENDENCE OF DIRECTORS

1. An independent director is a non-executive director (ie is not a member of management) and:
2. is not a substantial shareholder (as defined by the Corporations Act) of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company
3. within the last three years has not been employed in an executive capacity by the company or another group member, or been a director after ceasing to hold any such employment
4. within the last three years has not been a principal of a material professional adviser or a material consultant to the company or another group member, or an employee materially associated with the service provider, except where the directors (other than the relevant director) have resolved that, having regard to certain procedures in place, the relationship will not result in the director being considered non-independent
5. is not a material supplier or customer of the company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer.
6. has no material contractual relationship with the company or another group member other than as a director of the company, except where the directors (other than the relevant director) have resolved that, having regard to certain procedures in place, the relationship will not result in the director being considered non-independent
7. has not served on the board for a period of time which could, or could reasonably be perceived, in the opinion of the other directors, to materially interfere with the director's ability to act in the best interests of the company
8. is free from any interest and any business or other relationship which could, or could reasonably be perceived, in the opinion of the other directors, to materially interfere with the director's ability to act in the best interests of the company.

Note: Materiality Thresholds – Paragraphs 3 and 4

For the purposes of paragraph 3 above, 'material' is defined as a situation where:

- fees received or receivable by the adviser from the company exceed 10% of the total fees received by the adviser/company in the last 12 months prior to the date of assessment, or
- fees paid or payable by the company to the adviser exceed 10% of the total fees paid to all professional advisers in the last 12 months prior to the date of assessment.

For the purposes of paragraph 4 above, 'material' is defined as a situation where:

- purchases from or sales to the other company/director represent a value exceeding 10% of the total sales or purchases of that other company/director, or
- sales to or purchases by the company to or from the other company/director, represent a value exceeding 10% of the total value of purchases or sales (whichever is relevant) of the company.
- These materiality thresholds should also be considered in the context of any letter from the auditor regarding materiality.

2.3 NOMINATION COMMITTEE CHARTER

Scope

It is the policy of the Company to have a Nomination Committee of the board at all times. This charter defines the Nomination Committee's function, composition and mode of operation, authority and responsibilities.

Function

To assist the board in fulfilling its responsibilities relating to:

- assessment, nomination and recruitment of potential board members
- recommendations of the appointment and removal of members of the Board
- review of board succession plans and
- evaluation of the board's performance.

Composition and mode of operation

Membership

The committee shall;

- comprise at least three independent non-executive Directors as determined by the Board and the Managing Director
- have a chairman appointed by the board
- have an initial term of three years, with members eligible for reappointment
- comprise members with skills and experience relevant to the committee's functions
- review trends and developments in corporate governance practices and regulatory changes, and other areas relevant to the committee's responsibilities.

Meetings

The committee shall;

- meet at least once annually and as may otherwise be determined by the Chairman of the Committee. The quorum for a committee meeting is two members.

Authority

- The Committee is a committee of the Board and has no authority independent of the functions delegated to it and is to report its findings and recommendations directly to the Board. The functions of the Committee do not relieve the Board from any of its responsibilities.
- There is to be no delegation of executive power to the Committee.

Responsibilities

The Nomination Committee shall have responsibility for proposing candidates for consideration by the Board to fill vacancies or additions to the Board and for devising criteria for Board membership and for reviewing membership of the Board, including –

- i. assessment of the necessary and desirable competencies of Board members;
- ii. review of Board succession plans to maintain an appropriate balance of skills, experience and expertise’
- iii. as requested by the Board, evaluation of the Board’s performance and, as appropriate, developing and implementing a plan for identifying, assessing and enhancing Director competencies;
- iv. recommendations for the appointment and replacement of Directors; and
- v. such other matters as the Board may refer to the Committee from time to time.

Potential New Director Selection Process

- Determine the skills and experience appropriate for the appointee having regard to those of the existing directors and any other likely changes to the Board.
- Agree the process for seeking such a person.
- Set a timetable for completion having regard to the date of the AGM and finalisation of the Notice of AGM and whether the person will be appointed prior to the AGM or the person’s nomination will first be put to the AGM.
- The Committee will prepare a short list of candidates after assessing the candidates on the following basis:
 - competencies and qualifications
 - independence
 - other directorships
 - time availability
 - contribution to the overall balance of the composition of the Board
 - depth of understanding of the role and legal obligations of a director

The Board will meet the preferred candidate(s) as recommended by the Committee and make an appointment, for ratification by the shareholders, as appropriate.

2.4 ACCESS TO INDEPENDENT ADVICE

To enable the Board and its committees to fulfil their roles it is considered appropriate that independent experts' advice may be obtained at the company's expense, after first obtaining approval of the Board chairman, such approval not to be unreasonably withheld.

The chairman will:

- ensure that the nature of the advice being sought is appropriate, the party from whom the advice is to be sought has no conflict with the company and that the basis of charge is reasonable, and
- approve for payment all invoices in relation to the advice.

3.1 CODE OF CONDUCT OF DIRECTORS

The Director as a Fiduciary

All directors have a fiduciary relationship with the shareholders of the company. A director occupies a unique position of trust vis-à-vis the shareholders which makes it unlawful for a director to improperly use his/her position to gain advantage for himself or herself.

A director is expected to exercise skills commensurate with his/her level of knowledge and experience to increase the value of the company (ie. the value of the shareholders' assets).

All facets of a director's role are bound up inextricably with the fiduciary relationship with the shareholders. Because of the fiduciary relationship, a director's membership of the board should be the subject of continual personal evaluation.

A director who believes that a course of action proposed by or already undertaken by the board of management is against the best interest of the company and its shareholders, must be prepared to oppose that course of action and insist that his/her objection be fully documented and noted.

Similar steps should be taken by any director who believes the board is failing to take action to remedy irregular practices within the company.

Duties of a Director

Each director must endeavour to ensure that the company is properly managed so as to protect and enhance the shareholders' interests. Directors should be aware of their duties and obligations as set out in Part 2D.1 *Duties and Powers* of the *Corporations Act 2001*. These duties include that directors should -

- at all times exercise due care in their duties
- be diligent, attend board meetings and make themselves knowledgeable about the business of the company and the physical and social environment in which it operates
- not use their position or information for personal gain
- ensure that the shareholders and the stock market are informed of all material matters which require disclosure, in accordance with ASX Listing Rules
- avoid or fully disclose conflicts of interest
- be impartial in their judgements and actions.

Directors should ensure they can give sufficient time and attention to detail so as to properly fulfil the duties of directors.

No director will conduct himself or herself in a way which brings or may bring the Company or the name of the Company into disrepute.

Conflict of Interest

At all times a director must be able to act in the interests of the company. Where the interests of associates, personal interest of the director or the director's family may conflict with those of the company, then the director must immediately disclose such conflict and either –

- eliminate the conflict, or
- abstain from participation in any discussion or decision-making process in relation to the subject matter of the conflict, or
- in exceptional circumstances he/she may have to consider resignation.
- Associates of a director means –
 - spouse or partner
 - children
 - trustee of a trust in which the director or an associate has or may have a beneficial interest
 - a company in which the director or an associate has a significant interest
 - any other person over whose judgement the director could be expected to have beneficial influence.

Executive directors must always be alert to the potential for conflict of interest between management interests and their fiduciary duty as directors.

Directors should refrain from voting their shares at any general meeting on any matter in the outcome of which they or their associates have a special beneficial interest.

Directors' Benefits

Directors will comply with the provisions of the Australian Corporations Law relating to disclosure of directors' benefits and related party transactions.

Directors' Needs

To enable all directors, but particularly non-executive directors, to be fully effective, they must have full access to all relevant information. In the case of matters to be considered by the board, directors must insist that full details are made available to them in sufficient time to allow proper consideration.

In becoming informed of the Company's affairs, the directors must have regard for the integrity of management's functions and responsibilities. In particular, no director, acting individually, shall:

- Require any action by an officer of the Company in connection with the business of the Company, except as authorised by the Board or as requested by the Managing Director; or
- Require or request any information concerning the Company from any officer, except where such information is necessary or appropriate for the discharge by that director of his duties as a member of the Board or in exercise of any power or authority delegated to him by the Board. Where any director requires information regarding the Company (unless it would be impractical or inappropriate to do so) it is expected that the director inform the Chairman, another director or the Managing Director of the request.

Directors must ensure that when expert advice is sought it comes from suitably qualified sources. Auditors and other experts must not be subjected to pressure to produce results deemed appropriate by management or the board.

Confidentiality

All directors must ensure that strict confidentiality is maintained in relation to all Company matters.

All directors acquire information not generally known to the public or other businesses such as trade secrets, processes, methods, advertising or promotional programs, sales and all statistics affecting financial results.

This information is the property of the company and it is improper, whether deliberately or carelessly, to disclose, whether during or after their directorship, it to any other person unless the disclosure has first been authorised by the company.

Insider Trading

Fiduciary duty requires that directors do not improperly utilise their position for personal gain or for the gain of associates.

Therefore, information concerning the activities or proposed activities of the company, which is not public and which could materially affect the price of the company's shares, must not be used for any purpose other than valid company requirements.

Each director is required to ensure that information in his or her possession and which would affect the price of the company's shares, options, etc. is transmitted only to those with a need to know for the proper discharge of their duties on behalf of the company. Such information includes, but is not limited, to:

- financial results
- profit forecasts
- proposed share issues
- borrowings
- probable takeovers, acquisitions, mergers, reconstructions or litigation
- significant changes in operations
- new products and new discoveries
- liquidity
- major purchases or sales of assets
- management restructuring

Accounts

The accounts are drawn up in accordance with the Australian Corporations Law and approved accounting standards.

Other Obligations of Directors

The director should make reasonable endeavours to ensure that the company gives proper consideration to;

- the impact on the environment of the company's activities and proposed activities and that the company observes its obligations in respect of environmental practices
- matters affecting the health, safety and general well-being of the employees.

Deed of access, indemnity and insurance

Where permitted by law, each director of the company should enter into a deed of access, indemnity and insurance in the form approved (or to be approved) by shareholders.

3.2 POLICY REGARDING TRADING IN SECURITIES

Policy regarding dealings in securities of Cellmid Limited by directors of the company.

Directors are specifically prohibited from dealing in the company's securities, except during the following trading windows during the calendar year which commence 24 hours after the relevant announcement/event:

- Half-Year announcement – 6 weeks
- 31 March Quarter announcement – 6 weeks
- Full Year announcement – 6 weeks
- Extraordinary General Meeting – 6 weeks, subject to compliance with other restrictions
- Annual General Meeting – 6 weeks
- 30 September Quarter announcement – 6 weeks

However, the prohibition in paragraph 2, if applicable, overrides these trading windows.

- 2 Dealings are not to take place for a certain period before important announcements which are likely to affect the market price. It is difficult to establish a fixed period in respect of the prohibition. In principle this prohibition would start to run from the point at which the likelihood of an announcement ultimately being necessary becomes a reasonable probability. This particular prohibition also extends to any potential target companies where there is sufficient evidence to believe that the group may have intentions of acquiring a shareholding.
3. The board should be formally informed of all dealings by directors in the company's securities.

Directors are not to deal in the company's securities **without first notifying the Chairman directly or via the Company Secretary** of their intention to deal and should only proceed after receiving due acknowledgment. A record of this notification should be maintained and acknowledgment in writing given to the directors by the company secretary. For the purposes of this policy, securities means either listed or unlisted securities and includes shares, options (including exchange traded options), convertible securities, any right to subscribe for, call for or make delivery of a share or convertible security.

Shares or options acquired pursuant to an employee share or option plan and securities acquired through taking up of rights to securities or through conversion of convertible securities are specifically excluded from this definition. It should be noted that this exclusion applies only to the acquisition of securities or through conversion into securities. The subsequent disposal of any such securities is restricted as outlined in this policy.

The restrictions contained herein apply to the acquisition or disposal of an interest in any type of options. The actual exercise of the options is not subject to these restrictions. However, any dealing in the underlying securities after the exercise of the options is subject to the same restrictions.

Directors must notify the company secretary in writing of all transactions in accordance with the requirements of Sections 205F and 205G of the Australian Corporations Law.

Any notification must include the following information:

- type of security, eg. shares, options, debentures
- nature of transaction – acquisition, disposal, other
- number of securities
- consideration and nature of interest, ie. beneficial or non-beneficial
- whether transaction was on-market or off-market
- date of transaction.

The company will notify the ASX of the details of any transaction, on behalf of the directors.

7. The above restrictions extend to a director's spouse, partner, children and organisations (eg. private companies or trusts) in which a director has a material interest and the capacity to control the decision. These restrictions also apply in all situations where a director is in a position of exerting significant influence over the voting intentions of parties personally known to that director (eg. where the director is a trustee and is in a position to make investment decisions or exert significant influence on those making such decisions even though he may not be a beneficiary of the trust).
8. Senior executives who have price sensitive information are restricted from dealing in the company's securities in the same way as Directors, as set out above.
9. The Chairman has discretion to permit a director or officer to deal in the company's securities in specific circumstances such as financial hardship or restructuring personal affairs.

3.3 INTERACTION WITH THE MEDIA

To ensure that clear, consistent and appropriate information is given to the Stock Exchanges and the media, it is appropriate that the number of spokespersons for the company be limited.

To enable this objective to be achieved, it is the policy of the Board that, unless specific authority has been granted otherwise, the Chairman and the CEO are the only Officers authorised to speak to the media.

4.1 AUDIT COMMITTEE CHARTER

Scope

It is the policy of the Company to have an Audit Committee of the board at all times. This charter defines the Audit Committee's function, composition and mode of operation, authority and responsibilities.

Function

To assist the board in fulfilling its statutory and fiduciary responsibilities relating to:

- external reporting of financial information
- internal control and risk management processes
- legal and regulatory compliance.
- the independence and effectiveness of the external auditors

Composition and mode of operation

Membership

The committee shall;

- comprise only non-executive directors of the board, as determined by the Board
- have a chairman appointed by the board
- comprise members with financial skills and experience relevant to the committee's functions
- review trends and developments in corporate governance practices and regulatory changes, and other areas relevant to the committee's responsibilities.

Meetings

The committee shall;

- meet at least three times annually. The quorum for a committee meeting is two members.
- meet with the external auditor, and management to discuss any matters that the committee and/or the committee chairman believe should be discussed privately.

Authority

- The committee has unrestricted access to information and reports relevant to fulfilling its responsibilities.

- The committee may seek independent external advice on matters brought before the committee or in relation to the functions and responsibilities of the committee, in accordance with the Board policy.
- The committee shall have the power to conduct or authorise investigations into any matters within the committee's scope of responsibilities or when requested by the board.

Responsibilities

- Review financial information prepared by management for external reporting.
- Monitor the integrity and effectiveness of financial reporting processes.
- Review significant ASX financial lodgements and significant external financial announcements, as requested by the Board.
- Monitor compliance with the continuous disclosure requirements of the Corporations Law and make recommendation to the Board, as appropriate.
- Review external audit arrangements and oversee and appraise the external auditor's independence, effectiveness and audit scope, including rotation of audit partners.
- Review, and, if considered appropriate, approve, any proposal to obtain non-audit services from the auditors.
- Oversee, where required, the nomination of the external auditor to the board for approval of the appointment by shareholders.
- Review implementation of legislated major accounting changes and make reports and recommendations to the Board.
- Monitor the effectiveness of the company's risk management framework and ensure that there is a continuous process for the management of significant risks.
- Ensure the establishment, implementation and monitoring of appropriate policies addressing codes of conduct for directors and employees and make recommendations to the Board, as appropriate.
- Ensure that appropriate policies are established and adequate systems are in place to identify and disclose related-party transactions.
- Review and reassess the adequacy of the charter at least once every two years.
- Ensure the full board receives minutes of meetings, is kept regularly informed on general progress and actions of the committee, and is promptly
- briefed on all significant matters that have come to the attention of the committee.

4.2 AUDITOR SELECTION, APPOINTMENT AND LEAD PARTNER ROTATION

Assessment of performance

The Board, through the audit committee will, in accordance with its charter, annually assess the external auditor, focusing particularly on:

- quality and rigour of the audit
- quality and cost of the service provided, and
- the audit firm's internal quality control procedures.

Assessment of independence

The audit committee will annually assess the relationships between the external auditor and the company to ensure maintenance of independence. Audit committee approval of all non-audit work proposed to be carried out by the external auditors is required prior to commencement of any such work. The external auditor will not be permitted to carry out the introduction of accounting or financial reporting systems, tax planning, certain due diligence work, or share registration.

Appointment of external auditor

Should a change in auditor be considered necessary a formal tendering process will be undertaken. The board will identify the attributes required of an auditor and will ensure the selection process is sufficiently robust so as to ensure selection of an appropriate auditor.

The board shall ensure that prospective auditors have been provided with a sufficiently detailed understanding of the company, its operations, its key personnel and any other information, including financial statements, that will have a direct bearing on each firm's ability to develop an appropriate proposal and fee estimate.

The board shall consider the appointment in consultation with senior management.

In selecting an external auditor, particular consideration shall be given to determining whether the fee quoted is sufficient for the work required, whether the work is to be undertaken by people with an appropriate level of seniority, skill and knowledge, and whether the work proposed is sufficient to meet the company's needs and expectations.

Rotation and succession planning

The board shall annually discuss with the auditor the provisions the auditor has in place for rotation of the lead engagement partner and the independent review partner and the overall succession plan in place regarding all professional staff assigned to the company's audit.

The board shall satisfy itself on a regular, and at a minimum on an annual, basis, that the audit firm's procedures regarding succession planning and lead engagement partner rotation are appropriate and will ensure an ongoing efficient and effective audit.

4.3 AUDITOR INDEPENDENCE

The Directors are of the opinion that it is in the best interests of all stakeholders that the company has an effective and independent external audit carried out each year. To assist the achievement of this objective, a number of policies have been put into place.

Certificates

1. Each half-year the auditor will be required to provide a certificate regarding their independence as auditor of the company.
2. In addition, the auditor will be required to confirm that all professional members of the audit team have declared, prior to commencing any audit work, that they are independent for the purposes of the Corporations Act and the firm's own policies.

Non-Audit Services

The following non-audit work cannot be carried out by the auditor:

1. Legal advice
2. Accounting services
3. Internal audit services
4. Tax structure/advisory work (other than in relation to completion of tax returns and the like)
5. Valuation services
6. Recruitment of staff with financial responsibilities
7. Other areas of work as determined by the Audit Committee or Board from time-to-time.

If management considers that it is in the best interests of the company for the auditor to carry out other non-audit services work, then, prior to the work commencing, the following procedures must be followed:

1. Management should submit a proposal to the Audit Committee covering the following matters:
 - a. Why the auditor should carry out the service, as opposed to any other provider.
 - b. A statement that the quotation for the work is at commercial and competitive rates.
 - c. A statement from the CEO and CFO advising why they consider the work will not jeopardise the independence of the auditors.
 - d. A summary showing the projected audit fees for the year and the total fees for non-audit services work, including the proposed work and any other approved non-audit services work.

2. Management should obtain a certificate from the auditor advising that, in the auditor's opinion the non-audit services work will not compromise their independence as auditor.
3. Obtain approval of the Audit Committee or the Board, if the Audit committee has referred the matter to the Board (which it may do).

Employment of Former Auditors

The requirements of the Corporations Act will be adhered to as regards the employment of former auditors.

4.4 CONTRACTS AND TRANSACTIONS BETWEEN THE COMPANY AND ITS OFFICERS

This Policy is issued by the Board with the objective of providing clear guidelines which will ensure all contracts entered into between the Company and its Officers are given appropriate consideration and approval.

Policy

Any proposed contract between an Officer and Cellmid Limited or a subsidiary must be approved by the Board of Cellmid Limited, prior to its execution.

The term "Officer" includes any director or employee of the Company or a subsidiary of the Company who has the ability to enter into binding agreements on behalf of the Company.

This policy also applies to any spouse, partner or child of an Officer of the Company or to any entity in which the Officer or a member of the Officer's family holds an interest.

Interpretation

All contracts under this policy must be in writing.

The Policy includes as a contract any transaction with the Company which provides for commercial consideration to or from an Officer of the Company. The commercial consideration may be either directly to the Officer, to a member of the Officer's family as defined in paragraph 3 above, or to any entity in which the Officer or a member of the Officer's family holds an interest.

Officers who hold interests of less than 5% in publicly listed companies entering into contracts with the Company are excluded from the requirements of this Policy.

This Policy excludes employment contracts, other than those in relation to executives whose appointment requires Board approval or endorsement.

This Policy excludes motor vehicle transactions with Officers where these transactions are related to normal remuneration package arrangements.

The sale of equipment owned by the Company to an Officer, which in total has a historical cost of less than \$5,000, is excluded from this Policy, other than for directors.

Reporting Procedure

The CEO will present the details of any proposed transactions to the Board and the Company Secretary will advise the relevant parties of the outcome of the Board considerations.

5.1 CONTINUOUS DISCLOSURE

Continuous Disclosure Assessment Form

Matter		Matter No. (NO/YY)			
		Initial	Subsequent 1	Subsequent 2	Subsequent 3
1.	Date of Assessment				
2.	Is matter a LR3.1 matter (material)	Yes / No	Yes / No	Yes / No	Yes / No
3.	If 'no', no further action (<i>go directly to para 4</i>) If 'yes', do exceptions apply (<i>please complete this section</i>)				
	• Reasonable person would not expect announcement	Yes / No	Yes / No	Yes / No	Yes / No
	• Confidential	Yes / No	Yes / No	Yes / No	Yes / No
	• Incomplete proposal (or trade secret, matter of supposition or breach of law to disclose)	Yes / No	Yes / No	Yes / No	Yes / No
4.	Announcement to be made - compulsory unless 3 "Yes"s in item 3 above.	Yes / No	Yes / No	Yes / No	Yes / No
	Date announcement made				
5.	Assessed by (<i>initial</i>):				
6.	Confirmed by (<i>initial</i>):				
7.	Comments:				
	Initial				
	Subsequent 1:				
	Subsequent 2:				
	Subsequent 3:				

Continuous disclosure – timely and balanced

The purposes of this policy are:

- a) To ensure there are procedures in place so that share markets in which the company's shares are traded are properly informed of matters which may have a material impact on the price at which the shares are traded.
- b) To ensure compliance with the Australian Stock Exchange (ASX) listing rules and specifically Rules 3.1, 3.1A and 3.1B.

Performance Criteria

1. The Chief Executive, in consultation with the Chairman and Company Secretary, will decide:
 - whether a matter would have a material effect on the price of Cellmid Limited shares and, therefore, should be considered disclosable.
 - in the case of a matter being assessed as likely to have a material effect, whether the matter is qualified for exemption from disclosure by addressing:
 - whether the information falls within a category listed in Listing Rule 3.1A.3
 - whether the information is confidential (and the ASX has not formed an alternative view), and then
 - whether a reasonable person would not expect it to be disclosed.
2. If the matter does not qualify for an exemption, the CEO or Company Secretary will advise all directors and then make the disclosure to the ASX, as appropriate. (See form attached).
3. If the matter is not likely to have a material effect on the price of Cellmid Limited shares, the CEO will assess whether a disclosure will, in any case, be made to keep the share market further informed.
4. To ensure the share market is properly informed, it is required that senior managers in the company and directors keep the chief executive (or in his absence the Chief Financial Officer and the Company Secretary) informed of matters of a nature which they consider material and which they consider may require disclosure. The ASX rules listed below, and specifically the examples included therein, give assistance as to the nature of such matters.

Notes

1. The company is obliged to make disclosure of information of which it becomes aware.
2. The company is deemed to have become aware of information when a director or executive officer has, or ought reasonably to have, come into possession of the information in the course of performance of duties as a director or executive.
3. *Corporations Law* section 674 imposes penalties on listed companies for 'intentionally' failing to notify the securities exchange of information that is not

generally available and that a reasonable person would expect, if it were generally available, to have a material effect on the price or value of the shares. This means that the information would or would be likely to influence persons who commonly invest in securities in deciding whether or not to invest in the securities.

ASX Listing Rules

3.1 Once an entity is or becomes aware of any information concerning it that a reasonable person would expect to have a material effect (see note below) on the price or value of the entity's securities, the entity must immediately tell ASX that information.

Examples

The following information would require disclosure if material under this rule:

- a change in the entity's financial forecast or expectation
- the appointment of a receiver, manager, liquidator or administrator in respect of any loan, trade credit, trade debt, borrowing or securities held by it or any of its entities.
- a transaction for which the consideration payable or receivable is a significant proportion of the written down value of the entity's consolidated assets. Normally, an amount of 5% or more would be significant, but a smaller amount may be significant in a particular case
- a recommendation or declaration of a dividend or distribution
- a recommendation or decision that a dividend or distribution will not be declared
- under subscriptions or over subscriptions to an issue
- a copy of a document containing market sensitive information that the entity lodges with an overseas stock exchange or other regulator which is available to the public. The copy given to ASX must be in English
- information about the beneficial ownership of securities obtained under Part 6C.2 of the Corporations Act
- giving or receiving a notice of intention to make a takeover
- an agreement between the entity (or a related party or subsidiary) and a director (or a related party of the director).
- a change in accounting policy adopted by the entity.
- any rating applied by a rating agency or change to a rating
- a proposed change to the entity's auditor
- other matters include:
 - a material change in the company's situation as previously disclosed
 - material change to an agreement
 - registration of a new patent

Note: Section 677 of the Corporations Law defines material effect on price or value. For the purposes of section 674, a reasonable person would be taken to expect information to have a material effect on the price or value of securities if the information would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the securities.

3.1A. This rule (3.1) does not apply to particular information while all of the following apply.

3.1A.1 A reasonable person would not expect the information to be disclosed.

3.1A.2 The information is confidential and the ASX has not formed a view that the information has ceased to be confidential.

3.1A.3 One or more of the following applies:

- a) It would be a breach of law to disclose the information.
- b) The information concerns an incomplete proposal or negotiation.
- c) The information comprises matters of supposition or is insufficiently definite to warrant disclosure.
- d) The information is generated for the internal management purposes of the entity.
- e) The information is a trade secret.

Note: "Confidential" means confidential as a matter of fact. An entity may give information to third parties in the ordinary course of its business and activities and continue to satisfy rule 3.1A.2, provided the entity retains control over the use and disclosure of the information.

The ASX would likely consider that information has ceased to be confidential if the information, or part of it, becomes known either selectively or generally, whether inadvertently or deliberately. If information becomes known by others in circumstances where the entity does not retain control of its use and disclosure, rule 3.1A.2 is not satisfied, regardless of whether the entity or a third party disclosed the information.

3.1B If the ASX considers that a false market is likely, the ASX can request information to avoid a false market and the entity must comply. (See ASX Listing Rule 3.1B.)

Note: This often relates to media rumours.

6.1 COMMUNICATION POLICY

The Board of Directors aims to ensure that the shareholders are informed of all major developments affecting the company's state of affairs.

Information is communicated to shareholders through:

- the annual report
- the interim reports
- disclosures made to the Australian Stock Exchange
- notices and explanatory memoranda of annual general meetings (AGM)
- the Annual General Meeting
- occasional newsletters from the Company to specifically inform shareholders of matters of interest
- the company's website www.cellmid.com.au.

7.1 RISK MANAGEMENT AND INTERNAL COMPLIANCE AND CONTROL

The board determines the company's 'risk profile' and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. The company's process of risk management and internal compliance and control will include:

- establishing the company's strategies, goals, and objectives, and implementing and monitoring strategies and policies to achieve these strategies, goals, and objectives
- continuously identifying and measuring risks that might impact upon the achievement of the company's strategies, goals, and objectives, and monitoring the environment for emerging factors and trends that affect these risks
- formulating risk management strategies to manage identified risks, and designing and implementing appropriate risk management policies and internal controls
- monitoring the performance of, and continuously improving the effectiveness of, risk management systems and internal compliance and controls, including an annual assessment of the effectiveness of risk management and internal compliance and control.

To this end, comprehensive practices are, and will be put, in place that are directed towards achieving the following objectives:

- Effectiveness and efficiency in the use of the company's resources. Procedures are in place for the approval of capital expenditure, purchase and disposal of assets, dealings in relation to intellectual property and practices to ensure that business transactions are properly authorised and executed.
- Compliance with applicable laws and regulations. Procedures will be established and reviewed in areas such as safety, health and environment to achieve high standards of performance and compliance.
- Preparation of reliable published financial information. The company's financial report is subject to audit by the company's independent auditor.

The board will oversee an annual assessment of the effectiveness of risk management and internal compliance and control.

The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to management. Management is required by the board to assess risk management and associated internal compliance and control procedures and report back on the efficiency and effectiveness of risk management.

The board acknowledges that the development of sound policies and procedures is a continual process and one which will grow as the company grows.

8.1 PERFORMANCE EVALUATION

Board

The Board will review and evaluate its own performance.

The Board (through the Chairman) will carry out an evaluation at least every 3 years to:

- review the role of the board having regard to its charter
- assess the performance of the board over the period having regard to the strategy, objectives and the annual budgets, with a view to assisting the board to better perform its duties
- review the board's interaction with management
- review the type and timing of information provided to the directors.

From time to time the board may use an independent advisor to assist in the review.

Committees

The Board will review and evaluate the performance of any committee in place during the review period, in a similar way.

An assessment will be made of the performance of each such committee against its charter and areas identified where improvements can be made.

Non-executive Directors

The performance and contribution of each non-executive director will be carried out by the Chairman prior to their standing for re-election.

Chief Executive Officer

The Board will annually review the performance of the CEO. At the commencement of the year the board and CEO will agree a set of performance measures to be used in the review after the end of the year.

These will include:

- financial and non-financial measures of the company's performance
- achievement of strategic objectives
- development of management and staff
- compliance with legal and company policy requirements
- achievement of the key performance indicators.

8.2 DIRECTOR INDUCTION

Well informed directors are more likely to improve the performance of the Board as a whole.

The objective of induction is to inform the director such that he or she can become as effective as possible, as soon as possible.

The Chairman is responsible for ensuring an adequate induction plan is in place and is followed.

The matters to be covered in director induction will include:

- **Director's duties**, including legal obligations, code of conduct, matters reserved for the Board, delegated authority, policy for obtaining independent advice, etc.
- **The Company's business**, including the strategic plan, budgets, key performance indicators, last annual report, major contractual arrangements, significant risks and insurance (including Directors' and Officers'), funding arrangements, organisational structure, meeting key personnel, etc.
- **Board issues**, including the constitution, minutes of the last 3 meetings, meeting schedule, board policies and charters of committees, contact details of other directors and key personnel, etc.

8.3 DIRECTOR INDEMNIFICATION, ACCESS AND INSURANCE

To enable directors to fulfil their obligations they must have access to information. It is also considered appropriate that directors, during and after their period of service, have access to information for proper purposes, including defending a legal action. It is also common practice for directors to be indemnified out of the assets of the company, except where there has been a wilful breach of duty. The company will maintain Directors and Officers Liability insurance.

It is a policy of this Board that Deeds of Access and Indemnity covering the above matters (and other appropriate matters) will be entered into with each of the directors, as approved by shareholders in April 2006.

9.1 REMUNERATION POLICIES

Non-executive Directors

- Non-executive directors will be paid fees generally around the market average.
- Statutory superannuation will be paid in addition to the fees.
- The fees will be paid in cash. The exception to this is where a director elects to take Cellmid Limited shares in lieu of fees, under a shareholder approved plan.
- With the approval of shareholders, the directors and secretary may be granted options
- The directors will not participate in any other share or option plan, except with the approval of the shareholders.
- The directors will not be entitled to a retirement benefit.
- The directors may be paid additional fees for work on standing committees of the Board and any ad hoc committee that meets more than four times in a calendar year.

Senior Executives

- Remuneration packages will generally be set in a range approved by the Board with the goal of attracting and retaining executives with the skills and experience that the company requires.
- Packages will be negotiated by the CEO and will comprise a fixed (cash) element and variable incentive components. The variable components will depend on company and personal performance.
- Short term incentives
 - Annual cash incentive
 - Criteria to be met will be set by the CEO and approved by the board each year.

- Long term incentives

Senior executives may also participate in the Cellmid Limited Incentive Option Scheme from time to time.

The exercise price would be not less than the market price at time of grant. Once options are granted, their exercise price will not be changed.

9.2 AGGREGATE DIRECTORS FEES – SHAREHOLDER APPROVAL

The aggregate directors' fees will be approved by shareholders under Clause 13.7 of the Constitution and paid to individual non-executive directors in accordance with a resolution of the directors.

The annual aggregate remuneration has been set at an amount of \$300,000 per annum as approved by shareholders at the shareholder meeting held on 29 April 2005.

The fees have been set as follows and are paid monthly:

Chairman	\$55,000 per annum
Non-Executive Director	\$45,000 per annum
Audit Committee Member	\$5,000 per annum

Statutory superannuation is in addition to the above amounts. Directors may elect to have part or all of the above fees paid into an approved superannuation fund.

Directors may elect to take all or part of the above fees in the form of shares in Cellmid Limited, subject to this being done only through a Plan that has all necessary approvals.

10.1 CODE OF CONDUCT FOR EMPLOYEES

Purposes of Code of Conduct

- To ensure compliance with all relevant legislation
- To fulfil the reasonable expectations of the communities in which the company operates, by acknowledging the rights of various stakeholders
- To enhance the reputation of the company with the financial and broader community
- To improve the performance of the company
- To inform employees of the board's expectations of them, including the obligations of raising and pursuing concerns of non-compliance or unethical behaviour
- To assist achievement of the company vision.

Code of Conduct

The guiding philosophy to achieve the purposes incorporates the following:

Responsibility to Shareholders

The Company is committed to pursuing the best interests of its shareholders as a whole and to the protection, preservation and, ultimately, sustained growth of their capital.

Responsibility to Employees

The Company is committed to properly discharging its responsibility to employees.

Responsibility to the Community

The Company recognises its responsibility to establish and maintain good corporate citizenship in those communities in which it operates. This responsibility extends to interaction with Government and responding to the changing requirements and expectations of industry, environment, the parties with whom the Company deals and the community as a whole.

No employee shall conduct himself or herself in a way which brings Cellmid Limited or the name of the Company into disrepute.

Commitment to Quality

The Company is committed to continuous improvement in the quality of its performance in all ways that it operates.

Confidentiality and Use of Knowledge and Position

Employees may acquire information not generally known to the public such as trade secrets, processes, methods and other information which affect financial results. This information is the property of Cellmid Limited.

No employee, secondee or contractor, whether during or after their time with the Company, can disclose this information (deliberately or carelessly) to any other person not covered by this policy, unless the disclosure has first been authorised by the Company.

Further, no employee, secondee or contractor of the Company is permitted to act dishonestly or to use confidential information or position within the Company for the purpose of personal gain or the pursuit of any objectives other than those of Cellmid Limited.

In relation to these general requirements, the following matters warrant specific mention:

- a) The insider trading prohibitions apply to all employees. In particular, employees cannot deal in (or tip others about) the Company shares, when in possession of price sensitive information about the shares.
- b) The general requirement for prior declaration of interests, which applies to Officers of Cellmid Limited, also applies to employees not classified as Officers. Any employee who has personal investments or involvements with other parties which could lead to a conflict of interest for either the employee or Cellmid Limited should make written disclosure to the CEO.
- c) Employees cannot accept a material benefit from those with whom they deal, nor place themselves in a position where their responsibility/loyalty might be comprised.

Compliance with Laws

The Board is committed to compliance with all relevant legislation and corporate policies. Employees are expected to be aware of all legislation and policies applicable to their position and be sufficiently familiar with such laws and policies that they are able to comply.

Management and employees are responsible to ensure that they –

- have access to all relevant laws and policies
- are properly instructed on the relevant laws and policies
- maintain their understanding, through continuing education and periodic updates.

Relevant laws include –

- environmental law
- occupation health and safety laws
- corporations law
- competition and consumer law