

CORPORATE GOVERNANCE STATEMENT

QRSciences Holdings Limited (“Company”) is committed to implementing and maintaining the highest standards of corporate governance. The primary responsibility of the Board of the Company (“Board”) is to represent and advance the Company’s shareholders’ (“Shareholders”) interests and to protect the interests of all stakeholders. To fulfill this role, the Board is responsible for the overall corporate governance of the Company including its strategic direction, establishing goals for its employees and monitoring achievement of these goals.

Subject to the exceptions outlined below, the Company will adopt the ASX Corporate Governance Council’s *Corporate Governance Principles and Recommendations* released in 2007 (“Recommendations”) to determine an appropriate system of control and accountability to best fit its business and operations commensurate with these guidelines.

The Company’s compliance with Recommendations is summarised in the table below:

	ASX P & R ¹	If not, why not ²		ASX P & R ¹	If not, why not ²
Recommendation 1.1	Yes		Recommendation 4.3	Yes	
Recommendation 1.2	Yes		Recommendation 4.4	Yes	
Recommendation 1.3	Yes		Recommendation 5.1	Yes	
Recommendation 2.1	No	Yes	Recommendation 5.2	Yes	
Recommendation 2.2	No	Yes	Recommendation 6.1	No	Yes
Recommendation 2.3	No	Yes	Recommendation 6.2	Yes	
Recommendation 2.4	No	Yes	Recommendation 7.1	Yes	
Recommendation 2.5	Yes		Recommendation 7.2	No	Yes
Recommendation 2.6	Yes		Recommendation 7.3	Yes	
Recommendation 3.1	No	Yes	Recommendation 7.4	Yes	
Recommendation 3.2	Yes		Recommendation 8.1	Yes	
Recommendation 3.3	Yes		Recommendation 8.2	Yes	
Recommendation 4.1	Yes		Recommendation 8.3	Yes	
Recommendation 4.2	No	Yes			

¹ Indicates where the Company has followed the Recommendations and summarised those practices below.

² Indicates where the Company has provided a “if not, why not” disclosure below.

In acknowledging the Key Messages of the first review of the corporate governance reporting under the Revised Recommendations by ASX Markets Supervision (“ASXMS”), the Company has provided additional disclosure for each of the 27 recommendations. Where the Company has departed from a Recommendation, the Company has provided substantive reasons and refers to material containing additional disclosure, as relevant.

The “if not, why not” disclosure of the Company is summarised in the table below:

Recommendation	Explanation of Departure from Recommendation
2.1	Given the nature and size of the Company and its business interests, the Board is of the view that there is an adequate and broad mix of skills on the Board and the experience of each of the Directors enables them to be aware of and capable of acting in an independent manner and in the best interests of the Shareholders.
2.2	The Board considers that the Chairman, notwithstanding that he is not independent, is an appropriate Chairman of the Company based on his skills and abilities. The Company is moving towards appointing an independent chair in due course.
2.3	Given the nature and size of the Company and its business interests, the Board considers that Mr Stokes’ skill set and experience qualifies him as the best candidate for both positions at this time. However, the Company is in the course of remedying this situation.
2.4	Owing to the size and composition of the Board, it is not appropriate to establish an independent nomination committee, or to establish a formal nomination policy at this stage.
3.1	In view of the size of the Company and the nature of its activities, in the past the Board has considered that an informal code of conduct is appropriate to guide executives, management and employees in carrying out their duties and responsibilities. However, the Company is endeavouring to adopt a code of conduct in 2Q of FY10.
4.2	Owing to the size and composition of the Board, the Company’s audit committee does not consist of only non-executive Directors and a majority of independent Directors, nor is it chaired by an independent chair.
4.3	The Board has not established a formal audit charter as the Board considers that the functions of the audit committee are currently being effectively discharged informally.
6.1	Currently the Company informally adopts several of the suggestions in Recommendation 6, including communicating to Shareholders electronically. However, the Company is endeavouring to adopt a formal shareholder communication policy in 2Q of FY10.
7.2	Owing to the size and composition of the Board, it is not appropriate to establish formal risk management policies, as this function is effectively discharged by the full Board with some degree of involvement from management.

As the Company's activities develop in size, nature and scope, the Company's corporate governance policies and processes will continue to be reviewed and improved as resources permit.

1. BOARD OF DIRECTORS

1.1. Role of Board

The Board is responsible for setting the strategic direction and establishing and overseeing the policies and financial position of the Company, and monitoring the business and affairs on behalf of its Shareholders, by whom the directors of the Company ("Directors") are elected and to whom they are accountable.

Further, the Board takes specific responsibility for:

- protecting and enhancing Shareholder value;
- formulating, reviewing and approving the objectives and strategic direction of the Company;
- approving all significant business transactions including acquisitions, divestments and capital expenditure;
- monitoring the financial performance of the Company by reviewing and approving budgets and monitoring results;
- ensuring that adequate internal control systems and procedures exist and that compliance with these systems and procedures is maintained;
- identifying significant business risks and ensuring that such risks are adequately managed;
- reviewing the performance and remuneration of Directors;
- establishing and maintaining appropriate ethical standards; and
- evaluating and, where appropriate, adopting with or without modification, the Recommendations.

The Board is responsible for establishing a culture and framework that supports corporate governance, including creating the strategic direction for the Company, establishing goals for employees and monitoring the achievement of these goals.

The Company has a formal Board charter, which is available from the Company on request. In broad terms, the Board is accountable to the Shareholders and must ensure that the Company is properly managed to protect and enhance Shareholders' wealth and other interests. The Board charter sets out the role and responsibilities of the Board within the governance structure of the Company and its related bodies corporate (as defined in the Corporations Act).

Given that most of the senior executives (i.e. Managing Director and CEO) are also Directors, the Board relies upon the procedures outlined in the Remuneration Report in the Directors' Report in the Annual Report to evaluate senior executives' performance. Furthermore, the performance of senior executives is also monitored informally on an ongoing basis by the Board.

An evaluation of senior executives took place in the 2009 financial year.

1.2. Terms of Office of Directors

The constitution of QRSciences Holdings Limited (“Constitution”) specifies that one third of the Directors shall rotate on an annual basis.

1.3. Composition of the Board and Independence

The Directors in office at the date of this statement are:

Name	Position	Independent	Expertise
Richard Stokes	CEO/Director	No	Refer to Annual Report
Kevin Russeth	Managing Director	No	As above
Douglas Potter	Director	No	As above
Robert Halverson	Non-Executive Director	Yes	As above

Mr Halverson is an independent Director as he is a non-executive director who is not a member of management and is free of any business or other relationship that could materially interfere with the independent exercise of his judgment.

However, the Board considers that the majority of Directors are not independent and the Board acknowledges that this is a deviation from Recommendation 2.1. Given the nature and size of the Company and its business interests, the Board is of the view that there is an adequate and broad mix of skills on the Board and that the experience of each of the Directors enables them to be aware of and capable of acting in an independent manner and in the best interests of the Shareholders.

The Board considers that the Chairman is not independent and acknowledges that this is a deviation from Recommendation 2.2. However, the Board considers that the Chairman, notwithstanding that he is not independent, is an appropriate Chairman of the Company based on his skills and abilities.

The roles of Chairman and CEO are exercised by the same individual and the Board acknowledges that this is a deviation from Recommendation 2.3. However, the Board considers that Mr Stokes’ skill set and experience qualifies him as the best candidate for both positions at this time. The Company is in the course of remedying this situation.

The composition of the Board is determined using the following principles:

- The size of the Board may be increased where it is felt that additional expertise is required in specific areas, or when an outstanding candidate is identified.
- The Board should comprise Directors with a broad range of expertise.

The Board reviews its composition on an annual basis to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, for whatever reason, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board selects a panel of candidates with the appropriate expertise and experience. Potential candidates are identified by the Board with advice from an external consultant, if necessary. The Board then appoints the most suitable candidate who must stand for election at a General Meeting of Shareholders.

An evaluation of the Board took place in the 2009 financial year in accordance with the process disclosed in this Corporate Governance Statement.

1.4. Monitoring of Board Performance

Given that the majority of Directors are executives, the Board relies upon the procedures outlined in the Remuneration Report in the Directors' Report in the Annual Report.

Furthermore, the Board monitors the Directors' performance informally on an ongoing basis.

1.5. Independent Professional Advice

Each Director has the right, in connection with his/her duties and responsibilities as a Director, to seek independent professional advice at the Company's expense. However, prior approval of the Chairman is required, which will not be unreasonably withheld.

2. BOARD COMMITTEES

2.1. Nomination Committee

Owing to its size and composition, the Company has not established a separate nomination committee in accordance with Recommendation 2.4.

The Board considers that the selection and appointment of Directors should be the responsibility of the full Board and that no benefits or efficiencies are to be gained by delegating this function to a separate committee.

However, the Board will review this position on an ongoing basis.

The Board does not have a separate charter for its nomination and succession planning functions; however, the responsibilities of the Board ordinarily include functions described in section 1.3 of this Corporate Governance Statement.

2.2. Audit Committee

In accordance with Recommendation 4.1, the Board has established a separate audit committee which consists of two Directors and the Company's CFO. However, owing to its size and composition, it does not consist of only non-executive Directors or a majority of independent Directors, nor is there an independent chair for this committee.

To preserve the spirit of Principle 4, the external auditor has full access to the Board throughout the year.

The Board does not have a separate charter for its audit functions; however, the responsibilities of the committee ordinarily include:

- reviewing internal controls and recommending enhancements;
- monitoring compliance with Corporations Act, ASX Listing Rules, matters outstanding with auditors, Australian Taxation Office, ASIC and financial institutions;
- improving the quality of the accounting function;
- reviewing external audit reports to ensure that, where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by the Company; and
- liaising with the external auditors and ensuring that the annual audit and half-year review are conducted in an effective manner.

The Board reviews the performance of the external auditors on an annual basis and nomination of auditors is at the discretion of the Board.

2.3. Remuneration Committee

A full disclosure of the Company's remuneration philosophy and framework and the remuneration received by Directors in the current period are set out in the Remuneration Report, which is contained within the Directors' Report in the Annual Report.

An approved Employee Share Option Plan is in place to enable the Board to grant share options as an incentive for superior performance to eligible employees. Directors are currently not eligible to participate in the Employee Share Option Plan. Any changes to this policy would require Shareholder approval.

3. ETHICAL STANDARDS

The Company has not yet established a formal Code of Conduct ("Code") as per Recommendation 3.1. In view of the size of the Company and the nature of its activities, in the past the Board has considered that an informal code of conduct is appropriate to guide executives, management and employees in carrying out their duties and responsibilities.

However the Company intends to develop and adopt the Code in 2Q, and the Code will be available from the Company on request once formalised.

4. DIRECTORS' DEALINGS IN COMPANY SHARES

The Company has implemented a formal trading policy as required by Recommendation 3.2 entitled *Guidelines for Dealing in Securities*. This policy applies to Directors, employees and contractors of the Company, and is available from the Company on request.

In addition, Directors must notify the ASX of any acquisition or disposal of shares by lodgement of a Notice of Director's Interests. Board policy is to prohibit Directors and employees from dealing in shares of the Company whilst in possession of price sensitive information.

5. CONTINUOUS DISCLOSURE AND SHAREHOLDER COMMUNICATION

The Company has implemented a formal Continuous Disclosure and Information Policy as required by Recommendation 5.1, which is available from the Company on request. This policy was introduced to ensure the Company achieves compliance with its continuous disclosure obligations under the Corporations Act and ASX Listing Rules.

The Board aims to ensure that the Shareholders, on behalf of whom they act, are informed of all information necessary to assess the performance of the Directors. Information is communicated to Shareholders through:

- the Annual Report which is distributed to all Shareholders;
- half-yearly reports, quarterly reports and all ASX announcements which are posted on the Company's website;
- the Annual General Meeting and other meetings so called to obtain Shareholder approval for Board action as appropriate; and
- compliance with the continuous disclosure requirements of the ASX Listing Rules; and
- the Company's auditor is required to be present, and be available to shareholders, at the Annual General Meeting.

6. RESPECT THE RIGHTS OF SHAREHOLDERS

The Company is in the process of developing a formal privacy policy (“Privacy Policy”), which will be available from the Company on request once completed, in 2Q 2010.

The Company is committed to respecting the privacy of Shareholders’ personal information. This Privacy Policy will set out the Company’s personal information management practices and covers the application of privacy laws, personal information collection, the use and disclosure of personal information, accessing and updating Shareholders’ information and the security of that information.

The Board has not adopted any additional formal codes of conduct to guide compliance with legal and other obligations to Shareholders, in accordance with Recommendation 6.

Currently the Company informally adopts several of the suggestions in Recommendation 6, including communicating to Shareholders electronically.

7. RECOGNISE AND MANAGE RISK

Risk oversight, management and internal control are dealt with on a continuous basis by management and the Board, with differing degrees of involvement from various Directors and management, depending upon the nature and materiality of the matter. The Board continuously reviews material business risks to identify whether the system for identifying and reporting risks is being managed effectively.

The Annual Report sets out the major categories of risk applicable to the Company, which is set out in Note 29.