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2 March 2010

Diversa Limited – Update on Corporate Governance

The ASX Corporate Governance Council has released its second edition of Corporate Governance Principles and Recommendations (**ASX Guidelines**) which apply to the Company's financial statements. The ASX Guidelines articulate eight cover principles that CGC believes underlie good corporate governance. The ASX Guidelines provide that a listed entity's Annual Report is required to disclose its main corporate governance practices and also the extent to which the entity complies with the ASX Guidelines and where it does not, to explain why.

The Company believes that it's 2009 Annual Report includes the disclosures as required by the ASX Guidelines. For clarity, the Company is now providing this additional disclosure to that contained in the 2009 Annual Report.

The following table briefly addresses the areas where the Company has departed from the ASX Guidelines as at 1 March 2010. Where the Company's Corporate Governance practices do not correlate with the practices recommended by the CGC, the Company is working towards compliance however it does not consider that all practices are appropriate for the Company due to the size and scale of Company operations.

The Board are of the view that with the exception of the departures from the ASX Guidelines as set out below, it otherwise complies with all of the ASX Guidelines.

ASX Principles and Recommendations	Summary of the Company's Position
Principal 1 – Lay solid foundations for management and oversight	
Recommendation 1.2 – Companies should disclose the process for evaluating the performance of senior executives	The Board has not established a separate nomination committee. In the absence of a formally constituted nomination committee, the full Board is responsible for the proper oversight of the Board, the Directors and senior management. The Board considers that given its size, no efficiencies or other benefits would be gained by establishing a separate committee.
Principal 2 – Structure board to add value	
Recommendation 2.1 – A majority of the board should be independent directors	Presently under the ASX Guidelines it is considered that there are two independent directors, being Gregory Baynton and Timothy Brown. Both Matthew Morgan and Stuart Korchinski are currently engaged in executive roles with the Company and as a result are not considered to be independent. While the Company does not presently comply with this Recommendation 2.1, the Company may consider appointing further independent Directors in the future. The Company believes that given the size and scale of its operations, non-compliance by the Company with this Recommendation 2.1 will not be detrimental to the Company.

Recommendation 2.2 – The chair should be an independent director	Since 1 April 2009, the chair, Matthew Morgan, has been engaged in a part time executive role with the Company and accordingly is not considered an independent director under the ASX Guidelines. The Company believes that at this stage of the Company's development, it is a cost effective and practical means for managing the company.
Recommendation 2.4 – The board should establish a nomination committee	The Board's view is that the Company is not currently of the size to justify the formation of a separate nomination committee. The Board currently performs the functions of a nomination committee and where necessary will seek the advice of external advisors in relation to this role. The Board shall, upon the Company reaching the requisite corporate and commercial maturity, approve the establishment of a nomination committee to assist the Board in relation to the appointment of Directors and senior management.
Principal 4 – Safeguard integrity in financial reporting	
Recommendation 4.1 – The board should establish an audit committee	The Company has not established an audit committee and the full board performs this role. The Board considers that given its size, no efficiencies or other benefits would be gained by the establishing of such committee.
Recommendation 4.2 – The audit committee should be structured so that it: • Consists only of non-executive directors • Consists of a majority of independent directors • Is chaired by an independent chair, who is not chair of the board • Has at least three members	As the Company does not have an audit committee it does not comply with this recommendation. Refer to comments to recommendation 4.1 above.
Recommendation 4.3 – The audit committee should have a formal charter	As the Company does not have an audit committee it does not comply with this recommendation. Refer to comments to recommendation 4.1 above.
Principal 8 – Remunerate fairly and responsibly	
Recommendation 8.1 – The board should establish a remuneration committee	The Board has not established a remuneration committee and the full board performs this role. The Board considers that given its size, no efficiencies or other benefits would be gained by the establishing of such committee.

Yours faithfully

Angus Craig
Company Secretary
Diversa Limited

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