

## PNX Metals 2018 Annual Report – Corporate Governance Statement

The Board has adopted a Corporate Governance Charter (Charter), which includes a code of conduct, an audit committee charter, a shareholder communication policy, a continuous disclosure policy and a securities dealing policy. The Charter is available on the Company's website. The Company's corporate governance principles and policies and this corporate governance statement are structured with reference to the ASX Corporate Governance Principles and Recommendations, 3rd Edition (**Principles and Recommendations**). This Corporate Governance statement is current as of 21 September 2018 and has been approved by the Board.

### FUNCTIONS AND OPERATION OF THE BOARD

The Board is responsible for the corporate governance of the Company. The Board's primary responsibility is to shareholders but it also has regard for the interests of other stakeholders and the broader community.

The Board is comprised of an independent Chairman, independent non-executive directors, and the Managing Director and Chief Executive Officer (MD & CEO). The most important responsibilities of the Board include:

- Providing oversight and strategic direction to the Company, including reviewing and approving business and project plans and monitoring the achievement of the Company's strategic goals and objectives;
- Identifying and managing material business and legal risks, including sources of capital, regulatory, safety, and environmental. This process includes ensuring an effective Risk Management system is in place to monitor material risks and opportunities and reviewing the effectiveness of the Company's internal controls to manage risks;
- Appointing, removing and monitoring the performance of the Chairman, MD & CEO, senior executives, consultants and the Company Secretary;
- Approving the remuneration of Directors within the limits approved by shareholders, and the remuneration of senior executives and consultants;
- Evaluating the Board's performance and recommending the appointment and removal of Directors;
- Reporting to and communicating with shareholders;
- Reviewing, approving and monitoring the progress of budgets, financial plans, acquisitions, divestments and major capital expenditure;
- Monitoring the financial performance of the Company and approving all external financial reporting including the annual and half-year reports; and
- Improving and protecting the reputation of the Company.

The Board has delegated the day-to-day management of the Company to its senior executives, and in particular the MD & CEO. Only the tasks of Director remuneration, MD & CEO appointment, removal and remuneration, Director appointment and removal, and Board performance evaluation are expressly reserved to the Board. The appointment of the Company Secretary is also finalised by the Board, and the Company Secretary is accountable directly to the Board on matters to do with the proper functioning of the Board.

## Appointment

The Directors may appoint any person as a Director to fill a casual vacancy or as an addition to the existing Directors. Unless the Director is an Executive Director and the ASX Listing Rules do not require that Director to be subject to retirement, a Director so appointed will hold office until the end of the next annual general meeting of the Company, at which time the Director may be re-elected but he or she will not be taken into account in determining the number of Directors who must retire by rotation at the meeting. A detailed description of the background, qualifications and experience of a Director nominated for appointment or re-election, as well as his or her financial interest in the Company, is provided to the Company's security holders via the Notice of Meeting prior to the relevant annual general meeting at which the appointment or re-election will be voted on.

The Board does not have a separate Nominations Committee as the Board considers it is not necessary or practical for the Company given its current small size and low level of complexity. The full Board is responsible for the duties and responsibilities typically delegated to a nomination committee. The Board undertakes background checks and evaluates the qualifications, skills and experience of any Directors before making an appointment. The Company has an informal induction process for new Directors that includes meetings with other Directors and senior executives, as well as providing a new Director with relevant governance (including the Code of Conduct), financial and project related information.

Each Director has entered into a services agreement with the Company that sets out the terms of his or her appointment including fees and responsibilities and matters of independence. Each Director has also entered into a Deed of Access, Insurance and Indemnity with the Company. Directors have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense where prior written or email approval has been obtained from the Chairman. Such approval will not be unreasonably withheld.

## Retirement and Removal

A person, other than a Director retiring by rotation or because he or she is a Director appointed by the other Directors and is seeking re-election, is not eligible for election as a Director at a general meeting unless:

- the person is proposed as a candidate by at least 50 Members or Members holding between them at least 5% of the votes that may be cast at a general meeting of the Company; and
- the proposing Members leave a notice at the Company's registered office not less than 35 business days before the relevant general meeting which nominates the candidate for the office of Director and includes the signed consent of the candidate.

The retirement by rotation of Directors is governed by the Company's Constitution, the Corporations Act 2001 and the ASX Listing Rules. Clause 2.5 of the Company's Constitution specifies that one-third of the Directors (excluding any executive Directors) must retire from office at the end of each annual general meeting. A retiring Director remains in office until the end of the meeting and will be

eligible for re-election at the meeting. The Directors to retire by rotation at an annual general meeting are those Directors who have been longest in office since their last election.

According to the Company's Constitution, the Company may, subject to the Corporations Act, pass a resolution in a general meeting to:

- remove any Director before the end of the Director's term of office; and
- if the outgoing Director is a non-executive Director, elect another person to replace the Director.

### **STRUCTURE OF THE BOARD: SKILLS, QUALIFICATION, EXPERIENCE & DIVERSITY**

The names, term of office, skills, experience and expertise of the Directors in office are set out at the beginning of the Directors' Report. As part of the Director appointment process, the Board considers the necessary balance of skills and knowledge of the Board as a whole to ensure the Board is able to discharge its duties effectively.

The Board looks to maintain an appropriate balance of geological, minerals processing, capital project management, financial, legal and funding skills and experience that is relevant for a minerals exploration company with aspirations to becoming a successful mining company.

The Board does not keep a formal 'skills matrix' of current Directors; however, the Board considers that collectively the Directors have the appropriate range of skills and experience to guide and direct the Company toward achieving its business objectives.

The Board recognises the benefits of diversity in terms of both the composition of the Board and senior executives of the Company. The Board, however, does not have specific objectives in relation to the gender, age, cultural background or ethnicity of its Board or senior executives. Board members and senior executives are appointed or employed based on their skills and experience and candidates are not discriminated against based on age, gender or background.

The Board currently has no female representation. Of the Company's four permanent employees and one contractor, four are male and one is female.

### **PERFORMANCE EVALUATION AND REMUNERATION**

The performance of the Board, Audit Committee and individual Directors is periodically reviewed by self-assessing whether or not the Company is achieving its strategic objectives, and by assessing the Company's exploration success, project development, financial performance and movement in its market capitalisation. The last formal board performance evaluation was completed in January 2017. No major deficiencies in Board or individual director performance were noted, although some improvement areas were identified and actioned. The next board performance review is scheduled to occur in 2018/19.

A performance appraisal process exists regarding the Company's senior executives, whereby the performance of executives is formally reviewed against previously set goals relating to both Company and individual performance. The performance of the MD & CEO is monitored by the Board, and his performance is informally reviewed each year.

The performance of the Company's Chief Financial Officer/Company Secretary and Exploration Manager is monitored by the MD & CEO and informally reviewed from time to time.

The Board considers that a separate remuneration committee is not necessary for the Company given its current size and complexity. The full Board acts as the Company's remuneration committee. All senior executives of the Company have entered into written agreements with the Company outlining their responsibilities, remuneration arrangements, and other terms of their employment.

Remuneration arrangements for non-executive Directors are structured separately from those of the MD & CEO and senior executives. Non-executive directors are entitled to fixed fees for services, whereas the MD & CEO and senior executives can earn equity-based remuneration (performance rights) at the Board's discretion, in addition to fixed salary arrangements. Details of the Company's remuneration policies and levels are provided in the Remuneration Report in the Directors' Report.

The Company's Constitution states that, subject to the Corporations Act 2001, the Company may provide a retirement benefit to persons retiring from the Board or from employment with the Company.

## COMMUNICATION

Communication with the Company's shareholders occurs through ASX announcements, updates to the Company's website, in person at the Annual General Meeting and other general meetings (when held), through its share registry, and through other means as appropriate including the channels of investor relations consultants. The Company, via its share registrar, provides an option to shareholders to receive Company communications by electronic means.

The Board is mindful of its obligations under the Continuous Disclosure rules set by the ASX, and also of its disclosure requirements under the Corporations Act 2001. The Board has delegated the day-to-day management of public disclosure to its MD & CEO and Company Secretary. All price sensitive information is disclosed to the ASX before being disclosed to any other party outside the Company.

## AUDIT COMMITTEE

The Audit Committee consists of three Non-executive directors David Hiller, Peter Watson and Graham Ascough and is chaired by David Hillier. All three members are considered to be independent. Peter Watson is a senior consultant at the Company's legal advisor Piper Alderman; however, as Mr Watson is not actively engaged in the day-to-day management of the Company's key business activities, he is considered by the Board to be independent. The qualifications of the Audit Committee members are set out at the beginning of the Directors' Report.

All members of the Board are encouraged to attend Audit Committee Meetings.

The Audit Committee's responsibilities are set out in the Company's Corporate Governance Charter and include:

- establishing a framework for identifying and managing the Company's key business risks;
- reviewing, at least twice annually including once with the Company external auditors, the Company's risk management systems, controls and procedures, ensuring these controls are regularly tested for effectiveness, and that recommended improvements are implemented;

- recommending the appointment, liaising with, and reviewing the performance of the external auditors;
- evaluating the independence of the external auditor, including considering the auditor's policy on rotating the external audit engagement partner;
- reviewing the Company's annual reports and half year reports and ensuring that the financial reports comply with accounting standards and the law;
- evaluating the adequacy and effectiveness of the Company's accounting policies through ongoing communication with management and the Company's external auditors; and
- investigating any matters raised by the external auditors.

The Audit Committee discharges its responsibilities by making recommendations to the Board. The Audit Committee does not have any executive powers to commit the Board or management to implement its recommendations.

The Company's auditor Grant Thornton was appointed at the 2014 Annual General Meeting in accordance with section 327B of the Corporations Act 2001. Any subsequent appointment or rotation of external auditors will occur in accordance with the Corporations Act 2001. The auditor is available at each annual general meeting of the Company to answer questions related to the audit from shareholders. Grant Thornton has a policy, in accordance with the Corporations Act, of rotating the partner responsible for the PNX Metals Limited audit engagement every five years.

## **RISK MANAGEMENT**

Whilst the Board is ultimately responsible for identifying and managing areas of significant business risk, it has delegated the management of this function to the Audit Committee as noted above. The Audit Committee is responsible for maintaining effective Risk Management systems, identifying and managing key Company risks, establishing and maintaining effective controls, ensuring compliance with risk management policies and reporting of any non-compliance occurrences. The Company has created a Corporate Risk Register, which lists and rates these risks in terms of likelihood and consequence, and documents the controls in place to manage these risks.

The key areas of risk that have been identified are as follows:

- Financial
- Statutory/regulatory
- Legal
- Personnel and safety
- Asset management and protection
- Tenement management
- Information Technology and Security
- Community
- Environmental

The Company has no material exposure at present to economic, social, or sustainability risks. The Company is exposed to environmental and permitting risks as a mineral exploration company with its key project at Hayes Creek progressing toward development. Environmental matters are identified and addressed by management and communicated to the Board as part of normal

business activities. External environmental consultants have been and continue to be used for feasibility studies in relation to the Company's Hayes Creek Project.

All risks facing the Company are managed on an ongoing basis and are reviewed at least annually by the Board and Audit Committee.

Management ensures that the Risk Register is kept up-to-date so as to reflect changes in the Company's business activities and risks, the law and current best practice within the mining industry. A thorough review of the Corporate Risk Register is undertaken by management and the Audit Committee each year to identify any further risks, evaluate existing controls and, if necessary, develop and implement further strategies and action plans for minimising and controlling the risks.

The Audit Committee, in conjunction with management, has developed specific cost-effective strategies, controls and action plans for minimising and treating the risks. The current control measures and improvement actions for minimising and managing each risk are noted in detail on the Company's Corporate Risk Register and followed by employees and contractors.

The Board requires management to report to it at least annually in a comprehensive manner, and by exception at each Board meeting, on compliance with the Company's risk management policies and whether the Company's material business risks are being managed effectively. While the Company does not have an internal audit function, the comprehensive risk review process is seen by the Board as an effective and appropriate substitute for the internal audit function.

The Board has received assurance from the MD & CEO and Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act 2001 is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

#### **ONGOING MONITORING AND IMPROVEMENT**

The Corporate Governance policies of the Company are reviewed on an ongoing basis by the Directors to ensure they meet the standards set by the Board, as well as those required by ASX, ASIC and other stakeholders.