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**1. CORPORATE GOVERNANCE**

**1.1 ASX Corporate Governance Council Principles and Recommendations**

The Company has adopted comprehensive systems of control and accountability as the basis for the administration of corporate governance. The Board is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs.

To the extent applicable, our Company has adopted *The Corporate Governance Principles and Recommendations (2nd Edition)* as published by ASX Corporate Governance Council (**Recommendations**).

In light of the Company's size and nature, the Board considers that the current board is a cost effective and practical method of directing and managing the Company. As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of additional corporate governance policies and structures will be reviewed.

The Company's main corporate governance policies and practices as at the date of this Prospectus are outlined below and the Company's full Corporate Governance Plan is available in a dedicated corporate governance information section of the Company's website [www.lachlanstar.com.au](http://www.lachlanstar.com.au).

***Board of directors***

The Board is responsible for corporate governance of the Company. The Board develops strategies for the Company, reviews strategic objectives and monitors performance against those objectives. The goals of the corporate governance processes are to:

- (a) maintain and increase Shareholder value;
- (b) ensure a prudential and ethical basis for the Company's conduct and activities; and
- (c) ensure compliance with the Company's legal and regulatory objectives.

Consistent with these goals, the Board assumes the following responsibilities:

- (a) developing initiatives for profit and asset growth;
- (b) reviewing the corporate, commercial and financial performance of the Company on a regular basis;
- (c) acting on behalf of, and being accountable to, the Shareholders; and
- (d) identifying business risks and implementing actions to manage those risks and corporate systems to assure quality.

The Company is committed to the circulation of relevant materials to Directors in a timely manner to facilitate Directors' participation in the Board discussions on a fully-informed basis.

***Composition of the Board***

Election of Board members is substantially the province of the Shareholders in general meeting.

### ***Identification and management of risk***

The Board's collective experience will enable accurate identification of the principal risks that may affect the Company's business. Key operational risks and their management will be recurring items for deliberation at Board meetings.

### ***Ethical standards***

The Board is committed to the establishment and maintenance of appropriate ethical standards.

### ***Independent professional advice***

Subject to the Chairman's approval (not to be unreasonably withheld), the Directors, at the Company's expense, may obtain independent professional advice on issues arising in the course of their duties.

### ***Remuneration arrangements***

The remuneration of an executive Director will be decided by the Board, without the affected executive Director participating in that decision-making process.

The total maximum remuneration of non-executive Directors is initially set by the Constitution and subsequent variation is by ordinary resolution of Shareholders in general meeting in accordance with the Constitution, the Corporations Act and the ASX Listing Rules, as applicable. The determination of non-executive Directors' remuneration within that maximum will be made by the Board having regard to the inputs and value to the Company of the respective contributions by each non-executive Director. The current amount has been set at an amount not to exceed \$325,000 per annum.

In addition, a Director may be paid fees or other amounts (i.e. subject to any necessary Shareholder approval, non-cash performance incentives such as Options) as the Directors determine where a Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a Director.

Directors are also entitled to be paid reasonable travelling, hotel and other expenses incurred by them respectively in or about the performance of their duties as Directors.

The Board reviews and approves the remuneration policy to enable the Company to attract and retain executives and Directors who will create value for Shareholders having consideration to the amount considered to be commensurate for a company of its size and level of activity as well as the relevant Directors' time, commitment and responsibility. The Board is also responsible for reviewing any employee incentive and equity-based plans including the appropriateness of performance hurdles and total payments proposed.

### ***Trading policy***

The Board has adopted a policy that sets out the guidelines on the sale and purchase of securities in the Company by its key management personnel (i.e. Directors and, if applicable, any employees reporting directly to the managing director). The policy generally provides that the written acknowledgement of the Chair (or the Board in the case of the Chairman) must be obtained prior to trading.

### ***External audit***

The Company in general meetings is responsible for the appointment of the external auditors of the Company, and the Board from time to time will review the scope, performance and fees of those external auditors.

### ***Audit committee***

The Company will not have a separate audit committee until such time as the Board is of a sufficient size and structure, and the Company's operations are of a sufficient magnitude for a separate committee to be of benefit to the Company. In the meantime, the full Board will carry out the duties that would ordinarily be assigned to that committee under the written terms of reference for that committee, including but not limited to, monitoring and reviewing any matters of significance affecting financial reporting and compliance, the integrity of the financial reporting of the Company, the Company's internal financial control system and risk management systems and the external audit function.

### ***Diversity policy***

The Board has adopted a diversity policy which provides a framework for the Company to achieve, amongst other things, a diverse and skilled workforce, a workplace culture characterised by inclusive practices and behaviours for the benefit of all staff, improved employment and career development opportunities for women and a work environment that values and utilises the contributions of employees with diverse backgrounds, experiences and perspectives.

## **1.2 Departures from Recommendations**

Following re-admission to the Official List of ASX, the Company will be required to report any departures from the Recommendations in its annual financial report.

## Corporate Governance Statement

Lachlan Star Limited, its wholly owned subsidiaries (the **Group**) and the Board are committed to achieving and demonstrating the highest standards of corporate governance. The Board continues to review the framework and practices to ensure they meet the interests of shareholders.

The directors are responsible to the Shareholders for the performance of the Group in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of Shareholders and other key stakeholders and to ensure the Group is properly managed.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are undertaken by the Board.

## Corporate Governance Compliance

A description of the Group's main corporate governance practices are set out below. The Group has considered the ASX Corporate Governance Principles and Recommendations (3<sup>rd</sup> edition) to determine an appropriate system of control and accountability to best fit its business and operations commensurate with these guidelines.

## Disclosure of Corporate Governance Practices

### Summary Statement

	ASX Principles and Recommendations	"If not, why not"
Recommendation 1.1	✓	
Recommendation 1.2	✓	
Recommendation 1.3	✓	
Recommendation 1.4	✓	
Recommendation 1.5		✓
Recommendation 1.6		✓
Recommendation 1.7		✓
Recommendation 2.1		✓
Recommendation 2.2	✓	
Recommendation 2.3	✓	
Recommendation 2.4	✓	
Recommendation 2.5		✓
Recommendation 2.6	✓	
Recommendation 3.1	✓	
Recommendation 4.1		✓
Recommendation 4.2	✓	
Recommendation 4.3	✓	
Recommendation 5.1	✓	
Recommendation 6.1	✓	
Recommendation 6.2	✓	
Recommendation 6.3	✓	
Recommendation 6.4		✓
Recommendation 7.1		✓
Recommendation 7.2	✓	
Recommendation 7.3	✓	
Recommendation 7.4	✓	
Recommendation 8.1		✓
Recommendation 8.2	✓	
Recommendation 8.3	✓	

## **Disclosure – Principles & Recommendations**

### **Principle 1 – Lay solid foundations for management and oversight**

#### **Recommendation 1.1:**

*A listed entity should disclose the respective roles and responsibilities of its board and management and those matters expressly reserved to the Board and those delegated to management and disclose those functions.*

#### **Disclosure:**

The Directors are responsible to the shareholders for the performance of the Group in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are undertaken by the Managing Director (who acts in the capacity as CEO).

The matters that the Board has specifically reserved for its decision are:

- the appointment and management of the CEO;
- approval of the overall strategy and annual budgets of the business;
- overseeing the accounting and corporate reporting systems, including the external audit; and
- compliance with constitutional documents.

The CEO is delegated the authority to ensure the effective day-to-day management of the business and the Board monitors the exercise of these powers. The CEO is required to report regularly to the Board on the performance of the Business.

#### **Recommendation 1.2:**

*A listed entity should undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director and provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.*

#### **Disclosure:**

The Company undertakes checks on any person who is being considered as a director. These checks may include character, experience, education and financial history and background.

All security holder releases will contain material information following the guidance contained in the ASX Corporate Governance Principles and Recommendations (3<sup>rd</sup> edition) about any candidate to be elected for the first time or reelected to enable an informed decision to be made.

#### **Recommendation 1.3:**

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

#### **Disclosure:**

Each senior executive and executive director has a formal employment contract and the non-executive directors have a letter of appointment including a director's interest agreement with respect to disclosure of security interests.

**Recommendation 1.4:**

*The Company Secretary should be accountable directly to the Board, through the chair, on all matters to do with the proper functioning of the Board.*

**Disclosure:**

The Company Secretary has a direct reporting line to the Board, through the Chair.

**Recommendation 1.5:**

*A listed entity should establish a policy concerning diversity and disclose the policy or summary of the policy. The policy should include requirements for the Board to establish measureable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.*

**Disclosure:**

The Board supports diversity but the Group has not yet developed a policy. It is the Board's intention to develop a policy at a time when the size of the Group and its activities warrants such a structure.

There are currently no women employees in the organisation.

**Recommendation 1.6:**

*A listed entity should have and disclose a process for periodically evaluating the performance of the Board, its committees and individual directors and whether a performance evaluation was undertaken in the reporting period in accordance with that process.*

**Disclosure:**

The Board is responsible for evaluating the performance of the Board, its committees and individual directors. This is generally done through a meeting with the Chair.

The review is currently informal but is based on a review of goals for the Board and individual Directors. The goals are based on corporate requirements and any areas for improvement that may be identified. The Chairman will provide each Director with confidential feedback on his or her performance. There has been no formal performance evaluation during the financial year to date as the Company is in the process of recapitalisation.

**Recommendation 1.7:**

*A listed entity should have and disclose a process for periodically evaluating the performance of senior executives and whether a performance evaluation was undertaken in the reporting period in accordance with that process.*

**Disclosure:**

The Board is responsible for evaluating the senior executives. Induction procedures are in place and senior executives have formal job descriptions which includes the process for evaluating their performance.

There has been no formal performance evaluation during the financial year to date as the Company is in the process of recapitalisation.

**Principle 2 – Structure the board to add value Recommendation 2.1:**

*The Board of a listed entity should establish a Nomination Committee which the majority should be independent directors (including the Chair).*

**Disclosure:**

A Nomination Committee has not been established. The role of the Nomination Committee has been assumed by the full Board operating under the Nomination Committee Charter adopted by the Board.

**Recommendation 2.2:**

*A listed entity should have and disclose a Board skills matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership.*

**Disclosure:**

The Board reviews capabilities, technical skills and personal attributes of its directors. It will normally review the Board's composition against those attributes and recommend any changes in Board composition that may be required. An essential component of this will be the time availability of Directors.

	Non-executive chairman/ Company Secretary	Non-executive directors
Leadership	X	X
Strategy / Risk	X	X
Communication	X	X
Fundraising	X	X
Industrial Industry	X	X
Governance	X	X
Health, safety and environment	X	X
Financial acumen	X	X

**Recommendation 2.3:**

*A listed entity should disclose the names of the directors considered to be independent directors and length of service of each director.*

**Disclosure:**

Two of the non-executive directors are currently classified as independent directors.

The dates of the appointment of the directors will be contained in the Directors' Report of the Annual Financial Statements.

**Recommendation 2.4:**

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

**Disclosure:**

The Group currently has a majority of independent directors.

Consistent with the size of the Group and its activities, the Board is comprised of three (3) directors, of which two (2) are currently considered to be independent directors.

The Board's policy is that the majority of directors shall be independent, non-executive directors. The composition of the Board does not currently conform to its policy. The Board considers that each of the directors possesses the skills and experience suitable to building the Company and that the current composition of the Board is adequate for the Company's current size and operations. It is the Board's intention to appoint additional directors at a time when the size of the Group and its activities warrants such a structure.

**Recommendation 2.5:**

*The Chair of the Board of a listed entity should be an independent director.*

**Disclosure:**

The Chair is currently not an independent director.

**Recommendation 2.6:**

*A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.*

**Disclosure:**

The Board Charter provides for induction and professional development for the Board.

**Principle 3 - Act ethically and responsibly**

**Recommendation 3.1:**

*A listed entity should have a Code of Conduct for its directors, senior executives and employees.*

**Disclosure:**

The Company has a Code of Conduct that applies to all Directors, senior executives, employees and contractors.

**Principle 4 - Safeguard integrity in corporate reporting**

**Recommendation 4.1**

*The Board of a listed entity should have an Audit Committee.*

**Disclosure:**

An audit committee has not been established. The role of the Audit Committee has been assumed by the full Board operating under the Audit and Risk Committee Charter adopted by the Board.

**Recommendation 4.2**

*The Board of a listed entity should, before it approves the Company's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.*

**Disclosure:**

This recommendation is included as part of the Audit and Risk Committee Charter adopted by the Board.



### **Recommendation 4.3**

*A listed entity should ensure that the external auditor is present at the AGM and be available to answer questions from security holders relevant to the audit.*

#### **Disclosure:**

The Company invites the auditor or representative of the auditor to the AGM.

### **Principle 5 - Make timely and balanced disclosure**

#### **Recommendation 5.1:**

*A listed entity should have a written policy for complying with its continuous disclosure obligations under the Listing Rules.*

#### **Disclosure:**

The Company has adopted a Continuous Disclosure Policy which was designed to ensure compliance with ASX Listing Rule disclosure.

### **Principle 6 - Respect the rights of security holders**

#### **Recommendation 6.1:**

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

#### **Disclosure:**

The Company has a website for making this information available to shareholders and investors.

#### **Recommendation 6.2:**

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

#### **Disclosure:**

The Company encourages shareholders to attend and participate in general meetings and will make itself available to meet shareholders and regularly responds to enquiries made via telephone and in writing.

#### **Recommendation 6.3:**

*A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.*

#### **Disclosure:**

The Company encourages shareholders to attend and participate in general meetings. As a start-up company the shareholder attendance numbers are expected to be low however, if a shareholder wishes to provide a comment or question and is not able to attend the meeting, the Company will address this as part of the meeting.

#### **Recommendation 6.4:**

*A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.*

**Disclosure:**

The Company is currently reviewing and implementing a strategy to receive communications from, and send communications, to its shareholders.

**Principle 7 – Recognise and manage risk****Recommendation 7.1:**

*The Board of a listed entity should have a committee or committees to oversee risk.*

**Disclosure:**

The Board has adopted a Risk Management Policy. There is no risk management committee and this role is undertaken by the Board. The overall basis for risk management is to provide recommendations about:

1. Assessing the internal processes for determining and managing key risk areas, particularly:
  - non-compliance with laws, regulations, standards and best practice guidelines, including environmental and industrial relations laws;
  - litigation and claims; and
  - relevant business risks other than those that are dealt with by other specific Board Committees.
2. Ensuring that the Group has an effective risk management system and that major risks to the Group are reported at least annually to the Board.
3. Receiving from management reports on all suspected and actual frauds, thefts and breaches of laws.
4. Evaluating the process the Group has in place for assessing and continuously improving internal controls, particularly those related to areas of significant risk.
5. Assessing whether management has controls in place for unusual types of transactions and/or any potential transactions that may carry more than an acceptable degree of risk.
6. Meeting periodically with key management, internal and external auditors and compliance staff to understand and discuss the Group's control environment.

**Recommendation 7.2:**

*The Board of a listed entity should review the entity's risk management framework at least annually to satisfy itself that it continues to be sound and disclose whether such a review has taken place.*

**Disclosure:**

The Board considers risk and discusses risk management at each Board meeting. As part of this all risks are considered including but not limited to strategic, operational, legal, reputation and financial risks. This is an on-going process rather than an annual formal review.

**Recommendation 7.3:**

*A listed entity should disclose if it has an internal audit function.*

**Disclosure:**

The Company does not have an internal audit function but reviews its risk management and internal control processes on a regular basis.

**Recommendation 7.4:**

*The Company should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.*

The Company is of the view that it has adequately disclosed the nature of its operations and relevant information on exposure to economic, environmental and social sustainability risks. Other than general risks associated with the manufacturing and product development industry, the Company does not currently have material exposure to environmental and social sustainability risks.

**Principle 8 -Remunerate fairly and responsibly****Recommendation 8.1:**

*The Board of a listed entity should have a Remuneration Committee.*

**Disclosure:**

A Remuneration Committee has not been established. The role of the Remuneration Committee has been assumed by the full Board operating under the Remuneration Committee Charter adopted by the Board.

**Recommendation 8.2:**

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

**Disclosure:**

The Company provides disclosure of all Directors and executives remuneration in its annual report.

Non-executive directors are remunerated at a fixed fee for time, commitment and responsibilities. Remuneration for non-executive directors is not linked to the performance of the Group. There are no documented agreements providing for termination or retirement benefits to non-executive directors (other than for superannuation).

Executive directors and senior executives are offered a competitive level of base pay at market rates and are reviewed annually to ensure market competitiveness. Long term performance incentives may include performance and production bonus payments, shares and / or options granted at the discretion of the Board and subject to obtaining the relevant approvals.

**Recommendation 8.3:**

*A listed entity which has an equity based remuneration scheme should have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme and disclose that policy or summary of it.*

**Disclosure:**

Participants in the Company's equity based remuneration schemes are prohibited from entering into any scheme or arrangement under which they hedge or alter the economic benefit that they may derive in respect of their equity based remuneration options or performance rights.