

Corporate Governance Statement

Hot Chili Limited ACN 130 955 725 (Company)

Overview

The Company's Board of Directors (**Board**) is responsible for the overall corporate governance of the Company, and it recognises the need for the highest standards of ethical behaviour and accountability. It is committed to administering its corporate governance structures to promote integrity and responsible decision making. Accordingly, the Company has, where appropriate, sought to adopt the 'Corporate Governance Principles and Recommendations' (Third Edition) (**ASX Recommendations**) published by the ASX Corporate Governance Council.

The corporate governance principles and practices adopted by the Company may depart from those generally applicable to ASX-listed companies under ASX Recommendations where the Board considers compliance is not appropriate having regard to the nature and size of the Company's business.

The Company sets out below its "if not why not" report in relation to those matters of corporate governance where the Company's practice departs from the ASX Recommendations to the extent that they are currently applicable to the Company. This statement is current as at 28 September 2018 and has been approved by the Board.

ASX Corporate Governance Principles and Recommendations

1. Principle 1: Lay a solid foundation for management and oversight – companies should establish and disclose the respective roles and responsibilities of board and management and how their performance is monitored and evaluated

1.1 Recommendation 1.1

A listed entity should disclose:

- (a) the respective roles and responsibilities of its board and management; and
- (b) those matters expressly reserved to the board and those delegated to management.

Compliance with ASX Recommendation: followed

The Company has adopted a Board Charter.

Under the board charter, the Board is responsible for the overall operation and stewardship of the Company and its subsidiaries and, in particular, is responsible for:

- (a) setting the strategic direction of the Company, establishing goals to ensure that these strategic objectives are met and monitoring the performance of management against these goals and objectives;
- (b) ensuring there are adequate resources available to meet the Company's objectives;
- (c) appointing the managing director and company secretary and chief financial officer of the Company;

- (d) evaluating the performance and determining the remuneration of senior executives, and ensuring that appropriate policies and procedures are in place for recruitment, training, remuneration and succession planning;
- (e) approving and monitoring financial reporting and capital management;
- (f) approving and monitoring the progress of business objectives;
- (g) ensuring that any necessary statutory licences are held and compliance measures are maintained to ensure compliance with the law and licences;
- (h) ensuring that adequate risk management procedures exist and are being used;
- (i) ensuring that the Company has appropriate corporate governance structures in place, including standards of ethical behaviour and a culture of corporate and social responsibility;
- (j) ensuring that the Board is and remains appropriately skilled to meet the changing needs of the Company; and
- (k) ensuring procedures are in place for ensuring the Company's compliance with the law.

A copy of the Board Charter is available at <http://www.hotchili.net.au/about/corporate-governance-procedures-and-policies/>.

1.2 Recommendation 1.2

A listed entity should:

- (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and
- (b) provide security holders with all material information relevant to a decision on whether or not to elect or re-elect a director.

Compliance with ASX Recommendation: partly followed

In respect of any new Directors, the Company will conduct specific checks of candidates prior to their appointment or nomination for election by shareholders. The Company does not propose to conduct specific checks prior to nominating an existing Director for re-election by shareholders at a general meeting on the basis that this is not considered necessary in the Company's circumstances.

The Chairman, Mr Murray Black, and the Managing Director, Mr Christian Easterday, have both been directors since the Company's incorporation. The Chairman and the Managing Director assessed each of the other Directors prior to their election or appointment, and they consider that each candidate had appropriate experience that was of value to the Company and had a strong professional reputation in their relevant industry.

As a matter of practice, the Company includes in its notices of meeting a brief biography of each Director who stands for election or re-election. The biography sets out the relevant qualifications and professional experience of the nominated Director for consideration by shareholders.

1.3 Recommendation 1.3

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

Compliance with ASX Recommendation: followed

The Company seeks to engage or employ its Directors and other senior executives under written agreements setting out key terms and otherwise governing their engagement or employment by the Company.

The Company's Managing Director is employed pursuant to a written employment agreement with the Company and each Non-Executive Director is engaged under a letter of engagement.

1.4 Recommendation 1.4

The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.

Compliance with ASX Recommendation: followed

In accordance with the Board Charter, the Company Secretary reports directly, and is accountable, to the Board through the Chairman in relation to all governance matters.

The Company Secretary advises and supports the Board members on general governance matters, implements adopted governance procedures, and coordinates circulation of meeting agendas and papers.

1.5 Recommendation 1.5

A listed entity should:

- (a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;
- (b) disclose that policy or a summary of it; and
- (c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them, and either:
- (d) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or
- (e) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.

Compliance with ASX Recommendation: not followed

The Company does not have a formal diversity policy. The Company has a policy to employ the best available person for the position.

Appointments are made on ability and availability, not necessarily on gender. However, the policy has enabled the Company to employ a Corporate Projects Manager, one Senior Geologist, and an administrative assistant, who are women and comprise approximately 33% of all the staff.

The Directors are aware of their responsibility to the community, the staff and the Company.

1.6 Recommendation 1.6

A listed entity should:

- (a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and
- (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.

Compliance with ASX Recommendation: not followed

The Company does not have in place a formal process for evaluation of the Board, its committees and individual Directors.

The small size of the Board and the nature of the Company's activities make the establishment of a formal performance evaluation strategy unnecessary. Performance evaluation is a discretionary matter for consideration by the entire Board and in the normal course of events the Board will review performance of the management, Directors and the Board as a whole.

1.7 Recommendation 1.7

A listed entity should:

- (a) have and disclose a process for periodically evaluating the performance of its senior executives; and
- (b) disclose in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.

Compliance with ASX Recommendation: not followed

The Company does not have in place a formal process for evaluation of its key executives.

The Company's comparatively small size and the nature of its activities make the establishment of a formal performance evaluation strategy unnecessary. As with evaluation of Directors, performance evaluation for key executives is a discretionary matter for consideration by the entire Board and in the normal course of events the Board will review performance of the executives and management as a whole.

2. Principle 2: Structure the Board to add value – a listed entity should have a board of an appropriate size, composition, skills and commitment to enable it to discharge its duties effectively

2.1 **Recommendation 2.1**

The board of a listed entity should:

- (a) have a nomination committee which:
 - (i) has at least three members, a majority of whom are independent directors; and
 - (ii) is chaired by an independent director,and disclose:
 - (iii) the charter of the committee;
 - (iv) the members of the committee; and
 - (v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
- (b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.

Compliance with ASX Recommendation: 2.1(a) not followed, 2.1(b) followed

The Company does not have a nomination committee.

The full Board, which comprises five Non-Executive Directors and one Executive Director, considers the matters and issues that would otherwise be addressed by a nomination committee.

The Company appointed George Randall Nickson on 17 August 2017. Under the Board Charter, candidacy for the Board is based on merit against objective criteria with a view to maintaining and appropriate balance of skills and experience. As a matter of practise, candidates for the office of Director are individually assessed by the Chairman and the Managing Director before appointment or nomination to ensure that they possess the relevant skills, experience or other qualities considered appropriate and necessary to provide value and assist in advancement of the Company's operations.

The Board considers that, given the current size and scope of the Company's operations, efficiencies or other benefits would not be gained by establishing a separate nomination committee.

The Board intends to reconsider the requirement for, and benefits of, a separate nomination committee as the Company's operations grow and evolve.

2.2 **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.

Compliance with ASX Recommendation: not followed

The Company does not currently have a skills or diversity matrix in relation the Board members. The Board considers that such a matrix is not necessary given the current size and scope of the

Company's operations. The Board may adopt such a matrix at a later time as the Company's operations grow and evolve. Each Director's experience and qualifications are listed in the annual report.

2.3 Recommendation 2.3

A listed entity should disclose:

- (a) the names of the directors considered by the board to be independent directors;
- (b) if a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and
- (c) the length of service of each director.

Compliance with ASX Recommendation: followed

The Company has two Directors who satisfy the criteria for independence as outlined in ASX Recommendation 2.3, being Dr Allan Trench and Randall Nickson.

The Board currently comprises the following members:

(a) **Murray Edward Black - Non-Executive Chairman**

Mr Black has held this office since the Company's admission to ASX on 29 April 2010.

The Board (excluding Mr Black) does not consider Mr Black to be independent as Mr Black and his associated entities have a substantial shareholding interest in the Company.

(b) **Christian Ervin Easterday - Managing Director**

Mr Easterday has held this office since the Company's admission to ASX on 29 April 2010.

The Board (excluding Mr Easterday) does not consider Mr Easterday to be independent as he is an executive employee of the Company.

(c) **Dr Allan Trench - Non-Executive Director**

Dr Trench was appointed as a Director on 19 July 2010.

The Board (excluding Dr Trench) considers Dr Trench to be independent as Dr Trench holds a small number of shares in the Company and is not involved in the day-to-day management of the Company.

(d) **Michael Anderson - Non-Executive Director**

Mr Anderson was appointed as a Director on 12 December 2011.

The Board (excluding Mr Anderson) does not consider Mr Anderson to be independent as Mr Anderson is a nominee of Taurus Funds Management Pty Ltd which, together with its associates, is a substantial shareholder of the Company.

(e) **Roberto de Andraca Adriasola - Non-Executive Director**

Mr Andraca Adriasola was appointed as a Director on 1 August 2013.

The Board (excluding Mr Andraca Adriasola) does not consider Mr Andraca Adriasola to be

independent due to his directorship and shareholding interest in CAP S.A., the Company's joint venture partner in relation to the Company's flagship Productora Project in Chile. CAP S.A. and its associates are also substantial shareholders in the Company.

(f) **Randall Nickson - Non-Executive Director**

Mr Nickson was appointed as a Director on 17 August 2017.

The Board (excluding Mr Nickson) considers Mr Nickson to be independent. Mr Nickson holds no shares in the Company and is not involved in the day-to-day management of the Company.

2.4 Recommendation 2.4

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

Compliance with ASX Recommendation: not followed

The Board does not comprise a majority of "independent directors" at present.

There are currently two Directors who satisfy the criteria for independence for the purposes of ASX Recommendation 2.3, being Dr Allan Trench and Mr Randall Nickson (see paragraphs 2.3(c) and (f) above).

However, given the size and scope of the Company's operations, the Board considers that it has the relevant experience in the exploration and mining industry and is appropriately structured to discharge its duties in a manner that is in the best interests of the Company and its shareholders from both a long-term strategic and operational perspective.

The Board Charter provides that it is preferable that the majority of the Board be independent Non-Executive Directors. Accordingly, the Board intends to appoint further independent Non-Executive Directors as suitably qualified candidates are identified and as the size and scale of the Company's operations determine.

2.5 Recommendation 2.5

The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.

Compliance with ASX Recommendation: not followed

The Chairman of the Company, Mr Murray Black, is not an independent director in accordance with the criteria for independence as outlined in ASX Recommendation 2.3.

However, given the size and scope of the Company's operations, the Board considers that Mr Black has the relevant experience in the resource exploration and mining industry and his appointment as Chairman is in the best interests of the Company and its shareholders.

2.6 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.

Compliance with ASX Recommendation: not followed

The Company does not currently have a formal induction program for new Directors nor does it have a formal professional development program for existing Directors. The Board does not consider that a formal induction program is necessary given the current size and scope of the Company's operations.

All Directors were generally experienced in exploration and mining company operations, albeit in different aspects (e.g. operations, finance, corporate governance etc), and had listed company experience. Some of the current Directors are also involved in multiple listed companies. The Board seeks to ensure that all of its members understand the Company's operations, including regular site visits. Directors also attend, on behalf of the Company and otherwise, technical and commercial seminars and industry conferences which enable them to maintain their understanding of industry matters and technical advancements.

Noting the above, the Board considers that a formal induction program is not necessary given the current size and scope of the Company's operations, though the Board may adopt such a program in the future as the Company's operations grow and evolve.

3. Principle 3: Act ethically and responsibly – a listed entity should act ethically and responsibly

3.1 **Recommendation 3.1**

A listed entity should:

- (a) have a code of conduct for its directors, senior executives and employees; and
- (b) disclose that code or a summary of it.

Compliance with ASX Recommendation: followed

The Board believes that the success of the Company has been and will continue to be enhanced by a strong ethical culture within the organisation.

Accordingly, the Company has established a Corporate Code of Conduct (**Code**) which aims to develop a consistent understanding of, and approach to, the desired standards of conduct and behaviour with which the Directors, officers, managers, employees and consultants of the Company are expected to comply.

The Code sets out the Company's policies on various matters, including the following:

- (a) conflicts of interest – in accordance with the Corporations Act and the Constitution, each Director is required to keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company, and where the Board believes a significant conflict exists, the Director concerned will not receive the relevant papers and will not be present at the Board meeting whilst the matter is being considered;
- (b) fair dealing;
- (c) dealings with the Company's assets and property;
- (d) computer, email and internet use;
- (e) health, safety and environment;
- (f) employment practices; and
- (g) gifts and entertainment.

The Code also outlines the procedure for reporting any breaches of the Code and the possible disciplinary action the Company may take in respect of any breaches.

In addition to their obligations under the Corporations Act in relation to inside information, all Directors, employees and consultants have a duty of confidentiality to the Company in relation to confidential information they possess.

In fulfilling their duties, each Director dealing with corporate governance matters may obtain independent professional advice at the Company's expense, subject to prior approval of the Chairman, whose approval will not be unreasonably withheld.

A copy of the Code is available at <http://www.hotchili.net.au/about/corporate-governance-procedures-and-policies/>.

4. Principle 4: Safeguard integrity in corporate reporting – a listed entity should have formal and rigorous processes that independently verify and safeguard the integrity of its corporate reporting

4.1 **Recommendation 4.1**

The board of a listed entity should:

- (a) have an audit committee which:
 - (i) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and
 - (ii) is chaired by an independent director, who is not the chair of the board, and disclose:
 - (iii) the charter of the committee;
 - (iv) the relevant qualifications and experience of the members of the committee; and
 - (v) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
- (b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.

Compliance with ASX Recommendation: 4.1(a) not followed, 4.1(b) followed

The Company does not have an audit committee.

The role of the audit committee is undertaken by the full Board, which comprises five Non-Executive Directors and one Executive Director.

The Board has charged the Company Secretary with preparing the annual and half yearly reports. These reports are subsequently audited by the Company's auditors, RSM Bird Cameron Partners. The Company Secretary also compiles the information and prepares the Company's quarterly financial reports.

All Company reports are reviewed by the Board before they are finalised and the Directors are given the opportunity to question and consider the veracity of the information in the reports.

The Board considers that, given the current size and scope of the Company's operations and that only one Director holds an executive position in the Company, efficiencies or other benefits would not be gained by establishing a separate audit committee at present.

As the Company's operations grow and evolve, the Board will reconsider the appropriateness of forming a separate audit committee.

4.2 **Recommendation 4.2**

The board of a listed entity should, before it approves the entity'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.

Compliance with ASX Recommendation: followed

As a matter of practise, the Company obtains declarations from its Managing Director and Company Secretary before its financial statements are approved substantially in the form referred to in ASX Recommendation 4.2.

4.3 **Recommendation 4.3**

A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.

Compliance with ASX Recommendation: followed

In accordance with the Company's Shareholder Communications Policy, the Company requests that its external auditor attends each Annual General Meeting of the Company and is available to answer questions from shareholders in relation to the conduct of the audit and the preparation and content of the auditor's report.

5. Principle 5: Make timely and balanced disclosure – a listed entity should make timely and balanced disclosure of all matters concerning it that a reasonable person would expect to have a material effect on the price or value of its securities

5.1 **Recommendation 5.1**

A listed entity should:

- (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and
- (b) disclose that policy or a summary of it.

Compliance with ASX Recommendation: followed

The Company is a “disclosing entity” pursuant to section 111AR of the Corporations Act and, as such, complies with the continuous disclosure requirements of Chapter 3 of the ASX Listing Rules and section 674 of the Corporations Act. Subject to the exceptions contained in the ASX Listing Rules, the Company is required to disclose to ASX any information concerning the Company which is not generally available and which a reasonable person would expect to have a material effect on the price or value of the Shares.

The Company is committed to observing its disclosure obligations under the Corporations Act and its obligations under the ASX Listing Rules. All relevant information provided to ASX will be posted on the Company's website.

The Company has adopted a Continuous Disclosure Policy, the purpose of which is to:

- (a) ensure that the Company, as a minimum, complies with its continuous disclosure obligations under the Corporations Act and the ASX Listing Rules and, as much as possible, seeks to achieve and exceed best practice;
- (b) provide shareholders and the market with timely, direct and equal access to information issued by the Company; and
- (c) promote investor confidence in the integrity of the Company and its securities.

A copy of the Continuous Disclosure Policy is available at <http://www.hotchili.net.au/about/corporate-governance-procedures-and-policies/>.

6. Principle 6: Respect the rights of security holders – A listed entity should respect the rights of its security holders by providing them with appropriate information and facilities to allow them to exercise those rights effectively

6.1 **Recommendation 6.1**

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

Compliance with ASX Recommendation: followed

Information on the Company and the Company's corporate governance, including copies of its various corporate governance policies and charters, is available at <http://www.hotchili.net.au/about/corporate-governance-procedures-and-policies/>.

6.2 **Recommendation 6.2**

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

Compliance with ASX Recommendation: followed

The Company amended its Shareholder Communications Policy to facilitate effective two-way communication with its shareholders and potential investors. The amendments to this policy establishes procedures for shareholder queries to be made to the Managing Director and Company Secretary generally at any time and also provides that shareholders are to be provided with opportunities to put questions to the Board at general meetings.

A copy of the Shareholder Communications Policy is available at <http://www.hotchili.net.au/about/corporate-governance-procedures-and-policies/>.

6.3 **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.

Compliance with ASX Recommendation: followed

As noted above, the Company has adopted a Shareholder Communications Policy. This policy has been updated to address ASX Recommendation 6.2.

In accordance with the Shareholder Communications Policy, the Company supports shareholder participation in general meetings and seeks to provide appropriate mechanisms for such participation. As a matter of practise, in its notices of meeting, the Company encourages those shareholders who cannot attend general meetings in person to appoint proxies on their behalf.

The Company's Shareholder Communications Policy sets out the Company's procedures in relation to shareholder participation.

Mechanisms for encouraging and facilitating shareholder participation will be reviewed regularly to encourage the highest level of shareholder participation.

6.4 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.

Compliance with ASX Recommendation: followed

The Company considers that communicating with shareholders by electronic means is an efficient way to distribute information in a timely and convenient manner.

In accordance with the Shareholder Communication Policy, the Company has, as a matter of practise, provided new shareholders with the option to receive communications from the Company electronically and the Company encourages them to do so. Existing shareholders are also encouraged to request communications electronically.

All shareholders that have opted to receive communications electronically are provided with notifications by the Company when an announcement or other communication (including annual reports, notices of meeting etc) is uploaded to the ASX announcements platform.

7. Principle 7: Recognise and manage risk – a listed entity should establish a sound risk management framework and periodically review the effectiveness of that framework

7.1 **Recommendation 7.1**

The board of a listed entity should:

- (a) have a committee or committees to oversee risk each of which:
 - (i) has at least three members, a majority of whom are independent directors; and
 - (ii) is chaired by an independent director,and disclose,
 - (iii) the charter of the committee;
 - (iv) the members of the committee; and
 - (v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
- (b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.

Compliance with ASX Recommendation: 7.1(a) not followed, 7.1(b) followed

The Company does not have a separate risk management committee.

The role of the risk management committee is undertaken by the full Board, which comprises five Non-Executive Directors and one Executive Director.

The Board considers that, given the current size and scope of the Company's operations and that only one Director holds an executive position in the Company, efficiencies or other benefits would not be gained by establishing a separate risk management committee at present.

As the Company's operations grow and evolve, the Board will reconsider the appropriateness of forming a separate risk management committee.

However, the Company has established a Risk Management Policy for the Company, the purpose of which is to:

- (a) provide a framework for identifying, assessing, monitoring and managing risk;
- (b) communicate the roles and accountabilities of participants in the risk management system; and
- (c) highlight the status of risks to which the Company is exposed, including any material changes to the Company's risk profile.

Under the Risk Management Policy, the Board is responsible for:

- (a) risk management and oversight of internal controls;
- (b) establishing procedures which provide assurance that business risks are identified, consistently assessed and adequately addressed; and
- (c) for the overseeing of such procedures.

The Board will review assessments of the effectiveness of risk management and internal compliance and control on an annual basis.

A copy of the Risk Management Policy is available at <http://www.hotchili.net.au/about/corporate-governance-procedures-and-policies/>.

7.2 Recommendation 7.2

The board or a committee of the board should:

- (a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and
- (b) disclose, in relation to each reporting period, whether such a review has taken place.

Compliance with ASX Recommendation: followed in part

The Board reviews assessments of the effectiveness of risk management and internal compliance and control for the Company on an ongoing basis.

As at the date of this statement, the company has not disclosed the fact that these reviews have been undertaken, but the Company intends to do so on an annual basis going forward.

7.3 Recommendation 7.3

A listed entity should disclose:

- (a) if it has an internal audit function, how the function is structured and what role it performs; or
- (b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.

Compliance with ASX Recommendation: 7.3(a) not followed, 7.3(b) followed

The Company does not currently have an internal audit function. This function is undertaken by the full Board.

The Company has adopted internal control procedures which are set out in its Risk Management Policy. The Company's internal controls include the following:

- (a) Line managers approve each invoice to be paid by the Company and its subsidiaries. The Managing Director and the Chairman give final approval of each invoice before payment is made.
- (b) The Company and its subsidiaries conduct monthly reconciliations of the expenditure budget.
- (c) The Company's in-house Chilean lawyers review and report to the Board on the status of the Company's mining tenements and associated interests to ensure that all interests are in good standing.

The Managing Director is charged with evaluating and considering improvements to the Company's risk management and internal control processes on an ongoing basis.

The Board considers that an internal audit function is not currently necessary given the current size and scope of the Company's operations and that only one Director holds an executive position in the Company.

As the Company's operations grow and evolve, the Board will reconsider the appropriateness of adopting an internal audit function.

7.4 Recommendation 7.4

A listed entity 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.

Compliance with ASX Recommendation: followed

The Company's primary operation of mineral exploration and development is speculative in nature and has inherent risks. It is subject to various economic, environmental and social sustainability risks, which may materially impact the Company's ability to operate and to generate value for shareholders. These include:

- (a) **Exploration:** The success of the Company depends on the delineation of economically mineable reserves and resources, access to required development capital, movement in the price of commodities, securing and maintaining title to the Company's exploration and mining tenements and obtaining all consents and approvals necessary for the conduct of its exploration activities. The actual costs of exploration may materially differ from those estimated by the Company.
- (b) **Sovereign risks:** Civil and political unrest and outbreaks of hostilities in Chile could affect the Company's access to its projects and subsequent exploration and development. In addition, adverse changes in government policies or legislation in Chile affecting foreign ownership of mineral interests, taxation, profit repatriation, royalties, land access, labour relations, and mining and exploration activities may affect the operations of the Company.
- (c) **Title risks:** All exploration leases held either by the Company through its Chilean subsidiaries are subject to overlapping applications. The Company has in place both internal and external land management and land monitoring to ensure appropriate objections are lodged and protection of the leases is maintained.
- (d) **Future capital requirements:** The Company will need to raise funding for working capital from time to time. However, there is no guarantee that appropriate or adequate funding will be available.
- (e) **Commodity price fluctuations:** The Company's future revenue will depend upon demand and commodity prices for copper, gold, iron ore and molybdenum.
- (f) **Exchange rate fluctuations:** The expenditure of the Company is and will be taken into account in Australian, US and Chilean currencies, exposing the Company to the fluctuations and volatility of the rates of exchange between the US dollar, the Australian dollar and Chilean currencies as determined in international markets.
- (g) **Environmental risks:** The operations and activities of the Company in Chile are subject to Chilean environmental laws and regulations. As with most exploration projects and mining operations, the Company's operations and activities are expected to have an impact on the environment, particularly if advanced exploration or mine development proceeds. The Company attempts to conduct its operations and activities to the highest standard of environmental obligation, including compliance with all environmental laws.
- (h) **Securities market conditions:** As with all securities markets, the price of the Company's shares and other securities is subject to fluctuations in the market.

The company has adopted the Risk Management Policy and other procedures to identify, mitigate and manage these risks. These policies are updated from time to time as the Board considers appropriate in the circumstances for the management of the Company's risk profile.

8. Principle 8: Remunerate fairly and responsibly – companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear

8.1 **Recommendation 8.1**

The board of a listed entity should:

- (a) have a remuneration committee which:
 - (i) has at least three members, a majority of whom are independent directors; and
 - (ii) is chaired by an independent director,and disclose:
 - (iii) the charter of the committee;
 - (iv) the members of the committee; and
 - (v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
- (b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.

Compliance with ASX Recommendation: 8.1(a) not followed, 8.1(b) followed

The Company has not established a separate remuneration committee and does not have a formal remuneration policy in place.

The role of the remuneration committee is undertaken by the full Board. The Board considers that, given its current size and that only one Director holds an executive position in the Company, efficiencies or other benefits would not be gained by establishing a separate remuneration committee.

The Company sets out the remuneration paid or provided to Directors and senior executives annually in the remuneration report contained within the Company's annual report to shareholders.

The maximum aggregate remuneration payable to Non-Executive Directors was approved by the shareholders in 2013 in accordance with the Company's Constitution and the Non-Executive Directors have been paid below this threshold to preserve the Company's cash reserves.

As the Company's operations grow and evolve, the Board will reconsider the appropriateness of forming a separate remuneration committee.

8.2 **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.

Compliance with ASX Recommendation: followed

The Company's policies and practices regarding the remuneration of Executive and Non-Executive Directors and other senior executives is set out in the Remuneration Report contained in the

Company's Annual Report for each financial year.

8.3 Recommendation 8.3

A listed entity which has an equity-based remuneration scheme should:

- (a) 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
- (b) disclose that policy or a summary of it.

Compliance with ASX Recommendation: not applicable

The Company does not have an equity-based remuneration scheme. Future consideration will be given to an equity based remuneration scheme by the Directors.