

**CORPORATE GOVERNANCE STATEMENT**

**PO VALLEY ENERGY LIMITED**

**(ACN 087 741 571)**

**(“Po Valley Energy” or the “Company”)**

**Current as at 30<sup>th</sup> April, 2018**

The Po Valley Energy Board of Directors is committed to the principles underpinning good corporate governance, applied in a manner which is most suited to Po Valley Energy, and to best addressing the directors' accountability to security holders and other stakeholders. This is supported by a commitment to the highest standards of legislative compliance and financial and ethical behavior.

The Company continues to address directors' accountability to stakeholders in a manner consistent with the Company's individual circumstances enhanced through the introduction of publicly available policies and procedures which are designed to foster a culture of transparency in the way Po Valley Energy is directed and managed.

**Report on compliance with the ASX Corporate Governance Principles and Recommendations 3rd Edition**

Currently, the ASX Listing Rules require listed companies to issue a statement disclosing the extent to which they have followed the ASX Corporate Governance Principles and Recommendations 3rd Edition (**Recommendations**) during the reporting period, in this case the 12 month period ending 31 December 2017 (**Reporting Period**).

The Company has elected to publish its Corporate Governance Statement on its website and will lodge annually an Appendix 4G which sets out a Key to Disclosures Corporate Governance Council Principles and Recommendations at the same time it lodges its Annual Report.

As detailed within this Corporate Governance Statement, Po Valley Energy considers that its governance practices during 2017 complied with:

- each of the Recommendations; and
- the Recommendations, except for those detailed, and for the reasons outlined, in this Corporate Governance Statement.

Where the Company's corporate governance practices follow the Recommendations, the Board has made appropriate statements reporting on the adoption of the Recommendations. In compliance with the "if not, why not" reporting regime, where, after due consideration, the Board has elected not to follow specific Recommendations, the Board has explained its reasons for not following the Recommendations and disclosed what, if any, alternative practices the Company has adopted instead of those set out in the Recommendations.

This Corporate Governance Statement reports against the Recommendations and the practices detailed in this Corporate Governance Statement are current as at 30<sup>th</sup> April 2018. It has been approved by the Board and is available on Po Valley Energy's website at <https://www.povalley.com/en/about-us/corporate-governance>.

**Principle 1: Lay solid foundations for management and oversight.**

**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.***

**Board and Management Roles**

The primary responsibility of the Board and management is to preserve and increase the value of the Company for its shareholders, while respecting the legitimate interests and expectations of employees, customers, creditors, the communities in which the Company operates and other stakeholders. The Board is responsible for establishing a company culture of high ethical, environmental, health and safety standards.

**Board Responsibilities**

The Board has general responsibility for the oversight, management and performance of the Company. The Board currently consists of three Directors. Due to the size of the Board, matters which are often delegated to committees such as audit, risk and remuneration are encompassed within the normal operations of the Board.

The Board's specific responsibilities include the following:

- set the strategic direction for the Company and monitor its implementation and ongoing development;
- monitor performance of the Company, the Board and management;
- appoint and manage performance of the Chief Executive Officer, Chief Financial Officer and Company Secretary and approve the Company's overall remuneration policy and oversee the senior management team in terms of performance evaluation, succession planning and remuneration;
- approve and monitor the business plan, annual exploration and development work programs and budgets in accordance with the approved strategy and monitor the Company's overall financial position and capital requirements;
- authorise and monitor significant investment and strategic commitments;
- approve and monitor financial and other reporting to shareholders including the approval of the annual and half-yearly financial reports and quarterly reports;
- review and ratify the Company's policies and systems for health, safety and environmental management, risk management and internal control, codes of conduct and regulatory compliance;
- oversee the entity's process for making timely and balanced disclosure of all material information;
- appoint and remove the external auditors;
- evaluate the performance of the Board and identify and appoint new directors to the Board; and
- take responsibility for corporate governance.

## Delegation to Senior Management

Other than the matters specifically reserved for the Board, responsibility for the operation and administration of the Company has been delegated to the Chief Executive Officer, who is also the Chairman of the Company. Internal control processes are in place to allow management to operate within Board approved limits and the Chief Executive Officer cannot commit the Company to additional obligations or expenditure outside of those delegated authorities without Board approval.

## Committee Functions

Following the restructure of the Board in 2016, which resulted in the number of directors on the Board being reduced to three directors, it was resolved, and the Board continues to hold the belief that there are no efficiencies to be gained from delegating responsibilities for audit and risk, remuneration and nomination issues to separate committees and, accordingly, from 1 August 2016, the roles and responsibilities of the Audit & Risk Committee and Remuneration & Nominations Committee have been undertaken by the full Board.

### 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 in its possession relevant to a decision on whether or not to elect or re-elect a director.**

## Director's appointment

When considering the appointment of a new director, the Board conducts an analysis of the candidate's professional and technical experience and expertise, character, standing and reputation in the corporate community. The candidates are required to provide the Board with details of all other professional commitments so that the Board can evaluate whether the candidate has sufficient time to fulfill his or her role as a director and if applicable as a committee member of the Company.

To date the Company has not undertaken formal criminal history or bankruptcy checks at the time of appointment as the candidates appointed have been well known to other directors on the Board.

Where a candidate is standing for election or re-election as a Director, the Company will provide information regarding their biographical details, relevant qualifications, experience and skills they bring to the Board together with details of any other material directorships currently held. If standing for the first time, the Company would undertake appropriate checks and advise if there were any material adverse information revealed by the checks the Company has performed about the candidate together with any interest, position, association or relationship that might influence, or reasonably be perceived to influence, in a material respect his or her capacity to bring an independent judgement to bear on issues before the Board and to act in the best interests of the Company and its security holders generally, and a statement to the effect that if the Board considers that the candidate will, if elected, qualify as an independent director. Where a candidate seeks election or re-election the Board will issue a statement as to whether it supports the election or re-election of the candidate.

**Recommendation 1.3:**

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

**Agreements with Directors and senior executives**

Po Valley Energy ensures that all Directors and senior executives enter into written agreements setting out the terms of their appointment to ensure that they have a clear understanding of their roles and responsibilities and of the Company's expectations of them.

**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.***

**Company Secretary**

The Company Secretary reports to the Board, through the chair, on all matters relating to the functioning of the Board, and if and when applicable its committees, and corporate governance.

**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: .***
  - (1) 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***
  - (2) 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***

**Diversity**

The Company's policy is to ensure that hiring, employment and Board selection policies avoid gender bias and encourage diversity to the extent possible for a small organisation. However, at this stage of development of the Company, the Board has elected not to establish a formal diversity policy and not to implement measurable objectives for gender diversity. The Board believes that given the size of the Company's workforce and nature of activities, it would not be possible to set meaningful and achievable objectives at this time.

As at the Reporting Period, Po Valley employed 8 full time employees, of whom, **4** are men and **4** are women. The Company currently has no female directors. The Company is not a relevant employer for the purposes of the Workplace Gender Equality Act.

**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.***

**Board Performance Evaluation**

In early 2016 the board concluded its internal review of its composition and suitability and resolved to reduce its size during the course of 2016 to three members as announced in April 2016. The Board does not have a formal process for evaluating its performance but undertakes internal reviews of its composition and suitability for the Company where appropriate. The Board currently does not have any committees.

**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.***

The Board oversees the performance evaluation of the Chief Executive Officer and senior executive team. The Board has established performance objectives comprising a combination of strategic and operational company targets together with some specific individual objectives. The Board exercises its discretion when determining any payment of any incentives having regard to the overall performance of the Company and of the relevant executive during the year.

**Principle 2:**

***Structure the board to add value.***

**Recommendation 2.1:**

***The board of a listed entity should:***

- (a) have a nomination committee which:***
  - 1. has at least three members, a majority of whom are independent directors; and***
  - 2. is chaired by an independent director, and disclose:***
  - 3. the charter of the committee;***
  - 4. the members of the committee; and***
  - 5. 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.***

## Remuneration & Nominations Committee

The Company has elected not to adopt Recommendation 2.1 as it considers that the functions normally conducted by a nominations committee are adequately undertaken by the full board.

The Board as a whole undertakes the process of reviewing the skills base and experience of existing directors to enable identification of skills, knowledge, experience, independence and diversity in new directors and assumes responsibility for the appointment of any new directors, the formulation of any succession plans, and the re-appointment of directors to 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.***

#### Skills matrix

Po Valley Energy has two non-executive directors and one executive director.

The Board has been structured to include directors with a versatile set of skills, expertise and experience to enable the Board to execute its duties and responsibilities for the proper and effective management of the Company. The Board seeks to ensure that its members together have the following combination of skills and experience:

- experience in oil and gas exploration, development and production;
- finance and accounting;
- company strategy and business planning and business and corporate development;
- local and international experience; and
- public company affairs and corporate governance.

The Directors Report in the Company's 2017 Annual Report contains further details of the experience of each Director and his term of office.

Po Valley Energy has elected not to adopt Recommendation 2.2 and accordingly does not disclose a formal Board skills matrix. The Board considers that it is in the best interests of the Company for the Board as a whole to determine the criteria for the selection of new directors, based on any perceived "gaps" in the skill set of the Board, as and when a casual vacancy arises, particularly having regard to the fact that Po Valley Energy is a relatively small publicly listed company by comparison to other listed entities, which is reflected by the size of its operations, Board structure and composition.

### 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 which might cause doubts about the independence of a director, 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.***

## Independence

The Board is comprised of one executive director and two non-executive directors all of whom are deemed not to be independent by virtue of their length of service and their substantial shareholdings in the Company (for details of the directors' shareholdings and length of service refer to the Directors Report in the Company's 2017 Annual Report).

### **Recommendation 2.4:**

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

## Composition of the Board

As detailed above, the Po Valley Energy Board is comprised of one executive director and two non-executive directors who are not deemed to be independent due to their length of service and substantial shareholdings in the Company.

The Board considers that each director's commitment to the aims and ambition of all shareholder of the Company outweighs any non-independence and each director brings an independent judgement to bear on all Board decisions.

### **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.***

## Chairman

The current Chairman, Mr Michael Masterman, was appointed as Chairman on 22 April 2016 following the retirement of Graham Bradley as Chairman. Mr Masterman is not considered independent because of his length of service as a director, his substantial shareholding in the Company and because he is also the Chief Executive Officer of the Company.

The Board has considered whether it would be beneficial to appoint an independent Chairman and has also considered the skills and qualifications of the existing directors and has elected not to adopt Recommendation 2.5 to appoint an independent chair as the board believes Mr Masterman to be the most appropriate person to chair the Board at this time. Where required Mr Masterman excludes himself from any items of business where there may be a conflict please see Recommendation 3.1 Code of Conduct.

**Recommendation 2.6:**

***A listed entity should have a program for the 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 a director effectively.***

**Induction program**

Procedures for induction of new directors are in place to allow new directors to participate fully and actively in Board decision making at the earliest opportunity.

All directors are offered an induction program appropriate to their experience upon their appointment, so as to familiarise them with matters relating to the business, strategy and any current issues under consideration by the Board. This program consists of written background material on the Company and its operations, scheduled meetings with the Chairman and Chief Executive Officer and other senior executives as considered appropriate.

**Director education**

The Board does not have a formal programme for director education. Throughout the year, the Company Secretary provided directors with on-going information on matters such as corporate governance the Company's Constitution, and ASX Listing Rules. All directors have access to company records and information, and receive regular detailed financial and operational reports from senior management. In particular, Directors are, where appropriate provided with detailed financial, operational and management reports prior to each Board meeting.

The Company Secretary is available to all Directors and may be consulted on on-going issues of corporate governance, the Company's Constitution, and the ASX Listing Rules. In addition, the Chairman and other non-executive Directors consult with each other and the senior executives regularly.

**Principle 3: Act ethically and responsibly.**

**Recommendation 3.1:**

***A listed entity should:***

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

**Code of Conduct**

All of Po Valley Energy's executives and employees are required to abide by laws and regulations, to respect confidentiality and the proper handling of information and act with the highest standards of honesty, integrity, objectivity and ethics in all dealings with each other, the Company, customers, suppliers and the community. The Company has adopted a Code of Conduct which is published on the Company's website.



**Principle 4: Safeguard integrity in corporate reporting.**

**Recommendation 4.1:**

***The Board of a listed entity should:***

***(a) have an audit committee which:***

- 1. has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and***
- 2. is chaired by an independent director, who is not chair of the board; and disclose:***
- 3. the charter of the committee;***
- 4. the relevant qualifications and experience of the members of the committee; and***
- 5. 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.***

**Audit & Risk Committee**

Following the reduction of the Board to three members in 2016, the board resolved that the functions previously performed by the Audit & Risk Committee would be performed by the full Board. Given the reduced size of the Board (three members) it was considered that a further division of the Board for the purpose of establishing a formal audit and risk committee would not provide any benefit or efficiency for the Company. Therefore, from 1 August 2016 the Company elected to no longer adopt Recommendation 4.1. However, the Board undertakes the role that the Audit committee performed with respect to the following:

- the maintenance of appropriate and reliable financial and management reporting systems;
- reviewing the Company's semi-annual and annual financial statements with respect to the adoption of these statements;
- ensuring compliance with ASX and statutory reporting requirements and application of accounting standards;
- overseeing the establishment and maintenance of effective internal controls and procedures; and
- the maintenance of an effective and efficient audit process and overseeing the independence of the external auditor.

The responsibilities of the Board with respect to the Audit function remain as:

- monitoring compliance relating to the preparation and presentation of financial results;
- reviewing and discussing with management and the External Auditor, before submission to the Board, the semi-annual and annual financial statements;
- reviewing the financial statements to take into account decisions requiring an element of judgement and the extent to which the financial statements are affected by any unusual transactions, including assessing Management's processes supporting external reporting, and reporting this to the Board;
- assessing whether the half-year financial report, full-year financial report and all other external reporting is consistent with the Board members' information and knowledge and is adequate for shareholder needs;
- determining the reliability and appropriateness of accounting policies and financial reporting obligations having regard to any Corporations Act 2001 (Cth), Australian Accounting Standards, ASX requirements and generally accepted accounting principles;
- receiving representation letters from Senior Executives; and
- assessing the effects of any new or proposed accounting practices, principles or developments, disclosure requirements or regulatory changes.

The Board considers that the technical skills, qualifications and experience represented by the Board members Mr Kevin Bailey, Mr Michael Masterman and Dr Byron Pirola are appropriate for the effective discharge of the Board's responsibilities for oversight of the Company's financial and corporate reporting, systems of internal accounting and control, risk management and external audit.

### ***External Auditor***

The Board is responsible for appointing an external auditor, subject to shareholder approval and the requirements of the Corporations Act 2001 (Cth). The general process of selecting and appointing external auditors is as follows.

The Chief Financial Officer or Chief Executive Officer implements a selection process for the appointment of the external auditor and makes a recommendation to the Board, based on an assessment of the responses received from potential external auditors with regard to a number of key criteria, including but not limited to, audit approach and methodology, internal governance processes, global resources, key personnel, independence from the Company and cost.

The external auditor is expected to manage its audit team members to ensure adequate rotation of staff and must have arrangements in place for the rotation of the audit engagement partner on a regular basis.

The board is responsible for nominating the external auditor. Candidates for external auditor must be able to demonstrate independence from the Company and must have arrangements in place for the rotation of the audit engagement partner on a regular basis. The board where appropriate reviews the performance of the external auditor annually and meets with the external auditor at least twice per year to review the adequacy of the existing external audit arrangements.

**Recommendation 4.2:**

***The board of a listed entity should, before it approves the entity's financial statements, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the Company 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 Company and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.***

**CEO and CFO assurance**

The Chief Executive Officer and, when applicable, the Chief Financial Officer of Po Valley Energy report in writing to the Board that:

- consolidated financial statements of Po Valley Energy and its controlled entities for each half year and full financial year present a true and fair view, in all material respects, of the Group's financial condition and operational results and are in accordance with accounting standards; and
- declarations provided in accordance with Section 295A of the Corporations Act 2001 (Cth) are founded on a sound system of risk management and internal control, and that the system is operating effectively.

At 31 December 2017 and at the date of this statement, the Company's Chief Executive Officer covered the role of Chief Financial Officer. For the financial statements as at 31 December 2017, the Board has received a declaration from the Chief Executive Officer in accordance with Recommendation 4.2.

**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.***

**External auditor attendance at AGM**

Po Valley Energy ensures that the lead audit partner or his or her representative attends the AGM in order to be available to answer questions from security holders pertaining to the audit.

**Principle 5: Make timely and balanced disclosure**

**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.***

The Board is committed to ensuring that investors can readily access sufficient information to ascribe a fair value to the Company's securities, understand the Company's objectives and strategies and evaluate the Company's financial position and growth prospects. The Company has adopted policies and procedures, including a Continuous Disclosure Policy, designed to ensure compliance with ASX Listing Rules disclosure requirements and to ensure accountability at a senior executive level for that compliance. A copy of the Continuous Disclosure policy is available on the Company's website.

Senior management and the Board are responsible for scrutinising events and information to determine whether the disclosure of the information is required in order to maintain the market integrity of the Company's shares listed on the ASX.

The Company Secretary has the primary responsibility for all communications with the ASX.

**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.***

**Security holder communication policy**

Po Valley Energy has implemented a Shareholder Communications Policy to ensure that shareholders and the financial market have timely access to material information concerning the Company.

The Company website is used to complement the official ASX release of material information and periodic reports to the market. The website ensures that all press releases, ASX announcements, notices and presentations from the past three years are easily accessible to the public.

**Recommendation 6.2:**

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

**Investor relations program**

As a small listed company, Po Valley Energy currently does not have the resources for a dedicated investor relations employee or consultant. Security holders are given the opportunity to meet management immediately following general meetings and management and the Board is to respond to investors' requests for meetings or enquiries in a timely fashion. In addition, all ASX and media releases include contact details for shareholders or investors wishing to discuss the matters dealt with in the announcement further.

**Recommendation 6.3:**

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

**Participation at meetings of security holders**

The Board encourages active participation by security holders at each Annual General Meeting, or other general meetings, to ensure a high level of accountability and understanding of Po Valley Energy's strategy, performance and goals.

The Company is committed to ensuring that all shareholders have the opportunity to participate in the Company's annual general meetings. Annual General Meetings are held at readily accessible venues in either Sydney or Perth, to maximise the number of security holders present, and able to participate, at the meeting. Security holders are provided with opportunities to ask the Board questions regarding the management of the Company including the opportunity to submit written questions to the Board prior to the Annual General 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 register electronically.***

Shareholders are given the option to receive communications from, and send communications to, the Company and its share registry electronically. Shareholders are also able to contact the Company via its website.

**Principle 7: Recognise and manage risk.**

**Recommendation 7.1:**

***The board of a listed entity should:***

***(a) have a committee or committees to oversee risk, each of which:***

- 1. has at least three members, a majority of whom are independent directors; and***
- 2. is chaired by an independent director, and disclose:***
- 3. the charter of the committee;***
- 4. the members of the committee; and***
- 5. 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.***

**Risk committee**

Following the reduction of the board to three members in 2016, the Board resolved that the functions previously performed by the Audit & Risk Committee would be performed by the full Board. Given the reduced size of the Board it considers that a further division of the Board for the purpose of establishing a formal audit and risk committee would not provide any benefit or efficiency. Therefore, with effect from 1 August 2016 the Company elected to no longer adopt Recommendation 7.1.

The Company's risk management process requires:

- identification and assessment of financial and non-financial risks in terms of potential consequence and the likelihood of occurrence;
- ranking and determination of the acceptability of each risk;
- agreement on controls to eliminate, reduce, or manage each material risk;
- assignment of responsibility for the management of each material risk;
- Board review and approval of management assessments;
- Monitoring of key risks, and identification of issues that may indicate weakness in controls; and
- Update of risk register whenever required or annually.

In addition to the Risk Management Process, the Board has a number of mechanisms in place to ensure that the Company's objectives and activities are appropriately assessed, risked and managed. These include but are not limited to the following:

- Board approval of a strategic plan, which encompasses business goals designed to grow shareholder value;
- Board approval and monitoring of operating plans and budgets;
- Board approval of new projects and investments;
- Board approval of commitment and expenditure levels for management and a clear documented delegation of authority;
- Board approval of the insurance programme;
- Procedures for compliance with regulatory requirements; and
- Oversight of financial affairs by the Board.

The Board considers that the technical skills, qualifications and experience represented by the Board members Mr Kevin Bailey, Mr Michael Masterman and Dr Byron Pirola are appropriate for the effective discharge of the Board's responsibilities for oversight of risk management.

**Recommendation 7.2:**

***The board or a committee of the board should:***

- (a) review the 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 a review has taken place.***

**Review of risk management framework**

The Board as a whole is responsible for oversight of the Company's risk management and control system. Responsibility for control and risk management is delegated to the appropriate executives, with the Chief Executive Officer having ultimate responsibility to the Board for implementing the risk management. The Company has not adopted a formal process for review of the risk management policy but rather risks to the Company are reviewed at regular Board meetings as necessary and during any reviews of operating and strategic plans and budgets which are all approved by the Board. Appropriately skilled consultants are engaged when necessary to advise upon operational risks and control framework.

**Recommendation 7.3:**

***A listed entity should disclose:***

- (a) if it has an internal audit function, how that 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.***

**Internal audit function**

Po Valley Energy is a relatively small publicly listed company by comparison to other listed entities which is reflected by the size of its operations, Board structure and Board composition. As such it is not practical to have a formal internal audit function.

The Board regularly monitors the operational and financial performance of the Company against budget and other key performance measures. The Board also receives and reviews advice on areas of operational and financial risk and develops strategies, in conjunction with management, to mitigate those risks.

Management reports to the Board on the effectiveness of the Company's management of its material business risks where appropriate.

**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.***

The key risks facing the Company are summarised on pages 9-10 of the Company's 2017 Annual Report.

**Principle 8: Remunerate fairly and responsibly.**

**Recommendation 8.1:**

***The board of a listed entity should:***

- (a) have a remuneration committee which:***
  - 1. has at least three members, a majority of whom are independent directors; and***
  - 2. is chaired by an independent director, and disclose:***
  - 3. the charter of the committee;***
  - 4. the members of the committee;***
  - 5. 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.***

## **Remuneration & Nominations Committee**

Following the reduction of the Board to three members in 2016, the Board resolved that the functions previously performed by the Remuneration & Nominations Committee would be performed by the full board. Given the reduced size of the Board it considers that a further division of the Board for the purpose of establishing a formal remuneration committee would not provide any benefit or efficiency for the Company. Therefore, from 1 August 2016 the Company elected to no longer adopt Recommendation 8.1.

The Board have assumed the key responsibilities of establishing the remuneration for non-executive directors and Senior Executives including the Chief Executive Officer, and setting and evaluating performance objectives for the Senior Executives. The role also includes any relevant matters relating to recruitment, retention and termination, and review of the Remuneration Report.

The Board, in setting remuneration levels, is mindful of the level of the base salary component of salaries paid to employees in equivalent positions in comparable companies in the same industry and considers the extent to which the proposed remuneration will motivate Senior Executives to pursue the long-term growth and success of the Company, and weighs this up against the Company's desire not to pay excessive remuneration.

The Board also ensures that no individual is directly involved in determining the remuneration they will receive.

The Board where and when needed will consult with external consultants and specialists.

The Company does not have in place any schemes for retirement benefits, other than superannuation, for non-executive directors.

The Board considers that due to the size of the Company and its management structure, the board is currently able to give due consideration to the Company's overall remuneration policies as part of its regular board meetings. In setting the level and composition of remuneration for directors and senior executives the Board has regard to the performance and financial circumstances of the Company, individual performance and market rates paid for comparable roles in companies of similar size and market section.



**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.***

**Executive director and non-executive director remuneration**

The aggregate remuneration of non-executive directors is approved by security holders. Individual directors' remuneration is determined by the Board within the approved aggregate total.

The directors of Po Valley Energy are:

- not entitled to participate in performance based remuneration practices unless approved by security holders;
- currently remunerated by means of the payment of cash benefits in the form of directors' fees or alternatively by issue of securities in lieu of cash benefits provided it is approved by security holders; and
- Not entitled to any retirement benefits other than superannuation.

At the beginning of each year, the Board usually approves company and individual performance objectives for the Chief Executive Officer and senior executives. Performance is evaluated and any performance based remuneration for the Chief Executive Officer, senior executives and management is approved following the end of each year. Performance objectives are a combination of company and individual objectives. Given the change of Chief Executive Officer and significant restructuring and reorganisation for the Company, performance objectives were not set for this year. Performance objectives and the review process described above will be re-implemented in 2018 if appropriate.

**Policy disclosure**

The Company's policies relating to the remuneration of Directors and Senior Executives and the level of their remuneration are detailed annually in the Directors' Report contained within the Company's Annual Report and Notes to and forming part of the Financial Statements.

**Recommendation 8.3:**

***If 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.***

The Company does not currently have an equity-based remuneration scheme.

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