

## **FIFTH ELEMENT RESOURCES LIMITED** **CORPORATE GOVERNANCE STATEMENT**

Fifth Element is committed to implementing high standards of corporate governance. The Board of Directors is responsible for corporate governance and monitors the business and affairs of Fifth Element on behalf of the Shareholders by whom they are elected and to whom they are accountable. The Board has endorsed most of the ASX Corporate Governance Principles and Recommendations (2nd edition amended in 2010) adopted by the ASX Corporate Governance Council. At a number of its meetings the Board examined the corporate governance practices of Fifth Element and the progress towards a review of its practice compared to the best practice principles proposed by the ASX Corporate Governance Council. While Fifth Element is attempting to adhere to the principles proposed by ASX, it is mindful that there may be some instances where compliance is not practicable for a company of the size of Fifth Element.

Where the corporate practices of Fifth Element do not correlate with the practices recommended by the Council, Fifth Element does not consider it practicable or necessary to implement these principles due to the size and stage of development of its operations. The Board's reasoning for any departure from such principles is explained hereunder.

Set out below are the fundamental corporate governance practices of Fifth Element and the extent to which Fifth Element complies with ASX Principles.

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

Fifth Element has adopted Recommendation 1.1 to disclose the functions reserved to the Board and those delegated to senior executives.

The role of the Board is to govern the Company. In governing Fifth Element, the Directors must act in the best interests of Fifth Element as a whole. Each member of the Board is committed to spending sufficient time to enable them to carry out their duties as a Director of Fifth Element. Each candidate will confirm that they have the necessary time to devote to their position as Director of Fifth Element prior to their appointment. In addition, non-executive Directors will receive formal letters of appointment setting out the key terms, conditions and expectations of their appointment.

Fifth Element has a small Board of four Directors (two Non-Executive Directors, the Chairman and CEO and an Executive Director), so roles and functions have to be flexible to meet specific requirements.

Fifth Element has adopted Recommendation 1.2 to disclose the process for evaluating the performance of senior executives. Fifth Element has appointed a Remuneration and Nomination Committee for this purpose.

Fifth Element has adopted Recommendation 1.3 to provide an explanation of any departure from Recommendations and to disclose whether a performance evaluation for senior executives has taken place in the reporting period and whether it was in accordance with the process disclosed.

### **Principle 2 – Structure the board to add value**

Due to its size, Fifth Element is unable to comply with most of the Recommendations in this area.

Fifth Element departs from the following Recommendations:

Recommendation 2.1: Fifth Element does not have a majority of independent directors because Chi Ho Chi Lo William LO is the Chief Executive Officer and Noriman Sai Chi MAK is an executive director;

Recommendation 2.2: The Chairman is Chi Lo William LO who is also the Chief Executive Officer and a Major Shareholder;

Recommendation 2.3: Chi Lo William LO is the Chairman and Chief Executive Officer.

Fifth Element has appointed a Remuneration and Nomination Committee (Recommendation 2.4). Due to its size, Fifth Element has appointed one independent Director to sit on this Committee, Siu-Wing Selwyn CHAN, and two executive Directors, Chi Lo William LO and Noriman Sai-Chi MAK.

Fifth Element follows Recommendations 2.5 and 2.6 by disclosing the process for evaluating the performance of the board, its committees and individual directors.

The Board will ensure that the Directors and Executives of Fifth Element are equipped with the knowledge and information they need to discharge their responsibilities effectively, and that individual and collective performance is regularly and fairly reviewed. The Remuneration and Nomination Committee monitors the performance of Executives. The Chairman monitors the performance of individual Directors.

Each Director has access to all governance documents issued by Fifth Element, to Board papers and all relevant documentation and has access to the Company Secretary.

### **Principle 3 – Promote ethical and responsible decision-making**

Fifth Element actively promotes ethical and responsible decision-making.

Due to its size and to the close interaction of individuals through the organisation, Fifth Element departs from Recommendations 3.1, 3.2, 3.3, and 3.5 to set, implement and report on the implementation of a formal code of conduct and of a formal policy concerning diversity.

At the date of this Prospectus, there is currently one woman on the board of Fifth Element. However, due to the size of Fifth Element there are no women in senior executive positions and no women employee in the company.

Fifth Element will disclose in each annual report the proportion of women employees, women in senior executive positions and women on the board, and will report on any departure from the Recommendations.

### **Principle 4 – Safeguard integrity in financial reporting**

Fifth Element has a structure to independently verify and safeguard the integrity of their financial reporting.

Fifth Element has endorsed Recommendations 4.1, 4.3 and 4.4.

Due to its size, Fifth Element has appointed an Audit Committee consisting of one Executive Director Chi Lo William LO and two Non-Executive Director Siu-Wing Selwyn CHAN and Linna YE. It has adopted a charter setting out the Audit Committee's role and responsibilities, composition, structure and membership requirements and the procedure for inviting non-committee members to attend meetings.

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

Fifth Element promotes timely and balanced disclosure of all material matters concerning the Company (Recommendations 5.1 and 5.2).

The Board has drafted a Continuous Disclosure Policy to ensure compliance with ASX Listing Rule disclosure requirements and uses strong informal systems underpinned by experienced individuals.

The Board has appointed the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX.

### **Principle 6 – Respect the rights of shareholders**

Fifth Element respects the rights of shareholders and facilitates the effective exercise of those rights.

Fifth Element does not follow Recommendation 6.1 but intends to follow Recommendation 6.2. While Fifth Element does not have a communications strategy to promote effective communication with shareholders as it believes this is excessive for small companies, Fifth Element communicates with shareholders continually and periodically and encourages shareholder participation at annual general meetings. Periodic ASX announcements include quarterly reports, the half-year report, annual report and annual general meeting presentations. Copies of all announcements and reports are made available on the ASX website. The independent external auditor attends the Annual General Meeting

to respond to questions from shareholders on the conduct of the audit and the preparation and content of the audit report.

**Principle 7 – Recognise and manage risk**

Fifth Element is a small, exploration company and does not believe that there is significant need for formal policies on risk oversight and management of risk. Risk management arrangements are the responsibility of the Board of Directors, the Audit Committee and senior management collectively. Risk factors are a standing agenda item at Board Meetings.

As such, and due to its size, Fifth Element does not comply with Recommendations 7.1, 7.2, 7.3 and 7.4.

**Principle 8 – Remunerate fairly and responsibly**

Fifth Element ensures that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

Fifth Element has appointed a Remuneration and Nomination Committee (Recommendation 8.1) consisting of one Non-Executive Director, Siu-Wing Selwyn CHAN, and two Executive Director, Chi Lo William LO and Noriman Sai-Chi MAK.

Due to its size, Fifth Element does not comply with Recommendations 8.2, 8.3 and 8.4.