

## 2016 CORPORATE GOVERNANCE STATEMENT

*This statement has been approved by the Board of the Company. The statement has been prepared as at 26 April 2017 with reference to the 3<sup>rd</sup> Edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.*

### 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**

The Board of Directors has been charged by shareholders with overseeing the affairs of the Company to ensure that they are conducted appropriately and in the interests of all shareholders. The Board defines the strategic goals and objectives of the Group, as well as broad issues of policy and establishes an appropriate framework of Corporate Governance within which the Board members and management must operate. The Board reviews and monitors management and the Group's performance. The Board has also taken responsibility for establishing control and accountability systems/processes and for monitoring senior executive performance and implementation of strategy.

The Board is responsible for:

- reviewing and determining the Company's strategic direction and operational policies;
- review and approve business plans, budgets and forecasts and set goals;
- overseeing implementation of the Company's strategic objectives and its performance;
- appointment and remuneration of the Managing Director/Chief Executive Officer;
- review financial performance;
- approve acquisition and disposal of assets, products and technology;
- approve operating and capital budgets where appropriate;
- review risk management and compliance;
- oversee the integrity of the Company's control and accountability systems;
- oversee the Company's processes for making timely and balanced disclosure;
- reporting to shareholders;
- compliance with all applicable laws and regulations; and
- monitoring the effectiveness of the Company's governance practices.

The day to day running and administration of the Company is currently overseen by the Company Secretary in conjunction with the Board. Where appropriate, consultants may be engaged to undertake specific projects or assignments consistent with the objectives and policies as set down by the 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 whether or not to elect or re-elect a Director.**

The Company undertakes appropriate checks before it appoints a person, or puts forward to shareholders a new candidate for election, as a Director. These checks include references as to the person's character, experience and education. The Company does not propose to check criminal records or the bankruptcy history for potential new Board members however may consider such checks where necessary or appropriate in the future.

The Company will include all material information in its possession relevant to a decision whether or not to elect or re-elect a Director in the relevant Notice of Meeting. Information relating to each of the Directors is also provided on the Company's website.

## **RECOMMENDATION 1.3**

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

The Company has not established written agreements with its non-executive directors which set out the terms of their appointment. Accordingly the appointment of Directors is governed by the relevant provisions of the Company's Constitution.

Directors are not appointed for a fixed term but are, excluding any Managing Director, subject to re-election by shareholders at least every three years in accordance with the Constitution of the Company.

A Director appointed to fill a casual vacancy or as an addition to the Board, only holds office until the next general meeting of shareholders and must then retire. After providing for the foregoing, one-third of the remaining Directors (excluding the Managing Director) must retire at each Annual General Meeting of shareholders.

## **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.**

The Company Secretary has been appointed on the basis that he will be accountable directly to the Board, through the chair, on all matters to do with the proper functioning of the Board.

All Directors of the board have access to the Company Secretary who is appointed by the Board. The Company Secretary reports to the Chairman, in particular to matters relating to 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.**

The Company has established a Diversity Policy Statement which is available on the Company's website.

The Company considers that diversity refers to all the characteristics that make individuals different from each other. It includes characteristics or factors such as religion, race, ethnicity, language, gender, sexual orientation, disability, age or any other area of potential difference.

Given the size of the Company and the nature of its operations the Company has not established measurable objectives for achieving gender diversity.

At 31 December 2016:

- there were no women on the Board of Arc Exploration Limited;
- there were no women employed by the Company;
- the Company's Financial Controller is a woman.

#### **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.**

The Board has adopted an on-going, self-evaluation process to measure its own performance and the performance of its committee and individual directors. The process of evaluation is set out in detail and available on the Company's website.

The Chairman meets periodically with individual directors to discuss the performance of the Board and the director.

The Board believes that this approach is appropriate given its size and the nature of the Company's operations. No formal evaluation was undertaken in the reporting period ended 31 December 2016.

#### **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 has engaged a number of consultants to carry out key administrative functions in both Australia and Indonesia. The Company also employs an accountant in Indonesia.

No formal performance evaluation was undertaken in respect of the reporting period ended 31 December 2016.

## **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**

Due to the size of the Company and the number of Board members, the Board does not have a formal nomination committee. Any new Directors will be selected according to the needs of the Company at that particular time, the composition and the balance of experience on the Board as well as the strategic direction of the Company. Where a vacancy arises or it is considered appropriate to vary the composition of the Board of Directors, the full Board generally participates in any review of the Board's composition and the qualifications and experience of candidates. Directors are selected upon the basis of their specialist skills and business background so as to provide an appropriate mix of skills, perspective and business experience.

At each annual general meeting, the following Directors retire:

- i. one third of Directors (excluding the Managing Director);
- ii. Directors appointed by the Board to fill casual vacancies or otherwise; and
- iii. Directors who have held office for more than three years since the last general meeting at which they were elected.

### **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.**

The Company does not have a formal Board skills matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership.

The Board does review its composition from time to time taking into account the length of service on the Board, age, qualification and experience, any requirements of the Company's constitution, and in light of the needs and direction of the Company, together with such other

criteria considered desirable for composition of a balanced Board and the overall interests of the Company.

Details of each Directors experience and length of service can be found on the Company's website and are reported in the Company's Financial Report on an annual basis.

### **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.**

The Board is currently comprised of:

Mr. Simon O'Loughlin:	Independent Non-Executive Chairman
Mr. Robert Willcocks:	Independent Non-Executive Director
Mr. Simon Taylor:	Independent Non-Executive Director
Mr. Andrew Cooke:	Non-Executive Director and Company Secretary

In addition, the Board has adopted a series of safeguards to ensure that independent judgement is applied when considering the business of the Board:

- (i) Directors are entitled to seek independent professional advice at the Company's expense. Prior written approval of the Chairman is required but this is not unreasonably withheld.
- (ii) Directors having a conflict of interest with an item for discussion by the Board must absent themselves from a Board meeting where such item is being discussed before commencement of discussion on such topic.

Details of each Directors experience and length of service can be found on the Company's website and are reported in the Company's Financial Report on an annual basis.

### **RECOMMENDATION 2.4**

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

The majority of the Board are independent Directors.

### **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.**

Mr. Simon O'Loughlin is the Chairman of the Board and is an independent Director.

### **RECOMMENDATION 2.6**

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

The Company provides new Directors with an induction package including copies of its relevant policies and procedures.

Directors are encouraged to pursue appropriate professional development opportunities to develop and maintain their skills and knowledge in order to perform their role as Directors effectively.

All Board members have access to professional independent advice at the Company's expense, provided they first obtain the Chairman's approval, with such approval not being withheld unreasonably.

## **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 employees; and**
- (b) disclose that code or a summary of it.**

The Board has approved a Code of Ethics which applies to all directors, executives, management and employees without exception. In addition, the conduct of directors and executives is also governed by a Directors Code of Conduct. In summary, these Codes provide that directors and senior executives must:

- act honestly, in good faith and in the best interests of the Company;
- use due care, skill and diligence in the fulfilling their duties;
- use the powers of their position for a proper purpose, in the interests of the Company;
- not make improper use of information acquired in their position;
- not allow personal interests, or those of associates, conflict with the interests of the Company;
- exercise independent judgement and actions;
- maintain the confidentiality of company information acquired by virtue of their position;
- not engage in conduct likely to bring discredit to the Company; and
- comply at all times with both the spirit and the letter of the law, as well as, policies of the Company.

The Company will investigate any concerns raised in a manner that is fair, objective and affords natural justice to all people involved.

## **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 the 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.

The Company has established an audit committee which is comprised of Mr. Robert Willcocks, Mr. Simon Taylor and Mr. Simon O'Loughlin. Each of the members of the audit committee are independent Non-Executive Directors.

Mr. Robert Willcocks is the Chairman of the Audit Committee and not the Chairman of the Board.

The Company's external auditors may be invited to attend Audit Committee meetings at the discretion of the Audit Committee.

The Company has a formal Audit Committee Charter which has been approved by the Board of Directors and is posted on the Company's website.

Details relating to the relevant qualifications and experience of the members of the committee and the number of times the committee met throughout the reporting period and the individual attendances of the members at those meetings are set out on an Annual Basis in the Directors Report contained in the Company's Year End Financial Report which is released to the market and posted on the Company's website.

## **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.**

At the date of this report the Company does not have a Managing Director or Chief Financial Officer. For the year ended 31 December 2016 Mr. Andrew Cooke (Non-Executive Director and Company Secretary) a Ms. Wendy Emerson (Consultant Financial Controller) provided reports in writing to the Board to confirm that:

- (a) the financial records of the Company for the period have been properly maintained in accordance with Section 286 of the Corporations Act 2001;
- (b) the financial statements and the notes thereto for the period comply with relevant accounting standards;
- (c) the financial statements and the notes thereto for the period give a true and fair view, in all material respects, of the financial position, operational results and performance of the consolidated entity;
- (d) any other matters that are prescribed by the regulations for the purposes of Section 295A of the Corporations Act 2001 in relation to the financial statements and the notes for the financial year are satisfied;
- (e) the statements given in (b) and (c) above are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board;

- (f) the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

#### **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.**

The Company's external auditor attends the AGM and is available to answer questions from shareholders relating to the conduct of 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 keeping its shareholders, and the market, fully informed of major developments having an impact on the Company.

Currently the Chairman and the Company Secretary are charged with the responsibility to ensure compliance with ASX Listing Rule disclosure requirements. The Board has approved a Continuous Disclosure Policy which is reproduced on the Company's website. The Board is responsible for scrutinising events and information to determine whether disclosure is required in order to maintain market integrity.

The Company Secretary is responsible 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.**

Information about the Company and its governance are available on the Company's website. The Company's website provides detailed corporate information and has a specific section relating to corporate governance.

##### **RECOMMENDATION 6.2**

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

The Company recognises the right of shareholders to be informed of matters, in addition to those prescribed by law, which affect their investments in the company.

The Company has not established a formal policy for communicating with shareholders however the Company communicates information to shareholders through:

- announcements to the ASX including the Company's Annual Report;



- notices and explanatory memoranda of annual general meetings and general meetings; and
- the Company's website at [www.arcexploration.com.au](http://www.arcexploration.com.au) . The Company's website provides a description of the Group's projects and all material announcements released to the ASX.

It is the Company's communication policy to communicate with shareholders and other stakeholders in an open, regular and timely manner so that the market has sufficient information to make informed investment decisions on the operations and results of the Company.

Investors and other stakeholders are invited to subscribe to an email alert facility on the Company's website so that they can receive material announcements which have been released by the Company to the market via email in a timely manner.

### **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.**

The Board encourages active participation by shareholders at each Annual General Meeting, or other general meetings of the Company.

The Company does not have formal policies or process in place to facilitate or encourage participation at shareholder meetings. The Company will despatch a Notice of Meeting and Explanatory Statement to shareholders in accordance with statutory requirements. In addition details of any shareholder meeting will be posted on the Company's website.

At any meeting of shareholders, shareholders will be encouraged to ask questions of the Board of Directors in relation to the matters to be considered at such meeting and where appropriate relating to the operation of the Company.

### **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.**

The Company provides shareholders with the option to receive communications from, and send communications to, the entity and its security registry electronically.

## **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) 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.**

The Board of the Company has not established a specific committee to oversee risk however the Board continuously reviews the activities of the Group to identify key business and operational risks and, where possible, will implement policies and procedures to address such risks. The Company has adopted a Risk Management Statement and a Financial and Commodity Risk Management Policy. The Risk Management Statement is reproduced on the Company's website.

The Board is provided with regular reporting in respect of operations and the financial condition of the Group aimed at ensuring that risks are identified, assessed and appropriately managed as and when they arise.

The Board recognises that there are inherent risks associated with exploration and particularly in Indonesia where there has been some uncertainty regarding the implementation of the Mining Law and its regulations.

The Audit Committee assists the Board in its risk management role by reviewing the financial and reporting aspects of the group's risk management and control practices.

## **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.**

The Company Secretary and the Financial Controller are currently responsible for the implementation of risk management and internal control systems to manage the company's material business risks.

The Board regularly monitors the operational and financial performance of the Company. 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.

The Board has not reviewed its risk management framework in respect of the year ended 31 December 2016.

## **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.**

In light of the nature and extent of the Company's operations and activities, the Company has not established an internal audit function.

The Board continuously reviews the activities of the Group to identify key business and operational risks and, where possible, will implement policies and procedures to address such risks and where approval to establish appropriate internal control processes.

The Board is provided with regular reporting on the management of operations and the financial condition of the Company aimed at ensuring that risks are identified, assessed and appropriately managed as and when they arise.

#### **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 Company recognises its corporate responsibility to all stakeholders and the continual need for sustainable, harmonious operations. The Company promotes best practice in terms of community development, environmental protection and safety management in all its operations.

The Company's projects are all at the high-risk exploration stage and accordingly the Company recognises the need to correctly manage the expectations of local communities with respect to risks and rewards. In this regard the Company continually assesses the needs of the local communities where it operates and aims to respond where appropriate to their desires and expectations within its available resources.

The Company is also conscious of its responsibility in relation to the environment and strives to achieve minimal impact as far as possible in its work areas.

Environmental risks are assessed regularly and reported to the Board. The Company seeks to ensure that any disturbance of land which may arise as a result of sampling, trenching or drilling is carried out in full cooperation with the local people and authorities and with minimal impact on the environment.

#### **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; 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 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.**

The Board has not maintained a formal Remuneration Committee due to the size of the Company and the nature of its operations. Remuneration matters are dealt with by the full Board of Directors.

## **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.**

The aggregate remuneration of non-executive directors is approved by shareholders. Individual directors' remuneration is determined by the board within the approved aggregate total. As at the date of this report all Non-Executive Directors are entitled to remuneration of \$36,000 each per annum (plus statutory superannuation where applicable) inclusive of Committee responsibilities. The Chairman receives remuneration of \$40,000 per annum (plus statutory superannuation). No retirement benefits are payable to Non-Executive Directors.

## **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.**

Officers and employees are entitled to participate in the Company's Employee and Contractor Options Plan.

The Company has not established a formal 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.

The Corporations Act prohibits the key management personnel, or a closely related party of such personnel, from entering into an arrangement that would have the effect of limiting their exposure to risk relating to an element of their remuneration that either has not vested or has vested but remains subject to a holding lock.