



# **Corporate Governance Statement 2015**

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|||| HILLGROVE RESOURCES LIMITED ||||

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## 1. Principle 1. Lay Solid Foundations for Management & Oversight

### Role of the Board and Management

The Board is elected by shareholders to represent all shareholders – its primary role being the protection and enhancement of long-term shareholder value. To fulfil this role, the Board is responsible for the overall corporate governance of the Group, selection and appointment of the CEO/MD and senior executives, establishing goals for senior executives, monitoring the achievement of these goals, defining policies and monitoring the business of the controlled entity including risk management and internal control, to ensure it is conducted appropriately and in the best interests of shareholders.

The Board has adopted a Board Charter that sets out the delegations and responsibilities that have been put in place for the Company's executive team and the Board.

The Board of Directors (and, where relevant, any committees established by the Board) have delegated the carriage of the day to day operation and management of the Company's business to the Managing Director/Chief Executive Officer who is authorised, in turn, to delegate such of the powers conferred on them as is deemed appropriate to members of the executive team. The delegation of authority to the Chief Executive Officer and other executives is subject to the limits and restrictions set out in the Delegations of Authority Schedule.

In addition to attending the scheduled Board and Board Committee meetings during the year, Directors also spend time regularly with the Company's personnel in order to gain a detailed knowledge and understanding of the Company's operations and associated risks and opportunities. The Board takes part in the Company's annual strategic planning process; risk management reviews and approves the business plan and budgets of the Company. The Board also receives and reviews comprehensive monthly management, financial and operational reports in relation to the Company performance.

All Directors and senior executives of the Company have in place formal appointment letters describing their terms, duties, rights and responsibilities and entitlements. Upon joining the Company, all Directors also receive an induction pack containing information about the Company including policies and procedures and other necessary information for them to familiarise themselves with the operations of the Company.

### Assessing senior executive performance

The Board sets key performance indicators and targets for the Managing Director/Chief Executive Officer and the other senior executives and review these and the performance against these targets throughout the year as well as formally at the end of the year.

Oversight of the assessment and performance of the Managing Director/Chief Executive Officer and the senior executives is provided by the Remuneration Committee and the Chairman of the Board. Formal assessments of performance for the Managing Director/Chief Executive Officer and the senior executives were completed during the current period as they are done each year.

Further details of how the Company assesses the performance of the Managing Director/Chief Executive Officer and executive team are set out in the Remuneration Report on pages 36 to 46.

### Board composition

The majority of the Board are independent Non-Executive Directors. The Chairman of the Board is an independent Non-Executive Director, and the roles of the Chairman and Chief Executive are not performed by the same individual.

## 2. Principle 2: Structure the Board to Add Value

The Board endeavours to ensure it is comprised of a diverse selection of highly qualified and experienced individuals with the highest levels of integrity, suited to the needs of the Company. Each Director is bound by the Company's charters, policies, procedures and codes of conduct, including without limitation, the Company's Securities Trading Policy, Continuous Disclosure Policy and Directors Code of Conduct.

### Independence

The Board consists of a majority of independent Non-Executive Directors to ensure independence. The law and market perceptions regarding the issue of "independence" of Directors is developing and changing rapidly both in Australia and overseas. Best practice recommends that rigid rules regarding what 'does and does not' constitute independence is no longer appropriate. Rather, it is more appropriate to adopt a set of matters to which consideration should be given in order to determine whether or not a Director is independent.

At the time of a Director's appointment and thereafter, the Board considers independence by having regard to the answers to the following questions:

- Is the Director a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company?
- Has the Director, within the last three years, been employed in an executive capacity by the Company or by any related body corporate, or been a Director after ceasing to hold any such employment?
- Within the last three years has the Director been a Principal of a material professional adviser; a material consultant to the Company or a related body corporate, or an employee materially associated with the service provided by such adviser or consultant to the Company?
- Is the Director a material supplier or customer of the Company or any related body corporate or an officer of or otherwise associated directly or indirectly with a material supplier or customer?
- Does the Director have a material contractual relationship with the Company or related body corporate other than as a director of the Company?
- Has the Director served on the Board of Directors for a period that could, or reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company?
- Is the Director free from any interest and any business or other relationship that could, or reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company?

Based on the above considerations the following Directors, a majority of the Board, are considered by the Company to be independent:

- Mr D C Brown (Chairman)
- Mr J E Gooding
- Mr P Baker

Mr S P McClare (Managing Director/Chief Executive Officer) and Mr M W Loomes are not considered to be independent.

## **Regular assessments**

The Board regularly assesses the independence of its Non-Executive Directors. Each Director of the Company must provide to the Board of the Company all information regarding his or her interests relevant to his or her independence. Where the independence of a Director is lost, this must be immediately disclosed to the market.

## **Company Secretary**

The Company Secretary has a direct reporting line to the Chairman of the Board and is accountable to the Board on all governance matters. All Directors of the Board have access to the Company Secretary.

## **Nomination Committee and Board committees**

The Board has a Nomination Committee in place. The Chairman of the Nomination Committee is an independent Non-Executive Director and membership consists of four individuals a majority of whom are independent Non-Executive Directors.

The duties of the Nomination Committee cover the composition and performance of the Board, appointments to the Board of Directors, evaluation of Board performance, appointment and re-election of Directors and succession planning. The Committee usually meets twice a year. The Committee has a clear charter that sets out its roles, responsibilities and structure. The charter can be found on the Company's website at [www.hillgroveresources.com.au](http://www.hillgroveresources.com.au).

In addition to the Nomination Committee the Board also has in place the Risk and Audit Committee, Remuneration Committee and Treasury Committee. Each Committee presents a summary of its meeting to the next Board Meeting. The Committee Charters and the membership details of each Committee can be located on the Company's website. Details of the number of Board and Committee meetings held during the year, and each Director's attendance at those meetings are set out in the Annual Report.

## **Selection and appointment of Directors**

The selection and appointment of Directors is carried out by the Board based on the recommendations of the Nomination Committee. The Committee regularly reviews its membership to ensure it has the appropriate mix of skills and experience required to meet the needs of the Company. When a Board vacancy exists or where it is considered a Director with particular skills or experience is required, the Committee will make a recommendation to the Board to make an appointment of a candidate with the appropriate skills, qualifications and experience.

## **Board performance**

The Board formally evaluates its performance periodically. This process is facilitated by the Nomination Committee via the Chairman of the Committee whereby Board members are evaluated by a questionnaire pertaining to the key skills, experience and level of participation required. The past year has seen the Board focus on renewal to ensure the required mix of skills and experience aligns with the stage and lifecycle of the Company. Now that this renewal has been undertaken the Board is refining its performance evaluation and succession planning processes.

Directors can seek independent professional advice at the cost of the Company. Any such request is to be approved by the Chairman of the Board.

In addition to attending the scheduled Board and Board Committee meetings during the year, Directors also spend time regularly with the company's personnel in order to gain a detailed knowledge and understanding of the Company's operations and associated risks and opportunities. The Board takes part in the Company's annual strategic planning process; risk management reviews and approves the business plan and budgets of the Company. The Board also receives and reviews comprehensive monthly management, financial and operational reports in relation to the Company performance.

**Skills Matrix**

The current criteria required for board experience and skills including corporate governance, financial, legal and mining expertise are shown in the table below.

<b>BOARD of DIRECTORS</b>					
	<b>Dean Brown (Chairman)</b>	<b>John Gooding</b>	<b>Maurice Loomes</b>	<b>Phil Baker</b>	<b>Steve McClare</b>
Appointment Date	Sep. 06	May 07	Nov. 13	Oct. 14	May 15
<b>Skills &amp; Experience</b>					
ASX Listed Board Experience	✓	✓	✓	✓	✓
Corporate governance	✓	✓	✓	✓	✓
Resources, Mining & Exploration		✓		✓	✓
Capital Project development & management	✓	✓		✓	✓
Financial	✓		✓	✓	
Legal/Commercial	✓	✓	✓	✓	✓
Eligible to chair Audit Committee	✓	✓		✓	
Eligible to chair Remuneration Committee	✓	✓		✓	

**Company Secretary**

The Company Secretary has a direct reporting line to the Chairman of the Board and is accountable to the Board on all governance matters. All Directors of the Board have access to the Company Secretary.

**Retirement and re-election of Directors**

Director's retirement and rotation is governed by ASX Listing Rules and Clause 6.3 of the Company's Constitution. Each year one third of the Directors retire and may offer themselves for re-election.

The Company's Constitution also requires that Directors, who have been appointed by the Board, must retire and stand for re-election at the next annual general meeting following their appointment.

### 3. Principle 3: Promote Ethical and Responsible Decision Making

#### Code of business conduct and Directors code of conduct

All Directors, managers and employees of the Company are expected to act with the utmost integrity and objectivity, striving at all times to enhance the performance of the Group and below is a summary of the Company's core policies which apply to Directors and employees.

The Code of Business Conduct was adopted by the Board to define basic principles of business conduct. The Code of Business Conduct requires officers and employees to adhere to the law and various policies of the company referred to in this Code. The standards set out in this Code are a practical set of principles giving direction and reflecting the Company's approach to business conduct. Directors and management monitor compliance and will act on any actions which are inconsistent with this Code. All employees also have an obligation to advise the Company of any illegal or unethical practices of which they become aware.

In addition, to the Code of Business Conduct, Directors are also bound by the Directors Code of Conduct which sets out the standards to which each Director will adhere whilst conducting his or her duties.

In addition to the Code of Business conduct and Directors Code of Conduct the Company has the following policies in place to actively promote ethical and responsible decision making. Details of these policies can be found on the Company's website [www.hillgroveresources.com.au](http://www.hillgroveresources.com.au):

- Company Security Trading Policy
- Conflicts of Interest Policy
- Fraud and Corruption Policy
- Privacy Policy.

The Board has also committed to adopt the principles of Fame and Good Character with all Directors having completed checks including bankruptcy and insolvency and national crime, and will advise the Company of any changes to their status.

#### Diversity

The Company has a vision to establish itself as a successful employer by providing genuine support for the development of employee diversity in the workplace. The Company is committed to providing an inclusive workplace and organisational culture that embraces diversity and provides support for broad based equal opportunity programs, multicultural awareness and representation, and a focus on women in senior management. The Company already has a diverse workforce. The Company's current employment philosophy promotes a culture that values differences, and emphasises tolerance. The workforce in the Adelaide and Kanmantoo is gender, culturally and ethnically diverse.

At the major employment site of Kanmantoo there are programmes in place that are intended to benefit local communities. Employment of local residents has been established in the objectives of senior officers at Kanmantoo and the Company currently employs 82% of its employees from within the local and regional areas.

Currently the Company has no women on the Board or executive team; however there is a target to recruit at least one woman on the Board within the next two years. Twenty percent of the combined executive and management team are women, with 11% women employed in the Company in total.

The Board acknowledges that diversity can be an economic driver of competitiveness and that studies show that increased gender diversity on Boards and executive teams has been shown to be linked to better financial performance. The Company has established a Diversity Policy

and after the significant change to the style of workforce, is currently formulating measurable objectives in relation to the policy and these will be published and reported in due course. For further information please refer to the Company's Diversity Policy which can be found at [www.hillgroveresources.com.au](http://www.hillgroveresources.com.au).

## 4. Principle 4: Safeguard Integrity in Financial Reporting

### Audit and Risk Committee

The Board has an Audit and Risk Committee consisting of a majority of independent Non-Executive Directors. The chair of the Committee is independent and is not the Chairman of the Board.

The Committee is comprised of the following:

- Mr P Baker (Chairman)
- The Hon. Dr D C Brown,
- Mr M W Loomes
- Mr J E Gooding

Details of these Directors' attendance at Audit and Risk Committee meetings are set out in the Annual Report.

The Audit and Risk Committee has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the industries in which the Company operates.

The main responsibilities of the Committee are to:

- review, assess and approve the annual report, the half-year financial report and all other financial information published by the company or released to the market;
- assist the Board in reviewing the effectiveness of the organisation's internal control environment covering:
  - effectiveness and efficiency of operations
  - reliability of financial reporting
  - compliance with applicable laws and regulations;
- oversee the effective operation of the risk management framework;
- recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and assess performance;
- consider the independence and competence of the external auditor on an ongoing basis;
- review and approve the level of non-audit services provided by the external auditors and ensure it does not adversely impact on auditor independence;
- review and monitor related party transactions and assess their propriety; and
- report to the Board on matters relevant to the Committee's role and responsibilities.



The Audit and Risk Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

The Committee has a formal charter which can be found on the Company's website.

The Board has received assurance from the Managing Director/Chief Executive Officer and the Chief Financial Officer for the financial statements and records for the year ended 31 December 2015 in the form of a declaration provided in accordance with s295 of the *Corporations Act 2001*.

In addition, before the Board approves financial statements for any period or approves the release of quarterly reports containing financial information, it receives from the 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 entity.

### **External auditors**

The Company and Audit and Risk Committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. It is Deloitte's policy to rotate audit engagement partners on listed companies in accordance with the requirements of the *Corporations Act 2001*, which is generally after five years, subject to certain exceptions.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the Annual Report and in note 6 to the Financial Statements. It is the policy of the external auditors to provide an annual declaration of their independence to the Audit and Risk Committee.

The external auditor will attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

## **5. Principle 5: Make Timely and Balanced Disclosure**

The Company is committed to providing relevant up-to-date information to its shareholders and investors in accordance with the continuous disclosure requirements under the ASX Listing Rules. The Company reports periodically to the ASX yearly, half yearly and quarterly. The Company has a Continuous Disclosure Policy, which outlines the processes for identifying information for disclosure. The policy aims to ensure that all market sensitive matters concerning the Company are disclosed on a timely and balanced basis. The Company's Continuous Disclosure Policy is available on the Company's website.

In relation to the reporting of Mineral Resource and Ore Reserve information the Company uses experts in the form of competent persons in accordance with JORC code requirements. In addition to this expertise, independent consultants are called upon to verify conclusions drawn where appropriate prior to release to the market.

## 6. Principle 6: Respect the Rights of Shareholders

The Board aims to ensure that shareholders are informed of all major developments affecting the Group's state of affairs as follows:

- The full annual financial report is lodged with the ASX, and distributed to all shareholders who elect to receive a copy, and includes relevant information about the operations of the Group during the year, changes in the state of affairs and details of future developments, in addition to the other disclosures required.
- The half-yearly report contains summarised financial information and a review of the operations of the Group during the period. The half-year financial report is lodged with the ASX and sent to any shareholder who requests it.
- Quarterly reports are also issued covering production status, costs and cash position.

All press releases and presentations that are released publicly to the ASX website at [www.asx.com.au](http://www.asx.com.au) are also available on the Group website at [www.hillgroveresources.com.au](http://www.hillgroveresources.com.au).

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Group's strategy and goals. Important issues are presented to shareholders as single resolutions. Shareholders are requested to vote on matters such as the appointment and aggregate remuneration of Directors, the granting of performance rights and shares to Directors and changes to the Constitution.

The Company keeps a history of all relevant releases and financial information from the previous four years on its website at [www.hillgroveresources.com.au](http://www.hillgroveresources.com.au).

Copies of the Constitution are available to any shareholder who requests it.

Provide short introduction of the details of the procedure.

## 7. Principle 7: Recognise and Manage Risk

The Board acknowledges it is responsible for the overall internal control framework of the Company and examines the adequacy of the nature, extent and effectiveness of the internal control processes of the Group on an ongoing basis. The Board, via the Audit and Risk Committee, oversees and monitors the Company's audit processes, including the Company's internal financial and business control activities.

### Management of risks

The risks involved in diversified resources, exploration and production company, and the specific uncertainties for the Company, are regularly monitored and reviewed.

The Company undertakes corporate risk reviews in order to ensure that risks are evaluated in terms of likelihood and consequence. The specific risks are then assessed in terms of the risk category and assigned risk treatments to manage, mitigate or eliminate the risk.

The risk framework and matrix is reported to and reviewed twice yearly by the Audit and Risk Committee and the Board to ensure an appropriate framework is in place and that risk levels and necessary actions are managed in line with the Company's risk tolerance set by the Board.

The Company has in place a Risk Management Policy which also forms part of the internal controls and corporate governance arrangement of the Company. The objective of the Risk Management Policy is to support the objectives of the Company by:

- identifying risks and formulating actions for management, mitigation or elimination of these risks;
- promoting a more risk aware culture throughout the Company; and
- protection of the Company's assets and image.

### Internal control framework

The Company does not have an internal audit function, but does adopt internal processes and procedures for the effective management of risk:

- monthly management reporting including operations, finances, safety incidents and performance;
- delegation of Authority Policy setting out authority levels for all employees and officers;
- capital expenditure request process that requires a business case and justification prior to any capital spend;
- yearly strategic planning and business plan/budget process with all budgets and plans reviewed and approved by the Board;
- safety management; and
- environmental management.

### Financial commodity risk and hedging

A comprehensive financial and commodity risk management program supports the achievement of the Company objectives by enabling the identification and evaluation of risks, setting acceptable risk thresholds, identifying and mapping controls against these risks, and implementing policies and procedures to manage and monitor the risks.

The Company has in place a Financial Commodity Risk and Hedging Policy and this policy establishes the financial and commodity risk management framework and defines the procedures and controls for the effective management of the Company's risks that arise through the copper, gold and silver mining activities it conducts.

The policy guides all activities for managing commodity and foreign exchange transactional risks faced by the Company. Hedge strategies are focused primarily on the management of market price risk while the Financial Commodity Risk and Hedging Policy also covers credit risk that arises from any hedging contracts that are used to manage market price risk, together with other risks such as operational, accounting and liquidity risks. The policy is regularly reviewed and updated and can be found on the Company's website under Board/Corporate Governance at [www.hillgroveresources.com.au](http://www.hillgroveresources.com.au).

## 8. Principle 8: Remunerate Fairly and Responsibly

### Remuneration Committee

The Remuneration Committee advises the Board on remuneration and incentive policies, and makes specific recommendations on remuneration packages and other terms of employment for Executive Directors, senior executives and Non-Executive Directors. The Chairman of the Committee is an independent Director. Committee members receive briefings as required from an external independent remuneration expert on recent developments on remuneration and related matters.

The Committee has a formal charter that sets out its roles and responsibilities, composition and structure and a Remuneration and Benefits Policy that clearly sets out the structure of and distinguishes between remuneration for Non-Executive Directors, Executive Directors and other key executives. This charter and policy can be found on the Company's website.

The Remuneration Committee is composed of the following Non-Executive Directors, the majority of whom are independent:

- The Hon. D C Brown, AO (Chairman)
- Mr J E Gooding
- Mr M W Loomes
- Mr P Baker.

Details of these Directors attendance at Remuneration Committee meetings are set out in the Annual Report.

For further details in relation to Director and executive remuneration please refer to the Remuneration Report in the Annual Report.