

# STATEMENT OF CORPORATE GOVERNANCE

This statement outlines the main Corporate Governance practices that were in place throughout the financial year, which comply with the Australian Stock Exchange ('ASX') Corporate Governance Council recommendations, unless otherwise stated.

## Board of Directors

The Board of Directors is responsible for the overall corporate governance of the Group including its strategic direction, setting remuneration, establishing goals for management and monitoring the achievement of these goals and ensuring the integrity of internal control and management information systems. It is also responsible for approving and monitoring financial and other reporting.

The composition of the Board has been determined on the basis of providing the Group with the benefit of a broad range of technical, administrative and financial skills, combined with an appropriate level of experience at a senior corporate level. The names and further information regarding the skills, experience, qualifications and relevant expertise of the Directors are set out in the Directors' Report.

The composition of the Board is monitored constantly to ensure that it provides the Company with the appropriate levels of both expertise and experience. The Board comprises a majority of independent, non-executive Directors. The independence of Directors is based on their capacity to put the best interests of the Company and its shareholders ahead of all other interests.

Should a Board vacancy exist, through whatever cause, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board identifies a panel of candidates with appropriate expertise and experience. A selection procedure is then completed and the Board appoints the most suitable candidate who must stand for election at the next general meeting of shareholders.

Directors, other than the Managing Director, are subject to re-election by the shareholders at least every three years.

Having regard to the current membership of the Board and the size, organisational complexity and scope of operations of the Group, a Nomination Committee has not been established.

Each Director has the right to seek independent professional advice at the Group's expense. Prior approval of the Chairman is required, but such approval is not unreasonably withheld. A copy of the advice received by the Director is made available to all other members of the Board.

In the event that a potential conflict of interest may arise, involved Directors must withdraw from all deliberations concerning the matter.

Directors, officers and employees are permitted to trade in the Company's securities only in accordance with the provisions of the Corporations Act and ASX Listing Rules. The Directors are under an obligation to report any dealings by them in the Company's securities.

## Remuneration Committee

The Remuneration Committee has a documented charter, approved by the Board, which outlines the committee's responsibilities, composition, frequency of meetings, authority and the charter review process. The committee comprises a minimum of three members, of which a majority are non-executive Directors. The Chairperson may not be the Chairperson of the Board.

During the year, the composition of the Remuneration Committee was:

- J. Gillis Broinowski (Chairman)
- Mark H. Lochtenberg
- Lindsay R. Flint

Details of these Director's qualifications and attendance at Remuneration Committee meetings are set out in the Directors' Report.

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The Remuneration Committee advises the Board on remuneration policies and practices generally, reviews and makes specific recommendations on the remuneration packages and other terms of employment of its Directors and senior executives and makes recommendations to the Board with respect to the following:

- Executive remuneration and incentive policy.
- The remuneration of the Managing Director and any other executive Directors, the Company Secretary and all senior executives reporting directly to the Managing Director.
- An executive incentive plan and an equity based incentive plan.
- The remuneration of non-executive Directors.
- Superannuation arrangements.
- Recruitment, retention, performance measurement and termination policies and procedures for non-executive Directors, the Managing Director and any other executive Directors, the Company Secretary and all senior executives reporting directly to the Managing Director.
- The disclosure of remuneration in the Company's public materials including ASX filings and the Annual Report.

Remuneration of non-executive Directors is determined by the Board, upon the recommendation of the Remuneration Committee, within the maximum amount approved by Shareholders from time to time. The Remuneration Committee reviews and establishes the level of remuneration for non-executive Directors. The level of Director remuneration is to be set so as to attract the best candidates for the Board while maintaining a level commensurate with boards of similar size and type. There are no schemes for retirement benefits, other than superannuation, for non-executive Directors.

For details on the amount of remuneration for each Director, refer to the Key Management Personnel note to the financial statements and the Remuneration Report in the Directors' Report. The Remuneration Report outlines the Company's remuneration policy, remuneration structure and amounts paid to Directors and senior executives.

## Audit Committee

The Audit Committee has a documented charter, approved by the Board. The committee comprises a minimum of three members, of which a majority are non-executive Directors. The Chairperson may not be the Chairperson of the Board.

During the year, the composition of the Audit Committee was:

- Paul G. Chappell (Chairman)
- Peter J. Nightingale
- Robert A. Yeates

Details of these Director's qualifications and attendance at Audit Committee meetings are set out in the Directors' Report.

The committee advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Group. The Audit Committee has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the industry in which the Group operates.

The Managing Director and CFO state in writing to the Board that the financial records of the Company for the financial year have been properly maintained, the Company's financial reports for the financial year ended 30 June 2009 comply with accounting standards and present a true and fair view of the Company's financial condition and operational results. This statement is required annually.

The main responsibilities of the Audit Committee are to:

- Review, assess and approve the annual, half year and concise financial reports and other financial information distributed externally.
- Assess corporate risk assessment processes.
- Assess whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. Each reporting period the external auditor provides an independence declaration in relation to the audit or review.

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- Provide advice to the Board in respect of whether the provision of the non-audit services by the external auditor is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001.
- Assess the adequacy of the internal control framework and the Company's code of ethical standards.
- Organise, review and report on any special reviews or investigations deemed necessary by the Board.
- Address any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, ASX and financial institutions.

The Audit Committee reviews the performance of the external auditors on an annual basis and members of the Audit Committee normally meet with them during the year to:

- Discuss the external audit plans, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed.
- Review the half year and preliminary final reports prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings, and to recommend Board approval of these documents, prior to announcement of results.
- Review the draft annual and half year financial reports, and recommend Board approval of the financial reports.
- Review the results and findings of the audit, the adequacy of accounting and financial controls and to monitor the implementation of any recommendations made.

## Internal Controls

The Board of Directors acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. The system of internal control adopted by the Group seeks to provide an appropriate division of responsibility and careful selection and training of personnel relative to the level of activities and size of the Group.

The full Board takes responsibility for reviewing financial reporting procedures, internal controls and the performance of financial management. Selected internal control mechanisms employed to support the business include:

- Investment appraisals - the Company has documented guidelines for capital expenditure and investment appraisals, including annual budgets, expenditure review procedures, presentations to meetings of the Directors and appropriate levels of authority.
- Business planning, budgeting and reporting - a business planning process includes evaluation of strategies, objectives, and risks resulting in an annual budget approved by the Board. Monthly actual performance is reported against budget and revised forecasts for the year are prepared regularly.
- Quality and integrity of employees - there are clearly defined accountabilities, performance measures, and reinforcement of values and ethics by management.

The Managing Director and CFO state in writing to the Board that the Group's financial statements present a true and fair view, in all material respects, of the Group's financial condition and operational results and are in accordance with relevant accounting standards.

## External Auditors

Board nominees review the performance of the external auditors and the Audit Committee and CFO meet with them during the half yearly review and annual audit to discuss any issues that have arisen with respect to accounting policies, any significant operational issues and the level of proposed audit fees. The auditor is requested to 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 auditor's report.

KPMG, the Company's auditors, were appointed on 25 July 2005.



THE COMPANY AND GROUP IS INVOLVED  
IN THE ACQUISITION, EXPLORATION,  
DEVELOPMENT, PRODUCTION AND  
OPERATION OF COAL MINING PROJECTS.

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## Ethical Standards

All Directors, managers and employees are expected to act with the utmost integrity and objectivity, endeavouring at all times to enhance the performance and reputation of the Group.

Directors, officers and employees are permitted to trade in the Company's securities only in accordance with the provisions of the Corporations Act and ASX Listing Rules. The Directors are under an obligation to report any dealings by them in the Company's securities.

## The Role of Shareholders

The Board ensures that the shareholders are informed of all major developments affecting the Group by the following means:

- Distribution of the Annual Report to all shareholders which contains relevant information about the operations of the Group during the year in addition to disclosures required by the Corporations Act 2001.
- Lodgement of quarterly reports with the ASX which show summarised financial information for the quarter. Copies of these reports are available to shareholders on request.
- Lodgement of the half yearly report with the ASX which contains summarised and audit reviewed financial information. Copies of half yearly financial statements prepared in accordance with the Corporations Act are available to shareholders on request.
- Lodgement and distribution of the Annual Report, which contains full audited financial information, in accordance with the Corporations Act.
- Announcements to the ASX concerning any significant development in the Group's operations, financing and administration. All announcements are immediately available to the general public.
- Disclosure of all major announcements to the ASX on the Company's website.
- The Annual General Meeting is the main opportunity for the shareholders to hear the Managing Director and Chairman provide updates on the Company's performance, ask questions of the Board and to express views and vote on various matters of business on the agenda.

The shareholders are responsible for voting on the appointment of Directors.

## Risk Management

Given the size and nature of the Group and the number of officers and employees and the nature of the Group's business, a formal risk management policy and internal compliance and control system has not been implemented. The Managing Director and CFO declare in writing to the Board that that the system of risk management and internal compliance and control which implements the policies adopted by the Board has been assessed and found to be operating efficiently and effectively in all material respects.

Each Director reviews the business risks affecting his particular area of expertise annually and reports to the Board. The Board then determines the appropriate actions to eliminate or minimise the identified business risks. The full Board oversees the establishment, implementation and ongoing review of the Group's risk management and internal control system. The internal control system covers financial, operational and compliance risks.

Recommendations made by external auditors and other external advisers are investigated by the Board and, where necessary, appropriate action is taken to ensure that the Group has the internal control environment to manage the key risks identified. Ways of enhancing existing risk management strategies, including segregation of duties, employment and training of suitably qualified and experienced personnel are investigated by the Board.

## Performance Evaluation of the Board and Key Executives

Given the size and nature of the Group and the number of officers and employees and the nature of the Group's business, the Board has adopted an informal and continuous performance evaluation process of its key executives. The Company has not established formal performance review measures for the Board or key executives nor has it established a Nomination Committee.