

# AUZEX RESOURCES LIMITED

## CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Auzex Resources Limited is responsible for the corporate governance of the Company and is committed to achieving and demonstrating the highest standards of corporate governance.

Auzex Resources Limited's Corporate Governance Statement is structured with reference to the Australian Stock Exchange Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations" (ASX Recommendations), the principles of which are as follows:

Principle 1.	Lay solid foundations for management and oversight
Principle 2.	Structure the board to add value
Principle 3.	Promote ethical and responsible decision making
Principle 4.	Safeguard integrity in financial reporting
Principle 5.	Make timely and balanced disclosure
Principle 6.	Respect the rights of shareholders
Principle 7.	Recognise and manage risk
Principle 8.	Encourage enhanced performance
Principle 9.	Remunerate fairly and responsibly
Principle 10.	Recognise the legitimate interests of stakeholders

This Corporate Governance Statement contains certain specific information and discloses the extent to which the Company has followed the guidelines during the period. Where a recommendation has not been followed, that fact is disclosed, together with the reasons for the departure.

Auzex Resources Limited's corporate governance practices were in place throughout the year ended 30 June 2006. For further information on corporate policies adopted by Auzex Resources Limited, please refer to the Corporate Governance Tab under "About Auzex Resources" on our website located at [www.auzex.com](http://www.auzex.com).

A description of the Company's main corporate governance practices is set out as follows:

### STRUCTURE AND ROLE OF THE BOARD

The Board operates in accordance with the following principles and guidelines.

- The Board does comprise Directors with an appropriate range of qualifications and expertise.
- The terms and conditions of the appointment of Non-Executive Directors are set out in a letter of appointment. The appointment letter covers the following matters:
  - the level of remuneration;
  - the tenure of appointment;
  - the expectation of the Board in relation to attendance and preparation for all Board meetings;
  - the Directors code of conduct;
  - the procedures dealing with conflicts of interest; and
  - the availability of independent advice - The board has agreed a procedure for Directors to take independent professional advice at the expense of the Company. Prior approval of the Chairman is required, but this will not be unreasonably withheld.
- The Board meets as often as required to attend to the affairs of the Company and follow meeting guidelines set down to ensure all Directors are made aware of, and have available to them all necessary information enabling them to participate in an informed discussion of all agenda items.

The Board is responsible for the direction and supervision of the Company's business on behalf of the shareholders, by whom they are elected and to whom they are accountable. This includes ensuring that internal controls and reporting procedures are adequate and effective. The Directors recognise the need to maintain the highest standards of behaviour, ethics and accountability. The Board draws on relevant corporate governance best practice principles to assist it to contribute to the performance of the Company.

## **CORPORATE GOVERNANCE (Continued)**

### **STRUCTURE AND ROLE OF THE BOARD (Continued)**

The primary functions of the Board include responsibility for:

- Approving objectives, goals and strategic direction for management;
- Monitoring financial performance including adopting annual budgets and approving the Company's financial statements;
- Ensuring that adequate systems of internal control exist and are appropriately monitored for compliance;
- Selecting, appointing and reviewing the performance of the Executive Chairman and reviewing the performance of senior operational management;
- Ensuring significant business risks are identified and appropriately managed; and
- Reporting to shareholders on performance.

The Board may determine from time to time to establish specific purpose sub-committees to deal with specific issues. All matters determined by committees are submitted to the full Board as recommendations for Board decision. Minutes of committee meetings are tabled at the immediately subsequent Board meeting.

### **BOARD MEMBERS AND INDEPENDENCE**

The Directors in office at the date of this statement are:

Name	Position	Independent	Term in Office	Expertise
John Lawton	Executive Chairman	No	2.9 years	Management and Resource Development
Greg Partington	Executive Director	No	2.9 years	Mineral Exploration, structural geology, database development & management
Chris Baker	Non-Executive Director	Yes	1 year	Finance, Governance and Management
Paul Frederiks	Non-Executive Director	No	1 year	Finance, Governance and Management

Directors of Auzex Resources Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgement.

In the context of Director independence, "materiality" is considered from both the Company and individual Director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the Director in question to shape the direction of the Company's loyalty.

In accordance with the definition of independence above, and the materiality thresholds set, the Directors as marked in the previous table are considered to be independent. Therefore there are two Non-Executive Directors, one of whom is deemed independent, and two Executive Directors. The Non-Executive Director who is not deemed independent is also the Company Secretary and provides accounting services to the Company.

Due to the Company's size, requirements and resources, the Board considers that the existing skill mix of the Directors is highly appropriate and that the role of Chairman and CEO should be combined for the time being. In adopting this approach, the Board is conscious of the wealth of relevant industry and management experience that John Lawton brings to the Company. For this reason ASX Recommendations 2.1 (A majority of the Board should be independent Directors), 2.2 (The Chairperson should be an Independent Director), 2.3 (the roles of Chairperson and Chief Executive Officer should not be exercised by the same individual) and 2.4 (the Board should establish a nomination committee) have not been adopted.

Further details of the members of the Board including their experience and expertise is set out in the Directors' Report.

## **CORPORATE GOVERNANCE (Continued)**

### **BOARD MEMBERS AND INDEPENDENCE (Continued)**

#### **NON-EXECUTIVE DIRECTORS**

The two Non-Executive Directors periodically meet for a period of time, without the presence of management, to discuss the operation of the Board and a range of other matters including those relating to Remuneration and Directors Nominations. Relevant matters arising from these meetings are shared with the full Board.

#### **TERM OF OFFICE**

The Company's constitution specifies that all Directors (with the exception of the Executive Chairman) must retire from office no later than the third annual general meeting (AGM) following their last election. Where eligible, a Director may stand for re-election.

#### **AUDIT COMMITTEE**

The Audit Committee operates under a charter approved by the Board. Audit Committee meetings will be held periodically throughout the year. It is the policy of the Board that the members of the committee shall be a minimum of two Non-executive Directors. The Audit Committee will be chaired by a Non-executive Director other than the Chairman of the Board.

The main functions of the committee will be to:

- Assess the appropriateness of accounting policies, practices and disclosures and whether the quality of financial reporting is adequate;
- Review the scope and results of internal, external and compliance audits;
- Maintain open lines of communication between the Board and external auditors and the Company's compliance officers;
- Review and report to the Board on the annual report, the half-year financial report and all other financial information published by the Company or released to the market;
- Assess the adequacy of the Company's internal controls and make informed decisions regarding compliance policies, practices and disclosures;
- Ensure effective deployment of risk management processes;
- Nominate the external auditors and review the terms of their engagement, the scope and quality of the audit and the auditor's independence;
- Review the level of non-audit services provided by the external auditors and ensure that it does not adversely impact on auditor independence.

The Chairman of the Audit Committee reviews the performance of the committee with members and reports annually to the Board. Due to the small size of the Board, the Board considers it appropriate that all Directors sit on the Audit Committee which as discussed is separately chaired by a Non-executive Director. For this reason ASX Recommendation 4.3 (Structure the Audit Committee so that it consists of only Non-executive Directors, a majority of Independent Directors, an Independent Chairperson and at least three members) has not been adopted in regards to the first two points.

The members of the Audit Committee during the year were:

Chris Baker (Chairman)  
John Lawton  
Greg Partington  
Paul Frederiks

For details on the number of meetings of the audit committee held during the year and the attendees at those meetings, refer to the Directors' Report.

#### **CONTINUOUS DISCLOSURE**

The Company Secretary has been nominated as the person responsible for communications with the Australian Stock Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX listing rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

The Company rigorously polices its continuous disclosure responsibilities to ensure a fully informed market at all times.

## **CORPORATE GOVERNANCE (Continued)**

### **CORPORATE REPORTING**

The Executive Chairman and Company Secretary have made the following certifications to the Board in regards to the reporting structure for the year ended 30 June 2006:

- That the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group;
- That the above statement is founded on a sound system of internal control and risk management which implements the policies adopted by the Board and that the Company's risk management and internal control is operating efficiently and effectively in all material respects.

### **RISK ASSESSMENT AND MANAGEMENT**

The Company is committed to having a culture of risk management and has established a risk management system that supports a pro-active approach to managing risk and to exploiting opportunity at all levels.

. Management are required to ensure that appropriate controls and mitigation strategies are in place to effectively manage those risks.

### **PERFORMANCE**

In order to ensure that the Board continues to discharge its responsibilities in an appropriate manner it is the intention that all Directors will complete a structured self evaluation questionnaire that aimed to evaluate the performance of the Board as a whole on an annual basis. These responses will be collated and subsequently discussed by the Board to improve the functional operations of the Board. The Chairman meets privately with each Director as appropriate to discuss their individual performance. The Chairman's performance is reviewed by the Board.

The Company's Executive Director's performance and remuneration is reviewed annually by the Non-executive Directors.

The performance criteria against which Directors and Executives are assessed is aligned with the financial and non-financial objectives of Auzex Resources Limited.

### **REMUNERATION**

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and small executive team by remunerating Directors and key executives fairly and appropriately with reference to relevant employment market conditions. The Executive Directors' and key executives' emoluments are structured to retain and motivate executives by offering a competitive base salary together with performance incentives through share options which allow executives to share in the success of Auzex Resources Limited.

The Company currently has two Non-Executive Directors and two Executive Directors. The Company's Executive Directors do not receive Directors' fees and their remuneration packages are formalised in service agreements. The Non-executive Directors' maximum aggregate remuneration as approved by shareholders is currently \$100,000 and is set at a level that compensates the directors for their significant time commitment in overseeing the progression of the Company's business plan.

There are no retirement benefits offered to Non-executive Directors other than statutory superannuation. For a full discussion of the Company's remuneration philosophy and framework and the remuneration received by Directors and Executives in the current period, please refer to the Remuneration Report, which is contained within the Directors' Report.

The Board is responsible for determining and reviewing the compensation arrangements for Directors themselves. Due to the size and specific project nature of the Company, the Board undertakes this compensation review collectively and therefore does not require a separately established Remuneration Committee. For this reason ASX Recommendation 9.2 (The Board should establish a Remuneration Committee) has not been adopted.

## **CORPORATE GOVERNANCE (Continued)**

### **CODE OF CONDUCT**

The Company supports and has adopted the Code of Conduct published by The Australian Institute of Company Directors in 1998. The insider trading provisions of the Corporations Act have been drawn to the attention of all Directors and Executives and it has been agreed that this will be a continuing policy on a regular basis. Directors have all entered into agreements to notify the Company within three days of any dealing in the Company's securities and it is an employment condition that all Executives notify the Company within three days of any dealing in the Company's securities.

### **COMMUNICATION TO SHAREHOLDERS**

The Board of Directors aims to ensure that the shareholders, on behalf of whom they act, are provided with all information necessary to assess the performance of the Company. Information is communicated to the shareholders through:

- The Annual Report, which will be distributed to all shareholders (unless shareholders specifically indicate otherwise);
- Quarterly Reports to all shareholders (to be issued within four weeks of the end of the quarter);
- The Annual General Meeting, and other meetings called to obtain approval for Board action as appropriate; and
- The Company's Corporate Internet site at [www.auzex.com](http://www.auzex.com).

Shareholders are actively encouraged to become "online shareholders" by registering electronically with the Company to receive an email notification of announcements as they are made.

All information disclosed to the ASX is immediately posted on the Company's website as soon as it is disclosed to the ASX.