

## Corporate Governance Statement

The Board of Directors is committed to maintaining good standards of corporate governance and as such has established corporate governance policies and procedures that are, where appropriate and practical, consistent with the ASX Corporate Governance Council's Principles and Recommendations (third edition).

The following statement sets out a summary of the Group's corporate governance practices that were in place during the financial year ended 30 June 2017.

### Lay solid foundations for management and oversight

#### *Role of the Board*

The Board is governed by the Corporations Act 2001, ASX listing rules and a formal constitution.

The Board's primary role is the protection and enhancement of shareholder value.

The Board takes responsibility for the overall Corporate Governance of the Company including its strategic direction, management goal setting and monitoring, internal risk control, risk management and financial reporting.

The Company has established the functions reserved to the Board, and those delegated to senior executives and has set out these functions in its Statement of Delegations to Management.

#### *Board processes and management*

The Board has an established framework for the management of the Company including a system of internal control, a business risk management process and appropriate ethical standards. To assist in the execution of its responsibilities, the Board has an Audit Committee to deal with internal control, ethical standards and financial reporting.

Formal agreements are entered into upon the appointment of any Director or senior executive setting out the terms of their employment.

Formal deeds have been entered into by the Company with Directors whereby all Directors are entitled to take such legal advice as they require at any time, and from time to time, on any matter concerning or in regards to their rights, duties, and obligations as Directors in relation to the affairs of the Company.

The Chairman is responsible for evaluation of the Board and, when deemed appropriate, Board committees and individual directors. The Board are responsible for evaluating the performance of the Managing Director.

New directors undertake an induction programme and all Directors are provided professional development opportunities from time to time, in order to maintain and improve upon skills and knowledge needed for them to perform their duties effectively.

The Board, its committees and individual directors are subject to ongoing evaluation by the Chairman.

The Managing Director's performance is evaluated as part of their annual remuneration review, with their performance reviewed against established objectives. These objectives are defined in alignment with the strategic aims of the Company.

During the financial year, an evaluation of the Board, individual directors and the Managing Director was conducted.

The Managing Director is responsible for conducting an evaluation of the performance of senior executives. The review is conducted against pre-agreed performance objectives. During the financial year, an evaluation of the senior executives was conducted.

## *Diversity Policy*

The Company does not have a formal diversity policy given its current size. Notwithstanding this the Company strives to provide the best possible opportunities for current and prospective employees of all backgrounds in such a manner that best adds to overall shareholder value that is based upon an applicant's ability to fulfil the required role.

For the financial year 2017, the proportion of women employed by the Company in Australia as employees or contractors was 25%, and none of the Executive Management positions and the Board positions were held by women.

## **Structure the Board to add value**

### *Composition of the Board*

The names of the directors of the Company and terms in office at the date of this Statement together with their experience and expertise are set out in the Directors' Report section of the Annual Report. The Directors' terms in office and experience are considered appropriate for a publicly listed junior exploration company.

The composition of the Board currently consists of four directors of whom three, including the Chairman, are Non-executives. Mr Boulton's role as Chairman of the Board is separate from that of the Managing Director, Mr Mitchell who is responsible for the day to day management of the Company, and is in compliance with the ASX Corporate Governance Council's best practice recommendation that these roles not be exercised by the same individual.

The board considers that Mr Boulton, Mr Billing and Mr Turvey are independent Directors, and as such, the majority of the board is independent. Mr Mitchell, in the position of Managing Director, is not considered independent.

The appointment date for each Director is as follows;

Mr Michael Billing was appointed 2 January 2004

Mr Greg Boulton was appointed 20 February 2008

Mr Simon Mitchell was appointed 1 February 2015

Mr David Turvey was appointed 18 June 2010

The Company Secretary is directly accountable to the board through the Chairman on all matters for the proper functioning of the board.

The Company does not have a Nomination Committee. The Company has determined that, due to the small size of the board, all three non-executive Directors should be involved in the nominations process. The board regularly reviews its Board Skills and Diversity Matrix to identify any gaps in the appropriate skills, experience and balance to the board, in addition to diversity and independence.

The mix of skills and diversity that the board currently has and assesses itself against is as follows;

- Geology
- Exploration
- Mining
- Finance
- Listed company
- Mergers & Acquisitions
- Capital Raising
- Strategy
- Governance
- Legal
- Occupational Health and Safety
- Environmental

The Company has reviewed the skills matrix and is satisfied that all skill areas of focus are adequately covered with the current directors' experience and skills.

The Company's constitution stipulated that the number of Directors must be at least three and no more than ten. The Board may at any time appoint a Director to fill a casual vacancy. Directors appointed by the Board are subject to election by shareholders at the following annual general meeting and thereafter Directors (other than the Managing Director) are subject to re-election at least every three years. The tenure for Executive Directors is linked to their holding of executive office.

The board undertakes appropriate checks on appointing a casual vacancy, or before putting forward a candidate to shareholders for the appointment of a new Director. In doing so, a summary of the person's relevant skills and attributes are included in the Notice of Meeting to shareholders for an informed decision on the resolution to appoint.

Before the engagement of new directors, including the Managing Director, particulars of the new appointee's curriculum vitae are referenced checked with a minimum of 2 nominated referees and other background checks as appropriate.

## **Promote ethical and responsible decision making**

### *Code of Conduct*

The Company requires all its Directors and employees to abide by the highest standards of behaviour, business ethics, and in accordance with the law. In discharging their duties, Directors of the Company are required to:

- Act in good faith and in the best interests of the Company;
- Exercise care and diligence that a reasonable person in that role would exercise;
- Exercise their powers in good faith for a proper purpose and in the best interests of the Company;
- Not improperly use their position or information obtained through their position to gain a personal advantage or for the advantage of another person to the detriment of the Company;
- Disclose material personal interests and avoid actual or potential conflicts of interests;
- Keep themselves informed of relevant Company matters;
- Keep confidential the business of all Directors meetings; and
- Observe and support the Board's Corporate Governance practices and procedures.

### *Ethical standards*

The Company aims for the highest standard of corporate governance and ethical behaviour by its Directors and employees.

All Directors are required to provide the Company with details of all securities registered in the Director's name or an entity in which the Director has a relevant interest within the meaning of section 9 of the Corporations Act 2001 and details of all contracts, other than contracts to which the Company is a party to which the Director is a party or under which the Director is entitled to a benefit, and that confer a right to call for or deliver shares in the Company and the nature of the Director's interest under the contract.

Directors are required to disclose to the Board any material contract in which they may have an interest. In accordance with section 195 of the Corporations Act 2001, a Director having a material personal interest in any matter to be dealt with by the Board, will not be present when that matter is considered by the Board and will not vote on that matter.

Directors, officers and employees are not permitted to trade in securities of the Company at any time whilst in possession of price sensitive information not readily available to the market. Section 1043A of the Corporations Act 2001 also prohibits the acquisition and disposal of securities where a person possesses information that is not readily available and which may reasonably be expected to have a material effect on the price of the securities if the information was generally available.

### **Safeguard integrity in financial reporting**

Each year the board receives written assurance from the Managing Director and the Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act 2001 is founded on a sound system for risk management and internal controls, and that it is operating effectively in all material respects in relation to the financial reporting risks.

### *Audit Committee*

Southern Gold Limited has an Audit Committee to oversee the Company's internal controls, ethical standards, financial reporting, and external accounting and compliance procedures. The committee currently consists of two non-executive Board directors, Messrs Billing, and Boulton (both of which are independent directors), and is chaired by Mr Billing.

Mr Billing's qualifications are BBus, CPA, MAICD. Mr Boulton's qualifications are BA (Accounting), FCA, FCPA, FAICD.

The main responsibilities of the audit committee are:

- Monitor the integrity of the financial statements of the Company and review significant financial reporting changes.
- Review the Company's internal financial control system and, unless expressly addressed by a separate risk committee or by the Board itself, risk management systems.
- Make recommendations to the Board in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor.
- Monitor and review the external auditor's independence, objectivity and effectiveness, taking into consideration relevant professional and regulatory requirements.
- Develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm.

The Committee is to meet at least twice a year, with further meetings on an as required basis. The Committee has authority to investigate any activity within its terms of reference or any matter specifically requested by the Board. The Committee has unrestricted access to all records and staff of the Company including full access to the external auditors. The Committee is authorised by the Board to obtain outside legal or other independent professional advice as necessary to assist the Committee.

The Committee met twice in the year ended 30 June 2017.

The board has determined that given the size and level of complexity of the Company's financial reporting, that a Committee of two members is sufficient to meet the objectives of safeguarding integrity in financial reporting.

## **Make timely and balanced disclosure**

### *Continuous Disclosure*

The Company operates under the continuous disclosure requirements of the ASX Listing Rules and ensures that all information, apart from information which is confidential, and ASX has not formed the view that the information has ceased to be confidential, which may be expected to affect the value of the Company's securities or influence investment decisions is released to the market in order that all investors have equal and timely access to material information concerning the Company. This information is made publicly available on the Company's website following release to the ASX.

## **Respect the rights of shareholders**

### *Communication with shareholders*

The Board aims to ensure that shareholders are informed of all major developments affecting the Company's state of affairs. In accordance with the ASX Corporate Governance Council best practice recommendations, information is communicated to shareholders as follows:

- The annual financial report which includes relevant information about the operations of the Company during the year, changes in the state of affairs of the entity and details of future developments, in addition to other disclosures required by the Corporations Act 2001;
- The half yearly financial report lodged with the Australian Securities Exchange and Australian Securities and Investments Commission and sent to all shareholders who request it;
- Notifications relating to any proposed major changes in the Company which may impact on share ownership rights that are submitted to a vote of shareholders;
- Notices of all meetings of shareholders;
- The Company, via its share registry, allows shareholders to receive and send communications electronically;
- Publicly released documents including the full text of notices of meetings and explanatory material made available on the Company's internet web-site at [www.southerngold.com.au](http://www.southerngold.com.au) ; and
- Disclosure of the Company's Corporate Governance practices and communications strategy on the internet web-site.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategy and goals. Important issues are presented to the shareholders as single resolutions. The external auditor of the Company is also invited to the Annual General Meeting of shareholders and is available to answer any questions concerning the conduct, preparation and content of the auditor's report. Pursuant to Section 249K of the Corporations Act 2001 the external auditor is provided with a copy of the notice of meeting and related communications received by shareholders.

## **Recognise and manage risk**

### *Risk Assessment and Management*

The Company does not have a committee to separately monitor risk management. The Board recognises that there are inherent risks associated with the Company's operations including mineral exploration, environmental, title, native title, legal and other operational risks. The Board endeavours to mitigate such risks by continually reviewing the activities of the Company in order to

identify key business and operational risks and ensuring that they are appropriately assessed and managed.

The board has conducted a risk management framework review in the year ended 30 June 2017.

The Company, due to its small size, does not have an internal audit function, but relies upon a segregation of duties and the board's active participation in material transactions.

#### *Environmental Sustainability Risks*

The Company's operations are subject to significant environmental regulations under Commonwealth and Western Australian legislation in relation to discharge of hazardous waste and materials arising from any mining activities and development conducted by the Company on any of its tenements. To 30 June 2017 the Company has only carried out exploration activities and there have been no known breaches of any environmental obligations. In addition to exploration activity, the Company retains a net profit interest in the Cannon Gold Mine 35km to the east of Kalgoorlie, WA, which is operated by ASX listed company Westgold Resources Ltd ("Westgold"). Responsibility for the environmental obligations of the Cannon operation are managed on a day to day basis by Westgold. The Company, since July 2016, also has operations in South Korea and must comply with regulations under the Framework Act on Environmental Policy or in some cases, the Environmental Impact Assessment Act which generally operates to regulate mining activity in a similar way to Australian regulations.

#### *Economic Sustainability Risks*

The ability to fund future operations during the Company's development phase is reliant upon the successful realisation of cash flows from its profit share agreement with Westgold in the co-development of the Cannon Project. In this regard key practices undertaken by the Board and senior executives to manage economic risk are:

- Reviewing opportunities to hedge the current gold price;
- Cost saving initiatives are constantly reviewed; and
- Cash management reviewed by the Board against approved budgets.

#### *Social Sustainability Risk*

Southern Gold consultation process incorporated state, federal and local government agencies, Aboriginal people and representative organisations, and non-government organisations, and local and regional communities in order to achieve its social responsibilities in exploration and mining activities.

### **Remunerate fairly and responsibly**

#### *Remuneration Policy*

The Company does not have a remuneration committee due to the very small number of employees in the Company. The board manages the remuneration review process.

The Company's Constitution specifies that the total amount of remuneration of Non-executive Directors shall be fixed from time to time by a general meeting. The current maximum aggregate remuneration of Non-executive directors is set at \$300,000 per annum. Directors may apportion any amount up to this maximum amount amongst the Non-executive Directors as they determine. Directors are also entitled to be paid reasonable travelling, accommodation and other expenses incurred in performing their duties as directors.

The remuneration of the Managing Director is determined by the Board as part of the terms and conditions of his employment which are subject to review from time to time. The remuneration of employees is determined by the Managing Director subject to the approval of the Board

Further details of Directors' and Executives/officers' remuneration, superannuation and retirement payments are set out in the Directors' Report in the Annual Report of the Company.

The Company has an active Employee Share Option Scheme, designed to provide all eligible employees a mid to long term incentive to build shareholder value in alignment with company strategy.

#### *Performance Evaluation*

The Board evaluates the performance of the Managing Director on a regular basis and encourages continuing professional development of executives and employees.