

## CORPORATE GOVERNANCE STATEMENT

The Board of Highlands Pacific is fully committed to the principle of best practice in corporate governance. The Company can ensure transparency and fair dealings with all stakeholders. Highlands takes an integrated approach to corporate governance to comply with the regulatory obligations associated with the two principal stock exchange listings in Papua New Guinea and Australia.

In compiling this report the Directors have referred to the Australian Securities Exchange (ASX) Corporate Governance Council's "*Corporate Governance Principles and Recommendations*", 3<sup>rd</sup> edition.

The Highlands Pacific Board has adopted the principles and recommendations and complies with them all except as identified below.

A summary of the following Highlands' Corporate Governance policies can be obtained from the Company's website:

- Board Charter;
- Code of Conduct;
- Audit Committee Charter;
- Nomination Committee Charter;
- Remuneration Committee Charter;
- Risk Management Policy;
- Dealing in the Company's Securities by Directors and Employees;
- Disclosure;
- Shareholder communications;
- Diversity and Inclusion Policy;
- Environmental Policy; and
- Occupational Health & Safety Policy

### BOARD OF DIRECTORS

#### Role & Responsibility of the Board

The Board has a formal Board Charter which sets out the responsibilities, structure and composition of the Board. It provides that the Board's broad function is to:

- define the Company's strategic direction;
- establish goals for management and regularly reviewing management performance;
- review the operational and financial performance of the Company's activities;
- establish procedures to identify and manage areas of business risk;
- undertake succession planning, including appointment of the Managing Director;
- set the overall Company remuneration policy which incorporates appropriate performance hurdles;
- ensure shareholders are informed of all significant developments affecting the Company's state of affairs; and
- formulate general corporate governance.

The Board has delegated to management the responsibility for implementing corporate strategies and managing the day-to-day operations of the Company in accordance with the guidelines set down by the Board.

**Composition of the Board**

The Board is to be constituted with a majority of Non-Executive Directors, including a Chairman who is independent.

The Company's constitution provides that the number of Directors from time to time shall be the number determined by the Board, being a number not less than three, nor more than nine.

The Board should comprise Directors with an appropriate range of skills, experience and qualifications to enable it to perform its role to a high standard.

The table below details the balance achieved with the current Board composition in terms of skills required for the Company.

<b>Skill &amp; Experience</b>	<b>Directors (out of 5)</b>
Exploration & Geology	1
Mining Operation	1
Commercial	4
Financial	4
Fund Raising	3
Legal	2

The Board currently comprises five Directors including four independent Non-Executive Directors and the Managing Director. The Board's intention is to maintain a blend of qualifications, skills and experience of Directors, appropriate for the size and activities of the Company. The Chairman is a Non-Executive and independent member of the Board.

Each Director has the right to request Company assistance with any special professional development opportunities which that Director thinks would be of assistance in undertaking his or her duties as a Director of the Company. The Chairman has also arranged for all Directors to be included on the invitation list for Corporate Governance workshops periodically conducted by a law firm and an accounting firm.

The Company's constitution requires one-third of the Directors (rounded up to a whole number) to retire by rotation at each Annual General Meeting and no Director may be in office for more than three years without standing for re-election. Also, a Director appointed during the year must stand for re-election at the next Annual General Meeting. Retiring Directors may offer themselves for re-election.

It is a policy of the Company that any Director over 72 years of age submits him or herself for re-election by the shareholders at each Annual General Meeting. Subject to maintaining the continuity of Board experience, a Non-Executive Director may not serve for more than 12 years.

The Nomination Committee is responsible for reviewing the Board's membership and oversees the nomination of new Directors.

It is the view of the Board that the role of the Chairman and the Managing Director should be separate. The Managing Director is responsible for implementing corporate strategies and policies.

## **Independence of Directors**

The Board recognise all Directors must act in the best interests of the Company and its shareholders as whole.

Directors of the Board are considered to be independent if:

- they do not represent any major shareholder or group of shareholders;
- a period of three years has elapsed since they held a management position with the Company; or
- they have not been an adviser or principal of a firm or company so retained by the Company.

## **Directors' access to professional advice**

All Directors have the right to seek independent professional advice in regard to their duties. The Company will bear the expense of such advice, subject to the approval of the Chairman, which will not be unreasonably withheld. Any advice received by a Director is shared by all Directors.

## **BOARD COMMITTEES**

The Board operates through a number of sub committees in addition to those committees set up specifically to oversee special matters or transactions.

### **Audit Committee**

The Board, as part of its program to achieve and maintain high standards of corporate governance, has established an Audit Committee to ensure the maintenance of an effective and efficient audit program and the effectiveness and reliability of the Company's internal control and financial risk management system.

The Audit Committee is to comprise of at least three members with the majority of members being independent Non-Executive Directors. The Chair of the Audit Committee must be an independent Non-Executive Director and not Chair of the Board.

The role of the Audit Committee is documented in a charter approved by the Board and covers the following:

- ensure that effective measures are in place to describe, communicate and implement the standards of integrity required by the Company of its Directors, managers and employees in relation to financial control and financial reporting;
- satisfy itself that effective systems of accounting and internal control are established and maintained to manage financial risk;
- satisfy itself as regards the integrity and prudence of management internal and financial control systems, including the review of policies and procedures;
- ensure the Board is aware of any matters that might have a material impact on the financial condition or affairs of the Company;
- review and assess the adequacy of management reporting to the Board;
- review the quarterly, half-yearly and annual financial statements and other information released to the public;

- recommend to the Board the appointment of the internal and external auditors. The appointment of external auditors is to be reviewed every five years and the lead audit partner must be rotated every five years;
- review the efficiency and effectiveness of the internal and external auditors in relation to their respective accountabilities;
- ensure that there has been no unjustified restrictions or limitations imposed on the auditors from within the Company;
- ensure that the scope of the audits (internal and external) is adequate;
- review and assess the findings of the internal and external auditors;
- report any matter identified during the course of carrying out its duties that the audit committee considers should be brought to the attention of the Board; and
- perform or undertake on behalf of the Board such other tasks or actions as the Board may from time to time instruct.

Current members of the Audit Committee are Mr M Carroll (Chairman - FCPA, MAICD); Mr B Philemon; and Mr D Wood (AO, BSc (Hons), MSc); all of whom are independent Non-Executive Directors. There were six meetings held during the 2016 year and all members attended meetings they were eligible to attend.

### **Remuneration Committee**

The purpose of the Remuneration Committee is documented in a charter approved by the Board and covers the following:

- assessing the performance of management in conjunction with the Managing Director (senior executives have annual reviews with the Managing Director to discuss their role description in the context of the strategic plan of the Company and their performance against their role, with the Managing Director documenting and managing the process and reporting to the Remuneration Committee);
- recommending to the Board the remuneration of the Managing Director and senior executive staff, after considering the Managing Directors own recommendations; and
- determining the remuneration for Non-Executive Directors subject to the Directors' aggregate compensation not exceeding the maximum annual sum approved by shareholders.

The Remuneration Committee is to comprise of at least three members with the majority of members being independent Non-Executive Directors. The Chair of the Remuneration Committee must be an independent Non-Executive Director and can be the Chair of the Board.

The Remuneration Committee meets once a year or more frequently if required in special circumstances. The Committee may obtain advice from external consultants regarding the appropriate level of remuneration for the senior executives and Non-Executive Directors.

An assessment of the performance of management in conjunction with the Managing Director did take place during the reporting year in accordance with the process detailed above.

Current members of the Remuneration Committee are Mr K MacDonald (Chairman), Mr D Wood and Mr M Carroll. There were three meetings held during the 2016 year and all members attended meetings they were eligible to attend.

The Directors' Report to Shareholders details the structure of fees and payments to Non-Executive Directors and the Managing Director while the audited accounts further detail specific payments made during the year. The Non-Executive Directors are not entitled to any schemes for retirement benefits other than superannuation.

## **Nomination Committee**

The role of the Nomination Committee is documented in a charter approved by the Board and covers the following:

- assessing periodically the skill set required to discharge competently the Board's duties, having regard to the strategic direction of the Group, and assessing the skills currently represented on the Board;
- regularly reviewing and making recommendations to the Board regarding the structure, size and composition (including the balance of skills, knowledge and experience) of the Board and the effectiveness of the Board as a whole, and keeping under review the leadership needs of the Group, both executive and non-executive;
- preparing a description of the role and capabilities required for a particular appointment;
- identifying suitable candidates (executive and non-executive) to fill Board vacancies as and when they arise and nominating candidates for the approval of the Board (this will include any subsequent decisions to extend an appointment);
- ensuring that, on appointment, Directors:
  - shall receive a formal letter of appointment, setting out the time commitment and responsibility envisaged in the appointment including any responsibilities with respect to Board Committees or in acting in a capacity other than as a Director (e.g. as Chair or as a lead independent Director);
  - have the opportunity to participate in a Group induction program to gain an understanding of:
    - the Group's financial, strategic, operational and risk management position;
    - the rights, duties and responsibilities of the Director;
    - the roles and responsibilities of senior executives; and
    - the role of Board committees.
  - specifically acknowledge to the Group, if they are Non-Executive Directors that they will have sufficient time to meet what is expected of them. The acknowledgment shall be renewed prior to submitting a motion for re-election.
- identifying the existing Directors who are due for re-election by rotation at Annual General Meetings, in accordance with the Constitution;
- reviewing annually the performance of the Board, its committees and Directors. The evaluation will include:
  - comparing the performance of the Board with respect to the requirements of the Board Charter and current best practice principles of corporate governance;
  - review of the individual Directors contribution to the Board;
  - the performance of the Board's committees; and
  - establishing the goals and objectives of the Board for the upcoming year.
- giving full consideration to appropriate succession planning, satisfying itself that processes and plans are in place in relation to the Board.

The Nomination Committee normally meets once a year or more frequently if required in special circumstances. The Committee may obtain advice from external consultants if required.

Current members of the Nomination Committee are Mr K MacDonald (Chairman), Mr M Carroll and Mr C Lennon. There was one meeting held during the 2016 year and all members attended meetings they were eligible to attend.

Details of the nomination, selection and appointment processes are available on the Company website.

### **PNG Issues Committee**

The committee meets on an adhoc basis to advise the Board on PNG issues. Members of the PNG Issues Committee are Mr C Lennon (Chairman) and Mr B Philemon.

### **RISK OVERSIGHT AND MANAGEMENT**

The effective identification of potential risks and the management of those risks is an important priority for the Board and management of Highlands Pacific. The Board recognises that as part of its commitment to good corporate governance, it is responsible for overseeing the establishment and implementation by management of the Group's risk management system.

To effectively manage risk, Highlands has implemented a structured risk management framework that communicates its commitment to risk management, identify, assess and manage all forms of risk, and to train its people in the methods of risk management.

Fundamentally there are two important principles in risk management that are upheld within Highlands. These are:

- that the risk management process is a means to an end – which means that the risk management process is used to develop risk controls that are then internalised and integrated to become a part of the way that the business operates, and
- that risk management is a function of line management – which means that the executive managers are accountable for managing risk within their area.

The risk management system will require the completion of a risk register for corporate and other appropriate areas which is reviewed annually in full, in particular when significant changes and events occur, or new projects are undertaken and reported to the Board.

The Board, through the Audit Committee, is responsible for ensuring that there are adequate policies and procedures in place in relation to risk management, compliance and internal controls.

The Board does not consider the Company of sufficient size to warrant a dedicated internal audit function.

The Company, as a mineral exploration, development and production company faces inherent risks in its activities, including economic, environmental and social

sustainability risks which may have a material impact on the business and the Company's ability to create value for its shareholders. These risks are identified and managed through the process detailed above.

### **Management Assurances**

In accordance with ASX principles and recommendations, the Managing Director and the Chief Financial Officer are required to state that the integrity of the financial statements contained within this report is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

They are further required to state that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material aspects.

The Board can confirm that the above has been received from management, being the Managing Director and the Chief Financial Officer.

### **ETHICAL STANDARDS**

#### **Code of Conduct**

It is Company policy that the Directors, management and employees conduct their activities with honesty, integrity and high ethical standards.

A Code of Conduct is issued to all Directors and management, with a copy of the code being made available to employees as part of their induction to the Company.

The Code provides guidelines for the standards of behaviour required in relation to the following:

- compliance with corporate policies and applicable laws;
- confidential information;
- trading in the Company's securities;
- community standards; and
- conflicts of interest.

#### **Dealing in the Company's Securities**

Whilst Highlands Pacific encourages ownership of the Company by Directors, management and employees as a means of aligning their interest with shareholders' interest, detailed rules are in place regulating their ability to deal in the Company's securities.

The Company's policy stipulates that Directors, management and employees, including associates, must not deal in the Company's securities during a prohibited period. A prohibited period means any closed period:

- the period from 14 days prior to 2 days trading days after the publication of the company's annual results;
- the period from 14 days prior to 2 days trading days after the publication of the company's half-year results; or

- the period from 14 days prior to 2 days trading days after the publication of the company's quarterly results.

Before trading, or giving instructions for trading in the Company's securities, a Director must:

- notify the Chairman in writing of the intention to trade;
- confirm that the Director does not hold any inside information;
- if the Director is seeking clearance to trade in exceptional circumstances, provide full disclosure of such circumstances;
- have been notified by the Chairman that there is no reason to preclude the director from trading in the Company's securities as notified; and
- comply with any conditions on trading imposed by the Chairman (standard condition is that the trade must take place within five business days from notification).

Where the Chairman intends to trade in the Company's securities, the Chairman must notify and obtain clearance in the abovementioned manner from at least one other Director and the Managing Director before trading, or giving instructions to trade.

In the case of any officer or employee, the person must notify and obtain clearance from the Managing Director before trading, or giving instructions for trading.

The Company recognises the policy is only a guideline and insider trading provisions of the Australian Corporations Act and PNG Securities Act must also be observed.

A copy of the Code and the trading policy are available on the Company website.

## **DISCLOSURE AND SHAREHOLDER COMMUNICATION**

The Board seeks to provide timely and relevant information to its shareholders and the broader investment community in line with its continuous disclosure obligations under the ASX and POMSoX listing rules.

Communication to shareholders can take the form of specific announcements, quarterly reports, or half-yearly and annual reports. All releases are posted on the Company's website immediately after they are released to the ASX and POMSoX.

The Annual General Meeting also allows the Company to communicate with shareholders and all shareholders are encouraged to attend the meeting. The Company's auditors are invited to attend and make themselves available for questions on matters relating to the Company and its performance.

## **DIVERSITY AND INCLUSION POLICY**

The Company strives to create an inclusive culture in which differences are recognised and valued. By bringing together men and women from diverse backgrounds and giving each person the opportunity to contribute their skills, experience and perspectives, we believe that we are able to deliver the best solutions to challenges and deliver sustainable value for the Company and its stakeholders.

Diversity and inclusion for HPL means:



- embracing workforce diversity – age, gender, race, national or ethnic origin, religion and physical ability.
- valuing diversity of perspective – leveraging the diverse thinking, skills, experience and working styles of our employees and other stakeholders.
- respecting stakeholder diversity – developing strong and sustainable relationships with communities, employees, governments and suppliers.

We believe that being a diverse and inclusive organisation improves outcomes and will help the Company to achieve its vision to create shareholder wealth through exploration, development and operation of its resource projects. The benefits include:

- making good decisions about how we organise and optimise resources and work by eliminating structural and cultural barriers to working together effectively;
- protecting our exploration licences by recognising, respecting and taking into account in our decisions, the needs and interests of diverse stakeholders;
- delivering strong performance and growth by being able to attract, engage and retain diverse talent;
- innovation by drawing on diverse perspective, skills and experience of our employees and other stakeholders; and
- adapting and responding effectively to changing societal expectations.

Our commitment to diversity and inclusion aligns with our values of accountability, respect, teamwork and integrity. Diversity and inclusion are supported at the highest levels in the Company, by the Board. The Board has established this policy and, together with other key management personnel, guides the development of diversity and inclusion strategy and reviews progress against measurable objectives and key programmes of work. The implementation of these objectives is overseen by the Company's Board through the Managing Director and Chairman.

The Board has not yet set any measurable statistics in relation to diversity, having regard to the small number of its permanent employees at this stage in the Company's development. Nevertheless, it is the Company's policy to employ PNG Nationals wherever possible, and to promote and give opportunities to women.

As at the date of the 2016 Annual Report the following diversity statistics include:

- Board – 20% PNG national representation; no women;
- Senior management – 21% PNG national representation; 11% women;
- Permanent employees – 60% PNG nationals; 15% women.