

# Corporate Governance Statement

The Board of Directors of Avoca Resources Limited is responsible for its corporate governance, that is, the system by which the Company is managed.

## 1. Board of Directors

### 1.1 Role of the Board and Management

The Board's role is to govern the Company. In governing the Company, the Directors must act in the best interests of the Company as a whole. It is the role of senior management to manage the Company in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

In carrying out its governance role, the main task of the Board is to drive the performance of the Company. The Board must also ensure that the Company complies with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body. The Board has the final responsibility for the successful operations of the Company.

To assist the Board to carry out its functions, it has developed a Code of Conduct to guide the Directors and key executives in the performance of their roles. The Code of Conduct is detailed in Section 3.1 and is contained on the Company's website.

The Board represents shareholders' interests in developing and then continuing a successful mineral business, which seeks to optimise medium to long-term financial gains for shareholders. By not focusing on short-term gains for shareholders, the Board believes that this will ultimately result in the interests of all stakeholders being appropriately addressed when making business decisions.

The Board is responsible for ensuring that the Company is managed in such a way to best achieve this desired result. Given the size of the Company's mining, exploration and development activities, the Board currently undertakes an active, not passive role.

The Board is responsible for evaluating and setting the strategic directions for the Company, establishing goals for management and monitoring the achievement of these goals. The Managing Director is responsible to the Board for the day-to-day management of the Company.

The Board has sole responsibility for the following:

- Appointing and removing the Managing Director and any other executive director and approving their remuneration;
- Appointing and removing the Company Secretary/Chief Financial Officer and approving their remuneration;
- Determining the strategic direction of the Company and measuring the performance of management against approved strategies;
- Reviewing the adequacy of resources for management to properly carry out approved strategies and business plans;
- Adopting operating and exploration expenditure budgets at the commencement of each financial year and monitoring the progress by both financial and non-financial key performance indicators;
- Monitoring the Company's medium-term capital and cash flow requirements;
- Approving and monitoring financial and other reporting to regulatory bodies, shareholders and other organisations;
- Determining that satisfactory arrangements are in place for auditing the Company's financial affairs;
- Reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and compliance with legislative requirements; and

- Ensuring that policies and compliance systems consistent with the Company's objectives and best practice are in place and that the Company and its officers act legally, ethically and responsibly on all matters.

The Board's role and the Company's corporate governance practices are being continually reviewed and improved as the Company's business develops.

The Board convenes regular meetings with such frequency as is sufficient to appropriately discharge its responsibilities.

The role of management is to support the Managing Director and implement the running of the general operations and financial business of the Company, in accordance with the delegated authority of the Board.

The Board may from time to time, delegate some of its responsibilities listed above to its senior management team.

The Managing Director is responsible for running the affairs of the Company under delegated authority from the Board and implementing the policies and strategy set by the Board. In carrying out his responsibilities the Managing Director must report to the Board in a timely manner and ensure all reports to the Board present a true and fair view of the Company's operational results and financial position.

### 1.2 Composition of the Board

To add value to the Company, the Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties. The names of the Directors and their qualifications and experience are disclosed in the Directors' Report. Directors are appointed based on the specific governance skills required by the Company and on the independence of their decision making and judgment.

The Company recognises the importance of Non-Executive Directors and the external perspective and advice that Non-Executive Directors can offer. The Chairman (Mr Reynolds), Mr Quinlivan, Mr Castro and Ms Unwin are Non-Executive Directors. The Board has assessed the independence of the Non-Executive Directors according to the definition contained within the ASX Corporate Governance Guidelines. The Non-Executive Directors other than Mr Castro are considered to be independent at the date of this report.

The Board considers that the current structure complies with the ASX Corporate Governance Council Recommendation 2.1.

As the Company's activities increase in size, nature and scope, the size of the Board will be reviewed and the optimum number of directors required for the Board to properly perform its responsibilities and functions will be re-assessed.

The membership of the Board, its activities and composition is subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the Board shall include quality of the individual, background of experience and achievement, compatibility with other Board members, credibility within the Company's scope of activities, intellectual ability to contribute to Board duties and physical ability to undertake Board duties and responsibilities.

Directors are initially appointed by the full Board subject to election by shareholders at the next Annual General Meeting. Under the Company's Constitution the tenure of Directors (other than Managing Director) is subject to re-appointment by shareholders not later than the third anniversary following their last appointment.

# Corporate Governance Statement

## 1. Board of Directors (continued)

### 1.2 Composition of the Board (continued)

Subject to the requirements of the Corporations Act, the Board does not subscribe to the principle of retirement age and there is no maximum period of service as a Director. A Managing Director may be appointed for any period and on any terms the Directors think fit and, subject to the terms of any agreement entered into, the Board may revoke any appointment.

### 1.3 Responsibilities of the Board

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. It is required to do all things that may be necessary to be done in order to carry out the objectives of the Company.

Without intending to limit this general role of the Board, the principal functions and responsibilities of the Board include the following:

1. Leadership of the Company - overseeing the Company and establishing codes that reflect the values of the Company and guide the conduct of the Board, management and employees.
2. Strategy Formulation - working with senior management to set and review the overall strategy and goals for the Company and ensuring that there are policies in place to govern the operation of the Company.
3. Overseeing Planning Activities - overseeing the development of the Company's strategic plans (including exploration programmes and initiatives) and approving such plans as well as the annual budget.
4. Shareholder Liaison - ensuring effective communications with shareholders through an appropriate communications policy and promoting participation at general meetings of the Company.
5. Monitoring, Compliance and Risk Management - overseeing the Company's risk management, compliance, control and accountability systems and monitoring and directing the operational and financial performance of the Company.
6. Company Finances - approving expenses in excess of those approved in the annual budget and approving and monitoring acquisitions, divestitures and financial and other reporting.
7. Human Resources - appointing, and, where appropriate, removing the Managing Director as well as reviewing the performance of the Managing Director and monitoring the performance of senior management in their implementation of the Company's strategy.
8. Ensuring the Health, Safety and Well-Being of Employees - in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Company's occupational health and safety systems to ensure the well-being of all employees.
9. Delegation of Authority - delegating appropriate powers to the Managing Director to ensure the effective day-to-day management of the Company and establishing and determining the powers and functions of the Committees of the Board.

Full details of the Board's role and responsibilities are contained in the Board Charter, a summary of which is contained on the Company's website.

## 1.4 Board Policies

### 1.4.1 Conflicts of Interest

Directors must:

- disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the Director and the interests of any other parties in carrying out the activities of the Company; and
- if requested by the Board, within seven days or such further period as may be permitted, take such necessary and reasonable steps to remove any conflict of interest.

If a Director cannot or is unwilling to remove a conflict of interest then the Director must, as per the Corporations Act, absent themselves from the room when discussion and/or voting occurs on matters about which the conflict relates.

### 1.4.2 Commitments

Each member of the Board is committed to spending sufficient time to enable them to carry out their duties as a Director of the Company. Directors are encouraged to attend professional education courses relevant to their roles.

### 1.4.3 Confidentiality

In accordance with legal requirements and agreed ethical standards, Directors and key executives of the Company have agreed to keep confidential, information received in the course of the exercise of their duties and will not disclose non-public information except where disclosure is authorised or legally mandated.

### 1.4.4 Independent Professional Advice

The Board collectively and each Director has the right to seek independent professional advice at the Company's expense to assist them to carry out their responsibilities.

### 1.4.5 Related Party Transactions

Related party transactions include any financial transaction between a Director and the Company. Unless there is an exemption under the Corporations Act from the requirement to obtain shareholder approval for the related party transaction, the Board cannot approve the transaction.

### 1.4.6 Trading in the Company Shares

The Company's share trading policy imposes basic trading restrictions on all employees of the Company with 'inside information', and additional trading restrictions on the Directors of the Company. A summary of the Company's Share Trading Policy is available on the Company's website.

'Inside information' is information that:

- is not generally available; and
- if it were generally available, it would, or would be likely to influence investors in deciding whether to buy or sell the Company's securities.

# Corporate Governance Statement

## 1. Board of Directors (continued)

### 1.4 Board Policies (continued)

#### 1.4.6 Trading in the Company Shares (continued)

If an employee possesses inside information, the person must not:

- trade in the Company's securities;
- advise others or procure others to trade in the Company's securities; or
- pass on the inside information to others – including colleagues, family or friends – knowing (or where the employee or Director should have reasonably known) that the other persons will use that information to trade in, or procure someone else to trade in, the Company's securities.

This prohibition applies regardless of how the employee or Director learns the information.

In addition to the above, Directors must notify the Company Secretary as soon as practicable, but not later than 5 business days, after they have bought or sold the Company's securities or exercised options. In accordance with the provisions of the Corporations Act and the ASX Listing Rules, the Company on behalf of the Directors must advise the ASX of any transactions conducted by them in the securities of the Company.

Breaches of this policy will be subject to disciplinary action, which may include termination of employment.

#### 1.4.7 Assurances by Managing Director and Chief Financial Officer ("CFO")

In accordance with recommendation 7.3 of the Corporate Governance Guidelines, the Board has received assurances from the Managing Director and CFO that the Section 295A declaration is founded on a sound system of risk management and internal control, and that the system is operating effectively in all material aspects in relation to financial risks.

## 2. Board Committees

The Board has formally established the following committees:

- Occupational Health Safety and Environment
- Audit
- Remuneration
- Risk and Governance

In conjunction with the above committees, the Board is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards.

The Board has established a framework for the management of the Company including a system of internal controls, a business risk management process and the establishment of appropriate ethical standards.

In addition to the activities of the committees, the full Board currently holds meetings at such times as necessary to address any general or specific matters as required.

As the Company's activities increase in size, scope and nature, the adequacy of separate or special committees will be reviewed by the Board and changes implemented if appropriate.

### 2.1 Occupational Health Safety and Environment Committee

The Company recognised the need for a separate committee reflecting the transition from explorer to gold producer which involved the development and management of an operational mine site. The committee's charter is available on the Company's website.

### 2.2 Audit Committee

The Board has established an audit committee which operates under a charter approved by the Board.

The Board delegates to the audit committee to deal with the issues and responsibilities so as to ensure the integrity of the financial statements of the Company and the independence of the external auditor.

The audit committee reviews the audited annual and half-yearly financial statements and any reports which accompany published financial statements, and in accordance, reports to the Board in its entirety.

The audit committee considers the appointment of the external auditor and reviews the appointment of the external auditor, their independence, the audit fee and any questions of resignation or dismissal.

### 2.3 Remuneration Committee

The Board has established a remuneration committee, which operates under a charter approved by the Board. The committee's charter is available on the Company's website.

The responsibilities of the remuneration committee include setting policies for senior officers' remuneration, setting the terms and conditions of employment for the Managing Director, reviewing the Avoca Resources Limited Directors, Officers and Employees Option Plan, reviewing superannuation arrangements, reviewing the remuneration of Non-Executive Directors and undertaking an annual review of the Managing Director's performance, including, setting the Managing Director's goals for the coming year and reviewing progress in achieving those goals.

The Company is committed to remunerating its senior executives in a manner that is market competitive and consistent with best practice as well as supporting the interests of shareholders.

Consequently, the remuneration of a senior executive may comprise the following:

- fixed salary that is determined from a review of the market and reflects core performance requirements and expectations;
- statutory superannuation; and
- participation in the Avoca Resources Limited Directors, Officers and Employees Option Plan.

By remunerating senior executives through performance and long-term incentive plans in addition to their fixed remuneration, the Company aims to align the interests of senior executives with those of shareholders and improve Company performance.

The objective of this remuneration structure is therefore to drive improved Company performance and thereby increase shareholder value as well as aligning the interests of executives and shareholders.

# Corporate Governance Statement

## 2. Board Committees (continued)

### 2.3 Remuneration Committee (continued)

Non-Executive Directors are paid their fees out of the maximum aggregate amount approved by shareholders for the remuneration of Non-Executive Directors. Non-Executive Directors do not receive performance based bonuses. Non-Executive Directors are entitled to statutory superannuation.

The annual aggregate amount of remuneration payable to Non-Executive Directors was approved by shareholders on 14 November 2007 and is currently an amount not exceeding \$500,000 per annum.

Remuneration received by all of the Company's Directors is disclosed in the Directors' Report.

### 2.4 Risk and Governance Committee

The Board, whilst remaining responsible for establishing policies on risk oversight and management, has delegated the function to this sub-committee.

### 2.5 Nomination Committee

The Company does not have a nomination committee because the Board considers that such a committee would not be a more efficient mechanism than the full Board for focusing the Company on such issues.

The responsibilities of the Board in its entirety include devising criteria for Board membership, regularly reviewing the need for various skills and experience on the Board and identifying specific individuals for nomination as Directors for review by the Board. The Board also oversees management succession plans including the Managing Director and his direct reports, and evaluates the Board's performance and makes recommendations for the appointment and removal of Directors.

Although there is no specific process of Director selection detailed in a policy on deciding to appoint a Director to the Board, the Board evaluates its skill needs and assesses nominees against a range of specific criteria including their experience, professional skills, potential conflicts of interest, the requirement for independence and the existing collective experience of the Board.

### 2.6 Committee Membership and Attendance

Details on the membership, director qualifications, number of meetings of the respective committees and each director's attendance at those meetings are set out in the Director's Report.

## 3. Ethical Standards

The Board acknowledges the need for continued maintenance of the highest standard of corporate governance practice and ethical conduct by all Directors and employees of the Company.

### 3.1 Code of Conduct for Directors and Key Executives

The Board has adopted a Code of Conduct for Directors and key executives to promote ethical and responsible decision-making. The code is based on a code of conduct for Directors prepared by the Australian Institute of Company Directors. A summary of the Company's Code of Conduct is also available on the Company's website.

In accordance with legal requirements and agreed ethical standards, Directors and key executives of the Company:

- will act honestly, in good faith and in the best interests of the whole Company;\*
- owe a fiduciary duty to the Company as a whole;
- have a duty to use due care and diligence in fulfilling the functions of office and exercising the powers attached to that office;\*
- will undertake diligent analysis of all proposals placed before the Board;
- will act with a level of skill expected from Directors and key executives of a publicly listed Company;
- will use the powers of office for a proper purpose, in the best interests of the Company as a whole;\*
- will demonstrate commercial reasonableness in decision making;
- will not make improper use of information acquired as Directors and key executives;\*
- will not disclose non-public information except where disclosure is authorised or legally mandated;†
- will keep confidential, information received in the course of the exercise of their duties and such information remains the property of the Company from which it was obtained and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorised by the person from whom the information is provided, or is required by law;\*
- will not take improper advantage of the position of Director\* or use the position for personal gain or to compete with the Company;†
- will not take advantage of Company property or use such property for personal gain or to compete with the Company;†
- will protect and ensure the efficient use of the Company's assets for legitimate business purposes;†
- will not allow personal interests, or the interests of any associated person, to conflict with the interests of the Company;\*
- have an obligation to be independent in judgment and actions, and Directors will take all reasonable steps to be satisfied as to the soundness of all decisions of the Board;\*
- will make reasonable enquiries to ensure that the Company is operating efficiently, effectively and legally towards achieving its goals;
- will not engage in conduct likely to bring discredit upon the Company;\*
- will encourage fair dealing by all employees with the Company's suppliers, competitors and other employees;†
- will encourage the reporting of unlawful/unethical behaviour and actively promote ethical behaviour and protection for those who report violations in good faith;†
- will give their specific expertise generously to the Company;
- have an obligation, at all times, to comply with the spirit, as well as the letter of the law and with the principles of this Code.\*

(\* From the AICD Code of Conduct)

(† From the ASX Corporate Governance Council's Principles of Good Corporate Governance)

# Corporate Governance Statement

## 3. Ethical Standards (continued)

### 3.2 Code of Ethics and Conduct

The Company has implemented a Code of Ethics and Conduct, which provides guidelines aimed at maintaining high ethical standards, corporate behavior and accountability within the Company. A summary of the Company's Code of Ethics and Conduct is also available on the Company's website.

All Directors and employees are expected to:

- respect the law and act in accordance with it;
- respect confidentiality and not misuse Company information, assets or facilities;
- value and maintain professionalism;
- avoid real or perceived conflicts of interest;
- act in the best interests of shareholders;
- by their actions contribute to the Company's reputation as a good corporate citizen which seeks the respect of the community and environment in which it operates;
- perform their duties in ways that minimise environmental impacts and maximise workplace safety;
- exercise fairness, courtesy, respect, consideration and sensitivity in all dealings within their workplace and with customers, suppliers and the public generally; and
- act with honesty, integrity, decency and responsibility at all times.

An employee that breaches the Code of Ethics and Conduct may face disciplinary action. If an employee suspects that a breach of the Code of Ethics and Conduct has occurred or will occur, he or she must advise that breach to management. No employee will be disadvantaged or prejudiced if he or she reports in good faith a suspected breach. All reports will be acted upon and kept confidential.

As part of its commitment to recognising the legitimate interests of stakeholders, the Company has established the Code of Ethics and Conduct to guide compliance with legal and other obligations to legitimate stakeholders. These stakeholders include employees, government authorities, creditors and the community as whole. This Code includes the following:

#### *Responsibilities to Shareholders and the Financial Community Generally*

The Company complies with the spirit as well as the letter of all laws and regulations that govern shareholders' rights. The Company has processes in place designed to ensure the truthful and factual presentation of the Company's financial position and prepares and maintains its accounts fairly and accurately in accordance with the generally accepted accounting and financial reporting standards.

#### *Employment Practices*

The Company endeavours to provide a safe workplace in which there is equal opportunity for all employees at all levels of the Company. The Company does not tolerate the offering or acceptance of bribes or the misuse of Company assets or resources.

#### *Responsibilities to the Community*

As part of the community the Company:

- is committed to conducting its business in accordance with applicable environmental laws and regulations and encourages all employees to have regard for the environment when carrying out their jobs;
- encourages all employees to engage in activities beneficial to their local community; and
- supports community charities.

#### *Responsibility to the Individual*

The Company is committed to keeping private information which has been provided by employees and investors confidential, and protect it from uses other than those for which it was provided.

#### *Conflicts of Interest*

Employees and Directors must avoid conflicts as well as the appearance of conflicts between their personal interests and the interests of the Company.

#### *How the Company Monitors and Ensures Compliance with its Code*

The Board, management and all employees of the Company are committed to implementing this Code of Ethics and Conduct and each individual is accountable for such compliance.

Disciplinary measures may be imposed for violating the Code.

## 4. Disclosure of Information

### 4.1 Continuous Disclosure to ASX

The continuous disclosure policy requires all executives and Directors to inform the Managing Director or in his absence, the Company Secretary of any potentially material information as soon as practicable after they become aware of that information. The Company's Continuous Disclosure Policy is available on its website.

Information is material if it is likely that the information would influence investors who commonly acquire securities on ASX in deciding whether to buy, sell or hold the Company's securities.

Information is not material and need not be disclosed if:

- (a) A reasonable person would not expect the information to be disclosed or is material but due to a specific valid commercial reason is not to be disclosed; and
- (b) The information is confidential; or
- (c) One of the following applies:
  - i. It would breach a law or regulation to disclose the information;
  - ii. The information concerns an incomplete proposal or negotiation;
  - iii. The information comprises matters of supposition or is insufficiently definite to warrant disclosure;
  - iv. The information is generated for internal management purposes;
  - v. The information is a trade secret;
  - vi. It would breach a material term of an agreement, to which the Company is a party, to disclose the information;
  - vii. It would harm the Company's potential application or possible patent application; or
  - viii. The information is scientific data, the release of which may benefit the Company's potential competitors.

# Corporate Governance Statement

## 4. Disclosure of Information (continued)

### 4.1 Continuous Disclosure to ASX (continued)

The Managing Director is responsible for interpreting and monitoring the Company's disclosure policy and where necessary informing the Board. The Company Secretary is responsible for all communications with ASX.

### 4.2 Communication with Shareholders

The Company places considerable importance on effective communications with shareholders. The Company's Shareholder Communications Strategy is available on the Company's website. The Company's communication strategy requires communication with shareholders and other stakeholders in an open, regular and timely manner so that the market has sufficient information to make informed investment decisions on the operations and results of the Company. The strategy provides for the use of systems that ensure a regular and timely release of information about the Company to be provided to shareholders.

Mechanisms employed include:

- Announcements lodged with ASX;
- ASX Quarterly Reports;
- Half Yearly Report and Annual Report; and
- Presentations at the Annual General Meeting/General Meetings.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and understanding of the Company's strategy and goals.

The Company also posts all reports, ASX and media releases and copies of significant business presentations on the Company's website.

## 5. Risk Management

### 5.1 Identification of Risk

The Board is responsible for the oversight of the Company's risk management and control framework. Responsibility for control and risk management is delegated to the appropriate level of management within the Company with the Managing Director and Chief Financial Officer having ultimate responsibility to the Board for the risk management and control framework.

Areas of significant business risk to the Company are highlighted in the Budget Plan presented to the Board by the Managing Director each year, and are monitored on an ongoing basis by management.

Arrangements put in place by the Board to monitor risk management include monthly reporting to the Board in respect to all aspects of the Company's operations and the financial position of the Company. The Company also has policies in place to deal with risks in the areas of health and safety, environment and employee relations.

Subsequent to the end of the financial year, in conjunction with the development of the Company's risk management system, the Company has adopted a formal risk policy.

### 5.2 Integrity of Financial Reporting

The Company's Managing Director and Company Secretary report in writing to the Board that:

- the financial statements of the Company for each half and full year present a true and fair view, in all material aspects, of the Company's financial condition and operational results and are in accordance with accounting standards;
- the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the Company's risk management and internal compliance and control framework is operating efficiently and effectively in all material respects.

### 5.3 Role of Auditor

The Company's practice is to invite the auditor 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. Further, the Audit Committee meets with the external auditor at least twice a year.

### 5.4 Risk Management System

During the financial year the Company engaged independent professional advisors to strengthen and update its risk management systems.

The Company has established processes and structures and promotes a culture that together focus on the effective management of risk. A Risk Management Framework has been developed that defines how the organisation manages risk. This framework is based on concepts and principles identified in the Australian/New Zealand Standard on Risk Management (4360:2004).

A risk profile has been developed that considers risks from the areas of the business, and that also incorporates the following:

- The cause(s) and consequence(s) of specific material risks.
- Key controls that are in place to mitigate and manage each risk.
- An assessment of the effectiveness of each control.
- Identification of additional action that will be taken to further mitigate the risk.
- Identification of who is responsible for managing each risk, its controls and any further actions.

In addition, the Group has engaged independent professional advisors to establish a formal risk management system under which reports will be provided to the Risk and Governance Committee.

## 6. Performance Review

The Board has adopted an informal self-evaluation process to measure its own performance during each financial year. This process includes a review from time to time in relation to the composition and skills mix of the Directors of the Company and Committees of the Board.

A formal process for the review of the performance of the Board and Board Committees was not undertaken during the year ended 30 June 2009 and as such does not comply with Recommendation 2.5 of the Corporate Governance Council.

# Corporate Governance Statement

## 6. Performance Review (continued)

Arrangements put in place by the Board to monitor the performance of the Company's executives include:

- a review by the Board of the Company's financial performance; and
- annual performance appraisal meetings incorporating analysis of key performance indicators with each individual to ensure that the level of reward is aligned with respective responsibilities and individual contributions made to the success of the Company.

During the Financial Year the Company reviewed the performance of the Managing Director and senior executives based on the process disclosed above.

## ASX Corporate Governance Principles and Recommendations

The Company is committed to implementing high standards of corporate governance. In determining what those high standards should involve, the Company has turned to the ASX Corporate Governance Principles and Recommendations. The Company is pleased to advise that its practices are largely consistent with those of the ASX guidelines. As consistency with the ASX guidelines has been a gradual process, where the Company did not have certain policies or committees as recommended by the ASX Corporate Governance Council ("the Council") in place for the entire reporting period, the Company has identified when such policies or committees were introduced.

Where the Company's corporate governance practices do not correlate with the practices recommended by the Council, the Company does not consider that the practices are appropriate for the Company due to the size of the Company and its current operations.

To illustrate where the Company has addressed each of the Council's recommendations, the following summary cross-references each recommendation with sections of the Corporate Governance Statement.

### Introduction

Avoca Resources Limited has adopted systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised below.

The following additional information about the Company's corporate governance practices is set out on the Company's website at [www.avocaresources.com.au](http://www.avocaresources.com.au):

- Corporate Governance Statement including disclosures and explanations;
- Board Charter;
- Audit Committee Charter;
- Remuneration Committee Charter;
- Occupational Health Safety and Environment Committee Charter;
- Summary of Code of Conduct for Directors and Key Executives;
- Summary of Share Trading Policy;
- Summary of Continuous Disclosure Policy;
- Summary of Shareholder Communications Strategy;

- Summary of Company Code of Ethics and Conduct; and
- Summary of Risk Management Policy.

## Explanations for Departures from Best Practice Recommendations

During the financial year the Company has complied with the majority of the Eight Essential Corporate Governance Principles and the corresponding Best Practice Recommendations as published by the ASX Corporate Governance Council ("ASX Principles and Recommendations"), and as detailed below:

### 1. Role of the Board and Management

#### Council Principle 1:

#### Lay solid foundations for management and oversight

##### *Council Recommendation 1.1:*

Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.

The Company complies with this recommendation. Refer Section 1.1 and 1.3 of the Corporate Governance Statement.

##### *Council Recommendation 1.2:*

Companies should disclose the process for evaluating the performance of senior executives.

The Company complies with this recommendation. Refer Section 6 of the Corporate Governance Statement and the Remuneration Report contained within the Director's Report.

### 2. Composition of the Board

#### Council Principle 2:

#### Structure the Board to add value

##### *Council Recommendation 2.1:*

A majority of the Board should be independent directors.

The Board considers that a majority of its Board is independent and it complies with Recommendation 2.1. Refer Section 1.2 of the Corporate Governance Statement.

While the Board strongly endorses the position that Boards need to exercise independence of judgment, it also recognises (as does ASX Corporate Governance Council Principle 2) that the need for independence is to be balanced with the need for skills, commitment and a workable Board size. The Board believes it has recruited members with the skills, experience and character to discharge its duties and that any greater emphasis on independence would be at the expense of the Board's effectiveness.

Currently the Non-Executive Directors who are considered to be independent within the ASX Corporate Governance Council's guidelines are Mr Reynolds, Ms Unwin and Mr Quinlivan.

At present the Company believes that the individuals on the Board can make, and do make, quality and independent judgements in the best interests of the Company on all relevant issues. Directors having a conflict of interest in relation to a particular item of business must absent themselves from the Board Meeting before commencement of discussion on the topic.

The Board considers that the Company is not currently of a size to justify appointing additional independent Non-Executive Directors. However as the Company moves forward this consideration will be reviewed.

# Corporate Governance Statement

## 2. Composition of the Board (continued)

### Council Principle 2:

#### Structure the Board to add value (continued)

##### *Council Recommendation 2.2:*

The chair should be an independent director.

The Company complies with this recommendation. Refer Section 1.2 of the Corporate Governance Statement.

##### *Council Recommendation 2.3:*

The roles of chair and chief executive officer (Managing Director) should not be exercised by the same individual.

The Company complies with this recommendation. Refer Section 1.2 of the Corporate Governance Statement.

##### *Council Recommendation 2.4:*

The Board should establish a nomination committee.

The Board considers that the Company is not currently of a size to justify the formation of a nomination committee. The Board as a whole undertakes the process of reviewing the skill base and experience of existing Directors to enable identification or attributes required in new Directors. Where appropriate independent consultants are engaged to identify possible new candidates for the Board.

The Board acknowledges this does not comply with Recommendation 2.4 of the ASX Corporate Governance Guidelines. As the Company's activities increase in size, scope and nature, the appointment of a nomination committee will be reviewed by the Board and implemented if appropriate.

Refer Section 2 of the Corporate Governance Statement.

##### *Council Recommendation 2.5:*

Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.

During the financial year, the Company did not undertake a formal evaluation process of the Board, its committees and individual directors. As such the Company does not comply with this recommendation. Refer Section 6 of the Corporate Governance Statement. The Company is developing a formal review process and expects to be able to comply with this requirement for the 2010 Financial Year.

## 3. Ethical and Responsible Decision-making

### Council Principle 3:

#### Promote ethical and responsible decision-making

##### *Council Recommendation 3.1:*

Companies should establish a code of conduct and disclose the code or a summary of the code as to:

- the practices necessary to maintain confidence in the Company's integrity;
- the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The Company complies with this recommendation and has a Code of Conduct to guide the Directors and key executives. Refer Sections 1.1, 3.1 and 3.2 of the Corporate Governance Statement.

##### *Council Recommendation 3.2:*

Companies should establish a policy concerning trading in company securities by directors, senior executives and employees and disclose the policy or a summary of that policy.

The Company complies with this recommendation. Refer Section 1.4.6 of the Corporate Governance Statement.

During the year the Company amended the Share Trading Policy to incorporate trading windows into the policy.

## 4. Integrity of Financial Reporting

### Council Principle 4:

#### Safeguard integrity in financial reporting

##### *Council Recommendation 4.1:*

The Board should establish an audit committee.

The Company complies with this recommendation. Refer Section 2.2 of the Corporate Governance Statement.

##### *Council Recommendation 4.2:*

The audit committee should be structured so that it:

- consists of only non-executive directors;
- consists of a majority of independent directors;
- is chaired by an independent chair, who is not chair of the Board;
- has at least three members.

Given the size and composition of the Board the audit committee comprises of two independent non-executive directors (Mr R Reynolds and Mr D Quinlivan) and one non-independent Non-Executive director (Mr J Castro). The audit committee chairperson (Mr D Quinlivan) is an independent Non-Executive director.

##### *Council Recommendation 4.3:*

The audit committee should have a formal charter.

During the year, the audit committee did not operate under a formal charter as such. Subsequent to the end of the financial year, the Company has adopted a formal charter, which is available on the Company's website.

## 5. Make Timely and Balanced Disclosure

### Council Principle 5:

#### Promote timely and balanced disclosure of all material matters concerning the Company

##### *Council Recommendation 5.1:*

Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements, and to ensure accountability at a senior management level for that compliance and disclose those policies or a summary of those policies.

The Company complies with this recommendation. Refer Section 4.1 of the Corporate Governance Statement.

# Corporate Governance Statement

## 6. Respect the Rights of Shareholders

### Council Principle 6:

#### Respect the rights of shareholders and facilitate the effective exercise of those rights

##### *Council Recommendation 6.1:*

Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

The Company complies with this recommendation. Refer Section 4.2 of the Corporate Governance Statement.

## 7. Recognise and Manage Risk

### Council Principle 7:

#### Establish a sound system of risk oversight and management and internal control

##### *Council Recommendation 7.1:*

Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

During the financial year, the Board had not adopted a formal risk management policy, and therefore did not comply with Recommendation 7.1 of the Corporate Governance Council during the current period. However, the Board delegates day-to-day management of risks to the Managing Director, Chief Financial Officer and senior executives who are responsible for implementing and maintaining a framework of control and accountability systems to enable risk to be assessed and managed. Subsequent to the end of the financial year, in conjunction with the development of the Company's risk management system, the Company has adopted a formal risk policy. Refer Section 5 of the Corporate Governance Statement. A copy of this policy is available on the Company's website.

##### *Council Recommendation 7.2:*

The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.

The Board has responsibility for the monitoring of risk management and up to this point in time in the evolution of the Company has not required a formal risk management internal control system to manage the Company's material business risks and thereby does not comply with Recommendation 7.2. of the Corporate Governance Council.

To reflect the continuing growth of the Company and its transition during the financial year to a mining company with significant assets and operations, the Company has engaged independent professional advisers to strengthen and update the Company's existing risk management systems and establish a formal risk management system. The company expects to be able to comply with this requirement for the 2010 financial year. Refer Section 5.4 of the Corporate Governance Statement

##### *Council Recommendation 7.3:*

The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The Company complies with this requirement. Refer to Section 1.4.7 of the Corporate Governance Statement. During the financial year, the Board has received such a statement.

## 8. Remunerate Fairly and Responsibly

### Council Principle 8:

#### Remunerate Fairly and Responsibly

##### *Council Recommendation 8.1:*

The Board should establish a remuneration committee.

The Company complies with this recommendation. Refer Section 2.3 of the Corporate Governance Statement.

During the year, the Remuneration Committee did not operate under a formal charter as such. Subsequent to the end of the financial year, the Company has adopted a formal charter, a copy of which is available on the Company's website.

##### *Council Recommendation 8.2:*

Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

The Company complies with this recommendation. Refer Sections 2.3 of the Corporate Governance Statement and Remuneration Report contained in the Director's Report included in the Company's Annual Financial Statements.