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**SOLIMAR ENERGY LIMITED**

## **CORPORATE GOVERNANCE STATEMENT**

**September 2007**

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### **1. CORPORATE GOVERNANCE OVERVIEW**

The Board of Directors of the Company are committed to good corporate governance taking into account the Company's size and activities and has a range of policies and processes in place to ensure the rights of the Company and our shareholders are protected.

In March 2003, the Australian Securities Exchange ("ASX") Corporate Governance Council published its Principles of Good Corporate Governance and Best Practice Recommendations ("Recommendations"). This document is for guidance purposes, however all listed companies are required to disclose the extent to which they have followed the recommendations; to identify any recommendations that have not been followed and reasons for not doing so.

The Company's Board of Directors has reviewed the recommendations. In many cases the Company was already achieving the standard required. In a limited number of instances, the Company may determine not to meet the standard set out in the recommendations, largely due to the recommendation being considered by the Board to be unduly onerous for a Company of this size.

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the Australian Securities Exchange Corporate Governance Council recommendations, unless otherwise stated.

The Company's Corporate Governance Statement is now structured with reference to the Corporate Governance Council's principles and recommendations, which are as follows:

- Lay solid foundations for management and oversight.
- Structure the board to add value.
- Promote ethical and responsible decision making.
- Safeguard integrity in financial reporting.
- Make timely and balanced disclosure.
- Respect the rights of shareholders.
- Recognise and manage risk.
- Encourage enhanced performance.
- Remunerate fairly and responsibly.
- Recognise the legitimate interests of stakeholders.

For further information on Corporate Governance policies adopted by the Company, refer to our website: [www.solimarenergy.com.au](http://www.solimarenergy.com.au).

## **2. BOARD OF DIRECTORS**

### **2.1 Role of the Board**

The primary role of the Board of Directors is the protection and enhancement of long-term shareholder value.

To fulfil this role, the Board is responsible for the overall corporate governance of the Company including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for Directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems. It is also responsible for monitoring financial and other reporting.

### **2.2 Board Processes**

The Board has established a framework for the management of the Company including a system of internal control, a business risk management process and the establishment of appropriate ethical standards. Refer to the "Charter of the Board of Directors" for more detail.

The Company listed on ASX in September 2005 and is currently engaged in exploration and evaluation of mineral interest. The critical skills required by the Board in pursuing the Company's business plan at this relatively early stage of its development are expert geological and exploration and evaluation project management skills together with strong fiscal management skills. In addition, each Director is charged with having a thorough understanding of, and responsibility for, the protection of the rights of the Company and its shareholders.

The Board has these skills (refer to the biographies in the Director's Report) and as the Company's business plan progresses will add new Directors as and when complimentary skills are required.

The Board presently comprises three Directors. There are two independent Directors and an Executive Director. The Company engages consultants to provide technical and corporate services. All the senior technical and financial consultants are highly qualified and have previously held roles of executive responsibility in much larger organisations, including companies associated with the petroleum industry.

The Directors, who all live in Melbourne or Perth, meet and talk frequently, both formally and informally, to ensure a mutually thorough understanding of the Company's business and all the Company's policies of corporate governance are adhered to. The agenda for meetings is prepared in conjunction with the Chairman and Company Secretary and is circulated in advance.

### **2.3 Director Education**

The Company has a process to educate any new Directors about the nature of the business, current issues, the corporate strategy and the expectations of the Company concerning the performance of Directors. Directors are given access to and encouraged to participate in continuing education opportunities to update and enhance their skills and knowledge.

### **2.4 Independent Professional Advice and access to Company Information**

Each Director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairperson, may seek independent professional advice from a suitably qualified advisor at the Company's expense. The Director must consult with an advisor suitably qualified in the relevant field and obtain the Chairperson's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the Director is made available to all other Board members.

### **2.5 Independence**

Corporate Governance Council Recommendation 2.1 requires a majority of the Board to be independent Directors. The Corporate Governance Council defines independence as being free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of unfettered and independent judgement. In accordance with this definition, the Company has two independent Directors.

Recommendation 9 states that non-executive directors should not receive options or bonus payments. The Company may award options or other securities to non-executive Directors if it considers this to be a reasonable and appropriate method of assisting in attracting and retaining suitably skilled Board members.

### **2.6 Nomination Committee**

Recommendation 2.4 requires listed entities to establish a nomination committee. During the year ended 30 June 2007, the Company did not have a separate nomination committee. The duties and responsibilities typically delegated to such a committee are considered to be the responsibility of the full board, given the size and nature of the Company's activities. The Board does not believe that any marked efficiencies or enhancements would be achieved by the creation of a

separate nomination committee at this stage of the company's life. The Board has reviewed its policy on nominations and incorporates below its summarised policy. Factors considered for a new candidate include:

- (i) The skills required for appointment to the Board;
- (ii) How differing skills are represented on the Board;
- (iii) Processes for the identification of suitable candidates for the Board;
- (iv) The time commitment required by a Director to effectively discharge duties;
- (v) The number of existing directorships and other commitments that the candidate may have;
- (vi) Assessment of the 'independence' of the candidate; and
- (vii) The extent to which the appointee is likely to work constructively with the existing Directors and contribute to the overall effectiveness of the Board.

The following procedure is followed in selecting and appointing a new Director:

- (i) Utilize personal networks or external consultants to identify potential candidates;
- (ii) Assess appropriateness of candidate with consideration to the above points;
- (iii) Determine the terms, conditions, responsibilities and expectations of the new position;
- (iv) Non-executive Directors should be appointed for specific terms subject to re-election and to the ASX Listing Rules and Corporations Act provisions concerning removal of a Director;
- (v) Ultimate decisions about who is elected to the board are to be made by the shareholders; and
- (vi) Ensuring that the new Board member is inducted and that they have every opportunity to increase their knowledge about the Company to ensure that they can participate in an effective manner to the board deliberations.

### **3. CONTINUOUS DISCLOSURE POLICY**

The Company is required to immediately tell the ASX once it becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities, as per ASX Listing Rule 3.1.

Therefore to meet this obligation the Company undertakes to:

- (i) Notify the ASX immediately it becomes aware of any information that a reasonable person would expect to have a material effect on the price and value of the companies securities, unless that information is not required to be disclosed under the listing rules;
- (ii) Disclose notifications to the ASX on the Company website following confirmation of the publishing of the information by the ASX; and
- (iii) Not respond to market speculation or rumour unless the ASX considers it necessary due to there being, or likely to be, a false market in the Company's securities.

The Company Secretary is responsible for coordinating the disclosure requirements. To ensure appropriate procedure all Directors, officers and employees of the Company coordinate disclosures through the Company Secretary, including:

- (i) Media releases;
- (ii) Analyst briefings and presentations; and
- (iii) The release of reports and operational results.

Information not disclosed via ASX announcement that might be considered share price sensitive will not be discussed with any external parties other than on a confidential basis in order to conduct the business of the Company. Discussions with external parties will only occur following an ASX announcement. All written materials containing new price sensitive information to be used in briefing media, investors and analysts will be notified to the ASX prior to the commencement of that briefing.

In reviewing the content of analysts' reports and profit forecasts, the Company will correct factual inaccuracies or historical matters.

Information is communicated to shareholders as follows:

- (i) The annual report is distributed to all shareholders (unless a shareholder has specifically requested not to receive the document), including relevant information about the operations of the Company during the year, changes in the state of affairs and details of future developments.
- (ii) The half-yearly report contains summarised financial information and a review of the operations of the Company during the period. The half-year reviewed financial report is lodged with the Australian Securities and Investment Commission and the ASX, and sent to any shareholder who requests it.
- (iii) Quarterly reports are prepared in accordance with ASX listing rules.
- (iv) Proposed major changes in the Company which may impact on share ownership rights are submitted to a vote of shareholders.
- (v) All announcements made to the market, and related information are placed on the Company's website after they are released to the ASX, including regular updates on operations.
- (vi) The full texts of notices of meetings and associated explanatory material are placed on the Company's website.

All of the above information is made available on the Company's website, [www.solimarenergy.com.au](http://www.solimarenergy.com.au). Copies of all presentations made by the Company in a public forum are posted on the website. The majority of the information is also emailed to all shareholders who lodge their email contact details with the Company.

The external auditor is requested to attend the Annual General Meeting to answer any questions concerning the audit and the auditor's report.

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 shareholders are responsible for voting on the appointment of Directors, approval of the maximum amount of Directors' fees and the granting of options and shares to Directors.

#### **4. SHARE TRADING POLICY**

The Company has established a policy that imposes certain restrictions on Directors, senior management and other employees trading in the Company's securities. The policy has been adopted to prevent trading in contravention of the insider trading provisions of the Corporations Act 2001, in particular when Company personnel are in possession of price-sensitive information.

In general trading in the Company's securities is prohibited:

- (i) whilst in possession of unpublished price sensitive information;
- (ii) where officers are engaging in the business of active dealing;
- (iii) two weeks before and 24 hours after the release of the Company's quarterly, half yearly or annual report to the ASX; and
- (iv) two weeks before lodgement and during the period that a disclosure document including a prospectus is open for applications except to the extent that a Director or employee is applying for securities pursuant to that disclosure document.

In accordance with the provisions of the Corporations Act 2001 and the Listing Rules of the Australian Securities Exchange, Directors advise the ASX of any transaction conducted by them in shares or options in the Company.

#### **5. CONFLICT OF INTEREST**

In accordance with the Corporations Act and the Company's constitution Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists the Director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered. For further details refer to the "Code of Conduct" Policy.

#### **6. REMUNERATION AND PERFORMANCE ASSESSMENT**

##### **6.1 Remuneration Committee**

Recommendation 9.2 requires listed entities to establish a remuneration committee. During the year ended 30 June 2007, the Company did not have a separate remuneration committee. The duties and responsibilities typically delegated to such a committee are considered to be the responsibility of the full board, given the size and nature of the Company's activities. The Board does not believe that any marked efficiencies or enhancements would be achieved by the creation of a separate nomination committee.

##### **6.2 Remuneration Policies**

Remuneration of Directors are formalised in service agreements. The Board is responsible for determining and reviewing compensation arrangements for the Directors themselves and the Managing Director and the executive team.

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality board and executive team by remunerating Directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Board links the nature and amount of executive Directors' and officers' remuneration to the Company's financial and operational performance. The expected outcomes of the remuneration structure are:

- (i) Retention and motivation of key executives;
- (ii) Attraction of quality management to the Company; and
- (iii) Performance incentives which allow executives to share the rewards of the success of the Company.

Remuneration of non-executive Directors is determined by the Board with reference to comparable industry levels and, specifically for Directors' fees, within the maximum amount approved by shareholders.

For details on the amount of remuneration and all monetary and non-monetary components for all Directors refer to the Notes to the Financial Statements. In relation to the payment of bonuses, options and other incentive payments, discretion is exercised by the Board, having regard to the overall performance of the Company and the performance of the individual during the period.

There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive Directors.

### **6.3 Performance**

The performance of the Board and key executives is reviewed regularly against both measurable and qualitative indicators. The performance criteria against which Directors and executives are assessed is aligned with the financial and non-financial objectives of the Company. Directors whose performance is consistently unsatisfactory may be asked to retire.

## **7. RISK MANAGEMENT**

### **7.1 Oversight of the Risk Management System**

The Board takes a proactive approach to risk management. The Board is responsible for oversight of the processes whereby the risks, and also opportunities, are identified on a timely basis and that the Company's objectives and activities are aligned with the risks and opportunities identified by the Board. This oversight encompasses operational, financial reporting and compliance risks.

The Company believes that it is crucial for all Board members to be a part of the process, and as such the Board has not established a separate risk management committee.

The Executive Director has declared, in writing to the Board, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. All risk assessments

covered the whole financial year and the period up to the signing of the annual financial report for all material operations in the Company.

## **7.2 Internal Control Framework**

The Board acknowledges that it is responsible for the overall internal control framework, but recognizes that no cost effective internal control system will preclude all errors and irregularities. To assist in discharging this responsibility, the Board has instigated an internal control framework that deals with:

- (i) Financial reporting - there is a comprehensive budgeting system with an annual budget, updated on a regular basis approved by the Board. Monthly actual results are reported against these budgets.
- (ii) Investment appraisal - the Company has clearly defined guidelines for capital expenditure including annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses or assets are being acquired or divested.
- (iii) Quality and integrity of personnel - the Company's policies are detailed in an approved induction manual. Formal appraisals are conducted annually for all employees.

## **8. AUDIT AND COMPLIANCE POLICY**

The Board imposes stringent policies and standards to ensure compliance with all corporate financial and accounting standards. Where considered appropriate, the Company's external auditors, professional advisors and management are invited to advise the Board on these issues and the Board meets quarterly to consider audit matters prior to statutory reporting.

The Company requires that its auditors must not carry out any other major area of service to the Company and should have expert knowledge of both Australian and international jurisdictions.

Recommendation 4.3 requires listed entities to have an audit committee consisting of only non-executive directors, a majority of independent directors, an independent Chairperson, who is not Chairperson of the board and at least three members. Recommendation 4.4 requires the audit committee to have a formal charter.

Due to the size and nature of the Company the audit committee function was incorporated into the Board's obligations. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information. The Board continues to maintain a framework of internal control and ethical standards for the management of the Company.

The Board consists of members with financial expertise and detailed knowledge and experience of the mineral exploration and evaluation business. The Board meets with the Company's external auditors before finalisation of any audit or review.

All Directors declared in writing that the Company's financial reports for the year ended 30 June 2007 present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards. This statement is required annually.

#### **9. ETHICAL STANDARDS**

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

#### **10. HEALTH, SAFETY, ENVIRONMENT AND HERITAGE PROTECTION POLICY**

The Company is committed to compliance with all relevant laws and regulations and continual assessment of its operations to ensure protection of the environment, the community and the health and safety of its employees in Australia and California, USA.

The Company has adopted a policy and maintains appropriate procedures to ensure that all Company activities are carried out in compliance with safety regulations, in a culture where the safety of personnel is paramount and which recognises environmental sustainability and respect for cultural and heritage issues as essential requirements for all its activities. Procedures are maintained to govern the activity of employees and contractors to ensure that the objectives of this policy are met.