## CORPORATE GOVERNANCE

The Board of Directors of MEC Resources Limited ("MEC" or "the Company") is responsible for the corporate governance of the economic entity. The Board guides and monitors the business and affairs of MEC on behalf of the shareholders by whom they are elected and to whom they are accountable.

To ensure that the Board is well equipped to discharge its responsibilities, it has established guidelines and accountability as the basis for the administration of corporate governance.

## CORPORATE GOVERNANCE DISCLOSURES

The Board and management are committed to corporate governance and to the extent that they are applicable to the Company have followed the "Principles of Good Corporate Governance and Best Practice Recommendations" issued by the Australian Stock Exchange ("ASX") Corporate Governance Council.

## COMPOSITION OF THE BOARD

The composition of the Board is determined in accordance with the following principles and guidelines:

- the Board should comprise a majority or at least 50% of the Board will be independent non-executive directors;
- the Board should of at least one director with an appropriate range of qualifications and expertise; and
- the Board shall meet at regular intervals and follow meeting guidelines set down to ensure all directors are made aware of, and have available all necessary information, to participate in an informed discussion of all agenda items.

When a vacancy exists, through whatever cause, or where it is considered that the Board would benefit from the service of a new director with particular skills, the Board selects a candidate or panel of candidates with the appropriate expertise.

The Board then appoints the most suitable candidate, who must stand for election at the next general meeting of shareholders. The Company does not have a formal Nomination Committee.

## REMUNERATION AND NOMINATION COMMITTEES

The Company does not have a formal Remuneration or Nomination Committees. The full Board attends to the matters normally attended to by a Remuneration Committee and a Nomination committee. Remuneration levels are set by the Company in accordance with industry standards to attract suitable qualified and experienced Directors and senior executives.

## AUDIT COMMITTEE

The Company does not have a formal Audit Committee. The full Board carried out the functions of an Audit Committee. Due to the status of the Company and the relatively straight forward accounts of the Company anticipated in the first financial year, the Directors believe that at the moment there would be no additional benefits obtained by establishing such a committee. The Board follows the Audit Committee Charter, a copy of which is available on request.

## BOARD RESPONSIBILITIES

As the Board acts on behalf of and is accountable to the shareholders, it seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks. The Board seeks to discharge these responsibilities in a number of ways.

The responsibility for the operation and administration of the economic entity is delegated by the Board to the Chief Executive Officer. The Board ensures that the Chief Executive Officer is appropriately qualified and experienced to discharge his responsibilities, and has in place procedures to assess the performance for the Company's officers, employees, contractors and consultants.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. It has a number of mechanisms in place to ensure this is achieved, including the following:

- Board approval of a strategic plan, designed to meet shareholder needs and manage business risk;
- Implementation of operating plans and budgets by management and Board monitoring progress against budget;
- Procedures to allow directors, in the furtherance of their duties, to seek independent professional advice at the Company's expense.

## MONITORING OF THE BOARD'S PERFORMANCE

In order to ensure that the Board continues to discharge its responsibilities in an appropriate manner, the performance of all directors is to be reviewed annually by the chairperson. Directors whose performance is unsatisfactory are asked to retire.

## BEST PRACTICE RECOMMENDATION

Outlined below are the 10 Essential Corporate Governance Principles as outlined by the ASX and the Corporate Governance Council. The Company has complied with the Corporate Governance Best Practice Recommendations except as identified below.

| | Action taken and reasons if not adopted |
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| ***Recognise and publish the respective roles and responsibilities of the board and management*** | Adopted |
| *Principle 1: Lay solid foundation for management and oversight* | |
| 1.1 Formalise and disclose the functions reserved to the Board and those delegated to management | |
| ***Have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties*** | Adopted except as follow:- |
| *Principle 2: Structure the board to add value*<br>2.1 A majority of the Board should be independent<br>2.2 The chairperson should be an independent director<br>2.3 The roles of chairperson and chief executive officer should not be exercised by the same individual<br>2.4 The board should establish a nomination committee<br>2.5 Provide the information indicated in 'Guide to reporting on Principle 2' | 2.4 The Company is not of a size at the moment that justifies having a separate Nomination Committee. However, matters typically dealt with by such a committee are dealt with by the Executive Committee. |
| ***Actively promote ethical and responsible decision-making*** | Adopted |
| *Principle 3: Promote ethical and responsible decision-making* | |
| 3.1 Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:<br>3.1.1 the practices necessary to maintain confidence in the Company's integrity | |

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| 3.1.2 the responsibility and accountability of individuals for reporting or investigating reports of unethical practices<br>3.2 Disclose the policy concerning trading in Company securities by directors, officers and employees<br>3.3 Provide the information indicated in 'Guide to Reporting on Principle 3' | |
| ***Have a structure in place to independently verify and safeguard the integrity of the Company's financial reporting***<br>*Principle 4: Safeguard integrity in financial reporting*<br>4.1 Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the Board that the Company's financial reports 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. | Adopted except as follows:- |
| 4.2 The Board should establish an audit committee<br>4.3 Structure the audit committee so that it consists of:<br>▪ Only non-executive directors<br>▪ A majority of independent directors<br>▪ An independent chairperson who is not the chairperson of the Board<br>▪ At least three members | 4.2 & 4.3 The Company does not have a separate Audit Committee. The full Board carries out the functions of an Audit Committee. Due to the status of the Company and the relatively straight forward accounts of the Company anticipated in the first financial year, the Directors at the moment can see no additional benefits to be obtained by establishing such a committee. The Board follows the Audit Committee Charter, a copy of which is available on request. |
| 4.4 The audit committee should have a formal operating charter<br>4.5 Provide the information indicated in the 'Guide to reporting on Principle 4' | |
| ***Promote timely and balanced disclosure of all material matters concerning the Company***<br>*Principle 5: Make timely and balanced disclosure*<br>5.1 Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance<br>5.2 Provide the information indicated in the 'Guide to reporting on Principle 5' | Adopted |
| ***Respect the rights of shareholders and facilitate the effectiveness of those rights***<br>*Principle 6: Respect the rights of shareholders*<br>6.1 Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.<br>6.2 Request the external audit to attend the annual general meeting and be available to answer shareholder questions about the audit and the preparation and content of the auditor's report | Adopted |

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| ***Establish a sound system of risk oversight and management and internal control***<br>*Principle 7: Recognise and manage risk*<br>7.1 The Board or appropriate Board committee should establish policies on risk oversight and management<br>7.2 The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the Board in writing that:<br>7.2.1 the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board<br>7.2.2 the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.<br>7.3 Provide the information indicated in the 'Guide to reporting on Principle 7' | Adopted |
| ***Fairly review and actively encourage enhanced board and management effectiveness***<br>*Principle 8: Encourage enhanced performance*<br>8.1 Disclose the process for performance evaluation of the Board, its committees and individual directors, and key executives | Adopted |
| ***Ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined***<br>*Principle 9: Remunerate fairly and responsibly*<br>9.1 Provide disclosure in relation to the Company's remuneration policies to enable investors to understand (i) the cost and benefits of these policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.<br>9.2 The Board should establish a remuneration committee<br>9.3 Clearly distinguish the structure of non-executive directors' remuneration from that of executives<br>9.4 Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders | Adopted except as follows:-<br>9.2 The Company is not of a size that justifies having a separate Remuneration Committee. However, matters typically dealt with by such committee are dealt with by the full Board. |
| ***Recognise the legal and other obligations of all legitimate stakeholders***<br>*Principle 10: Recognise the legitimate interest of stakeholders*<br>10.1 Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders | Adopted |