

XSTATE RESOURCES LIMITED
ABN 96 009 217 154

CORPORATE GOVERNANCE STATEMENT

The Board of directors of XState Resources Limited has adopted the following set of principles for the corporate governance of the Company. These principles establish the framework of how the Board carries out its duties and obligations on behalf of the shareholders.

ASX BEST PRACTICE RECOMMENDATIONS

The ASX Listing Rules require listed companies to include in their annual report a statement disclosing the extent to which they have complied with the ASX Best Practice Recommendations in the reporting period. These recommendations are guidelines designed to produce an efficient, quality or integrity outcome. The recommendations are not prescriptive so that if a company considers that a recommendation is inappropriate having regard to its particular circumstances, the company has the flexibility not to follow it. Where a company has not followed all the recommendations, the annual report must identify which recommendations have not been followed and give reasons for not following them.

Details have been included at the end of this statement setting out the ASX Best Practice Recommendations with which the Company has not complied in the reporting period.

Details of the Company's corporate governance practices in the relevant reporting period are set out below.

THE BOARD OF DIRECTORS

Role of the Board

The primary responsibilities of the Board are set out in a written policy and include:

- the establishment of the long term goals of the Company and strategic plans to achieve those goals;
- monitoring the achievement of these goals;
- the review of management accounts and reports to monitor the progress of the Company;
- the review and adoption of budgets for the financial performance of the Company and monitoring the results on a regular basis to assess performance;
- the review and approval of the annual and half-year financial reports;
- nominating and monitoring the external auditor;
- approving all significant business transactions;
- appointing and monitoring senior management;
- all remuneration, development and succession issues; and

- ensuring that the Company has implemented adequate systems of risk management and internal control together with appropriate monitoring of compliance activities.

The Board evaluates this policy on an ongoing basis.

Director education

The Company has a process to educate 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 continuing education opportunities to update and enhance their skills and knowledge.

Board composition

The Directors' report contains details of the directors' skill, experience and education. The Board seeks to establish a Board that consists of directors with an appropriate range of experience, skill, knowledge and vision to enable it to operate the Company's business with excellence. To maintain this, the Company's policy is that executive directors should serve at least 3 years. At the completion of the first 3 years, the position of the director is reviewed to ascertain if circumstances warrant a further term.

The Board is primarily responsible for identifying potential new directors but has the option to use an external consulting firm to identify and approach possible new candidates for directorship. The selection of the directors must be approved by the majority of the shareholders.

Retirement and re-election of directors

The Constitution of the Company requires one third of directors, other than the Managing Director, to retire from office at each Annual General Meeting. Directors who have been appointed by the Board are required to retire from office at the next Annual General Meeting and are not taken into account in determining the number of directors to retire at that Annual General Meeting. Retiring directors are eligible for re-election by shareholders.

Independence of directors

The Board has reviewed the position and association of each of the three directors in office at the date of this report and considers that all of the directors are independent. In considering whether a director is independent, the Board has regard to the independence criteria in ASX Best Practice Recommendations Principle 2 and other facts, information and circumstances that the Board considers relevant. The Board assesses the Independence of new directors upon appointment and reviews their independence, and the independence of the other directors, as appropriate.

Independent professional advice

With the prior approval of the Chairperson, each director has the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings in order to fulfil their duties and responsibilities as directors.

Board performance review

The performance of all directors is assessed through review by the Board as a whole of a director's attendance at and involvement in Board meetings, his performance and other matters identified by the Board or other directors. Significant issues are actioned by the Board. Due to the Board's assessment of the effectiveness of these processes, the Board has not otherwise formalised measures of a director's performance.

The Company has not conducted a performance evaluation of the members of the Board during the reporting period, however the Board conducts a review of the performance of the Company against budgeted targets on an ongoing basis.

Director remuneration

Details of the Company's remuneration policies are included in the 'Directors' and executives' remuneration" section of the Directors' Report.

Non-executive directors will be remunerated by cash benefits alone and will not be provided with retirement benefits (except in exceptional circumstances). Executive directors may be remunerated by both fixed remuneration and equity performance based remuneration and no termination payments will be agreed other than a reasonable period of notice of termination as detailed in the executive's employment contract.

The Company does not provide any equity-based remuneration to directors.

MANAGING BUSINESS RISK

The Company maintains policies and practices designed to identify and manage significant business risks, including:

- regular budgeting and financial reporting;
- procedures and controls to manage financial exposures and operational risks;
- the Company's business plan;
- corporate strategy guidelines and procedures to review and approve the Company's strategic plans; and
- insurance and risk management programmes which are reviewed by the Board.

The Board reviews these systems and the effectiveness of their implementation annually and considers the management of risk at its meetings. The Company's risk profile is reviewed annually. The Board may consult with the Company's external auditors on external risk matters or other appropriately qualified external consultants on risk generally, as required.

The Board receives regular reports about the financial condition and operating results of the consolidated group. The Managing Director (the Company currently does not have a Managing Director) and Chief Financial Officer annually provide a formal statement to the Board that in all material respects and to the best of their knowledge and belief:

- the Company's financial reports present a true and fair view of the Company's financial condition and operational results and are in accordance with relevant accounting standards; and
- the Company's risk management and internal control systems are sound, appropriate and operating efficiently and effectively.

Internal controls

Procedures have been established at the Board and executive management levels that are designed to safeguard the assets and interests of the Company, and to ensure the integrity of reporting. These include accounting, financial reporting and internal control policies and procedures. To achieve this, the executive directors perform the following procedures:

- ensure appropriate follow-up of significant audit findings and risk areas identified;
- review the scope of the external audit to align it with Board requirements; and
- conduct a detailed review of published accounts.

AUDIT COMMITTEE

Having regard to the number of members currently comprising the Company's Board, the Board does not consider it appropriate to delegate these responsibilities to a sub-committee of the Board, however meetings are held throughout the year between the Company Secretary, Mr David McArthur, the board and/or board members as appropriate and the Company's auditors to discuss the Company's ongoing activities and to discuss any proposed changes prior to their implementation and to seek advice in relation thereto.

The Board has not formalised any procedures for the selection, appointment or rotation of its external auditor but reviews this matter on an ongoing basis and implements changes as required.

ETHICAL STANDARDS

In pursuit of the highest ethical standards, the Company has adopted a Code of Conduct which establishes the standards of behaviour required of directors and employees in the conduct of the Company's affairs. This Code is provided to all directors and employees. The Board monitors implementation of this Code. Unethical behaviour is to be reported to the Company's Managing Director as soon as practicable.

The Code of Conduct is based on respect for the law, and acting accordingly, dealing with conflicts of interest appropriately, using the consolidated entity's assets responsibly and in the best interests of the Company, acting with integrity, being fair and honest in dealings, treating other people with dignity and being responsible for actions and accountable for the consequences.

TRADING IN THE COMPANY'S SECURITIES BY DIRECTORS AND EMPLOYEES

The Board has adopted a policy in relation to dealings in the securities of the Company which applies to all directors and employees. Under the policy, directors are prohibited from short term or "active" trading in the Company's securities and directors and employees are prohibited from dealing in the Company's securities whilst in possession of price sensitive information. The Company's Managing Director (or in his place the Chairperson) must also be notified of any proposed transaction.

This policy is provided to all directors and employees. Compliance with it is reviewed on an ongoing basis in accordance with the Company's risk management systems.

CONTINUOUS DISCLOSURE

The Company has in place a continuous disclosure policy, a copy of which is provided to all Company officers and employees who may from time to time be in the possession of undisclosed information that may be material to the price or value of the Company's securities.

The continuous disclosure policy aims to ensure timely compliance with the Company's continuous disclosure obligations under the Corporations Act 2001 (Cth) and ASX Listing Rules and ensure officers and employees of the Company understand these obligations.

The procedure adopted by the Company is essentially that any information which may need to be disclosed must be brought to the attention of the Chairperson, who in consultation with the Board (where practicable) and any other appropriate personnel, will consider the information and whether disclosure is required and prepare an appropriate announcement.

At least once in every 12 month period, the Board will review the Company's compliance with this continuous disclosure policy and update it from time to time, if necessary.

SHAREHOLDERS

The Board aims to ensure that shareholders are kept informed of all major developments affecting the Company. Information is communicated to shareholders as follows:

- as the Company is a disclosing entity, regular announcements are made to the Australian Stock Exchange in accordance with the Company's continuous disclosure policy, including quarterly cash flow reports, half-year audit reviewed accounts, year end audited accounts and an annual report;
- the Board ensures the annual report includes relevant information about the operations of the Company during the year, changes in the state of affairs and details of future developments;
- shareholders are advised in writing of key issues affecting the Company by effective use of the Company's share registry;
- any proposed major changes in the Company's affairs are submitted to a vote of shareholders, as required by the Corporations Act 2001;

- the Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification of the Company's strategies and goals. All shareholders who are unable to attend the e meetings are encouraged to communicate or ask questions by writing to the Company; and
- the external auditor is requested to attend the annual general meetings to answer any questions concerning the audit and the content of the auditor's report.

The Board reviews this policy and compliance with it on an ongoing basis.

ASX BEST PRACTICE RECOMMENDATIONS

Pursuant to the ASX Listing Rules, the Company advises that it does not comply with the following Best Practice Recommendations, issued by the ASX Corporate Governance Council. Reasons for the Company's non-compliance are detailed below:

Recommendation 2.4: *The Board should establish a Nomination Committee.*

The functions to be performed by a nomination committee under the ASX Best Practice Recommendations are currently performed by the full Board and this is reflected in the written policy setting out the responsibilities of the Board. Having regard to the number of members currently comprising the Company's Board, the Board does not consider it appropriate to delegate these responsibilities to a sub-committee. These arrangements will be reviewed periodically by the Board to ensure that they continue to be appropriate to the Company's circumstances.

Recommendation 2.5: *Provide the information indicated in "Guide to reporting on Principle 2".*

One of the matters to be included in the corporate governance section of the annual report pursuant to the Guide to reporting on Principle 2 is "the names of members of the nomination committee and their attendance at meetings of the committee". As stated in the previous paragraph, the Board does not consider it appropriate for the Company to establish a nomination committee and therefore this information has not been included in the annual report or otherwise made publicly available. In all other respects, the Company has complied with the disclosure requirements contained in the Guide to reporting on Principle 2 by the inclusion of information in this Statement, but has not otherwise made the information publicly available.

Recommendation 4.2: *The Board should establish an Audit Committee.*

Recommendation 4.3: *Structure of the Audit Committee so that it consists of:*

- only Non-Executive Directors;
- a majority of Independent Directors;
- an Independent Chairperson, who is not chairperson of the Board;
- at least three members.

Recommendation 4.4: *The Audit Committee should have a formal charter.*

The functions to be performed by an audit committee under the ASX Best Practice Recommendations are currently performed by the full Board and this is reflected in the written policy setting out the responsibilities of the Board. Having regard to the number of members currently comprising the Company's Board, the Board does not consider it appropriate to delegate these responsibilities to a sub-committee of the Board, however meetings are held between senior management and the auditors throughout the year to discuss the Company's ongoing activities and to discuss any proposed changes prior to their implementation and to seek advice in relation thereto. In doing so, the Board

also adheres to the Company's Code of Conduct and procedures to ensure independent judgement in decision making, as set out in relation to ASX Best Practice Recommendation 2.1. These arrangements will be reviewed periodically by the Board to ensure that they continue to be appropriate to the Company's circumstances.

Recommendation 4.5: Provide the information indicated in "Guide to reporting on Principle 4".

The *Guide to reporting on Principle 4* requires that the corporate governance section of the annual report include "details of the names and qualifications of those appointed to the audit committee". As stated in the previous paragraph, the Board does not consider it appropriate for the Company to establish an audit committee and therefore this information has not been included in the annual report. However as the Board fulfils the role of the audit committee, details of the Company's directors and their attendance at Board meetings are set out in the Company's annual report. In all other respects, the Company has complied with the disclosure requirements contained in the *Guide to reporting on Principle 4*.

Recommendation 9.2: The Board should establish a Remuneration Committee.

The functions to be performed by a remuneration committee under the ASX Best Practice Recommendations are currently performed by the full Board and this is reflected in the written policy setting out the responsibilities of the Board. Having regard to the number of members currently comprising the Company's Board, the Board does not consider it appropriate to delegate these responsibilities to a sub-committee. These arrangements will be reviewed periodically by the Board to ensure that they continue to be appropriate to the Company's circumstances.

Recommendation 9.5: Provide the information indicated in "Guide to reporting on Principle 9".

One of the matters to be included in the corporate governance section of the annual report pursuant to the *Guide to reporting on Principle 9* is "the names of members of the remuneration committee and their attendance at meetings of the committee". As stated in the previous paragraph, the Board does not consider it appropriate for the Company to establish a remuneration committee and therefore this information has not been included in the annual report. However as the Board fulfils the role of the remuneration committee, details of the Company's directors and their attendance at Board meetings are set out in the Company's annual report. In all other respects, the Company has complied with the disclosure requirements contained in the *Guide to reporting on Principle 9*.