ABN 36 087 244 228

CORPORATE GOVERNANCE STATEMENT

Updated 29 August 2017

This Corporate Governance Statement explains the Group's conformance with the 'Corporate Governance Principles and Recommendations' issued by the Australian Securities Exchange (ASX).

Principle 1 - Lay solid foundations for management and oversight
Companies should establish and disclose the respective roles and responsibilities of board and management.

The role and responsibilities of the Board are encompassed in the Board Charter (the Board Charter is published on the Group's website).

Due to the nature and scale of the Group's structure and activities, the Board has not yet instituted a formal periodic performance evaluation process.

The roles and responsibilities of management, including the executive directors, are established from time to time by the Board as it carries out its function. A written agreement with each director and senior executive sets out the terms of their appointment.

The philosophy and process for evaluating the performance of senior executives is provided in the Remuneration Report in each year's Annual Report.

The role of Company Secretary is accountable directly to the Board, through its Chairman.

Principle 2 – Structure the board to add value
Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

The Board determines its size and composition, subject to the Corporations Act and the Group's Constitution. Accordingly there shall be not less than 3 and not more than twelve directors.

The Board shall include a balance of Non-executive and Executive directors. Non-executive directors will mostly be independent directors, but a Non-executive director could be non-independent. The Board in its Charter has adopted a fundamental principle that there should be a majority of independent directors. Presently there are three directors; Mr Shaun Scott is the independent director whereas Mr Les Capelli and Mr David Lymburn are not independent directors. Although Mr Capelli is a Non-executive director he is deemed not independent under ASX guidelines by virtue of his shareholding interest in the Group. Accordingly the Board structure does not presently comply with ASX Corporate Governance Principles and Recommendations, or the Board Charter. The Board has stated its intention to expand the Board with the addition of one or more independent directors.

The current Directors of the Group are listed in the most recent Annual Report as well as on the Group's website, with a brief description of their qualifications, experience and special responsibilities.

- Shaun Scott - Chairman was appointed on 7 March 2011, serving over six years.
- Gianmario Alessio ("Les") Capelli - Non-executive director was appointed on 28 November 2008, serving over eight years.
- David Lymburn - Managing Director & CEO was appointed on 30 May 2014, serving over three years.

The roles of Chairman and CEO are not exercised by the same individual.

The Chairman is selected by the full Board.

Although the Group has not developed a formal program for new director induction or professional development, the Board considers that the present directors are able to discharge the responsibilities of a director, having regard to the law and highest standards of corporate governance.

Principle 3 – Act ethically and responsibly
Companies should actively promote ethical and responsible decision making.

The Group has a Code of Conduct which is applicable to all directors, management and staff.
The Group also has a written policy governing directors, management and employees dealing in the Group's securities.

Copies of the Code of Conduct and the Policy for Trading in Group Securities are published on the Group's website.

Diversity
The Group recognises the value contributed to the organisation by employing people with varying skills, cultural backgrounds, ethnicity and experience. AnaeCo believes its diverse workforce is the key to its continued growth, improved productivity and performance.

AnaeCo actively values and embraces the diversity of our employees and are committed to creating an inclusive workplace where everyone is treated equally and fairly, and where discrimination, harassment and inequity are not tolerated.

At 30 June 2017, 25% of our workforce was female. There are currently no senior executives or Board members who are female.

Whilst the Group supports and seeks to comply with the recommendations contained in the ASX Corporate Governance Principles and Recommendations and has established a formal diversity policy, it has not yet established measurable objectives for achieving diversity.

Principle 4 – Safeguard integrity in corporate reporting
Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

The CEO is required to provide a written undertaking to the Board providing assurances that the Group's financial reports present a true and fair view and are in accordance with relevant accounting standards. The CEO is also required to provide written assurances that the financial reports are based on a sound system of internal controls, and to explain any significant weaknesses in internal controls.

The Board has resolved to establish an Audit Committee. However the present composition of directors does not enable the Group to comply with ASX guidelines. Accordingly the entire Board performs the function of the Audit Committee.

The Audit Committee charter is published on the Group's website.

The Group has a policy on the provision of external audit and other professional accounting services. The external auditor is precluded from providing any services which in the opinion of the Audit Committee may threaten its independence or may cause a conflict with its assurance and compliance role.

Principle 5 – Make timely and balanced disclosure
Companies should promote timely and balanced disclosure of all material matters concerning the Group.

In accordance with ASX Listing Rules and the Corporations Act, a continuous disclosure regime operates throughout the Group.

The Group has a written policy regarding Market Disclosure and Communications. All management and staff are made aware of this policy and a copy of the policy is posted on the Group's website.

Principle 6 – Respect the rights of security holders
Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

The Group has a written policy on Market Disclosure and Communications which includes a section on shareholder communications.

The policy explains what information is posted to the Group's website as well as information which will be mailed to all shareholders.

The Group's website includes a facility whereby any interested party, whether a shareholder or not, may register to receive by e-mail regular updates of selected ASX announcements or periodic shareholder/investor updates. The Group's share registry allows communication though its website via its virtual agent providing instant support as well as direct communication through email and telephone.

At General Meetings the Chairman encourages questions and discussions on all matters of business by shareholders. Shareholders who are unable to attend the meetings personally are encouraged to submit written questions on any matters of business.

The Group's external auditor is required to attend each Annual General Meeting and make themselves available to answer shareholder questions regarding the conduct of the audit and the preparation and content of the auditor's report.

Principle 7 – Recognise and manage risk
Companies should establish a sound system of risk oversight and management and internal control.

The full Board retains prime responsibility for policy regarding oversight and management of risk. The Board may delegate responsibility for aspects of risk management to the CEO and management.

In conjunction with their annual and half yearly sign off on the financial statements, the CEO will be required to report to the Board as to the effectiveness of the Group's management of its material business risks.

Exposure to economic, environmental and social sustainability risks are evaluated and managed by the Board on a case by case basis, and where appropriate details would be disclosed in the Annual Financial Report.

The Group maintains a range of insurances to mitigate the consequences of all identified risks and the adequacy of this coverage is reviewed on an annual basis.

Due to the size and structure of the Group it is not considered appropriate to have an internal audit function. All directors and employees have responsibilities to recognise risks bring them to the attention of the directors and actively apply controls to manage risk. This provides a sufficient mechanism for the directors to evaluate and continually improve the effectiveness of its risk management and internal control processes.

Principle 8 - Remunerate fairly and responsibly
Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

The Board has resolved to establish a Remuneration Committee. However the present Board composition does not enable the Group to comply with ASX guidelines. Accordingly the entire Board performs the function of the Remuneration Committee.

The Remuneration Committee charter is published on the Group's website.

The Group has adopted a remuneration structure for executive directors and senior management which distinguishes between fixed remuneration and remuneration which is at risk. The remuneration which is at risk comprises short term and longer term incentive arrangements. Details of this as well as details of the employment contracts of senior executives are provided in the Remuneration Report contained in each year's Annual Report.

The Group acknowledges ASX guidelines that remuneration arrangements for non-executive directors should be clearly distinguished from arrangements for executive directors. The Group agrees with this recommendation with one exception. The Group considers non-executive directors should have capacity to share in equity based incentive arrangements for the following reasons;

- The nature of the Group’s business and its stage of development mean the whole Board plays a critical role in developing strategies and decision making which will have a direct impact on the success of the Group. In other words, the role of the Board in such an early stage emerging Group is often closer aligned with management at key decision points. The Board is therefore accountable for the success or failure in creating and delivering strategies as well as the more traditional stewardship and governance role of Boards in larger and longer established companies.
- Equity based compensation incentives are a necessity in this day and age for smaller developing companies, at a higher risk stage in their life cycle, in order to attract non-executive directors with appropriate skills, experience and calibre.
- The Group has confidence it can establish equity based compensation incentives for non-executives which are balanced and not excessive, and accordingly in the best interests of shareholders.

The Corporations Act provides that all share or option issues to directors must be approved by shareholders. In submitting any proposal for equity based compensation of directors (both executive and non-executive) the Group will provide shareholders with all information required by the Corporations Act and ASX Listing Rules as well as a full explanation of its reasons why it considers the proposed remuneration arrangements to be appropriate.

Due to the scale of the Group’s structure and activities and the fact that the classes of securities on issue are limited to fully paid ordinary shares, there is no market in derivative securities in AnaeCo Limited.