



Leigh Creek Energy Limited - Corporate Governance Statement

Leigh Creek Energy Limited (Leigh Creek Energy) provides this Corporate Governance Statement which discloses the extent to which Leigh Creek Energy follows the recommendations set by the ASX Corporate Governance Council in its *Corporate Governance Principles and Recommendations (Third Edition)* (Recommendations). The information in this statement is current as at 28 August 2019 and has been approved by the Board.

To the extent that Leigh Creek Energy does not intend to follow all of the Recommendations, this Corporate Governance Statement identifies those Recommendations and sets out Leigh Creek Energy's reasons for not following them.

Principle 1: Lay solid foundations for management and oversight

Recommendation 1.1

A listed entity should disclose:

- (a) the respective roles and responsibilities of its board and management; and
- (b) those matters expressly reserved to the board and those delegated to management.

Recommendation followed

The role of the Board is covered by the Corporations Act 2001, ASX Listing Rules and the Constitution of the Company. Its primary role is to represent shareholders and to promote and protect the interests of the Company with a view to creating long term shareholder wealth. In achieving these ends the Board oversees the development of strategies, the setting of objectives, the establishment of policies to be implemented by management and assumes responsibility for ensuring adequate systems of internal control, risk management and financial reporting. The Board also ensures the provision of resources to senior management to achieve the Company's objectives and undertakes subsequent monitoring of their performance.

Leigh Creek Energy's Board has adopted a Board Charter which clearly defines the roles and responsibilities of the Board and management.

Leigh Creek Energy's Board Charter has been disclosed on its website at:
www.lcke.com.au/Investors/Corporate-Governance

Pursuant to their appointment, Non-Executive Directors usually have limited involvement in the day to day management of the Company, unless the circumstances of the Company require otherwise. The Board has appointed an Executive Chairman and Managing Director, responsible for the operational and administrative performance of the Company and the provision of relevant information and input to the Board to enable it to discharge its responsibilities.

Recommendation 1.2

A listed entity should:

- (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and
- (b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.

Recommendation followed

Although the Board does not have a separate nomination committee to oversee such matters (see Recommendation 2.1 below), as a matter of practice the Board ensures that all potential candidates for election are appropriately vetted, including by carrying out criminal history and bankruptcy checks and conferring with referees. The Board also ensures that all material information regarding candidates is put to security holders at the time of election or re-election to the Board.

Recommendation 1.3

A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.

Recommendation followed

Leigh Creek Energy has entered into written agreements with each director and senior executives.

Recommendation 1.4

The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.

Recommendation followed

The Company Secretary is accountable to the Board through the Chair on all governance matters. The appointment or removal of the Company Secretary is a matter of decision for the Board.

Recommendation 1.5

A listed entity should:

- (a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;
- (b) disclose that policy or a summary of it; and
- (c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them, and either:
 - (i) the respective proportions of men and women on the board, in senior executive positions and across the whole organization (including how the entity has defined "senior executive" for these purposes); or
 - (ii) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.

Recommendation not followed

Leigh Creek Energy does not have a diversity policy and the Board does not set objectives for achieving gender diversity. Notwithstanding this, Leigh Creek Energy strives to provide the best possible opportunities for current and prospective employees of all backgrounds in such a manner that best adds to overall shareholders value and is consistent with Leigh Creek Energy's values, policies and procedures.

The Board and senior management recruit persons based on skills and experience appropriate for the role concerned and do not discriminate based on gender, age, ethnicity or cultural background.

Recommendation 1.6

A listed entity should:

- (a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and
- (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.

Recommendation followed

The Board Charter details the Company's commitment and responsibility to annually evaluate the performance of the Board, individual directors, the Chairman and Committees of the Board. The Board Charter is located on the Company's website at www.lcke.com.au/Investors/Corporate-Governance.

The Board itself is responsible for the evaluation of its performance and the performance of individual directors. The Board undertakes an ongoing process of evaluation and the composition of the Board is changed accordingly.

Recommendation 1.7

A listed entity should:

- (a) have and disclose a process for periodically evaluating the performance of its senior executives; and
- (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.

Recommendation followed

The Company has in place a process for evaluating the performance of its senior executives. The Managing Director reviews the performance of the senior executives on an ongoing basis.

Principle 2: Structure the board to add value

Recommendation 2.1

The board of a listed entity should:

- (a) have a nomination committee which:
 - (i) has at least three members, a majority of whom are independent directors; and
 - (ii) is chaired by an independent director, and disclose:
 - (iii) the charter of the committee;
 - (iv) the members of the committee; and
 - (v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
- (b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, discharge its duties and responsibilities effectively.

Recommendation followed

The scope and size of Leigh Creek Energy dictates a small Board. When a need arises and where it is considered the Board would benefit from the appointment of a Director with specific skills and experience, all members of the Board participate in seeking out appropriate potential candidates. In some instances assistance from external sources may be sought if necessary.

Recommendation 2.2

A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.

Recommendation followed

The skills and experience of each director are set out in detail on Leigh Creek Energy's website:

www.lcke.com.au/About/Board-of-Directors

The Board is cognisant of the need to review the composition of the Board from time to time to ensure an appropriate balance of skills, diversity, independence and experience relevant to the nature and extent of company operations and its future direction at any given point of time.

The scope and size of the Company dictates a small Board. When a need arises and where it is considered the Board would benefit from the appointment of a Director with specific skills and experience, all members of the Board participate in seeking out appropriate potential candidates. In some instances assistance from external sources may be sought if necessary.

Recommendation 2.3

A listed entity should disclose:

- (a) the names of the directors considered by the board to be independent directors;
- (b) if a director has an interest, position, association or relationship of the type that might cause doubts about the independence of the director but the board is of the opinion that it does

not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and

(c) the length of service of each director.

Recommendation followed

Mr English and Mr Chatfield are independent non-executive Directors. Mr English and Mr Chatfield do not have a material contractual relationship with the Company, other than as Directors. Mr English and Mr Chatfield have not been employed in an executive capacity and have not acted as a material professional advisor.

Mr Wang is a non-executive Director and a nominee of China New Energy Group Limited. China New Energy Group Limited is a substantial shareholder of Leigh Creek Energy.

Mr Zheng is a non-executive Director. Mr Zheng has a consultancy agreement with the Company to conduct business in China on behalf of the Company.

Mr Peters has been employed in an executive capacity and was appointed to the role of Executive Chairman on 27 May 2015.

Mr Staveley has been employed in an executive capacity and was appointed to the role of Managing Director on 5 December 2017.

The Board consists of two independent Directors.

The statutory Directors' report contained in each Annual Report sets out relevant experience and expertise on each Director, their period in office and status.

The length of service of each director is also set out on Leigh Creek Energy's website at: www.lcke.com.au/About/Board-of-Directors

Recommendation 2.4

A majority of the board of a listed entity should be independent directors.

Recommendation not followed

Two of the six Directors on the Board are independent.

The Board considers it presently has an appropriate balance of skills, experience and independence to properly fulfill its role.

Recommendation 2.5

The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.

Recommendation not followed

The Chair of the Board is Mr Peters who is also an Executive Director.

The Board considers that, given Leigh Creek Energy's size and nature, it is appropriate for Mr Peters to act as Chair in addition to his executive functions. Although he has an executive position, Mr Peters is not the Managing Director of Leigh Creek Energy with the role of Managing Director performed by Mr Phil Staveley.

Recommendation 2.6

A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.

Recommendation followed

All new directors are provided with an induction including comprehensive meetings with the Chairman and senior executives / management as appropriate and provision of information on Leigh Creek Energy including company policies and procedures, charters and other material documents.

All directors are expected to maintain the skills required to effectively discharge their obligations to Leigh Creek Energy. Directors are encouraged to undertake continuing professional education and, if this involves industry seminars and approved education courses, where appropriate, this is paid for by the Company. Furthermore, Directors' skills, knowledge and opportunities for continuing education and development are considered annually as part of the performance evaluation of the Board, individual directors and Chairman.

Principle 3: Act ethically and responsibly

Recommendation 3.1

A listed entity should:

- (a) have a code of conduct for its directors, senior executives and employees; and
- (b) disclose that code or summary of it.

Recommendation followed

The Company has a Code of Conduct built on highest standards of ethical behaviour. Directors and employees are expected to act with the utmost personal integrity, as required by the Company's Code of Conduct.

Leigh Creek Energy has a Code of Conduct which has been disclosed on its website at: www.lcke.com.au/Investors/Corporate-Governance

Principle 4: Safeguard integrity in corporate reporting

Recommendation 4.1

The board of a listed entity should:

- (a) have an audit committee which:
 - (i) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and
 - (ii) is chaired by an independent director, who is not the chair of the board, and disclose:
 - (iii) the charter of the committee;
 - (iv) the relevant qualifications and experience of the members of the committee; and
 - (v) in relation to each reporting period, the number of times the committee met throughout

- the period and the individual attendances of the members at those meetings; or
- (b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, and removal of the external auditor and the rotation of the audit engagement partner.

Recommendation not followed

The Board of Leigh Creek Energy has an Audit and Risk Committee which has three members and is chaired by an independent director who is not the Chair of the Board.

However, one of the members of the Audit and Risk Committee is an executive director.

The members of the Audit and Risk committee are all financially literate, and have a significant understanding of the industry in which the Company operates.

Leigh Creek Energy has disclosed a copy of the charter for the Audit and Risk Committee on its website:

www.lcke.com.au/Investors/Corporate-Governance

The committee's principle responsibilities are:

- review the integrity of the Company's financial reporting and oversee the independence of external auditors,
- review internal financial controls and financial risk management; and
- review risk management and internal controls and Company systems and processes.

Leigh Creek Energy's Directors' Report for each reporting period will contain a summary of the number of times the Audit and Risk Committee met during that period and each member's attendance record.

Recommendation 4.2

The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

Recommendation followed

In accordance with the requirements of section 295A of the *Corporations Act 2001*, before the Board approves Leigh Creek Energy's financial statements for a financial period, the Board ensures that it receives assurance from the Chief Executive Officer and Chief Financial Officer for that financial period that, in their opinion:

- Financial records have been properly maintained in accordance with section 286 of the Corporations Act.
- Financial statements and notes are in compliance with accounting standards as required by section 296 of the Corporations Act.
- Financial statements and notes give a true and fair view of the financial performance and position at balance date required by section 297 of the Corporations Act.
- Risk management and internal compliance and control systems are operating efficiently and effectively in all material respects.

Confirmation that the Board has received the assurance is set out in the statutory annual Directors'

Declaration.

Recommendation 4.3

A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.

Recommendation followed

Leigh Creek Energy requires the attendance of a representative of its external auditors at its AGM and encourages shareholders to attend and raise questions with the auditor's representative or directors.

Principle 5: Make timely and balanced disclosure

Recommendation 5.1

A listed entity should:

- (a) Have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and
- (b) disclose that code or a summary of it.

Recommendation followed

The Board's policy is to ensure strict compliance with the continuous disclosure regime to ensure that its obligations to disclose relevant information under the ASX Listing Rules and the Corporations Act 2001 (Cth) are met.

Board processes are structured to ensure all information particularly any that may be considered price sensitive is released in a timely manner, is factual and does not omit material information.

The Board's Continuous Disclosure Policy can be found at:

www.lcke.com.au/Investors/Corporate-Governance

Principle 6: Respect the rights of security holders

Recommendation 6.1

A listed entity should provide information about itself and its governance to investors via its website.

Recommendation followed

The Board seeks to ensure that shareholders are informed of all major developments affecting the Company's state of affairs.

In addition to communication through its statutory reporting obligations via:

- The Annual Report
- The Interim Report
- Quarterly cash flow and activities reports
- ASX disclosures

- Explanatory memorandum for AGM resolutions,

The Company uses its website (www.lcke.com.au), its Manager of Corporate and Investor Relations and external investor relations services to disseminate information as widely as possible.

Recommendation 6.2

A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.

Recommendation followed

Leigh Creek Energy has a Continuous Disclosure Policy that outlines the processes to be followed to ensure communication with shareholders and the investment community is effective, consistent and adheres to the principles of continuous disclosure. In addition, Leigh Creek Energy's senior executives, including the Manager of Corporate and Investor Relations, take on the responsibility of Investor Relations. External investor relations services are also currently engaged to facilitate effective two-way communication between the Company and shareholders.

Recommendation 6.3

A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.

Recommendation followed

The Company ensures that shareholders who are not able to attend the Company's annual general meeting are able to provide questions or comments ahead of the meeting. The Company encourages shareholders to communicate any queries or concerns directly with the Board and management.

Recommendation 6.4

A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.

Recommendation followed

Shareholders have the option to receive communications from, and to send communications to, Leigh Creek Energy and its share registry electronically. Shareholders have the option to receive the Annual Report electronically.

Principle 7: Recognise and manage risk

Recommendation 7.1

The board of a listed entity should:

- (a) have a committee or committees to oversee risk, each of which:
 - (i) has at least three members, a majority of whom are independent directors; and
 - (ii) is chaired by an independent director,and disclose:
 - (iv) the members of the committee; and

- (v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
- (b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.

Recommendation followed

The Board assumes ultimate responsibility for establishing the Company's risk profile focus and for ensuring management has developed and adequately reports against sound systems of risk control.

The Audit and Risk Committee is also responsible for risk management and must ensure that controls are in place to monitor all levels of management in the efficient and effective discharge of their responsibilities by the use of independent analysis, appraisals, advice and recommendations.

The composition of the Audit and Risk Committee, and a link to its charter which has been made available on Leigh Creek Energy's website, is set out in Recommendation 4.1 above.

Recommendation 7.2

The board or a committee of the board should:

- (a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and
- (b) disclose, in relation to each reporting period, whether such a review has taken place.

Recommendation followed

The Board regularly review's management's systems of risk control to ensure that they remain sound. However, the Company does not have a formal internal audit function. The Board considers that, given the size and nature of the Company, the flow of information between management and the Board allows the Board to continually evaluate and improve the effectiveness of the Company's risk management and internal control processes.

Leigh Creek Energy has adopted a Risk Management Policy which has been disclosed on Leigh Creek Energy's website at:

www.lcke.com.au/Investors/Corporate-Governance

That policy is regularly reviewed to ensure that it remains adequate.

Recommendation 7.3

A listed entity should disclose:

- (a) if it has an internal audit function, how the function is structured and what role it performs;
or
- (b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.

Recommendation followed

Leigh Creek Energy is committed to understanding and managing risk and to establishing an organisational culture that ensures risk management is included in all activities, decision making and business processes. The Company does not have a formal internal audit function due to its small size.

The Audit and Risk Committee meets at least three times a year to receive and consider reports on,

and monitor and discuss, known and emerging risk and compliance issues, including non-financial operational and other business risks.

The ongoing mitigation and management of key business risks is an item addressed by the Board as a whole at each board meeting through discussion, and it is an item of business on the agenda of the Audit and Risk Committee. Operational, financial, legal, compliance, strategic and reputational risks continue to be managed primarily by the Executive Chairman, the Managing Director and the Chief Financial Officer as a part of the day-to-day management of the Company's affairs. Where appropriate, these risks are managed with the support of relevant external professional advisers.

The Company undertakes an ongoing review of its safety and environmental risks and reports on this aspect to the Board on a monthly basis.

Recommendation 7.4

A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.

Recommendation followed

The Company has identified a number of risk categories and undertakes regular risk assessments to identify and manage any material exposures to economic, environmental and social sustainability risks.

Principle 8: Remunerate fairly and responsibly

Recommendation 8.1

The board of a listed entity should:

- (a) have a remuneration committee which:
 - (i) has at least three members, a majority of whom are independent directors; and
 - (ii) Is chaired by an independent director; and disclose
 - (iii) The charter of the committee
 - (iv) The members of the committee; and as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
- (b) If it does not have a remuneration committee, disclose that the fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.

Recommendation followed

The Board does not have a remuneration committee, as this role is undertaken by the Board.

The Board is of the opinion that it is not of a sufficient size to warrant a remuneration committee at this time. The role of setting remuneration levels for directors and senior executives is undertaken by the Board.

The remuneration of Non-Executive Directors is set by reference to an aggregate cap approved by shareholders from time to time at the annual general meeting. The contribution of each Non-Executive Director is taken into account in arriving at individual remuneration levels having regard for reasonable and competitive market rates.

The performance of Executive Directors, when such office is held, is reviewed by the Board in establishing the remuneration of such persons, with the exclusion of the Executive concerned from those deliberations.

External advice is sought on remuneration matters when deemed necessary to ensure that the remuneration of Directors and Executive Management is appropriate and not excessive.

The details of remuneration of Directors and Senior Management during each reporting period are set out in the statutory Directors' Report.

Recommendation 8.2

A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.

Recommendation followed

Leigh Creek Energy's policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives is set out in the Remuneration Report contained in the Leigh Creek Energy Annual Report. A copy of the Leigh Creek Energy's Annual Report is located on the Company's website.

Recommendation 8.3

A listed entity which has an equity-based remuneration scheme should:

- (a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and
- (b) disclose that policy or a summary of it.

Recommendation followed

Leigh Creek Energy has an equity-based remuneration scheme. The Leigh Creek Energy Securities Trading Policy provides that participants in the scheme must not enter into any transaction which would have the effect of hedging or otherwise transferring to any other person the risk of any fluctuation in the value of any unvested equity interest. The Securities Trading Policy is located on the Leigh Creek Energy web site at www.lcke.com.au/Investors/Corporate-Governance