



## **CORPORATE GOVERNANCE STATEMENT**

In fulfilling its obligations and responsibilities to its various stakeholders, the Board of Lucapa Diamond Company Limited is a strong advocate of good corporate governance. The Board has adopted corporate governance policies and practices consistent with the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations" (Recommendations) where considered appropriate for a Company of Lucapa's size and complexity.

The 3rd edition of the ASX Corporate Governance Principles and Recommendations was introduced on 27 March 2014 and took effect for a listed entity's first full financial year ending on or after 1 July 2014. Accordingly, this Corporate Governance Statement has been prepared on the basis of disclosure under the 3rd edition of these principles. Details of the Company's compliance with these principles are summarised in the Appendix 4G announced to ASX in conjunction with the Annual Report.

This statement describes how Lucapa has addressed the Council's guidelines and eight corporate governance principles and where the Company's corporate governance practices depart from the Recommendations, the Company discloses the reason for adoption of its own practices on an "if not, why not" basis.

Given the size and development nature of the Group and the cost of strict compliance with all the Recommendations, the Board has adopted a range of modified procedures and practices which it considers appropriate to enable it to meet the principles of good corporate governance. At the end of this statement is a checklist setting out the Recommendations with which the Company does or does not comply. The information in this statement is current as at 25 March 2019.

The following governance-related documents can be found on the Company's website at [www.lucapa.com.au](http://www.lucapa.com.au) under the section marked "Corporate Governance".

### **Charters**

- Board

### **Policies and Procedures**

- Code of Conduct
- Policy and Procedure for Selection and (Re)Appointment of Directors
- Policy on Assessing the Independence of Directors
- Securities Trading Policy
- Risk Management Policy
- Procedure for the Selection, Appointment and Rotation of External Auditor
- Policy on Continuous Disclosure
- Shareholder Communication Policy
- Diversity Policy

### **Principle 1 - Lay solid foundations for management and oversight - role and responsibilities of the Board and Management**

The main function of the Board is to lead and oversee the management and strategic direction of the Group. The Board regularly measures the performance of management in implementation of the strategy through regular Board meetings.

Lucapa has adopted a formal Board charter delineating the roles, responsibilities, practices and expectations of the Board collectively, the individual directors and management.

The Board of Lucapa ensures that each member understands their roles and responsibilities and ensures regular meetings so as to retain full and effective control of the Company.



## **Role of the Board**

The Board responsibilities are as follows:

- Setting the strategic aims of Lucapa and overseeing management's performance within that framework;
- Making sure that the necessary resources (financial and human) are available to the Group and management to meet its objectives;
- Overseeing and measuring management's performance of the Company's strategic plan;
- Selecting and appointing a Managing Director with the appropriate experience and skills to help the Group in the pursuit of its objectives;
- Controlling and approving financial reporting, capital structures and material contracts;
- Ensuring that a sound system of risk management and internal controls is in place;
- Setting the Company's values and standards;
- Undertaking regular review of the corporate governance policies to ensure adherence to the ASX Corporate Governance Council principles;
- Ensuring that the Company's obligations to shareholders are understood and met;
- Ensuring the health, safety and well-being of employees in conjunction with management, developing, overseeing and reviewing the effectiveness of the Group's occupational health and safety systems to assure the well-being of all employees;
- Ensuring an adequate system is in place for the proper delegation of duties for the effective day to day running of the Group without the Board losing sight of the direction that the Group is taking;
- Establishing a diversity policy and setting objectives for achieving diversity.

## **Delegation to Management**

Other than matters specifically reserved for the Board, responsibility for the operation and administration of the Company has been delegated to the Managing Director. This responsibility is subject to an approved delegation of authority which is reviewed regularly and at least annually.

Internal control processes are designed to allow management to operate within the parameters approved by the Board and the Managing Director cannot commit the Group to additional activities or obligations in excess of these delegated authorities without specific approval of the Board.

## **Election of Directors**

The Board is responsible for overseeing the selection process of new directors, and undertakes appropriate checks before appointing a new director, or putting forward a candidate for election as a director. All relevant information is to be provided in the Notice of Meeting seeking the election or re-election of a director including:

- Biographical details including qualifications and experience;
- Other directorships and material interests;
- Term of office;
- Statement by the Board on independence of the director;
- Statement by the Board as to whether it supports the election or re-election; and
- Any other material information.

## **Terms of appointment**

Non-Executive Directors

To facilitate a clear understanding of roles and responsibilities all non-executive directors have signed letter of appointment. This letter of appointment letter includes acknowledgement of:

- Director responsibilities under the Corporations Act, Listing Rules, the Company's Constitution and other applicable laws;
- Corporate governance processes and Group policies;
- Board and Board committee meeting obligations;
- Conflicts and confidentiality procedures;
- Securities trading and required disclosures;
- Access to independent advice and employees;
- Confidentiality obligations;
- Directors fees;



- Expenses reimbursement;
- Directors and officers insurance arrangements;
- Other directorships and time commitments; and
- Board performance review.

#### Executive Directors

The Executive Directors have a signed executive services agreement. For further information refer to the Remuneration Report.

#### Role of Company Secretary

The Company Secretary is accountable to the Board for:

- Advising the Board and committees on corporate governance matters;
- The completion and distribution of Board and committee papers;
- Completion of Board and committee minutes; and
- The facilitation of director induction processes and ongoing professional development of directors.

All directors have access to the Company Secretary who has a direct reporting line to the Chairman.

#### Diversity

The Board values diversity in all aspects of its business and is committed to creating a working environment that recognises and utilizes the contribution of its employees. The purpose of this is to provide diversity and equality relating to all employment matters. The Group's policy is to recruit and manage on the basis of experience, ability and qualification for the position and performance, irrespective of gender, age, marital status, sexuality, nationality, race/cultural background, religious or political opinions, family responsibilities or disability. The Group opposes all forms of unlawful and unfair discrimination.

The Board comprises four directors, all of whom are male. The Board has determined that the composition of the current Board represents the best mix of directors that have an appropriate range of qualifications and expertise in the jurisdictions in which the Group operates, can understand and competently deal with current and emerging business issues and can effectively review and challenge the performance of management.

The Company has disclosed measurable diversity objectives for the current period in the Remuneration Report included in the Annual Report for the year ended 31 December 2018. The Group is continuing to assess and proactively monitor gender diversity at all levels of Lucapa's business and recognizes that it operates in a very competitive labour market where positions are sometimes difficult to fill. However, every candidate suitably qualified for a position has an equal opportunity of appointment regardless of gender, age, ethnicity or cultural background.

Gender representation	31 December 2018				31 December 2017			
	Female		Male		Female		Male	
	No	%	No	%	No	%	No	%
Board representation	-	-	4	100	-	-	5	100
Group representation	85	14.7	493	85.3	39	9.3	384	90.7

The Company, together with its subsidiaries and associates currently has 582 full-time employees of which 497 who are male and 85 who are female.



## **Performance review**

### Board and Board committees

A review of the Board's performance and effectiveness is conducted annually and the performance of individual directors is undertaken regularly. The Board has the discretion for these reviews to be conducted either independently or on a self-assessment basis.

The review focuses on:

- Strategic alignment and engagement;
- Board composition and structure;
- Processes and practices;
- Culture and dynamics; relationship with management; and
- Personal effectiveness.

A review of the Board's performance and effectiveness in respect of the year ended 31 December 2018 was conducted.

### Managing Director and senior executives

Performance evaluation of the Managing Director, senior executives and employees is undertaken annually through a performance appraisal process which involves reviewing and assessment of performance against agreed corporate objectives and individual key performance indicators and deliverables.

For further information refer to the Remuneration Report.

## **Retirement and rotation of directors**

Retirement and rotation of directors are governed by the Corporations Act 2001 and the Constitution of the Company. Each year, one third of directors must retire and may offer themselves for re-election. Any casual vacancy filled will be subject to shareholder vote at the next Annual General Meeting of the Company. It is intended that Mr Ross Stanley having been appointed since the 2018 Annual General meeting will retire and offer himself for re-election and Mr Nick Selby will stand for re-election by rotation at the Company's Annual General Meeting in May 2019.

## **Independent professional advice**

Each director of the Company or a controlled entity has the right to seek independent professional advice at the expense of the Company or the controlled entity. However prior approval of the Chairman is required which will not be unreasonably withheld.

## **Access to employees**

Directors have the right of access to any employee. Any employee shall report any breach of corporate governance principles or Company policies to the Chairman who shall remedy the breach. If the breach is not rectified to the satisfaction of the employee, they shall have the right to report any breach to an independent director without further reference to senior executives of the Company.

## **Directors' and officers' liability insurance**

Directors' and officers' liability insurance is maintained by the Company for the directors and senior executives at the Company's expense.

### Board meetings

The frequency of Board meetings and the extent of reporting from management at Board meetings are as follows:

- A minimum of four scheduled meetings are to be held per year;
- Other meetings will be held as required;
- Meetings can be held where practicable by electronic means;
- Information provided to the Board includes all material information related to the operations of the Group including exploration, development and production operations, budgets, forecasts, cash flows, funding requirements, investment and divestment proposals, business development activities, investor relations, financial accounts, taxation, external audits, internal controls, risk assessments, people and health, safety and environmental reports, statistics and new business;



- Once established, the Chairman of the appropriate Board committee will report to the subsequent Board meeting the outcomes of that meeting and the minutes of those committee meetings are also tabled.

The number of directors' meetings (including meetings of committees of directors where applicable) and the number of meetings attended by each of the directors of the Company during the financial year are set out in the Directors' Report.

### **Principle 2 - Structure the Board to add value - composition of the Board**

The names of the directors of the Company and their qualifications are set out in the section headed "Information on Directors" in the Director's Report.

The ASX Corporate Governance Council guidelines recommend that the Board should constitute of a majority of independent directors and that the Chairperson should be independent. The Board consists of four directors of whom one is considered independent, being Mr Miles Kennedy (Non-executive Chairman - appointed as a director on 12 September 2008 and served as Executive Director until 11 December 2014). The Board considers that whilst Mr Kennedy has served as a director for a long period, he remains independent from management and substantial shareholders and is therefore able to bring an independent judgement to bear on issues before the Board and to act in the best interests of the Company as a whole rather than in the interests of an individual shareholder or other party. Mr Ross Stanley (Non-Executive Director - appointed 26 July 2018) has a substantial shareholding in the company and therefore does not meet the criteria for an independent director. Mr Stephen Wetherall (appointed 13 October 2014) is Managing Director and therefore does not meet the criteria for an independent director due to his executive role. Mr Nick Selby (appointed 4 September 2017) is an Executive Director and therefore does not meet the criteria for an independent director due to his executive role.

#### **Board skills and experience**

The Company objective is to have an appropriate mix of experience and expertise on the Board and Committees so that the Board is able to effectively discharge its corporate governance and oversight responsibilities.

The composition of the Board has been structured so as to provide Lucapa with an adequate mix of directors with industry knowledge, technical, commercial, capital markets and financial skills together with integrity and judgment considered necessary to represent shareholders and fulfil the business objectives of the Group.

The Board comprises directors who each have extensive technical, financial, capital markets and commercial expertise. The Board will address the skills commensurate with the growth and development of the Group's activities to ensure those skill sets are complemented by additional industry expertise in the sector pursued as required.

This mix is described in the Board skills matrix as follows:

<b>SKILL</b>	<b>NUMBER OF DIRECTORS HOLDING THIS SKILL</b>
Resources industry experience	4
Diamond industry experience	3
Strategy	4
Mergers and acquisitions	4
Finance	4
Risk Management	4
Government relations	4
Capital projects; financing/project management	4
Sustainable development	4
Previous board experience	4
Governance	4
Policy	4
Executive leadership	4
Remuneration	4



### **Nomination of other Board members**

Membership of the Board of directors is reviewed on an on-going basis by the Chairperson of the Board to consider diversity and to determine if additional core strengths are required to be added to the Board in light of the nature of the Group's businesses and its objectives. The Board does not have a separate Nomination Committee and does not believe it is necessary in a Group of Lucapa's size.

### **Director induction and ongoing professional development**

The Company does not have a formal induction program for directors but does provide directors with an information pack detailing policies, corporate governance and various other corporate requirements of being a director of an ASX listed company. Due to the size and nature of the business, directors are expected to already possess a level of both industry, technical and commercial expertise before being considered for a directorship of the Company. Directors are provided with the opportunity to access employees of the business and any information as they require on the business including being given access to regular operational updates, industry news articles and publications where considered relevant.

## **Principle 3 - Promote ethical and responsible decision-making - Code of Conduct**

Directors, officers, employees and consultants to the Group are required to observe high standards of behaviour and business ethics in conducting business on behalf of the Group and they are required to maintain a reputation of integrity on the part of both the Group and themselves. The Group does not contract with or otherwise engage any person or party where it considers integrity may be compromised.

### **Conflicts of interest**

Directors are required to disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the director or the interests of any other party in so far as it affects the activities of the Group and to act in accordance with the Corporations Act if the conflict cannot be removed or if it persists. That involves taking no part in the decision making process or discussions where a conflict does arise.

### **Trading in Company securities**

Directors are required to make disclosure of any trading in the Company's shares. The Company policy in relation to share trading is that officers are prohibited to trade whilst in possession of unpublished price sensitive information concerning the Group or within a period of the release of results i.e. the blackout period. That is information which a reasonable person would expect to have a material effect on the price or value of the Company's shares. An officer must receive authority to acquire or sell shares with the directors or the Company Secretary prior to doing so to ensure that there is no price sensitive information of which that officer might not be aware. The undertaking of any trading in shares must be notified to the ASX.

## **Principle 4 - Safeguard integrity in financial reporting**

Lucapa has a financial reporting process which includes half year and full-year results which are signed off by the Board before they are released to the market.

The Board does not have a separate Audit Committee and does not believe it is necessary in a Group of Lucapa's size. Instead, the four Board members, who each have extensive commercial and financial expertise, manage the financial oversight as well as advise on the modification and maintenance of the Group's financial reporting, internal control structure, external audit functions, and appropriate ethical standards for the management of the Group.

In discharging its oversight role, the Board is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Group and the authority to engage independent counsel and other advisers as it determines necessary to carry out its duties.

The Managing Director reports on the propriety of compliance on internal controls and reporting systems and ensures that they are working efficiently and effectively in all material respects.

The Company has established procedures for the selection, appointment and rotation of its external auditor. The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises. Candidates for the position of external auditor must demonstrate complete independence from the Company through the engagement period. The Board may otherwise select an external auditor based on criteria relevant to the Company's business and circumstances. The performance of the external auditor is reviewed on an annual basis by the Board.



The Company's external auditor attends each Annual General meeting and is available to answer questions from shareholders relevant to the conduct of the external audit, the preparation and content of the Auditor's Report, the accounting policies adopted by the Company and the independence of the auditor.

#### **Principle 5 - Make timely and balanced disclosure**

Lucapa has adopted a formal policy dealing with its disclosure responsibilities. The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with the ASX Listing Rules the Company immediately notifies the ASX of information:

- Concerning the Group that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
- That would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

The policy also addresses the Company's obligations to prevent the creation of a false market in its securities. Lucapa ensures that all information necessary for investors to make an informed decision is also made available on its website.

The Managing Director has ultimate authority and responsibility for recommending market disclosure to the Board which, in practice, is exercised in conjunction with the Board and Company Secretary.

In addition, the Board will also consider whether there are any matters requiring continuous disclosure in respect of each and every item of business that it considers.

#### **Principle 6 - Respect the rights of shareholders**

The Board's fundamental responsibility to shareholders is to work towards meeting the Company's objectives so as to add value for them. The Board maintains an investor relation program which will inform shareholders of all major developments affecting the Group by:

- Preparing half yearly and yearly financial reports;
- Preparing quarterly cash flow reports and reports as to activities;
- Making announcements in accordance with the listing rules and the continuous disclosure obligations;
- Posting all of the above on the Company's website;
- Annually, and more regularly if required, holding a general meeting of shareholders and forwarding to them the annual report, if requested, together with notice of meeting and proxy form; and
- Voluntarily releasing other information which it believes is in the interest of shareholders.

The Annual General Meeting enables shareholders to discuss the annual report and participate in the meetings either by attendance or by written communication. The Company provides all shareholders with a Notice of Meeting so they can be fully informed and be able to vote on all resolutions at the Annual General Meeting. Shareholders are able to discuss any matter with the directors and/or the auditor of the Company who is also invited to attend the Annual General Meeting.

Shareholders have the option to receive all Company and share registry communications electronically and may also communicate with the Company by emailing the Company via its website. All shareholders have the ability to request copies of ASX releases, all of which are published and available on the Company's website immediately after they are released to ASX.

The Company regularly reviews its stakeholder communication policy and endeavours to maintain a program appropriate for a company of its size and complexity.

#### **Principle 7 - Recognise and manage risk**

The Board has adopted a Risk Management Policy, which sets out the Group's risk profile. Under the policy, the Board is responsible for approving the Group's policies on risk oversight and management and satisfying itself that management has developed and implemented a sound system of risk management and internal control.

Under the policy, the Board delegate's day-to-day management of risk to the Managing Director, who is responsible for identifying, assessing, monitoring and managing risks with the Executive. The Executive is also



responsible for updating the Group's material business risks to reflect any material changes, with the approval of the Board.

In fulfilling the duties of risk management, the Executive has unrestricted access to Group employees, contractors and records and may obtain independent expert advice on any matter they believe appropriate.

The Board does not have a separate Risk Management Committee as the Board monitors and reviews the integrity of financial reporting and the Group's internal financial control systems. Management assess the effectiveness of the internal financial control on an annual basis and table concerns and recommendations at Board meetings were required.

In addition, the following risk management measures have been adopted by the Board to manage the Group's material business risks:

- Establishment of financial control procedures and authority limits for management;
- Approval of an annual budget;
- Adoption of a compliance procedure for the purpose of ensuring compliance with the Company's continuous disclosure obligations; and
- Adoption of a corporate governance manual which contains other policies to assist the Group to establish and maintain its governance practices;
- Compilation, maintenance and review of a risk register to identify the Group's material business risks and risk management strategies for these risks. The risk register is reviewed half yearly and updated as required. The Executive reports to the Board on material business risks at each Board meeting.

The Board has required the Executive to design, implement and maintain risk management and internal control systems to manage the material business risks of the Group. The Board also requires management to report to it confirming that those risks are being managed effectively.

The Chief Financial Officer has provided a declaration to the Board in accordance with section 295A of the Corporations Act and has assured the Board that such declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial risks.

### **Internal Audit**

The Group does not have an internal audit function as the Board believes the business is neither the size nor complexity that requires such a function. The Board is currently responsible for monitoring the effectiveness of internal controls, risk management procedures and governance.

### **Sustainability risks**

The Group has a detailed risk matrix which it regularly reviews and which highlights critical risk factors the Group faces at any particular time. The principal risks highlighted are what would typically be expected for a small listed mining and exploration company and include;

- Reliance on key executives;
- Inability to access new exploration and development capital;
- Unsuccessful mining operations or exploration results;
- Exposure to other operators, be it through Joint Venture agreements or actions of those operators in an operational sense;
- Legislature changes in the jurisdiction the Group operates in.

As the Group expands its activities either within existing projects or with the addition of new projects, it is expected that the sustainability risks will change accordingly. The Board reviews the overall sustainability of both the diamond business and more specifically, the Group, in its normal course of business and therefore does not produce a separate sustainability report.

### **Principle 8 - Remunerate fairly and responsibly**

The Company does not have a Remuneration Committee. Instead, the Board monitors and reviews the remuneration policy of the Group. The Board does engage an independent remuneration consultant to review the Group's policy on remuneration as and when required.

Details of the remuneration policy are contained in the Remuneration Report included in the Directors' Report. The Company's policy is to remunerate non-executive directors at a fixed fee for time, commitment and



responsibilities. Remuneration for non-executive directors is not linked to individual performance. The Company may grant options and performance rights to non-executive directors. The grant of options and performance is designed to recognise and reward efforts as well as to provide non-executive directors with additional incentive to continue those efforts for the benefit of the Group.

The maximum aggregate amount of fees (including superannuation payments) that can be paid to non-executive directors is subject to approval by the shareholders at general meeting.

Pay and rewards for executive directors and senior executives consists of a base salary, performance and retention incentives. Medium and long term performance incentives may include options and/or performance rights granted at the discretion of the Board and subject to obtaining the relevant approvals. The grant of options and/or performance rights is designed to recognise and reward efforts as well as to provide additional incentives and retentions and may be subject to the successful completion of performance hurdles. Executives are offered a competitive level of base pay at market rates (for comparable companies and industry) and are reviewed annually to ensure market competitiveness. The Company's policy is not to allow transactions in associated products which limit the risk of participating in unvested elements of equity-based compensation plans.

There are currently no termination or retirement benefits for non-executive directors (other than for superannuation).