

## Corporate Governance Statement

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### Introduction

Papyrus Australia Limited (the Company) and the Board are committed to achieving and demonstrating the highest standards of corporate governance. The Board continues to review the framework and practices to ensure they meet the interests of shareholders. The Company and its controlled entities together are referred to as the Group in this statement.

The Group details below the corporate governance practices in place at the end of the financial year, all of which comply with the principles and recommendations of the ASX corporate governance council unless otherwise stated. Some of the charters and policies that form the basis of the corporate governance practices of the Group may be located on the Group's website, <http://www.papyrusaustralia.com.au/>

On 27 March 2014, the ASX Corporate Governance Council released the 3rd Edition of its Corporate Governance Principles and Recommendations (3rd Edition Recommendations). The Group reviewed its corporate governance and reporting practices under these principles and the disclosures in this Corporate Governance Statement reflect this. As at the date of this statement, the Group complies with the 3rd Edition Recommendations (unless otherwise stated).

### Principle 1: Lay solid foundations for management and oversight

The relationship between the Board and senior management is critical to the Group's long-term success. The Directors are responsible to the shareholders for the performance of the group in both the short and the longer term and seek to balance objectives in the best interests of the group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

The responsibilities of the Board include:

- providing strategic guidance to the Group including contributing to the development of and approving the corporate strategy;
- reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives;
- overseeing and monitoring the organisational performance and the achievement of the Group's strategic goals and objectives;
- monitoring financial performance including approval of the annual and half-year financial reports and liaison with the Company's auditors;
- appointment and performance assessment of the Managing Director (MD);
- ratifying the appointment and/or removal and contributing to the performance assessment for the members of the senior management team, including the Company Secretary;
- ensuring there are effective management processes in place and approving major corporate initiatives;
- enhancing and protecting the reputation of the organisation;
- overseeing the operation of the Group's system for compliance and risk management reporting to shareholders; and
- ensuring appropriate resources are available to senior management.

Due to the size of the Company, the day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are managed by the Board.

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The Board has not publicly disclosed a statement of matters reserved for the Board, or the Board charter. Given the size of the Company at this time, the Board does not consider the formation of a Board charter necessary.

The Board is presently responsible for evaluating Board candidates and recommending individuals for appointment to the Board. The Board evaluates prospective candidates against a range of criteria including the skills, experience, expertise and diversity that will best complement Board effectiveness at the time. The Board undertakes appropriate background and screening checks prior to nominating a director for election by shareholders, and provides to shareholders all material information in its possession concerning the director standing for election or re-election in the explanatory notes accompanying the notice of meeting.

A written agreement has not been executed with each director setting out the terms of their appointment; therefore the Group does not comply with recommendation 1.3 of the Corporate Governance Principles and Recommendations. The Company believes that due to their size and nature of operations that this is acceptable, however will ensure written agreements are executed with future directors and senior executives.

The Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board. The Company Secretary is responsible for maintaining the information systems and processes that are appropriate for the Board to fulfil its role and to achieve the objective of the Company. The Company Secretary is also responsible for ensuring that the Board procedures are complied with and advising the Board on governance matters. All Directors and Committees have access to the Company Secretary for advice and services. Independent advisory services are retained by the Company Secretary at the request of the Board or Committees.

The Company does not have a diversity policy, which formally documents the principles and commitment in relation to maintaining a diverse group of employees within the Company, and therefore has not complied with recommendation 1.5(b) of the Corporate Governance Principles and Recommendations. However the Board continually assesses the composition of the Board. The Company believes this to be appropriate at this time, but notes it uses diversity as a driver for staff recruitment.

The total proportion of men and women on the board, in senior positions (being Key Management Personal and decision makers of the Company) and across the whole organisation is listed below:

Category	Men	Women
Board	4	-
Senior Management	1	-
Whole Organisation	5	-

The Group has not disclosed in this Corporate Governance Statement its measurable objectives for achieving gender diversity and therefore has not complied with recommendation 1.5(a) of the Corporate Governance Principles and Recommendations. Due to the size of the Company and its number of employees, the Board does not consider it appropriate, at this time, to formally set measurable objectives for gender diversity.

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The Board will at least annually evaluate its performance and the performance of its committees and individual directors to determine whether or not it is functioning effectively by reference to the current best practices. The Board continually evaluates the composition of the Board, however a formal evaluation of its performance and the performance of its committees and individual directors is yet to be conducted. Due to the size of the Company, the Board has determined that this is appropriate at Company's stage to date, however it does recognise that ongoing performance evaluation is important to ensure that the Board, committees and individual director's remain relevant and committed to the Company's business operations and changing business requirements. At the date of this report, the Company has not complied with recommendation 1.6(b) of the Corporate Governance Principles and Recommendations.

The Group currently has no senior executives and therefore has no formal process for evaluating the performance of its senior executives.

### Principle 2: Structure the board to add value

The Board has not established a nomination committee, and thus not complied with recommendation 2.1(a) of the Corporate Governance Principles and Recommendations. The Directors takes ultimate responsibility in addressing board succession issues and to ensure the Board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively. The Board closely assesses diversity criteria when considering Board candidates.

The Group's desired mix of skills and competence is listed below. The Board considers its current composition adequately meets these required competencies.

Area	Competence
<i>Leadership</i>	Business Leadership, Public Listed Company Experience
<i>Business, Finance and Legal</i>	Accounting, Audit, Business Strategy, Competitive Business Analysis, Corporate Financing, Financial Literacy, Legal, Mergers and Acquisitions, Risk Management, Tax – International
<i>Sustainability and Stakeholder Management</i>	Community Relations, Corporate Governance, Health & Safety, Human Resources, Remuneration
<i>Engineering and Technical</i>	Engineering qualifications

At the date of this statement the Board consists of the following directors:

Mr Edward Byrt, Non-Executive Chairman (appointed 02 December 2004)

Mr Ramy Azer, Managing Director (appointed 08 September 2004)

Mr Vincent Rigano, Non-Executive Director/Company Secretary (appointed 27 November 2013)

Mr Andrew Ford, Non-Executive Director (appointed 27 November 2013)

The Board considers this to be an appropriate composition given the size and development of the Group at the present time and continually assesses the composition of the Board to ensure its membership maintains a combination of skills and experience that ensure the Board has the expertise to meet both its responsibilities to stakeholders and its strategic objectives. The names of directors including details of their qualifications and experience are set out in the Directors' Report of the Annual Report and also available on the Company's website:

[www.papirusaustralia.com.au](http://www.papirusaustralia.com.au)

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### *Independence*

The Board is conscious of the need for independence and ensures that where a conflict of interest may arise, the relevant Director(s) leave the meeting to ensure a full and frank discussion of the matter(s) under consideration by the rest of the Board. Those Directors who have interests in specific transactions or potential transactions do not receive Board papers related to those transactions or potential transactions, do not participate in any part of a Directors' meeting which considers those transactions or potential transactions, are not involved in the decision making process in respect of those transactions or potential transactions, and are asked not to discuss those transactions or potential transactions with other Directors.

Directors of the Company are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

The Board has accepted the following definition of an independent Director:

"An independent director is a director who is not a member of management, is a Non-Executive Director and who:

- is not, or has not been, employed in an executive capacity by the Group and there has been a period of at least three years between ceasing such employment and serving on the Board;
- is not, or has not within the last three years been, a partner, director or senior employee of a provider of material professional services to the Group;
- is not, or has not within the last three years been, in a material business relationship (eg as a supplier or customer) with the Group, or an officer or, or otherwise associated with, someone with such a relationship;
- is not a substantial security holder of the entity or an officer of, or otherwise associated with, a substantial security holder of the entity;
- does not have a material contractual relationship with the Group other than as a director; or
- has not been a director of the entity for such a period that his or her independence may have been compromised."

Mr Vincent Rigano and Mr Andrew Ford are Non-Executive Directors and have no other material relationships with the Group other than their directorships. The Group therefore has two independent directors during the year as those relationships are defined.

The Board considers its current structure to be an appropriate composition of the required skills and experience, given the experience of the individual Directors and the size and development of the Company at the present time. Each individual member of the Board is satisfied that whilst the Company may not comply with Recommendation 2.4, all Directors bring an independent judgment to bear on Board decisions.

The Company's Chairman, Mr Edward Byrt is not an independent director, due to his shareholding, but he does not fulfil the role of CEO. The Company therefore has not complied with recommendation 2.5 of the Corporate Governance Principles and Recommendations. The Company believes this to be appropriate at this time given the size and nature of the Company's operations, but will continue to consider the composition of the board in the future.

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The Company does not maintain a formal program for inducting new Directors, however the Company Secretary ensures all new directors receive adequate information and documentation on appointment. The Company also ensures that appropriate professional development opportunities are provided to directors to ensure they develop and maintain the skills and knowledge needed to perform their role as directors effectively.

### **Principle 3: Act ethically and responsibly**

The Company has developed a Code of conduct (the Code) which has been fully endorsed by the Board and applies to all directors and employees. The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the group's integrity and to take into account legal obligations and reasonable expectations of the Company's stakeholders.

In summary, the Code requires that at all times all Company personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and company policies.

### **Principle 4: Safeguard integrity in corporate reporting**

#### *Audit Committee (the Committee)*

The Committee consists of the following directors:

Mr Vincent Rigano (Committee Chair) (Non-Executive Director)

Mr Edward Byrt (Non-Executive Chairman)

Mr Andrew Ford (Non-Executive Director)

Ramy Azer (Managing Director)

Mr Vincent Rigano and Mrs Andrew Ford are independent members; the chair of the Committee is not the chair of the Board; however, the independent members do not comprise the majority of the Committee, therefore the Group does not comply with recommendation 4.1(a)(1) of the Corporate Governance Principles and Recommendations. As all four Directors are also members of the audit committee, and given the size of the Company, the Board deems the composition of the Committee appropriate at this time.

The relevant qualifications and experience of each of the members of the Committee can be found in the director profiles contained within the Company's Annual Report and on the Company's website at: [www.papyrusaustralia.com.au](http://www.papyrusaustralia.com.au). All members of the Audit Committee are financially literate and have an appropriate understanding of the industries in which the group operates.

The number of times the Committee met throughout the period and the individual attendance of the members at those meetings are outlined within the Annual Report.

The Audit Committee does not have a formal charter and has therefore not complied with recommendation 4.1(3) of the Corporate Governance Principles and Recommendations. The Board believes this is appropriate given the size of the Company and the composition of the Committee.

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The Audit Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

The Chairman and Company Secretary have certified to the Board that the financial statements are founded on a sound system of risk management and internal control and that the system is operating efficiently and effectively in all material respects. This declaration is provided to the Board before it approves the Company's financial statements for a financial period, and declares that in their opinion, the financial records of the Company 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.

### *External auditors*

The Company and Board Policy, is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. Grant Thornton Audit Pty Ltd ('Grant Thornton') was appointed as the external auditor at the Company's AGM in 2012. It is Grant Thornton's policy to rotate audit engagement partners on listed companies in accordance with the requirements of the Corporations Act 2001, which is generally after five years, subject to certain exceptions.

The amount of fees paid to the external auditors is provided in a note to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the Committee.

The external auditor will attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

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

#### *Continuous disclosure*

The Company has a policy that all the Company Shareholders and investors have equal access to the Company's information. The Board will ensure that all price sensitive information is disclosed to the ASX in accordance with the continuous disclosure requirements of the Corporations Act and the ASX Listing Rules.

The Company has not publicly disclosed a formal disclosure policy and therefore has not complied with recommendation 5.1 (a)&(b) of the Corporate Governance Principles and Recommendations. Given the size of the Company, the Board does not consider public disclosure to be appropriate. The Board takes ultimate responsibility for these matters.

The Company Secretary has been nominated as the person responsible for communications with the Australian Securities Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, shareholders, the media and the public.

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### **Principle 6: Respect the rights of security holders**

The Board strives to ensure that security holders are provided with sufficient information to assess the performance of the Group and its Directors and to make well-informed investment decisions. The Company provides all information about itself and its corporate governance via its website at: [www.papyrusaustralia.com.au](http://www.papyrusaustralia.com.au)

#### *Investors relations and member participation*

The Company does not have a formal shareholder communication policy which is not in compliance with recommendation 6.2 of the Corporate Governance Principles and Recommendations.

Shareholders are encouraged to participate at all Annual General Meetings and other General Meetings of the Company. Upon the despatch of any notice of meeting to Shareholders, the Company Secretary shall send out material with that notice of meeting stating that all Shareholders are encouraged to participate at the meeting. The meetings shall also be conducted to allow questions and feedback to the Board and management of the Company.

The Company aims to promote effective communication to and from shareholders. At this time Members of the Company cannot register to receive email notifications when an announcement is made by the Company to the ASX, which is a departure from recommendation 6.4 of the Corporate Governance Principles and Recommendations; however Members are encouraged to contact the company via their website or directly to the registered office. Members are also encouraged to register with the Company's share register to communicate electronically.

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

The Board has identified the significant areas of potential business and legal risk of the Company.

The identification, monitoring and, where appropriate, the reduction of significant risk to the Company is the responsibility of the Board. The Board has also established an Audit, Risk and Compliance Committee which addresses the risks to the Company.

The Board will review and monitor the parameters under which such risks will be managed. Management accounts will be prepared and reviewed at Board meetings. Budgets will be prepared and compared against actual results.

The Board is responsible for satisfying itself annually, or more frequently as required, that management has developed and implemented a sound system of risk management and internal control, a review took place during the reporting period.

The Company does not have an internal audit function due to the size and nature of the Group, however the Audit, Business Risk and Compliance Committee is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. They monitor the Company's risk management by overseeing management's actions in the evaluation, management, monitoring and reporting of material operational, financial, compliance and strategic risks. In providing this oversight, the Audit Committee and the Board:

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- reviews the framework and methodology for risk identification, the degree of risk the Company is willing to accept, the management of risk and the processes for auditing and evaluating the Company's risk management system;
- reviews group-wide objectives in the context of the abovementioned categories of corporate risk;
- reviews and, where necessary, approves guidelines and policies governing the identification, assessment and management of the Company's exposure to risk;
- reviews and approves the delegations of financial authorities and addresses any need to update these authorities on an annual basis, and
- reviews compliance with agreed policies.

The Committee recommends any actions it deems appropriate to the board for its consideration.

Management is responsible for designing, implementing and reporting on the adequacy of the Company's risk management and internal control system and has to report to the Board on the effectiveness of:

- the risk management and internal control system during the year, and
- the company's management of its material business risks.

### *Securities Trading Policy*

The Company has established a policy concerning trading in the Company's shares by the Company's officers, employees and contractors and consultants to the Company while engaged in work for the Company ("Representatives").

This policy provides that it is the responsibility of each Representative to ensure they do not breach the insider trading prohibition in the Corporations Act. Breaches of the insider trading prohibition will result in disciplinary action being taken by the Company.

Representatives must also obtain written consent from the Chairman (or, in the case of the Chairman, from the Board) prior to trading in the Company's securities.

Subject to these restrictions, the policy provides that Directors, the Company Secretary and employees of, or contractors to, the Company that have access to the Company's financial information or drilling results are permitted to trade in the Company's securities throughout the year except during the following periods:

- (a) the period between the end of the March and September quarters and the release of the Company's quarterly report to ASX for so long as the Company is required by the Listing Rules to lodge quarterly reports;
- (b) the period between the end of the June quarter and the release of the Company's annual report to ASX; and
- (c) the period between the end of the December quarter and the release of the Company's half year report to ASX.

In exceptional circumstances the Board may waive the requirements of the Share Trading Policy to allow Representatives to trade in the shares of the Company, provided to do so would not be illegal.



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Directors must advise the Company Secretary of changes to their shareholdings in the Company within two business days of the change.

The Securities Trading Policy can be viewed on the ASX announcements tab at [www.asx.com.au](http://www.asx.com.au).

### *Exposure to material economic, environmental and social sustainability risk*

The Company's policy is to identify and manage potential or apparent business, economic, environmental and social sustainability risks (if appropriate). The Company at present has not identified specific material risk exposure in these categories. Review of the Company's risk management policy is conducted at least annually and reports are continually created by management on the efficiency and effectiveness of the Company's risk management framework and associated internal compliance and control procedures.

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

The Chairman and the Directors are entitled to draw Directors fees and receive reimbursement of reasonable expenses for attendance at meetings. The Company is required to disclose in its annual report details of remuneration to Directors. The maximum aggregate annual remuneration which may be paid to Non-Executive Directors is \$300,000. This amount cannot be increased without Shareholder approval.

The Board has not established a Remuneration Committee, as given the size of the Group and number of employees, it is not considered that this is required at this time. The Board therefore fulfils the duties of the committee.

Every employee of the Group signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. The standard contract refers to a specific formal job description. This job description is reviewed by the remuneration committee on an annual basis and, where necessary, is revised in consultation with the relevant employee.

Further information on directors' and executives' remuneration, including principles used to determine remuneration, is set out in the directors' report under the heading 'Remuneration report' included within the Annual Report. In accordance with Group policy, participants in equity-based remuneration plans are not permitted to enter into any transactions that would limit the economic risk of options or other unvested entitlements.