

# Corporate Governance

Shield Mining Limited (“the Company”) has adopted comprehensive systems of control and accountability as the basis for the administration of corporate governance. The Board of the Company is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company’s needs, Australian Securities Exchange (“ASX”) and other statutory requirements. Full details of the Company’s corporate governance policies are set out on the Company’s website at [www.shieldmining.com](http://www.shieldmining.com). This information includes the following sections:

- Board and Management Charter;
- Nomination Committee Charter;
- Policy and Procedure for Selection and Appointment Of New Directors;
- Board Code of Conduct;
- Corporate Code of Conduct;
- Policy on Directors and Executives Dealing in Securities;
- Audit Committee Charter;
- Policy and Procedure for Selection of External Auditor and Rotation of Audit Engagement Partners;
- Policy on Continuous Disclosure Requirements;
- Insider Trading Policy for Employees;
- Shareholders Communication Policy;
- Risk Management Policy;
- Process for Performance Evaluation of the Board, Board Committees, Directors and Key Executives;
- Remuneration Committee Charter; and
- Remuneration Policy.

**A summary of the Company’s compliance with the ASX *Corporate Governance Principles and Recommendations (2<sup>nd</sup> edition)* is as follows:**

## **PRINCIPLE 1 – BOARD AND MANAGEMENT ROLES AND RESPONSIBILITIES**

The Company has formalised and disclosed the roles and responsibilities of the Board and those delegated to senior management in its Board Charter.

The responsibilities of the Board include determining and monitoring the objectives and strategic direction of Shield Mining, monitoring the performance of the Company and its senior executives, approving business plans and budgets, and developing and ensuring adherence to company policies. The Board is also responsible for compliance with the codes of conduct, overseeing risk management and internal controls, and the assessment, appointment and removal of the Chief Executive Officer, Company Secretary and other senior executives.



The senior management are responsible for the efficient and effective operation of the Company in accordance with the objectives, strategies and policies determined by the Board.

The Nomination Committee (or its equivalent) evaluates and advises the Board on the performance of the Managing Director. For the current year, this review has been postponed until after completion of the recent fundraising.

The Managing Director is responsible for evaluating the performance of senior management. These reviews have taken place progressively over the course of 2008-09.

## PRINCIPLE 2 – COMPOSITION OF THE BOARD

The Board of the Company currently consists of one executive and three non-executive directors. Details of the Company Directors, independence status, and their period of office are included in the Directors' Report. Shield Mining's Board composition follows the ASX recommendations, in that a majority of directors are independent, and the Company has an independent (non-executive) Chairman, being Mr Alexander Burns.

Mr Burns is a substantial shareholder in Shield Mining Limited as defined by section 9 of the *Corporations Act 2001*, holding 5.37% of issued capital as at 30 August 2009. The Board has assessed his independence and considers that he retains the status of an Independent Chair. The Board is of the opinion that the value of Mr Burns' shareholding is, on its own and in the absence of any other material contractual or commercial relationship, insufficient to necessitate a change in independence status given his personal circumstances.

Both Dr Schalk van der Merwe and Mr Robert (Bob) Cornelius are considered to be independent because their personal holdings in the company are small and they have no other material contractual or commercial relationship with the Company.

Mr David Netherway is the Managing Director/CEO of the company and, as such, is not considered independent.

Subject to the Chairman's approval, which is not to be unreasonably withheld, directors have the right, at the Company's expense, to obtain independent professional advice on issues arising in the course of their duties.

The Board assumes the responsibility of carrying out the functions of the Nomination Committee at the current time. The Company has adopted a Nomination Committee Charter establishing how the functions are to be performed in the absence of a separate committee.

The Board conducts an annual review of its performance, and the performance of Directors, the Chairman and any committees established, in accordance with the Nomination Committee function based upon the procedures set out in the charter. For the current year this review has been deferred until after completion of the recent fundraising.

The Company has a policy defining the procedure for the selection and appointment of new directors. Candidates for the Board are considered and selected by reference to a number of factors which include, but are not limited to, their relevant experience and achievements, compatibility with other Board members, credibility within the Company's scope of activities, and intellectual and physical ability to undertake Board duties and responsibilities. Directors are initially appointed by the full Board, subject to election by shareholders at the next general meeting.

### **PRINCIPLE 3 – CODE OF CONDUCT**

As reflected in its own Code of Conduct, the Board is responsible for developing the culture of the organisation, including the performance focus and the legal, ethical and moral conduct, to preserve and enhance Shield Mining's reputation in the mining industry, business generally and the broader community.

Shield Mining's adopted Corporate Code of Conduct requires that all employees are aware of, and comply with, legislation and policies applicable to their position. The Code also requires employees to avoid or ensure proper management of conflicts of interest, to not use confidential information for personal gain, and to generally operate in a fair, honest and open manner. In accordance with the Council's recommendation, Shield has established a securities trading policy identifying the circumstances in which share trading in the Company's securities by directors, senior managers and other employees is permitted, and specifying procedures to reduce the risk of insider trading.

The Company's policy is to make reasonable endeavours to ensure that it gives proper consideration to the impact on the environment of its activities, and that the Company observes its obligations in respect of environmental practices, and the health, safety and general well-being of its employees.

### **PRINCIPLE 4 – AUDIT MANAGEMENT**

The Board assumes the responsibility of carrying out the functions of the Audit Committee at the current time. The Company has adopted an Audit Committee Charter establishing how the functions are to be performed in the absence of a separate committee. During the year the full Board met twice to specifically consider matters under the Audit Committee Charter.

The Board has adopted a policy and procedure for selection of external auditor and rotation of audit engagement partners. The key criteria are:

**MANDATORY CRITERIA**

Candidates for the position of external auditor of the Company must be able to demonstrate complete independence from the Company and an ability to maintain independence through the engagement period. Furthermore, the successful candidate must have arrangements in place for the rotation of the audit engagement partner on a regular basis.

**OTHER CRITERIA**

Other than the mandatory criteria mentioned above, the Board may select an external auditor based on criteria relevant to the business of the Company, such as experience in the industry in which the Company operates, references, cost and any other matters deemed relevant by the Board.

The Board reviews the performance of the external auditor on an annual basis.

**PRINCIPLE 5 – ASX LISTING RULE COMPLIANCE AND CONTINUOUS DISCLOSURE**

In order to ensure that the Company meets its obligations with regard to the continuous disclosure requirements, Shield Mining Limited has adopted a Continuous Disclosure Policy, and the implementation of the policy has been delegated to a specific market disclosure committee consisting of the Chief Executive Officer and the Company Secretary.

The policy sets out the Company's obligations and its policies and procedures to ensure timely and accurate disclosure of price-sensitive information to the market.

The Company also has policies in place to ensure integrity in financial reporting. The Managing Director and Chief Financial Officer provide the Board with a written statement that Shield Mining's half-year and annual financial statements present a true and fair view in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.

**PRINCIPLE 6 – SHAREHOLDER COMMUNICATION**

Shield Mining endeavours to provide shareholders with important information on the Company in a timely and efficient manner. The Company has continued to increase and improve the information available to shareholders on its website and has adopted a Shareholder Communications Policy to promote effective communication with shareholders and formalise the necessary practices.

Shareholders are informed of the activities of the Company through its Quarterly Report, Annual Report, and other market disclosures made in the spirit of ASX listing rule 3.1. Shareholders are also actively encouraged to attend Shield Mining's Annual General Meeting. The Company's auditor is required to attend its Annual General Meeting.

## PRINCIPLE 7 – RISK MANAGEMENT

The Board has established a Risk Management Policy designed to ensure that material business risks are identified, assessed, addressed and monitored to help the Company achieve its business objectives.

Material business risks are reviewed at least annually as part of the annual strategic planning, forecasting and budgeting process, and are subject to review on an ongoing basis. Aside from the overriding risks relating to exploration success, the material business risks have been identified as commodity price, financial markets, treasury management, exchange rate fluctuations, political instability/sovereign risk in Mauritania, and general operational risks in the exploration industry.

For the current reporting period, the Company had informal internal compliance and control systems to monitor these material business risks. The finance department completed detailed internal control questionnaires on a six-monthly basis and these were reviewed by the external auditors as part of the half-yearly reporting to the market. The Company Secretary also oversees a detailed compliance process on an ongoing basis to ensure the Company meets its regulatory obligations.

The Company has begun to formalise and document its system for managing material business risks. This system will include a risk register that identifies, rates, prioritises and delegates the Company's material business risks. The Company expects to have this documented system finalised and progressively implemented over the forthcoming reporting period.

The categories of risk specifically reported on in the Annual Report are credit risk, liquidity risk, market risk, currency risk and interest rate risk.

The directors of the Company have been given the declarations from the Chief Executive Officer and the Chief Financial Officer required by S295A of the *Corporations Act 2001* and have received assurances that these declarations are founded on sound systems of risk management and internal control and that these systems are operating effectively in relation to all material financial risks.

## PRINCIPLE 8 – PERFORMANCE AND REMUNERATION

The Board assumes the responsibility of carrying out the functions of the Remuneration Committee at the current time. The Company has adopted a Remuneration Committee Charter establishing how the functions are to be performed in the absence of a separate committee.

Remuneration details are disclosed separately in the Directors' Report. There is no variable component in the remuneration for executives or for non-executive directors at this time. There are no schemes for retirement benefits other than superannuation in existence.

### EXPLANATION OF DEPARTURES FROM ASX BEST PRACTICE RECOMMENDATIONS

During the July 2008 to June 2009 Reporting Period, the Company has effectively complied with each of the Eight Essential Corporate Governance Principles and the corresponding Best Practice Recommendations as published by the ASX Corporate Council ("ASX Principles and Recommendations"), other than in relation to the matters specified below.

REFERENCE	NOTIFICATION OF DEPARTURE	EXPLANATION FOR DEPARTURE
2	2.4 A separate Nomination Committee has not been formed.	The role of the Nomination Committee is carried out by the full Board. The Board has adopted a Nomination Committee Charter which formalises the function of the Board when considering matters within the role of a Nomination Committee.
4	4.2, 4.3 A separate Audit Committee has not been formed.	Given that Shield is a junior exploration company there are limited accounting issues and that is unlikely to change substantially in the short term. Accordingly, the role of the Audit Committee is carried out by the full Board. The Board has adopted an Audit Committee Charter which formalises the function of the Board when considering matters within the role of an Audit Committee.
9	9.2 A separate Remuneration Committee has not been formed.	The role of Remuneration Committee is carried out by the full Board. The Board has adopted a Remuneration Committee Charter which formalises the function of the Board when considering matters within the role of a Remuneration Committee.