

## CORPORATE GOVERNANCE STATEMENT For the year ended 31 December 2021

### INTRODUCTION

The Board of Los Cerros Limited (**Los Cerros** or the **Company**) is committed to conducting the business of Los Cerros and entities it controls both ethically and in accordance with principles of good corporate governance. The Board recognises the importance of the eight core principles contained in the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (4<sup>th</sup> Edition, released in February 2019) ("ASX Principles").

The Company's practices are largely consistent with the ASX Principles. The Board considers that the implementation of a small number of ASX Principles, at this time, is not appropriate for the reasons set out below in relation to the items concerned. The Board uses its best endeavours to ensure that exceptions to the ASX Principles do not have a negative impact on the Company and the best interests of shareholders as a whole.

As required by the ASX Listing Rules, this Corporate Governance Statement (CGS) discloses the extent to which Los Cerros has followed the ASX Principles during the financial year ended 31 December 2021, as summarised below.

Los Cerros has also prepared an "ASX Appendix 4G - Key to Disclosures", which reports on the Company's compliance with each of the ASX Principles. This has been lodged with the CGS on the ASX and may be viewed and downloaded from the Company's website.

Additional information about the Company's corporate governance practices and policies is set out on the Company's website at [www.loscerros.com.au](http://www.loscerros.com.au).

The names of the Non-Executive Directors currently in office and their qualifications and experience are stated in the Company's Annual Report for the year ended 31 December 2021.

### **1. Lay solid foundations for management and oversight (ASX Principle 1)**

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#### **1.1 Board Role and Responsibilities**

The Board's primary role is to set the Company's values, direction, strategies and financial objectives and to ensure effective monitoring of corporate performance, capabilities and management of risk consistent with creating shareholder value and maintaining effective corporate governance. The Board is also responsible for the appointment, and for monitoring the performance, of the Managing Director.

The Board operates in accordance with the Company's Constitution and has adopted a Board charter which outlines a framework for the Board's operation, the matters reserved to the Board and the functions delegated to management. The charter is available on the Company's website.

#### **1.2 & 1.3 Management Role and Responsibilities**

Responsibility for the operation and administration of the Company and the implementation of the corporate strategy and budgets approved by the Board is formally delegated by the Board to the Managing Director, who is supported by a small team of executives. The performance of the Managing Director is formally reviewed annually and includes agreement on key performance measures for the following year.

Newly appointed directors and executives receive formal contracts describing their terms of appointment, duties, rights and responsibilities.

#### **1.4 Company Secretary**

The Company Secretary is accountable directly to the Board, through the Chairman or, in his absence, the other board members, on all matters to do with the proper functioning of the Board.

## **1.5 Diversity**

The Board has adopted a Diversity Policy, which is available on the Company's website. This policy affirms the Board's commitment to workplace diversity for the Company (including gender diversity).

The Board set a target of at least 25% of the workforce to be female and 25% of direct reports to the CEO to be female in 2021. These targets were met.

There are no female members of the Board at the date of this report.

If a vacancy arises or the Board is expanded in future, the Board will consider a diverse range of candidates who will be assessed on merit based on their judgment, skills, experience with business and other organisations of a comparable size, the interplay of the candidate's experience with the experience of other Board members and the extent to which the candidate would be a desirable addition to the Board and its committees.

## **1.6 & 1.7 Performance Evaluation**

The Board periodically undertakes an annual performance evaluation process led by the Chairman. The review process typically involves all directors completing a questionnaire, which allows for additional comments or identification of any issues relating to the Board's or a committee's operation. The results of the review are confidentially summarised and distributed and then discussed with directors at a meeting of the Board. The purpose of the review is to assess the strengths and weaknesses of the Board and Committees and to identify areas that might be improved, which are addressed through an action plan.

No performance evaluations were conducted during the year however the Board intends to adopt the formal review process moving forward.

A review of the performance of the CEO was completed during the year and short-term goals are set each year as part of the Short-Term Incentive program.

## **2. Structure the Board to be effective and add value (ASX Principle 2)**

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### **2.1 Remuneration and Nomination Committee**

The Board does not have a Remuneration and Nomination ("R&N") Committee, this responsibility has been assumed by the Board given the size and scale of the Company. The Board, where required, completes a structured review on remuneration and nomination issues. The Board would resolve to make nominations of new directors and remuneration as needed.

The role and responsibilities of the R&N Committee now resides in the main Board. As a result, the Company did not meet Recommendation 8.1 of the ASX Principles insofar as the R&N Committee existence, nor did it comprise at least three independent members.

However, the Board does meet and consider issues as an R&N committee would, including forward looking discussions of the makeup of the Board, growth needs and succession issues. The Board has committed to add further members to the Board in 2022 with skills that take account of the current board skills makeup and the planned activities of the Company. The Board also plans to examine expected tenure as part of its planning and skills matrix review in 2022.

### **2.2 Board Composition and Expertise**

The Board comprises 3 directors and has the following composition: 2 non-executive directors and 1 executive director (the Managing Director). Details of the current directors of the Company, and the period for which each director has held office, are set out in the Directors' Report in the Company's 2020 Annual Report.

The Board aims to ensure that it has a mix of skills and capabilities among its members, including technical skills, business development experience and financial management experience. The

Board considers that the directors collectively bring the range of skills, knowledge and experience necessary to direct the Company. The size and composition of the Board, and its mix of skills and capabilities, is expected to change as the Company evolves.

Details of the skills, experience and expertise of the directors are set out in the Directors' Report in the Company's 2021 Annual Report.

The Board currently plans to increase the size of the Board and will employ the results of a matrix of skills review in seeking and evaluating candidates to join the Board.

### **2.3 to 2.5      *Director Independence***

The Board reviews the independence of directors in light of interests disclosed to the Board from time to time and at least once a year. A director is regarded as independent if that director is independent of management and free of 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 judgment. When determining the independent status of a director, the Board has regard to the existence of any of the relationships listed in Box 2.3 of the ASX Principles.

Mr Ross Ashton, who has served as director since 16 August 2019, has received incentive performance-based remuneration (including options and performance rights) and has participated in an employee incentive scheme of the Company, as disclosed in the Company's 2021 Annual Report. Mr Ashton is considered to be independent, given his level of experience to effectively manage any potential conflicts. Mr Kevin Wilson, who has served as director since 23 March 2018, is not regarded as independent under the guidelines in Principle 2, as he was an executive of the Company up until August 2019. Mr Jason Stirbinskis, who has served as director since 16 August 2019, is not considered independent as he is currently the Managing Director of Los Cerros.

Mr Ross Ashton, as an independent director, serves as Non-Executive Chairman, and hence the Company has met Recommendation 2.5 of the ASX Principles.

### **2.6      *Professional development for new and existing Directors***

The Board is responsible for reviewing and making recommendations to the Board with respect to succession planning for the Board, director induction programs and continuing development. The Board is also responsible for developing director induction programs that are undertaken by each new and existing director and reviewing the effectiveness of the induction program.

In accordance with the Board Charter, each director has the right to seek independent professional advice to assist them to carry out their duties as directors, at the expense of the Company, after consultation with the Chairman. No independent professional advice was sought during the financial year.

All directors also have direct access to the management of the Company, including the Company Secretary.

## **3.      *Instil a culture of acting lawfully, ethically and responsibly (ASX Principle 3)***

### **3.1      *Values***

The Board sets the core values and charge senior management with the responsibility of inculcating those values across the organisation.

### **3.2      *Code of Conduct***

The Board has adopted a Code of Conduct that sets the standard of ethical behaviour required of the Company's directors and employees. The Code of Conduct is available on the Company's website.

### **3.3 Whistleblower policy**

The Board has adopted a Whistleblower policy that encourages the reporting of any instances of suspected unethical, illegal, fraudulent, or undesirable conduct and provides protections and measures so that those persons who make a report may do so confidentially and without fear of intimidation or reprisal. The Whistleblower policy is available on the Company's website.

### **3.4 Anti-bribery and anti-corruption policy**

The Board has adopted Anti-bribery and anti-corruption policy that sets zero-tolerance approach to bribery and corruption and is committed to acting professionally, fairly and with integrity in all business dealings. The Anti-Bribery and anti-corruption policy is available on the Company's website.

## **4. Safeguard integrity in corporate reporting (ASX Principle 4)**

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### **4.1 Audit and Risk Committee**

As at the date of this report, the Board does not have an Audit and Risk Committee. This responsibility has been assumed by the Board given the size and scale of the Company.

The Board is aware of the processes for appointment and approval of auditors and has considered the issue of rotation of audit partners. It has noted in 2021 that the current audit partner has only been performing the audit for two years and that his firm has strict protocols on audit partner rotation.

### **4.2 Management Assurances in relation to Financial Reporting**

The Board has received statements in writing from the Managing Director and the Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act (that the financial records of the Company have been properly maintained, comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company) 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 reporting risks.

### **4.3 Integrity of released periodic corporate report not audited or reviewed by external auditors**

The Company is committed to providing clear, concise and accurate corporate reports so investors can make informed investment decisions. The Company ensures processes are in place in order to protect the integrity of the periodic corporate reports before it releases them to the market.

## **5. Make timely and balanced disclosure (ASX Principle 5)**

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### **5.1 Continuous Disclosure to ASX**

The Company has an obligation under the ASX Listing Rules to ensure that all investors have equal and timely access to factual, material information concerning the Company, presented in a clear and balanced way. The Company has a Continuous Disclosure Policy that includes procedures designed to ensure compliance with the ASX Listing Rules' disclosure requirements and to ensure accountability at senior executive level for the compliance. This policy is available on the Company's website.

## **5.2 Timely receipt of material ASX announcement by the Board**

The Board authorises all material market announcements before they are released to the market.

## **5.3 Disclosure of presentation materials on ASX platform ahead of presentation**

All slides and presentations used for briefings and analyst presentations are released and uploaded to ASX prior to the briefing to the market. Further details are set out in the Company's Continuous Disclosure Policy.

## **6. Respect the rights of security holders (ASX Principle 6)**

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### **6.1 & 6.5 Shareholder Communication**

The Board has adopted a Shareholder Communications Policy. This policy is available on the Company's website.

Mechanisms used by the Company for communicating with shareholders include:

- the Company's annual report, which is distributed to shareholders if they have elected to receive a printed version or is otherwise available for viewing and downloading from the Company's website;
- the Company's quarterly activities reports;
- the Company's half-year financial report;
- the Company's annual general meeting and other general meetings called to obtain shareholder approval for significant corporate actions, as appropriate;
- Company announcements;
- the Company's website; and
- direct email alerts of ASX releases and other information to shareholders and other interested parties who register their email address via the Company's website.

The Company provides information about itself and its governance to investors via its website. The Company posts all shareholder-related information and Company ASX announcements (other than disclosures of a routine compliance nature) on the Company's website in an accessible manner.

Shareholders may send communications to, and receive communications from, the Company and its share registry electronically. The contact email addresses for the Company and its share registry, Automic, are [info@loscerros.com.au](mailto:info@loscerros.com.au) and [hello@automicgroup.com.au](mailto:hello@automicgroup.com.au), respectively.

Shareholders may elect to receive Annual Reports and other shareholder communications electronically by contacting the Company's share registry.

The Company encourages shareholders to provide their email addresses, so that the Company can communicate important information electronically.

The Company has engaged an external investor relations agency to assist in communication with shareholders.

### **6.2 - 6.4 Shareholder Meetings**

A key forum for two-way communication between the Company and its shareholders is its annual general meetings. The Board encourages shareholders attending annual and other general meetings to ask questions of the directors regarding the Company's governance and business performance and, at the annual general meetings, of the external auditor regarding the conduct of the audit and the contents of the audit report. Shareholders who are unable to attend the annual or

other general meetings may submit questions and comments before the meeting to the Company and/or to the external auditor (in the case of annual general meetings).

In addition, the Company welcomes questions from shareholders at any time and these are answered promptly unless the information requested is market sensitive and not in the public domain.

All substantive resolutions which are voted on the AGM are decided by a poll, rather than by a show of hands, to enable all shareholders and proxyholders who cast their proxies to be included in the voting process.

## **7. Recognise and manage risk (ASX Principle 7)**

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The Board defines risk to be any event that, if it occurs, will have a material impact (whether financial or non-financial) on the Company's ability to achieve its objectives.

### **7.1 & 7.2 Risk Management Roles and Responsibilities**

The Board is responsible for overseeing the effectiveness of risk management systems. The Board has assumed the responsibilities of the Audit and Risk Committee in overseeing the Company's implementation of its risk management policies.

Day-to-day responsibility for risk oversight and management is delegated to the Managing Director, who is primarily responsible for identifying, monitoring and communicating risk events to the Board and responding to risk events.

Given the size of the Company, the implementation of the policies and practices outlined above and the existence of open channels of communication between the Board and management, the Board does not consider it necessary to have separate, stand-alone risk management and control systems designed by management which are reported to the Board.

The Board monitors, on an ongoing basis, whether the Company is operating within the Board's risk appetite. This is enabled by management's regular formal and informal reports to the Board in relation to material business risks, the Board's familiarity with the Company's operations and the Board's active involvement in determining the Company's strategic direction.

### **7.3 Internal Audit**

The Company does not have an independent internal audit function. Due to the nature and size of the Company's operations, the expense of an independent internal auditor is not considered to be appropriate.

The Board performs all key elements of an internal audit function, including evaluating and seeking reasonable assurance that risk management, control and governance systems are functioning as intended and will enable the Company's objectives and goals to be met. The Board delegates to the Managing Director the authority to implement any non-strategic amendments to risk management systems as required as a result of changed circumstances, or where the potential for improvement has been identified, reporting all such matters to the Board for consideration at its next meeting.

### **7.4 Environmental and Social Sustainability Risk**

The Board does not have a Safety, Health and Sustainability Committee and has assumed this responsibility.

The Board has ensured that strict protocols have been established for reporting and escalation of matters relating to the environment. At this early stage of the Company's development activities, which are focussed on exploration drilling, it is not considered there are significant environmental risks at this time.

The Company has exposure to social risks in Colombia. The Company prioritises social engagement and closely monitors the status of its social relationships. The Company has a social development plan which includes increasing social engagement and promotion in 2022.

## **8. Remunerate fairly and responsibly (ASX Principle 8)**

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### **8.1 Remuneration & Nomination Committee (“R&N”)**

Given there was no establishment of Remuneration and Nomination due to size of the Board, the Chairman will undertake the conduct of the performance review. An independent advisor may be engaged if necessary.

### **8.2 & 8.3 Structure of Non-Executive Director Remuneration and Executive Remuneration**

The structure of non-executive directors’ remuneration is distinguished from that of the chief executive and senior executives. The Board assesses the appropriateness of the nature and amount of emoluments on a periodic basis by reference to relevant market conditions and may take advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high-quality board and executive team.

For a two year period the Non-Executive had received Director Options in lieu of cash remuneration. During 2021, that two year period expired. Subsequently, the Non-Executive Directors have received cash based remuneration.

The senior executives of the Company are remunerated by way of a total salary package which includes a balance of fixed remuneration (including statutory superannuation) and performance-based remuneration in the form of cash bonuses, linked to short term performance targets and equity-based remuneration. The latter is in the form of allotments from the Company’s Long Term Incentive Plan of performance options or performance rights in the Company. These are offered in connection with long-term performance objectives determined by the Board to be appropriate to the Company’s circumstances and goals.

Further details about the 2021 remuneration of the Non-Executive Directors, the Non-Executive Chairman and other senior executives are set out in the Remuneration Report in the Company’s latest Annual Report.