

CORPORATE GOVERNANCE

Introduction

The Board of Directors of Discovery Metals Limited ('Company' or 'Discovery Metals') is responsible for establishing the corporate governance framework of the Company having regard to the ASX Corporate Governance Council (CGC) published guidelines as well as its corporate governance principles and recommendations. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

Various corporate governance practices are discussed within this statement. For further information on corporate governance policies adopted by the Company, refer to our website: www.discoverymetals.com/irm/content/aboutus_corpgovernance.html

The Company's corporate governance practices were in place throughout the year ended 30 June 2011, unless noted elsewhere within this report.

1. Board of Directors

The Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

To ensure that the Board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of directors and for the operation of the Board.

The responsibility for the operation and administration of the Company is delegated, by the Board, to the MD and the executive management team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the MD and the executive management team.

Whilst at all times the board retains full responsibility for guiding and monitoring the Company, in discharging its stewardship it makes use of subcommittees. Specialist committees are able to focus on a particular responsibility and provide informed feedback to the Board.

To this end the Board has established the following committees:

- Audit and Financial Risk; and
- Remuneration and Nomination.

The roles and responsibilities of these committees are discussed throughout this corporate governance statement.

A Board Charter has been adopted by the Board and primary responsibilities include:

- formulation and approval of the strategic direction, objectives and goals of the Company;
- monitoring the operational and financial position and performance of the Company, including approval of the Company's financial statements;
- requiring that financial and other reporting mechanisms are put in place which result in adequate, accurate and timely information being provided to the Board and the Company's shareholders and the financial market as a whole being fully informed of all material developments relating to the Company;
- ensuring that adequate internal control systems and procedures exist and that compliance with these systems and procedures is maintained;
- the identification of significant business risks and ensuring that such risks are adequately managed;
- appointment of the Managing Director and all direct executive reports, the review of their performance and remuneration;
- the establishment and maintenance of appropriate ethical standards; and
- reviewing and to the extent necessary, amending the Board and Committee Charters regularly.

Due to its size and structure, the board of directors is able to meet regularly throughout the year for management and formal Board meetings, as well as being in frequent communication by way of telephone to ensure compliance with ASX Listing Rule disclosure requirements.

The responsibility for the operation and administration of the Company is carried out by the Managing Director, who operates in an executive capacity, supported by senior professional staff. The Board ensures that this team is suitably qualified and experienced to discharge their responsibilities, and assesses on an ongoing basis the performance of the management team, to ensure that management's objectives and activities are aligned with the expectations and risks identified by the Board.

The current directors of the Company are as follows:

Mr Gordon Galt

- Chairman – Independent

Mr Brad Sampson

- Managing Director

Mr Morrice Cordiner

- Non-Executive Director – Independent

Mr Ribson Gabonowe

- Non-Executive Director – Independent

Mr Jeremy Read

- Non-Executive Director – Independent

Mr John Shaw

- Non-Executive Director – Independent

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the financial report are included in the directors' report.

The following policies or obligations have been established by the Board and are available on the Company's website:

- Continuous Disclosure
- Code of Conduct
- Share Trading
- Audit & Financial Risk
- Board Charter
- Risk Management

The Board is committed to periodically reviewing and evaluating its performance and effectiveness. In August 2011, the Board commenced a structured review utilising an independent consulting group to provide assistance on the design of, and to facilitate the evaluation process.

Final reports on this evaluation have been received and the Board is currently reviewing and actioning the recommendations made.

2. Independent Directors

Under ASX guidelines five of the current Board members are considered to be independent, namely the Chairman, Mr Gordon Galt and the four non-executive directors, Mr Cordiner, Mr Shaw, Mr Read, and Mr Gabonowe. The Board is considered to be appropriate for the size of the Company and the nature of its operations and is a cost effective structure for managing the Company. 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.

3. Board Composition

The Board believes that to establish a separate Nomination Committee would contribute little to the Company's effective management. Accordingly the nomination of new directors is performed by the Board as a whole and approved by resolution of the Board. When the need for a new director is identified, selection is based on the skills and experience of prospective directors, having regard to the present and future needs of the Company. Where the Board considers that particular expertise or information is required, which is not available from within the Board, appropriate external advice may be taken prior to a final decision. The Board may also engage independent consultants to identify possible new candidates. Any director so appointed must stand for election at the next meeting of shareholders of the Company.

4. Term of Appointment as a Director

The constitution of the Company provides that a director other than the Managing Director may not retain office for more than three calendar years or beyond the third annual general meeting following his or her election, whichever is longer, without submitting for re-election. One third of the directors must retire each year and are eligible for re-election. The directors who retire by rotation at each Annual General Meeting are those with the longest length of time in office since their appointment or last election.

5. Risk Management and Internal Controls

Audit and Financial Risk Committee

The Board has established an Audit and Financial Risk Committee. The Committee members are:

- Morrice Cordiner (Chairman)
- Gordon Galt
- John Shaw

The Committee's responsibilities include:

- providing the Board with advice and recommendations regarding the ongoing development of financial risk oversight and management policies (covering oversight, risk profile, risk management, compliance and control) that set out the roles and respective accountabilities of the Board, the Audit Committee, management and the internal audit function;
- receiving and reviewing management's recommendations and providing the Board with advice and recommendations regarding the establishment of a financial risk management system and financial risk profile;
- receiving a report from management and reviewing, at least annually, the effectiveness of the Company's implementation of the financial risk management system;
- regularly reviewing the Company's financial risk profile (provided by management) having regard to key financial risk, legal and regulatory risk and disclosure and reporting;
- reviewing internal control and audit functions and their effectiveness;
- reviewing financial statements provided by management for accuracy, adequacy and clarity to ensure they give a true and fair view of the Company's financial position and adhere to accounting standards and policies and legislative requirements;
- with respect to the external auditor, approving and recommending policies and procedures for appointing or removing an external auditor and terms of engagement;
- regularly reviewing and assessing the compliance of the external auditor with policies and procedures, the effectiveness and independence of the external auditor; and
- monitoring the relationship between management and the auditor.

The Audit and Financial Risk Committee meets as required but at a minimum at least twice a year. The Managing Director and the Chief Financial Officer are invited to attend the Audit and Financial Risk Committee meetings.

The Board and Audit and Financial Risk Committee also, to a certain extent, rely on the auditors to ensure compliance with relevant accounting standards and gives full and complete co-operation to its auditors without absolving itself of its responsibility. Where appropriate the Board and the Audit & Financial Risk Committee engage independent experts or professional advisors to assist with the identification and/or management of any key risk areas identified.

To ensure that risks, and also opportunities, are identified on a timely basis and that activities are aligned with the risks and opportunities identified, the Board has also adopted a Risk Management Policy to:

- ensure the Company's risk management policies and procedures are adequate;
- monitor compliance with the Company's risk management policies and procedures;
- keep itself apprised of the latest developments, policies, trends in relation to financial matters, rules, regulations to the extent that they may affect the Company or the markets in which the Company operates;
- oversee the establishment and implementation of a risk management system and review (at least annually) the effectiveness of the Company's implementation of that system;
- review the Company's internal financial control mechanisms and risk management policies;
- compile a risk profile of the material risks facing the Company;
- establish and implement a system for identifying, assessing, monitoring and managing material risk throughout the Company;
- review major non-financial regulatory matters covering areas of exposure including the environment, safety and health, asset protection (including insurance), discrimination and harassment, conflict of interest and ethical standards.

Each year the Managing Director and the Chief Financial Officer provide a statement to the Board in writing in respect to the integrity of the financial statements, that they are founded on a sound system of risk management and internal compliance and control, and that the Company's risk management and internal compliance and control systems are operating efficiently and effectively in all material respects.

6. Remuneration and Performance

Remuneration Committee

The Board has established a Remuneration Committee to deal with the remuneration of directors and key executives of the Company. The Committee members are:

- John Shaw (Chairman)
- Gordon Galt
- Jeremy Read

The Company's policy is to compensate non-executive directors at market rates for time, commitment and responsibilities. The Remuneration Committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders. Fees for non-executive directors are not linked to the performance of the Consolidated Group. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company and are able to participate in the Directors and Employees Share Plan. Participants in the Directors and Employees Share Plan are prohibited from creating any charge or security interest on unvested share rights.

The Remuneration Committee meets as required, but at least once a year.

7. Conflict of Interest

The directors must keep the Company informed, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes a significant conflict exists, the director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered.

8. Independent Professional Advice

Each director has the right of access to all relevant Company information and to the Company's executives. Directors have the right, in connection with their duties and responsibilities as directors, to seek independent professional advice at the Company's expense. Prior approval of the Chairman is required, which will not be unreasonably withheld.

9. Code of Conduct

The Board has adopted a Code of Conduct to guide executives, management and employees in carrying out their duties and responsibilities. This Code of Conduct sets out the principles and standards which the Board, management and employees of the Company are encouraged to strive towards when dealing with each other, shareholders and the community as a whole.

10. Communication to Market & Shareholders

The Board Charter, Code of Conduct and Share Trading Policy all recognise legal and other obligations and support the legitimate interests of all stakeholders.

The Board aims to ensure that the shareholders, on behalf of whom they act, are informed of all information necessary to assess the performance of the directors and the Company. Information is communicated to shareholders and the market through:

- the Annual Report which is made available to all shareholders;
- other periodic reports which are lodged with ASX and available for shareholder scrutiny;
- other announcements made in accordance with ASX Listing Rules;
- special purpose information memoranda issued to shareholders as appropriate;
- the Annual General Meeting and other meetings called to obtain approval for Board action as appropriate; and
- the Company's website.

11. Share Trading

Share trading by Company employees is not permitted at any time during black-out periods or whilst in the possession of price sensitive information. Employees of the Company are prohibited from trading in securities whilst in possession of any inside information as per the *Corporations Act 2001*.

12. Diversity Policy

The Company does not currently have a Diversity Policy. The Board will seek to develop a Diversity Policy over the coming year, which can then be used as a guide in identifying new directors, senior executives and employees. Currently the Company has 26 women full time (total 82 employees) and one female temp staff member, however, there are no women directors or senior executives.

13. Auditors remuneration

On 23 November 2010, the Company announced the appointment of Ernst & Young as the Company's auditors, following the resignation of RSM Bird Cameron Partners.

The Company's corporate governance policies can be viewed at its website: www.discoverymetals.com

