

CORPORATE GOVERNANCE

The board of Castlemaine Goldfields Limited is committed to the highest standards of ethical behaviour and a corporate governance policy framework commensurate with the company's size and the nature of its operations.

The board has adopted several charters and a number of policies which are reviewed and updated on a regular basis and which appear on the company's web site at www.cgt.net.au viz:

- Board charter,
- Audit committee charter,
- Equal opportunity, anti-discrimination, harassment and bullying policy,
- Code of conduct,
- Securities trading policy, and
- ASX continuous disclosure.

In addition, the company is a member of the Minerals Council of Australia and a signatory to "Enduring Values – the Australian Minerals Industry Framework for Sustainable Development".

ASX CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS

Central to the board's ongoing evaluation of appropriate corporate governance is consideration of ASX Corporate Governance Principles and Recommendations - 2nd Edition effective 1 January 2008.

The board has assessed the company's compliance with each particular recommendation and in accordance with ASX Listing Rule 4.10.3 reports the extent to which these recommendations have been followed during the reporting year.

Principle 1 – Lay solid foundations for management and oversight

The principle requires the formulation and disclosure of the respective roles and responsibilities of the board and management as well as the disclosure of the process for evaluating the performance of senior executives.

The board is accountable to shareholders for setting goals and policies for the operation of the company, overseeing management with clear lines of accountability, reviewing performance and generally monitoring the affairs of the company. The relationship between the board and senior management is recognised as being critical to long term success.

The size, absence of complexity and the ownership structure of the company enables the board to adopt a simple structure to manage the company's operations. At the time of reporting to shareholders, the board comprised three directors, inclusive of the managing director. Details of the members of the board, their experience, expertise, qualifications and terms of office are set out in the directors' report under the heading "Information on directors".

The board meets on a regular basis to fulfil its responsibilities. Meetings are generally preceded by confidential meetings of non-executive directors. At the commencement of each board meeting directors are required to declare any conflicts of interests. If necessary, the relevant director(s) should abstain from voting on matters which are or may be the subject of conflict. It is the chairman's responsibility to ensure that conflicts are properly disclosed and do not prejudice the exercise of sound business judgement.

The board conducts an assessment of its performance from time to time. Directors complete an agreed questionnaire, the results of which are confidentially summarised and distributed for discussion and subsequent action by the board.

Day to day management of the group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the board to the managing director and chief executive officer who is supported by a small team of executives. The exploration and operating strategy is agreed as part of the annual budget and is modified with agreement of the board from time to time.

The performance of the managing director and chief executive officer is reviewed at least annually and includes agreement on key performance measures for the following year.

Monthly reporting by the managing director and chief executive officer includes an assessment of the company's performance against key risk factors. As a matter of policy all but minor environmental and safety incidents are immediately reported to the chairman.

The board believes that the company is compliant with Principle 1.

Principle 2 – Structure the board to add value

The principle requires the company to have a board of effective composition, size and commitment to adequately discharge its responsibilities and duties.

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At the commencement of the year the board comprised a non-executive chairman, managing director and three non-executive directors. Pieter W. Greeff resigned from the board in April 2008 after completing three years of service with the company. In January 2009, Robert H. R. Adamson, a substantial shareholder, also resigned from the board. At the present time there is no intention to replace either director. Based on the current scale of activities the board of three has an adequate mix of skills and experience to fulfil its duties. Furthermore, the reduced size of the board together with agreed board fee reductions will contribute to a reduction in the company's overhead.

Independence of directors

John (Ian) C. Goudie, the chairman, was employed in an executive capacity by the company up until August 2005.

A company of which Peter L. McCarthy is a director has provided consultancy services to the group on a commercial arm's length basis. To date this has not been significant and does not warrant review of his independence.

Robert H. R. Adamson, who was appointed a non-executive director in September 2007 resigned in January 2009. Through his shareholding in RFC Finance Group Limited, associated interests of that company together with his own and associated interests hold a total of 35,885,974 ordinary shares or 16.4% of the company's share capital. RFC Finance Group limited acted as underwriter and manager of the recent underwritten non-renounceable rights issue.

Pieter W. Greeff, who resigned during the year is a former non-executive chairman of Austindo Resources Corporation N.L., the company's founding shareholder. That company ceased to be a shareholder in December 2007.

The board notes that ASX Corporate Governance Principles and Recommendations include a recommendation that the majority of the board members should be independent directors. Directors are conscious of the need to bring independent judgement to bear on decision making. Each director has the right to request independent professional advice at the expense of the company, which request is not to be unreasonably withheld.

The directors' terms of appointment are governed by the constitution of the company. A director appointed as a result of a casual vacancy, or as an addition to the board, only holds office until the next general meeting of members and must then retire. After providing for the foregoing, one-third of the remaining directors (excluding the managing director) must retire at each annual general meeting of members.

All directors of the company have direct access to the management of the company.

The duties of a nomination committee are undertaken by the board as a whole. The board does not believe that, at its current size, a nomination committee is appropriate.

Due to the size and composition of the board, the company does not comply with Recommendation 2.1, that the majority of the board were independent directors throughout the year.

At the time of signing the report to shareholders there is compliance. The chairman has been an independent director since September 2008 and Recommendation 2.2 has been complied with since that time. A nomination committee has not been established in accordance with Recommendation 2.4

Principle 3 – Promote ethical and responsible decision-making

The principle requires that the board should actively promote ethical and responsible decision making.

The board has adopted a code of conduct that seeks to set a standard of ethical behaviour for directors and employees. The code sets out guidelines on a variety of matters including, occupational health and safety, the environment, drug and alcohol use, equal opportunity, harassment, confidentiality, personal information and privacy, continuous disclosure, use of company resources and conflicts of interest. The code of conduct is posted on the company's website.

The board has adopted a securities trading policy for directors, employees and contractors, which is also posted on the company's website.

The board believes that the company is compliant with Principle 3.

Principle 4 – Safeguard integrity in financial reporting

The principle requires that the company has a structure to independently verify and safeguard the integrity of the company's reporting.

The chief executive officer of the company and the chief financial officer, who is also the company secretary, are required to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operating results, and are in accordance with relevant accounting standards.

At the commencement of the year the audit committee comprised non-executive directors Pieter W. Greeff, chairman and Peter L. McCarthy. Following the resignation of Pieter W. Greeff in April 2008, Peter L. McCarthy was appointed committee chairman and

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Robert H. R. Adamson was appointed to the committee until his resignation in January 2009. Now that there are no other possible appointees other than John (Ian) C. Goudie, chairman of the board it has been decided that the role of the audit committee be assumed by the full board.

The company has put in place a process to ensure the independence and competence of the company's external auditors. The audit charter includes the review of any non-audit work to ensure that it does not conflict with audit independence. In addition the board retains the services of an independent Chartered Accountant to advise and assist, as and when required.

The board believes that the company is compliant with the intent of Principle 4 but acknowledges that it does not comply with Recommendation 4.1 & 4.2 because of the present composition of the board.

Principle 5 – Make timely and balanced disclosure

The principle requires that the company promote timely and balanced disclosure of all material matters concerning the company.

The company has an obligation under 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 which includes procedures designed to ensure compliance with ASX Listing Rules disclosure requirements.

The board believes that the company is compliant with Principle 5.

Principle 6 – Respects the rights of shareholders

The principle requires that the company respects the rights of shareholders and facilitates the effective exercise of those rights.

ASX announcements, annual reports, quarterly and half yearly reports, corporate governance policies, presentations to shareholders and related material are available to shareholders and investors on both the company's website and its filings on the ASX website.

The external auditor attends the annual general meeting and is available to answer shareholder questions about the conduct of the audit and the preparation of and content of the auditor's report.

The board believes that the company is compliant with Principle 6.

Principle 7 – Recognise and manage risk

The principle requires that the board establish a sound system of risk oversight and management and internal control.

The task of identifying, assessing, monitoring and managing risk is the responsibility of management. It is the responsibility of the board to ensure that investors are informed of material changes to the company's risk profile.

Risk management is integrated into all facets of the business and is an integral part of decision making. All material risks are identified and objectively assessed against appropriate criteria. Items identified as key risks are reported on by the managing director to the board each month.

The board believes that the company is compliant with Principle 7.

Principle 8 – Remunerate fairly and responsibly

The principle requires that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined.

The board has not established a remuneration committee due to the relative small size of the company.

The constitution of the company provides that the aggregate remuneration of all directors, in their capacity as directors, must not exceed \$250,000 per annum, or such other sum as the company in general meeting may approve. This amount is to be apportioned amongst them in such manner as the directors agree and in default of agreement, equally. No additional amounts are paid for any committee work. There are no arrangements currently in place for payment of retirement benefits to non-executive directors, other than statutory superannuation contributions. Non-executive directors do not receive performance based remuneration.

The board believes that the company is compliant with Principle 8, notwithstanding that it has not established a remuneration committee.