



## CORPORATE GOVERNANCE STATEMENT

### Overview

Empire Energy Group Limited (the 'Company') and the Board of Directors ('Board') are committed to achieving and demonstrating the highest standards of corporate governance and aim to comply with the "Principles of Good Corporate Governance and Best Practice recommendations" set by the ASX Corporate Governance Council ("CGC").

However, given the current size of both the Company's operations and the Board of Directors, it is not appropriate, cost effective or practical to comply fully with those principles and recommendations. Where a recommendation has not been adopted this fact has been disclosed together with the reasons for the departure.

Consistent with the ASX best practice recommendations, the Company's corporate government practices are regularly reviewed and are available on the Company's website.

### Compliance with ASX Corporate Governance Council best practice recommendations

The ASX listing rules require public listed companies to disclose the extent to which they have adopted the ASX Corporate Governance Council best practice recommendations. This statement provides details of the Company's adoption of the best practice recommendations.

#### PRINCIPLE 1 - LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Companies should establish and disclose the respective roles and responsibilities of board and management.

#### Board Responsibilities

The Board of directors is accountable to shareholders for the performance of the Company. In carrying out its responsibilities, the Board undertakes to serve the interest of shareholders honestly, fairly and diligently.

The Board's responsibilities are reviewed annually to determine whether any changes are necessary or desirable.

The responsibilities of the Board include:

- Reporting to shareholders and the market;
- Ensuring adequate risk management processes exist and are complied with;
- Reviewing internal controls and external audit reports;
- Ensuring regulatory compliance;
- Monitoring financial performance, including approval of the annual and half-yearly financial reports and liaison with the Company's auditors;
- Reviewing the performance of senior management;
- Monitoring the Board composition, Director selection and Board processes and performance;
- Monitoring the effectiveness of the Company's governance practices;
- Validating and approving corporate strategy;
- Reviewing the assumptions and rationale underlying the annual plans; and
- Authorising and monitoring major investment and strategic commitments.

## **Appointment of Directors**

Prior to appointment of Directors, appropriate checks are undertaken into a candidate's character, experience, education, criminal record and bankruptcy history. Shareholders are provided with information on Directors in the relevant notice of meeting, including all material information in the Company's possession relevant to their decision regarding whether or not to elect or re-elect a director.

The Company issues a formal letter of appointment for new directors setting out the terms and conditions relevant to that appointment and the expectations of the role of the director.

The Company also provides a formal induction process which provides key information on the nature of the business and its operations.

Continuing education is provided via the regular Board updates provided by the divisional chief executives.

## **Role of Chairman and Chief Executive Officer (CEO)**

The Chairman is also the Chief Executive Officer and is responsible for leading the Board, ensuring that Board activities are organised and efficiently conducted and for ensuring the Directors are properly briefed for meetings. The Chairman is also responsible for implementing the consolidated entity's strategies and Board policies.

The Chief Executive Officer has been delegated responsibility for managing the day to day operations of the Empire Group.

A formal charter is in place which lays out the duties and responsibilities of the CEO. This charter also requires that the responsibilities and accountabilities of both the Board of Directors and the CEO are clearly defined. The assessment and monitoring of the CEO is the responsibility of the board. Performance is assessed against pre-determined objectives on a regular basis.

The Chairman's other responsibilities include:

- Ensuring that general meetings are conducted efficiently and that shareholders have adequate opportunity to air their views and obtain answers to their queries; and
- Present the view of the Board formally.

## **Company Secretary**

The Company Secretary is accountable to the Board, through the Chairman, on all governance matters. The major functions of the Company Secretary are:

- Advising the board and committee on governance issues;
- Monitoring Company policies;
- Coordinating the timely completion and despatch of board papers; and
- Ensuring that the business at board and committee meetings is accurately captured in the minutes.

## **Approach to diversity**

The Board recognises the benefits of diversity at boards in senior management and within the organisation generally and recognises the organisational strengths, deeper problem solving ability and opportunity for innovation that diversity brings to an organisation.

The Company has established a diversity policy which sets out the beliefs, goals and strategies of the Company and makes reference to all the characteristics that makes individuals different from each other. The policy sets out the positive steps taken to ensure that current and prospective employees are not discriminated against, either directly or indirectly on such characteristics as gender, age, disability, marital status, sexual orientation, religion, ethnicity or any other area of potential difference. The Company is committed to gender diversity at all levels of the organisation. Gender equality is a key component of the Company's diversity strategy. The implementation of this policy aims to reflect both the circumstances of the Company and the industry in which it operates.

The Company's diversity policy includes a requirement that:

- the Board establish measurable objectives for achieving gender diversity; and
- the Board assess annually the objectives set for achieving gender diversity; and
- the Board assess annually the progress made towards achieving the objectives set.

In accordance with this policy and ASX corporate governance principles, the Board has established the following objectives in relation to gender diversity. The aim is to achieve these objectives over the coming 3 to 5 years as Director and senior executive positions become vacant and appropriately skilled candidates are available. Representation of female employees in the organisation workforce is as follows:

	Actual at 31 December 2016		Empire Group Objective	Progress towards meeting objective
	Number	Percentage	Percentage	Percentage
Whole organisation	10	21.7%	20%	109%
Senior Executive positions*	7	46.7%	30%	156%
Board	-	-	25%	-

\* A Senior Executive position is a management role.

A copy of the Company's diversity policy has been posted on the Company's website.

#### Evaluation of Board and Senior Executives

The Board regularly reviews the performance of the Board and its Committees. Each year the Board of directors gives consideration to broad corporate governance matters, including the relevance of existing committees and to reviewing its own and individual directors' performance. The performance of all Directors, the Board as a whole, the Managing Director and Company Secretary is reviewed annually and a review was undertaken during the reporting period.

The Board's responsibilities are encompassed in a formal charter.

All Senior Executives have a formal position description. The Chief Executive Officer assesses the performance of the Senior Executives on an annual basis, a review was undertaken during the reporting period.

#### PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

Companies should have a Board of an effective composition, size and commitment to efficiently discharge its responsibilities and duties.

## Nomination committee

The Company does not comply with recommendation 2.1 in that the Board has not yet formed a separate nomination committee. All matters that would normally be the responsibility of a nomination committee are dealt with by the full Board.

The Company has not adopted recommendation 2.1 as the Board considers that the Company and the Board are currently not of sufficient size to justify the establishment of a separate nomination committee.

The Board reviews its composition on an annual basis to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, for whatever reasons, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board will select appropriate candidates with relevant qualifications, skills and experience. External advisors may be used to assist in such a process. The Board will then appoint the most suitable candidate who must stand for election at the next general meeting of shareholders.

For directors retiring by rotation, the board assesses that director before recommending re-election.

## Composition of the Board

Currently the Board of Directors comprises three members, one executive non-independent Director, who is also the Chairman and Chief Executive Officer and two non-executive independent Directors, all of whom have a broad range of skills and expertise.

A brief description of all Directors' qualifications, experience, special responsibilities are set out in the Annual Report on pages 17 to 18.

The directors of the Board collectively have a combination of skills and experience in competencies as set out in the table below:

Skills and experience of Empire Energy Group Limited's Directors	
Area	Competence
Business and Finance	Business Strategy, Corporate Financing, Financial Literary, Agreement/Fiscal Terms and Risk Management
Leadership	Business Leadership, Executive Management and Mentoring, Public Listed company experience
Sustainability & Stakeholder	Community Relations, Corporate Governance, Environmental Issues, Government Affairs, Health & Safety, Industrial Relations and Remuneration
Industry Specific	Oil & Gas – Exploration and production, Base Metals – Mining & Resources

## Independent Directors

In determining independence the Board has regard to the guidelines of directors' independence in the ASX Corporate Governance Council and Best practice Recommendations and other best practice guidelines.

Each director's independent status is regularly assessed by the Board. The Board's size and composition is subject to limits imposed by the Company's constitution which provides for a minimum of three directors and a maximum of seven. The position/status and term in office of each Director at the date of this report is as follows:

Name of Director	Position/Status	Term in Office
Bruce McLeod	Executive Chairman – Non-Independent	20 years 4 months
David Sutton	Non-Executive – Independent	19 years 8 months
Kevin Torpey	Non-Executive – Independent	23 years 10 months

The Board currently holds up to 12 scheduled meetings each financial year together with any ad hoc meetings as may be necessary. The Board met 17 times during the year and Directors attendance is disclosed on page 19 of the Annual Report.

The Company does not comply with recommendation 2.5 which provides that the chair should be an independent Director and the role of the chair and CEO should not be exercised by the same individual.

At this stage of the Company's development, the Board considers it is neither appropriate nor cost effective for there to be an independent chairman and a separate CEO.

This matter continues to be under review and as circumstances allow, consideration will be given to the appropriate time to move to adopting the ASX Corporate Governance Guidelines.

The Board considers that its composition provides for the timely and efficient decision making required for the Empire Group in its current circumstances.

### **Professional Development**

All Directors are required to bring an independent judgment to bear on board decisions. To facilitate this, each Director has the right of access to all relevant Company information and to the Company's Executives. The Directors also have access to external resources as required to fully discharge their obligations as Directors of the Company. The use of this resource is co-ordinated through the Chairman of the Board.

### **PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING**

Companies should actively promote ethical and responsible decision making.

#### **Code of conduct**

The Board acknowledges the need for continued maintenance of the highest standards of Corporate Governance Practices and ethical conduct by all Directors and employees of the consolidated entity.

The Company has established a code of conduct applicable to all Directors and employees. The requirement to comply with the code is mandatory and is communicated to all employees. The code sets out standards of conduct, behaviour and professionalism. The code embraces the following values:

- to ensure compliance with relevant legislation
- fulfil the reasonable expectations of the communities in which the Company operates by acknowledging the rights of various stakeholders
- act fairly and honestly

The shareholder communications strategy, the securities trading policy, the continuous disclosure policy collectively form a solid ethical foundation for Empire Group's ethical practices.

#### **Policy on dealing in Company securities**

The Company has adopted a policy on how Directors, key management personnel, contractors and all other employees can deal in the securities of the Company.

This policy aims to ensure that the reputation of the Company is not adversely impacted by perceptions of trading in the Company's securities at inappropriate times or in an inappropriate manner. In addition to the

specific prohibition on insider trading, Directors and all other employees must also not deal in the Company's securities during the following closed periods, being the four week period before or 48 hours after:

- a. the release of the Empire Group's annual results to the ASX
- b. the release of the Empire Group's half-year results to the ASX
- c. the release of the Empire Group's quarterly cashflow and activities reports to the ASX
- d. the annual general meeting
- e. such other periods as advised by the Board of Directors or Chief Executive Officer (such as prior to ASX being advised of a significant matter or event)

Requests to trade during the closed periods may be considered in exceptional circumstances. At all other times Directors, key management personnel and all other employees are not permitted to buy or sell securities in the Company without first obtaining written consent from the Chairman. When the Chairman trades Company securities written approval has to be obtained from an independent Director.

The Company has introduced compliance standards and procedures to ensure that the policy is properly implemented. In addition there is also an internal review mechanism to assess compliance and effectiveness.

A copy of the Company's securities trading policy was lodged with the ASX Company Announcements office on 23 December 2010 and is also posted on the Company's website.

#### **PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING**

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

##### **Audit Committee**

The audit committee comprises of the full Board of Directors.

The committee met seven times during the year under review.

The committee has adopted a formal charter, a copy of the formal charter is posted on the Company's website. <http://www.empireenergygroup.net/company-overview/corporate-governance>

The responsibilities of the Audit Committee include:

- reviewing the annual and half year financial reports to ensure compliance with Australian Accounting Standards and generally accepted accounting principles;
- monitoring corporate risk management practices;
- review and approval of the consolidated entity's accounting policies and procedures;
- reviewing external audit plans;
- reviewing the nomination, performance and independence of the external auditors; and
- organising, reviewing and reporting on any special reviews or investigations deemed necessary by the Board.

The Chief Executive Officer and Chief Financial Controller have provided the Board with written assurances that the declaration provided in accordance with section 295A of the corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material aspects in relation to financial reporting risks.

The structure of the audit committee does not comply with recommendation 4.1 in that it does not consist only of non-executive independent Directors and it is chaired by an independent chair who is not chair of the Board.

The Board considers that the Company and the Board are not of sufficient size to warrant the establishment of a separate audit committee.

#### **External auditors**

The full Board is responsible for the appointment, removal and remuneration of the external auditors, and reviewing the terms of their engagement, and the scope and quality of the audit. In fulfilling its responsibilities, the Board receives regular reports from management and the external auditors at least once a year, or more frequently if necessary. The external auditors have a clear line of direct communication at any time to the Chairman of the Board.

The current auditors, Nexia Australia, were appointed in 1992. The Australian accounting bodies' statement on professional independence requires mandatory rotation of audit partners for listed companies every five years. Nexia Australia confirms that they conform with the requirements of the statement.

Nexia Australia are required to 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 Auditor's Report.

#### **PRINCIPLE 5 – MAKING TIMELY AND BALANCED DISCLOSURE**

Companies should promote timely and balanced disclosure of the matters concerning the Company.

The Company has a written policy on information disclosure that focuses on ensuring compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance.

The Company Secretary in consultation with the Chairman, is responsible for communications with the ASX. The Company Secretary is also responsible for ensuring compliance with the continuous disclosure requirements of the ASX Listing Rules, and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the general public.

A copy of the Company's policy of continuous disclosure is posted on the Company's website.

#### **PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS**

Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

#### **Communication with shareholders**

The Board recognises and respects the rights of our shareholders as the beneficial owners of the Company. In order to facilitate the effective exercise of those rights, the Company has adopted a shareholder communication policy that aims to empower shareholders by:

- communicating effectively with them;
- providing easy access to balanced and understandable information about the Empire Group; and
- encouraging and facilitating shareholder participation in general meetings.

The Company achieves this through the following avenues:

### Company website

The Company posts corporate information in the Investor Section of its Company website at [www.empireenergygroup.net](http://www.empireenergygroup.net). Corporate Governance information is posted in the Company Overview section.

The Company provides shareholders with copies of all announcements made to the ASX by mail on request. Copies are also available via an electronic link to the ASX web site, ensuring that all shareholders are kept informed about the Empire Group.

Shareholders also have the option of receiving a hard copy of the Annual Report each year. Shareholders also have at their election the option to receive communications electronically.

### General meetings

All shareholders are invited to attend the Annual General Meeting which is held in Sydney. The full Board and senior executives are present and available to answer questions from the floor, as are the External Auditor and a representative from the Company's legal advisors.

### PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

Companies should establish a sound system of risk oversight and management and internal control.

The Board is yet to set up a Risk Committee. The Board oversees the establishment, implementation and review of the Company's Risk Management System. To ensure it meets its responsibilities, the Board has implemented appropriate systems for identifying, assessing, monitoring and managing material risk throughout the organisation.

Management is required to provide monthly status reports which identify potential areas of business risk arising from changes in the financial and economic circumstances of its operating environment.

The Board regularly assesses the Company's performance in light of risks identified by such reports.

Management are also required to design, implement and review the Company's risk management and internal control system. The Board reviews the effectiveness of the implementation of the Company's risk management and internal control system on a regular basis.

The Board does not employ an internal auditor, although as part of the Company's strategy to implement an integrated framework of control, the Board requested the external auditors review internal control procedures. Recommendations once presented are considered by the Board.

The chief executive officer and chief financial controller have stated in writing to the board that:

- The Empire Group's financial reports present a true and fair view in all material respects of the Empire Group's financial position and operating results and are in accordance with relevant accounting standards.
- The integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.



- The Company's risk management and internal compliance and control system is operating efficiently in all material respects.

The Board requires this declaration to be made bi-annually and at the end of each financial reporting period.

The Company has exposure to economic risks, including general economy wide risks and risks associated with the economic cycle which impact on the price and demand of oil and gas. The Company has in place risk management procedures and processes to identify, manage and minimise its exposure to those economic risks where appropriate.

#### **PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY**

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that the relationship to performance is clear.

##### **Remuneration Committee**

The Board has established a remuneration committee. The committee comprised the following members during the year:

- Mr D Sutton – Independent Non-Executive
- Mr K Torpey – Independent Non-Executive

Mr D Sutton is the Chairman of the remuneration committee.

The Company does not comply with recommendation 8.1 as the remuneration committee does not have at least three members. The Board considers that the function of the remuneration committee is not jeopardised by its current structure. The Board considers that the size of the Company does not warrant the appointment of additional members to the Remuneration Committee.

The committee has adopted a formal charter. The main responsibilities of the Remuneration Committee include:

- review and approve the Company's policy for determining executive remuneration and any amendments to that policy;
- review the on-going appropriateness and relevance of the policy;
- consider and make recommendations to the Board on the remuneration of executive Directors (including base salary, incentive payments, equity awards and service contracts);
- review and approve the design of all equity based plans;
- review and approve the total proposed payments under each plan; and
- review and approve the remuneration levels for non-executive Directors.

The committee met once during the year and the Committee Members attendance record is disclosed in the table of Director's Meetings included in the Annual Report at page 19.

##### **Executive Directors and Executive remuneration**

The remuneration committee reviews and approves the policy for determining executive's remuneration and any amendments to that policy.

Executive remuneration and other terms of employment are reviewed annually having regard to relevant comparative information and independent expert advice.

Remuneration packages include basic salary, superannuation and the rights of participation in the Company's Employee Share Option Plan.

The Company does not have an equity-based remuneration scheme however; the Executive Chairman has an annual incentive component as part of his total remuneration package. The annual incentive which is subject to performance hurdles being satisfied may be settled with either cash or an equity component or a combination of both.

Remuneration packages are set at levels that are intended to attract and retain executives capable of effectively managing the Company's operations.

Consideration is also given to reasonableness, acceptability to shareholders and appropriateness for the current level of operations.

#### **Non-executive directors**

Remuneration of Non-Executive Directors is determined by the Board based on relevant comparative independent expert advice and the maximum amount approved by shareholders from time to time.

Non-Executive Directors have the right to participate in the Company's Share Option Plan. Further information on directors and executive remuneration is included in the audited remuneration report which forms part of the directors' report on pages 19 to 21 in the Annual Report.