

# EMPIRE ENERGY GROUP LIMITED

## CORPORATE GOVERNANCE STATEMENT

### Overview

Empire Energy Group Limited (the '**Company**') and the Board of Directors (the '**Board**') are committed to achieving and demonstrating the highest standards of corporate governance and aim to comply with the ASX Corporate Governance Council's ('**CGC**') Corporate Governance Principles and Recommendations, 3<sup>rd</sup> Edition ('**CGPR**').

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

Consistent with the CGPR, the Company's corporate governance practices are regularly reviewed and are available on the Company's website.

References in this Statement to the 'Empire Group' include the Company and all of its subsidiaries.

### Compliance with ASX CGC CGPR

The ASX Listing Rules require public listed companies to disclose the extent to which they have adopted the CGPR. This statement provides details of the Company's adoption of the CGPR. This Corporate Governance Statement is current at 31 March 2020.

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

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

### 1.1 Board responsibilities

The Board is accountable to shareholders for the performance of the Company. In carrying out its responsibilities, the Board undertakes to serve the interests 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 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.

### Role of Chairman

The Chairman 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 coordinating Board oversight of the consolidated entity's strategies and Board policies.

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
- Presenting the view of the Board formally.

### **Chief Executive Officer ('CEO')**

The Chief Executive Officer has been delegated responsibility for setting the consolidated entity's strategies and 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 and the CEO are clearly defined. The assessment and monitoring of the CEO are the responsibility of the Board. Performance is assessed against pre-determined objectives on a regular basis. The CEO of Empire is also a member of the Board, occupying the role of Managing Director.

### **1.2 Appointment of Directors**

Prior to the 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 as to whether to elect or re-elect a director.

### **1.3 Written Agreements**

Directors are required to sign letters of appointment and/or service agreements, and senior management are required to sign employment contracts prior to their engagement with the Company.

### **1.4 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; and
- Ensuring that the business at board and committee meetings is accurately captured in the minutes.

### **1.5 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:

- establishes measurable objectives for achieving gender diversity;
- assesses annually the objectives set for achieving gender diversity; and

- assesses annually the progress made towards achieving the objectives set.

In accordance with this policy and CGPR, 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 Company's workforce is as follows:

Actual as at 31 March 2020			Empire Group Objective	Progress towards meeting Objective
	Number	Percentage	Percentage	Percentage
Whole Organisation	6	15%	25%	60%
Senior Executive Positions	2	29%	40%	73%
Board	0	0%	20%	0%

The Board of Directors does not currently have any female members. The Company recognises the benefits of diversity amongst members of the Board and will take this into consideration together with other highly beneficial qualities when considering future Board candidates. The Board will examine appropriately qualified female Directors over the next 12 months with the view of a potential additional candidate being appointed.

#### 1.6 Evaluation of Board and Committees

The Board regularly reviews the performance of the Board and its Committees. Each year, the Board 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 Chief Executive Officer and Company Secretary are regularly monitored. No formal review at the Board and Committee level was undertaken in the 2019 reporting period due to relevantly recent changes in Board composition in the reporting period.

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

The remuneration committee sets Key Performance Indicators ('KPI') for the Chief Executive Officer each year. The remuneration committee has assessed the Chief Executive Officer's performance against the 2019 KPIs in a remuneration committee meeting.

#### 1.7 Evaluation of Senior Executives

The Company has policies in place to assess the performance of senior executives. Senior executive performance is judged against KPIs which are designed to optimise operational outcomes and align senior executive outcomes with shareholders.

KPIs are set for all senior executives and approved by the Chief Executive Officer each year. The Chief Executive Officer has assessed the performance of senior executives against 2019 KPIs.

Key senior executive appointments were made late in 2019. For those appointments, KPIs for 2020 were established and will be assessed after the end of the 2020 financial year.

## 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.**

### 2.1 Nomination Committee

The Company does not comply with Recommendation 2.1 as it has not formed a separate Nomination Committee. The matters that would normally be the responsibility of a Nomination Committee are dealt with by the full Board.

The Board reviews its composition on an annual basis to ensure it 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.

### 2.2 Board skills matrix

The Board collectively has 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 Literacy, 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

### 2.3 Independent Directors

In determining independence, the Board also takes into account the guidelines of directors' independence contained in the ASX Corporate Governance Principles (3<sup>rd</sup> Edition).

Mr Paul Espie AO is the Managing Director's uncle. According to Recommendation 2.3 this association is a relevant factor when assessing independence. The Board has considered this issue, and has formed the view, that notwithstanding the association, Mr Espie AO brings an independent mind to bear and acts in the interests of the company as a whole.

Each Director's independence 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 Board currently holds scheduled meetings each financial year together with any ad hoc meetings as may be necessary. The Board met 9 times during the year and Directors' attendance is disclosed in the Company's 2019 Annual Report.

The length of service of each Director is as follows:

Mr Paul Espie AO (17 months, since November 2018)

Mr Alex Underwood (20 months, since August 2018)

John Gerahty (17 months, since November 2018)

Prof. John Warburton (13 months, since February 2019)

#### **2.4 Majority Independence**

For the reporting period, a majority of the Board was independent.

#### **2.5 Chair Independence**

For the reporting period, the Chair of the Board was an Independent Director and was not the CEO.

#### **2.6 Induction and professional development of Directors**

The Company provides an induction process for providing key information on the nature of the business and its operations. Relevant information are also provided via through Board updates from executives.

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 from 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 details the following Company values:

- 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 Code of Conduct, Securities Trading Policy and 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:

- the release of the Empire Group's annual results to the ASX;
- the release of the Empire Group's half-year results to the ASX;
- the release of the Empire Group's quarterly cashflow and activities reports to the ASX;
- the Annual General Meeting; and
- 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 on the Company's website.

#### **Whistleblower Policy**

During the year the Company adopted a Whistleblower Policy which encourages the reporting of any instances of suspected unethical, illegal, fraudulent or undesirable conduct involving Empire Group's businesses and provides protections and measures so that those persons who make a report may do so confidentially and without fear of intimidation, disadvantage or reprisal.

Empire Group employees are encouraged to report any issue or behaviour under the Whistleblower Policy to the Chief Executive Officer in the first instance, or otherwise Empire Group Non-Executive Director Professor John Warburton.

The Company posts a copy of this policy on the Company Overview's Corporate Governance Section of its website at <http://www.empireenergygroup.net>.

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

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

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

The Company has established a separate Audit and Risk Committee. The Committee is comprised of the following members:

1. Mr J Gerahty – Independent Non-Executive Director and Chair of the Audit and Risk Committee
2. Prof J Warburton – Independent Non-Executive Director

The Audit and Risk Committee does not comply with Recommendation 4.1 because it does not have at least 3 members. The Company is satisfied that the Committee can adequately discharge its functions because the Committee is comprised of independent non-executive directors with appropriate skill sets to discharge their responsibilities.

The Committee undertakes the following responsibilities in accordance with its Charter:

- 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;
- reviewing and approving 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.

Attendance is periodically disclosed in the table of Director meetings included in the Company's Annual Report.

#### **4.2 CEO and CFO Declaration**

The Chief Executive Officer and Chief Financial Controller have provided the Board with written assurances that the declaration in the Company's 2019 Annual Report 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.

#### **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.

#### **4.3 Attendance of Auditor at AGM**

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 balanced disclosure of all materials 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 MD and Chairman, is responsible for communication with the ASX. The Company Secretary is responsible for ensuring compliance with the continuous disclosure requirements of the ASX Listing Rules, and helps to co-ordinate information to the ASX, analysts, brokers, shareholders, the media and public.

A copy of the Company's Continuous Disclosure Policy is posted on the Company's website.

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

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

### **6.1 Company Website**

The Company posts corporate information in the Investor Section of its Company website at <http://www.empireenergygroup.net>.

### **6.2 Investor relations**

Corporate governance information is posted in the Company Overview section of the Company's website.

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 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 website, ensuring that all shareholders are kept informed about the Empire Group.

### **6.3 General meetings**

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

### **6.4 Electronic Shareholder Communication**

Shareholders have the option of receiving a hard copy of the Annual Report each year and can elect to receive communications from the Company electronically.

## **PRINCIPLE 7 – RECOGNISE AND MANAGE RISK**

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

### **7.1 Risk**

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, including the Audit & Risk Committee.

### **7.2 Risk Management framework**

Management provides periodic status reports to the Board 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 is 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 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.

The Company has exposure to environmental risks, including risks associated with drilling oil and gas wells and producing oil and gas. The Company has in place risk management procedures and processes to identify, manage and minimise its exposure to those environmental risks where appropriate.

### **7.3 Internal Audit Function**

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.

In addition as required under the Corporations Act, the Chief Executive Officer and Chief Financial Controller have provided statements 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; and
- 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.

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

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

### **8.1 Remuneration Committee**

The Board has established a Remuneration Committee. This Committee is comprised of the following members:

1. Mr P Espie AO - Non-Executive Chairman, Independent Non-Executive Director and Chair of the Remuneration Committee
2. Prof J Warburton - Independent Non-Executive Director

The Company does not fully 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. Due the present size of the Company, the Board does not presently consider that the appointment one or more additional members.

The Committee has adopted a formal charter. A copy of the formal charter is contained on the Company's website.

The main responsibilities of the Remuneration Committee include:

- reviewing and approving the Company's policy for determining executive remuneration and any amendments to that policy;
- reviewing the on-going appropriateness and relevance of the policy;

- considering and making recommendations to the Board on the remuneration of Executive Directors (including base salary, incentive payments, equity awards and service contracts);
- reviewing and approving the design of all equity-based plans;
- reviewing and approving the total proposed payments under each plan; and
- reviewing and approving the remuneration levels for non-executive Directors.

Attendance is periodically disclosed in the table of Director meetings included in the Company's Annual Report.

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

The Remuneration Committee reviews and approves the policy for determining executive 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 base salary, superannuation and the rights of participation in the Company's Rights Plan.

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.

The Company seeks the advice of a leading independent Australian remuneration consultant to formulate the remuneration of the CEO and ensure that it is reasonable in comparison to similar ASX-listed companies.

### **Non-executive Directors remuneration**

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 Rights Plan. Further information on director and executive remuneration are included in the Remuneration Report that forms part of the Annual Directors' Report.

## **8.3 Equity based remuneration scheme**

At the 2019 AGM, shareholders approved the Company's Rights Plan, with the details contained in the relevant Notice of Meeting, dated 1 May 2019, and considers this to be a critical and cost-effective important remuneration mechanism to continue to attract and maintain an appropriate depth of executive talent.

Participants in the Company's Rights Plan are not permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the Rights Plan.