

# Corporate Governance

BPH Energy Limited and its controlled entities

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The Board of Directors of BPH Energy Limited (“BPH Energy” or “the Company”) (“Group”) is responsible for the corporate governance of the economic entity. 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.

To ensure that the Board is well equipped to discharge its responsibilities, it has established guidelines and accountability as the basis for the administration of corporate governance.

## **CORPORATE GOVERNANCE DISCLOSURES**

BPH Energy Limited and the board are committed to achieving and demonstrating the highest standards of corporate governance. The board continues to review the framework and practices to ensure they meet the interests of shareholders. The company and its controlled entities together are referred to as the Group in this statement.

## **COMPOSITION OF THE BOARD**

The composition of the Board is determined in accordance with the following principles and guidelines:

- the Board should have at least one independent non-executive director;
- the Board should have at least one director with an appropriate range of qualifications and expertise; and
- the Board shall meet at regular intervals and follow meeting guidelines set down to ensure all directors are made aware of, and have available all necessary information, to participate in an informed discussion of all agenda items.

When a vacancy exists, through whatever cause, or where it is considered that the Board would benefit from the service of a new director with particular skills, the Board selects a candidate or panel of candidates with the appropriate expertise.

The Board then appoints the most suitable candidate, who must stand for election at the next general meeting of shareholders. The Company does not have a formal Nomination Committee.

## **REMUNERATION AND NOMINATION COMMITTEES**

The Company does not have a formal Remuneration or Nomination Committee. The full Board attends to the matters normally attended to by a Remuneration Committee and a Nomination committee. Remuneration levels are set by the Company in accordance with industry standards to attract suitably qualified and experienced Directors and senior executives.

## **AUDIT COMMITTEE**

The Company does not have a formal Audit Committee. The full Board carries out the functions of an Audit Committee. Due to the status of the Company and the relatively straight forward accounts of the Company anticipated in the financial year, the Directors believe that there presently would be no additional benefits obtained by establishing such a committee. The Board follows the Audit Committee Charter, a copy of which is available on request.

## **BOARD RESPONSIBILITIES**

As the Board acts on behalf of and is accountable to the shareholders, it 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. The Board seeks to discharge these responsibilities in a number of ways.

The responsibility for the operation and administration of the economic entity is delegated by the Board to the Managing Director. The Board ensures that the Managing Director is appropriately qualified and experienced to discharge his responsibilities, and has in place procedures to assess the performance for the Company's officers, employees, contractors and consultants on at least an annual basis.

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The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. It has a number of mechanisms in place to ensure this is achieved, including the following:

- Board approval of a strategic plan, designed to meet shareholder needs and manage business risk;
- Implementation of operating plans and budgets by management and Board monitoring progress against budget; and
- Procedures to allow directors, in the furtherance of their duties, to seek independent professional advice at the Company's expense.

Decisions reserved specifically for the board relate to those that have a fundamental impact on the company such as material acquisitions of investments.

## MONITORING OF THE BOARD'S PERFORMANCE

In order to ensure that the Board continues to discharge its responsibilities in an appropriate manner, the performance of all directors is to be reviewed annually by the chairperson. Directors whose performance is unsatisfactory are asked to retire. While a formal review was not undertaken in the current period informal meetings have been held and feedback has been provided.

## BEST PRACTICE RECOMMENDATION

Outlined below are the 8 Essential Corporate Governance Principles as outlined by the ASX and the Corporate Governance Council. The Company has complied with the Corporate Governance Best Practice Recommendations except as identified below.

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### Action taken and reasons if not adopted

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#### Principle 1: Lay solid foundations for management and oversight

The relationship between the board and senior management is critical to the Group's long-term success. The directors are responsible to the shareholders for the performance of the Group in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

The responsibilities of the board include:

- providing strategic guidance to the Group including contributing to the development of and approving the corporate strategy;
- reviewing and approving business plans, and financial plans including major capital expenditure initiatives;
- overseeing and monitoring:
  - organisational performance and the achievement of the Group's strategic goals and objectives; and
  - progress of major capital expenditures and other significant corporate projects including any acquisitions or divestments;
- monitoring financial performance including approval of the annual and half-year financial reports;
- appointment, performance assessment and, if necessary, removal of the Managing Director;
- ratifying the appointment and/or removal and contributing to the performance assessment for the members of the senior management team including the CFO and the Company Secretary;
- ensuring there are effective management processes in place and approving major corporate initiatives;

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- enhancing and protecting the reputation of the organization; and
- overseeing the operation of the Group's system for compliance and risk management reporting to shareholders.

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 senior executives.

The company has a formal process for evaluating performance of senior executives which involves a performance and development review cycle where responsibilities and performance objectives are defined and performance measured against these defined responsibilities and objectives and regular feedback is provided through meetings. While a formal performance evaluation was not conducted during the period under review, informal meetings were held with senior executives and feedback on their performance was provided.

The company requires reference checks prior to appointing a director or putting that person forward as a candidate to ensure that person is competent and experienced.

The company provides relevant information to shareholders for their consideration about the attributes of candidates in order to enable them to make a decision on whether or not to appoint a director.

The company enters into employment contracts with each newly appointed senior executive, setting out in detail the terms of their appointment and the responsibilities specifically delegated to them. The role and responsibilities for each Director are set out in service contracts that are required to be executed at appointment.

### Principle 2: Structure the board to add value

The board operates in accordance with the broad principles set out in its charter. The charter details the board's composition and responsibilities.

The board seeks to ensure that :

- at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the Group and directors with an external or fresh perspective; and
- the size of the board is conducive to effective discussion and efficient decision-making.

The board's skills matrix indicates the mix of skills, experience and expertise that are considered necessary at the Board level for optimal performance of the Board. The matrix reflects the Board's objective to have appropriate mix of industry and professional experience including skills such as leadership, governance, strategy, finance, and international business. The board continuously monitors its collective skills and attributes to ensure it maintains the following skills and attributes in its membership:

Skills and Attributes
Senior management positions (past and present)
Experience and knowledge of the oil and gas industry
Experience and knowledge of the biotechnology industry
Strategy – growth of business value
Governance procedures
Other past and present executive or non-executive director roles of ASX and non ASX listed companies

The board believes that its membership adequately represents the required skills as set out in the above matrix.

New directors undertake an induction process coordinated by the company secretary and managing director who briefs and informs the directors on all relevant aspects of the company's operations and background.

### Directors' independence

The board has adopted specific principles in relation to directors' independence. These state that when determining independence, a director must be a non-executive and the board should consider whether the

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director:

- is a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company;
- is or has been employed in an executive capacity by the company or any other Group member within three years before commencing to serve on the board;
- within the last three years has been a principal of a material professional adviser or a material consultant to the company or any other Group member, or an employee materially associated with the service provided;
- has a material contractual relationship with the company or a controlled entity other than as a director of the Group; and
- is free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's independent exercise of their judgement.

Materiality for these purposes is determined on both quantitative and qualitative bases. A transaction of any amount or a relationship is deemed material if knowledge of it may impact the shareholders' understanding of the director's performance.

The board assesses independence each year. To enable this process, the directors must provide all information that may be relevant to the assessment.

### Board members

Details of the board of directors is as follows:

Name	Appointment Date	Length of Service	Executive Status	Independence
David Breeze	14 February 2001	> 16 Years	Executive	Non-Independent
Charles Maling	17 October 2017	<1 year	Non- Executive	Independent
Tony Huston	26 June 2017	<1 year	Non- Executive	Independent

Details of the members of the board, their experience, expertise, qualifications, term of office, relationships affecting their independence are set out in the directors' report under the heading "Information on directors". There are two non-executive directors and one executive director,

- Mr Breeze has business dealings with the Group as disclosed in note 23 to the June 2017 annual report.

### Term of office

The company's Constitution specifies that all non-executive directors must retire from office no later than the third annual general meeting (AGM) following their last election. Where eligible, a director may stand for re-election, subject to the following limitations:

- on attaining the age of 72 years a director will retire, by agreement, at the next AGM and will not seek re-election.

### Chair and Managing Director

The Chair is responsible for leading the board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating board discussions and managing the board's relationship with the company's senior executives. In accepting the position, the Chair has acknowledged that it will require a significant time commitment and has confirmed that other positions will not hinder his effective performance in the role of Chair.

The Managing Director is responsible for implementing Group strategies and policies.

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The Chairman does not satisfy the Independence test as the role of the Chairman and the Managing Director is exercised by the same person. The board is of the opinion that the Chairman's role as Chairman of the Board is appropriate given his experience and knowledge of the business.

### Committees

The number of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2017, and the number of meetings attended by each director is disclosed on page 19 of the June 2017 annual report.

It is the company's practice to allow its executive directors to accept appointments outside the company. No appointments of this nature were accepted during the year ended 30 June 2017.

The Company is not of a size at the moment that justifies having a separate Nomination Committee. However, matters typically dealt with by such a committee are dealt with by the Board of Directors.

Notices of meetings for the election of directors comply with the ASX Corporate Governance Council's best practice recommendations.

### Principle 3: Promote ethical and responsible decision making

The company has developed a statement of values which has been fully endorsed by the board and applies to all directors and employees. The Statement is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group's integrity and to take into account legal obligations and reasonable expectations of the company's stakeholders.

The Statement requires that at all times all company personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and company policies.

The Company's share trading policy is set out on the Company's website. The purchase and sale of company securities by directors and employees is monitored by the Board.

The Company's policy regarding diversity is set out on the Company's website.

The Company's diversity policy does not include measurable objectives as the Board believes that the Company will not be able to successfully meet these given the size and stage of development of the Company. If the Company's activities increase in size, nature and scope in the future, the suitable measurable objectives will be agreed and put into place. Notwithstanding this, the Company strives to provide the best possible opportunities for current and prospective employees of all backgrounds in such a manner that best adds to overall shareholder value and which reflects the values, principles and spirit of the Company's Diversity Policy.

The company is committed to Diversity and Equal Opportunity within its workforce placing particular focus on the level of gender diversity at senior levels of the organisation. The company ensures this is achieved by :

- ensuring recruitment and selection practices enable the availability of a diverse candidate pool for appointments at senior levels;
- development of high potential women;
- implementation of flexible working arrangements; and
- ensuring remuneration practices are free from gender bias.

BPH Energy does not have any female directors.

### Principle 4: Safeguard integrity in financial reporting

Adopted except as follows:-

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The Company does not have a separate Audit Committee. The full Board carries out the functions of an Audit Committee. The Board has the authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party. Due to the status of the Company and the relatively straight forward accounts of the Company, the Directors at the moment can see no additional benefits to be obtained by establishing such a committee. The Board follows the Audit Committee Charter, a copy of which is available on request.

### External auditors

The Board's policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. HLB Mann Judd was appointed as the external auditor in 2016. It is the Corporation Act's policy to rotate audit engagement partners on listed companies at least every five years. A partner should not be re-assigned to a listed entity audit engagement if this equates to the partner serving in this role for more than 5 out of 7 successive years.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the directors' report and in note 5 to the 30 June 2017 annual report. It is the policy of the external auditors to provide an annual declaration of their independence to the Board.

The external auditor will attend the annual general meeting and be available to answer shareholders' questions about the conduct of the audit and the preparation and content of the audit report.

The Company is not of a size at the moment that justifies having an internal audit division.

### Principle 5&6: Make timely and balanced disclosures and respect the rights of shareholders Continuous disclosure and shareholder communication

The company has policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the Group that a reasonable person would expect to have a material effect on the price of the company's securities. These policies and procedures also include the arrangements the company has in place to promote communication with shareholders and encourage effective participation at general meetings.

The company will hold its AGM before 30 November in each year and the chairman and Company secretary will engage with shareholders in advance of the AGM, as appropriate. The board encourages full participation of shareholders at the AGM to ensure a high level of accountability and identification with the company's strategy and goals. Shareholders who are unable to attend the AGM are encouraged to vote on the proposed motions by appointing a proxy via the proxy form accompanying the Notice of Meeting. The company will publish the results of the meeting to the ASX on its website following the conclusion of the AGM.

The company recognises the importance of its relationships with investors and analysts. The managing director is primary contact for communicating with the investment community.

The company secretary has been nominated as the person responsible for communications with the ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

All information disclosed to the ASX is posted on the company's website as soon as practical. When analysts are briefed on aspects of the Group's operations, the material used in the presentation is released to the ASX and posted on the company's web site. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed and, if so, this information is also immediately released to the market.

All shareholders who request them receive a copy of the company's annual and half-yearly financial reports. In addition, the company seeks to provide opportunities for shareholders to participate through electronic means.

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Recent initiatives to facilitate this include making all company announcements, media briefings, details of company meetings, and financial reports available on the company's website.

### Principle 7: Recognise and manage risk

The board and senior executives are responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. In summary, the company policies are designed to ensure strategic, operational, legal, reputational and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Group's business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority. The board actively promotes a culture of quality and integrity.

The responsibility for the operation and administration of the economic entity is delegated by the board to the Managing Director. The board ensures that the Managing Director is appropriately qualified and experienced to discharge his responsibilities, and has in place procedures to assess the performance for the Company's officers, employees, contractors and consultants. The board receives monthly updates as to the effectiveness of the company's management of material risks that may impede meeting business objectives.

The board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. It has a number of mechanisms in place to ensure this is achieved, including the following:

- Board approval of a strategic plan, designed to meet shareholder needs and manage business risk;
- Implementation of operating plans and budgets by management and board monitoring progress against budget; and
- Procedures to allow directors, in the furtherance of their duties, to seek independent professional advice at the Company's expense.

Control procedures cover management accounting, financial reporting, project appraisal, IT security, compliance and other risk management issues. The Managing Director is required to ensure that appropriate controls are in place to effectively manage the identified risks. This is monitored by the board on a monthly basis.

### The environment

Information on compliance with significant environmental regulations is set out in the directors' report of the annual financial report.

### Corporate reporting

The Managing Director has made the following certifications to the board:

- that the company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the company and Group and are in accordance with relevant accounting standards;
- that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board; and
- that the company's risk management and internal compliance and control is operating efficiently and effectively in all material respects in relation to financial reporting risks.

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### Principle 8: Remunerate fairly and responsibly

The Company is not of a size at the moment that justifies having a separate Remuneration Committee. However, matters typically dealt with by such a committee are dealt with by the board.

The board makes specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors. The board also reviews gender pay equity on an annual basis to ensure equality.

The company's policy is to remunerate non-executive directors at a fixed fee and it is not linked to individual performance.

Each member of the senior executive team signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. The standard contract refers to a specific formal job description.

Further information on directors' and executives' remuneration, including principles used to determine remuneration, is set out in the annual financial report in the section directors' report under the heading "Remuneration report".

In accordance with Group policy, participants in equity-based remuneration plans are not permitted to enter into any transactions that would limit the economic risk of options or other unvested entitlements.

The board with the Managing Director also assumes responsibility for overseeing management succession planning, including the implementation of appropriate executive development programmes and ensuring adequate arrangements are in place, so that appropriate candidates are recruited for later promotion to senior positions.