

## **CORPORATE GOVERNANCE STATEMENT - 2018**

The 2018 Corporate Governance Statement is dated as 30 September 2018 and reflects the corporate governance practices in place throughout the 2018 financial year.

Pilot Energy Limited (the Company) 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 that they meet the interests of shareholders. The Company and its controlled entities together are referred to as the Group in this statement.

A description of the Group's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year. Additionally, they comply with the 3<sup>rd</sup> edition of the ASX Corporate Governance Principles and Recommendations, unless otherwise stated.

### **Board of Directors**

#### **Role of the Board**

The matters expressly reserved to the Board of Directors are set out in a written policy and include:

- Establishment of long-term goals of the Group and strategic plans to achieve these goals;
- Monitoring the achievement of these goals;
- Review of the management accounts and reports to monitor the progress of the Group;
- Review and adoption of budgets for the financial performance of the Group and monitoring the results on a regular basis to assess performance;
- Review and approval of the annual and interim financial reports;
- Nominating and monitoring the external auditor;
- Approving all significant business transactions;
- Appointing and monitoring senior management;
- All remuneration, development and succession issues;
- Ensuring the Group has implemented adequate systems of risk management and internal control together with appropriate monitoring of compliance activities;
- Overseeing the process for making timely and balanced disclosure of all material information that a reasonable person would expect to have a material effect on the price or value of the Company's securities;
- Ensuring that the Company has a suitably qualified Company Secretary who shall be accountable directly to the Board, through the chair, on all matters to do with the proper functioning of the Board; and
- Ensuring that the Company reports on its measurable objectives in relation to gender diversity and assesses annually both the objectives and progress in achieving gender diversity.

The Board delegates day to day operational matters to the management of the Company.

The Board evaluates this policy on an ongoing basis.

#### **Board composition**

The Directors' Report contains details of the Directors' skills, experience and education. The Board seeks to establish a Board that consists of Directors with an appropriate range of experience, skill, knowledge and vision to enable it to operate the Group's business with excellence. To maintain this, the Group's policy is that Executive Directors should serve at least 3 years. At the completion of the first 3 years, the position of the Director is reviewed to ascertain if circumstances warrant a further term.

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The specific skills that the Board collectively bring to the Company include:

- Industry Experience/technical qualification
- Commercial experience
- Public company experience
- Analytical expertise
- Financial expertise
- Risk Management experience
- Strategic planning experience
- Strategic leadership experience
- Corporate Governance expertise
- Communications experience
- Inter personal experience

The chair of any sub-committees formed by the Board has specific skills in the area for which they are responsible.

The Board does not have a director with legal experience, as any legal work is outsourced to external lawyers.

The Board comprises a Non-Executive Chairman, two Non-Executive Directors and two Executive Directors.

Details of the Directors are set out in the Directors' Report.

The Board is primarily responsible for identifying potential new Directors and has the option to use an external consulting firm to identify and approach possible new candidates for Directorship. When a vacancy exists, or where it is considered that the Board would benefit from the services of a new director with particular skills, candidates with the appropriate experience, expertise and diversity are considered. Each incumbent Director is given the opportunity to meet with each candidate on a one-to-one basis. The full Board then appoints the most suitable candidate.

The Board undertakes appropriate checks before appointing a person as a Director or putting forward to shareholders a candidate for election as a Director.

The Board ensures that shareholders are provided with all material information in the Board's possession relevant to a decision on whether or not to elect or re-elect a Director.

The appointment of the Directors must be approved by the majority of the Shareholders at the first Annual General Meeting after the appointment.

### **Retirement and re-election of directors**

The Constitution of the Company requires one third of Directors (or the number nearest one third, rounded up), other than the Managing Director, to retire from office at each Annual General Meeting. No Director (other than the Managing Director) shall hold office for a period in excess of three years without seeking re-election.

Directors who have been appointed by the Board are required to retire from office at the Annual General Meeting following their appointment and are not taken into account in determining the number of Directors to retire at that Annual General Meeting. Retiring Directors are eligible for re-election by Shareholders.

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### Independence of directors

The Board has reviewed the position and association of each of the Directors in office at the date of this report and Mr Michael Lonergan is considered to be independent. In considering whether a Director is independent, the Board has regard to the independence criteria in ASX Corporate Governance Principles and Recommendations Principle 2 and other facts, information and circumstances that the Board considers relevant. The Board assesses the independence of new Directors upon appointment and reviews their independence, and the independence of the other Directors, as appropriate.

Although Mr Wilson Xue has no material business or contractual relationship to the Company, nor any material pecuniary interest with the Company, he is not considered independent due to his substantial shareholding in the Company. Other than his shareholding, Mr Xue would satisfy the test for independence.

### Director education

All new Directors complete an induction process. The Non-Executive Directors are given every opportunity to gain a better understanding of the business, the industry, and the environment within which the Group operates, and are given access to continuing education opportunities to update and enhance their skills and knowledge. The Board members are specifically provided the opportunity to enhance their financial, regulatory and compliance skills in relation to public companies through external courses.

### Independent professional advice

With prior approval of the Chairman, each Director has the right to seek independent legal and other professional advice at the Group's expense concerning any aspect of the Group's operations or undertakings in order to fulfil their duties and responsibilities as Directors.

### Board Performance Review

The performance of all Directors is assessed through review by the Board as a whole of a Director's attendance at and involvement in Board meetings, their performance and other matters identified by the Board or other Directors. Significant issues are actioned by the Board. Due to the Board's assessment of the effectiveness of these processes, the Board has not otherwise formalised measures of a Director's performance.

The Directors conducted an internal performance evaluation of the Members of the Board during the reporting period.

### Director Remuneration

Details of the Group's remuneration policies are included in the "Remuneration Report" section of the Directors' Report.

Non-Executive Directors will be remunerated by cash payments (including statutory superannuation) and will not be provided with any benefits for ceasing to be a Director. The Executive Directors are remunerated by fixed remuneration. A reasonable period of notice of termination is required and is detailed in the Executive's employment contract.

### Managing Business Risk

The Group maintains policies and practices designed to identify and manage significant risks including:

- regular budgeting and financial reporting;
- procedures and controls to manage financial exposures and operational risks;
- the Group's business plan;
- corporate strategy guidelines and procedures to review and approve the Group's strategic plans;
- establish and continuously assess a Group Risk Profile which identifies all significant risk to the Group and controls that are in place to minimise or mitigate the risk; and
- insurance and risk management programs which are reviewed by the Board.

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The Board reviews these systems and the effectiveness of their implementation annually and considers the management of risk at its meetings.

The Board's review of business risk is also based on reports from the Risk Committee.

The Board receives regular reports about the financial condition and operating results of the consolidated Group. The Managing Director (or in his absence the Chairman) and Chief Financial Officer annually provide a formal statement to the Board that in all material respects and to the best of their knowledge and belief:

- the Group's financial reports present a true and fair view of the Group's financial condition and operational results and are in accordance with relevant accounting standards; and
- the Group's risk management and internal control systems are sound, appropriate and operating efficiently and effectively.

The Company assesses its exposure to economic, environmental and social sustainability risks. The Board assesses the likely impact of changes and implements strategies to minimise exposure to these specific risks. Due to risk procedures adopted by the Company, it is not believed the Company has a material exposure to these risks.

The Company does not have an internal audit function. The Board has determined that the established internal controls for the Company, combined with the work of the audit and risk committees, at this stage satisfactorily address the function that would otherwise be dealt with by an internal audit function.

### **Internal Controls**

Procedures have been established at the Board and Executive management levels that are designed to safeguard the assets and interests of the Group, and to ensure the integrity of reporting. These include accounting, financial reporting and internal control policies and procedures. To ensure these established procedures are being followed, the Directors:

- ensure appropriate follow-up of significant audit findings and risk areas identified;
- review the scope of the external audit to align it with Board requirements; and
- conduct a detailed review of published accounts.

### **Board Committees**

#### **Audit and Risk Committees**

Due to the size and nature of the existing Board, the Company currently has no Audit or Risk Committee and the full Board currently carries out the duties that would ordinarily be assigned to the Audit and Risk Committees under the Charters for the respective committees.

The duties of the Audit and Risk Committees are documented in Charters which are approved by the Board of Directors. In accordance with these Charters, all members of the Committee must be Non-Executive Directors.

The primary role of the Audit Committee is to:

- Assist the Board in fulfilling its overview of the audit process;
- Assist the Board in over-viewing financial reporting;
- Assist the Board in fulfilling its overview of the systems of internal control which the Board and management have established;
- Monitor, review and recommend the adoption of the financial statements of the Company;
- Regularly review the adequacy of accounting, internal controls, reporting and other financial management systems and practices of the Company;
- Review the financial report and other financial information distributed externally;
- Review any new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles;

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- Improve the quality of the accounting function;
- Review audit reports to ensure that if major deficiencies or breakdowns in controls or procedures are identified, appropriate and prompt remedial action is taken by management;
- Review the nomination and performance of the auditor;
- Liaise with external auditors and ensure that the annual and half-year statutory audits are conducted in an effective manner;
- Monitor the establishment of appropriate ethical standards;
- Monitor the procedures in place to ensure compliance with the *Corporations Act 2001*, *Australian Accounting Standards*, ASX Listing Rules and all other regulatory requirements;
- Address any matters outstanding with the auditors, the Australian Taxation Office, the Australian Securities and Investments Commission, the ASX and financial institutions.

The primary role of the Risk Committee is to assist the Board in its oversight of the Company's management of key risks, including strategic and operational risks, as well as the guidelines, policies and processes for monitoring and mitigating such risks.

Risk assessment and risk management are the responsibility of the Company's management. The Committees have an oversight role and in fulfilling that role, it relies on the reviews and reports received from management.

The Committees shall have the following authority and responsibilities:

- Review and discuss with management the Company's risk governance structure, risk assessment and risk management practices and the guidelines, policies and processes in place for risk management
- Review and discuss with management the Board's risk appetite and strategy relating to key risks, including credit risk, liquidity and funding risk, market risk, product risk and reputational risk, as well as the guidelines, policies and processes for monitoring and mitigating such risks
- Discuss with the Company's executive team the Company's risk assessment and risk management guidelines, policies and processes, as the case may be. The Risk Committee meets separately at least twice a year with the executive team
- Receive, as and when appropriate, reports from the Company's Executive General Manager-Corporate & Risk on the results of risk management reviews and assessments
- Review disclosure regarding risk contained in the Company's Annual Report
- Review and assess the nature and level of insurance coverage
- Initiate and monitor special investigations into areas of corporate risk or breakdowns in internal controls
- Discharge any other duties or responsibilities delegated to the Committee by the Board
- Delegate any of its responsibilities to subcommittees as the Committee may deem appropriate
- Retain such outside counsel, experts and other advisors as the committee may deem appropriate in its sole discretion and approve related fees
- Report its actions and any recommendations to the Board
- Review at least annually the adequacy of this Charter and recommend any proposed changes to the board for approval.

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### **Remuneration and Nomination Committees**

Due to the size and nature of the existing Board, the Company currently has no Remuneration or Nomination Committee and the full Board currently carries out the duties that would ordinarily be assigned to the Remuneration and Nomination Committees under the Charters for the respective committees.

The duties of the Remuneration and Nomination Committees are set out in their respective Charters. The main responsibilities of the Remuneration and Nomination Committees are:

- Determine remuneration policies and remuneration of Directors
- Determine remuneration and incentive policies of Key Executives
- Determine the Group recruitment, retention and termination policies and procedures for senior management
- Determine and review incentive schemes
- Ensure all Directors and senior executives have a written agreement setting out the terms of their appointment
- Evaluate senior executive performance on an annual basis.
- Determine and review superannuation arrangements of the Group
- Determine and review professional indemnity and liability insurance for Directors and senior management
- Review the Board composition to ensure the Board has the correct balance of skills and expertise
- Appointment of the Managing Director and the Company Secretary
- Approve the recommendation for the appointment of key management personnel presented to the Committee by the Managing Director
- Performance appraise the Board members and the Managing Director
- Succession planning for Board members and the Managing Director
- Approve the recommended succession planning for key management personnel presented to the Committee by the Managing Director.
- Identify, evaluate and recommend candidates for the Board, the position of Managing Director and the position of Company Secretary

The Remuneration and Nomination Committees can seek independent external advice from consultants with specific industry experience relevant to the Company's remuneration assessment.

Specific policies and procedures regarding remuneration determination are contained within the Directors Report.

### **Ethical Standards**

#### **Code of Conduct**

In pursuit of the highest level of ethical standards, the Group has adopted a Code of Conduct which establishes the standards of behaviour required of Directors and employees in the conduct of the Group's affairs. This code is provided to all Directors and employees. The code stipulates that any unethical behaviour is to be reported to the Group's Managing Director (or in his absence, the Chairman) as soon as possible.

The Code of Conduct is based on respect for the law and the rights of individuals, and acting accordingly, dealing with conflicts of interest appropriately, using the consolidated entity's assets responsibly and in the best interests of the Company, acting with integrity, being fair and honest in dealings, treating other people with dignity and being responsible for actions and accountable for the consequences.

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#### **Trading in the Company's Securities by Directors and Employees**

The Board has adopted a policy in relation to dealings in the securities of the Group which applies to all Directors and employees. Under the policy, Directors are prohibited from short-term or "active" trading in the Group's securities and Directors and employees are prohibited from dealing in the Group's securities whilst in the possession of price sensitive information. The Company's Managing Director (or in his place the Chairman) must be notified of any proposed transactions in the Company's shares.

Any Director or employee receiving shares pursuant to the Company's equity based remuneration scheme (refer to the remuneration report) is not permitted to enter into transactions which limit the economic risk of participating in the scheme.

This policy is provided to all Directors and employees. Compliance with it is reviewed on an on-going basis in accordance with the Company's risk management systems.

#### **Continuous Disclosure**

The Group has in place a continuous disclosure policy, a copy of which is provided to all Group officers and employees who may from time to time be in possession of undisclosed information that may be material to the price or value of the Group's securities.

The continuous disclosure policy aims to ensure timely compliance with the Company's continuous disclosure obligations under the Corporations Act 2001 and ASX Listing Rules and to ensure officers and employees of the Group understand these obligations.

The procedure adopted by the Group is essentially that any information which may need to be disclosed must be brought to the attention of the Chairman, who, in consultation with the Board (where practicable) and any other appropriate personnel (including external advisors if deemed appropriate) will consider the information and whether disclosure is required. If disclosure is deemed necessary, an appropriate announcement will be prepared for release to the market as soon as possible.

At least once every 12-month period, the Board will review the company's compliance with this continuous disclosure policy and update it from time to time, if necessary.

#### **Communication with Shareholders**

The Board aims to ensure that Shareholders are kept fully informed of all major developments affecting the Group. Information is communicated to Shareholders as follows:

- As the Company is a disclosing entity, regular announcements are made to the ASX in accordance with the Group's disclosure policy, including the half-year review and the year-end audited accounts and Annual Report.
- The Board ensures the Annual Report includes relevant information about the operations of the Group during the year, changes in the state of affairs and details of future developments.
- Shareholders are advised in writing of key issues affecting the Group by effective use of the Group's share registry or electronically via the website.
- Shareholders are provided the opportunity to receive communications electronically through the Company's share registry.
- Any proposed major changes in the Group's affairs are submitted to a vote of Shareholders, as required by the Corporations Act 2001 and the ASX Listing Rules.
- The Board encourages full participation of Shareholders at the Annual General Meeting to ensure a high level of accountability and identification of the Group's strategies and goals. All Shareholders who are unable to attend these meetings are encouraged to communicate or ask questions by writing to the Group.
- The external auditor is requested to attend Annual General Meetings to answer any questions concerning the audit and the content of the auditor's report.
- The Board seeks feedback from proxy advisers to assess the appropriateness and adequacy of its reporting to shareholders.

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The Board reviews this policy and compliance with it on an ongoing basis.

### Diversity Policy

The Group is committed to workplace diversity at all levels and recognises the benefits arising from employee and Board diversity. The benefits include a broader pool of high quality employees, improved employee retention, accessing different perspectives and ideas, and benefitting from all available talent.

The Group recognises that diversity includes matters of age, disability, ethnicity, marital and family status, religion and culture, sexual orientation and gender identity.

The Group strives to:

- Recruit and manage on the basis of an individual's competence, qualification and skills and performance
- Create a workplace culture characterised by inclusive practices and behaviours for the benefit of all staff
- Appreciate and respect the unique aspects that an individual brings to the workplace
- Where possible and practicable, increase participation and employment opportunities for indigenous people
- Create a work environment that values and utilises the contributions of employees with diverse backgrounds, experiences and perspectives through improved awareness of the benefits of workplace diversity and successful management of diversity, and at all times recognising that employees may have restrictions placed on them by domestic responsibilities outside the workplace
- Take action to prevent discrimination, harassment, vilification or victimisation
- Create awareness in all staff of their rights and responsibilities with regards to fairness, equity and respect for all aspects of diversity
- Identify and implement programs that will assist in the development of a broader and more diverse pool of skilled and experienced employees, and to offer employees opportunities to reach management levels with the Group.

The Board is committed to workplace diversity and has developed measurable objectives and strategies to support the framework and objectives of the Diversity Policy, and the Board is responsible for monitoring the progress of the measurable objectives through various monitoring, evaluation and reporting mechanisms. For the 2018 financial year the Boards' objectives were met by the Group. The Board assesses the progress and achievement of the objectives.

Pursuant to ASX Corporate Governance Recommendation 1.5, the Company discloses the following information as at the date of this report:

Percentage details	Women	Men
Women and Men employed within the Group	50%	50%
Women and Men at senior management level	-	100%
Women and Men employed at Board level	-	100%
Women and Men contracted through a Corporate Services Provider	100%	-



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### ASX Corporate Governance principles and recommendations not followed - "if not, why not" approach

Pursuant to the ASX Listing Rules, the Company advises that it does not comply with the following Corporate Governance Principles and Recommendations, issued by the ASX Corporate Governance Council. Reasons for the Company's non-compliance are detailed below.

#### Recommendation 2.1

*The Board should have a nomination committee which:*

- *consists of a majority of independent directors*
- *is chaired by an independent chair*
- *has at least three members*

#### Recommendation 2.4

*A majority of the Board should be independent directors*

#### Recommendation 2.5

*The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.*

#### Recommendation 4.1

*The Board should have an audit committee which:*

- *consists only of non-executive directors*
- *consists of a majority of independent directors*
- *is chaired by an independent chair, who is not chair of the Board*
- *has at least three members*

#### Recommendation 7.1

*The Board should have a risk committee which:*

- *consists only of non-executive directors*
- *consists of a majority of independent directors*
- *is chaired by an independent chair, who is not chair of the Board*
- *has at least three members*

#### Recommendation 8.1

*The Board should have a remuneration committee which:*

- *consists of a majority of independent directors*
- *is chaired by an independent chair*
- *has at least three members*

Due to the size and nature of the existing Board, the Company currently has no Audit, Risk, Remuneration or Nomination Committee and the full Board currently carries out the duties that would ordinarily be assigned to the those Committees under their respective Charters.

None of Company's three directors is deemed independent.

In view of the size of the Company and the nature of its activities, the Board considers that the current Board structure is a cost effective and practical means of directing and managing the Company.

While the ASX Principles recommend an ideal structure for the audit and risk management and remuneration and

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nomination committees, they recognise that for smaller Boards it may not be possible to implement such a structure.

Given the size, scale and nature of the Company's business, the Board does not consider the non-compliance with these ASX Principles to be materially detrimental to the Company.

This statement is current as at 30 September 2018 and was approved by the Board on 18 December 2018.