



STATEMENT OF COMPLIANCE WITH THE QCA CORPORATE GOVERNANCE CODE

The Board of Empyrean are committed to maintaining high standards of corporate governance. The London Stock Exchange has announced that all AIM companies will be required to apply a recognised corporate governance code from 28 September 2018. In connection with the introduction of these new requirements, the Quoted Companies Alliance has published a new corporate governance code which the Company will be applying from 28 September 2018.

The Board of Empyrean have adopted the Quoted Companies Alliance Corporate Governance Code (the QCA Code) in line with these requirements.

In this section we outline our approach to addressing the 10 corporate governance principles of the QCA Code. Empyrean will provide further updates on its compliance with the QCA Code in future annual reports.

Principle 1: Establish a strategy and business model which promote long-term value for shareholders

Through a series of strategic acquisitions, Empyrean now holds an exciting portfolio of exploration projects and its primary focus is to add significant value for the Company and its shareholders through focused advancement of these projects. Empyrean allocates its resources appropriately given the risk versus reward profile of our projects in order to achieve its goal of maximising Company and shareholder value.

Empyrean is currently focused on developing three cornerstone assets: Block 29/11 offshore China; the Duyung PSC offshore Indonesia and a multi project participating interest in the Sacramento Basin, California. Exploration work has been extensive during the year on all three projects to maximise their value. The Board also continues to evaluate new projects to position the Company for renewed growth and to further increase shareholder value.

Principle 2: Seek to understand and meet shareholder needs and expectations

The Board attaches a high importance to maintaining good relationships with shareholders and seeks to keep them fully updated on the Company's performance, strategy and management, predominantly through market announcements, periodic reports and shareholder circulars.

The Company encourages communication with its shareholders through its website which provides contact details, including a dedicated mailing list which can be subscribed to. The Chief Executive Officer, Mr Tom Kelly is the primary Company contact responsible for shareholder liaison on operational and corporate matters. The Company Secretary, Mr Jonathan Whyte, is the primary contact on compliance and administrative matters. The Company also encourages attendance and open participation from shareholders at its Annual General Meeting and other general meetings. Shareholders and investors have an open communication channel to contact the Company and the Company endeavours to provide feedback wherever possible.

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Principle 3: Take into account wider stakeholder and social responsibilities and their implications for long-term success

The Board recognises that long term success relies upon good relationships with a range of different stakeholders, including its shareholders, regulators, joint venture partners and other service providers. The Company encourages feedback from all these groups.

Apart from shareholders, which is covered under Principle 2, the Company maintains regular dialogue with its Nominated Advisor to ensure compliance with appropriate regulations. In addition, it is the role of the Company Secretary to also maintain oversight over all regulatory and compliance matters.

The Company has strong relationships and maintains regular dialogue and engages actively with its joint venture partners and various service providers.

Whilst the Company is cognisant of its corporate social responsibilities, for those projects that the Company is dependent on other operators for the performance of exploration and production activities, it ensures it undertakes suitable due diligence on these operators to mitigate the risk of any corporate, financial, social or environmental responsibilities being breached.

For the Company's China asset, in which it is the operator, sound financial, corporate, social and environmental protocols are paramount to the success of the operation and are embedded within the Company's strategy and business model.

Principle 4: Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness annually. Such a system is designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has established a continuous process for identifying, evaluating and managing the Company's risks. This process involves the monitoring of all controls including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from senior management and professional advisors to ensure any significant weaknesses are promptly remedied and to indicate a need for more extensive monitoring.

The Company has established an Audit Committee which is responsible for overseeing the establishment and implementation by management of a system for identifying, assessing, monitoring and managing material risk throughout the company. This system includes the Company's internal compliance and control systems. The Audit Committee reviews at least annually the Company's risk management systems to ensure the exposure to the various categories of risk, including fraud, are minimised. The Audit Committee monitors the standard of corporate conduct in areas such as arms-length dealings and likely conflicts of interest.

The Company has adopted and operates a share dealing code for Directors and senior employees on substantially the same terms as the Model Code and Market Abuse Regime (MAR) appended to the Listing Rules of the UKLA.

Principle 5: Maintaining the Board as a well-functioning, balanced team led by the Chair

The Board consists of two Executive Directors and two independent Non-Executive Directors, including the Non-Executive Chairman. The Chairman, Patrick Cross, possesses experience and knowledge of the Company that makes his contribution to the Board such that it is appropriate for him to remain on the Board and in his position as Chairman.

The Board is satisfied that it has a suitable balance between independent directors and the executive directors who oversee the commercial and technical aspects of the Company.

The Board is supported by an Audit Committee and a Remuneration Committee, both of which convene two times per year. The Audit Committee reviews the Company's annual and interim financial statements before submission to the Board for approval. The Audit Committee also reviews regular reports from management and the external auditors on accounting and internal control matters. The Remuneration Committee's function is discussed under Principle 7.

The Board convene weekly on an informal basis, and monthly on a formal basis, to ensure all directors are updated on the Company's operational and financial performance.

The Board has effective procedures and protocols in place to monitor any potential conflicts of interest and ensure that members with such conflicts abstain from voting on any resolutions on those matters. The Board members are also transparent in notifying other members of any other commitments or interests external to the business of the Company.

Principle 6: Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities

The Board believes that its current members have an appropriate balance of sector, financial and public market skills and experience, as well as technical experience, in particular oil and gas industry experience and expertise. The Board is satisfied that it has the appropriate balance of personal qualities and capabilities and is not dominated by a single member. On a continual basis the Board assesses its core competencies, expertise and effectiveness. The Company has defined procedures for the selection and appointment of new directors to the Company's Board.

Principle 7: Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

The Chairman is responsible for the performance evaluation of the Executive and Non-Executive Directors. The Non-Executive Director Mr John Laycock is responsible for the performance evaluation of the Chairman. The Board as a whole is responsible for the performance evaluation of the Committees and its own performance. These assessments occur throughout the year.

The Company has adopted a formal Board Evaluation Policy to ensure individual directors and the Board work efficiently and effectively in achieving their functions, which involves the Chairman meeting with each executive and non-executive director separately to discuss individual performance and ideas for improvement and the Non-Executive Finance Director meeting with the Chairman separately to discuss individual performance and ideas for improvement. The Board discuss and analyse its own performance and the performance of the committees during the year including suggestions for change or improvement.

The Company has an established Remuneration Committee that operates under a Formal Charter. The Remuneration Committee is responsible for reviewing the performance of the Executive Directors, setting the scale and structure of their remuneration, setting performance-based objectives and paying due regard to the interests of shareholders and the performance of the Executive Directors and the Company as a whole. On a continual basis the Board assesses its core competencies, expertise and effectiveness. This includes an assessment of individual directors and whether the appointment of external personnel may enhance the performance of the Board.

Principle 8: Promote a culture that is based on ethical values and behaviours

The Board believes that good corporate culture based on sound ethical values guides the objectives and actions of its Board, management and employees. The Company has an Ongoing Education Framework which is designed to facilitate the education of directors and employees so they are equipped with the general and technical knowledge required to carry out their duties and understand the business of the Company.

The Company demands the highest standards of integrity in the conduct of its business. Empyrean is committed to conducting business in a transparent and ethical manner across all its operations. The Company aims to ensure that all its activities are conducted fairly and honestly and each person connected with the Company has individual responsibility for maintaining an ethical workplace. Consistent with this business philosophy, the Company strictly adheres to anti-bribery and corruption principles. The Company places an active responsibility for compliance on all Company employees and associated persons.

Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

The Board of Empyrean are committed to maintaining high standards of corporate governance and has adopted the QCA Code as its corporate governance framework. John Laycock is the Non-Executive Finance Director and Chairman of the Audit Committee and the Remuneration Committee. A summary of the Company's corporate governance structures and processes is provided in the Annual Report and is adjusted over time, particularly with the adoption of the QCA Code. A summary of the roles and responsibilities of the Board and key committees is below.

The Board

The Board formally convenes monthly throughout the year. To enable the Board to perform its duties, each of the Directors has full access to all relevant information and to the services of the Company Secretary. If necessary, the Non-Executive Directors may take independent professional advice at the Company's expense. The Board currently includes two Executive Directors and two Non-Executive Directors. The Board has delegated specific responsibilities to the committees described below. Patrick Cross is a Non-Executive Director and Chairman of the Company and meets the criteria for independence under The QCA Code. Tom Kelly is the Chief Executive Officer and an Executive Director of the Company and is responsible for the day to day operation of the Company and implementation of the Company's business strategy. Gajendra Bisht is the Technical Director and oversees all aspects of the Company's exploration portfolio.

The Audit Committee

The Audit Committee comprises non-executive directors Patrick Cross and John Laycock and is chaired by John Laycock. The Audit Committee reviews the Company's annual and interim financial statements before submission to the Board for approval. The Audit Committee also reviews regular reports from management and the external auditors on accounting and internal control matters. When appropriate, the Audit Committee monitors the progress of action taken in relation to such matters. The Audit Committee also assesses the independence of, recommends the appointment of, and reviews the fees of, the external auditors. The Audit Committee is responsible for overseeing the establishment and implementation by management of a system for identifying, assessing, monitoring and managing material risk throughout the company.

The Remuneration Committee

The Remuneration Committee comprises non-executive directors Patrick Cross and John Laycock and is chaired by John Laycock. The Remuneration Committee met 2 times during the year and each member attended each meeting. It is responsible for reviewing the performance of the Executive Director and for setting the scale and structure of their remuneration, paying due regard to the interests of shareholders as a whole and the performance of the Company.

Principle 10: Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

The Company communicates with shareholders through its market announcements, periodic reporting comprising the Annual Report and Interim Financial Report, through presentations and other shareholder circulars, through its website, in person at its Annual General Meeting and also through direct communication (email, telephone). The Company also engages directly with brokers, institutional and retail shareholders.