

Hydrocarbon Dynamics Limited 

(ABN 75 117 387 354)

**Corporate  
Governance  
Statement**

## **CORPORATE GOVERNANCE STATEMENT**

The Board of Directors of Hydrocarbon Dynamics Limited ('HCD' or 'the Group') believes there is a strong link between high standards of corporate governance and equity performance. We are committed to operating in accordance with HCD's corporate governance policies in all aspects of our business.

The Board believes that good corporate governance is about conducting business in a transparent and ethical way that enhances value for all of our stakeholders. The Board expects all HCD personnel to demonstrate high ethical standards and respect for others. The Board operates in an open, honest and collaborative fashion with all stakeholders and our corporate integrity is of the greatest importance.

The Board is responsible for the corporate governance of the Group. The Board's guiding principle is that it acts honestly, conscientiously and fairly, in accordance with the law and in the interests of HCD's shareholders, personnel and other stakeholders.

HCD ensures, wherever possible, that its practices are consistent with the Third Edition of the Australian Securities Exchange (ASX) *Corporate Governance Council's Principles and Recommendations* (ASX Principles). In certain circumstances, due to the size and stage of development of HCD, it may not be practicable or necessary to implement the ASX Principles in their entirety. HCD's statement of conformity to the ASX Principles is set out below, areas of divergence are noted.

### **PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT**

The Board's key responsibility is the creation, enhancement and protection of long-term shareholder value within an appropriate risk framework. HCD's commitment to governance and the Board's role, responsibilities and conduct are contained in the Board Charter which has been approved by the Board and is published on the HCD website, [www.hydrocarbodynamics.com](http://www.hydrocarbodynamics.com), under the Corporate Governance tab. The Board Charter is reviewed and amended from time to time as appropriate.

The Board establishes the strategic direction and policy framework within which the day-to-day business of the Group is managed. During the year, management's role was to manage HCD in accordance with the direction and delegations of the Board and the Board is responsible for overseeing the activities of management in carrying out these delegated duties.

Board members are committed to spending sufficient time to enable them to carry out their duties as Directors of HCD. Candidates for Directorship must confirm that they have the necessary time to devote to their Board position prior to appointment. Non-executive Directors receive formal letters of appointment setting out the key terms, conditions and expectations of their appointment.

Executives are provided with a formal job description and an employment or consulting contract describing their term of appointment, duties, rights, responsibilities and rights on termination. Executives are subject to a formal performance review process on an annual basis in December. No formal review was conducted during the year.

In relation to the appointment of future directors, at the commencement of the Non-executive Director selection process, the Group will undertake appropriate checks on potential candidates to consider their suitability to fill a casual vacancy on the Board or for election as a Non-executive Director.

Prior to their appointment, directors are expected to provide the Chairman with details of other commitments and an indication of time involved, and to acknowledge that they will have adequate time to fulfil their responsibilities as a Non-executive Director of the Group.

Directors available for re-election at a general meeting will be reviewed by the Remuneration & Nomination Committee and recommended to the Board. Directors are re-elected in accordance with the Group's Constitution and the ASX Listing Rules. Shareholders will be provided with all material information for a Director's election in the Notice of Meeting that would be relevant for shareholders to make a decision on whether or not to elect or re-elect a Director.

Executives also undergo an induction program to gain an understanding of HCD's financial position, its strategies, operations and risk management framework and the respective roles of the Board and management.

In addition to its executive management team, HCD engages experienced consultants with valuable knowledge and experience in petroleum engineering, oil and gas leasing, land management, geology and marketing.

Each Director has access to the Company Secretary who is responsible to the Board through the Chairman on all matters relating to governance and the conduct and functions of the Board and Committees.

Given the size and scale of operations of the Group, the Board has decided not to adopt a Diversity Policy at this stage. Accordingly, the Board has not yet set any measurable objectives for achieving gender diversity.

The percentage of women employed or contracted in the whole organisation, senior management and the Board are as follows:

Whole organisation: 9%

Senior Management: 14%

HCD Board: Nil

The Board typically carries out a Board performance assessment on an annual basis where the performance of the Chairman is reviewed and assessed by the other Directors, and the Chairman reviews and assesses the performance of the other Directors.

During the year under review, the Board conducted an informal review of its performance.

The Board conducts formal strategy sessions as appropriate to provide the opportunity for Directors and management to review operations and consider proposed future activities. Given the size of the Board and management team there are also frequent opportunities for less formal strategy discussions.

#### **PRINCIPLE TWO: STRUCTURE THE BOARD TO ADD VALUE**

The Remuneration & Nomination Committee is primarily responsible for determining remuneration, establishment of recruitment policies and procedures, reviewing the performance of Directors and senior executives and reviewing the composition and competencies of the Board. The Committee Charter sets out the responsibilities and functions of the Committee in detail.

During the reporting period, HCD complied with ASX Principles 2.1 and 8.1 which recommend that the Committee comprise of at least three members with majority of them being independent.

Details of the Committee members' attendance at Committee meetings are set out in the 2020 Directors' Report.

The Board's current skills matrix includes expertise and experience in: senior level energy company management and financial management (Chair, CEO, CFO), chemical engineering, corporate finance and development, investment banking, corporate affairs and community relations.

HCD has five directors at the date of this Annual Report. Mr Nicholas Castellano is an executive director, Mr Stephen Mitchell is the Non-executive Chairman, and Mr Ray Shorrocks, Mr Allan Ritchie and Mr Andrew Seaton are independent Non-executive Directors.

During the prior reporting period, HCD complied with ASX Principle 2.4 which requires that a majority of the Board should be Independent.

The following table outlines the Directors of the Group during the reporting period, including their period of office, non-executive and independence status.

The board as at the date of this report is comprised of:

Name	Appointment date	Retirement date	Non-executive status	Independence status
Stephen Mitchell	12 January 2016	-	✓ <sup>1</sup>	✗
Ray Shorrocks	12 January 2016	-	✓	✓
Allan Ritchie	6 April 2017	-	✓	✓
Nicholas Castellano	6 April 2017	-	✗	✗
Andrew Seaton	16 August 2019	-	✓	✓

1. Mr Mitchell moved from executive to non-executive status on 1 April 2020.

Mr Mitchell is considered a non-independent director as he is a substantial shareholder of the company, holding greater than 5% of voting shares, therefore the Group does not follow Recommendation 2.5. However, having regard to the size of the Group and the nature of its activities, the appointment of an alternative Chairman is not warranted and the Board considers that Mr Mitchell best serves the office of Chairman due to his extensive experience in the industry.

The Board believes that the chair is able to formulate proper and independent judgement on all relevant issues falling within the scope of the role of a chair.

It is intended that the composition of the Board be balanced, with Directors possessing an appropriate mix of skills, experience, expertise, qualifications and contacts relevant to HCD's business. The qualifications, experience and tenure of the Directors are set out in the 2020 Directors' Report. The Board Charter and the Remuneration & Nomination Committee Charter outline in more detail the procedure for the selection and appointment of new directors.

The Board considers that independent decision-making is critical to effective governance. Independent directors are those who have the ability to exercise their duties unfettered by any business or other relationships and are willing to express an objective opinion. The independence of Non-executive Directors is assessed annually by the Board against the definition outlined in the Board Charter. It is the approach and attitude of each Non-Executive Director which is critical to determining independence and this must be considered in relation to each Director while taking into account all relevant factors, which may include whether the Non-executive Director:

- (a) holds more than five percent of the voting shares of HCD (in conjunction with their associates) and is not an officer, or otherwise associated directly with a holder of more than five percent of the voting shares of HCD;
- (b) has within the last three years been employed in an executive capacity by HCD or another Group member, or has been a Director after ceasing to hold any such employment;
- (c) has within the last three years been a principal of a material professional adviser or a material consultant to HCD or another Group member, or an employee materially associated with the service provided. In this context, the relationship with the professional adviser or consultant shall be deemed to be material if payments from HCD exceed 10% of HCD's annual expenditure to all professionals and consultants or exceed 10% of the recipient's annual revenue for advisory or consultancy services;
- (d) is a material supplier or customer of HCD or another Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer. In this context, the relationship with the supplier or customer shall be deemed to be material if annual payments to or from that supplier or customer exceed 10% of the annual consolidated gross revenue of either HCD or that supplier or customer; and
- (e) has a material contractual relationship with HCD or other Group member other than as a Director of HCD.

The HCD Constitution states that at each Annual General Meeting (AGM) one-third of the Directors (excluding the Managing Director) and any Director who has held office for three or more years since their last election are required to retire from office. Any Director appointed by the Board since the previous AGM must stand for election at the next AGM. Retiring Directors are eligible for re-election.

New Directors undertook an induction process which included a full briefing on HCD meetings with key executives and receipt of an induction package containing key corporate information and presentations.

In order to achieve continuing improvement in Board performance, all Directors are encouraged to undergo continual professional development. This includes education concerning key developments in the Group and in the industry and environment in which the Group operates.

Each Director has the right of access to all HCD information and to HCD's executives. Further, the Board collectively and each Director individually, subject to informing the Chairman, has the right to seek independent professional advice from a suitably qualified advisor, at HCD's expense, up to specified limits, to assist them to carry out their responsibilities. Where appropriate, a copy of this advice is to be made available to all other members of the Board.

### **PRINCIPLE THREE: ACT ETHICALLY AND RESPONSIBLY**

The Board has adopted a Code of Conduct and Ethics which is published on the Group's website. The Board, senior executives and all employees are committed to implementing and complying with the Code. The Code requires that the Group and its employees, consultants, contractors, advisors and all other people when they represent HCD operate to the highest standards of ethical behaviour, honesty and fairness in relationships with stakeholders. Stakeholders include employees, contractors, clients, customers, suppliers, joint venture partners, shareholders, government authorities, regulators, creditors and the community as whole.

It is in the best interests of HCD for all personnel to immediately report any observance of a breach of the Code. All personnel are requested to report immediately any circumstances which may involve a breach of this Code to the Company Secretary, the Managing Director or the Chairman.

Any breach of applicable laws, accepted ethical commercial practices or other aspects of the Code of Conduct and Ethics will result in disciplinary action.

The Group has adopted a Securities Trading Policy in line with the ASX Listing Rules and Guidance Note to regulate dealings by the Group's directors, employees and all other people when they represent HCD.

Consistent with the legal prohibitions on insider trading contained in the *Corporations Act 2001*, all HCD personnel are prohibited from trading in HCD's securities while in possession of material non-public information. Material non-public information is information, which a reasonable person would expect to have a material effect on the price or value of HCD's securities. The policy allows HCD personnel, and their related parties, to buy or sell shares only during board sanctioned windows which include the six weeks period commencing the first trading day after the announcement of the Appendix 5B, the full year results, the half year results; the date of the AGM and such other dates as the Board determines. Trading outside the permitted windows is allowed only in exceptional circumstances with the prior written approval of the Board at least two business days prior to any proposed trade.

Any transaction with HCD shares conducted by Directors is notified to the ASX. Each Director has entered into an agreement with the Group to provide information to enable HCD to notify the ASX of any share transactions within five business days.

A copy of the Securities Trading Policy is available on the Corporate Governance section of the Group's website and has also been lodged with the ASX.

### **PRINCIPLE FOUR: SAFEGUARD INTEGRITY IN CORPORATE REPORTING**

The Financial Controller oversees the Group's financial resources, records and reporting.

The Board requires the persons performing the roles of CEO/Managing Director (or in the absence of a CEO, the Chair of the Audit Committee) and Financial Controller to declare in writing to the Board at the time of approving and signing the annual and half-yearly accounts that, in their opinion, the Group's financial reports present a true and fair view, in all material respects, of the Group's financial condition and operational results and are in accordance with relevant accounting standards, as required by Section 295A of the *Corporations Act 2001*. Both these officers also report to the Board at its regular meetings.

*(ASX Recommendation 4.2)*

Additionally, an Audit Committee has been established that works in conjunction with the Group's external auditors to ensure the presented accounts are in accordance with accounting principles. In terms of the ASX Guidelines the Committee's Chair is a Non-executive Director (not being Chair of the Board) who has a strong commercial finance and accounting background making him an appropriate person for this role. The Committee has three members all of whom are independent.

The Audit Committee keeps minutes of its meetings and includes them for review at the following Board Meeting. The Audit Committee members' attendance at meetings as compared to total meetings held is set out in the Directors' Report contained in the Annual Report.

*(ASX Recommendation 4.1)*

The external auditors attend the committee meetings at least twice a year and on other occasions where circumstances warrant, as well as being available at the Group's AGM to answer shareholders questions about the conduct of the audit and the preparation and content of the audit report.

*(ASX Recommendation 4.3)*

#### **PRINCIPLE FIVE: MAKE TIMELY AND BALANCED DISCLOSURE**

HCD fully supports the continuous disclosure regime and its current practice is consistent with the Principles. HCD has in place mechanisms to ensure that:

- (a) all investors have equal and timely access to material information concerning HCD; and
- (b) all announcements released by HCD are factual, presented in a clear and balanced way, do not omit any material information and are expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions.

The Board has designated HCD's Chairman, with the assistance of the Company Secretary, as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX.

In accordance with the ASX Listing Rules, HCD immediately notifies the ASX of information:

- (a) concerning HCD that a reasonable person would expect to have a material effect on the price or value of HCD's shares; and
- (b) that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of HCD's shares.

Upon confirmation of receipt from the ASX, HCD posts all information disclosed in accordance with this policy on its website in an area accessible by the public.

A copy of the Continuous Disclosure Policy is available on the HCD website.

To enhance clarity and balance in reporting, and to enable investors to make an informed assessment of HCD's performance, financial results are accompanied by a commentary.

#### **PRINCIPLE SIX: RESPECT THE RIGHTS OF SHAREHOLDERS**

The Board is committed to communicating with shareholders regularly and clearly.

HCD is committed to:

- communicating effectively with shareholders through releases to the market via ASX, HCD's website, information mailed to shareholders and general meetings of shareholders;
- giving shareholders ready access to balanced and understandable information about HCD and corporate proposals; and
- making it easy for shareholders to participate in general meetings of HCD.

The Annual Report, half-year report, Annual General Meeting and specific investor briefings are all important communication forums. The Group encourages shareholders to attend and participate at general meetings to ensure accountability. HCD welcomes questions from shareholders at any time and these will be answered within the confines of information that is already in the public domain and is not market sensitive.

Shareholder communication and investor relations are conducted in accordance with the HCD Continuous Disclosure Policy and Shareholder Communication Policy, both of which are published on the HCD website.

HCD also makes available various communication avenues (including electronic form) for shareholders to make enquiries of HCD and to receive updates on important developments (including email alerts).

The following documents that address corporate governance are available within the Corporate Governance section of HCD's website:

- Corporate Governance Statement;
- Board Charter;
- Audit Committee Charter;
- Remuneration and Nomination Committee Charter;
- Code of Conduct and Ethics;
- Risk Management Policy;
- Shareholder Communications Policy;
- Securities Trading Policy;
- Environmental Management, Health and Safety Policy; and
- Whistleblower Policy.

Where possible, HCD will arrange for advance notification to shareholders of significant Group briefings. Presentations to be made at such briefings, which contain information not previously released to shareholders, will be released via the ASX and published on the Group's website. The Group will also keep a summary record (for internal use) of the issues discussed at briefings with investors and analysts.

#### **PRINCIPLE SEVEN: RECOGNISE AND MANAGE RISK**

The Audit Committee is responsible for financial risk management and has not separately established a risk committee. The Board as a whole is responsible for risk oversight and risk management.

The Board is responsible for establishing and reviewing policies on risk management and internal control and acknowledges the importance of effective risk management to the long-term success of HCD. HCD has a Board approved Risk Management Policy, published on the website, that assists the Group in identifying and managing risk in accordance with best practice.

The Board has implemented the following control framework:

- **Financial reporting:** a comprehensive budget is approved by the Board. Monthly results are reported against budget and revised forecasts are prepared regularly;
- **Special functional reporting:** the Board has identified a number of key areas which are subject to regular reporting to the Board such as safety, environmental, insurance and operational matters; and
- **Investment appraisal:** the Board has set clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures, and levels of authority and due diligence requirements. Capital expenditure and revenue commitments that exceed a delegated authority will require prior Board approval. Procedures have been established to ensure business transactions are properly authorised and executed. Compliance with these procedures may be scrutinised by the external auditor.

Due to the size and scale of operations of HCD, there is no separate internal audit function. The Chairman and principal accountant monitor and give an appraisal of the adequacy and effectiveness of HCD's risk management and internal control system. This is independent of the external auditor. In addition, the Board reviews and discusses current and emerging material risks at each Board Meeting. The Board did not conduct a review of the risk management and internal control system during the year, as the Board considered operational risk at each meeting and it was not considered necessary to conduct a formal review.

Management is responsible for designing and implementing the risk management framework. Management identifies and reviews the major risks impacting each area of the business and develops strategies to effectively mitigate risks.

As recommended by the ASX Principles, Management will report to the Board on the effectiveness of HCD's management of its material business risks with respect to future reporting periods. The Board considers it is subject to the following material exposures to risks:

- **Economic:** the demand for, and price of, oil and natural gas is highly dependent on a variety of factors, including international supply and demand, the level of consumer product demand, weather conditions, the price and availability of alternative fuels, actions taken by governments and international cartels, and global economic and political developments. International oil and gas prices have fluctuated widely in recent years and may continue to fluctuate significantly in the future. Fluctuations in oil and gas prices and, in particular, a material decline in the price of oil or gas may have a material adverse effect on the Group's business, financial condition and results of operations.
- **Environmental:** the Group's activities are subject to the environmental risks inherent in the oil and gas industry. The Group is subject to environmental laws and regulations in connection with operations it may pursue in the oil and gas industry; such operations are currently in Utah. The Group intends to conduct its activities in an environmentally responsible manner and in accordance with all applicable laws. However, the Group may be the subject of accidents or unforeseen circumstances that could subject the Group to extensive liability. Further, the Group may require approval from the relevant authorities before it can undertake activities that are likely to impact the environment. Failure to obtain such approvals will prevent the Group from undertaking its desired activities. The Group is unable to predict the effect of additional environmental laws and regulations that may be adopted in the future, including whether any such laws or regulations would materially increase the Group's cost of doing business or affect its operations in any area. The Board mitigates the economic and environmental risks by discussing the economic conditions and environmental risks at every board meeting and where necessary it will engage experts to assist with the management of these risks.
- **Intellectual Property:** The Group's activities are focussed on the use of its key products, significantly HCD Multi-Flow<sup>®</sup>. The Group constantly monitors the products of competitors in the industry to ensure its technology has not been replicated or superseded. If this occurred, it would have a material adverse effect on the Group's business, financial condition and results of operations.
- **Social sustainability:** The Group does not consider it is subject to material social sustainability risks.

#### **PRINCIPLE EIGHT: REMUNERATE FAIRLY AND RESPONSIBLY**

As described previously, the Remuneration & Nomination Committee has been established to review all remuneration and performance related matters of HCD and to operate in accordance with its Charter, as outlined on HCD's website.

The Committee will assist the Board in fulfilling its responsibilities with respect to establishing appropriate remuneration levels and incentive policies for employees.

All directors are invited to attend Committee meetings; however, "interested directors" do not vote on related matters. Senior executives are not directly involved in determining their remuneration.

In relation to remuneration issues, the Board has established a policy to ensure that it remunerates fairly and responsibly. The remuneration policy of the Board is designed to ensure that the level and composition of remuneration is competitive, reasonable and appropriate for the results delivered and to attract and maintain talented and motivated directors and employees. The structure of executive remuneration is distinctly different to that of Non-executive Directors which is detailed in the Remuneration Report. The policy is designed for:

- (a) decisions in relation to the constituents of executive and Non-executive remuneration policy;
- (b) decisions in relation to executive remuneration packages;
- (c) decisions in relation to merit recognition arrangements and termination arrangements; and
- (d) ensuring that any equity-based executive remuneration is made in accordance with the thresholds set in plans approved by shareholders.

The HCD Personnel Securities Trading Policy states that executives are not permitted to enter into transactions in financial products, securities or derivatives which limit the economic risk of participating in unvested entitlements under equity-based remuneration schemes.

The Remuneration Report for the 2020 year and further details about the Remuneration Policy of HCD are set out in the Annual Report for the Year Ended 31 December 2020.