

## Quoted Companies Alliance: New QCA Corporate Governance Code

*From September 2018 all AIM companies are required to set out details of a recognised corporate governance code that the board of directors has chosen to apply, how they comply with that code, and where it departs from its chosen corporate governance code an explanation for doing so.*

### Introduction from the Chairman

Ascent Resources plc (“Ascent”) is required to adopt a recognised corporate governance code and demonstrate how we comply with the principles of our chosen code. We have chosen to adopt the Quoted Companies Alliance (“QCA”) Code as our guide and set out below detailed explanations of how we seek to comply with each of the QCA Code’s 10 principles.

The following review is based on the Company’s current strategy and takes no account of any changes following the outcome of the strategic review.

We have identified two areas where we are not currently in full compliance:

- The first is that we actively encourage non-executive directors to participate in the Company’s option scheme.
- The second is that, with only one executive director, the board is unbalanced in respect of executive to non-executive members. In particular, we announced on 6 August 2018, that our only executive director has moved to a part-time basis to conserve cash.

We regard treating others fairly and doing things properly as good business, which will hopefully result in a long-term increase in shareholder returns. Therefore, our approach is to comply with the QCA Code wherever it is possible and consistent with increasing shareholder value.

We have no current intention of changing the first departure from the Code noted above and we explain in detail below why we believe the way we operate best suits our Company. As regard the second departure, we will continue to monitor the appropriateness of the board composition going forward.

Ascent Resources plc is a company with a clear business model and strategy. Our objective is to create shareholder value from the development of oil and gas projects and associated activities. All members of the board believe strongly in the importance of good corporate governance to help achieve our goals and in our accountability to all our stakeholders. In the statements that follow, we explain our approach to governance, and how the Board and its committees operate.

Clive Carver  
Non-executive Chairman  
19 September 2018

## **Principle 1      Establish a strategy and business model which promote long term value for shareholders**

### **Purpose**

Ascent's objective is to create shareholder value from the development of oil and gas projects and associated activities. The Group has a number of secondary objectives, including promoting the highest level of health and safety standards, developing our staff to their highest potential and being a good corporate citizen in our chosen countries of operations.

### **Strategy**

The Group's long-term strategy is to build an attractive portfolio of oil and gas exploration and production assets in onshore Europe, in particular Slovenia where the Company has its greatest experience. Additionally, the Group will seek to exploit associated opportunities where the board believes it can add significant value and contribute towards the success of the Group as a whole.

The Group's principal asset is its interest in the Petišovci field in north eastern Slovenia which it brought into production in 2017.

### **Our business model**

Our business model is to invest in and develop promising oil and gas projects. Growth in long term value will be measured by a sustainable appreciation in the share price and, when appropriate, by dividend payments.

### **Key challenges and how they will be addressed:**

Exploration for and production of oil & gas are inherently high-risk ventures. The Annual Report sets out the principal risks and our approach to manage and mitigate these risks.

In addition, the Company is subject to various risks relating to political, economic, environmental, legal, social, regulatory, business and financial matters. Risk assessment and evaluation is an essential part of the Company's planning and an important aspect of the Company's internal control system.

## **Principle 2      Seek to understand and meet shareholder needs and expectations**

The Company communicates with its shareholders principally via a Regulatory Information Service, its website, social media, formal company meetings and periodic investor presentations. The need to treat all shareholders fairly by not selectively releasing price sensitive information however often limits our ability to provide the answers many investors seek.

The Company's management meets prospective institutional investors from time to time to assess the availability of large scale institutional funding to advance the company's plans.

From our interactions with existing and prospective investors it is clear to the board the principal objective of shareholders is to maximise capital returns at an acceptable level of risk. The most common issue raised being when will we receive the outstanding permits from Slovenia's Environment Agency.

During the financial year, the Company presented at specially organised events focussed on the retail and institutional markets, including a dedicated Ascent Resources event in London. Additionally, the Company recorded a number of media interviews which are available to download on leading investor focussed websites and from the media section of the Company's website: <https://www.ascentresources.co.uk/media/>

The Chief Executive is responsible for shareholder liaison. The Company's contact details, telephone, email and correspondence address, are listed on its website for shareholders' use. The Company also provides an email alert service on its website to which shareholders and other interested parties can subscribe, to receive company announcements when they are released.

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

The Company regards its employees and their families, its partners, local and national government and its shareholders to be the core of the wider stakeholder group.

### **Employees and Social responsibilities**

Staff employed by the Group are based primarily in Slovenia. As well as providing employees with appropriate remuneration and other benefits, together with a safe and enjoyable working environment, the Board recognises the importance of communication with employees to motivate them and involve them fully in the business. For the most part, this communication takes place at a local level, through the Country Manager but staff are kept informed of major developments through email updates and staff meetings led by the Chief Executive.

It is the Group's policy and practice to comply with health, safety and environmental regulations and the requirements of the countries in which it operates, to protect its employees, partners, assets and environment.

### **External**

In addition to the employment created for Company's staff, many additional jobs in the Company's suppliers, partners and professional advisers are reliant on Ascent's business activities.

## Feedback

The Company takes into account feedback from its stakeholders in its decisions and actions.

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

Risk assessment and evaluation is an essential part of the Company's planning and an important aspect of the Company's internal control system. Oil & gas exploration and production is a dangerous activity and as such is necessarily subject to an extreme health and safety regime.

As the Company develops, its approach to risk management and mitigation will be refined and is planned to include a formal risk register including all the principal operational and non-operational risks to the business. Such a risk register would be reviewed and assessed at least once a year by the Audit Committee.

For further details of the Company's approach to risk and risk management, please refer to the Principal Risks and Uncertainties section of the Annual Report and Financial Statements.

### **Principle 5      Maintain the board as a well-functioning, balanced team led by the chair**

At the executive level Colin Hutchinson, Chief Executive & Finance Director, runs the Company's operations in Slovenia and takes the lead on all operational & non-operational matters. He is supported on operational matters by the Country Manager in Slovenia; on technical matters by Cameron Davies; on all aspects related to the listing of the Company's shares on AIM, including Corporate Governance and Investor Relations by Clive Carver; and on financial reporting and accounting matters by Nigel Moore.

Colin Hutchinson is a chartered accountant, a Fellow of the Institute Chartered Accountants in Ireland, holds a law degree from Dundee University and a MBA from Warwick Business School. He has been working for the company since 2013 and has a detailed understanding of the asset, joint operating framework and permitting process in Slovenia.

Clive Carver is a fellow of the Institute of Chartered Accountants in England and Wales (FCA) and a fellow of the Association of Corporate Treasurers (FCT). While working in the UK broking industry Clive gained more than 15 years' experience as a Qualified Executive under the AIM Rules having run the Corporate Finance departments of several of the larger and more active Nominated Adviser firms.

Cameron Davies is an international energy sector specialist and the former Chief Executive of Alkane Energy plc. He has a PhD in Applied Geochemistry from Imperial College, is a Fellow of the Geological Society of London and a member of the European Petroleum Negotiators Group and the PESGB. He has an excellent track record of exploration success and also growing profits in a quoted energy company. His career successes include the discovery of the third largest oilfield in Tunisia. In 1994 he founded Alkane Energy plc ("Alkane") and managed the business from original concept, through venture capital funding and an IPO to become a profitable operator of c. 160 MW of gas to power generation plants. In Q4 2016 Alkane was acquired for c.£61 million by Balfour Beatty Infrastructure Partners when Cameron resigned as a director. He is also Non-executive Chairman of Powerhouse Energy PLC.

Nigel Moore is a Chartered Accountant and was a former partner at Ernst & Young for thirty years until 2003. For the last ten years at Ernst & Young he specialised in the oil and gas sector, advising a

wide range of client companies, providing significant input to strategic options, new opportunities and helping to deliver shareholder value. During the last 15 years Nigel has been a member of a number of boards focussed on extractive industries.

The board believes it possesses the skills required to build a successful oil & gas business focused on Slovenia.

The board physically meets on a monthly basis either physically or by telephone. At these meetings the board receives a report from Colin Hutchinson on all matters.

The board also has a list of standing items, including compliance with the UK Bribery Act, litigation and existence of open and closed periods for director dealings, which are considered at each meeting.

The number of board meetings attended each year by the directors will be set out in the Directors report which forms part of the Annual Report and Financial Statements.

## **Departures from the Code**

### ***Non-Executive Directors' participation in Option Schemes***

In common with many AIM Companies we actively encourage non-executive directors to participate in the Company's option schemes. The purpose of the Company is to grow shareholder value. It would be perverse then if we did not link the rewards of those directly responsible for the Company's growth to increases in the underlying value of the Company - all at no cash cost to the Company.

### ***Balance between Executive and Non-executive directors***

The Board currently has only one Executive director, Colin Hutchinson, who fulfils the roles of both Chief Executive and Finance Director.

While the Board recognises that it would be common for companies to have at least two executive directors it considers that the current balance of the board is appropriate for a Company at Ascent's stage of development.

This is mitigated by the higher level of engagement particularly from the Chairman, Clive Carver, who provides significant input on all non-operational matters including all aspects related to the listing of the Company's shares on AIM, including Corporate Governance and Investor Relations.

### **Principle 6      Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities**

The experience of the directors and the operational board is set out in the response to principle 5 above and in the Annual Report and Financial Statements.

The Chief Executive is supported by the rest of the board, by the operational staff in Slovenia and by expert consultants as required.

Operational skills are maintained through an active day to day involvement in the oil & gas industry and by the use of leading international external contractors who demonstrate the latest techniques and use the latest equipment.

Non-operational skills are maintained principally via the Company's professional advisers and being active in the market. Involvement with a variety of other boards allows those concerned to witness alternative approaches to similar business issues and to benefit from the advice of more than just the Company's retained advisers.

**Principle 7 Evaluate board performance based on clear and relevant objectives, seeking continuous improvement**

The Company's strategy and its shorter-term objectives are set out in the Annual Report and Financial Statements, including appropriate Key Performance Indicators (KPIs).

In recent times, the board has focused on developing Petišovci and progressing a Strategic Review to assess the most appropriate way to fund this development.

Bonus payments have been paid to board members on the achievement of commercial gas production in Slovenia after ten years in the country.

The Company will in the near term seek to formalise the assessment of both executive and non-executive board members.

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

The board firmly believes that sustained success will best be achieved by adhering to our corporate culture of treating all our stakeholders fairly and with respect.

Accordingly, in dealing with each of the Company's principal stakeholders, we encourage our staff to operate in an honest and respectful manner.

Compliance with this is considered an important part of the annual assessment of staff and in setting their pay for future periods.

Future Annual Report and Financial Statements will include a statement in the Corporate Governance section setting out the Company's corporate culture and approach to ethical values and behaviours.

**Principle 9 Maintain governance structures and processes that are fit for purpose and support good decision-making by the board.**

The Company's governance structures have been reviewed in light of the introduction of the new QCA Code. The Board believes them to be in accordance with best practice as adapted to better comply with Ascent's circumstances – as disclosed above.

The Company is confident that its governance structures and processes are consistent with its current size and complexity. The Board is aware that it must continue to review its practices as the Company evolves and grows.

The Chief Executive Officer has overall responsibility for managing the day to day operations of the Company and the Board as a whole is responsible for implementing the Company's strategy. The Directors' Biographies in the Annual Report and Financial Statements briefly describes individual board members' specific responsibilities.

The terms of reference of the Audit Committee and the Remuneration Committee are set out on our website.

The appropriateness of the Company's governance structures will be reviewed annually in light of further developments of accepted best practice and the development 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 reports formally to its shareholders and the market twice each year with the release of its interim and full year results. The full year results being audited by an external firm of auditors with the interim statement usually subject to a review by the same external auditors.

The Annual Report and Financial Statements set out how the corporate governance of the Company has been applied in the period under review.

These reports contain full details of all the principal events of the relevant period together with an assessment of current trading and future prospects and the reports are made available via the Company's website to anyone who wishes to review them.

Employee stakeholders are regularly updated with the development of the Company and its performance.

*Prepared 19 September 2018*