BOARD CHARTER

CARBON ENERGY LIMITED
ADOPTED IN MAY 2014

BOARD CHARTER

Carbon Energy Limited ("COMPANY")

1. Overview

The role of the Board is to provide leadership for and supervision of the Company's senior management. The Board provides the strategic direction of the Company and regularly measures the progression by senior management of that strategic direction.

The Board bases its decisions on the Company's growth oriented approach to increase shareholder value, or such other revised strategies as may be adopted and approved by the Board.

The Board will:

- provide input that assists in identifying and understanding emerging trends and issues;
- agree the broad framework within which the strategic and business plans will be prepared each year;
- recommend any significant shifts in the broad strategic direction of the Company; and
- review, develop and approve the long-term strategic plan and ensure the Company develop annual business plans to achieve the strategic objectives.

This Board Charter sets out the functions and responsibilities of the Board and details the manner in which the Board will operate.

2. Duties and Responsibilities

The Board is collectively responsible for promoting the success of the Company by:

(a) overseeing the Company, including its control and accountability systems;

(b) appointing and removing the chief executive officer, or their equivalent, as well as evaluating their performance;

(c) ratifying the appointment and, where appropriate, the removal of senior executives, including the chief financial officer and the company secretary;

(d) monitoring, reviewing and challenging senior management's performance and implementation of strategy;

(e) ensuring appropriate resources are available to senior management;

(f) approving the Company's corporate governance framework;

(g) approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;

(h) monitoring the financial performance of the Company;

(i) appointing the external auditor (based on recommendations of the Audit and Risk Committee and within the parameters set out by *GOV-MP-04 Procedure for the Selection, Appointment & Rotation of External Auditor*;

(j) monitoring compliance with the Company's legal obligations, including those relating to the environment, native title, cultural heritage and occupational health and safety; and

(k) making regular assessment of whether each non-executive director is independent in accordance with *GOV-POL-14 Assessing the Independence of Directors Policy*.

2.1 Delegations

The Board may constitute a committee of directors and, where appropriate, senior management from time to time to assist the Board in carrying out its responsibilities ("Board Committee"). Each Board

Committee adopts a charter which outlines composition, responsibilities, administration and other relevant matters pertaining to the conduct of the Board Committee.

The Board has constituted the Audit and Risk Committee and the Remuneration and Nomination Committees.

Remuneration Committee

The Board has established a Remuneration Committee to review the Company's remuneration framework.

Nomination Committee

The Nomination Committee comprises the entire Board. The role of the Committee is to effectively examine the selection and appointment practices of the Company.

Audit and Risk Committee

The Board has established an Audit and Risk Committee which assists in fulfilling corporate governance responsibilities in regard to:

- the reliability and integrity of financial information for inclusion in the Company's financial statements;
- audit, accounting and financial reporting obligations;
- the adequacy of the Company's audit arrangements; and
- the Company's internal control systems and risk management framework.

Senior Management

The Board delegates to senior management the responsibility for the day-to-day activities leading toward achievement of the Company's strategic direction, provided those matters do not exceed the Materiality Threshold as defined in Appendix A. Those who have the opportunity to materially influence the integrity, strategy and operation of the Company and its financial performance are considered to be part of senior management.

Chief Executive Officer (CEO)

The Board has delegated to the CEO the responsibility for running the affairs of the Company and to implement the policies and strategy set by the Board. In carrying out their responsibilities the CEO must report to the Board in a timely manner on those matters included in the Company's risk profile, all relevant operational matters and any other matter that is likely to exceed the Materiality Threshold.

All reports to the Board must present a true and fair view of the Company's financial condition and operational results.

The CEO is also responsible for appointing and, where appropriate, removing senior executives, including the chief financial officer, with the approval of the Board. The CEO is responsible for evaluating the performance of senior executives.

3. Access to Information and Advice

3.1 Chair of the Board

The Nomination Committee recommends a Board member to be appointed as Chair of the Board. The Chair should be an independent director.

The Chair is responsible for leadership of the Board and ensuring that the principles and processes of the Board are maintained. The Chair is also responsible for shareholder communications and overseeing the arrangements for the Board and, as appropriate, individual director performance evaluations.

The Chair should facilitate the effective contribution of all directors and promote constructive and respectful relations between directors and between board and senior management.

Any other position which the Chair may hold either inside or outside the Company should not hinder the effective performance of the Chair in carrying out their role as Chair of the Board.

3.2 Lead Independent Director

Where the Chair is not an independent director, a lead independent director will be appointed. The lead independent director will take on the role of the Chair when the Chair is unable to act in that capacity as a result of their lack of independence.

3.3 Non-Executive and/or Independent Directors

The Board recognises the importance of the appropriate balance between independent and non-independent representation on the Board. The independence of the non-executive directors is reviewed on a regular basis in accordance with *GOV-POL-14 Assessing the Independence of Directors Policy*. In assessing independence, the Board takes into account the skills and experience required, in the context of the Company's operations and activities.

The independent directors may meet without other directors present, if appropriate.

The non-executive directors may meet without senior management present from time to time. Such meetings may be facilitated by the Chair or the lead independent director, as appropriate.

3.4 Appointment

<u>Appointment Letter</u>

Upon appointment, a new director will be given a formal letter of appointment from the Chairman setting out the key terms, conditions and responsibilities of their position.

<u>Induction Program</u>

Upon appointment, the Company Secretary is responsible for arranging for the new director to undertake an induction program to enable them to gain an understanding of:

(a) CEL’s operations and the industry sectors in which it operates;

(b) the culture and values of CEL;

(c) CEL’s financial, strategic, operational and risk management position;

(d) their rights, duties and responsibilities; and

(e) any other relevant information.

4. Administration

4.1 Meetings

The Board must convene regular meetings with such frequency as is sufficient to appropriately discharge its responsibilities. It is usual practice for the Board to meet 10 times each calendar year. However, additional meetings are held as required to address specific issues.

All minutes of Board meetings are signed by the Chair as a true and correct record and are then kept by the Company Secretary and open for inspection by any director.

Senior management may be invited to attend Board meetings (or part thereof) from time to time where the Board considers their involvement of assistance to the consideration of items of business.

Directors are encouraged to request information from senior executives where they consider such information necessary to make informed decisions.

4.2 Quorum and Voting

Unless otherwise determined by the Board, two directors comprise a quorum. Each member will have one vote. In the event of an equality of votes the Chair will have a second or casting vote except where there are only two directors present or competent to vote on the questions.

4.3 Company Secretary

The Board will appoint at least one Company Secretary and his or her appointment and removal is a matter for the Board as a whole. The Company Secretary or their delegate attends meetings and acts as secretary to the Board.

Appendix A - Materiality Threshold

The Board has agreed on the following guidelines for assessing the materiality of matters:

Materiality – Quantitative

Balance sheet items
Balance sheet items are material if they have a value of more than 10% of pro-forma net asset.

Profit and loss items
Profit and loss items are material if they will have an impact on the current year operating result of 10% or more.

Materiality – Qualitative

Items are also material if:
(a) they impact on the reputation of the Company;
(b) they involve a breach of legislation;
(c) they are outside the ordinary course of business;
(d) they could affect the Company's rights to its assets;
(e) if accumulated they would trigger the quantitative tests;
(f) they involve a contingent liability that would have a probable effect of 10% or more on balance sheet or profit and loss items; or
(g) they will have an effect on operations which is likely to result in an increase or decrease in net income or dividend distribution of more than 10%.

Material Contracts

Contracts will be considered material if:
(a) they are outside the ordinary course of business;
(b) they contain exceptionally onerous provisions in the opinion of the Board;
(c) they impact on income or distribution in excess of the quantitative tests;
(d) there is a likelihood that either party will default, and the default may trigger any of the quantitative or qualitative tests;
(e) they are essential to the activities of the Company and cannot be replaced, or cannot be replaced without an increase in cost of such a quantum, triggering any of the quantitative tests;
(f) they contain or trigger change of control provisions;
(g) they are between or for the benefit of related parties; or
(h) they otherwise trigger the quantitative tests.

Any matter which falls within the above guidelines is a matter which exceeds the materiality threshold ("**Materiality Threshold**").