



Remuneration Policy

1. Overview

Carbon Energy Limited (“CEL” or the “Company”) is committed to fairly and responsibly compensating directors, senior management and employees for the services they provide, and the contribution they make, to the Company. This is undertaken in a way to attract and retain talented and experienced personnel while taking into account the best interests of CEL and its shareholders.

2. Role of the Committee

The Board has established a Remuneration Committee to assist in the development of fair and responsible remuneration strategy, including the implementation of this Policy. In discharging its responsibilities in relation to remuneration the Committee reviews and makes appropriate recommendations on:

- (a) remuneration packages of executive directors, non-executive directors and senior executives; and
- (b) employee incentive and equity-based plans including the appropriateness of performance hurdles and total payments proposed.

The Company is committed to ensuring that its remuneration practices work within the governance recommendations contained within the ASX Corporate Governance Committee's *Corporate Governance Principles and Recommendations* (3rd ed.).

3. Remuneration Principles

3.1 Structure

The Company will align its remuneration with that of comparable organisations for roles at all levels of the Company. Remuneration comprises both fixed remuneration and performance based (at risk) remuneration.

The proportion of an employee's total remuneration that is at risk will increase with seniority and with the individual's ability to impact the performance of the Company. At risk elements of total remuneration may comprise both short term incentives as a reward for annual performance and long term incentives that align medium and long term shareholder interests.

3.2 Fixed Remuneration

Fixed remuneration is to be at a sufficient level to provide appropriate compensation where performance is satisfactory but not superior.

Fixed remuneration is to be set having regard to the levels paid in comparable organisations at the time of recruitment to the position, recognising the need to maintain flexibility to take into account an individual's experience or specialist skills and market demand for particular roles.

Reviews of fixed remuneration will be conducted using market surveys and analysis, which may be supported by information gathered from consulting organisations.

Any increases in fixed remuneration will be based on market movements, Company performance (including ability to pay) and individual performance.



3.3 Performance Based (at Risk) Remuneration

In addition to fixed remuneration, employees may be entitled to performance based remuneration which will be paid to reward superior (as opposed to satisfactory) performance.

Performance based remuneration will initially be calculated against predetermined and challenging targets, but the outcomes of the formula calculation will be capped as a percentage of the relevant package, and will be subject to review and revision by the Board to guard against anomalous or unequitable outcomes.

Performance based remuneration can comprise both short term (usually annual) and medium to long term (3-5 year) incentives.

3.3.1 Short Term Incentives

Short term incentive plans will be based on meeting individual objectives against pre-determined Key Performance Indicators ("KPIs"), comprising financial and/or non-financial indicators, but the outcomes of the formula calculation will be capped and reviewed by the Board to guard against anomalous or unequitable outcomes, and the ultimate decision on any payment will be at the Board's discretion.

Short term incentives will only be used for the CEO when they support and are consistent with the Company's long term goals.

3.3.2 Long Term Incentives

Long term incentives ("LTIs") may be provided to certain members of senior management and eligible employees to reward creation of shareholder value, and provide incentives to create further value as well as to attract and retain executives.

The Company believes that the most significant value that can be created for shareholders will occur by way of senior management delivering on the strategic outcomes and goals set by the Board from time to time.

The measurement of these achievements will generally be linked to the delivery of;

- Total Shareholder Returns ("TSR"), which will be measured in part on an absolute basis and in part relative to a group of appropriate peer companies; and/or
- specific Company goals and outcomes extracted from the Company's strategic plan.

Generally, LTI awards will consist of the granting of performance rights and/or share options. The Board will have the discretion to award performance rights or options as appropriate in the circumstances.

LTI awards will generally vest after completion of a suitable period following the date of grant, subject to meeting any performance hurdles or other vesting conditions established by the Board. LTI awards (or that portion thereof) that are subject to TSR hurdles will vest independently of LTI awards (or that portion thereof) that are subject to other vesting conditions (including Company objective hurdles), with the result that partial vesting of LTI awards will be possible in any given year.

3.4 Non-Executive Directors

Non-executive directors are remunerated by way of fixed base fees for representation on the Board and committees (inclusive of superannuation), allowing for objective judgement in their performance. The Remuneration Committee considers the level of remuneration required to attract and retain directors with the necessary mix of skills and experience for the Board. The level of fixed fees paid to non-executive directors is



based on the scope of the director's responsibilities and midpoint benchmarking of comparable companies. Additional fees may be paid to non-executive directors for additional services that may be rendered from time to time while remaining under any cap set by the Company's shareholders.

3.5 Employee Retention Plan

From time to time the Board may elect to approve deferred retention arrangements to reduce the risk of loss of key employees who manage critical activities, occupy roles that are critical to strategic objectives, or undertake specialised functions the skills of which are in extreme demand and short supply. These arrangements can be in the form of deferred cash, Company shares or options and will be subject to specific time and/or performance outcomes. Retention payments in relation to senior management are included in the statutory Company reporting.

3.6 Termination Payments

Any termination payments to be made to the Chief Executive Officer, including in the event of an early termination, will be contained in the relevant contract of employment.

3.7 Clawback Policy

If the Board becomes aware of any misstatement in its financial statements for any of the immediately preceding 3 financial years due to:

- (a) a material non-compliance with any financial reporting requirement;
- (b) the misconduct of any directors or members of senior management; or
- (c) the misconduct of any of its other employees, contractors or advisers as a result of the direction (or lack thereof) by any directors or senior management; and

as a result, the STI and/or LTI entitlement of any director or senior management ("**the individual**") exceeds that which would have been calculated had the misstatement not been made,

the Board, on advice from the Remuneration Committee (if any) may:

- (d) require the individual to repay all or part of their relevant STI or LTI award;
- (e) forfeit any units representing all or a part of the individual's relevant LTI Award to the extent such reward remains unvested; and/or
- (f) withhold the payment or allocation of all or a part of the individual's STI Award or LTI Award to the extent such award has not been paid or given to the individual.