



**carbonenergy**

Carbon Energy Limited | ABN 56 057 552 137

# Corporate Governance

## Carbon Energy Limited

### Corporate Governance Statement – 2018

This corporate governance statement has been approved by the Board. It is current as at 30 October 2018.

The Board and senior executives of Carbon Energy Limited (**Company**) are committed to acting responsibly, ethically and with high standards of integrity as the Company strives to create shareholder value. The Company is committed to implementing the highest standards of corporate governance appropriate for a company of its size and operations. This corporate governance statement outlines the corporate governance practices in place or adopted by the Board by reference to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3<sup>rd</sup> Edition) (**Recommendations**).

The Board considers and applies the Recommendations taking into account the circumstances of the Company. Where the Company's practices depart from a Recommendation, this corporate governance statement identifies the area of divergence and reasons for it, or the alternative practices adopted by the Company.

The documents that govern the Company's corporate governance framework, including its Constitution, charters and policies are set out at the end of this corporate governance statement, together with links to where those documents can be accessed on the Company's website.

#### **Principle 1: Lay solid foundations for management and oversight**

##### **1.1 Disclose the respective roles and responsibilities of board and management and those matters expressly reserved to the board and those delegated to management**

The Board and executives are committed to acting responsibly, ethically and with high standards of integrity as the Company strives to create shareholder value. The Board is responsible for the strategic direction of the Company with oversight and review of the management and administration of the Company.

It is the role of senior executives to manage the Company in accordance with the direction and delegation of the Board and the responsibility of the Board to provide leadership to and oversee the activities of management in carrying out these delegated duties.

The respective roles and responsibilities of the Board, its Committees and senior executives are set out in the Board and Committee Charters. These Charters are available on the Company's website. Details on the number of meetings held throughout the year and attendance at those meetings can be found in the Company's 2018 Annual Report.

[www.carbonenergy.com.au](http://www.carbonenergy.com.au)

**1.2 Companies should carry out appropriate checks of board candidates and provide information to shareholders that is material to their candidacy**

The Board has established policies and procedures that apply to the appointment of new Directors, which include checks as to the person's character, experience, education and appropriate background checks. At each annual general meeting (**AGM**), the Company provides shareholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.

**1.3 Companies should have a written agreement with each director and executive setting out the terms of their appointment**

Non-Executive Directors are provided a formal letter of appointment which sets out their duties and responsibilities, rights and remuneration entitlements. Senior executives are employed under individual service contracts which set out their terms of employment including details of their duties, responsibilities, rights and remuneration entitlements.

**1.4 The company secretary of a listed entity should be accountable directly to the Chair of the Board for matters relevant to the Board**

The Company Secretaries are directly accountable to the Board in relation to matters of governance. The Company Secretaries' role includes advising the Board and its committees on governance matters, monitoring that policy and procedures are followed, coordinating the timely completion and despatch of Board papers and ensuring that the business at meetings is accurately captured in the minutes.

The Company Secretaries are accessible to all Directors. The Board is responsible for the appointment and removal of each Company Secretary.

**1.5 Companies should have a policy concerning diversity and disclose that policy, together with measurable objectives for achieving gender diversity and its progress towards achieving those objectives**

The Board has adopted a diversity policy, which sets out the Company's commitment to diversity and inclusion in the workplace (**Diversity Policy**). The Diversity Policy does not include a requirement for the Board to establish measurable objectives for achieving gender diversity. The Company aims to achieve an appropriate mix of diversity on its Board, in senior executives and throughout the Company. Given the small size of the Company workforce, the Board has determined that it is not currently necessary or practicable to establish measurable objectives in this area.

The proportion of women employees in the whole organisation, women in senior executive positions and women on the Board as at 30 June 2018 are set out in the following table:

	Proportion of women <sup>1</sup>
Whole Organisation <sup>1</sup>	38%
Senior Executives Positions <sup>1</sup>	25%
Board <sup>1</sup>	Nil%

<sup>1</sup> Figures include Directors and direct employees and exclude consultants.

The Diversity Policy is available on the Company's website.

The Company is not a “relevant employer” under the Workplace Gender Equality Act 2012 (Cth).

**1.6 Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors**

The performance of the Board, each Board Committee and each individual Director is evaluated under the direction of the Chair. An appropriate questionnaire is completed by all Directors on a bi-annual basis. The results are collated and then discussed by the Board to ensure all points of view are considered and learnings addressed.

A Board performance evaluation was not undertaken during the year ended 30 June 2018.

**1.7 Companies should disclose the process for evaluating the performance of senior executives**

Senior executives are subject to annual performance evaluations following the end of each financial or calendar year. This involves the assessment of performance against specific measurable criteria, taking into account the Company’s strategy and objectives. Senior executives are required to prepare their strategic objectives for review and approval by the Board, which assess performance against these objectives, taking into account the person’s ongoing suitability for the relevant role.

Details on management performance incentives and remuneration are contained in the remuneration report section of the Directors’ Report, in the Company’s 2018 Annual Report.

A Senior Executive performance evaluation was undertaken during the year ended 30 June 2018.

**Principle 2: Structure the Board to add value**

There are four Directors of the Company as at 30 June 2018.

- Mr Peter Hogan (Chairman) is an independent and non-executive Director.
- Mr Huihai Zhuang is a non-executive Director and not independent.
- Mr George Su Su is a non-executive Director and consultant and is not independent.
- Mr Bryan O’Donnell is the Managing Director and is not independent.

Directors during the financial year are listed in the Company’s 2018 Annual Report, with a brief description of their qualifications, appointment date, experience and special responsibilities.

**2.1 The Board should establish an appropriately structured nomination committee**

The Nomination Committee Charter sets out the Nomination Committee’s role and responsibilities, which includes Board renewal, succession planning, induction and evaluation. Reflecting the current size and composition of the Board and Company, the Nominations Committee comprises of three of the four Directors. Details on the number of meetings held throughout the year and attendance at those meetings can be found in the Company’s 2018 Annual Report.

The Nomination Committee comprises of three of the four Directors and, unless a conflict exists, is chaired by the Chair of the Board.

From time to time, non-Committee members may be invited by the Committee to attend meetings of the Committee, if it is considered appropriate.

The Company considers that the Nomination Committee is appropriately structured given the nature and size of the Company and the extensive knowledge of Directors regarding the Company and its business.

For this reason, the Company takes the view that it is in the best interests of members that Directors are members of the Nomination Committee.

The Nomination Committee's Charter is available on the Company's website.

**2.2 The Board should establish and disclose a board skills matrix on the skills and diversity for Board membership**

The Board considers that there is currently an appropriate mix of skills, diversity and experience on the Board, taking into account the size of the Company, the stage of its development and the nature of its operations. The Company seeks to maintain a Board with a broad range of financial, industry and other relevant skills, experience and knowledge. The Board has developed a matrix to consider the appropriate mix of skills, experience, expertise and diversity across its current membership and to assist in identifying what may be required of candidates in the event a new director is required.

<b>Skills and Experience of Directors</b>	
<b>Resource and/or Oil &amp; Gas Industry Experience</b>	✓✓✓✓
<b>CEO Experience</b>	✓✓✓✓
<b>Legal and/or Commercial</b>	✓✓✓✓
<b>Financial</b>	✓✓✓✓
<b>Stakeholder</b>	✓✓✓✓
<b>Board Governance &amp; Diversity</b>	✓✓✓✓

**2.3 The Company should disclose whether its Directors are independent**

The independence of Directors was measured during the reporting period having regard to the Company's Assessing the Independence of Directors Policy (**Independence Policy**), which provides that an independent director will be determined by reference to the defining characteristics as set out in Box 2.3 of the Recommendations. The Independence Policy also provides that an independent director is a director who is not a member of management and is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement.

The Independence Policy is available on the Company's website.

The following table sets out the Directors of the Company during the reporting period, including their length of service up to the date of this corporate governance statement and non-executive and independent status.

<b>Name</b>	<b>Appointment date</b>	<b>Resignation date</b>	<b>Current length of Service</b>	<b>Non-executive?</b>	<b>Independent?</b>
Peter Hogan	29 August 2008	N/a	10 years 2 month	Yes	Yes
Huihai Zhuang	29 October 2015	N/a	3 years	Yes	No
George Su Su	9 March 2017	N/a	1 year 8 months	Yes	No
Bryan O'Donnell	8 January 2018	N/a	9 months	No	No

#### **2.4 The majority of the Board should be comprised of independent Directors**

The Board comprises one independent Director (Mr Peter Hogan) and three non-independent Directors. The majority of the Board is not comprised of independent Directors.

The Company considers that the Board is appropriately structured given the nature and size of the Company and the extensive knowledge of Directors regarding the Company and its business.

#### **2.5 The Chair should be an independent Director and should not be the same person as the CEO**

Mr Peter Hogan is an independent non-executive Chairman. Mr Bryan O'Donnell is the Managing Director. The roles of the Chairman and Chief Executive Officer are not exercised by the same individual. The Board Charter sets out distinct responsibilities of each role.

#### **2.6 The Board should establish a program for inducting new directors and provide appropriate professional development opportunities for Directors**

New Directors are provided with a formal letter of appointment and induction pack, which includes a range of information to allow them to gain an understanding of their rights and responsibilities, the role of the Board, its Committees and senior executives and the Company's financial, strategic, operational and risk management policies and position. The Board Charter provides that the Company Secretaries are responsible for arranging an induction program for any new director to enable the Director to gain an understanding of matters including the Company's operations and the industry in which it operates, the Company's culture and values, and its financial, strategic, operational and risk management position. The program may include presentations and meetings with Directors and senior executives and site visits. Directors are encouraged to undertake professional development opportunities as and when required in order to further develop and maintain their skills and knowledge.

### **Principle 3: Promote ethical and responsible decision making**

#### **3.1 Companies should establish a Code of Conduct**

The Company has established a Code of Conduct (**Code**), which applies to all Directors, senior executives and staff (**Employees**). The Code promotes practices that aim to foster the Company's key values, which include providing a safe and healthy work environment, encouraging Employees to act with fairness, honesty and integrity, being aware of and abiding by relevant laws and regulations and maintaining high standards of professional behaviour. Employees are expected to be honest and ethical in their dealings with each other and all stakeholders. Employees are responsible for actively reporting any inappropriate behaviour, corrupt practices or any breaches of the law or the Code. In order to do so employees are encouraged to follow the steps outlined in the Whistleblower Policy.

A summary of the Code and the Whistleblower Policy are available on the Company's website.

### **Principle 4: Safeguard integrity in corporate reporting**

#### **4.1 The Board should establish an appropriately structured audit committee**

The Audit and Risk Committee comprises of three of the four Directors. The Chairman of the Audit Committee is also the Chairman of the Board.

The Audit Committee meets at least twice a year. The attendees are the Audit Committee Members, External Auditor, Managing Director, Chief Financial Officer and Company Secretaries

The Audit and Risk Committee and the Board discuss, directly with the auditors, relevant financial aspects of the Company. Information about the selection and appointment of the external auditor and regarding the rotation of external audit engagement partners is set out in the Company's Selection and Appointment of External Auditor Policy.

Membership of the Audit Committee, including members' qualifications and experience, are set out in the Company's 2018 Annual Report. Details on the number of meetings held throughout the year and attendance at those meetings can be found in the Company's 2018 Annual Report.

This Audit Committee structure is considered to be commercially cost effective, and appropriate to the Company's small size and structure.

The Audit and Risk Committee Charter which sets out the Committee's role and responsibilities, composition, structure and membership requirements is available on the Company's website.

#### **4.2 CEO and CFO certification of financial statements**

Prior to Board approval of the Company's annual financial reports, the Managing Director and the Chief Financial Officer provide the Board with declarations required under section 295A of the *Corporations Act 2001* (Cth) (**Corporations Act**) and Recommendation 4.2.

For the periodic financial reports provided during the year, the Managing Director and Chief Financial Officer provided the Board with declarations that, in their opinion, the financial records of Company had been properly maintained and that the financial statements complied with the appropriate accounting standards and gave a true and fair view of the financial position and performance of the Company and that those opinions had been formed on the basis of a sound system of risk management and internal control which was operating effectively.

#### **4.3 External auditor availability at AGM**

The external auditor attends the Company's Annual General Meeting and is available to answer shareholder questions about the conduct of the audit and preparation and conduct of the Independent Auditor's Report. Shareholders are also given the opportunity to submit written questions prior to the meeting. The Company considers that this is important in promoting and encouraging shareholder participation and reflects and supports the roles of the auditor and the auditor's accountability to shareholders.

### **Principle 5: Make timely and balanced disclosure**

#### **5.1 Companies should establish continuous disclosure policies and ensure compliance with those policies**

The Company has adopted a Continuous Disclosure Policy that sets out the policies and procedures relating to:

- the reporting of price sensitive information to a Company Secretary for review;
- the preparation, approval and release of announcements containing price sensitive information or potentially price sensitive information to the market; and

- compliance by the Company with its continuous disclosure obligations under the Corporations Act and ASX Listing Rules, and to ensure accountability at a senior executive level for that compliance.

The Continuous Disclosure Policy is available on the Company's website.

## **Principle 6: Respect the rights of shareholders**

### **6.1 The Company should provide information about itself and its governance to shareholders on its website**

The Company's website [www.carbonenergy.com.au](http://www.carbonenergy.com.au) provides detailed information about its business and operations.

The Investor Centre section of the website provides helpful information to shareholders and a link to the Company's share registrar, Link Market Services. The Investor Centre also provides an investor fact sheet, investor FAQs, analyst reports and webcasts.

The Announcements & Reports section contains ASX and media announcements, industry news, roadshow and investor presentations and annual and periodic reports.

Shareholders can find information about the Company's corporate governance practices on the website within the Corporate Governance section under About Us. This includes the Company's Constitution, Board and Committee Charters and the Company's other corporate governance policies.

### **6.2 The Company should design and implement an investor relations program to facilitate effective two-way communication with shareholders**

The Company is committed to engaging with shareholders and using a variety of tools to facilitate effective two-way communication. In doing so it has adopted a Shareholder Communications Policy which outlines the range of media used to communicate with shareholders and the types of information provided. The Company encourages participation by shareholders at the Company's general meetings, investor presentations and via the contact details provided on the Company's website.

The Shareholder Communications Policy is available on the Company's website.

### **6.3 The Company should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of shareholders**

The Company sees general meetings as an important forum for reciprocal communication between itself and shareholders. Such meetings allow opportunities for shareholders to hear from and put questions to the Board, senior executives and the external auditor. In order to maximise shareholder participation at general meetings, and to enable those shareholders who are unable to attend, the Company welcomes questions or comments to be submitted prior to the meeting. Such questions or comments will, where appropriate, be answered or responded to at the general meeting, either verbally or in writing.

### **6.4 The Company should provide the option to send and receive communications from the Company and its Share Registry in electronic form**

The Company provides shareholders with the option of receiving communications from, and sending communications to, the Company and Share Registry electronically, for reasons of cost, convenience and environmental considerations. The Company provides a printed copy of the Annual Report only to those shareholders who have specifically elected to receive a

printed copy. Other shareholders are advised that the Annual Report is available on the Company's website.

Shareholders are encouraged to register on the Company website to receive email alerts of ASX announcements and media releases and other news.

The Company's share register is managed and maintained by Link Market Services Limited. Shareholders can access their shareholding details or make enquiries about their shareholding electronically through the Link Market Services Investor Centre or by emailing [registrars@linkmarketservices.com.au](mailto:registrars@linkmarketservices.com.au).

## **Principle 7: Recognise and manage risk**

### **7.1 The Company should establish an appropriately structured risk management committee for the oversight of material business risks**

The Audit and Risk Committee has the responsibility to establish policies on the system of internal control and management of financial and business risks.

Risk matters are raised with the Audit Committee, which in turn manages these matters raised and reports to the full Board.

This Audit Committee structure is considered to be commercially cost effective, and appropriate to the Company's small size and structure.

### **7.2 The Board or a Committee of the Board should review the Company's risk framework at least annually to satisfy itself that it continues to be sound**

During the year ended 30 June 2018, the Board managed the Company's material business risks.

The Company is required to regularly review procedures, and ensure timely identification of disclosure material and materiality thresholds.

Materiality judgments are made on a case-by-case basis, when all the facts are available.

When establishing a preliminary assessment of materiality, the Company has regard to:

- the reliability of management information;
- factors which may indicate deviations from normal activities; and
- qualitative factors which impact on the materiality of individual misstatements, to assess:
  - the significance of the misstatement to the particular entity;
  - the pervasiveness of the misstatement; and
  - the effect of misstatement.

### **7.3 The Company should disclose the structure and role of its internal audit function**

The Company does not retain a dedicated internal audit function. The Board considers this is appropriate, taking into account the Company's stage of development, the scale of its operations and the relative simplicity of its finance function. The internal audit function performed by senior management comprises:

- regular review and testing of the adequacy of controls for risks identified as in the higher range;

- management confirmation on a periodic basis that the assessment of identified risks and their controls remain appropriate; and
- identification of any new risks or enhanced controls that may be required.

Where considered appropriate, external guidance may be sought on specific risks or controls. The Audit and Risk Committee regularly discusses the appropriateness of controls with the external auditor and if considered necessary would initiate an audit of a particular function.

#### **7.4 The Company should disclose their economic, environmental and social sustainability risks and how those risks are managed**

Managing economic sustainability is central to the Company's operation and ongoing viability. The most significant risk currently being managed is cash resources and the Company's ability to secure future funding requirements from various sources. These funds can potentially be raised through the further issue of securities, the obtaining of additional debt capital, the reduction of expenses, the receipt of revenue through commercialisation of the Company's technology or services and the realisation or recovery of Carbon Energy's assets (most likely a combination of some or all of these sources). The Company ensures its organisational structure includes appropriate resources to manage these risks. A key focus of senior executives is on securing sustaining financial resources and optimising existing cash resources and, where required, external advisors will be engaged to assist senior executives.

The Company has invested significantly in proving its environmental credentials through its Bloodwood Creek pilot study site. In 2015, the Company submitted its Decommissioning Report and a Rehabilitation Plan to the Department of Environment and Heritage Protection (DEHP), which demonstrated that the Company's gas production technology is safe, effective, highly controlled and minimises impact on groundwater volumes and quality.

The Company's existing keyseam® technology received official acknowledgement in 2016, from the Queensland Government, when it successfully completed the science and technology aspects required under the Independent Science Panel process, using its proprietary keyseam® technology under pilot conditions at its trial site.

In relation to the management of ongoing environmental sustainability and the potential associated risks, the Company meets its compliance obligations and reports appropriately to designated statutory bodies. Sampling procedures that follow industry best practice have been adopted including samples being sent to two independent laboratories for analysis periodically. All data captured through the monitoring process is analysed thoroughly to ensure the Company can respond quickly in the event there is any variance in the data collected.

During the past year, the Company has focussed on adapting the use of its proven keyseam® technology by utilising existing oil and gas technology. The Company identified a low-cost hydrogen production opportunity utilising deep stranded coal for steam reforming and developed its project road map towards low cost 98%<sup>1</sup> CO<sub>2</sub> free hydrogen production.

The Company is yet to successfully transition its keyseam® technology from a pilot project to a commercial scale operation. The Company is also dependent on obtaining access to coal resources that are both technically and commercially suitable to the application of the Company's keyseam® technology. The Company's keyseam® technology will require further advancements as the Company progresses through its project development and

<sup>1</sup> Based on average results from concept studies.

commercialisation activities as it adapts its technology for the production of hydrogen. Future studies and assessments may also need to be undertaken as part of the process.

Community support is considered the most significant social sustainability risk. The Company engages with the broader community through active involvement in local community business groups and forums and is available to answer any concerns raised by the community.

## **Principle 8: Remunerate fairly and responsibly**

### **8.1 The Board should establish an appropriately structured remuneration committee**

The Remuneration Committee comprises of three of the four Directors. The Chairman of the Remuneration Committee is also the Chairman of the Board.

The membership of the Remuneration Committee throughout the year under review, including their qualifications and experience are set out in the Company's 2018 Annual Report. Details on the number of meetings held throughout the year and attendance at those meetings can be found in the Company's 2018 Annual Report.

The Remuneration Committee Charter, which sets out the Remuneration Committee's role and responsibilities, composition, structure and membership requirements is available on the Company's website.

### **8.2 The Company should distinguish between non-executive directors' remuneration and that of executive directors and senior executives**

Non-Executive Directors are paid fees from an aggregate sum approved by shareholders of the Company. Non-Executive Directors are remunerated at a fixed fee for their time and responsibilities and their remuneration is not linked to the operating performance of the Company. There are no termination or retirement benefits for Non-Executive Directors.

Remuneration of the Managing Director and senior executives consists of a base salary, superannuation, fringe benefits and performance incentives. Performance incentives may include options granted at the discretion of the Board and subject to obtaining relevant approvals.

Details of remuneration, including the Company's policy on remuneration are contained in the Remuneration Report, which forms part of the Directors' Report in the Company's 2018 Annual Report.

### **8.3 The Company should establish a policy on whether participants in equity based remuneration schemes are able to enter into transactions which limit the economic risk of participating in those schemes**

The Company's Securities Trading Policy specifically prohibits Directors and senior executives from entering into transactions that would limit the economic risk of any unvested entitlements under any equity-based remuneration schemes. Further, Directors and senior executives are prohibited from entering into margin loan arrangements or arrangements whereby their securities in the Company may be used as collateral, without prior approval. Breaches of this policy are regarded as serious misconduct.

## Governance Documents

### *Constitution*

<http://www.carbonenergy.com.au/Constitution>

### *Charters*

- **Board**  
<http://www.carbonenergy.com.au/BoardCharter>
- **Audit and Risk Committee**  
<http://www.carbonenergy.com.au/AuditRiskCommittee>
- **Nomination Committee**  
<http://www.carbonenergy.com.au/NominationCommittee>
- **Remuneration Committee**  
<http://www.carbonenergy.com.au/RemunerationCommittee>

### *Policies*

- **Assessing the Independence of Directors Policy**  
<http://www.carbonenergy.com.au/IndependenceDirectors>
- **Securities Trading Policy**  
<http://www.carbonenergy.com.au/SecuritiesTrading>
- **Code of Conduct (Summary)**  
<http://www.carbonenergy.com.au/CodeConduct>
- **Continuous Disclosure Policy (Summary)**  
<http://www.carbonenergy.com.au/ContinuousDisclosure>
- **Shareholder Communications Policy**  
<http://www.carbonenergy.com.au/ShareholderCommunication>
- **Diversity Policy**  
<http://www.carbonenergy.com.au/Diversity>
- **Remuneration Policy**  
<http://www.carbonenergy.com.au/Remuneration>
- **Risk Management Policy (Summary)**  
<http://www.carbonenergy.com.au/RiskManagement>
- **Whistleblower Policy**  
<http://www.carbonenergy.com.au/Whistleblower>
- **Anti-bribery and Anti-corruption policy**  
<http://www.carbonenergy.com.au/AntiBriberyandCorruptionPolicy>