

# CORPORATE GOVERNANCE STATEMENT

## Statement

Carbon Energy Limited (“**Company**”) has adopted systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this statement. Commensurate with the spirit of the ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations 2nd edition (“**Principles & Recommendations**”), the Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the Company’s corporate governance practices follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. In compliance with the “if not, why not” regime, where, after due consideration, the Company’s corporate governance practices depart from a recommendation, the Board has offered full disclosure and an explanation for the adoption of its own practice.

The Company reports below on how it has followed (or otherwise departed from) each of the Principles & Recommendations during the 2010/2011 financial year (“**Reporting Period**”). The Principles & Recommendations were amended in 2010 and these amendments apply to the Company’s first financial year commencing on or after 1 January 2011. However, as encouraged by the ASX Corporate Governance Council, the Company has made an early transition to the amended Principles & Recommendations. Accordingly, the report below is made against the Principles & Recommendations as amended in 2010.

## Board

Roles and responsibilities of the Board and Senior Executives

### Principle 1 – Lay solid foundations for management and oversight

#### Recommendation 1.1:

Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.

#### Disclosure:

The Company has established the functions reserved for the Board, and those delegated to senior executives and has set out these functions in its Board Charter. The Board is collectively responsible for promoting the success of the Company through its key functions of overseeing the management of the Company, providing overall corporate governance of the Company, monitoring the financial performance of the Company, engaging appropriate management commensurate with the Company’s structure and objectives, involvement in the development of corporate strategy and performance objectives, and reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct and legal compliance.

Senior executives are responsible for reporting all matters which fall within the Company’s materiality thresholds at first instance to the Managing Director or, if the matter concerns the Managing Director, then directly to the Chair or the lead independent director, as appropriate.

The Company’s Board Charter is available on the Company’s website.

#### Recommendation 1.2:

Companies should disclose the process for evaluating the performance of senior executives.

#### Disclosure:

The Nomination Committee (or its equivalent) is responsible for evaluating the Managing Director. Other senior executives are evaluated by the Managing Director. The performance of senior executives is reviewed individually and compared to key performance indicators which have been endorsed by the Board.

#### Recommendation 1.3:

Companies should provide the information indicated in the Guide to reporting on Principle 1.

#### Disclosure:

During the Reporting Period an evaluation of senior executives took place in accordance with the process disclosed.

### Principle 2 – Structure the Board to add value

#### Recommendation 2.1:

A majority of the Board should be independent Directors.

#### Notification of Departure:

The Board was not comprised of a majority of independent Directors.

#### Explanation for Departure:

The Board does not have a majority of directors who are independent. In February 2010, the Company began an evaluation of the Board to review the strength and skill base of the directors, and consider where, if possible, it could be enhanced. The Board also undertook internal discussions in an open forum to discuss its composition. This Board evaluation was a lengthy process,