

# 2017 CORPORATE GOVERNANCE STATEMENT



The Company is committed to a high level of corporate governance and fostering a culture that values ethical behaviour, integrity and respect. Adopting and operating in accordance with high standards of corporate governance is essential for sustainable long-term performance, accountability and value creation. The Board has approved this statement, which reports on the Company's key governance principles and practices and is current as at 21 September 2017.

The Company, as a listed entity, must comply with the *Corporations Act 2001* (Cth) ('**Corporations Act 2001**'), the Australian Securities Exchange ('**ASX**') Listing Rules and other Australian and international laws. The ASX Listing Rules require the Company to report on the extent to which it has followed the corporate governance recommendations, contained in the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations which were reissued as a third edition on 27 March 2014 ('**ASXCGC Recommendations**'). The Company believes it is fully compliant with the ASXCGC Recommendations.

A checklist cross-referencing the ASXCGC Recommendations to the relevant sections of this statement and the 30 June 2017 Annual Report ('**2017 Annual Report**') is set out below with compliance recorded as at the date of currency specified in the first paragraph above. The Company's website contains copies of Board and Committee charters and copies of many of the policies and documents referred to in this statement.

ASXCGC Recommendations	Company's Practice	Compliance
<b>Principle 1 – Lay solid foundations for management and oversight</b>		
Disclose:	<b>Paragraph 1.1</b> below discloses the roles and responsibilities of the Board and senior executives. The Board Charter is disclosed on the Company's website.	✓
<ul style="list-style-type: none"> <li>the respective roles and responsibilities of the Board and management; and</li> <li>those matters expressly reserved to the Board and those delegated to management.</li> </ul>	<b>Paragraph 1.1</b> discloses the matters expressly reserved to the Board and those delegated to management.	
<ul style="list-style-type: none"> <li>Undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election as a Director.</li> <li>Provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a Director.</li> </ul>	<b>Paragraph 1.4</b> confirms that appropriate checks are carried out and the Company's shareholders are provided with all material information relevant to the election and re-election of Directors.	✓
<ul style="list-style-type: none"> <li>Have a written agreement with each Director and senior executive setting out the terms of their appointment.</li> </ul>	<b>Paragraphs 1.4 and 1.5</b> confirm that each Director and senior executive have a written agreement relating to their appointment.	✓
<ul style="list-style-type: none"> <li>The Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.</li> </ul>	<b>Paragraph 2.3</b> confirms that the Company Secretary is accountable directly to the Board, through the Chairman.	✓
<ul style="list-style-type: none"> <li>Have a diversity policy which includes requirements for the Board or a relevant Committee of the Board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them.</li> <li>Disclose that policy or a summary of it.</li> <li>Disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the Board or a relevant Committee of the Board in accordance with the entity's diversity policy and its progress towards achieving them, and the respective proportions of men and women on the Board, in senior executive positions and across the whole organisation (including how the entity has defined 'senior executive' for these purposes).</li> </ul>	<p><b>Paragraph 7.2</b> confirms that the Company has adopted and disclosed its Diversity Policy.</p> <p><b>Paragraph 7.2</b> sets out the measurable objectives to achieve gender diversity that the Board has set and the progress in achieving them.</p> <p><b>Paragraph 7.2</b> discloses the proportion of women on the Board, in senior executive positions and as employees.</p> <p><b>Paragraph 7.2</b> specifies how the Company has defined senior executive for the purposes of its measurable objectives.</p>	✓

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continued

ASXCGC Recommendations	Company's Practice	Compliance
<ul style="list-style-type: none"> <li>Have and disclose a process for periodically evaluating the performance of the Board, its Committees and individual Directors.</li> <li>Disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</li> </ul>	<p><b>Paragraphs 1.5 and 3</b> detail the process for evaluating the performance of the Board and its Committees. The Performance Review Policy for the Board and Senior Executives is disclosed on the Company's website.</p> <p><b>Paragraphs 1.5 and 3</b> confirm that performance evaluations have been undertaken in accordance with that process.</p>	✓
<ul style="list-style-type: none"> <li>Have and disclose a process for periodically evaluating the performance of its senior executives.</li> <li>Disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</li> </ul>	<p><b>Paragraph 1.5</b> details the process for evaluating the performance of the Company's senior executives.</p> <p><b>Paragraph 1.5</b> confirms that performance evaluations have been undertaken in accordance with that process.</p>	✓
<b>Principle 2 – Structure the Board to add value</b>		
<ul style="list-style-type: none"> <li>Have a Nomination Committee which:               <ol style="list-style-type: none"> <li>has at least three members, a majority of whom are independent Directors; and</li> <li>is chaired by an independent Director.</li> </ol> </li> <li>Disclose:               <ol style="list-style-type: none"> <li>the charter of the Committee;</li> <li>the members of the Committee; and</li> <li>as at the end of each reporting period, the number of times the Committee met throughout the period and the individual attendances of the members at those meetings.</li> </ol> </li> </ul>	<p><b>Paragraphs 1.4 and 3.2</b> specify the role and membership of the Nomination Committee.</p> <p><b>Paragraph 3.2</b> confirms the Nomination Committee is comprised of independent Directors.</p> <p><b>Paragraph 3.2</b> confirms the Nomination Charter is disclosed on the Company's website.</p> <p><b>Paragraph 3</b> confirms that the number of meetings during the annual reporting period and the individual attendances at those meetings are disclosed in the Directors' Report in the 2017 Annual Report.</p>	✓
<ul style="list-style-type: none"> <li>Have and disclose a Board skills matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership.</li> </ul>	<p><b>Paragraph 1.2</b> includes a Board skills matrix.</p>	✓
Disclose: <ul style="list-style-type: none"> <li>the names of the Directors considered by the Board to be independent Directors;</li> <li>if a Director has an interest, position, association or relationship of the type described in the recommendations but the Board is of the opinion that it does not compromise the independence of the Director, the nature of the interest, position, association or relationship in question and an explanation of why the Board is of that opinion; and</li> <li>the length of service of each Director.</li> </ul>	<p><b>Paragraph 1.3</b> discloses the names of the independent Non-Executive Directors.</p> <p>There are no material relevant interests, positions, associations or relationships with respect to the independent Non-Executive Directors.</p> <p><b>Paragraph 1.2</b> confirms that the length of service of each Director is disclosed in the Directors' Report in the 2017 Annual Report.</p>	✓
<ul style="list-style-type: none"> <li>A majority of the Board should be independent Directors.</li> </ul>	<p><b>Paragraph 1.2</b> confirms that the Company has appointed a majority of independent Directors.</p>	✓
<ul style="list-style-type: none"> <li>The Chair of the Board of a listed entity should be an independent Director and, in particular, should not be the same person as the CEO of the entity.</li> </ul>	<p><b>Paragraph 1.2</b> confirms that the Chairman is an independent Director.</p>	✓

ASXCGC Recommendations	Company's Practice	Compliance
<ul style="list-style-type: none"> <li>Have a program for inducting new Directors and provide appropriate professional development opportunities for Directors to develop and maintain the skills and knowledge needed to perform their role as Directors effectively.</li> </ul>	<p><b>Paragraphs 1.2 and 1.4</b> confirm the Company has a program for inducting new Directors and that professional development opportunities are provided.</p>	✓
<b>Principle 3 – Act ethically and responsibly</b>		
<ul style="list-style-type: none"> <li>Have a code of conduct for its Directors, senior executives and employees.</li> <li>Disclose that code or a summary of it.</li> </ul>	<p><b>Paragraph 7.1</b> confirms that the Company has adopted a Code of Conduct which is disclosed on the Company's website.</p>	✓
<b>Principle 4 – Safeguard integrity in corporate reporting</b>		
<ul style="list-style-type: none"> <li>Have an Audit Committee which:               <ol style="list-style-type: none"> <li>has at least three members, all of whom are Non-Executive Directors and a majority of whom are independent Directors; and</li> <li>is chaired by an independent Director, who is not the Chair of the Board.</li> </ol> </li> <li>Disclose:               <ol style="list-style-type: none"> <li>the charter of the Committee;</li> <li>the relevant qualifications and experience of the members of the Committee; and</li> <li>in relation to each reporting period, the number of times the Committee met throughout the period and the individual attendances of the members at those meetings.</li> </ol> </li> </ul>	<p><b>Paragraph 3.1</b> confirms the Audit Committee is comprised of independent Directors.</p> <p><b>Paragraph 3.1</b> confirms the Company has adopted a formal Audit Committee Charter which is disclosed on the Company's website.</p> <p><b>Paragraph 1.2</b> confirms that the skills, experience and expertise of the Directors on the Audit Committee are detailed in the Board of Directors section of the Directors' Report in the 2017 Annual Report.</p> <p><b>Paragraph 3</b> confirms the number of meetings during the annual reporting period and the individual attendances at those meetings are disclosed in the Directors' Report in the 2017 Annual Report.</p>	✓
<ul style="list-style-type: none"> <li>Before approving financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.</li> </ul>	<p><b>Paragraph 4</b> confirms that the assurance was provided by both the Managing Director and CFO.</p>	✓
<ul style="list-style-type: none"> <li>Ensure that the external auditor attends the AGM and is available to answer questions from security holders relevant to the audit.</li> </ul>	<p><b>Paragraph 9</b> confirms that the external auditor will attend the Company's Annual General Meeting and be available to answer questions from the Company's shareholders relevant to the external audit.</p>	✓
<b>Principle 5 – Make timely and balanced disclosure</b>		
<ul style="list-style-type: none"> <li>Have a written policy for complying with its continuous disclosure obligations under the ASX Listing Rules.</li> <li>Disclose that policy or a summary of it.</li> </ul>	<p><b>Paragraph 7.6</b> describes the Company's approach to disclosure and confirms that the Company has established a Continuous Disclosure Policy which is available on the Company's website.</p>	✓

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ASXCGC Recommendations	Company's Practice	Compliance
<b>Principle 6 – Respect the rights of security holders</b>		
<ul style="list-style-type: none"> <li>Provide information about itself and its governance to investors via its website.</li> </ul>	<b>Paragraph 9</b> confirms that the Company provides information about itself and its governance on its website.	✓
<ul style="list-style-type: none"> <li>Design and implement an investor relations program to facilitate effective two-way communication with investors.</li> </ul>	A summary of the Company's policy for communicating with shareholders is disclosed at <b>Paragraph 9</b> .	✓
<ul style="list-style-type: none"> <li>Disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.</li> </ul>	A summary of the Company's policy for communicating with shareholders is disclosed at <b>Paragraph 9</b> .	✓
<ul style="list-style-type: none"> <li>Give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.</li> </ul>	<b>Paragraph 9</b> confirms that the Company's shareholders may communicate electronically with the Company and its external share registry, Computershare.	✓
<b>Principle 7 – Recognise and manage risk</b>		
<ul style="list-style-type: none"> <li>Have a Committee to oversee risk which:               <ol style="list-style-type: none"> <li>has at least three members, a majority of whom are independent Directors; and</li> <li>is chaired by an independent Director.</li> </ol> </li> <li>Disclose:               <ol style="list-style-type: none"> <li>the charter of the Committee;</li> <li>the members of the Committee; and</li> <li>as at the end of each reporting period, the number of times the Committee met throughout the period and the individual attendances of the members at those meetings.</li> </ol> </li> </ul>	<p><b>Paragraph 3.4</b> confirms the Risk and Governance Committee is comprised of independent Directors.</p> <p><b>Paragraph 3.4</b> confirms the Company has adopted a formal Risk and Governance Committee Charter which is disclosed on the Company's website.</p> <p><b>Paragraph 3</b> confirms the number of meetings during the annual reporting period and the individual attendances at those meetings are disclosed in the Directors' Report in the 2017 Annual Report.</p>	✓
<ul style="list-style-type: none"> <li>Review the entity's risk management framework at least annually to satisfy itself that it continues to be sound.</li> <li>Disclose, in relation to each reporting period, whether such a review has taken place.</li> </ul>	<p><b>Paragraphs 4 and 5</b> describe the Company's approach to risk management, internal controls and senior management's responsibility for implementing and reporting on effective risk management.</p> <p><b>Paragraph 5</b> confirms that a review of the Company's risk management framework has taken place.</p>	✓
Disclose: <ul style="list-style-type: none"> <li>if there is an internal audit function, how the function is structured and what role it performs; or</li> <li>if no internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.</li> </ul>	<p>The Company does not consider it necessary, at this time, to have a formal internal audit function.</p> <p><b>Paragraph 5</b> describes the Company's processes for evaluating and improving its risk management and internal control processes.</p>	✓
<ul style="list-style-type: none"> <li>Disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.</li> </ul>	<b>Paragraph 5</b> confirms that the special risks that affect the Company and how it manages those risks are described in the 2017 Annual Report.	✓

## ASXCGC Recommendations

## Company's Practice

## Compliance

### Principle 8 – Remunerate fairly and responsibly

<ul style="list-style-type: none"><li>• Have a Remuneration Committee which:<ol style="list-style-type: none"><li>1. has at least three members, a majority of whom are independent Directors; and</li><li>2. is chaired by an independent Director.</li></ol></li><li>• Disclose:<ol style="list-style-type: none"><li>3. the charter of the Committee;</li><li>4. the members of the Committee; and</li><li>5. as at the end of each reporting period, the number of times the Committee met throughout the period and the individual attendances of the members at those meetings.</li></ol></li></ul>	<p><b>Paragraph 3.3</b> confirms the Remuneration Committee is comprised of independent Directors.</p> <p><b>Paragraph 3.3</b> confirms that the Board has established a Remuneration Committee.</p> <p><b>Paragraph 3</b> confirms the number of meetings during the annual reporting period and the individual attendances at those meetings are disclosed in the Directors' Report in the 2017 Annual Report.</p>	✓
<ul style="list-style-type: none"><li>• A listed entity should separately disclose its policies and practices regarding the remuneration of Non-Executive Directors and the remuneration of executive Directors and other senior executives.</li></ul>	<p><b>Paragraph 8</b> describes the Company's approach to the remuneration of executive and Non-Executive Directors. Further information regarding the remuneration of Directors and other key management personnel is set out in the Directors' Report (Remuneration Report section) of the 2017 Annual Report.</p>	✓
<ul style="list-style-type: none"><li>• Have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in equity-based remuneration schemes.</li><li>• Disclose that policy or a summary of it.</li></ul>	<p><b>Paragraph 8</b> confirms that the Company restricts these types of transactions in its Share Trading Policy which is available on the Company's website.</p>	✓

## 1. Board of Directors

### 1.1 Role of the Board

The role and responsibilities of the Board are to oversee and direct the senior management of the Company by:

- defining and monitoring the strategic direction of the Company;
- defining policies and procedures to ensure the Company operates within the legal, ethical and social requirements of its environment;
- establishing control and accountability systems within the Group's operations to conform to the legal requirements and the expectations of shareholders and other stakeholders;
- defining and monitoring the management of an effective risk assessment strategy;
- securing funds to develop the Company's assets;
- driving Company performance;
- from time to time, reviewing and monitoring management and Company performance;
- appointing and appraising the Managing Director and any other Executive Director;
- ensuring there are adequate plans and procedures for succession planning;
- reviewing and approving the remuneration of the Managing Director, any other Executive Director and senior executives;
- approving and monitoring the progress of major capital expenditure, capital management, acquisitions and divestitures; and
- approving and monitoring financial and other reporting.

The Managing Director is responsible for managing the Company in accordance with the strategy, plans and policies approved by the Board. The Managing Director and other senior management personnel are responsible for the day-to-day management and administration of the Company. The Board has policies and procedures in place to assess the performance of senior management.

The role and responsibilities of the Board are listed in the Company's Board Charter, which can be found under the Governance tab on the Company's website at [www.karoongas.com.au](http://www.karoongas.com.au).

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In addition to the above, matters expressly reserved to the Board are:

- approval of the annual corporate budget; and
- approval for expenditure over a set limit.

The Board believes that this is appropriate, at this time, given the level and complexity of transactions.

### 1.2 Composition of the Board

The Board is currently constituted by eight Directors, the majority of which are independent Non-Executive Directors. The skills, experience and expertise relevant to the position of each Director who was in office at the date of the Annual Report and their term of office are detailed in the Board of Directors section of the Directors' Report in the 2017 Annual Report. As part of the Company's commitment to ongoing professional development, Directors may participate in the Company's professional development program.

The Company's Chairman is an independent Non-Executive Director.

The composition of the Board is reviewed on an ongoing basis having regard to the growth of the Company's business.

The Board considers that the Directors have the range of skills, knowledge and experience necessary to direct the Company effectively. The Non-Executive Directors contribute operational and international experience, an understanding of the industry in which the Company operates, knowledge of financial markets and an understanding of the health, safety, environmental and community matters that are important to the Company. The Executive Directors bring an additional perspective to the Board through a thorough understanding of the Group's business as a whole.

A Board skills matrix is set out below:

Skills	Experience	Number of Directors (Total = 8)
<b>Oil and Gas Sector</b>	Management, advisory or Board level experience in the oil and gas industry.	6
<b>Strategy</b>	Experience in developing, implementing and monitoring strategic business plans.	8
<b>Mergers and Acquisition</b>	Experience in the acquisition and sale of international energy, resource or oil and gas assets (including farm-in and farm-out processes) as well as mergers, acquisitions and other corporate transactions.	6
<b>Project Development</b>	Experience in developing substantial exploration and production projects in the oil and gas, resources or energy industries.	6
<b>International</b>	Experience in conducting business in international jurisdictions including having a conceptual understanding of various regulatory frameworks.	6
<b>Geological, Geophysical and Engineering</b>	Experience in analysing geological and geophysical models and/or engineering data to inform oversight of exploration, production and corporate opportunities.	4
<b>Commercial/Operations</b>	Experience in commercial decision making in a senior management role with an appreciation of operational conditions and practices and/or experience in operations management.	7
<b>Legal</b>	Legal experience, preferably with commercial and contracting experience in the oil and gas, energy or resources sectors	1
<b>Financial</b>	Experience in financial management and accounting practices in the energy, resources or oil and gas industry.	4
<b>HSSE, Sustainability and Diversity</b>	Experience in relation to: <ul style="list-style-type: none"> <li>• Workplace health, safety and environmental management and the design, implementation and oversight of HSSE Management Systems.</li> <li>• Fostering appropriate levels of diversity across Boards, management teams and staff (including in relation to gender, age, culture, skills and experience, personality and the like).</li> </ul>	3

<b>Stakeholder Engagement and Investor Relations</b>	Experience in successfully engaging with internal and external stakeholders at all levels.	8
<b>Governance Frameworks and Compliance</b>	Experience in the design, implementation and oversight of effective governance frameworks including in relation to compliance and risk management processes, and the development of good corporate culture (including in relation to safety and anti-bribery and corruption).	5

### 1.3 Independence of Directors

When determining the independent status of a Director, the Board has adopted the definition of independence as set out in the ASXCGC Recommendations. Accordingly, the Board considers the following factors when determining the independence of a Director, whether the Director:

- is, or has been, employed in an executive capacity by the Company or any of its subsidiaries and there has not been a period of at least three years between ceasing such employment and serving on the Board;
- is, or has within the last three years been, a partner, Director or senior employee of a provider of material professional services to the Company or any of its subsidiaries;
- is, or has been within the last three years, in a material business relationship (e.g. as a supplier or customer) with the Company or any of its subsidiaries or an officer of, or otherwise associated with, someone with such a relationship;
- is a substantial shareholder of the Company or an officer of, or otherwise associated with, a substantial shareholder of the Company;
- has a material contractual relationship with the Company or its subsidiaries other than as a Director;
- has close family ties with any person who falls within any of the categories described above; or
- has been a Director of the Company for such a period that his or her independence may have been compromised.

In each case, the materiality of the interest, position, association or relation is assessed to determine whether it might interfere, or might reasonably be seen to interfere, with the Director's capacity to bring an independent judgement to bear on issues before the Board and to act in the best interests of the Company and its shareholders generally. Materiality is considered from the perspective of the Company and its Group companies, the persons or organisations with which the Director has an affiliation and from the perspective of the Director.

During the reporting year the Non-Executive Directors of the Company were Dr David Klingner, Mr Geoff Atkins, Mr Clark Davey, Mr Peter Turnbull, Mr Bernard Wheelahan, Mr Jose Coutinho Barbosa and Ms Luciana Rachid.

A majority of the Board, being Dr David Klingner, Mr Geoff Atkins, Mr Clark Davey, Mr Peter Turnbull and Ms Luciana Rachid are considered to be independent Directors based on the above criteria.

The Company considers Mr Jose Coutinho Barbosa to be a non-independent Director due to a company in which Mr Barbosa has an interest providing significant services to the Group. Services rendered are provided by the relevant related party company on normal commercial terms and conditions and at market rates. In practice, Mr Jose Coutinho as a Non-Executive Director provides oversight and advice.

Mr Bernard Wheelahan resigned as a Director on 30 November 2016 and Ms Luciana Rachid was appointed as a Director on 26 August 2016.

### 1.4 Selection and Appointment of Directors

The ongoing composition of the Board is overseen by the Nomination Committee which has specific responsibility for:

- identifying and recommending to the Board the nominees for membership of the Board, including the position of Managing Director;
- identifying and assessing the necessary and desirable competencies and characteristics for Board membership and regularly assessing the extent to which those competencies and characteristics are represented on the Board;
- developing and implementing processes to identify and assess necessary and desirable competencies and characteristics for Board members and reviewing the size of the Board;
- developing and implementing processes to evaluate the performance of the Board, its Committees and Directors, including an evaluation of time required from Non-Executive Directors and whether such time requirements are being met;
- establishing succession plans to maintain an appropriate balance of skills and diversity on the Board and reviewing those plans;
- regularly assessing and reviewing the requirements for the selection and appointment of Directors; and
- recommending the removal or re-election of Directors.



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The procedure for selecting and recommending candidates for appointment or re-appointment as Directors can be found in the Nomination Committee Charter, which can be found under the Governance tab on the Company's website at [www.karoongas.com.au](http://www.karoongas.com.au).

As part of the selection process:

- appropriate checks are carried out;
- shareholders are provided with all material information relevant to the election and re-election of Directors;
- on appointment, a written agreement is entered into; and
- an induction program is carried out for new Directors.

### 1.5 Review of Board, Director and Senior Executive Performance

During the annual reporting period, performance evaluation of the Directors is undertaken in accordance with the Performance Review Policy and submitted to the Remuneration Committee.

The performance targets for senior executives are set in consultation with the Board on an annual basis.

Each senior executive has a written agreement describing their responsibilities. Performance evaluations for senior executives have taken place during the annual reporting period, in accordance with the process described in the Performance Review Policy.

The Performance Review Policy for the Board and senior executives can be found under the Governance tab on the Company's website at [www.karoongas.com.au](http://www.karoongas.com.au).

## 2. Operation of the Board

### 2.1 Board Meetings

The Board meets at least every two months with additional Board and Committee meetings, if and when required, to discuss specific matters.

### 2.2 Independent Advice

Subject to the approval of the Board, an individual Director may engage an independent professional adviser, at the Company's expense, in appropriate circumstances.

### 2.3 Role of the Company Secretary

All Directors have access to the Company Secretary. The appointment and removal of the Company Secretary is a matter for decision by the Board.

The Company Secretary is accountable to the Board through the Chairman on all matters to do with the proper functioning of the Board.

The Company Secretary also supports the effectiveness of the Board by monitoring compliance with Board policy and procedures and coordinating the completion and despatch of the Board papers.

## 3. Board Committees

The Board has the ability under the Company's Constitution to delegate its process and responsibilities to Committees of the Board. The Board has established four standing Committees to assist it in effectively exercising its responsibilities. These are the:

- Audit Committee;
- Nomination Committee;
- Remuneration Committee; and
- Risk and Governance Committee.

The Board reviews the performance of the Committees and considers whether new Committees are required. A review of each Committee was undertaken in respect of the annual reporting period in accordance with that process.

The number of times the respective Committees met and the record of attendance for each of the members for the annual reporting period is set out in the Meetings section of the Directors' Report in the 2017 Annual Report.



### 3.1 Audit Committee

The role of the Audit Committee is to advise on the establishment and maintenance of a framework of internal financial control and the appropriate standards for the financial management of the Group. The Company has formally adopted an Audit Committee Charter.

The Audit Committee also reviews the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in financial statements.

The responsibilities of the Audit Committee include:

- reviewing the integrity of the Company's financial reporting and overseeing the independence of external auditors;
- liaising with external auditors and ensuring that the annual statutory audits and half-year auditor reviews are conducted in an effective manner;
- reviewing internal controls and recommending improvements;
- reviewing the Half-year Financial Report prior to lodgement of this document with the ASX, and any significant adjustments required as a result of the review;
- reviewing the draft Annual Financial Report and the independent Auditor's Report and making the necessary recommendations to the Board for approval of the Annual Financial Report;
- reviewing treasury recommendations and making necessary recommendations to the Board for approval; and
- reviewing and reporting on any special reviews deemed necessary by the Board.

The Audit Committee reports to the Board after each Committee meeting and minutes of meetings are provided to all Directors.

A full description of the role and responsibilities of the Audit Committee is contained in the Audit Committee Charter, which can be found under the Governance tab on the Company's website at [www.karoongas.com.au](http://www.karoongas.com.au).

The Audit Committee consists of the following three independent Non-Executive Directors:

- Mr Clark Davey (Chairman of Committee);
- Mr Geoff Atkins; and
- Mr Peter Turnbull.

The relevant qualifications and experience for each of the members of the Audit Committee are detailed in the Board of Directors section of the Directors' Report in the 2017 Annual Report.

### 3.2 Nomination Committee

The role of the Nomination Committee is described above at paragraph 1.4.

The Nomination Committee currently consists of the following four independent Directors:

- Mr Geoff Atkins (Chairman of Committee);
- Mr Clark Davey;
- Mr Peter Turnbull; and
- Ms Luciana Rachid.

A full description of the role and responsibilities of the Nomination Committee, together with the Company's policy for the selection and appointment of Directors, is contained in the Nomination Committee Charter, which can be found under the Governance tab on the Company's website at [www.karoongas.com.au](http://www.karoongas.com.au).

### 3.3 Remuneration Committee

The Remuneration Committee is responsible for the review of and recommendation to the Board on:

- the Group's recruitment, retention and termination policies and procedures for senior management;
- senior management remuneration and incentives;
- superannuation arrangements; and
- the remuneration framework for Non-Executive Directors.

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The Company's remuneration policy is designed to ensure that:

- remuneration is competitive in order to attract and retain talented and motivated employees and Directors to the Group;
- there is a clear relationship between performance, responsibility, results delivered and remuneration; and
- a performance evaluation process is created to monitor the Board and senior executives.

A full description of the role and responsibilities of the Remuneration Committee is contained in the Remuneration Committee Charter, which can be found under the Governance tab on the Company's website at [www.karoongas.com.au](http://www.karoongas.com.au).

The Remuneration Committee consists of the following three independent Directors:

- Mr Peter Turnbull (Chairman of Committee);
- Dr David Klingner; and
- Mr Clark Davey.

### 3.4 Risk and Governance Committee

The Risk and Governance Committee is responsible for review and recommendations in respect of:

- leading the Company's strategic direction in the management of material business risks;
- working with the Board and management to determine the Company's risk appetite;
- risk management and internal compliance and control systems;
- review of the effectiveness of the Company's risk management framework in identifying and managing risks and controlling internal processes;
- the Company's insurance program;
- mitigation of material risks faced by the Company;
- Karoon's risk register identifying the main internal and external risk sources;
- continuous improvement of risk management and internal control processes;
- working with the Board to adopt the most appropriate ethical and governance standards in order to meet all relevant corporate governance requirements;
- working with the Board to ensure, so far as possible, that risk and governance policies are properly embedded within the Company's operations and that all who work for the Company embrace these policies and standards as a normal and necessary element of managing the Company to maximise value for shareholders; and
- review and provide recommendations to the Board on:
  - the Company's overall corporate governance framework on an annual basis; and
  - best practice developments and trends in relation to corporate governance, compliance, regulatory and risk management policy and practice (including in relation to the ASXCGC Recommendations).

A full description of the role and responsibilities of the Risk and Governance Committee is contained in the Risk and Governance Committee Charter, which can be found under the Governance tab on the Company's website at [www.karoongas.com.au](http://www.karoongas.com.au).

The Risk and Governance Committee currently consists of the following four independent Directors:

- Mr Peter Turnbull (Chairman of Committee);
- Dr David Klingner;
- Mr Clark Davey; and
- Ms Luciana Rachid.

## 4. Managing Director and Chief Financial Officer Assurances

The Board requires accountability for the Company's financial reporting by requiring both the Managing Director and Chief Financial Officer to confirm in writing to the Board that:

- the financial records of the Company for the financial period have been properly maintained in accordance with Section 286 of the *Corporations Act 2001*;
- the consolidated financial statements and notes for the financial period comply with relevant Australian Accounting Standards;
- the consolidated financial statements and notes for the financial period give a true and fair view; and
- in respect of the financial period, any other matters that are prescribed by the regulations for the purposes of Section 295A(2)(d) of the *Corporations Act 2001* in relation to the consolidated financial statements and the notes for the financial period are satisfied,

and this opinion is formed on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The Managing Director and Chief Financial Officer have provided written confirmation in respect of the matters referred to above in respect of the half-year and annual reporting period.

## 5. Risk Assessment and Management

The Company has a Risk Management Policy. Throughout the annual reporting period, senior management, through the Risk Management Team, and the Risk and Governance Committee reported to the Board on the Company's management of its material business risks and the Company has continuously reviewed and, where required, improved risk management and internal compliance and control systems.

The Company, with the oversight of the Risk and Governance Committee and the Board, will continue to review and improve its risk management systems and internal controls in conjunction with senior management over the coming financial periods.

A summary of the Company's policies for the oversight and management of material business and financial risks follows:

- The Board has formed a Risk and Governance Committee as described in Paragraph 3.4. The Risk Management Team prepares and maintains a Corporate Risk Register and provides regular reports on corporate risk assessments to the Risk and Governance Committee.
- Financial controls are set in place by the use of an authority matrix, general purchasing principles and approval procedures. All material expenditure is closely monitored by the Audit Committee on behalf of the Board and reported on a periodic basis. The Chairman of the Audit Committee works closely with the Company's finance personnel prior to Board meetings in order to understand financial risks and report such risks to the Board. Management accounts are prepared regularly for the Board to ensure information congruence between senior management and the Board. The Audit Committee reviews and recommends improvements to internal controls.
- The Company offsets the risk of catastrophic operational failures using appropriate insurance, with coverage for third party liability, well control, day-to-day office and business insurance and operator's extra expense.
- The Company protects its employees through the adoption and application of a Health, Safety, Security and Environment Policy, global medivac membership program and ongoing global travel insurance for periods where employees are travelling on business, along with membership to emergency assistance and management for all employees in overseas locations.
- Operational reporting is submitted to the Board at each Board meeting to ensure decisions are made in an efficient and effective manner. Reports include reviews of operational assets, potential exploration, new ventures and general operational issues and/or opportunities.
- The Company's Risk Management Policy can be found under the Governance tab on the Company's website at [www.karoongas.com.au](http://www.karoongas.com.au).
- Specific risks which affect the Company are summarised in the Operations Review section of the 2017 Annual Report.

## 6. External Auditor

The Company appointed the current external auditor, PricewaterhouseCoopers, during the financial year ended 30 June 2009. The Audit Committee oversees the co-ordination of the external auditor and monitors the effectiveness and independence of the external auditor.

Furthermore, the Company has prepared an External Auditor Selection Policy, pursuant to which the external auditor is required to rotate its audit partner so that no individual partner is responsible for the Company's accounts for a period of more than five consecutive years.

The Company's External Auditor Selection Policy can be found under the Governance tab on the Company's website at [www.karoongas.com.au](http://www.karoongas.com.au).

# 2017 CORPORATE GOVERNANCE STATEMENT

continued

## 7. Ethical Standards and Responsible Decision Making

The Directors, officers, employees and consultants of the Company are required to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group.

### 7.1 Code of Conduct

The Company has developed a Code of Conduct for the Board, senior executives and employees. The Code includes:

- the practices necessary to maintain confidence in the Company's integrity;
- the practices necessary to take into account legal obligations and the reasonable expectations of stakeholders; and
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

A copy of the Company's Code of Conduct can be found under the Governance tab on the Company's website at [www.karoongas.com.au](http://www.karoongas.com.au).

### 7.2 Diversity

The Board recognises the importance of diversity and has adopted a Diversity Policy in accordance with the ASXCGC Recommendations. The Company has introduced measurable objectives for achieving gender diversity and the Board assesses the objectives and progress towards achieving them on an annual basis.

The measurable objectives for achieving gender diversity set by the Board for the annual reporting period and the Company's progress towards achieving them are:

Measurable Objective	Company's Progress
Continue to monitor the diversity of the Karoon workforce and diversity issues that Karoon employees face.	An assessment has been conducted and the Board and senior management are conscious of the need for diversity.
Provide equal opportunity with respect to recruitment, compensation and promotion, including promotion to senior executive or Board positions.	Karoon considers itself an equal opportunity employer, see table below.
Structure the Board, senior executive and employee annual performance evaluations in a manner to ensure the Diversity Policy is considered.	All performance and remuneration evaluation practices take into account the Company's Diversity Policy and all employees are evaluated equally.
Promote equal pay for equal work for all employees and senior executives at all levels.	Karoon's remuneration practices are conducted on a position and performance basis only. Equal pay for equal work is established.
Develop a culture which takes account of domestic responsibilities of employees.	Karoon provides flexible work schedules for those that require them from time to time.

See the table below setting out the Karoon workforce gender profile:

	Female %
Group (includes administration/technical/specialists)	40%
Senior executives <sup>1</sup>	28%
Board	12%

1. The term 'senior executives' is defined for the purposes of the diversity analysis by reference to Karoon's internal remuneration bands for positions with total remuneration of \$150,000 or more.

While the percentage of females employed as senior executives or on the Board has grown compared to last year, this is due to a reduction in the number of males in these categories. The number of female senior executives and Directors has remained the same.

The Company's Diversity Policy can be found under the Governance tab on the Company's website at [www.karoongas.com.au](http://www.karoongas.com.au).

### 7.3 Fair Dealings and Related Party Transactions

A Director, or entities in which a Director has a significant interest and/or influence, who proposes to enter into a transaction with the Company must make full disclosure of all material elements of the transaction.

The Risk and Governance Committee reviews, assesses and, where appropriate, recommends to the Board that proposed related party transactions be approved.

The Company's Related Party Policy can be found under the Governance tab on the Company's website at [www.karoongas.com.au](http://www.karoongas.com.au).

### 7.4 Policy and Procedure for Share Trading

Directors, officers, employees and consultants are prohibited from dealing in securities of the Company if they are in possession of information concerning the Group which, if made public, a reasonable person would expect to have a material impact on the price or value of the Company's securities ("**insider information**").

Directors, officers, key management personnel and other designated persons are prohibited from dealing in securities of the Company during any embargo period declared by the Managing Director or Company Secretary. Embargo periods include the period of two weeks prior to the release of the Company's half-year results and final results to the ASX and the period from the close of trading 10 days before the Company's Annual General Meeting.

These restrictions in dealing in securities of the Company are subject to the discretion of the Managing Director, to be exercised in exceptional circumstances.

Prior to dealing in securities of the Company, Directors, other key management personnel and other designated persons must:

- seek written clearance from the Managing Director or Company Secretary of the proposed dealing to ensure that there is not any imminent ASX announcement that contains price sensitive information; and
- confirm to the Managing Director or Company Secretary that he or she is not aware of any insider information that has not been released to the ASX.

Directors, officers, other key management personnel and other designated persons must advise the Company Secretary of any dealing in securities of the Company within two days of such dealing.

The Company's Share Trading Policy can be found under the Governance tab on the Company's website at [www.karoongas.com.au](http://www.karoongas.com.au).

### 7.5 Environment

The Company has a Health, Safety and Environment Policy and is committed to conducting all of its activities in a safe and environmentally responsible manner.

The Company's Health, Safety and Environment Policy can be found under the Governance tab on the Company's website at [www.karoongas.com.au](http://www.karoongas.com.au).

### 7.6 Disclosure of Information

The Company aims to provide honest and open disclosure of information in dealing with stakeholders, subject to appropriate considerations regarding commercially sensitive information.

The Company has developed a Continuous Disclosure Policy to ensure compliance by the Company with the *Corporations Act 2001* and the ASX Listing Rules obligations in relation to disclosure of information to the market and to ensure accountability at a senior management level for that compliance.

The Company's Continuous Disclosure Policy can be found under the Governance tab on the Company's website at [www.karoongas.com.au](http://www.karoongas.com.au).

# 2017 CORPORATE GOVERNANCE STATEMENT

continued

## 8. Remuneration Policy

The Company seeks to remunerate in such a way that it motivates Directors and employees to pursue the long-term growth and success of the Company within an appropriate remuneration framework that demonstrates a clear relationship between performance and remuneration. The Remuneration Committee is responsible for senior executive remuneration and making recommendations to the Board.

Executive Director remuneration is set by the Board and may contain salary, performance payments and other share-based remuneration incentives.

Non-Executive Directors are remunerated by way of Directors' fees in the form of cash and superannuation contribution at market levels. The Company has not established any schemes for retirement benefits, other than superannuation payments required by law, for Non-Executive Directors.

The aggregate Directors' fee pool to Non-Executive Directors is set and may not be increased without the prior approval of shareholders at a general meeting.

Unlisted share options and performance rights over unissued ordinary shares of the Company issued to Directors are approved on a case-by-case basis by shareholders at relevant general meetings.

The Company has a policy restricting all recipients of share options or performance rights under the Performance Rights Plan and Employee Share Option Plan from:

- dealing at any time in financial products such as share options, performance rights, warrants, futures or other financial products issued over the Company's securities by third parties such as banks and other institutions. An exception may apply where the Company's ordinary shares form a component of a listed portfolio or index product; and/or
- entering into transactions in products associated with the Company's securities which operate to limit the economic risk of their security holding in the Company over unvested entitlements (including hedging arrangements).

These restrictions are set out in the Company's Share Trading Policy, which can be found under the Governance tab on the Company's website at [www.karoongas.com.au](http://www.karoongas.com.au).

Further information on the remuneration of the Directors and other key management personnel can be found in the Remuneration Report section of the Directors' Report in the 2017 Annual Report.

## 9. Communication with Shareholders

The Board aims to ensure that shareholders are informed of all major developments affecting the Company in accordance with its legal obligations. Information is communicated to shareholders as follows:

- the Annual Report is distributed to shareholders who request a copy. The Board ensures that the Annual Report includes relevant information about the operations of the Group during the relevant financial year, changes in the state of affairs of the Group and other disclosures required by the *Corporations Act 2001* and the ASX Listing Rules;
- the Half-year Financial Report, prepared in accordance with the requirements of the *Corporations Act 2001*, is subject to an external auditor's review. The Half-year Financial Report is sent to any shareholder who requests a copy;
- proposed major changes in the Company which may impact on share ownership rights are submitted to a vote of shareholders; and
- the Company posts information about itself and its governance, reports, ASX and media releases and copies of significant presentations on the Company's website at [www.karoongas.com.au](http://www.karoongas.com.au).

In addition, news announcements and other information are sent by email to all persons who have requested their details be added to the Company's electronic mailing list. If requested, the Company, where appropriate, will provide general information by email, facsimile or post.

The Company's shareholders are able to communicate by email with the Company and its share registrar Computershare.

The Company ensures that the Annual General Meeting is held in a manner which enables as many shareholders as possible to attend and encourages effective participation by shareholders at the Annual General Meeting.

The Company will arrange to have its external auditor attend the Company's Annual General Meeting and be available to answer shareholder questions concerning the conduct of the external audit and preparation and content of the independent Auditor's Report.

The Chairman will allow a reasonable opportunity at the Annual General Meeting for shareholders to ask questions of the Directors about the Company's performance and operations.