

Corporate Governance Statement

The Board of Petsec Energy Ltd (“Petsec”) is committed to good corporate governance.

This statement sets out the main corporate governance practices adopted by the Company in the format of the Corporate Governance Principles and Recommendations (3rd Edition, 2014) (**Recommendations**) issued by the ASX Corporate Governance Council.

Unless otherwise stated, the Company's corporate governance practices were in place throughout the 2019 year and comply with the Recommendations. In a limited number of instances there are departures from the Recommendations, with the details and reasons for the departures stated below in italics.

1. Laying Solid Foundations for Management and Oversight

The Board operates within the requirements of the Company's Constitution and Board Charter which sets out the functions and responsibilities reserved for the Board and the matters which have been delegated to executive management. The Board Charter is posted on the Company's website.

The performance of the CEO and senior executives is reviewed annually by the Nomination and Remuneration Committee and is reported to and reviewed by the full Board.

All material information relating to a director is provided by the Company in support of a resolution for the election or re-election of a director. The Company has in place written agreements with its directors and senior executives setting out the terms of their appointment.

Diversity

The Company's Diversity Policy is posted on the website. *Notwithstanding the requirements of Recommendation 1.5 to establish and disclose measurable objectives and results for achieving gender diversity, the Board has not adopted any numerical benchmarks or targets, and has not made the relevant disclosure as required by Recommendation 1.5, given the small size of the Company's board and workforce. The Company will reconsider the need for measurable objectives as it grows.*

Evaluation of performance of the Board, its Committees, individual Directors and Senior Executives

A review of the Board's own performance is conducted annually, together with reviews of the performance of Board Committees, individual Directors and Senior Executives. Each Director and Senior Executive completes a questionnaire, with the collective responses discussed by the Board to identify actions and goals to guide performance improvement. The questionnaire covers general and governance issues, overall Board performance and performance of individual Directors and Senior Executives. Each of these evaluations has been performed during the past year.

Further details of the Company's performance evaluation processes are detailed in the Board Charter and Nomination and Remuneration Committee Charter, which are posted on the Company's website.

2. Structure the Board to Add Value

Board Composition and Director Independence

The Board has a balanced composition of Executive and Non-executive Directors. Currently the Board comprises two Executive Directors, being Mr Terrence N Fern (Chairman of the Board) and Mr Syed W Bokhari (Managing Director), two Non-executive Directors being Mr David A Mortimer and Mr Alan P Baden. The non-executive Directors are considered by the Board to be independent, based on the criteria in the Recommendations.

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Mr Terrence N Fern acts in the role of Executive Chairman. *Although Recommendation 2.5 provides that the Chairman should be an independent director, Directors consider that the current composition of the Board is appropriate for the Company at its current stage of development.*

To ensure that independent judgment is achieved and maintained in respect of its decision-making processes, the Board has adopted a number of measures which include the following:

- Directors are entitled to seek independent professional advice at the Company's expense,
- Directors having a conflict of interest in relation to a particular item of business must declare their interest and not vote on that item of business and must absent themselves from the Board Meeting if required by the Board before commencement of discussion on the topic; and
- Non-executive Directors confer on a needs basis without management in attendance.

The Board is balanced in its composition, with each Director bringing a range of complementary skills and experience to the Company as set out in the Directors' Report section of the annual report ("Directors' Report").

Board Committees

To assist the Board in discharging its responsibilities, the Board has a Nomination and Remuneration Committee and an Audit Committee. Each of these committees has its own written charter which has been approved by the Board.

Both Committees comprise two independent Directors and are chaired by Mr D A Mortimer.

It is the Board's policy that Board Committees should:

- be chaired by an independent Director;
- comprise a majority of independent Directors;
- be entitled to obtain independent professional or other advice at the cost of the Company; and
- be entitled to obtain such resources and information from the Company, including direct access to employees of and advisors to the Company, as they may require.

The qualifications, experience and date of appointment of Directors and Committee Members are included in the Directors' Report, as are details of the number of Board and Committee meetings held during the year.

An induction process applies to new Directors and professional development opportunities are made available to all Directors.

3. Promoting Ethical and Responsible Decision Making

Code of Ethics and Corporate Conduct

Petsec has always placed great importance on the maintenance of high ethical standards. The Board has adopted a Code of Ethics and Corporate Conduct which is posted on the Company's website. A similar document has been issued to all employees setting out the principles and standards with which they are expected to comply.

The Company also has a Securities Trading Policy, which is posted on the website.

4. Safeguarding Integrity in Financial Reporting

The Audit Committee is comprised of two independent Directors, each with relevant financial and technical experience, and is chaired by Mr D A Mortimer. Details of the qualifications of the Audit Committee members are set out in the Directors' Report.

The responsibilities of the Audit Committee include the monitoring and review of the external audit function, management reporting and internal controls, integrity of financial reporting and risk management. The Committee's Charter is posted on the Company's website. The Audit Committee also appoints the auditor and monitors the 5-year audit partner rotation policy, as set out in the Company's Appointment of External Auditor Policy posted on the website.

The Board has received assurance from the Managing Director and Chief Financial Officer that the declaration in the financial report, provided in accordance with section 295A of the *Corporations Act*, is founded on a sound system of risk management and internal control and that the system is operating effectively.

The Company's external auditors attend each Annual General Meeting to respond to questions from shareholders.

5. Making Timely and Balanced Disclosure

The Company has policies and procedures in place to ensure the timely and appropriate release of all information required to be disclosed to shareholders in accordance with the ASX Continuous Disclosure regime. The Company Secretary has been appointed as the Continuous Disclosure Officer and with the approval of the Managing Director is responsible for ensuring compliance by overseeing and coordinating the release of information to the ASX, brokers, shareholders, the media and the public. The Continuous Disclosure Policy is posted on the Company's website.

6. Respecting the Rights of Shareholders

In addition to market disclosure through the ASX, Directors ensure that shareholders and other interested parties are informed through a range of other means including the Company's website at www.petsec.com.au which contains copies of all key disclosure information including announcements to the market, periodic reports, broker and analyst briefings and notices of meetings. The website also contains corporate governance information and general information regarding the Company's activities.

Shareholders and other interested parties are also able to register their email address with the Company to receive announcements made to the ASX. Shareholders are also able to receive communications from, and send communications to, the Company and its share registry electronically.

The Communications Policy is posted on the Company's website.

7. Recognising and Managing Risk

The Company recognises that an effective system of risk oversight, management and internal control is critical for its success.

To assist the risk management function of the Audit Committee, the Company has a Risk Management Policy, which is available on the Company's website. The Risk Management Policy is reviewed annually and was reviewed during the past year. Management reports regularly to the Audit Committee and the Board on its management of material business risks, including economic and

environmental risks, which are mitigated as set out below. The Company's exposure to social sustainability risks is considered to be minor.

Certain of those risks are inherent to the Company's business, such as drilling for, producing and marketing oil and gas. Although the Company is committed to minimising its risk exposure, many risks are largely beyond the control of the Company and its directors. The risks which management and the Board consider to be the material risks of the business are detailed in the Directors' Report.

A brief summary of the Company's processes are set out below. A more detailed summary is posted in the Corporate Governance section of the Company's website.

(a) Control Environment and Measures

The Board oversees the overall risk management and control framework of the Company to ensure an appropriate control environment is established and maintained spanning Petsec's operations, financial reporting and compliance activities.

The Audit Committee assists the Board in fulfilling its responsibilities in this regard by reviewing and monitoring financial and reporting matters, and the Company's risk management and internal control processes.

(b) Risk Assessment

Petsec runs two parallel risk management processes, one to identify and manage business and operational risk and the other to manage the financial reporting risks and underlying internal controls.

Identification and evaluation of key business and operational risks is conducted through:

- I. the annual risk management review, a formal process which is based on the approach prescribed in Australian Standard AS ISO 31000:2018 and carried out in the fourth quarter each year in conjunction with the preparation of the budget and strategic plan; and
- II. assessment of risk as part of all business proposals for management or Board approval.

Key financial statement and financial reporting risks are reviewed and assessed, prior to the commencement of the internal and external audit programmes each year.

(c) Control Activities

Petsec employs a range of techniques to mitigate and control risk including insurance, oil and gas price hedging, establishment of management accountabilities, and compliance with policies and procedures documented in the Company's Internal Control Policy manual and supporting documents.

(d) Information and Communication

Monthly management reports to the Board, which draw from both structured management information systems and management input, provide a regular and formal channel of communication within Petsec.

(e) Monitoring Activities

Formal monitoring of risk and controls at senior management and Board level is achieved by means of:

- I. the monthly management report to the Board;
- II. detailed audit questionnaires and management sign-offs, which form part of the semi-annual audit or review process, and
- III. an internal audit programme to evaluate and test the key controls over financial reporting that is conducted over the course of each year, and involves senior management implementing a specific programme to appraise the effectiveness of the internal controls

and to ensure the ongoing integrity of financial reporting. The scope and findings of the programme are reported to the Audit Committee at different intervals during the course of the year. The programme of evaluating the effectiveness of internal control over financial reporting uses methodology drawn from the COSO (Committee of Sponsoring Organisations of the Treadway Commission) Framework for Smaller Public Companies released in 2013, one of the most widely used approaches to internal control worldwide. The programme comprises five integrated components:

- Control environment and measures;
- Risk assessment;
- Control activities;
- Information and communication; and
- Monitoring activities.

8. Remunerate Fairly and Responsibly

The objective of the Company's remuneration policies is to provide fair and competitive remuneration to its Board, executives and staff in order for the Company to benefit by attracting and retaining a high quality team. The level and composition of Directors' and senior executives' remuneration is set out in the Remuneration Report in the Directors' Report together with further information on the structure and basis of remuneration paid.

The Nomination and Remuneration Committee is responsible for reviewing and making recommendations on remuneration policies for Directors and senior executives based on assessment of relevant market conditions, and linking remuneration to the Company's financial and operational performance. The Nomination and Remuneration Committee consists of two independent Directors, and is chaired by Mr D A Mortimer.

Executive remuneration may comprise salary, short term bonuses and share participation. All equity-based remuneration is made in accordance with thresholds approved by shareholders. Recipients of equity-based remuneration such as options or shares are not permitted to enter into transactions that limit the economic risk of participating in such schemes.

Non-executive Directors are remunerated by fees which are not performance- based. Non-executive Directors appointed prior to 2003 are entitled to receive a retirement allowance equivalent to the remuneration received in the three years prior to retirement. Non-executive Directors appointed during or after 2003 are not entitled to receive retirement benefits, in accordance with the Recommendations.