



## Corporate Governance Statement

The Board of Directors of Talon Petroleum Limited ("**Company**" or "**Talon**") is ultimately responsible for all corporate governance matters of the consolidated entity and is accountable to the shareholders for the overall business performance of the Company.

The Company is committed to implementing and maintaining sound corporate governance practices and has considered the *ASX Corporate Governance Principles and Recommendations (Second Edition)* ("**ASX Principles and Recommendations**") in the development of its corporate governance. The Board has assessed Company's current practice against these Principles and Recommendations and notes that the Company's practices are consistent with it except where stated below. The Board endorses a culture of continuous improvement and therefore continues to refine and develop its governance policies and practices to meet the needs of the business and in the interests of shareholders.

The following Corporate Governance Statement should be read in conjunction with the Directors' Report on pages 34-51 of 2013 Annual Report lodged with ASX on 28 March 2014. The Statement was adopted by the Board on 28 March 2014.

A summary table explaining how the Company complies with the ASX Principles and Recommendations can be found at the end of this Statement in Table 3 and on the Company's website.

The policies and charters referred to in this Statement are available on the Company's website unless noted in this Statement that the policy or charter is an internal document.

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

#### ***Board responsibilities***

To ensure that the Board is well equipped to discharge its responsibilities, it has adopted a formal charter for the operation of the Board. The Board Charter sets out the Board's role which is to be accountable to shareholders for the guiding and monitoring of the business affairs of the Company.

The Board fulfils this role by:

- ensuring that the Company's strategic objectives are met;
- delegating responsibility for the day to day management of the Company to the Chief Executive Officer ("**CEO**");
- because of the Company's size, assisting the CEO in certain operational and management decisions;
- approving and monitoring capital expenditure;
- monitoring the cash resources of the Company on a regular basis; and
- reviewing the performance of the CEO and management on a regular basis.

The Board's Charter is available in the Corporate Governance section of the Company's website.

The Board has established two standing committees – the Audit Committee and the Remuneration Committee. The composition, structure, purpose and responsibilities of those Committees are described below. The Board may also delegate specific functions to ad-hoc committees from time to time on an 'as needs' basis.

At the time of joining the Company, Directors and senior executives are provided with letters of appointment, together with key Company documents and information setting out their term of office, duties, rights and responsibilities, and entitlements on termination.

### ***Performance review and induction for senior executives***

The Board reviews the performance of senior executives against the Company's financial and operational performance on a regular basis. A more formal process for performance reviews of senior executives may be considered appropriate in the future. Performance reviews were completed during the year in accordance with the process agreed by the Board.

Newly appointed senior executives go through a process of induction which allows them to gain an understanding of the nature of the Company's business, current industry issues and the responsibilities and roles of the Board and senior executives.

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

### ***Composition and operation of the Board***

The Board has been established so that it has appropriate composition, size and commitment to adequately discharge its responsibilities and duties. Collectively the Directors have a broad range of experience, expertise, skills, qualifications and contacts relevant to the business. Details of each Director's skills, experience and expertise relevant to the position of Director are contained on pages 22-24 of the 2013 Annual Report and on the Company's website.

The Board currently comprises four (4) Non-Executive Directors, three (3) of whom (including the Chairman) are independent, and one (1) Executive Director.

The Company's Constitution provides for a maximum number of five (5) Directors with a minimum of three (3). Directors are subject to re-election by shareholders at the annual general meeting every three (3) years in accordance with the ASX Listing Rules and the Constitution.

The term in office held by each Director in office at the date of this report is as follows.

**Table 1: Details of Board tenure**

<b>Name</b>	<b>Term in office</b>
Jeffrey Forbes	Under 1 year
Angus Douglas	Over 1 year
Bruce Cowley	Under 1 year
Clifford Foss	Over 1 year
David Mason	Over 2 years

The Board and each Board Committee meet regularly in a pre-arranged cycle and follow agreed meeting guidelines to ensure all Directors are made aware of all agenda items

and are provided with all necessary information to enable them to participate in informed discussion.

### ***Independence***

An independent Director, in the view of the Company, is a Non-Executive Director who is not a member of management and who 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 judgment. In determining the independent status of a Director, the Board, in accordance with the ASX Principles and Recommendations, considers whether the Director:

- is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- is employed, or has previously been employed, in an executive capacity by the Company or another group member, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
- has within the last three years been a principal of a material professional advisor or a material consultant to the Company or another group member, or an employee materially associated with the service provided;
- is a material supplier or customer of the Company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; and
- has a material contractual relationship with the Company.

The Board has confirmed that based on this definition of independence, Mr Forbes, Mr Cowley and Mr Douglas are independent Non-Executive Directors, being a majority of the Board. The Board regularly assesses the independence of each Non-Executive Director.

The Board noted Mr Douglas' current role as a senior investment advisor with Morgans Financial Limited who is a material professional advisor to the Company. The Board however determined that Mr Douglas meets the Board's definition of independence as he could not be described as an 'employee materially associated with the service provided' by Morgans Financial Limited or a principal of Morgans Financial Limited.

The Board also noted Mr Cowley's current role as a senior corporate law partner with Minter Ellison, another material professional advisor to the Company, and determined that Mr Cowley meets the Board's definition of independence. The Board considers that Mr Cowley's current position with Minter Ellison does not interfere with his ability to act independently in the interests of the Company due to strict protocols in place to maintain a clear delineation between Mr Cowley's two roles.

Mr Mason is a majority shareholder and founder of Wandoo, a material supplier to, and a substantial shareholder in, the Company, and as a result of these relationship is not considered to be independent.

The role of the Chairman and Managing Director are separate. The Chairman of the Board is Mr Forbes who is an independent Non-Executive Director. The Managing Director, CEO and President is Mr Foss.

### ***Nomination committee***

The Board's view is that the Company is not currently of the size to justify the formation of a separate nomination committee in accordance with Recommendation 2.4 of the ASX Principles and Recommendations. The Board and the Remuneration Committee

discussed below currently perform the functions of a nomination committee and where necessary will seek advice of external advisors in relation to this role. The Board shall, upon the Company reaching the requisite corporate and commercial maturity, form a nomination committee to assist the Board in relation to the appointment of Directors and senior management.

When considering a candidate as a Director, consideration is given to the candidate's ability to act in the best interests of shareholders as well as specific skills and expertise. Consideration is also given to the candidate's capacity to understand the impacts of various laws and regulations on their role and on the Company including company law, trade practices legislation, environmental law, occupational health and safety, and taxation. As the Company's operations are all located in the USA state of Texas, consideration is also given to the candidate's ability to understand the impacts of US legislation, foreign currency issues and the business environment in the US. In addition, consideration is given to the candidate's knowledge of the oil and gas industry, risk management concepts and how they apply to the Company and also whether the candidate is up to date with issues of corporate governance.

### ***Board performance review and evaluation***

The performance of all Directors is continually monitored by the Chairman and the Board, although the Company is not of a size to warrant the development of formal performance review processes. The Chairman also speaks to each Director on an individual basis regarding their role as a Director.

A Director whose performance is unsatisfactory may be asked to retire. The Board has not formally documented the results of performance evaluations to date. As mentioned above, the Board, through the Remuneration Committee, will review the performance of each Director who is retiring by rotation under the Constitution and seeking re-election. The results of this review will form the basis of the Board's recommendation to shareholders on the proposal for re-election of the Director. As the Company continues to grow, the Board will continue to consider conducting a performance evaluation of the Board as a whole and each Board Committee, and the governance processes that support the Board.

Similar to senior executives, newly appointed Directors go through a process of induction which allows them to gain an understanding of the nature of the Company's business, current industry issues, the Board's strategy and expectations concerning the performance of Directors. In order to achieve continuing improvement in Board performance, all Directors are encouraged to undergo continuing professional development.

Every Director has access to the Company's employees, advisors and records in carrying out their duties and responsibilities. Every Director also has access to advice and counsel from the Chairman and the Company Secretary in carrying out their duties and responsibilities, and where appropriate, and after consultation with the Chairman, is able to seek independent professional advice at the Company's expense.

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

The Board expects Directors and employees to observe high standards of behaviour and business ethics. All Directors, executives and employees are expected to act with integrity, striving at all times to enhance the reputation and performance of the Company.

### ***Code of Conduct***

The Board has adopted a Code of Conduct for Directors. The Code of Conduct is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour, professionalism and practices necessary to maintain confidence in the Company's integrity. The Code of Conduct sets the standard of behaviour required in areas such as performance and conduct, meeting procedures, confidentiality of information and conflicts of interest.

### ***Share Trading Policy***

The Board has adopted a policy for trading in Company securities by Directors, officers and employees. The purpose of this policy is to guide Directors and officers in the performance of their activities and to define the circumstances in which both they and staff, and any associates, are permitted to deal in securities. The policy addresses each of the ASX requirements including provisions relating to the prohibition of trading by directors and senior executives in Company's securities during defined blackout periods.

The Code of Conduct and Share Trading Policy have been designed with a view to ensuring the highest ethical and professional standards as well as compliance with legal obligations, and are available in the Corporate Governance section of the Company's website.

### ***Diversity***

The Company is committed to workplace diversity and ensuring a diverse mix of skills amongst its Directors, officers and employees. The Company has always made its appointments based on merit and skills required to discharge the duties of such roles, and understands that an appropriate blend of a diverse range of employees regarding gender, age, ethnic and age diversity in Board positions, senior management or general employees, will provide a diverse range of ideas and views which may assist the Company in achieving its strategies and goals.

Due to its size and nature of operations, the Company does not currently have a Diversity Policy or objectives for achieving gender diversity in accordance with Recommendations 3.2 and 3.3 of the ASX Principles and Recommendations. The Company may consider adopting a Diversity Policy in the future as it grows in size and complexity.

As at 31 December 2013, the proportion of women in the Group was as follows:

**Table 2: Proportion of women in the Group**

	<b>Male</b>	<b>Female</b>
Board members:	100%	0%
Senior executives:	0%	100%
Employees:	0%	100%

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

The Board recognises the critical importance of sound financial management and the accurate and timely reporting of financial performance. To assist the Board in the fulfilment of its duties and governance obligations in this area, the Board has established an Audit Committee. Its role, objective and responsibilities are set out in the Audit Committee Charter which can be viewed in the Corporate Governance section of the Company's website.

During the year the Audit Committee consisted of three (3) independent Non-Executive Directors, Mr Forbes (who is also the Chairman of the Audit Committee), Mr Cowley and Mr Douglas. Details of each Audit Committee member's qualifications and attendance at Audit Committee meetings are contained on pages 22 to 24 and 37 of the 2013 Annual Report.

All members of the Audit Committee are financially literate and possess sufficient financial expertise and knowledge of the industry in which the Company operates. The Board considers it appropriate for the Audit Committee chaired by the Chairman of the Board due to Mr Forbes' extensive experience of financial and accounting matters. The Audit Committee met twice during the year 2013.

In respect of the year ended 31 December 2013, the CEO and Financial Controller have provided the Board with a statement confirming that the Company's financial reports present a true and fair view of its financial position and are in accordance with relevant accounting standards.

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

The Board has adopted a Continuous Disclosure Policy which can be viewed in the Corporate Governance section of the Company's website. The purpose of this policy is to set out the procedures to be followed to enable accurate, timely, clear and adequate disclosure to the market and compliance with the ASX Listing Rules regarding disclosure. The Policy also operates to ensure that all employees are aware of their obligations for compliance within the continuous disclosure obligations.

In the current year the Company has sought to improve its disclosure in its 2013 annual report by adopting Regulatory Guide 247: *Effective Disclosure in an operating and financial review* issued by the ASIC in March 2013. As a result the 2013 annual report provides more comprehensive information allowing shareholders to better evaluate the Company.

The Company Secretary and the CEO have been nominated as the persons responsible for communications with the ASX. This role includes the responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public. Further comments related to making timely and balanced disclosure are covered with consideration of the next Principle.

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

The Board recognises the important rights of shareholders and strives to communicate with shareholders regularly and clearly – both by electronic means and using more traditional communication methods.

The Company communicates with shareholders in its quarterly reports, financial reports, and at general meetings of shareholders where both the financial and operational aspects are presented. All information disclosed to the ASX is posted on the Company's website when it is disclosed to the ASX. Presentation material used in public presentations and to brief analysts is released to the ASX and posted on the Company's website.

The Board encourages full participation of shareholders at annual general meetings so that they are aware of the Company's progress in attaining its strategies and goals.

The external auditor attends all annual general meetings and is available to answer questions on matters relating to the audit generally, accounting policies, preparation and content of the auditor's report and the independence of the auditor in relation to the conduct of the audit.

During the year, the Company continued to develop and sophisticate its website and communication methods with shareholders. This included running of a campaign to increase the number of shareholders who the Company communicates with electronically for them to receive communications faster and reduce impact on the environment.

While the Board has not adopted a formal communications policy in accordance with recommendation 6.1 of the ASX Principles and Recommendations, it considers that its adherence to the above principles is sufficient at the current stage of development of the Company.

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

The Company recognises that effective risk management is central to continued growth and success and has established a sound system of risk oversight, management and internal control.

Material business risks are considered informally as the Company's business evolves, plus formally at each Board meeting. The Company's policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed effectively and efficiently managed and monitored to enable achievement of the Company's business objectives.

Since the end of the year ended 31 December 2013, the Board has formalised its policy on risk management and adopted a Risk Management Policy to govern the Company's approach to risk oversight and management, and internal control systems. A copy of the Risk Management Policy is available in the Corporate Governance section of the Company's website. During the year the Board has also adopted an internal Safety Policy Manual setting out the Company's environmental, safety and health practices and responsibilities.

The Board is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. The Board requires the CEO to design and implement the risk management and internal control system to manage the Company's material business risks, and to report to the Board. The CEO provides the Board with a risk assessment status on a regular basis.

The Board believes the current approach to risk management is appropriate at the current stage of development of the Company. Due to its present size and scale of operations, the Company does not consider that an internal audit function or a separate risk management committee is warranted. The Board through the CEO relies on system controls in place in the Company.

In accordance with Recommendations 7.2 and 7.3 of the ASX Principles and Recommendations, the Board has received assurance from the CEO and Financial Controller that:

- the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control; and
- the system is operating effectively and efficiently in all material respects in relation to business and financial reporting risks.

**Principle 8: Remunerate fairly and responsibly**

The Remuneration Report (which forms part of the Directors' Report) sets out details of the Company's policies and practices for remunerating Directors, KMP and employees.

Since the end of the year ended 31 December 2013, the Company has established a Remuneration Committee, which advises and reports to the Board, is chaired by Mr Bruce Cowley and includes Mr Jeff Forbes and Mr Angus Douglas, all independent Non-Executive Directors. The role, objectives and responsibilities of the Remuneration Committee is set out in its Charter, which available in the Corporate Governance section of the Company's website.

The remuneration of Non-Executive Directors is structured separately from that of the Executive Directors and senior Executives. Information on remuneration for Non-Executive Directors is set out in the Remuneration Report.

The Company has a remuneration policy that provides a governance framework for the structure and operation of remuneration systems, within the context of the Company's financial and risk management framework. It provides for both fixed and performance based remuneration for all employees, and permits the Company to offer a component of performance based remuneration as equity remuneration. Further information in relation to the Company's remuneration strategy and framework can be found in the Company's Remuneration Report.

There is no scheme to provide retirement benefits, other than statutory superannuation, to Non-Executive Directors.

The Company does not currently have a policy on prohibiting entering into transactions in associated products which limit the economic risk of participating in unvested entitlement under any equity-based remuneration schemes.

**ASX Principles and Recommendations: summary table of compliance**

Table 3 below intends to provide a snapshot of how the Company complies with the ASX Principles and Recommendations.

**Table 3: Summary table of compliance with ASX Principles and Recommendations**

ASX Principles and Recommendations	Comply?	Website Documentation
<b>Principle 1 – Lay solid foundations for management and oversight</b>		
1.1 The Company has established the functions reserved to the Board and those delegated to senior executives.	Yes	Board Charter Company Constitution
1.2 The Company has disclosed its process for evaluating the performance of senior executives.	Yes	
1.3 The Company has provided the information indicated in the guide to reporting on Principle 1.	Yes, where applicable	
<b>Principle 2 – Structure the Board to add value</b>		
2.1 A majority of the Board are independent Directors.	Yes	Board Charter Company Constitution
2.2 The Chair is an independent Director.	Yes	
2.3 The roles of Chair and Chief Executive Officer are not exercised by the same individual.	Yes	Remuneration Committee Charter
2.4 The Board has established a Nomination Committee.	The Board's view is that the Company is not currently of the size to justify the formation of a separate nomination committee. The Board and the Remuneration Committee discussed below currently perform the functions of a nomination committee and where necessary will seek advice of external advisors in relation to this role. The Board shall, upon the Company reaching the requisite corporate and commercial maturity, form a nomination committee to assist the Board in relation to the appointment of Directors and senior management.	
2.5 The Company has disclosed the process for evaluating the performance of the Board, its committees and individual Directors.	Yes	
2.6 The Company has provided the information indicated in the guide to reporting on Principle 2.	Yes, where applicable	
<b>Principle 3 – Promote ethical and responsible decision making</b>		
3.1 The Company has established a code of conduct and has disclosed the code or a summary of the code.	Yes	Board Charter Share Trading Policy
3.2 The Company has established a policy concerning diversity and disclosed the policy or a summary of that policy. The policy includes requirements for the Board to establish measureable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.	Due to its size and nature of operations, the Company does not currently have a Diversity Policy or objectives for achieving gender diversity. The Company may consider adopting a Diversity Policy in the future as it grows in size and complexity.	
3.3 The Company has disclosed in its annual report the measureable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.	N/A	
3.4 The Company has disclosed in its annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.	Yes	
3.5 The Company has provided the information indicated in the guide to reporting on Principle 3.	Yes, where applicable	

<b>Principle 4 – Safeguard integrity in financial reporting</b>				
4.1	The Board has established an audit committee.	Yes	Audit Charter	Committee
4.2	The audit committee has been structured so that it: <ul style="list-style-type: none"> <li>• consists only of non-executive Directors</li> <li>• consists of a majority of independent Directors</li> <li>• is chaired by an independent chair, who is not chair of the Board</li> <li>• has at least three members</li> </ul>	Yes. The Board also considers it appropriate for the Audit Committee chaired by the Chairman of the Board due to Mr Forbes' extensive experience of financial and accounting matters.		
4.3	The audit committee has a formal charter.	Yes		
4.4	The Company has provided the information indicated in the guide to reporting on Principle 4.	Yes, where applicable		
<b>Principle 5 – Make timely and balanced disclosure</b>				
5.1	The Company has established written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and ensure accountability at senior executive level for that compliance and disclosed those policies or a summary of those policies.	Yes	Continuous Disclosure Policy	
5.2	The Company has provided the information indicated in the guide to reporting on Principle 5.	Yes		
<b>Principle 6 – Respect the rights of shareholders</b>				
6.1	The Company has a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclosed the policy or a summary of the policy.	While the Board has not adopted a formal communications policy, it considers that its adherence to the principles discussed in the Statement is sufficient at the current stage of development of the Company.	Continuous Disclosure Policy	
6.2	The Company has provided the information indicated in the guide to reporting on Principle 6.	Yes, where applicable		
<b>Principle 7 – Recognise and manage risk</b>				
7.1	The Company has established policies for the oversight and management of material business risks and disclosed a summary of those policies.	Yes	Risk Policy	Management
7.2	The Board requires management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board has disclosed that management has reported to it as to the effectiveness of the Company's management of its material business risks.	Yes.		
7.3	The Board has disclosed whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration 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 in all material respects in relation to financial reporting risks.	Yes		
7.4	The Company has provided the information indicated in the guide to reporting on Principle 7.	Yes, where applicable		
<b>Principle 8 – Remunerate fairly and responsibly</b>				
8.1	The Board has established a remuneration committee.	Yes since the end of year ended 31 December 2013	Remuneration Committee Charter	
8.2	The remuneration committee is structured so that it: <ul style="list-style-type: none"> <li>• consists of a majority of independent directors</li> <li>• is chaired by an independent chair</li> <li>• has at least three members</li> </ul>	Yes		
8.3	The Company clearly distinguishes the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Yes		
8.4	The Company has provided the information indicated in the guide to reporting on Principle 8.	Yes, where applicable		

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