

Corporate governance statement

The ASX Corporate Governance Council released its "Principles of Good Corporate Governance and Best Practice Recommendations" in 2003. Ten principles of corporate governance were developed, supported by best practice and implementation recommendations.

Further, in August 2007 the ASX Corporate Governance Council released the second edition of the Corporate Governance Principles and Recommendations ("Revised Principles"). Listed entities are required to report against these Revised Principles in the first financial year commencing on or after 1 January 2008. In the case of the Company, disclosure is therefore initially required in relation to the 30 June 2009 financial year.

Bandanna has reviewed the Revised Principles and where applicable amended its corporate governance practices during the financial year and has reported against these Revised Principles in this report. Accordingly, not all these recommendations have been complied with for the whole of the financial year.

Table 1 at the end of this section, identifies the ASX Best Practice Recommendations (Revised Principles) and whether they have been complied with by the Company during the financial year.

The Council has recognised that these principles and recommendations do not contain a "one size fits all" solution and that it will be necessary for companies to adopt a "fit for purpose" solution in the adoption of these practices.

The ASX Listing Rules require listed entities to disclose the extent to which they have followed the best practice recommendations set by the ASX Corporate Governance Council during the financial year. This corporate governance statement summarises the corporate governance practices that have been formally reviewed and adopted by Bandanna's Board with a view to ensuring continued investor confidence in the operations of the Company and endorsing the corporate governance principles relevant to a company of Bandanna's nature and size.

The Company's website – www.bandannaenergy.com.au – contains a corporate governance section that includes copies of the Company's corporate governance policies mentioned in this statement.

BOARD OF DIRECTORS

Role of the Board

The responsibilities of the Board are to:

- set the strategic direction for the Company and monitor progress of those strategies;
- establish policies appropriate for the Company;
- monitor the performance of the Company, the Board and management;
- approve the business plan and annual work programmes and budgets;

- authorise and monitor major investment and strategic commitments;
- review and ratify systems for health, safety and environmental management; risk management and internal control;
- codes of conduct and regulatory compliance;
- appoint and monitor performance of the Managing Director;
- report to shareholders, including but not limited to, the financial statements of the Company;
- evaluate the performance of the Board and identify and appoint new directors to the Board; and
- take responsibility for corporate governance.

Composition of the Board

The names of the directors of the Company in office at the date of this statement and information regarding directors' experience and responsibilities are set out in the Directors' Report.

The number of directors is specified in the Constitution of the Company as a minimum of three up to a maximum of 10. The Board has resolved that it will aim for, so far as is practicable given the size of the Company to have a majority of independent directors, the appointment of a Chairman who is an independent director, a chairperson who is not the chief executive officer.

Chairman of the Board

The Chairman of the Board is not an independent director contrary to the Council's recommendation 2.2. The Board does not consider it appropriate to comply with the recommendation at this time given its size, nature and shareholding demographics. The Board is of the opinion that the objectives and current strategy of the Company are best served by Mr Jeremy Barlow.

Independent Directors

The Board considers that a director is independent if that director complies with the following criteria:

- apart from director's fees and shareholdings, independent directors should not have any business dealings which could materially affect their independent judgment;
- must not have been in an executive capacity in the Company in the last three years;
- must not have been in an advisory capacity to the Company in the last three years;
- must not be a significant customer or supplier for the Company;
- must not be appointed through a special relationship with another Board member;
- must not owe allegiance to a particular group of shareholders which gives rise to a potential conflict of interest;
- must not hold conflicting cross directorships; and
- must not be a substantial shareholder or a nominee of a substantial shareholder (as defined under section 9 of the Corporations Act).

The Board considers that, of a total of four current directors, one is considered independent (Mr David Graham) and three are considered not to be independent (Mr Jeremy Barlow, Mr Robert Johansen and Dr Raymond Shaw).

Retirement and Rotation of Directors

Retirement and rotation of directors are governed by the Corporations Act 2001 and the Constitution of the Company. Each year, one third of directors must retire and offer themselves for re-election. Any casual vacancy filled will be subject to shareholder vote at the next Annual General Meeting of the Company.

Independent Professional Advice

Each director has the right to seek independent professional advice at the Company's expense after consultation with the Chairman. Once received, the advice is to be made immediately available to all Board members.

Directors' and Officers' Liability Insurance

Directors' and officers' insurance for directors will be arranged by the Company at Company expense.

Share Ownership

Directors are encouraged to own Company shares.

Board Meetings

The following points identify the frequency of Board meetings and the extent of reporting from management at the meetings:

- the board currently holds regular meetings each year, plus any extraordinary meetings at such times as may be necessary to address significant matters. Meetings can be held by telephone link; and
- information provided to the Board includes all material information on: operations, budgets, cash flows, funding requirements, shareholder movements, broker activity in the Company's securities, assets and liabilities, disposals, financial accounts, external audits, internal controls, risk assessments, new venture proposals, and health, safety and environmental reports.

The number of directors' meetings (including meetings of committees of directors) and the number of meetings attended by each of the directors of the Company during the financial year are set out in the Directors' Report.

Board Performance Review

During the financial year the Board has not conducted any performance reviews of senior executives or individual directors. This reflects the relatively recent appointment of both the majority of Board members and of the management team.

The board currently undertakes an annual assessment of the charter for the Audit Committee, Risk Management Committee and the Remuneration Committee. The Board considers that the Company is not currently of a size or complexity to justify a separate Nominations Committee and Corporate Governance Committee. The role of the Nominations Committee and Corporate Governance Committee will be carried out by the full Board (subject to the members voting rights in general meetings), with advice of an external consultant where necessary.

Other Areas for Board Review

- Reporting to shareholders and the market to ensure trade in the Company's securities takes place in an efficient, competitive and informed market;
- succession planning for senior executives and the Board;
- insurance, both corporate and joint venture related insurances; and
- approval of external directorships for the Managing Director and senior executives and disclosure of external directorships by other directors.

BOARD COMMITTEES

Audit Committee

An Audit Committee has been established and a formal charter has been approved by the board during the financial year. The initial members of the committee are Mr David Graham (Chairperson), Dr Raymond Shaw and Mr Robert Johansen. The Company Secretary and representatives of the auditors may be invited to form part of the Audit Committee from time to time.

The Committee's primary function is to assist the Board in discharging its responsibility to exercise due care, diligence and skill in relation to the Company by:

- ensuring that the quality of financial controls is appropriate for the business of the Company;
- reviewing the scope and results of external and internal audits;
- monitoring corporate conduct and business ethics, including Auditor Independence and ongoing compliance with laws and regulations;
- maintaining open lines of communication between the Board, management and the external auditors, thus enabling information and points of view to be freely exchanged;
- reviewing matters of significance affecting the financial welfare of the Company;
- ensuring that systems of accounting and reporting of financial information to shareholders, regulators and the general public are adequate;
- reviewing the Company's internal financial control system;
- considering the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor;

Corporate governance statement

(continued)

- monitor and review the external auditor's independence, objectivity and effectiveness, taking into consideration relevant professional and regulatory requirements; and
- developing and implementing policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provisions of non-audit services by the external audit firm.

Remuneration Committee

The role, responsibilities and objectives of the Remuneration Committee are included in the Remuneration Report.

For details of remuneration paid to directors and officers for the financial year and the process for evaluating the performance of senior executives, please refer to the Remuneration Report. The Remuneration Report is included in the Directors' Report on pages 31 to 32.

Risk Management Committee

The role of the Risk Management Committee is documented in a formal charter approved by the Board.

The Risk Management Committee's primary corporate governance role is to advise and assist the Board of Directors in assessing risk factors associated with the execution of projects in which the consolidated entity has equity or participatory interests.

The responsibilities of the Risk Management Committee are:

- ensuring the development of an appropriate risk management policy framework that will provide guidance to Management in implementing appropriate risk management practices throughout the Company's operations, practices and systems;
- defining and periodically reviewing key business risks as they apply to the Company and clearly identify all stakeholders;
- ensuring the Committee clearly communicates the Company's risk management philosophy, policies and strategies to Directors, Management, employees, contractors and appropriate stakeholders;
- ensuring that Directors and Management establish a risk aware culture which reflects the Company's risk policies and philosophies;
- reviewing methods of identifying broad areas of risk and setting parameters or guidelines for business risk reviews;
- making informed decisions regarding business risk management, internal control systems, business policies and practices and disclosures; and
- considering capital raising, treasury and market trading activities with particular emphasis on risk treatment strategies, products and levels of authorities.

The Risk Management Committee will be comprised of not less than three members, with a preference for a majority of non-executive Directors and preference will be given to an Independent Chairperson

where available. The members of the Risk Management Committee are Mr Robert Johansen (Chairperson), Dr Raymond Shaw, Mr Jeremy Barlow and Mr David Graham.

Risk Management

The potential exposures with running the Company have been managed by the appointment of senior staff who have significant broad-ranging industry experience, work together as a team and regularly share information on current activities. Additionally, it is the responsibility of the Audit Committee to assess the adequacy of the Company's internal control systems and to ensure that its financial affairs comply with applicable laws and regulations and professional practices. The Managing Director and the Chief Financial Officer have declared in writing to the Board that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating effectively. This representation is made by the Managing Director and Chief Financial Officer prior to the directors' approval of the release of the annual and six monthly accounts. This representation is made after enquiry of, and representation by, appropriate levels of management.

PROMOTION OF ETHICAL AND RESPONSIBLE DECISION-MAKING

Code of Conduct

The Board has adopted a Code of Conduct for directors and employees of the Company. The Company's goal of increasing value for our shareholders should be enhanced by complying with this Code of Conduct, which provides principles with which directors, key executives and employees should be familiar and with which they are expected to adhere and advocate.

It is the responsibility of the Board to monitor the Company's performance under these Codes and for their regular review.

Trading in Company Securities by Directors, Officers and Employees

The Company strongly encourages its directors and employees to become shareholders in the Company. However, when a director trades in shares of the Company it is important to ensure that these transactions do not reflect badly on either the director or the Company.

The Company's policy regarding dealings by directors in the Company's shares is that directors should never engage in short term trading, the director must notify the Chairperson of the intended transaction at least 24 hours beforehand and should not enter into transactions in the following circumstances: When they are in possession of price sensitive information not yet released by the Company to the market.

For details of shares held by directors and officers, please refer to the Directors' Report.

Shareholder Communications

The Board aims to ensure that shareholders and investors have equal access to the Company's information.

The Company has policies and procedures that are designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance. This disclosure policy includes processes for the identification of matters that may have a material effect on the price of the Company's securities, notifying them to the ASX and posting them on the Company's website.

The Company also has a strategy to promote effective communication with shareholders and encourage effective participation at general meetings through a policy of open disclosure to shareholders, regulatory authorities and the broader community of all material information with respect to the Company's affairs including, but not limited to:

- conflicts of interest and related party transactions;
- executive remuneration;
- grant of options and details of Share Option Plans;

- external directorships;
- process for performance evaluation of the Board, its committees, individual directors and key executives;
- the link between remuneration paid to directors and key executives and corporate performance; and
- communications with shareholders and the investor community.
- The following information is communicated to shareholders:
- the Annual Report and notices of meetings of shareholders;
- for those shareholders electing not to be mailed a copy of the Annual Report, a copy can be viewed on the Company's website;
- quarterly reports reviewing the operations, activities and financial position of the Company;
- all documents that are released to the ASX are made available on the Company's website,
- all other information on the Company's website is updated as the need arises.
- Regular interviews with Boardroom Radio, which are posted onto our web-site.

TABLE 1

ASX Best Practice Recommendations

Recommendation		Complied
1.1	Companies should recognise and disclose the functions reserved to the board and those delegated to senior executives.	Y
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Y
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1.	Y
2.1	A majority of the board should be independent directors.	N ¹
2.2	The chair should be an independent director.	N ¹
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	Y
2.4	The board should establish a nomination committee.	N ²
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Y
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.	Y
3.1	Companies should establish and disclose a code of conduct at to: <ul style="list-style-type: none"> - the practices necessary to maintain confidence in the company's integrity - the practices necessary to take into account their legal obligations and the expectations of their stakeholders - the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. 	Y
3.2	Companies should establish and disclose the policy concerning trading in company securities by directors, senior executives and employees.	Y
3.3	Companies should provide the information indicated in the Guide to reporting on Principle 3.	Y

Corporate governance statement

(continued)

TABLE 1

ASX Best Practice Recommendations (continued)

Recommendation		Complied
4.1	The board should establish an audit committee.	Y
4.2	The audit committee should be structured so that it: <ul style="list-style-type: none"> – consists only of non-executive directors – consists of a majority of independent directors – is chaired by an independent chair, who is not chair of the board – has at least three members 	N ³
4.3	The audit committee should have a formal charter.	Y
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	Y
5.1	Companies should establish and disclose written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance.	Y
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	Y
6.1	Companies should design and disclose a communications strategy to promote effective communication with shareholders and encourage their participation at general meetings.	Y
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	Y
7.1	The board should establish policies on risk oversight and management.	Y
7.2	The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the board in writing that the statement given in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control which implements the policies adopted by the board in relation to financial reporting risks, and that the system is operating effectively in all material respects.	Y
7.3	The chief executive officer (or equivalent) and other responsible senior executives should state to the board in writing that there is a sound system of risk management and internal control which implements the policies adopted by the board in relation to material business risks other than those covered by Recommendation 7.2, and that the system is operating effectively in all material respects.	Y
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	Y
9.1	The board should establish a remuneration committee.	Y
9.2	Companies should clearly distinguish the structure of non-executive director's remuneration from that of senior executives.	Y
9.3	Companies should ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.	Y
9.4	Companies should provide the information indicated in the Guide to reporting on Principle 9.	Y

¹ With the current size and complexity of the Company, the board does not consider it appropriate at this time to comply with this recommendation.

² Having regard to the current membership of the Board and the size, organisational complexity and scope of operations of the Company, an individual committee has not been formed at this time. The role of this committee will be carried out by the full board.

³ The Board does not consider it appropriate at his time to comply with this recommendation due to the current size and membership of the Board.