

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Black Fire Energy Limited (Black Fire) is responsible for corporate governance of the Company. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Company has established a set of corporate governance policies and procedures that are based on the Australian Stock Exchange Corporate Governance Council's (the Council's) "Principles of Good Corporate Governance and Best Practice Recommendations" (the Recommendations). A copy of the board charter is available on the Company's website at www.blackfireenergy.com.au.

In accordance with the Council's recommendations, the Corporate Governance Statement contains certain specific information and discloses the extent to which the Company has followed the guidelines during the period. Where, a recommendation has not been followed that fact has been disclosed, together with the reasons for the departure.

Corporate Governance Compliance

The board sets out below its "if not, why not" report in relation to those matters of corporate governance where the Company's practices depart from the recommendations.

Principle 1 – Lay solid foundations for management and oversight

1.1 There is no delineation of functions between the board and senior executives.

All functions, roles and responsibilities are undertaken by the board as there are no executives other than directors as at the date of this report.

Principle 2 – Structure the board to add value

Directors of the Company are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgment. In accordance with the definition of independence, there are no Independent Directors currently on the board. The Directors consider that the current structure and composition of the Board is appropriate to the size and nature of operations of the Company.

2.1 The Company does not have a majority of independent directors.

Consistent with the size of the Company and its activities, the board is comprised of three (3) directors, one (1) of whom is considered to be an executive director.

The board's policy is that the majority of directors shall be independent, non-executive directors. The composition of the board does not currently conform to its policy. It is the board's intention to comply with its policy at a time when the size of the Company and its activities warrants such a structure.

2.2 The chairman is not an independent director.

The chairman is one of the non-executive directors currently on the board and given the size and nature of operations of the Company this current status is considered appropriate. The board's policy is that the chairman shall be independent and non-executive at a time when the size of the Company and its activities warrants such a position.

2.4 A nomination committee has not been established.

The Board has formally adopted a Nomination Committee Charter but given the present size of the Company, has not formed a separate Committee. Instead the function will be undertaken by the full Board in accordance with the policies and procedures outlined in the Nomination Committee Charter. At such time when the Company is of sufficient size a separate Nomination Committee will be formed.

Principle 4 – Safeguard integrity in financial reporting

4.1 The Company does not have an audit committee.

4.2 Given 4.1 the structure of the audit committee does not comply with the structure set out in the board charter adopted by the Company.

CORPORATE GOVERNANCE

Corporate Governance Compliance (continued)

Principle 4 – Safeguard integrity in financial reporting (continued)

The Board has formally adopted an Audit and Risk Management Committee Charter but given the present size of the Company, has not formed a separate Committee. Instead the function of the Committee will be undertaken by the full Board in accordance with the policies and procedures outlined in the Audit and Risk Management Committee Charter. At such time when the Company is of sufficient size a separate Audit and Risk Management Committee will be formed.

It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial and non financial-information. It is the Board's responsibility for the establishment and maintenance of a framework of internal control.

Principle 7 – Recognise and manage risk

All functions, roles and responsibilities with regard to risk oversight and management and internal control are undertaken by the board as a whole as there are no executives other than directors as at the date of this report.

The role of the Risk Management Committee has been assumed by the full Board operating under the Risk Management Committee Charter adopted by the Board.

The Company 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.

Principle 8 – Remunerate fairly and responsibly

8.1 The Company does not have a Remuneration Committee.

The Board is responsible for determining and reviewing compensation arrangements for themselves and the Chief Executive Officer. The Board has formally adopted a Remuneration Committee Charter however given the present size of the Company, has not formed a separate Committee. Instead the function will be undertaken by the full Board in accordance with the policies and procedures outlined in the Remuneration Committee Charter. At such time when the Company is of sufficient size a separate Remuneration Committee will be formed.

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality board by remunerating directors fairly and appropriately with reference to relevant market conditions.

The Board of Black Fire Energy Limited conducts its performance review of itself on an ongoing basis throughout the year. The small size of the Company and hands on management style requires an increased level of interaction between directors and executives throughout the period. Board members meet amongst themselves both formally and informally. The Board considers that the current approach that it has adopted with regard to the review of its performance provides the best guidance and value to the Company.