



Statement of Compliance with the QCA Corporate Governance Code

Chairman's Introduction

The Board of Indus Gas is fully committed to maintaining and evolving an effective corporate governance framework for the benefit of all stakeholders. This commitment represents a vital building block in creating a culture which supports the company's long term strategic goals in a sustainable fashion.

The Board recognises that it plays a key role in shaping the long term success of Indus Gas through effective and efficient decision-making. Strong corporate governance is central to this, helping to mitigate risks and adding value to our business.

As an AIM listed company, the Board of Indus Gas has decided to comply with the Quoted Companies Alliance (QCA) Corporate Governance Code consistent with the London Stock Exchange's recent directive. The following report outlines the ten broad principles which are the foundation of the code and sets out how Indus are applying these principles in practice.

Principle 1: Establish a strategy and business model which promote long-term value for shareholders

The Company continues to execute against a clear and consistent long-term strategy designed to deliver growth in both reserves and commercial production as described in the annual report. The Board anticipates that the achievement of these strategic goals will continue to create value for shareholders over the long run and on a sustainable basis.

This clarity of strategic focus has been central to management's track record of successful execution during a period of very variable economic performance both domestically (in India) and globally. The Indian economy continues to suffer from a significant shortage of domestically sourced energy production and Indus remains well placed to help address this deficit.

The Company's prolific exploration success has been attributable to a meticulous planning process including the collection and interpretation of in-depth 3D seismic data across the block. This has translated into detailed exploration campaigns which have driven a dramatic increase in the Company's commercial and prospective resources. The success with the drill-bit has also enabled Indus to minimise costs through economies of scale and this is reflected in our low cost production profile.

The consistency of the Company's strategy should not be confused with complacency. The Board is continually challenging and evolving the strategic focus of Indus to ensure it remains optimal for all stakeholders. The award of the 'Declaration of Commerciality' ('DoC') in 2016 which, covers a 2000 square kilometre area, represented a major milestone in the execution of the Company's strategy. While the initial commercial production phase supplied (and continues to supply) gas to the Gas Authority of India for a large power plant in north-west Rajasthan, the award of the DoC has

provided the platform from which to deliver a significant acceleration in production. The evaluation of the various options to achieve this production increase and maximise shareholder returns remains a key strategic focus of the Board. This judgement will include an assessment of cost, counterparty risk and pricing mechanism for each option.

Principle 2: Seek to understand and meet shareholder needs and expectations

The Company is committed to engaging and communicating with its shareholders on a regular basis. The Board recognises the importance of articulating a clear strategy which is responsible for generating the results which are measured against our shareholder's expectations.

We recognise the importance of understanding and addressing any investor concerns through both scheduled and ad hoc interaction. This includes institutional investor roadshows, impromptu meetings and phone calls with existing and prospective shareholders. These meetings will cover a range of agenda topics from detailed trading updates with existing shareholders to investment case education with prospective investors who have a more limited knowledge base of the Company. All interaction with shareholders is summarised and discussed by the Board.

The Company has also provided regular opportunities for investors to visit the licence block in north-west Rajasthan. These site visits provide shareholders and prospective investors with a detailed operational insight and the chance to meet with senior team members across all of the main project functions.

The Annual General Meeting ('AGM') provides the forum for our retail shareholders to meet with the Board and ask questions. The AGM Notice is sent to shareholders at least 21 days before the meeting date. For each resolution, the number of proxy votes received for, against and withheld is announced at the meeting. The results of our AGM are subsequently published on the Company's corporate website (www.indusgas.com).

Principle 3: Take into account wider stakeholder and social responsibilities and their implications for long-term success

The Company recognises that it does not exist in isolation. Building good relations with a wide range of different stakeholders is critical to achieving long-term success. These include:

- Our employees
- Our investor base
- Focus Oil (the operator)
- Oil and Natural Gas Corporation (the licensee)
- Gas Authority of India (key customer)
- Government of India (regulator)
- Suppliers

Engagement with all of these stakeholder groups is a vital to building a successful business which can be sustained over the long-term. The Board recognises that the implementation of an effective decision making process to drive our strategy would not be possible without the support of our key stakeholders. It is therefore essential to understand the different views and motivations of these stakeholders to ensure our strategy is as aligned as possible to deliver results which satisfy all of these different parties. This can only be achieved by regular and open communication with our

stakeholders. Fairness, reliability and quality are the key principles we strive to achieve when dealing with all stakeholders of Indus Gas.

Principle 4: Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Board is responsible for ensuring there is an effective risk management framework with strong internal controls in place across the organisation. Understanding and where possible, mitigating the relevant risks to the business, is an essential part of executing and delivering our strategy.

The effectiveness of our risk management process is continually reviewed and challenged by our Chief Executive Officer, senior management, the Audit Committee and the Board to ensure all material risks facing the Company are identified and addressed.

The Board is accountable for the review and approval of overall Company strategy including the determination of capital budgets and plans and the evaluation of the optimal financial structure for the group. Detailed financial forecasting enables the Board to quickly identify any material variances from budget.

The Audit Committee assists the Board in discharging its duties regarding the financial statements, accounting policies and the maintenance of appropriate financial controls. The Audit Committee is also responsible for challenging the nature and scope of the work conducted by our independent auditors.

The Chief Executive Officer and senior management team monitors the day-to-day activities of the Company and is responsible for reporting to the Board any material variances from pre-agreed budgets. There is a clear organisational structure in place with defined levels of responsibility across all business functions. The authorisation of capital expenditure and oversight of banking facilities is controlled centrally.

The Board is confident that there is an adequate system of internal controls in place to identify, assess and manage the key risks facing the Company. These risks include:

- Operational continuity including the fulfilment of contract obligations with our key customer (Gas Authority of India)
- Assumptions underlying major capital expenditures including the outlook for both gas demand and pricing levels within our end markets
- Changes to the regulatory and political environment within which we operate
- Retention of our key personnel
- Integrity of our supply chain
- Material variances from budgets and the resulting financial impact

The Board recognises that not all risks can be fully mitigated. However, our risk management framework is continually evolving to identify, assess and manage to the best of our ability all of the major risks facing the Company.

Principle 5: Maintaining the Board as a well-functioning, balanced team led by the Chair

The Board comprises the Non-Executive Chairman, Chief Executive Officer and another Non-Executive Director. During the current financial year to 31 March 2019, Bruce McNaught resigned as a Non-Executive Director and was replaced by Jonathan Keeling as a Non-Executive Director.

The Board considers that the two Non-Executive Directors exercise independent judgement and bring a variety of experience and skills to compliment the Chief Executive Officer and the senior management team below Board level. The Board recognises that making the most appropriate appointment – whether at Board level or indeed throughout the organisation – is a crucial component in the creation of a successful decision-making process. The assessment of ‘most appropriate’ takes into account the balance of competencies within the organisation to ensure alignment to the strategic priorities of Indus Gas.

The recently announced Board appointment was based on objective selection criteria highlighting the specific skills and experience required to achieve a rounded Board and the diversity benefits each candidate can bring to the overall Board composition. These criteria were determined by an assessment of both the current and the anticipated future competencies required to optimise our corporate performance.

The Chief Executive Officer and the senior management team are challenged by the Non-Executive Directors on the financial performance of the Company and overall strategy. This is a two-way process where the Non-Executive Directors can use their experience to help shape the strategic direction of the Company.

Gynia Holdings, owned by Ajay Kalsi (Chief Executive Officer of Indus Gas), currently holds 82.66% of Indus Gas and therefore represents a significant shareholder. The Company has a relationship agreement in place with Mr Kalsi and Gynia Holdings which is enforceable provided Gynia Holdings owns more than 30% of Indus Gas and the shares remain admitted to AIM. The relationship agreement includes provisions to ensure that:

- The Board and its Audit, Remuneration and Nomination Committees are able to carry on their business independently of the personal interests of Gynia Holdings
- The constitutional documents of the Company are not changed in such a way which would be inconsistent with the relationship agreement
- All transactions between the Company and Gynia Holdings are conducted on a normal commercial basis and at arm’s length
- In the event of a conflict of interests between the Board and Gynia Holdings, no person who is connected with Gynia Holdings is appointed as a Non-Executive Director of the Company and no existing Non-Executive Director is removed as a Director of the Company unless such appointment or removal has been previously approved by the Nomination Committee of the Board and that to the extent that any recommendation of the Nomination Committee concerning the composition of the Board which, has been approved by the Board requires the approval of the shareholders of the Company, then Gynia Holdings will vote its ordinary shares in favour

The services of the Company Secretary are available to all Directors should they wish to seek independent professional advice in the furtherance of their duties. The Board is supported by the Audit, Remuneration and Nomination Committees which are chaired by our Non-Executive Chairman. Details of these Committees are contained on our website.

Principle 6: Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities

The Board is satisfied that the Directors have an effective balance of skills and experience. The Non-Executive Chairman leads this assessment and provides feedback to the Board. This is particularly salient when addressing Board succession and at times when the Board composition is changing.

In the event of the Board's performance being assessed as sub-optimal, there are formal procedures in place for the removal and appointment of Directors from and to the Board respectively. Principle 7 outlines the Key Performance Indicators which influence this assessment.

The Nomination Committee is responsible for overseeing the process and making recommendations to the Board on all new Board appointments. The search for candidates is conducted on a merit based approach measured against pre-determined objective criteria.

Principle 7: Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

The Board, led by the Non-Executive Chairman, is responsible for reviewing and assessing the effectiveness of its performance. Key Performance Indicators (KPIs) are set at the start of each financial year providing a benchmark for measuring Board performance. KPIs cover the following critical functions of the business:

- Operational performance
- Financial performance
- Employee retention
- Health and safety
- Regulatory compliance
- Director attendance at meetings

The assessment of Board performance also relates to the Audit, Remuneration and Nomination Committees. The Board is committed to establishing clear and relevant objectives which have measurable outcomes. This is critical to identifying areas where the Board can improve their performance. We will be providing more detailed disclosure on our KPIs in the context of assessing Board performance moving forward.

Principle 8: Promote a culture that is based on ethical values and behaviours

The Board aims to lead by example through establishing a culture of doing what is best for the Company and its stakeholders. There has been much media coverage in recent years on the subject of excessive and unjustified levels of Board remuneration. Over the past 3 financial years the Chief Executive Officer's total annual remuneration has decreased from £132,344 in 2014/15 to £125,815 in 2016/17. Over the same period total director remuneration has decreased from £462,770 to £348,083, representing a reduction of 24.8%.

While the Company's operating and financial performance has been strong over the past three financial years and broadly in line with budget, the global oil and gas industry has faced very challenging and volatile market conditions. This has not affected the operating performance of the Company as a result of our fixed price 'take or pay' contract structure. However, it has affected the

share price performance of the listed global oil and gas sector, including Indus Gas and as such Board compensation should reflect this.

Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board

The Board believes it maintains governance structures and processes which are consistent with our corporate culture and are fully appropriate for the size and complexity of the Company. These governance structures have evolved over time and will continue to evolve as the business grows and our strategy is executed.

The Board convenes through a combination of meetings and teleconferences through the year and all Directors receive regular and timely information on the Company's operating and financial performance. All relevant information in support of the meeting agenda is circulated to the Directors in advance of meetings. The minutes of all meetings are circulated to the Directors in a timely manner.

The Company's principal risks, as discussed in Principle 4 above, are the subject of on-going review at Board level. This enables the Board to form an assessment on the effectiveness of the internal controls which are in place to manage these risks. The execution of a clear strategy combined with up-to-date management information is critical to identifying new risks and indeed recognising that previously identified risks are receding. During the course of reviews, the Board has not identified or been informed of any significant internal control weaknesses. This is a key building block in achieving a fully informed and effective Board decision-making process.

The Audit Committee reviews on an annual basis the Company's relationship with our external auditors, Grant Thornton Limited. This review covers the scope of the audit work, the audit process, the audit fees and the independence of the audit. The Audit Committee concluded that they are satisfied with both the independence and effectiveness of the external audit.

Principle 10: Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

The Company communicates with shareholders in the following ways:

- Annual Report and Accounts
- Interim and Final results
- Annual General Meeting
- Executive meetings with shareholders and prospective shareholders
- Non-executive meetings with shareholders and prospective shareholders
- Site visits for investors to our block in Rajasthan
- Indus Gas website

The Board views investor feedback as extremely valuable in helping to evolve and challenge the strategic direction of the Company.

Regular dialogue with our other key stakeholders is also a vital part of ensuring the optimal performance of the Company. Principle 3 provides more detailed context to the importance of these relationships.