

**HERITAGE OIL LIMITED**  
**(the “Company”)**  
**TERMS OF REFERENCE**  
**FOR THE**  
**REMUNERATION COMMITTEE**

**Adopted by the Board of Directors on 18 March 2008**

*References to “the Committee” shall mean the Remuneration Committee.*  
*References to “the Board” shall mean the Board of Directors of the Company.*

In keeping with the principles of good corporate governance, the Board has established the Committee and adopted terms of reference below for the Committee that fully comply with the requirements found in the Combined Code on Corporate Governance (the “**Combined Code**”). The terms of reference adopted below by the Board for the Committee require that requires that a formal and transparent procedure be implemented to develop policy on executive remuneration and for fixing remuneration packages of individual directors, as in accordance with the Combined Code, no director shall be involved in deciding his or her own remuneration.

The Board has followed the recommendations made by the Code and adopted a formal process of considering executive remuneration. The Company has adopted this process through the appointment of the Committee and the Board has established clear terms of reference for the Committee, as follows.

**1. Membership**

- 1.1 Members of the Committee shall be appointed by the Board, on the recommendation the Nomination Committee and in consultation with the Chairman of the Remuneration Committee. The Committee shall be made up of at least 3 members, all of whom shall be independent non-executive directors. The Chairman of the Board may also serve on the Committee as an additional member if he or she was considered independent on appointment as Chairman.
- 1.2 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chief Executive, and external advisers may be invited to attend for all or part of any meeting as and when appropriate.
- 1.3 Appointments to the Committee shall be for a period of up to three years, which may be extended for two further three-year periods, provided the director still meets the criteria for membership of the Committee.
- 1.4 The Board shall appoint the Committee Chairman who shall be an independent non-executive director. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting. The Chairman of the Board shall not be Chairman of the Committee.

**2. Secretary**

- 2.1 The Company Secretary or his nominee shall act as the Secretary of the Committee.

### **3. Quorum**

- 3.1 The quorum necessary for the transaction of business by the Committee shall be 2 members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

### **4. Meetings**

- 4.1 The Committee shall meet at least once a year, and at such other times as the Chairman of the Committee shall require.

### **5. Notice of meetings**

- 5.1 Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any of its members.
- 5.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, no later than 5 working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

### **6. Minutes of meeting**

- 6.1 The Secretary of the Committee shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.
- 6.2 Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board, unless a conflict of interest exists.

### **7. Annual general meeting**

- 7.1 The Chairman of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

### **8. Duties**

The Committee shall

- 8.1 determine and agree with the Board the framework or broad policy for the remuneration of the Company's Chief Executive, Chairman, the executive directors, the Company Secretary and such other members of the executive management as it is designated to consider. The remuneration of non-executive directors shall be a matter for the Chairman and the executive members of the Board. No director or manager shall be involved in any decisions as to their own remuneration;
- 8.2 in determining such policy, take into account all factors which it deems necessary. The objective of such policy shall be to ensure that members of the executive management of the Company are provided with appropriate incentives to encourage enhanced

performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company;

- 8.3 review the ongoing appropriateness and relevance of the remuneration policy;
- 8.4 approve the design of, and determine targets for, any performance related pay schemes operated by the Company and approve the total annual payments made under such schemes;
- 8.5 review the design of all share incentive plans for approval by the board and shareholders. For any such plans, determine each year whether awards will be made, and if so, the overall amount of such awards, the individual awards to executive directors and other senior executives and the performance targets to be used;
- 8.6 determine the policy for, and scope of, pension arrangements for each executive director and other senior executives;
- 8.7 ensure that contractual terms on termination, and any payments made, are fair to the individual, and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- 8.8 within the terms of the agreed policy and in consultation with the Chairman and/or Chief Executive as appropriate, determine the total individual remuneration package of each executive director and other senior executives including bonuses, incentive payments and share options or other share awards;
- 8.9 in determining such packages and arrangements, give due regard to any relevant legal and regulatory requirements, the provisions and recommendations in the Combined Code and the Financial Services Authority's Listing Authority's Listing Rules and associated guidance;
- 8.10 review and note annually the remuneration trends across the Company or group;
- 8.11 if required, undertake a benchmarking exercise to compare the relevant persons against a peer group;
- 8.12 oversee any major changes in employee benefits structures throughout the Company or group;
- 8.13 agree the policy for authorising claims for expenses from the Chief Executive and Chairman;
- 8.14 ensure that all provisions regarding disclosure of remuneration, including pensions, are fulfilled;
- 8.15 be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee; and
- 8.16 obtain reliable, up-to-date information about remuneration in other companies. The Committee shall have full authority to commission any reports or surveys which it deems necessary to help it fulfil its obligations.

## **9. Reporting responsibilities**

- 9.1 The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 9.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 9.3 The Committee shall produce or review an annual report of the Company's remuneration policy and practices which will form part of the Company's annual report and ensure each year that it is put to shareholders for approval at the AGM.

## **10. Other**

- 10.1 The Committee shall give due consideration to applicable laws and regulations, including the general duties of directors set out in the provisions of the Combined Code and the requirements of the Financial Services Authority's Listing Rules, Prospectus Rules and Disclosure and Transparency Rules, as appropriate.
- 10.2 The Committee shall, at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

## **11. Authority**

- 11.1 The Committee is authorised by the Board to seek any information it requires from employee of the Company in order to perform its duties.
- 11.2 In connection with its duties the Committee is authorised by the Board, at the Company's expense:
  - 11.2.1 to obtain any outside legal or other professional advice; and
  - 11.2.2 within any budgetary restraints imposed by the Board, to appoint remuneration consultants, and to commission or purchase any relevant reports, surveys or information which it deems necessary to help fulfil its duties.