

## **RISK MANAGEMENT AND INTERNAL CONTROL POLICY**

### **1. OVERVIEW**

The Board of the Company recognises the importance of identifying and controlling risks to ensure that they do not have a negative impact on the Company. Procedures have been established at the Board and senior executive levels which are designed to safeguard the assets and interest of the Company and to ensure the integrity of reporting.

There are a variety of risks that exist in the industry in which the Company operates and there are a range of factors, some of which are beyond the control of the Company and which may impact on the Company's performance. These are taken into account in the risk management strategy implemented by the Board.

In summary in relation to risk management:

#### **1.1 The Board:**

- (a) reviews and approves the parameters under which such risks are managed including the responsibility for internal control systems;
- (b) monitors compliance and the procedures for identifying business risks and the methods to control their financial impact on the Company.

#### **1.2 The Chairman and the executive management team are instructed and empowered by the Board to:**

- (a) implement risk management strategies in co-operation with it and the Audit Committee;
- (b) report to the Board and the Audit Committee on developments related to risk; and
- (c) suggest to the Board new and revised strategies for mitigating and resolving risk.

### **2. BENEFITS OF RISK MANAGEMENT AND INTERNAL CONTROL PROCEDURES**

Some of the benefits identified in establishing and maintaining risk management procedures are as follows:

- More effective strategic planning.
- Better cost control.
- Enhancing shareholder value by minimising losses and maximizing opportunities.
- Increased knowledge and understanding of exposure to risk.
- A systematic, well-informed and thorough method of decision making.
- Increased preparedness for outside review.
- Minimised disruptions.
- Better utilization of resources.
- Strengthening culture for continued improvement.

- Creating a best practice and quality organisation.

### **3. INTERNAL CONTROL POLICY**

The Board is ultimately responsible for the internal control framework and risk management of the Company and for regularly reviewing its effectiveness.

The principle aim of the system of internal control is the management of business risks, with a view to enhancing the value of shareholders' investments and safeguarding assets.

Although no system of internal control can provide absolute assurance that the business risks will be fully mitigated, the internal control systems have been designed to meet the Company's specific needs and the risks to which it is exposed.

The Board is responsible for identifying the risks facing the Company, assessing the risks and ensuring that there are controls for these risks, which are to be designed to ensure that any identified risk is reduced to an acceptable level.

The Board will review the operation of the systems of risk management at least annually to ensure that the significant risks facing the Company are identified, that appropriate control, monitoring and reporting mechanisms are in place and that risk is appropriately dealt with, and liaise with the CEO to identify and manage risk. The Company will disclose in relation to each reporting period whether such a review has taken place.

The Board will review and discuss strategic risks and opportunities arising from changes in the Company's business environment regularly and on an as needs basis.

The Board may delegate some of the abovementioned responsibilities to committees of the Board but maintain the overall responsibility for the process.

The following committees have or may be established to assist the Board in internal control and business risk management:

- Nomination and Remuneration Committee
- Audit Committee (not established at this time)
- Risk Committee (not established at this time)

#### **3.1 Nomination and Remuneration Committee**

The Nomination and Remuneration Committee is responsible for determining and reviewing the compensation arrangements for the Directors themselves, the Chief Executive Officer, the executive committee and employees.

The Nomination Committee will also assist the Board in relation to the selection and appointment of members of the Board. The Nomination Committee will be accountable to the Board for its performance.

Further, they are responsible for assisting the Board in appointing and terminating (if necessary) members of the Board.

The Committee will report to the Board at the end of each reporting period the number of times that the Committee has met during that period and the individual attendances of the members of the Committee shall be specified

#### **3.2 Audit Committee**

If and when the Board establishes an Audit Committee: it shall consist of at least three members appointed by the Board, a majority of whom are independent directors; and will be chaired by an independent director; and it will operate under a charter approved by the Board.

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 both the effectiveness and efficiency of significant business processes. This also includes the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information as well as non-financial consideration.

The Board will delegate this responsibility for the establishment of a framework of internal control and ethical standards for the management of the consolidated entity to the Audit Committee if formed. The Audit Committee will also provide the Board with additional assurance regarding the reliability of the financial information for the inclusion in the financial reports.

When it is established, the Committee shall report at the end of each reporting period the number of times that the Committee has met during that period and the individual attendances of the members of the Committee shall be specified.

### **3.3 Risk Committee**

If and when it is established, the Risk Committee will comprise three directors, the majority of whom are independent directors. The committee will be chaired by an independent director. Where the committee is not established, the functions will be performed by the full Board.

Major business risks may arise from:

- action by competitors
- changes in government policies
- changes to the law

Risk is systemically managed through a series of applicable Company systems and policies that address the major risks facing the Company, including financial and accounting controls, appropriate insurance, occupational health and safety etc. The Company will also implement a systematic risk assessment program in parallel with its business to ensure that as the Company's activities evolve, the appropriate risk management systems are enhanced or added to as required.

## **4. SPECIFIC MEASURES**

Every employee has a responsibility for ensuring that any known breach of internal control is reported to the appropriate level such that it can be dealt with accordingly. Further, every employee is encouraged to identify and report to their senior executive any potential business risk. The senior executive is then responsible for ensuring that the business risk is mitigated by establishing appropriate controls and monitoring the effectiveness of controls.

Any significant control defects should be reported to the Board level. This may be achieved through the reporting of defects first to the Company Secretary or the Chairman.

The Board reviews risks to the Company at regular Board meetings.

The Company manages material business risks under a series of risk management strategies. There is an ongoing program to identify, monitor and manage compliance issues and material business risks with a view to safeguarding the Company's investments and the integrity of its operations. The Board reviews the identification,

management and reporting of risk as part of the annual budget process. More frequent reviews are undertaken as conditions or events dictate.

Each financial year, the CFO and CEO, where appointed, are required to provide formal representations to the Board confirming that the Company's financial report is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and that the Company's risk management and internal compliance and control system is operating efficiently in all material respects.

Each financial year, the CFO is to provide the Board a declaration in connection with the audit of the financial report of the Company in accordance with Principles 7.2 and 7.3 of the ASX Corporate Governance Principles and Recommendations - Section 295A of the Corporations Act.

## **5. REVIEW**

During the year the Board is responsible for reviewing the effectiveness of the Company's system of internal control for the financial year. This review is to include financial, operational and compliance and risk controls.

For any control which is not operating effectively, the Board is responsible for ensuring that the control issue is corrected and that the risk has a mitigating control which will reduce any risk to an acceptable level.