

### Carnarvon Petroleum Limited Risk Management Policy

#### Overview

Carnarvon Petroleum Ltd (Carnarvon) is exposed to certain risks due to the nature of its activities and the environment in which it operates both domestically and internationally. The key to Carnarvon's success is the effective management of risk to ensure its business and corporate objectives are achieved. Risks arise due to the company's business undertakings and from external sources. Risks occur in numerous ways and have the potential to impact financial performance, reputation, health and safety, environment, community and the overall performance of the business.

#### Policy

In order to fully understand and manage such risks, the Company has established a Risk Management Policy which provides the framework for how risk will be managed within the company. The Policy addresses both strategic and operational risks and is based on the Australian and New Zealand Standard, 4360:2004, Risk Management.

The risk management framework incorporates the following elements:

- *Identification* of risks to determine what can happen, when and how;
- *Assessment* of risks to determine their severity and potential impact on the organisation;
- *Evaluation* of risks against the preparedness of the business to accept or retain risks;
- *Treatment* of risks deemed unacceptable to the business;
- *Communication and consultation* of risk management activities and processes to stakeholders; and
- *Monitor and review* of risks, risk treatment actions and the risk management framework and risk management policy.

#### Risk Tolerance and Risk Appetite

Carnarvon's risk appetite and tolerance has been developed to determine which risks are acceptable and which risks need mitigation through the development of

risk treatment or action plans. The Risk Management Framework articulates the Company's risk appetite and tolerance.

### **Integration with Corporate Governance and Business Planning**

The Risk Management Policy forms part of the corporate governance framework and integrates with the strategic business planning process. The Policy addresses both strategic and operational risks and the requirement of the business to operate in its regulatory environment.

### **Accountability**

Ownership of risks and risk treatment actions is assigned to relevant roles within the business. Carnarvon has incorporated risk management accountability in executive and management roles which report (informally) on risks and risk treatment actions.

### **Risk Management Oversight**

Carnarvon's Chairman will oversee the Risk Management Policy and the company's exposure to risk. Oversight of the effectiveness of the risk management processes and activities will provide assurance to the Board and shareholders and will support the company's commitment to continuous business improvement.

### **Reporting, Monitor and Review**

Carnarvon will monitor risks and mitigation actions on an ongoing basis. Performance of the risk management system and outstanding risk mitigation actions will be reported to the Board on a regular basis. Formal reviews of both the risk management system and the risk register will take place on an annual basis and the Board will assess the effectiveness of the Risk Management Policy annually.

### **Communication and Consultation**

Carnarvon will communicate and consult with its stakeholders (internal and external) on its approach to risk management.