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## RISK MANAGEMENT POLICY

October 2015

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### 1. INTRODUCTION

- 1.1 The primary objective of risk management is to ensure that the risks facing the business are appropriately managed.
- 1.2 Sovereign Metals Limited (**Company**) is committed to ensuring the adequacy of its risk management systems and that risks and opportunities are adequately and appropriately addressed in a timely manner. The Company recognises that risk management is a fundamental driver of effective Corporate Governance, and views it as continuous process.
- 1.3 This Risk Management Policy (**Policy**) provides the framework to manage risks associated with the exploration and development of resource projects.
- 1.4 This Policy is intended to document the risk management policies and procedures that have been adopted by the Company and is designed to identify, assess, monitor and manage risks with the objective of minimising losses and maximising shareholder value.
- 1.5 This Policy will ensure that the Company makes informed decisions in its activities by adequately considering material business risk which the Board considers important to enhancing shareholder value.

### 2. RISK MANAGEMENT PROCESS

#### 2.1 Risk Management Framework

- 2.1.1 The framework upon which the Company's approach to risk management is based is Australian Standard AS/NZS ISO 31000:2009. It consists of 5 stages: (a) establish the context; (b) identify risks; (c) risk analysis; (d) risk evaluation; and (e) risk treatment.

#### 2.2 Establish the context

- 2.2.1 Establish the strategic context. It is important to define the relationship between the Company and its operating environment, identifying Company's strengths, weaknesses, opportunities and threats. The context includes the financial, operational, competitive, political, social, cultural and legal aspects of Company's activities.
- 2.2.2 Establish the organisational context. It is necessary to understand the Company and its capabilities, as well as goals and objectives and strategies before risk management analysis is commenced.
- 2.2.3 Establish the risk management context. The goals, objectives, strategies, scope and parameters of the activity, or part of the organisation to which the risk management process is being applied should be established. The process should be undertaken with full consideration of the need to balance costs, benefits and opportunities. The resources required and the records to be maintained should be specified.
- 2.2.4 Develop risk evaluation criteria. Decide the criteria against which risks are to be evaluated. Decisions concerning risks acceptability and risk treatment may be based on operational, technical, financial, legal, social, humanitarian or other criteria. The risk evaluation criteria may be affected by internal and external perceptions and legal requirements.
- 2.2.5 Define the structure. Separate the activity into a set of elements which provide a framework for identification and analysis ensuring that significant risks are not overlooked. The structure chosen depends on the nature of risks and scope of the activity or project.



## 2.3 Identify risks

2.3.1 The objective of this exercise is to generate a comprehensive list of events which might affect each element of the structure referred to above. These risks are then considered in more detail to identify their potential impact to the Company. Each of the key elements must be systematically examined to identify what the risks are and how they may occur. Techniques of identifying risk that may be used to identify risks include:

- Scenario analysis;
- Brain storming;
- Checklists;
- Review of industry participants;
- Process flow chart; and
- Examining similar or previous experience and record.

2.3.2 In establishing the Company's risk profile, the Board considers the material business risks applicable to the Company including, but not limited to:

- credit risk: the risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations;
- liquidity risk: the risk that the Company will not be able to meet its financial obligations as they fall due and/or the risk that the Company will not be able to raise additional capital to develop its mineral properties;
- health and safety risk: the risk of a severe or fatal accident at any of the Company's operations;
- environmental risk: the risk of environmental harm at any of the Company's operations;
- social and community risk: the risk of social and local community discontent in response to the any of the Company's operations;
- operational risk: the risk of significant delays or shut-downs at the Company's exploration, development or mining operations causing material effect to the Company's exploration, development or mining production schedules;
- unethical conduct risk: the risk that a Company member or employee will engage in unethical behaviour;
- market risk: the risk that changes in market conditions, such as commodity prices, fluctuations in exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments;
- human capital risk: the risk that directors, management and key employees leave employment or engagement with the Company;
- title risk: the risk that title to the Company's mineral properties is not free from defects, or that such title could be revoked, significantly altered or not renewed, or that such title could be challenged or impugned by third parties;
- sovereign risk: the risks associated with the Company's operations being conducted in foreign countries which are exposed to various levels of political, economic, and other risks and uncertainties of the foreign countries; and
- regulatory risk: the risk that the Company does not meet its obligations under relevant corporations and securities laws and/or stock exchange requirements and the risk of material adverse changes in government policies or legislation in countries where the Company operates.



2.4 All the risks identified must be documented in the Company's Risk Register prepared by management to identify the Company's material business risks and risk management strategies for those risks. The Risk Register will be reviewed at least annually and updated as required.

## 2.5 Risk Analysis

2.5.1 The objective of the risk analysis is to separate minor acceptable risks from major risks, and to provide information to assist in the evaluation and treatment of risks. The risk analysis process should determine:

- the consequences if the risk occurs; and
- the likelihood of the risk occurring.

2.5.2 The significance of the risks is expressed as a combination of its consequence or impact on the objectives of the activity to which it relates and the likelihood of those consequences occurring.

2.5.3 The likelihood criteria are expressed as a probability of the annual occurrence on a descriptive scale from Rare to Almost Certain. Consequences are rated in terms of the potential impact on the relevant activity's key criteria (for example: cost, timing, performance and environment) and are described on a scale from Insignificant to Catastrophic.

2.5.4 Consequences and likelihood are then combined to produce a level of risk or "risk matrix" (as shown below):

		CONSEQUENCES				
		<i>Insignificant</i>	<i>Minor</i>	<i>Moderate</i>	<i>Major</i>	<i>Catastrophic</i>
LIKELIHOOD	<i>Almost certain</i>	High	High	Extreme	Extreme	Extreme
	<i>Likely</i>	Medium	High	High	Extreme	Extreme
	<i>Possible</i>	Low	Medium	High	High	Extreme
	<i>Unlikely</i>	Low	Low	Medium	High	High
	<i>Rare</i>	Low	Low	Medium	Medium	High

## 2.6 Risk evaluation

2.6.1 Risk evaluation involves a decision as to whether a particular risk is acceptable or not, taking into account:

- Existing criteria;
- The cost consequences of managing the relevant risk or leaving it untreated;
- Benefits and opportunities presented by the risks; and
- The risks borne by other stakeholders.

2.6.2 The outcome of this process is a list of risks with agreed priority ratings from which decisions can be made about acceptable levels of tolerance for particular risks and where greatest effort should be focused.

2.6.3 If the risks fall into the low or acceptable risks categories they may be accepted without any further treatment, however, such risk should still be monitored to ensure they remain acceptable. Risks that do not fall into the low or acceptable risk category should be treated using the process outlined below.

## 2.7 Risk treatment

2.7.1 The purpose of risk treatment is to determine what measures will be taken and who will be responsible for the risks that have been identified. Risk treatment converts the earlier analysis into actions to reduce risk.



2.7.2 Risk treatment options are evaluated in terms of feasibility, costs and benefits with the objective of choosing the most appropriate and practical way of reducing risk to a tolerable level. Risk management plans will manage different risks in different ways. They may seek to:

- Avoid or control the likelihood of occurrence;
- Reduce the consequences;
- Transfer the risk; and
- Retain the risk.

2.7.3 Risk management plans should identify responsibilities, timing, the expected outcome of treatments, budgeting, performance measures and the review process to be set in place.

### **3. RISK GOVERNANCE**

#### **3.1 Board**

3.1.1 The Board oversees an ongoing assessment of the effectiveness of risk management and internal compliance and control.

3.1.2 The Board is ultimately responsible for identifying the principal risks of the Company's business and ensuring the implementation of appropriate systems to manage those risks (including in relation to internal control and management information systems, codes of conduct and legal compliance).

3.1.3 The Board, as part of the Company's risk management process:

- oversees this Policy and risk management; and
- reviews and approves procedures for the maintenance and monitoring of the Company's risk profile.

#### **3.2 Audit Committee**

3.2.1 The Board may make use of an Audit Committee to assist it with carrying out its obligations in relation to risk identification and management.

3.2.2 The Board has not established an Audit Committee at this time. Until such time as the Board determines that it is appropriate to establish a separate Audit Committee, the function of the Audit Committee as set out in this Policy will be performed by the Board.

3.2.3 The Audit Committee, as created under the Audit Committee Charter, is responsible for:

- ensuring that the Company has an appropriate risk management framework in place to identify and manage risk on an ongoing basis;
- oversight of the Company's system of risk management and internal control;
- review of the operational effectiveness of the policies and procedures relating to risk and the Company's control environment;
- monitoring management's design and implementation of a risk management and internal control system to manage the Company's material business risks;
- reviewing:
  - (i) reports from management on whether material business risks are being managed effectively;
  - (ii) treasury policy and procedures; and
  - (iii) the adequacy of insurances;
- reviewing at the end of each full year reporting period the performance of the external auditors and the audit process;



- making recommendations to the Board regarding the appointment, removal and tender of the external auditor function;
- reviewing and making recommendations to the Board in relation to any incident involving fraud or other break down of the entity's internal controls; and
- reviewing and approving hedging strategies.

3.2.4 The Audit Committee is empowered to recommend to the Board risk management policies, procedures and strategies.

### 3.3 Executive Officer Declarations

3.3.1 The Board, before it approves the Company's half year or full year financial statements, receives from the CEO and CFO a declaration that, in their opinion, the financial records of the Company have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

3.3.2 The CEO and the CFO will provide assurance annually to the Board that the required declaration made under section 295A of the Corporations Act 2001 (Cth) in respect to the accuracy of the full year financial report.

### 3.4 Chief Executive Officer

3.4.1 The CEO is responsible for the development and implementation of business strategies, budgets, setting performance benchmarks and creating a corporate culture compatible with the business objectives and risk appetite of the Company. Specifically, the CEO's key accountabilities include:

- ensuring that a robust Company strategy is developed, regularly reviewed by management, discussed and approved by the Board and communicated, as appropriate, within the Company and with external stakeholders
- taking overall responsibility for implementing the agreed strategy to achieve the corporate-wide goals and KPIs set in the Company strategy
- reviewing on a regular basis and holding accountable the CEO's direct reports for the performance of all the major divisions and units of the Company in accordance with the corporate, business, project and other plans.

3.4.2 Additionally, the CEO is required to ensure that a comprehensive control system is operating efficiently and effectively.

3.4.3 The CEO has overall responsibility for the management and reporting of risks and the implementation of risk management strategies and policies within the Company as determined by the Board.

3.4.4 The Board has delegated to the CEO various risk limits and responsibility for the adherence to these risk limits.

3.4.5 The CEO promotes discussion amongst the senior management team of the Company on risk issues, in particular the process of assessing and identifying risks and alternative options for the treatment of these risks in line with changing business conditions, market practices and prudential controls.



### 3.5 Chief Risk Officer

3.5.1 The Chief Financial Officer (CFO), or in the event that there is no CFO, the Company Secretary, reports directly to the CEO on the implementation, operations and effectiveness risk management system. The CFO, or in the event that there is no CFO, the Company Secretary, is the Chief Risk Officer (CRO) and is responsible for the development and implementation of all risk management processes and methodologies. As such the CRO will:

- lead the development, implementation and management of the Company's risk framework in accordance with the applicable Australian Standards for risk;
- ensure that risk evaluation, monitoring, review and documenting occur in accordance with this Policy;
- provide advice to the Board to ensure compliance with relevant legislation, regulations, policies and standards and to build the Company's capability to mitigate risk related to human, financial and physical resources; and
- produce a consolidated Risk Register approved by the CEO for submission annually to the Audit Committee, or in the event that there is no Audit Committee, the Board, for review of limits of acceptable risk.

3.5.2 Additionally, the CRO is required to ensure that a comprehensive financial control system is operating efficiently and effectively.

### 3.6 Management

3.6.1 Other senior personnel are responsible for managing risk within those areas under their control, including dissemination of the risk management process to operational personnel.

3.6.2 Collectively, senior management is responsible for:

- identifying strategic risks in their area of control that impact upon the Company's business;
- assessing and prioritising the risks identified;
- developing, implementing and maintaining strategic risk (including internal control and management information systems) and management plans;
- reviewing the effectiveness of procedures implemented for the identification, assessment, reporting and management of risks and the system of internal accounting and operating controls; and
- reporting to the CEO and CFO on the management of their department's material business risk.

3.6.3 Management is responsible for the ongoing management of risk with standing instructions to appraise the Board of changing circumstances within the Company and within the international business environment.

## 4. INTERNAL CONTROL SYSTEMS

4.1 The Company may outsource its internal audit function to one or more specialist audit services provider (**Internal Auditor**) to carry out reviews of the various Company systems using a risk based audit methodology.

4.2 The Company has not established an internal audit function at this time.

4.3 Refer to the Risk Governance section above for responsibilities of the Board, the Audit Committee, the Chief Executive Officer, the Chief Risk Officer, and other management in the evaluation and continual improvement of the Company's risk management and internal control processes.



4.4 The Board recognises that a cost effective internal control system will not preclude all errors and irregularities. As a result, the Company has established internal control systems by applying a risk management system throughout the Company which establishes a common risk management understanding.

4.5 The Company has established internal financial control systems to provide reasonable assurance regarding the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial reporting.

## 5. RISK REPORTING

### 5.1 Board Reporting

5.1.1 On at least an annual basis, the CEO and CFO (or equivalents) will review the Company's material business risks and how the Company's material business risks were managed and provide to the Board the Company's Risk Register that was populated as part of this process. The Risk Register summarises the significance of each risk as well as actions taken by management to mitigate the risks since they were originally identified.

5.1.2 On at least an annual basis, the CEO and CFO (or equivalents) will report to the Board, based on their review of the effectiveness of the Company's management of its material business risks, whether management has designed and implemented an appropriate risk management and internal control system to manage the Company's material business risks, and whether management has effectively managed (throughout the year) the material business risks of the Company (**Management Report**).

5.1.3 The CEO and the CFO (or equivalents) will provide assurance annually to the Board that the required declaration made under section 295A of the Corporations Act 2001 (Cth) is founded on a sound system of risk management and internal control which is operating effectively in all material respects in relation to financial reporting risks (**Reporting Assurance**). All risk assessments cover the whole financial period and the period up until the signing of the annual financial report for all material operations of the Group.

5.1.4 Additionally, a function of the Company's Board meetings is for the Board to be informed by management of current events, new developments and potential exposures to losses, as identified through the risk management system. In particular, the Board has a special role in reviewing, and when necessary, deciding on actions related to material business risks.

5.1.5 As defined by the ASX Corporate Governance Principles and Recommendations, material business risks means 'risks that could have a material impact on a company's business.' Material business risks are dealt with in standard board reports, which encompass marketing, operations, financial performance, investor relations and business development. Financial and production reports incorporate performance benchmarks. Significant deviations from benchmarks act as a mechanism to flag potential exposure to risk.

5.1.6 Board meetings are structured to involve management participation to allow Directors to obtain management's comments on matters likely or capable of affecting the Company's financial position or future performance.

### 5.2 Disclosure

5.2.1 The Board will disclose that:

- the CEO and CFO have reported to it on the effectiveness of the Company's management of material business risks; and
- it has received the Reporting Assurances from the CEO and CFO.

5.2.2 The Company, being listed on the ASX, seeks to comply with Principle 7 of the ASX's Corporate Governance Principles and Recommendations (ASX Principles). The Company will disclose in its Corporate Governance Statement (as contained in the annual report):



- departures, if any, from the recommendations set out in ASX Principles - Principle 7; and
- whether the Board has received:
  - (i) the Management Report; and
  - (ii) the Reporting Assurance.

## **6. REVIEW**

- 6.1 The Board will regularly review this Policy and the internal risk management control systems to assess its effectiveness in managing material business risks.