RISK MANAGEMENT POLICY

ARAFURA RARE EARTHS LIMITED

VERSION NO.	2.0
RESPONSIBLE PERSON/S	Board

VERSION HISTORY				
VERSION	**APPROVED BY**	**REVISION DATE**	**DESCRIPTION OF CHANGE**	**AUTHOR/S**
1.0	Board	June 2020	New Policy	-
2.0	Board	November 2021	Merge of Corporate and Project Risk Management Process	-

Arafura Rare Earths Limited will now be referred to as **'the Company'** throughout the rest of this document.

1.0 PURPOSE

Recognising and managing risk is fundamental to the Company achieving its strategic objectives, and a crucial part of the role of the Board and management. Sound risk management practices can not only help to protect established value, but also can assist in identifying and capitalising on opportunities to create value.

The Company recognises that a failure by it to recognise or manage risk can adversely impact not only on the Company and its shareholders, but also other stakeholders which may include employees, customers, suppliers, creditors, consumers, taxpayers, and the broader community in which the Company operates.

The Board is ultimately responsible for deciding the nature and extent of the risks it is prepared to take to meet its strategic objectives. To enable the Board to do this, the Company must have an appropriate risk management framework to identify and manage risk on an ongoing basis.

This policy sets out the Company's approach to risk management, including its approach to identifying and managing risk, the responsibilities of the Board, management, and others within the Company in relation to risk management, and the resources and processes dedicated to risk management. Managing risk is the responsibility of everyone in the Company.

In this policy:

- **management** refers to the senior management team as distinct from the Board, comprising the Company's senior executives, being those who have the opportunity to materially influence the integrity, strategy and operation of the Company and its financial performance.
- **risk** is defined as the effect of uncertainty on objectives (ISO31000:2018), and it is the intention of this Plan that risk applies to both Threats (negative events concerned with losses) and Opportunities (positive events concerned with gains)

- **risk management** is the collective set of activities designed to identify, assess, mitigate, report, and monitor specific Threats and Opportunities;
- **risk management framework** is the set of components that provide the foundations and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the Company.

2.0 WHO DOES THIS POLICY APPLY TO?

All directors, officers and employees of the Company must comply with this policy.

3.0 RISK APPETITE

The Board is responsible for deciding the nature and extent of the risks it is prepared to take to meet its objectives (**risk appetite**).

4.0 RISK MANAGEMENT FRAMEWORK

The Risk Management process will be based upon the ISO31000:2018 Risk Framework (outline below). The process will have several steps. The process is set out in Arafura's Enterprise Risk Management Plan.

4.1 Risk identification

The risks faced by the Company will be identified and documented in an enterprise risk register, as per the example in Appendix B, or equivalent. Risk identification will be undertaken as part of the Company's strategic planning and budgeting process and may be carried out through a workshop with management and potentially the board, facilitated by an external service provider or by a member of management. Once identified, risks should be entered into the Company's enterprise risk register as soon as they are agreed upon and are classified under the broad consequence categories as set out in Appendix A.

The Company's risks will be classified under the following broad categories:

(a) Safety & Health

(b) Environmental

(c) Compliance

(d) Reputation

(e) Production

(f) Asset (Physical and Intellectual)

(g) Operational

(h) Schedule

(i) Financial Impact

The individual risks which fall within these categories will be included in the Company's enterprise risk register.

4.2 Risk analysis

Once the list of risks is agreed on by management and the Board, the risks will be analysed by determining consequences of the risks eventuating and their likelihood (refer APPENDIX A). Risk should be prioritised at this stage in accordance with the Risk matrix (refer Appendix B).

The *likelihood* (Rare; Unlikely; Possible; Likely; Almost Certain) (refer APPENDIX C) of each specific risk impact must be considered from both a Qualitative and Quantitative text and numbers.

4.3 Risk evaluation

The outcome of the Risk Analysis will be a Raw Risk Rating (1 - 25) (refer APPENDIX B). The reasons for the Raw Risk Rating should be documented. Next, consider what controls are in place today, including:

- Administrative (Meetings, Frameworks, Policies, Processes).
- Policies.
- Processes.
- Systems.

For those controls identified, consider the effectiveness of these controls in managing the risk and what (if any) residual risk is remaining. If no controls exist to mitigate the risk, then note: "*No Existing Controls*".

Prioritised risk should be compared with the risk appetite established by the Board. The output of this process will be a prioritised list of risks for further action.

4.4 Risk treatment

Where the level of risk is above the desired level, management will develop and execute an action plan to address the risk by either: transferring the risk; reducing the risk or accepting the risk as a necessary part of continuing the Companies objectives or a combination of these approaches. When selecting the way a risk will be treated, the Company will consider the values and perceptions of stakeholders and the most appropriate ways to communicate with them.

4.5 Monitoring and review

The risk register will be reviewed, and if required updated, on at least a quarterly basis, or more often if required.

Management reports to the Board on material business risks on a monthly basis.

The risk management framework will be monitored and reviewed through the risk activities outlined in section 5. However, the Board may request independent verification in relation to all or some of the risk management framework or individual controls, via internal or external means.

4.6 Documentation

The risk management framework and processes will be documented.

5.0 RISK MANAGEMENT ACTIVITIES

The Company's annual risk management activities are divided into quarters as follows:

5.1 Quarter One commencing 1 July

Management:

(a) reviews and updates the risk register and/or completes an individual risk report for critical material business risks and presents the register and/or the report to the Board;

(b) the Managing Director and Chief Financial Officer provide the Board with a declaration in accordance with Recommendation 4.2 and section 295A of the Corporations Act 2001 (Cth) (Corporations Act); and

(c) prepares the disclosure for inclusion in the Company's corporate governance statement in relation to Recommendations 7.1 to 7.4.

The Board:

(a) notes the updated risk register and/or individual risk reports and questions management if required;

(b) notes the Managing Director and Chief Financial Officer declaration for the purposes of Recommendation 4.2 and section 295A of the Corporations Act; and

(c) approves the disclosure for inclusion in the Company's corporate governance statement in relation to Recommendations 7.1 to 7.4.

5.2 Quarter Two commencing 1 October

Management:

(a) reviews this Risk Management Policy and make recommendations to the Risk Management Committee about any proposed changes;

(b) the Managing Director and Chief Financial Officer provide the Board with a declaration in accordance with Recommendation 4.2 and section 295A of the Corporations Act; and

(c) reviews the status of risk management strategies and reviews and updates the risk register and/or complete an individual risk report for critical material business risks and provide the register and/or the report to the Board.

The Risk Management Committee:

(a) reviews the Company's risk management framework to satisfy itself that it continues to be sound, and the Company is operating within the risk appetite set by the Board; and

(b) recommends the risk management framework and the report to the Board for approval.

The Board:

(a) approves the Risk Management Policy and provides input into the Company's risk profile;

(b) notes the Managing Director and Chief Financial Officer declaration for the purposes of Recommendation 4.2 and section 295A of the Corporations Act; and

(c) notes the updated risk register/individual risk reports and questions management if required.

5.3 Quarter Three commencing 1 January

Management:

(a) the Managing Director and Chief Financial Officer provide the Board with a declaration in accordance with Recommendation 4.2 and section 295A of the Corporations Act;

(b) reviews the status of risk management strategies and reviews and updates the risk register and/or complete an individual risk report for critical material business risks and provide the register and/or the report to the Board.

The Board:

(a) notes the Managing Director and Chief Financial Officer declaration for the purposes of Recommendation 4.2 and section 295A of the Corporations Act; and

(b) notes the updated risk register/individual risk reports and questions management if required.

5.4 Quarter Four commencing 1 April

Management:

(a) the Managing Director and Chief Financial Officer provide the Board with a declaration in accordance with Recommendation 4.2 and section 295A of the Corporations Act;

(b) reviews the Company's Board Charter and Risk Management Committee Charter and role descriptions for management to ensure accountability for all risk management is included;

(c) reviews and updates the risk register and/or completes an individual risk report for critical material business risks and presents the register and/or the report to the Board.

The Board:

(a) determines the Company's overall risk appetite;

(b) notes the Managing Director and Chief Financial Officer declaration for the purposes of Recommendation 4.2 and section 295A of the Corporations Act; and

(c) notes the updated risk register/individual risk reports and questions management if required.

6.0 RISK MANAGEMENT ROLES AND RESPONSIBILITIES

6.1 Board

The Board is responsible for setting the Company's risk appetite, for overseeing the risk management framework designed and implemented by management and to satisfy itself that the risk management framework is sound. The Board is also responsible for monitoring and reviewing the Company's risk profile.

6.2 Risk Management Committee

The Board has established a separate Risk Management Committee which is responsible for, among other things, the adequacy of the Company's corporate reporting processes and the appropriateness of managements accounting judgements or choices. It also reviews the Company's internal financial control system and oversees the company's risk management framework. The role of the Risk Management Committee is set out in the Company's *Risk Management Committee Charter*.

However, ultimate responsibility for the Company's risk management framework rests with the Board.

6.3 Managing Director

The Managing Director has responsibility for identifying, assessing, monitoring, and managing risks. The Managing Director is also responsible for identifying any material changes to the Company's risk profile and ensuring, with approval of the Board, the risk profile of the Company is updated to reflect any material change.

The Managing Director is required to report on the progress of, and on all matters associated with, risk management on a regular basis. The Managing Director is to report to the Board as to the effectiveness of the Company's management of its material business risks, at least annually.

In fulfilling the duties of risk management, the Managing Director may have unrestricted access to Company employees, contractors and records and may obtain independent expert advice on any matter they believe appropriate.

6.4 Management

Senior executives are responsible for assisting the Managing Director identify, assess, monitor, and manage risks.

6.5 Managers and supervisors

Managers and supervisors must:

(a) monitor material business risks for their areas of responsibilities;

(b) provide adequate information on implemented risk treatment strategies to management to support ongoing reporting to the Board; and

(c) ensure staff are adopting the Company's risk management framework as developed and intended.

6.6 Individual staff

All staff within the Company should:

(a) recognise, communicate, and respond to expected, emerging or changing material business risks;

(b) contribute to the process of developing the Company's risk profile; and

(c) implement risk management strategies within their area of responsibility.

7.0 REVIEW

The policy will be reviewed on an annual basis by the Board.

APPENDIX A Risk Consequence

CONSEQUENCE SCALE									
Level	**Safety & Health**	**Environmental**	**Compliance**	**Reputation**	**Production**	**Assets (Physical and Intellectual)**	**Operational**	**Schedule**	**Financial Impact**
1	First Aid Injury	No or very low environmental impact confined to a small area and easily and quickly remediated and requires no immediate reporting	Minor technical/ legal compliance issue unlikely to attract a regulatory response.	Company image not affected, complaint dealt with internally.	Loss of <1%	<3% Asset Loss	Temporary interruption to business operation with little effect.	Delay of 1 week	<0.5%
2	Medical Treatment Injury. Restricted Work Injury.	Low environmental impact, not affecting ecosystem functions	Technical/legal compliance issue which may attract a low level administrative response from regulator, reportable within 1 month	Company image reduced within Central Australia with local adverse publicity.	Loss of 1-5%	3% - 6% Asset Loss	Operational impact causes short term problems to either internal or external customers.	Delay of 1 month	0.5% - 3%
3	Single Lost Time Injury or single person occupational hygiene exposure with potential for lost time injury.	Moderate environmental impact confined within the lease boundary.	Breach of regulation with possible prosecution and penalties. Continuing occurrences of minor breaches.Incident requires immediate (within 48 hours) notification.	Company image reduced within the Northern Territory with local adverse publicity.	Loss of 5-10% or requiring expenditure of >1% of project value to remediate	6% - <10% Asset Loss	Operational impact resulting in financial loss and/or breach of contract.	Delay of 3 months	3-5%
4	Multiple Lost Time Injuries. Permanent Disability Serious chronic long term effects. Multi-person occupational hygiene exposure with potential for lost time injuries	Major environmental impact. Impact may extend beyond the lease boundary or ILUA area. Remediation is costly and takes multiple months and requires on-going monitoring. Meets the threshold of Material Environmental Harm and requires reporting under the ILUA	Major breach of regulation resulting in investigation by regulator. Prosecution, penalties or other action likely.	Company image reduced within Australia due to significant adverse event or company image reduced with funding or offtake partners	Loss 0f 10-15% or requiring expenditure of >3% of project value to remediate	10% - 20% Asset Loss	Serious risk to company's continued viability.	Delay of 6 months	5-10%
5	One or more fatalities Occupational Hygiene exposure with potential for multiple fatalities	Severe environmental impact. Impact may be locally severe (e.g. local species destruction) or unconfined and/or on a regional scale. Likely long recovery period with high potential Extensive clean-up is costly and/or damage is irreversible	Serious breach of regulation resulting in investigation by regulator. Operation suspended, and potential for licenses to be revoked.	Company image reduced world-wide due to publicity of significant adverse event with potential to impact on financing or offtaking arrangements	Loss of > 15% or requiring expenditure of >5% of project value to remediate	> 20% Asset Loss	The survival and/or continued profitability of the company is in doubt	Delay of 12 months or longer	> 10%

APPENDIX B Risk Matrix

Likelihood / Consequences		Insignificant 1	Minor 2	Moderate 3	Major 4	Extreme 5
Almost Certain	A	11	16	20	23	25
Likely	B	7	12	17	21	24
Possible	C	4	8	14	18	22
Unlikely	D	2	5	9	15	19
Rare	E	1	3	6	10	13

APPENDIX C Likelihood Scale

Likelihood Scale		
Level	**Description**	**Criteria (read as either/or)**
A	**Almost Certain**	Consequence is likely to be of a high frequency; >> 50% chance.
B	**Likely**	Likely occurrence/consequence within a 12 months period; >10%-50%
C	**Possible**	Possible occurrence/consequence within a 36 months period; <=10%
D	**Unlikely**	Consequence could occur within a one to five year timeframe; <1%
E	**Rare**	Consequence may occur in exceptional circumstances. Consequence has rarely occurred in the industry; <0.1%

APPENDIX D Escalation Matrix

Approvals Escalation and Reporting Table					
Risk Score	**Escalation & Approval Levels required to approve control(s) based on Raw Risk**	**Escalation & Approval Levels required to approve control(s) based on Residual Risk**	**Consideration for Additional Control Required based on Residual Risk**	**Minimum Reporting Requirement based on Raw Risk**	**Minimum Reporting Requirement based on Residual Risk**
1-6	No escalation or approval required	No escalation or approval required	None	No reporting required.	No reporting required.
7-15	No escalation or approval required	Level 3 - GM	None	No reporting required.	Level 3 - GM
16-22	Level 3 - GM	Level 4 and Level 5 - MD and Board	Yes	Level 3 - GM	Level 4 and Level 5 - MD and Board
23-25	Level 4 and Level 5 - MD and Board	**Residual Risk Not Acceptable**	**Residual Risk Not Acceptable**	Level 4 and Level 5 - MD and Board	**Residual Risk Not Acceptable**