

RISK MANAGEMENT POLICY

1. OVERVIEW

1.1 Board Commitment

Hydrocarbon Dynamics Limited (HCD) is committed to ensuring that:

1. its culture, processes and structures facilitate realisation of HCD and its subsidiaries' business objectives whilst material risks are identified, managed, monitored and wherever appropriate and possible, mitigated; and
2. to the extent practicable, its systems of risk oversight, management and internal control complies with the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*.

1.2 Purpose

The objective of this Policy is to:

- ensure management recognises opportunities (upside risk) and threats (downside risk) are part of operating a business;
- encourage appropriate tolerance of certain risks across the business;
- establish procedures to analyse material risks within agreed parameters across the business;
- establish procedures to monitor and manage material risk; and
- ensure a risk framework, including insurance, is in place which can react should the risk profile of the business change.

Risks governed by this Policy include potential risks and this Policy extends to both financial, operating and compliance risks, where the context permits.

1.3 Materiality

References to 'material' in this Policy have the same meaning as in section 677 of the Corporations Act (Material effect on price or value). The concept of materiality with respect to HCD is further explained in paragraph 4.

1.4 Provision of this Policy

A copy of this Policy will be given to all Management.

1.5 Questions – Implementation of this Policy

Any questions relating to the implementation of this Policy should be forwarded to the Managing Director.

2. GOVERNANCE

The Board is responsible for, amongst other things, ensuring that effective risk management programs are in place to protect HCD's assets and shareholder value. The Board is responsible for setting the risk philosophy and risk appetite for HCD and approving the overall risk management policy. The Board is also responsible for reviewing and approving material insurances as part of risk management strategies. The Board has delegated certain functions to its Audit Committee and management. The overall governance framework for managing risk is as follows:

- the Board is to recognise and monitor all material risks of an operational nature relating to oil and gas exploration and production which arise out of the activities of HCD;
- the Audit Committee assists the Board by ensuring HCD has established and is operating a financial risk management system which is designed to identify, assess, monitor and manage material financial risks;
- Executive Directors and management implement policies, identify and manage risks (wherever practicable) in accordance with the Company policies and ensure their staff are informed and trained as required. This includes implementing business-specific controls, procedures, monitoring and reporting processes;
- Executive Directors and Management recommend insurance, where appropriate as part of risk management strategies, and submit any material insurance to the Board for review and approval;
- individuals manage risks within their sphere of control in accordance with the Company policies and business-specific processes; and
- the external auditors perform a monitoring function and additional line of control for the Board.

3. RISK MANAGEMENT FRAMEWORK

HCD believes that risk should be managed and monitored on a continuous basis. HCD has designed a framework to allow the Company to achieve its business objectives whilst assisting management and ideally, providing early warnings of material risks.

Key components of the Policy which bring together a number of procedures and controls within HCD are as follows:

- Identifying and assessing all material risks, including examining the current environment.
- Managing, monitoring and wherever possible, mitigating, identified material risks. This includes reducing the likelihood material risks will occur and transferring material risks through insurance where possible and appropriate.
- Reporting periodically, including reporting on key risk indicators.
- Assessing the effectiveness of the risk management framework.

Each component is considered in turn below.

3.1 Identification and assessment of all material risks

The Executive Officers are responsible for the continual identification and subsequent reporting of material risks taking into account the current and expected future environment. The Board will set the organisation's risk appetite, enabling the business to assess the level of risk that is acceptable and ensure decisions are within the organisation's risk appetite.

All investment decisions proposed to the Board will include an analysis of the risks, including the risk management strategies.

The Executive Officers will ensure identification of the material risks, analyse the possibility of the material risk occurring and evaluate the expected impact the material risk would have on the business should it occur. In their analysis of material risks, Management should have regard to:

- the magnitude of the risk;
- control mechanisms to manage the risk; and
- consequences and likelihood.

3.2 Monitoring and mitigation of identified material risks, including monitoring of incidents

Material risks identified should be continually reviewed by Management and periodically by the Board.

Mitigated material risks should also be considered by the Board from time to time, having regard to establishing appropriate pre-cautions from reoccurrence which can be communicated throughout the business.

3.3 Periodic reporting

At the next scheduled Board Meeting, all newly identified material business risks are to be considered in turn. At each of its scheduled Meetings, the Audit Committee will periodically review the financial risks. In accordance with its Committee Charter, Audit Committee will regularly report on its activities, issues and related recommendations to the Board.

On at least two separate occasions during the year, the Board will meet in a dedicated session which may be prior to or following a Board Meeting to discuss mitigated, current, emerging and possible material risks.

3.4 Assessment of effectiveness of risk management framework

In accordance with its Charter, the HCD Board of Directors are responsible for, reviewing any risk management system (which may be a series of systems established on a per-project basis) and internal compliance and controls that are in place to protect HCD's assets and shareholder value. The Board will also set HCD's risk appetite.

HCD's risk framework promotes a robust structure so that all material risks are appropriately identified, assessed, monitored and mitigated wherever possible, across the business. Assessment of the effectiveness of all aspects of the risk framework will be conducted by the Board on a periodic basis.

In addition, all Directors and Senior Management, should promote a culture of voluntary and transparent risk reporting and ongoing, regular risk assessment throughout all levels of HCD. To ensure this process is undertaken effectively, management will attest to appropriate risk management on a twice yearly basis.

In addition, in accordance with the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations (recommendation 7.3)*, the Managing Director and CFO will state to the Board on an annual basis that:

- the management of HCD's material business risks is effective; and
- the declaration made in accordance with section 295A of the *Corporations Act* (in relation to the financial statements) is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

4. SPECIFIC RISK FRAMEWORK TOOLS

As part of the risk framework, the following guidance is given with respect to HCD's key identified material risks.

4.1 Material financial risks

Material financial risks are risks that impact directly on the balance sheet and through the profit and loss. The key components of HCD's material financial risks are managed through:

- financial and operational delegations; and
- insurance procedures.