

RISK MANAGEMENT POLICY

1. INTRODUCTION

Australian Rare Earths Limited (**AREL** or **Company**) seeks to take and manage risk in ways that will generate and protect shareholder value. For AREL the management of risk is a continual process and an integral part of the management and corporate governance of the business. The Company acknowledges that it has an obligation to shareholders, customers, employees, contractors, and the wider community to:

- (a) oversee the establishment and implementation of a risk management strategy;
- (b) formulate and communicate the Company's approach to the management of risk;
- (c) identify the potential impact of risk on the Company and develop reasonable and practical measures to minimise or eliminate risk or to reduce and address these impacts;
- (d) monitor, review and evaluate the risk management and internal control systems (financial, operational & compliance) and ensure that they are operating effectively and efficiently in all material aspects.

Efficient and effective management of risk is critical to the Company in meeting these obligations and achieving its strategic objectives. This policy reflects the Company's commitment to sound risk management principles and practices.

2. POLICY OBJECTIVES AND OUTCOMES

The Board determines the Company's tolerance for risk and is committed to a risk management system that provides for and fosters a culture of innovation. The Company's risk management system is designed to assist the Company to achieve its strategic and operational objectives. It aligns with the vision, strategy, processes and governance of the Company and provides for:

- (a) appropriate levels of risk taking;
- (b) an effective system for the management of risk across the Company;
- (c) protection against incidents causing personal injury and property damage;
- (d) development of risk management and control plans to reduce or minimise foreseen or unexpected costs;
- (e) an ability to identify, prioritise and respond to risk in a manner that maximises opportunities;
- (f) reliable financial reporting and compliance with laws;
- (g) sound insurance management practice; and
- (h) protection of assets from planned and unplanned events.

The risk management program and its components permit the Board to provide sound oversight of the Company's management of risk.

3. RISK MANAGEMENT PROCESS

The Company's risk management process is integrated within the day-to-day management operations of the Company. This process is regularly reviewed by the Audit and Risk Management Committee and is based around the following key activities:

- (a) **Risk Identification:** Involves the identification of sources of risk, areas of impact, their causes and potential consequences.
- (b) **Risk Analysis:** This involves the consideration of the causes and sources of any relevant risk, their positive and negative impacts and probability of occurrence.
- (c) **Risk Evaluation:** Involves the process of decision making based on the outcomes of the risk analysis that has been undertaken to determine which risks require treatment and the priority of the treatment thereof.
- (d) **Risk Treatment:** Involves the implementation of risk treatment plans.
- (e) **Monitoring and Review:** Involves the internal review and reporting of risk management updates and incidents.
- (f) **Communication:** Involves the regular communication and consultation with key internal and external stakeholders to ensure appropriate accountability, treatment, identification and understanding of risk management processes.

The areas of potential risk to the Company include operations, human resources, OH&S, financial, strategic, reputational, legal, market related and other Company risks.

4. RISK TOLERANCE LEVEL

The Company is aware that an overly cautious approach to risk management may have a harmful impact on the achievement of strategic and operational objectives. The Company will adopt a risk management strategy that aims to identify and minimise the potential for loss, while also maximising strategic opportunities for growth.

5. ENVIRONMENTAL RISK POLICY

The Company monitors whether it has any material exposure to environmental risks through its Risk Management Policy.

Environmental risks is defined as the potential negative consequences (including systemic risks and the risk of consequential regulatory responses) to an entity if its activities adversely affect the natural environment or if its activities are adversely affected by changes in the natural environment. This includes the risks associated with the entity polluting or degrading the environment, adding to the carbon levels in the atmosphere, or threatening a region's biodiversity or cultural heritage. It also includes the risks for the entity associated with climate change, reduced air quality and water scarcity.

Material exposure is defined as a real possibility that the risk in question could materially impact the entity's ability to create or preserve value over the short, medium or longer term.

The Company is committed to conducting its operations in an environmentally responsible manner. In order to achieve this, the Company will:

- (a) comply with all relevant environmental and heritage laws relevant to its operations;
- (b) regularly review, monitor and take action to mitigate environment risk and develop energy technology to improve environmental outcomes;
- (c) where we operate, minimize the impact on environmental values;
- (d) strive to avoid disturbance of known sites of archaeological, historical and natural significance and protect native flora and fauna;

- (e) minimise pollution, waste management and use water and energy as efficiently as possible;
- (f) ensure that any incidents, concerns and complaints are reported adequately, investigated and appropriate measures implemented; and
- (g) communicate with employees and stakeholders about the company's environmental impacts and management and associated controls.

The Board, in consultation with the Audit and Risk Committee will:

- (a) consider whether the Company has any material exposure to climate change risks and other environmental risks;
- (b) disclose whether it has any material exposure to environmental risks and, if it does, how it manages or intends to manage those risks;
- (c) carefully consider the basis for any determination that the Company does not have any material exposure to environmental risks, and benchmark its disclosures in this regard against those made by its peers;
- (d) should disclosure be required, the Board will determine whether to publish an integrated report or sustainability report including any cross-references to relevant international frameworks or standards; and
- (e) note that many listed entities will be exposed to these types of risks, even where they are not directly involved in mining or consuming fossil fuels.

The Board wishes to adopt the above, which reflects a commitment by the Board for accountability across the Company to monitor environmental risks.

6. ROLES AND RESPONSIBILITIES

The Company's risk management process is integrated within the day-to-day management operations of the Company. This process is regularly

6.1. Board responsibility

The Board is responsible for the oversight of the risk management framework. This includes policies and procedures related to risk management, risk profile and assessing the effectiveness of risk oversight and management.

6.2. Audit and Risk Management Committee

The Audit and Risk Management Committee is responsible for advising the board on risk management and compliance management and to assist the board in fulfilling its risk management and oversight responsibilities.

6.3. Executive Management Team

Management is responsible to ensure that systems, processes, and controls are in place to minimise identified risk to an acceptable level.

6.4. Employee responsibility

All employees must report any new risks or changes to existing risks to their managers or supervisors as soon as they become aware of the risk.

6.5. External audit

The external audit is responsible for providing an independent opinion of the financial results of the Company. In undertaking this role, the auditor also provides comments on the management of risk and assists the Company in the identification of risk.

7. REPORTING

Executive managers must report new risks or changes to existing risks to the Managing Director as soon as they become aware of the risk or as soon as practicable.

The intended outcomes of the risk management programme include:

- (a) the establishment of a robust risk management framework and internal control system that enhances the Company's ability to meet its strategic service objectives
- (b) improved operating performance and reliable internal and external reporting
- (c) increased Company awareness and management of risk
- (d) compliance with policies and procedures and applicable laws and regulations

8. POLICY COMMUNICATION

This policy has been published on the Company website. It is also reviewed at least every year by the Executive Management Team and the Audit and Risk Management Committee to ensure its effectiveness, continued application and relevance.