

Krakatoa Resources Limited
(ACN 155 231 575)

Risk Management Policy

1 Introduction

Risk management is a complex and critical component of Krakatoa Resources Limited's (ACN 155 231 575) (the **Company**) governance. The Board will oversee and guide the detail of risk management. The Managing Director is charged with implementing appropriate risk systems within the Company. Aspects of this process may be delegated. Risk management is considered a key governance and management process. It is not an exercise merely to ensure regulatory compliance. Therefore, the primary objectives of the risk management system at the Company are to ensure:

- (a) all major sources of potential opportunity for and harm to the Company (both existing and potential) are identified, analysed and treated appropriately;
- (b) business decisions throughout the Company appropriately balance the risk and reward trade off;
- (c) regulatory compliance and integrity in reporting are achieved; and
- (d) senior management, the Board and investors understand the risk profile of the Company.

1.2 Risk management system

In line with these objectives, the risk management system covers:

- (a) operations risk;
- (b) financial reporting; and
- (c) compliance.

1.3 Board review of risk management system

The Board reviews all major strategies and purchases for their impact on the risk facing the Company and makes appropriate recommendations. The Company also undertakes an annual review of operations to update its risk profile. This normally occurs in conjunction with the strategic planning process. The Company discloses in each reporting period that such a review has taken place. The Board undertakes a quarterly review of those areas of risk identified.

1.4 Declaration of compliance

In addition, as specified by Recommendation 4.2 of the 4th Edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, the Company Secretary provides a written declaration of assurance that their opinion, that the financial records of the Company for any financial period have been properly maintained, comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company, has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

2 Company specific risks

The Board of the Company has identified a range of specific risks that have the potential to have an adverse impact on its business.

These include:

- (a) operational risk: operations of the Company may be affected by various factors, including failure to locate or identify mineral deposits, failure to achieve predicted grades in exploration and mining, operational and technical difficulties encountered in mining, difficulties in commissioning and operating plant and equipment, mechanical failure or

plant breakdown, unanticipated metallurgical problems which may affect extraction costs, adverse weather conditions, industrial and environmental accidents, industrial disputes and unexpected shortages or increases in the costs of consumables, spare parts, plant and equipment;

- (b) environmental risks: the Company's operations are subject to Australian environmental laws and regulations, the costs of complying with these laws and regulations may impact the development of economically viable projects, although the Company believes it is in compliance with the applicable environmental laws and regulations, there are certain risks inherent to its activities, such as accidental spills, leakages or other unforeseen circumstances, which could subject the Company to extensive liability;
- (c) insurance risk: the Company intends to insure its operations in accordance with industry practice, however, in certain circumstances the Company's insurance may not be of a nature or level to provide adequate insurance cover;
- (d) litigation risks: the Company is exposed to possible litigation risks including native title claims, tenure disputes, environmental claims, occupational health and safety claims and employee claims;
- (e) financial risk: the Company has no operating revenue and is unlikely to generate any operating revenue unless and until the Projects are successfully developed and production commences exposing it to financial risk;
- (f) conduct risks: the Company may not be successful in acquiring or obtaining the necessary licences to conduct exploration or evaluation activities, or if it is successful there is a risk the Company will be subject to difficult or arduous conditions;
- (g) sustainability and climate change risks: the Company is exposed to the potential emergence of new or expanded regulations associated with the transitioning to a lower-carbon and more sustainable economy and market changes related to climate change mitigation, in addition to any physical and environmental risks caused by climate change; and
- (h) compliance risk: the Company's mining activities mean it is subject to various mining, environment, native title and Aboriginal heritage laws and regulations, the number and complexity of these laws and regulations exposes the Company to inadvertently breaching them.