



ABN 88 153 229 086

RISK MANAGEMENT POLICY

1. Introduction

This policy is the basis for Talon Petroleum Limited (**Talon** or **Company**) establishing a sound system of risk oversight and management, management of material business risks, and internal controls. The policy was adopted by the Board on 25 March 2014.

2. Purpose

Effective risk management is central to the continued growth and success of Talon.

This Risk Management Policy ensures that:

- appropriate systems are in place to identify, to the extent reasonably practicable, each material risk that the Company faces in conducting its business;
- the potential consequences and likelihood of each identified risk are understood and appropriate limits are set to assist in managing exposure to risks;
- responsibility is delegated to manage each identified risk and eliminate that risk where possible;
- assurance is provided as to the effectiveness of the risk management system and risk controls;
- the risk management system is regularly reviewed to determine whether adequate control measures are in place; and
- any material changes to the Company's risk profile are monitored and disclosed in accordance with the Company's *Continuous Disclosure Policy*.

3. Risk

Risk manifests itself in many ways in the oil and gas industry. In addition to industry systemic risks, there are other material business risks specific to the characteristics of Talon's asset portfolio and business structure. In general, Talon's systemic and specific risks are typical of those associated with a small international oil and gas exploration company with limited resources and listed on ASX Limited.

The Company's main material business risks are:

- the risk of not finding, securing and retaining appropriate oil and gas prospects and commercial discoveries that are made from these prospects; and
- health, safety and environment matters as exploration, development and production of oil and gas involves risks which may impact the health and safety of personnel, the community and the environment, and if not managed, could significantly impact the Company's financial results.

Talon's other material business risks include:

- operational risks;
- exploration, production and development risks;
- commercial risks;
- legal / contractual risks;
- financial risks;
- regulatory risks (including matters relating to security of tenure and compliance with applicable regulations); and
- exchange rate and price risks.

Talon's risk management system has a framework that is underpinned by various policies and practices including:

- the *Safety Policy Manual* adopted by the Board on 5 September 2014 and setting out the Company's environmental, safety and health practices and responsibilities; and
- the Company's Corporate Governance policies (including the *Share Trading Policy* and *Continuous Disclosure Policy*),

and are intended to ensure:

- a consistent approach to managing risk; and
- regular reporting to the Board and other relevant stakeholders.

The Board considers that absolute compliance with the detailed provisions of AS/NZS/ISO 13000: 2009 *Risk Management - Principles and Guidelines* would not be a responsible use of the Company's limited resources, but requires management to have regard to the general principles of the Standard in managing the Company's risk.

4. Accountabilities

The Board has overall responsibility for the integrity of Talon's risk management system.

The Board is accountable for:

- ensuring the level of risk is As Low As Reasonably Practicable (ALARP);
- overseeing the effectiveness of the risk management system;

- monitoring compliance against the requirements of the risk management system and reviewing the adequacy of controls;
- reviewing the risk profile of the Company and approving the policies and systems for identification and management of risks;
- reviewing the Company's capacity to absorb risk and approving aggregate exposure limits; and
- requiring management to report on the performance of systems used to identify and manage risks and regularly reviewing these reports.

The Board may delegate responsibility for all or part of these activities to Board committees.

The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to the CEO. The CEO is required to assess risk management and associated internal compliance and control procedures and report to the Board on a regular basis.

All Talon personnel (i.e. Directors, officers, employees, consultants and contractors) are expected to manage and monitor risks within their area of responsibility (to the extent reasonable and practical) and to comply with policies and procedures established by the Company to manage and mitigate risk.

5. Reporting

For the purposes of Talon's annual and semi-annual financial reporting, the CEO and the Financial Controller state to the Board in writing that in accordance with the Recommendation 7.3 of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations:

The declaration provided in accordance with s295A of the Corporations Act 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.

The CEO also provides a report to the Board indicating the effectiveness of the Company's risk management and internal control systems in relation to material business risks as well as a risk assessment status on a regular basis.

6. Review

The Board will review assessments of the effectiveness of risk management and internal compliance and control on an annual basis. The Board will also review this policy at least annually.