

## **AMERICAN RARE EARTHS LIMITED**

### **RISK MANAGEMENT POLICY**

#### **(ASX Corporate Governance Principle 7: recognise & manage risk)**

#### 1. Introduction

American Rare Earths Limited (ARR) and the Board recognise that risk management is an essential element of good corporate governance and have established an effective risk framework that will enable the organisation to balance opportunities for gain while minimising its losses.

ARR has established specific policies for the oversight and management of material business risks.

The company maintains a documented risk management process that includes procedures for the identification, analysis, evaluation, treatment, management and communication of the material risks associated with the business of the company.

Risk management issues are regularly monitored and reported to the Board of Directors of the company.

#### 2. Objectives of the Risk Management Policy and Framework

ARR has a low level of risk tolerance whilst accepting that the nature of the business of mineral exploration carries inherent risks.

The Risk Management Policy will form the basis for embedding enterprise risk management within the culture of the organisation. The objectives of the policy are to:

- Enable ARR to meet its obligations and objectives.
- Increase the likelihood that ARR will be successful in its business by mitigating potentially damaging events occurring (e.g. operational risk) and maximising the results of positive events, through the implementation of risk management strategies.
- Provide decision makers with the means to identify risks and to determine whether the controls in place are adequate to mitigate those risks.
- Provide a mechanism to assess the levels of risk that can be accepted.
- Ensure that the application of risk management practices is understood by the Directors, officers, employees and where relevant contractors and consultants of ARR; and that a strong risk culture is well-entrenched.
- Reduce the consequence and/or likelihood of potentially damaging events by regular reviews of strategies for risk prevention and/or by transferring the impact of potentially damaging events to third parties e.g. by insurance and contractual arrangements.

#### 3. Risk Management Policy and Reporting

ARR recognises that effective risk management is an integral part of good management practice.

**Board of Directors:** The Board reviews the effectiveness of the risk management system at least once a year. Ultimate responsibility for risk oversight and management rests with the full Board of Directors.

**Audit & Risk Management Committee:** The Audit and Risk Management Committee is responsible for *overseeing* the company's risk management and internal control framework as well as the implementation of and assessment of risk management processes and internal control compliance.

The Audit and Risk Management Committee, together with the Managing Director and other senior managers, review policies and procedures for risk management and report these to the Board of Directors at least annually.

**Management:** The Managing Director is responsible for designing and implementing the risk management and internal control system to manage the company's material business risks. The Managing Director regularly reports the effectiveness of the risk management procedures to Audit and Risk Management Committee and the Board and recommends improvements to the risk management profile of the company.

#### 4. Financial Statements: Assurances to the Board

The chief executive officer (or equivalent) and the chief financial officer (or equivalent) shall provide a declaration in accordance with section 295A of the Corporations Act (Australia) assuring the board that such declaration 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 risk.

#### 5. Risk Register

The company has identified its material business risks and regularly reviews it for

- The likelihood that the risk will arise
- Possible impact on the business
- The risk prevention measures in place
- Any material changes to the risk profile

Comprehensive practices, as are practical, are in place that are directed towards

- Effective and efficient use of the company's resources
- Compliance with applicable laws and regulations
- Preparation of reliable published financial and exploration information.