

ELK PETROLEUM LTD

RISK MANAGEMENT POLICY

ROLE

The Board has delegated to the Risk Management Committee (the Committee) the primary responsibility for ensuring that risks are identified and monitored. The discharge of this responsibility is assisted by

- The adoption of a comprehensive Risk Management Policy that has been disseminated to all staff, and
- The implementation of a sound system of internal controls and procedures, as overseen by the Committee.

The Risk Management Policy was formulated following guidelines published

(1) by Standards Australia:

- AS/NZS 4360:1999- Risk Management
- HB 141:1999- Risk Financing;
- HB 231:2000- Information Security Risk Management Guidelines;
- HB 221:2003- Business Continuity Management

(2) by ASX Corporate Governance Principles & Recommendations version 3

PRINCIPLES

The Risk Management Policy provides the guiding principle for management in the identification of risks across the organisation as a whole, and within individual business units. The analysis and evaluation criteria are used to continually assess the impact of risks upon ELK's business objectives.

Management is responsible for the development of risk mitigation matrices and plans and the implementation of risk reduction strategies. The annual business planning process includes careful consideration of internal and external risk profile of the company. Senior managers report monthly to the board on the areas they are responsible for, including key business risks.

ELK's business risk management process provides a comprehensive, integrated approach for carrying out risk management activities. This process will allow senior management to minimise the potential impact of business risks in achieving objectives to create and protect shareholder value.

All risks are categorised as one of either: -

- Regulatory risk

- System/IT process risk
- Financial Management Risk
- Business and Operational Risk

This model provides a framework for systematically understanding and identifying the types of business risks threatening ELK as a whole or specific business activities within the Company.

Financial Management Risk is undertaken by the Audit Committee.

DUTIES

Managing Director/Chief Executive Officer

The Managing Director/Chief Executive Officer is accountable to the Board, through the Committee for ensuring that the risk management system is implemented and maintained in accord with the Risk Management Policy. Assignment of responsibilities in relation to risk management is the prerogative of the Managing Director/Chief Executive Officer.

Senior Executives

Senior Executives are accountable for strategic risk management within areas under their control including the dissemination of the risk management process to operational managers.

Collectively the Senior Executive is responsible for:

- The formal identification of strategic risks that impact upon ELK's business
- Allocation of priorities
- The development of strategic risk management plans

The Senior Executive review progress against agreed risk management plans.

The Managing Director/Chief Executive Officer is accountable for the implementation of the Risk Policy and for maintaining a programme of risk reassessment. The Managing Director/Chief Executive Officer also provides advice to the relevant Senior Executives on risk management matters relevant to their responsibilities.

The Managing Director/Chief Executive Officer is to assist senior management and the Board in the effective discharge of their responsibilities with regard to the ELK internal control environment by ensuring the efficiency and effectiveness of Company processes and identifying opportunities to improve operating performances.

At appropriate intervals, the Managing Director/Chief Executive Officer shall determine the adequacy and effectiveness of the Company's system of internal accounting and operating controls and determine if the business unit/function

are managing risks, in accordance with management instruction, policies and procedures, in a manner consistent with Company objectives.

Reporting Responsibilities

- (a) The Chairman of the Committee shall report to the Board, at the next following Board meeting, on the proceedings of each meeting of the Committee, bringing forward all recommendations of the Committee that require Board endorsement or approval.
- (b) The Committee shall report to the Board annually, in writing, on all matters relevant to the performance of its role and the discharge of its duties during the period, having regard to ASX Corporate Governance Council

Other Matters

- (a) The Committee shall oversee any investigation of activities, which are within its terms of reference and act as a court of last resort
- (b) The Committee shall, on a regular basis, review its own performance and Charter to ensure that it is operating effectively.

COMPOSITION

The Committee shall be appointed by the Board and shall be composed of: -

- (a) At least three non-executive Directors, the majority of which are independent
- (b) A Chairman, also appointed by the Board, who is one of those independent non-executive Directors and who is not the Chairman of the Board; and
- (c) At least one Director who has experience in and an understanding of the industry in which the business operates

ATTENDANCE AT MEETINGS

The Chairman of the Board, if not a member of the Committee, may attend meetings, ex officio.

The Managing Director/Chief Executive Officer or the Company Secretary or his/her nominee (acting as meeting secretary) and representative(s) of any suppliers or consultants attend meetings by invitation.

MEETINGS

- The Committee will hold two regular meetings a year and such additional meetings as the Chairman of the Committee shall decide in order for the Committee to fulfil its duties.

- An agenda and any supporting documentation will be circulated to members of the Committee in advance of meetings. The Chairman of the Committee will report any significant matters to the subsequent meeting of the Board of Directors.
- The Company Secretary will be responsible for keeping minutes of the meeting of the Committee and circulating them to members.
- A quorum shall consist of a majority of Committee members.

AUTHORITY

The Committee has the right: -

- (a) To seek any information it requires from any employee of the Company in order to perform its duties
- (b) To obtain, at the Company's expense, outside legal or other professional advice on any matters within its Charter
- (c) To call any member of staff to be questioned at a meeting of the Committee as and when required.

RISKS AND CONTROLS

The Committee responsibilities shall include: -

- (a) Review and assess the Company's business management process, including the adequacy of the overall control environment and controls in selected areas representing significant risk. Business risk management shall also include economic, environmental and social sustainability risks.
- (b) Review and assess the Company's system of internal controls for legal violations, and non-compliance with the corporate code of conduct. In that regard, review the related findings, together with management's responses and make recommendations in relation to any incident involving break down of the entity's internal controls.
- (c) Discuss with management policies and programs in respect of risk management and risk assessment.
- (d) Review the results of the annual audits of Directors' and officers' expense accounts and management perquisites prepared by the auditors.
- (e) Review and assess the entity's insurance program, having regard to the entity's business and the insurable risks associated with its business.
- (f) Review the entity's risk management framework at least annually to satisfy itself that it continues to be sound.
- (g) Review significant conflicts of interest and, if appropriate, approve proposed related party transactions.
- (h) Conduct or authorise investigations into any matters within the Committee's scope of responsibilities. The Committee is empowered to

retain independent counsel and other professionals to assist in conducting any investigation.

- (i) Review and recommend to the Board the corporate governance policy of the Company and ensure that an effective system is in place to monitor compliance.
- (j) Ensure that a Code of Conduct that includes the ethics and behaviour of employees and directors is established, suitably communicated and a system for monitoring compliance is in place.

Areas to be addressed specifically by the Audit Committee shall include:

- (a) Review and assess the Company's financial risk management process, including the adequacy of the overall control environment and controls in selected areas representing significant risk.
- (b) Review and assess the Company's system of internal controls for detecting accounting and financial reporting errors, fraud and defalcations. In that regard, review the related findings and recommendations of the external auditors, together with management's responses and make recommendations in relation to any incident involving fraud or other break down of the entity's internal controls.
- (c) Review with legal counsel any regulatory matters that may have a material impact on the financial statements.
- (d) Establish procedures for receipt, retention and treatment of complaints received by the company regarding accounting, internal accounting controls, and auditing matters.
- (e) Establish procedures for confidential, anonymous submission of concerns in relation to questionable accounting and auditing matters by employees of the company.