

# **RISK MANAGEMENT POLICY AND RISK MANAGEMENT FRAMEWORK**

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## **RISK MANAGEMENT POLICY**

As the Macmin Silver Ltd consolidated entity grows, the operating environment becomes more complex, the pace of change accelerates, and the exposure to risk increases.

This exposure can be reduced by Risk Management. Risk Management is the systematic application of management policies, procedures and practices to the tasks of identifying, analysing, assessing, treating and monitoring risk. It is important that we manage risk for the benefits of our stakeholders.

### **POLICY STATEMENT**

Macmin Silver Ltd is committed to having a culture of risk management, and to establish an integrated risk management system that supports a pro-active, multi-disciplinary approach to managing risk, and to exploiting opportunity at all levels.

### **POLICY CONDITIONS**

- The risk management process is designated as a key internal business process.
- The management of risk/opportunity must be formally addressed in making major business decisions.
- A Whole of Business Risk Review has been prepared and will be reviewed regularly at Board level.
- Each operating site must maintain industry generic and site specific risk identification and treatment documentation.
- A risk management plan must be developed for major projects.
- A formal risk management plan must be included as part of every major capital acquisition or procurement decision.
- Operational risks related to the employees, the environment, the community and the Company assets should be identified and addressed as part of the routine operating procedures.
- Key risk/opportunity areas and their drivers should be included in management /Board reporting systems.

## **RESPONSIBILITIES**

The Board of Directors, on behalf of shareholders, is to ensure that risks and opportunities are identified, monitored and managed in a pro-active way; and that they are reported half yearly, or more frequently in the event of a major change in status.

The Executive is responsible for providing leadership and direction, for establishing a context which fosters a risk management culture, and for ensuring business, financial and risk management approaches are integrated during the planning, implementation and reporting of major ventures at all levels.

Managers at every level are responsible for implementing the Macmin Silver Mining Risk Management System. They should ensure that staff have the knowledge and skills to use the system and that appropriate risk management practices and procedures are integrated with standard management practices and business processes in their operations.

All employees have a responsibility to identify areas of risk and initiate responses that seek to minimise business exposure.

### **Implementation strategy**

Risk assessments and the development of plans to manage risk for major activities are to commence immediately.

**A risk assessment to identify and evaluate risks has been completed and will be reviewed regularly.**

**The operating site at Texas in Queensland has or is developing site safety and risk management procedures in consultation with relevant authorities and with input from insurers.**

**Exploration services department is developing risk management procedures appropriate for exploration sites.**

**A copy of this policy document is to be provided to all managers and placed on the Company website under The Corporate Governance Section.**

# 1. RISK MANAGEMENT FRAMEWORK

## DEFINITIONS

1.1 For the purpose of this document, the definitions below (taken from AS 4360:20004) apply.

### 1.1.1 Consequence

Outcome or impact of an **event** (1.2.2)

NOTE 1: There can be more than one consequence from one event.

NOTE 2: Consequences can range from positive to negative.

NOTE 3: Consequences can be expressed qualitatively or quantitatively.

NOTE 4: Consequences are considered in relation to the achievement of objectives.

### 1.2.1 Control

An existing process, policy, device, practice or other action that acts to minimize negative risk or enhance positive opportunities.

NOTE: The word 'control' may also be applied to a process designed to provide reasonable assurance regarding the achievement of objectives.

### 1.2.2 Event

Occurrence of a particular set of circumstances.

NOTE 1: The event can be certain or uncertain.

NOTE 2: The event can be a single occurrence or a series of occurrences.

(ISO/IEC Guide 73, in part)

### 1.2.3 Likelihood

Used as a general description of probability or frequency.

NOTE: Can be expressed qualitatively or quantitatively.

### 1.2.4 Loss

Any negative **consequence** (1.1.1) or adverse effect, financial or otherwise.

### 1.2.5 Monitor

To check, supervise, observe critically or measure the progress of an activity, action or system on a regular basis in order to identify change from the performance level required or expected.

### 1.2.6 Organisation

Group of people and facilities with an arrangement of responsibilities, authorities and relationships.

EXAMPLE: Includes company, corporation, firm, enterprise, institution, charity, sole trader, association, or parts or combination thereof.

NOTE 1: The arrangement is generally orderly.

NOTE 2: An organisation can be public or private.

NOTE 3: This definition is valid for the purposes of quality management system standards. The term 'organisation' is defined differently in ISO/IEC Guide 2.

(AS/NZS ISO 9000)

### 1.2.7 Risk

The chance of something happening that will have an impact on objectives.

NOTE 1: A risk is often specified in terms of an event or circumstance and the consequences that may flow from it.

NOTE 2: Risk is measured in terms of a combination of the consequences of an event (1.2.2) and their likelihood (1.2.3)

NOTE 3: Risk may have a positive or negative impact.

NOTE 4: See ISO/IEC Guide 51, for issues related to safety.

### 1.2.8 Risk Analysis

Systematic process to understand the nature of and to deduce the level of risk.

NOTE 1: Provides the basis for risk evaluation and decisions about risk treatment.

NOTE 2: See ISO/IEC Guide 51 for risk analysis in the context of safety.

### 1.2.9 Risk Assessment

The overall process of **risk identification** (1.2.12) **risk analysis** (1.2.8) and **risk evaluation** (1.2.11) refer to Figure 1.

### 1.2.10 Risk Criteria

Terms of reference by which the significance of **risk** (1.2.7) is assessed.

NOTE: Risk criteria can include associated cost and benefits, legal and statutory requirements, socioeconomic and environmental aspects, the concerns of **stakeholders** (1.2.17) priorities and other inputs to the assessment.

### 1.2.11 Risk Evaluation

Process of comparing the level of **risk** (1.2.7) against **risk criteria** (1.2.10).

NOTE 1: Risk evaluation assists in decisions about risk treatment.

NOTE 2: See ISO/IEC Guide 51 for risk evaluation in the context of safety.

### 1.2.12 Risk Identification

The process of determining what, where, when, why and how something could happen.

### 1.2.13 Risk Management

The culture, processes and structures that are directed towards realizing potential opportunities whilst managing adverse effects.

### 1.2.14 Risk Management Process

The systematic application of management policies, procedures and practices to the tasks of communicating, establishing the context, identifying, analyzing, evaluating, treating, monitoring and reviewing **risk** (1.2.7).

### 1.2.15 Risk Management Framework

Set of elements of an **organisation's** (1.2.6) management system concerned with managing **risk** (1.2.7).

NOTE 1: Management system elements can include strategic planning, decision making, and other strategies, processes and practices for dealing with risk.

NOTE 2: The culture of an organisation is reflected in its risk management system.

### 1.2.16 Risk Treatment

Process of selection and implementation of measures to modify **risk** (1.2.7).

NOTE 1: The term 'risk treatment' is sometimes used for the measures themselves.

NOTE 2: Risk treatment measures can include avoiding, modifying, sharing or retaining risk.

(ISO/IEC Guide 73, in part)

### **1.2.17 Stakeholders**

Those people and **organisations** (1.2.6) who may affect, be affected by, or perceive themselves to be affected by a decision, activity or risk.

NOTE: The term 'stakeholder' may also include 'interested parties' as defined in AS/NZS ISO 14050 and AS/NZS ISO 14004.

(Based on ISO/IEC Guide 73)

## 2. RISK MANAGEMENT PROCESS OVERVIEW:

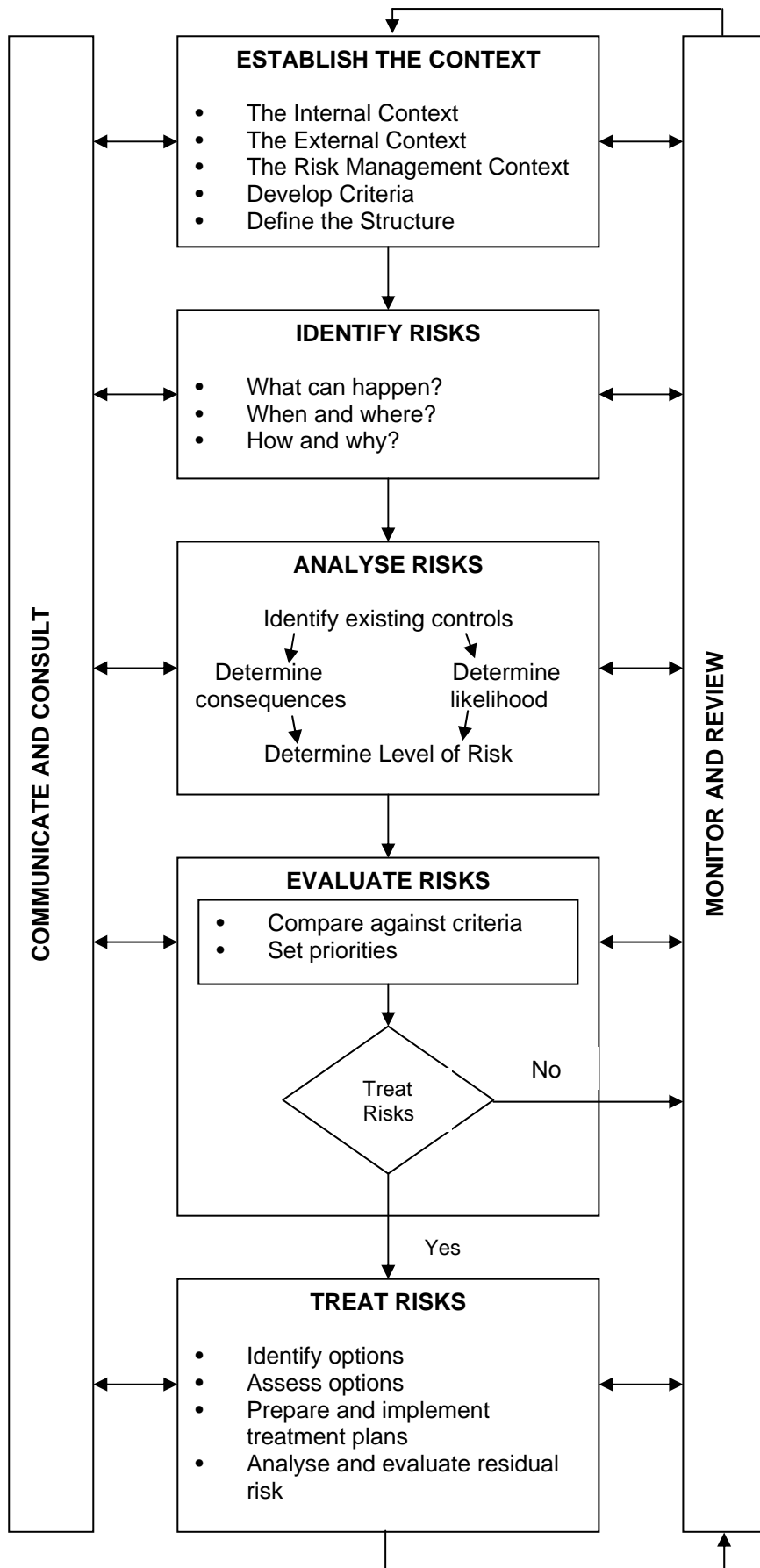


Figure 1

### **3. RISK MANAGEMENT PROCESS:**

#### **3.1 COMMUNICATION AND CONSULTATION**

The initial draft prepared by the Company Secretary and CEO has been reviewed by the Board to confirm the overall direction of the document, context and major assumptions as well as to identify additional areas of risk to be addressed.

The Board adopted the policy and process document after amendments.

The CEO will communicate the Risk Policy to all staff and oversee implementation. The Board will review the policy at least annually. The Company Secretary will incorporate the review into the Board's annual calendar.

#### **3.2 CONTEXT**

##### **External context**

The group operates in the mineral exploration and development industry within NSW and Qld, Australia but has involvement in Canada and Papua New Guinea by way of investment and provision of management services.

Stakeholders are global, including a concentration of shareholders in Europe and Australia with minority holdings in a number of other countries. Community and public stakeholders are primarily in Australian and Papua New Guinea. The governments of Australia, Papua New Guinea and Canada have an interest in the operations of the group in terms of taxation, licensing and regulatory compliance.

Financially the group is closely linked to world demand and prices for metals which drive cyclical investor interest in the resources sector.

##### **Internal context**

The group operates through a public company listed on the ASX and is made up of employees and offices in Australia and Papua New Guinea. Since 2005 the market capitalization and level of activity has expanded rapidly so that the group is in a state of evolution and constant change.

Internal stakeholders are employees, many of whom also have an equity interest through shares or options. The average age of employees is not young and many are relatively committed to their career and or geographic location but this may change as the number of employees increases substantially.

Success of the group relies heavily on experience in the exploration and mining industry to bring projects to a successful economic result through sale or development. Luck in exploration also plays a significant role in exploration success. The group objective is to deliver shareholder wealth, principally through capital gain and to move from explorer to producer.

##### **Risk Management context**

The context for risk management is group-wide initially, with specific risk management frameworks being developed for individual operations to suit (e.g. Twin Hills mine Safety Management System).

Decisions in a broad sense will be project evaluation decisions, concerning initial or continued investment in acquisition, exploration or development of mineral projects and the integral funding options in relation to those investments.

**Risk Criteria** (The criteria against which risk is to be evaluated)

Corporate level:

- Potential for exposure to an event which could cause the demise of the Company through insolvency.
- Potential for generating (or reducing) shareholder wealth. This may involve assessing a mix of project financial potential, investor sentiment and funding options.
- Potential for damage or improvement to the reputation of the Company and consequently its appeal to investors.

Subsidiary or Project level:

*To be developed in more detail based on the above*

Intra project level (expansion etc):

*To be developed in more detail based on the above*

Operational level:

*Will include safety, environmental, procedural risks including those flowing from regulatory and best practice guidelines*

**Structure for the rest of the process**

An exercise of identifying, evaluating and recommending any treatment in relation to specific risks at a Company level has been undertaken. This review has been developed within a framework of headings such as Technical, marketing, financial, personnel, environmental to structure the process and documentation so that a similar format may be used for more detailed levels within the process.

Thereafter a similar exercise will be undertaken at project or site level covering:

- current and proposed subsidiaries and projects.
- expansion or major change to current projects
- areas of operations within projects for further focus

**3.3 IDENTIFY RISKS**

**General**

This step seeks to identify the risks to be managed. Identification should include risks whether or not they are under the control of the Company.

**What can happen, where and when**

Sources of risks and events that might have an impact on the achievement of objectives identified in the context.

**Why and how it can happen**

Possible causes and scenarios.

### 3.4 ANALYSE RISKS

#### General

Risk analysis is about developing an understanding of the risk. Analysis involves consideration of sources of risk, their positive and negative consequences and the likelihood that those consequences may occur.

#### Evaluate existing controls

Identify the existing processes, devices or practices that act to minimize negative risks or enhance positive risks and identify their strengths and weaknesses.

#### Consequences and likelihood

Magnitude and consequences of a possible event are assessed in the context of the effectiveness of existing strategies and controls.

#### Types of Analysis

Qualitative, semi-quantitative, quantitative.

#### Sensitivity Analysis

### 3.5 EVALUATE RISKS

The purpose of risk evaluation is to make decisions, based on risk analysis, about which risks need treatment and treatment priorities.

Evaluation involves comparing the level of risk found during the analysis process with risk criteria established when the context was considered.

### 3.6 TREAT RISKS

#### General

Risk treatment involves identifying the range of options for treating risks, assessing these options and the preparation and implementation of treatment plans.

#### Identifying options for the treatment of risks with positive outcomes

Treatment options for risks having positive outcomes (opportunities) which are not necessarily mutually exclusive or appropriate in all circumstances, include:

- Actively seeking an opportunity by deciding to start or continue with an activity likely to create or maintain it (where this is practicable).

Inappropriate pursuit of opportunities without consideration of potential negative outcomes may compromise other opportunities as well as resulting in unnecessary loss.

- Changing the likelihood of the opportunity, to enhance the likelihood of beneficial outcomes.
- Changing the consequences, to increase the extent of the gains.
- Sharing the opportunity.

This involves another party or parties bearing or sharing some part of the positive outcomes of the risk usually by providing additional capabilities or resources that increase the likelihood of

the opportunity arising or the extent of the gains if it does. Mechanisms include the use of contracts and organisational structures such as partnerships, joint ventures, royalty and farm-in arrangements. Sharing the positive outcomes usually involves sharing some of the costs involved in acquiring them.

Sharing arrangements often introduce new risks, in that the other party or parties may not deliver the desired capabilities or resources effectively.

- Retaining the residual opportunity.

After opportunities have been changed or shares, there may be residual opportunities that are retained without any specific immediate action being required.

### **Identifying options for the treatment of risks with negative outcomes**

Treatment options for risks having negative outcomes are similar in concept to those for treating risks with positive outcomes, although the interpretation and implications are clearly different. Options include:

- Avoiding the risk by deciding not to start or continue with the activity that gives rise to the risk (where this is practicable).

Risk avoidance can occur inappropriately if individuals or organisations are unnecessarily risk-averse. Inappropriate risk avoidance may increase the significance of other risks or may lead to the loss of opportunities for gain.

- Changing the likelihood of the risk, to reduce the likelihood of the negative outcomes.
- Changing the consequences, to reduce the extent of the losses. This includes pre-event measures such as reduction in inventory or protective devices and post-event responses such as continuity plans.
- Sharing the risk.

This involves another party or parties bearing or sharing some part of the risk, preferably by mutual consent. Mechanisms include the use of contracts, insurance arrangements and organisational structures such as partnerships and joint ventures to spread responsibility and liability. Generally there is some financial cost or benefit associated with sharing part of the risk with another organisation, such as the premium paid for insurance.

Where risks are shared in whole or in part, the organisation transferring the risk has acquired a new risk, in that the organisation to which the risk has been transferred may not manage the risk effectively.

- Retaining the risk.

After risks have been changed or shared, there will be residual risks that are retained. Risks can also be retained by default, e.g. when there is a failure to identify or appropriately share or otherwise treat risks.

### **Assessing risk treatment options**

Selecting the most appropriate option involves balancing the costs of implementation of each option against the benefits derived from it.

### **Preparation and implementation of treatment plans**

The purpose of treatment plans is to document how the chosen treatment options will be implemented. Treatment plans should include:

- proposed actions
- resource requirements
- responsibilities
- timing
- performance measures
- reporting and monitoring requirements

## **3.7 MONITOR AND REVIEW**

Ongoing review is essential to ensure that the management plan remains relevant.

## **3.8 RECORD THE RISK MANAGEMENT PROCESS**

Assumptions, methods, data sources and reasons for decisions should all be recorded. The records of such processes are an important part of good corporate governance.

## **4. ESTABLISHING EFFECTIVE RISK MANAGEMENT**

The organisation should develop a risk management policy, plan and support arrangements. This will enable risk management to be implemented effectively throughout the organisation.

### **Evaluate existing practices and needs**

Risk management planning:

- Develop risk management plans
- Ensure the support of senior management
- Develop and communicate the risk management policy
- Establish accountability and authority
- Customise the risk management process
- Ensure adequate resources

## Risk Management

### Quantification of Consequences of Events

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#### INSIGNIFICANT

1. Minimal impact on production
2. No loss of business
3. Low financial losses
  - <5% of any individual project cost
  - <\$50,000 over a year
4. First aid treatment required
5. No environmental impact

#### MINOR

1. Slight under run on production
  - Some delays/interruptions in production
  - <5% reduction in budgeted level of performance
2. Loss of operational availability
3. Minor financial losses
  - greater than \$50,000 but less than \$300,000
4. Personal injuries requiring notification under WH&S
5. On-site release of environmentally sensitive discharge immediately contained

#### MODERATE

1. Major disruption to production on a regular basis
  - Not able to respond to short notice requests
  - Regular disruption to operations availability
2. High loss of commercial requirements
3. Moderate financial loss
  - >than \$300,000 but less than \$500,000
4. Extensive disabling injuries
5. On-site release contained with outside assistance

#### MAJOR

1. Major loss of production
2. Major financial loss
  - Greater than \$500,000 but less than \$5m
3. Any death/extensive disabling injuries to staff/public
4. Off-site release of environmentally sensitive discharge with no sustained detrimental effects

#### CATASTROPHIC

1. Major loss of production, no recovery prospects
2. Huge financial losses
  - Greater than \$5M
3. Number of incidents involving multiple deaths/extensive injuries of member(s) of staff/public resulting from negligence
4. Off-site release of environmentally sensitive discharge with significant detrimental effect

#### Other things to consider:

- Gold, metal prices
- Interest rates
- Major financial and commodity market changes
- Community impact

# GENERAL RISK FACTORS

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*(Extracted from previous Company Prospectus documents)*

Investors should be aware that there are risks associated with investment in Macmin Silver Ltd.

The Directors identify in this section the critical risks that the Directors consider are relevant to investing in Macmin Silver Ltd. These risks are not necessarily exhaustive. Prospective investors should seek professional advice if they require further information on material risks in deciding whether to invest in Macmin Silver Ltd.

## **1 MARKET CONDITIONS**

The Shares of Macmin Silver Ltd are listed on ASX and are subject to all the normal risks and benefits associated with ownership of an interest in a publicly traded company. As such, they are influenced by the broader market trends dominating the Australian share market, and can be subject to share price movement which is completely independent of developments within Macmin Silver Ltd.

## **2 PRECIOUS METAL PRICES**

The performance of the share price of Macmin Silver Ltd can be influenced by fluctuations in international precious metal prices. The determinants of these prices are associated with world economic conditions and it is not possible to accurately assess which conditions will prevail in the future.

## **3 EXCHANGE RATES**

Silver and other metals are traded on world markets in US dollars. Consequently, fluctuations in currency exchange rates will have an impact on the financial performance of Macmin Silver Ltd.

## **4 FURTHER EQUITY AND DEBT FUNDING**

The Company's ability to exploit its exploration licences and meet operating costs depends on the Company's ability to raise funds sought under the Issue as well as additional equity or debt funding when required. The Company may also seek to raise debt funding in the future or enter into joint ventures. There is no guarantee the Company will be able to raise this equity or debt funding or enter into joint ventures. If the Company is unable to raise equity or debt funding or enter into joint ventures on suitable terms this may have an adverse effect on the Company's ability to achieve its objectives.

## **5 INTERNAL GOVERNMENT RELATIONS**

Macmin Silver Ltd is involved, and may expand its involvement, in developing countries, in which political control and applicable laws can be subject to rapid change. Such changes can have an impact on the ability of Macmin Silver Ltd to operate effectively in those countries.

## **6 EXPLORATION AND DEVELOPMENT SUCCESS**

Exploration activity is inherently risky and uncertain. There is no certainty that the exploration program that Macmin Silver Ltd intends to undertake using funds raised under this prospectus will result in identifying any mineral resource or that any resource that Macmin Silver Ltd may find will be capable of being economically mined.

Exploration and appraisal of exploration results is a process subject to unforeseen contingencies. Exploration programs must be flexible enough to respond to the results obtained. The actual scope, costs and timetables of exploration programs may differ substantially from the proposals set out in this prospectus.

The success of Macmin Silver Ltd is directly linked to the level of success it is able to achieve in the exploration and development of its prospects. Sustained failure of Macmin Silver Ltd to locate and develop commercial deposits of gold, silver or other metals would endanger the long-term commercial viability of Macmin Silver Ltd.

**APPENDIX B****7 ENVIRONMENTAL**

The mining industry is likely to become the object of increasing scrutiny with regard to its observance of environmental issues. Macmin Silver Ltd is particularly aware of this risk but is not aware of any significant material exposure in this regard. Macmin Silver Ltd's policy is to conduct its operations in accordance with all applicable laws.

The Company's exploration programs may be subject to approval by relevant regulatory authorities. Development of any mineral resources discovered from the exploration programs will be dependent on the project meeting environmental guidelines and obtaining approval from relevant regulatory authorities.

**8 REGULATION**

The Company's activities in the mining industry are subject to regulations and approvals including exploration licences, mining leases and environmental regulations and approvals. Approvals, including renewals of exploration licences and mining leases, although usually granted, are discretionary. There is no guarantee that if Macmin Silver Ltd identifies mineral resources from its exploration activities that it will be able to secure any necessary approvals to extract the minerals or to secure these approvals on economically viable terms.

**9 NATIVE TITLE**

The *Native Title Act 1993* (Cth) (**NTA**) and its interaction with the common law is complex. Much of the law remains uncertain and subject to litigation in the Federal and High Courts of Australia.

Native Title may exist, and should generally be presumed to exist over Crown land which is not (yet) the subject of a Native Title claim and should generally be presumed to exist over Crown land where extinguishment of Native Title cannot be demonstrated. The NTA only applies where Native Title rights and interests have not previously been completely extinguished by grant of inconsistent non-Native Title rights or interests over the same land or waters.

In relation to the grant of mining tenements (e.g. some prospecting permits, exploration permits and mining leases) over land where Native Title may not have been completely extinguished, the NTA prescribes the 'Right to Negotiate' procedure (**RTN**) which must be complied with in order that the grant is valid with respect to Native Title. The RTN is a substantial procedural right that is afforded to registered Native Title holders and claimants, the compliance of which may be significantly onerous for the applicant of the mining tenement. However, any renewal of a granted mining tenement is not required to comply with the RTN so long as the renewal does not confer any greater rights than the original tenement and the area of the renewed tenement is not extended.

**10 JOINT VENTURE PARTNERS**

Macmin Silver Ltd may become party to joint venture agreements in which it may potentially hold minority interests and in which it may be voted into programs and budgets which could cause Macmin Silver Ltd to expend working capital in a manner that may not reflect the priorities of our Board. Additionally, Macmin Silver Ltd is involved in the speculative aspects of the metals exploration and production business. It is subject therefore to risks outside of its control which will relate to a variety of factors. Macmin Silver Ltd may have little control over the financial performance of its joint ventures.

**11 DEVELOPMENT AND CONSTRUCTION**

Macmin Silver Ltd's performance may be impacted by its ability to successfully commission the processing plant at Macmin Silver Ltd's Texas silver project within the Board's anticipated costs and timeframe. This may be impacted by availability and changes in costs of equipment, materials and labour.

The above list of risk factors is not exhaustive of risks faced by Macmin Silver Ltd. Those risk factors, and others not specifically referred to above, may in the future materially affect the financial performance of Macmin Silver Ltd and the value of the Shares.