

Risk Management Policy

Liontown Resources Limited ACN 118 153 825 (Company)

1 Purpose

Recognising and managing risk is fundamental to the Company achieving its strategic objectives, and a crucial part of the role of the Board and management. Sound risk management practices can not only help to protect established value, but also can assist in identifying and capitalising on opportunities to create value.

The Company recognises that a failure by it to recognise or manage risk can adversely impact not only on the Company and its shareholders, but also other stakeholders which may include employees, customers, suppliers, creditors, consumers, taxpayers and the broader community in which the Company operates.

The Board is ultimately responsible for deciding the nature and extent of the risks it is prepared to take to meet its strategic objectives. To enable the Board to do this, the Company must have an appropriate risk management framework to identify and manage risk on an ongoing basis.

This policy sets out the Company's approach to risk management, including its approach to identifying and managing risk, the responsibilities of the Board, management and others within the Company in relation to risk management, and the resources and processes dedicated to risk management. Managing risk is the responsibility of everyone in the Company.

In this policy:

management refers to the senior management team as distinct from the Board, comprising the Company's senior executives, being those who have the opportunity to materially influence the integrity, strategy and operation of the Company and its financial performance.

risk means effect of uncertainty on objectives¹;

risk management means co-ordinated activities to direct and control the Company with regard to risk²;

risk management framework is the set of components that provide the foundations and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the Company.

2 Who does this policy apply to?

All directors, officers and employees of the Company must comply with this policy.

3 Risk appetite

The Board is responsible for deciding the nature and extent of the risks it is prepared to take to meet its objectives (**risk appetite**).

Accepting the inherent risks associated with exploration activity in the resource sector, the Company is relatively risk averse and its risk management framework is designed to ensure that risks are understood, managed and minimised relative to the sector in which it operates.

¹ As defined in Australian/New Zealand Standard AS/NZS ISO 31000:2018 *Risk management – Guidelines*

² As defined in Australian/New Zealand Standard AS/NZS ISO 31000:2018 *Risk management – Guidelines*

4 Risk management framework

The framework adopted involves:

4.1 Risk identification

The risks faced by the Company will be identified and documented in a risk register, as per the example in Appendix A, or equivalent

The Company's risks will be classified under the following broad categories:

- (a) Health and Safety
- (b) Environment and Community
- (c) Financial
- (d) Reputation and Legal
- (e) Organisational
- (f) Project/Exploration

The individual risks which fall within these categories will be included in the Company's risk register.

4.2 Risk analysis

Once the list of risks is agreed on by management and the Audit Committee and/or Board, the risks will be analysed by determining consequences of the risks eventuating and their probability. Existing risk controls and their effectiveness (as perceived by management) should be taken into account when considering how likely the risk event is to occur and the impact/consequences it will have on the business.

Risk prioritisation will be undertaken at the same time as risk identification and will be considered in light of a 5x5 risk matrix, as the per the example in Appendix B, or equivalent.

4.3 Risk evaluation

Prioritised risk should be compared with the risk appetite established by the Board. The output of this process will be a prioritised list of risks for further action.

4.4 Risk treatment

Where the level of risk is above the desired level, management will develop and execute an action plan to address the risk by either: transferring the risk; reducing the risk or accepting the risk or a combination of these approaches. When selecting the way a risk will be treated, the Company will consider the values and perceptions of stakeholders and the most appropriate ways to communicate with them.

4.5 Monitoring and review

The risk register will be reviewed, and if required updated, on at least a half yearly basis, or more often if required.

Management reports to the Audit Committee and/or Board on the Company's Management of its material business risks on a regular basis.

The risk management framework will be monitored and reviewed through the risk activities outlined in section 5. However, the Board may request independent verification in relation to all or some of the risk management framework or individual controls, via internal or external means.

4.6 Documentation

The risk management framework and processes will be documented.

5 Risk management activities

The Company's annual risk management activities are divided into quarters as follows:

5.1 Quarter One commencing 1 July

Management:

- (a) the Managing Director and Chief Financial Officer provide the Board with a declaration in accordance with Recommendation 4.2 and section 295A of the Corporations Act 2001 (Cth) (**Corporations Act**);
- (b) updates the risk register and/or complete an individual risk report for critical material business risks and provide the register and/or the report to the Audit Committee;
- (c) prepares the disclosure for inclusion in the Company's corporate governance statement in relation to Recommendations 7.1 to 7.4; and
- (d) reviews the Risk Management Policy and make recommendations to the Audit Committee about any proposed changes.

Audit Committee:

- (a) reviews the disclosure for inclusion in the Company's corporate governance statement in relation to Recommendations 7.1 to 7.4;
- (b) reviews the updated risk register/individual risk reports and questions management if required;
- (c) reports to the Board the updated risk register and comments on the Company's annual risk management effort and effectiveness; and
- (d) reviews the Risk Management Policy and any changes recommended by management.

The Board:

- (a) notes the Managing Director and Chief Financial Officer declarations for the purposes of Recommendation 4.2 and section 295A of the Corporations Act;
- (b) notes the updated risk register and/or individual risk reports and questions management if required;
- (c) notes the Audit Committee comments on the Company's annual risk management effort and effectiveness and;
- (d) approves the Risk Management Policy, as reviewed by the Audit Committee and provides input into the Company's risk profile; and
- (e) approves the disclosure for inclusion in the Company's corporate governance statement in relation to Recommendations 7.1 to 7.4.

5.2 Quarter Two commencing 1 October

Management:

- (a) the Managing Director and Chief Financial Officer provide the Board with a declaration in accordance with Recommendation 4.2 and section 295A of the Corporations Act.

The Board:

- (a) notes the Managing Director and Chief Financial Officer declarations for the purposes of Recommendation 4.2 and section 295A of the Corporations Act.

5.3 Quarter Three commencing 1 January

Management:

- (a) the Managing Director and Chief Financial Officer provide the Board with a declaration in accordance with Recommendation 4.2 and section 295A of the Corporations Act;
- (b) unless reviewed by specific committee of the Board, reviews the Company's risk management framework to satisfy itself that it continues to be sound; and
- (c) reviews and updates the risk register and/or complete an individual risk report for critical material business risks and provide the register and/or the report to the Audit Committee.

Audit Committee:

- (a) reviews the company's risk management framework to satisfy itself that it continues to be sound;
- (b) reviews the updated risk register/individual risk reports and questions management if required; and
- (c) reports to the Board the updated risk register and comments on the Company's annual risk management effort and effectiveness.

The Board:

- (a) determines the Company's overall risk appetite;
- (b) notes the Managing Director and Chief Financial Officer declaration for the purposes of Recommendation 4.2 and section 295A of the Corporations Act;
- (c) notes the updated risk register/individual risk reports and questions management if required; and
- (d) notes the Audit Committee comments on the Company's annual risk management effort and effectiveness.

5.4 Quarter Four commencing 1 April

Management:

- (a) the Managing Director and Chief Financial Officer provide the Board with a declaration in accordance with Recommendation 4.2 and section 295A of the Corporations Act.

The Board:

- (a) notes the Managing Director and Chief Financial Officer declaration for the purposes of Recommendation 4.2 and section 295A of the Corporations Act.

6 Risk management roles and responsibilities

6.1 Board

The Board is responsible for setting the Company's risk appetite, for overseeing the risk management framework designed and implemented by management and to satisfy itself that the risk management framework is sound. The Board is also responsible for monitoring and reviewing the Company's risk profile.

6.2 Audit Committee

The Board has established a separate Audit Committee, which is responsible for, among other things, the adequacy of the Company's corporate reporting processes and the appropriateness of managements accounting judgements or choices. It also reviews the Company's internal financial control system and, unless expressly addressed by a separate Risk Committee or by the Board itself, oversees the Company's risk management framework. The role of the Audit Committee is set out in the Company's *Audit Committee Charter*.

However, ultimate responsibility for the Company's risk management framework rests with the Board.

The Managing Director has responsibility for identifying, assessing, monitoring and managing risks. The Managing Director is also responsible for identifying any material changes to the Company's risk profile and ensuring, with approval of the Board, the risk profile of the Company is updated to reflect any material change.

The Managing Director is required to report on the progress of, and on all matters associated with, risk management on a regular basis. The Managing Director is to report to the Board as to the effectiveness of the Company's management of its material business risks, at least annually.

In fulfilling the duties of risk management, the Managing Director may have unrestricted access to Company employees, contractors and records and may obtain independent expert advice on any matter they believe appropriate, with the prior approval of the Board.

6.4 Management

Senior executives are responsible for assisting the Managing Director identify, assess, monitor and manage risks.

6.5 Managers and supervisors

Managers and supervisors must:

- (a) monitor material business risks for their areas of responsibilities;

- (b) provide adequate information on implemented risk treatment strategies to management to support ongoing reporting to the Board; and
- (c) ensure staff are adopting the Company's risk management framework as developed and intended.

6.6 Individual staff

All staff within the Company should:

- (a) recognise, communicate and respond to expected, emerging or changing material business risks;
- (b) contribute to the process of developing the Company's risk profile; and
- (c) implement risk management strategies within their area of responsibility.

7 Review

The Company's risk management framework is evolving. It is an on-going process and it is recognised that the level and extent of the risk management framework will evolve commensurate with the development and growth of the Company's activities. This will include an annual review of this policy by the audit committee and Board.

Appendix A — **Template Risk Register**

RISK 3: *Risk Identified*

Risk owner		Name or Title	
<u>Causes</u> <ul style="list-style-type: none"> List causes determined 		<u>Consequences to Liontown</u> <ul style="list-style-type: none"> List consequences determined 	
	Consequence to Liontown	Probability	Level of risk
Absolute	Determine consequence rating	Determine probability rating with no controls in place	Risk Matrix determines level of risk based on consequence and probability
<u>Controls</u> <ul style="list-style-type: none"> List controls determined 			
	Consequence to Liontown	Probability	Level of risk
Controlled	Consequence rating should not change	Revise probability rating after controls implemented	Risk Matrix determines level of risk based on consequence and probability
Justification for rating change	Explanation		

Appendix B – Template Risk Matrix

Consequence	5				
	4				
	3				
	2				
	1				
		A	B	C	D
Likelihood					

Consequence rating:

- 1 Minimal
- 2 Minor
- 3 Moderate
- 4 Major
- 5 Catastrophic

Probability rating:

- A Rare
- B Unlikely
- C Possible
- D Likely
- E Almost Certain

Specific probability and consequence criteria should be set for the Company.

Risk Rating	Action
Extreme	Detailed action plan required
High	Needs senior management attention
Medium	Management responsibility must be specified
Low	Manage by routine procedures

1. Probability and Consequence Descriptions

Probability		Consequence to Liontown				
	Description	Financial *\$ may require adjusting on review	Health & Safety	Environment & Community	Reputation & Legal	Organisational
Almost Certain	Once a year	Minimal Loss less than \$25K	Injury not requiring medical treatment	Brief incident no environmental damage	Concern restricted to site or immediate neighbours	Absorbed without additional mgmt activity
Likely	Once every 5 years	Minor Loss between \$25K - \$100K	Minor injury or first aid treatment	Minor incident, no significant impact	Minor local public or media attention or complaints	Absorbed with minimal mgmt activity
Possible	Once every 5 – 10 years	Moderate Loss between \$100K – \$500K	Medical treatment requiring hospitalisation	Escape of pollutant causing environmental damage	Attention from state media and/or heightened concern by local community	Significant event which requires specific mgmt
Unlikely	Has occurred in the industry	Major Loss between \$500K – \$5M	Permanent disability and/or death	Significant pollution with major impact to surrounding environment	Significant adverse national media or public attention. Mgmt credentials significantly tarnished	Critical event which can be endured with target input
Rare	Possible but has never occurred	Catastrophic Loss greater than \$5M	Death with severe financial and reputational impact on the Company	Catastrophic impact to environment that may take months or years to fully remediate	Serious public or media outcry (international coverage). Mgmt reputation significantly tarnished.	Disaster which can cause collapse of the business