

## Risk Management

### **POLICY:**

Petsec recognises that an effective system of risk oversight, risk management and internal control is critical for its success.

All members of staff are encouraged to identify and manage risk on a continual basis so as to develop a “risk aware” culture and an environment of continuous improvement.

The key elements of Petsec’s risk management processes (in accordance with the COSO model (Committee of Sponsoring Organisations of the Treadway Commission)) are:

### **1. Control Environment and Measures**

The Board oversees the overall risk management and control framework of the Company to ensure an appropriate control environment is established and maintained, spanning Petsec’s operations, financial reporting and compliance activities.

The Audit Committee assists the Board in fulfilling its responsibilities in this regard by reviewing and monitoring financial and reporting matters, and the Company's risk management and internal control processes.

The Company has implemented a risk management policy framework designed to ensure that its principal risks are identified and that controls are adequate, in place and functioning effectively. This framework is periodically reviewed by the Board.

Responsibility for control and risk management is delegated to the appropriate level of management within the Group, with the Executive Chairman, Managing Director of PEL (“MD”), Chief Executive Officer (“CEO”) of each of the geographic regions and Group CFO having ultimate responsibility to the Board for the risk management and control framework.

### **2. Risk Assessment**

Petsec runs two parallel risk management processes, one to identify and manage business and operational risk and the other to manage the financial reporting risks and underlying internal controls.

Identification and evaluation of *key business and operational risks* is conducted through:

- (a) the annual risk management review, a formal process which is based on the approach prescribed in Australian Standard AS ISO 31000:2018 and carried out in the fourth quarter each year in conjunction with the preparation of the budget and strategic plan; and
- (b) assessment of risk as part of all business proposals for management or Board approval.

The business and operational risks that the Company faces include:

- industry risks associated with exploration and production of oil and gas including inability to find or replace reserves; drilling failures due to unexpected geological conditions; cost increases or overruns; equipment shortages; the impact of weather or other natural phenomena on operations; equipment failures; accidents including fire, explosions, blowouts, surface cratering or the hazards of marine operations such as collisions, capsizing, or adverse sea conditions; loss of reserves; constraints on access to oil/gas transportation systems; and labour disputes;
- commodity price and exchange rate risk;
- political risks include legislative changes or political instability;
- economic risks such as changes in economic conditions that may adversely impact the company's business or operations;
- environmental risks due to oil spills, natural gas leaks, pipeline ruptures or discharges of toxic gases, or other consequences of the company's operations on the natural environment;
- title and access risks for exploration and production areas;
- management risks such as loss of key personnel, ability to attract and retain suitably qualified staff, injury;
- financial risks including access to funds to support growth, interruptions to cashflow, and counterparty credit risk of joint venturers, product offtakers and financial counterparties;
- social sustainability risks; and
- legal and compliance risks.

The risks identified above are by no means exhaustive and staff are encouraged to identify and flag any actual and potential risks as they are recognised.

*Key financial reporting risks* are reviewed and assessed, prior to the commencement of the internal and external audit programmes each year.

### **3. Control Activities**

Petsec employs a range of techniques to mitigate and control risk including insurance, oil and gas price hedging, establishment of management accountabilities, and compliance with policies and procedures documented in the Company's Internal Control Policy manual and supporting documents.

The scope of Petsec's Internal Control Policy manual includes code of ethics and corporate conduct, financial reporting processes, authorisation of expenditure, treasury policies, continuous disclosure, contractual commitments, reserve reporting, regulatory compliance, human resources management, occupational health and safety, environmental management, information technology, document management, share trading by employees and risk management.

The scope of Petsec's Internal Control Policies are kept under review and revised or new policies added as deemed appropriate.

#### **4. Information and Communication**

Periodic management reports to the Board, which draw from both structured management information systems and management input, provide a regular and formal channel of communication within Petsec.

Identification and communication of vulnerabilities and changes to Petsec's risk profile are an integral part of day-to-day management - all personnel are encouraged to identify and manage risk on a continual basis so as to develop a "risk aware" culture and an environment of continuous improvement.

Shareholders are kept apprised of material changes affecting Petsec through continuous disclosure reporting to the ASX.

#### **5. Monitoring Activities**

Formal monitoring of risk and controls at senior management, Audit Committee and Board level is achieved by means of:

- (a) the periodic management report to the Board;
- (b) detailed audit questionnaires and management sign-offs, which form part of the semi-annual audit process, and
- (c) an internal audit programme to evaluate and test the key controls over financial reporting that is conducted by an external audit firm (a different organisation to the statutory auditors) in conjunction with management over the course of each year.

The Audit Committee reviews the results of the annual risk management review. It also approves the scope of the programme to evaluate the adequacy of internal controls over financial reporting and the testing and internal audit of these controls. It is kept apprised of the results of this programme while it is conducted through the course of each year.

Petsec Energy's MD (or Executive Chairman) and Group CFO provide a written statement to the Audit and Risk Committee in relation to each six-month reporting period in accordance with section 295A of the Corporations Act stating whether, to the best of their knowledge and belief:

- the declaration given is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the Company's risk management and internal compliance and control framework is operating efficiently and effectively in all material respects.

The internal control assurance from the MD (or Executive Chairman) and Group CFO cannot be absolute since it is based on judgement and the use of testing on a sample basis which cannot be designed to detect all weaknesses or failures in control procedures.

#### **KEY PROCEDURES**

##### **BUSINESS AND OPERATIONAL RISK ASSESSMENT PROCESS:**

At least once a year, as part of the preparation of the annual budget and strategic plan, Executive Management shall:

- prepare a list of the key risks (both insurable and uninsurable) faced by the group,

- evaluate the potential impact of the risk on the group (both in terms of probability of occurrence and in terms of possible financial loss), and
- make recommendations as to how and whether the risk should be mitigated through insurance or otherwise.

The risk evaluation and management recommendations are to be reviewed by the Audit Committee in considering and approving the budget and strategic plan and the proposed scope of insurance coverage for the group.

The annual risk review process used by Petsec will follow the steps set out in the attached appendix consistent with the general approach set out in Standards Australia AS ISO 31000:2018 and should involve all key members of the management team.

**AUTHORISED PERSONNEL:**

All members of the Executive Management team should participate in the risk evaluation which is normally co-ordinated by the PEL Company Secretary and/or Group CFO.

**Financial Reporting Risk Management Procedures**

Each year, the Group CFO will prepare a plan for the assessment and review of financial reporting risks and internal controls. The plan will be presented to, and approved by the Audit Committee prior to the commencement of the half-year audit and will comprise the following key steps:

- a) Assessment of financial reporting risks;
- b) Based on the assessment of risks, the selection of those internal control procedures to be reviewed and/or tested during the year and a programme for the testing thereof identifying those aspects to be conducted by management and those to be conducted by an audit firm;
- c) Reporting to the Audit Committee on a regular basis on the progress of the testing and in particular highlighting any material deficiencies identified and the steps taken to remedy the deficiencies;
- d) Sign-off by the MD (or Executive Chairman) and the Group CFO as part of the year-end audit on the outcomes of the testing and whether the internal controls are judged to be operating effectively and efficiently in all material respects.

The approach adopted will follow practices commonly used for internal audit such as those described in COSO's Framework for Smaller Public Companies released in 2013.

Additionally, the Group CFO will distribute audit questionnaires to key members of management and to personnel directly involved in the financial reporting function as part of the half-year and full-year statutory audits. The questionnaires will deal with matters that pertain to/and underpin the management representations to be made to the statutory auditors and with other aspects of the period end close and reporting process that underpin the integrity of the financial statements. The questionnaires will assist the Group CFO and MD (or Executive Chairman) in fulfilling their obligations to the statutory auditor in terms of management representations, and in providing sign-offs to the Audit Committee and the Board on the integrity and completeness of the financial statements.

**AUTHORISED PERSONNEL:**

The Group CFO is responsible for co-ordinating the process of assessment and testing of internal controls with the co-operation of Petsec's executive and financial management and for ensuring that the Audit Committee approves the scope of internal audit activity and is kept apprised of the results.