

CORPORATE GOVERNANCE

RISK POLICY AND INTERNAL COMPLIANCE AND CONTROL SYSTEMS

There are numerous risks associated with investing in any form of business and with investing in the share market generally. There are also a range of specific risks associated with the Company's business and its involvement in the resource sector.

Taking and managing risk are central to our business and to building shareholder value. To do this effectively we need to optimise our level of risk. Our risk approach links our vision and values, objectives and strategies, and procedures and training.

The Board recognises the main types of risk:

Share Market

Share market conditions may affect the value of the Company's quoted securities regardless of the Company's operating performance.

Share market conditions are affected by many factors including but not limited to the following:

- general economic outlook;
- interest rates and inflation rates;
- currency fluctuations;
- oil and gas price fluctuations;
- changes in investor sentiment toward particular market sectors;
- the demand for, and supply of, capital; and
- terrorism or other hostilities,
- as well as other factors beyond the control of the Company.

Exploration, Development and Mining Risk

Oil and gas exploration, project development and mining by their nature contain elements of significant risk. The future success of the Company, like all resource exploration and mining companies, will be heavily dependent upon a number of factors many of which are beyond the control of the Company and the Directors. Risk factors include:

- maintenance of tenure and access to the Company's leases and the granting of any oil and gas production permits or other approvals required for the conduct of exploration and production activities;
- the discovery and exploitation of economically recoverable oil and gas reserves about the Company's leases or any other tenements that may be acquired in the future;
- the calculation and interpretation of resource estimates are by their nature expressions of judgment based on knowledge, experience and industry practice. Estimates which were valid when originally calculated may alter significantly through additional fieldwork or if new information or techniques become available. This may result in alterations to development and mining plans, which may, in turn, adversely affect the Company's operations;
- finalisation of bankable feasibility studies and access to adequate project development capital and acceptable terms;
- financial failure or default by a participant in any joint venture or other contractual relationship to which the Company is, or may become a party;
- the ability to negotiate acceptable oil and gas pipeline agreements with respect to transport and processing of hydrocarbon products;
- obtaining consents and approvals necessary for the conduct of exploration and production;
- mechanical failure or breakdown of rigs, oil and gas pipelines and facilities resulting in significant delays;
- adverse weather conditions, accidents or industrial disputes over a prolonged period adversely affecting exploration and production activities and the earning of revenues; and
- adverse changes in government policies or legislation affecting mining and exploration activities.

Currency Risk

As the Company's potential earnings will be largely derived from the sale of oil and gas commodities, the Company's future revenues and cash flows will be impacted by changes in the prices of these commodities. Commodity prices fluctuate and are affected by numerous factors beyond the control of the Company. These factors include current and expected future supply and demand, forward selling by producers, production cost levels in major metal producing centers as well as macroeconomic conditions such as inflation and interest rates.

Furthermore, the international prices of most commodities are denominated in United States dollars while the Company cost base will be in Australian dollars. Consequently changes in the Australian dollar exchange rate will impact on the earnings of the Company. The exchange rate is affected by numerous factors beyond the control of the Company, including interest rates, inflation and the general economic outlook.

Insurance Risks

The Company intends to adequately insure its operations in accordance with industry practice. However, in certain circumstances, the Company's insurance may not be of a nature or level to provide adequate insurance cover. The occurrence of an event that is not covered or fully covered by insurance could have a material adverse effect on the business, financial condition and results of the Company.

Insurance of all risks associated with oil and gas exploration and production is not always available and where available the costs can be prohibitive.

Commercialisation Risks

Even if the Company discovers commercial quantities of oil and gas, there is a risk the Company will not achieve a commercial return. The Company may not be able to transport the oil and gas at a reasonable cost or may not be able to sell the oil and gas to customers at a rate which would cover its operating and capital costs. The Company has to receive regulatory and environmental approval to convert its exploration permits into production concessions. There is a risk that these approvals may not be obtained.

Competition Risk

The industry in which the Company will be involved is subject to domestic and global competition. While the Company will undertake all reasonable due diligence in its business decisions and operations, the Company will have no influence or control over the activities or actions of its competitors, which activities or actions may, positively or negatively, affect the operating and financial performance of the Company's projects and business.

Profitability

While the Directors have confidence in the future revenue-earning potential of the Company, there can be no certainty that the Company will achieve or sustain profitability or achieve or sustain positive cash flow from its operating activities.

Future Capital Needs

Further funding of projects may be required by the Company to support its ongoing activities and operations. There can be no assurance that such funding will be available on satisfactory terms or at all. Any inability to obtain funding will adversely affect the business and financial condition of the Company and, consequently, its performance. A failure to meet cash calls would result in default in joint venture obligations which, if not remedied, could result in forfeiture of permits or concessions.

Environmental Risks

The Company's projects are subject to laws and regulations regarding environmental matters in the country's jurisdiction. Many of the activities and operations of the Company cannot be carried out without prior approval from and compliance with all relevant authorities. The Company intends to conduct its activities in an environmentally responsible manner and in accordance with all applicable laws. However, the Company could be subject to liability due to risks inherent to its activities, such as accidental spills, leakages or other unforeseen circumstances.

Economic and Government Risks

The future viability of the Company is also dependent on a number of other factors affecting performance of all industries and not just the exploration and mining industries including, but not limited to, the following:

- general economic conditions in Australia, overseas and its major trading partners;
- changes in Government policies, taxation and other laws;
- the strength of the equity and share markets in Australia and throughout the world, and in particular investor sentiment towards the commodities (resources) sector;
- movement in, or outlook on, interest rates and inflation rates; and
- natural disasters, social upheaval or war in United States, Australia or elsewhere.

Managing Risk

The company employs executives and retains consultants each with the requisite experience and qualification to enable the company to manage the risks to the company. Risks to the company are reviewed at regular Board meetings.

Internal Compliance and Control Systems

The board appoints monitors and assesses the accounting, financial and internal controls of the Company.

The board shall discuss with management, the internal auditors (if any), and the external auditors, the adequacy and effectiveness of the accounting and financial controls, including the Company's policies and procedures to assess, monitor, and manage business risk, and legal and ethical compliance programs (including the Company's Code of Conduct). Any opinion obtained from the internal or external auditors on the company's choice of accounting policies or methods should include an opinion on the appropriateness and not just the acceptability of that choice or method.

The board shall meet separately periodically with management, the internal auditors, and the external auditors to discuss issues and concerns warranting board attention, including but not limited to their assessments of the effectiveness of internal controls and the process for improvement. The board shall provide sufficient opportunity for the internal auditors and the external auditors to meet privately with the members of the board. The board shall review with the external auditor any audit problems or difficulties and management's response.

The board shall receive regular reports from the external auditor on the critical policies and practices of the Company, and all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management.