

## **Risk Management Policy**

**Lark Distilling Co. Ltd**

**ACN 104 600 544**

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<b>Reviewed/Approved by the Board</b>	
Adopted	25 November 2019
Reviewed & Approved	26 November 2020
Reviewed & Approved	22 August 2023

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## 1. Introduction

- 1.1 This Risk Management Policy (**Policy**) sets out Lark Distilling Co. Ltd's (**Company**) system of risk oversight, management of material business risks and internal control.
- 1.2 This Policy covers the activities and risks of the Company and its controlled entities which are collectively referred to the **Company** herein.
- 1.3 The Company recognises that risk is inherent to any business activity and that managing risk effectively is critical to the immediate and future success of the Company.
- 1.4 As a result, the Company's policy on, and approach to, risk management has regard to the Joint Australian and New Zealand Standard AS/NZS ISO 31000:2009, *Risk management*.
- 1.5 To the extent practicable, the Company has followed the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (4<sup>th</sup> Edition).

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## 2. Purpose

The purpose of this Policy is to:

- (i) encourage an appropriate level of risk tolerance throughout the Company;
- (ii) establish procedures to analyse risks within agreed parameters across the Company;
- (iii) establish appropriate risk delegations and corresponding risk management framework across the Company; and,
- (iv) ensure the Company has a risk management framework that can measurably react should the risk profile of the Company change.

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## 3. Risk Appetite

- 3.1 A critical element of the Company's risk management framework is the risk appetite, which is defined as the extent of willingness to take risks in pursuit of the business objectives.
- 3.2 The key determinants of risk appetite are as follows:
  - (i) shareholder and investor preferences;
  - (ii) expected business performance (return on capital);
  - (iii) the capital needed to support risk taking;
  - (iv) the culture of the organisation;
  - (v) management experience along with risk and control management skills; and,
  - (vi) longer term strategic priorities.
- 3.3 Risk appetite is communicated through the Company's strategic plans.
- 3.4 The Board is responsible for reviewing and approving the risk appetite, in consultation with the Audit and Risk Committee.

- 3.5 The Senior Management will monitor the risk appetite of the Company relative to the Company's actual results to ensure an appropriate level of risk tolerance throughout the Company.
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## **4. Risk Management Framework**

4.1 The Company believe that risk should be managed and monitored on a continuous basis. As a result, the Company has designed a dynamic risk management framework to allow the Company to manage its risks effectively and efficiently, enabling both short term and longer term strategic and business objectives to be met.

4.2 The Company's approach to risk management is summarised below:

### *4.2.1 Identification of Risks*

To ensure key risks are identified, the Company:

- defines risks in the context of the Company's strategy;
- documents risk profiles, including a description of the material risks; and,
- regularly reviews and updates the risk profiles.

The Company's risk profile is summarised under Section 5.

### *4.2.2 Assessment of Risks*

The likelihood and impact of identified risks are assessed using a common methodology. The Company's risk assessment methodology is further defined in the Risk Register.

### *4.2.3 Measurement and Control*

Identified risks are analysed and the way the risk is to be treated and controlled is then determined and agreed. The following methods are considered to treat the risks:

- accept the risk (where it is assessed the risk is acceptable or if avoiding the risk presents a greater risk through lost opportunity);
- manage the risk (through controls and procedures);
- avoid the risk (stop the activity);
- transfer the risk (outsourcing arrangements, insurance, disclaimers); and,
- finance the risk (through insurance).

### *4.2.4 Continuous Assessment*

The Company's risk management framework is reviewed annually to ensure mitigating strategies and controls are effective and efficient in managing the identified risks.

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## **5. Risk Profile**

The identification and effective management of risks is critical to the achievement of the Company's strategic and business objectives. The Company's activities give rise to a broad range of risks, considered under the following categories:

### *5.1.1 Strategic Risks*

- lack of responsiveness to changing economic or market conditions that impact the Company's competitive position;
- ineffective or poor strategy developed; and
- ineffective execution of strategy.

### 5.1.2 Financial Risks

- financial performance does not meet expectations;
- capital is not effectively utilised or managed;
- cash flow is inadequate to meet financial obligations;
- financial results are incorrectly accounted for or disclosed; and
- credit, market and/or tax risk is not understood or managed effectively.

### 5.1.3 Operational Risks

- inadequate or failed internal processes, people and systems, including from external events;
- lack of clear organisational structure/ weak corporate governance;
- inadequate business continuity/ disaster recovery plan; and
- inadequate cyber / data protection controls in place.

### 5.1.4 Investment Risks

- failure to provide expected returns for defined objectives and risk such as under-performing to the stated objectives and/or benchmarks.

### 5.1.5 People Risks

- inability to attract and retain quality and appropriate people;
- inadequate succession planning;
- an inappropriate culture; and
- Inadequate health & safety policies and processes

### 5.1.6 Legal and Regulatory Risks

- legal and commercial rights and obligations are not clearly defined or understood;
- commercial interests not adequately protected by legal agreements;
- non-compliance with ASIC or ASX requirements; and
- unexpected changes to regulatory environment.

### 5.1.7 Compliance Risks

- non-conformance with or inability to comply with rules, regulations, prescribed practices, internal policies and procedures or ethical standards.

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## 6. Risk Oversight

### 6.1 Governance Structure

The Company's risk management framework is supported by the Board, Audit and Risk Committee and Management of the Company.

### 6.2 Board of Directors

The Board is responsible for reviewing and approving the Company's risk management strategy and Policy.

### 6.3 Management

- 6.3.1 To assist the Board in discharging its responsibility in relation to risk management, the Board has delegated certain responsibilities to management.

- 6.3.2 Management is responsible for monitoring that appropriate processes and controls are in place to effectively and efficiently manage risk, so that the strategic and business objectives of the Company can be met.
- 6.3.3 When considering the Audit and Risk Committee's review of financial reports, the Board receives a written statement, signed by the Managing Director and Chief Financial Officer (or equivalents), that the Company's financial reports give a true and fair view, in all material respects, of the Company's financial position and comply in all material respects with relevant accounting standards. This statement also confirms that the Company's financial reports are founded on a sound system of risk management and internal control and that the system is operating effectively in relation to financial reporting risks.
- 6.3.4 Similarly, in a separate written statement the Managing Director and Chief Executive Officer (or equivalents) and the Chairman of the Audit and Risk Committee also confirm to the Board that the Company's risk management and internal control systems are operating effectively in relation to material business risks for the period, and that nothing has occurred since period end that would materially change the position.

#### **6.4 Audit and Risk Committee**

- 6.4.1 The Audit and Risk Committee is a Committee of the Board, with delegated responsibilities in relation to risk management and the financial reporting requirements of the Company.
- 6.4.2 Responsible for advising/ recommending the correct approach to our Board on our overall current and future risk tolerance/appetite and strategy, and for overseeing Senior Management's implementation of that strategy.

#### **6.5 Risk Owners**

- 6.5.1 Ensure risk is managed effectively within the agreed strategy and controls and report to the Management on a periodic basis.
- 6.5.2 Identify individual risks affecting their business function/ activities, ensure these are recorded in the Risk Register and that appropriate controls are in place to manage those risks.
- 6.5.3 Continually monitor the adequacy and effectiveness of all control measures and report to the Management on a periodic basis

#### **6.6 Assurance**

- 6.6.1 There are different levels of assurance in relation to the effectiveness and efficiency of the Company's risk management framework and associated processes and controls.
- 6.6.2 Assurance is provided from management through reports and process.
- 6.6.3 Assurance also comes from the monitoring, oversight and reporting undertaken by the Audit and Risk Committee, as well as from the independent testing, review and reporting undertaken by external audit. Independent external auditors are engaged by the Company to provide an audit opinion as required by law.
- 6.6.4 Process, surveillance, controls or other reviews are performed as required.
- 6.6.5 Reviews are also performed by regulators.

#### **6.7 People and Culture**

- 6.7.1 Having the right people and promoting an appropriate risk culture are critical to the future success of the Company. As a result, the Company is committed to forming a culture of risk awareness, transparency and responsiveness.

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## **7. Policy Review**

This Policy cannot be amended without approval from the Company's Board. This Policy will be reviewed annually to ensure that it remains effective and meets best practice standards and the needs of the Company.

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## **8. Further assistance**

Any questions regarding this Policy should be referred to the Company Secretary in the first instance.

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## **9. Approved and Adopted**

This Policy was approved and adopted by the Board on 22 August 2023.