

HOT CHILI LIMITED
ACN 130 955 725

RISK MANAGEMENT POLICY

As approved by the Board of Directors on 18 February 2010.
Amended by the Board of Directors on 3rd August 2015.

Preamble

1. Hot Chili Limited (**Company**) recognises that risk management is an integral part of operating its business and is a continuous process demanding awareness and proactive measures to reduce the occurrence and impact of risk events.
2. The Company has established a Risk Management Policy (**Policy**) in order to:
 - (a) provide a framework for identifying, assessing, monitoring and managing risk;
 - (b) communicate the roles and accountabilities of participants in the risk management system; and
 - (c) highlight the status of risks to which the Company is exposed, including any material changes to the Company's risk profile.

Role and responsibilities

3. The Board is responsible for:
 - (a) risk management and oversight of internal controls;
 - (b) establishing procedures which provide assurance that business risks are identified, consistently assessed and adequately addressed; and
 - (c) overseeing such procedures.

Risk management and internal control

4. The framework for the Company's risk management policy and internal compliance include the following key elements:
 - (a) Oversight of the Company's financial affairs will be the responsibility of the Board.
 - (b) All major project expenditure must first receive the approval of the Board.
 - (c) The Company will adhere to a thorough due diligence process in relation to any proposed business relationship or project acquisition.
 - (d) The formulation of programmes for exploration and development, continuity of ownership and access to exploration projects are vital. The Board will ensure that systems are in place to maintain effective title to exploration properties, and to fulfil all expenditure and joint venture obligations.

- (e) Management will continuously monitor and manage all issues related to politics, bureaucracy, non-government organisations, traditional owners, community attitudes, civil unrest, contractor and services availability, and adverse weather, which could endanger title or fulfilment of commitments.
- (f) The Company will monitor and manage all issues relating to occupational health and safety. All potential exposures to illness or injury will be managed.
- (g) The Company's computer systems will be regularly maintained for the protection of electronic records, including a comprehensive back-up routine involving off-site storage.

Risk analysis and evaluation

- 5. The Board will formulate a procedure for analysing and evaluating risk.
- 6. A risk evaluation will be carried out by senior management and communicated to the Board before the proposal is approved. Proposals regarded as significant may include:
 - (a) major fundraising activities;
 - (b) new business relationships;
 - (c) new project acquisitions;
 - (d) operating in a new country;
 - (e) major capital procurement; and
 - (f) out-sourcing, partnering or shared service arrangements of functions.
- 7. The risk evaluation will be a document presented to the Board that:
 - (a) describes the internal and external risks;
 - (b) evaluates the impact of the risks; and
 - (c) includes any necessary risk management plan.
- 8. The risk management plan will identify each risk, define acceptable thresholds, and detail action to be taken in the event that these thresholds are exceeded.
- 9. Similar risk management plans may be created for ongoing operations e.g. in a particular country or with a particular contractor.

Risk monitoring and review

- 10. If after consideration of the risk analysis the proposal is approved by the Board, senior management will monitor progress against the risk management plan and promptly report any material matters to the Board.
- 11. Monitoring the status of each risk and any necessary action plan relating to treatment of risk will take place on a regular basis. Any action or recommendations arising out of the review process will be implemented by management.

12. The Board will review assessments of the effectiveness of risk management and internal compliance and control on an annual basis.

Insurance

13. The Company will maintain a comprehensive suite of insurance policies, including the following:
 - (a) general insurance, office asset insurance and public liability insurance;
 - (b) worker's compensation
 - (c) travel insurance
 - (d) Directors' and Officers' indemnity insurance (provided it can be procured at reasonable policy premiums); and
 - (e) liability insurance.
14. The Company's insurance policies are reviewed on an annual basis.

Industry risks

15. The mineral exploration and mining industry is subject to general risks and certain specific risks. The following items 16-30 is a non-exhaustive list of some of the risk factors the Company may face. Some of these risk factors can be mitigated by the use of safeguards and appropriate systems and controls, but some are outside the control of the Company and cannot be mitigated.

Application and approval risks

16. Secure title to exploration ground is the core feature of an exploration company's activities. Applications for title may be competitive, and/or granting may be at the discretion of the government. Retention conditions have to be complied with, and time extensions of tenure may not be granted.
17. In the event that the Company is successful in discovering minerals, mining leases may not be automatically granted.
18. All exploration leases held either by the Company through its Chilean subsidiaries are subject to overlapping applications. The Company has in place both internal and external land management and land monitoring to ensure appropriate objections are lodged and protection of the leases is maintained.

Exploration risks

19. Exploration may be hampered by mining, heritage and environmental legislation, industrial disputes, cost overruns, land claims and compensation, and other unforeseen contingencies.
20. The success of the Company also depends on securing and maintaining title to its exploration and mining tenements and obtaining all consents and approvals necessary for the conduct of its exploration activities, the delineation of economically minable reserves, access to required development capital and movement in the price of commodities.

21. Exploration on the Company's existing exploration and mining tenements may be unsuccessful, resulting in a reduction of the value of those tenements, diminution in the cash reserves of the Company and possible relinquishment of the exploration and mining tenements.
22. Revenue from projects undergoing exploration and development programmes depends on the successful establishment of mining operations. Factors including costs, actual mineralisation, consistency and reliability of grades and commodity prices affect successful project development, as does the design and construction of efficient processing facilities, competent operational management and prudent financial administration, including the availability and reliability of appropriately skilled and experienced consultants.

Mining risk factors

23. Mines can suffer specific impairment including:
 - (a) poor weather conditions over a prolonged period which might adversely affect mining activities and the timing of earning revenues;
 - (b) unforeseen major failures, breakdown or repairs required to key items of mining plant and equipment or mine structure resulting in significant delays, notwithstanding regular programmes of repair, maintenance and upkeep;
 - (c) financial failure or default by a participant in any of the contractors used by the Company in its mining activities;
 - (d) industrial disputation;
 - (e) failure to deliver ore in correct quantity and to acceptable specifications;
 - (f) failure to achieve economic grades of contained metal and/or discovery of untreatable contaminants within the ore;
 - (g) failure of customers to take or pay for ore contracted.

Environmental risks

24. The operations and activities of the Company are subject to laws and regulations concerning the environment. As with most exploration projects and mining operations, the Company's activities are expected to have an impact on the environment. The Company attempts to conduct its activities to the highest standard of environmental obligation, including compliance with all applicable environmental laws.
25. Mining operations may have previously been conducted on some of the Company's project areas and old workings including tailings dumps may remain from these operations. There may be a liability to rehabilitate these areas.

General economic risks

26. Changes in the general economic climate in which the Company operates may adversely affect the financial performance of the Company. Factors which contribute to that general economic climate include:

- (a) contractions in the world economy or increases in the rate of inflation resulting from domestic or international conditions (including movements in domestic interest rates and reduced economic activity);
- (b) the level of direct or indirect competition against the Company;
- (c) international currency fluctuations;
- (d) new or increased government taxes or duties or changes in taxation laws; and
- (e) changes in government regulatory policy affecting the industry in which the Company operates and further regulation of the industry generally.

Commodity prices

27. The Company's anticipated revenues may be derived from the sale of resource commodities. Consequently, the Company's earnings may be closely related to the price of these commodities and the terms of any off-take agreements which it enters into. Resource prices fluctuate and are affected by numerous factors beyond the control of the Company. These factors include fluctuation in world demand for precious and base metals, forward selling by producers and production cost levels in major producing regions.

Exchange rate fluctuations

28. The expenditure of the Company is and will be taken into account in Australian, US and Chilean currencies, exposing the Company to the fluctuations and volatility of the rates of exchange between the US dollar, the Australian dollar and Chilean currencies as determined in international markets.

Sovereign risk

29. Civil and political unrest and outbreaks of hostilities in Chile could affect the Company's access to its projects and subsequent exploration and development. In addition, adverse changes in government policies or legislation in Chile affecting foreign ownership of mineral interests, taxation, profit repatriation, royalties, land access, labour relations, and mining and exploration activities may affect the operations of the Company.

Reliance on key personnel

30. The responsibility of overseeing the day-to-day operations and the strategic management of the Company depends substantially on its senior management and its key personnel and their geological experience and expertise. There can be no assurance given that there will be no detrimental impact on the Company if one or more of these employees cease their employment with the Company.

Further information

31. The Company will publish this Policy on the Company's website: www.hotchili.net.au
32. If you have any questions or need further information in relation to this Policy, please contact the Company Secretary.