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# PetroEnergy Resources Corporation Risk Management Charter

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## Risk Management Charter

This Charter describes Enterprise Risk Management (“ERM”) as the collective set of **risk management processes** in PetroEnergy Resources Corporation (“PERC”), which ensure that material risks are identified, managed and if needed be reported. It defines the basic principles, process, roles and authorities. The Charter applies to all employees and Management of PERC. With the Charter, the Board of Directors (“the Board” or “BOD”) of PERC emphasizes the importance of having a clear mandate to manage ERM. The Charter requires the establishment and maintenance of an **ERM Framework** and a **Corporate Governance and Risk Management Committee** and describes the roles and responsibilities for ERM in all PERC’s businesses.

### 1. PURPOSE

The Corporate Governance and Risk Management Committee (the “Committee” or “CGRMC”) is appointed by the Board to assist in overseeing the risks management process being performed at each operating level, and monitoring the effectiveness of the policies, procedures and practices adopted by the Company in response to those risks. The CGRMC is responsible for monitoring the direction and trend of all major types of risks and the effectiveness of PERC’s responses to those risks. It also reviews identified emerging risks to the Company and monitors activities to appropriately mitigate those risks.

The Committee also evaluates significant developments that affect PERC’s operation, the risks associated with these developments and the effectiveness of management’s responses to those risks, and, based on these, makes the necessary recommendations to the Board.

The Board with the assistance of the Corporate Governance and Risk Management Committee, the Nomination Committee, the Compensation and Remuneration Committee, and the Audit Committee oversees PERC’s corporate governance process.

## 2. ENTERPRISE RISK MANAGEMENT

### 2.1 *Risk Management Framework*

The PERC's Risk Management Process adopts the ERM framework espoused by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as a reference and adopts compatible processes and terminology.

COSO defines ERM as “*a process, effected by an entity's board of directors, management and personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.*”

### 2.2 *Definition, Principles and Scope of Enterprise Risk Management*

Enterprise risk is defined as any significant event or circumstance which could impact the achievement of PERC's business objectives. It is an integral part of the company's business practice. Risk management includes identification, analysis and evaluation of risks, the appropriate response, tracking and reporting of risks to provide a reasonable assurance regarding the achievement of objectives.

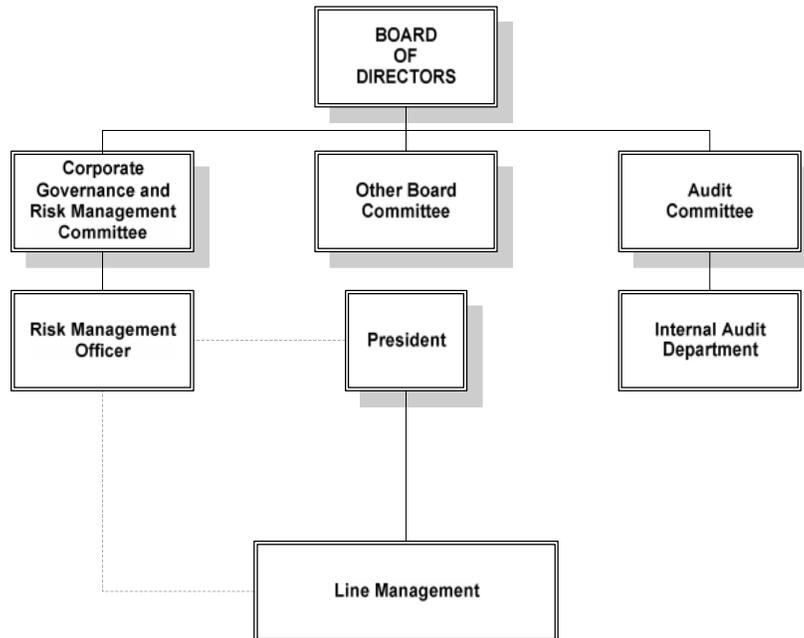
To be effective, Risk Management must be part of PERC's culture through dedicated commitment and involvement of management and staff in the risk management process. The Board, in coordination with the CGRMC, must:

- Reinforce the importance of risk management and internal control by integrating it with all organizational governance objectives as well as strategic and business planning.
- Provide opportunities for strategic or business objectives to be discussed with staff so that they understand how they can contribute to them and the importance of identifying and managing risks as an integral part of management activity.
- Provide opportunities for management and staff to actively participate in the identification of risks and in the development of appropriate treatment plans to manage those risks.
- Promote a clear message for all management on their role in managing risk.

Enterprise risk management encompasses all PERC's businesses. It considers all types of Risks in terms of their **likelihood and impact**.

### 2.3 Responsibility and Implementation Structure

Responsibility for the implementation of PERC's ERM Process is set out below:



For purposes of this table the CGRMC and the AC were reflected as two separate bodies carrying distinct functions where each member may be a concurrent member of both committees.

- The Board of Directors is responsible for providing oversight for PERC's fulfillment of management accountability and governance expectations in relation to management of risks, including adherence to Risk Management Policy and other related policies.
- The detailed roles and responsibilities of the Corporate Governance and Risk Management Committee and Risk Management Officer are discussed in the Corporate Governance and Risk Management Committee section of this Charter.
- The Line Management is responsible for implementing the policy standard, management of business challenges through periodic assessments or as new initiatives and issues are undertaken, development of direct channels for business challenges communications with their managers and with employees and monitoring and reporting of business challenges on a regular basis.

- The Internal Auditor is responsible for maintaining and regularly reviewing the business challenge register, providing assistance to the Risk Management Officer, and performing regular review of key controls to ensure that they remain relevant, robust and effective. Among the core roles for Internal Audit in ERM implementation are as follows:
  - Giving assurance on the risk management process
  - Giving assurance that risks are correctly evaluated
  - Evaluating risk management processes
  - Evaluating the reporting of key risks
  - Reviewing the management of key risks.
- All employees are responsible for the proactive assessment and documentation of significant business challenges in every business decision; and taking prompt action to manage and communicate business challenges in accordance with management directions.

### **3. CORPORATE GOVERNANCE AND RISK MANAGEMENT COMMITTEE**

#### ***3.1 Organization, Composition and Operations***

The CGRMC shall have a minimum of three (3) directors (at least two of which must be present to have a quorum) who shall be appointed by the Board and shall serve for a period of one year or for such terms as the Board may determine and until their successors shall be duly qualified and appointed. The Audit Committee with the recommendation of the Board shall designate a chairperson for the Committee.

At the very least, the Committee shall have among its members:

- A member not in the employ of PERC but who have adequate knowledge of PERC's operations
- Representative of senior management.

Members of the Committee should have a good working knowledge about Risk Management, and as far as practicable, at least one member should have the following attributes:

- A good understanding of the COSO ERM model with an emphasis on techniques for risk identification, qualitative and quantitative risk assessment approaches, and risk monitoring

- Experience in analyzing and developing appropriate response plans for a broad range of financial and operational risks in active organization environments, or experience in actively managing one or more persons engaged in risk management activities
- An understanding of financial and general internal controls and procedures, with emphasis on financial reporting requirements
- A general understanding of information systems risks, including security and telecommunications
- An understanding of Corporate Governance and Risk Management Committee functions and how they interrelate with the Audit Committee

A Risk Management Officer (RMO) should be appointed to assist Management in its risk management roles.

### ***3.2 Duties, Responsibilities and Authority of the Committee***

The primary responsibility of the Committee is to ensure that sound policies, procedures and practices are in place for the enterprise-wide management of PERC's material risks and to report the results of the Committee's activities to the Board of Directors. PERC's Management is responsible for satisfactorily mitigating material business risks.

The CGRMC, to the extent it deems necessary or appropriate, will carry out the following responsibilities, in addition to or in conjunction with those stated under the Revised Manual on Corporate Governance:

- Design and implement risk management practices specifically:
  - Provide ongoing guidance and support for the refinement of the overall risk management framework ensuring best practices are incorporated.
  - Ensure that management understands and accepts its responsibility for identifying, assessing and managing risk.
  - Ensure that risk assessments are performed periodically and completely.
- Review and recommend for approval of the Board PERC's Risk Policies. In addition, the Committee may authorize management to develop and implement any additional detailed policies and procedures relating to risk management as may be consistent with these policies. Thereafter, the Committee shall annually review PERC's Risk Policies to determine whether these are up-to-date considering recent developments affecting the Company's operations.

- Execute and monitor risk management practices, specifically:
  - Ensure that PERC has implemented an appropriate and effective risk management system and process.
  - Ensure that all necessary steps are taken to foster a culture of risk-adjusted decision-making without constraining reasonable risk-taking and innovation.
  - Review with management, internal auditors and external auditors the identification, prioritization and management of the risks, the accountabilities and roles of the functions involved with risk management, the risk portfolio and the related actions implemented by management.
  - Assign risk owners and approve action plans.
  - Periodically review and monitor risk mitigation progress.
  - Monitor the effectiveness of the Company's risk management staff and program.
  
- Receive and evaluate information from management, as appropriate, and shall discuss matters relating to risk-related activities, including the following:
  - Any material regulatory issue
  - Material emerging risks to the Company
  - Risks relating to the PERC's information technology activities, including the current operating environment and strategic deployment of new technologies, and risks associated with the PERC's technology infrastructure
  - PERC's compliance program, including the structure of the program, and the assessment of risk regarding the Company's compliance with legal, regulatory, and ethical requirements
  - As appropriate, issues relating to business continuity planning, and risks relating to fiduciary, financial controls, human capital, implementation, legal, loss management, compliance and technology

### ***3.3 Duties and Responsibilities of the RMO***

The RMO has the following responsibilities:

- Establishes and communicates the organization's ERM vision
  - Works with an empowered group of senior executives to define the appropriate role of risk management in the Company
  
- Determines and implements an appropriate ERM infrastructure
  - Assists management with integrating risk management with the strategic management process
  - Develops and communicates risk management policies and limits, as approved by the Corporate Governance and Risk Management Committee
  - Identifies risk ownership gaps and overlaps requiring resolution to ensure appropriate ownership of the priority risks. Monitors the planned actions to fill the gaps and clarify the overlaps, working with the Corporate Governance and Risk Management Committee
  - Works with appropriate executives to establish the control environment that (1) monitors risk across the enterprise, (2) oversees and enforces risk management policies and limits, (3) instills the discipline to close significant gaps in risk management capabilities and (4) ensures that organizational cultural issues are being managed effectively.
  - Assists the Line Managers in monitoring the enterprise's critical risks.
  - Leads the collection, aggregation, summarization and assessment of data points obtained from business units and support units regarding risk management performance and exposures to potential future events, and the assembly and distribution of risk management reports.
  
- Establishes, communicates and facilitates the use of appropriate ERM methodologies, tools and techniques
  - Establishes enabling frameworks, such as a common risk language, with which to facilitate the collection, analysis, synthesis and sharing of risk and risk management data, information and knowledge.
  - Validates measurement methodologies in place to ascertain the integrity of the underlying data and the reliability of reports
  - Facilitates sharing of best risk management practices across the enterprise.

- Facilitates enterprise wide risk assessments and monitors the capabilities around managing the priority risks across the organization.
  - Coordinates the application of risk assessment across the organization to obtain an enterprise view of the risk.
  - Periodically facilitates enterprise wide assessments of risk management policies, processes, competencies, reporting and systems to identify significant gaps in the capabilities around managing critical risks. The RMO and Line Management should meet on a monthly basis (e.g. every last Friday of the month) to update the group on the status of action plans initially identified and to review other significant events. The RMO also meets (at least once every two months) with the President, and the Internal Audit Head to discuss identified business risks.
  - Works with Line Management to establish, maintain and continuously improve risk management capabilities enterprise wide.
  - As requested, consults with and assists managers of business units during their assessments of risks and formulation of risk responses.
  - Conducts risk management education and training from time to time.
  
- Implements appropriate risk reporting to the board, audit committee and senior management.
  - Submits updates/reports to the Board of Directors summarizing key areas, business challenges and status of action plans and strategies.
  - Develops measurement methodologies and monitoring methods, which aggregate risk exposures and risk management performance on an enterprise wide basis.
  - Supports the reporting of risk exposures and monitoring results to the CGRMC Chairperson, Audit Committee, and the Board.

### ***3.4 Responsibilities of Line Management***

Risk Management is a line management responsibility. Line management at all levels of PERC decide and take accountability for the material completeness of the risk identification, the material correctness of their risk analysis, as well as for the timeliness and appropriateness of their risk decisions at individual or aggregate level. Line management is also responsible for the implementation of their decisions as well as tracking of Risks and their reporting where appropriate.

Management is responsible for the preparation, presentation and integrity of information and all matters about which the CGRMC should be informed. Management is responsible for implementing and maintaining appropriate risk management principles and policies, internal controls and processes designed to identify and address unacceptable risk as determined by the CGRMC.

### **3.5 *Meetings of the Committee***

The Committee shall meet as frequently as it deems necessary to carry out its duties and responsibilities, but the CGRMC shall meet no less than **two** times a year

The Chairman of the CGRMC shall prepare an agenda consistent with this charter in advance of each meeting in consultation with the RMO and the CGRMC members.

Meetings may be held by telephone or video-conference or by circular resolution.

The CGRMC may meet in conjunction with regularly scheduled Board meetings or as it otherwise deems necessary, and with respect to procedures as set forth in PERC's by-laws. The CGRMC may, at its discretion, invite to its meetings members of the management including:

- Chief Financial Officer
- Group General Counsel
- Risk Management Officer
- Head of Internal Audit
- Other members of senior management
- External auditors, and
- Such other persons as the CGRMC deems appropriate in order to carry out its responsibilities

A member of the **risk management staff** shall act as Secretary for the CGRMC. Minutes shall be kept of the proceedings and the resolutions of the CGRMC. The minutes shall be signed by the Chairperson of the CGRMC and the Secretary and made available prior to the next meeting and approved therein.

The Chairman of the CGRMC shall ensure the proper communication of the resolutions of the CGRMC to management.

### **3.6 *Reporting of Committee Activities to the Board***

The CGRMC shall regularly report to the BOD (no less than annually) to PERC's BOD regarding the Committee's activities, findings, decisions and deliberations of the CGRMC and recommendations as deemed appropriate or required.

### **3.7 *Review of Committee Charter and Committee Performance Evaluation***

The CGRMC shall keep itself up to date on risk management best practices. The CGRMC shall review and reassess the adequacy of this charter from time to time **or** at least annually and submit proposed changes to the Board for approval.

The Committee will evaluate its performance on an annual basis. The evaluation shall be conducted in such manner as the Committee deems appropriate and in accordance with best practices. The evaluation shall compare the performance of the Committee with the requirements of this Charter. The evaluation shall also recommend any improvements to the Committee's Charter and shall result to improvement plans for the Committee as deemed necessary.