

WESTERN AREAS LTD



COR-GOV-POL-1818
TREASURY RISK MANAGEMENT POLICY



1.0 INTRODUCTION

1.1 Purpose

The purpose of this document is to establish the framework for the management of the Treasury exposures of Western Areas Ltd (Western Areas). Specifically, this applies to:

- Commodity Price Risk
- Interest Rate Risk
- Foreign Exchange Risk
- Liquidity Risk
- Credit Risk
- Operational Risk

All transactions undertaken by Western Areas will be as a result of the rigorous application of this policy to the underlying treasury exposures generated from the core activity of mining nickel at the Forrestania Nickel Project. As new projects are brought online, this policy will be broadened to account for these new exposures. It is expressly prohibited to enter into any financial market transaction which does not directly relate to the management of Western Areas' treasury exposures. In addition, it is also expressly prohibited to enter into any transaction which provides leverage whether related to an underlying exposure or not.

This policy will be subject to initial review and sign off by the Board of Directors of Western Areas (the Board) and a formal annual review of the policy by the Board.

2.0 TREASURY RISKS

2.1 Commodity Price Risk

2.1.1 Identification

Western Areas' exposure to commodity price risk is solely and directly generated by mining activities on its tenements located at Forrestania, Western Australia.

2.1.2 Quantification

Significant geological and mining engineering work has been done to quantify the reserves and resources at the Flying Fox and Spotted Quoll mines. The current production schedules are contained in the life of mine plans as approved by the Board of Western Areas and all hedging will be in reference to this document.

2.1.3 Objectives

Hedges entered into by Western Areas must:

- Protect against the deterioration of company value from a falling nickel price, while maintaining maximum flexibility and exposures to increases in the price of nickel.
- Comply with the hedging requirements of financing institutions
- Be understood by Western Areas' executive officers and Board with specific attention to the full range of cashflow and financial outcomes of the hedge.
- Comply with AASB 9 Financial Instruments accounting standard.

2.1.4 Directives

- No hedge will have a tenor beyond the maximum forecast production profile.
- Hedging limits will be based on the nature of the underlying exposure which are defined as either committed or uncommitted in each of the periods covered by the risk management program.
- Hedging limits will be calculated on a percentage of the notional exposure based on the forecast nickel production schedule and committed sales contracts.



- Hedging limits will be based on a declining percentage of expected nickel production, to reflect the greater uncertainty as time goes out. Using hedge ratios (i.e. percentage of notional exposure hedged) the limits are as follows:

| Market Risk Exposure | | | |
|-----------------------------|--------------------------------|--------------------------------|---------------------------------|
| Time Horizon | Max Overall Hedging (%) | Min Overall Hedging (%) | Max Limiting Hedging (%) |
| 0-1 Year | 75 | 0 | 75 |
| Year 2 | 50 | 0 | 25 |
| Year 3 | 25 | 0 | 0 |

- No hedge will attract initial or variation margin in any form.
- Hedging will be with reference to the QP for all production.
- Hedging will not exceed 75% of scheduled production in any 1 quarter.
- Only instruments set out in Appendix 1 will be used.
- Compliance will be reviewed and reported to the Board at the time of any update of the production schedule as outlined in the business plan.
- This policy will be reviewed at the time of any refinancing for compliance to new loan documentation.
- Mark to markets of the hedging portfolio will be produced no less than monthly and communicated to the Board.
- The Company’s financing institutions will be informed of hedging levels to ensure compliance with any financing facility.

2.2 Interest Rate Risk

2.2.1 Identification

Western Areas’ interest rate exposure is generated through its financing facilities and invested funds.

2.2.2 Quantification

Risk management initiatives will apply only to drawn amounts under any financing facilities.

2.2.3 Objectives

To maintain the flexibility to be able to pro-actively manage the company’s exposure to interest rates through the use of swaps when deemed appropriate by the Board.

2.2.4 Directives

Western Areas will have floating rates applying to any financing facility. This directive may be changed at the Board’s discretion if the Board is of the view that it would be in the best interests of the Company to fix some or all of its interest rates expense exposure. All interest rate risk management will be in accordance with the Western Areas Investment Policy COR-GOV-GUD-2641.

2.3 Foreign Exchange Risk

2.3.1 Identification

Western Areas’ nickel sales are denominated in US\$ whilst all expenses are in A\$. This creates a Foreign Exchange (FX) exposure.

2.3.2 Quantification



FX exposure is generated by all nickel production as all Nickel hedging is typically dealt in USD terms and the Company has an AUD functional currency.

2.3.3 Objectives

- Reduce the impact of currency variations on Western Areas’ trading results.
- Link FX hedges to underlying non A\$ cashflows.

2.3.4 Directives

The policy framework has been developed using 12 months ‘time bucketing’ methodology with stated minimum and maximum hedging parameters that can be hedged in each period

| Market Risk Exposure | | | |
|----------------------|---------------------|---------------------|----------------------|
| Time Horizon | Max Overall Hedging | Min Overall Hedging | Max Limiting Hedging |
| 0-1 Year (Quarterly) | 30m USD per quarter | 0 | 120m USD |
| 1 Year onward | Board Approval Only | 0 | No Limit |

- In addition to the above, once the nickel sales price is fixed the Board will determine whether an additional FX hedge is required. Any additional hedging must not exceed underlying nickel sales receipts
- No hedge will attract initial or variation margin in any form.
- Leveraged transactions are not permitted. The sale of a contingent option is permitted only for the purpose of matching an existing bought option position.
- Only instruments set out in Appendix 1 will be used.
- Compliance will be reviewed and reported to the Board at the time of any update of the production schedule as outlined in the business plan.
- This policy will be reviewed at the time of any refinancing for compliance to new loan documentation.
- Mark to markets of the hedging portfolio will be produced no less than monthly.
- Hedge reports will be communicated to the Board at the next Board meeting after preparation.
- The Company’s financing institutions will be informed of hedging levels to ensure compliance with any financing facility.
- Comply with AASB9 Financial Instruments accounting standard.

2.4 Liquidity Risk

2.4.1 Identification

Liquidity risk is the risk that Western Areas will be unable to meet its financial obligations in an orderly and timely manner or incur excessive borrowing costs.

2.4.2 Quantification

Western Areas will use its internally produced cash flow forecasts as the basis for managing this risk.

2.4.3 Objectives

To ensure Western Areas is always able to meet its financial obligations on a timely and cost-effective basis and have a spread of potential counterparties.

2.4.4 Directives

- Western Areas treasury will produce cash flow forecasts each month which extend forward 24 months (every 6 months).



- Maximum drawdown of funding facilities in these forecasts will not exceed 80% of available facilities.
- All facilities will be reviewed annually for adequacy and margin competitiveness.
- The Board will be informed through the Managing Director /CFO if facilities are 65% or more utilised, in a timely manner.

2.5 Credit Risk

2.5.1 Identification

Credit risk is created through Western Areas having the risk of financial loss by another entity.

2.5.2 Quantification

Credit exposure is limited, in a material sense, to BHP Billiton and Jinchuan Group, through the delivery of nickel ore / concentrate, and hedging counterparties via positive mark to market valuations of hedge positions.

2.5.3 Objectives

To monitor the potential credit exposure and to manage the maximum exposure in the event of any payment default.

2.5.4 Directives

- Report to the Board through the Managing Director /CFO when the value of any unpaid ore concentrate invoice is outstanding past its payment due date at current market value exceeds A\$25m.
- Where possible, netting agreements will be put in place with counterparties.

2.6 Operational Risk (Financial)

2.6.1 Identification

Operational risk is the risk associated with the day-to-day functional activities of the financial risk management hedging activities including financial loss due to mismanagement, error, fraud, or unauthorised use of techniques and/or financial products.

2.6.2 Quantification

This operational risk policy applies to all aspects of Western Areas' treasury operations.

2.6.3 Objectives

To minimise the risk of financial or reputational loss through inadequate internal controls.

2.6.4 Directives

- The Treasury Committee will oversee all treasury dealing and ensure compliance with policy.
- All treasury operations will adhere to this policy document. Any breach will be reported immediately to the Managing Director and through him to the Board.
- Hedging limits will be monitored with any breaches notified to the Managing Director immediately.
- All deals will be recorded in writing (including time of execution) at the time of execution and recorded electronically within 1 working day of execution.
- All dealing records will be maintained at Western Areas' premises.
- All transactions will be relayed to the Treasury Adviser on a timely basis for entry into the treasury reporting system.
- All hedge contracts will use approved ISDA documentation.
- Written authorities will be lodged with all counterparties. These must be acknowledged in writing prior to commencement of dealing. Any changes will be advised in writing.



- Appropriate segregation of duties will apply. Specifically, transaction initiation, confirmation/settlement and accounting functions will be performed by different employees. Under no circumstances can the first two functions be fulfilled by the same employee. Confirmations must be acknowledged by countersigning by two approved signatories.
- Employees will have the requisite professional expertise to fulfil their function.
- There will be regular (no less than once per annum) audit reviews.
- All forecast production schedules will be based off reliable and quantifiable analysis to ensure certainty of exposures.
- Hedging strategy recommendations will be subject to rigorous review and based off current market conditions as discussed with the Treasury Adviser.

3.0 RISK MANAGEMENT STRUCTURE

3.1 Board of Directors

3.1.1 Board Policy Statement

The Board of Western Areas Ltd (As represented by the Audit and Risk Committee) has directed that:

- Treasury Risk Management of Western Areas will be conducted within the limits set out in this treasury policy document.
- The risks covered in this policy are:
 - Commodity Risk
 - Interest Rate Risk
 - FX Risk
 - Liquidity Risk
 - Credit Risk
 - Operational Risk (Financial)
- This policy document will be reviewed and updated annually or as required by the Policy document.
- All breaches of this policy will be reported immediately to the Managing Director and reported in writing to the next Board meeting. Breach reports will include details of the breach, how it occurred and remedial action taken. If no remedial action has been taken the Board will decide how to rectify the situation.

3.1.2 Role and Responsibility

- Approve and review the Treasury Risk Management Policy.
- Ensure relevance of the document through regular review and update.
- Ensure compliance to the document.
- Resolve issues of non-compliance with the document.

3.2 Treasury Committee

3.2.1 Role and Responsibility

- Development of hedging strategies.
- Implementation of hedging strategies
- Compliance to Treasury Risk Management Policy
- Hedging performance reviews

3.2.2 Composition

The Committee will comprise of:

- Chief Financial Officer



- Financial Controller
- Senior Accountant
- Business Analyst

3.2.3 Meeting Frequency

Not less than once per quarter.

3.2.4 Independent Advice

The Committee will have access to independent professional advice with respect to treasury risk management. The Independent Treasury Adviser will be invited to attend Committee meetings.

3.3 Treasury Officers

3.3.1 Role and Responsibility

- Manage and administer derivative transactions in accordance with the COR-RM-POL-1823 Risk Management Policy.
- Properly record transactions in the books of the Company.
- Keep records of all derivative transactions.
- Compare Company records with those of the Treasury Advisor.

3.4 Independent Treasury Adviser

3.4.1 Role

- Attend Treasury Committee meetings as required
- Supply regular market information
- Provide indicative pricing for hedging products
- Ensure competitive pricing for hedging products
- Execute transactions as required
- Provide regular position reporting

4.0 TREASURY OFFICERS AUTHORITY AND LIMITS

Only personnel set out in Appendix 3 are authorised to execute, confirm or settle treasury transactions. It is expressly forbidden for any treasury personnel to perform more than one of these functions on any one transaction.

In the unlikely situation where this does occur, the process must be documented and reported to the Treasury Committee.

5.0 AUTHORISED INSTRUMENTS

Only instruments set out in Appendix 1 may be used in any risk management activity. Whilst these may be used in combination to achieve an appropriate hedging structure they must not be used in combination or otherwise to achieve leverage.

For any instrument to be included in the Authorised Instruments Appendix the following process must be followed:

- The accounting treatment for the proposed instrument needs to be agreed with the external auditors.
- The taxation treatment for the instrument is determined.
- Any new legal documentation is to be executed for the proposed instrument.
- Establish that the Treasury management system is capable of recording, processing and revaluing the transaction, or initiate a required modification to ensure such coverage is possible.



- On the basis that the above criteria are satisfied, a recommendation to the Board that the new instrument be approved for use.

6.0 COUNTERPARTIES

Only counterparties approved by the Board and contained in Appendix 2 may be used.

7.0 REPORTING AND MONITORING

The reporting framework is formulated to ensure that all levels of management are informed of exposures and that an effective compliance monitoring system is used.

The framework for such hedging risk management reporting will be:

- Monthly reporting to the Managing Director and the Treasury Committee outlining all hedged positions and their associated marked to market valuations.
- Reporting to the Board summarising all hedged positions.
- Quarterly reporting to any financial institutions summarising all hedged positions.

These hedging reports will include hedge cover percentage levels against exposures, and current mark-to-market valuations.

7.1 Authorisation of Excesses

Breaches of limits contained in this policy can only be authorised and approved by the Board.

8.0 REVIEW REQUIREMENTS

This document shall be reviewed every year.

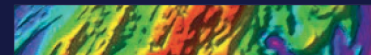


9.0 DEFINITIONS AND ACRONYMS

| Abbreviation or Acronym | Definition |
|-------------------------|---|
| WSA | Western Areas Ltd (inclusive of Australian Nickel Investments Pty Ltd) |
| Asian Swap | Forward contract that uses the monthly average cash settlement price as the basis for the final valuation of the contract price. |
| Average Rate Options | An option whose payoff is the difference between the options strike price and the average price of the underlying asset calculated over the life of the option. |
| Backwardation | A situation whereby a commodity with an earlier maturity date has a higher value than a commodity with a later maturity date (opposite of contango). |
| Bullet Swap | Forward contract that uses a fixed or closing cash settlement price on the day the contract expires as the basis for the final valuation of the forward contract. |
| Call Option | An option which gives its holder the right but not the obligation to buy an asset at a predetermined date (expiration date) for a predetermined price (exercise price). |
| Cap Price | A ceiling or maximum price. |
| Collar | A contract in which both the maximum and minimum price are specified. The maximum price acts as a cap and the minimum price acts as a floor. |
| Committed Hedging | A hedge contract under which both parties to the transaction are obliged to perform. |
| Contango | A situation whereby a commodity with an earlier maturity date has a lower value than a commodity with a later maturity date (opposite of backwardation). |
| European Option | An option exercisable only on the expiration date. |
| Exercise Price | The price at which an option holder has the right to buy (or sell) the underlying commodity. Also known as the strike price. |
| Extrinsic Value | The price of an option less its intrinsic value. The entire premium of an out of the money option consists of extrinsic value. |
| Flat Forward | Forward contracts offering a constant price throughout the life of the contract (also known as <i>Par Forwards</i> particularly in reference to FX contracts). |
| Floor price | A minimum price. |
| Forward | An agreement between two parties to buy or sell an asset at a specified price on a specified date. |
| Hybrid | Financial instrument that possesses, in varying combinations, characteristics of forward contracts, future contracts and option contracts. |
| In the Money | A term used to refer to a call option whose exercise price is below, or put option whose exercise price is above, the current price of the asset on which the option is written (opposite of <i>out of the money</i>). |



| | |
|------------------|---|
| Intrinsic Value | The intrinsic value of a call (put) option is the amount by which the exercise price is less (more) than the market price. It is the value of an option if it is exercised immediately. |
| Mark to Market | The valuation of a contract in relation to current market rates. |
| Option | An agreement which gives the holder the right but not the obligation to buy (call) or sell (put) a specific commodity at an agreed price (strike) within a stated period of time. If the option is not exercised during that time the money paid for it (premium) is forfeited. |
| Option Premium | The amount paid to the seller for an option. It is determined generally by supply, demand, duration of the contract and volatility of the underlying commodity price. |
| Out of the Money | A term used to refer to a call option whose exercise price is above, or put option whose exercise price is below, the current price of the asset on which the option is written (opposite of <i>in the money</i>). |
| Par Forward | Forward contracts offering a constant price throughout the life of the contract (also known as <i>Flat Forwards</i>). |
| Price Cap | see Cap Price |
| Put Options | An option which gives its holder the right but not the obligation to sell an asset at a predetermined date (expiration date) for a predetermined price (exercise price). |
| QP | Quotation Period as defined in Western Areas Ltd nickel sales contracts. |
| Strike Price | The price at which an option holder has the right to buy (or sell) the underlying commodity. Also known as the exercise price. |
| Treasury Advisor | KPMG Financial Risk Management |
| Vanilla Option | A term used to describe basic put and call options, that is, an option with no special or additional features. |



APPENDIX 1 - AUTHORISED INSTRUMENTS

| INSTRUMENTS | |
|------------------|---|
| Commodities | Bullet Swaps (in A\$ and US\$) Asian Swaps (in A\$ and US\$) Flat forwards (in A\$ and US\$) Bought nickel put options (in A\$ and US\$) Sold nickel call options (in A\$ and US\$)* Cap and collar instruments (in A\$ and US\$)* |
| Foreign Exchange | Spot (A\$/US\$) Forward (A\$/US\$) Par forwards (A\$/US\$) Bought US\$ put/A\$ call options Sold A\$ put/ US\$ call options* Cap and collar instruments (in A\$ and US\$)* |
| Interest Rates | 11am Call Accounts Term Deposits Bank Accepted Bills Negotiable Certificates of Deposit Floating Rate Notes Fixed Rate Bonds Interest Rate Swaps*, Cap and Collar instruments* |

*Only as part of an AASB 9 compliant structure

**APPENDIX 2 - COUNTERPARTY LIST**

| Counterparty | Foreign Exchange | Commodities | Money Markets |
|-------------------------|------------------|-------------|---------------|
| ANZ Banking Group | ✓ | | ✓ |
| Bank of China | | | ✓ |
| Bank West | | | ✓ |
| BNP Paribas | ✓ | ✓ | ✓ |
| Commonwealth Bank | ✓ | ✓ | ✓ |
| National Australia Bank | | | ✓ |
| Suncorp | | | ✓ |
| Westpac | | | ✓ |



APPENDIX 3 - TREASURY OFFICERS AUTHORITY AND LIMITS

| OFFICERS | |
|---|---|
| Treasury Committee | Chief Financial Officer Financial Controller Senior Accountant Business Analyst |
| Authorised Treasury Officers | Managing Director Chief Financial Officer Financial Controller Senior Accountant |
| Authorised signatories for deal confirmations | Managing Director Chief Financial Officer Financial Controller |

Levels of Authority

The Managing Director and Treasury Officers have the authority to administer treasury functions as established with this policy. There are no pre-assigned limits for any transaction.

Authority may be delegated in the case of absence to persons authorised by the Treasury Committee.