ParagonCare

Paragon Care Limited

ACN 064 551 426

Risk Management Policy

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1. Introduction

1.1. Paragon Care Limited's (hereafter, the "Company", "we", "our", "us") definition of risk includes any event, action/ inaction or cause leading to uncertainty and impacting our ability to achieve our business objectives.
1.2. These risks may be strategic, operational, financial, reputational, or legal, and can affect us or any persons associated with the Company.
1.3. This Risk Management Policy (the "Policy") sets out our system of risk oversight and management of material business risks and internal control.
1.4. 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.
1.5. To the extent practicable, the Company has followed Principle 7 of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (4th Edition).

2. Purpose

2.1. The purpose of this Policy is to:

(a) provide an overview of our approach to risk management, which includes setting our risk appetite, establishing the framework for risk identification, assessment, mitigation, control, monitoring, and reporting of all our risks.

(b) encourage an appropriate level of risk throughout the Company to support business performance; and

(c) establish appropriate risk delegations across the Company.

2.2. Risk management is a dynamic process which involves periodic review, which enables us to establish a robust risk management framework and appropriate processes that can react in a timely fashion should the risk profile of the Company change.

2.3. The benefits of effective risk management include fewer surprises, enhanced planning, improved management information for decision making and improved risk management. It also helps us promote a risk aware culture across the Company.

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:

3.2.1 shareholder and investor preferences and expectations;

3.2.2 regulatory and legislative requirements;

3.2.3 expected business performance (return on capital);

3.2.4 the capital needed to support risk taking;

3.2.5 the culture of the organisation;

3.2.6 management experience along with risk and control management skills; and

3.2.7 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.

3.6 Our risk appetite rating is defined as follows:

Appetite Rating	Definition
Zero Tolerance	Absolutely no appetite or tolerance for the specific risk. Taking all measures possible to avoid a negative outcome.
Low	The Company is prepared to invest time and cost in establishing the appropriate controls to minimise exposure to this risk. Immediate corrective action is required if the risk should materialise.
Medium	The Company is prepared to accept exposure the risk within pre-defined limits or parameters. We are confident that appropriate controls are in place to manage the risk within defined tolerances to achieve our strategy, with capacity to deliver within budget.
High	We are prepared to accept exposure to this risk to maximise the return and growth. Recognising that increased return requires an increased exposure to risk, carrying high residual risk.

4. Risk Management Framework

4.1 The Company believes that risk should be managed and monitored on a continuous basis. As a result, we have developed a risk management framework to manage our 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 includes the following elements:

4.2.1 Identification of Risks

The purpose of this step is to identify short and long term risks (and often opportunities as well) and what is the consequence of it occurring.

Identification of risks can be undertaken by any one of us; however, it is the ultimate responsibility of our Senior Management to identify and bring the identified risks to the attention of the Board and Audit and Risk Committee

Key questions to ask include: What can happen? Identified risks are organised by category (i.e. Strategic; Financial; Operational; Health & Safety, Technology & Data, Legal, Quality & Regulatory, People Risk, Reputational Risk) in the Risk Register.

While each risk identified may be important us, we prioritize our key risks which allows the Senior Management and Board to focus on these key risks.

4.2.2 Assessment of Risks

Assessment of risks is undertaken by our Senior Management along with identified Risk Owners. Any risk which may or can occur, although unlikely, is recorded on our Risk Register.

The inherent risk exposure is measured by assessing the likelihood and impact of each risk and assigning values to each risk and opportunity using the defined criteria.

The residual risk exposure is measured according to the strength of the mitigating controls against the inherent risk exposure.

We are able to allocate and prioritize our resources by knowing the frequency and severity of our risks. Our risk priority scale is as shown below. The risk assessment methodology and definition are further defined in our Risk Register.

			IMPACT/ SEVERITY				
			1	2	3	4	5
			Insignificant	Minor	Moderate	Major	Catastrophic
LIKELIHOOD	5	Almost Certain	Medium	High	Critical	Critical	Critical
	4	Likely	Medium	Medium	High	Critical	Critical
	3	Possible	Low	Medium	Medium	High	Critical
	2	Unlikely	Low	Low	Medium	Medium	High
	1	Rare	Low	Low	Low	Medium	High

4.2.3 Risk Treatment

Risk treatment involves identifying the range of options for treating the risk, evaluating those options, preparing the risk mitigation or treatment plans, and implementing those plans.

A risk treatment plan can consist of one or more treatment methods. We will consider selecting the most appropriate risk treatment mix which strikes the best balance between being affordable and effective.

We consider the following methods to treat our risks:

Tolerate	Retaining the existing risk by informed decision. It is important to consider the level of risk which is inherent and acceptable.
Treat	Take cost effective actions to reduce the risk
Transfer	Sharing the risk with another party/s (i.e., insurance, outsourcing, disclaimers, etc.)
Terminate	Avoid the risk by deciding either not to proceed with an activity, or choosing an alternate activity with acceptable risk which meets the corporate objectives.

Whilst treatments for all risks are considered, where the Company's Risk Appetite is lower than the treated residual risk, the necessary policies, procedures, and strategies to treat the risk are listed as "Action Required" and allocated to the Senior Management for follow-up and further management action. The Actions List is regularly monitored and reported to the Board on a quarterly basis.

4.2.4 Risk Mitigation Strategy

We evaluate the progress and impact of the risk management options and determine whether adaptive action is required, with responsibility assigned to Risk Owners for those actions. This is to ensure that the risk mitigation strategy and the risk treatment action plan are implemented and progressed effectively.

4.2.5 Risk Monitoring and Reporting

Our environment, and our risks are constantly changing so the risks identified in our Risk Register is reviewed annually. Periodic tests (depending on their nature) and reviews are also be carried out in the identified risk areas to ensure that mitigating strategies and controls are effective and efficient in managing our risks.

The effectiveness of the risk controls detailed in our Risk Register relies on the Board and Senior Management being provided with timely and accurate information on the performance of these controls and as a part of risk monitoring.

Here are some key risk activities which are shared with the Board and Senior Management;

Key Activities		Reporting			
		Frequency	Owner	Audience	Forum
Annual Strategic and Business Planning	• Board and Management discuss key business risks, identify new risks, movement in risks and emerging risks. • Consider key risk assumptions (e.g. demand trends, competitor actions etc) underpinning strategic choices and business plan	Annually	CEO / CFO	Board	Strategy Meetings
Senior Management Team Review	• Review and reporting of Issues List and status of mitigation actions identified with updates as relevant. • Discuss progress in managing Issues identified risks. Ensure at least major risks to delivering performance are discussed.	Every 6 Months	Nominated Senior Management members	CEO	SLT meetings
ARC Review	• Review the progress reported by the Senior Management on the identified Issues. Ensure at least major risks to delivering performance are discussed.	Every 6 Months	CEO/CFO	ARC	ARC Meetings
Key decisions and business cases	• Key risk analysis and mitigation strategies will be incorporated into relevant decision-making discussions.	Ongoing	CEO / CFO	Board	Board Meetings
Incident review	• Reporting and review of learning from key incidents, complaints and "near misses"	As required	CEO / CFO	ARC	ARC Meetings
Statutory reporting	• To support the signing of the statutory accounts.	Every 6 months	CEO / CFO	ARC / Board	ARC / Board Meetings
Risk management framework review	• Review the Risk Management Framework and supporting processes to ensure continuous improvement – review updated Full Risk Register • Capture lessons learnt over the year and share with the Board	Annually	ARC Chair	Board	ARC Meetings

5. Risk Categories

5.1 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:

No	Risk Category	Nature of Risk
1	Strategic risk	▸ Competition risk ▸ Poor financial planning ▸ Macro-economic and geopolitical risk ▸ Supplier concentration risk ▸ Ineffective legal structure ▸ Inability to identify or source new technologies ▸ Potential M&A and integration risk ▸ Scale Up risk ▸ Unified brand and culture
2	Financial and Investment risk	▸ Forex or hedging risk ▸ Failure to maintain adequate liquidity/ cash flow issues ▸ Funding risk ▸ Inability to utilise surplus funds from other business entities/ jurisdictions. ▸ Insufficient Insurance cover to meet organizational needs ▸ Inability to meet tax compliance requirements
3	Operational risk	▸ Poor Inventory Control/ Reconciliation ▸ Loss of revenue due to business disruption to freight providers impedes deliveries to customers ▸ Failure to identify modern slavery risks within the supply chain of the business ▸ Failed Business Continuity and Disaster Recovery Process ▸ Employee/Board Misconduct, Fraud Risk ▸ Ununified commercial and business development practices across the Group.
4	Legal, Quality & Regulatory risk	▸ Potential liquidated damages exposure due to major supplier of key products being unable to meet order quantities or timing on major tenders. ▸ Non-compliance/ breach to the ASX regulatory requirements ▸ Non-compliance with the Australian Therapeutic Goods Legislation/New Zealand Medicines Legislation ▸ Unable to maintain relevant quality certifications/licences to manufacture, service and supply therapeutic goods. ▸ Non-compliance with defined customer and supplier quality requirements. ▸ Non-compliance with the governance / local regulatory requirements (especially the Asian market) ▸ Poor contractual agreement management (i.e. expired contracts/ terms, no formal contracts in place)

No	Risk Category	Nature of Risk
5	People and Culture Risk	‣ Succession Planning not established or formalised ‣ Lack of awareness to operational policies, IT Security, governance policies ‣ Failure to comply with offboarding processes ‣ Non-compliance with employment legislation
6	Technology/ Data Risk	‣ Deficiencies in the current IT landscape may result in a loss of data, business reputation and financial impact ‣ High cyber security threats ‣ Failure to fully de-identify patient protected health information ‣ Unauthorised access to data/ systems / equipment theft
7	Health and Safety Risks	‣ Unsafe working conditions (physical and social conditions) ‣ Non-compliance with Work, Health & Safety legislation
8	Environmental Risks	‣ Lack of policies and measures to mitigate environmental risk ‣ Non-compliance with Environmental legislation

6. Risk Register

6.1 Based on the methodology described above, the elements of the Risk Register are:

6.1.1 Nature of Risk: Outlines the key business risks relevant to our actual business. Given our risk appetite, these risks are reviewed on an on-going basis through management discussions and review analysis of annual budget and planning documents. The frequency of the review process by the risk owners will be detailed in the Risk Register. Unexpected control failures or events outside of management's control will introduce new risk exposures from time to time for which the Risk Register will be reviewed and updated accordingly.

6.1.2 Likelihood: Risk assessment based on the likelihood of the risk event occurring.

6.1.3 Impact: Risk assessment based on the severity of the risk if it were to materialise.

6.1.4 Inherent Risk: The risk that an activity would pose if no controls or other mitigating factors were in place (also referred as "Gross Risk" without any controls in place)

6.1.5 Mitigating Controls or Strategies: Outlines the procedures, systems, and controls in place to mitigate the Inherent Risk. Such mitigating factors must be capable of an audit or assessment, which would be carried out either by the Risk Team or by relevant risk owners.

6.1.6 Residual Risk: It is the assessment of risks that remains once the mitigating factors are considered (Low Risk, Medium Risk, High Risk or Critical Risk).

6.1.7 Risk Appetite: The amount (appetite) of risk the Company is willing to take, in line with the approved Risk Appetite Statement.

7. Risk Oversight

7.1 Governance Structure

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

7.1.2 The responsibility for day-to-day risk management has been delegated by our Board to our Senior Management.

7.2 Board of Directors

7.2.1 Reviewing and approving the Company's risk management framework, including this Policy, the Risk Register and the Risk Appetite, after considering the recommendations provided by the Audit and Risk Committee and Senior Management.

7.2.2 Ensuring clear lines of management responsibility and accountability for implementing a strong control environment.

7.2.3 Promoting an internal risk awareness culture by way of ongoing communication and training to develop supporting processes.

7.3 Audit and Risk Committee

7.3.1 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.

7.4 Senior Management

7.4.1 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.

7.4.2 Translating the risk management framework established/ approved by our Board into specific internal policies and procedures that can be implemented and verified within the different business units/functions.

7.4.3 Periodically reviewing and providing recommendation to our Board on our risk management framework, including this Policy and our Risk Register considering all relevant risks to which we are exposed, our level of risk appetite, our current financial condition, and our strategic direction

7.4.4 Clearly assigning authority, responsibility, and reporting relationships to encourage and maintain accountability, and to ensure that the necessary resources are available to manage risk in line within our risk appetite.

7.4.5 Coordinating risk reporting from risk owners

7.4.6 Informing and providing training to relevant personnel to ensure risk culture is practiced within our organization.

7.5 Risk Owners

7.5.1 Ensure risk is managed effectively within the agreed strategy and controls and report to the Senior Management on a periodic basis.

7.5.2 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

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7.5.3 Continually monitor the adequacy and effectiveness of all control measures and report to the Senior Management on a periodic basis.

7.6 Responsibilities of all Employees

7.6.1 Team members are responsible for the effective identification, management, reporting and control of risk within their areas of responsibility, and for developing a risk conscious culture.

7.7 People and Culture

7.7.1 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 fostering a culture of risk awareness, transparency, and responsiveness.

8. Risk Governance

8.1 To ensure the effectiveness of our risk management framework, the Board relies on adequate line functions – including our risk monitoring and independent assurance functions. We therefore consider the 'Two Lines of Defence' as an approach to effective risk management:

8.1.1 Our 1st line of defence are the risk owners (business units) that own and manage specific risks. Risk owners are the managers/ employees involved in our day-to-day business activities and management. Risk owners are responsible for managing the risks inherent in the business units for which they are responsible.

8.1.2 Our 2nd line of defence is Senior Management whose purpose is to oversee risk management function.

9. Policy Review

9.1 This Policy cannot be amended without approval from the Company's Board. This Policy will be reviewed on an annual to ensure that it remains effective and meets the ASX Listing Rules and the Corporations Act.

9.2 This policy will be available on the Company's website within a reasonable time after any such updates or amendments have been approved.

10. Training and Awareness

10.1 The Senior Management and Risk Owners will undergo training on this Policy's requirements, including how to recognise and deal with risks and its corresponding mitigating controls and strategies.

11. Publication of Policy

11.1 This policy will be available on the Company's website and the key features may be published in the Company's Annual Report.

12. Further Assistance

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

13. Approved and Adopted

13.1 This Policy was approved and adopted by the Board on 27 February 2024