Risk Management Policy

Mission NewEnergy Limited
ACN 117 065 719

Review Date: June 2014

Next Review Date: June 2015

Risk management policy

1. COMMITMENT TO RISK MANAGEMENT

Mission NewEnergy Limited ACN 117 635 719 (“**the Company**”) is committed to the identification, monitoring and management of risks associated with its business activities. This policy has been developed to enable the Company to comply with legislative and corporate governance best practice requirements with respect to risk management.

2. REGULATORY REQUIREMENTS

Clerp 9 and ASX recommendations

Section 295A of the Corporations Act (inserted by CLERP 9) provides that, before the directors’ declaration is made in a company’s annual financial statements, each person who performs a CEO function or a CFO function must give a declaration whether, in the person’s opinion:

In the opinion of the Directors of Mission NewEnergy Limited (the company):

1. The consolidated financial statements and notes, and the Remuneration report in sections X in the Directors’ report, are in accordance with the Corporations Act 2001, including:
   - complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001; and
   - giving a true and fair view of the financial position of the Group as at 30 June 20XX and of it’s performance, for the year ended on that date, and
   - The consolidated financial statements and notes, set out on pages XX to XX, and the Remuneration report in the Directors’ report, are in accordance with the Corporations Act 2001, including:
   - complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001; and
   - giving a true and fair view of the financial position of the Group as at 30 June 20XX and of it’s performance, for the year ended on that date, and

The financial report also complies with International Financial Reporting Standards as disclosed in note X

The Directors have been given the declarations required by section 295A of the Corporations Act 2001 from the Managing Director/Group Chief Executive Officer and Finance Director/Chief Finance Officer for the financial year ended 30 June 2011 and in the director’s opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable, and,

2. The Directors have been given the declarations required by section 295A of the Corporations Act 2001 from the Managing Director/Group Chief Executive Officer and Finance Director/Chief Finance Officer for the financial year ended
3. in the director’s opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable, and,

   In order to support these declarations, the following is a general list of issues to be covered in a formal risk management policy.

3. IDENTIFY RISKS

It is convenient to split the general risks the Company faces into broad categories:

(a) business risk;

(b) financial risk;

(c) legal risk; and

(d) operational risk.

3.1 Business risk

Identify specific business risks which threaten achievement of business objectives (eg competitors).

3.2 Financial risk

(a) Ensure that there are annual budgeting and monthly reporting systems for all business units/subsidiaries. This will assist the Company to monitor progress against targets and to evaluate trends.

(b) The CEO and senior managers of each group company should monitor economic and financial conditions on an ongoing basis. Key criteria include interest rates, credit risk, liquidity levels and foreign exchange exposure.

(c) Confirm/Develop limits for approval of capital expenditure by management.

(d) Confirm/Develop policies addressing unauthorised use of resources.

(e) Confirm/Develop long term tax strategy in conjunction with advisers. Particular consideration should be given to the following areas → tax losses, restructuring, fund raising, dividend policy, employee incentives, superannuation, GST.

(f) Confirm/Develop a questionnaire that enables the directors to provide their report on the financial statements. The questionnaire should cover items such as:

(i) have all known liabilities at balance date been brought to account and disclosed in the accounts?

(ii) has all allowance been made for contingent liabilities, including claims, litigation, guarantees etc in the accounts?

(iii) are adequate checks made to ensure that all accounting systems and procedures are being properly adhered to?

(g) The Good Governance Guide No. 1.1 issued by the Chartered Secretaries Australia recommends the following practices when the Board is deciding whether to adopt financial reports:

(i) review the advice and views of the Audit Committee following the Committee's examination of the financial report;

(ii) receive and review the statement by the CEO/CFO that the entity's financial report presents a true and fair view, in all material respects, of the entity's financial condition and operating results in accordance with relevant accounting standards;

(iii) assess the likelihood that creative accounting techniques have been adopted in the preparation of the financial report;

(iv) assess if there can be any correlation between executive remuneration and financial performance that could influence creative accounting;

(v) confirm that the financial report has been reviewed and discussed with the external auditor;

(vi) ensure that all related party transactions are fully recognised, recorded and disclosed; and

(vii) ensure that the financial report reflects the board's understanding of the performance of the entity during the financial period.

3.3 Legal risk

Material contract approval

(a) Confirm/Determine which individuals have the authority to enter into negotiations and approve or sign contracts on behalf of the Company.

(b) All delegations of signatory authority must be in writing. The delegation should include:

(i) the scope, terms and limitations of the delegation (including the types of contract the delegate is authorised to sign);

(ii) the extent of monetary authority;

(iii) the duration of the delegation; and

(iv) whether sub-delegation of the authority is permissible.

(c) Certain material contracts should be referred to the CEO, other senior managers and/or legal counsel, including contracts which:

(i) contain rights or commitments extending for 3 or more years;

(ii) contain indemnification or hold harmless provisions; and

(iii) seek to limit the amount or types of liability of the other contracting party, its subcontractors, agents or employees.

(d) In some instances, it will be appropriate to have a material contract approved by resolution of the board and executed by two directors or a director and a secretary.

Management of material contracts, permits and licences

(a) Identify all material contracts, permits and licences that the Company and each subsidiary requires in order to operate its business. Keep these contracts in a central register. Develop management systems to ensure compliance with specific covenants and obligations.

(b) A separate register of security, encumbrances and other third party interests should be maintained as appropriate.

(c) Review the material contracts currently in place with a view to renegotiating terms (where desirable) and with particular emphasis to be given to the following areas:

(i) enforceability;

(ii) existence of onerous or unusual terms;

(iii) term and termination provisions; and

(iv) default provisions.

Day to day activities

(a) Oral agreements should not be authorised under any circumstances.

(b) Confirm/Develop standard contracts in which key provisions (e.g. exclusion or limitation of liability, indemnities and insurance) have been vetted and are signed off in advance by a senior manager or legal counsel.

(c) Ensure that asset registers are properly maintained.

(d) Satisfactory debtor management and credit control systems should be developed and implemented. Standard letters should be drafted (e.g. overdue amounts owing, notification of termination of arrangement, letter of demand).

Employment

(a) Confirm/Review/Develop standard contracts and letters of appointment covering key issues such as: confidentiality, intellectual property, probationary periods, restraints of trade and non solicitation (applicable time periods and areas).

(b) Conduct periodic reviews of performance. Reward good performance. Develop clear policies to deal with poor performance, including training, counselling and disciplinary action.

(c) Verify application of Awards or Workplace Agreements and monitor compliance with their terms.

(d) Development and implementation of codes of conduct/ethics (eg equal opportunity, discrimination, sexual harassment).

(e) Privacy considerations. Develop systems to adequately protect personal information and details of employees.

Company Secretarial

(a) Ensure that Company registers and records are properly maintained and current. Key items are officers (e.g. appointment, removal, resignation or retirement of directors and secretary), details of charges, members, debenture holders, options etc.

(b) Ensure procedures in place so that filings are lodged with ASIC and ASX within relevant time periods.

(c) Ensure compliance with applicable communication requirements to:

(i) ASX (e.g.: continuous disclosure requirements);

(ii) ASIC (Corporations Act requirements); and

(iii) shareholders.

(iv) USA SEC

(d) Monitor implementation and effectiveness of ASX Best Practice Recommendations.

(e) Ensure correct procedures followed and regular meetings of shareholders and directors are held in accordance with the Company's constituent documents and regulatory framework.

Trade Practices Act

In Australia:

(a) The provisions on misleading and deceptive conduct (section 52) and on specific false and misleading representations (section 53) apply to all sales and marketing staff as well as staff involved in contract negotiation. Each of these staff members should be briefed on their obligations.

(b) Price fixing (section 45, 45A) is a potential issue despite the fact the Company works in a highly competitive environment and is not "friends" with its competitors.

(c) Personal liability of directors and employees for contraventions of the Act means training is needed.

For overseas jurisdictions, ensure that local subsidiaries understand and comply with local fair trading and anti-trust laws.

Intellectual Property

(a) Implementation of systems to protect intellectual property rights and avoid infringement of others' rights (patents, designs, trade marks, copyright, trade secrets, business names).

(b) Maintenance of intellectual property registers.

Information Technology

(a) Software. Ensure that appropriate licences to or from third parties are obtained and maintained and copies retained as part of central document management system to ensure compliance with requirements and avoid breaching provisions.

(b) Reliable and relevant data/ information/ knowledge systems for business operations.

(c) Security systems for protection of IT and software systems against viruses and other forms of abuse to be introduced and maintained.

3.4 Operational risk

Insurance

(a) Implement a review system whereby regular checks are conducted to ensure that adequate insurance cover is in place and remains current at all times.

(b) Insure against property loss and damage, public liability, professional indemnity.

(c) Implement adequate security measures to protect property.

(d) Diarise policy renewal dates and regularly check that the insured sum is acceptable and meets your needs.

(e) Ensure adequate claim management systems are in place.

(f) Undertake comprehensive review of insurance policies on an annual basis.

Occupational Health and Safety

(a) General requirement to protect health, safety and wellbeing of all employees and other persons entering property. Aim is to ensure safe system of work and working environment.

(b) Confirm/Review formal OH&S policy, endorsed by senior management and directors, that identifies legislative requirements (varies between States) and obligations.

(c) Document systems, conduct risk analysis and implement training, education and supervision programs on OH&S issues.

(d) Independent OH&S reviews should be conducted on key sites. Such reviews should be conducted either by an internal resource or by external consultants.

(e) Personal liability of directors in this area needs to be explained to directors.

Environmental

(a) Consider potential pollution – air, water, noise, land, dangerous substances that may be involved in the business.

(b) Detailed hazard analysis should be conducted to identify the industry specific potential pollutants.

(c) Hazard analysis/ environmental audit report results should be incorporated into a fully documented system and policies/ procedures to be adopted as appropriate.

(d) Directors who have participated knowingly in a breach may be liable to prosecuted personally so directors need to be educated and relevant legislative framework identified.

4. ANALYSE RISKS

Analyse the potential impact of the risk on the Company. Controlled risks which further the interests of the Company should be encouraged. The framework for risk analysis is set out in Appendix A.

Risks should be ranked to identify management priorities. If the levels of risk established are low, then risks may fall into an acceptable category and treatment may not be required.

5. TREAT RISKS

Develop appropriate controls which mitigate the identified risks. The aim is to anticipate and where possible avoid risks, rather than dealing with their consequences.

6. ROLES AND RESPONSIBILITIES

Confirm/Review/Develop statements of allocation of responsibilities between directors and managers of each company, and between parent company, board and subsidiary boards.

(a) **Parent Company Board** → oversees risk management, including consideration and review of this policy on an annual basis. Responsible for establishing policies and reviewing effectiveness of this policy.

(b) **Audit committee** → advises the board on appropriateness of risk management policies.

(c) **Management** → the CEO and CFO and senior managers of each group company are responsible for:

   (i) implementing the policy;

   (ii) reviewing and assessing the effectiveness of the policy on a regular basis;

   (iii) reporting to the audit committee on major risks and action plans.

(d) **Staff** → all staff have a responsibility to identify, evaluate, manage and report risks to management.

7. CULTURE

(a) The Company should be committed to ensuring that all staff, particularly those with management and decision making responsibilities, obtain a sound understanding of the principles of risk management.

(b) Successful risk management requires the development of a culture that encourages employees to communicate risk management issues, concerns and recommendations.

The Consequence and likelihood ratings below are examples and the Audit and Risk Committee is required to periodically review the risk profile and determine appropriate levels.

Consequence Rating

Corporate Objectives		Financial Risks	Operational risk					
Descriptor	**Level**	**Financial**	**Safety**	**Business Interruption**	**Legal**	**Revenue**	**Reputation**	**Environment**
Catastrophic	5	> $5.0 M	Single Death	M: Production halt > 15 days I: >50% of plants die or are not available to the Group	Claim with affects going concern	Mandatory blending of BioD abolished PME banned as an input feedstock JME banned as an input feedstock	No-one will buy product from Mission	Severe environmental harm with long-term or permanent damage
Major	4	$1 M - $5m	Multiple serious injuries	M: Production halt > 12 days I: 25% to 50% of plants die or are not available to the Group		Change in BioD specifications	Only some companies will buy from Mission	Large scale environmental harm with long-term or permanent damage
Moderate	3	$100,000- $1 M	Single serious injuries	M: Production halt > 8 days I: 10% - 25% of plants die or are not available to the Group				Some environmental impact –recovery time months Widespread community complaint
Minor	2	$5,000 - $100,000	First aid	M: Production halt > 5 days I: 1%-10% of plants die or are not available to the Group				Some environmental impact – recovery time weeks Isolated community complaints
Insignificant	1	<$5,000	Near hit	M: Production halt > 1 days I: <1% of plants die or are not available to the Group				Minor environmental impact –recovery time days. Impact tolerated without complaints

A	**Almost Certain**	**Is expected in most circumstances**	Will occur >1 per year.
B	**Likely**	**Will probably occur in most circumstances**	Will occur once per year
C	**Possible**	**May occur at some time**	May occur within 3 years
D	**Unlikely**	**Could occur at some time**	May occur once in 10 years
E	**Rare**	**May occur in exceptional circumstances**	> 10 years

RESULTANT RISK RANKING

	Consequence				
Likelihood	1	2	3	4	5
A	**High**	**High**	**Extreme**	**Extreme**	**Extreme**
B	**Moderate**	**High**	**High**	**Extreme**	**Extreme**
C	**Low**	**Moderate**	**High**	**Extreme**	**Extreme**
D	**Low**	**Low**	**Moderate**	**High**	**Extreme**
E	**Low**	**Low**	**Moderate**	**High**	**High**