

RISK MANAGEMENT AND INTERNAL CONTROL POLICY

1. INTRODUCTION

The Board of MOD Resources Limited (“MOD”) recognises the importance of identifying and controlling risks to ensure that they do not have a negative impact on the Company. Procedures have been established at the Board and senior executive levels which are designed to safeguard the assets and interest of the Company and to ensure the integrity of reporting.

2. BENEFITS OF RISK MANAGEMENT AND INTERNAL CONTROL PROCEDURES

Some of the benefits identified in establishing and maintaining risk management procedures are as follows:

- More effective strategic planning
- Better cost control
- Enhancing shareholder value by minimising losses and maximizing opportunities
- Increased knowledge and understanding of exposure to risk
- A systematic, well-informed and thorough method of decision making
- Increased preparedness for outside review
- Minimised disruptions
- Better utilization of resources
- Strengthening culture for continued improvement
- Creating a best practice and quality organisation

3. INTERNAL CONTROL POLICY

- The Board is ultimately responsible for the internal control framework and risk management of the Company and for regularly reviewing its effectiveness.
- The principle aim of the system of internal control is the management of business risks, with a view to enhancing the value of shareholders’ investments and safeguarding assets. Although no system of internal control can provide absolute assurance that the business risks will be fully mitigated, the internal control systems have been designed to meet the Company’s specific needs and the risks to which it is exposed.
- Annually, the Board is responsible for identifying the risks facing the Company, assessing the risks and ensuring that there are controls for these risks, which are to be designed to ensure that any identified risk is reduced to an acceptable level. (Refer below in relation to the role of the Audit Committee in undertaking this task).
- The Board will review and discuss strategic risks and opportunities arising from changes in the Company’s business environment regularly and on an as needs basis.

- The Board may delegate some of the abovementioned responsibilities to committees of the Board but maintain the overall responsibility for the process.
- The following committees have or may be established to assist the Board in internal control and business risk management:
 - Audit Committee
 - Remuneration Committee
 - Nomination Committee (not established at this time)
 - Finance Committee (not established at this time)
 - Business Risk Committee (not established at this time)

Audit Committee

The Board has established an Audit Committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes. This also includes the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information as well as non-financial consideration. The Board has delegated this responsibility for the establishment of a framework of internal control and ethical standards for the management of the consolidated entity to the Audit Committee. The Committee also provides the Board with additional assurance regarding the reliability of the financial information for the inclusion in the financial reports.

Remuneration Committee

The Remuneration Committee is responsible for determining and reviewing the compensation arrangements for the Directors themselves, the Chief Executive Officer, the executive committee and employees. Further, they are responsible for assisting the Board in appointing and terminating (if necessary) members of the Board.

Finance Committee

If and when it is established, the Finance Committee may comprise a majority of executive directors and on occasions may be comprised exclusively of executive directors. It may be chaired by the CEO and may be delegated with the day-to-day authority to review, approve and dispose of assets and business and to deal with the approval of finance arrangements. Detailed limits will be set by the Board in respect of these arrangements.

The management of financial risk and of financial instruments used to mitigate financial risks, including foreign exchange and interest rates are to be closely monitored by the Finance Committee and strict guidelines and parameters will be set, especially in relation to derivatives.

Business Risk Committee

If and when it is established, the Business Risk Committee may comprise the heads of each business segment under the chairmanship of a non-executive director, or provide for the attendance of non-executive directors.

Major business risks may arise from:

- action by competitors
- changes in government policies
- changes to the law
- price of raw materials and other supplies
- availability of raw materials
- changes to exchange or interest rates

The above committees are responsible for reporting to the Board.

- During the year the Board is responsible for reviewing the effectiveness of the Company's system of internal control for the financial year. This review is to include financial, operational and compliance and risk controls.
- For any control which is not operating effectively, the Board is responsible for ensuring that the control issue is corrected and that the risk has a mitigating control which will reduce any risk to an acceptable level.
- Each financial year, the Chief Financial Officer and Chief Executive Officer are required to provide formal representations to the Board confirming that the Company's financial report is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and that the Company's risk management and internal compliance and control system is operating efficiently in all material respects.
- Every employee has a responsibility for ensuring that any known breach of internal control is reported to the appropriate level such that it can be dealt with accordingly. Further, every employee is encouraged to identify and report to their senior executive any potential business risk. The senior executive is then responsible for ensuring that the business risk is mitigated by establishing appropriate controls and monitoring the effectiveness of controls. Any significant control defects should be reported to the Board level. This may be achieved through the reporting of defects first to the Audit Committee.
- Each financial year, the Chief Financial Officer and Chief Executive Officer are to provide the Board a declaration in connection with the audit of the financial report of the Company in accordance with Principles 7.2 and 7.3 of the ASX Corporate Governance Principles and Recommendations - Section 295A of the Corporations Act.