



HYDROTECH INTERNATIONAL LTD RISK MANAGEMENT POLICY

1. OVERVIEW

1.1 Board Commitment

Hydrotech International Ltd (Hydrotech) is committed to ensuring that:

- a) its culture, processes and structures facilitate the realisation of Hydrotech and its subsidiaries' business objectives whilst material risks are identified, managed, monitored and wherever appropriate and possible, mitigated; and
- b) to the extent practicable, its systems of risk oversight, management and internal control complies with the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*.

1.2 Purpose

The objective of this Policy is to:

- ensure management recognises opportunities (upside risk) and threats (downside risk) are part of operating a business;
- encourage appropriate tolerance of certain risks across the business;
- establish procedures to identify and analyse material risks within agreed parameters across the business;
- establish procedures to monitor and manage material risk; and
- ensure a risk framework (including insurance if it is available and meets a relevant cost-benefit analysis), is in place which can react should the risk profile of the business change.

Risks governed by this Policy include potential risks and this Policy extends to both financial, operating, R & D and regulatory risks, where the context permits.

1.3 Materiality References to 'material' in this Policy have the same meaning as in section 677 of the Corporations Act (Material effect on price or value). The concept of materiality with respect to Hydrotech is further explained in section 4 of this Policy.

1.4 Provision of this Policy A copy of this Policy will be given to all Management.

1.5 Questions – Implementation of this Policy Any questions relating to the implementation of this Policy should be forwarded to the Company Secretary.

2. GOVERNANCE

The Board is responsible for, amongst other things, ensuring that effective risk management programs are in place to protect Hydrotech's assets and shareholder value. The Board is responsible for setting the risk philosophy and risk appetite for Hydrotech and approving the overall risk management policy. The Board is also responsible for reviewing and approving material insurances as part of risk management strategies. The Board has delegated certain functions to its senior management. The overall governance framework for managing risk is as follows:

- the Board is to recognise and monitor all material risks of an operational nature relating to the installation of water ingress system operations which arise out of the activities of Hydrotech;
- the Board and management implement policies, identify and manage risks (wherever practicable) in accordance with the Company policies and ensure their staff are informed and trained as required. This includes implementing business-specific controls, procedures, monitoring and reporting processes;
- Executive Directors and Senior Management recommend insurance, where appropriate (taking into account the availability and cost-benefit analysis) as part of risk management strategies, and submit any material insurance to the Board for review and approval;
- individuals manage risks within their sphere of control in accordance with the Company policies and business-specific processes; and
- the external auditors perform a monitoring function and an additional line of control for the Board.

3. RISK MANAGEMENT FRAMEWORK

Hydrotech believes that risk should be managed and monitored on a continuous basis. Hydrotech has designed a framework to allow the Company to achieve its business objectives whilst assisting management and ideally, providing early warnings of material risks.

Key components of the Policy which bring together a number of procedures and controls within Hydrotech are as follows:

- Identifying and assessing all material risks, including examining the current environment.
- Managing, monitoring and wherever possible, mitigating, identified material risks. This includes reducing the likelihood material risks will occur and transferring material risks through insurance where possible and appropriate.

- Reporting periodically, including reporting on key risk indicators.
- Assessing the effectiveness of the risk management framework.

Each component is considered in turn below.

3.1 Identification and assessment of all material risks

Senior management are responsible for the continual identification and subsequent reporting of material risks taking into account the current and expected future environment. An internal Risk Management Plan Strategy has been developed to assist with this process. The Board will set the organisation's risk appetite, enabling the business to assess the level of risk that is acceptable and ensure decisions are within the organisation's risk appetite.

All investment decisions proposed to the Board will include an analysis of the risks, including the risk management strategies.

Senior Management will ensure identification of the material risks, analyse the possibility of the material risk occurring and evaluate the expected impact the material risk would have on the business should it occur. In their analysis of material risks, Management should have regard to:

- the magnitude of the risk;
- control mechanisms to manage the risk; and
- consequences and likelihood.

3.2 Monitoring and mitigation of identified material risks, including monitoring of incidents

Material risks identified should be continually reviewed by Management and periodically by the Board.

Mitigated material risks should also be considered by the Board from time to time, having regard to establishing appropriate pre-cautions from reoccurrence which can be communicated throughout the business.

3.3 Periodic reporting

At the next scheduled Board Meeting, all newly identified material business risks are to be considered in turn.

On at least two separate occasions during the year, the Board will meet in a dedicated session which may be prior to or following a Board Meeting to discuss mitigated, current, emerging and possible material risks.

3.4 Assessment of effectiveness of risk management framework

The Hydrotech Board of Directors are responsible for, reviewing any risk management system (which may be a series of systems established on a per-project basis) and internal compliance

and controls that are in place to protect Hydrotech's assets and shareholder value. The Board will also set Hydrotech's risk appetite.

Hydrotech's risk framework promotes a robust structure so that all material risks are appropriately identified, assessed, monitored and mitigated wherever possible, across the business. Assessment of the effectiveness of all aspects of the risk framework will be conducted by the Board on a periodic basis.

In addition, all Directors and Senior Management, should promote a culture of voluntary and transparent risk reporting and ongoing, regular risk assessment throughout all levels of Hydrotech. To ensure this process is undertaken effectively, management will attest to appropriate risk management on a twice yearly basis.

Also, in accordance with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (recommendation 7.3), the Regional Director's and will state to the Board on an annual basis that:

- the management of Hydrotech's material business risks is effective; and

The and CFO will state to the Board on an annual basis that

- the declaration made in accordance with section 295A of the Corporations Act (in relation to the financial statements) is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks

4.SPECIFIC RISK FRAMEWORK TOOLS

As part of the risk framework, the following guidance is given with respect to Hydrotech's key identified material risks.

4.1 Material financial risks

Material financial risks are risks that impact directly on the balance sheet and through the profit and loss. The key components of Hydrotech's material financial risks are managed through:

- financial and operational delegations; and
- insurance procedures where applicable (including availability and a cost-benefit analysis)

4.2 Material operational risks

Material operational risk is the risk that arises from inadequate or failed internal processes, people and systems or from external events. Material operational risk has the potential to negatively impact the business by affecting financial performance, reputation or other damage to the business by the way the Company operates.

Management is responsible for identifying and managing material operational risks within their realm of authority. The following framework is in place for common operational risks:

- processes to ensure compliance with all safety and occupational health related legal and regulatory requirements;

- processes to ensure high safety risks are identified and risk management processes in place for these;

- processes to ensure environmental risk management processes are in place, including, contingency planning, reporting systems, investigations and remedial actions where required;

- an established Code of Conduct is in place;

- procedures to monitor changes in the environment that could impact Hydrotech's strategy; and

4.3 Regulatory Risk

Regulatory risk is the risk of not complying with relevant regulatory requirements and our own ethical standards. The following framework is in place to manage regulatory risk:

- regularly reviewing changes in regulations and ensuring compliance;

- ensuring staff/contractors are trained in new or changed regulations;

- ensuring new staff/contractors are trained on the Company's current expectations with respect to material risk management; and

- the Code of Conduct is issued to all employees.

Management is required to have effective processes in place to ensure compliance within their own area of authority.

Hydrotech has developed amongst other risk framework tools a Risk Register which undergoes regular review and updating, and details all major risks facing the Company as well as factors that will minimize the risk to a level acceptable to the Board (if at all possible). The Register also assigns 'ownership' responsibility to each of the Risks in order that they are managed and reported on effectively.