

Corporate Governance

Enterprise Risk Management Process

“Enterprise Risk Management (ERM) is a process, effected by an entity’s Board of Directors, management and other personnel, applied in a strategic setting and across the enterprise, designed to identify potential events that may affect the entity, manage risk to be within its risk appetite, and to provide reasonable assurance regarding the achievement of entity objectives”.

1.0 OBJECTIVES OF THE SEMBIOSYS GENETICS INC. ERM PROCESS

Enterprise value is optimized when the Board and executive management set strategies and objectives which balance growth and shareholder returns with related risks, and which efficiently and effectively deploy resources in realization of the objectives. An effective ERM process embodies:

- Aligning acceptable risk levels and the growth strategy by evaluating strategic alternatives, setting related objectives, and developing a process to manage related risks;
- Highlighting risk management decisions by selecting among possible risk responses (i.e. risk avoidance, reduction, sharing, or acceptance);
- Reducing operational surprises by identifying potential negative events and developing appropriate responses;
- Identifying and managing multiple inter-related risks through integrated responses;
- Pro-actively recognizing and capitalizing on opportunities; and
- Improving deployment of capital to achieve performance and profitability and to prevent losses while ensuring transparent reporting and compliance with laws and regulations.

2.0 SCOPE OF THE SEMBIOSYS GENETICS INC. ERM PROCESS

The ERM process consists of eight interrelated components:

- Internal Environment – risk management philosophy, risk appetite, integrity, ethical values, and the corporate environment in which they operate;
- Objective Setting – a process to set objectives which support and align with the entity’s mission and are consistent with its risk tolerance;
- Event Identification – events influencing the achievement of objectives must be identified, distinguishing between risks and opportunities;
- Risk Assessment – risks are analyzed, prioritized in regard to likelihood and impact, and an appropriate basis for how they should be managed is developed;
- Risk Response – developing a set of alternate responses – avoiding, accepting, reducing, or sharing risk;
- Control Activities – policies and procedures that ensure the risk management responses are effectively executed on an operational level;
- Information and Communication – effective communications take place in a broad sense facilitating departmental and individual responsibility and actions throughout the company; and
- Monitoring – the entirety of the ERM process is regularly monitored and corrections are made as necessary.

3.0 ROLE OF THE SEMBIOSYS GENETICS INC. BOARD IN THE ERM PROCESS

- Setting the risk appetite;
- Imposing risk management processes;

- Management assurance on risks;
- Taking decisions on risk responses;
- Monitoring implementation of risk responses; and
- Accountability for risk management.

4.0 ROLE OF THE SEMBIOSYS GENETICS INC. ERM TASK FORCE

- Giving assurance on risk management processes;
- Giving assurance that risks are correctly evaluated;
- Evaluating risk management processes;
- Evaluating the reporting of key risks;
- Reviewing the management of key risks;
- Facilitating identification and evaluation of risks;
- Coaching management and staff in responding to risks;
- Coordinating ERM activities;
- Consolidating the reporting on risks;
- Maintaining and developing the ERM process;
- Championing establishment of ERM throughout SemBioSys Genetics Inc.; and
- Developing an appropriate risk management strategy for Board approval.