



Anti-fraud Policy

1. Introduction

NewLead Holdings Ltd. requires all staff at all times to act honestly and with integrity and to safeguard the Company resources for which they are responsible, in order to maintain a fraud free environment.

Fraud is an ever-present threat to the Company resources and hence must be a concern to all members of staff. NewLead Holdings Ltd. views fraud as an extremely serious matter and is committed to the promotion of an Anti-Fraud Culture throughout the organization.

This section explains Company and staff responsibilities in relation to both prevention and detection of fraud.

2. Definitions-What is fraud?

In legislation, there is no specific offence of fraud. For the purposes of this document, fraud may be defined as and may involve:

- (i) manipulation, falsification or alteration of records or documents;*
- (ii) suppression or omission of the effects of transactions from records or documents;*
- (iii) recording of transactions without substance;*
- (iv) misappropriation (theft) or willful destruction or loss of assets including cash;*
- and*
- (v) deliberate misapplication of accounting or other regulations or policies.*
- (vi) bribery and corruption*

3. Roles and Responsibilities

3.1 The Audit Committee is responsible for establishing and maintaining a sound system of internal control that supports the achievement of Company policies, aims and objectives. The system of internal control is designed to respond to and manage the whole range of risks that NewLead Holdings Ltd. faces. The system of internal control is based on an on-going process designed to identify the principal risks, to evaluate the nature and extent of those risks and to manage them effectively. Managing fraud risk will be seen in the context of the management of this wider range of risks.

Overall responsibility for managing the risk of fraud has been delegated to the Audit Committee/Internal Auditor. Their responsibilities include:

- Developing a fraud risk profile and undertaking a regular review of the fraud risks associated with each of the key organizational objectives in order to keep the profile current;
- Establishing an effective anti-fraud policy and fraud response plan, commensurate to the level of fraud risk identified in the fraud risk profile;
- Designing an effective control environment to prevent fraud commensurate with the fraud risk profile;
- Establishing appropriate mechanisms for:
 - reporting fraud risk issues;
 - reporting significant incidents of fraud to the Executive Officers;
 - co-coordinating assurances about the effectiveness of anti-fraud policies;
- Liaising with the Executive Officers of NewLead Holdings Ltd.;
- Making sure that all staff are aware of the organization's anti-fraud policy and know what their responsibilities are in relation to combating fraud;
- Developing skill and experience competency frameworks;
- Ensuring that appropriate anti-fraud training and development opportunities are available to appropriate staff in order to meet the defined competency levels;
- Ensuring that vigorous and prompt investigations are carried out if fraud occurs or is suspected;
- Taking appropriate legal and/or disciplinary action against perpetrators of fraud;
- Taking appropriate disciplinary action against supervisors where supervisory failures have contributed to the commission of fraud;
- Taking appropriate disciplinary action against staff who fail to report fraud;
- Taking appropriate action to recover assets;
- Ensuring that appropriate action is taken to minimize the risk of similar frauds occurring in future.

3.2 Executive Officers and Managers are responsible for:

- Ensuring that an adequate system of internal control exists within their areas of responsibility and that controls operate effectively;
- Preventing and detecting fraud;
- Assessing the types of risk involved in the operations for which they are responsible;
- Regularly reviewing and testing the control systems for which they are responsible;
- Ensuring that controls are being complied with and their systems continue to operate effectively;

- Implementing new controls to reduce the risk of similar fraud occurring where frauds have taken place

3.3 Internal audit is responsible for:

- Delivering an opinion to the Audit Committee, who will then forward to the Board of Directors, on the adequacy of arrangements for managing the risk of fraud and ensuring that the Company promotes an anti-fraud culture;
- Assisting in the deterrence and prevention of fraud by examining and evaluating the effectiveness of controls commensurate with the extent of the potential exposure/risk in the various segments of the department's operations;
- Ensuring that management has reviewed its risk exposure and identified the possibility of fraud as a business risk;
- Assisting management in conducting fraud investigations.

Internal Audit is available to offer advice and assistance on control issues as necessary. In terms of establishing and maintaining effective controls it is generally desirable that:

- (i) supervisory/management checks are established in each area of work, and such checks are carried out routinely and periodically by management;*
- (ii) there is a regular rotation of staff where practicable, particularly in key posts;*
- (iii) wherever possible, there is a separation of duties so that control of a key function is not vested in one individual;*
- (iv) back-logs are not allowed to accumulate; and*
- (v) in designing any new system, consideration is given to building in safeguards*

3.4 Every member of staff is responsible for:

- Acting with propriety in the use of Company resources and the handling and use of Company funds whether they are involved with cash or payments systems, receipts or dealing with suppliers. Staff should not accept gifts, hospitality or benefits of any kind from a third party which might be seen to compromise their integrity;
- Being alert to the possibility that unusual events or transactions could be indicators of fraud;
- Reporting details immediately through the appropriate channel if they suspect that a fraud has been committed or see any suspicious acts or events;

- Co-operating fully with whoever is conducting internal checks, reviews or fraud investigations.

4. Fraud Response Plan

- 4.1** In the event of an actual or attempted fraud the Audit Committee should be contacted immediately. If the members of the Audit Committee are not contactable, the Chief Executive Officer or any other Executive Officer may be informed as well.
- 4.2** The Company's Whistle-blowing Program is intended to encourage and enable staff to raise serious concerns within the Company rather than overlooking a problem due to fear of harassment and victimization. The Whistle-blowing Program is outlined in the Company's Code of Ethics, which is available on the Company website.

5. Fraud Detection and Reporting

Executive Officers and Managers should be alert to the possibility that unusual events or transactions could be symptoms of fraud or attempted fraud. Fraud may also be highlighted as a result of specific management checks or be brought to management's attention by a third party. Additionally, irregularities occasionally come to light in the course of audit reviews.

Irrespective of the source of suspicion, it is for the Audit Committee to undertake an initial enquiry to ascertain the facts. This enquiry should be carried out as speedily as possible after suspicion has been aroused: prompt action is essential. The purpose of the initial enquiry is to confirm or repudiate the suspicions which have arisen so that, if necessary, further investigation may be instigated.

The factors which gave rise to the suspicion should be determined and examined to clarify whether a genuine mistake has been made or an irregularity has occurred. An irregularity may be defined as any incident or action which is not part of the normal operation of the system or the expected course of events.

Preliminary examination may involve discreet enquiries with staff or the review of documents. It is important for staff to be clear that any irregularity of this type, however apparently innocent, will be analyzed.

If initial examination confirms the suspicion that a fraud has been perpetrated, then to prevent the loss of evidence which may prove essential for subsequent disciplinary action or prosecution, the Audit Committee should:

- (i) take steps to ensure that all original evidence is secured as soon as possible;*
 - (ii) be able to account for the security of the evidence at all times after it has been secured, including keeping a record of its movement and signatures of all persons to whom the evidence has been transferred. For this purpose all items of evidence should be individually numbered and descriptively labeled;*
 - (iii) not alter or amend the evidence in any way;*
 - (iv) keep a note of when they came into possession of the evidence. This will be useful later if proceedings take place;*
 - (v) remember that all memoranda relating to the investigation must be disclosed to the defense in the event of formal proceedings and so it is important to carefully consider what information needs to be recorded. Particular care must be taken with phrases such as “discrepancy” and “irregularity” when what is really meant is fraud or theft.*
- Additionally, NewLead Holdings Ltd. may suspend any member of staff involved pending the outcome of an investigation. Suspension itself does not imply guilt; it can be however another safeguard to prevent the removal or destruction of evidence.*

6. Disciplinary/Legal Action

After proper investigation, NewLead Holdings Ltd. will take legal and/or disciplinary action in all cases where it is considered appropriate and there will be consistent handling of cases without regard to position or length of service.

In the case of proven fraud, or suspected fraud which come to light, whether perpetrated by a member of staff or by persons external to the organization, NewLead Holdings Ltd. reserves the right to refer the matter to the police at the earliest possible juncture.

NewLead Holdings Ltd. will co-operate fully with police enquiries and these may result in the offender(s) being prosecuted. Steps need to be taken to attempt to recover all losses resulting from the fraud. A civil action against the perpetrator may be appropriate.

The investigations described above will also consider whether there has been any failure of supervision. Where this has occurred appropriate disciplinary action will be taken against those responsible.

7. Learning from experience

Where a fraud has occurred the Audit Committee in collaboration with the Executive Officers and Managers must make any necessary changes to systems and procedures to ensure that similar frauds will not recur. The investigation may have pointed up where there has been a failure of supervision, a breakdown in or an absence of control. Internal Audit is available to offer advice and assistance on matters relating to internal control.

8. Conclusion

NewLead Holdings Ltd. views fraud very seriously. All instances will be investigated rigorously and promptly and appropriate action will be taken.