

July 6, 2017

Zhejiang Huayou Cobalt Co., Ltd.
18 East Wuzhen Road
Economic Development Zone of Tongxiang
Zhejiang Province (314500)
Attention: Mr. Bryce Lee (Mr. Li Zhongning), Director of CSR
Sent via email: Brycelee@huayou.com and express mail

Re: Responsible Cobalt Sourcing Program Audit

Dear Mr. Lee,

This letter serves as a summary of the approach for, objective of and key findings from Liz Muller, LLC's (Consultant's) recent audit of Zhejiang Huayou Cobalt Co., Ltd.'s, ("Huayou Cobalt's") responsible cobalt sourcing program.

AUDIT DETAIL

Company Name	Zhejiang Huayou Cobalt Co., Ltd. (Hauyou TX)
Company Address	18 East Wuzhen Road, Economic Development Zone of Tongxiang, Zhejiang Province (314500)
Contact Person Name	Bryce Lee (Mr. Li Zhongning), Director of CSR
Contact Email	Brycelee@huayou.com
Contact Phone	Tel: +86 573 8858 9950

Third Party Audit Firm	Liz Muller, LLC
Auditor Name	Liz Muller (Lead Auditor), Jennifer Hsu (Support Auditor)
Auditor Email	liz@lizmuller.com
Auditor Phone	+1.415.609.9040
Audit Type	Initial audit
Audit Date	19 - 21 June 2017
Audit Period	1 June 2016 - 31 May 2017

AUDIT CRITERIA

The audit was conducted in accordance with international professional audit standards, including *ISO 19011: Guidelines for quality and/or environmental management systems auditing*.

Currently, there is not industry standard or protocol for a responsible cobalt sourcing or due diligence standard or audit protocol. In light of this, the auditors used the Responsible Sourcing Cobalt Processor Audit Report produced by RCS Global. RCS Global's Responsible Sourcing Cobalt Processor Audit Report is largely based on the Chinese Due Diligence Guidelines for Responsible Mineral Supply Chains (Sections V – VII – except Section V, sub-sections 5.2.1.7 and

5.2.1.8 (environmental impacts)) and Guidelines for Social Responsibility in Outbound Mining Investment (Sections 2.5.1 and 2.6.1-2.6.3) published by China Chamber of Commerce of Metals, Minerals & Chemicals Importers & Exporters (CCCMC) and The OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High- Risk Areas, Edition 3.

The audit also included a limited review of key findings from a May 26, 2017 *Second-party assessment: Huayou Cobalt's Responsible ASM supply chain in the DRC* conducted by RCS Global. This was not an exhaustive review nor was the review intended to evaluate the completeness and accuracy of the findings of the upstream audits.

AUDIT APPROACH

Auditors assessed if Huayou Cobalt had implemented sufficient and effective responsible cobalt sourcing program through the following methods:

- Evaluation of management commitment via a strong due diligence policy and supporting program.
- Examination of the processes and systems used for sourcing to demonstrate the ability to support responsible cobalt sourcing.
- Examination of internal material control mechanisms to demonstrate Huayou Cobalt's ability to account for all inputs during the audit period
- Evaluation of Huayou Cobalt's due diligence of suppliers and materials.
- Evaluation of materials within the audit scope to demonstrate the appropriate level of sourcing traceability and origin determination.
- Inspection of audited facilities and material inventory.

The audit consisted of an opening and closing meetings, facility walkthrough, policy and procedure review, material management system review, employee interviews, and transaction-level document review.

Consultant reviewed the responsible cobalt sourcing program (i.e. Zhejiang Huayou Cobalt's Company Limited Due Diligence Program for Responsible Supply Chain, Due Diligence Management System), policy and supporting procedures (e.g. procurement, receiving), training records, notification to and agreement by suppliers (i.e. Supplier Code of Conduct, Supplier Standard, Know Your Supplier Questionnaire for 1) Local Trader / ASM Supply Chains and 2) International Trader / LSM Supply Chains), and a risk management plans and ranking tools.

In addition to the above referenced protocols, Consultant reviewed Huayou Cobalt's material system from material receipt at the facility to sale of final product, including a mass balance calculation.

Consultant supplemented their research by conducting employee interviews to further evaluate if Huayou Cobalt's program is understood and implemented as intended.

Detailed findings are provided in the attached Responsible Sourcing Cobalt Processor Audit Report.

HIGH LEVEL FINDINGS AND RECOMMENDED CORRECTIVE ACTIONS

Zhejiang Huayou Cobalt's Company Limited Due Diligence Program for Responsible Supply Chains lays out sufficient policies, resources and actions of a management system to address Huayou Cobalt's priority issues: child labor, human rights and mining under conflict conditions.

With this said, there are several areas that Huayou Cobalt has not implemented sufficiently. Please see the attached Table 1: Findings of Non-Compliance and Recommended Corrective Actions for a list of issues not sufficiently addressed and Consultant's recommended corrective action to address the program's deficiency.

Thank you for the opportunity to conduct the audit of your Responsible Cobalt Sourcing Program. You should feel proud of your accomplishments to date and I wish you all the best as you work to improve your program further.

Kindest regards,



Liz Muller
Liz Muller, LLC

Attachment

Table 1
Findings of Non-Compliance and Recommended Corrective Actions

No.	Audit Section	Finding Description	Recommended Corrective Action
1	Is evidence available for each transaction selected by the auditor for review.	Based on randomly selected transactions in May 2017 transactions, not all suppliers have provided specific information as to the origin of the cobalt containing material (mine or smelter).	<p>Collect necessary CoC documentation for each source of material - in the DRC and beyond.</p> <p>Ensure the following documentation for all material from the DRC or other High Risk Areas is accompanied by the following valid documents and the information contained within aligns with the applicable PO or contract:</p> <ul style="list-style-type: none"> • Shipping/transportation documentation (e.g., bill of lading, packing slip, waybill, invoice, etc.) from origin to refiner (including inland transportation documents - from mine (or from a smelter that has been validated to source from only responsible sources) to port of export, and port of import to smelter), or: • Transport contract or invoice • Transport logbook • Packing list • International transportation • Independent 3rd party OECD evaluation, OR • Government issued mine license • Government issued country of origin certificate, if any • Government issued import document • Mine Visit Report or Alternative Evidence of Verification

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2	Does the company assess the risk that mined material is laundered through secondary supply channels?	Huayou Cobalt performs due diligence of each supplier of secondary material by having the supplier complete a KYS questionnaire, inspecting the suppliers' facilities, processes, checking their business license, and inspecting the material upon delivery. However, this process is not documented in a written procedure.	Document the due diligence activities and expectations for secondary material in a written procedure.
3	<p>Establish a system of controls and transparency over the mineral supply chain.</p> <p>Upstream: Establish an appropriate chain of custody or a traceability system over mineral production and trade and pass on due diligence information downstream.</p>	<p>Please refer to recommended corrective actions stated in RCS's audit of CDM.</p> <p>Huayou Cobalt has focused on the DRC in the initial design of its program. It has yet to determine if mines in other regions are located in conflict areas or involve child labor.</p>	<p>Address Corrective Actions identified in RCS's audit report for CDM.</p> <p>Expand due diligence to all source of cobalt in the DRC (including LSM) as well as other regions, with a priority on those identified as higher risk for conflict or child labor and other human rights abuses.</p>
4	Does the company maintain up to date information on all the above items?	It is too early in the implementation of Huayou Cobalt's program to evaluate such criteria.	Develop a process to maintain up to date information necessary to confirm that all sources of raw materials are mines that meets Huayou Cobalt's criteria.

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5	Does the company systematically record cobalt material received?	There is a discrepancy about 280 tons (0.61% of total 46,152 tons material received) of received cobalt weight because sourcing department enters the Co content based on the suppliers content and receiving department enters the Co content based on Huayou Cobalt's analysis report, which may not always match the supplier content. In addition, the raw material department did not enter 3 out of 4 shipments from one of the tolling suppliers. The receiving department did enter all 4 of the tolling receipts. This also contributed to the discrepancy in the mass balance.	Huayou Cobalt should report material in their material management system in a consistent manner. Huayou Cobalt should include develop a written procedure for the management and recording receipts in the inventory management system. Sourcing department should be trained on the procedure.
6	Does the company publicly report on due diligence?	Huayou Cobalt has not publicly reported its audit summaries or other due diligence efforts at the time of the audit. According to Huayou Cobalt, they have shared Responsible Sourcing Program's risk management plan with several stakeholders, including: OECD, brands, consultants, NGO, CCCMC with requests for and adjustments in response to their feedback. However, auditors did not see evidence of these notifications (and they do not constitute public reporting).	Huayou Cobalt should publicly report on the findings of the CDM and Model Mine audit by RCS as well as this audit.

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7	If the company has identified risks in its supply chain related to the areas covered in its Supply Chain Policy or Section 7.1.1 of this Questionnaire, has the company established a risk management plan?	Risks were identified in the audit of CDM and supplying Model Mines by RCS and should be addressed.	Huayou Cobalt should develop a CAP to address the issues and risks identified by RCS at CDM and Model Mines.

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8	Does the company physically quarantine any cobalt material where warning signs or red flags were identified in the risk assessment?	<p>All material is checked prior to delivery and again upon receipt to confirm it matches what is stated in the P/O.</p> <p>However, Huayou Cobalt does not have a written procedure to quarantine any "red flag" material.</p> <p>Huayou Cobalt has not received any "red flag" material that warrants quarantine.</p> <p>Huayou Cobalt's Unqualified material Regulation does not include anything requiring isolation (and no processing) of material that does not meet the criteria in the P/O or otherwise does not have adequate evidence (documents) that it came from an approved mine or supplier.</p>	Huayou Cobalt should include develop a written procedure physically quarantine any cobalt material where warning signs or red flags were identified in the risk assessment.
9	Does the company's risk mitigation plan address all risks identified?	Huayou Cobalt has focused on child labor and conflict the DRC in the initial design of its program. It has yet to determine if mines in other regions are located in conflict areas or involve child labor. Nor is Forced Labour specifically addressed in its program.	Huayou Cobalt should expand their risk assessment and mitigation efforts to all issues (e.g. forced labor, environmental impacts) and all sourcing regions over time.

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10	Does the company regularly update the risk assessment carried out under Step 2?	Huayou Cobalt’s Responsible Sourcing Risk Mitigation Plan includes a risk ranking table that references indicators from independent and reputable sources (i.e. Corruption Perceptions Index, Fragile States Index, Heidelberg Institute’s Conflict Barometer, Global Peace Index). However, Huayou Cobalt does not explain how these are used to receive high, medium or low ranking. Therefore, auditors cannot determine if this tool is used appropriately and as intended.	Explain how various sources of risk assessments are used to characterize sourcing regions or suppliers as high, medium or low risk should be provided. It should also be followed consistently.