



# NIAGARA REFINING LLC

## Niagara Refining 2018 Due Diligence Report on Conflict Minerals OECD Guidelines: 5 Step Framework for Risk Based Due Diligence

31 December 2018

### Introduction

Niagara Refining LLC (NR) is committed to DRC Conflict Free sourcing of tungsten raw materials. Through our membership in the Tungsten Industry—Conflict Minerals Council (TI-CMC), we participate in the Responsible Minerals Assurance Process (RMAP), previously known as the Conflict Free Smelter Program (CFSP). NR uses the *OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas* (OECD Guidance) as a guideline for responsible mineral sourcing. We require that all tungsten concentrates delivered to us for processing by our suppliers be DRC Conflict Free and that our suppliers comply with the OECD Guidance.

NR generally does not procure raw materials of its own. All raw materials will be supplied to NR by the parent companies, Sumitomo Electric Industries, Ltd.(SEI) and Buffalo Tungsten, Inc.(BTI), for toll processing. As such, it is required that SEI and BTI will also comply with the OECD Guidance.

NR, in cooperation with each parent company of Niagara Refining, will conduct the appropriate due diligence on all concentrate sources to verify the actual source of the material supplied. Due diligence on each source should be completed as often as necessary to ensure compliance. As part of the OECD Guidance, the *Supplement on Tin, Tantalum and Tungsten*, contains a recommended five (5) step framework to follow in order to ensure compliance. Below is listed each of the 5 Steps (and sub-parts) with a bullet point summary of NR compliance efforts.

## Step 1: Establish strong company management systems

- A. Adopt and Commit to a supply chain policy for minerals originating from conflict-affected and high-risk areas:
- Policy documents as follows:
    - i. BR-CM-101 Conflict Mineral Policy
    - ii. BR-CM-102 Sourcing Policy Outline
    - iii. BR-CM-103 Supplier Code of Conduct
  - Date implemented: 2015
  - Posted on company website ([www.niagararefining.com](http://www.niagararefining.com))
  - Established as official company business rules
- B. Structure internal management systems to support supply chain due diligence:
- President has responsibility to oversee the supply chain due diligence program.
  - The Accounting Manager and Warehouse Clerk are responsible to complete internal forms for each shipment and ensure that supplier provides the required documentation for each delivery.
  - President is responsible to ensure that Supplier Due Diligence reports are up to date and as complete as possible.
- C. Establish a system of controls and transparency over the mineral supply chain:
- Incoming RCOI form required for each and every tungsten raw material shipment. Shipment documents are verified and kept on file.
    - i. Level 3 country origin requires much more detailed Incoming RCOI form.
  - Requires suppliers to provide Bi-Annual Due Diligence report on each supplier
  - Level 3 origin requires a higher level due diligence program than our other sources in Level 1 countries. This may include either the supplier participation in an acceptable conflict free certification program (such as ITSCI) or it may also be a comprehensive program of mine risk analysis and chain of custody documentation, which includes using an independent third-party auditor to analyze the supply chain.
  - Maintain all records in both paper and electronic format.
- D. Strengthen company engagement with suppliers:
- NR has no direct relationship with the material suppliers, since this is done by SCI and BTI. However, in the case of BTI, the buyer is usually the same person as the NR due diligence officer. SCI regularly informs the NR due diligence officer of the situation with SCI suppliers.
  - The bulk of all materials received at NR are from suppliers with long term relationship with SCI and BTI. These are suppliers with a consistent single source of supply, so the sources are well known to NR.
- E. Establish a company level grievance system:
- Details of whistle blower program posted prominently in the facility for all employees and on our website.

## Step 2: Identify and Assess Risks in the Supply Chain

- A. Identify the scope of the risk assessment of the mineral supply chain:
- SCI materials from their two established European sources are considered as very low risk to NR. These sources are used extensively by NR and are well known, not only by NR, but also by the entire tungsten industry as a whole. Any deviation in the material analysis from normal would be immediately noted and would trigger further investigation. It is felt by NR management that there are no risk concerns with these sources.
  - In 2018, SCI supplied material from a new European source. This supplier was previously visited by NR and Due Diligence was completed on them in 2017. It is felt by NR management that there are no risk concerns with this source.
  - SCI has also begun using a new source of tungsten concentrate from Asia. In 2018, several lots were used from this source. SCI have supplied Due Diligence on this supplier and NR management accepts this supply as low risk.
  - BTI supplies in 2018 included significant amounts purchased from the US Government stockpile. This can be considered a Legacy Source and as such there are no supply chain risks to be concerned about.
  - BTI supplied several shipments from a source in East Africa. Being a Level 3 country, this source is considered a higher risk and a much higher level of due diligence and supply chain management was required.
- B. Map the factual circumstances of the company's supply chain, underway and planned.
- SCI provided updated Due Diligence on all their suppliers for 2018.
  - In 2018, BTI performed extensive due diligence on the East African source, including an in-person site visit. BTI also commissioned an Independent Third-party Audit of the mine and supply chain by an auditing firm with a recognized track record in Africa. The audit concluded that this source was CFSP compliant, that the material was conflict free, and that the supply chain risk was low. NR was satisfied with the due diligence performed on these shipments as sufficient to accept them for use in our supply chain.
  - The RMI conducted a very detailed conflict minerals audit on the NR supply chain in 2018 and found that NR was conformant. The RMI is expected to again conduct an audit in the first half of 2019.
- C. Assess risks in the supply chain
- NR feels that the largest supply chain risk is with the East Africa source. Some of the risks may be as follows:
    - The dispute over ownership of the mine has been resolved satisfactorily in the courts but the previous owners have continued to stir up trouble with their powerful connections. This could hamper scheduled deliveries in 2019.
    - Health and Safety at the mine is a risk concern. The ASM process used is inherently risky to the mine workers. There have been accidents at this mine in

the past and without improvements to the operational safety, serious accidents may occur again. NR and BTI propose to continue to work with the supplier to make improvements in this regard.

- NR does not currently have any major risk concerns for all other tungsten raw material suppliers used in 2018.

### **Step 3: Design and Implement a Strategy to Respond to Identified Risks**

#### **A. Report Findings to Senior Management:**

- Being a small company with only a few different raw material tungsten sources, Senior Management at NR is intimately involved in all the source due diligence and risk analysis. In this case, the President is also the company due diligence officer.
- The Company President reports and discusses any concerns with the Vice-President so that decisions can be made together if necessary. NR Management also reports conflict mineral concerns to the company board if the situation warrants.

#### **B. Devise and Adopt a Risk Management Plan:**

- NR feels that the best approach to risk management is to operate according to existing policies and procedures. From time to time, additions and updates to policies and procedures may be necessary.
- NR feels that using by using only a small number of regular supply sources, risk can be minimized. However, if the current raw material suppliers prove inadequate at supplying enough material in the future, then the number of suppliers may grow.
- NR will continue to work with an independent third-party auditor to manage risk at the East African source.

#### **C. Implement the Risk Management Plan:**

- Risk mitigation through a small number of suppliers – already in place. Total number of supply sources was only 6 suppliers of tungsten concentrates in 2018.

#### **D. Undertake additional fact and risk assessments for risks requiring mitigation, or after a change of circumstances:**

- NR will have an independent third-party auditor perform a surprise snap inspection at the East African supplier in 2019 to ensure continued conflict free compliance.
- NR reserves the right to practice an ad-hoc risk mitigation as the supply chain with East Africa continues to grow.

#### **Step 4: Carry out Independent third-party audit of Smelter’s Due Diligence Practices**

NR is a member of TI-CMC. As such, the RMI commissioned a Supply Chain Transparency Smelter Audit for Tungsten (2013) by an Independent third-party audit of Niagara Refining LLC. This was conducted on 19-20 April 2018. The RMI concluded that “Niagara Refining LLC is conformant with the Tungsten Protocol”.

Now that NR is using material from a Level 3 country on a regular basis, this same audit will have to be performed annually. It is expected that this audit will next take place in H1 2019.

#### **Step 5: Report on Supply Chain Due Diligence**

The present report meets this requirement to report NR’s efforts to align their Supply Chain Due Diligence with the OECD Guidance.