



ICGLR THIRD PARTY AUDIT AT METACHEM SARL

EXECUTIVE SUMMARY

(Published on 27 July 2016)

1. Introduction

a. Audit objective (reference to Regional Initiative, RCM)

As part of the Regional Initiative Against the Illegal Exploitation of Natural Resources (RINR) the International Conference on the Great Lakes Region (ICGLR) is in the process of implementing the Regional Certification Mechanism (RCM).

The RCM aims at providing assurance to buyers of tin, tantalum, tungsten and gold extracted in ICGLR Member States (MS) that minerals were produced, transported and exported legally and in accordance with minimum standards related to conflict free sourcing, social and environmental practices. In order to provide credible assurance, the RCM requires an independent third party audit of the mineral exporter to verify compliance with applicable requirements. The third party audit process includes the verification of systems, processes and practices at the exporter, as well as at a representative sample of its supply chains up to and including mine sites.

The third-party audit process is managed by the ICGLR Audit Committee (the Committee), a tripartite forum representing government, industry as well as civil society. The Committee accredits auditors and sets the standards and terms of reference for the audits.

According to Section 8.8 of the ICGLR Certification Manual (Version November 2011), the Committee is further responsible to review the audit reports submitted by the accredited auditors.

The specific objective of this audit is to verify the level of conformance of Metachem's systems, processes and practices, up to and including mineral supply chains and mine sites of origin with the audit criteria with a view to obtain certification of Metachem under the ICGLR RCM.

b. Auditee

i. General Information

Metachem Sarl was created by Decree No. 0552 on 19 September 2014. The company's trading licence is valid until 19 September 2016 and is renewable every two years. While Metachem is an exporter of cassiterite, it has no mining operations of its own. Instead it purchases cassiterite indirectly from SAKIMA SA via an intermediary company called Valko Mining Investment Sprl, located at 28 Avenue de l'Eveche, Kindu, Maniema Province (henceforth Valko). Valko's national company identification number is 5-11-N64758F and its directors are Sergey Kochin Anatolievich and Valery Tshimpaka Katumba. This commercial arrangement was agreed on 26 May 2014. Metachem's cassiterite purchases are solely through Valko with all production originating on the SAKIMA concessions in Kalima and Punia. As a consequence, the Metachem supply chain is identical to that of SAKIMA and thus its security and sustainability is wholly dependent on the status of the SAKIMA supply chain. Therefore, an audit of Metachem is essentially an audit of the SAKIMA supply chain and Metachem's own performance with regard to its legal, fiscal, security and iTSCi obligations.

It should also be noted that the time of auditing, and given the extremely tight margins faced by exporters in the context of the international collapse of the price of tin, Metachem was commencing negotiations to purchase cassiterite directly from SAKIMA.

ii. Business Information (includes type of mines sourced from LSM and/orASM)

Metachem has two regional offices based in Kindu, Maniema Province, and Lubutu, Maniema Province. The company's headquarters is located at 37 Avenue des Tulipiers, Quartier les Volcans, Goma, North Kivu, DRC. All three of these offices were visited.

All mining sites that feed into the Metachem supply chain are licenced by the Government of DRC to SAKIMA. SAKIMA was created by Decree No. 0035 on 6 May 1997 from the assets of SOMINKI, a mining company which had been formed in 1976 and closed in

March 1997 during the civil conflict in DRC. SOMINKI was 72% owned by private Belgian interests and 28% by the Government of Zaire. Currently, the Government of DRC holds 99.4% of SAKIMA's shares, while 0.6%, or one share each, is owned respectively by Gecamines SA, SODIMICO SA, Cominiere SA, SACIM SA, CEEC and SNCC SA.

SAKIMA operations are focused on 44 Operating Permits in a concession area of over 100,000 km² lying in North Kivu, South Kivu and Maniema. This area extends discontinuously between 1° North and 3.23° South and between 26.08° and 29.2° East. Of the 44 permits, 10 lie in North Kivu, 12 in South Kivu and 22 in Maniema. The Exploitation Licences are largely determined by the flood plains of three tributaries of the Congo River, namely Elila, Ulindi and Lowa.

The Kalima mining, buying and processing site is headquartered in the town of Kalima (02°34'00"S, 26°37'00"E), Pangi Territory, Maniema Province, which lies 100 km north east of the provincial capital Kindu, itself accessible by aircraft from Goma, North Kivu. Active mining sites which feed production into Kalima, of which there are currently few, lie to the north east, often at great distance, particularly given the poor state of the roads and especially during the rainy season. MR visited Kimbala, a small site of around five mines, approximately 40 minutes by motorcycle from Kalima, and Makunju (02°24'32"S, 26°45'36"E) east of the Ulindi River and some 4 hours by motorcycle from Kalima.

The Punia mining, buying and processing site is headquartered in the town of Punia (01°46'42"S, 26°44'27"E), Punia Territory, Maniema Province, which lies 380 km via Lubutu south east of Kisangani, the Provincial Capital of Province Orientale, itself accessible by aircraft from Goma, North Kivu. The validated mining sites which feed production into Punia are Saulia, Chamaka, Kasese, Filo V, Ogominako, Kasongo, KM 43 and Obeya. Current mining activity on these sites is minimal. All of these sites lie considerable distances from Punia. MR visited Filon V, a small site of around three mines, approximately 3 hours by motorcycle from Punia, and Saulia (01°32'00"S, 26°32'22"E) which was once a centre of extensive mining operations and also some 3 hours south east by motorcycle from Punia.

While the SAKIMA concessions are not artisanal mining areas (ZEA -- Zone d'exploitation artisanale) under the mining code, for the purposes of this audit the audit scope was considered to be ASM given the current conditions of production. SAKIMA tolerates the presence of miners like many other mining companies. More particularly, the presence of diggers on SAKIMA concessions is largely a result of armed conflict in the east, for the obvious social and humanitarian consequences. Thus, for various reasons, including social peace, SAKIMA has entrusted the task of identifying these diggers to SAESSCAM as part of an ad hoc agreement which covers the

provincial mining divisions of Maniema, North Kivu and South Kivu. Furthermore, without a functioning processing plant, the SAKIMA concession is essentially producing only raw cassiterite.

c. Auditor

i. Audit Firm

Martello Risk Ltd

ii. Lead Auditor

Dr. Caspar Fithen

2. Scope of audit

a. Methodology (provide a general description of methodology)

Martello Risk conducted a thorough literature review of existing, open-source material concerning Metachem Sarl. A total of 24 documents were examined as part of the pre-audit planning process covering not only those relating to previous audits of Metachem Sarl, but also baseline assessments of DRC and broader policy documents covering gold and 3T supply chain control for the Great Lakes Region. This review underpinned a comprehensive risk assessment which formed the foundation of the mine site inspection strategy and qualitative and quantitative data collection for the purpose of assessing conformance to both ICGLR status and progress criteria.

This audit was the initial ICGLR audit for Metachem. The timeframe to schedule the audit was fully respected by the company. The audit was undertaken from 07/03/2016 – 25/03/2016. All production and export records for the past 12 months were inspected.

- b. Provide a short overview of what was actually reviewed including: records, operations, mine sites, and other entities that were part of the audit.**

QUALITATIVE DATA GATHERING

Supply Chain Site Inspections

In line with the requirements of the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas and the ICGLR Regional Certification Mechanism Martello Risk gathered qualitative data pertinent to the audit of the supply chain of Metachem Sarl through interviews with individuals at the following points:

- 1. EXPORTER**
- 2. TRADE AND TRANSPORTATION**
- 3. MINING**

QUANTITATIVE DATA GATHERING

In line with the ICGLR Certification Manual, that “auditors shall inspect a large enough percentage of the records in order to justify general conclusions about the totality of the record set”. Specifically, Martello Risk inspected the entire data set for production, tagging and shipping for the 12 months prior to the audit. Martello Risk conducted representative sampling of records at the following points along the supply chain:

1. EXPORTER

- a. Operations**
- b. Personnel**
- c. Contracts**
- d. Authorities**
- e. Material & Financial Accounting**

2. MINE SITES

- a. Mine-site Operator**
- b. Due Diligence**
- c. Personnel**

- d. Contracts
- e. Authorities
- f. Financial and Material Accounting

3. Findings (flag status)

a. Mine sites and trade routes

Summary Table of conformance to RCM status criteria

CONFLICT	WORKING CONDITIONS	ENVIRONMENT	FORMALITY/ TRANSPARENCY	COMMUNITY DEVELOPMENT

Summary Table of conformance to RCM progress criteria

CONFLICT	WORKING CONDITIONS	ENVIRONMENT	FORMALITY/ TRANSPARENCY	COMMUNITY DEVELOPMENT

b. Exporter Requirements

RECORDS	TAXES	CASH PURCHASES	BRIBES	HUMAN RIGHTS	CONFLICT	PUBLIC or PRIVATE	CHAIN of CUSTODY	DATA	OWNERSHIP

						SECURITY			

4. Summary of Non-Conformances (all red and yellow flag issues) and Observations (add rows as necessary)

SUMMARY OF NON-CONFORMANCES			
Number:	Non-Conformance related to:	Description of non-conformance:	Auditee's Proposed Corrective Action:
1			
2			

5. Conclusion

Based on the evidence made available to the audit team, the auditor found the auditee's operations to be conformance with the requirements of the ICGLR Regional Certification Mechanism. Metachem performs well on conflict, human rights and transparency. However, there is much room for improvement on progress criteria associated with labour rights, health and safety, CSR/community relations and environment, a consequence of its supply chain relationship with SAKIMA.

Based on the scope and findings of the audit, the locations visited, the actors consulted and the processes reviewed, Metachem has demonstrated a level of conformance with the Audit Criteria that is consistent with a green flag although progress criteria issues should be addressed as matter of urgency. There is currently no indication of a comprehensive action plan for yellow flagged criteria.