

**Phoenix Metal, Ltd.**  
**Corrective Action Evaluation to ARC's June 15, 2015 CFSP Audit Determination Letter**

**Audit Firm: Liz Muller, LLC**

**Lead Auditor (CAP Reviewer): Liz Muller**

**Date: July 28, 2015**

Issue No.	Issue Summary	Examples	Corrective Action taken by auditee	Auditor comment Have they corrected the finding?	Auditor comment What did they do?	Auditor comment Verified document	Phoenix Comment
1	Inadequate processes and systems to demonstrate the ability to support conflict-free sourcing.	<p>1) Receipts of unsealed iTSCi bags (with tags inside the bag). Cut bags were not segregated or reported to iTSCi.</p> <p>2) Apart from the weight, the logbook, tags and procedures did not specify or include additional criteria that should be verified upon receipt (e.g. material, supplier, mine code).</p> <p>3) The receiving procedures allow for a 10% margin in the weight received and the weight listed on the LBM. Example: Delivery No. 15123 (received 470.3 kg in system and LMP stated 445.5 kg, 5%</p>	<p>Per an 20 May 2015 email from Andrew Cooper of ITRI, the following is allowed under the iTSCi program: A supplier is allowed to move mineral in Rwanda with no tags on the bag only on the condition that they have a copy of this form (iTSCi form referenced but not provided to auditor) on them plus the original tags. In addition, Phoenix has modified their procedure to inspect and accept material, "PR-R-101 approval procedure material" to add control points [unloading : State bags</p> <ul style="list-style-type: none"> <li>• See if the bags are not torn</li> <li>• Make sure the bags are sealed with mines tags or traders tags]</li> </ul>	<p>Yes; however, Phoenix's procedure could be strengthened if it included instructions on how to respond to unsealed or torn bags (e.g. segregate and follow up with iTSCi to confirm validity of material in bag, reject the material, etc.)</p>	<p>1) According to iTSCi, open bags are acceptable - negating the listing of this as a finding. For all the circuit material,</p> <p>2) Procedure states that ore bags must have labels indicating the type of ore , the supplier , the delivery date and weight</p> <p>3) After weighing all the packages in delivery : Compliance with the tolerance of ± 2%</p>	<p>PR-R-101 approval procedure material</p>	<p><b>Phoenix Metal is waiting for a confirmation from Auditors for closing the case.</b></p>

2	Inadequate processes and systems to demonstrate the ability to support conflict-free sourcing.	<p>Several occasions of data entry errors.</p> <p>Inaccurate LBPs listed on the LIS for individual lots:</p> <ul style="list-style-type: none"> <li>• LBP 1036105 listed for Lot No. 15393</li> </ul>	<p>As noted, these errors are merely entry errors (human error). The cell traceability in its supervisory duties, must change these entries, if it finds an error. So we give this cell, authorization to correct itself it detects errors in the database "Gestion Matière" and recording them on a noncompliance file. This will allow us to have an accurate database, to compile statistics, to detect the type of error and implement corrective actions, including retraining our employees.</p> <p>In addition, our software, in the case of a blending of ores cannot ensure automatically the full origin. We will correct this problem.</p> <p>In addition we have define different types of non compliance we have to control see the attached document "PR-R-412 Non compliance management - v 2"</p>		<p>"PR-R-412 Non compliance management - v 2" does not mention data entry errors as a non-compliance and how this should be corrected.</p>	PR-R-412 Non compliance management - v 2	<p><b>Phoenix Metal has issue an new procedure PR-R-412 V3 from 24 08 2015 where we integrate the torn bag and making mistake in the soft record. Phoenix Metal is waiting for a confirmation from Auditors for closing the case.</b></p>
3	Inadequate processes and systems to demonstrate the ability to support conflict-free sourcing.	<p>In some cases, the auditors could not validate the transportation documentation from suppliers:</p> <ul style="list-style-type: none"> <li>· Ngoga Special</li> </ul>	<p>All document including transportation would be sign by the representative of the mine.</p>	No	<p>This does not address the past mass balance but could suffice moving forward if implemented as written and consistently.</p>	No documents were verified	<p><b>"Bordereau de transport" is now signed by the suplyer or it representative. to be controled during the next audit.</b></p>
4	Inadequate accounting of inputs and outputs during the audit period.	<p>Three mass balances were presented:</p> <ul style="list-style-type: none"> <li>· The first indicated more tin coming into the operations than in the material management system.</li> <li>· The second indicated a loss from the smoke stack that was not supported with data.</li> <li>· The third included data that did not align with the LIS's reporting of moisture content for materials.</li> </ul>	<p>To avoid any discrepancy between ASIR and our lab, we suggest to base the in and out on the same lab (Phoenix Metal lab)</p> <ul style="list-style-type: none"> <li>· In the future, we will not take in account the smoke who don't have a really impact on the mass balance</li> <li>· We don't analyze moisture in the LIS, we will do the same in the mass balance. We will start moisture's</li> </ul>	<p>Partial. This does not address the particular incidents cited in the report but could suffice moving forward if implemented as written and consistently.</p>		No documents were verified	<p><b>Action have taken to collect accurate datas. to be controled on the next audit.</b></p>

5	Inadequate accounting of inputs and outputs during the audit period.	<p>1) Unaccounted for material in inventory:</p> <ul style="list-style-type: none"> <li>LBP 1035424: 57.5 kg of material</li> </ul> <p>2) Unaccounted for material ( 8.2 Kg ) in delivery lots:</p> <ul style="list-style-type: none"> <li>LBP 1035768: 134.5kg [this was received at Phoenix pre the LBP - why would the other 67 kg be recorded if not received?]</li> <li>LIS = 142.7 kg: <ul style="list-style-type: none"> <li>Lot 15287 = 67.60 kg (4/29/14)</li> <li>Lot 15216 = 75.10 kg (4/24/14)</li> </ul> </li> </ul> <p>[[If Lot 15287 is the reprocessing of Lot 15216 where is Lot 15216 taken out of the system when reprocessed?]]</p> <p>3) BT (low grade material) was not accounted for in received material or from processed sources:</p> <ul style="list-style-type: none"> <li>Lot No: 15180/81/82/83</li> </ul>	See the joined documents Point 5 Case 1, 2, 3.		2) LBP 1035768: See questions in Phoenix's write up. Phoenix explains the lack of documented BT (low grade material that is a byproduct of separating cassiterite from coltan) as being " either returned to the supplier or recycled. " Phoenix should document the BT as a raw material (with its "receipt" back into the facility) in its inventory system if it is recycled. It should be recorded as shipped out (returned from supplier). This should also be incorporated into the mass balance. Auditors would need to see records of this in their system.	Documents Point 5 Case 1, 2, 3.  Need to see records for BT handling/processing in their system.	<p><b>Mass balance presented to the auditor should be amended: The 409.50 kilograms of cassiterite recorded on the page LBP1035424 have nothing to do with the outputs of treatment from 1519.4 kg (gross) of the cossitérite entered on this same page. The real net weight is 409 kg instead encoded on LBP1039146. This has been fixed in our ACCESS database. Now, 409 kg are referenced on page LBP1039146 as you can see on the LBP1039146 attached.</b></p> <p><b>The correct outputs are --- Cassiterite: 1014.20 kg net weight --- Coltan: 153.20 + kg + 200.80 kg + 129.50 kg = total of 483.5 kgs net. These three outputs coltan was combined with other lots to give 3 821.60 kg.</b></p> <p><b>The difference between net 1517.2 kg (1519.6 kg gross) and net 1497.7 kg (1014.2 kg net = 483.5 kg net) = 19.5 kg representing the BT and waste.</b></p>
6	Inadequate accounting of inputs and outputs during the audit period.	<p>1) In some cases, cassiterite is listed as more material than the referenced cossiterite from which it originated:</p> <ul style="list-style-type: none"> <li>Lot No. 18694: 5.3 kg</li> </ul> <p>LIS = 17.30 kg of cassiterite (from a 12 kg lot of cossiterite)</p> <p>2) Materials were mixed and could not be linked to originally received lots:</p> <ul style="list-style-type: none"> <li>Lot No. 18675</li> </ul>	See the joined documents Delivery 18675 & 18694  In addition we have changed our document classification in order to be link with the Liz request and to answer to your remarks	No, the following has not been addressed:  1) Unaccounted for material in inventory: LBP 1035424: 57.5 kg of material		Delivery 18675 & 18694  1) Why is Lot 18340 listed as being associated with Lot 18694 if Lot 18694 was cassiterite upon arrival and accounted for in Lot 18694?  2) The processing documents do not align (lot numbers and weights) with the list of 12 deliveries they said is in Lot 18675.	<p><b>Evidence have been submitted. Please find enclosed the document we forgot to join last time. Phoenix Metal is waiting for a confirmation from Auditors for closing the case.</b></p>

7	Inadequate system for internal material control.	<p>1) The codification system (XPS / RW / xxxx ) for material segregation between the trading and smelting operations has not been fully implemented.</p> <p>The slag reclaim-furnace and iron dross-refining loops are not clearly articulated or accounted for in the "first in/first out" electronic material management system.</p> <p>The system used to trace materials within the auditee's operations does not facilitate an appropriate level of sourcing traceability.</p>	<p>On this point, please can you clarify because we follow the recommendations from Itsci. (Please see the mail joined)</p> <p>It was our first experience of smelting under CFSI requirement and we admit we have to be more efficient. Because of technical issue due to hot material and because both are in the same place, we have considered refining and recycling as one processing unit . You will see in joined document our new scheme of control. Can you please give your advice on it ? See attached the redefined procedures and the monitoring tool of our operations. See joined documents R201, R202, R203 &amp; R205</p>	<p>No, the following has not been addressed:</p> <p>1) Unaccounted for material in inventory: LBP 1035424: 57.5 kg of material</p>	<p>1) This has not been addressed. Phoenix should clearly account for all material, including dross, slag, and tapping that is re-entered into the system and link this with the displacement of an equivalent amount of ore or tin at the arc furnace, tapping/cooling, and refining stages. This would account for all material and should help trace material through the smelter. Phoenix should develop a SOP to ensure these processes are implemented.</p>	Documents R201, R202, R203 & R205	<p><b>We will implement a new procedure where we check physically all the weight between each 3 big areas : 1/charge preparation , 2/Arc furnace, 3/refining, segregation and ingot. All material will be transfer between each area with a certificate of transmission (paper) controlled by dedicated people and these paper will be record on our IT tool in real time. That will ensure us of the global weight. The system of recording has been used in July and August. Phoenix Metal is waiting for a confirmation from Auditors for closing the case.</b></p>
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