



## **FY 2020-21 Compliance Report LBMA Responsible Gold and Silver Guidance**

### **Foreword**

Asahi Refining North America “Asahi”, a wholly owned subsidiary of Asahi Holdings Inc., is a leading precious metal refiner, trader, and bullion product manufacturer. The company maintains LBMA-certified London good delivery refineries in Salt Lake City, Utah, USA and Brampton, Ontario, Canada. Additionally, the company operates a full-service precious metals minting and carbon treatment facility in Florida, USA. The businesses serve a global client base from the mining, recycling, banking and bullion trading industries.

As a leader in the precious metals industry, Asahi Refining recognizes the unique opportunity that it must play in the development, implementation and continuous improvement of systems designed to detect and prevent commercial activities that contribute to the financing of armed groups, human rights abuses, money laundering, terrorist financing, other illegal activities and wider ESG risks.

Throughout 2020 Asahi Refining engaged and invested in projects designed to scope, analyze, and provide solutions for increased transparency and responsibility within the global gold and silver supply chain.

Asahi participates in the Responsible Mineral Initiative’s Risk Readiness Assessment program. This program provides further transparency in supply chain mapping. Asahi Refining was contacted by several international manufacturers to share RRA details to create a complete supply chain map.

Asahi Refining has assigned organizational responsibilities and outlined requirements for due diligence, transaction monitoring, training, records and reporting, as detailed in our Precious Metals Procurement Policy and Compliance Procedures.

As an LBMA Good Delivery Refiner, Asahi Refining, monitors the source of all precious metals accepted into our Salt Lake City and Brampton refineries to ensure that we comply with LBMA’s Responsible Gold Guidance (RGG) and Responsible Silver guidance which is based on the OECD Due Diligence Guidance as well as Swiss and US KYC, Anti-Money Laundering and Combatting Terrorist Financing regulations.

Asahi acknowledges the interruption of business and complications presented by the global pandemic, Covid-19 during our 2020 audit reporting period. Boarder closures between Canada and the USA and tight travel restrictions on Canada based Compliance team members meant programs roll outs have been delayed and site visits were modified to “virtual meetings” or delayed. It is the hope of all Asahi staff that 2021 allows us to get back on track and continue our efforts to build on the Asahi compliance culture. The following compliance report illustrates Asahi Refining’s continuous improvement activities within the time period of April 1, 2020 to March 31, 2021.

## Table 1: Refiner's details

Refiner:	Asahi Refining Canada Ltd
Location:	Brampton, ON, Canada
Reporting Year-end:	31 March 2021
Date of Report:	15 April 2021
Audit Date	Sept, 2021
Senior Manager Responsible:	Shohei Yasuda, President, North America <a href="mailto:Shohei.yasuda@asahirefining.com">Shohei.yasuda@asahirefining.com</a>

## Asahi Refining's Evaluation

The following table lists the minimum requirements that must be satisfied by Refiners in accordance with the LBMA Responsible Gold and Silver Guidance to demonstrate compliance.

## Table 2: Summary of activities undertaken to demonstrate compliance

### Step 1: Establish strong company management systems

Asahi Refining has complied with Step 1.

#### Adopt a company policy regarding due diligence for supply chains of gold and silver

In November of 2020 Asahi Refining drafted a new Supply Chain Procurement Policy which was approved by Asahi Refining's President, Shohei Yasuda. The new policy was uploaded to the company website ([www.asahirefining.com](http://www.asahirefining.com)) on November 25<sup>th</sup>, 2020. The previous policy contained an over arching statement regarding the OECD Annex II risks; however, it did not appropriately refer to each individual risk as required. The policy now refers to all OECD Annex II risks, includes environmental considerations and describes the process in place to ensure risk can be adequately managed. Asahi also utilizes five custom KYC (know your customer) documents to obtain basic information from its client base. The updated procurement policy was added to the KYC documents and Asahi requires all clients to initial as having read and understand the policy when completing new KYC's. In addition to this, Asahi created a new standard contract for the secondary market which also includes a copy of the Supply Chain Procurement policy and specific wording within the contract to better align clients to meet the expectations of the policy.

#### Set up an internal management structure to support supply chain due diligence

Asahi maintains an internal management structure to support the supply chain due diligence. A dedicated compliance team consisting of a Compliance Manager and a Compliance Analysis was in place for much of the audit period. The Compliance Manager, based in Brampton, Ontario, Canada, reports



directly to the President, Shohei Yasuda who is also based in Brampton, Ontario, Canada. The Asahi Analysis was a multi-language speaking CAMS certified AML expert who was based in the Miami Minting facility, however in December of 2020 this employee resigned the position. In March of 2021 following a lengthy search Asahi hired a new analysis, who was titled as a Compliance Risk Analysis. This employee is based at the Asahi facility in SLC, Utah and is well positioned to be Asahi's mine and client site visit expert. A second Analysis position was also approved during the audit period to be based in the Brampton facility, with a focus on AML, however this employee had not yet been placed at the time of drafting this report. A Senior Compliance role has also been created and approved with interviews beginning in February of 2021. This is a newly created position that will have a direct reporting line to the President and is intended to replace the current Compliance Manager role.

While the Compliance Manager has a direct reporting line to the President, decisions on supply chain and due diligence can also be reviewed and discussed via the Asahi Compliance Committee. While the committee members speak and converse often on the topic of Compliance, there are official quarterly meetings scheduled. Five meetings occurred during the 2020 audit period. The Compliance Committee consists of the following positions;

- Compliance Manager, North America
- President, North America (Executive, Board Member)
- Global Head of Sales (Board Member)
- Global Business Development Manager
- Director of Finance (Executive, Board Member)
- Chief Financial Officer (Executive, Board Member)
- Chief Operations Officer (Executive, Board Member)
- Environmental Health and Safety Officer, North America

The Asahi Compliance team has the necessary resources to support and monitor the due diligence process. Asahi holds a paid annual subscription to an independent risk database provided by a third party. This tool is utilized during client on boarding, client reviews and daily monitoring. It allows the Asahi Compliance team to verify client names and company names against hundreds of global watch lists. It will also provide basic company information, verify officers and directors, ownership structure and scans for adverse media. Asahi pays an additional screening cost to have all clients run via the provided software once every 24 hours for the purpose of on-going monitoring. A second software is utilized on an as needed bases for USA based clients.

Asahi took great strides during the 2020 audit period with the implementation of the Red Flag reporting portal available to Asahi staff who have direct contact with clients or potential clients. The portal allows the compliance team to communicate important news, events, policies and procedures directly to the staff who need the information. The new portal streamlined communication and also allows front line client services staff to report suspicious phone calls, red flags, AML concerns directly to the compliance team via a standardize system. Previously those concerns were elevated from client services to their supervisor who would typically relay the information to compliance which created a risk of information being lost in translation. Since the implementation of the new portal, compliance has uploaded all relevant compliance policies, all relevant AML policies, several relevant pieces of industry news, created calendar events to ensure staff are aware of important dates.



Based on the successful roll out of the compliance portal, Asahi created a similar tool, the Management Incident Reporting System (MIRS) and the compliance reporting portal was integrated into the MIRS. This allowed for a boarder range of user and gave all company management access to the software.

During the audit period there were no instances of issues related to internal processes. Any due diligence related instances would typically be reviewed by the President and the Compliance Manager. Based on the circumstances the compliance committee may be informed.

**Establish a strong internal system of due diligence, controls and transparency over gold supply chains, including traceability and identification of other supply chain actors.**

The Asahi Refining's Compliance officer oversees the administration of its responsible gold and silver programs. Asahi Refining has a strong, well-established material traceability system for each client and lot received. Our system can pull client lot details dating back to the inception of the system. Date received, size and type of lot, weights, assay results, settlement data and description of lot are all included and stored indefinitely on the system. Documentation is reviewed for each incoming lot to ensure compliance with both our internal handling procedures and our external supply chain procedures.

Asahi maintains a detailed compliance file for each of its clients. These files contain the KYC documentation completed by the client, corporate documents, such articles or business licenses, permits or concessions, information regarding beneficial ownership and copy of ID's. Company policies, procedures, statements, financial records, media reports and a separate file dedicated to the due diligence information found during the on boarding process. In some case these files may also include media reports and copies of emails between Asahi and the client.

Asahi has improved its record keeping during the audit period with the introduction of the new compliance reporting portal. The portal ensures communication directly between customer service and the compliance staff via a written description of the reported event.

Asahi ensures traceability via the initial on boarding process, during the relationship management between sales, compliance, and client as well as the assay lot identification and tracking. When Asahi on boards a new client the traceability of the material to the mine is determined, recorded, and verified. The verification process may include general knowledge of a known historical mine or a site visit for a lesser known mine located in a high-risk location or CAHRA. The Asahi traceability system maintains and analysis a wealth of detailed information from all historical shipments. This allows Asahi to compare and review historical data to ensure it aligns with shipping volumes, assay results and allows for red flag identification should historical mine site data change.

Asahi's internal procedures for undertaking compliance checks on clients varies based on the client risk rating and location. This will determine the frequency of checks. This process can be completed via email and phone communications or as an in-person site visit. During the 2020/21 audit year, site visits were largely complicated by the travel restrictions in place due to Covid-19. Canadian borders remained closed for the entirety of the audit period further complicating the process. However, Asahi did perform several virtual phone interviews with clients which included reviewing sample shipments. Asahi would provide the client with a specific and random shipment received at Asahi and ask the client to provide all associated documentation that corresponded to the shipment.



Due to Ontario, Canada's strict Covid-19 protocol, site visits outside of the province were not possible due to provincial border closures. The Canada and USA borders were closed for the entirety of the audit period. While Asahi did have a compliance employee located in the USA, site visits remained difficult. The vast majority of Asahi clients requiring a site visit in 2020 were located in the state of NY. NY implemented strict Covid-19 measures and as a result, Asahi could not send USA employees or Canadian employees to the state.

During the audit period a potential client passed initial compliance requirements and was approved to be onboarded following a site visit. However, when the client was advised that the approval was conditional based on a successful site visit by Asahi staff, the potential client stated they had never been asked for such a visit from past refiners and therefore would not support Asahi completing the visit. This resulted in Asahi immediately denying final and future approval of the potential client.

During the audit period a large global banking leader and client contacted Asahi regarding the refining of a gold bar, once used for internal training that had Tungsten rods inserted into it. The Asahi client stated the bar had been in their vault for many years and was once used to test Barringer testers made specifically for identifying Tungsten / foreign materials in precious metals. The client also had gold shavings which they believed to be from the bar and suggested that the Tungsten had been inserted by bank vault staff for the specific training purpose. Unfortunately, the client had no official records of when the bar arrived, who installed the Tungsten, or whether or not the bar had been manipulated at the bank vault or if it was received as a "fake" and then used as a training tool. Since no records existed around the integrity of the bar, the source of the metal in the bar or any record of who manipulated the bar, Asahi declined to accept the material.

During a question and answer period following an Asahi compliance training session it was determined that some frontline staff didn't have an adequate understanding of Artisanal Small-scale Mining (ASM). As a result, and to continually improve, the Compliance training was updated during the audit period to cover the topic of ASM, the associated risks and potentially negative impact on the environment. Asahi Refining Canada had 42 staff participate in the compliance training in 2020/21. This training is provided to staff who have care and control of product and/or the ability to identify a red flag before the metal is commingled with other product. As an example: employees in sales, customer service, metal control, finance, shipping, production supervisors and management all receive the specific compliance training. However, employees working in Maintenance and Engineering do not.

**Strengthen company engagement with Gold/silver-Supplying Counterparties and, where possible, assist gold/silver supply counterparties in building due diligence capacities**

During the audit period Asahi maintained its history of strong communication and relationship engagement with all its clients. A few examples are as follows:

An Asahi client of 25 plus years was approached regarding metal from a country he had no previous experience working in. Asahi Global Head of Sales held a meeting with the client and educated the client on some of the concerns and challenges associated with the region. As a result, the client chose not to engage with the new supplier which would have exposed the client's operation to risk that they weren't comfortable with.



During the audit period Asahi emailed all clients and provided them with the updated Precious Metal Procurement policy pointing out that important changes had been made. Asahi requested they sign and acknowledge the policy, or alternatively provide Asahi their own procurement policy.

### **Establish a confidential grievance mechanism**

Asahi Refining maintains two separate grievance reporting tools, both of which are available to staff with one being solely for external parties. The first is provided via a 3<sup>rd</sup> party provider and allows Asahi employees to raise grievances or concerns directly to the 3<sup>rd</sup> party provider who then reports the grievance to the executive level management to investigate. During the audit year Asahi implemented a new supplemental grievance tool aimed at external parties. The Precious Metals Supply Chain Inquiry page is accessible via the Asahi Refining website ( <https://www.asahirefining.com/corporate-responsibility/>) and can be used as a communication vehicle for basic questions around policy or as a confidential tool for reporting. Clear instructions are provided to ensure those who wish to remain anonymous can do so. Emails sent via the web site reporting tool are directed the Asahi Compliance Manager to investigate and respond.

Throughout the 2020/21 audit period no grievances were reported via the two noted tools.

In addition to the grievance mechanism, the previously noted introduction of the red flag reporting portal available to Asahi staff has also assisted to encourage employee participation and risk identification.

## **Step 2: Identify and assess risks in the supply chain**

Asahi Refining has complied with Step 2.

### **Identify risks in the gold and silver supply chain.**

As a leader in the precious metals industry, Asahi Refining recognizes the unique opportunity that we have to play in the development, implementation and continuous improvement of systems designed to detect and prevent commercial activities that contribute to the financing of armed groups, human rights abuses, money laundering, terrorist financing, illegal activities as well as wider ESG concerns. Asahi Refining works with our suppliers of precious metals to ensure they are aware of our Precious Metals Procurement Policy and that the materials they deliver to Asahi Refining do not contribute to such illegal activities.

Asahi utilizes a seven-step process to on board clients, assess risk and continuous monitoring. Those steps are as follows:

Initial contact screening – in this step the sales team will have open dialog with a prospective client, asking leading questions to determine the legitimacy of the business. During this step a client may be sent a Prospective Client Declaration (PCD) form to allow Asahi to capture basic details about the company and the proposed business. The PCD is returned to Executive Management within the sales team who review the documentation and decide as to whether or not the business is a potential fit for Asahi. If the business



is deemed a possible fit for Asahi, the sales team will pass the file to Compliance to proceed further with the compliance process. During the audit period Asahi Refining Sales team determined forty-one clients were not an acceptable fit and DID NOT forward the clients on to compliance for step 2.

Disclosure & KYC screening – In this 2<sup>nd</sup> step potential clients are asked to fill out, sign and return the Asahi know your customer (KYC) document. This particular document is modeled off the LBMA form, however it is modified to ensure stricter requirements around beneficial owners and directly covers topics such as ASM that are not covered in the LBMA form. At this point potential clients are also asked to sign off on the Asahi Refining Precious Metals Procurement Policy. Potential clients are asked to provide copies of ID's for beneficial owners identified on the KYC, as well as operational documents such as mining permits, articles of incorporation and concessions. Permits for other items such as sanitation and water use are also requested along with policies pertaining to environmental, human rights, health and safety as well as AML. This should not be considered a complete list and can vary based on type of business and location.

Due Diligence screening – The 3<sup>rd</sup> step is largely a research step. Using the provided client information as a starting point, Asahi will verify the information while continuing to gather more using the potential client's website and basic internet searches. Once the compliance team has gathered all the appropriate information and is satisfied with a good understanding of the potential business, a third-party screening software is then utilized. The annual subscription software provides Asahi will a tool to screen beneficial owners and top management against hundreds of global watch lists. The software also allows for Asahi to gather basic information on the company that can also be used to verify the information provided by the client. Typically, the software returns detailed reports of the company's financials, officers and executives, ownership shares, company structure and affiliated companies as well as any adverse media regarding the company or individual that were searched.

Risk Assessment – Asahi has developed a risk matrix's by which all potential clients are scored. It contains fifteen categories that are each scored from 0 to 3. Certain categories such as "country risk" carry a heavier weight on the scoring. Potential clients will receive a score and based on the score they are deemed to be "HIGH RISK" or NON-HIGH RISK".

Enhanced Due Diligence – All potential clients who are deemed High risk at the completion of the Risk Assessment step will require enhanced due diligence. At this point a decision is made in discussion with the Compliance Manager, President and Global Head of Sales as to whether or not to proceed with the EDD. This is an important step as Asahi will typically spend between \$7k and \$12K to perform EDD on a potential client.

Enhanced Due diligence can vary depending on the client and location but will always include a site visit. During the Audit year, Asahi hired a Compliance Risk Analyst whose key responsibility is to travel on behalf of Asahi and perform detailed site visit. Alternatively, when security and safety is of concern, Asahi will engage with a third party to perform the visits. These visits are very detailed and include a detailed site tour, a review of health and safety, review of environmental impacts, interviews with management and front line staff, review of permits, signage, security, workers sleeping areas and when possible Asahi will



try to engage with locals in the community to hear their feedback on the mining operation. Again, these can vary dramatically based on many different factors.

Final Approval Final approval is again based on the risk assessment. Potential clients who are deemed non high risk can be approved by the compliance team. Potential clients who are deemed High Risk must be approved by both compliance and the President of Asahi Refining, North America. This will include a detailed discussion of the potential client and any associated risks. If the Compliance team and the President are not in complete agreeance on the approval/or denial the file will be discussed with the Compliance committee and if needed a vote can occur, however the president has the right to deny a potential client even if the committee votes to add them as a client.

Ongoing Monitoring – Asahi subscribes to a 3<sup>rd</sup> party service provider to manage the daily monitoring of all Asahi clients. The software will check beneficial owners’ names against global watchlist once every 24 hours and check the company name for adverse media. An email is sent to the Asahi compliance team each morning with the daily results of the search performed. These reports are reviewed and escalated if necessary.

#### **Asses risk in light of the standards of their supply chain due diligence system**

Asahi continues to assess risk on an on going bases via 24 hour monitoring of adverse media, the confidential grievance tool, review of daily shipments received from clients that can be compared to historical data to compare key analytics and via more traditional methods, such as industry experts, client self-reporting and on site visits by Asahi personal.

Due to Covid-19 travel restrictions encompassing the entire audit period Asahi was unable to perform site visits that it had scheduled as priority visits. At the time of drafting this report, some site visits have now occurred with several other schedule as the world begins to reopen to travel.

During the audit period Asahi on boarded two new client mine site which were deemed High Risk.

Client “A” Asahi onboarded the client with the agreed understanding that a site visit was to occur ASAP. Asahi was unable to perform the appropriate visit due to boarder closures and travel restrictions within the home country of the mine. Asahi has entered into an agreement with a 3<sup>rd</sup> party and the mining operation to perform the visit. however, to date the site visit has not be able to occur. Asahi has maintained communications with all parties and hope to see boarders open soon to allow this visit to occur.

Asahi has assessed this issue as a low risk. The client is an existing client in good standing and a large scale, publicly traded Canadian mining company and member of the World Gold Council. The mine in question is a well-established and well known mine.

Client “B” Asahi onboarded the client with the agreed understanding that a site visit was to occur ASAP. Asahi was unable to perform the appropriate visit due to boarder closures and travel restrictions within





the home country of the mine. Asahi has entered into an agreement with a 3<sup>rd</sup> party and the mining operation to perform the visit ASAP following the CRAFT code, however, to date the site visit has not been able to occur. Asahi has maintained communications with all parties and hope to see borders open soon to allow this visit to occur.

Asahi has assessed this issue as a medium risk. The client is a large scale, publicly traded mining company and member of the World Gold Council. Since the operation has begun, they have been recognized by the local government for several positive community impact stories.

Asahi has clients operating in Conflict Affected High Risk Area's (CAHRA). Asahi has identified seven counties within its supply chain that Asahi has deemed as a CAHRA.

### **Step 3: Design and implement a management system to respond to identified risks.**

Asahi Refining has complied with Step 3.

#### **Report findings to designated Senior Management**

Where appropriate, information gathered, and actual and potential risk identified in the supply chain risk assessment is communicated to Senior Management. While conversations with Sr management around Risk and Risk Mitigation are a common occurrence in the Asahi operation not all examples are documented, however it should be noted that the Compliance Committee maintains three executive board level members. In addition to this the President of Asahi Refining North America must approve all new accounts deemed high risk.

#### **Devise a strategy for risk management of an identified risk by either (i) mitigation of the risk while continuing trade, (ii) mitigation of the risk while suspending trade, or (iii) disengagement of the risk.**

The Asahi Refining compliance policies and procedures outline the protocol where a risk is identified on a current client. The policy outlines a three-step process. Once risk is identified it is discussed with the Asahi Compliance Committee. The Committee will objectively listen to the known facts and determine whether Asahi should:

- 1) Continue business while investigating claims
- 2) Suspend business and receive no further shipments while investigating claims
- 3) Disengage from the client

During the audit year Asahi had one situation requiring review in accordance with the risk mitigation strategy.

*Asahi was informed via its client that allegations by the Canadian Revenue Agency (CRA) had been made regarding failure to pay appropriate taxes. The CRA was attempting to recoup a significant amount of money from the Asahi client. Due to the large sum and pending deadline, the client filed for protection via*



*bankruptcy proceedings. The client also secured a judgement that allowed the client to continue operating his business until such time as the client could proceed with a legal challenge of the CRA claims in tax court.*

The Asahi Compliance committee held an emergency meeting to discuss the above noted risks. The committee determined that since there had been a judgement to allow the business to continue operating (under monitoring) until such time as the client had their case reviewed in court it was in everyone's best interest to place the client in stage one which is to continue business while investigating claims.

This situation is monitored on an on-going basis, and Asahi maintains strong communication with the client.

For many years, Asahi Refining has utilized an enhanced risk mitigation procedure for a select few of its highest risk secondary material clients. This process includes an increased visit schedule often consisting of multiple visits per year, with tabletop audits performed on random samples of material records sent to Asahi. Clients who are selected to participate in this enhanced due diligence can be removed over time and visa versa new clients can be added. Unfortunately, due to Covid-19 Asahi's regularly scheduled visits were not able to occur. At the time of writing this report some in person visits had now occurred but fall outside the audit scope timeline and will be reported next year.

Asahi Refining senior management regularly review actions and issues arising from our due diligence system for the gold and silver supply chains. As we move forward, we will continue to strengthen the documentation process of how we have followed these procedures.

#### **Step 4: Arrange for an independent third-party audit of the supply chain due diligence.**

Asahi Refining has complied with Step 4.

Asahi Refining has engaged the services of RCS Global, an LBMA approved assurance provider, to provide a reasonable level of assurance over this Report.

RCS representatives arrived on site in Brampton, ON, Canada on Sept 28th, 2021 to audit the refiner activities and transactions that occurred between April 1<sup>st</sup>, 2020 and March 31<sup>st</sup>, 2021.

#### **Step 5: Report on supply chain due diligence**

Asahi Refining has complied with Step 5.

Asahi Refining has published its LBMA Responsible Gold and Silver Independent Assurance Reports along with its relevant policies in the 'about us' section on its website [www.asahirefining.com](http://www.asahirefining.com). These reports are also available in the "group quality" section at [www.asahiholdings.com](http://www.asahiholdings.com).

**Table 3: Management conclusion**

Asahi Refining is in compliance with the requirements of the LBMA Responsible Gold Guidance and the LBMA Responsible Silver Guidance for the year April 1, 2020 to March 31, 2021 and is committed to developing a continuous improvement model to refine management systems, policies and procedures throughout 2021 and beyond.



Shohei Yasuda  
President  
Asahi Refining, North America