

PILOT AMENDMENT PROJECT FOR FAIRMINED INCORPORATED'S SEGREGATED REFINING CRITERIA

On August 20, 2014 ARM's Fairmined Standards Committee approved the implementation of a pilot project to assess the feasibility and relevance of the following amendment to the Fairmined Standard v 2.0:

To modify the segregated refining criterion of the Fairmined Incorporated model (Market Annex) to make it a progressive criterion that lets market players prepare and set up the necessary infrastructure for segregated refining. In this regard, segregated refining for the Fairmined Incorporated model will be a requirement on year 3. The 1.1.1 criterion of the Standard's Market Annex currently states the following:

"Year 0 / Entry

All transactions and processes downstream of the first authorized buyer to the point in the supply chain in which the gold is refined are subject to full compliance with physical traceability requirements."

The pilot modification to the Standard is the following:

"Year 0/Entry:

Physical traceability in the Fairmined Incorporated model is required for licensees and operators until gold is delivered to the first authorized buyer. Segregated refining is not a requirement. All other criteria and claims apply according to what is established in the Fairmined Standard and its Market Annex."

"Year 3/Progressive:

Physical traceability in the Fairmined Incorporated model is required for licensees and operators until the gold is refined to its purest form. Segregated refining is required. All other criteria and claims apply according to what is established in the Fairmined Standard and its Market Annex."

The pilot process for this potential amendment to the Standard lasts 2 years, according to the amendment pilot process approved by ARM's Standards Committee.

This pilot project begins on September 1st, 2014 and ends on August 31st, 2016.

Monitoring the pilot amendment

After the two-year pilot period for the amendment, these are the conclusions regarding the monitoring of the results of the pilot:

1. During this timeframe, the Fairmined initiative did not have a significant number of operators and licensees sourcing under the Fairmined Incorporated model and thus did not have a wide sample size of feedback from the market side.
2. Based on some comments of Fairmined refiners and licensees, maintaining the requirement for physical traceability in the Fairmined Incorporated model until gold is refined to its purest form (segregated refining) seems to be a burden for the refiners and an obstacle to engage more buyers for Fairmined gold. Demanding physical traceability in the refining process for this particular sourcing model implies an additional cost for the refiners. Mixed refining doesn't pose a risk in itself for the reputation of the Incorporated model, since after the First Authorized Buyer, Fairmined operators and licensees are free to apply their own physical traceability concepts or adhere to supply chain assurance schemes of their own choice.
3. Although segregated refining is not deemed a requirement for this particular sourcing model, it is essential to maintain physical traceability from the ASMO until the gold is delivered to the first authorized buyer.
4. During this period there was an attempt from one of the Fairmined Authorized Operators to perform segregated refining for small and medium volumes of gold for the Incorporated sourcing model, however, the conclusion was that it was not economically viable because it involves much high costs and the yields were not satisfactory when refining in the laboratory (as opposed to the industrial refining equipment). The requirement of segregated refining would not be practical for industrial refiners, especially considering the available volumes of Fairmined gold. Fairmined would thus be limiting market opportunities for miners if it did not provide a flexible sourcing model that could be practical and accessible to any size refiner, small or large.

Given the above reasons, it was considered to extend the pilot period from September 1st, 2016 to August 31st, 2018 when it is expected to have more inputs from the industry, especially from those who have used the Fairmined Incorporated model. Such results will be included in the next revision of the Fairmined Standard.