

DUE DILIGENCE REPORT 2021
RESPONSIBLE SOURCING PROGRAMME FOR COBALT
FARASIS ENERGY (GANZHOU) CO., LTD.
FARASIS ENERGY (ZHENJIANG) CO., LTD.

1. EXECUTIVE SUMMARY

This due diligence report is the first public disclosure covering Farasis Energy (Ganzhou) Co., Ltd. and its subsidiary Farasis Energy (Zhenjiang) Co., Ltd. (hereinafter abbreviated as "Farasis" or "Farasis Energy") responsible sourcing programme and due diligence management system for our cobalt supply chains based on the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas ("OECD Guidance") and the Chinese Due Diligence Guidelines for Responsible Mineral Supply Chains ("Chinese Guidelines"). As part of the underlying 5-Step Framework for Risk-based Due Diligence ("OECD 5-Step Framework"), Farasis Energy is committed to publicly reporting on our due diligence management system and progress with conducting due diligence on our cobalt supply chains.

Farasis Energy's cobalt due diligence programme focuses on identifying, assessing and mitigating supply chain risks in line with Annex II of the OECD Guidance. An integral part of the programme is our Supplier Code of Conduct and declarations to be completed by suppliers confirming that their operations do not use child labour and that minerals supplied to Farasis Energy from the Democratic Republic of the Congo ("DRC") are conflict-free.

The report provides an initial overview of the various procedures and tools that fall under our cobalt due diligence management system, the governance structure and roles responsible for cobalt due diligence at Farasis Energy and steps taken during the reporting period to map and assess our cobalt supply chains, including relevant risks identified. The report also outlines Farasis' commitment to stakeholder engagement, with a focus on our membership in the Responsible Cobalt Initiative, and partnerships with customers, as well as our planned next steps in line with our battery materials responsible sourcing strategy.

2. INTRODUCTION

Farasis Energy is a developer and manufacturer of lithium-ion batteries using advanced technology to supply innovative energy efficient products to the growing market. The cobalt supply chain has been linked to human rights-related concerns, especially the risk of child labour in artisanal and small-scale mining in the DRC, where a significant proportion of the world's cobalt is mined. To address these risks, we have developed and implemented a tailored due diligence management system for Farasis Energy's cobalt supply chain in line with international good practice standards, notably the OECD Guidance. Our focus is to identify, assess and mitigate any human rights risks in our cobalt supply chain and to ensure that our suppliers conduct their business ethically and responsibly.

This report confirms Farasis Energy's commitment to publicly communicating its progress on cobalt responsible sourcing. As the first public report since the establishment of our responsible sourcing programme, it covers the period from Q3 2019 to Q2 2021. During this timeframe, Farasis Energy developed the programme which includes a dedicated due diligence management system for our cobalt supply chain. The report outlines the various policies, procedures and tools that support the programme, key implementation milestones and next steps.

3. STATEMENT BY SENIOR MANAGEMENT

"Farasis Energy aims to proactively participate in the ethical sourcing of raw materials in China and abroad. As a company with global operations, we are committed to incorporating a responsible sourcing strategy that is aligned with international good practice standards and market expectations. This is why, in 2019, we initiated the development of a tailored responsible sourcing programme for our cobalt supply chain based on the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas."

Dr. Yu WANG, CEO and Founder at Farasis Energy

"Since the development of our cobalt due diligence programme, which included the design of a robust due diligence management system, we have taken initial steps towards establishing transparency and ensuring responsible business practices across Farasis Energy's cobalt supply chain. An important milestone in the roll out of the programme has been the identification of our first-tier suppliers and the mapping and auditing of one of our cobalt supply chains in collaboration with our valued customer to get a clear picture of related suppliers and sub-suppliers and their due diligence management systems so that we can address potential risks appropriately. We are committed to establishing meaningful relationships with our suppliers to advance responsible sourcing also through audits of their supply chain due diligence performance. As part of these efforts, last year, we were able to carry out an on-site visit of one of our first-tier cathode suppliers of cobalt to continue working together towards adopting responsible sourcing practices. As part of our commitment to responsible sourcing, Farasis Energy is working on building partnerships with our customers and suppliers as well as relevant industry initiatives such as the Responsible Cobalt Initiative."

Dr. Phil LEI, General Manager of Supply Chain Management Center at Farasis Energy

"Our next steps, as we continue to implement our cobalt due diligence programme and establish our cobalt supplier base reflecting sustainable increases based on business development needs, include further, in-depth assessments of potential responsible sourcing risks across our cobalt supply chains and the implementation of effective mitigation measures and corrective actions. We are confident that going forward, Farasis Energy will continue to demonstrate its long-term commitment and leadership in the responsible sourcing of cobalt."

Mr. Toby MA, Deputy General Manager and Head of Sustainable Development Center at Farasis Energy

4. COBALT DUE DILIGENCE PROGRAMME

Farasis Energy's due diligence management system for our cobalt supply chains is modelled on international good practice frameworks, specifically, the OECD Guidance and the Chinese Guidelines.

4.1. RESPONSIBLE SOURCING RISKS

The due diligence management system enables Farasis Energy to identify, assess and mitigate OECD Guidance Annex II risks covering human rights abuses, conflict and financial crime in addition to health and safety risks. This includes:

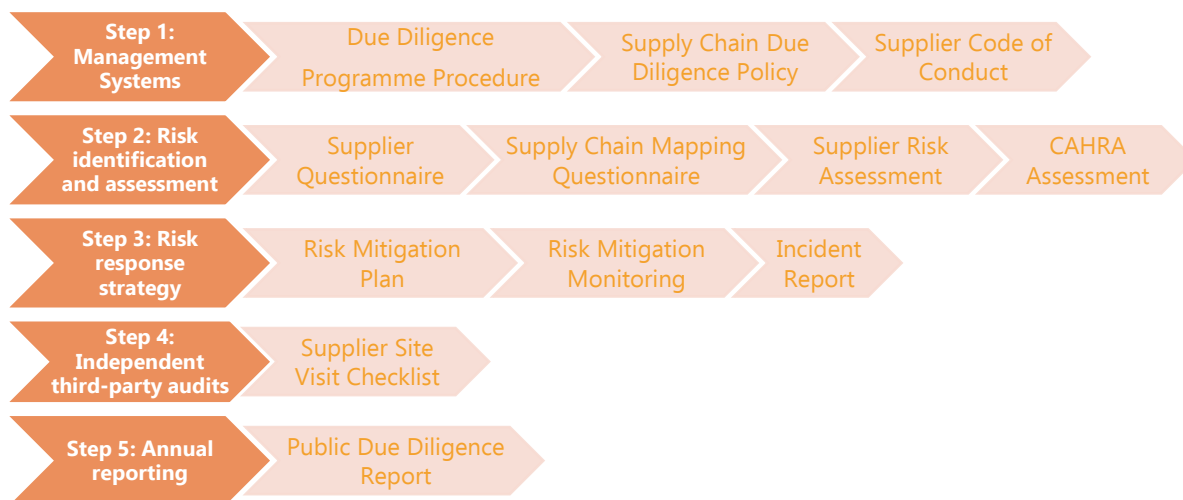
- Child labour, including the worst forms of child labour;

- Systematic or widespread human rights abuses associated with the extraction, transport or trade of cobalt;
- Direct or indirect support to non-state armed groups or public or private security forces;
- Bribery and fraudulent misrepresentation of the origin of cobalt;
- Money laundering;
- Non-payment of taxes, fees and royalties due to governments;
- Modern slavery, including bonded, indentured, trafficked or slave labour; and
- Occupational health and safety (“OHS”).

Throughout 2020, Farasis Energy was able to identify our first-tier suppliers and map and assess one of our cobalt supply chains in collaboration with our valued customer, including the choke points (refiners and treatment units), mines and countries of origin. This is a crucial first step in establishing a system of controls and transparency over our growing cobalt supply chain in order to be able to identify, assess and mitigate responsible sourcing risks in a comprehensive and effective manner.

4.2. 5-STEP FRAMEWORK FOR RISK-BASED DUE DILIGENCE

As part of the development of the due diligence management system, tailored tools were designed to support our continuous efforts to map our cobalt supply chain, identify potential supply chain risks and implement appropriate risk mitigation plans. The below diagram illustrates how the various elements of Farasis Energy’s cobalt due diligence management system reflect the 5-Step Framework.



Step 1

- i. As part of this step, Farasis Energy maps its supply chains and identifies products containing cobalt that fall under the scope of the cobalt supply chain due diligence management system.
- ii. To ensure the effective implementation of company management systems, Farasis Energy has allocated sufficient human and financial resources.
- iii. During the reporting period, we have conducted a 2-phased internal staff training on responsible sourcing risks in our supply chains to ensure the programme can be implemented effectively.
- iv. Relevant company documents are made publicly available and/or are shared with the relevant stakeholders.
- v. An integral part of the programme is the Supply Chain Due Diligence Management Appeal and Communication Mechanism which allows internal and external stakeholders to report any potential concerns regarding the circumstances of our mineral extraction, transport, handling, and export of minerals in our supply chain, including in conflict-affected and high-risk areas ("CAHRAs").

Step 2

- i. Suppliers are required to complete the Know-Your-Supplier/Know-Your-Customer (KYS/KYC) Questionnaires, requesting information concerning their business activity, beneficial ownership, management structure, among other aspects, and to sign the legally binding Supplier Code of Conduct.
- ii. Review of information collected through the KYS/KYC Questionnaires and Supply Chain Mapping Questionnaire enables Farasis Energy to determine countries of material origin.
- iii. Suppliers are classified as high-risk based on the following red flags:
 - KYS/KYC Questionnaire information and/or publicly available information suggest that worst forms of child labour or any other risks included in the Supply Chain Due Diligence Policy are occurring in the supply chain.
 - The supplier does not provide requested KYS/KYC information or other due diligence information in a timely and/or complete manner.
 - There are discrepancies in the information provided by the supplier in the KYS/KYC Questionnaire.
 - The supplier does not commit to implementing due diligence in accordance with the OECD Guidance and/or Chinese Guidelines, does not sign the Supplier Code of Conduct and/or does not agree to implement effective risk mitigation.
 - The supplier's due diligence practices do not improve and/or risks identified in the cobalt supply chain are not mitigated in accordance with the risk mitigation plan.
- iv. Where applicable the CAHRA assessment is carried out to identify risks included in the Annex II of the OECD Guidance.

- v. Based on the above, Farasis Energy completes the Supplier Risk Assessment to determine the supplier risk level and may conduct unannounced site visits.

Step 3

- i. Depending on the risks identified, Farasis Energy prepares a risk mitigation plan and engages with the supplier on its effective implementation and monitoring.
- ii. Considering the level of risks identified, including whether or not a supplier has undergone third-party assurance of its cobalt due diligence practices, our risk mitigation strategies include: a) continuation of the supplier relationship during measurable mitigation efforts; b) suspension of supplier relationship during measurable mitigation; or c) termination of relationship with a supplier after failed attempts at mitigation or where the Farasis Energy reasonably deems risk mitigation is not feasible or presents an unacceptable risk.
- iii. Our risk mitigation plan focuses on remediation with regards to suppliers' cobalt due diligence practices. Where a more structural issue is identified as a priority due diligence risk, Farasis Energy, where necessary, should refer this issue to remediation programs offered by NGOs, international organisations or local governments, or if remediation is not possible or fails, we will refer the case to management and consider disengagement at a senior management level.

Step 4

- i. Farasis Energy works with its customers to commission independent second-party audits of its first tier cobalt supplier and sub-suppliers on an annual basis.
- ii. Depending on the audit outcomes, audits will be repeated annually or at least every 3 years.
- iii. Audit outcomes inform Farasis Energy's risk mitigation plans and may be shared with relevant stakeholders with due regard to business confidentiality.

Step 5

- i. Farasis Energy is committed to publicly disclosing information on its responsible sourcing programme using the most appropriate communication channels.
- ii. As we continue to implement our responsible sourcing programme for cobalt, future editions of our public due diligence report will include information on implementation progress, risks identified in the cobalt supply chain and mitigating measures taken to address them.

4.3. SUPPLIER CODE OF CONDUCT

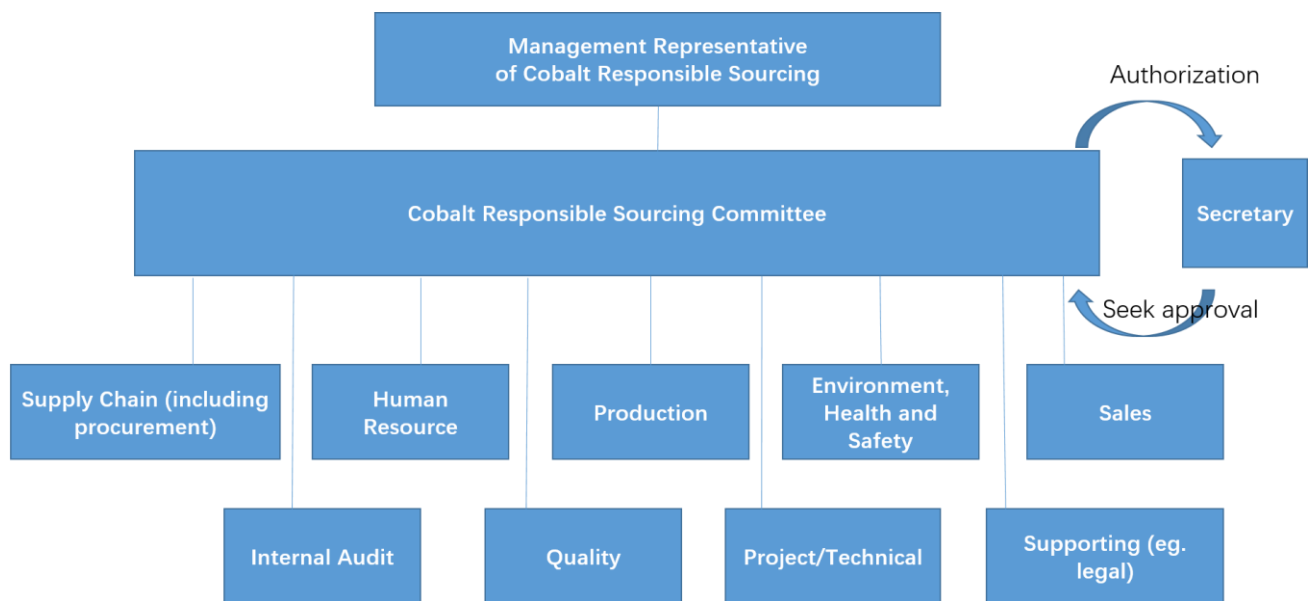
We expect our suppliers to support our efforts to promote responsible sourcing. Therefore, we have set out our supplier requirements covering ethical and sustainable business practices in Farasis Energy's [Supplier Code of Conduct](#) ("SCOC"). The SCOC is incorporated in our commercial contracts and Farasis Energy reserves the right to ensure and monitor our suppliers' compliance with our requirements. Farasis Energy's SCOC covers key environmental, social and governance areas including labour and human rights, health and safety, the environment and business ethics. In addition to the SCOC, suppliers are required

to complete a declaration confirming that their operations do not use child labour as well as a declaration stating that minerals supplied to Farasis Energy from the DRC are conflict-free.

To support our suppliers, we have delivered a virtual training webinar to selected suppliers on cobalt responsible sourcing in May 2021.

4.4. GOVERNANCE STRUCTURE

To support Farasis Energy’s commitment and implementation of our responsible sourcing strategy, we have established dedicated roles responsible for the oversight and roll out of the cobalt due diligence management system.



- Management Representative of Cobalt Responsible Sourcing:** The role is responsible for the planning and high-level oversight of the management of cobalt responsible sourcing programme including a review of its effectiveness and approving the programme’s overall strategy.
- Cobalt Responsible Sourcing Committee:** The multi-functional committee brings together representatives of various company functions involved in the implementation of our cobalt supply chain due diligence including, but not limited to, the following functions: Supply Chain (including Procurement), Human Resources, Production, Environment, Health & Safety, Sales, Internal Audit, and Quality. The multi-functional committee is responsible for the day-to-day implementation of our cobalt responsible sourcing programme including reviewing and implementing our Supply Chain Due Diligence Policy, supply chain risk assessment, risk mitigation and public reporting. The committee also reports to the Management Representative of Cobalt Responsible Sourcing on implementation results and progress. The committee works closely with the Secretary and gives the Secretary the mandate to assign tasks to be carried out by staff in company functions as part of the day-to-day implementation.
- Secretary:** The role is responsible for supporting the Cobalt Responsible Sourcing Committee in the day-to-day implementation of the cobalt responsible sourcing

programme including delegation of tasks, commissioning supplier audits, liaising with suppliers and communicating with external stakeholders including customers to share information about the cobalt responsible sourcing programme.

5. RISK ASSESSMENT AND MITIGATION

As Farasis Energy's cobalt supply chain expands to meet our company's growing production capacity, we will continue our efforts to identify and assess supply chain risks in our expanding cobalt supply chain.

To date, Farasis Energy in collaboration with our valued customer was able to collect due diligence data from audits of one of its cobalt supply chains from first-tier cathode supplier through to the mine. This supply chain was related to one first-tier cathode supplier, which was first audited in July 2019 and re-audited in August 2020, in addition to being visited on-site by Farasis Energy in April 2020. Altogether the supply chain consisted of 11 supplier sites, including the cathode supplier, 5 refiners, 1 treatment unit and 4 mines. The audit findings showed that our first second-tier suppliers (cathode manufacturers and refiners) for the specific supply chain in scope underperformed on the OECD 5-Step Framework related requirements. Identifying and assessing risks, auditing of suppliers and upstream due diligence were among the weak areas. In contrast, the suppliers performed relatively well across the other requirements (avoiding and monitoring child labour, modern slavery and gross human rights violations in their operations). In the upstream, 1 treatment unit and 4 mines were audited and performed relatively well regarding the OECD 5-Step Framework as well as the other requirements. However, the treatment unit did not audit its suppliers nor effectively identified or assessed risks in the supply chain and therefore performed insufficient due diligence on the mines that supplied it. For the mine sites identified (all ASMs), management of risks and public reporting was limited. Additionally, OHS-related risks remained. All of the audits referenced above led to the development of corrective action plans, recommending specific correction actions to address the identified non-conformances within a specific timeframe.

6. STAKEHOLDER ENGAGEMENT

Since 2018, Farasis Energy has been an active member of the Responsible Cobalt Initiative ("RCI"), a multi-stakeholder alliance to identify and respond to social and environmental risks in the cobalt supply chain. By aligning our business strategy and activities and collaborating closely with the RCI, we can report the following activities:

- a) Farasis Energy attended a series of responsible sourcing webinars organised by the RCI as an active participant to discuss cobalt responsible sourcing topics of relevant to Chinese companies.
- b) In November 2019, as a member of a delegation to the DRC organised by the RCI, Farasis Energy visited large-scale and artisanal and small-scale mines, refiners, trading markets and other relevant local sites to learn about local responsible sourcing and production challenges and solutions.



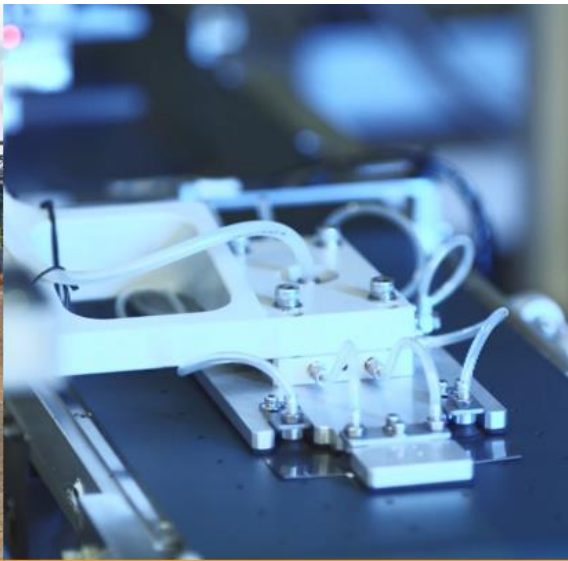
c) Farasis Energy proactively participates in dialogues and communication platforms with multiple stakeholders, for example, the International Forum on Sustainable Mineral Supply Chains in December 2020.

Moreover, Farasis Energy continuously identifies partnership opportunities in the sustainability sector including with our direct customers. For example, together with Daimler AG, Farasis Energy is working on a sustainability partnership aimed at increasing transparency across the entire supply chain of battery cells. This project is supported by world-leading responsible sourcing and ESG advisory and assurance company RCS Global.

7. NEXT STEPS

Farasis Energy is committed to continuous improvement of our cobalt responsible sourcing programme in line with evolving customer expectations and leading industry practices. To achieve this, we have set the following action points:

- a) We will continue to conduct risk assessments of our expanding cobalt supply chain, unilaterally and in collaboration with our valued customer, to identify potential responsible sourcing risks while engaging with our suppliers on adequate mitigation plans and corrective actions.
- b) We are planning to expand the scope of our supply chain due diligence to other battery materials in collaboration with our valued customer including through on-site and remote audits leading to the development of corrective action plans.



www.farasisenergy.com.cn

Cobalt-Due-Diligence@farasisenergy.com.cn