MINUTES OF THE SAMVAL SUB-COMMITTEE MEETING

TO DISCUSS PARKED ISSUES, HELD ON 26 OCTOBER 2017 AT 14:00

MIDSHAFT BOARDROOM, MINING PRECINCT, CARLOW ROAD

Present:	**H Bornmann (Chairperson)**	
	R Croll	**K Redman**
	A Macdonald	
Apologies:	**A Clay**	
In Attendance:	**C Jardine**	**SAIMM**
	??	**SAIMM**
	A Donnelly	**Scribe**

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1. WELCOME

The Chairperson welcomed all to the meeting.

2. VALIDATION OF PREVIOUS MINUTES

The minutes of the meeting held on 24 August 2017 were taken as a true reflection of proceedings, subject to the following changes:

Page 1, Agenda Item 2, Key Parked Issues - The third last paragraph should read: "The third issue was independence, which he believed had been dealt with".

Page 4, Agenda Item 2, Key Parked Issues – Regarding the third last paragraph, Ms Redman queried why her name appeared in the minutes, when she had not been at the meeting. It was pointed out that this formed part of Mr Clay's report back on the history around the parked issues.

The Chairperson requested that the minutes not be recorded verbatim in future.

3. DISCUSSION OF MR MACDONALD'S PAPER

The Chairperson opened the debate by pointing out that Mr Macdonald's paper was a discussion document and was not cast in stone.

He raised a concern about using WACC in projects if a junior or explorer was trying to get a project going and raise capital. Ms Redman pointed out that any recommendations from the committee had to be put out to the broader public needed to be justified as to its relevance. Should the Terms of Reference need to be amended, this should be presented to the SAMVAL Committee for consideration. Ms Redman queried whether she should be attending these sub-committee meetings, as she wanted people to come back to people of the broader SAMVAL Committee with a recommendation.

As a point of order, the Chairperson of the Parked Issues Sub-Group was Mr Bornmann. Ms Redman, in her capacity as Chairperson of the SAMVAL Committee, had asked for a working group to be formed to address parked issues. This Sub-Group had met and put together a working paper for consideration. The intention of this meeting was to discuss and refine the document, if necessary. As Chairperson of the SAMVAL Committee, it was useful for Ms Redman to attend the sub-group debates, as it would avoid unnecessary regurgitation of debates once the recommendations were put to the SAMVAL Committee. Mr Bornmann believed that attending these meetings as an observer and contributor would give Ms Redman good insight. Ms Redman agreed.

Mr Bornmann expressed concern that the Sub-Group meetings had so far been made up of the same stalwarts and would have benefitted from input from other members who had confirmed their attendance prior to the meetings, but then did not arrive on the day. No comments had been received from other members.

At a suggestion from Mr Bornmann that he should phone members before the meeting to confirm their attendance, Mr Croll responded that this was not the responsibility of the Chairperson. He suggested that the documentation (minutes of this meeting and Mr Macdonald's paper) be circulated to the broader group, advising that it would be discussed at the next SAMVAL Committee meeting and requesting that members make a concerted effort to attend. Written comments should be provided before a certain date, after which no further comments would be discussed. All agreed.

Ms Jardine was requested to send out a new meeting request for the SAMVAL Meeting to be held on 30 November 2017, together with the documentation mentioned.

ACTION: Camielah Jardine

Ms Redman added that the intention was to table this at an SSC Meeting in the second meeting of 2018.

She also recommended that, before sending out the document for wider comment, there were certain points that needed to be debated further.

Initial Discussion Document

Regarding discount rates of 0%, 5%, 10% and 15%, Mr Clay had suggested introducing a prescriptive "Base Case" which identified an "at a point in time" calculation; where, on a specific date, "SPOT" prices for the commodity price and exchange rate were quantified inputs to the cash flow and the NPV's were calculated in Real and Nominal terms at 0%, 5%, 10% and 15% discount rates. Once that "Base Case" had been presented, the alternative company views, forecasts and corporate WACC could be disclosed to show the various views that may be relevant.

Ms Redman advised that the basis of the SAMVAL Code was market valuation, not intrinsic valuation. The document had to align with what was in the Code. Some discussion followed on whether the Code mentioned market value and that the start was "fair market value". The following values were described under "Value Types" in the Definitions: Fair Value, Intrinsic Value, Investment Value, Market Value (willing buyer/willing seller), Special Value and Synergistic Value.

It was agreed to park this issue for the moment.

Prescriptive Discount Rates

This would depend on the country of jurisdiction. For a country such as Zimbabwe, with that hyper-inflation, the discount rate would not fluctuate too much if it were valued in US Dollars.

In terms of the note under discussion, the Code was there to provide guidance and to provide a base of evaluation that potential investors could look at and apply their minds as to whether they wanted to make such an investment. The CPR use a basis of evaluation to give sufficient information and offer to enable readers to make an informed decision on an investment.

There should be a benchmark for comparison in order to allow the investor to compare projects, regardless of the reader's perceptions.

Ms Redman believed that the Code should not be prescriptive at all, and if a range was to be prescribed, there should be justification as to the reason for comparison. She emphasized that it was not about intrinsic or synergistic valuations.

Mr Bormann suggested that the discount rates should allow for 5% up and 5% down. Again, Ms Redman advised that this would have to be justified to the broader market in terms of SAMVAL recommendations, as every valuation would be fundamentally different.

Mr Macdonald advised that the sensitivity of the project to discount rates should be indicated.

Mr Croll believed the responsibility rested with the CV to make a decision on how the value was arrived at. This responsibility could not be taken away from the CV.

Ms Redman suggested that the Code already stipulated that the valuation should be underpinned with a risk assessment – either qualitative or quantitive. She believed that the current paper would be rejected by the broader public in its current format.

It was agreed that there were different perceptions on the paper that had been put together by Mr Macdonald. The document would be circulated to the wider group and debated at the SAMVAL meeting on 30 November 2017.

Regarding the AIM Mining Guidance's stipulation of reporting an NPV at a 10% real discount rate, Ms Redman countered that AIM was a stock exchange requirement, not a code. As such, this was a rule and not a broad principle. SAMVAL was a code, not a listing requirement. She suggested that if SAMVAL was looking at best practices around the world, it would be better to compare codes with codes, i.e. SIMVAL or VALMIN.

It was the duty of the sub-committee to put together a position paper for discussion by the SAMVAL Committee to come up with a final view. Ms Redman reiterated that the position paper should give reasons behind the numbers, recommendations or suggestions.

Mr Croll believed it was not the role of the CV/CPR to protect the buyer/investor. It was the view of the sub-committee that the discount rates should be used to provide a spread of information to give an indication of the value of the asset. The discussion paper would then be presented to the SAMVAL Committee and Mr Croll's view as that if there were many dissenting voices within the SAMVAL Committee, he would advise that the position paper was the recommendation of the sub-committee. Once incorporated into the Code or as a guideline, the correct wording and rationale would have to be included.

Ms Redman agreed that rationale was necessary, as well as providing guidelines as to why these were considered reasonable.

Mr Croll reminded the meeting that this document was still a discussion paper and that the figures of 5%, 10% and 15%; they were linked back to the weighted average cost of capital in whatever country the report was being compiled. If a weighted average cost over capital was being used in Zimbabwe, one would not use US Dollars (due to high inflation figures).

The prescribed range of discount rates would have to be looked at in terms of the risk. There should be background as to why a particular range of numbers was being prescribed and why this was meaningful; none of this should be done in isolation, but should be part of an aggregate which had to be meaningful and reasonable. As per the Code, the CV should be able to justify this in terms of the four pillars; reasonableness being one of them.

Misaligned dates on CPRs

Mr Croll presented an example of a CPR, where the three dates (date of review, date of issue, effective date) did not align. Some discussion followed, with the following points being raised:

- Things were valued on resources and reserves that were no necessarily done on the same date
- It was not possible to see into the future
- If a date is being used post the CPR, future events are being ignored
- Ms Redman advised that she had done valuations on resources and reserves that were carried out in a previous year
- It was not possible to predict material changes
- You can work on the view that you are using a spot price or spot exchange rate
- It goes around the wording of the CPR around those items
- It was suggested that this should form one of the parked issues; that the Code did not have a definition for effective dates. The valuation date had to be aligned to the CPR as this was where the modifying factors were listed. This raised questions that needed to be addressed.

Another example of a CPR was discussed regarding two life of mine plans and the fundamental methodology was questioned.

4. COURSE OF ACTION

It was agreed that Mr Macdonald would write up the debate on discount rates. This would be sent out with the minutes, with a request for comment.

In the document, where it shows the recommended position" on discount, the word "recommended" should be changed to read: "position for discussion". Add words to the effect of: "based on the location within which each particular mineral asset being valued is located….". The location should be brought in, with WACC being based on a specific location and currency. Mr Croll agreed to make the necessary changes.

ACTION: Rob Croll

The amended document and minutes would be circulated to all Committee members, asking for their feedback before the next SAMVAL meeting to be held on 30 November 2017.

ACTION: Camielah Jardine

5. DATE OF NEXT MEETING

Mr Bormann thanked all for their attendance and advised that the date for the next meeting would provisionally be set for 25 January 2018.

SUMMARY OF KEY ACTION ITEMS

Camielah Jardine
Send out amended meeting request for SAMVAL Committee Meeting to be held on 30 November 2017

Rob Croll
Make necessary changes to position paper, as outlined in the minutes and send to Hannes Bornmann for review.

Hannes Bornmann
Review amended position paper and send to Camielah Jardine.

Camielah Jardine
Circulate amended position paper and copy of minutes to SAMVAL Committee Meeting, asking for feedback prior to 30 November 2017

SAMVAL Committee Members
Provide feedback to Camielah Jardine prior to SAMVAL meeting on 30 November 2017