

MINUTES OF THE SAMVAL WORKING GROUP MEETING

HELD ON 25 MAY 2017 AT 08:00

MIDSHAFT BOARDROOM, MINING PRECINCT, CARLOW ROAD

Present

K Redman (Chairman)

A Clay

T Marshall

R Croll

J Ruddy

J Luckmann

M Tlala

Apologies:

In Attendance: C Jardine

SAIMM

1. WELCOME

The Chairman welcomed everyone to the meeting of 2016 and the list of apologies were noted.

2. ACCEPTANCE OF PREVIOUS MINUTES

The minutes of the meeting held on 24 November 2016 were accepted as a true reflection of proceedings.

3. KEY ACTION ITEMS AND MATTERS ARISING FROM THE MINUTES

Key action items:

Regarding sending a roster of SEC consultation paper working group meeting dates to Raymond v/d Berg, Ms Redman advised that she was not sure what this was about and it was requested that this item be removed from the outstanding action list.

Mr Clay had been asked at the previous meeting to provide feedback on the SAMVAL issues raised with IMVAL. Ms Redman suggested that this be discussed under the separate IMVAL meeting agenda point.

Ms Redman confirmed that she was in the process of drafting the training documents regarding commissioning entities and advised that the SAMREC/SAMVAL CP/CV courses were scheduled for 08 and 09 June. A full presentation would be put together, effectively outlining the SAMVAL Code, expectations, etc. and that would be presented on 09 June. Before circulating this presentation, it would be sent to the Committee to allow them to add comments and suggestions. It was confirmed that this would also be put onto the website in one form or another.

Action: Kelly Redman

Mr Croll had been asked to assist the Complaints Committee regarding the recent coal complaint. Ms Redman reported that this had been dealt with.

Regarding the list of future SAMVAL meetings, it had previously been decided to have these on the same date as the SSC Meetings. Ms Jardine that, with Mr van den Berg leaving, she would cancel all the previously scheduled meetings and send out new requests to all SAMVAL members from her e-mail address. The venue would also be changed to Carlow Road on the new appointment requests. The next two meetings were noted as 31 August and 30 November 2017.

Action: Camielah Jardine

Matters arising:

In terms of the Minerals Economics Group, Ms Redman advised that effectively nothing had happened and that no meetings had been held to date, as the person driving this was currently working somewhere else. Currently the whole group was dormant. One of the suggestions raised at the previous meeting was to have this as a joint division under SAIMM and GSSA.

4. IMVAL

Mr Clay reflected that it had taken close on 15 years to get an Oil & Gas Code. About six years ago, work started on the SAMOG Code by having a Committee aligned with the PRMS (training resources and management system) and this effectively incorporated the principles as to how qualified reserve evaluators went about their work defining reserves and resources in Oil & Gas. They then incorporated sections on the principles on how they went about that work. The reporting standards emerged out of that. It was also in PRMS, but was "codified" largely through the National Instrument (NI)51-101 in Canada. That reporting standard morphed into what was done in the SEC in New York and the standardised reporting enabled items to be disclosed by companies that report specifically in public domain; with a standardised output as to how to provide for valuation of Oil & Gas. The SAMOG Code emerged from that; was promulgated; and there were currently several companies on the JSE that reported to SAIMM. The JSE had been very supportive.

An alliance was formed with the Alberta Securities Commission, which was the gatekeeper of the Coal, Oil & Gas Evaluation (COGE) handbook. This was similar to the PRMS and the two were being coalesced into one.

Once the report was finished, the formal Memorandum of Understanding had been set up between the JSE and the ASC, where it was agreed to work together. Last year, a relook had been taken at the Code and it was felt that some things needed to be modified and, in conjunction with the ASC, these modifications had been included in the latest version.

Instead of keeping in touch, the ASC went slightly on its own to undertake a number of surveys and studies with regard to their reporting and the efficacy of their Code. Last year, the SSC issued a review to the industry around the application of mineral industry standards.

The ASC had five fully-qualified, full-time QREs in their Surveillance Division. The adopted a very strict "policing" process.

In a subsequent teleconference with Craig Burns and his team, it was agreed that the JSE and ASC should continue to work together, but there were a number of items that had been identified as common problems and these emerged as follows:

When looking at valuations and using the traditional market valuation, the income approach and the historical costs as incorporated in SAMVAL; when one tries to do market comparisons for Oil & Gas companies, it is almost impossible. The reason for this is that the level of disclosure currently allowed through (NI)51-101 and PRMS is too little information. That raises the question that, with the IMVAL Code as it had been prepared, Oil & Gas and Minerals had been scooped up in the same Code and it insisted that two methods be used. Current circumstances did not allow this to be done for Oil & Gas.

Mr Clay stressed that this could not work and, for this reason, the SSC should advise that it could not subscribe to IMVAL.

The project area was very "grey". Oil & Gas companies primarily used two numbers when calculating a value". One was called the "field development plan", where the company would do a complete assessment of the entire field (which was often extremely large). This number would not generally be disclosed, but often it was incorporated in the documentation. The project would be the platform that would be put into place and several wells would be drilled into that, and that would be the cluster of the project. Mr Clay believed would be extremely difficult if not impossible to try and do a market comparison. The options were to either fix the Oil & Gas reporting standards (currently under way) or scope out of IMVAL.

Another term was 'unconventional'. That term was originally coined for difficult and obtuse items such as coal classification, shell gas, tar sands, etc. The industry had been working so aggressively in that area, that it was no longer considered unconventional and it was anticipated that this term would fall away. 'Unconventional' also conveyed an element of unnecessary risk.

The ASC would shortly be advising on their deliberations and their consultation with industry on these points and the SAMOG Code would be amended if and when necessary. The JSE had not yet established an annual reporting process for Oil & Gas and, when Ms de Bruyn returned, this would be one of the items to be addressed. The biggest challenge was with Sasol, who were very conscious of maintaining their reporting standards. Mr Clay anticipated that Ms de Bruyn would set up a time frame to scoop up the annual reporting.

Mr Clay advised that, after many years, he was stepping down from all his duties with regard to Committees, but that he would stay on with regard to the Readers' Panel. He added that the Oil & Gas Readers' Panel process differed from that of the Mineral Readers' Panel because the former effectively tried to engage in a very collaborative process with the writers; so that if there was an error, the Panel found that a better way of doing things was to speak directly to the individuals concerned. He had requested that the two Readers' Panels would continue to be run separately so that the differences could be identified and the best of both used.

Mr Clay was also stepping down as Oil & Gas Chairman and Mr Peter Decker from Petrol SA would be taking over.

He believed Oil & Gas and Minerals could learn much from each other and that it was beneficial to have joint sessions. He suggested that SAMVAL should make a formal recommendation to the SSC regarding what the approach should be to IMVAL.

Ms Redman responded that the idea had been to spend two years getting comments back from people in terms of IMVAL. Before rejecting IMVAL in its entirety, she suggested that SAMVAL revert to IMVAL to advise which areas were problematic and needed to be dealt with; and that SAMVAL's recommendation would be to take Oil & Gas out in the next version of the IMVAL Code. She believed it would be better to take this approach and get a compromise. The Society of Petroleum Evaluation Engineers had accepted the invitation to nominate a representative (Mr Long) to sit on the IMVAL Committee and Ms Redman believed this would help. Mr Clay agreed, but stressed that it should be linked directly to the ASC, as gatekeepers, to ensure that PRMS is maintained as the global reporting standard. The only challenge was that the key people were getting older and, through Mr Craig Burns, it should be ascertained who the new leaders would be in terms of their knowledge of these processes.

Ms Redman suggested that a letter be drafted to IMVAL, outlining these issues and giving recommendations from SAMVAL and SSC. All agreed.

Action: Andy Clay and Tania Marshall

5. PARKED ISSUES

6. PARKED ISSUES

Mr Clay highlighted the following parked issues to be dealt with:

- Requirement for independence
- The valuation of inferred resources
- The challenges with various forms of disclosure (using spot metal prices, price exchange rates, etc.)

Ms Redman believed that the subject of independence had already been dealt with in the Code.

Mr Clay advised that at the first Economics meeting held, Mr Macdonald had given a good presentation on the complications around what was being discussed. The indication was that it would be food for more thought but the criticism was that the SAMVAL Committee had not dealt with the matter sufficiently; and that many things were left to the Valuator to make a decision on what to do. Because of that, there was a big variation in how things were being applied in general within the industry. Mr Clay suggested using a more definitive, prescribed approach and believed that specific guidelines had never been decided in terms of fair value.

Ms Redman cautioned against confusing what accountants used compared to actual value. Some of what went into the accounts would be entered as assets and the rest would be written off or put in as goodwill. Mr Clay noted that accountants were fully aware of the difference and they would primarily use spot or management forecasts. Ms Redman advised that, in the SAMVAL Code, one of the principles was "reasonable" and asked whether that did not cover the issue. As a valuator, one had to apply those principles. When doing that in the use of the impact assumptions, these had to be reasonable. Mr Clay advised that there were differences between Oil & Gas and Mining. In Mining, it was not mentioned that the primary basis for calculations was "spot", whereas Oil & Gas used spot first to get a number.

A lengthy debate followed on this subject, after which it was agreed that Mr Clay would consult with the working team to put together a position paper around disclosure. This would then be presented to the SAMVAL Committee and put out to the wider community for feedback on whether the suggestions would be acceptable.

Action: Andy Clay

7. REGISTRATION ISSUES

Ms Redman advised that she had written to SACNASP to outline that SAMVAL wanted to register a field of practice within that body. SAMVAL's view was that if this was done successfully via SACNASP, the same general approach could be used with each of the other statutory bodies. Ms Redman believed that it would be very difficult to have a single classification for Mineral Asset Valuers and it would probably be necessary to find a few. The SAIMM would be letting members down if it did not try and get this incorporated under all the statutory bodies/associations. Ms Redman was awaiting a response from SACNASP and the matter was ongoing.

Mr Tlala enquired whether any other bodies had been approached in this regard, in a parallel process. Ms Redman responded that SAPVP had been approached and SAMVAL was awaiting feedback. The problem with many statutory bodies was that they had specific educational requirements, etc. and that people studying to be Mineral Asset Valuers would not necessarily be considered under their current qualification requirements. She reiterated that this was not a simple process, even under SACNASP, who required a science qualification.

Mr Tlala mentioned that ECSA did cater for categories other than engineering and suggested that the dialogue with that organisation be revived via Mr John Cato. He believed there were specialised categories that could be explored. Ms Redman agreed to follow up with Mr Cato in this regard.

Action: Kelly Redman

8. COMPLAINT TO BE ADDRESSED

Mr Clay requested information on the complaint that had recently been addressed. Ms Redman responded that a combined SAMREC/SAMVAL sub-committee had reviewed the complaint, received via the SSC Complaints Committee. The sub-committee believed that the complaint did have merit and reverted to the Complaints Committee. An update would be discussed in the SSC meeting.

The document in question did not go through the Readers' Panel. Mr Clay advised that one of the recommendations was that this type of document should go through the Readers' Panel and Ms Redman confirmed that this had also been recommended by the sub-committee. Ms Marshall advised that this was not a matter for the SAMVAL Committee.

9. GENERAL

No issues were discussed.

10. DATE OF NEXT MEETING

The next SAMVAL Working Group meeting was scheduled to take place on 31 August 2017 and Ms Redman advised that she would be unable to chair that meeting.

The Chairman thanked all for their participation.

SUMMARY OF KEY ACTION ITEMS

Kelly Redman

Circulate training course presentation to members for comments and suggestions. Arrange for this to be put on SAMVAL website.

Camielah Jardine

Re-issue meeting invitations, changing venue to Carlow Road Precinct.

Andy Clay / Tania Marshall

Draft letter to IMVAL outlining issues and giving recommendations from SSC and SAMVAL.

Andy Clay

Consult with working team and put together position paper on disclosure issues/suggestions. Present to SAMVAL Committee initially and put out to wider audience for feedback.

Kelly Redman

Follow up with John Cato of ECSA re MAV registration issue and suitable categories within ECSA