

NOTES OF THE SAMVAL COMMITTEE MEETING

HELD ON 27 AUGUST 2020 AT 08:00

VIA ZOOM

Present: **Mr A van Zyl (Chairperson)**
 Ms A de Bruyn
 Mr V Duke
 Mr M Jarvis
 Mr A MacDonald
 Dr T Marshall
 Mr M Mullins
 Mr J Odendaal

Apologies:

In Attendance: **Ms T Letlhaku (SAIMM)**

1. WELCOME

Mr van Zyl welcomed everyone to the meeting and apologised for missing the meeting held in May. He thanked Mr Bornman for stepping up. Mr Matthew Jarvis introduced himself as a new member and the Chairperson welcomed him onto the SAMVAL Committee.

2. APOLOGIES

No apologies had been received.

3. ACCEPTANCE OF PREVIOUS MINUTES AND MATTERS ARISING

The minutes of the meeting held on 28 May 2020 were taken as a true recording of the discussions. This was proposed by Mr MacDonald and seconded by Dr Marshall. Mr Mullins believed the minutes covered the discussions very well.

Mr van Zyl clarified that the presentation that Ms Redman had delivered originally and that he had adapted for one of the GSSA conferences had been passed on to Mr Duke who was going to make any changes he deemed appropriate.

With regard to nominal and real models and assumptions with regard to financial reporting, Mr van Zyl advised that he was more of a fan of real models, rather than nominal models. The only thing one really had to do to get the tax right was to deflate any unredeemed amount that was carried forward to reflect that it was worth less in future periods. Mr Jarvis added that BHP Billiton exclusively used the real model for all their work for exactly that reason. Mr van Zyl noted that Rio Tinto's policy was real and nominal, but the NPV's had to be the same. The only real challenge was that any unredeemed amounts that were carried forward needed to be different; but otherwise he found the real model much easier to work with.

Dr Marshall advised that this did come up at the last meeting and was in the minutes as well and, listening to the discussions now, highlighted the need for all these guidance notes and bits of information on how it was being done in the various companies to be put on the website for people to read through for interest – not for needing to apply – but for interest and for guidance on how they might do things.

Mr van Zyl noted that there was nothing wrong with either of the models; but he just believed that the real model was easier to audit, as mistakes were easier to pick up. Mr Jarvis added that it was quite easy to make mistakes using the nominal model, especially with inflation of the first year's figures.

4. KEY ACTION ITEMS

The key action items were discussed under Agenda Item 6 – Parked issues.

5. IMVAL

Mr van Zyl had no additional feedback on IMVAL and he believed there had not been a meeting since the last call. Ms Moolla had been kind enough to pass on details around SAMVAL to be included on the IMVAL website.

Some work was being done on the Terms of Reference and there was an ongoing process around how IMVAL compared to CRIRSCO or not. There had been discussions around whether it was an organisation or a committee. There was nothing of importance from a valuation perspective.

Mr van Zyl gave Mr Jarvis some background on IMVAL and the connection with SAMVAL.

Mr Mullins suggested there would be great benefit in IMVAL taking the lead – similar to CRIRSCO – in terms of agreement on standard definitions as opposed to the convergence that had happened the CRIRSCO world on the new standard definitions, although those were still going through the period of review at the moment. He saw a huge lack of convergence in the valuation world. The VALMIN and SAMVAL Codes were quite different in key aspects, e.g. definition of value. There would be benefit in agreement on across globe standard definitions. He was not sure how to feed that back to the IMVAL Committee.

Mr van Zyl knew that a lot of time had been spent on different definitions across the jurisdiction and then trying to find alignment. SAMVAL could hopefully influence the process and encourage alignment, but each jurisdiction would have to take the responsibility to follow a process like SAMVAL, where an effort was made to find alignment and for common definitions. It was something that he would raise.

Mr Mullins suggested that the Denver Accord of 1997 could be followed; where certain standard definitions were put on the table and then the future and current members of CRIRSCO at the time agreed to them. Just initiating the process would be a good start.

Mr van Zyl believed it was a good point. Each region could reconcile their views with some common ground so that it could be reversed out again. Mr Mullins stressed the importance of the definition of what value was required, as intrinsic value was very different from fair market value. Mr Jarvis supported that and things could be misinterpreted very easily if there was not clarity on how the value had been determined. Each value had its own purpose and need.

Mr van Zyl added that transparency should be the first goal of any valuation and agreed to raise this matter for discussion and provide feedback.

ACTION: Andrew van Zyl

6. PARKED ISSUES

- 6.1 Regarding circulation of the IMVAL minutes to all members, Mr Duke was not present at the early part of the meeting to confirm that this had been done.
- 6.2 Mr Njowa was not available to advise whether he had prepared a note for Mr Borman with regard to nominal and real models in assumptions.
- 6.3 Dr Marshall advised that no guidance notes had been received. Mr Macdonald had resurrected the guidance notes from a year ago and these had been sent to Ms Jardine. Ms Jardine had sent them to Mr Borman and there were some minor comments that had to be addressed. Mr Borman and Mr Macdonald had not yet finalised those.
- 6.4 Mr Borman was not available to confirm whether he had discussed the possibility of having someone present the Guidance Notes at the SAMCODES Conference in October 2021.
- 6.5 With regard to contact with the mining houses, Mr Macdonald advised that contact with the mining houses was an ongoing task and he agreed with the comments about getting people to join in online. He encouraged members to try to find someone to invite to the next online meeting, in order to increase the base. Mr Jarvis asked what the experience had been in the past. For some reason SAMVAL did not resonate in the corridors of corporates like it should. He wondered if there had been a brick wall with corporates; or whether it was just lack of interest. Mr van Zyl shared his personal experience and advised that, SAMREC, SAMVAL and general compliance was not considered by most staff. The overall CP and some other people were concerned; but there was very little knowledge about SAMVAL, valuation methods, listing requirements, etc. and people were more focused on internal procedures. Somebody had developed a tool, a template and a guideline for what people were looking for in terms of how many ounces and other things; and there was no focus on a compliant valuation per se. Any compliance was purely coincidental. Some of it was not appreciating, on the side of the company, as to what value there was in terms of the process itself; and that building compliance into each step of the process was valuable of itself, because at some point something had to be declared publicly. He thought there was merit in having at least a working knowledge across teams of what would constitute a compliant estimate. It was not so much disparaged or discouraged – it was just something that did not need to be done.

Mr Jarvis suggested that companies had their own in-depth processes and SAMREC was more about the listing requirements, etc. and not so much about best practice. Mr van Zyl added that there was some work to be done in framing, for SAMVAL itself, why there was merit in what had been put together and in the various tables and templates, but he believed the industry would benefit from some of the CP structure that had been put together in the SAMCODES, just in the normal course of business. It was something that consultants were busy with all the time, but it was not something that people in companies thought about much at all.

Ms de Bruyn recalled that at some point it was discussed at SST around really marketing the Codes and getting the message around, as well as the branding. If people did not know about the Codes inside the companies, she suggested that maybe this was something to work on. Mr Jarvis believed it was probably more relevant in the reporting of reserves and resources, where there was focus on the SAMCODES; but when it came to this particular aspect of it, people really did not know the value of SAMVAL. The marketing aspect of SAMVAL had to be around the value that it could deliver. Dr Marshall advised that from the SAMCODES side, they

were trying to market the website and that anybody could send her information to help with this. SSC was also doing write-up every month in the GSSA newsletter and the SAIMM journal. They were in the process of doing training on SAMREC and SAMVAL. As far as possible, they were trying to get the information out and she asked for suggestions from the floor.

Mr Jarvis responded that Mr Mullins had mentioned hosting these meetings at different corporate offices and also inviting some other company people to invite those meetings. Mr Mullins added that getting out to a broader audience should certainly be increased. Mr Martin Cremer himself was a great supporter of the SAMCODES but Mr Mullins had not seen anything over the last 18 months in the 'Mining Weekly'. Dr Marshall agreed to work on that in order to broaden the audience.

ACTION: Tania Marshall

Regarding SAMVAL, Mr van Zyl advised that certainly companies made valuation decisions, so much of what SAMVAL was about was third party market value. Companies obviously approached something with all synergies in mind and with various strategic objectives in mind; and they were not giving consideration to what a market value might be. He believed it was helpful to understand that at some point, one had to produce a public document that did give a valuation that was not unique to the company itself and did not consider synergies and objectives and other things. That was what would have to be presented to shareholders in the market and that would have to be reconciled with whatever report had been done internally. Mr Jarvis believed there was a certain expectation from leadership in those organisations, that that was the value of the business, but when it came to signing the deal, it was far removed from what they saw; or a deal was never concluded, which made them grapple with that. That should also be considered.

Mr Odendaal advised that, from his experience, this was correct. Market values could be calculated but there were so many other outside factors that influenced the final deal price and typically one could compare a private company at an IPO vs a listed company with assets. It was sometimes found that the market value could be calculated and there was a huge market debility discount of up to 40% when the project eventually launched. So there were definitely other factors that came into play. Mr Jarvis added that that was where some companies got irritated with SAMVAL. The reality was that people did not always consider the risks that were embedded in their business by virtue of what they did, commodity type, location, etc. He believed it would be good to market that aspect. Mr Mullins argued that one could not come to a market value using DCF without first doing an intrinsic or technical value and he was not sure whether the Codes were clear enough in that respect. Mr Jarvis agreed.

Mr van Zyl suggested that the only conclusion was that this was partly what the forum was for and partly why more people from industry needed to be brought in, specifically from mining companies. That was part of the value that SAMVAL did bring, in that things always had to be approached with both hats on, e.g. 'what can I present to the public and what is that going to look like?' and 'How are we doing this and is it worth it for us to continue in order to close this particular transaction or finish this project?'. There was merit in both and both had to be reconciled somewhere.

- 6.1 Mr van Zyl advised that he had not spoken to Mr Steve Gemmell. He added that Mr Gemmell was the Immediate Past Chair and that the new Chair was Mr John Gustavson. There had not been much focus on valuation issues since Mr Gustavson had taken over.

7. DISCUSSION ON INDEPENDENCE

Ms de Bruyn advised that the JSE were busy testing the waters in terms of independence of the CP, the CV, and also the QRE from an Oil and Gas perspective. Then the Codes were first implemented and independence was discussed and because all the competence was sitting inside the listed entities, it was decided not to implement independence for CPs and CVs. Over the years, the question had come up from time to time as to whether the JSE should now insist on independence and whether things had moved on since then.

Last year, it came up again and, based on the fact that the JSE insisted on independent auditors, independent sponsors, and independent experts proving an opinion; why should the JSE allow the CP to sit within the company, being controlled by management, etc. That was how the question had come up again around the independence of a CP and a CV. From a solid minerals' perspective, there were three distinct areas where the JSE would insist on independence, i.e. when the company was listed it would need to do a CPR and, as part of that, there would be a valuation. Once the company was listed and did a Category 1 transaction which was 30% of the market cap, then a CPR would again need to be done on subject of the transaction and included in that would be the valuation. Then there was the annual disclosure. Ms de Bruyn wanted to discuss the new listings and the Category 1 requirements, because that was where the JSE was experiencing that it was the independent persons who were compiling those reports. The annual disclosure did not include a valuation and it was not really relevant to this meeting. She invited views from the floor about an independent CV signing off on the CPR, remembering that employees of the company would be regarded as non-independents and would not be able to sign off; they could not be controlled by the issuer and they could not control the issuer; and then the JSE would look at business relationships, so that if people had an interest in the transaction, they would not be regarded as independent – so it would be anything that could influence independence.

Mr van Zyl commented that some of the previous discussion had been held with Mr Redman was still at SAMVAL. She had been at Anglo and had held some very strong opinions. Most people on this call would be considered independent, so it would be to their benefit. He asked Mr Mullins for his input.

Mr Jarvis wondered how well the JSE aligned with other global exchanges. From his experience, there was quite a tight alignment. He asked if there was a broad alignment with other exchanges such as ASX, TSX or the London Stock Exchange. Ms de Bruyn responded that there were different models and she believed that London did not necessarily insist on independence; Australia was considering it; and Hong Kong was definitely insisting on independence. If one looked at the Oil and Gas world, they did independent audits on a three-yearly basis, so the original declaration was not necessarily independent but then, on the annual disclosure, there would be regular independent audits. So there were various models out there. She understood what had been said about new listings, but recently the JSE had also been hurt by the corporate scandals which obviously led to this kind of debates.

Mr Mullins could see the need for independence on an IPO or a transaction and asked if there was not already a requirement. Ms de Bruyn advised that it was not, but practically the JSE had seen that it was usually independent parties compiling the CPRs. There had not been any big companies listing, it was the small companies that came to the board and they did not necessarily have the competence internally. Mr Mullins remembered that when this debate had been held earlier, that the larger companies had big departments and he believed they had downsized to a certain degree and a lot of that expertise was now sitting with independents. He suggested that maybe the debate was slightly different today than it had been 15-20 years ago.

Mr Duke asked why someone who was looking to invest in property would not want independence. He imagined that, more often than not, independence would be required by people who were coming to put money into a new project. They would check that anyway by default and it would be abnormal for them to rely on a transaction from the entity that they were going to invest in, be it the Stock Market or anything else for that matter. He believed the point was moot and that independence should be shown whenever necessary and whenever possible, but there were occasions when the valuation itself was required for some other purpose, and maybe there it would be more a question of competence.

Mr van Zyl remembered that Ms Redman felt quite strongly and she considered herself independent within Anglo, despite being an employee; and her point was whether there was anything such as pure independence. Even if a person did not have an interest in the outcome, or was working temporarily – was that person independent from somewhere where independence was valued very highly and things were put in place to feel confident that the person was acting independently and objectively. There was certainly more to it than how a person was paid by someone. If a person had a vested interest in the outcome specifically, that would be an issue.

Mr Duke responded that Ms Redman had half a point and it was not really in her eyes that it was important; it was in the eyes of the people who were going to place some reliance on the work she did. They would deem her to be independent or otherwise. If she was working in the company which they were going to invest in, he did not believe the investors would deem her independent.

Mr van Zyl added that the matter of how the person was paid and who they were employed by was an issue and one would expect investors to look for somebody who did not have a stake in the equity specifically. If the person was paid via equity or as a salaried employee, they would not appear independent.

Ms de Bruyn advised that, as an independent party, if the company wanted to put pressure on the person to put something in the report which that person knew, as a professional, was not the correct thing to do; as an independent party they would consider whether they wanted to take that pressure, because their reputation would be at stake. As an employee, if management told the person to do something in the report, the incumbent would agree because the company was paying his/her salary. She could not see how employees could be seen as independent. Perhaps that was why the JSE was saying that, for new listings and Category 1 transactions, it was independent parties doing the CPRs. Naturally, even though the JSE was not insisting on it, the normal forces in the market required that independence at any rate. So, it might not be an issue if it was put into the listing requirements as a law. Mr van Zyl commented that it could also be something where one could apply for an exception or exemption. The JSE could be approached with this request.

Mr Jarvis added that there were two categories of companies; those who had a reputation in the market, and the new ones who were desperate to raise money and would do anything to coax money out of investors. The latter companies were the ones to be cautious of. Ms de Bruyn did not necessarily agree and cited the example of Steinhoff and various others. That was the reality that the JSE had to deal with from a regulation perspective.

Mr Mullins supported independence in certain transactions. He saw many transactions where independence would not be necessary or required. Mr Duke asked for an example where independence would not be required. Mr Mullins responded that investors might call that 'third party assessment', but he had been involved in many transactions where third parties were not involved, where the sellers and the buyers determined their own values and the agreed value was perhaps somewhere in between. There were some

occasions where there was a need for independence. Mr Duke's point was the sellers and the buyers engaged in a transaction and decided whether they wanted independence.

Mr Mullins responded that everyone was entitled to their opinion but, as far as the Committee was concerned, it was about what was best for the invested public as to whether investors were being provided with the information to make an informed decision. In an IPO which was asking potential investors to put money into a particular listing, he saw the need for an independent valuation of that IPO on any transaction that went through the Stock Exchange. He had not seen any transactions on the JSE which had not been an independent valuation.

Mr Duke did not believe his opinion differed from that of Mr Mullins and, with the type of work that SAMVAL did, that should be seen as independent. Certainly, the JSE should be seen as independent. The requirement for independence would be in the market itself and would dictate the 'when and how'. The real situation would require the parties to decide when they called for independence, but it was important that SAMVAL and the JSE were seen as being independents.

Ms de Bruyn thanked all members for their comments and summarised as follows: there were not many listed entities in the room, so the independent view was that independence in terms of a new listing and a transaction did make sense.

8. ABSTRACTS

Dr Marshall advised that the Mineral Value Colloquium was scheduled to take place in July 2021. It was being run by SAIMM and Ms Letlhaku undertook to provide members with more information in this regard. SAIMM was looking for abstracts and general support for the Colloquium.

ACTION: Tshepi Letlhaku

9. GUIDANCE ON SITE VISITS

Mr Mullins was thanked for his comments and for sharing the videos. Mr van Zyl's comment was that, based on past experience, he was not convinced that the Committee could come up with any significant guidance before there was no longer a need to do virtual site visits. He still thought that some of the experiences were helpful and he imagined that some of these experiences would help to do things better. It was also possible that some combination of virtual and 'in person' site visits would happen in future. He could also see that with a virtual component there was a very clear record of what was seen and not seen. He could imagine it would also have some value in terms of accountability. He was tending towards keeping an in-person site visit, but possibly there was some scope for small teams going to site and then having virtual visits for some members. He could also see how, for junior staff, it would be a potential learning opportunity and there were many benefits.

Mr Mullins noted that the Codes had slightly different requirements for site visits in that the SAMVAL requirement was stronger than that of SAMREC. It stated that: 'shall be undertaken by the CV in a team of people or junior people'. It did not say how the site visit should be undertaken. In the Covid world, the industry had been faced with limitations on site visits and has had to develop a way of working around the circumstances. He undertook one of these visits recently in the Ukraine. The virtual site visit was organised by an external team of professional videographers and there were also drones and high-resolution pithead cameras. Those particular visits had included the geologists and mining people, who he had interrogated interactively. This was then followed up by visits to infrastructure and management interviews, etc.; all controlled and recorded. One did miss out on the personal aspect, but in the current unusual circumstances, this would have to be worked around. He certainly did not support not

doing a site visit if it could be done, as he got an enormous amount of this personal interaction. Why he put this on the table was that he posted this on LinkedIn and he had received a lot of interest and support from around the world. He shared some of the comments that he had received. It was a different world to when the Codes were written and SAMREC needed to be aware of what was happening right now.

Mr van Zyl thanked Mr Mullins for the input. Mr Macdonald advised that he had had a situation recently where they had limited visits to mines by the CPs in particular, as well as the mining engineers and geologist and some internal people. Because of his age, he was restricted from travelling anywhere. He asked to what extent one could now place reliance on one's colleagues from having been on site. Mr Mullins responded that the Chief Geologist went on site and the CP for reserves had been to the site many times. He was the CP for mineral resources and he was the only one in the team who had not been to site. He worked with the other people because he trusted them and they were competent people in their own right.

Mr Duke advised that he was not sure whether they were talking about the same mine, but he was also working with a company in the Ukraine and there was no way he could have helped them put their reserves together if they had not been to site. There was too much information required from the site and there were too many different scenarios that needed to be interrogated around the movement of material and what was or was not in place. There was a language barrier and the meaning did not always come through, so maybe if he had been there on a previous occasion and understood them, it might work. He believed there was a place for both and it was a marriage of technology. Certainly, post-Covid technology would come to the fore fantastically, but when one started relaying on it on its own, things were missed. Often, when a person was physically in that space, they could pick up things without realising it. His view was that people needed to go to site, but if they needed to review and revise, drones could do the job very well.

Mr van Zyl added that one of the things that could be considered going forward was that if one visited a site fairly recently, then a virtual site visit would be more appropriate. He cited some of the examples where each could be used, i.e. talking to some of the geotechnical aspects that could be seen with a drone and that could not be seen physically. In terms of team composition, maybe there was some ability to look at it pragmatically. There was certainly merit in giving some thought to what things could be done better with some of the technology that was available; and maybe some guidance on what assumptions would be allowed in the short-term. There just needed to be a group of people available to look at some exceptions during a particular time, if required. These people could advise the JSE in this regard to determine assumptions.

Mr Jarvis did not believe a change needed to be made now, but that it would be good to build up knowledge and understanding of these opportunities.

Mr Odendaal added that a site visit was always first prize, but for site visits in removed locations, it became quite a costly exercise to send teams in there. That was where there could be someone on the ground, but then the valuator could rely on the expertise and what the technical people saw on the ground.

Mr Mullins agreed that it was not going in blind and he would certainly have reservations doing a similar thing on a new project or a project where he was not familiar with the geology. He had visited similar sites in the vicinity and he completed the report in full over a period of four months, so he was familiar with the technical aspects and he knew which questions to ask. He would have reservations about doing the same thing in an environment that he was less familiar with or had not done his homework on.

Mr Duke added that, listening to Mr Jarvis said about the unfolding and the insight and understanding, it was a new world. While it was perhaps premature to make changes,

this would be brought in in the future. It was incumbent on each person to satisfy themselves and, in doing that, people should ask themselves: 'what is it that we don't know?' The reality of technology should not be ignored.

Mr Mullins added that body suits and body cameras were also available and people could remotely interrogate what the wearers were looking at. The eye-opener for him was the visual dimension that the drone opened up.

Mr van Zyl commented that the other question was whether the next round of the Code would not recommend that CPRs include a virtual component. It seemed logical that the next step would include a lot of these things and that the virtual component would be included.

Mr Mullins quoted that the Codes were the followers of the industry, not the leaders.

10. GENERAL

Mr Mullins reported that, from a valuation point of view, there were some new minerals that were being developed worldwide which SAMVAL maybe needed to incorporate into the Code, i.e. Lithium and Potassium Brines. The Potassium Brines industry was developing quite significantly in Australia and had been around in Argentina and other countries for some time. The Codes themselves, in terms of SAMREC and JORC, were not well-equipped to deal with non-solid minerals and he was not sure whether the valuation codes were adequate to deal with those 'newish' minerals.

Mr Duke agreed that this should be put on the agenda for further discussion.

ACTION: Ms Letlhaku/Ms Jardine

11. CLOSING

Mr Duke thanked all participants, on behalf of the Chairperson, for their input. Mr Singh advised that he had attended the meeting as an observer and was keen to join the next meeting.

The next meeting was scheduled for 26 November 2020.

KEY ACTION ITEMS

1. VAUGHN DUKE

Circulate IMVAL minutes to all participants.

2. GODKNOWS NJOWA

Prepare a note for Mr Bornman with regard to nominal and real models in assumptions.

3. HANNES BORNMAN AND ANDREW MACDONALD

Finalise minor comments on Guidance Notes.

4. HANNES BORNMAN

Discuss the possibility of having someone present the Guidance Notes at the SAMCODES Conference in October 2021.

5. ALL MEMBERS/HANNES BORNMAN/TANIA MARSHALL

Members to identify key contacts in mining houses and let them know that SAMVAL would be inviting them to join in SAMVAL meetings in the future. Contact details to be sent to Mr Bornman, who would issue the necessary invitations. Dr Marshall to examine ways to broaden the audience for SAMVAL.

6. CAMIELAH JARDINE

Follow up with Mr van Zyl regarding Mr Steve Gemmell/Mr John Gustavson as a keynote speaker.

7. TSHEPI LETLHAKU

Provide more information to committee members on the Mineral Value Colloquium and the request for abstracts/support.

8. TSHEPI LETLHAKU/CAMIELAH JARDINE

Put the subject of Non-Solid Minerals on the agenda for next meeting.