SAIMM
THE SOUTHERN AFRICAN INSTITUTE OF MINING AND METALLURGY

**SAMVAL Committee Meeting Minutes**
**31 August 2023**

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| **Date of Meeting** | 31 August 2023 | **Time** | 08:00 |
| **Chaired by:** | Vaughn Duke, Chair | **Location** | Zoom |
| **Minutes prepared by:** | Camielah Jardine | | |

**Present:**

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| V Duke (Chair) | M Mullins | Bernadine J |
| H Bornman | Z Rashid | A van Zyl |
| C Hutton | T Steele-Schober | Z Rashid |
| Dr T Marshall | N Strydom | M Turnbull |

**SAIMM Secretariat:**
N Mamdoo

**Apologies:**

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| A de Bruyn | M Mashatola | K Redman |
| R Davel | J Odendaal | |
| Hein Hartman | | |

| Topic | Discussion |
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| **1. Welcome** | Mr Duke welcomed everyone to the meeting and thanked them for attending. Mr Bornman suggested that there was a gentleman, Andrew Marks, who was very interested in joining SAMVAL and Mr Duke noted that he should be invited to join the next meeting.<br>**Action**: Hannes Bornman<br><br>Mrs Steele-Schober would join the meetings on an ad hoc basis to provide updates on the ongoing ESG deliberations.<br><br>Apologies were noted from Ms de Bruyn, Mr Hartman, Mr Odendaal, M Mashatola, Mr Davel and Ms Redman.<br><br>Mr Nico Strydom from Implats was welcomed to the meeting. The committee met regularly to debate various issues related to the SAMVAL Codes and these meetings present a good opportunity for members from industry to be invited to meet the committee and observe the discussions. |
| **2. Discount Rates** | Mr van Zyl opened the discussion for this meeting on the question of Discount Rates by presenting an example from industry to illustrate the issue requiring debate. The case study the materiality of discount rates when it comes to the timing of Revenue generated against funds expended in cashflow forecasts.<br><br>He noted from an examination of theoretical literature reviews that: |

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| | • The determination of an appropriate discount rate was a surprisingly specialised field and that, like so many things in economics, there need not necessarily be agreement on either the components, the factors, or the approach adopted;<br><br>• Most experts doing this on a full-time basis find it difficult to quantify a single number.<br><br>• There is a fair amount of space for either wilful or ignorant variation in the determination because one cannot prove that there's only one approach to the exercise, and one could include assumptions that are particularly favourable or unfavourable, either deliberately or by mistake, and it would be difficult to prove to the contrary.<br><br>• Another issue was around simply assuming the previous (or most recent) discount rate (WACC), because when it comes to debt to equity, as the proportion of debt goes up the discount rate tends to reduce, because the cost of debt is typically lower than the cost of the equity. This can sometimes be an issue with respect to junior explorers where the difference is small until one actually starts building a mine and processing plant. One would not be able to prove that a person had wilfully lowered the value or increased the value by fiddling with a debt-to-equity relationship?<br><br>• Materially different betas are assumed by different valuators. For example, is a small PGM producer in Ontario a better comparison than a beta in Anglo Platinum that's also in the Bushveld?<br><br>• Many common sources of beta do not provide any background as to how they were calculated.<br><br>• There are countries that trade in United States Dollars as opposed to the local currency which raises the issue of country risk premiums. What sort of adjustment do you make to the country risk premium if there's no exchange rate premium? Does South Africa's potentially less risky environment with more developed institutions and a more robust legal systems, outweigh currency risk?<br><br>The question is whether or not it is appropriate for a geologist or an engineer working in mineral evaluation, who are not economists, to make these assumptions; or should there be some sort of blanket rule or range?<br><br>Mr Duke noted that he has witnessed a weighted average cost of capital being applied as a discount rate to 100% equity based cashflows, which was incorrect. It is important to compare apple with apples. He also noted that the selection of a beta from the minerals industry on the JSE should probably consider the impact of the prevailing environmental forces. For example, the betas pre-1994 and post-1994 are likely to be different. Perhaps valuators should discuss their opinions with peers for alternative views before deciding. This would contribute to an increased level of rigour in the reasonable persons determination or assumption. |

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| | Mr Bornman agreed that it was a minefield. He advised that the London Stock Exchange insisted on a 10% discount rate and that perhaps that could be considered? When one introduces additional analysis for complexity, it does not necessary offer a better answer to one from a simplified approach. The more complex a determination; the more widely it will be interpreted.<br><br>Mr Duke agreed and added that valuations at a project level, should only consider 100% equity based cashflows. Companies should evaluate the value of gearing separately. It was also note that the selection of a preferred discount rate from amongst a range of numbers provided in the reports was perhaps the right thing to do with qualifying statements on the reason for the preference.<br><br>Mr Bornman advised that he normally worked out the NPV using one discount rate and then did a sensitivity analysis on the discount rate.<br><br>Mr Hutton advised that he had spent some years with a company called IXN which was the third largest trading house in the world and agreed that a range of numbers would be helpful when considering the challenges around people using different discount rates. He noted that the use of a Monte Carlo analysis served to test of one's own assumptions and that the output provided a measure of the robustness of those assumptions; it was not a prediction.<br><br>Mr Hutton did not believe that the SAVMAL code should prescribe an approach and believed the unintended consequences would make it very difficult.<br><br>Mr Duke advised that it was important to understand that the agenda of SAMVAL and other similar committees, is not to be prescriptive, but to provide guidance. This guidance should be kept simple in order not to cloud the issue.<br><br>Mr Bornman suggested keeping it simple and then being as transparent as possible on the outcome and then providing a range.<br><br>Mr Duke added that it would remain important to explain the rationale behind the selection of a preferred number.<br><br>Mr Mullins noted that the weighted average cost of capital (WACC) for most of the larger companies was available to the public. In terms of transparency, valuators should justify what they were using to demonstrate how a discount rate was built up. He agreed that the use of a range of numbers would be good practice. He noted that the codes should not prescribe an approach, but need to be prescriptive on requiring transparency and how a number (or range of numbers) was generated.<br><br>Mr Duke believed that SAMVAL should highlight the difference between discount rates applied to 100% equity-based cashflows and discount rates used on leveraged or geared cashflows. People should not use these interchangeably as they are not the same thing. He suggested that the committee works on a guidance note regarding good practice around selecting a beta or country risk premium, the use of ranges and the application a WACC to leveraged cashflows only. Guidance notes are not prescriptive. They should provide a high level heads up to the valuator. |

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| | Mr van Zyl referred to the principles of SAMVAL, which include materiality and transparency. Has one transparently presented the material issues in a way that allows somebody else to decide on the value and what it means to them? SAMVAL needs to be careful around incorporating aspects from specialised fields of study.<br><br>Mr Duke agreed that it was about keeping it at the right level of transparency and sticking to the principles. He invited further comments.<br><br>Mr Hutton believed that the point must also be made that betas were not numbers which remained constant; they were volatile. It was all about transparency and how the valuator got to that particular number.<br><br>Mr Strydom believed the discussion was useful and that these were tough issues that would be debated for many years to come. He would put some comments together and these could perhaps be debated.<br><br>Mr Duke thanked Mr Strydom for attending and invited him to stay for the remainder of the meeting. He added that Mr Strydom was welcome to appoint someone from his office onto this committee. |
| **3. Working Groups/Sub-committees/Special Projects** | ***3.1 Use of Options***<br><br>Mr Duke raised the issue of how options valuations have been used to impact the value of a project. The mathematics, while complex, can be defended, even in the face of an irrational value where materiality can be a problem. He suggested that this be discussed further at the next SAMVAL meeting. The discussion should be more focus more on the specific areas that need to be thought through when using such an approach.<br><br>***3.2 ESG Inquisition (ToR)***<br><br>Mr Duke advised that the special projects that were discussed here are on ongoing issues that IMVAL had identified, i.e. issues around valuations that were being discussed not only in the global context but also in the South African context. One of the global issues was ESG and how to take account of the risk and obligations associated with ESG in valuations. For SAMVAL to debate that, they needed to be kept abreast of the deliberations in terms of ESG in the community.<br><br>Mrs Steele-Schober reported that about two years ago, SAMCodes created the ESG Working Group and the objective of this group was to assess the extent and the changes that may be required to SAMVAL, SAMREC and the SAMESG Guideline to increase ESG integration. That workstream had been progressing to a point where some very preliminary draft documents had been prepared. They were continuing to work on evolving and refining to a point where they would have versions of the documents to send to each of the Committees for formal comment. |

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| | There were some challenges in the process as changes to SAMREC or SAMVAL would require JSE approval and the JSE had clearly stated that they were not looking to mandate ESG reporting within any of the sectors of the stock exchange.<br><br>An international development which may be of interest was that the IFRS created the Sustainability Standards Board a couple of years ago and they recently published two sustainability standards under the IFRS banner and IOSCO (which was the international committee to which financial regulators were members) were recommending to member countries to adopt or integrate the sustainability standards into their reporting requirements. She believed that, over time, there would be pressure from that direction on the countries to mandate ESG reporting. Until such time as that happened, conversations around what a potential modification to SAMREC and SAMVAL might look like are important, so that that work could carry on. The only recourse currently may be to update the SAMESG Guideline, because that does not require JSE approval.<br><br>That workstream was ongoing and in parallel with that, and of interest to SAMVAL, was that the CRIRSCO Code was having similar conversations. Mrs Steele-Schober also sat on the CRIRSCO Sub-committee and working group and the conversations were very similar in several respects, trying to feel out what recommendations may be made to CRIRSCO for additional ESG integration. Part of that has been a set of Definitions which would likely be proposed for adoption in the SAMCODES context.<br><br>The Definitions of E, S and G were currently circulating, with a request for comment from all the various parties. It was also important to get the perspective from SAMVAL on these issues. Governance had been a bit of a challenging conversation in terms of what the responsibility of a CP was regarding Governance. This became trickier on the valuation side; because how do you value certain Governance aspects? With some of the Environmental and Social aspects, the valuation thereof is also challenging, as some things you could put a number to and others were very qualitative in nature. It became very difficult to deal with that in the valuation space. The ESG working group really needed the experience of the SAMVAL Committee to contribute to those conversations. The draft that the SAMVAL Committee would eventually see had largely been done by Andy Macdonald and any comments would be appreciated.<br><br>Mrs Steele-Schober noted that the integration of ESG had to be driven by materiality and that there may be a need for some guidance on the valuation perspective within SAMESG. Once the SAMESG Committee got to the point of having the documents ready for circulation and comment, a look could then be taken, from a SAMESG perspective, because she thought the scope of SAMESG had not touched evaluation in the past and it really needed to, in terms of providing some guidance to both competent persons and ESG people who were becoming increasingly active in this space. |

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| | ***3.3 Other***<br><br>Mr Mullins had held a discussion regarding brines with Mr Andy Clay and Ms Siobhan Joubert. It had been a very productive discussion; wide-ranging in terms of oil & gas, groundwater and SAMREC and where brines should fit. He had circulated a one-pager in terms of notes. They landed that the product was where it should sit, so if one was producing lithium and potassium out of brines, it would fit in solid minerals. If you were producing hydrocarbons, it should sit in oil & gas. If one was producing a mineral that is in solid form as its product – even if it is in brines for water, then it should sit in SAMREC. This would probably have to be fed back to SAMREC, because the sticking point was the phrase that 'SAMREC deals with solid minerals'. If the interpretation of that was solid in its natural form, then it may still exclude brines, potassium, and lithium brines, but if that was the product, then it would be fine. That might be something for SAMREC to debate. CIM and JORC already included brines in their codes and they have brines guidelines.<br><br>Ms Mamdoo was asked to circulate Mr Mullins' note to all participants and call for comment.<br><br>**Action**: Nazli Mamdoo. |
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| **4. Acceptance of previous minutes and actions** | The minutes of the meeting held on 25 May 2023 were accepted as correct.<br><br>Mr Mullins believed that the discussion on SK-1300 had been well captured in the minutes.<br><br>Regarding the action list, the update was as follows:<br><br>The issue of brines, lithium, etc. had been discussed during this meeting and can be removed from the agenda.<br><br>The task of contacting mining houses regarding specific meetings with each was ongoing.<br><br>The work scope lifecycle on information gathered at the ESG Inquisition (ToR) would be kept on the agenda.<br><br>Compiling list of relevant issues regarding items to be included in SAMESG update was ongoing and included in the minutes. |
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| **5. Next meeting** | The next meeting was scheduled to take place at 08h00 on 30 November 2023. |
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| **6. Meeting closure** | Mr Duke thanked everyone for their attendance and input. All the new members were thanked for joining.<br><br>The meeting ended at 09:15. |

**Matters arising/Action Items**

| Meeting Date | Action | Responsible | Due | Status | Comments |
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| 30/11/23 | Mr Duke to discuss contacts with mining houses with regards to future meeting invitations, with Ms Moolla. | Vaughn Duke | Ongoing | | |
| 30/11/23 | Comments on discount rates | Nico Strydom | Nov 23 | | |
| 30/11/23 | ESG Draft document to be circulated to SAMVAL Committee once approved | Teresa Steele-Schober | Ongoing | | |
| 30/11/23 | Note to be generated for SSC meeting. | Vaughn Duke | Nov 2023 | | |
| 30/11/23 | Mr Mullins note on brines to be circulated. | Nazli Mamdoo | Nov 2023 | | |