

THE SOUTHERN AFRICAN INSTITUTE OF MINING AND METALLURGY

SAMREC/SAMVAL WORKING GROUP MEETING

Minutes of the meeting held in room 702, 7th floor, Chamber of Mines Building, 5 Hollard Street, Johannesburg on 27 March 2009 at 09h00

PRESENT: **M O'Brien (Chairman)**

Andy Clay (AC)	Godknows Njowa (GN)
Annalie de Bruyn (AdB)	Mike McWha (MMW)
Alistair Moyes (AM)	Paul White (PW)
Viren Deonarain (VD)	Nick Tyler (NT)
Gordon Smith (GS)	Jurgens Visser (JV)
Fiona Harper (FH)	Kelly Redman (KR)
Rob Davies (RobD)	Xavier Prevost (XP)
Pieter-Jan Grabe (P-JG)	Rob Croll (RC)
Billy Mills (BM)	Christina Dohm (CD)

APOLOGIES:	Gordon Chunnett (GC)	Dave Dingemans (DD)
	Keith Rayner (KR)	Ferdi Camisani (FC)
	Dick Minnit (DM)	Riaan Davel (RD)
	Vanessa Lickfold (VL)	Peter Robins (PR)
	Andreas von Johannides (AvJ)	Roger Dixon (RD)
	Steven Rupprecht (SR)	

IN ATTENDANCE: **Julie Dixon (JD) Manager SAIMM**

J van Loggerenberg (Recordist)

1. Welcome and apologies:

The Chairman welcomed all to the meeting. Attendance and apologies noted in the register.

2. Minutes of the previous meeting

The minutes of 03 March 2009 were accepted as a true reflection of the meeting.

3. Matters arising from these minutes

These are dealt with under their relevant agenda items.

4. CP and CV Register

4.1 Registration of CPs and evaluators – A de Bruyn: Ms de Bruyn gave a presentation on the background to the registration of CPs. Several problems have been encountered at the level of the JSE where incompetent persons were able to register as CPs. It had therefore been decided to simplify the process so that applicant issuers could access a comprehensive list of approved

CPs. However, there will be an increase in costs of registration and an increase in administrative workload.

Ms de Bruyn suggested that the JSE and SSC work together to implement a registration process for CPs and CEs (competent evaluators) who are qualified to sign-off JSE-listed primary reports. This will narrow down the number of CPs to about 80/100. Because this process will be in the domain of the JSE, the experience of that organisation and its processes can be used to ensure that the proposed system works properly. Furthermore, the JSE's disciplinary processes can also be used as a foundation for disciplinary processes with regard to the Codes. The JSE is empowered to discipline all issuers and their agents and CPs will definitely fall into this category. What is required from the SSC is relevant expertise to evaluate CPs and to "make the call" on disciplinary processes against CPs should such be required. It is proposed that the technical committee of the SSC advise the JSE which would in turn administer discipline if required.

Comments, questions and answer (edited for reporting purposes)

1. There must be no underestimation of the number of CPs in one large company taking into account that CPs are found at all levels of management.
2. There are many negative perceptions within the industry about the effect of yet another CP registration requirement over and above those already in place.
3. In term of SAMVAL Competent Valuators currently exist in a vacuum so the proposed registration for them will house their position.
4. The most vociferous resistance encountered thus far against the registration of CPs is SACNASP registration – those registered under SACNASP do not see why they should be registered under JSE requirements.

Comment (A de Bruyn): If CPs are registered through the JSE this will confer recognised, professional status on them as well as bring them into line with the CP requirements of the accounting profession.

Question (P White): When talking of "experience in a commodity" is this continuous experience or fragmented experience over a long period of time?

Question (P White): Is the JSE considering registrations for particular commodities or groups of similar commodities?

Answer: This is where the technical experience of the SSC would be needed. Debate needs to be held over whether the Codes required five years is five continuous years/five recent years/five years but done 20 years ago.

Comment (R Croll): The Code states "Five years in type of mineral experience..."

Comment (G Smith): Application to become a CP should go to the SSC via either the SAIMM or GSSA first as they have the criteria against which to measure an applicant. Applicants, once registered, would be subject to the disciplinary processes of the JSE.

Comment (A Clay): Will the JSE make formal complaints to the SSC via the GSSA and SAIMM in the event that disciplinary procedures should happen?

Answer: Yes, but cognisance must be taken that the JSE can only act on behalf of those companies in the listed environment. If the CP or company concerned is not listed on the JSE then it (JSE) cannot discipline. The JSE has different levels of discipline: private sanction, public sanction and a R5 million fine. The level of sanction will determine whether or not information becomes public (reported to the relevant bodies)

It was **agreed** that:

- a. Ms de Bruyn will submit to the SSC a short report detailing the proposal as contained in her presentation.
- b. A copy of the JSE's disciplinary procedures will be given to the SSC (also available on the JSE website – section 1 of JSE listing requirements)

4.2 Independence (N Tyler):

International practices:

Australia – the JORC code is applicable and has no reference to independence. VALMIN Code makes provision for independent experts.

Canada – National Instrument 42101 – independent reports are referred to in specific circumstances (preliminary prospectus and when valuations required under security legislation).

America – The issue of independence is under consideration.

Independence: “A reasonable person with all relevant facts would not have reason to believe that anything would interfere with a qualified person’s judgment”.

SAMREC/SAMVAL Codes – there is no specific reference to independence but the JSE does require that a CP must disclose if he/she is not independent. There are specific areas where the JSE does require independence, or a “fairness opinion”. The JSE has had no negative issues re independent CPs.

The way forward: In view of global practices independence is not compulsory and seems to operate on a case-by-case basis. Perhaps a three year audit requirement could be introduced to ensure that valuations are genuine but this would obviously push up costs. The JSE would support the principle of independence being a regulatory aspect but this is open to discussion.

Comments:

Anglo American has a three-year audit plan in place.

Comment (R Croll): Is there not a contradiction in terms between “competent” and “independent”. If a CP works for a mining house can he/she be considered independent? Another critical issue is the competence of advisors/merchant bankers, particularly in view of current turmoil in some mining companies. Who is monitoring them?

It was **agreed** that Mr Tyler will present a summary of points raised which will be forwarded to the SSC. **Action: Mr Tyler**

4.3 Valuation on an exclusionary or inclusionary basis and valuation of inferred mineral resources (A Clay):

- Key point is that allowing reporting Exclusive leads to valuation problem where comparative valuation can have higher value for resource than reserve.
- SANS guide for coal does not permit Exclusive.
- Oil and Gas Industry shows stepwise process of conversion from resources to reserve the latter always being subsets of resource.
- Grade-tonnage curves are a crucial measure of an ore body commercial process and the use of the cut-off defines the reserve.
- Need a simple solution to prevent on-going confusion.
- Problem is US SEC has gone Exclusive.

Comments:

(Mike McWha): Some companies report inclusive, other exclusive and some divisions within companies are using both. However, inclusive reporting is pre-dominant in South Africa.

(A Clay): It would be ideal to use the forum of the SSC to make a position statement regarding this issue. The accounting profession is setting great store in the SSC coming up with a position they can believe in.

4.4 Valuation of inferred resources and inventory (Godknows Njowa and Vanessa Lickfold):

The difference between **valuation** (value \$) and **evaluation** (technical or economic assessment) SAMVAL Code item 2.

“A mineral resource is a concentration or occurrence of material of economic in or on the earth’s crust in such form, quality quantity that there are reasonable and realistic prospects for eventual economic extraction” (SAMREC 21)

It also states, “...that portion of a mineral deposit that does not have reasonable and realistic prospects for eventual economic extraction must not be included in a Mineral Resource”.

Use of inferred mineral resources, with great care, but:

- Not if they are the dominant resource category
- In mine design, planning and economic studies may include a proportion of Inferred Mineral resource, only if there exists a mine plan and a statement of mineral reserves (which, by definition includes proved and/or probable categories and the associate measured and indicated resources)
- Inferred resources should not be used to make the property economically viable – which is fine if you have reserves. (SAMVAL 27)
- Where a material amount of mining in the mining plan includes Inferred, a comparison of the results with and without these inferred **MUST** be disclosed
- Any use of inferred must be justified in a valuation report and treated appropriately for the substantially higher risk and uncertainty (SAMVAL 27)
- Reserves and other resource categories are mined ahead of inferred resources in the DCF model

Use of potential or hypothetical or possible “reserves” is not acceptable

Potential problem areas:

- “modifying factors and assumptions that were applied to the indicated and measured mineral resources to determine the mineral reserves **MUST** be equally applied to the Inferred Mineral Resources” should they be included in a LoM plan – SAMREC code
- It should be noted that the United States Securities and Exchange Commission does not recognize the use of the terms resource nor possible reserves for disclosure by public companies.
-

The question then arises: how are they valued? This is the question that must be addressed by the working group. According to the SEC, resources do not have any value but inferred resources often indicate where the future of the operation is and therefore there must be a value.

The working group should provide guidance on how only inferred mineral resources should be valued.

- Going the National Instrument 43:101 route – preliminary assessment.
- Other?

After discussion it was **agreed** that there are no guide-notes or pricing guidelines available and this is an issue that needs to go on the agenda.

4.5. Reporting styles (Fiona Harper)

There are three main problems when writing reports:

1. Structural
2. Checklists
3. Vagueness in the SAMREC Code's requirements

The main guidelines used are SAMREC and National Instrument.

National Instrument reports are usually non-technical. The most logical way of writing a National Instrument report is to write an introduction, write on each project and sum up with a valuation statement. However, Canada wants each project split up under each item heading which works well but gives no overview. Furthermore, under both National Instrument and SAMREC there is no specific item under which one can write on country risk (political risk, environmental risk and other factors).

Australian authorities are also considering putting page and file limits on reports to keep them more precise.

In South Africa reports are supposed to be aimed at laymen, not technical experts. SAMREC does not prescribe report writing styles. There are five pages of checklist items under the SAMREC Code which is cumbersome.

Readers' panels often go beyond their mandate when checking for compliance.

There is no consistency of requirements between Canadian/JORC/SAMREC reporting styles.

It was **agreed** that a sub-committee will be formed to address all problematic issues which affect report writing.

4.6 Best Practice Guide (Mike O'Brien, Mike McWha)

Sources of information which can be used for best practices: internal company guidelines on reporting.

The chairman suggested a symposium to be held and the organisation of this should be undertaken by SAIMM and GSSA who will call for abstracts.

It was **agreed** that a small group from this committee would liaise with the GSSA and SAIMM to organise the event.

4.7 SAMCODE Website as a vehicle to disseminate best practice and screen complaints (Mike O'Brien)

The chairman stated that the website should be used as a vehicle to disseminate best practices and screen complaints.

1. Complaints can be processed via the website (screening and passing to ethics committee).

2. Pages of guidance can be put on the site with links to the relevant sections of the code.
3. There should be a link for comments and complaints.
4. Complaint forms should be available on the site.
5. A whistle-blowing form should be available on the site

Current procedure:

- A complaint that a CP has breached SAMREC shall be referred to the Ethics Committee for review and if deemed warranted to refer such complaints to the relevant Disciplinary Committee.
 - A CP against whom a complaint has been made shall be entitled to notice in writing of the grounds of the complaint and to an opportunity to respond either in writing or in person in respect of such complaint before the Ethics Committee.
 - At the conclusion of the review the matter shall be reported to the SSC.
 - The SSC, following due consideration may forward the said complaint to the relevant Disciplinary Committee.
 - The SSC will ensure that it is informed of the result of any disciplinary action.
- 5. The implication of LoM of PFS being required for the declaration of Reserves, in terms of the timing of reporting, and the competencies required in the planning process.**

This matter was held over for future discussion. Alistair McFarlane will be asked to take this issue forward.

6. Next steps on all of the above discussions and presentations:

All presentations will be summarised and passed to the SSC for comment. The SSC should then give the working group an official mandate to pursue these issues to debate and resolve and action asap.

The working group will break into interest groups to pursue the mandates and establish timelines.

The summary document which will be presented to the SSC will also be sent out for broad industry comment and feedback. In the interim the various interest groups can pursue their work.

The working group to convene a workshop where all interested parties and role-players can be updated on developments.

7. General

All sub committees and interest groups will meet as and when required and agreed to among themselves.

There being no further business the meeting closed at 12h00.

Signed:..... Date:.....