



The South African Mineral Reporting Codes

Breakfast launch of SAMREC 2007 and SAMVAL 2008

Hilton Hotel, 10 April 2008

Opening Address

Roger Dixon, Chairman SAMREC/SAMVAL Committee (SSC)

It is almost eight years to the day when we launched the original SAMREC Code in March 2000. Since that date I think the SA minerals industry has matured beyond recognition in its approach to reserve and resource reporting, and I believe we can be justifiably proud of that progress.

Many of those companies that have led the way in reporting standards are listed on our sponsors list. We thank them for their sponsorship but even more for their considerable support in all aspects of the SAMCODE organization.

Matt Mullins, my co-speaker here today, has been instrumental in the revision of the SAMREC Code over a long period of time and also took up the reigns with the SAMVAL Code after the retirement of Rob Croll.

I would like to formally thank Matt for his immense contribution in producing the two Codes; he can take great pride in the final product and fully deserves the many accolades that we have already received from our international counterparts. He has done all this whilst still maintaining a very demanding day job at BHPBilliton.

Matt will be the first to admit that he has received tremendous support from more than 100 people who participated in the various working groups, many of whom are employed by our sponsors. There are obviously too many to mention by name but they deserve a big vote of thanks for their personal contributions.

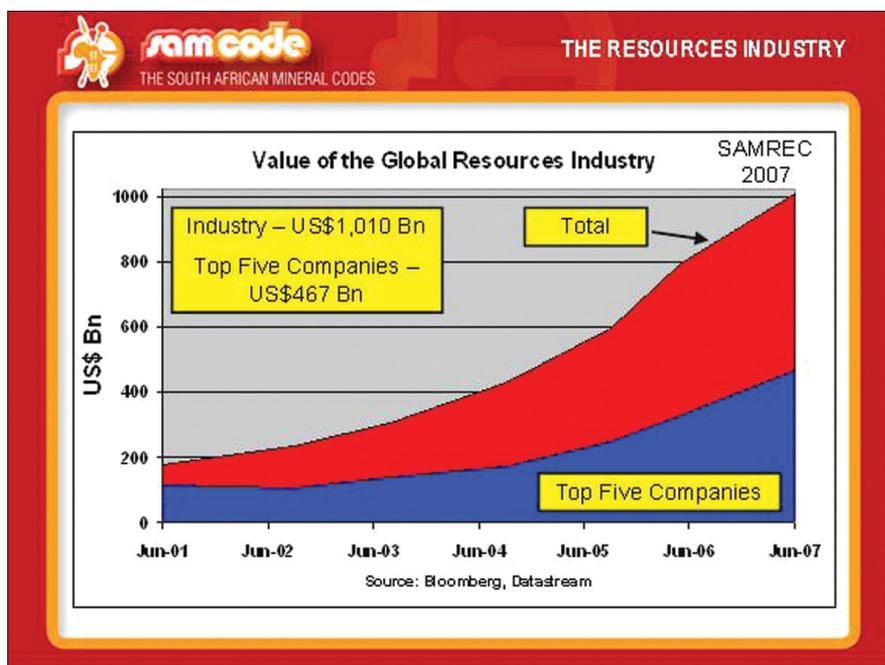
In addition to launching the two Codes we are also launching our 'branding' initiative with our own SAMCODE logo and the SAMCODE website: www.samcode.co.za. All the slides used in the presentation today will be on the website later today as will a newsletter which will serve as a media release.

The SAMREC 2007 and SAMVAL 2008 Codes

Matt Mullins, Deputy Chairman SSC

Broad Industry Context

The global market capitalization of listed mineral resources, as a proxy for the size of the industry, currently stands at well over US\$1 trillion—a fivefold growth in the last six years (See Figure). This is even more remarkable as prior to 2001 the



The South African Mineral Reporting Codes *(continued)*

industry remained fairly static at about US\$200bn for the previous decade. Half of the current global market capitalization is dominated by five large companies, making it necessary for the Codes to cover not only the South African reporting environment, but also a global industry.

The Johannesburg Stock Exchange (JSE) has also seen huge growth in market capitalization and one-third of the JSE is still resource dominated, which is comparable to other stock exchanges, such as those in Australia and Canada. The SAMREC and SAMVAL Codes must be viewed in the context of the industry which they were designed to support. Confidence in our resources, reserves and the valuation of these, underpin this trillion dollar industry.

The committee formed to develop the Codes, the SSC, is a joint committee of the Southern African Institute of Mining and Metallurgy (SAIMM) and the Geological Society of South Africa (GSSA) and is thus underpinned by approximately 5,000 industry professionals.

The SSC formed the SAMREC Working Group (WG) comprising interested parties that are broadly representative of the industry, with a mandate to achieve broad industry consensus in the development of the Code. The SAMREC WG formed a number of sub-committees to address various commodity-specific reporting issues and to investigate trends and movements in the international community while maintaining a close relationship with the JSE.

SAMREC Working Group

Chairman	Matt Mullins
Vice Chairman	Mike McWha
Competent Persons	Roger Dixon
International Codes	Dr Vanessa Lickfold
Section 1-3, and 5	Andy Clay
Section 12 - JSE	Mike McWha
Appendices/Tables	Dr Christina Dohm/Pat Rice
Gold	Jurgens Visser
Coal	Dave Dingemans
Diamonds	Tim Wilkes/A von Johannides
Platinum	Gordon Chunnett
Oil & Gas	Dr Henk Winter/Andy Clay
Bulk Commodities	Hennie van der Berg
Chrome	Piet-Jan Grabe
Minerals Bureau	Dr Xavier Prevost
JSE Limited	Annalie de Bruyn
Department of Minerals & Energy	Lesole Kgobane
Council for Geosciences	Dr Stewart Foya
SAMVAL	Rob Croll
CRIRSCO	Dr Ferdi Camisani
Wits University	Prof Dick Minnitt

The SAMREC Code

Historical Context

The development of the SAMREC Code started in 1992 with the first SAMREC Code being launched in March 2000. This update was initiated in late 2004, with a mandate to review, improve and develop the Code, whilst eliminating possible contradictions and inconsistencies

Scope of the Code

The Code is designed for public reporting, which is defined as those reports prepared for the purpose of informing investors, and potential investors, and their advisers and include Companies' annual reports, information memoranda, website postings and public presentations

Although the Code has no jurisdiction in the non Public Reporting field, both Councils of the SAIMM and the GSSA have adopted the Code, and have made compliance with the Codes binding on all members

Competent Person (CP)

Public reports must accurately reflect the work done by, or supervised by, a designated Competent Person.

A competent person is defined as a person who is registered with SACNASP, ECSA or PLATO or is a Member or Fellow of the SAIMM, the GSSA or a Recognised Overseas Professional Organisation (ROPO). Such CPs must also comply with the provisions of the relevant promulgated Acts (eg SACNASP, ECSA).

Competent Persons must have:

- ▶ A minimum of five years' experience relevant to the style of mineralisation and type of deposit or class of deposit under consideration and to the activity they are undertaking
- ▶ Satisfaction in their own minds that they are able to face their peers and demonstrate competence in the commodity, type of deposit and situation under consideration.

Framework for reporting

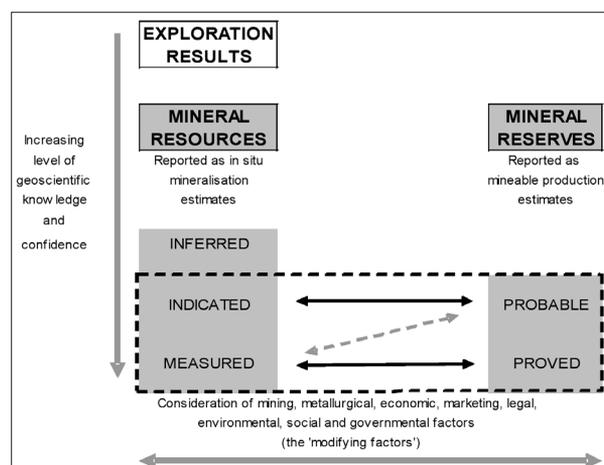


Figure 1—Relationship between exploration results, mineral resources and mineral reserves

The South African Mineral Reporting Codes *(continued)*

The SAMVAL Code

Broad Industry Context

Unlike the SAMREC Code, for which there were already a Code and guidelines in place and an existing framework within which the Code could be updated, the SAMVAL Code started on a blank page. In addition to the technical specialists who formed part of the reporting, a number of financial institutions were also included, the Investment Analyst's Society (IAS) and the South African Institute of Chartered Accountants (SAICA) as well as a broadening of the base of the SAMVAL WG by including the members of the SAMREC WG.

The Code is for the reporting of mineral asset valuation and is not a how to guide for mineral asset valuation. The how to guide will be developed and will be posted separately on the website.

The SAMVAL Code was more difficult to develop than the SAMREC Code due to a divergence of International reporting styles and opinion on how valuations should be reported. The final product is probably closer to the Canadian code (CIMVAL) but quite different from that of Australia (VALMIN).

The Working Group was formed in 2002 with the first industry draft issued in 2006. All comments received from interested parties were considered and the final product represents of broad industry consensus.

Public Reporting

As per the SAMREC Code

Principles

As per the SAMREC Code

Competent Valuator (CV)

The definition of a CV is a person who is:

- Registered with ECSA, SACNASP, or PLATO, or
- A Member or Fellow of the SAIMM, the GSSA, or
- A Recognized Overseas Professional Organization (ROPO)
- In possession of the necessary qualifications, ability and sufficient relevant experience in valuing mineral assets
- Clearly satisfied in his own mind that he is able to face his peers and demonstrate competence in the valuation undertaken.

The SSC is pursuing discussions with the Independent Regulatory Board for Auditors (IRBA) SAICA, the Chartered Financial Analysts (CFA) Institute and the IAS to adopt the Code.

A complete list of recognized organizations will be published by the SSC on its website from time to time. The SSC will pursue a similar ROPO arrangement to SAMREC.

Valuation approaches

The Code defines the following Valuation Approaches, linked to the level of development of the particular property. Under each approach, there will be a number of methodologies.

- ▶ *Cash flow approach*—The Cash Flow Approach relies on the 'value-in-use' principle and requires determination of the present value of future cash flows over the useful life of the Mineral Asset.
- ▶ *Market approach*—The Market Approach relies on the principle of 'willing buyer, willing seller' and requires that the amount obtainable from the sale of the Mineral Asset is determined as if in an arm's-length transaction.
- ▶ *Cost approach*—The Cost Approach relies on historical and/or future amounts spent on the Mineral Asset.

There is only one restrictive clause in the SAMVAL Code, namely:

'The application of certain logic in Valuation, such as 'gross *in situ* value' simply determined from the product of the estimate of mineral content and commodity price(s) without applying appropriate modifying or discounting factor(s), is unacceptable.'

The way forward

The Codes are complete and have been ratified by the Councils of both the SAIMM and the GSSA and are being incorporated in the JSE's Section 12 and Section 8 Listings Rules.

Conclusion

The Codes are coming into effect at a time when industry is experiencing an unparalleled, sustained boom. Resources underpin the value of the mining industry and it is important that there is confidence in their reporting.

The links between SAMREC and SAMVAL ensures that neither is seen in isolation, and that they are actually part of the same area of study.

The JSE process

R. Dixon

A sponsor gives two weeks' notice to the JSE, which in turn notifies the SSC which identifies appropriate readers. Readers have two weeks within which to check the compliance, transparency and materiality of a report. Over the past eight years that the system has been in operation there have been only two non-compliance reports received—an indication of the maturity of the industry.

The process of the Readers Panel differs from that of Canada and Australia in that readers are technical people and

Valuation approach	Exploration properties	Development properties	Production properties	Dormant properties (viable)	Defunct properties
Cash flow	Not generally used	Widely used	Widely used	Not generally used	Not generally used
Market	Widely used	Less widely used	Quite widely used	Widely used	Widely used
Cost	Quite widely used	Not generally used	Not generally used	Less widely used	Quite widely used

The South African Mineral Reporting Codes *(continued)*

not members of the accounting or law professions, with the result that the standard of reports has greatly improved over the last eight years.

The Readers Panel is kept to a small group to ensure continuity and standardization of principles applied. The names of all readers are kept anonymous in order to militate against debate and acrimonious comments.

The readers are remunerated by the JSE on an hourly basis. Each year the Panel is nominated and new potential readers are welcome to apply for a position on the Panel.

Monitoring and evaluation of reports

This takes place through monitoring of the Readers Panel, published annual reports, public statements issued by CEOs and through media and SENS releases

Disciplinary processes

The SSC prefers to go the route of motivation and training to ensure compliance. The process requires that if a complaint arises as a result of a public statement, that complaint must be submitted to the Ethics Committee. This Committee will evaluate the validity of the complaint and if necessary pass it onto one of the recognized professional bodies who will give a final decision within 30 days

Sanction

From a warning through suspension of membership and, in the case of SACNASP and ECSA, statutory sanction (including fines or a jail term)

Reciprocity

Reciprocal agreements exist, and are posted on the SAMCODE website www.samcode.co.za.

International SSC representation

The SSC has representation on a number of International committees, where the SSC represents South Africa's interests. More detail can be found on the CRIRSCO website, at: www.crirSCO.com

CRIRSCO is also involved with the International Accounting Standards Board (IASB) and the IASB has, on its agenda, discussion on placing the value of reserves and resources on balance sheets. CRIRSCO is currently doing a mapping exercise to compare the reserves and resources of solid minerals and oil and gas. South Africa is represented in this study and the IASB has a South African research group also working on the study.

The United Nations Economic Community for Europe (UNECE) is also revising its classification framework and it is hoped that this will be aligned with the CRIRSCO template. South Africa is represented on this initiative. It is hoped that Russia will align itself with the CRIRSCO template.

Questions, answers and comments

(Paraphrased for reporting purposes)

Question: Regarding terminology—is the term ‘bankable feasibility’ study dropped?

Answer: (Roger Dixon) yes, the term ‘bankable feasibility study’ is done away with in the interests of having a common terminology.

Answer: (Matt Mullins) The SSC has adopted, in the main, the Canadian definition along with thought from the Independent Project's Analysis (IPA), a project think-tank based in Washington.

Comment: Clarity is sought on the definition of a CP, and in particular, the registration requirements.

Answer: (Matt Mullins) the reason why membership of the SAIMM or GSSA is listed is because both organizations were recognized on the Australian and Canadian stock exchanges. Although the Code states members of any of the stated organizations, there must still be compliance with the regulatory requirements (e.g. SACNASP).

Comment: Recently the JSE changed its listing requirements with regard to mineral companies and now say they will accept an evaluation from a CP. If CPs from overseas do an evaluation will there be problems with the JSE?

Answer: (Matt Mullins) No, in terms of the valuation there are no differences in understanding of the approaches and methodologies. It is in the reporting requirements where there are differences.

Answer: (Roger Dixon) the underlying principles of materiality, competency and transparency are the same throughout and provided that they are abided by there is little room for criticism.

Question: What position does the SEC take with the 2007 SAMREC Code in light of their stance on Industry Guide 7?

Answer: (Roger Dixon) In the US Industry Guide 7 has been around for 90 years. The SME in the US has tried to engage the SEC in an attempt to get them to change. CRIRSCO says the SEC is run by accountants and they don't take decisions quickly and don't want to engage with the SME. There has been little response from the SEC and the issue is ongoing. CRIRSCO are giving their support where required.

Comment: Re an operating mine having to have a life of mine plan to convert a resource to a reserve. This makes a difference to the way in which the plan is done in terms of planning sequences and places a lot more emphasis on the quality of the life of mine plan. The process becomes auditing and integrates pure planning with resource and reserve information.

Answer: (Matt Mullins) This was a long debate. Merely factoring the resource, as has been common practice in the past by applying dilution or other factors and then calculating a reserve from that was considered to be unacceptable, and we felt that a reserve needed to be underpinned by a physical plan. ♦