RESPONSIBLE RAW MATERIALS and INFACT

ESG Reporting Roundtables

A series of virtual round table discussions on inclusion of Environmental, Social and Governance (ESG) factors in reporting of mineral deposit estimates and exploration results globally.

including perspectives from...

SAMCODES
SAMCODES STANDARDS COMMITTEE
THE SOUTH AFRICAN MINERAL REPORTING CODES

PERC
PAN-EUROPEAN RESERVES + RESOURCES REPORTING COMMITTEE

JORC

Q&A SUMMARY

From: January 26th 2021

Questions +Answers

Given the immense importance of these reporting frameworks in terms of impacting how exploration and mining is governed, have there been attempts to seek funding, so this does not have to be volunteer led?

It seems highly problematic these update processes are being managed without resources, and with relative opacity.

Ed Sides:
I agree that the fact that much of the work involved in maintaining the reporting codes is led by volunteers is not ideal, however a lot of support is provided by employers and the professional organisations who are represented on the reporting organisations. CRIRSCO has also received funding from the ICMM for many years which has supported the work done in holding meetings with potential new members which has helped the growth of CRIRSCO from five to fourteen member organisations. Given that the use of the Reporting Codes and Standards is aiming at maintaining the confidence of the investment community in the mining sector it would be nice if stock exchanges made some small contribution to this work.

If they [mining companies] are getting derailed by E and S, would you not see that also as a failing of G within the companies?

Theresa Steele-Schober:
ESG is mentioned as a single concept but of course each discipline has its own nuances but they are each bound together and a failing in one area is usually linked to failings in one or both of the other areas. Governance has a very broad scope but most certainly has an arm that should be ensuring that E and S issues are diligently addressed.

If they [mining companies] are getting derailed by E and S, would you not see that also as a failing of G within the companies?

Ed Sides:
The underlying principles of the CRIRSCO reporting codes and standards are transparency, materiality and competence. It is responsibility of the Competent Person who is preparing the documentation ensure that relevant issues which are, or may be, material to a project and its further development are identified and reported on in a clear transparent manner. Hence there should be no hinderance to identifying and reporting on ESG factors which are specific to particular projects.

Am I correct in my understanding that so far, ESG incorporating in CRIRSCO templates refers to considering ESG on the receiving side of mining? Or how potential mineral extraction would impact ESG? How advanced is the concept that ESG is a real potential enabler/limitation factor for reserve qualification? Is this where you are going with the modifying factors?

Ed Sides:
I am not sure if I fully understand this question, however the following example illustrates what is currently done in terms of defining Mineral Reserves when applying modifying factors. One of the first steps that a Competent Person will apply is to define the limits of the mining licences that apply to a project, and any legal or operational constraints that must apply during mining. Hence any parts of a deposit that fall outside the licence controlled by a company will automatically be excluded from both Mineral Resources and Mineral Reserves. If open pit mining is to be done close to roads, buildings, or watercourses, there are often legal constraints that require unmined 'buffer zones' to be left to separate such features from the mining activities. This will result in portions of the mineralisation being excluded from the planned mining excavation and hence excluded from the reported Mineral Reserves. Other environmental and social constraints could also be imposed in a similar manner.

There is significant difference in expected ESG requirements for companies with an exploration project, a resource level project, or a reserve level project (PFS/FS). Are PERC or the other organisations looking to provide clearer guidance between expected ESG consideration for these different development stages to help developers.

Theresa Steele-Schober:
Hi Fiona, this is exactly what we are hoping to achieve in our current update of SAMESG. We already note that the level of detail that one would expect to see in a report focussed on exploration results would be less than at a Mineral Reserve focussed report, we're lacking the guidance on what this means and how to achieve it practically.

Steve Hunt:
While the project understanding may be at an early stage for an exploration project, the disclosure discussion should reference what work covering ESG elements has been completed, and at least early discussion of potential social or environmental constraints. This should be disclosed even under the current JORC code, but i expect we will have more specific guidance points before we finish.

Ed Sides:
In the update of the PERC Reporting Standard which is currently being finalised, guidance notes will be provided in the section of Table 1 which corresponds reporting of ESG aspects. This will provide guidance on the greater level of detail required at Resource/Reserve stage of a project, in addition to an indication of what is required during initial consideration of such aspects at the Exploration Stage.

Question for PERC: What progress is being made to broaden the recognition of the PERC Standard? Those of us working for listed/public companies find that NI 43-101 or JORC seems to dominate with SE regulators and investors.

Ed Sides:
PERC is very much aware of this and raising awareness of PERC with the securities regulatory authorities in Europe has been identified as a specific Goal in PERC's 2020 Strategic Plan (*see: http://percstandard.org/documents/PERC_Strategic_Plan_2020_FINAL_as_approved_by_Board_of_Trustees.pdf*). Unfortunately, European regulators are largely unaware of the role that PERC plays in representing European interests at an international level through PERC's membership of CRIRSCO. PERC's Finance sub-committee has been tasked with making contact with the European Stock Exchanges in order to better inform them about PERC and has had some initial contacts with the Nordic stock exchanges. PERC recently had a meeting with ESMA representatives in the context of a consultation which they are carrying out on whether it is necessary to update the disclosure requirements relating to oil and mineral companies.

How is PERC interlinking with EU's development of the EU taxonomy for sustainable activities and bridging and / or combining this with ESG parts of the reporting standards?

Ed Sides:
In the context of reporting codes and governance, I consider that the purpose of the reporting codes and standards is to indicate what aspects of E, S & governance need to be reported on (e.g. what mining, environmental permits will apply); the trend is towards expanding on what consideration of community engagement is required/done. The intention is not that the codes/standards mandate what has to be done. The codes/standards aim to clarify what information should be presented in reports to assist investors/financiers in order to assist them in assessing and comparing different projects/companies.

How is mine planning and mine scheduling involved in the PERC or other reporting codes?

Ed Sides:
NI 43-101/CIM and SEC/SME, both are required content in particular sections of technical reports/technical report summaries that must be publicly filed at certain project milestones or with particular registrant forms. Mine planning and mine scheduling are required in any overall technical and economic assessment of a potential development project. Hence such work would be required in order to complete any of the three types of technical study that are defined in the CRIRSCO Standard Definitions (scoping study, pre-feasibility study and feasibility study). The level of detail required would increase as a project advanced from an initial scoping study (also referred to as preliminary economic assessment) to a feasibility study.

On modifying factors, as Climate Change and ES may directly impact (feasible) water physical availability, how are the codes going to take this into account when reporting on Mineral/Ore Reserves? There have been several examples lately of mining operations that had reduced or even completely cut off their water supply. So far, this has not been translated to reduced Mineral/Ore Reserves, or Mineral Resources for that matter of the mining company.

Theresa Steele-Schober:
Excellent question! One of the biggest challenges in the ESG space is how to balance being very specific about what ESG risks we want companies to report on vs just asking them to report on material risks for their projects. We haven't yet found the answer within SAMESG, but this topic is certainly something we're discussing and debating ourselves.

Steve Hunt:
Agree there are many ESG issues that are rapidly changing. Water rights are a prime example. Ultimately, under CRIRSCO codes, if there is a material risk it must be disclosed, and this may result in changes to project reserves, or at least mining rate / economics. Reserves are not for ever and can be curtailed/ reset by ESG issues. This is becoming more common in many jurisdictions.

Something that needs more clarity is the role of the Competent / Qualified Person in ESG reporting. Historically, CPs/QPs have been geologists and/or mining engineers with no/limited ESG training or understanding. Should CPs/QPs be required to have training in ESG or if not, should they be forced to get external help from ESG specialists?

Cathryn McCallum:
This has been a topic of discussion, within PERC... You may be aware that AusIMM are developing social performance accreditation. From my experience CPs/QPs should either receive training in ESG or that Environmental and Social Performance practitioners should be co-authors as CP/QP in their own right.

Theresa Steele-Schober:
Within SAMESG we talk about Technical Specialists who we recommend provide input on ESG matters to the CP who takes overall responsibility for integrating these into the CPR. A lot of training on what it means to be CP these days is required as the skillset is quite advanced to the traditional geological skills. In recognition of the limitations of field geologists (for example) to access external skills (due to costs), we're aiming to make SAMESG a lot more descriptive about what we're looking for so including providing references to publicly available information where possible to make their lives a bit easier.

Hi Ed [Sides], to me there is quite a big difference (although some overlap) between governmental factors as currently written in the codes, and governance. These seem to have been given the same meaning - what do you think?

Ed Sides:
What I have found is that different people have different understandings of what the terms governance and governmental mean. Perhaps we need to look at things from a slightly different perspective as to how the decisions to proceed or not proceed with a specific project are made. Joe Ringwald's comment on project governance is something I will pass on to the rest of the sub-committee working on our update.

Hi Ed [Sides], in the PERC/SAMESG presentation to CRISCO last year, the assumption was made that they are the same thing. Did CRIRSCO agree? In my view there are some modifying factors which are governmental, and some which are governance, with some overlap. Project governance is different to corporate governance, and arguably is already incorporated with phase deliverables and project requirements. Corporate Governance is largely the preserve of company directors - do you agree that requiring CPs to sign-off on corporate governance would transfer the responsibility and accountability? What happens if the CP is external to the company?

Ed Sides:
Discussions on these aspects are ongoing and we hope to provide some clearer guidance on these aspects in the next update of the PERC Reporting Standard. However in response to your question it is important to note that, as with the CRIRSCO International Reporting Template, the PERC Reporting Standard (Clause 3.1) will specify that "A Public Report concerning a company's Exploration Targets, Exploration Results, Mineral Resources and/or Mineral Reserves **is the responsibility of the company acting through its Board of Directors**. Any such report must be based on, and fairly reflect the information and supporting documentation prepared by or under the direction of and signed by a Competent Person." In terms of responsibility and accountability, the CP should be given the opportunity to review any Public Report which is based on their work prior to its release so that they can confirm that it accurately reflects the supporting documentation which they have prepared and then give their consent to the release of the report. For instance an NI 43-101 Qualified Person Consent Form will typically include a statement along the lines of: "I certify that I have read [date and type of document (i.e. news release, prospectus, AIF, etc.) that the report upports] being filed by [insert name of issuer] and that it fairly and accurately represents the information in the sections of the technical report for which I am responsible." For further information on this topic, I suggest that you read an article by Greg Gosson and Deborah McCombe which is available at: https://mrmr.cim.org/en/library/magazine-articles/making-sense-of-consents/ (although published in 2007, the general principles described in this article still apply)

Hi Bruce [Harvey], Do you agree that governmental and governance modifying factors are part of the same area, and that governance factors should be part of a CPs signoff? Has anyone consulted the AICD for their opinion?

Bruce Harvey:
We have not addressed governance per se, it is really part of the 'management' CP area. Governmental is covered in the requirement for E&SP CPs to know the relevant laws and regulations that apply in the jurisdiction they (client and/or employer) are working in.

I agree with you on governmental factors, and I have been happy signing off. Governance is different, particularly the overlap with Company Directors.

Bruce Harvey:
Governance is a company director and senior executive responsibility, however E&SP professionals (and all other disciplines) would be well advised to know what is expected of them. If they don't, how can they do their job properly and progress in their career?

Hi Teresa [Steele-Schober], do you feel that corporate governance factors should be a within a CPs signoff? If so, have you consulted the Institute of Company Directors for their opinion?

Teresa Steele-Schober:
Obviously within South Africa there is mandatory compliance with King Code which CPs should be aware of and reference accordingly within their reports. As with all ESG aspects they can't be experts on anything but need to be responsible and accountable for conducting the orchestra, bringing all disciplines together and referencing existing company documents (where these exist of course)

Hi Joe [Ringwald], the CRIRSCO Codes apply mostly to publicly listed companies, and are there to provide investors and potential investors with the required information to make a decision. I fully see the need to provide E&S information as part of the decision-making process. Project governance to a certain degree is already and correctly included in the codes. Corporate governance isn't, and I think that is where the debate lies.

Joe Ringwald:
The challenge that we face is developing a clear definition or at least an understanding of governance in the context of mineral resource/reserve reporting. Project governance must relate to corporate governance and complement, not compete, with the purview of directors and officers. This is achieved with a corporate-wide CSR culture. I agree that some degree of project governance is incorporated in some codes but requires enhancement and clarification as this is also important to M&A.

Is there any retrospection in the US laws? Will existing mines need to restate?

Stella Searston:
There is no retrospection, the law is binding on all US-based companies and foreign registrants as of 1 Jan 2021. There are nuances as to when companies must be in full compliance, but in general it would be that all companies have adopted SK1300 reporting in 2022.

Can folks based outside of Australasia gain CP status from AUsIMM and would it be recognised by CIM / 43-101 and others?

Bruce Harvey:
People outside Australasia can join AusIMM and gain E&SP CP status, however it does not provide 'competence' status for JORC or any other code. Competence must be assessed in very specific circumstance.

Stuart Masters:
CP doesn't mean Competent Person at the AusIMM (or within JORC), it means Chartered Professional.

Excluding PERC and SAMREC, I'm interested in knowing how Dimension Stones group is considered and treated in different CRISCO Codes? If specifically considered, in which part of the Code is mentioned and included or with which other group of minerals and materials is coupled?

Stella Searston:
You could look at clauses 68 to 71 of the 2017 SME Guide. However, many of these clauses, when written in 2017 looked at PERC for guidance.

Ed Sides:
Appendix 7 of the CRIRSCO Template (November 2019) edition provides instructions on "The Reporting of Exploration Results, Mineral Resources and Mineral Reserves For Dimension Stone, Ornamental And Decorative Stone". This is largely based on the Section 15 of the 2017 PERC Reporting Standard and provides an example of where new features initially introduced into one of the CRIRSCO national or regional reporting codes and standards, may be incorporated into future updates of the International Reporting Template if considered useful by the other CRIRSCO members. CRIRSCO members who are currently in the process of updating their code or standard will no doubt consider whether to include Appendix 7 in their updates.

Investor Questions/Comments

Totally agree Jamie. The US Dept of Labour gave sustainable investing a green light in 1994, which included ESG. But the US Govt views have gone back and forward since then. To fully implement, need a combination of general govt support, favourable regulations, ad leadership at the investment/company level. At the moment, we have one tier starting to be constructed, and that is at the investment level, with some support fromsome mining/exploration companies who have ESG on their investor relations horizons.

Will greater transparency in ESG, coupled with greater emphasis on ESG in financing, lead to difficulties in miners and explorers raising capital? Mining companies can minimise ESG negative impacts, but few of them in a positive space, and mining sector has earned itself a bad reputation. Could it be challenged in fundraising - even if it does disclose better and adhere to best practice?

Ten years ago investors were asking one or two questions under each of E and S. Today, many investors are wanting to meet with the individuals who are responsible for this work for companies to ask questions directly, gone from one or two questions to pages of questions. The E questions and indicators are easily identifiable. The S indicators currently being used are not necessarily the correct ones.

Final Comments From Speakers

Budi Santoso:
I have not much to add but we need to make sure the industry is aware that incorporating ESG in the reporting code will not significantly affect their business as stated by somebody from SA where their code has accommodated ESG aspects even though it is still challengeable in my opinion. The junior and small companies (particularly those from countries that have just tried to implement or comply with international reporting codes) will need some time to adapt - even though each country where they are operating has considered or embedded the ESG aspects in their regulations like in Indonesia. We can do it in steps maybe: under the recommended guidelines before making it mandatory. At the end of the day we simply need to be fair and realistic while we keep pushing those 3 important aspects to be embraced and implemented. I would like to hear more from our SA counterpart.

Jenifer Hill:

Time is of the essence to support the mining community on ESG to support good performance and related investment. There are lots of different initiatives all doing similar things but from slightly different contexts/disclosure structures. The definitions of governance and governmental need to have clear and common definitions. An interesting point is that of responsibility and liability of QPs, CPs, and the future potential liability exposure of environmental and social practitioners. Social risks are difficult to measure, manage and I foresee litigations on social (and environmental) matters will become a big challenge. I think the definitions of governance would be a good topic to tackle at the next roundtable / workshop. And maybe a session on disclosure for investors with panel members from the investment community to help us prioritize disclosure issues and most effective ways to disclose the ESG information investors need?

Comments from Australia:

ESG affects private financing as well as public financing, and reporting is not just a tsunami facing the industry: it's a permanent change in the sea level. It is important to differentiate between Project governance and Corporate governance – there is significant confusion in the discussion and difference between government and governance (is there a cultural aspect to this?). We need to think about splitting ESG into E and S and G components as the language promulgates the notion that ESG is "the other stuff" and that it's a single concept. Treating ESG as modifying factors still adopts an 'add-on' / constraints approach i.e., let's solve the technical and economic challenges first, then 'manage' the other stuff. In contrast to the current 'hard systems' approach to mining projects, which focusses on technical/economic viability and cultural (including ESG) desirability, Soft Systems Methodology (SSM), which was developed in the 60's, inverts this posture, and focusses on cultural feasibility and technical/economic desirability; the future lies somewhere between. It would be interesting to explore ESG in Exploration, Resources and Reserves reporting through this lens.

Comments from Australia (cont'd):

Regarding addressing ESG as modifying factors:

- ESG is a step change and this is now flowing through in project M&As. Addressing ESG issues as "modifying factors" in reporting codes (e.g. JORC) may not provide the emphasis or change in mindset required;

- ESG starts with Exploration and why treating ESG through modifying factors will only address part of the problem. Much damage can be done in early stage exploration long before a project gets to the study (and therefore modifying factor) stage. JORC's guidance approach will need to address the spectrum of activities.

- On a related matter, the link below is to the Mining Association of Canada's 'Towards Sustainable Mining' standard and assessment scheme (that apparently is being considered for adoption by the Minerals Council of Australia):

    - As well as Canada, it has been adopted by a number for other national mining associations (Spain, Finland, Norway, Botswana, Argentina, Brazil, and the Philippines). https://mining.ca/towards-sustainable-mining/ There are some important and desirable features to the MAC scheme.

    - It is based on on-ground assessments at Asset level - a form of due diligence assurance that avoids the glossing over that occurs in Corporate level reporting.

    - Public reporting of results - setting things up for peer review, the best kind of review there is - transparency, rather than pass/fail (which can be gamed).

    - Independent quality control by an Advisory Panel, with separation of powers and oversight for good governance (selection of individual panel members can always be criticised, but so long as there are enough of them from multi-disciplinary backgrounds and they are progressively rotated to avoid corrupting familiarity, it can work).

Comments from Australia (cont'd):

  - An emphasis on measurement - notwithstanding that what gets measured may not be important, and what cannot be measured might be very important. At least it is an attempt to be scientific. Setting up a 'league table' - just like grading students, there is no absolute threshold to relax to, it is about competing for relative position and advantage in the league.

- This sort of approach is more broad-reaching than Modifying Factors in JORC (and/or other codes) - it is the sort of thing that some companies undertake during 'gate reviews' of project and operational development.