

# **ESG in 2021: If You Don't Care, Here's Why You Should**

**E**nvironmental  
**S**ocial  
**G**overnance

**By CRUX Investor**

<b>ESG in Mining</b>	<b>4</b>
<b>Sustainable Development Goals (SDGs)</b>	<b>4</b>
Goal 6. Clean Water and Sanitation	5
Goal 7. Affordable and Clean Energy	5
Goal 8. Decent Work and Economic Growth	5
Goal 9. Innovation and Infrastructure	5
Goal 10. Reducing Inequality	6
Goal 13. Climate Action	6
Goal 15. Life on Land	6
<b>What is ESG?</b>	<b>6</b>
Environmental	7
Social	7
Governance	7
Is ESG a good use of shareholder money?	8
<b>ESG in Practise: K92 Mining</b>	<b>8</b>
Respecting and Protecting the Land	9
Environmental Management Systems	9
Locals are Benefitting from Employment	10
Supporting and Evolving Local Businesses	10
Improving Infrastructure	11
Education is a Priority	11
Equal Rights	12
COVID-19 Relief Fund	12
Corruption	12
Taxes	12
The Board	12
<b>How can Juniors with tight cash-flow afford to be ethical?</b>	<b>13</b>
<b>Other Juniors Focusing on ESG</b>	<b>13</b>

Serabi Gold (LSE : SRB & TSX : SBI)	14
Rio2 (TSXV : RIO)	14
Neometals (ASX : NMT)	14
Montem Resources (ASX : MR1)	14
Canada Nickel (TSXV : CNC)	15
<b>ESG - It Matters</b>	<b>15</b>

ESG is important and it can no longer be ignored. If mining is ever to become sustainable, then everyone must do their part. ESG is a new way of thinking and operating, that results in a better outcome for investors, future generations and present communities.

## ESG in Mining

The question 'can mining ever be sustainable' is often asked, resulting in many contrasting opinions. Mineral extraction is by definition the extraction of a non-renewable resource, so finding ways to make this sustainable for future generations is complex and multi-faceted.

In 2020, mining was put under the microscope by the United Nations; highlighting the damaging effects the industry is having on the planet, but also the ways we can avoid this.

Whilst there are many environmental impacts of mining, it is also true that lots is being done to mitigate the damage.

## Sustainable Development Goals (SDGs)



The United Nations' Sustainable Development Goals (SDGs) are a call to action for all countries to work together to end poverty, protect the planet and ensure that all people are able to enjoy peace and prosperity, today and in the future.

The report detailed 17 goals that mining could help mitigate, highlighting 6 that the industry can directly tackle. These are:

## **Goal 6. Clean Water and Sanitation**

Mining requires access to land and water. Excessive water use and water body contamination are adverse impacts on human health and ecological systems.



## **Goal 7. Affordable and Clean Energy**

Mining can use a lot of energy, both for extraction and for processing materials and metals. There are many opportunities for greater efficiency as well as expanding the use and purchase of renewable energy which can also help make clean energy affordable to stakeholders.



## **Goal 8. Decent Work and Economic Growth**

There are many new economic opportunities for local communities and workers to access better training and more stable employment by making mines sustainable for the long term. By investing in clean-tech and clean jobs the industry can future proof the sector and workers livelihoods.



## **Goal 9. Innovation and Infrastructure**

Sustainable mining activities can spur economic development and diversification through direct and indirect economic benefits. It can also play an active role in constructing new infrastructure for transport, communications, water and energy.



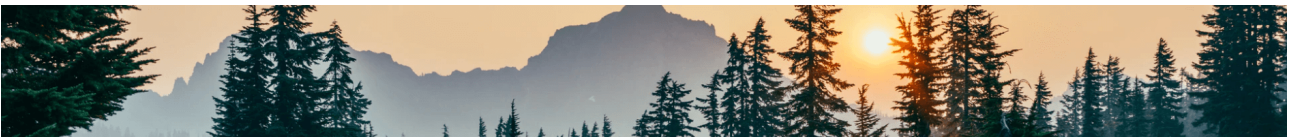
## Goal 10. Reducing Inequality

Mining companies can support local decision-making processes regarding the mining operations, the equitable allocation of benefits and the resolution of grievances. Engaging communities helps companies identify and expand opportunities to strengthen the voice and influence of marginalized groups, including women.



## Goal 13. Climate Action

Mining can lead the way on creating clean energy infrastructure that local communities can help build and access. It can also lead to creating circular resource models to help curb emissions and tackle climate change.



## Goal 15. Life on Land

Making mines more sensitive to local habitats and other ecological considerations are crucial if the industry is committed to helping preserve natural capital.



## What is ESG?

ESG investing is one of the fastest-growing trends in the financial industry. Today, there are numerous ESG-oriented mutual funds, which have attracted inflows of over \$5 billion.

ESG stands for Environmental (E), Social (S), and Governance (G). These 3 factors cover a spectrum of risks for business profitability above and beyond balance-sheet metrics.

## **Environmental**

Green issues such as climate change are very important in today's world, not only for investors but also for the whole of society.

- Climate change strategy
- Biodiversity
- Water / energy efficiency
- Carbon intensity
- Environmental management systems

## **Social**

People want to know how corporate activities and operations affect human activity. As an example, investors increasingly want to know how the labor practices of a firm improve the community or how the chain of supply affects social fabric, both locally where companies operate as well as globally.

- Equal opportunities
- Human rights
- Health and safety
- Customer and product responsibility / supply chain standards
- Labour standards

## **Governance**

How are these concerns handled by the C-suite Directors? This is at the core of governance. Investors want to know that decisions made in the boardroom are good for everyone involved, from the employees and stakeholders to the community at large.

- Business ethics
- Compliance
- Board independence
- Executive compensation
- Shareholder democracy
- Bribery and corruption

## Is ESG a good use of shareholder money?

Some investors might view ESG as an unnecessary use of money: Why spend money? They want more dividends and may prefer the company to be more frugal with cash. So why is ESG so important?

ESG and making money are not mutually exclusive. ESG is about long-term sustainability and a long-term return for stakeholders. There is a growing view that stakeholders are a wider group than companies and investors had originally considered. Stakeholders initially were just the employees and shareholders, but now also include the communities they work in and the country's local and federal government.

A company wants longevity for their operations and stability, especially for a long-term mining operation. With a 30-year mine life or more, mining companies are an integral part of the community and its economics for generations.

## ESG in Practise: K92 Mining



K92 is a multi-billion dollar operation in Papua New Guinea. We recently spoke to CEO John Lewins about exactly what ESG means to them and their extremely comprehensive ESG programme. He believes that giving ESG the attention it deserves is what all good citizens should do and what shareholders should demand.

Lewins discussed what ESG means to him and K92:

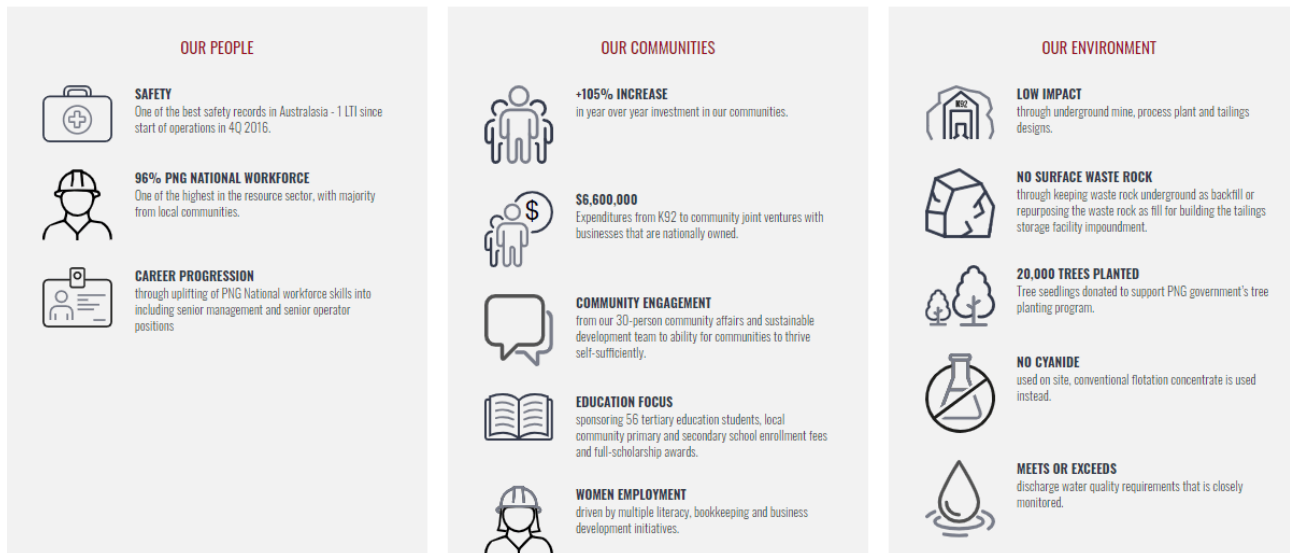
*“When you look at ESG in its most fundamental form, it's about creating long-term value for all stakeholders. That's what ESG does. If you're not creating long-term value for all of those stakeholders, why should all of those stakeholders support what you are doing? Part of the*



reason that you need to report ESG in the way that we do is because you need to keep improving what you do."

K92 carried out a Sustainability Report in 2019 which highlighted the sectors they would be focusing on over the next few years: their people, their communities and the environment.

### 2019 SUSTAINABILITY HIGHLIGHTS



## Environmental

### Respecting and Protecting the Land

Papua New Guinea is a developing country and is regarded as one of the most diverse countries in the world. The residents of Papua New Guinea love their land and Lewins has made it K92's mission to look after it. Whilst the mine is not going to be there forever, the community that lives there will:

*"If you're going to explore or you're going to mine, how will you do that in a way that will minimize any impact so that when you return the land to the owners, they can continue with their way of life and make that land productive?"*

K92 operates a tailings dam and has already set aside finances to rehabilitate the area, returning it to the condition it was before.

### Environmental Management Systems

K92 is proud to have minimal environmental impact, something that is achieved through extensive planning and a clear understanding of the damaging effects their operations could

have on the land. Water usage is highly regulated and monitored at multiple locations within the lease and surrounding areas, the results are submitted to the authorities on a bi-annual basis.

They also refuse to use cyanide, a key component in many mining operations to extract metals from oxidised ores. Whilst using cyanide would increase recoveries by a couple of percentage points, K92 decided that this marginal gain was not worth the environmental risks of chemical leaching.

## Social

### **Locals are Benefitting from Employment**

The presence of a mine can often be viewed as a negative for the surrounding communities, K92 is keen to change this stereotype by ensuring that the mine provides value to both the company and community. Their main focus is employment:

*"96% of our people (employees) are Papua New Guinea Nationals. Over 60% of our people are actually from our immediate impacted communities, thus, we are creating jobs for people, the vast majority of whom have never worked in the mining industry before. In fact, many of whom have never had formal jobs before".*

This employment includes training and a honing of skills necessary to work in a mine.

*"We now have people who started with us from the local community, they had never before had a formal job and now they are jumble operators, which is one of the most skilled underground jobs you can have."*

### **Supporting and Evolving Local Businesses**

As well as directly employing locals to work on the mine, K92 focus on creating businesses that will be successful even after the mine has gone. The idea is a 50:50 venture between companies with relevant skills and the locals. Businesses include a tracking company that manage inbound materials and outbound concentrates from the port, an ancillary surface equipment company and another that runs the camp.

*"We have smaller contracts such as for grass cutting, manufacturing some equipment, etc. In this regard, we are creating smaller business opportunities as well. Additionally, as we go into things like raising the well in the tailings dam, we have contractors coming in that will involve local people."*

## Improving Infrastructure

Constructing the necessary infrastructure for a mine to function is an integral part of any mine site plan, but K92 has taken it even further by improving facilities that don't directly link to the mine.

*"We looked at our infrastructure around the mine and we focus on areas such as schools, school buildings, clinics, roads, we are now looking at things like electrification. We are putting 1M Kina (USD\$284,716) into a new market at Kainantu Town, which will improve the ability of the people who grow locally to bring produce to the market and sell it. That helps us as well because we can go to that market and we can buy food, etc, for the camp. We've also brought water into 3-4 villages over the last 12 months."*

They have also invested in local roads and are continually looking for ways to improve the infrastructure of the local area.

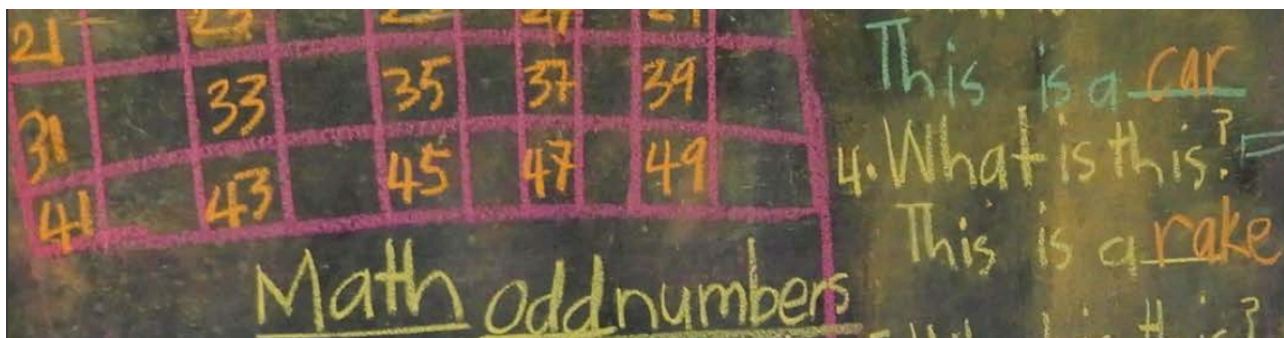
## Education is a Priority

K92 is also focusing on education and are actively aiding the local community by splitting the cost of primary school with the government; meaning that children, who previously would not have been able to, can now gain an education.

*"There are people here who've not had the opportunity to finish school; they might have only done a few years of primary school, but they want their kids to have every opportunity they can, so they're actually looking for their children, first of all to be able to go through school".*

They also focus on tertiary education, running over 50 scholarships and sponsoring a local University - the University of Technology in Lae.

*"Mining and Metallurgy students come to us for skills training to get the practical experience, etc. Then we have a prize for the top geology, top mining, top metallurgy student in third year. This pays for the person's 4th year studies, stipend, etc. with an opportunity to get an appointment with us (K92)."*



## **Equal Rights**

K92 is very supportive of Papua New Guinea's dedication to empowering women, so they've developed a "Women in Mining" program, which aims to increase the positive impacts of the extractive industries on women from remote areas of the country.

## **COVID-19 Relief Fund**

*"We put together a Covid fund of 1.5M Kina, which is about USD\$600,000. This was for the central government and the 2 provincial governments of Morobi and Eastern Highlands, which are the 2 areas that cover our operations. The fund was used to pay for PPE and other equipment to deal specifically with Covid."*

# **G**overnance

## **Corruption**

In developing countries, there can be issues with corruption - something that K92 is keen to make absolutely clear that there is no tolerance.

*"We publish our reports on that and we try to be transparent. We're clear on our MOAs and what we are doing and how we make payments."*

## **Taxes**

K92 is proud to be a significant tax payer in Papua New Guinea and believe that it is fundamental to your acceptance in any country that when you operate a business and you make money, you leave money for your shareholders and you pay tax.

## **The Board**

Lewins is pleased that K92 has significant representation by Papua New Guinea residents at upper levels. Two of the four people on the local company board are Papua New Guinea citizens.



## **How can Juniors with tight cash-flow afford to be ethical?**

K92 is in the lucky position of being a big company, making money and they are undoubtedly a good global citizen because they can afford to be. It's harder to be a good citizen when money is tight, is this when shortcuts occur?

*"It is harder, and that's where it's important to have a good relationship with the government with mutual trust, and that can be difficult to establish. Times aren't always good, metal prices aren't always up, and governments aren't always supportive. We've seen many governments around the world that aren't."*

*"Do we get mining companies that might take shortcuts? In every industry there are people that will take shortcuts, some of which are well-intentioned, and I don't think it's particular to the mining industry more than any other industry. Certainly, from my experience within the industry, we have more positive agents for change than probably any other industry. I know that that isn't necessarily how everyone sees it, but in places like Papua New Guinea, when you see what companies do for their communities, education, hospitals, clinics, etc, then you realize how much good they can do."*

## **Other Juniors Focusing on ESG**

Mining companies are waking up to the challenge ahead. Financings from institutional funders will more and more depend on demonstrating their ESG credentials. The companies will do this in different ways dependent on their circumstances and stage of development, but we

are seeing appointments and even departments being sets up to address this new imperative. ESG is here to stay.

### **Serabi Gold (LSE : SRB & TSX : SBI)**

Serabi Gold is a UK-based company that operates in Brazil. From an environmental perspective they are committed to minimizing their mining footprint, not using tailings dams, and not operating within primary forests. They are committed to the betterment of the people living in their mining districts. As a result, they have built new schools in the Jardim do Ouro and Sao Chico communities to provide improved conditions for local children to study and further their education.

### **Rio2 (TSXV : RIO)**

This Canadian company is developing precious metals deposits in Chile. They carry out mining activities responsibly and respectfully, making their commitments to the environment and community engagement an integral part of their strategy. They have focused on controlling emissions during operations, managing their water usage, and to mitigating environmental impact with their waste disposal.

### **Neometals (ASX : NMT)**

This Australian firm exists to monetize new technologies that today's innovators create, including those in the natural resources space. A 'Technology without Borders' company, ESG practices are built in at its core. It is the essence of their strategic thinking. Their sustainability commitment is anchored on four principals: ethics, community benefit, concern for people and care of the environment. A key example of this is their efforts to promote lithium battery recycling, creating a closed-loop system.

Neometals stated: "*We will recycle every Tesla battery for free, forever.*" Neometals has a unique hydro-metallurgical process to recycle Li-ion batteries, and it is more effective (in terms of recoveries) and environmentally friendly than conventional pyrometallurgical practices.

### **Montem Resources (ASX : MR1)**

Montem is an Australian coal company that focuses on steel-grade coal. Coal can be a "dirty word" in some circles. Montem has met that challenge head on. All of their activities and operations are designed as long-term, mutually beneficial relationships. The company is committed to minimizing their environmental footprint and optimizing community engagement. Their aim is to encourage sustainable growth in the places that they operate.

Studies include air quality, noise assessments, surface and ground water assessments, local vegetation mapping, wildlife studies (including fish and land animals), soils testing and land resource studies. This information will help guide the operation and reclamation of the mine.

## **Canada Nickel (TSXV : CNC)**

CEO, Mark Selby is committed to becoming carbon dioxide neutral. As a result, they launched the wholly owned NetZero Metals Inc. to develop zero-carbon production of Nickel, Cobalt and Iron and applied for the trademarks NetZero Nickel™, NetZero Cobalt™ and NetZero Iron™ across several of their operating areas.

On 8 April 2021, Canada Nickel initiated its Environmental and Social Impact Assessment (ESIA) for its Crawford Nickel Cobalt Sulphide project. The Crawford mine is part of the plan to deliver NetZero Nickel and Cobalt products in a sustainable, environmentally responsible way.

*“Initiating environmental data acquisition and our social engagement process at this early stage sends a clear signal of the importance that the company places in reducing its environmental footprint and building meaningful and lasting relationships with all project stakeholders.*

## **ESG - It Matters**

ESG is fast becoming a fundamental to a good business plan, and more companies should be held accountable and do their part. In today’s world, most companies know that to remain viable, they must make ethical and responsible choices for their businesses.

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