

HOW TO EVALUATE INFERRED RESOURCE PROJECTS FOR STRATEGIC DECISION-MAKING

By Andy Clay

So you have mineral projects at a low level of confidence and limited cash for further work? Not an unusual position to be in, but the JORC family of reporting codes provide you with a problem since you must demonstrate that “there are reasonable and realistic prospects for eventual economic extraction”.

At the same time, the SAMREC Code also states “Inferred Mineral Resources may be included in mine design, mine planning and economic studies **only if there exists a mine plan and a statement of Mineral Reserves.....**” (bold our emphasis). What this means is that whilst all companies are carrying out economic studies on these early stage projects in order to meet the first requirement, the second statement as a guideline states you can’t do it! Certainly you can’t report it.

Fortunately there is a remedy at hand. Venmyn routinely prepares “Preliminary Assessments” under the National Instrument 43-101 rules and has incorporated the process into a Preliminary Assessment Statement. What this does is to enable the factors that would be considered as appropriate low level of confidence “Modifying Factors” to be applied to an early stage geological model with Inferred Resources and generate an economic output. Whilst the absolute magnitude of the resultant NPV calculations are indicative of negative, mildly positive or strongly positive and not normally quoted as quantitative values to prevent unreasonable expectations, sensitivities are shown to illustrate upside or downside potential.

Armed with this information, in a Short Form Preliminary Assessment Statement companies can make a strategic decision to drop, hold or promote the project. Furthermore, a real current need is to provide supporting documentation that is compliant with NI 43-101 to evaluate impairment issues and transaction potential.

Now that’s real value.

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