

Updating Industry Guide 7: Tough Decisions Required

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Industry and SEC goals

- ◆ The mining industry wants the SEC to update Industry Guide 7 to reflect international mining standards.
- ◆ The SEC will want:
 - a single, comprehensive classification and disclosure system
 - no need for frequent rule changes
 - conformity with other SEC rules
- ◆ Meeting these goals will require a thorough update of the SME's Guide, or a similar document—we're not ready yet.

What resource/reserve classification system should the SEC be urged to adopt?

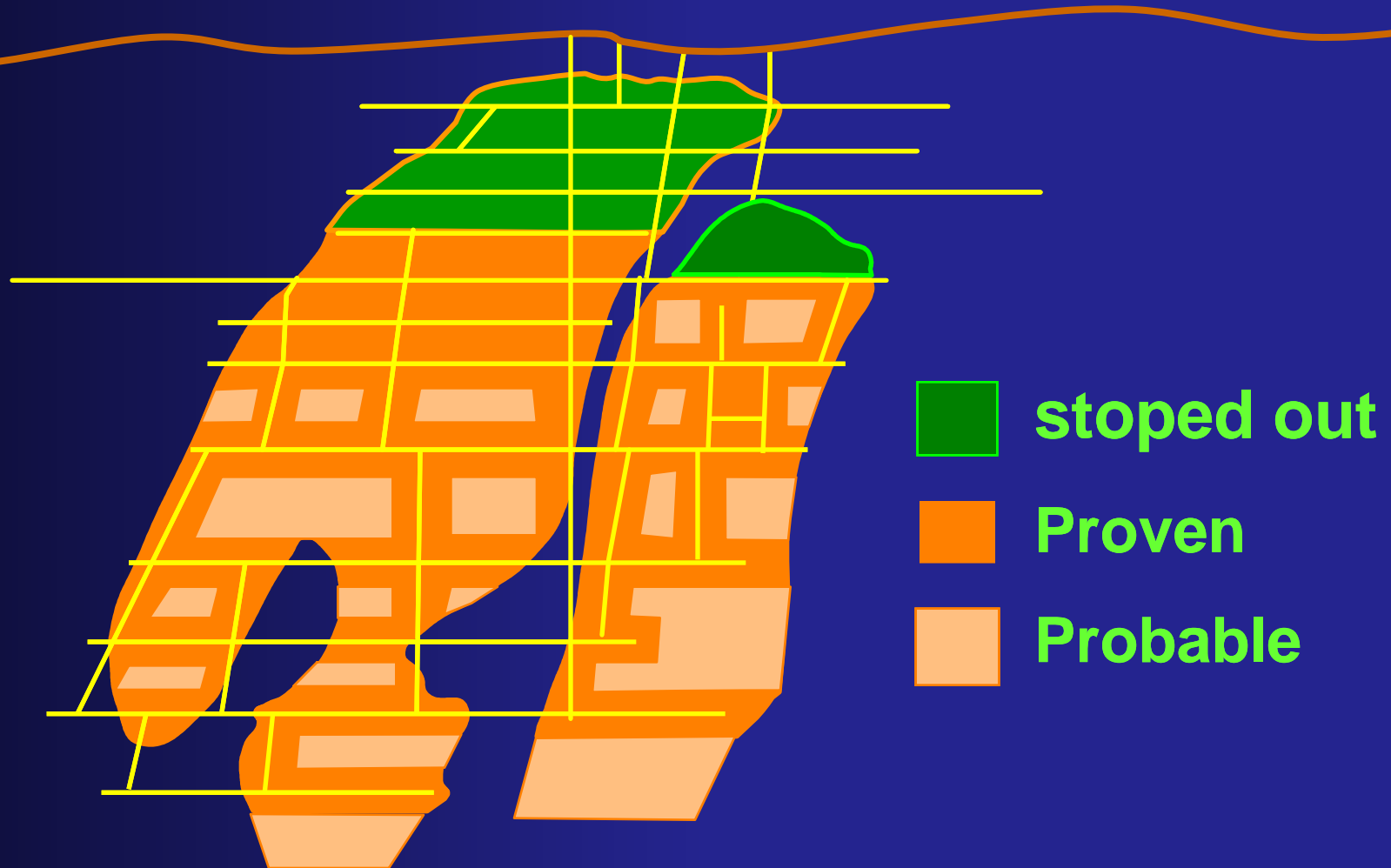
- ◆ National Instrument 43-101 2011+ mineral brines
- ◆ SME Guide 2007
- ◆ SAMREC 2007 being reviewed
- ◆ JORC Code 2004 review started
- ◆ European Reporting Code 2001
- ◆ SEC Industry Guide 7 1981, *Securities Act Release 33-6299*

Resource/reserve delineation

- ◆ Is it necessary to declare a mineral resource estimate prior to declaring a mineral reserve estimate?
 - Underground mines
 - Stillwater layered igneous complex
 - Silver Valley
 - San Juan Mountains
 - Missouri lead belt
- ◆ CIM definitions state, *Under no circumstances can Indicated Resources convert directly to Proven Reserves*. So what about inferred to Probable/Proven?

Hoover, *Principles of Mining*, 1909

source of the SEC's original definitions



Retention of Guide 7's reserve definition

“Reserve. That part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination.”

This definition gets directly to the point of the material that pays the bills without depending on going through the exploration-oriented mineral resource definitions.

Reserve definitions

- ◆ Should estimated reserves be excluded or included in resource estimates? Inclusion mixes apples and oranges.
- ◆ Should estimated reserves include processing losses as well as mining losses? NI 43-101 does not include processing losses.

Mineral resource category combinations

- ◆ Can estimates of inferred resources be combined with indicated and measured resource estimates as long as the inferred category is listed separately?
- ◆ CIM definitions state, *Inferred Mineral Resources cannot be combined with other categories and must always be reported separately.*
- ◆ The JORC Code allows:
$$\text{measured} + \text{indicated} + \text{inferred} = \text{total}$$

Mineral resource estimates (43-101)

♦ Summarize:

- Key assumptions, parameters, and methods for a **reasonably informed reader** to understand how estimates were made

♦ New Instruction

- With multiple cutoff grades, highlight base case cutoff
- All estimates resulting from each cutoff grade must meet test of “reasonable prospects of economic extraction”

Restricted/prohibited disclosure (43-101)

- ◆ No economic analysis on exploration targets or historical estimates
- ◆ No gross metal values or in-situ values
- ◆ No metal equivalent grades (*e.g.* total precious metals) unless the grade of the individual metals or minerals included is individually disclosed

Updating the SME Guide

- ◆ Is a definition of “historical estimates” required?
- ◆ Should verification of previous results be required?
- ◆ Is a report outline needed as in 43-101?
 - exploration properties v. advanced properties
- ◆ Should there be more guidance on risk factors in various sections?
- ◆ Should there be an overall risk summary? Forward-looking statements
- ◆ Mineral brines (OSC staff notice 43-704, 7/22/11)

Should a marketing section be required?

- ◆ Most metal and mineral products are sold under contracts (iron, coal, uranium, industrial minerals, PGMs, etc.)
- ◆ Market prices for most mineral products are not readily available.
- ◆ A marketing section would describe how the mineral product is sold and whether contracts/hedges are involved.
- ◆ The financial risks of not having a contract should be disclosed, if appropriate.

Feasibility studies

- ◆ Define feasibility study requirements
 - Preliminary Economic Assessment
 - Prefeasibility
 - Full feasibility
 - Statement that the economic analysis must be part of the report when required
 - Adopt the 43-101 approach?

Economic Analysis (43-101)

◆ Summarize

- Clear statement of and justification for assumptions
- Cash flow forecasts on an annual basis
- NPV, IRR, and payback
- Taxes, royalties, and government levies
- Sensitivity or other analyses and impact of the results

◆ Producing companies may exclude the economic analysis for properties in production, unless a material expansion is planned

Retain the SEC definitions of exploration, development, and production stages

- ◆ SEC definitions of exploration stage, development stage, and production stage should be retained because of the labeling on the financial statements, which otherwise would classify exploration-stage companies as “Development Stage.”

Professional qualifications—CP/QPs?

- ◆ Regulation S-K Item 1202(a)(6)—oil & gas—requires disclosure about the education, experience, and professional organization memberships for the “technical person primarily responsible for preparing the reserves estimated.”
- ◆ The SEC declined to go the Recognized Professional Organizations route.
- ◆ The SEC can, though very seldom does, bring administrative actions against a geologist or engineer.

Should the technical reports be made public?

- ◆ Currently technical reports filed with the SEC are non-public.
- ◆ ITRs are publicly available in Canada
- ◆ ITRs are not made public in Australia
- ◆ Should ITRs be made public in the US?
- ◆ How often should reports be updated?

ITR consents

- ◆ How often is a new/updated consent required?
- ◆ Allow primary QP/CP to take responsibility for report sections not written by a QP/CP (new 43-101)
- ◆ Should a firm be able to sign if the individuals involved in preparing the ITR are identified?

Conclusion

- ◆ The mining industry is not yet ready to go to the SEC for a change to Industry Guide 7.
- ◆ Should the mining industry use the SME's Guide as the basis for the proposed changes to Industry Guide 7?
- ◆ If so, the SME Guide requires considerable updating to meet the SEC's goal of a comprehensive rule that will no require frequent change.

**Thank you
for your
attention!**