Mining Terms and Definitions

The following terms and definitions are a useful reference tool for the investor in mining stocks or for those following mining companies.

Mineral Resource Categories

P & P- Proven and probable reserves. These can be mined economically at particular prices.

M & I – Measured and indicated. A higher level of confidence in the resource. Measured is better than indicated.

Inferred – Estimated with low confidence. This is an initial estimate, or a rough draft. With more drilling, inferred ounces become M & I. Infill drilling is converting ounces to a higher category.

Au-eq = Gold equivalent. All metals converted to a gold

valuation.

Economic Studies

Feasibility Study – Usually bankable, meaning based on the study, the project can get funded. Highest standards of quality, defines what the mine *will* be.

Pre-Feasibility Study – Closer to a feasibility study than a PEA but not bankable. More stringent than a PEA. What the mine *should* be.

Preliminary Economic Assessment (PEA) – Initial economic study of a potential mine. Like a rough draft. Subject to change. In Australia this is known as a *scoping study*. What the mine *could* be.

IRR – Internal Rate of Return. Need to see at least 20% at lower metals prices.

NPV – Net Present Value. Current value of project based on the discounted analysis of future cash flow & expenses.

Cash costs / AISC (all-in sustaining costs) – Cash costs = operating costs. Includes all the costs associated with producing an ounce of metal.
Some investors add $250 per ounce to cash costs to get a all-in sustaining cost figure, in preference to using the AISC figure quoted by a company.

Drill Results

– Measured in grams per ton (g/t) over meters.

– Multiply the grams by meters to get an idea of the quality

of drill hole (i.e. 3 g/t over 10 meters = 30).

– Width / Thickness is important. We need to see a minimum 4-5 meters. Less than that can be difficult to mine. This is why many high grade hits under 1 meter are ignored by the market.

– For underground mining (below 300 meters), width and grade is very important. Might need to see 5-7 g/t Au over 4-5 meters as a minimum.

– For open-pit bulk tonnage mining, the resource generally needs to be +1 g/t and ~100 g/t Ag for Silver. This needs to be born in mind when evaluating drill results.

– For oxide heap leach projects, +0.30 g/t can be mined profitably. 0.60 g/t and higher can be considered high grade. Good drill results are these grades over long distances (i.e. over 30 – 100 meters).

– Recovery is most important thing for oxide deposits.

– A step-out is a drill hole that is a considerable distance (~50 -100 meters) outside the boundary of existing resource or mineralization.

– *A great drill hole that is 100 meters outside of a resource is more significant than a hit that is in an area already known to be mineralised.*

– Strike length is the longest horizontal distance for mineralisation.

Valuations

– *High grade and high margin assets get stronger valuations.*

– For a producer, the reserve life of an asset plays a huge role in its valuation. Think of the reserve life as a

potential price to cash flow valuation.
– If an asset only has 6-7 years of reserve life, it wouldn't be valued at more than 7x cash flow in a normal market.
– *Silver production gets a better valuation*. If a junior gold producer trades at 8x cash flow, the same company as a silver producer could trade at 10x cash flow.
– Exploration and Development assets can be valued as a percentage of the NPV of a project (or NAV of a company).
– Pre-financing, a project can trade at 0.20x to 0.30x NPV
– Optionality deposits are valued at 0.10x or less



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