

# 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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