Resource and Reserve Category Inflation – Hidden risks, known rewards

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# ABSTRACT

There are numerous causes of mineral resource and reserve inflation. Traditionally, these are linked to issues of data accuracy or misinterpretation, the use of overly optimistic estimation parameters or assumptions, an absence of independent expert verification, together with concealed or even undisguised inflationary pressure to increase company value.

Owing to its subjective nature, classification of resources and reserves remains an opaque process. Of necessity, Competent Persons rely on personal heuristic interpretations, ideally underpinned by appropriate estimation and classification experience across commodity and deposit types.

Whereas independent verification of individual resource and reserve statements remains impractical, irrespectively publicly available data can be interrogated for potential category inflation using drilling and exploration expenditure statistics from annual company reports.

Accordingly, abrupt changes in category tonnages without concomitant drilling expenditure can be examined by sector and market capitalisation to identify prospective outliers. In this manner, simple exploration criteria offer a basis for risk assessing resource and reserve classification over time.

An analysis of listed companies was undertaken over a seven-year period emphasising projects in preproduction, classed as either exploration, target outline, scoping and prefeasibility or reserves development. From these, a series of KPI’s were generated against which outliers were distinguished and thereafter individual projects were anonymously risk ranked.