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Setting New Standards TSE/OSC Mining Standards Task Force *Comments & Suggestions*

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ATT.: Ms. Alice Janisch - TSE/OSC Mining Standards Task Force

FROM: Eduardo Vale - Director

REF.: Comments on Interim Report

September 10 , 1998.

Dear Ms. Janisch,

Further to Ms. Jensen's letter, I am sending to you our suggestions and comments concerning the **Mining Standards Task Force** Interim Report. Like other economic agents with interests in the mining industry we feel honored and distinguished by the encouragement and possibility to offer our contribution, albeit modest, to a document of such great importance to the worldwide mining business community.

This initiative amongst others, ensures the high level of professionalism and leadership achieved by the Canadian mining industry. It denotes a remarkable benchmark in the history of mining institutional relations, adding value to the world image of the industry as a whole in such demand and cared for to face ever present challenges and constraints blocking the path of growth of mining as we approach the next millennium.

Yours truly,

Eduardo Vale

1. General Order

- The mentioned gap in the information chain caused by the lack of standards on a day-to-day information basis should be addressed at a consistent, balanced and integrated level, bearing in mind the standards required in relevant reports such as: prospectuses, listing and technical reports. They must adhere to the same standard requirements and cover the lag time between the fundamental steps of the corporate life, not contributing to deform and/or degrade the more stringent rules demanded at such core events.
- In spite of the awareness and care of the document not to propose a check list this was inevitable and in many situations in the text "do's and don'ts" can be found. We believe that all proposed changes should be listed in a table, classified by topic and stage of development of the property and receive the appropriate statement: **requirement or suggestion**. This layout to summarize the recommendations will facilitate consultation and monitoring.
- The corporate web site as a fundamental source of information should be encouraged as a means of cost reduction to the company and easy access to investors and other interested parties. It is probably the ideal place to store the previously released documentation by means of downloadable files.
- In general the guidelines and corrective proposals underway are perhaps focusing too much on reserve classification and evaluation. In spite of its core and outstanding importance to the evaluation process, a series of other aspects should also be reviewed in order to increase the quality of the information available. So the scope should be enlarged to encompass the proper engineering conception and mineral economics aspects.

- In fact, we have an inter-related and multidisciplinary chain of activities and decisions that should be finely tuned to adhere to and accommodate the specific and unique aspects relevant to each opportunity of investment under evaluation, but without losing track of the general level of improved standards aimed for. In this context the definition of a comprehensive check list can be useful to all interested parties: issuers, investors, analysts, financiers and regulatory agencies.

- Whenever possible and pertinent, at each stage of the industry and respective dimension of evaluation, the appropriate set of terms, concepts, procedures and criteria should be investigated in order to present the industry's best practice. Using as an analogy and example, consensual stronghold practices, such as the importance of using control samples to manage one risk component associated with assaying, should be investigated in the other areas. So, the recommendation to use the Gold Institute's method of calculating and reporting actual and projected production costs (modified to apply to other minerals) is most positive as a first step towards standardizing the calculation and reporting of production costs of mining operations.

- Bearing in mind this referential, a professional association like CIM unquestionably plays a fundamental role not only at a national level in the interface with other Canadian public institutions, but at an international level in a concerted action to embrace similar institutions.

2. Specific Nature

- The concept of **Qualified Person** is fundamental, but the range of his duty expected to be responsible for the design, implementation and assessment of programs and evaluation of properties in different stages of development and focusing on three ample and fundamental dimensions - *geological assurance, engineering conception and economic-financial modeling* - suggest, as the best configuration, **in preparing an independent report** the participation of a "corporation, partnership or other legal entity " as a preferable agent.
- On the other hand, taking as referential the Brazilian mining business culture and reinforcing the **ideal of a multi-disciplinary approach** the report should be signed by a geoscientist, a professional engineer and an economic and financial analyst especially in advanced prospects and development and operating properties.
- However, even strictly at company level the potential bias of having the same QP in charge of two a priori possible conflicting duties: conception, development and implementation *versus* evaluation and reporting require some awareness.
- All relevant steps toward funding and development should use an independent QP. In fact the challenge is not the dichotomy of in-house versus out-house effective expertise availability but **the legitimacy and independence**.
- In our opinion the temptation to reserve the exercise of **mining analysis** exclusively to geologists and mining engineers is getting closer to over regulation. The application of QP concept should be limited to company and auditor, not to mining analysts. Perhaps, the investors should be limited to practicing geology and mining engineering too. Anyway, all brokers should have a QP.

- The technical expertise and experience profile of the team responsible for conducting the works in the field should be disclosed.
- The relationship of the mining company not only with the laboratory but with all the other consulting and operating companies in case of contracting service should be made clear.
- All legal frame work - mining code, landowners rights, environmental issues etc - relating to mining rights should receive an adequate description of the conditions and constraints imposed on the operation.
- Table 7.2, topic (1) Mineral Property should include a comprehensive description of any mineral agreement rather than a brief outline in order to offer ample disclosure of under what conditions these rights are held.
- Concerning the release of partial results (p. 99) we believe that the company should offer a **complete portrait of the overall exploration program** so the investor could be wise (taking the two holes in a six hole program example) of what has been accomplished. On the other hand, he is able to follow up the execution of the program by comparing the partial results on an ongoing basis, being positive or negative, and having a profile of the remaining works to be done.
- In relation to key economic parameters used in **reserve calculation** we defend the argument that whenever the case - *not only the first time reported* - the document should include a sensitivity analysis, where the reserves are calculated using current prices or not. Whenever a reserves report is disclosed it should be mandatory to describe the premises - technical and economic - and the assumed prices. The tonnage and grade relationship should be presented reflecting the sensitivity analysis of the key parameters and the price.
- As a proxy of the statement regarding exploration that the information must be complete listing the positive and negative points, the sensitivity analysis must offer a complete overview of the range and level of sensitivity of any variable and parameter of concern.

- Taking into account the critical importance of tonnage/grade relationship in valuation estimates it only should be disclosed in relation to Mineral Reserve concept - mineable part of a **Measured or Indicated** Mineral Resource - according to the Draft International Resource/Reserve Definitions as proposed by Council of Mining and Metallurgical Institutions.
- The statement "it is inappropriate to refer to **the gross value or in situ value** of resources and reserves" is unbound. In name of consistency and considering its influence on valuation matters and expectancies formation the adopted rule should be as strict as in relation to in situ resources or geological reserves: **must not be used in public disclosure**.
- The Tenure and Permitting Topic is well approached, but Valuations should be reinforced. I believe this topic must receive more attention and encompass some dos and don'ts with a minimal check list. For investors not well acquainted it will be inevitable to compare the valuation of the property with the value of the company and/or its capitalization.
- On pre-feasibility and feasibility reports is fundamental to identify and separate influences of leveraged conceptions inserted into the cash flow: *financial and fiscal incentives*
- Any valuation report disclosed should be supported by a pre-feasibility or feasibility study.
- The disclosure of production and costs data on the basis of **equivalents of a particular mineral** should be restricted to internal reports and completely banned from public documents. Usually, it does not add value to the report only contributing to confuse the investor.