VenmynDeloitte.

South Africa | Energy & Resources | 18 November 2015

Resources and Reserves

Which prices are being used in calculations?

Mineral commodity producers need to carefully assess the commodity prices at which their mineral resources and mineral reserves are being calculated.

This is the view of Venmyn Deloitte MD Andy Clay, who advocates that mineral resources be calculated using a price that is 50% higher than the spot price, while mineral reserves should be calculated using a price that is 10% to 20% below the spot price.

“If those producing a particular commodity depart from this methodology, the reserves will be overstated,” he says.

“To correct this, impairments will have to be made.”

Mineral companies typically do not use the spot price to calculate mineral resources and mineral reserves, and prefer to use a broader range of prices that reflect the longer-term variability in the spot price. They believe that mine operating plans and strategic decision making are enhanced when a higher commodity price is used to calculate resources and a lower price than the spot price is used to calculate reserves.

However, what has become confusing of late is that the Platinum Group Metal (PGM) industry tends to use much higher values than suggested by generally-accepted practices used by gold producers, for instance, with some PGM producers calculating their resources at a price 70% above the current price of the basket of metals that they produce.

“All research suggests that the PGM industry should be using a price much lower than the price they are currently using for reserves,” says Clay.

To comment on this issue, go to Venmyn Deloitte’s Facebook and Twitter pages.

Kind regards,
Deborah Spicer

Contact:

Tel: +27 (0)11 517 4205/6
Office Hours: 7am - 5pm (GMT+2) Monday to Friday

venmyninfo@deloitte.com | venmyndeloitte.com