

## SUGGESTED PRACTICES FOR MINING COMPANY REPORTING

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Governments and Stock Exchanges specify minimum company reporting standards which, to some extent, meet the shareholders' needs to obtain sufficient information about a company's activities and to be satisfied about current progress and future prospects.

Sometimes the disclosed information reveals only part of the situation and leads to misinterpretation and speculation. Speculation, thriving in the absence of reality leads to the inevitable boom and certain slump. The recent criticisms of the excesses of the mining market may well have been avoided had higher reporting standards been observed.

Reporting standards suggested in this article will, if adopted, lead to more disclosure. This should lead to a greater stability of share prices, increased attraction of savings into equities, a more effective capital market because efficient companies could raise more money than the less efficient. As a consequence the economy should be healthier and more productive.

It should not be thought that more informative reporting will, of itself, result in a higher stock market rating for a particular stock. A poor performance coupled with more disclosure may well lead to a lower share price, but that is as it should be.

Disclosure of certain information may be contrary to a company's best interest because it may disclose its competitive position, or expose the company to takeover. At times, a company's competitors may know more about the company than its shareholders, and in that case secrecy serves no purpose. Although it can be argued that disclosure may lead to a takeover, it can also be argued that it can prevent one. In any case it is up to shareholders to decide whether or not to accept a bid, and with greater disclosure, the decision can be more informed and on a more rational basis.

An outside observer cannot help but feel that minority shareholders have less access to information than the parent company, the overseas debenture holders or the financial adviser involved. This is natural, but more disclosure can place minority shareholders on a more equal footing.

It is a sad commentary on the current situation that examples can be given of foreign debenture holders who have subscribed to an open market issue being given more information than Australian equity shareholders. A major listed Australian company issued on the same day its prospectus for a Eurodollar loan, and its annual report. Referring to exploration in New Guinea in its annual report, the copper deposit is described as low grade. However, in the Eurodollar prospectus the grade is specified in quantitative terms. A prime objective of this article is to have Australian investors at least on an equal footing with others.

In the following analysis, virtually all of the standards suggested are exemplified by reference to the reporting practice of at least one Australian mining company. We are, therefore, not suggesting standards which cannot be fairly readily complied with.

The spectrum of Australian listed mining companies can conveniently be classified into three types, exploration companies, producing companies and holding companies.

An exploration company's aim is to determine the presence of sufficient ore to justify commercial development; a producing company's aim is to develop and commercially exploit mining properties, and a holding company engages in the management of several mines which may or may not be subsidiaries.

In many cases, there will be a considerable overlap of the activities involved, but the three categories above provide a framework within which the desirable information releases from mining companies can be studied.

For each type of activity, i.e. exploration, production or head office type control of satellite subsidiary operations, the specific information will be emphasised differently. However, the prime requirements must still stand.

It would be desirable if mining company and professional standards could merge so that all company exploration and production reports were technically consistent. Further, the release of reports only above the signature of an accredited technical expert whose professional status was at stake, (as is now usual in Canada), would help to minimize the incidence of fraud and deception through incomplete and misleading reporting.

#### EXPLORATION COMPANIES:

The importance of detailed information on any single mineral exploration tenement depends on:

- (i) the relative importance of exploration in the scope of all the company's activities;
- (ii) the stage of exploration involved, whether "grass-roots" or further advanced;
- (iii) the extent of other, and perhaps more noteworthy exploration prospects held.

The accompanying tabulation has been drawn up to show the factors of importance to shareholders in an evaluation of any company's exploration report. Much of the data needs to be given only once in the life of any one mineral exploration property.

#### EXPLORATION INFORMATION FACTORS

<u>FACTORS</u>	<u>SUGGESTED DETAIL</u>
<u>1. LOCATION</u>	
Tenement	Number, status, whether under option, joint venture, % interest, consideration paid.
Area Map	Scale, latitude, longitude, datum, true north, grid north, local landmarks.
Grid Datum	Position relative to geographic location and adjacent blocks.
<u>2. PROPERTY DESCRIPTION</u>	
Local Geology	Geological sequences of interest.
Past History	Description of any previous mining, period, work involved, material won.

3. GEOLOGICAL PROGRAMME

Nature of Work	Aerial surveys, ground mapping, geophysical etc., undertaken or planned, extent of other work planned.
Sampling	Whether grid or random samples, soil or gossan samples costeaning or drilling.
Drilling	Auger, percussion or diamond drilling; number of rigs involved; number of holes and footage: <ul style="list-style-type: none"> <li>i) completed</li> <li>ii) under way with target depth</li> <li>iii) planned, likely depth</li> </ul>

4. RESULTS

Area Plan	Location of outcrops, costeans, holes, with broad regional interpretation if possible.
Drill Holes	Hole number, grid reference, declination, azimuth, horizon date completed.
Drill Results	All assay results (including diagnostic minor elements) of interest over intersections between nominated footages.
Cut-off Grade	Cut-off grade(s) considered.

5. INTERPRETATION OF RESULTS.

Fact and Opinion	Distinction between factual data and subjective opinion.
Inferred Zones of interest	Lengths, widths, and possible depths inferred, as understood at various stages, e.g. <ul style="list-style-type: none"> <li>i) by surface indications;</li> <li>ii) from costeaning;</li> <li>iii) as drilling progresses.</li> </ul>
Ore Reserves	Showing separately, proved, indicated, and inferred reserve at specific assay grades.

6. FURTHER INFORMATION

Timing	Expected release dates of any outstanding information and of subsequent report.
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Perhaps the best example of satisfactory practice in this area is the reporting of Selcast in its recent nickel exploration activities at Agnew.

In the authors' experience, the best guide for reporting practice on exploration properties is that published by the Association

of Professional Engineers of the Province of Ontario. It has stipulated performance standards for professional engineers advising and reporting on mineral properties. Within the booklet is included "special requirements for reports to be submitted to the Ontario Securities Commission."

As a guideline within this framework, it is strongly stated that gross monetary values should never be used in connection with contained metal tonnages in any ore zone. Similarly, this practice would be minimized by the exclusion of contained metal tonnages with the reference left as X tons (proved, indicated, or inferred) at Y grade.

The Ontario standards contain a mandatory requirement for inclusion of risk factors whenever indicated and inferred ore reserve tonnages are used.

#### PRODUCING COMPANIES:

A producing company is in the business of developing and mining ore, extracting as much value as possible from it, selling the product and making a profit. The information shareholders require to gauge a company's performance can be classified within four groups:

1. Geological and mine data.
2. Production and Metallurgical data.
3. Sales and Price data.
4. Accounting data.

#### Geological and Mine Data:

To assess the size, state and value of the company's asset, shareholders need to know not only the quantity and grade of ore available on the company's leases, but also the state of development of the mine. Additionally, it is necessary for the company to state whether ore reserve figures include dilution and allow for ore which will not be extracted because of the mining method used. Combining the better reporting features of several mining companies, the following data should be reported:

1. Ore reserves showing proven, indicated and inferred reserves as given by Renison.
2. A statement of expected dilution as given by Cleveland Tin.
3. Ore sections and level plans as given by North Broken Hill.
4. Development and drilling footage as given by Renison.
5. The presence of deleterious impurities as given by Hamersley Holdings.

This data should be given once a year in the Annual Report.

#### Production and Metallurgical Data:

Shareholders also need to know the rate and efficiency of extraction of valuable metals from ore and consequently need information on production and metallurgical data. The major mining companies, C.R.A., New Broken Hill, North Broken Hill and M.I.M. Holdings, provide such data which include:

1. The tonnage and the grade of the ore extracted and where applicable;

2. The quantity of ore treated and its weighted average grade;
3. The quantity and grade of concentrate produced and the quantity of metal produced when metal is sold by the company;
4. The recovery of metal from the ore.

This data should be provided at least on a quarterly basis by all producing companies, not by just the majors.

#### Sales Data:

Production data, in itself, states how much a company produced, but does not state how much a company sold. Sales tonnages of metals, ore and concentrates must be known for shareholders to determine whether the year's profit is abnormal because of stock level fluctuations. Where several products are made, whether different metals, or different grades of concentrates or products, production and sales of all products must be shown. The company should also state the sales price and specify whether it is net of freight, realisation and smelting.

Companies such as Mount Isa Mines, and North Broken Hill show adequate sales data and provide an excellent example to be followed by other companies.

#### Accounting:

The results of a management's performance are ultimately shown in the statement of accounts, and it is here that major variations exist in reporting standards. Gold producers show a complete cost breakdown, but nickel producers show the minimum statutory information.

The reports of North Broken Hill, Peko Wallsend and the gold producing companies provide excellent examples of full accounting disclosure. They show:

- Gross mine revenue, preferably by product
- Mining and milling costs
- Realisation, smelting and refining charges
- Freight charges
- Exploration costs
- Administration costs
- Interest
- Depreciation
- Directors' and auditors' fees
- Gross return from non-mining activities
- Sundry income
- Investment income
- Trading profit
- Tax provision - current
- deferred
- Net profit

Such disclosure would be beneficial to shareholders of other mining companies, since appropriate comparison can be made. At times, companies capitalise development and exploration expenditure, and at other times curtail such expenditures. It would be preferable for companies to show development and exploration expenditure separately, and show movements in the relative profit and loss or capital accounts. Companies should also show how much tax is payable in the current year and what accelerated tax deductions have been claimed.

HOLDING COMPANIES:

The main aspect with holding companies is the adequate reporting of parent company, group and subsidiary company profits, and also income from major investments which are not subsidiaries, e.g. the respective holdings of North Broken Hill, Broken Hill South and Western Mining Corporation in Alcoa of Australia. The desirable reporting standards in relation to production and exploration discussed elsewhere in this paper also applies to many holding companies - however in this section we will confine our remarks to financial aspects.

Subsidiaries:

Frequently, the partly owned subsidiaries may be publicly listed in their own right and the shareholder may therefore have ready access to the annual report of those listed subsidiaries e.g. Associated Minerals and Mount Lyell Mining and Railway Co., which are publicly listed subsidiaries of Consolidated Gold Fields Australia. However, in many cases, although details of subsidiary earnings are included in the parent company report or can be readily obtained, the complete picture is sometimes not easy to put together. We consider it preferable if subsidiary contributions to group earnings could be detailed as in the 1971 report of MIM Holdings:-

Note 1 - Subsidiary Companies:

The consolidated statements include the accounts of the following subsidiaries; the place of incorporation and contribution to group earnings is stated after each -

	\$
Bowen Consolidated Coal Mines Limited (Queensland)	100,495
Britannia Lead Company Limited (United Kingdom)	312,632
Carpentaria Exploration Company Pty. Ltd. (Queensland)	84,962
Copper Refineries Pty. Ltd. (Queensland)	536,487
Mimets Development Pty. Ltd. (Queensland)	2,527
Mount Isa International Pty. Ltd. (New South Wales)	11,599
Mt. Isa Mines Limited (Queensland)	35,958,173
North Queensland Stevedoring Pty. Ltd. (Queensland)	62,545
Townsville Transport and Services Pty. Ltd. (Queensland)	147,000
	<u>37,216,420</u>
M.I.M. Holdings Limited (Queensland)	<u>740,335</u>
Consolidated net earnings	<u>\$37,956,755</u>

In addition, a comment on trading activities of all major subsidiaries should be included, e.g. the Conzinc Riotinto of Australia annual report shows major statistics for its operating subsidiaries, and Peko Wallsend includes the annual reports of Mount Morgan (100% owned) and Rutile and

Zircon Mines (50% owned). If the number of subsidiaries is so numerous that it is impractical to list their earnings in detail, then a breakdown by product groups, as in the 1970 (and earlier) reports of Conzinc Riotinto of Australia may be a suitable alternative. Better still, is the listing of turnover group profit before tax, and net profit by product and geographical groups as in the 1970 (and earlier) annual reports of Riotinto Zinc Corporation.

The percentage holdings in subsidiaries (both direct and group equity in equity) is best expressed along the lines adopted by Consolidated Gold Fields Australia:

Principal Subsidiary Companies and Investments in which the Group interest is not less than 10% of the Equity Capital.

Company and Country Operations	Direct Interest by Parent and Subsidiaries	Group Interest in Equity
AUSTRALIA	%	%
Associated Minerals Consolidated Limited	63	61
The Bellambi Coal Company Ltd.	68	67
Circular Quay Holdings Pty. Ltd.	100	100
Commonwealth Mining Investments (Australia) Limited	60	60
Durham Exploration Pty. Ltd.	50	50
Durham Holdings Pty. Ltd.	50	50
Goldsworthy Mining Limited	33	33
Lawrenson Alumasc Holdings Ltd.	50	50
The Mount Lyell Mining and Railway Co. Ltd.	56	56
New Consolidated Gold Fields (Australasia) Pty. Ltd.	100	100
North-West Acid Pty. Ltd.	50	28
O.T. Lempriere and Co. Ltd.	20	20
Renison Limited	68	48
Western Titanium N.L.	85	82
NEW ZEALAND		
Zip Holdings Limited	51	51

#### Non Subsidiary Investments:

These may be of considerable size e.g. the portfolio of listed and non listed stocks held by North Broken Hill. For some years this company has included details of its investment portfolio as can be seen from the following extract from the 1971 annual report:

#### Extract from 1971 Annual Report

SHARES IN OTHER COMPANIES  
as at 30th June, 1971

The Company's more important holdings in other Companies as at 30th June, 1971, are listed hereunder:-

January 1972

Company	Shares Held	% of Issued Shares Held
Alcoa of Australia Ltd.	3,000,000 shares of \$2	12.00
Apsonor Pty. Ltd.	100,000 " "	33.33
Associated Pulp & Paper Mills Ltd.	7,069,931 " \$1	19.34
Australian Innovation Corporation Ltd.	25,000 " "	
Beach Petroleum N.L.	4,875,000 shares of 25c	3.68
	1,625,000 " "	32.50
	paid to 15¢	
The Broken Hill Associated Smelters Pty. Ltd.	6,000,000 shares of \$1	30.00
The Broken Hill Proprietary Company Ltd.	618,611 " \$2	0.44
Broken Hill South Ltd.	450,000 stock units of 50¢	
	112,500 shares of 50¢	
	paid to 30¢	1.82

Significant changes in the portfolio are also included:

Increases:

Associated Pulp and Paper Mills Limited  
188,321 shares of \$1 - purchases.

Beach Petroleum N.L.  
1,625,000 shares of 50¢ paid to 15¢ -  
part of a new issue at par

Commonwealth Steel Company Ltd.  
1,565 shares of \$2 - purchased

Dunlop Australia Ltd.  
84,600 shares of \$1 - purchased  
14,260 1970 issued shares of \$1 - part of  
a new issue at par  
753,657 1970 issue shares of \$1 - purchased

Western Mining Corporation Limited  
789,402 1971 issue shares of 50¢ paid to  
10¢ - part of a new issue at a premium of \$1

Decreases:

New Broken Hill Consolidated Limited  
87,624 shares of 5/- (Stg) - sold

The Rio Tinto-Zinc Corporation Ltd.  
369,818 shares of 5/- (Stg) - sold

Timber Industries Ltd.  
25,000 participating redeemable preference  
shares of \$2 - redeemed  
2,784 ordinary shares of \$2 - sold  
26,250 "M" ordinary shares of \$2 - sold

For North Broken Hill, comments relative to the earnings and trading conditions of the principal investments are included but the breakdown of dividend income is not. This can usually be calculated fairly closely by the analyst who is prepared to devote time to the task, but why not include dividend information from major companies in a similar fashion to MIM's consolidated net earnings of subsidiaries?

#### Share Price:

For many shareholders, this is the most important factor in any investment. MIM Holdings lists the high and low share prices (adjusted) - this is but a small job and would be appreciated by shareholders. This information can be included with earnings per share and dividends per share.

#### SUMMARY AND CONCLUSION:

We have difficulty in finding any rationale in determining whose responsibility it is to ensure consistent, let alone adequate reporting. Many companies appear to have skirted Stock Exchange listing requirements.\* We do not know whether this is the fault of the Stock Exchanges or the companies.

The proper control of better standards is essential to the maintenance of efficient capital markets in Australia. The Securities Industry would command a more stable and well respected reputation in the community if higher general standards can be devised and implemented.

\* Refer JASSA article of October, 1971.

The views above are those of the writers and not necessarily those of their employers.

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### BOOK REVIEW

#### AUSTRALIAN SECURITIES INDUSTRY LAW

Under the full title of "A Guide to Australian Securities Industry Law and Stock Exchange Control" this textbook was published during 1971 by CCH Australia Limited. It covers the more important legislative provisions (and related judicial rulings) which control the operation and administration of trading in securities in Australia.

At the time of its publication late in the year it was remarkably up-to-date, and in addition to hearings of the Senate Select Committee it referred to the September decision in the Concrete Pipes case. The whole area is one in which changes will occur rapidly, but nevertheless the guide serves a very useful purpose and may be regarded as a landmark in Australian literature on this subject.

If anything is unconsciously emphasized it is the fact of State and Territorial legislation and control - or lack of legislation and control - and the praiseworthy attempts to provide uniformity through discussion and co-operation between the several jurisdictions concerned. Coming through all this is the likelihood or danger, according to one's point of view, of ultimate Federal pre-eminence.

In the meantime the guide is helpful in explaining the present situation. It should be of particular value in providing a background to whatever proposals may have to be considered after the report of the Senate Select Committee is made available, hopefully in the first half of 1972.