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National Instrument 43-101: What Issuers Need to Know About Metal Pricing

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The importance of metal pricing assumptions cannot be overstated. In an ever-evolving world of mining, future metal prices have a significant impact on project valuations, mineral resource and mineral reserve estimations, longevity of disclosure and investment decisions within the sector. To establish reasonable cut-off grades, assess economic extraction prospects, and complete thorough economic analyses, precise and realistic metal price assumptions are indispensable. Consequently, issuers must approach the selection of appropriate metal prices with diligence and thoughtfulness. This is particularly relevant as regulators are more frequently identifying metal pricing as a potential area of concern in public disclosures.

For example, when disclosing a mineral resource, the material assumptions used in estimating the mineral resource must also be stated. A mineral resource must have “reasonable prospects for eventual economic extraction,” which inherently factors in a metal pricing model. Regulators have flagged the use of overly optimistic or unreasonable metal price assumptions as problematic, as this could inflate the mineral resource potential, reserve estimates or economic outcomes of a project. Reasonable metal pricing assumptions will help prevent any downward adjustments of estimates and economics and the resulting impact on shareholders and issuer reputation.

Reasonable metal prices, as well as appropriate sensitivities on such prices, can also help keep a technical report “current.” Economic information in a technical report can quickly become outdated as metal prices change. The regulators note that an issuer might be able to extend the life of a technical report by having a qualified person include appropriate sensitivity analyses of the key economic variables, and starting with a reasonable price for that sensitivity can assist in that objective.

When disclosing metal price assumptions and sensitivities, it is essential to recognize that such information will constitute forward-looking information. As stated in the Companion Policy to NI 43-101, a mining issuer must remember to identify forward-looking information, disclose the significant factors and assumptions used, and include the necessary cautionary statements.

The selection of metal prices is not straightforward, and the selection will be influenced by various factors. For properties with an extended commencement time, a longer-term or average metal price might be more suitable. Conversely, for properties in or nearing production, starting with prices closer to the current market and then transitioning to long-term prices in later years might be advisable. The key is that the qualified person standing behind the scientific and technical data, including metal price assumptions, should be prepared to justify to their peers if asked why the metal price is appropriate in the particular circumstances.

The table below summarizes several methods for selecting metal prices, based on the 2020 CIM Guidance on Commodity Pricing and Other Issues related to Mineral Resource and Mineral Reserve Estimation and Reporting.

Method	Pros	Cons
Long-Term Historical Averages (5 years or longer)	Reduces annual price volatility, suitable for industrial minerals with low price volatility	Can lead to significant differences in asset value compared to current prices, may not reflect trends for volatile commodities
Three-Year Moving Average	Reduces some volatility compared to current prices	May understate resources in a rising market and overstate in a falling market, significant differences in rapid price changes
Consensus Prices	Prices acceptable to a wide body of industry professionals, suitable for common commodities	May incur extra costs to collect information
Long-Term Contract Pricing	Reflects the issuer’s position over the term of contracts, suitable for deposits with appropriate contracts	May differ from current market prices
Margin Over Cash Cost of Production	Relates commodity prices to cash costs, useful in high price volatility	May incur extra costs to obtain services that provide cost data and forecasts of commodity prices
Current Commodity Price	Describes mineral resources and reserves at the time of estimate, simple method	Can overstate or understate long-term value, may require annual adjustments
Specialist Consultant Reports	Useful for commodities without a published reference price	Need to incur extra costs to retain specialty consultants

Of note, other relevant third parties such as the stock exchanges might play a role in how metal price assumptions are selected. For instance, the Toronto Stock Exchange Company Manual stipulates that when mineral reserves are initially reported, all key economic parameters, including the assumed prices of producible mineral commodities, must be disclosed. Any deviation from current metal prices necessitates an explanation and an assessment of the impact on the project's economics using current prices.

In conclusion, the careful selection and transparent disclosure of metal price assumptions are fundamental in evaluating and reporting mineral projects under National Instrument 43-101. As the industry continues to evolve, staying informed and adhering to best practices in metal pricing is crucial for the economic and regulatory viability of mining projects.

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