Chinese Exploration Standards and Philosophy: Implications for outbound investment

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Outline

• Chinese exploration standards – why care?
• Historical perspective
• Chinese exploration philosophy
• What do the Chinese standards cover?
• How do they compare with international codes like JORC?

Importantly what does this mean for Chinese investment?

or

How you will work with your Chinese JV partner?
Why care?
Outbound investment from China!

走出去“ 战略 (Zouchuqu Zhanlue)

Go abroad strategy! announced in 1998 - Chinese central government officially encourages investment outside of China.

Outbound investment in minerals is key to this and includes:
• Securing a supply of raw materials to provide vertical integration of established manufacturing industries
• Encouraging State owned mining companies to invest abroad
• More recently, privately owned enterprises have begun to invest in mining and exploration projects
• Since 2005, this has equated to $347 billion USD.
Chinese exploration standards

- Chinese investment is taking controlling interests and is active in management decisions!
- Chinese geologists use these standards as a basis for their work and refer to them constantly
- Project will be measured against the standards during initial due diligence or as part of ongoing JV
- Increasingly, Chinese contractors are working outside of China and will apply these standards to their work.
# Growth of Chinese outbound investment

## Sector Breakdown, 2005-2012

**Chinese Business Activity, in billions of dollars**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Investment</th>
<th>Engineering contracts</th>
<th>Troubled</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy and power</td>
<td>$186.1</td>
<td>$97.2</td>
<td>$75.4</td>
</tr>
<tr>
<td>Metals</td>
<td>90.2</td>
<td>8.6</td>
<td>57.7</td>
</tr>
<tr>
<td>Finance</td>
<td>37.3</td>
<td>—</td>
<td>29.2</td>
</tr>
<tr>
<td>Real estate and construction</td>
<td>21.7</td>
<td>27.6</td>
<td>7.2</td>
</tr>
<tr>
<td>Transport</td>
<td>16.6</td>
<td>72.9</td>
<td>15.0</td>
</tr>
<tr>
<td>Agriculture</td>
<td>11.8</td>
<td>6.8</td>
<td>9.5</td>
</tr>
<tr>
<td>Technology</td>
<td>8.7</td>
<td>4.9</td>
<td>13.3</td>
</tr>
<tr>
<td>Chemicals</td>
<td>6.2</td>
<td>2.1</td>
<td>0</td>
</tr>
<tr>
<td>Other</td>
<td>8.2</td>
<td>0</td>
<td>0.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$386.7</strong></td>
<td><strong>$219.9</strong></td>
<td><strong>$207.5</strong></td>
</tr>
</tbody>
</table>

Chinese outbound investment

Chinese investment in minerals and energy

Energy
- East Asia: $30.31 billion
- Australia: $21.19 billion

Metals
- East Asia: $13.39 billion
- Australia: $28.99 billion

Source: The Heritage Foundation, China Global Investment Tracker dataset, updated January 2013
Significant investment in minerals projects across Asia

Over $26.64 billion invested in deals (>USD$100M) since 2005
Chinese Exploration
Chinese Exploration Philosophy

A centralised view on the planning, implementation and interpretation of mineral exploration:

- Highly prescriptive guidelines
- Rigid – each exploration stage is determined by measures such as sample spacing used in each
- Interpretation based on average values, cut-off grades, what is to considered anomalous and how to interpret them.

There can be a tendency to focus on compliance with the standards – this is sometimes done at the expense of good science!
Historic perspective

- 1950s - China develops exploration and resource standards based on Soviet standards
- 1959 - State Commission of Mineral Reserves (SCMR) defines Chinese standards
- 1983 - SCMR updates standards for mineral resources, exploration and codes

Since the late 1990s, standards have been managed by a variety of groups including the China Geological Survey and overseen by the General Administration of Quality Supervision, Inspection and Quarantine.
Chinese Exploration Standards

Comprehensive set of guidelines covering all aspects relating to mineral exploration:

• Mineral exploration guidelines for fieldwork, data handling, documentation, reporting
• Resource and Reserve classification
• Guidelines are commodity specific
• Provide definitions on exploration/ development stage.
Codes for all aspects of exploration and mining work

- Geological logging
- Exploration data and information
- Survey
- Drilling
- Sampling
- Tunnelling
- Cut-off for grade and thickness of ore deposits
- Geophysical and geochemical surveys
- Code of resource / reserve reporting for mine closure
- Hydrogeology and Engineering Geology of mineral deposit
- Regulations for ore process testing
Commodity specific codes

- Coal, peat coal (DZ/T0215-2002)
- Uranium (DZ/T0199-2002)
- Iron, manganese, chromium (DZ/T0200-2002)
- Copper, lead, zinc, silver, nickel, molybdenum (DZ/T0214-2002)
- Tungsten, tin, mercury, antimony (DZ/T0201-2002)
- Gold (DZ/T0205-2002)
- Bauxite (DZ/T0202-2002)
- Pyrite (DZ/T0210-2002)
- Phosphate (DZ/T0209-2002)
- Placer (metal) (DZ/T0208-2002)
- Rare Earth (DZ/T0204-2002)
- Rare Metal (DZ/T0203-2002)
- Barite, fluorspar, boron (DZ/T0211-2002)
- Metallurgical and chemical limestone (DZ/T0213-2002)
- Kaolin, bentonite, refractory clay (DZ/T0206-2002)
- Salts and lake salts (DZ/T0212-2002)
- Silicon material for glass, dimension stone (DZ/T0207-2002)
- Gypsum, chrysotile, wollastonite, talc, graphite (DZ/T0207-2002)
Comparison with Western standards and work practices
International Reporting standards

Major reporting standards include:
- JORC (Australia)
- NI 43-101 (Canada)
- AIM (UK)
- HKEx (Hong Kong)
- SAMREC (South Africa)

Chinese National Standards
- How do they differ?
- How do they influence the way exploration work is done?
Exploration stages - Western perspective

Progression through each stage requires positive results warranting further more detailed studies.

- Project generation
- Prospect definition
- Systematic drill testing
- Resource definition
- Feasibility
- Mine
The JORC Code

General relationship between Exploration Results, Mineral Resources and Ore Reserves

- Exploration Results
  - Mineral Resources
    - Measured
      - Indicated
    - Inferred
  - Ore Reserves
    - Probable
    - Proved

Increasing level of geological knowledge and confidence

Consideration of mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors (the “modifying factors”)
Chinese Exploration stages

1. Reconnaissance (334)
2. Prospecting (333)
3. General Exploration (331)
4. Detailed Exploration (331)
## Chinese Exploration stages

<table>
<thead>
<tr>
<th>Description</th>
<th>Reconnaissance</th>
<th>Prospecting</th>
<th>General Exploration</th>
<th>Detailed Exploration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exploration targets based on geophysics, geochemistry, geology and/or mineral occurrences</td>
<td>Identified mineralisation with basic understanding of controls on mineralisation</td>
<td>Broad understanding of controls on mineralisation</td>
<td>Detailed understanding of controls on mineralisation</td>
<td></td>
</tr>
<tr>
<td>Sample spacing</td>
<td>Very few</td>
<td>Limited, but identified potential mineralisation</td>
<td>Systematic sampling and drilling</td>
<td>Detailed sampling</td>
</tr>
<tr>
<td>Geological knowledge</td>
<td>Limited</td>
<td>Inferred</td>
<td>Basic</td>
<td>Confirmed</td>
</tr>
<tr>
<td>Confidence</td>
<td>Predicted Resource (334)</td>
<td>Inferred Resource (333)</td>
<td>Indicated Resource (331)</td>
<td>Measured Resource (331)</td>
</tr>
<tr>
<td>Metallurgical testing</td>
<td>None</td>
<td>Initial testwork</td>
<td>Benchtop testing</td>
<td>More detailed up-scaled testing</td>
</tr>
<tr>
<td>Feasibility study</td>
<td>None</td>
<td>Preliminary</td>
<td>Pre-feasibility</td>
<td>Feasibility</td>
</tr>
</tbody>
</table>
Feasibility studies

There are three levels of feasibility studies corresponding to the exploration stages:

- Preliminary study: basic economic studies based on geographic location, commodity, deposit style and other factors
- Pre-feasibility and feasibility studies carried out by mine design institutions.
# Resource evaluation

<table>
<thead>
<tr>
<th>Old Classification</th>
<th>A &amp; B</th>
<th>C</th>
<th>D</th>
<th>E &amp; F</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Classification</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>“E” Economic Evaluation (100)</td>
<td>Recoverable Reserve (111)</td>
<td>Probable Recoverable Reserve (121)</td>
<td>Probable Recoverable Reserve (122)</td>
<td></td>
</tr>
<tr>
<td>Designed mining loss accounted</td>
<td>Recoverable Reserve (111b)</td>
<td>Basic Reserve (112)</td>
<td>Basic Reserve (112b)</td>
<td></td>
</tr>
<tr>
<td>Designed mining loss not accounted (b)</td>
<td>Basic Reserve (2M11)</td>
<td>Basic Reserve (2M21)</td>
<td>Basic Reserve (2M22)</td>
<td></td>
</tr>
<tr>
<td>Marginal Economic (2M00)</td>
<td>Basic Reserve (2S1)</td>
<td>Basic Reserve (2S2)</td>
<td>Basic Reserve (3S3)</td>
<td></td>
</tr>
<tr>
<td>Sub-Economic (2S00)</td>
<td>Resource (2S11)</td>
<td>Resource (2S21)</td>
<td>Resource (3S33)</td>
<td></td>
</tr>
<tr>
<td>Intrinsically Economic (300)</td>
<td>-</td>
<td>Resource (331)</td>
<td>Resource (332)</td>
<td></td>
</tr>
<tr>
<td>“F” Feasibility Evaluation</td>
<td>Feasibility (010)</td>
<td>Pre-Feasibility (020)</td>
<td>Scoping (030)</td>
<td></td>
</tr>
<tr>
<td>“G” Geological Evaluation</td>
<td>Measured (001)</td>
<td>Indicated (002)</td>
<td>Inferred (003)</td>
<td></td>
</tr>
<tr>
<td>JORC</td>
<td></td>
<td></td>
<td></td>
<td>Inferred or Exploration Potential</td>
</tr>
</tbody>
</table>

Bucci *et al.*, 2006
Reporting - often not very transparent!

- Refers appropriate standard in the Chinese system without adequately explaining work done.
- Do not report intersections or grade – even at early stage exploration, will classify zones of mineralisation into “ore bodies” using average grades within polygonal wireframes.
- Very simplistic assessment of geology and structure to provide continuity.
Sampling and analysis

- Sample handling
- Storage
- Security
- QA/QC
- Analytical quality

Discarded core

Sample crushing equipment, poorly maintained and not cleaned
Drilling and sampling

- Sample or drillhole spacing usually based on what is prescribed in standards
- In practice, drilling is mostly vertical, even on steeply dipping ore bodies
- Poor drilling recoveries (85% is considered acceptable)
- Downhole surveys (uncommon, but when done, they are typically single-shot type)
- QAQC - sampling protocols, blanks and standards not commonly used.
Drilling
# Summary of differences between Chinese and Western systems

<table>
<thead>
<tr>
<th></th>
<th>Chinese</th>
<th>Western</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Technical Studies</strong></td>
<td>&quot;Development Plan&quot;, PFS, FS</td>
<td>Chinese PFS is likely equivalent to Scoping Study; FS is likely equivalent to PFS</td>
</tr>
<tr>
<td><strong>Ore Declaration</strong></td>
<td>Proven to be economic through a Chinese PFS or FS</td>
<td>At least a PFS</td>
</tr>
<tr>
<td><strong>Drill Spacing</strong></td>
<td>Prescribed in the Chinese exploration standards</td>
<td>Competent Person's decisions (based on geological continuity and geostatistical properties)</td>
</tr>
<tr>
<td><strong>QA/QC</strong></td>
<td>&quot;internal checks&quot; (pulp duplicates) and &quot;external checks&quot; (inter-lab checks) only</td>
<td>Blank, standards, duplicates, inter-lab checks</td>
</tr>
<tr>
<td><strong>Resource Estimation</strong></td>
<td>Sectional polygonal, 2D</td>
<td>Geostatistics, 3D</td>
</tr>
<tr>
<td><strong>Cut-offs</strong></td>
<td>Prescribed in the Chinese exploration standards. Only Resources under one single cut-off are presented.</td>
<td>Competent Person's decisions. Resources under a number of different cut-offs are commonly presented.</td>
</tr>
</tbody>
</table>
Case studies – Chinese project listing on HKEx

HKEx Chapter 18 only accepts JORC, NI 43-101 and SAMREC

- Project with Chinese classified resources
- Drill spacing too wide, QA/QC data lacking and resource based on 2D polygonal techniques.

Project requires holes to be twinned (~10% of drilling), cores partly re-sampled (QA/QC) and in-fill drilling
- Re-estimate and classify in accordance with the JORC Code
Summary

- China has invested over $347 billion USD globally in resource projects since 2005
- Chinese standards are highly prescriptive; this centralises planning and interpretation
- The standards differ in philosophy; they are prescriptive and do not rely on a competent person
- Chinese resource companies will continue to use these standards as they work outside of China; it will influence the way they work and work with other companies.
Thank you

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