

## Guidance Note – Risk Reporting

If a project has a fatal flaw, does the project have a value?

A fatal flaw can be considered as an event or condition that could cause an unanticipated problem or prevent the opportunity from achieving its objectives and goals. If there are multiple material risk issues, that will require time and cost to mitigate, collectively this could constitute a fatal flaw. On a standard risk matrix, it represents those risks that have a high probability of occurrence and significant negative impact on the project (“red issues”) [<https://www.explorationinsights.com/articles/fatal-flaws-in-the-junior-mining-sector>]. Such risks could relate to permitting and environmental issues, geological conditions, mineral resources (quantity and quality), costs, equipment applications, contracts, and markets.

Clause 4.9 of the SAMVAL Code (Dealing with risk in valuations) states:

*“Valuations of Mineral Assets are inherently risky in terms of confidence of the inputs and forecasts. The CV should highlight the uncertainties associated with the resources and modifying factors in such a way that an informed layman can have a clear understanding of the risks involved in the valuation. The CV should conduct a risk assessment of the valuation, using appropriate techniques.”*

Under the defined terms, in the context of valuation, the term ‘risk’ refers to *“the probability of a project delivering an undesirable financial outcome”* [p32 of the SAMVAL Code].

Apart from showing the results of a risk assessment for the project or operation, the CV should ensure the time and cost to mitigate any red issues are incorporated in the discounted cash flow or valuation. The red issues should be evaluated and disclosed both individually and as a group. The cumulative (or combined) effect of all, or some of the red issues, can constitute a fatal flaw and should be treated as such.

If a fatal flaw is identified in a project, it is considered good practice that the project cannot be valued until and/or unless the fatal flaw is adequately mitigated to the satisfaction of the CV.

Samcodes Standards Committee  
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