

A New Partnership Between Accounting Firms and Venmyn?

By Munyaradzi Chirisa

Venmyn continues to be at the fore-front of valuations always incorporating at least two of the three valuation methods as prescribed by the various international Mineral Resource reporting codes. These three methods are:-

- Income (Cashflow) Approach which relies on the “value-in-use” principle and requires determination of the present value of future cash flows over the useful life of the Mineral Asset;
- Cost Approach which relies on historical and/or future amounts spent on the Mineral Asset; and
- Market Approach which relies on the principle of “willing buyer, willing seller” and requires that the amount obtainable from the sale of the Mineral Asset is determined as if in an arm’s-length transaction.

The valuation results are usually presented as a value range on the valuation curve. In recent times, we have been working with accounting firms to perform valuations using the Cost and Market approaches on exploration projects and/or on mining projects as a means of augmenting the project DCF value. These exercises have been conducted with the full co-operation of the mineral companies who provide all the necessary data.

An analysis of the grade and deposit size is made with respect to projects whose mineral resources have been declared and this sets the context of the opinion. The analysis take the form of a graph which pinpoints where the deposit in question lies compared to other deposits of the same commodity. Further, the location of the deposit is clearly shown on a map which places the project in its geological context.

After the valuation has been carried out, the values as a value range on a valuation curve together with a trendline that shows progression from Exploration Target category to Mineral Resources and to Mineral Reserves. The report is usually issued as a short-form report that on most occasions does not exceed seven pages and which incorporates three diagrams namely:-

- the project location;
- the grade-deposit size graph; and
- the valuation curve where the valuation results are plotted.

The advantage to accounting firms of including Mineral Industry Advisors’ valuations is that, for most commodities, we have large databases of historical and recent transactions, as well as the widely-accepted Prospectivity Enhancement Multipliers (PEM) to apply to the Cost method.

These valuations augment and add credibility to the results obtained by the accounting firms and represents another branch of on-going relations between Mineral Industry Advisors and the Accounting firms.

For further information regarding valuation using the Market and Cost methods, please contact Munyar at munyar@venmyn.com.