

## Due Diligence Studies Take a Phased Approach

By Deborah Spicer

Venmyn is finding that an increasing number of mineral transactions are including a phased due-diligence approach, which allows buyers to conduct a due-diligence exercise in stages. This approach allows buyers to increase the number of assets they can assess, and make decisions quickly on whether the mineral asset is suitable for purchase and whether financing can be reasonably expected to be secured for the transaction.

Transaction experts note that the early phase of a due-diligence process can take place before a letter of intent to purchase is signed and an exclusivity period is agreed to, during which one party is identified as the sole bidder for the asset.

This first phase usually has a narrow scope and identifies key risk factors. Venmyn has found that key issues that are often identified as important are the legal ownership of the rights; the quantity, quality and value of mineral resources; the mining plan; and the nature and value of the environmental liability associated with the asset. The quality of earnings; an assessment of the fixed assets, where they are capital intensive; tax structure; legal and ownership structure; and pension structure are also issues which are important to tackle.

Through a high-level overview of these issues, a buyer can abandon interest in a project or become confident enough to submit an initial bid without incurring excessive costs and making significant time commitments.

The next phase of the due-diligence process is more comprehensive and can involve a more detailed analysis of risk areas and a thorough analysis of the seller's balance sheet and income statement. Some transaction experts suggest that this phase should end with a binding bid while others argue for an additional phase which is more comprehensive and rigorous to understand the seller's asset even better.

However, most are united in the belief that mergers and acquisitions have changed significantly and that at least two phases are becoming more common in due-diligence studies. This alleviates stress and deal fatigue, which can result in the unnecessary scuppering of a transaction, they say.

For more information on conducting a due-diligence process please contact Derick de Wit.