Mineral Asset Valuation

A critical component in a purchase price allocation

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Introduction to Purchase Price Allocation (PPA)

Definition of PPA

PPA allocates the purchase price of an acquired company to identifiable assets and liabilities.

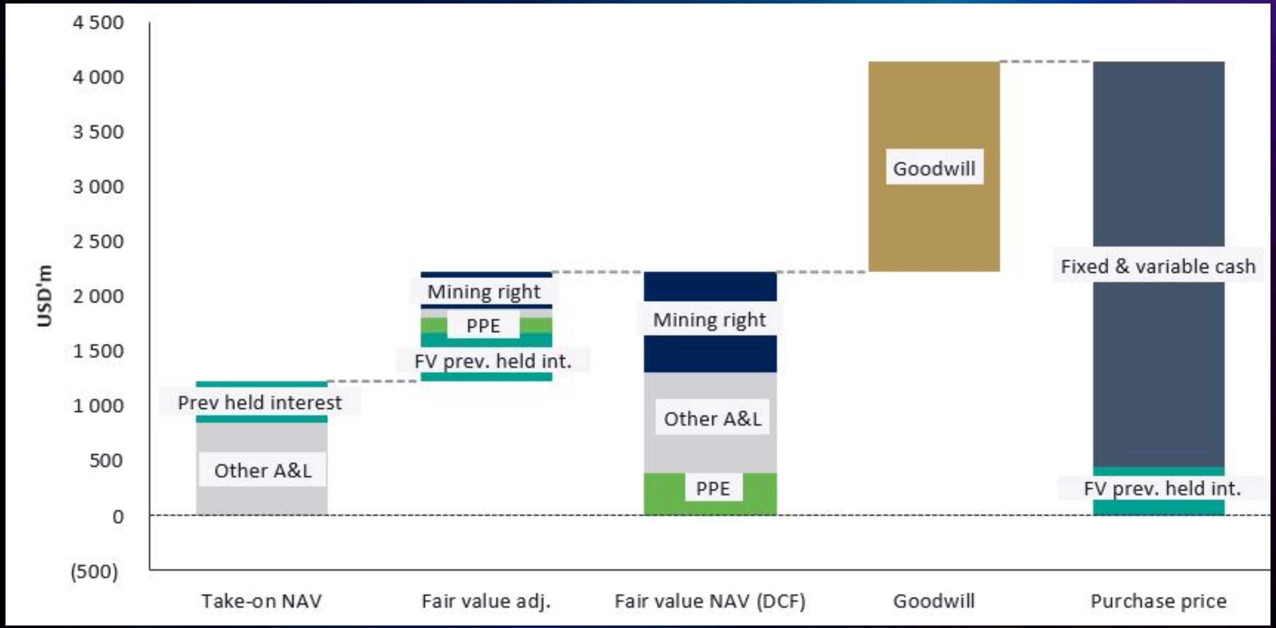
Accounting values are reset from acquirer's perspective.

Mining Industry Assets

Mining operations assets include tangible items like processing plant, equipment, mineral reserves and intangible assets such as licenses or off-takes agreements that could be separately valued.

Industry-Specific Challenges

Mining PPA involves challenges like fluctuating commodity prices, geological uncertainties, and regulatory issues.



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Asset Valuation Challenges in Mining

Geological Uncertainty

Resource estimation is complex with Measured, Indicated, and Inferred categories varying in confidence and economic impact.

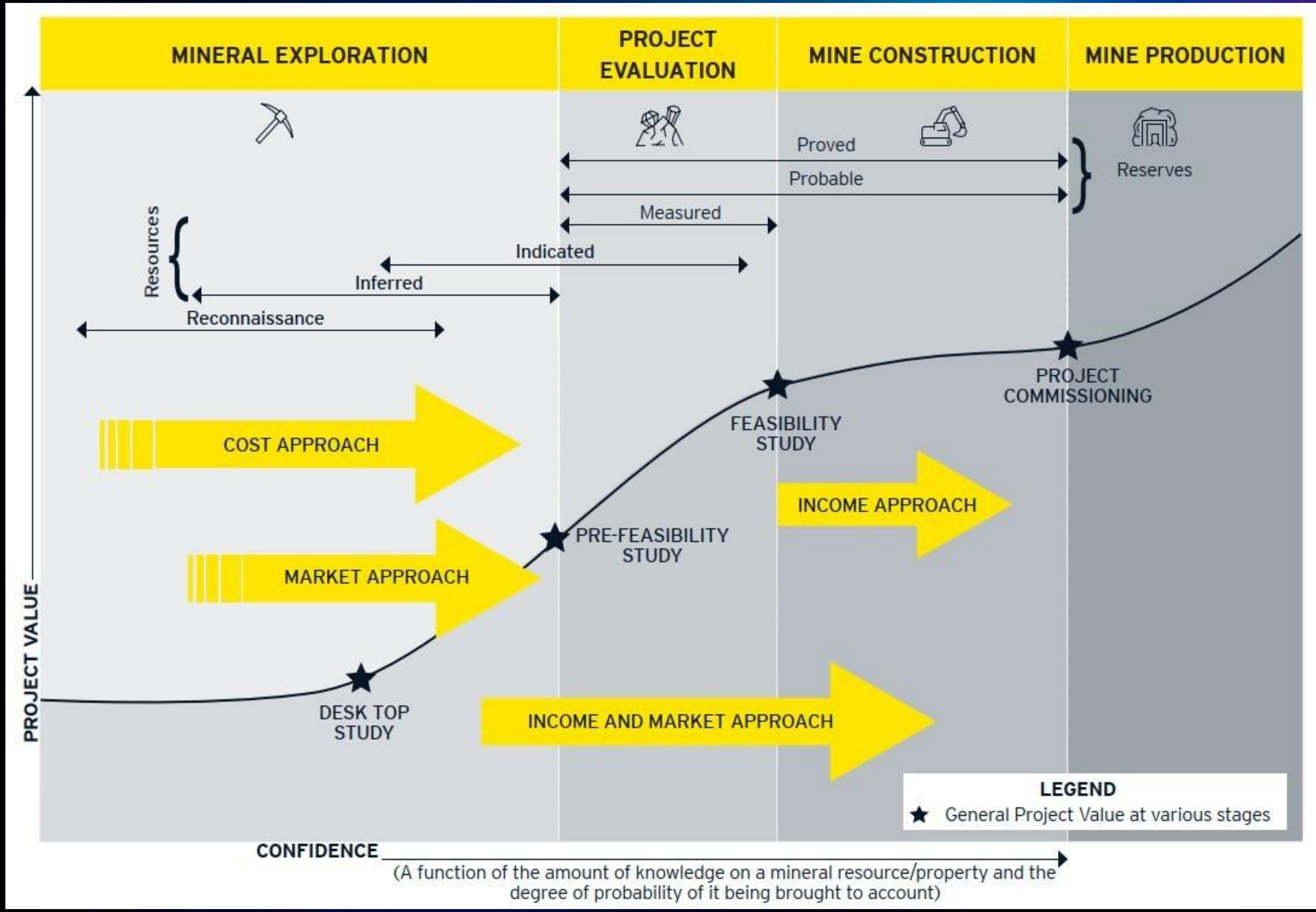
- The classification of Mineral Resource varies throughout the project lifestyle. As with increasing geological information and the change from one stage of the cycle to the next, so are the different valuation methodologies applied to each stage.
- The Project value increases with more geological information. Generally, the cost approach and market approach are more suitable for early-stage mining projects, whilst market and income approach are more suitable for mature and producing mining projects.

Accounting now standards differentiate between a business and asset acquisition.

Explorational and development assets are typically not seen as meeting a definition of a "business"

projections and investment decisions in mining asset valuation.

A PPA in terms of a business combination would therefore be associated with an operation mine with income approach likely being a primary valuation approach with market approach as corroborative.

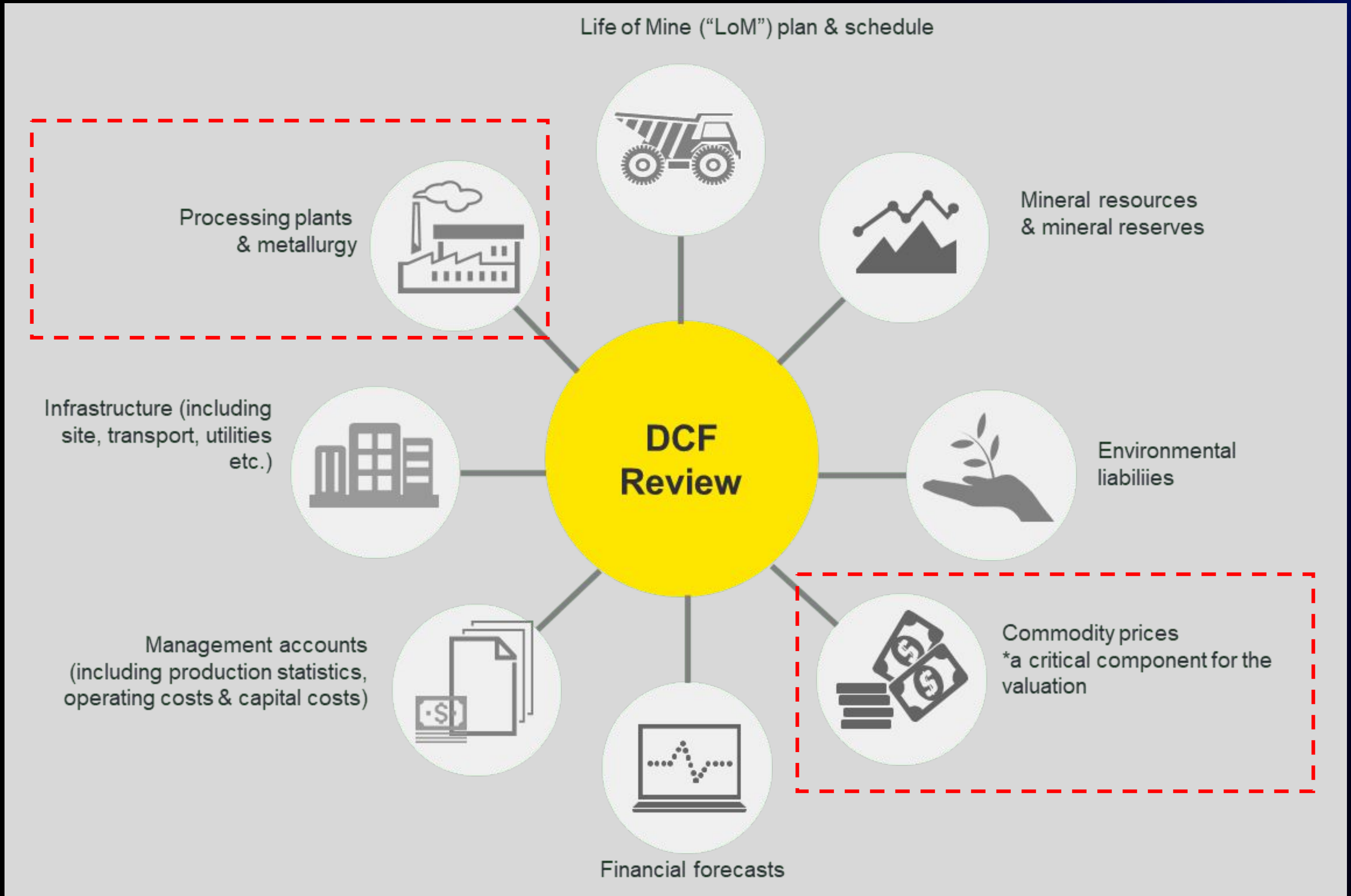


Discounted Cash Flow (DCF) factors

- The Income Approach by the DCF application is a culmination of technical and financial assumptions including, but not limited to the following:

Plant valuation factors:

- Physical condition
- Capacity vs utilization
- Design existing vs a modern equivalent
- Inflation impacts
- Technological obsolescence



Mineral Asset Valuation Approach

Residual approach

Identification

As is common in all mines, reserves and resources are critical and a major value driver to the business.

The value of these assets is captured in the mining right.

Valuation methodology

We typically use the DCF methodology in estimating the fair value of the mining right.

- The principle behind the method is that the value of the mining right is equal to the present value of the incremental after-tax cashflows after deducting all costs associated with the mineral reserve extraction, liabilities and returns of and on assets.
- We further evaluate the impact of commodity price assumptions in the following slides.

Life of Mine Value[1]	A
Less: Total contributing tangible and intangible asset values	**B**
Inventory step up	*xxx*
PP&E	*xxx*
Any other intangibles[2]	*xxx*
Workforce[3]	*xxx*
Fair Market Value of Mineral Reserves	**C=(A-B)**

1. Based on LoM DCF.
2. Include intangible assets identified and values under various approaches.
3. Based on estimated avoided cost of acquired employees.

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The continuous debate on pricing…

Market Volatility

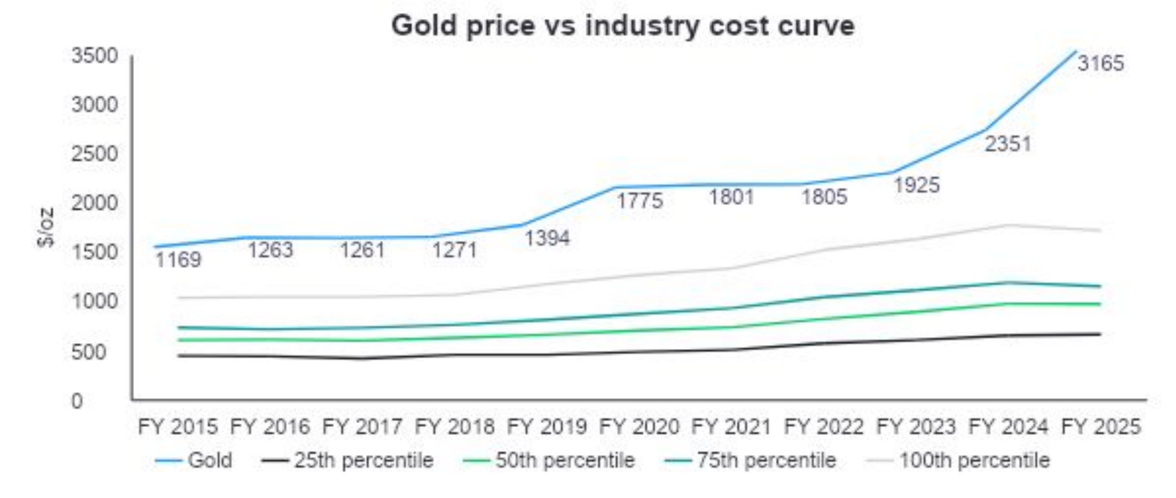
- Commodity price fluctuations significantly affect revenue projections and investment decisions in mining asset valuation.
- Lag between deal announcement and closure can be prolonged – regulatory approvals can result in deal economics that are "stale"
- Recency bias is prevalent in consensus
  - What is practice in the market?
  - What are the alternatives?

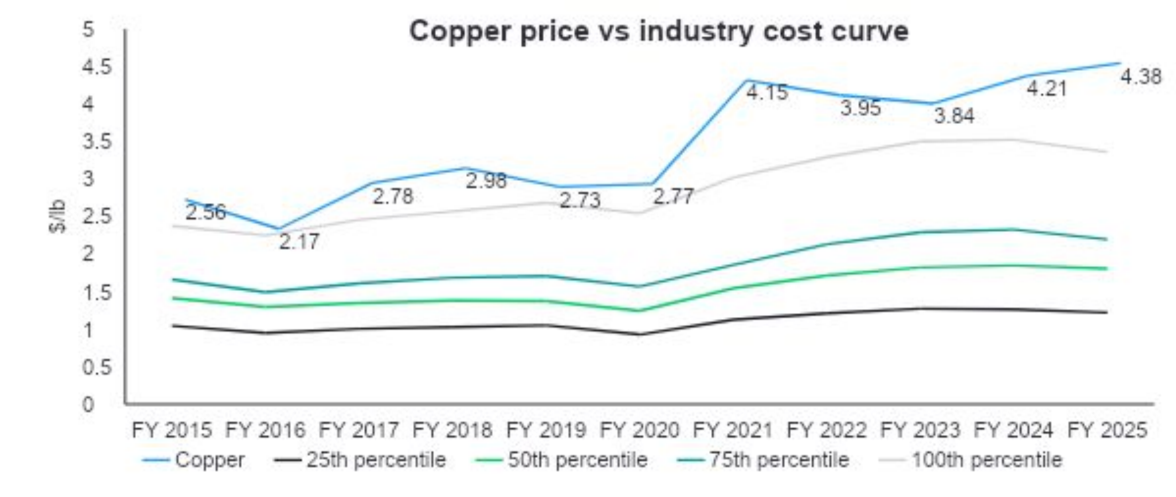
Regulatory and ESG Factors

Permitting risks, environmental liabilities, and community relations influence mining project feasibility and timelines.

Multidisciplinary Approach

Combining geological, financial, and regulatory expertise is essential for accurate and defensible mining asset valuations.





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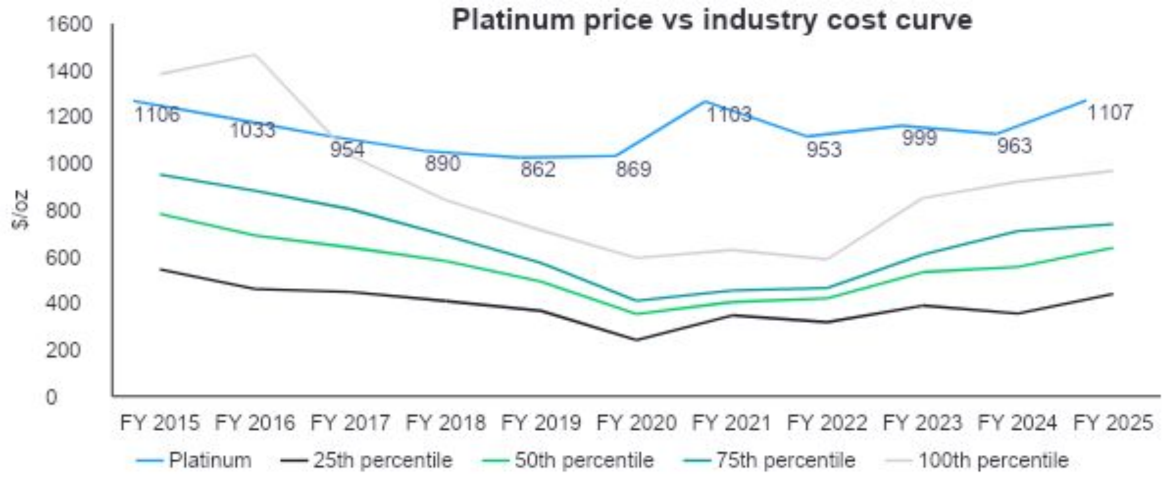

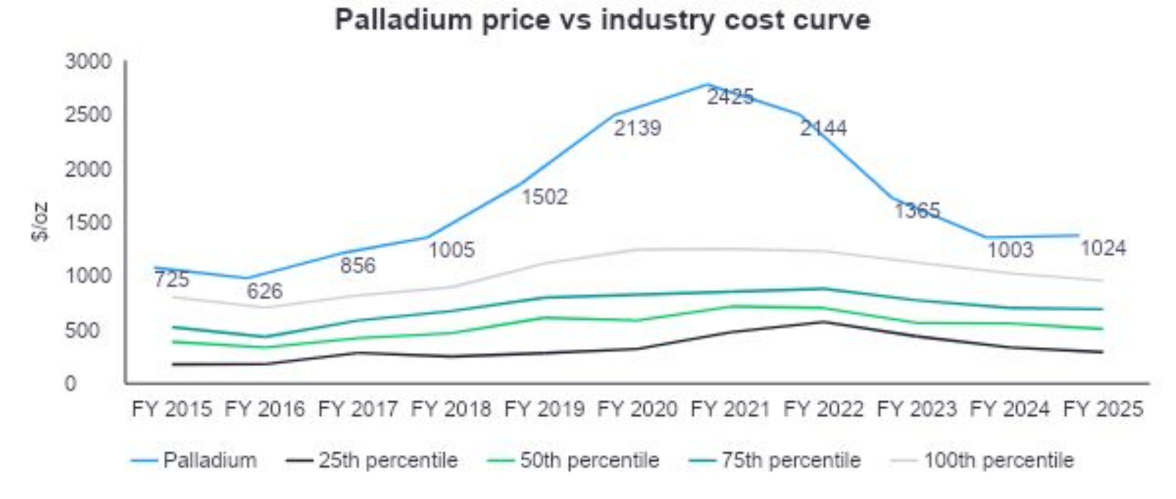

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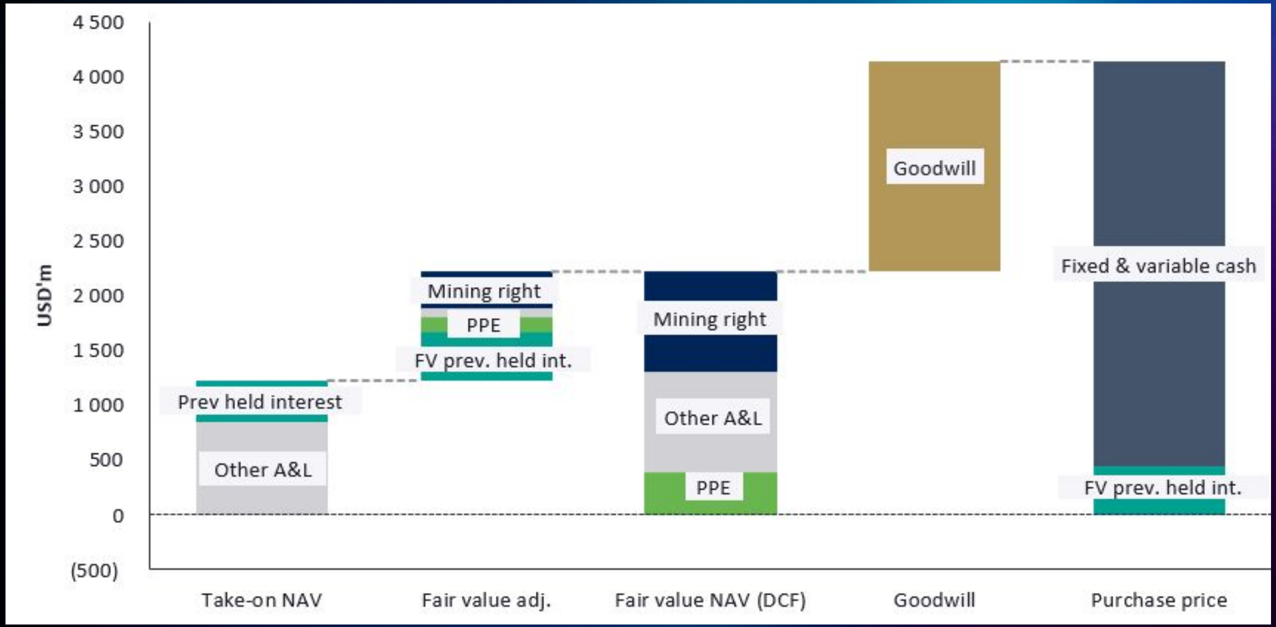
Importance and role of PPA

An accurate PPA:

- ensures compliance with standards and realigns accounting values to reflect economic potential of assets.
- provides a post-mortem view of where value lies.
- An appropriate allocation to mining right is essential to ensure appropriate costing to production post the transaction.
- Value vs Price
  - Is “Goodwill” actually bad?
  - Implications on future reporting for impairment starting point



Conclusion
PPA is a necessary tool in assessing the opening values of an acquiree with mineral asset valuation representing a critical component for a complete valuation perspective to be presented.

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