

We now hear from experts from SRK, situated all around the globe. Andrew Van Zyl, from South Africa, John Pfahl, from North America, Simon Hanrahan and Mark Noppe, from North Australia all offer their insights into due diligence in relation to the mining industry.

About Andrew van Zyl

Andrew van Zyl, Partner and Principal Consultant in the Johannesburg office of SRK Consulting, focusing on valuation of mining projects and assets, and working in general roles on the development of mining codes and related concessions.

About Simon Hanrahan

Simon Hanrahan is a Principal Consultant specialising in mining, and Project Evaluation corporate services. He has over 30 years' experience, 24 of which was gained leading operations and major projects globally across multiple commodities. Simon joined SRK in 2010 and works across the whole value chain of the Resources Industry carrying out due diligence style work, as well as technical reviews of both surface and underground projects.

About Mark Noppe

Mark Noppe is a Corporate Consultant in geosciences providing advice, training and mentoring in all aspects of orebody knowledge, from exploration reporting, resource definition and reporting, mine geology and grade control through to inputs into reserving. Mark has worked in South Africa, Western Australia and Queensland in exploration, mining geology, practical geostatistics applications, resource estimation and reporting, grade control, mine reconciliation, technical reviews and auditing, and professional training and mentoring.

About John Pfahl

John Pfahl is a team leader for due diligence, cross-discipline expertise with a focus on strategy, valuation and risk analysis. John Pfahl is a mining engineer with over 15 years of global experience in the mining industry. He is a Corporate Advisory Consultant with SRK. He has expertise in strategic planning, business improvement, investment analysis, risk analysis, capital markets and project valuation in the mining field. His background activities include project and investment management, strategic evaluations, technical and commercial due diligence, structuring and negotiating terms in mergers and acquisitions, and project finance for projects ranging from exploration through production and across a broad spectrum of commodities.

Firm Profile

SRK Consulting provides professional technical consultancy services to the mining and metals sector, encompassing multi-disciplinary technical studies and due diligence for mineral assets including exploration through to development, operation and mine closure.

Established in 1974, SRK employs more than 1,400 professionals internationally in over 45 offices on 6 continents.

FEASIBILITY

SRK Consulting

What is the process you and your team undergo when conducting due diligence studies for mining?

Andrew: "The key to our due diligence studies is assembling an experienced team and working together to focus on the sources of uncertainty – in order of priority."

Simon and Mark: "The key aspect before due diligence commences is to agree on the scope of work requirements. Depending on the stage of the project and the potential funding requirements, the required scope can vary significantly. The time and effort needs to be put in up-front to make sure that all stakeholders are aligned and all expectations will be met by the proposed due diligence team."

John: "This usually involves a staged process. The first step is to understand the underlying strategy of the client. Often, in the mining industry, we work with companies or funds that have very little experience in mining and do not have a good feel for what questions should be asked. Therefore, we want to make sure that we are providing the information needed, even if the client didn't realise they should be asking that question."

"The next step is a high-level review of the project/opportunity to identify any obvious red flags and better tailor the focus and effort of the team. Mining due diligence can often be described as following the 80/20 rule. 20% of the time gets you 80% of the answer. Often, this 80% is more than enough to know that the due diligence should not progress. Finally, if the due diligence progresses, it goes into the final stage which is the detailed analysis. Under this stage, each discipline is reviewed in detail. Depending

upon the specific nature of the project, some disciplines are not necessary and other projects have other factors that also come into play. We also put a heavy priority on a site visit as seeing the asset is always important, but even more important is the opportunity to interact with the team on the ground as the message may very well be different from what's being given at the most senior levels.

"Finally, due diligence is an iterative process and you need to adjust strategy and focus as necessary as the due diligence progresses. The process must be dynamic to provide the best results. Most importantly, there is no standard list where boxes are simply checked. Every mining project is unique and must be evaluated appropriately given those unique conditions."

What makes SRK's due diligence reviews so highly regarded?

Andrew: "SRK has built a reputation for being thorough and for being independent. In addition to our focus on deep technical skills, we are involved in a range of professional bodies and in the mining community. We try to avoid being distracted by short-term cyclical changes in the market and understand the underlying asset, the specific short-term challenges and the long-term potential. Our understanding of regulatory and more general challenges – as well as the management skills and experience required to manage these – is also key to providing a balanced and insightful view."

John: "Our technical experts are also combined with team leaders that have multi-disciplinary expertise and a long history with M&A, project investment and business improvement that help direct the team to make sure the material risk and opportunity is

identified without getting stuck in the weeds on non-material issues."

In what ways do SRK's clients benefit from these reviews?

Andrew: "Where our clients are mining companies themselves, they have benefited from the reassurance that they are on the path to world-class performance and that they have identified the key risks to be managed."

Simon and Mark: "Firstly, in instances where SRK has been commissioned by a project owner to carry out a due diligence, the owner gets the benefit of the review team identifying issues and then being able to remedy them ahead of going to the potential lenders. This has happened recently in Australia, where SRK carried out an initial review and identified a number of key technical shortcomings in a Feasibility Study. Secondly, the potential lenders get a review report that addresses their needs, to understand the risk, opportunities and financial model inputs that may require modification or stress testing. Finally, the potential lenders get access to the due diligence team, if required, to elaborate and further discuss their key insights and observations."

How important is it to manage client expectations?

Andrew: "Many of our clients are repeat clients and are familiar with our approach; our focus here is on delivering to the same standard achieved in previous projects. New clients can be surprised at the level of detail we go into, and so the time and cost of developing our view of the asset can often require explanation. It can be difficult to convince first-time clients of the value of our approach, particularly

during a boom. Clients that have benefited from our approach over the course of a cycle, however, require little convincing of the value proposition."

John: "A vital thing to note is that SRK does not view due diligence as a check the box exercise and if a client just wants a rubber stamp on a transaction, it must be explained that our due diligence is independent and the result may not always be what is desired."

How often do problems surface when undergoing mining project reviews? What is your team's next step from this?

John: It is very rare for a mining project review to result in everything being exactly as presented. Due diligence often results in significantly different assumptions than original, data availability is often poor (or slow or disorganised), management often tries to evade answering questions, etc."

Andrew: "The mining industry attempts to extract long-term value within a very volatile environment and this will always lead to problems. Changes in prices and exchange rates can lead to substantially different outlooks during the period from request for quotation to execution. "Sometimes this happens during the due diligence, which could lead to a company looking to respond to these changes; subsequent changes to the timeline and conclusions may then be requested. We understand that this happens and so we look to provide a balanced view to the client and insight into where the response by the company is critical and the delay is warranted and where it will not have a fundamental impact on the conclusions."

Simon and Mark: "The question is, does the supporting study information meet the criteria. In the current times, particularly at the junior end of the market, this can be challenging as the juniors often do not have adequate funds and hence have taken a number of short-cuts on the study works."

Can you explain the importance of mining data management for your clients?

John: "Mining projects generate massive amounts of data. This includes wide ranging technical data supporting resource estimates, mineral processing, mine engineering, permitting, environmental, etc. Effectively managing this data is critical as it allows for it to be fully utilized in design and operations."

What could go wrong (thus leading to litigation) if due diligence is not properly executed?

Andrew: "We have had no recent instances of litigation arising from one of our due diligence studies. Litigation could arise from facts that are material that were not disclosed, or from negligence on the part of the investigating team. In general, though, this is difficult to prove and a further reason to hire a qualified team."

John: "Blatant mistakes often lead to shareholder lawsuits and even direct investigation from regulatory authorities into these transactions."

Simon and Mark: "A number of takeovers are occurring currently and SRK is required to carry out a due diligence review for a potential new owner. They rely on us to

identify any longer-term legacy issues that could result in significant liability for them as a new owner."

Moreover, how have environmental concerns affected your line of work? Have these changes affected the types of cases that could be taken to court?

John: "One very important issue with mining due diligence involves liability for environmental damages, especially historic damages. Every jurisdiction handles these liabilities differently and, especially in the USA, where the allocation of liability to current owners is at its most extreme, making an acquisition that includes significant unintended liabilities can result in significant litigation down the road. In addition, missing something major on the environmental liability or permitting side that can take an asset's value to zero can also result in immediate write-downs and associated lawsuits."

Andrew: "The challenges might be considered to be more related to 'softer' requirements and guidelines. We understand as a team how to apply the prevailing legislation, but some of this regulation is open to interpretation and some of it subject to competing authorities. Some of it, such as the new South African mining charter, are being challenged and are currently suspended – making it difficult to advise clients on a clear path forward despite relative clarity on current official requirements." **LM**