

COMMODITY VALUATION CURVES

By Gbenga Ojo

Mining companies are, like never before, faced with the need to value their mineral assets at fair value; particularly in a case of a proposed transaction at a time where “cash is king”. This is coupled with the guidelines in the SAMREC/SAMVAL Code which aim to reduce the subjective nature of a mineral asset valuation. In order to validate the value of a mineral asset, the SAMREC/SAMVAL Code requires that at least two of the valuation approaches can be used namely:-

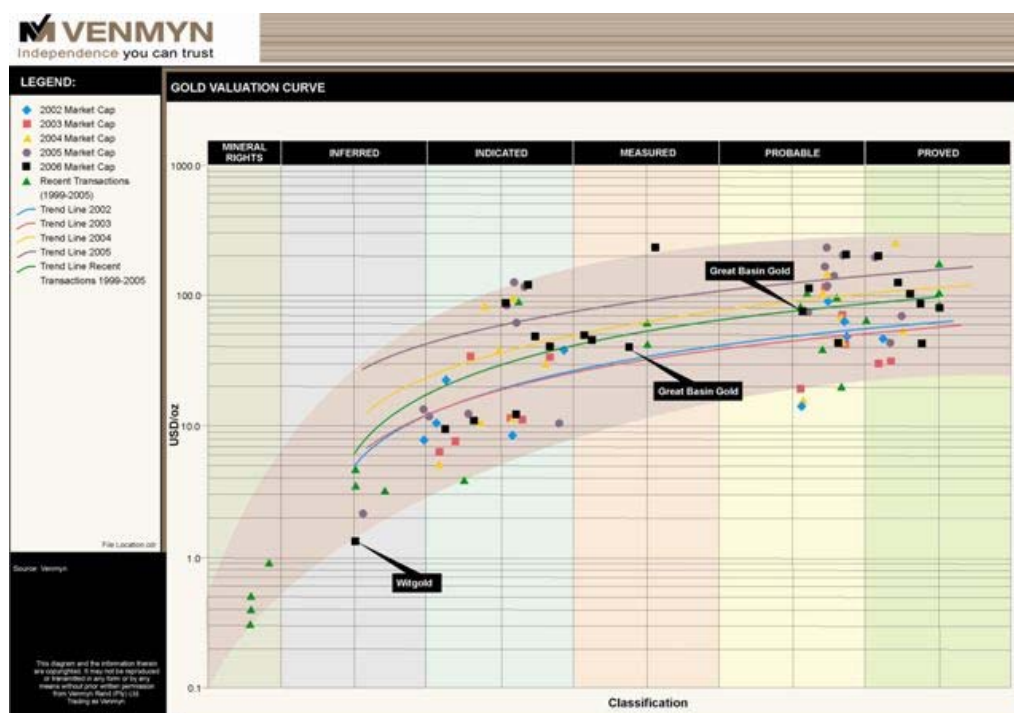
- Cost approach;
- Market approach; and
- Cash flow approach.

However, of the three valuation approaches, the market approach is the useful approach useful for valuation of a property at different stages of development in the mining cycle.

Over the years, Venmyn has developed various commodity valuation curves based on the market approach for valuation, using its comprehensive database of recent transactions of various mineral assets. This valuation approach relies on the principle of ‘willing buyer, willing seller’ and requires that the amount obtained from the sale of the asset is determined as if in an arm’s length transaction. The valuation method requires a comparison of relatively recent transactions of mineral assets that have similar characteristics to those of the asset being valued. It is generally based upon a monetary value per unit mineral resource or mineral reserve.

Venmyn commodity valuation curves provide a graphic illustration of the historical transactions that have taken place. The graph also plots the estimated unit values per mineral resource or mineral reserve of all the major mining companies listed on the various securities exchanges. This commodity valuation curve clearly shows in a graphic form, the range of values for mineral assets, depending on the mineral resource classification, access, geology, and commodity price just to mention a few factors. Value ranges are applicable whether buying or selling a mineral asset. These curves save man hours in conducting the necessary research into the recent transactions, considering that the Venmyn team is up-to-date capturing recent transactions in the industry. The commodity valuation curves also serve as a good tool for cross checking valuation results using either the cost approach or the cash flow approach.

An example of a commodity valuation value is shown in the figure below:-



For further discussion on commodity valuation values, please contact Gbenga