

MURDER AGREEMENTS

By Andy Clay

Last week one of our clients called in and asked for assistance with a 'Murder Agreement' which was Freudian slip and he actually meant Merger Agreement! To me, that is a sign of the times and we are seeing a significant reduction in the availability of early stage exploration risk capital.

What is of concern is that many clients are caught in a difficult situation since their balance sheets do not accurately reflect the value of their mineral assets. This is for several reasons:-

- Exploration costs have not been separately allocated to individual projects but rather consolidated under total expenses. This means that the application of Historical Cost value methods cannot be accurately applied; and
- Acquisition costs have generally not been split against the mineral rights and fixed property, plant and equipment. The accountants have then allocated large amounts to Goodwill. This means that with respect to Impairment testing significant problems are being experienced.

The consequence of the combination of these two simple factors is going to lead to a minerals industry sub-prime problem, since the tradability of many early stage projects which are either at the Inferred Resource or the pre-development phase will find further risk capital difficult to obtain and the Fair Value and the Market Value will go down. The Impairment will be inevitable and just as with the global banking system, the underlying assets of these mineral companies will be substantially reduced. It is only a matter of time before we see a major upset.

So perhaps 'Murder Agreements' may become the order of the day.

For further information, please contact info@venmyn.com