THE VALUATION OF MINING ASSETS

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PREFACE

This book is based on my personal experience as a valuer of businesses, shares and other forms of equity during the last 35 years. During that period I was a partner for 23 years at Coopers & Lybrand (which firm subsequently became PricewaterhouseCoopers) and more recently I have been Managing Director of the specialist valuation practice Lonergan Edwards & Associates Limited. Throughout my career I have specialised in valuation work connected with takeovers, with litigation involving valuation issues and the assessment of economic and consequential loss. Mining projects with which I have been involved include gold, coal, iron ore, copper, lead, zinc, molydenum, uranium, kaolin, mineral sands, diamonds and rare earths.

The experiences reflected in this book cover a broad span of Australia’s valuation history when many important changes occurred in valuation law and practice.

This book is written from a financial perspective with a focus on the gold industry because there are so many gold projects in Australia. The other reason for the focus on the gold industry is that so many gold project valuations contain serious technical errors. Hopefully, this book will help to reduce the prevalence of those technical errors.

Part I of the book introduces the reader to some basic valuation and mining terminology and concepts. Part II takes the reader through various financial and valuation issues. Parts III and IV deal with gold mining and other mining assets respectively.

In recent years there have been significant changes in direction of accounting standards, financial reporting and income tax. The thrust of these changes is a significantly greater emphasis than previously on market value and how it should be properly assessed. Financial reporting issues are dealt with in Part V.

The contents of this book have been influenced by my friends and colleagues I have worked with over the years. It has also been influenced by the senior executives of clients of my firm with whom I have had the great pleasure and great privilege of working.

However, if this book contains any errors or omissions, I regret to say, the responsibility is totally mine.

— Wayne Lonergan 2006
Grateful acknowledgment is made to all those people I have worked with over the years and whose thoughts, efforts and deliberations have influenced the preparation of this book.

Special thanks should also go to Christine Pardy, who has typed the numerous drafts of this edition.

Special mention should also be made of my fellow directors and senior staff of Lonergan Edwards & Associates Limited, Craig Edwards, Martin Holt and Grant Kepler who reviewed the whole text, Martin Hall and Dr Hung Chu, both of whom also contributed their time to reviewing and recommending changes to a number of the early chapters of the text.

I am also deeply grateful to those of my mining industry friends who were both rash enough to offer to review the draft text and then gave up so much of their time and offered such valuable insight based on their own mining experiences. In particular, Brian Bolton and Wally Bucknell (formerly of Plutonic Mining and now at Atlantic Gold NL), Norm Seckold (Bolnisi Mining NL and many others) and Bryce Wauchope (formerly of RGC, Helix, Equinox, etc).

I would also like to thank Professor David Johnstone (Sydney University) for his input.

My particular thanks to Atlantic Gold NL and Bolnisi Gold NL for the schematic drawings and photographs included in the text.

To all of you, thank you very much.
Wayne Lonergan was born in Sydney in 1946. His professional qualifications include Bachelor of Economics, Fellow of the Institute of Chartered Accountants in Australia, Fellow and Life Member of the Securities Institute of Australia, Fellow of the Company Directors Association of Australia, Fellow of the Australian Property Institute and a member of the Australian Institute of Arbitrators.

His career includes being a part-time tutor and, more recently, an Adjunct Professor in the Faculty of Business and Economics at Sydney University and an investment advisor. He worked with Coopers & Lybrand (including three years in the London office) from 1971 to 2000 and was a partner in that firm for 23 years.

In 2001 he, together with Craig Edwards, set up the specialist valuation practice Lonergan Edwards & Associates Limited.

The author’s professional work has concentrated on valuation and related assignments, including consequential loss and quantum assessments, business and due diligence investigations and litigation support.

He has conducted numerous valuations of listed and unlisted shares and businesses, including the preparation of Independent Experts Reports on numerous public company takeover offers. He has also given testimony as an expert witness in numerous court actions.

He was National President of the Securities Institute of Australia (now Finsia) (three years), a member of the Companies and Securities Advisory Committee (CASAC) (nine years), the Australian Accounting Standards Board (seven years), the International Financial Reporting Interpretations Committee of the International Accounting Standards Board (two years) and the Valmin Committee (five years).

The author has served on numerous subcommittees of the SIA and CASAC and was the Australian representative on the International Accounting Standards Sub-committee on Accounting for Financial Instruments and for Employee Share Options.

Wayne Lonergan is the author of the leading Australian valuation text The Valuation of Businesses, Shares & Other Equity and is currently working on its latest edition.

He is the author of over 80 published technical papers on valuations and associated accounting matters and is also a regular speaker at conferences.

Wayne Lonergan is married and has five children. His outside interests include sailing and travel.