

Developers should consider the due diligence team as an important audience for their work.

IS YOUR PROJECT INVESTMENT WORTHY?

A mining consultant's perspective

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The team at mining consultancy firm CSA Global sees many different forms of mining studies. We are in a fortunate position to work on mining projects in all stages of development. We have numerous clients who are developing new mining ventures where we assist in exploration targeting and geological modelling from the early stages of a project. As the venture develops, we assist in resource modelling and then detailed planning and design. Our work often culminates in scoping studies then prefeasibility and feasibility studies, working with multi-disciplined teams to produce a defined proposition that our clients use to support and encourage investment.

Our team possess the skills and experience across the full minerals' development value chain and are frequently asked to complete due-diligence exercises on behalf of investors. In these cases, we are engaged to review studies on projects we have not previously worked on and to determine if the project meets our client's investment criteria. In other words, is it investment worthy?

With this dual point of view, we see interesting contrasts. Usually the project proponent is under pressure with scarce time and funds, while the prudent investor has enough time and funds to dig as deep as is necessary to secure an understanding of the underlying risks of the project and the work required to achieve attractive returns.

For small to medium sized companies this process usually involves a process of attracting external investment, but, this process is also common in large multinational mining companies where asset leaders are required to "pitch" their projects to internal investment committees so as to attract scarce internal funds.

For developers who are embroiled in the intensity of project development involving detailed technical studies, tight timelines, scope creep and shrinking budgets; what makes a project investment-worthy?

When setting out on the project journey, developers should consider the due diligence team as an important audience for their work. This way, the path to attracting investment can be made more efficient and hopefully, successful.

A due diligence team is typically deployed with a surprisingly clear and clinical objective and is required to answer two questions. Firstly, what is the opportunity and secondly, what is the risk?

Project developers should keep this in mind as they complete their studies and technical analysis.

Developers invariably spend most of their resources and time on defining and presenting the opportunity. Developers

should demonstrate that they have addressed the risks their project faces, even if this type of analysis makes them very uncomfortable. It is human nature to be energised by the possibilities and very few get joy from acknowledging what could go wrong.

In a due diligence exercise, an important first question is "Who has done the work?". Track record and reputation are important indicators on whether the work will span sufficient breadth of scope and depth of analysis to realise the opportunity. A good project manager should take the first opportunity to set up a diverse study team with experience, that will assist in avoiding blind spots and ensure all stakeholders are represented in the outcome.

A following step is to confirm that there is a balance between optimism and realism. Investors in mining projects are natural optimists, but the ones who still have money are also pragmatists.

A due diligence review team typically comprises experienced professionals across a range of disciplines, who primarily assess the judgement and decision-making processes of the study team. They ask whether the study appropriately acknowledges risk factors. Also, does the study acknowledge what you don't know, and are mitigations in place?

A reviewer assesses whether project parameters are within a reasonable range and if the project value can withstand realistic movement of key vari-

ables such as commodity price, costs and development timeline?

Many failed mines could generate a positive cashflow, if only all the project parameters moved in the right direction.

You will note that this article has not yet addressed detailed technical analysis. In-depth scrutiny is important to complete the diligence required for major investments, but only adds value when the major review questions have been addressed. It is seldom that a small detail or omission proves to be fatal for an investment, after a sound risk management process is in place for a project.

To make a project investment-worthy, give your investors sufficient confidence that the opportunity is realistic, that the project has been positioned to make the most of the asset, while still being robust in the face of head-winds. Do not avoid the uncomfortable questions regarding risk, they will inevitably be asked before you get investment, so prepare for them.

The mining team work closely with our resource team to ensure that good geology translates into effective mine planning and more efficient operations. The synergies created by this collaborative ethos enable our team to produce comprehensive solutions across the business value chain. **MRA**

ABOUT THE AUTHOR

Karl van Olden is a mining engineer with more than 25 years' experience in planning, development and operations of a diverse range of open pit and underground resource assets across Africa, Asia and Australia. He manages the mine engineering team based in CSA Global's Perth office and maintains global visibility of all engineering-related projects.



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