Davidson & Company Mining Update

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Market update

- Increase in activity
  - IPO's
  - RTO's
  - Financings

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IFRS

Nothing really new, but watch out for:

- Stage of operations
  - Exploration and evaluation (“E&E”)
  - Development
  - Production
  - Closure and rehabilitation

Exploration and evaluation assets

"Grass roots exploration"

- Impairment indicators
  - Option or license expiry
  - Expenditures not budgeted or planned (watch for 3 year dormancy)
  - Discontinue activities
  - Unlikely recovery of carrying amount

Exploration and evaluation assets

- Asset retirement obligations
  - Often overlooked
  - Bonding and ARO obligations are separate
  - Get the geologist involved
  - Need detailed work plan including hours, rates, rentals, etc.
  - DCF model to be applied and disclosed

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Exploration and evaluation assets

- Acquisitions
  - If acquiring a company, requires a purchase equation
  - If acquiring a portion, gross up as if acquiring 100% and offset with NCI
  - If acquiring a property interest (no company) then value at consideration (cost)
  - Always need to disclose terms

Exploration and evaluation assets

- Foreign jurisdictions
  - Always considered for a heightened audit risk
  - Group audits
  - Title confirmations

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Development stage

- Assessment of stage considerations
  - Technical feasibility and commercial viability has been demonstrated
  - Feasibility study complete
  - Available financing
  - Decision to develop has formal approval by directors
  - Create a position paper

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Development stage

- Asset reclassification
  - Transfer from E&E asset to a capital asset after test for impairment
  - Referred to as a mine in development or under construction
  - Plants, mills, tailings ponds, roads, staff housing, stripping costs, equipment testing
  - Now an IFRS 16 asset

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Development stage

- Other matters
  - Determine criteria for production stage (discussed later)
  - Necessary permits
  - Asset retirement obligations expected to increase
  - Pre-production revenues
  - Abnormal costs are expensed

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Production stage

- Assessment of stage considerations
  - Production commences when the mine is in the condition for it to be capable of operating in the manner intended by management
  - Grade of material
  - Level of production and capacity
  - Sustainable ongoing production
  - Other items
  - Create a position paper

Production stage

- Asset reclassifications and revenues
  - Breakout of certain costs related to equipment, inventory, other
  - Amortization – unit of production method for mining assets, life of mine
  - Specific assets to be amortized over expected life
  - Revenue recognition criteria
  - Cut-off concerns

Production stage

- Other matters
  - Estimates for inventory for raw materials, in process and finished goods
  - Asset retirement obligations
  - Changes in resource estimates
  - Foreign jurisdictions

Closure and rehabilitation stage

- Characterised by the restoration and rehabilitation of the site, satisfying any potential asset retirement obligations still outstanding
- Changes in estimates

Acquisitions

- Three types of acquisitions
  - Mineral right
  - Company that holds mineral right and <u>does not</u> meet the definition of a business
  - Company that holds mineral right and <u>does</u> meet the definition of a business

Acquisitions (cont'd)

- Acquisition of a mineral right
  - Usually does not meet the definition of a business
  - As E&E asset generally cannot be fair-valued (no reserves for DCF), value based on consideration provided
  - Option agreement vs purchase agreement

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Acquisitions (cont'd)

- Company that holds a mineral right that <u>does not</u> qualify as a business
  - As E&E asset generally cannot be fair-valued (no reserves for DCF), value based on consideration provided
  - Position paper will be needed
  - Need accurate cut-off of all assets and liabilities on date control is acquired
  - Purchase equation to be calculated and disclosed

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Acquisitions (cont'd)

- Company that holds a mineral right that <u>does not</u> qualify as a business (<u>cont'd</u>)
  - If 100% of Company acquired, residual value of consideration in excess of net monetary assets is allocated to E&E asset and any other capital assets (watch out)
  - If less than 100% of Company is acquired, gross up to 100% and offset with NCI
  - No DIT effect on the residual value increase booked to capital assets

Acquisitions (cont'd)

- Company that holds a mineral right and <u>does</u> qualify as a business
  - Usually a company in advanced development stage or full production
  - Need to assess fair value of both the consideration and the Company being acquired, with differences allocated to assets/liabilities/goodwill
  - Position paper required
  - Need accurate cut-off of all assets and liabilities on date control is acquired

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Acquisitions (cont’d)

- Company that holds a mineral right and <u>does</u> qualify as a business (<u>cont’d</u>)
  - If 100% of Company acquired, residual value of consideration in excess of net monetary assets is allocated to fair value of capital assets including goodwill
  - If less than 100% of Company is acquired, gross up to 100% and offset with NCI
  - DIT effect expected to have an impact
  - Requires valuation and audit of the underlying assumptions, and those are responsibility of management

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