

Contract Negotiation

****Above-the-line (ATL) costs****

Related terms: Below-the-line (BTL) costs, Full-budget costs

In the context of contract negotiation for mining project finance, above-the-line (ATL) costs refer to the expenses that are directly attributable to the mining project's production phase. These costs typically include items such as labor, raw materials, and consumables directly required to extract and process the minerals. ATL costs are crucial in determining the mining project's profitability and viability.

****Below-the-line (BTL) costs****

Related terms: Above-the-line (ATL) costs, Full-budget costs

BTL costs are indirect expenses that support the mining project but are not directly involved in the production phase. These costs include items such as administration, marketing, and research and development. BTL costs, along with ATL costs, constitute the full-budget costs, which are critical in assessing the overall financial health and sustainability of the mining project.

****Capital expenditure (CAPEX)****

Related terms: Operational expenditure (OPEX), Total Expenditure (TOTEX)

Capital expenditure (CAPEX) refers to the funds invested in acquiring, upgrading, or maintaining assets required for the mining project's long-term operations. Examples of CAPEX include purchasing land, constructing buildings, and buying heavy machinery. Distinguishing CAPEX from operational expenditure (OPEX) is essential when negotiating contracts, as CAPEX affects the overall project financing structure, while OPEX is more directly linked to the project's ongoing operational costs.

****Earnings before interest, taxes, depreciation, and amortization (EBITDA)****

Related terms: Earnings before interest and taxes (EBIT), Net income

EBITDA is a financial metric used to assess a mining project's financial performance. It is calculated by deducting the costs of goods sold (COGS) and operating expenses from the project's revenues. EBITDA provides a clearer picture of the project's operational profitability, as it excludes non-operational factors such as interest, taxes, depreciation, and amortization.

****Earnings before interest and taxes (EBIT)****

Related terms: EBITDA, Net income

EBIT is a financial metric used to evaluate a mining project's operational profitability. It is calculated by deducting the COGS and operating expenses from the project's revenues, but before accounting for interest and taxes. EBIT helps to separate the impact of financing decisions and tax environments from the mining project's core operational performance.

****Escalation clause****

Related terms: Force majeure, Liquidated damages

An escalation clause in a mining contract is a provision that allows for adjusting the contract terms (typically prices or costs) based on predefined criteria, such as changes in inflation rates, labor costs, or raw material prices. By including an escalation clause, both parties can better manage and mitigate risks associated with fluctuating costs and ensure a more equitable distribution of financial burdens.

****Force majeure****

Related terms: Escalation clause, Liquidated damages

Force Majeure is an unforeseeable event or circumstance that prevents a party from fulfilling its contractual obligations. Common examples include natural disasters, strikes, or political instability. A force majeure clause is typically included in mining contracts to protect both parties from unpredictable events, releasing them from liability or allowing for contract renegotiation under specific conditions.

****Indemnification****

Related terms: Limitations of liability, Warranty

Indemnification is a contractual provision in which one party agrees to compensate the other for any losses, damages, or liabilities arising from the first party's actions or omissions. In mining contracts, indemnification clauses often address issues such as environmental damage, personal injury, or property damage, ensuring that the liable party is held accountable for their actions.

****Lender's technical advisor (LTA)****

Related terms: Independent engineer (IE), Technical consultant

An LTA is a specialized consultant or engineering firm engaged by a lender to provide expert advice and opinions regarding the technical, operational, and financial aspects of a mining project. The LTA's role typically includes reviewing project documentation, evaluating technical risks, and monitoring construction and operational progress. By engaging an LTA, lenders can better assess the project's viability and minimize their risks.

****Liquidated damages****

Related terms: Escalation clause, Force Majeure

Liquidated damages are predetermined penalties specified in a mining contract to compensate the non-breaching party for any losses or damages incurred due to the breaching party's failure to perform its obligations. Liquidated damages clauses help maintain fairness and ensure compliance by providing a clear and agreed-upon financial consequence for non-compliance.

****Limitations of liability****

Related terms: Indemnification, Warranty

Limitations of liability are contractual provisions that restrict the amount of damages or compensation that a party may be liable for in the event of a breach of contract or other wrongful act. By including limitations

of liability clauses in mining contracts, parties can better manage their risks and potential financial exposure, ensuring a more balanced distribution of responsibility.

****Net present value (NPV)****

Related terms: Internal rate of return (IRR), Payback period

NPV is a financial metric used to evaluate the profitability and feasibility of a mining project. It represents the difference between the present value of cash inflows and the present value of cash outflows over the project's lifetime. A positive NPV indicates that the project is expected to generate more value than its costs, while a negative NPV suggests the opposite.

****Operational expenditure (OPEX)****

Related terms: Capital expenditure (CAPEX), Total Expenditure (TOTEX)

OPEX refers to the ongoing costs incurred during the mining project's operational phase, including items such as labor, utilities, and maintenance. Distinguishing OPEX from CAPEX is essential when negotiating contracts, as OPEX directly impacts the project's ongoing financial performance and sustainability.

****Payback period****

Related terms: Net present value (NPV), Internal rate of return (IRR)

The payback period is a financial metric used to assess the time it takes for a mining project to recoup its initial investment. It is calculated by dividing the initial investment by the net cash inflows generated during the project's lifetime. A shorter payback period generally indicates a more attractive investment opportunity, as the investor recovers their initial capital more quickly.

****Reserve base****

Related terms: Proven reserves, Probable reserves

The reserve base is the total amount of mineral resources that can be economically extracted from a mining project, considering factors such as geological, technical, and market conditions. Reserve bases are typically categorized into proven and probable reserves, with proven reserves being more certain and probable reserves being less certain regarding their economic viability.

****Risk allocation****

Related terms: Indemnification, Limitations of liability

Risk allocation is the process of distributing potential risks among the parties involved in a mining contract. By clearly defining and allocating risks, contracting parties can better manage their exposure, minimize potential losses, and promote a more balanced and equitable relationship.

****Warranty****

Related terms: Indemnification, Limitations of liability

A warranty is a contractual provision in which one party guarantees the quality, performance, or durability of a product or service provided to the other party. Warranties can help ensure that the mining project

meets specific standards and requirements, providing a level of assurance and protection for both parties involved in the contract.

****Total Expenditure (TOTEX)****

Related terms: Capital expenditure (CAPEX), Operational expenditure (OPEX)

TOTEX is a comprehensive term that encompasses both capital expenditure (CAPEX) and operational expenditure (OPEX) in a mining project. By considering TOTEX, contracting parties can better understand and manage the overall financial implications of the project, ensuring that all costs are taken into account when making investment decisions.