

*Development of the
International Valuation Standards Committee's
Best Practice Guidelines for
Valuations in the Extractive Industries*

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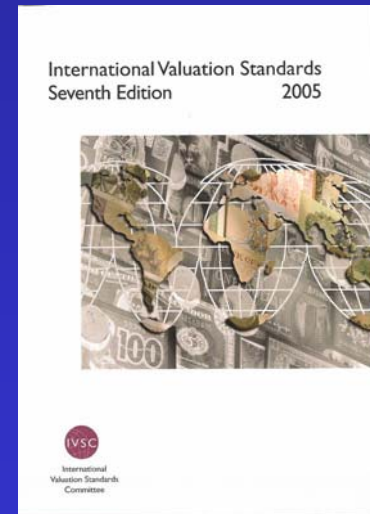
Summary

- IVSC Technical Paper:
 - *Valuation of Properties in the Extractive Industries*
- Scheduled for publication in 2008
- Will supplement the *International Valuation Standards* with best practice guidelines
- In development for 4 years

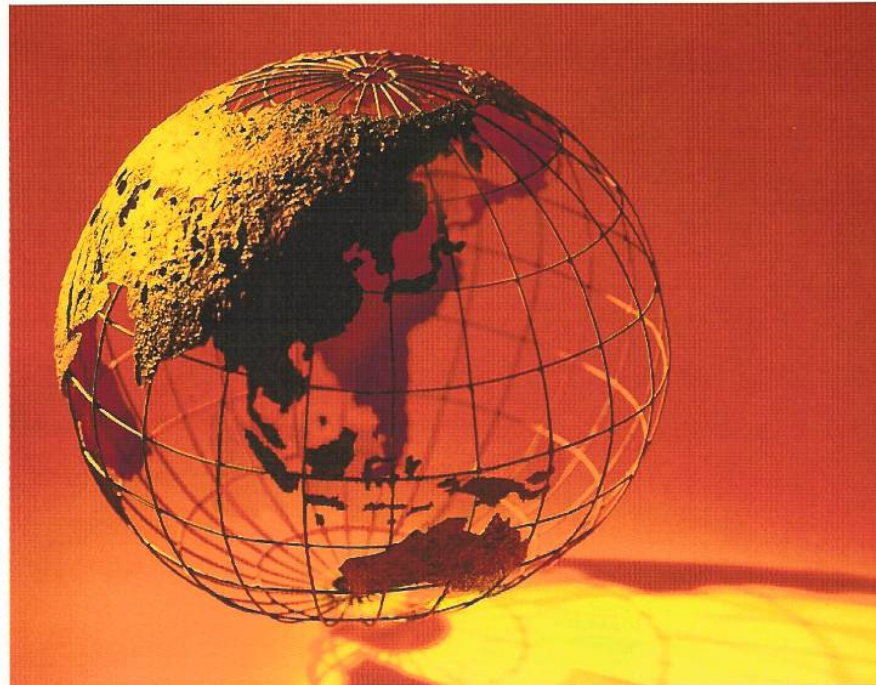
International Valuation Standards (IVSs)

Mineral Valuation Standards

- 2005, the Seventh Edition of the IVSs contains mineral and petroleum valuation standards
 - Published by the International Valuation Standards Committee (IVSC)
- Designed for worldwide use
- Based on comprehensive Generally Accepted Valuation Principles (GAVP)
- 2007, the Eight Edition, 462 pages



International Valuation Standards Eighth Edition 2007



International
Valuation Standards
Committee

Current Status of Technical Paper Development

- Reviewed by the leader of the International Accounting Standards Board's Extractive Activities Project Team
 - Recommendations incorporated
- Reviewed twice by the full Standards Board of the IVSC during 2007
 - Approved for public exposure subject to further editing

Current Status of Technical Paper Development

- Extractive Industries Expert Group in dispute with IVSC Standards Board involving foundation principles of the market valuation standards
- The entire IVSC is presently dissolved and being restructured
- New Standards Board to be in place in May
- Expert Group awaits the new Board's schedule

Development History

- June 2003: IVSC Chairman requested the Extractive Industries Expert Group to draft a Technical Paper to supplement the extractive industries standards we were drafting.
- September 2003: We began planning the purpose and type of content of the Technical Paper
- October 2003: Standards Board cancelled a previously requested addendum to the extractive industries standards. Much of the content is to be moved into the Technical Paper.

Development History

- September 2004: Outline for the Technical Paper completed. Support to progress with drafting received from IVSC.
- December 2004: Began drafting of text.
- February 2005: The extractive industries standard was published in the IVS Seventh Edition as Guidance Note 14
 - Development began September 2002.
- *March 2005: The first IVSC Technical Paper was published, *Mass Appraisal for Property Taxation*.*
- The full Standards Board reviewed the extractive industries paper April and November 2007, each time requesting edits.

IVSC Extractive Industries Expert Group

- All volunteer (unpaid) members
 - Trevor Ellis, USA, Chairman
 - William Roscoe, Canada
 - Alastair Macfarlane, South Africa
 - Donald Warnken, USA
 - Raymond Westwood, Australia
- The same members as in June 2003 when the IVSC Chairman requested that the Group draft the paper.

Initial Fast-Track Development Plan

- The fast-track development schedule planned for publication in second half of 2005.
- A similar development schedule to that of the standards of the Extractive Industries Guidance Note (GN).
- For timely availability to the Extractive Activities Project Team of the International Accounting Standards Board (IASB).
 - Conducting research for the proposed content of the Extractive Activities International Financial Reporting Standard (IFRS).

Factors that Slowed Development

- IASB research schedule delayed a number of years
- The complexities of writing the Paper to meet a number of goals and changing expectations
- The Group members found it difficult to keep putting volunteer work ahead of plentiful, lucrative, extractive industries valuation work
 - We already did that for two previous IVSC projects

The Planned Content

- The Expert Group planned and drafted the Paper to fulfill the following primary purposes:
 - Provision of best practice guidelines to supplement the IVSs
 - Teach the fundamental valuation principles to interested extractive industry practitioners and users
 - Specify appropriate conduct and ethical principles for production of unbiased valuation reports
 - Provide information on appropriate sources of education and credentialing for extractive industries valuers
 - Advise the user about minerals and petroleum industry standards, practice, defined terms, and financial reporting requirements

Initial Scope of the Paper

- The Paper was to be limited in size to maintain its character as a paper providing best practice guidelines
 - Examples are rarely used. No illustrations, tables, example calculations, or data are included.
 - The drafting through to its completion in March 2007 was directed to achieve all of these purposes.
 - The completed draft submitted to the Standards Board in April 2007 was approx 16,000 words.
 - Included an addendum on minerals and petroleum valuer education and qualifications.

Philosophical Difficulties Encountered

- Now 10 months since the completed draft was delivered to the Standards Board
- The Paper has undergone a number of rounds of editing by Standards Board members.
- The editing has now focused the document entirely on the first of the five listed purposes:
 - Provision of best practice guidelines to supplement the standards provided by the Extractive Industries GN.
- Deleting everything included for the other purposes that is not necessary for the first purpose.

Philosophical Difficulties Encountered

- Now 7 years since we first convened the IVSC Extractive Industries Expert Group.
- The IVSC has grown and matured:
 - Paralleled the growth and maturing of the IASB with the global adoption of the IFRSs.
- By June, the IVSC will have transformed its structure from a small, all-volunteer organization, into a well-funded organization, with full-time salaried management.

Philosophical Difficulties Encountered

- The structure and content of the entire IVS standards book is to be tightened.
- This growth, maturation, and transformation is reflected in the evolution of the strict opinion of the Standards Board on the limited purpose and content of the Technical Paper.
- At the time we planned the Paper, the IVSC had no defined structure or guidelines for a Technical Paper.

Fundamental Issues Encountered

- The Expert Group has taken a stand pertaining to the fundamental economic principles for classification of valuation methods within the three valuation approaches.
- Viewed by the Group as a critical issue for valuations of mineral and petroleum properties.
- Settlement of this dispute must await consideration by the incoming Standards Board

Finalization of the Technical Paper

- The dispute must be settled with the new Standards Board
- The restructured purpose and content requirements must be approved by the new Board.
- The exposure draft of the Paper should then be released for public comment.
- Comments received will be reviewed by the Expert Group for possible integration into the Technical Paper.
- The revised Paper will then be reviewed by the Standards Board. The Paper should then go to the IVSC editor and operating management for publication.