

The International Valuation and Financial Reporting Standards

– Their Content and Effect on Us

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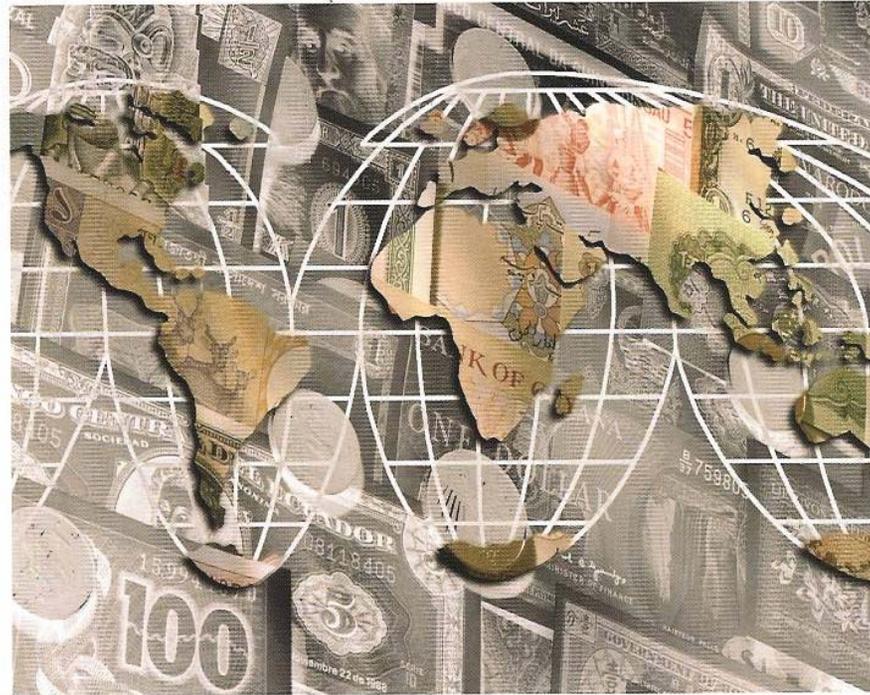


www.minevaluation.com

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International Valuation Standards Seventh Edition

2005



International
Valuation Standards
Committee



NEWS ALERT

FOR IMMEDIATE RELEASE (9 February 2005)

‘IVSC publishes 2005 Edition of International Valuation Standards’

The IVSC has today published the seventh edition of the International Valuation Standards – IVS 2005.

For the first time the International Valuation Standards include specific standards addressing the valuation of assets of the minerals and petroleum industries. The new Guidance Note containing those standards is *Valuation of Properties in the Extractive Industries*. This guidance was developed by an expert group representing Australia, Canada, South Africa and USA. During the development, the expert group received global input from interested bodies and individuals, and maintained frequent interaction with the leadership of the Extractive Industries Project Team of the International Accounting Standards Board (IASB). The IASB's Project Team, which

*But, what does this
mean to us
explorers?*



Why were these standards developed?

What are they?

How will they be implemented?

How could this be important to us?

Uniform Standards Needed Globally

- Classification of Resources and Reserves
 - Which classification system?
 - CRIRSCO-based classifications for minerals
 - UNFC for minerals and petroleum
 - WPC-SPE-AAPG classification for petroleum
- Valuation of Resources, Reserves and other assets
 - International Valuation Standards (IVS)
- Financial Reporting to Stock Markets
 - International Financial Reporting Standards (IFRSs)

Who Wants Uniform Global Standards?

- Companies
- Investors
- Lenders
- Regulators

Need for a Global Extractive Industries Valuation Standard

- Minerals and petroleum companies work internationally
- Minerals and petroleum valuers work internationally
- Companies report internationally to:
 - Securities markets
 - Investors
 - Lenders
- Investors and lenders compare projects internationally
- 190+ countries need standards
- Required to support current value accounting for the extractive industries in the IFRS

Other Valuation Standards

- USA's USPAP
 - Does not address minerals and petroleum valuation
- Canada's CIMVAL
 - Valuation of the real property component of mineral property assets
- Australian VALMIN
 - Instructions primarily for conducting technical assessments of minerals and petroleum properties

International Valuation Standards – 2003 Structure

International Valuation Standards Committee
Structure of Standards, Applications, Guidance Notes, and Commentary

FUNDAMENTALS

HISTORY, INTRODUCTION, CONSTITUTION, ORGANIZATION AND FORMAT OF STANDARDS
GENERAL VALUATION CONCEPTS AND PRINCIPLES

CODE OF CONDUCT

PROPERTY TYPES

REAL PROPERTY

PERSONAL PROPERTY

BUSINESSES

FINANCIAL INTERESTS

VALUE TYPES

MARKET VALUE

OTHER THAN MARKET VALUE

STANDARDS

STANDARD 1
MARKET VALUE VALUATIONS

STANDARD 2
NON-MARKET VALUE VALUATIONS

SEE NON-MARKET VALUE CHART

APPLICATIONS

VALUATION APPLICATION FOR FINANCIAL REPORTING

VALUATION APPLICATION FOR LENDING PURPOSES

GUIDANCE NOTES

REAL PROPERTY VALUATION

VALUATION OF LEASE INTERESTS

VALUATION OF PLANT AND EQUIPMENT

INTANGIBLE ASSETS

GOING-CONCERN (CONCEPT OF) VALUATION

BUSINESS VALUATION

CONSIDERATION OF HAZARDOUS AND TOXIC SUBSTANCES (IN VALUATION)

DEPRECIATED REPLACEMENT COST (DRC)

SPECIALIZED TRADING PROPERTIES**

COMMENTARY

INVESTMENT PROPERTIES

ADDENDA

GLOSSARY OF TERMS



**Note: These three Guidance Notes all reference specialized trading properties

- Fundamentals
- Code of Conduct
- Property Types
- Value Types
- Standards
- Applications
- Guidance Notes
- Commentary
- Addenda

International Financial Reporting Standards (IFRSs)

- As of 2005, most of the world is reporting under the IFRSs
 - Except USA, Canada and Japan
- USA and Canada collaborating on convergence of GAAP with IFRSs
- IASB is creating the “Gold Standard”
 - Incorporating the best instructions from the leading financial reporting standards of the world

INTERNATIONAL FINANCIAL REPORTING STANDARD

IFRS 6 Exploration for and Evaluation of Mineral Resources



Extractive Activities IFRS 6

- In effect in much of world Jan. 2006
- In effect in most of the remainder in Jan. 2007

Market Revaluation Under IFRSs

- Measurement of exploration and evaluation assets at only initial recognition must be at cost (IFRS 6).
- Upward revaluation of an exploration property to a market-based value then allowed, including value increase due to a discovery within the property.
- Impairment testing also through market-based value measurement.

*How will the Standards be
Implemented?*

IASB's Extractive Activities IFRS Stage 2 Project

- Classification of Resources and Reserves
 - Which classification system?
 - CRIRSCO-based classifications for minerals
 - UNFC for minerals and petroleum
 - WPC-SPE-AAPG classification for petroleum
- Valuation of Resources, Reserves, and other assets
 - Changes could be made
 - Should fair value reporting be allowed in the primary accounts?
- IVSC's continued monitoring and support needed

Implementation by Nations

- National securities regulators must develop appropriate regulations for full implementation of the IFRSs and IVS
- National and international minerals and petroleum institutes must pass implementing resolutions and write supporting regional guidelines
- Explosive need for us to monitor, write submissions, and provide support

Valuer/Appraiser Qualifications

- Who is qualified to develop and report market value estimates for Resources, Reserves, and mineral/petroleum property interests (rights)?
- Which body's certifications/licenses should be allowed and trusted?
 - Who decides?
- Abidance by Code of Conduct (Ethics) required
 - Sanctioning system needed for violations
- International reciprocity required to allow mobility of minerals/petroleum valuation experts
- For uniform implementation we must assist institutes, governments and regulatory bodies

Valuer Qualifications

- Potential severe shortage of qualified, competent, certified minerals/petroleum valuers
 - American Institute of Minerals Appraisers has only 37 Certified Members (minerals and petroleum)
 - Certified Members are required to apply the USA's standards or the International Valuation Standards
- Market Value estimates by others are often wrong by orders of magnitude
 - The IVS Extractive Industries GN, published Feb. 2005, will help

Valuer Education

- Urgent need for minerals valuation short courses and university courses
- Course instructors must be trained
- Minerals and petroleum valuation textbooks need to be written
- Sponsorship must be found for course and text development

Market Transaction Data

- Research for suitable sales/trades/leases of mineral and petroleum properties/tenements or rights can cost many thousands of dollars per valuation report
- No comprehensive commercial or publicly accessible database tracks minerals or petroleum property/rights sales/transactions globally, or even in the USA

Market Transaction Data

- Relevant market sales/transaction data is needed for a valuer to develop a good market value estimate for a subject property
- National and international private and public entities, including securities regulators, should consider sponsoring the development of a publicly accessible database that collects minerals and petroleum property/rights sales/transaction price information globally
 - A quasi-commercial venture for buying and selling data

Industry Funding Needed for IVSC Participation

- Appropriate IVSC representation at such high level international meetings is essential to global implementation of our standards.
- We must continue the work of convincing bodies such as IMF, OPEC, UNECE, US SEC, etc, of the benefits of adopting valuation by the IVS extractive industries standards
- We must work with them on the correct implementation along with appropriate reserve-resource classifications.

Industry Funding Needed for IVSC Participation

- Now is a uniquely ripe time. We don't know how long this rich window of opportunity will stay open for us.
- The IVSC extractive industries initiative has received no mining nor petroleum industry funding.
- The author can't afford to continue the personal financial drain from pursuing the standards initiative.
- We must find industry related sources to fund our participation at high level meetings and to support pursuit of other aspects of our initiative.

Current Status

- In March 2005, the author proposed a US\$10 million IVSC initiative to address these deficiencies and issues over 4 years.
- However, our preliminary research found no evidence that minerals and petroleum companies would provide financial or professional support.
- The author has cancelled the proposal. No substitute plan is being developed.

Implications for Us

- A growing shortage of competent, qualified minerals valuers/appraisers exists worldwide.
- Market-based impairment testing under the IFRSs will aggravate this shortage.
- There is little educational capability in the world available to address this shortage.
- The lack of industry supported corrective action could lead to the loss of many career opportunities as minerals valuers.

Implications for Us

- Market-based Fair Value reporting, with revaluation provisions for reserves-resources, will likely be introduced globally (including the USA) by the next extractive industries IFRS.
 - National implementations will likely involve poorly structured regulatory constraints.
- This will aggravate the shortage of competent minerals valuers.
- No global certification system for minerals valuers will exist.
- No publicly accessible global transaction database will exist.

Implications for Us

- Regulatory filings of poor quality valuation reports with inappropriate valuations will be the norm
- A global regulatory backlash is likely, through implementation of restrictive regulations
- This will damage funding of the minerals and petroleum industries for a generation
 - will hinder the correct allocation of limited financial resources to the most deserving properties
 - will hamper the careers of many professionals in exploration and project development