Philosophy and Application of the International Valuation Standards for Minerals and Petroleum

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- Conference CD-ROM
- *The Professional Geologist,* AIPG, Jan.-Feb. 2004
- www.mineevaluation.com
Paper’s Purpose

• December 2003, Exposure Draft of Extractive Industries addition to the International Valuation Standards (IVS) released
• Discuss content and purpose
Need for a Global Extractive Industries Valuation Standard

- Minerals and petroleum companies work internationally
- Minerals and petroleum valuers (appraisers) 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
What is the International Valuation Standards Committee?

- Formed 1981
- Publishes the International Valuation Standards (IVS)
  - For all asset types
  - For all purposes and uses
  - Translated into a number of languages
- Provides valuation standards support for *Current Value* financial reporting, particularly for IFRS
- 39 member states (countries)
- UN NGO working closely with World Bank, EU, BIS, OECD, IMF, WTO, Basel Banking Committee, etc.
- Funded entirely by industry (approx. US$800,000/yr)
- Standards adopted directly by many countries
What are the International Valuation Standards (IVS)?

- 2003 Edition 500 pages
- Contains:
  - General Valuation Concepts and Principles
  - Code of Conduct
  - Instructions for the four Property Types:
    - Real Property, Personal Property, Businesses, Financial Interests (Intangibles)
  - Market and Non-Market Standards
  - Valuation instructions for Financial Reporting (IFRS) and Lending use
  - 11 Guidance Note specialty standards
  - Glossary (110 pages)
Non-Market Value Components

**Non-Market Value**

- **Value in Use**
  - Assessed, Rateable, or Taxable Value
- **Investment Value or Worth**
- **Going-Concern Value**
- **Insurable Value**
  - Salvage Value
  - Liquidation or Forced Sale Value
  - Special Value
  - Marriage Value
IVSC Extractive Industries Task Force

• Task Force convened Feb. 2001
  – To provide support to IASB’s Extractive Industries project through:
    • Submissions
    • Direct Consultation
    • Publishing Extractive Industries standard in IVS

• Members - global minerals and petroleum valuation standards leaders

• All volunteer
IVSC Task Force – IASB Standards Development

• May 2001, comprehensive submission to IASB regarding its extractive industries project.
• Q2 2002, IASB farmed out its Extractive Industries project to standards setters of Australia (lead), South Africa, Norway and Canada.
• 2002-2003, IVSC dialogue with IASB and its extractive industries standards developers.
• Jan. 2004, Draft IFRS for exploration and evaluation assets contains revaluation (fair value) provision for prospects, exploration work and data.
• Task Force’s development proposal (content and fast track schedule) approved by IVSC Board in September 2002.

• First Draft critiqued by IVSC’s Standards Board in Cape Town, South Africa, March 2003.

• Second Draft critiqued by IVSC’s Standards and Management Boards in Hong Kong, October 2003.
IVS Extractive Industries Guidance
Note drafting 2002-2004


• Finalized standard scheduled for publication in June 2004.

• The difficult, fast track schedule needed to support IASB’s extractive industries project.
IVS Extractive Industries
Guidance Note - Philosophy

• Valuation concepts and principles for our minerals and petroleum industries are not unique.
• Valuations for our industries belong under the same enormous tent of the Generally Accepted Valuation Principles.
Generally Accepted Valuation Principles

• 4 Property Types:
  – Real Property
  – Personal Property
  – Business
  – Financial Interests

• Land:
  – Mineral deposits are part of it
    * The Minerals Estate is Real Estate
    * An interest in the Minerals Estate is Real Property
Generally Accepted Valuation Principles

• Market Value:
  – Derived from, or supported by, market information.
  – Based on highest and best use:
    • The most probable use which is physically possible, appropriately justified, legally permissible, and financially feasible, resulting in highest value.
  – Three approaches to value:
    • Sales Comparison Approach
    • Income (Capitalisation) Approach
    • Cost Approach
  – Approaches have valuation methods within.
  – Final value estimate from weighing and reconciliation.
Content of IVS
Extractive Industries GN

• Relies on existing IVS valuation framework
  – Little duplication necessary

• Designed for all minerals and petroleum appraisal purposes, including financial reporting
  – Supplemental instructions specific to IFRS

• Non-Prescriptive guidance
  – Provides principles, concepts, general direction, goals
  – Expect and Require good judgment, honesty, professionalism
Structure of the Standards Document

**Fundamentals**
- History
- Introduction
- Constitution
- Organisation and Format of Standards
- General Valuation Concepts and Principles
- Code of Conduct

**Property Types**
- Real Property
- Personal Property
- Businesses
- Financial Interests
- Market Value
- Other Than Market Value
- Communicating the Valuation

**Standards**
- Standard 1: Market Value Valuations
- Standard 2: Non-Market Value Valuations
- See Non-Market Valuation Chart
- Standard 3: Valuation Reporting

**Applications**
- Valuation Application for Financial Reporting
- Valuation Application for Lending Purposes

**Guidance Notes**
- Valuation of Real Property
- Valuation of Lease Interests
- Valuation of Plant and Equipment
- Valuation of Intangible Assets
- Valuation of Personal Property
- Business Valuation
- Consideration of Hazardous and Toxic Substances in Valuation
- Depreciated Replacement Cost (DRC)
- Discounted Cash Flow Analysis
- Valuation of Agricultural Properties
- Reviewing Valuations

**White Paper**
- Valuation in Emerging Markets

**Addenda**
- Glossary of Terms
1. Introduction
   - Differences or special features of the minerals and petroleum industries
     • Mineral and Petroleum properties are valued primarily based on Reserves/Resources or the potential for discovery of Resources.
     • Exploration is a high risk activity

2. Scope
   - What the standard covers and its relation to other portions of IVS
3. Definitions
   - Reserves and Resources based on:
     • For minerals based on CRIRSCO definitions
     • For petroleum based on SPE-WPC-AAPG definitions

4. Relationship to Accounting Standards
Extractive Industries GN Content

5. Guidance

– Valuation Concepts

– Competence and Impartiality
  • “…. the must Valuer have competence relevant to the subject asset or interest, or retain the assistance of (an) appropriately skilled Technical Expert(s).”

– Special Considerations of Extractive Industries Valuations

– Disclosure in Extractive Industries Valuation Reports
  • Qualifications and experience
  • Relevant industry standards
  • Supporting information – Technical Assessments, maps, etc.
What’s Next?

• Technical Paper for IVSC website
• Implementation
• Enforcement?
• Extractive Industries Valuer (Appraiser) qualifications?
• Education and continuing education requirements?