

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

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Extractive Industries Task Force

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

Paper available:

- Conference CD-ROM
- *The Professional Geologist*,  
AIPG, Jan.-Feb. 2004
- [www.minevaluation.com](http://www.minevaluation.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



# International Valuation Standards Sixth Edition 2003



International  
Valuation Standards  
Committee

# 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)





# 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  
VALUE  
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

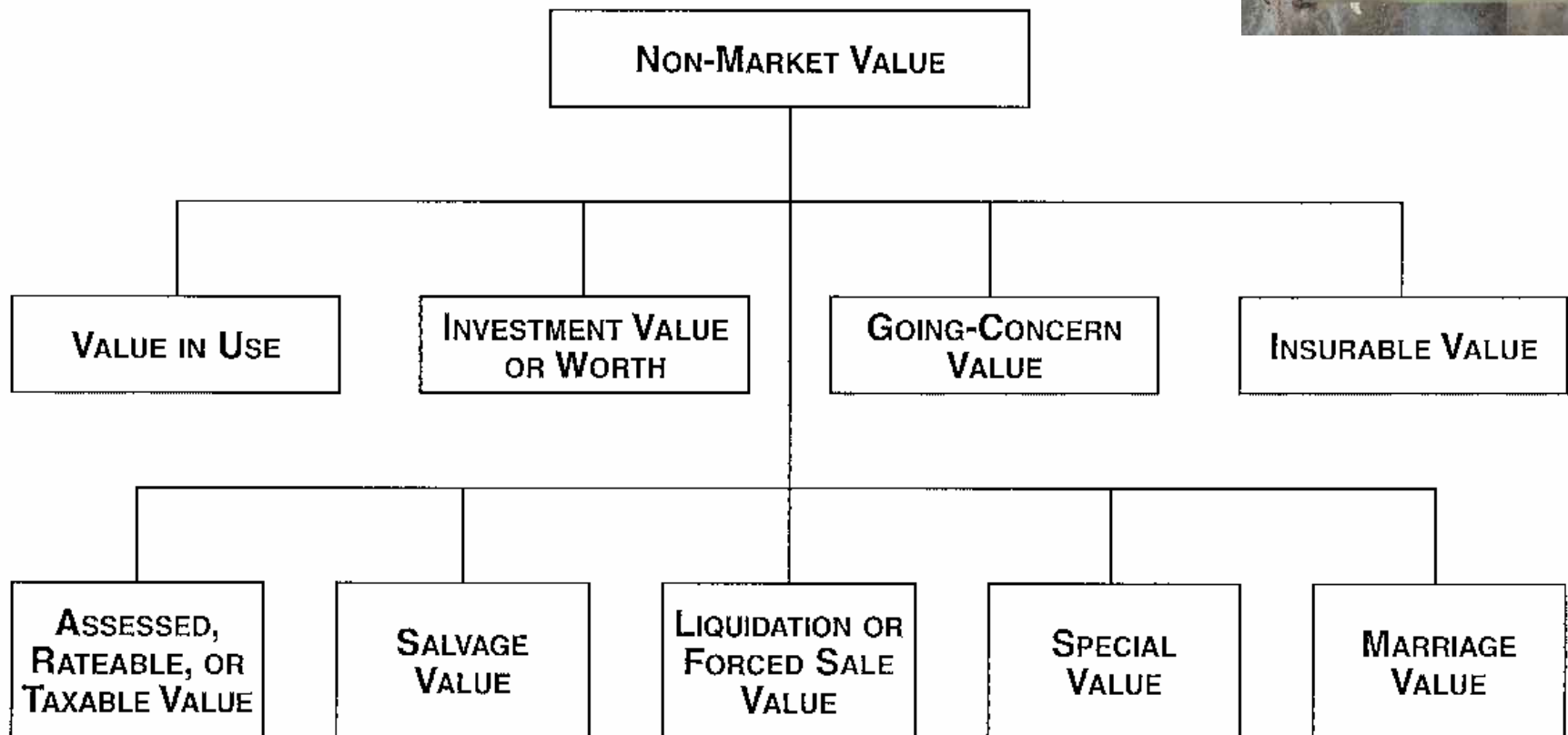
## ADDENDA

GLOSSARY  
OF TERMS



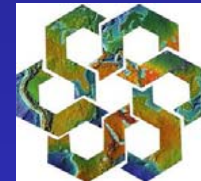


# Non-Market Value Components



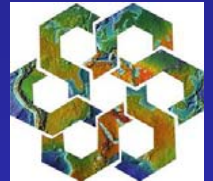
# IVSC Extractive Industries Task Force

- 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.



# IVS Extractive Industries Guidance

## Note drafting 2002-2004

- 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

- Exposure Draft released to public December 2003 ([www.ivsc.org](http://www.ivsc.org)). Comments deadline 31 March 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

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# Extractive Industries GN Content

## 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

# Extractive Industries GN Content

## 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?