History and Future of Minerals and Petroleum Valuation Standards Development Internationally

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Valuation I Session, SME 2004 Annual Meeting, Denver
Minerals Valuation Standards

Development Initiatives

• Early 1990s – Royal Institute of Charted Surveyors’ *Red Book* incorporates a Wasting Asset Practice Statement encompassing mines.

• 1995 – Australian VALMIN Code. Enforceable on AusIMM members for financial reporting. Introduces important fundamental principles.

• 1998 – petroleum added to VALMIN Code.
Minerals Valuation Standards Development Initiatives

- 1999 – AIMA modifies VALMIN for USA use. Violates generally accepted valuation principles (USPAP and IVS). Set aside for research and to participate in international coordination.

- 1999 – Canadian Mining Standards Task Force of TSE-OSC recommends that CIM form a valuation committee.

- 2002 – South African SAMVal Code drafted. Designed to integrate with IVS and IFRS.
Minerals Valuation Standards Development Initiatives

- 2003 – Canadian CIMVal Standard introduced. Designed to integrate with IVS.
- 2003 – AIMA begins new standards initiative to support IVS and USPAP.
MINING and PETROLEUM VALUATION 1989
SHERATON WENTWORTH HOTEL
SYDNEY, AUSTRALIA
4-5 September, 1989
The Australasian Institute of Mining and Metallurgy

MAJOR SPONSOR: COUNTY NATWEST AUSTRALIA CORPORATE SERVICES LIMITED
MINERAL VALUATION METHODOLOGIES 1994

Sydney, Australia
27 - 28 October 1994

The Australasian Institute of Mining and Metallurgy
Mineral Industry Consultants Association

Major Sponsor

QRFC

RESOURCE FINANCE CORPORATION LTD
Mineral Property Valuation Proceedings

Papers presented at Mining Millennium 2000

At a joint meeting of the Canadian Institute of Mining, Metallurgy and Petroleum (CIM)

and the Prospectors and Developers Association of Canada;

During a Symposium organized by the CIM Valuation Committee.

March 8, 2000

Toronto, Ontario

Canada

Co-Chairs:
Keith N. Spence B.Sc. (Hons), MBA

Published by the Canadian Institute of Mining, Metallurgy and Petroleum
MINERAL ASSET VALUATION ISSUES
FOR THE NEXT MILLENIUM 2001

Sydney, Australia
25-26 October 2001

Organised by the
Mineral Industry Consultants Association
COLLOQUIUM

VALUATION OF MINERAL PROJECTS AND PROPERTIES: AN AFRICAN PERSPECTIVE

19-20 March 2002

MINTEK, RANDBURG
2000 SME ANNUAL MEETING & EXHIBIT

February 28 – March 1
Salt Lake City, Utah
MINERALS APPRAISAL SYMPOSIUM
Denver, Colorado
October 1-3, 2003

Being Presented by
the Sponsoring Organizations of
The Centre for Advanced Property Economics

We would also like to recognize
the following co-hosting organizations
Perspectives on The Fair Market Value of Oil and Gas Interests

SOCIETY OF PETROLEUM EVALUATION ENGINEERS

D. R. (Russ) Long
Editor / Committee Chairman
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
<table>
<thead>
<tr>
<th>Designed Uses</th>
<th>VALMIN</th>
<th>CIMVAL</th>
<th>SAMVAL</th>
<th>USMinVal</th>
<th>IVS</th>
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<tbody>
<tr>
<td>Designed Uses</td>
<td>Financial reporting</td>
<td>Primarily financial reporting</td>
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<td>Financial reporting</td>
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<td>Value Types</td>
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<td>Business</td>
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<td>Yes</td>
<td>Yes</td>
<td>No</td>
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<td>Three valuation approaches</td>
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<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
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<tr>
<td>Can integrate with IVS</td>
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<td>Yes</td>
<td>Draws from IVS</td>
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</tr>
<tr>
<td>Designed for IFRS reporting</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
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</table>
The Future

- International Financial Reporting Standards
  - North American *convergence* schedule?
  - Reporting Reserves and Resources
  - Current value reporting for extractive industries?
- IVS globalization?
- National level standards
- Minerals Valuer (Appraiser) qualifications
- Minerals Valuer Education
International Financial Reporting Standards (IFRS)

- March 2001, IASB (under US pressure) replaced the IAS global Harmonisation project with the IFRS global Convergence project
- Creating the “Gold Standard”
  - Taking best instructions from leading nations’ accounting standards and IAS
  - Country representatives working one-on-one
- Non-prescriptive standards
- Increased emphasis after Enron’s US$60+ billion collapse and other massive financial reporting fiascos
International Financial Reporting Standards (IFRS)

• As of 2005, most of the world reports under the IFRS
  – Except, USA and Canada
• Oct. 2002, FASB (US) and IASB sign *convergence* agreement to accelerate the project
• Canada and USA collaborating on convergence of GAAP with IFRS
• Canada and USA collaborating on fair value measurement project. Tentative decisions closely match IFRS:
  – Rely on market derived value from three approaches
  – Provision for *Continuing Use Value*
IFRS – Extractive Industries

- Jan. 2004, Draft IFRS for exploration and evaluation assets released
  - In force late 2004
  - Contains revaluation (fair value) provision for prospects, exploration work and data
- Standards for reporting minerals and petroleum deposit value yet to be developed
  - What quantitative measurement standards?
  - Will fair value reporting be allowed?
    - For Reserves? For Resources?
    - In the primary accounts?
- Does the IASB have confidence in our work quality?
  - More importantly, the petroleum industry’s work quality?
IVS Globalization

- IFRSs rely on IVS for value determination
- Nov. 2003 - World Association of Valuation Organizations (WAVO) to undertake promulgation of IVS through its 17 members
  - The major North American appraisal societies are members
- Appraisal Standards Board (US) is under pressure to “converge” USPAP with IVS
The Future

• National minerals and petroleum valuation standards should only supplement IVS
• The major minerals and petroleum institutes should provide supplementary valuation instructions in technical documents
• The petroleum industry urgently needs Reserve-Resource reporting standards
The Future

• The World Association of Valuation Organizations and IVSC are working on harmonization of qualifications, competencies and compliance of valuers.
• The minerals and petroleum industries must catch up
  – Valuer Certifications such as AIMA’s need globally
  – Strong sanction mechanisms needed
The Future

• Courses must be developed for teaching minerals and petroleum valuation, based on the GAVP.
• Instructors must be groomed.
• Continuing education requirements for minerals and petroleum valuers must be developed.