

*Securing Investments through Appropriate Financial
Reporting
– Application of IVSC and IASB Standards*

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Presentation to First Session of
UNECE Ad Hoc Group of Experts on Supply of Fossil Fuels
Geneva - 10-11 November 2004



Uniform Standards Needed Globally

- Classification of Resources and Reserves
 - Which classification system?
 - UNFC for minerals and petroleum
 - CRIRSCO-based classifications for minerals
 - 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)



Uniform Standards -- Why Needed Globally

- Globalisation
 - International comparisons, reliance and transactions
- International operations by companies
- International investment
- International securities selling and trading
- International lending
- International banking
- International insurance
- International aid programs
- International consulting and worker mobility



Who Wants Uniform Global Standards?

- Companies
- Investors
- Lenders
- Regulators



Who Does Not Want Uniform Global Standards?

- Those scared of change
- Those who benefit from the inefficiencies of artificial barriers



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



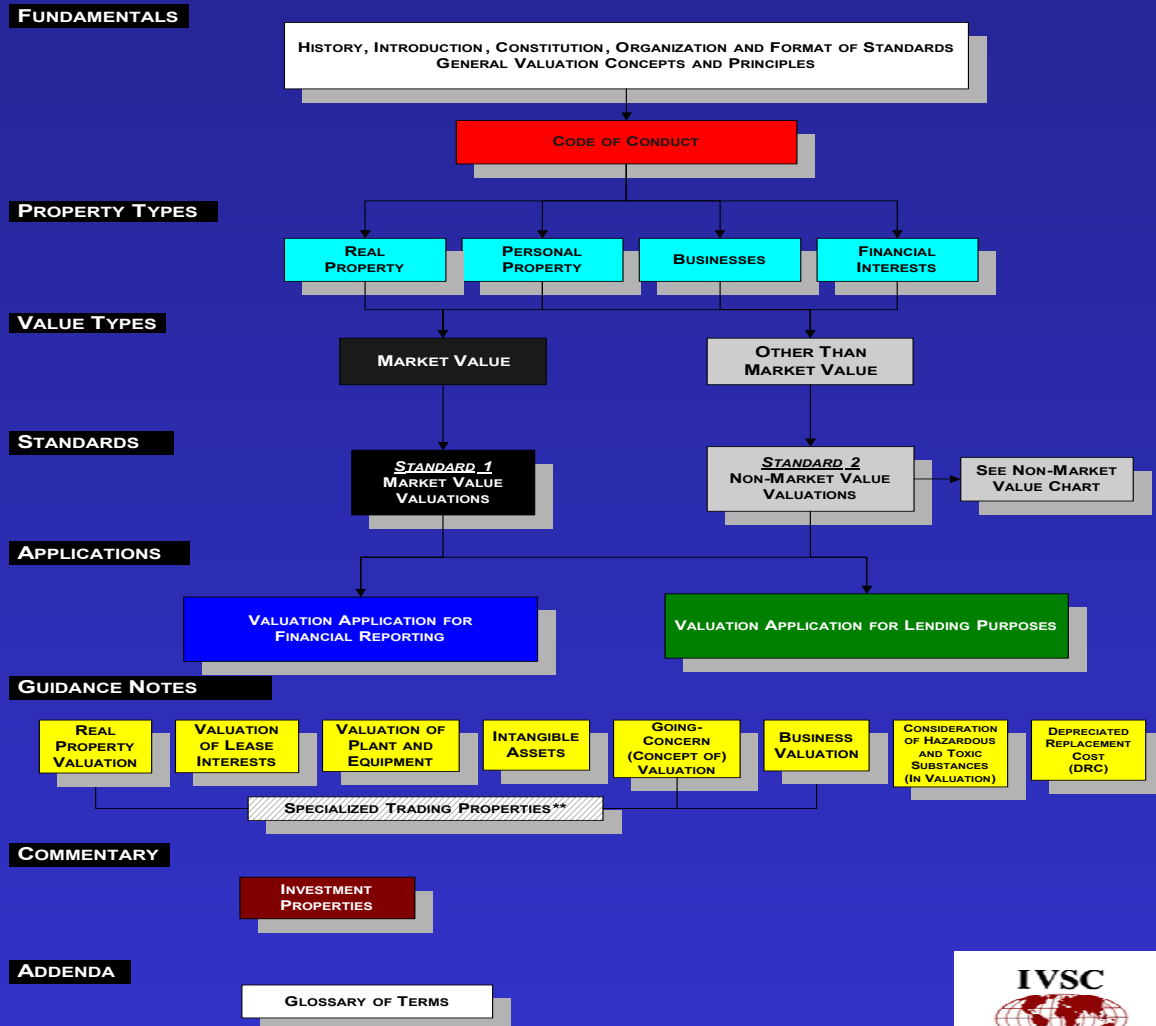
International Valuation Standards Sixth Edition 2003



International Valuation Standards – 2003 Structure

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

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



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



2004

International Financial Reporting Standards (IFRSs™)

including International Accounting Standards (IASs™)
and Interpretations as at 31 March 2004

Armenia
Aruba Austria Azerbaijan
Bahamas Bahrain Barbados
Bangladesh Belgium Bermuda Bolivia
Bosnia and Herzegovina TRANSPARENCY
INVESTMENT CONVERGENCE PARTNERSHIP
LEADERSHIP MARKETS Botswana Brazil Darussalam
Bulgaria Cayman Islands China Costa Rica Croatia
Cyprus Czech Republic Denmark Dominica Dominican
Republic Ecuador Egypt El Salvador Estonia Finland
TRANSPARENCY INVESTMENT CONVERGENCE
LEADERSHIP MARKETS France Germany Georgia Gibraltar Greece
Guatemala Guyana Haiti Honduras Hungary Iceland Ireland Italy
Jamaica Jordan Kenya Kuwait Kyrgyzstan Laos Latvia Lebanon
Liechtenstein Lesotho Lithuania Luxembourg Macedonia Malawi Malta
Mauritius Myanmar Namibia Netherlands Netherlands Antilles Nepal New
Zealand Nicaragua Norway Oman Panama Papua New Guinea Peru Poland
Portugal Romania Russian Federation Serbia and Montenegro
TRANSPARENCY INVESTMENT CONVERGENCE PARTNERSHIP LEADERSHIP
MARKETS Slovenia Slovak Republic South Africa Spain Sweden Swaziland
Switzerland Tajikistan Tanzania Trinidad and Tobago Turkey Uganda Ukraine
United Arab Emirates United Kingdom Zambia Zimbabwe TRANSPARENCY
INVESTMENT CONVERGENCE PARTNERSHIP LEADERSHIP MARKETS
TRANSPARENCY Armenia Aruba Austria Australia Bahamas Barbados
Bangladesh Belgium Bermuda Bolivia Bosnia and Herzegovina INVESTMENT
CONVERGENCE PARTNERSHIP LEADERSHIP MARKETS Botswana Brazil
Darussalam Bulgaria Cayman Islands China Costa Rica Croatia Cyprus Czech
Republic Denmark Dominica Dominican Republic Ecuador Egypt El Salvador
Estonia Finland TRANSPARENCY INVESTMENT CONVERGENCE PARTNERSHIP
LEADERSHIP MARKETS France Germany Georgia Gibraltar Greece
Guatemala Guyana Haiti Honduras Hungary Iceland Ireland Italy Jamaica
Jordan Kenya Kuwait Kyrgyzstan Laos Latvia Lebanon Liechtenstein
Lesotho Lithuania Luxembourg Macedonia Malawi Malta Mauritius
Myanmar Namibia Netherlands Netherlands Antilles TRANSPARENCY
INVESTMENT CONVERGENCE PARTNERSHIP LEADERSHIP MARKETS
Nepal New Zealand Nicaragua Norway Oman Panama Papua New
Guinea Peru Poland Portugal Romania Russian Federation
Serbia and Montenegro TRANSPARENCY INVESTMENT
CONVERGENCE PARTNERSHIP LEADERSHIP MARKETS
Slovenia Slovak Republic South Africa Spain Sweden
Swaziland Switzerland Tajikistan TRANSPARENCY
INVESTMENT CONVERGENCE PARTNERSHIP
LEADERSHIP MARKETS Tanzania
Trinidad and Tobago Turkey Uganda
Ukraine United Arab Emirates
United Kingdom Zambia
Zimbabwe

Get Ready for 2005
with IFRSs & IASs



International
Accounting Standards
Board®



Need for International Financial Reporting Standards

- So that companies can report their financial statements to many stock markets without adjustments
- So that investors can easily compare financial statements of companies on different stock markets



International Financial Reporting Standards (IFRSs)

- As of 2005, most of the world reports under the IFRSs
 - Except, USA and Canada
- 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
- Non-prescriptive standards



Extractive Activities IFRS

- Nov. 2004, IFRS 6 for exploration and evaluation assets published
 - In effect in much of world Jan. 2005
 - In effect in most of the remainder in Jan. 2007
 - Contains revaluation (fair value) provision for exploration properties
 - Upward revaluation not allowed for exploration results



Extractive Activities IFRS – Stage 2 Project

- To develop standards for reporting minerals and petroleum production activities
- To develop standards for quantitative reporting of reserves and resources
 - What classification system(s) will be used?
 - Consider including standards for fair value reporting of Reserves and Resources
 - For Reserves? For Resources?
 - In the primary accounts?



Securing Investments Through IFRS Reporting

- Globalisation of IFRSs aids uniformity of competition for investment throughout the world
- Current value reporting for the minerals and petroleum industries will aid level competition among industries for financing
 - Allowing reporting of current value of minerals and petroleum deposits will be very important
- Investor understanding of, and confidence in the information companies provide is needed



Securing Investments Through Loan Financing

- Lender understanding of, and confidence in the information received is needed
- Lenders want uniform global standards for Reserve and Resource classification and valuation
- Need confidence that company submissions abide by standards and the work is of high quality



Securing Investments

– Resource Estimator Qualifications

- Who is qualified to report Resource and Reserve quantitative and qualitative estimates?
- Which body's certifications/licenses should be allowed and trusted?
 - Who decides?
- Abidance by Code of Conduct (Ethics) required
 - Sanctions required for violations
- International reciprocity required to allow mobility of resource estimation experts



Securing Investments

– Valuer 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



Securing Investments – 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 will help



Securing Investments – Valuer Education

- Only a few minerals and petroleum valuation short courses teach market valuation principles
 - No university programs
- No comprehensive textbook is available



Securing Investments – Valuer Education

- How can comprehensive minerals/petroleum valuer education be made available?
- Who is qualified to teach it?
- Continuing education courses are needed
- Securities regulators and the UN's Economic and Social Council should consider sponsoring the development of minerals/petroleum valuer education



Securing Investments

– 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



Securing Investments

– Market Transaction Data

- Relevant market sales/transaction data is needed for a valuer to develop a good market value estimate for a subject property
- Securities regulators and the UN's Economic and Social Council 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



Conclusions

- The extractive industries additions to the *International Valuation Standards* and *International Financial Reporting Standards* should improve the efficiency of securing financing for the minerals and petroleum industries
- Uniform professional certification requirements are needed worldwide for financial reporting



Conclusions

- Minerals/petroleum valuer education programs and needed globally to overcome a pending shortage of qualified professionals
- Development should be sponsored of a publicly accessible database that collects and sells minerals and petroleum property/rights sales/transaction price information globally.

