



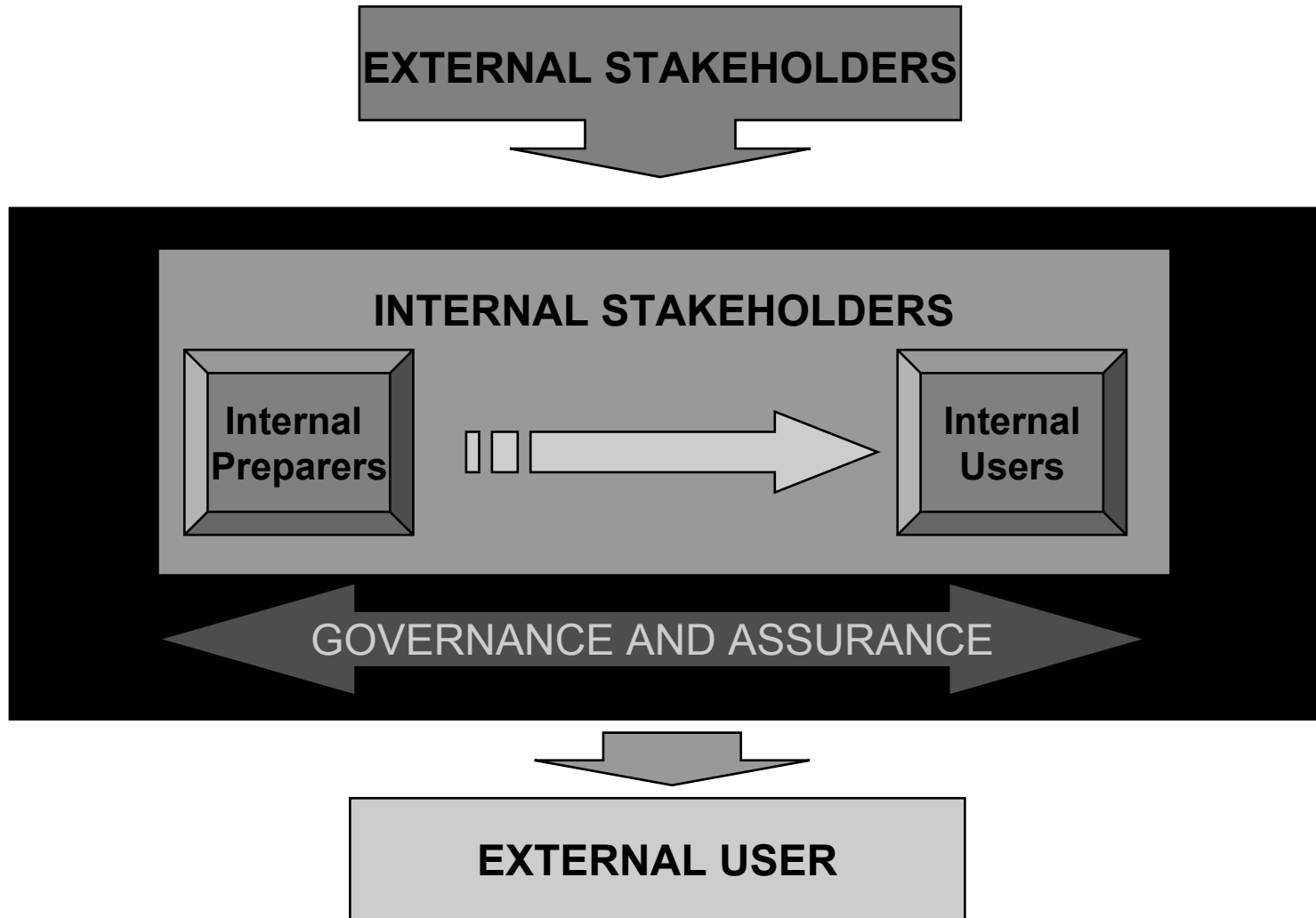
Recent Financial Reporting Developments

Ad Hoc Group of Experts on Harmonization of Fossil
Energy and Mineral Resources Terminology

25 March 2009

 **ERNST & YOUNG**
Quality In Everything We Do

Interaction of stakeholders



External stakeholders

Influencers

- ▶ Standard setting bodies (IASB, FASB, SEC etc)

Users

- ▶ Investor community
- ▶ Lenders
- ▶ Competitors
- ▶ M&A
- ▶ Government/ public interest bodies
- ▶ Technical consultants
- ▶ Accounting profession
- ▶ Interested public

User characteristics

A number of aspects of the nature of users were noted by recent Extractive Industries Project Team research

- ▶ Varied ability to command tailored financial reporting information
- ▶ Sophisticated users
 - ▶ Industry specialists
 - ▶ Use of information as inputs to own analysis using own assumptions
 - ▶ Use of full range of value relevant information
- ▶ Less sophisticated users
 - ▶ Greater reliance on financial statements
- ▶ Information needs vary with the nature of activity

How does an investor obtain information on which to make investment decisions?

- ▶ Financial statements, interim results, prospectuses (including reserves disclosures and management commentary)
- ▶ Analysts reports
- ▶ Management statements, press releases, web sites
- ▶ Site visits
- ▶ Quality of management, track record and overall reputation
- ▶ Comparable company and sector issues
- ▶ Long term forecasts and projections
- ▶ Company performance measures
- ▶ Market protection and regulation

To what degree is there consistency (O&G)?

	SEC/ US GAAP (current)	Canada	UK SORP	IFRS
Reserves volumes disclosure	Proved	Proved, probable, (possible)	Proved or proven and probable	No guidance
Pricing assumptions	Period-end price	Constant & forecast price	Management view	No guidance
NPV disclosure?	10% disc. rate, period-end price	10% disc. rate, constant price 5%,10%,15%,20%, forecast price	No	No guidance
Additional information?	Including: <ul style="list-style-type: none"> ▶ Capitalised costs ▶ Costs incurred ▶ Results of ops ▶ Suspended wells ▶ Operational & statistical info 	Including: <ul style="list-style-type: none"> ▶ Disclosure re new reserves ▶ Costs incurred ▶ Properties & wells ▶ Properties with no attributed costs 	Including: <ul style="list-style-type: none"> ▶ Capitalised costs ▶ Pre-production costs incurred ▶ Results of operations 	IFRS 6 – exploration and evaluation

To what degree is there consistency (Mining)

	SEC (IG -7)	Canada NI 43-101	IFRS	IFRS in Practice
Reserves volumes disclosure	Proved (Measured), probable (Indicated)	Proved and probable	No guidance	Proved and probable
Pricing assumptions	Historical prices – 3 year average.	Key assumptions, parameters, and methods to be disclosed	No guidance	Long term forecasts
NPV disclosure?	No	No guidance	No guidance	No
Additional information?	Including: <ul style="list-style-type: none"> ▶ Details and location of property ▶ Titles and licences ▶ Grade and tonnage calculations ▶ Resources not included 	Including: <ul style="list-style-type: none"> ▶ Disclosure re resources ▶ details of exploration properties ▶ Each category of reserve and resource reported separately 	IFRS 6 – exploration and evaluation	Including <ul style="list-style-type: none"> ▶ Resources (measured, indicated, and inferred)

Net assets and market capitalisation (O&G)

	Net Assets 31 December 2008 \$m	Market Capitalisation 3 March 2009 \$m
Total	69,433	102,961*
Shell	128,866	118,564***
Chevron	86,649	115,723

Sources: Market Capitalisation – Thomson Datastream, Net Assets – Company reports

* Converted to U dollars at the rate of 1 Euro = 1.256 USD

** Converted to US dollars at the rate of 1 GBP = 1.404 USD

*** Shell's B shares converted to US dollars at the rate of 1 GBP = 1.404

USD and Shell's A listed shares converted to US Dollars at the rate of 1

EURO = 1.256 USD

Net assets and market capitalisation (Mining)

	Net Assets 31 December 2008 \$m	Market Capitalisation 19 March 2009 \$m
Anglo American	21,756	23,410
Rio Tinto	22,461	43,216*
Barrick Gold	15,459	29,279

Sources: Market capitalisation – Thomson Datastream; Net Assets – Company reports.

*Consolidated market capitalisation of PLC and LTD companies

U.S. Industry Guide 7

- ▶ Defines Reserves (Proven – Measured and Probable – Indicated)
- ▶ Defines 3 stages of mining (exploration, development, production)
- ▶ Information required for each property includes:
 - ▶ Location and access (and details of license or title)
 - ▶ Work being completed on the property
 - ▶ Mineralization including proven and probable reserves
 - ▶ Details of grade and tonnage to be calculated
- ▶ Not compatible with other reporting standards (does not address resources)

Canada NI 43-101

- ▶ Disclosure must use the categories of reserves or resources (as defined)
 - ▶ Details of quantity and grade (or quality) of each category
- ▶ Must be based on information prepared/supervised by a “qualified person”
- ▶ Rules for disclosure of material exploration information
- ▶ Requirement to file a technical report on each material property (may require independent expert)- not just reserve or resource statements
- ▶ Technical report needed for key milestones, either on the project or at the Company (ie, offering documents)

U.S. Disclosure Example

Reserves owned by Newmont as of December 31, 2008 and 2007.

Deposits/Districts	Newmont Share	December 31, 2008									Metallurgical Recovery ⁽³⁾
		Proven Reserves			Probable Reserves			Proven and Probable Reserves			
		Tonnage ⁽²⁾ (000)	Grade (oz/ton)	Ounces ⁽³⁾ (000)	Tonnage ⁽²⁾ (000)	Grade (oz/ton)	Ounces ⁽³⁾ (000)	Tonnage ⁽²⁾ (000)	Grade (oz/ton)	Ounces ⁽³⁾ (000)	
Nevada⁽⁴⁾											
Carlin Open Pit ⁽⁵⁾	100%	12,000	0.072	860	190,400	0.043	8,190	202,400	0.045	9,050	74%
Carlin Underground	100%	1,700	0.256	430	10,000	0.322	3,220	11,700	0.313	3,650	89%
Midas ⁽⁶⁾	100%	600	0.498	280	300	0.332	110	900	0.436	390	95%
Phoenix ⁽⁷⁾	100%	—	—	—	299,800	0.021	6,310	299,800	0.021	6,310	72%
Turquoise Ridge ⁽⁸⁾	25%	1,900	0.507	970	700	0.483	360	2,600	0.500	1,330	92%
Twin Creeks	100%	9,200	0.098	900	42,500	0.072	3,060	51,700	0.077	3,960	80%
Nevada In-Process ⁽⁹⁾	100%	36,000	0.026	940	—	—	—	36,000	0.026	940	66%
Nevada Stockpiles ⁽¹⁰⁾	100%	32,000	0.075	2,400	2,200	0.030	60	34,200	0.072	2,460	78%
		<u>93,400</u>	<u>0.073</u>	<u>6,780</u>	<u>545,900</u>	<u>0.039</u>	<u>21,310</u>	<u>639,300</u>	<u>0.044</u>	<u>28,090</u>	
Yanacocha, Peru											
Conga ⁽¹¹⁾	51.35%	—	—	—	317,200	0.019	6,080	317,200	0.019	6,080	79%
Yanacocha In-Process ⁽⁹⁾⁽¹²⁾	51.35%	20,800	0.026	530	—	—	—	20,800	0.026	530	74%
Yanacocha Open Pits ⁽¹²⁾	51.35%	19,200	0.023	430	188,300	0.030	5,720	207,500	0.030	6,150	69%
		<u>40,000</u>	<u>0.024</u>	<u>960</u>	<u>505,500</u>	<u>0.023</u>	<u>11,800</u>	<u>545,500</u>	<u>0.023</u>	<u>12,760</u>	74%
Australia/New Zealand											

From Newmont Mining Corporation 2008 Annual Report

Canadian Disclosure Example

SUMMARY GOLD MINERAL RESERVES AND MINERAL RESOURCES ^(1,2)

For the year ended December 31, 2008

		2008			2007		
Based on attributable ounces		Tons (000s)	Grade (oz/ton)	Ounces (000s)	Tons (000s)	Grade (oz/ton)	Ounces (000s)
NORTH AMERICA							
Goldstrike Open Pit	(proven and probable)	86,254	0.119	10,294	94,914	0.128	12,194
	(mineral resource)	15,751	0.055	868	34,532	0.052	1,788
Goldstrike Underground	(proven and probable)	6,923	0.368	2,545	7,423	0.364	2,700
	(mineral resource)	4,467	0.323	1,444	4,129	0.329	1,359
Goldstrike Property Total	(proven and probable)	93,177	0.138	12,839	102,337	0.146	14,894
	(mineral resource)	20,218	0.114	2,312	38,661	0.081	3,147
Pueblo Viejo (60%)	(proven and probable)	147,946	0.091	13,440	129,125	0.095	12,258
	(mineral resource)	77,068	0.056	4,330	41,674	0.064	2,655
Cortez (100%) ⁽³⁾	(proven and probable)	222,125	0.060	13,384	86,457	0.080	6,884
	(mineral resource)	81,088	0.046	3,743	45,744	0.045	2,076
Bald Mountain	(proven and probable)	157,675	0.018	2,846	128,093	0.024	3,059
	(mineral resource)	90,374	0.019	1,718	36,493	0.024	861
Turquoise Ridge (75%)	(proven and probable)	7,961	0.501	3,985	8,429	0.458	3,858
	(mineral resource)	2,467	0.435	1,074	2,469	0.409	1,010
Round Mountain (50%)	(proven and probable)	92,581	0.018	1,621	78,117	0.018	1,442
	(mineral resource)	28,570	0.019	529	16,883	0.022	366
Ruby Hill	(proven and probable)	18,844	0.044	831	18,763	0.050	930
	(mineral resource)	11,919	0.040	480	3,202	0.077	245
Hemlo (50%)	(proven and probable)	7,075	0.080	564	7,419	0.085	633
	(mineral resource)	1,314	0.079	104	2,971	0.122	361
Marigold (33%)	(proven and probable)	25,462	0.020	511	31,106	0.020	631
	(mineral resource)	15,673	0.016	253	17,053	0.020	346
Golden Sunlight	(proven and probable)	8,665	0.062	540	2,495	0.056	140
	(mineral resource)	131	0.061	8	8,300	0.054	451
Eskay Creek	(proven and probable)	-	-	-	35	0.457	16
	(mineral resource)	-	-	-	-	-	-
South Arturo (60%)	(proven and probable)	-	-	-	-	-	-
	(mineral resource)	22,114	0.045	987	10,757	0.070	752
Donlin Creek (50%)	(proven and probable)	-	-	-	-	-	-
	(mineral resource)	269,496	0.066	17,737	204,869	0.072	14,668

SOUTH AMERICA

from Barrick Gold Corporation 2008 Year-End Report

Possible benefits of comparable reserves and resources information?

Transparency?

Comparability of assessments of asset or company value?

Better data and therefore investment decisions?

Efficiency in investment decisions?

BUT

- ▶ Does the current lack of comparability hinder investment decisions?
- ▶ Can there be comparability?
- ▶ Is there one 'answer' that meets the needs of all users?
- ▶ Requires understanding and consistency of application
- ▶ Requires consistency in standard setting

IASB Key Issues

- ▶ How should reserves/resources be defined?
- ▶ When should an oil & gas asset be recognised on the balance sheet?
- ▶ How should reserves/resources recognised on the balance sheet be measured?
- ▶ What reserves/resources information should be disclosed in the financial report?

Current expectations

- ▶ Want one definition for reserves and resources ie commercially recoverable reserves
- ▶ Would like it to be the same as (consistent with) mining definitions
- ▶ Value based-accounts unlikely but still considering
- ▶ Value and volume-based disclosures being considered for usefulness and reliability
- ▶ Only a revised form of successful efforts will survive (no full costs)

Further consistency through fair value?

Fair value an alternative approach being considered by the IASB BUT

- ▶ Requires consistency of reserves and resources being valued
- ▶ Volatile prices- with changing price comes changing value
 - ▶ How would such volatility be reflected in the financial statements?
 - ▶ Would this volatility be understood?
- ▶ Highly dependant on assumptions made
 - ▶ Disclosure of assumptions made is fundamental to understanding
 - ▶ Risk of reliance by less sophisticated users
 - ▶ With standardised assumptions (eg price), divergence between financial reporting and management's assessment of value/ investment appraisal
- ▶ Would the fair value itself be useful?

US SEC Concept Release and Proposed Rule Responses

Concept release issued 11 December 2007

Proposed rule issued 26 June 2008

Revisions approved 29 December 2008

► Demonstrates range of interested stakeholders

► Responses received

	Concept Release (81)	Proposed Rule (66)
Oil companies	24	28
Associations – Engineering / Geologists	7	4
Associations - Producers	2	3
Associations – other	5	3
Associations - government	3	3
Accountants	5	6
Users	9	1
Individuals	7	3
Lawyers	1	2
Shell “past directors” / other	2	2
Petroleum engineers	16	6
Mining	-	5

SEC- Final Rule

Effective for registration statements filed on or after 1 January 2010, and for annual reports on Forms 10-K and 20-F for fiscal years ending on or after 31 December 2009.

- ▶ Definition of oil and gas producing activities
 - ▶ shifts definition to the final product of such activities, regardless of the extraction technology
 - ▶ includes reserves from non-traditional sources such as oil sands, shale and coal-beds
 - ▶ requires disclosure by final product

- ▶ Definition of oil and gas reserves
 - ▶ similar to PRMS with the primary distinction being the use of “economic producibility” as opposed to “commerciality”
 - ▶ Definition of the term “reasonable certainty”- much more likely to be achieved than not

SEC- Final Rule

- ▶ Definition of “reliable technology”
 - ▶ “field tested and ...demonstrated to provide reasonably certain results with consistency and repeatability in the formation being evaluated or in an analogous formation”
 - ▶ Disclosure of technology used to reach appropriate “certainty” in a company’s first filing with the SEC or if material additions to reserves are disclosed

- ▶ Definition of “deterministic estimate” and “probabilistic estimate”
 - ▶ Either can be used to arrive at “reasonable certainty”

- ▶ Definition of proved oil and gas reserves
 - ▶ Lowest known hydrocarbons and highest known oil can be determined by reliable technology
 - ▶ Uniform standard of reasonable certainty regardless of location and distance from producing wells

SEC- Final Rule

- ▶ Voluntary disclosure of probable and possible reserves
 - ▶ Definition of probable and possible derived from PRMS
 - ▶ Narrative required around uncertainties associated with estimates

- ▶ Price assumptions
 - ▶ average price during the 12-month period prior to the ending date of the period covered by the report
 - ▶ Option for companies to include a sensitivity analysis that presents reserve estimates under one or more scenarios based on futures prices, management's planning prices, or other price assumptions.

- ▶ Consistency with accounting standards
 - ▶ SEC intends to hold discussions with the FASB on potential amendments to FASB 69 and FASB 19 for consistency with the requirements of the final rule

SEC- Final Rule

- ▶ Other disclosure changes
 - ▶ tabular disclosure of reserves by final product (e.g., oil, natural gas, synthetic oil, synthetic gas, other) and geographical region by:
 - ▶ Proved developed reserves
 - ▶ Proved undeveloped reserves
 - ▶ Total proved reserves
 - ▶ Probable reserves (optional)
 - ▶ Possible reserves (optional)
 - ▶ disclosures to be presented by final product versus pre-processed resource extracted from the ground per proposed rule
 - ▶ Disclosures of reserves and production by 'geographic area'
 - ▶ Countries >15% total reserves

SEC- Final Rule

- ▶ Other disclosures (cont.)
 - ▶ Disclosures relating to PUDs
 - ▶ Material changes in PUDs that occurred during the year including those converted to proved developed reserves,
 - ▶ Discussion of investments and progress made during the year to convert PUDs to proved developed reserves
 - ▶ Explanation of the reasons for material amounts of PUDs in individual fields or countries that remain undeveloped for five years or more
 - ▶ Internal controls used in the reserves estimation
 - ▶ No requirement for audit

UNFC- meets external stakeholder needs?

UNFC provides definitions and a classification framework

- ▶ Disclosing the basis of reserves and resources and key financial accounting estimates is fundamental to external stakeholders

Issues to deal with:

- ▶ Tension between management's view and regulator requirements
- ▶ Consistency of reserves and resources does not bring consistency in complimentary information sources
- ▶ Many users are sophisticated and use financial reporting merely as inputs
- ▶ Risk of over reliance if a single number or value is reported

A consistent reserves framework is on the near horizon



Thank you- Questions?

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