

AMERICAN INSTITUTE OF MINERAL APPRAISERS

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Election Results

All candidates on your Ballot have been elected to office. They will be installed at our 2005 Annual Meeting. The new officers are:

President – Donald E. Warnken

Vice President – Michael R. Cartwright

Treasurer – Alan K. Stagg

Secretary – John B. Gustavson

Past President – Edwin Moritz

Annual Meeting

Our Annual meeting will be held in Salt Lake City, Utah on February 28th at the Shilo Inn Hotel, in Room 1210. A social hour with refreshments and finger food will commence at 5:00 PM. The meeting will follow, beginning at 6:00 PM, which is expected to last between 1 and 1½ hours.

The hotel is located at 206 South West Temple which is within walking distance to the Salt Palace Convention Center. Their telephone number is (801) 521-9500 and their FAX number is (801) 359-6527.

Other hotels in the downtown area are; Best Western Garden Inn, Red Lion Hotel, Peery Hotel, Merriott Hotel and Hotel Monaco.

It is recommended that you make your reservations as soon as possible to assure a room in the downtown area.

Issues

The annual meeting is the time and place for issues to be addressed that are considered beneficial to AIMA Members. One issue on the agenda is whether or not AIMA should solicit the Ontario and Alberta Securities Commissions for the purpose of obtaining “Qualified Person” status for our Members. Being designated a “Qualified Person” is a prerequisite for those who prepare reserve reports for companies that are listed on the Canadian Exchanges.

To be a “Qualified Person”, according to (Canadian) National Instruments 43 - 101 (Mining) and National Instrument 51 – 101 (Petroleum), one must be a member in good standing of a professional association that is recognized by regulators, such as the Ontario Securities Commission or the Stock Exchanges. Further, the professional association must be a Self Regulatory Organization (SRO). AIMA is an SRO. However, AIMA as an organization has not pursued recognition as of this date. So the issue is; should we or should we not pursue recognition. Acceptance of AIMA by the regulatory bodies would not supersede other requirements.

Your thoughts on this issue are welcome. Also, if you have other issues that you feel should be addressed; you can present it at the Meeting or advise your President Elect Donald Warnken via e-mail at Dongene32@sbcglobal.net or by telephone at 918-663-3074.

Another issue to be addressed is ways and means to assure that an Associate Member can become a Full Member. The
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preparation of an appraisal report that is compliance with all requisites is a fundamental requirement for a person to become a Member. Some of our Associates are skilled at estimating reserves, preparing feasibility studies, etc but are deficient in the preparation of mineral appraisals. This is not a problem for those who work with others who are engaged in such work. However, those who work alone may have a problem. Your thoughts on this issue are welcome for discussion at the annual meeting.

Annual Membership Dues

Yes it is that time again (and so close to X-mas bills). Annual Membership Dues for Year 2005 - 2006 are now due. The dues are: \$60 for Full Member and \$30 for Associates and Emeritus (Retired) Members. Please forward your check to Treasures Elect;

Alan K. Stagg
Stagg Resource Consultants, Inc.
5457 Big Tyler Road
Cross lanes, WV 25313

Welcome New Members

Four persons became AIMA Members in 2004. They are:

John K. Chance, Member 2004 – 1, Springfield, OH
Associated General Appraisers LLC

Dr. Fredric L. Pirkle, Member 2004 – 2, St. Augustine, FL

James W. Boyd, Member 2004 – 3, Canonsburg, PA
John T. Boyd Company

Ronald L. Lewis, Member 2004 – 4, Canonsburg, PA
John T. Boyd Company

Welcome to AIMA. Your mailing addresses, telephone numbers and other pertinent information have been posted in the AIMA Website Directory.

John Chance is one of a growing number of members that have the distinction of being a licensed General Appraiser (real estate) in addition to being a Certified Minerals Appraiser.

Welcome New Associate Members

Four Associate Members joined AIMA in 2004. They are:

Kerry A. Barker, Morgan Worldwide Consultants, Inc.
Lexington, KY. Associate Member 2004 – 1. His qualifications are:

- B.Sc Geological Engineering and Mining Engineering

- Geotechnical and mining consultant with extensive experience in underground massive mining techniques as well as surface operations
- Worldwide experience including Chile, South Africa, West Papua Indonesia as well as North America

David Rasmussen, Boulder, CO. Associate Member 2004 – 2. His qualifications are:

- B.Sc Geology, University of Wisconsin
- Has over thirty years of diverse petroleum geophysical geological exploration and prospect generation
- Experience includes land, marine and 3-D data acquisition, processing and subsurface mapping

John S.L. Morgan, Morgan Worldwide Consultants, Inc.
Lexington, KY. Associate Member 2004 – 3. His qualifications are:

- B.Sc. Mining Engineering, Royal School of Mines, Imperial College, University of London
- Member: Society of Mining Engineers (SME) and American Institute of Mining Engineers
- Mr. Morgan is a mining consultant with extensive experience in both surface and underground mining, for the extraction of metalliferous ores, coal and industrial minerals
- He founded Morgan Worldwide Consultants, Inc. in 1995

Stephen D. Olmore, S.D. Olmore & Associates, Inc.
Key Biscayne, FL. Associate Member 2004 – 4. His qualifications are:

- Ph.D. and M.S., Geology, University of Utah, B.A., Geology, University of Southern California
- Economic Geologists with over thirty years experience
- Specialists in exploration geology, and has broad-based experience in ore deposits, with strong technical knowledge of several commodities
- Accomplished in exploration management, business development and project generation
- Experience in open-pit mine mapping, ore zoning, underground mine geology, mapping, drift development, block caving and underground drilling
- Has attained “Qualified Person” status via AIPG

AIMA welcomes each of you. Your mailing addresses, telephone numbers and other pertinent information have been posted in the AIMA Website Directory. You are requested to review the Directory and report the need for corrections or additions to the *Web Master*. His E-mail address is: Dongene32@sbcglobal.net.

Personals

Robert Frahme has recently joined Gustavson & Associates, Denver, Colorado. He is an AIMA Member and a MAI. In addition, he is a licensed General Appraiser in the State of Colorado. Hunsperger Weston LTD formerly employed him.

Trevor Ellis – I am pleased to report that Trevor Ellis and family have made a safe return to the United States. He and his family were vacationing in India over the Christmas holidays. He reported that they were visiting Chennai, India when the Tsunami hit it, killing about 200 people. They were about one kilometer distant from the disaster area but were never in danger themselves. However, they were listed as missing for two days.

Correction

In the October 2004 Newsletter your *Editor* made a note following an article written by Dr. Wesley Lilley, titled “Average Replacement Costs Per BOE and Your Appraisal Assignment”. The note read, “BOE is barrels of equivalent oil. Generally, natural gas is converted on a basis of 1000 cubic feet gas per barrel of oil”. That is not entirely correct because the number of cubic feet of gas equivalent to a barrel of oil is based on the price of each commodity. Dr. Lilley has exemplified that with a gas price of \$6.00 per 1000 cubic feet and an oil price of \$36.00 per barrel, the conversion (BOE) would become 6000 cubic feet of gas per barrel of oil.

Certification Of Reserve Evaluators

By Donald Warnken

Dr. Wesley Lilley recently furnished me an article written by Daniel J. Tearpock that was published in The DPA Correlator’s September 2004 issue. Title of that article was “Certification Of Reserve Evaluators”.

I read the article and realized that for the first time the oil and gas industry has recognized the need for conformity in the evaluation of oil and gas reserves. This shift has been brought about by the recent write down of petroleum reserves by Shell Oil Company and others plus the Enron scandal. Investor confidence has been shaken and is in need of reassurances from the industry.

The article states that principle members of the American Association of Petroleum Geologists (AAPG), Society of petroleum Engineers (SPE) and Society of Petroleum Evaluation Engineers (SPEE) held a meeting to discuss the possibility of establishing a joint Society exploratory committee to evaluate the merits and importance of a Certificate Program for Reserve Evaluators. It was a logical combination of Societies considering that the estimation of oil and gas reserves involves the geo-sciences as well as the engineering sciences.

Next, the Division of Professional Affairs (DPA) was designated to represent the AAPG in future meetings concerning this initiative. It was further decided that since the DPA already has a certification program, it was the logical certification body if the proposal moved forward.

Following that meeting, approval was obtained from the AAPG and the SPEE membership to participate in the formation of an Intersociety Exploratory Committee. SPE members apparently were not in favor of certification but agreed to being involved in committee work. Subsequently the following committees were established: Management, Certification, Recommended Practice, Ethics, Qualifications and Reserve Definitions.

The Intersociety Exploratory Committee has been designed to be comprehensive in scope. Thus, assuring that all certification issues will be addressed. Testing, training and continuing education would be elements of the certification process. It was interesting to note they state there would be **no grandfathering**.

In the article, it was emphasized that certification may provide a step in the direction of self-regulation. But, the program is viewed to be strictly voluntary. They are confident that the oil and gas industry will be supportive. The certification program would demonstrate their competencies as professional oil and gas reserve evaluators. Further, certification would provide an additional level investor confidence. In addition, it would provide training opportunities that are often not available for some company employees. It would also provide the opportunity to developed better standards in both reserve estimation and disclosures.

United Nations’ Meeting on Classification of Energy Reserves and Resources, November 2004, Geneva, Switzerland

By Trevor R. Ellis, CMA No. 1994-1

Ellis International Services, Inc.

The following is extracted from a report by the author to the International Valuation Standards Committee (IVSC), with minor modifications for the purpose of publication.

I represented the IVSC at the First Session of the Ad Hoc Group of Experts on Classification of Energy Reserves and Resources (formerly Ad Hoc Group of Experts on the Harmonization of Energy Reserves/Resources Terminology), a body organized by the United Nations Economic Commission for Europe (UNECE). The meeting was held at the United Nations’ Geneva offices on 10-11 November 2004 (AIMA Newsletter, Oct. 2004).

The legal purpose of the meeting comes from the charter of the Committee on Sustainable Energy of the UNECE, which in turn comes under a larger of the sustainable energy project United Nations Economic and Social Council. The United
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United Nations' Meeting on Classification of Reserves and Resources, November 2004, Geneva, Switzerland, *Continued from Page 3*

Nations Framework Classification for Energy and Mineral Resources (UNFC) was adopted by the United Nations Economic and Social Council at its annual session in July 2004, and recommended to countries for worldwide application. With the adoption of the UNFC, the purpose of the meeting was to launch a new program providing an improved basis for considering more efficient and benign extraction of energy resources from the earth, including support for the development of strategies for their exploration that are in line with the need for sustainable energy supplies. The new program calls for improving the present methods of resource assessment, valuation, classification and reporting, based primarily on the principles of the UNFC.

The UNFC is included by reference in the International Valuation Standards (IVS) Guidance Note, *Valuation of Properties in the Extractive Industries*, as a choice of classification system for reserves and resources. The United Nations would like the UNFC to become the predominantly used classification system worldwide, including for use in corporate reporting to the stock exchanges of the world under the International Financial Reporting Standards.

About 50 delegates attended the meeting. They were from approximately 23 countries and a number of international bodies. The regions well represented were Central and Eastern Europe, and the Middle East. The international bodies represented were primarily petroleum industry bodies, including the Society of Petroleum Engineers (SPE), the World Petroleum Congress (WPC), the Organization of the Petroleum Exporting Countries (OPEC), and the International Energy Foundation (IEF). SPE, WPC and IEF were represented by their highest people.

The meeting was chaired by Sigurd Heiberg of Statoil, Norway. It was run in a formal United Nations format. Delegates were addressed by their country's name or industry body's name, rather than their personal name. Presentations and discussions were translated into three languages.

My 20-minute presentation was one of five initial presentations setting the stage for the meeting. Titled, "Securing Investments through Appropriate Financial Reporting," it provided a vision of the way forward for efficient financing of energy resource development through employing standards for classification of reserves and resources, the International Valuation Standards (IVS) and the International Financial Reporting Standards. My presentation addressed other recommendations to support the standards, including education and certification for mineral and petroleum valuation experts, international reciprocity to allow these experts to work across international borders, and development of a publicly accessible database for recording mineral and petroleum property transactions worldwide. My presentation drew a lot of interest from the delegates, and

stimulated the most questions and controversy.

Michael Lynch-Bell, a senior partner of the accounting firm Ernst & Young, gave a presentation on financial reporting of reserves and resources. He discussed the conflicts between the various financial reporting systems of the world, and addressed the features and benefits of the soon-to-be-released International Financial Reporting Standard, *Exploration for and Evaluation of Mineral Resources*. Most presentations during the two days gave case study examples of the application of the UNFC to particular petroleum and coal fields throughout world. The presentations are available at <http://www.unece.org/ie/se/pp/adclas.html>.

On the morning of the second day, the delegates divided into two rooms, one for the mining industry and one for the petroleum industry. The purpose was to discuss the way forward in the application of the UNFC and other standards within the industries. Though my background is primarily mining industry based, the Chairman recommended that I attend the petroleum section, saying he felt my participation would be of most benefit there. I participated extensively in the discussions at that section.

My impression is that the petroleum industry and its leaders appear to be quite supportive of the UNFC. However, the SPE President, Kate Baker, cautioned that the UNFC still has a considerable approval process to go through within SPE, and that this might result in some adjustments in definition terminology being recommended.

Some of the Saudi Arabian delegates opposed the direction of meeting on a political basis. Near the close of the meeting, Saudi Arabia withdrew from future participation in the Ad Hoc Group, expressing concerns about national information security. In contrast, the OPEC delegate, Mr. Tampubolon, participated supportively, and had friendly, professional discussions with me.

The Ad Hoc Group leaders obviously view the IVSC and its standards as important to the minerals and petroleum industries and the sustainable energy development mission of the Group. However, my impression is that prior to this meeting, the attending leaders of SPE, WPC and IEF had little knowledge and understanding of the IVS and its relationship to the International Financial Reporting Standards. This meeting aided their understanding of the IVS and its role, which should prove quite beneficial to the imminent introduction of application of the IVS in the extractive industries.

At the close of the meeting, I was advised that there is a strong possibility that this or another group under the UNECE's Committee on Sustainable Energy would be taking up valuation as a specific area of research and discussion at a later date.

New International Financial Reporting Standard Allows Market Value Reporting for Minerals and Petroleum Assets

By Trevor R. Ellis, CMA No. 1994-1
Ellis International Services, Inc.

On 9 December 2004, the International Accounting Standards Board (IASB) published International Financial Reporting Standard 6 (IFRS 6), *Exploration for and Evaluation of Mineral Resources* (see *New Standards ...*, Ellis, AIMA Newsletter, Oct. 2004, p. 7). This covers corporate financial reporting of mineral and petroleum assets from exploration until feasibility of development has been demonstrated. Due to its late publication, the effective date of the standard has been delayed one year to 1 January 2006, a year later than previously announced, though earlier use by companies is encouraged.

The IASB's December 9th press release states, "The publication of this IFRS provides, for the first time, guidance on accounting for exploration and evaluation expenditures, including the recognition of exploration and evaluation assets, and completes the first step in the IASB's project to achieve the convergence of widely varying accounting practices for extractive activities around the world." The second phase of the IASB's extractive activities project was begun in mid-2004. This is addressing development and operating minerals and petroleum assets, and should also result in enhancements to the extractive activities standards in general.

Paragraph 12 of IFRS 6 states, "After recognition, an entity shall apply either the cost model or the revaluation model to the exploration and evaluation assets. If the revaluation model is applied (either the model in IAS 16 *Property, Plant and Equipment* or the model in IAS 38) it shall be consistent with the classification of the assets" In responding to a question from the author, Mr. Glenn Brady, leader of the IASB's Extractive Activities Project Team, provided his personal opinion (not IASB's) that this provision allows upward revaluation of an exploration property to a market-based value (after initial recognition at cost), including value increase due to a discovery within the property (communication dated 29 Nov. 2004). The earlier understanding of the author regarding application of the revaluation provision for exploration properties was that upward revaluation was being limited to that due to regional change in the value of exploration properties. For a company to implement this revaluation provision, it must rely on market value evidence as required by the revaluation models of the IFRSs, and abide by other requirements pertaining to "current cost" reporting in the IFRSs.

The IASB's Basis for Conclusions on IFRS 6, at BC 29 and BC 30, provides some confirmation and insight regarding the revaluation provisions:

BC 29: "The IFRS permits an entity recognising exploration and evaluation assets to measure such assets, after recognition, using either the cost model

or the revaluation model in IAS 16 and IAS 38. The model chosen should be consistent with how the entity classifies the exploration and evaluation assets. Those revaluation models permit the revaluation of assets when specified requirements are met (see paragraphs 31-42 of IAS 16 and paragraphs 70-84 of IAS 38). The revaluation model in IAS 38 can be used only if the asset's fair value can be determined by reference to an active market; the revaluation model in IAS 16 refers only to 'market-based evidence'."

BC 30: "A few respondents were also concerned with the option proposed in ED 6. Some did not agree that exploration and evaluation assets should be revalued, preferring an arbitrary prohibition of remeasurement. Others were concerned about the reliability of the measure. The Board concluded that no substantive reasons had been presented for reaching a different conclusion from that in ED 6. Although the revaluation of an exploration asset in accordance with IAS 16 or IAS 38 might not be widespread, it was not appropriate to prohibit remeasurement of exploration and evaluation assets on a selective basis."

Paragraph 10 of IFRS 6 states, "Expenditures related to the development of mineral resource shall not be recognised as exploration and evaluation assets. The *Framework* and IAS 38 *Intangible Assets* provide guidance on the recognition of assets arising from development." With this paragraph, the IASB has scoped out of the coverage of IFRS 6 commercially viable mineral and petroleum reserves. The author asked Mr. Glenn Brady for his opinion of whether the IFRSs allow revaluation for mineral and petroleum reserves after commercial viability has been demonstrated, despite the restricted coverage of IFRS 6. This proved to be a complex subject. In brief summary, Mr. Brady replied that if market value remeasurements are done correctly, and the philosophy and structure of the IFRSs is carefully followed, it is his opinion (not IASB's) that revaluations of mineral and petroleum reserves should be able to be made using the combination of the now existing standards of the IFRSs (personal communication, 17 Dec. 2004). The arguments within his discussion are quite complex, requiring the ability to reference the relevant individual IFRS and IAS standards to fully understand them.

The implementation of market value measurement in IFRS 6 for revaluation and impairment measurement of exploration and evaluation assets is an exciting development. Also exciting is that revaluations of mineral and petroleum reserves should be possible if the combination of the now existing standards of the IFRSs is carefully applied. These provisions will prove very beneficial to the minerals and petroleum industries. As of 1 January 2005, the large majority of developed countries of the world are enforcing the IFRSs for corporate financial reporting, as are many of the lesser developed countries. The USA and Canada are also rapidly progressing their convergence projects with the IFRSs.

The NEWSLETTER is published by the American
Institute of Mineral Appraisers, 5757 Central Avenue,
Suite D, Boulder, CO 80301
Phone: (303) 443- 2209; Fax (303) 443-3156
E-Mail: gustavson@gustavson.com

Editor: Donald Warnken
E-Mail: Dongene32@sbcglobal.net
