19 October 2012

IVSC Standards Board
International Valuation Standards Council
41 Moorgate
LONDON EC2R 6PP

Dear Sirs,

Discussion Paper – Valuations in the Extractive Industries

On 18 July 2012 the IVSC announced the launch of a new project designed to provide greater valuation guidance to the mining, oil and gas industries.

A Discussion Paper was issued seeking a response by interested parties by COB 19 October 2012.

The Discussion Paper sought responses to the following questions, with the Australian Property Institute comments in red:-

Question 1.1:

Should IVSC produce combined standards and guidance for Extractive Industries or produce separate pronouncements for mining and for oil and gas? If you believe the latter please indicate the reasons why you consider separate guidance is appropriate.

Combine Standards.

Question 1.2:

a) Should the project focus just on the valuation of reserves and resources or should it extend to other assets employed in the industry and to entire businesses in the sector? Please provide reasons for your answer.

There is already a reasonable level of guidance with respect to other assets employed in the industry.

b) How often do you assess or use (if it is readily ascertainable) the value of an extractive business as a starting point for the valuation of reserves and resources?

No basis for comment.

Question 1.3:

Do you agree with the Board’s preliminary view as to the type of pronouncements that IVSC should be making in relation to valuations in the Extractive Industries? If not please explain what alternative or additional material you believe would be useful.

Yes.
Question 2:

a) Are you familiar with the former GN14?
Yes.

b) Is GN 14 used in the valuations that you provide or receive?
To the extent practical.

c) What elements of GN 14 do you find useful in either reporting or interpreting valuations?
Minimal for real property and plant & machinery valuers.

Question 3:

a) Which classification code or codes are most commonly used in your industry / sector?
No basis for comment.

b) Which code do you normally use or rely on?
No basis for comment.

c) Are you aware of differences across your / industry sector on the classification codes used? If so please indicate whether these differences cause problems in undertaking or understanding valuations.
No basis for comment.

Question 4:

a) Please identify the valuation methods that you most commonly use or encounter for valuing:
- Producing reserves
- Reserves undergoing development
- Reserves or resources subject to exploration

If you are a valuation provider, please indicate why you prefer these methods. If you are a valuation user, please indicate if you are confident in the result obtained by these methods.
No basis for comment.

Question 5:

b) If you have experience of using the market approach to value assets, please indicate the sectors and asset types where this is used.
Real property and plant & equipment associated with mining operations.

c) Please identify the three most important factors for which you frequently need to adjust price data when applying this approach.
- Demand
- Supply
- Future Direction
Question 6.1:

a) Production forecast – do you use internal production forecasts developed by the entity's own geological and engineering specialists, external forecasts, or a combination of both?

No basis for comment.

b) Do you adjust the production forecasts for risk by reserve category?

No basis for comment.

c) Do you make an explicit cash flow forecast through the term of expected production, even though it might be a very long period of time, or do you use a "remainder period" for long lived reserves? If you use a remainder period, typically over what period is your explicit forecast?

No basis for comment.

d) Do you use an internal management estimate for future pricing, eg the NYMEX, investment bank analysts' estimates, industry sources, or a combination thereof to estimate future prices? If using the NYMEX strip pricing, what are the typical assumptions you make for prices beyond the NYMEX strip (e.g., flat, inflationary growth, etc.) Do you consider the impact of any hedging of future prices that might be in place in estimating the future revenue stream?

No basis for comment.

e) Do you apply differentials to the future price estimates? If so, what is your source for estimated differentials?

No basis for comment.

f) Do you reflect currency exchange risks to future income and operating cost projections in the cash flow or in the discount rate?

No basis for comment.

g) Do you include corporate overheads when estimating the value of mining, oil and gas reserves, or just the selling, general and administrative costs associated with operating and producing the reserves?

No basis for comment.

h) How often do you use the DCF method to value probable or possible reserves?

No basis for comment.

Question 6.2:

a) What methods do you use or are familiar with for determining the discount rate used for valuations of reserves and resources?

No basis for comment.

b) Do you separately consider and evaluate market (systemic) risk and asset specific risk?

No basis for comment.

c) Please indicate the factors that you normally consider and reflect in the discount rate
and any source you use to determine the appropriate rate adjustment.

No basis for comment.

d) Do you use multiple discount rates to reflect the changing risk profile as an extractive process moves through its life cycle?

No basis for comment.

Question 7:

a) Please indicate what methods you use or are familiar with that fall under the Cost Approach and that are used in valuing assets in the Extractive Industries.

DRC for specialized buildings and plant & equipment.

b) If you use or are familiar with the Cost Approach, please indicate in your experience how the cost of an equivalent asset is determined.

Analysing construction costs, contacting suppliers etc.

c) If you use or are familiar with the Cost Approach, please indicate the three most common adjustments that are made in your experience to reflect physical, functional or economic obsolescence, and what metrics are used to determine these adjustments.

In accordance with TIP 2 – The Cost Approach for Tangible Assets.

Question 8:

a) How should the unit of valuation (unit of account) be determined in the valuation of extractive activities?

No basis for comment.

b) How is double counting of the contribution of different assets avoided?

No basis for comment.

c) How should economic obsolescence or impairment, if present, be allocated proportionally to all contributory assets of the mineral asset?

No basis for comment.

d) What methods do you use or are familiar with to attribute value to specific contributory assets?

No basis for comment.

e) Are entity specific inputs appropriate when valuing contributory assets in extractive activities? What checks can be made on the reasonableness of entity specific inputs?

No basis for comment.

f) Should components of goodwill other than value of assembled workforce be recognised?

No basis for comment.
Question 9:

a) How do you estimate the cost of future reinstatement or environmental protection obligations?

No basis for comment.

b) Do you discount the future cost of reinstatement obligations using a risk free rate or another rate? If another rate please identify and provide rationale for this approach.

No basis for comment.

Question 10:

a) If you provide valuations of mineral assets, what investigations do you undertake to establish the reasonableness or otherwise of estimates of the extent of reserves or resources provided by geologists?

No basis for comment.

b) If you provide valuations of mineral assets, are you routinely provided with estimates from engineers of the cost and feasibility of extraction? What enquiries do you make to satisfy yourself as to the reasonableness of these estimates?

No basis for comment.

c) If you are a recipient or other user of valuations of assets in the Extractive Industries, are you satisfied that the valuations properly reflect any uncertainties in the current estimates of either the extent of the reserves or the costs of recovery? What information would you expect to see in a valuation report that would improve your understanding of the sensitivity of the reported value to uncertainties in the identified reserve or the costs of recovery?

No basis for comment.

Question 11:

a) Please identify any intangible assets that are normally separately identified and valued;
   i. In transactions between entities in the Extractive Industries and
   ii. When accounting for the acquisition of a business in the Extractive Industries.

No basis for comment.

b) In your experience what, if any, value is attributed to components of goodwill, eg an assembled skilled workforce, in corporate transactions in the Extractive Industries. Please briefly indicate any valuation techniques used to establish the value of goodwill in such circumstances.

No basis for comment.

c) When considering the valuation of previously uneconomic reserves that can now be recovered using advanced technology, eg shale gas, deep water drilling, do you attribute an element of the overall value to the intellectual property involved? If so please explain briefly the method used to estimate this.

No basis for comment.
Question 12

a) Please provide any examples of which you are aware of significant differences between the value of otherwise similar resources arising solely from different Governmental policies.

No basis for comment.

b) Please indicate how “country risk” factors are reflected in the way in which you price or value extractive assets.

No basis for comment.

Yours faithfully,

A.L. McNamara
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Australian Property Institute