

Committee for Mineral Reserves International Reporting Standards Report to Committee Members March 2007

This Report to Members is intended to inform CRIRSCO members of events and progress since the last report in December 2006. Items broadly follow the format and sequence of previous reports.

1. CRIRSCO membership issues

Current membership is Peter Stoker and Ian Goddard (Australia), Niall Weatherstone (UK), John Clifford (Ireland and W Europe), Ferdi Camisani and Roger Dixon (South Africa), Edmundo Tulcanaza (Chile), John Postle and Debbie McCombe (Canada) and Jean Michel Rendu and Harry Parker (USA). Since the last report, Harry Parker's nomination has been received and accepted. Harry is a welcome addition to CRIRSCO, both because he increases US representation to two and also because of his wide-ranging industry experience, particularly in the field of mineral resource and reserve audits. PERC is continuing to seek a second UK representative and is targeting the London stock exchange community. Chile, Ireland and Western Europe have still to nominate a second member. Niall continues as interim Chairman but this post will come up for re-election in the near future with the ICMM's acceptance of CRIRSCO as a Task Force (Item 2).

2. CRIRSCO restructuring

At their January meeting in Tokyo, the Executive Working Group of the International Council on Mining and Metals (ICMM) accepted CRIRSCO's proposal for an alliance. Despite some lingering uncertainty among EWG members about the overlaps between CRIRSCO and ICMM, strong support from a number of major mining companies saw the proposal succeed.

For the next two years, CRIRSCO will become a Task Force of the ICMM on a trial basis. Continuation beyond that time would be by mutual agreement. The advantages this provides to CRIRSCO include secure funding and an organisational structure that can provide administrative, secretarial and treasury support. Above all, the ICMM offers an unparalleled influence on mining industry matters as its Council comprises 15 of the world's major mining and metal producing companies. In addition the list of 24 Association Members, including organisations such as the Mining Association of Canada and the World Gold Council, adds extra weight to issues addressed by the ICMM.

CRIRSCO brings support for ICMM in terms of promoting uniform and transparent reporting and best practice resource and reserve estimation. In the longer term, there are opportunities for CRIRSCO to influence the ICMM by incorporating many of its ideals into the sustainable development framework that

the ICMM promotes and to bring closer focus on the third, economic, strand of sustainable development.

The alliance is not without its issues, one of which is that funding beyond the amount agreed with the ICMM will need to be found from other sources. Also, according to ICMM process, a new three year budget is required over the course of this year to be finalised around October. This is linked to a work plan that aims to achieve its defined goals within a specific time frame. Given the voluntary nature of CRIRSCO members' contributions to the Committee, we are not in a position to enforce completion of the work. It is proposed that the next budget will include provision for the funding of consultants – either CRIRSCO members or others – to ensure that we achieve the goals we set out.

Achieving the alliance of CRIRSCO and ICMM took a significant effort by a number of CRIRSCO members, and it is now incumbent on the Committee to take appropriate advantage of this opportunity.

3. International Reporting Template

The International Reporting Template continues to receive favourable comments and references. Niall provided a feature article on the topic to Mining Journal at their request and this edition was distributed at the Indaba in Johannesburg on 26th January.

The long awaited 2007 version of the SAMREC Code is due to be released imminently. PERC is also in the initial stages of planning an update of the UK and Western Europe Reporting Code (to be renamed the PERC Code) and will refer to SAMREC as part of the process. J-M has also indicated that the SME now intends to refresh and release their 2005 Draft Reporting Guide later this year. This is an important step as, although the SEC has not engaged with the developers of the Guide, including the well represented Industry Working Group; it goes a long way to resolving the SEC's perceived issues. It is hoped that the new Guide will eventually replace Industry Guide 7 and that the SEC responses provided by the SME will feed into Codes around the world, and the Template, in due course as an advance on best practice.

The Template sub-committee can look forward to an active time in the next two years as these code revisions are monitored, issues debated and the Template amended as necessary.

4. Joint CRIRSCO/UNECE Committee

Since December, the UN Ad Hoc Group of Experts has focused on providing a response to the new SPE Guidelines (Item 6). With these guidelines close to publication, the AHGE will meet in Washington in June during a planned AAPG/SPE Reserves Conference.

Ferdi is planning to attend this meeting as an AHGE Bureau Member and Niall also plans to lend support. The Washington conference may also provide opportunities to continue discussions on some of the issues of mutual interest between CRIRSCO and SPE (Item 6).

5. IASB Matters

During the last quarter, we continued to work with the IASB in conjunction with the SPE members of the Convergence Team (Item 6) to progress matters related to the definition of resources and reserves for use by the financial reporting community.

Niall met with Glenn Brady, the head of the IASB Extractive Activities Project team, in Melbourne in late February to discuss progress and clarify where we go from here. Following the IASB's indicated preference for a 'Fair Value' solution to the issue of asset definition and carried values, the research team have been thrown back into an extensive review of options. This is likely to take at least the next two years, during which we will continue with regular contacts and the provision of advice and comments as appropriate.

One significant issue for which we rely on IASB advice is the use to which resources and reserves may be used in assessing the value of a minerals asset. This is unlikely to be resolved until the valuation principles are agreed between IASB and FASB (the US equivalent) and will be the focus of future discussions among IASB, SPE and CRIRSCO.

6. CRIRSCO-SPE Convergence Team

As an outcome from the discussions held in Geneva in October, several issues of 'Convergence' became clearer, while others require further work. In principle, the SPE and CRIRSCO are agreed that the resource and reserve definitions supplied in the (new) SPE Guidelines and the CRIRSCO Template will stand alone for use by the respective industries. However, work has started on a 'mapping document' that provides some linkage between the two; something that has been requested by both the IASB and the UNECE.

Following recent discussions, it is likely that a preliminary document will be produced for the IASB June meetings, consisting of those areas where the SPE and CRIRSCO are generally in agreement and providing some text to demonstrate this. An example of an issue in this category is the oil industry use of the term 'commercial' to describe a project that has reserves that have been approved for development. The parallel in the minerals industry would similarly be a project that is deemed to be economically and technically viable after application of the modifying factors (ie a reserve has been demonstrated). What

is needed from the CRIRSCO side is consideration of the 'shelf life' of any such reserve estimate and whether a development approval is needed to convert the reserves into 'commercial'.

A significant issue between SPE and CRIRSCO that will take longer to resolve is that of the use (in the oil industry) of probabilistic estimation techniques and the description of reserves in cumulative probabilistic terms. This will require a mutual understanding of how risk and uncertainty are handled in both industries and it is proposed that a small committee be set up of SPE and CRIRSCO nominees with the relevant skills to address this. The end product, which would be a simplified description of how we address uncertainty and how this would be used in classification is hoped to be available by November when the IASB meet again.

7. Communication and relationship with SEC

As noted above (Item 3), J-M has indicated that the SME will press ahead with its revised reporting Guide despite the persistent refusal of the SEC to engage in discussions on how they might be finalised and adopted by the regulator.

The Guide was developed by and has the strong support of industry, and its publication could be useful in future discussions with both the SEC and other interested parties such as FASB and IASB. It will also promote discussion on some new issues, such as 'price testing' to enable some degree of comparison between company reserve reports. These discussions have international relevance and it is proposed that CRIRSCO should take a lead in managing them.

8. CRIRSCO communications

Nothing to report

9. Invitations to Comment on Code Revisions

CRIRSCO did not submit an official response to the request for comments on the final draft AAPG/SPE Guidelines.

Some comments received from the SPE suggest that the UNECE's preference for using project maturity as the primary interface and leaving economics and operational status as modifiers has been accepted. While this does not prevent convergence with our systems, project maturity is not an explicit part of classification, although it is implicit in the project development process.

Also, it looks like the AAPG/SPE Guidelines will not accept the use of the terms Measured, Indicated and Inferred for Contingent Resources and will stay with the

scenario terms low/best/high estimates denoted by 1C/2C/3C. Commentators did not like the term Measured as it was confusing with the concept that all quantities are estimated. This is disappointing but understandable.

10. Web Site management

Members are invited to contribute items of interest to the web site www.crirSCO.com. Non members should email the Chairman, [Niall Weatherstone](#).

11. Other news

Steve Henley reports:

The CRIRSCO/Russian working group was set up in September 2006 and is managed by PERC on behalf of CRIRSCO, with members from the mining/exploration community in Russia and internationally. The Russian state commission on reserves (GKZ) is represented on the working group, as are CRIRSCO, JORC, and PERC. Co-chairmen are Mike Armitage of SRK UK and Kirill Kavun of VIEMS, Moscow. Secretary of the group is Steve Henley, current chairman of PERC.

The purpose of the group is to define objective methods of conversion between the CRIRSCO-compliant reporting systems and the Russian reporting system; and at the same time to identify and attempt to converge the operational methods; in particular to reach mutual recognition of the respective definitions of 'competent (or qualified) person' (CRIRSCO) and 'competent expert' (Russia). Other related matters which will be studied as a part of the overall process will be questions of QA/QC implicit in the reporting standards, relationships with other valuation standards, statutory requirements of regulatory bodies in Russia and elsewhere, and reporting requirements of stock exchanges. The primary target of the working group is to define, by October 2007, objective methods of converting reserves and resources reported under the Russian system into CRIRSCO-compliant estimates (i.e. without the requirement for re-modelling or a competent-person report), and vice versa.

So far we have held preliminary discussions and tabled initial position documents: the CRIRSCO template, the new Russian reporting code (to come into force on 1 Jan 2008), and a draft document defining the Russian 'competent expert'. Work is now starting on comparison of these documents to identify areas of agreement and areas which will require detailed attention. The working group will operate principally by email correspondence, but with face-to-face meetings as and when considered necessary.

Chinese membership of CRIRSCO

Canadian CRIRSCO/CIM representatives continued contacts with the Chinese MRREC representatives at the recent PDAC in Toronto.

Peter has identified the potential Australian based or related representatives for the CRIRSCO Sub Committee and will now proceed to formally constitute that Committee. Consideration is being given to a face to face meeting later in the year on the assumption that significant progress can be made beforehand.