

# Lessons Learned about Standards from Applying Both VALMIN and USPAP on a Complex Appraisal Project

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# USPAP

## The Uniform Standards of Professional Appraisal Practice:

- Developed by the Appraisal Foundation
  - Authorized by Congress
- First edition 1986-87
- Enforced by regulation in all States since 1995
- Required by Federal Agencies
- Required by the major appraisal institutes

# The VALMIN Code

- Developed by The AusIMM
- First released 1995
- Required for reporting under Australian securities law
- Internationally acclaimed
- The Canadian CIM reviewing for use as the basis of its standards
- The AIMA is reviewing for use as the basis of its standards

# Why try them together?

- The VALMIN Code is for mineral assets
- The client needed a very defensible appraisal
  - VALMIN would add credibility
- USPAP was required
- I wanted to test VALMIN on a complex US appraisal
  - Knowledge for standards development

# Notification

- Some facts and omissions of fact maybe misleading
- I include some experiences from two other attempts

That is, I don't want anyone guessing the project or client

# The Subject Property

- US mining property
- Post feasibility study
  - Well into excavation and construction
- 100% owned and operated by client
- Client is US stock exchange listed

# The Appraisal Team

- Minerals Appraiser
  - Trevor as geologist, economist, lead appraiser
  - Process Engineer and Cost Specialist
- Real Estate Appraiser
- Water Appraiser
- Two specialist real property appraisers

All well recognized, certified appraisers, bound by USPAP

# Appraisal Report Products

- The main report
  - A Complete Appraisal
  - More content than required for a Summary Report format
  - My responsibility
- Each appraiser developed a standalone appraisal report
- All based on USPAP Real Property Standards
- No business value to be included



# USPAP Difficulties

- Many USPAP requirements omitted
  - Highest and Best Use
  - Effective Date
  - Intended Use
  - Scope of Work description
- Lack of consideration of all three approaches to value
  - Reliance on income approach – potential disaster

# USPAP Difficulties

- Many inconsistencies relative to ground rules and basic assumptions
- Impenetrable technical jargon used
  - non-technical audience
- Report structure lacking
  - no Table of Contents

# Lessons Learned

- Working through the client with the other appraisers is not functional
  - Severe embarrassment for all concerned
  - Causes weeks of delays

# Lessons Learned

- Purchase some demonstration real estate appraisal reports
  - Complete Self-Contained
  - Complete Summary
- Report structure should follow USPAP headings
  - Table of Contents listing USPAP items

# VALMIN Difficulties

We were doomed from the start

# VALMIN Difficulties

- Majority of mineral estate value was in non-reserve mineralization
- SEC Industry Guide 7
  - Resource estimate not released to public
- Contracts required all appraisers to use only publicly domain data and personal inspection of the tract
- Published reserve data seriously out of date

# VALMIN Difficulties

## VALMIN requirement

The client must certify:

- Complete, Accurate and True Disclosure to the appraisal team
- That the appraisal team will have access to Client's personnel and records

# VALMIN Difficulties

## VALMIN requirement

The review and reporting on all significant mineralization, resources and reserves, must abide by the Australasian JORC Code

If impractical, explain why.



# VALMIN Difficulties

Solution to JORC requirement:

- Obtained all public domain drilling data
- I geologically mapped the property
- Developed my own resource estimate
- Blew the doors off our budget!!

# VALMIN Difficulties

- Sales data now incompatible
  - Resources not reported
- Developed resource estimate for our best sale from drilling data and geology
- Blew the doors off our budget again!!

# More VALMIN Difficulties

- VALMIN requests Business related items:
  - Employee relations
  - Liabilities and Financial Exposures
  - Sharemarket and Economic Conditions
  - Vendor Considerations
- Exclusion appears to violate VALMIN
- In the US, business value should not be included in real property Market Value

# More VALMIN Difficulties

- Provides high standards for labeling and presentation of maps and cross-sections
- For the subject and sales properties, most of ours obtained in the public domain.
- Many days spent labeling maps and sections
- Copied maps failed to meet readability requirement

# The Final Nail in the Coffin

The subsidiary appraisal reports also need to abide by VALMIN

Surface

Water

2 specialty real property

# Lessons Learned

- VALMIN is strongly oriented to reporting for the stock exchanges and related use
- VALMIN's requirements to address business related items violate US real property market value standards
- VALMIN's standards can be onerous even for a major real property appraisal
- SEC reporting rules conflict with VALMIN