

## **THE AUSTRALIAN VALMIN CODE FOR MINERAL APPRAISALS**

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In June 1995, the Australasian Institute of Mining and Metallurgy (AusIMM) issued its "Code and Guidelines for Assessment and Valuation of Mineral Assets and Mineral Securities for Independent Expert Reports (The Valmin Code)." The Code applies to reports commencing 1 July 1995 and has already gained wide acceptance.

The Code is binding on members of The AusIMM when preparing public independent expert reports concerning mineral assets and mineral securities. It has been accepted by the Australian Institute of Geoscientists (AIG) and endorsed by The Australian Mining Industry Council (AMIC). The Australian Stock Exchange (ASX) supports the Code and is deciding whether to issue it as a guideline or to adopt it as an appendix to ASX Listing Rules. The Australian Securities Commission will also use it as a standard when reviewing mineral documents.

The AusIMM, AIG and AMIC lead the world in providing codes and guidelines for their members' activities in the minerals industry. Their Australasian Code for Reporting of Identified Mineral Resources and Ore Reserves, first adopted in 1989, has been incorporated in the ASX Listing Rules and is held in high regard throughout the world's mining industry. The driving force behind these initiatives has been a large number of practices in the industry over the years which have ranged from dubious or unethical to outright scams.

The Valmin Code is a detailed 19 page document, containing a code section of "musts" and a guidelines section of "shoulds". Application of the Code is mandatory for mineral valuations presented in the public domain. This includes: in any prospectus; compensation for compulsory acquisitions; public valuation reports likely to affect the market price of securities; and for a variety of transactions likely to affect the value of shareholder interests. It is not mandatory to follow the Code for appraisals not covered by Corporation Law, such as for tax assessments and estate settlements.

The Code specifies a level of research detail and "maximum disclosure," which I expect will lead to many weighty appraisal reports.

The report must be signed by an individual independent expert who has ten years of general minerals industry experience. Specialists preparing reports included within the main report, must have at least five years of experience in their specialty. The expert and specialists must be members of a "relevant, recognised" professional association, but there is no requirement for membership in an appraisal association.

Valuation methodologies are not specified. However, the Code requires that the reasons for selecting each methodology must be stated. The commissioning entity may not influence the choice of methodology.

The Code places substantial obligations on the commissioning entity. The commissioning entity is apparently assumed to hold the mineral interests. The obligations include requirements for: "complete, accurate and true disclosure" to the expert and specialists; reasonable access to the commissioning entity's personnel and records; respect for the independence of the appraising team; and a requirement to state in writing that full disclosure has been made. A draft copy of the report must be given to the commissioning entity for review to assure accuracy of the facts and non-objection to the assumptions used.

The valuation report must state clearly the nature of the value determined and its valuation date, which may differ from the date of report preparation. Although the report may contain technical language, it must be written in "plain English," and contain "a balanced, objective and concise statement of the Expert's review and conclusions so that an informed layman can have a clear understanding of the Mineral Assets or Mineral Securities concerned, their Value and the attendant risks." The report must also contain all information which investors and their professional advisers would reasonably require and expect.

The decision on whether or not to inspect the mineral asset or tenement must be made by the appraiser and not by the commissioning entity. When a decision is made not to inspect, the reasons why there is satisfactory and sufficient current information must be stated in the report.

All mineralization of material importance, and its attendant risk, must be reported in accordance with the Australasian Code for Reporting of Identified Mineral Resources and Ore Reserves. Sufficient maps, plans and other graphic information must be included to illustrate the geology, location of tenements and other pertinent features. Other sections of the Code impose requirements for reporting on categories of information such as services and infrastructure, environmental and land access matters, employee relations, capital and operating costs, and product markets.

When the extent of the data permits, the conclusions on value by the expert must include a range (high, low and most likely) to reflect the uncertainties in the data. The report must also include a sensitivity analysis showing the effects of changing the most significant assumptions. Rules for out-of-date data, and assets with no value or negative value, are included.

The guidelines section of the Code places substantial additional obligations on the appraiser. The range of guidelines provided extend from record keeping, to reconciliation of prior and proposed production performance. Included are factors which should be taken into account in selection of the appropriate appraisal method, and guidelines on handling high and low commodity prices or stockmarket conditions. Notable in their absence in the Code are any requirements to include comparable values and to have the report peer reviewed.

Overall, the Valmin Code is a strong document which will impose a high standard on mineral appraisals used in the public domain in Australia. It also sets a standard to judge private appraisals against. Revisions in future years can be expected to further strengthen the Code. The substantial burdens imposed on both the appraiser and the commissioning entity, I expect will multiply the costs of many appraisals. The higher costs could mean that many properties that would have been appraised, now will go unappraised. However, any negatives will hopefully be outweighed by improved confidence of the financial sector in the reliability of Australian minerals industry reports.

Copies of the Valmin Code are available for A\$10 each (postage included) from The AusIMM, P.O. Box 660, Carlton South, Victoria 3053, Australia.

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