INTERNATIONAL INSTITUTE OF MINERALS APPRAISERS

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NEWSLETTER

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IN THIS ISSUE

2022 IIMA/SME CONFERENCE EVENTS IN SALT LAKE CITY, UT!

Hi all IIMA Members, Associates, and Affiliates! Good News! We have finally managed to arrange the meeting spot for ALL of our IIMA events in Salt Lake City, UT. This issue contains a round-up of IIMA events between Monday, February 28 and Tuesday, March 1. Happenings include a minerals appraiser mentor/mentee clinic, evening social, technical sessions, and business meeting luncheon. See you there!

Election Results 2022-23

Our IIMA Secretary has dutifully circulated the ballots, and almost 30% of our voting members (our Certified Mineral Appraisers) responded. The results are in, the ballots are counted, and the nominated Officers have been duly elected. Our slate of elected Officers for the next two years are:

President
J. Davis Shetler
Member No. 2016-01

Vice President
Darwin Werthessen
Member No. 2019-02

Treasurer
Charles G. Howard
Member No. 2008-02

Secretary
Betsy M. Suppes
Member No. 2020-01

Congratulations to all of you, and THANK YOU for the time and effort you already have donated. We look forward to your leadership over the next two years!

Personally, I will now drop back to Past President; but I will still join the above Officers as part of the IIMA Executive Committee, which meets quarterly.

In that connection, I really thank Tim Knobloch for his tremendous help over the last two years. We could not have done it without your support! We hope you will accept one of the Committee Chairs when our newly elected President Shetler organizes his team for the work forward!

Thank You!
John B. Gustavson, President, 2021-22

THANKS TO OUR IIMA SOCIAL EVENT SPONSORS!

Black River, Ltd	GOLD
Groff Engineering	GOLD
Rock Associates,	SILVER
Bernard J. Guarnera	SILVER
Forgedale Geological Consulting	COPPER
James Knobloch Petroleum	COPPER
Howard Engineering	COPPER
Grant Malensek/SLR International	COPPER
Mark Sonderby	COPPER

2020 IIMA/SME CONFERENCE SCHEDULE

Monday, Feb. 28

3 pm – 10 pm
Mentor/Mentee Clinic (with coffee/snacks)

IIMA Diamond Suite
Hilton Salt Lake City Center
255 South West Temple
Salt Lake City, UT 84101

6 pm – 10pm
IIMA Social Event (open bar/appetizers)

IIMA Diamond Suite
Hilton Salt Lake City Center

Tuesday, March 1

9 am - Valuation Sessions I - Case Studies and Methodologies

Salt Palace Convention Center: Room 250F

12 pm - IIMA Annual Business Meeting

IIMA Diamond Suite
Hilton Salt Lake City Center

2 pm - Valuation Sessions II - Lessons Learned

Salt Palace Convention Center: Room 250F

5 pm – Closure

2022 IIMA/SME CONFERENCE ABSTRACTS

Creating Value and Managing Risk With Staged Project Development
Michael Samis

Staged project development is pushed by the mining industry as a means of reducing capital costs and financing requirements. Companies justifying a staged development approach often rely on qualitative arguments and financial analysis that is unable to demonstrate the true value and risk management benefits of this approach. In this paper, we consider the Blackwater Gold Project to highlight the full value and risk management benefits of staging a project. We show that a staged project design reduces capital risk exposure by more than half while increasing value in contrast to a conventional design with a large initial capital investment.

Assessing Diminution in Value in Eminent Domain Proceedings
James Beck

Mineral properties are often subject to eminent domain actions providing for or establishing rights-of-way for highways, utilities, temporary construction easements, etc. Such rights-of-way or easements are typically narrow, linear strips of land (of limited areal extent) and are known as “partial takings.” Partial takings, however, often (but not always) result in otherwise unforeseen damage to the "larger parcel" disproportionate to the tons or surface actually taken. The "remainder" can be damaged (or not) or rendered uneconomic, effectively resulting in a diminution in value. Condemnation documents and condemner appraisals often fail to recognize the incremental damages that are unique to mining, as well as the manner in which such damages can be realistically quantified. It is incumbent upon the appraiser to identify such damages and opine diminution of value, if any, because the opposing appraiser may fail to do so. The appraiser must possess both minerals expertise, as well as a sufficient command of eminent domain appraisal procedures in order to correctly define the "larger parcel," "part(s) taken," and "economic/uneconomic remainders," and do so in a compelling manner.

Gold Property Transaction Values – A Deeper Dive into Human Factors

Grant Malensek

SLR Mining Advisory has updated its global market transactions database to include 2020 transactions on gold properties containing mineral resources and mineral reserves. In this presentation, besides presenting current results in normalized \$/oz or gold equivalent where gold is the dominant component, a subset of property transactions will be assessed against 14 physiographic factors with an emphasis of looking at "Human Factors" such as Regional Investment (as expressed in Fraser Institute rankings), environment/permitting, and social aspects of the properties in the analysis.

Determination of the Fair Market and Orderly Liquidation Values of a Producing Mine

Dennis Noll

The determination of a mine's fair market and orderly liquidation values involves a large degree of judgement by an appraiser. Ultimately, reasonable exposure time is key, but consideration of the status of the existing assets plays a large part in assigning reasonable exposure time, the highest and best use, and the appraisal approach. In this case history, the assets include the following: the producing mine, the adjacent properties, and the existing finished product stockpiles.

The producing mine is contained within properties that meet the definition of a proven reserve. The adjacent properties are controlled, have been drilled and tested, but are not yet permitted. These were classified by the author to be either probable reserves or inferred resources, depending upon their highest and best use. The finished product stockpiles were classified as personal property. The nature of the assets dictated the appraisal approach used to determine a cumulative value. The income approach was utilized for the producing mine, the market approach was utilized for the personal property, and the market and cost approaches were utilized for the adjacent properties and their buildings.

The Search for Mineral Property Comparable Sales

Fred Pirkle and John Gustavson

The search for comparable sales in a nondisclosure state can be daunting. Nondisclosure states record transactions and make them available to the public but do not list financial terms. How are comparable sales found and how are qualifying comparable sales selected? The subject property is a sand mine in a nondisclosure state. The search for comparable sales candidates is facilitated if there are prior sales. The prior sale must be at the same stage of use as the subject property. In this study, the comparable sales search was undertaken by identifying sand mines within about a 15-mile radius, reviewing sales history, and determining the comparable sales candidates' Highest and Best Use at time of sale. Candidates also included properties identified by market knowledge. The candidate transactions must meet the definition of Fair Market Value to be reliable and relevant. Sales data, tax records, loan instruments, and other property lists were used in the search as well as deed searches from real estate transactions. Through diligent searches, the sales comparison candidates could be adjusted to provide the Fair Market Values of the subject property.

Principle of Substitution in Minerals Appraisal

Evan Mudd

How can a well-constructed DCF result in a deeply flawed mine appraisal? Often, the culprit is misunderstanding or inability to competently employ the principle of substitution. This case study examines one property with two markedly different appraisal results.

Minerals appraiser peers have geoscientific training, which allows them to understand mineralization, technical development factors, and the comparability of one deposit with another. This case explores side by side the methodology and decisions made by a commercial appraiser vs. a minerals appraiser.

Minerals appraisers recognize mineral real estate as a substitutable input into mining, processing, and shipment systems (businesses). Often, errors are made by disregarding substitute properties and assuming a subject property must satisfy demand. Although many key differences are noted, the principle of substitution and the appraiser's ability to compare geoscientific attributes between alternate source properties is emphasized.

Pitfalls of Retrospective Appraisals of Oil and Gas Interests

Betsy Suppes

Retrospective appraisals are sometimes requested by attorneys when settling an estate. However, the mineral owner may not realize that their property was not worth much at that time and the cost to appraise it could potentially exceed the value of the property. The appraiser may not be aware of the relatively modest value of the property until they are halfway into the appraisal. Examples of retrospective appraisals and mitigating techniques are discussed.

What About the Word "Comparable" Do You Not Understand?

Alan Stagg

One of the three Approaches to Value an appraiser is to consider is the Sales Comparison Approach. Although somewhat more difficult to use for mineral appraisals than for real estate, it can be done with appropriate reconciliatory techniques. One not so subtle nuance frequently overlooked is the fact sales of mineral properties can involve differing interests. A passive investor seeking royalty income can be expected to make a different investment decision than an investor that is to operate the property. This distinction is particularly significant when the property in question is producing. Two notable misuses of this approach I am encountering frequently involve the selection of an indication of value for reserves and the selection of a discount rate. Recent examples of each are provided in this presentation.

The Financial Phase Diagram Approach to Project Valuation

Lynette Hutson

Mining is a capital-intensive industry, where strategic decisions to buy, sell, develop, expand, or close a project require a strong understanding of the economic value and financial risks involved. However, conventional discounted cash flow (DCF) and real options methods of analyses either fail to consider many combinations of variables or are difficult to execute and opaque. This talk will describe a new, analytics-based approach to financial valuations that showcases myriad potential project outcomes in a way that explicitly defines the 'boundary conditions' of a successful project with respect to multiple variables. The approach is analogous to a geochemical phase diagram, which uses a field or surface to define the region of stability of a chemical compound with respect to different physicochemical conditions. This approach is more comprehensive than DCF and more transparent than real options analysis. It also provides a useful evaluation framework to aid technical staff in project evaluation, including a robust set of interactive visualizations.

To Before and After?
David Falkenstern

While most texts and accepted appraisal practice on the subject dictate that partial acquisitions of mineral properties be valued with the Before and After technique; specifically using royalty income, is it always appropriate? Do different site-specific situations necessitate a different appraisal approach to partial acquisitions?

Permitted/active and non-permitted/reserve mineral properties
Acquisition involves part of an eminently mineable section within a well-defined mine plan
Separate royalty/mineral owners within the mine
If the partial acquisition is a significant percentage of an active operation
Is royalty income the only damage?
Reserve replacement
New permitting costs
Do juries grasp Before and After?

The goal of this presentation is to present different examples of partial acquisitions and facilitate an open dialogue of our appraisal experiences on the subject.

Net Present Value in Early Stage Technical Studies vs Market Value
William E. Roscoe, Grant A. Malensek, Pierre Landry, and Graham G. Clow

Preliminary Economic Assessments (PEA) of gold projects commonly use discount rates of 5%, rarely more than 8%. We have compared the Net Present Value (NPV) in PEAs to (a) the market value of a transaction on the project and (b) the adjusted market capitalization of a junior company for which the project is its major asset. In most cases, there is a significant difference between the NPV and the other two parameters, where the transaction value and the market cap are a fraction of the NPV. The differences can be rectified by applying a higher discount rate to bring each project NPV into line with the transaction value or the market cap. We have also compared NPV in Preliminary Feasibility Studies (PFS) with market value and market capitalization of gold projects.

The Market Approach with Mineral Transactions: Pointers, Suggestions, and Ethical Considerations
John Manes

The Sales Comparison Method is a primary method under the Market Approach to Value that is widely taught in real estate appraisal courses. Application of the method to real estate is common, with data sources and information readily available. Application of the method to mineral interests can be challenging, with data sources and information sometimes difficult to obtain.

Pointers and suggestions for using the Sales Comparison Method with minerals, as well as ethical considerations, will be presented.

Mentor-Mentee Workshop in IIMA Suite in SLC

This workshop is an opportunity for all members to dialogue about Certification and other mineral appraisal topics in an informal setting. The event occurs on February 28 from 3pm to 5pm. Attendance is open, just come to the Diamond Lounge. We have three discussion points and qualified Workshop Guides:

Mark Sonderby will lead discussion about the Appraisal of Mineral Assets under the Uniform Appraisal Standards for Federal Land Acquisitions. Depending on each Federal Agency, these may lack the expertise to properly review mineral appraisals. Ideas on how to work with the Federal reviewer on a clear Scope of Work – Statement of Work will be shared. Mark will also discuss THE most common mistakes mineral appraisers could make. Most often these involve a difficult highest and best use determination when at the mineral development stage; comparable sale search challenges finding sales in the same stage of development, and using proper market support. A Kentucky example with actual sales on the expansion of a gravel operation is included.

John Manes will guide the participants through an Ethics-oriented What NOT to Do when you have subcontractors working for you! You may end up with responsibility for their errors and omissions. Extra due diligence is a must! Error examples from the sales comparison approach may include hidden flaws such as Highest & Best Use not supported by economic analysis; ignorance of TYPE of property interest (difference between landowner mineral real estate and mining company business property); use of early, low-quantity public disclosures leading to inflated unit values; unsupported location and access assumptions, and/or country risk omissions.

Finally, as time allows, **John Gustavson** will lead a discussion about Pitfalls in Valuation of Conservation Easements. The Before Value may reach wonderland proportions, frequently caused by appraiser ignorance and/or lack of compliance with USPAP, industry standards and prevailing regulations. The discussion will deal with some of the most egregious errors and omissions, which have led to order-of-magnitude overstatement of value. These include errors in resource/reserve classification, unsupported low discount rates, erroneous Highest & Best Use, omission of prior sales, inadequate market study, and understatement of permitting, zoning, and financing risks.

Annual Meeting

It is that time of the year again, namely planning for our *IIMA Annual Meeting* in Salt Lake City, scheduled for Tuesday, March 1, 2022, at our noon Luncheon. This important, official IIMA event will also take place at the Diamond Lounge. Our Secretary will send out the formal meeting announcement with Agenda as well as Luncheon menus for your choice among 4-5 delicious items. There will be a cash bar.

IIMA Casual Social Evening

Mark your calendar for the IIMA social gathering on Monday evening, February 28 from 6 pm to 10 pm. This event offers us a chance to reflect on the past year (or two!) with one another minerals appraisers and relax amongst a welcoming spread of food and beverages. This year our gathering will take place in the IIMA Diamond Suite – Hilton Salt Lake City Conference Center. See you there!

IIMA Website Updates

An important update is taking place regarding the IIMA web directory. Although this will not impact the format or overall functionality of the website, an issue is being patched where numerous spam users had been created over time and at a recently accelerating rate. This has caused a problem where the contact information of new members was not able to be posted in the online directory apart from the spam users. Updates to fix this have recently been implemented by a hired web developer. At the current time, the issue appears to be resolved. Thank you for those who have patiently waited for their information to be posted.

International Accounting Standards Board (IASB) Comments

John Gustavson

Recently, an Invitation to Comment was issued to the International Mineral Valuation Committee (IMVAL) by IASB, asking IF the old International Financial Reporting Standards, IFRS 6, needed updating. Our answer was affirmative. IFRS 6 currently demands that the Cost Approach shall be used for reporting a dollar value for property in financial reports, even after Discovery, all the time up through Feasibility Study. This disregards the bump in value created by the discovery. Regarding IFRS 6 as a whole, IMVAL has noted several key shortcomings, updates, and opportunities (Adapted from September 26, 2021, IMVAL letter to the IASB):

Key Shortcomings: *For mineral properties at the Mineral Resource Property stage, the current version of IFRS 6 appears to be inadequate, if not irrelevant and unreliable, its needing to consider the "successful efforts" of the expenditure when creating an "asset." During this stage, when, in particular, drilling and geophysical results create either a valuable asset or not, the relationship between expenditures and value breaks down from a cost perspective.*

Therefore, an investor or business user cannot rely on expenditures as a guide to market value at the Mineral Resource Property stage of development.

We as minerals appraisers and valuers are among those users. We find the above inadequacy to be a worthy area to receive priority in the IASB Extractive Activities Project.

Proposed Updates to IFRS 6: *The Market Approach4 to valuation can now be considered as part of a review of IFRS 6 for mineral properties at the Mineral Resource Property stage of use. The Market Approach (also known as the Sales Comparison Approach) is an internationally accepted valuation approach 10 establish the "Market Value." It has come to fore as being applicable to mineral properties at all stages of exploration and development.*

The advent of the internet has made available a wealth of transaction data from the market, which, after appropriate adjustments for operational and economic parameters from Sale to Subject, yield reliable results of market value.

We make note that the Income Approach is not considered relevant and reliable for valuation until after a full Feasibility Study has been completed, namely at the point at which the entity has demonstrated the commercial viability and technical feasibility for the extraction of mineral resources/reserves.

-John Gustavson

PAY YOUR DUES

Did your dues payment get lost in the Holiday shuffle? Take care of it **quickly and easily** online. To do so, log in to your IIMA member account and "make a payment to the institute." Comment that it is your annual dues payment.

Or, would you prefer to pay by check?
All checks can be made payable to IIMA and sent to the following address:

Charles Howard, P.E.
Treasurer, IIMA
Howard Engineering, Inc.
411 Main Street Suite 210
Mount Hope, WV 25880

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Special thanks to the contributions made. The strength of the IIMA organization is through the commitment, education, and contributions of its members. We are always looking for articles to enhance our profession and welcome any material that members may provide.

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