

INTERNATIONAL INSTITUTE OF MINERALS APPRAISERS

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2024 IIMA Meeting Call For Abstracts

SME recently made a call for abstracts for the 2024 meeting, which will be held in Phoenix, AZ. The IIMA technical sessions will occur on Tuesday, Feb. 27 with three hours of presentations in the morning and three hours in the afternoon. Thank you to Betsy Suppes and Jeff Kern for co-chairing the 2024 sessions.

For those who have given talks in previous years, IIMA appreciates your dedication to the Institute. To those of you who have not presented previously, this is a GREAT way to get CE credit. For Associates who want to be certified, this is an opportunity to help facilitate certification. Prospective authors are asked to submit a 100-word abstract.

Please let Betsy or Jeff know soon if you are interested in presenting at the conference. The SME deadline for abstract submission is Aug. 1. Last year's sessions had many non-IIMA members in attendance—so perhaps one of this year's attendees will be YOUR next client.

Betsy Suppes

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Member Certifications

Congratulations to the following IIMA members who recently attained certified status. These members meet the Institute's standards of education, experience, and integrity, as each is defined in the Bylaws, and subscribe to the Institute's Code of Ethics.

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Please Confirm Your Dues Payment

This is your friendly reminder to fulfill your role as a contributing member of our society by paying your society dues. Your timely payment ensures the smooth functioning of all shared resources, supports our initiatives, and maintains the effectiveness of our Institute. As of June 2023, some members have not responded to the annual dues notification, which was sent at the end of 2022. **Please make sure you have paid your dues for 2023.** Payments can be made through the IIMA website using PayPal or sent by check to the IIMA Treasurer.

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2024 USPAP Summary of Actions

Evan Mudd

On May 5, 2023, the Appraisal Standards Board (ASB) adopted modifications to the Uniform Standards of Professional Appraisal Practice (USPAP). In reviewing the modifications to the 2024 version, the following change (text excerpted from the Appraisal Foundation 2024 Summary of Actions) stands out as being most pertinent for appraising minerals:

Transfers and Sales

The Board adopted the addition of “**and other transfers.**” STANDARDS 1, 7, and 9 have requirements, under certain circumstances, where the appraiser would need to analyze prior sales of a subject property. However, while a “sale of a property” is essentially a “transfer of a property,” there is a minor technical difference between the two. A sale always includes a transfer, but a transfer may not always technically include a sale. As an example, for business appraisers, in the sale of companies, those sales are often structured in ways that are not considered “true” sales. For example, they can be re-

organizations, mergers, or other legal processes that convey or transfer an interest from one person (or entity) to another. There might even be partial transfers of businesses.

While USPAP guidance has always maintained that a “sale” and a “transfer” are essentially the same, enough questions have been raised about the issue that the ASB has made a change.

Rule Text:

When the value opinion to be developed is market value, an appraiser must, if such information is available to the appraiser in the normal course of business:

(a) analyze all agreements of sale, options, and listings of the subject property current as of the effective date of the appraisal; and

*(b) analyze all sales **and other transfers** of the subject property that occurred within the three (3) years prior to the effective date of the appraisal.*

Observations:

In the IIMA Newsletter editor’s opinion, this rule could be significant for mineral property appraisers because of the numerous (often tangled) deal structures in place for transferring mineral property including option agreements, assumptions of benefits and obligations, stock conversions, or other back-end agreements appurtenant to the transfer of mineral property.

7-HR USPAP Refresher

Appraisers are required to take the 7-Hour National USPAP Update Course (or its equivalent) once every two calendar years. The USPAP refresher courses clarify commonly misunderstood aspects of USPAP and assist appraisers in navigating this standard within their area of appraisal practice. These courses will benefit anyone seeking updated proficiency with USPAP, including those needing a refresher course for state license boards or other professional organizations, client groups, or employers. The following upcoming courses are sponsored by the Appraisal Institute.

Start Date	End Date	Location	Hours
8/25/2023	8/25/2023	Denver, CO	7
9/8/2023	9/8/2023	Bakersfield, CA	7
10/25/2023	10/25/2023	Milwaukee, WI	7
10/31/2023	10/31/2023	Ventura, CA	7
11/14/2023	11/14/2023	Newington, CT	7
11/15/2023	11/15/2023	Fullerton, CA	7
12/12/2023	12/12/2023	Warren, NJ	7
12/15/2023	12/15/2023	Carle Place, NY	7

Continuing Education Hours Reminder

Continuing education is vital to minerals appraisers because this is...honestly tough work. And it's especially challenging to appraise minerals consistent with our numerous industry standards, including USPAP—both *credibly* and *reliably*.

To bolster public trust, in 2011, by membership vote, IIMA began requiring Certified members to have earned 30 hours of continuing education over the most recent 3-year period. Essentially, this is an average of 10 hours per year.

The goal: *To certify the qualifications of individual Member appraisers to the public. (IIMA Bylaws Article 1.2)*

IIMA members are part of a select group having the dual training and experience to connect real geologic context to the value of mineral assets. Naturally, setting our standards high enhances trust—and leads to many of those repeat phone calls along the way.

So, remember to seek out excellent CE opportunities and track your instructional hours. IIMA operates on a 3-year education cycle for Certified members.

Also don't forget this bonus benefit for presenting at the annual IIMA Meeting:

What constitutes a CE Credit hour:

- 1) 2 hours CE Credit for chairing a session
- 2) 3 hours CE Credit for giving a talk
- 3) Actual number of hours/minutes spent in session when attending a session on appraisals

Dynamic DCF and Real Option Professional Development Course

One of IIMA's recent technical session authors, Michael Samis, will be presenting a 3-day professional development course. "**An Integrated Valuation and Risk Modelling Approach to Dynamic DCF and Real Options**," in partnership with the Colorado School of Mine's Continuing and Professional Education Services from Oct. 25–27, 2023, in Golden, CO.

The course is designed for professionals who would like to learn the foundational skills needed to build and run an Excel-based dynamic cash flow model of a mining project. The course provides practical instruction on how to use a dynamic cash flow model to assess a mining project's economic benefits and risk exposure when project managers have the flexibility to make investment and operational decisions to manage financial market risk. It shows participants how these models, which combine advanced finance theory, risk management concepts, decision analytics, and numerical business modeling, provide insights that are not available from the static cash flow models commonly used in the mining industry.

The course will demonstrate underlying concepts through an Excel-based case study based on the Blackwater Gold Project that considers the value and risk management benefits of staged development versus front-loading capital designs.

The course will cover the following topics:

1. Categorizing mining investments based on technical and financial risk levels.
2. Discussion about how learning about technical risk exploration and pilot programs creates value.
3. An overview of valuation theory and the difference between discounted cash flow and real option risk adjustments.

4. Building base and precious metal price uncertainty models for price simulation within Excel.
5. Constructing an initial dynamic no-flexibility cash flow model.
6. Measuring cash flow and project risk.
7. Introduction to binomial trees and dynamic programming.
8. Constructing a dynamic, flexible cash flow model combining dynamic programming, simulation, and Excel.
9. Additional applications of dynamic cash flow modeling – finance and risk management.

Additional details can be found at:

<https://learn.mines.edu/ivrm/>

FAIR MARKET RENTAL VALUE

Excerpt from the Archives
John B. Gustavson, 1998

Our members may have to deal with the concept of Fair Market Rental Value. It comes up when appraising leaseholds and other mineral rights which have been subject to “taking” by the Government and subsequently released back to the property owner. Compensation may be justified.

The legal standard for measuring compensation in temporary takings cases is the Fair Market Rental Value of the occupied or taken premises for the term specified. The methodology is reasonable, as discussed below; all standards of the appraisal profession must be followed such as USPAP and UASFLA.

When the Government acquires an interest through the mechanism of a temporary taking, the condemnor in question (the Government) will be obligated to pay the fair market rental value due at the beginning of the rental period as just compensation. Thus, any estimated periodic market rent must be adjusted for time value of money into one single payment to be assumed to be

paid in advance on the date of the onset of the temporary taking.

Comparable Sales Approach

The Fair Market Rental Value can be estimated by researching the current market rental value of comparable properties. This value is demonstrated in market transactions, such as advance minimum royalties, bonuses, acreage rentals, options, and similar monetary considerations. These rentals or “sales” can then be adjusted to the subject following standard practices.

Estimates of rental value must first be separated into two distinct phases. These can be related to the highest and best use of the property. The first phase is the exploration and evaluation period during which the mineral rights owner allows an operator (or himself) to explore and evaluate the property and its potential market. For allowing this under a typical contract (lease, rental, option, a.o.) the mine operator pays the mineral rights owner considerations such as bonuses, delay rentals, option payments, advance royalties, and other considerations. These considerations are economic rents. During this period the property is not available to others or to the mineral rights owner himself for competing purposes. It is under contract or, in other words, it is “taken” by the mine operator for the contractual period.

During this first phase practically no minerals are removed from the property. The minerals are still in the ground even when this phase ends. This temporary period may terminate with the expiration of the contract or with the onset of the second phase at the operator’s option, the production period. Any temporary taking by the Government during this first period, or extensions or repeats thereof, can therefore be handled for the mineral rights owner in complete parallel with a mine operator’s rental of the property. The rental market will yield data about comparable rentals and adjustments may be made as required.

In the second situation, namely, during the production phase, the activity involves removal

and sale of minerals such as oil, gas, coal, gold, or other commodities. Therefore, the mineral deposit is being depleted. For allowing the mine operator to remove and sell the owner's minerals, the mineral rights owner receives a consideration such as a royalty payment, a net smelter return, a net profits interest or similar considerations. If the Government interrupts this production phase, once commenced, then the mineral rights owner suffers the immediate loss of royalty income. This can be estimated by discounted cash flow methods, but it is partially offset by the fact that the minerals have not been depleted while under a temporary taking. This can also be estimated.

Market Rental Approach

Another method is based on considering the property as a capital asset the use of which is temporarily tied up. Even while unused, the "parked" capital still costs the owner money (his cost of capital) during the temporary taking. Now, there are conventional ways to estimate the value of the asset (its Fair Market Value) as well as the monthly cost of capital (the "interest") in the particular industry sector. Therefore, simple multiplication of the value by the interest and further by the number of months provides another approach to the Fair Market Rental Value.

While we are discussing minerals, federal land appraisal standards suggest utilizing "an appropriate interest rate on the land value if rental data is lacking." Still when rental data is

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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

available, it is of course the most powerful market approach. The "tied-up" capital approach is mainly of interest because it can provide a reality check on the results of the former approach.

The weighted average cost of capital is considered a fair approximation of the interest rate for a no-risk (no cash flow risk) delay in the use of capital. It costs the mineral rights owner money to have his capital tied up by the Government. This may also be the hurdle rate that companies would seek on any given investment.

Reconciliation of FMRV

This Appraiser considers the Comparable Sales Approach to be the most reliable for estimating FMRV because it is based on actual market data. In addition, the interest applied to the tied-up mineral rights value can serve as a reality check to further guide the FMRV.

Presentations Available Online

Presentation downloads are available for SME / IIMA valuation sessions from 2011-2022. These materials can be used to fulfill your IIMA CE requirements. Keep an eye on the IIMA website. The 2023 presentations are coming soon!

articles to enhance our profession, and we welcome any material that members may provide.

All articles are contributed on a volunteer basis. The views and opinions expressed in any and all articles are those of the authors and do not necessarily reflect those of IIMA or your Newsletter Editor. If any IIMA member would like to professionally add-on to, rebut, or clarify any articles, I will feature such articles in the following newsletter. Thank you!
