

# INTERNATIONAL INSTITUTE OF MINERALS APPRAISERS

P.O. Box 19529      Boulder, Colorado 80308

## NEWSLETTER

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## 2023 IIMA/SME CONFERENCE EVENTS IN DENVER, CO!

Greetings to IIMA! In this issue we are pleased to cover some recent mineral appraisal news and dispatch the details of our upcoming 2023 annual conference in Denver, Colorado. Please be sure to view the schedule of IIMA events between Monday, February 27 and Tuesday, February 28 in Denver, Colorado to plan your travel arrangements.

Happenings include a minerals appraiser mentor/mentee clinic, evening social, technical sessions, and business meeting luncheon. This year's mentor/mentee clinic will focus on mineral appraiser ethics requirements within the scope of USPAP. One of the highlights of every year follows - getting to relax and enjoy the company of one another at the evening social mixer. An event not to be missed! Meetings and technical sessions are to follow on February 28. Look further into the newsletter for those details. See you there!

## THANKS TO OUR IIMA SOCIAL EVENT SPONSORS!



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# 2023 IIMA/SME CONFERENCE SCHEDULE

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## Monday, Feb. 27

3 pm – 5 pm

Mentor/Mentee Clinic (with coffee/snacks)

*Hyatt Regency IIMA Suite*

*Hyatt Regency Colorado Convention Center*

*650 15th Street*

*Denver, CO 80202*

6 pm – 10pm

IIMA Social Event (open bar/appetizers)

*IIMA Suite*

*Hyatt Regency Colorado Convention Center*

## Tuesday, Feb. 28

9 am - Valuation Sessions I - Case Studies and Methodologies

*Denver Convention Center: Room 108*

12 pm - IIMA Annual Business Meeting

*Bubba Gump Shrimp Co.*

*1437 California St, Denver, CO 80202*

*(Walking distance from Convention Center)*

2 pm - Valuation Sessions II - Lessons Learned

*Denver Convention Center: Room 108*

5 pm – Closure

## 2023 IIMA/SME MORNING ABSTRACTS

### Examination of Market Rental Value

Edwin Moritz

There are instances where there can be a temporary loss of use of a mineral or oil and gas right. As an example, this temporary loss in use may occur as a result of a local moratorium on oil and gas permitting, perceived cloud on title or a mineral

trespass. Other events may cause this condition also. If the mineral owner regains the use of the right, then an appraiser may be faced with valuing the loss in use over the time period in question. The closest analogues for calculating damages involving the temporary loss of a property right derives from eminent domain cases such as temporary easements and takings. In these cases, the proper measure of damages is the economic or market rents that the property could receive over the temporary time period. Measuring compensation based on the market rents that a property interest would receive is known as the market rental value and is defined in the Uniform Appraisal Standards for Federal Land Acquisitions (UASFLA). This presentation provides an example of analysis of market rents for oil and gas rights in the Appalachian Basin.

### Net Present Value in Early Stage Technical Studies vs Market Value (Copper)

Pierre Landry

In past studies we have compared the Net Present Value (NPV) in Preliminary Economic Assessments (PEA) with market transaction value and market capitalization of junior companies holding the gold project. The present study on copper projects similarly compares NPV in PEAs to market transaction value and market capitalization. Similar to gold projects, PEAs of copper projects commonly use low discount rates. We have compared the NPV in PEAs of copper projects 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 significantly lower than 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.

### Nuisance Value of Mineral Rights: A Thorny Stick within the Bundle of Rights

Matthew Chapman

Mineral deposits must be valued according to various parameters and tests applied to geologic and engineering data and classified into reserve, resource, or uneconomic status. If current physical,

legal, social, and economic feasibility cannot be established for the mineral deposit but may have a possibility in the future, the mineral deposit may be considered to have nuisance value. Hence, a mineral deposit not having current economic value (value derived by benefits of a given asset) may nonetheless still hold market value (value derived by supply and demand and price someone is willing to pay in the market) as a stick in the bundle of property rights.

This presentation will identify sales of uneconomic mineral estates and the steps taken to consider the spectrum of uneconomic mineral status: from highly speculative, low probability future production, to improbable, to non-existent; versus the spectrum of buyer demand-side motivation to have the control for the mineral estate. The presentation will discuss uneconomic mineral rights sales and also consider sales of uneconomic surface remnants, sales of easements, and control-related sales.

### **Handling P&A Liability in Fair Market Value Appraisals of Oil and Gas Assets**

Kevin Weller

In the appraisal of working interests in developed oil and gas properties, the potential liability for plugging and abandonment costs should be considered, and the value of the assets adjusted by the net present value of the liability. The approach may be as simple as 1) salvage value is assumed to equal P&A liability (resulting in a zero net liability) or 2) a rule-of-thumb approach based on reliably sourced average cost per well or cost per foot of depth data or 3) a detailed cost estimate based on P&A procedure based on regulatory requirements and well-specific stipulations and provided by the operator or one or more service providers. If the assets have remaining economic life the costs under methods 2 or 3 would be reduced based on their present value. Whatever the approach the Appraiser should clearly state the assumptions and the basis for P&A liability in their report.

New regulations being discussed in Colorado would require operators (and this would extend to the working interest owners) to deposit a bond for the full amount of the estimated P&A cost of every well

they operate. Case studies and Public domain sources of P&A cost data will be presented and discussed.

### **Using dynamic cash flow modelling to assess the risk and return of the Tocantinzinho Gold Project financing package**

Michael R Samis

Mining projects are financed by numerous methods ranging from traditional project debt to alternative financing arrangements tied to metal prices. A project's ability to fulfill its financing obligations is often assessed with a static cash flow model that calculates the internal rate of return and financing ratios. However, this modelling approach has a weakness in that investment performance and risk are not adequately assessed across a range of future possibilities.

Dynamic cash flow modelling is a framework that uses simulation, finance theory, and risk management concepts to consider a project and its financing across a range of possibilities. This presentation analyses the financing for G Mining Venture's Tocantinzinho Gold Project to understand how risk and return are distributed between equity, debt, and a stream. It highlights how financing impacts the possibility of early closure and that the risk of some financing arrangements may differ from common industry perceptions. Dynamic cash flow modelling is a powerful tool for designing a financing package that shares economic potential between stakeholders while recognizing exposure to financial market risk.

## **2023 IIMA/SME AFTERNOON ABSTRACTS**

### **Mineral Appraisal - Is it an "As Is" or an "As It Could Be" Value?**

James M Beck

The concept of "as is" value is generally recognized as that value representative of the actual condition or situation of a subject mineral (or other) property, so-determined as of the effective date of value. It is

derived on a stand-alone basis, but is often then combined with "market value", resulting in a so-called "as is market value". USPAP recognizes neither the "as is" nor the "as is market value" terminology, instead deferring to various definitions of "market value". Irrespective of the appraisal objective, and it is the appraiser's responsibility to fully understand the appraisal assignment at hand, the "as is" or "as is market value", when examined in proper context, may not significantly differ from "market value". All measures of value are dependent on the outcome of the highest and best use (HBU) analysis, which incorporates a USPAP-recognized sequence of four tests. Yet, a mineral property's value may be uniquely influenced by or highly dependent on property status and/or stage of development. There may be substantial evidence, if credibly supported, to conclude an "as it could be" value (in lieu of "as is") that is substantively equivalent to "market value".

### **Hypothetical Conditions**

Alan Stagg

USPAP defines a Hypothetical Condition as "[...] a condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis." The Cambridge Dictionary defines "pie in the sky" as "[...] something that you hope will happen but is very unlikely to happen." This presentation explores the widespread application of the Income Approach to Value based on mining operations that do not exist and for which there is no basis on which to presume they would have existed in the foreseeable future. Equating the "value" obtained in this fashion to market value defies the practices of "willing buyers" and is particularly egregious when used in condemnations, takings, conservation easements, and gifting.

### **Principle of Substitution in Mineral Appraisal**

Evan Mudd

When presented with a variety of identical assets, a typical buyer selects the option costing the least while still maintaining all relevant objectives. In appraisal practice, the principle of substitution requires the appraiser to account for this tendency of

buyers to gravitate to the least-costly alternative when acquiring real property, including mineral resources.

To identify alternate sources of minerals, Mineral appraisers have the geoscientific training, industry experience to mirror the thought process of a mining investor and identify the alternate properties which could be acquired in place of a subject property. This awareness and understanding of investor behavior influences the valuation process.

This case explores side by side, the methodology used to value a property when no alternates are considered, vs. when alternate, substitute properties are analyzed. Although many key differences are noted, the principle of substitution and the appraiser's ability to compare geoscientific attributes between comparable properties is emphasized.

### **Oil and Gas Capital Raises**

Andy Clay

In our experience with capital raises in the oil and gas space, there have been areas of misconception or lack of granular transparency around NPVs, IRRs, payback periods, break-evens and, in particular, the alignment of the capex per the financial information and the sources and uses of funds per the prospectus.

This presentation aims to recommend specific metrics and visuals to include in the presentation of prospective financial information (PFI) to facilitate the coalescence of the technical and financial information presented in the competent person's technical report and the sources and uses of funds presented by the sponsors in the prospectus. These metrics and visuals are also positioned to improve and enhance the transparency and understandability of the PFI for the users of these reports.

### **Gold Property Transaction Values by Development Stage (2012-2021)**

Grant Malensek

RPA has updated its study on market transactions globally from 2012 to 2021 for producing and non-producing gold properties containing mineral resources and mineral reserves. This presentation will illustrate variances in \$/oz values for non-

producing properties by development stage (exploration, scoping, pre-feasibility, and feasibility) over the last decade.

## Mentor-Mentee Workshop in IIMA Suite in Denver

This workshop is an opportunity for all members to dialogue about Certification and other mineral appraisal topics in an informal setting. This year, David Abbott will lead a discussion about ethics, competency and USPAP requirements for mineral appraisers.

The event occurs on February 27 from 3pm to 5pm. Attendance is open, just come to the IIMA Hyatt Regency Suite. The room number is to be determined, so check hotel lounge event screens, or ask about location at the front desk.

## Annual Noon Luncheon Meeting

Planning is currently in the works for our *IIMA Annual Meeting* and noon luncheon just several minutes walk from the Denver Convention Center, scheduled for Tuesday, February 28, 2023, at 12 pm. This, important IIMA event serves as our annual forum to vote on member issues.

Our lunch (coinciding with the annual meeting) at Bubba Gump Shrimp (BGS) has several entrée selections. Our luncheon (per person (including tip) is \$35. Please indicate your menu selection by **February 10<sup>th</sup>** to Betsy Suppes at [bsupes@atlanticbb.net](mailto:bsupes@atlanticbb.net).

### Lunch Selection

- 1) Captain's Fish and Chips
- 2) Fried Shrimp
- 3) Ping Pong Chicken Pasta
- 4) Sweet Home BBQ Cheeseburger

**Dessert:** Chocolate Cake

**Beverages:** Soft Drinks, Coffee, Tea  
Additional Beverages to be paid individually.

You may prepay for your lunch via IIMA website using PayPal and your credit card.

## IIMA Casual Social Evening

Mark your calendar for the IIMA social gathering on Monday evening, February 27 from 6 pm to 10 pm. This event offers us a chance to reflect on the past year 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 Suite – Hyatt Regency at the Denver Conference Center. See you there!

## IIMA Fall Meeting Recap October, 2022 Canonsburg, PA

Darwin Werthessen

On October 11th and 12th, the IIMA sponsored the Fall Eastern Conference at the Southpointe Golf Club in Canonsburg, PA. The two-day event was well attended by IIMA members and related industry professionals.

Day 1 was a 7-hour USPAP Refresher course instructed by Mark Smeltzer, MAI, SRA, AI-RRS was attended by 13 appraisers. Positive feedback was received regarding the course, instructor, venue, and arrangements. Going forward, the IIMA will look to make this a recurring event to provide membership the opportunity to complete the MANDATORY USPAP updates.

A social networking event was hosted by several generous sponsors on the evening of October 11th. About 15-20 attendees, presenters, and sponsors enjoyed some light refreshments and discussion in the gathering room on the lower level of The Hilton Garden Inn at Southpointe, about one mile from the Southpointe Golf Club.

Day 2 was attended by 26 participants who enjoyed talks from eight presenters. The topics ranged from financial reporting appraisal to oil and gas topics to market analyses and finished with a lively presentation and discussion regarding conservation easements. Presentations were not recorded; however, slide decks are available by contacting presenters directly.

A special thanks to Betsy Suppes and Kimberly Ayers for their time, energy, and efforts to assemble a wonderful get together. As we look to plan a similar event for the future, the blueprint Betsy and Kimberly have established will be valuable. Thank you both again for your efforts.

As always, feedback and suggestions for future events is always welcomed. Further, even more coveted is your time and energy in planning, sourcing, and hosting events such as the recent Fall Conference. IIMA will look to host a similar event in 2024.

## Member News

### Emeritus Retirement

From time to time, IIMA receives anticipated, yet bittersweet news of members “retiring from IIMA” and focusing their remaining years on other, non-mineral appraisal priorities. With this in mind, it is IIMA’s honor to thank Dr. William “Bill” Bagby, for his years of membership and contribution to IIMA. Dr. Bagby received IIMA certification in 2006 and in addition to appraisal work in the industry, led the IIMA Ad Hoc Ethics Code Committee through adoption of our most recent standards in 2019. Thank you, Bill for your many contributions to this organization!

## Appraisal Foundation Releases Fourth Exposure Draft of Proposed Changes to USPAP

The Appraisal Standards Board of The Appraisal Foundation released its fourth exposure draft of

proposed changes to USPAP on December 13, 2022. *“To obtain feedback on proposed changes to the Uniform Standards of Professional Appraisal Practice or the Real Property Appraiser Qualification Criteria, the Appraisal Standards Board and Appraiser Qualifications Board issue Exposure Drafts. Additionally, The Appraisal Foundation may seek feedback regarding proposed guidance on valuation methods and techniques. Exposure Drafts always have comment deadlines, and the Boards read and consider each comment received prior to making any changes.”*

Changes relating to the Ethics Rule, Inspection Disclosures, Analysis of sales and transfers, and several definitions, including the definition of an “appraiser” are all proposed.

The Fourth Exposure Draft of Proposed Changes to USPAP may be downloaded from:

<https://appraisalfoundation.sharefile.com/d-s80c9bc7163694f5a809cb401316d53cf>

## Continuing Education

Here’s a quick reminder to acquire your continuing education (CE) credits: The requirement is 30 hours minimum over most recent 3 year period (as voted on in 2011). Also - 1 CE hour is required in ethics each year. It is up to each individual to keep track of their CE it so that they can confirm at the annual renewal time that they are in compliance.

In case you missed the IIMA fall conference and USPAP update course, here’s a list of several other opportunities to receive the same training in the near future.

Registration Link: [Appraisal Institute Education](#)

Description	Date	Locaion
15-Hour National USPAP Course	2/15/2023	Chicago, IL
15-Hour National USPAP Course	3/20/2023	Indianapolis, IN
15-Hour National USPAP Course	4/14/2023	Braintree, MA
15-Hour National USPAP Course	4/24/2023	Pittsburgh, PA
15-Hour National USPAP Course	6/26/2023	Nashville, TN
15-Hour National USPAP Course	10/2/2023	Chicago, IL
7-Hour National USPAP Update Course	2/7/2023	Tacoma, WA
7-Hour National USPAP Update Course	2/10/2023	San Diego, CA
7-Hour National USPAP Update Course	2/10/2023	San Antonio, TX
7-Hour National USPAP Update Course	2/16/2023	Virtual Classroom, MD

More are available through the American Society of Appraisers(ASA), American Society of Farm Managers and Rural Appraisers (ASFMRA) and other appraisal organizations.

## Fall Conference Presentation Slides Available to Members

Would you like to add presentation materials from the 2022 Fall Conference to your personal appraisal library? The topics include:

**Mineral Appraisal in Financial Reporting**  
Darwin Werthessen

**Musings Over Four Decades of Mineral Valuation**  
Ronald Lewis

**Estimating Phosphate Property Values by Sales Comparison Approach**  
Elliot Mallard

**Other Considerations When Appraising Unconventional Oil and Natural Gas Assets**  
Paul Dudenas

**The Role of Marketing Studies in Mineral Property Appraisals**  
Dennis Noll

**Trends in Midwestern US Base Metal Property Transaction Values**  
Grant A. Malensek

**Conservation Easements**  
Jeff Kern

PowerPoint slides are available by making a \$50 donation to IIMA. Please contact Betsy Suppes at Betsy Suppes bsupes@atlanticbb.net for more information.

## 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.

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!  
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