

AMERICAN INSTITUTE OF MINERALS APPRAISERS

NEWSLETTER

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IN MEMORANDUM

By Sidney S. Alderman

Ben H. Slothower

1/3/1925 – 10/4/2007

Cow Boy 1940 – 1941

Rancher, 1941 – 1942

Military Aviator, 1942 -1945

Miner – Climax Molybdenum Co., 1946 – 1947

Engineer of Mines – Colorado School of Mines, 1950

Mining Engineer – Golden Cycle Corp., 1950 - 1956

MBA, Graduate School of Business – Stanford Univ., 1958

Mining Engineer – Kennecott Copper Corp., 1958 – 1981

African Big Game Hunter, 1980

Director – Holly Sugar Corp., 1961 – 1981

President & CEO – Holly Sugar Corp., 1981

Farmer – Valley Grove farm, Bozeman, Mt., 1981 -1986

Mineral Appraiser – Alderman, Slothower & Assoc., 1985 – 2002

Mineral Appraiser – Western Mineral Appraisers, LLC, 2002 - 2005

Ben Slothower's business resume reads fairly typically for a mining engineer of his time, but does not begin to reveal the character and complexity of this remarkable man who was able to excel in a wide variety of occupations and life experiences. Ben was equally at home on a ranch, hardscrabble mining camp, Air Force bombing mission, or corporate board room. He was an intellectual, a book lover, as well as a man of action – a doer.

During World War II, Ben served in the Fifth Wing of the 15th Air Force as a B-17 navigator. He was stationed near Foggia, Italy at an air field on the heel of the Italian boot from which bombing runs were made over Yugoslavia into Austria and southern Germany. Although he survived without being shot down, many fellows from Ben's squadron ended up in Tito's territory and were well taken care of by the anti-German partisans. He had many interesting tales about this adventure.

Ben's degrees – Engineer of Mines and MBA led him into a long and successful career in the mining industry, culminated by a twenty three year career with Kennecott Copper Corporation where he worked in the central engineering office in Salt Lake City, reviewing and evaluating proposals from various corporate divisions to the New York corporate headquarters. He developed a talent for translating rough hewn requests for funding by operating engineers, into fluent documents understandable by lawyers, accountants, and corporate executives.

His long directorship of Holly Sugar Corporation, then a highly rated New York Stock Exchange listing, led to his appointment as President and CEO in 1981. The jump from mining engineering to beet farming and sugar processing was a simple one for Ben Slothower. Since his childhood, he had rubbed shoulders with high and mighty people in Cripple Creek Colorado, Colorado Springs, and Costa Mesa, California, and could hold his own with the best of them. He talked their language and took no guff from anyone.

Continued on page 2

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After his retirement from Kennecott and Holly, Ben moved from Salt Lake City to Bozeman, Montana where he bought a farm and started a whole new career. This was not a gentleman farmer's venture. Ben, his wife Patty-Rae and their son Ben Hill, operated this 640 acre grain producer by themselves, planting, irrigating, husbanding animals, and everything else except for harvesting.

After a few years, Ben retired from farming, sold the farm, and moved into a condo in Bozeman with Patty-Rae. In 1985, he started a new career as a mineral appraiser, teamed up with an old friend in Alderman, Slothower & Associates. Ben's long mining industry experience evaluating major mining projects and his MBA training provided the background for mineral appraisals. He was certified as a mineral appraiser by the California State Board of Equalization. His appraisal clients included the California County Assessors, the U.S. Army Corps of Engineers, U.S. Bureau of Land Management, U.S. Borax, Callahan Mining, and several major banks. In 2002, Ben Slothower and Sidney Alderman retired and the firm was re-organized as Western Mineral Appraisers LLC with the addition of two active members, Fred Barnard and William Bagby.

After his retirement as a mineral appraiser, Ben remained active in a number of professional societies, including the Mining and Metallurgical Society of America, the American Institute of Mining Engineers and the American Institute of Mineral Appraisers.

Ben Slothower passed away at his home in Bozeman on October 4, 2007, survived by his wife Patty-Rae, his son Ben Hill Slothower, Corvallis, Oregon, and his daughter, Lucille, of Bozeman.

Ben's wit, charm, and good sense of humor, as well as his wealth of human experience and wisdom will be missed by all who knew him.

Sidney S. Alderman
October 12, 2007

ANNUAL MEETING

Donald Warnken

Our next Annual Meeting will be held in Salt Lake City, Utah on February 25, 2008. The meeting place and time will be announced at a later date.

Each year our Annual Meeting is held coincident with SME's Annual Meeting. The rationale is simply the fact that many of our members are also members of SME. Also, the SME allows a program session that provides our members an opportunity to present papers relevant to mineral valuations. Each year the Mineral Valuation Session is chaired by an AIMA Member(s). The Chair persons for the 2008 Session are Edwin Moritz and

John Gustavson of Gustavson Associates.

There are three papers to be presented at the meeting. All three will be presented on Monday, February 25, 2008. The time, title of paper, author and a synopsis of the paper are presented below;

2:05 PM

When Partial Takings Take More Than You Think

By Robert Frahme, Gustavson Associates, Boulder, CO

Appraisers are often asked to develop an opinion of value of a partial taking. It is incumbent upon the appraiser, in the review of the condemnation documents to form an opinion of the larger parcel(s), the part(s) to be taken and the remainder(s). Sometimes, the project causes the remainder(s) to have no economic value. In such cases, the purported "partial taking" may be tantamount to a total taking and must be appraised as such. This paper relates some of the appraiser's experiences in such determinations.

2:25 PM

Use of Comparable Sales in Appraising Coalbed Methane Properties

By Edwin Moritz, Gustavson & Associates, Boulder, CO

There has been a surge in interest in the acquisition and development of coalbed methane properties. Depending on the location, coalbed methane projects require economies of scale and other considerations in order to be attractive. The appraisal of such acreage can be complex especially if the acreage is undeveloped and some distance from production. This paper describes the use of comparable sales as one method to approach a value in the appraisal of coalbed methane properties. Case histories from certain areas of the Rocky Mountains are presented.

2:45 PM

Property in Transition – Appraisal of Mining and Upscale Residential Use, Saguaro Park, AZ

By John Gustavson, Gustavson Associates, Boulder, CO

The claim named Comet 1 is located on Yuma Mine Road near Tuscon. The Saguaro National Park nearly surrounds the parcel with unfriendly, private neighbors to the north. A Validation Examination was provided. Patenting was recommended by the BLM for gold-lead mining. Interior found no legal reason why the mining patent would not be issued. Appraisal includes other value since residential land will surpass that of mining. Maximally productive use then changes to residential. FMV is estimated as the sum of transitional mining and long-term residential use. The former was estimated on a lease basis similar to appraisal in
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Annual Meeting, *Continued from page 2*

temporary takings, where Fair Market Rental Value may be estimated. Claim changed to residential use after 5 years of mining. Adjustment was made for availability of access through mining use. Cost of access by necessity and construction of road are included in the mining use. Reclamation for residential purpose is included. Value was adjusted based on appreciation in Tucson residential market. The transitional value and long-term value were added, yielding the FMV. Both private owner of claim and NPS agreed to the FMV for purchase by the NPS.

Restructuring of the International Valuation Standards Committee Update

In April 2007 members of the IVSC voted in favor of restructuring. Subsequently, the IVSC Board approved revised Bylaws and Articles of Incorporation on November 18th which was ratified by IVSC members at the Annual General Meeting on November 19th. The new structure is to become operational in May 2008.

The new organization will be known as the "International Valuation Standards Council" and will remain as a non-profit organization incorporated in the State of Illinois.

Membership of the IVSC will be broadened beyond national professional valuation institutes to include valuation companies, government, valuation end-users, and academia. Members will be provided a forum for participation with the objective of advising the Boards on agenda decisions and priorities in the work of the IVSC.

The goal of the IVSC is ambitious – to become an independent standards setting organization that can develop international valuation standards for assets and liabilities. Such standards will play a key role in promoting vibrant, transparent markets and strengthening investor confidence around the world.

Administrative Law, Civil Procedure, Environmental Law, Government Law, Indian Law, Property Law & Real Estate

Editor's Note: Michael Cartwright has furnished the following case laws for your information

San Joaquin Raptor Rescue Ctr. V County of Merced, No. F050232

In a CEQA challenge to a county board of supervisors' decision to certify an environmental impact report (EIR) and approve a conditional use permit (CUP) regarding a proposed expansion of a mining operation, denial of a petition for writ of mandate is reversed where the certification was an abuse of discretion as the EIR was fundamentally flawed and suffered from various deficiencies where were prejudicial.

Quigley v. Bennett, No. 05-0870

Evidence of the value of a royalty interest in minerals cannot be considered in determining compensation for geologic services when services were not rendered pursuant to a written agreement.

Fid. Exploration & Prod. Co. v US, No 06-35307

In an action brought under the Quiet Title Act seeking to quiet title to a portion of the bed of a river on which plaintiff holds an oil and gas leases issued by Montana, but to which defendant-U.S. claimed as trustee for the Northern Cheyenne Indian Tribe, dismissal of the action is affirmed where: 1) plaintiff's predecessor in interest knew, or should have known, of the claim of the U.S. no later than 1926; and 2) thus, the statutes of limitations had expired by the time plaintiff filed suit in 2004.

Friends of Pinto Creek v. US Env'tl. Prot. Agency, No. 05-70785

Petition for review of the EPA's issuance of a National Pollution Discharge Elimination System (NPDES) permit to a copper mining company, allowing mining-related discharges of copper into an Arizona water body already in excess of water quality standards for copper, is granted as the issuance of the NPDES permit was based on errors of law under the Clean Water Act, 40 C.F.R. section 122.4(i), and the National Environmental Policy Act (NEPA).

In re: El Toro Materials Co., Inc., No. 05-56164

In an adversary proceeding involving the bankruptcy estate of a mining company and claims of waste, nuisance, trespass and breach of contract, a ruling finding that appellant-church's recovery would be limited by a statutory provision is reversed as a rule capping damages "resulting from the termination of a lease of real property," 11 U.S.C. section 502(b)(6) does not limit the bankruptcy estate's liability for allegedly leaving one million tons of its wet clay "goo," mining equipment and other materials on appellant-church's property after rejecting its lease.

California Minerals v. County of Kern, No. F049849

In case involving the valuation of oil and gas property interests for the purpose of determining ad valorem taxes, judgment for defendant-county on plaintiff's complaint for refund of taxes is affirmed where plaintiff had the burden of establishing a different taxable value of a real property interest and failed to do so.

N. Cheyenne Tribe v. Norton, No. 05-35408

In a suite involving multiple challenges to an injunction limiting, but not entirely prohibiting, coal bed methane development while the Bureau of Land Management expands an environmental impact statement, the injunction is upheld where the district court did not abuse its discretion in issuing a partial injunction proposed by BLM because it provided an equitable resolution consistent with the purposes of NEPA.

A New Trend In Oil & Gas Leasing?

An AIMA Member recently furnished your *Editor* a copy the NewsOk.com September 28, 2007 Newsletter. One article in it was an eye opener for him. The title of the article was "Drilling Proves Thrilling For Farm Communities."

Basically, the article concerned the recent leasing of oil and gas rights in Coal, Hughes, Atoka and Pittsburg Counties, Oklahoma. Those counties are situated in the heart of the Woodford Shale play.

A group of Woodford Shale mineral owners had banded together to help increase the prices paid for leases. They realized that they could not negotiate one-on-one with the oil and gas companies to obtain the highest lease bonus. Thus, they turned to a long-time Ada, Oklahoma oil and gas attorney, Charles Mayhue for help. He formed an auction company for the auctioning of oil and gas leases.

Three auctions have been held by the company subsequent to June 2007. The auctions have brought an average lease bonus of about \$7,000 per acre, with individual bonuses ranging from more than \$500 to more than \$10,000. A typical lease bonus in the area was \$250 per acre prior to the auctions.

The Minerals Appraisal Handbook

Many AIMA Members have asked the question what happened to the Minerals Appraisal Handbook that had been proposed two plus years ago. Your *Editor* is pleased to announce that John Chance, AIMA Member, and Jerry Clark, an AIMA applicant, have agreed to pursue the writing and publishing of it. The two are excellent for pursuing this project. Both have academic backgrounds and both have taught appraisal courses. John has taught at Urbana University, Urbana, Ohio and Jerry has taught at Clark & Greene County State Community College. John is semi retired which affords him the time to spend on composing and writing.

A copy of John Chance's October 31, 2007 letter to your *Editor* containing their proposals is presented below FYI;

Dear Don

Enclosed is the proposed outline for the Minerals Appraisal Handbook for your comments and suggestions.

Jerry Clark has agreed to work with me on the book. He has suggested that the most cost effective method of publishing would be to put the entire text on the Internet and charge for "Section 1" (introduction) and then separately for the various "White Papers."

This introduction will assume that the reader has some knowledge of appraisal and/or minerals/fluids so as to reduce elementary boilerplate.

The "White Papers" should be authored by AIMA members that specialize in the respective fields; I will write the introductory section over the winter (my wife and I go to Florida).

Both Jerry and I have specialized in limestone, sand and gravel, and coal and thus lack expertise in oil and gas; we will require extensive guidance in these fields for the pertinent parts of Section 1.

I have enclosed a card with my Florida address and numbers. We will be able to use e-mail a few days after I arrive o/a November 5th.

Looking forward to your comments, I remain

Sincerely yours,

John K. Chance

The names of those AIMA Members that have indicated their desire to contribute to the Minerals Appraisal Handbook have been forwarded to John. In the near future he will be contacting them for their input. For those Members who have not here-to-fore stated their interest to contribute, it is not too late for your input. Furthermore it is not too late for your input to the outline which is presented below. However, after January 15, 2008, it will be assumed there are no proposed changes to it and the authors will proceed.

(Proposed Outline)

MINERAL APPRAISAL HANDBOOK

Section 1:	<u>Fundamentals of Mineral Appraisals</u>
Chapter 1:	Purpose of the Appraisal Know what, why and for whom you are appraising
Chapter 2:	Market Value Concepts: Utility Land and Mineral Rights Highest and Best Use
Chapter 3:	Basic Economic Analysis: Initial Assumptions Exploration and Analysis of Fluid Properties Quality and Quantity of Hard Mineral Deposits Mineability of Hard Minerals and Regulation Marketability Reclamation and Disposition

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The Minerals Appraisal Handbook

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Chapter 4:	Valuation Methods Sales Comparison Analysis Income Capitalization Analysis Royalty analysis Cost Analysis Reporting
Chapter 5:	Appraisal Standards USPAP USFLA International Valuation Standards AIMA Code of Conduct Laws, Court Decisions and Appraiser Liability
<u>Section 2</u>	<u>Legal Environment (White Paper)</u>
WP 1	Licensing, Laws, Court Decisions and Appraiser Liability
<u>Section 3</u>	<u>Identifying the Unique Appraisal Characteristics Of Specific Mineral Properties (White Papers)</u>
WP 2	Oil and Gas
WP 3	Sand and Gravel
WP 4	Limestone
WP 5	Marble
WP 6	Clay
WP 7	Coal
	Etc as needed

Braisas Gold Mining Concession Bolivia State, Venezuela

Trevor Ellis, AIMA Member, recently furnished your *Editor / Web Master* a copy of his appraisal report concerning the Braisas Gold Mining Concession for posting on AIMA's website (www.mineralsappraisers.com). His client, Strongbow Capital Ltd, had given him permission for the posting for educational purposes.

This was the first new posting on the web site in over two years. All AIMA Members are encouraged to furnish your *Editor / Web Master* your papers or reports that you would like to share with the public domain for posting.

Your *Editor / Web Master* has made a cursory review of the report. It is a 226 page report and is impressive. Trevor has

used sales from seven different countries, West Africa, Mexico, Russia, Tanzania, Brazil, Finland and Venezuela, in his Sales Comparison Approach to value. Further, he has prepared a grid for adjusting the sales which in some instances resulted in several hundred percent adjustment.

Trevor has provided the following FYI;

Particular features of this report include:

- The valuation process and valuation reporting were developed to abide by the *International Valuation Standards* and the USA's *USPAP*;
- Analysis of transactions in many countries;
- The transaction (Sales) Analysis section includes extraction of market discount information;
- The Sales Comparison Adjustment Grid includes adjustments for operating cost and country risk, among its many adjustments;
- Use of probability scenarios with NPV/DCF method;
- Use of the Stock Market Entity Value extraction method. (The method is tentatively classified as a Cost Approach method in this report. In 2007, the IVSC'S Extractive Industries Expert Group proposed that this method be classified as a Sales Comparison Approach Method when used for valuation of the real property component of minerals and petroleum assets. A decision is expected from the Standards Board of the IVSC in the Extractive Industries Technical Paper in 2008);
- Reconciliation of estimates derived by a number of methods.

Item to consider:

Are the total adjustments in the Sales Comparison Adjustment Grid of many hundreds of percent valid? Are the concepts applied in the adjustments acceptable?

Is the selected discount rate of 10% constant \$ before income taxes, for an undeveloped gold property in Venezuela, too low, despite the fact that feasibility studies for Venezuelan gold properties at that time were typically run at 1% and 2% discount rates?

Is the Stock Market Entity Value Extraction method, which relies on business valuation data, a valid method for a valuation such as this (of a mineral property as a real property)? If the method is valid, is this a Sales Comparison Approach method or a Cost Approach method? In the reconciliation of estimates, should more weight have been given to the much lower value estimate provided by the Stock Market Entity Value Extraction method? Note that this method provided a value estimate for Las Brisas of only 27% of that which the method provided for the immediately adjacent Las Cristinas property. The Las Cristinas property holds only 50% greater gold reserves than Las Brisas, the security of tenure for Crystallex at Las Cristinas is substantially less,

Continued on page 6

**Braisas Gold Mining Concession,
Bolivia State, Venezuela, *Continued from
page 5***

Crystallex has no rights to the copper contained in the deposit, and there are some other significant negatives for Las Cristinas relative to Las Briasas.

Regards,

Trevor

Editors Note: Trevor would appreciate your comments. His e-mail address is; ellis@minevaluation.com.

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