

AMERICAN INSTITUTE OF MINERAL APPRAISERS

NEWSLETTER

April 2005

Volume 9 No. 1

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Salt Lake City, Utah

February 28, 2005

Our Annual Meeting was held in Salt Lake City, Utah on February 28th at the Shilo Inn Hotel, in Room 1210. A social hour with refreshments and finger food commenced at 5:00 PM. The formal meeting began at 6:00 PM, which lasted until 9:30 PM. Edwin Moritz, the out going President, Chaired the meeting. John Gustavson, Secretary, could not attend because of illness. Therefore, the Chairman appointed Donald Warnken, our newly elected President, to record the minutes of the meeting.

A quorum was present. The attendees' were:

Edwin Moritz	Gustavson & Assoc LLC, Past President
Trevor Ellis	Ellis International Service, Member
Donald Warnken	Independent Consultant, President
Alan K. Stagg	Stagg Resource Consultants, Treasurer
Charles Melbye	Independent Consultant, Member
Robert B. Frahme	Gustavson & Assoc LLC, Member
Steve Olmore	S D Olmore & Assoc Inc, Associate Member
Sam Pickering	Industrial Mineral Service, Member
John Brower	Montana Tech/Univ Montana, Member
John Morgan	Mining Consulant, Associate Member

The meeting lasted longer than expected but several important issues were addressed. All in attendance were in the agreement that much was accomplished.

Edwin Moritz as Chairman opened the meeting. He began by announcing the results of the election for 2005 AIMA Officers. The results are:

President – Donald Warnken

Vice President – Michael Cartwright

Treasurer – Alan K. Stagg

Secretary – John Gustavson

Edwin Moritz, as the immediate Past President, also remains an officer.

The chairman then called on the Treasurer for his report.

Treasurer, Alan Stagg, reported a bank balance of \$8009.81 as of February 28, 2005. He also reported that the response to dues payment had been excellent. In addition, he commented, with respect to costs, our web site has been well worth the money. The Treasurers report was approved.

Edwin Moritz introduced the Minutes of our 2004 Meeting, which was held in Denver, CO. The Minutes were approved as read.

Before proceeding further with the Business Meeting, Edwin Moritz introduced our guests;

Bill Crowell
Gilles Arseneau
Karen Brower

Gustavson & Assoc LLC
TSX Venture/Vancouver
Wife of John Brower

Old Business was addressed.

Bob Frahme reported on the findings of the Educational
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Committee. The Continuing Education requirements of other professional organizations, mainly appraisal organizations, were researched. They found a variety of hourly requirements that ranged from 0 to 120 hours of continuing education on a three year cycle.

His Committee discussed the possibility of structuring an in house eight-hour seminar for AIMA Members. Also, they considered the number of continuing education hours that our Members should be required each year and/or over a time period. They considered twenty hours per year or one hundred hours over a five year period would be appropriate. These considerations then led them to discussing the need for record keeping and the logistics involved. Initially, they felt continuing education of our Members should be on a voluntary basis but, ultimately continuing education should be mandatory. Bob Frahme also stated that the Committee had developed a listing of courses believed to be appropriate for our Membership and read from that listing.

Much discussion followed Bob Frahme's report. The general mood of the members was that continuing education was needed for AIMA members. The compelling argument was that continuing education was necessary for maintaining creditability as Certified Minerals Appraiser

Trevor Ellis then proposed the following Resolution: "The Education Committee recommends an average of 10 hours per year of continuing education for the first three year cycle thence 20 hours per year per three year cycle there after. This requirement will become mandatory immediately (March 1st, 2005). There will be a 12 month grace period to make up the difference at the end of each 3 year cycle". The Resolution was approved.

A Motion was then made and approved to accept the list of courses approved by the Educational Committee. The Committee will continue to add courses as they are approved, these being appraisal and minerals economic evaluation.

All Resolutions made at the 2004 Annual Meeting were adopted by the Membership.

New Business:

The "Qualified Person" issue was brought to the floor. This issue concerned whether or not AIMA should solicit the Canadian Securities Commission to obtain "Qualified Person" status for our Members. Gilles Arseneau of TSX Venture/Vancouver Exchange interjected with stating the requirements for a Qualified Person. After some discussion, it was generally agreed not to pursue the issue any further at this time.

The 2006 SME Convention will be held in St Louis, MO. As customary, our AIMA annual meeting will also be held in St Louis. Alan Stagg will be Chairman of the SME Valuation Session. The theme will be Valuation & Standards Case

Studies. Those desiring to present papers are advised that titles of their paper should be submitted to Alan Stagg by May 1st.

The need for more mineral appraisal papers on our web site was discussed. It was pointed out that technical papers were a form of education. No conclusions or recommendations were made.

There was some discussion concerning definitions and classifications of reserves. It was stated that the recently released SME Position Paper proposes increasing the stringency of the definitions for Resource categories, so that the requirements for Resources would be closer to Reserves.

Trevor Ellis gave us an update on the recent publication of the 2005 Edition of the International Valuation Standards by the International Valuation Committee (IVSC). This edition contains the new valuation standards for the extractive industries of mineral s and petroleum, developed by an IVSC task force on which Trevor Ellis and Don Warnken serve. He stated that it can be purchased for \$50 through www.ivsc.org, and will soon be available for free download for review.

There was some discussion of establishing links on the AIMA website to USPAP, Uniform Standards of Appraisals for Federal Acquisitions (Yellow Book), the American Institute and IVSC.

The discussion turned to searching for volunteers to assist with implementing the proposed Continuing Education program.

Alan Stagg and John Gustavson (as indicated by Edwin Moritz) volunteered to assist with addressing needs related to the implementation of the new International Valuation Standards.

A proposal was made to furnish a letter of Appreciation to Trevor Ellis for his leadership in developing valuation standards for the extractive industries, which was approved.

Trevor Ellis talked about the need for developing two textbooks, one for the appraisal of minerals and the other for appraisal of petroleum assets. All agreed of the need but no proposal was made.

The newly elected officers were installed to their respective office then; the meeting was adjourned at 9:30 PM.

Property Law And Real Estate

Furnished by Michael Cartwright

Geodyne Energy Income Prod. P'ship v. Newton Corp., No. 03-0209 (Tex. April 08, 2005)

In a claim under the Texas Securities Act, judgment in favor of defendant is reversed where plaintiff's sale, by quit claim deed, of an interest in an offshore mineral lease was not a misrepresentation. To read the full text of this opinion, go to: <http://caselaw.lp.findlaw.com/data2/texasstatecases/sc/030209.pdf>

Continuing Education

The Membership, represented at our Annual Meeting, has voted to make continuing education a requirement. Ten hours of continuing education would be required for the first three year cycle thence twenty hours per three year cycle thereafter. The Continuing Education Committee has developed a listing of courses thought to be appropriate for our membership. They are presented on page 6 and page 7. It is not the intent of the Continuing Education Committee to restrict courses to those shown in the listing. On the contrary, the Member has considerable latitude in course selection. Courses taken to satisfy the requirements of other professional organizations may qualify for AIMA continuing education credit. However, the Committee has reserved the right to approve a course or lecture attendance for credit purposes. The Member is advised to submit for credit the course name, course sponsor and location of all courses taken to the AIMA Education Committee, at 5757 Central, Suite D, Boulder, CO 80300.

Letter of Appreciation

Donald Warnken, President of AIMA

April 22, 2005

Trevor Ellis
Ellis International Services, Inc.
600 Gaylord Street
Denver, CO 80206

Re: Letter of Appreciation

Dear Trevor:

Over the past four years you have devoted much of your time pursuing the advancement of mineral appraisal standards for the International Valuation Standards Committee (IVSC). You, as the Extractive Industries Task Force Chairman, have successfully led your group in the formulation of Guidance Notes for IVSC. Adoption of those notes will greatly benefit the mineral and petroleum industries. Further, because of your work AIMA has received favorable recognition in the mineral appraisal community.

You have been President, Vice President and Treasurer of AIMA. You have also served with distinction on AIMA's Educational and Standards Committees. The two committees are significant to the welfare and advancement of AIMA. In addition, you were involved in the drafting of our Code of Ethics on which we now rely.

Your leadership is recognized and is much appreciated by the Membership.

Sincerely

Donald Warnken
President, AIMA

Case Study

Cuyahoga Valley National Recreation Area

By Donald Warnken

In 1983, I made an appraisal of a mineral rights track for the U. S. National Park Service (NPS). Subject track was located within the Cuyahoga Valley National Recreation Area which was under development. This park is located between the cities of Akron (Summit County) and Cleveland (Cuyahoga County), Ohio, with the greatest portion of the park being located in Summit County.

Land acquisitions had been under way for some time before the Park Service requested assistance from the Tulsa District Corps of Engineers (COE) to appraise the mineral rights in their project area. Prior to their request, NPS had been acquiring fee simple title to tracks based on the value of the surface rights. No value was being attributed to the mineral rights. The NPS's land acquisition team initially had no problem in settling with land owners. However, as their acquisitions neared an area of active oil and gas drilling and/or oil and gas leasing, they began to encounter stiff resistance from fee simple land owners. Those owners demanded consideration be given to the value of their mineral rights in addition to the value of their surface rights.

The Clinton Sand had become a target for exploration and exploitation in Cuyahoga and Summit Counties at that time. The NPS became alarmed because they were being told that the success ratio for finding oil and gas in the Clinton Sand in the project area was greater than **ninety percent**. Actually that turned out to be true but, a return of capital (payout) was not assured. A study of **forty two** oil and gas wells in the area indicated that less than fifty percent would provide a payout. Studies also indicated that only thirty-eight percent of those wells that would payout would achieve payout in four years or less. Furthermore, ultimate recovery of oil and gas was not great by most standards. Therefore, only a moderate value could be attributed to the mineral rights.

This appraiser searched County Clerk's records in both counties for mineral rights sales and for oil and gas leases. An abundance of oil and gas lease sales were found but no mineral rights sales were discovered. However, it was noted that some sellers of land had retained all or part the mineral rights from the surface rights in their sales transaction. To this appraiser the severance was an indication that sellers considered their mineral rights to have value. Those sellers and buyers were contacted for the purpose of learning if a value of the mineral rights had been quantified in the transaction. None indicated that a value had been estimated or considered for the mineral rights in their negotiations. On the other hand, both parties agreed the mineral rights were valuable. Realtors were also contacted. None had an estimate of mineral rights value but, all stated that mineral rights were considered to be a selling point.

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Case Study, Continued from page 3

Most oil and gas leases that did not contain a non-drilling clause contained a provision for the fee simple owner to take gas free of charge. Leases that contained a non-drilling clause contained a provision for the mineral rights owner to buy gas at the well head at well head prices. (which was generally sixty-percent lower than utility company prices). The leases also contained a provision that limited the quantity of gas that could be taken by the mineral rights owner in any one year. That quantity was shown to range from 150,000 to 300,000 cubic feet per year. Another lease provision limited the free gas to one allotment per twenty acres per ownership. That is; an owner of more than twenty acres would be entitled to only one allotment.

Assuming an economic life of ten years for a Clinton Sand well, the present worth of the free gas allotment would range from \$130 per acre to \$260 per acre. This appraiser suspected that the gas use provision may have been a trade off in the lease bonus price. However, none of the interviews with owners and lessees indicated that was a consideration. Because no support for lease bonus trade off could be established, no attempt was made by this appraiser to use the free gas value estimate as a basis for estimating fair market value of the mineral rights

No mineral rights sales were found in research of county records. Thus, the Sales Comparison approach to value was discarded. The Lease Bonus Method is not valid for estimating fair market value where successful drilling or established production is nearby. That approach to value was also discarded for that reason. Successful drilling (a payout and profit was foreseen) had been accomplished on two sides of subject track. Therefore, the probability of a successful well being drilled on subject was viewed to be high. For that reason and the discarding of two alternative approaches to value this appraiser selected the Engineering Appraisal Method for estimating fair market value of subject mineral rights. The Engineering Appraisal Method is an Income Approach to value.

Since no well existed on the track, hence no production history, it was necessary to assume a hypothetical well on subject track and to estimate its performance. It was assumed that the performance characteristics of the hypothetical well would mirror the performance characteristics of existing wells. Hence, oil and gas production data from the forty-two study wells were plotted to obtain a typical production decline curve for the hypothetical well. The constructed decline curves, with few exceptions, were found to be nearly congruent. That fact made the typical production decline curve selection easy. It also provided this appraiser a high level of confidence. The next task was to estimate the initial year's production. An oil and gas production mean, median and mode were established for the initial year of production from the study wells production histories. The production median was selected for the hypothetical well. It compared favorably with the first year's production from the two wells that off set the subject.

Annual oil and gas production estimates were picked from the respective decline curves for each producing year to economic depletion. Those production estimates were representative of a one-hundred percent interest. Since the objective was to estimate fair market value of the mineral rights, only production that would accrue to the mineral rights owner (royalty interests). All oil and gas leases taken in the area provided a one-eighth (1/8) royalty for the mineral rights owner, which was adopted for the cash flow estimates. State Severance tax and County Advalorem tax were deducted from the gross revenue estimates to obtain net income. Net income for each productive year was discounted to present worth and summed. The sum was discounted to account for ordinary risks associated with producing operations and oil and gas prices. That product was then discounted to account for the fact that the estimated initial year recovery had a fifty percent probability of occurrence. That product was further discounted in recognition of dry hole probability (10%). Subject was not leased when appraised. The appraiser suspected the track had not been leased because of project influence. In the absence of the project, this appraiser concluded the track would be leased and drilled. Thus, a final discount was applied to account for a one year drilling delay to obtain the fair market value estimate. The resulting Fair Market Value estimate was shown to be \$252 per acre which I rounded to \$250 per acre.

A Question of Ethics

Let's consider the situation where an appraiser has completed his/her assignment which was to provide the client an estimate of fair market value. It is the intension of the client to place his property up for auction. After receipt of the appraisal and after some time lapse, the client decides to encumber the property with certain conditions and restrictions. The client is of the opinion that the conditions and restrictions to be imposed would impair sale value. Therefore, the client now wants the appraiser to provide an estimate of diminished value. Is there an ethical issue here?

Your thoughts would be appreciated. Please mail your views to Dongene32@sbcglobal.net. The replies will be published in the next issue.

Mineral Appraisal Handbook

Several Members have stated a need for a Minerals and Petroleum Appraisal Handbook. It is my understanding there is no such handbook in the market place today. A handbook would be beneficial to our Members as well as non-members, more particularly, students. This would be an undertaking which would require input from many of our Members, especially from those with specialized experience and expertise. There would be no time table for this project; therefore participation should not be a burden on any one person. If interested in participating in the development of a handbook, please advise your editor at: Dongene32@sbcglobal.net.

IVSC Publishes 2005 Edition of International Valuation Standards

The International Valuation Standards Committee (IVSC) has published the seventh edition of the International Valuation Standards – IVS 2005. This edition is a first for them to include specific standards that address the valuation of assets of the minerals and petroleum industries. That addition is known as Guidance Note 14 in the 2005 Edition. It was developed by an expert group representing Australia, Canada, South Africa and the United States. Two of the experts, Trevor Ellis and Donald Warnken, are AIMA Members.

During the development phase of Guidance Note 14, the group maintained frequent interaction with the leadership of the Extractive Industries Project Team of the International Accounting Board (IASB). That team (IASB) has also been conducting standards development research for the extractive industries. The IVSC Guidance Note 14 supports the requirements of IASB's International Financial Reporting Standard *Exploration and Evaluation of Mineral Resources (IFRS 6)* which was issued in December 2004.

Printed copies of IVS 2005 are available at US\$50.00 each which includes postage and handling charges. Copies can be ordered on line ~ www.ivsc.org. Copies can also be downloaded from the site. The IVS 2005 will be available to view free of charge on the IVSC web site.

The AIMA by Resolution has endorsed the work of the International Valuation Standards Committee in developing and publishing the *International Valuation Standards*, including valuation standards for the extractive industries of minerals and petroleum. A separate Resolution adopted by the AIMA Membership, requires the Membership to abide by *Uniform Standards of Professional Appraisal Practice* or the *International Valuation Standards* when conducting value appraisals of assets or business interests of the minerals and petroleum industry. The Resolution is excepted where regulations require the application of an alternative set of valuation standards.

SME 2005 Slide Presentations

Slide presentations made by AIMA Members Edwin Moritz, Trevor Ellis and Donald Warnken at the SME 2005 convention in Salt Lake City, Utah, are to be installed on AIMA's web site. The site is located at www.mineralsappraisers.org

The NEWSLETTER is published by the American Institute of Mineral Appraisers, 5757 Central Avenue, Suite D, Boulder, CO 80301
Phone: (303) 443- 2209; Fax (303) 443-3156
E-Mail: gustavson@gustavson.com

Editor: Donald Warnken
E-Mail: Dongene32@sbcglobal.net

Continuing Education Currently Approved by the American Institute of Minerals Appraisers				
Note: Other appraisal courses may be acceptable and members are encouraged to submit them for approval				
Course Provider	Course Name	General Description	Time	Contact
American Institute of Minerals Appraisers	Annual Meeting	Attendance at the presentation of papers in the field of mineral property appraisal	8 hours	mineralsappraisers.com
	Seminar in Mineral Property Appraisal	Special topics in mineral property appraisal (beginning in 2006)	8 hours	
University of British Columbia	Intro. To Modelling Project Finance	Critical issues in debt financing of mining projects	12 hours	edumine.com
	Economic Evaluation and Optimization	Economic evaluation and financial analysis of mineral projects	8 hours	
	Exploration and Mining Geology 2--The Economic Framework	Economic framework within which mineral properties are evaluated	10 hours	
	Mineral Project Reporting Under NI 43-101 (Canada)	Mineral project reporting for an issue on a Canadian stock exchange	12 hours	
Colorado School of Mines	Managing Risks & Strategic Decisions in Petroleum Exploration & Production	Risk management in strategic decisions, prospect evaluation, resource allocation, risk sharing, etc.	24 hours	mines.edu
	Using Real Options	Application of risk management techniques used by financial institutions to mining and petroleum projects	24 hours	
Petroleum Institute for Continuing Education	Appraisal of Oil and Gas Properties	Appraisal and economic concepts within the constraints of USPAP as applied to producing oil and gas properties as well as rank prospects	16 hours	piece.com
	Introduction to Economic Analysis for the Petroleum Industry	Economic principles used to support decision making in the petroleum industry, shareholder value and valuation, financial statements, measures of investment	8 hours	
Appraisal Institute	Basic Income Capitalization	Introduction of direct and yield capitalization, income change models, valuation of lease interests, cash equivalency, risk analysis in commercial real estate	39 hours incl. 3-hour exam	appraisalinstitute.org
	General Applications	Highest and best use, property rights, land valuation, cost, sales comparison & income approaches	40 hours with 3-hour exam	
	National Uniform Standards of Professional Appraisal Practice (USPSP)	Appraiser and public trust, when USPAP applies, recent changes, advisory opinions, scope of work	7 hours	
	National Uniform Standards of Professional Appraisal Practice (USPSP)	Background of Appraisal Foundation, Appraisal Standards Board and Appraiser Qualification Board; definitions and rules of USPAP; Standards 1 through 10	15 hours with 1-hour exam	
	Advanced Income Capitalization	Review of concepts, investment analysis, risk analysis, financial leverage, yield capitalization, support of discount rates, applications, income stabilization	40 hours with 4-hour exam	

Continuing Education Currently Approved by the American Institute of Minerals Appraisers				
Note: Other appraisal courses may be acceptable and members are encouraged to submit them for approval				
Course Provider	Course Name	General Description	Time	Contact
Appraisal Institute (Continued)	Highest and Best Use & Market Analysis	Market, demand, feasibility, absorption & capture rate	40 hours with 4-hour exam	
	Advanced Sales Comparison and Cost Approaches	Elements of comparison, adjustments, land valuation, current cost, depreciation	40 hours with 4-hour exam	
	Advanced Applications	Leased fee valuation, demand forecasting, prospective values, highest and best use, advanced topics	40 hours with 4-hour exam	
	Appraiser as an Expert Witness: Preparation and Testimony	Litigation valuation, preparation for deposition and trial, direct and cross examination, working with other experts	16 hours with 1-hour exam	
	Litigation Appraising: Specialized Topics and Applications	Valuation and reporting of specialty areas, role of the appraiser in litigation support, effective communication of appraiser to trier of fact, complying with USPAP	16 hours with 1-hour exam	
	Condemnation Appraising: Basic Principles and Applications	Introduction of eminent domain; role of the appraiser; value of the part to be acquired and the remainder; legal measures of just compensation, analysis of damages and benefits to the remainder	16 hours with 1-hour exam	
	Condemnation Appraising: Advanced Topics	Condemnation blight and enhancement; inverse condemnation; larger parcel, evidence; measuring general and special benefits	16 hours with 1-hour exam	
	Computer-Enhanced Cash Flow Modeling	Tests of reasonableness and sensitivity analysis; lease-by-lease software; data charting and regression analysis	16 hours with 1-hour exam	
	Uniform Appraisal Standards for Federal Land Acquisitions	Addresses the unique appraisal standards that apply to federal land acquisitions and other transactions	16 hours	
CCIM Institute	Financial Analysis for Commercial Investment Real Estate	Investor and investment characteristics; components of the real estate cash flow model; net operating income, time value of money; financing sources & variable terms in commercial real estate loans; price vs. value vs. cost; three approaches to value; investment performance	40 hours	ccim.com
	Investment Analysis for Commercial Investment Real Estate	Review of basic money calculations, ratios, etc.; optimal investment; presentation of recommendations to client; traditional and emerging sources of debt capital; various equity positions; taxation issues; disposition strategy	40 hours	
Frank Stermole or CSM Online	Economic Evaluation and Investment Decision Methods	Time value of money concepts; break even analysis applied to after tax economic analysis of mineral, petroleum and general investments; inflation, escalation	40 hours	frank@stermole.com or csmonline.edu
Various	Various	Any non-residential C.E. approved by any state Board of Real Estate Appraisers or other professional appraisal organization	as scheduled	as posted

