

AMERICAN INSTITUTE OF MINERALS APPRAISERS

NEWSLETTER

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IMPORTANT DECISIONS MADE AT OUR FIRST ANNUAL MEMBERSHIP MEETING

Trevor R. Ellis, Vice President

Our first annual membership meeting was held in Denver on 1 March 1999, in conjunction with the annual convention of the SME. It proved to be a lively, stimulating and productive meeting. Attendance was higher than expected, especially considering that two of our four officers, John Gustavson and Ed Moritz, were on international assignments. We were thankful to have Wes Lilley representing the interests of our oil and gas appraisers, given that the associated SME convention only attracted those of us in mining and quarrying into town. The Wynkoop Brewing Company, our meeting location, had a good selection of beers, and the food proved delicious and filling. We surprised ourselves by even turning a modest profit of \$187.32 into our Treasurer.

During the formal business meeting, which lasted for almost three hours, many important decisions were made. However, we did not have a quorum of Members nor Officers, as defined in our Bylaws. All Members should review the Resolutions and Appointments summarized below in this article to determine your approval or opposition. A simple majority of the membership can overturn a Resolution or Appointment by mailing protests to the Corporate Secretary at the AIMA's office in Boulder, Colorado, within two weeks of the publication of this issue of the Newsletter. A form for expressing your protest is included herewith. Those Resolutions and Appointments not opposed by a majority of Members, will continue in force as approved by the meeting. A copy of the complete minutes can be requested from the AIMA's office.

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NEW AIMA MEMBERS

Michael Cartwright, President

Just a short note to let you know that we have five new members in AIMA. They are all listed in the updated AIMA Directory at the AIMA Website. Thereby, we have also certified our first new member from a foreign country. We do not yet have a global membership; but we can almost truthfully claim to be international. The five new AIMA members are:

Cameron Adams; Aggregate Services LLC, Susanville, CA
Richard L. Bate; John T. Boyd Company, Denver, CO
Robert N. Hart; Hart & Associates, Charleston, WV
Jeffrey Kern; Resources Technologies Corp, State College, PA
Ross Lawrence; Watts, Griffis and McQuat, Toronto, Canada

Welcome to our New Members!

NOW AVAILABLE

The Toronto Stock Exchange (TSE) *Mining Standards Task Force Final Report* was released on 2 February 1999 and a copy can be purchased from the TSE for Cdn \$20.00. Orders can be sent by mail, telephone, fax, and/or e-mail.

Prepayment is required either by cheque or credit card. Cheques should be made payable to The Toronto Stock Exchange (Attention: Publications). For credit card payments they need the card number, cardholder name and expiry date. This information can be phoned, faxed or e-mailed to the TSE.

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CONTINUING EDUCATION THROUGH OTHER SOCIETIES

Trevor R. Ellis, Vice President

During the past eight months I have taken five courses in the field of appraisal. This has enhanced my understandings in many areas about appraisals and the appraisal process. I am also beginning to develop some feel for offerings available.

In February, I and a number of our members, took the two-day Society of Mining, Metallurgy, and Exploration (SME) short course in Denver titled, *Due Diligence and Valuation of Industrial Minerals*. The program was made up of a many 1-hr lectures by specialists in their particular niche of the due diligence and valuation process. I think we learned something about each aspect of the investigations. The coverage was certainly comprehensive, with each person knowing his stuff. However, each speaker came across to me as a salesman making a pitch for us to utilize his services, rather than being an educator. Audience interaction was minimal, partly due to the large, 100+ number of attendees. I definitely had problems staying awake through many of the lectures.

The four other courses have been from the American Society of Farm Managers and Rural Appraisers (ASFMRA). These were an 8-hr *Ethics* course, a 15-hr course on the *Uniform Standards of Professional Appraisal Practice*, a 46-hr course, *Fundamentals of Rural Appraisal*, and a 16-hr course on *Highest and Best Use*.

The ASFMRA courses are definitely taught as education classes. Class sizes have typically been about 40 students. Lots of example problems are worked through. The students are given problems to practice on. The instructors are all practicing rural appraisers, but generally have considerable experience as instructors. The class materials, including work problems, have been worked over extensively through the years so that the courses flow well. Extensive interaction by students is encouraged, with much of the education coming from real life examples that the students put forth.

The course content, and typical student and instructor background, is about appraising farms, conservation easements, chicken hatcheries, timber lands, etc. However, this has not presented any problem to me. In fact, it has been the source of a considerable amount of humor. The mineral properties that I appraise are in rural lands. Most of the issues and appraisal principals are the same or closely related.

Learning the language and methodologies of rural appraisers has proved helpful when I have interfaced with them in my work. The students have proved to be a widely diverse, generally upbeat, fun group. They, and the instructors, have proved quite tolerant of my off-the-wall minerals industry examples, which have brought on plenty of laughter.

Overall, I have totally enjoyed myself in the ASFMRA courses. I have learned considerably more than what I set out to obtain,

and had plenty of fun in the process. I have even found the exams to be pitched at a comfortable level. Traveling to odd places, such as Jackpot, Nevada, for the *Highest and Best Use course*, causes the dollars and the fun to add up. A good indicator is, that I have not felt like falling asleep at any time in the four ASFMRA courses.

My next foray is into an American Society of Appraisers (ASA) 30-hr course, *Introduction to Income Capitalization*, in Washington, DC, in mid-July. Then I hope to take the ASFMRA's 46-hr course, *Advanced Resource Appraisal*, in Denver, August 1-7. This course, taught by John Widdoss, who has a long reputation in natural resource appraisal, concentrates on the appraisal of timber, minerals, and water. The course, which delves into advanced methodologies for resource appraisal, could prove beneficial to many of our members.

Let's hear from other members about their approaches to continuing education, and their experiences. The cost of my approach is steep, both in money and time. I have so far found it well worth that cost. I am sure others have different approaches and experiences to relate. Tell us about your experiences with courses from ASA, the Appraisal Institute and universities.

DEAR FELLOW MEMBERS

Michael R. Cartwright, President

Trevor Ellis comes to the rescue again. Just point your web browser to <http://www.smenet.org/pdfs/SMEGdRep.pdf> and you can have your own personal copy of the new and improved SME Guide for Reporting Exploration Information, Mineral Resources, and Mineral Reserves.

For those of you that need to, or want to, worry about how this SME Guide would operate in conjunction with USPAP, it would most likely be considered to be a set of Supplemental Standards which go beyond the minimum requirements for performing and documenting appraisals of mineral properties or mining companies.

NEWSLETTER ARCHIVE ON WEB

The Editor

Our Webmaster, Michael Cartwright is presently putting many of our old newsletters on the AIMA website: www.mineralsappraisers.org. This will allow visitors to follow our history of the Institute as well as to retrieve the occasional pearls of wisdom dropped by our members.

Where copies are missing, hard copies are still available by request, while we continue to search among old floppies for electronic versions. Perhaps our early issues were "cut-and-paste"?

A CASE STUDY OF AN APPRAISAL PROJECT TURNING SOUR

Trevor R. Ellis, Vice President

In the spring of last year, I received one of those rare, unexpected phone calls in my Denver home office. It was the owner of a little investment business located out near the east coast of the USA. He was essentially requesting that I drop everything to jump on a plane to a western state to begin an appraisal project. Although I wasn't starving for work, times as usual were lean in the mining industry, so I was willing to jump.

The little investment business (we will call in the Rising Sun Investments), had partnered with a small mineral property development company, Apex Exploration, which was based in the southwest U.S. The owner of Rising Sun told me that Apex had pulled a coup in securing the purchase rights to a proven reserve of many hundreds of thousands of tons of a valuable industrial mineral sitting out in the middle of the western desert. He told me that the processed product was selling throughout the USA and internationally at about \$6/lb and they had three written expressions of interest to purchase the product at that price. The feasibility study by Apex's consulting metallurgist had shown that the cost to extract a product of adequate purity would be around \$2/lb. Rising Sun had a lender lined up to provide the many millions of dollars for the plant and equipment. They needed my appraisal in short order to secure the loan.

Things didn't smell right. The investor had only found my name on the Internet and didn't even have a reference on me. Yet, he was immediately telling me that my rough estimated cost for doing the job was acceptable and he would wire a deposit tomorrow to my bank. Just fax him the contract and he both he and the President of Apex would sign on it, so that both companies would be on the hook for my fee. The lender must have my report within 20 days.

I was still suspicious. My suspicions increased when the owner of Rising Sun told me that I could talk to anyone I liked, except for the President of Apex. Apparently, he and Apex's President were having a falling out over how to do business together. It didn't sound good.

But, then Mr. Rising Sun dropped a few names which quickly got me back on board. By whatever quirk of circumstance, it turned out that I already knew the geologist and geochemist who were working on the project. In fact, they worked for a consulting company a few miles from my office, owned by my best friend of the past 20 years.

I immediately phoned them, and found everybody in. I drove over. They had thoroughly sampled, tested and investigated the reserves. The reserves were definitely there. It **did** seem like a coup for Apex. In their report they had indicated that the contained minerals had a potentially astronomical value.

Their words of advice indicated that I shouldn't worry about doing the job. They had done work for Mr. Apex a number of times over the years. He wasn't good at paying. Still owed them a few thousand from the last job. But, Mr. Rising Sun would take care of everything. He was the type who paid immediately, and was taking care of their bills. The credit history of him and his company sparkled.

I received the contract signed by the presidents of both companies the next day, and my bank told me that their deposit was in my account. I was to write two appraisal reports. The first was to value the reserves "as is". The second was under strict terms provided in written instructions from the lending institution. I had to determine what they termed "the net processed value" of the small portion of the reserves that would be run through the plant in the first couple of years. That is, the lender wanted to know the net value of the selling price minus direct operating cost for the resulting processed product. No problem. The consulting metallurgist had the operating costs worked out and Apex had three letters of interest to purchase the product at \$6/lb.

The following day I was out in the desert picking up samples with the consulting metallurgist and my friend, the geologist. I asked the metallurgist to show me his design and costing for the processing plant. He pulled out a couple of worn sheets of writing paper with a hand-sketched flow chart and some rough calculations. I had no intention of relying on those. I asked him lots of probing questions. He was working for a piece of the action and hadn't been paid anything yet. He had no direct experience with this particular mineral, but could talk a good story and could quote metallurgical text references about the mineral. The metallurgist showed me the three letters expressing interest in purchasing the product at about \$6/lb. They wanted everything that Apex could possibly produce. One was a trading company based in Europe buying for the European market, and another a minerals trading company based in New Zealand, buying for the Asian market.

I phoned Mr. Rising Sun and to tell him that I couldn't rely on the metallurgist's work. I headed for the capital city to do some historical research. The next day I found out that a very well respected metallurgy professor that I had known peripherally for many years, was on his way down to take some bulk samples back to a major minerals research lab for bench testing. I knew that I could rely on his report.

A week later, the professor's tests weren't working out well. Mr. Rising Sun was getting worried. He told me that he was now in a severe legal fight with Mr. Apex. He was fighting to get control of the project and the reserves. But, then another miraculous breakthrough came. Mr. Rising Sun had been talking with the management of an operating, toll processing facility. It sounded like it had everything going for it. The trucking distance for the raw mineral was long, but not too long. I talked on the phone to the operator and his process chemist. They sure sounded like they knew this specific reserve and its product. The chemist had driven out to the property

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IMPORTANT DECISIONS MADE AT OUR FIRST ANNUAL MEMBERSHIP MEETING

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Eleven minerals appraisers attended the meeting. Seven of us were AIMA members, and the four non-members all expressed interest in applying for membership. Michael Cartwright and Trevor Ellis had done some advertising at the SME convention and its "Due Diligence and Valuation" short course during the previous couple of days. That found us these four and a couple of other potential members. Together with a number of other recent recruits, we have quite a few new candidates working on their membership applications, as well as some recently Certified Members.

The meeting began with a social hour or two. Introductions and discussions were helped along by a plentiful supply of various beers and snacks. Our President, Michael Cartwright then provided a comprehensive overview of the AIMA, its place, purpose and benefits in the appraisal environment, and gave us some interesting snippets to be aware of about working as minerals appraisers. This talk proved stimulating and informative to the members and non-members. It formed a good foundation for the formal business meeting which followed.

The business meeting was called to order by the President at approximately 6:00 p.m., and continued through dinner. Members at the business meeting were Michael R. Cartwright (NV), Lawrence T. Gregg (GA), Sam M. Pickering, Jr. (GA), Wesley W. Lilley (CO) and Trevor R. Ellis (CO). Trevor Ellis was appointed secretary of the meeting. Member, Sidney Alderman (CA) and our newest member, Bill Jennings (CO), apologized for not being able to stay. John Lizak (PA), who was considering applying for membership, sat in as a lively non-voting participant in discussions. A summary from the meeting minutes is presented here, with some elaboration's by me.

Trevor Ellis reported that the election for officers had approved reinstallation of the 1998 officers for the 1999 year. Michael Cartwright was reinstalled as President, Trevor Ellis as Vice President, Edwin Moritz as Treasurer, and John Gustavson as Secretary.

Michael Cartwright informed the meeting about his efforts in bringing up the now operating AIMA website (www.mineralsappraisers.org). He advised that the cost is about \$400/year, this not being much less than the gross income from membership annual dues. The first year cost, which includes setup, is expected to amount to about \$750. The website will prove to be an important means for dispersing information to AIMA members and to non-members. Let's use it and continue to improve and expand it. Get your ideas for content to Michael Cartwright (775) 322-9028. How about at least one of us volunteering to help Michael with expanding and maintaining the website? Lots can be done without knowing techy stuff like html.

Presently the AIMA has its own listing in the Denver area telephone books, with the phone number being the main phone number of Gustavson Associates, since John Gustavson maintains our office at his. The service of Gustavson Associates in this regard was commended. However, discussion concluded that there is a need for phone service answered as "American Institute of Minerals Appraisers" rather than as "Gustavson Associates." It was **Resolved** that, subject to John Gustavson's approval, AIMA should pay for a separate phone service at the office of Gustavson Associates.

Our annual membership dues have been extremely low, at the introductory rate of \$25 for many years. This rate will be inadequate to cover our rapidly increasing operating costs, with maintaining our website, phone service, improving our Newsletter, and introducing other membership services. It was **Resolved** that annual dues be raised, effective immediately, to \$60 per year. Each member is to be provided with a copy of the Uniform Standards of Professional Appraisal Practice (USPAP), one time only, free of charge.

The need to improve the frequency and expand the circulation of the Newsletter was expressed, without resolution, with the deficiencies recognized of the AIMA being purely an organization of volunteers. It was noted that Barney Guarnera has offered to assist with the mailing process. Michael Cartwright will investigate the possibility of putting the Newsletter (including past articles), on the AIMA website. We need more authors, news item writers, and a volunteer to act as Assistant Editor to our faithful Newsletter Editor, John Gustavson.

It was **Resolved** that the initiative to have the AIMA join the American Society of Farm Managers and Rural Appraisers be rejected. Michael Cartwright and Trevor Ellis were **Appointed** to continue the study of possible affiliations with appraisal and natural resource societies, on the recommendation of L.T. Gregg.

The need to have someone in charge of Membership was raised and discussed, but no names were put forward. **Help is needed.** Here is an opportunity to help in a not very demanding role. Free up some time to volunteer by contacting Michael Cartwright (775) 322-9028. It was **Resolved** that every member be mailed a membership application form for them to pass along to a potential member, per Barney Guarnera's suggestion (Newsletter, February 1999). It was also **Resolved** that the membership application form should be posted on the website.

L.T. Gregg offered to initiate the development of a brochure for the AIMA to use in promotion activities. How about someone else offering to assist L.T. by phoning him at (770) 476-3555?

It was proposed that the method of reviewing membership applications, although thought to be satisfactory, should be reviewed for possible sources of liability. The suggestion was also made that the names and addresses of applicants be sent to all members, preferably by fax and e-mail, with the members

responding confidentially. But, no resolution was passed on these two items.

On a proposal by Trevor Ellis, it was **Resolved** that the President and Vice-President are given the power to appoint an Ethics Review Committee consisting of three members, when a complaint against a member of a potential Code of Ethics violation may be received. The Ethics Review Committee is to make its recommendations to the Executive Committee under the AIMA By-Laws, specifically Item 4 of Article 2.6.3 and Article 2.6.5. The purpose is to mitigate against liability falling on the members of the Executive Committee and the AIMA. Trevor Ellis was **Appointed** to study the well proven ethics complaint review procedure of The American Institute of Professional Geologists, to determine adjustments that may be needed to our procedure.

L.T. Gregg proposed that we should develop a Candidate Member classification. Michael Cartwright expanded this suggestion to include Candidate and Affiliate classifications at 60% of the full membership dues, and an Emeritus classification at 50% of the full membership dues. No resolution was reached.

It was **Resolved** that the AIMA begin development of a set of Standards for minerals appraisals (not oil and gas at this time). Barney Guarnera and Trevor Ellis were **Appointed** to the task. The VALMIN Code of Australia's AusIMM will be their primary guideline.

Michael Cartwright proposed changing the AIMA's name to "Institute of Minerals Appraisers." The purpose would be to provide the Institute with a more international focus, encouraging the development of methods to serve potential members from Canada and other countries. No action was taken.

The meeting was adjourned at 8:45 PM, leaving the Executive Committee to take up unresolved issues at its next meeting. It should be noted that the meeting did not find time to address the important (hot) topic of continuing education. It is also apparent that our Bylaws' definition of a quorum needs urgent modification.

A CASE STUDY OF AN APPRAISAL PROJECT TURNING SOUR

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and taken a bulk sample. His initial tests were looking good. He would give me the results of more comprehensive testing in a couple of days.

In the meantime I was investigating the product market, even though Mr. Rising Sun was telling me that I must rely on the market data, which he provided. He told me that he didn't want me running up the bill for unnecessary research. He was worried about the fast mounting legal costs of fighting Mr. Apex. I was banned from talking to Mr. Apex, but Mr. Apex phoned me to bad-mouth Mr. Rising Sun. Through my

research I determined that the two international trading companies that had provided letters of expressions of interest, did indeed exist. However, my suspicions about them were fast mounting. I could not locate the third potential buyer. Mr. Rising Sun sent a stream of faxes with price quotes and specifications from magazines and market literature to support his theory that the selling price should be much higher than \$6/lb.

I suggested to the professor that we should cut our losses and bail out of the project. He phoned Mr. Rising Sun. The professor was convinced that all of the problems were coming from a sleazy Mr. Apex, and that Mr. Rising Sun wasn't trying to do anything underhand. Also the bench test by the toll processing facility had proved positive. Mr. Rising Sun needed us to leave immediately together to the property to take a larger, secure bulk sample, drive it to the processing facility, and supervise a larger test.

My payment for my first invoice immediately arrived by wire in my bank account. Also, I still had the initial deposit, so I was breaking even. A fax from Mr. Rising Sun doubled the value of my contract. We caught the plane out west the next day.

The professor and I sure had a wonderful time driving across the desert, exchanging tales, while I tried to patch together a report on a laptop computer to still meet the lender's only slightly extended deadline. The professor supervised the testing while I continued my research from the motel.

By the time we had a sample of the product from bench testing ready for us to take back to Denver, I was convinced that the three letters expressing interest in purchasing the product were part of a scam job. But, Mr. Rising Sun insisted that I base my net process value calculations on quotes he had found for small lots of the material. I told him that he did not have the marketing ability to sell his product off in small lots. He would be a producer, not even a wholesaler, let alone a retailer. He sounded desperate. I began wondering what he planned to do with the cash from the loan even if he got it. I began doubting that much of it would be going into processing the "reserves."

The lab analysis found that the purity of the sample product was borderline; but the professor assured me that it could be improved sufficiently. I received the professor's moderately positive report on the process. His cost estimates based on the toll processing did not kill the project.

In the meantime, I had been continuing my unauthorized market research. I had taken some of the product sample to a specialist to determine its crystallography. The result was that the product could not meet high-end market specifications.

I concluded my two reports very negatively, giving zero value to both appraisals. By this time, Mr. Rising Sun had a pretty good idea of what he would be receiving. He was irate, severely bad-mouthing me with foul language. I asked for my payment before sending the report. He refused. He knew the negative report would be useless to him. The reports,

packaged, ready for shipping, are still in my office.

Mr. Rising Sun eventually won his battle against Mr. Apex, getting title to the minerals. But, he had to sell off his family investment business in the process. Mr. Apex spends a lot of time in the Bahamas these days, living on Mr. Rising Sun's initial investment, while he plans his next minerals scam. The two payments I had received, covered the cost of my education on the project, but nothing more. The professor came out a little better. A debt collector is attempting to squeeze some more money out of Mr. Rising Sun for my unpaid work. I don't expect to see any. Mr. Rising Sun frequently phones the geologist and geochemist at my friend's office to pick their brains about how he can peddle the mineral title he now holds, and is seeking a specialist to produce the type of report, which he needs.

I haven't developed any conclusions as to how to prevent this type of disaster from happening to us in the appraisal business. Attempting to collect even 50% of our fee up front will scare off many potential clients. An escrow arrangement may be possible, but adds complexity and an air of distrust, and I am not sure it could have been made to work in this fast paced case. I am somewhat resigned to the expectation that even when we go into projects with our eyes open, we will occasionally end up unpaid. If any readers have any suggestions based on similar negative experiences, I would like to hear them.

IMPORTANT WEB SITES

Here are the Internet addresses for the 1998 USPAP, The Federal Government Appraisal Standards, and the Valmin Code.

1998 USPAP <https://www.appraisalfoundation.org/uspap/toc.htm>

UASFLA <http://www.usdoj.gov/enrd/land-ack/>

The Valmin Code 98: <http://www.ausimm.com.au/codes/valmin/>

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John B. Gustavson, Secretary

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YOUR ARTICLES ON THE WEB

The Editor

As a service to the public who may need the services of minerals appraisers, the AIMA will provide a resource library on its website: www.mineralsappraisres.org. You may now provide articles to which you have copyright or permission for copying for educational purposes. This may for example include preprints from SPE, AAPG and SME conferences. These professional societies of engineers and geologists generally encourage maximum availability of such articles and other resources. We will leave it to our members to secure the necessary approval from the professional society to whom our members may have granted the original copyright. This is usually easily obtained either by phone, fax or brief letter. Remember to specify that the purpose is for educational purposes such as for the availability on a resource website of a non-profit institute specifically addressed as a service to the public.

Your Editor will perform the usual review of appropriateness for inclusion as a resource (serving as a gatekeeper against crass commercialism!). In questionable cases, the Editor will of course seek the advise of the Executive Committee, if any of our members feel unjustly prevented from this opportunity to have their opinions exposed to a broader public.

Clearly, the idea is to get the knowledge of our appraisal experience and capabilities out to the public. Your Institute will protect itself by heading each article with a brief notation that the opinions expressed in the following paper are strictly those of the author and not those the AIMA. We encourage you to take advantage of this opportunity for exposure of your availability and expertise. Please, submit suitable articles to the webmaster, Michael Cartwright at michael@minval.com or on a diskette in a suitable word processing format to the Editor, AIMA at our Institute's Headquarters.

Please advise the Secretary, American Institute of Minerals Appraisers, 5757 Central Ave. Suite D, Boulder, CO 80301, of any changes of address.

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