

AMERICAN INSTITUTE OF MINERAL APPRAISERS

NEWSLETTER

December 2002

Vol. 6, No. 4

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STANDARDS COMMITTEE NAMED

It is often necessary for our Members as well as for other minerals appraisers to prepare a value estimate of economic damages in cases of loss of opportunity in the oil and mining business such as in a breach of contract cases. The property may be a producing mine or an oil field, just rank exploratory acreage or a property at an intermediate stage.

Alternatively, the appraisal task may relate to outright takings of a mineral property or obstructing actions created by various levels of government. Here the objective may be to value the mineral in the ground for the owner of the estate while debating the value of the lost opportunity for an associated leaseholder.

The problem is often which appraisal standard to apply. Many minerals appraisers attempt to conform to the form and techniques of the Uniform Appraisal Standards for Federal Land Acquisitions (UASFLA) and/or Uniform Standards of Professional Appraisal Practice (USPAP) under the widely ranging stages and limitations presented by the property. In so doing, minerals appraisers cannot adhere to strict compliance with these Standards under these limitations. In addition, these Standards are not strictly designed for the subject of minerals appraisal.

AIMA President Sam Pickering has now announced the formation of an Ad Hoc Committee to study the problem, to identify applicable portions of the UASFLA and/or the USPAP, to review international standards and to develop separate standards for mineral appraisals, where necessary. The recommendations of the Ad Hoc Standards Committee

will be presented for Membership adoption and promulgated to the public.

Sam Pickering has asked John Gustavson to chair the Standards Committee. In 1991, Gustavson was one of the Founders and was the First President of the American Institute of Minerals Appraisers. He has had substantial experience attempting to apply either USPAP or UASFLA albeit with varying degrees of satisfaction. He recently underwent a grueling *Daubert* examination in an oil and gas case where the subject of standards was challenged. In this case his appraisal testimony was found by the Federal Court judge to be reliable and relevant.

John Gustavson has accepted the appointment as Chair and has organized the main body of the Committee as follows:

- Michael Cartwright, experience in real estate and hard-rock minerals appraisal and former AIMA coordinator with the Appraisal Foundation,
- Trevor Ellis, experience with international standards effort and attendance at numerous appraisal society short courses,
- Robert Frahme, MAI and many years of real estate experience on top of prior mineral economics work in major oil and mining company.

Members interested in contributing to this important work and possibly joining the Committee are urged to contact John Gustavson directly at jgustavson@gustavson.com

Sam Pickering has requested the Committee to deliver its first progress report, detailed objectives and planned work schedule to the members at the AIMA Annual Meeting in Cincinnati,
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Standards Committee Named, Cont'd from page 1

26 February 2003. Interested members may also attend John Gustavson's paper "Which Standards to Use In Oil and Mineral Appraisals" at the back-to-back conference of the Society of Mining Engineers earlier that same day.

2003 AIMA VALUATION SESSION AND ANNUAL MEETING ANNOUNCEMENT

Sam Pickering, Jr. President

As has been our custom for the past several years, we have arranged for a Minerals Valuation Session as part of the 2003 SME Annual Meeting in Cincinnati, Ohio. Our technical session will be held **Wednesday, 26 February**, from **9:00 AM to noon** in **Room 235/236** of the Cincinnati Convention Center (listed on pages 61 and 62 of your new SME program). Our technical session will be chaired by John Gustavson and Sam Pickering. A varied slate of mineral valuation papers will be presented by A.I.M.A. members Trevor Ellis, John Gustavson, Sam Pickering, L.T. Gregg, B. Guarnera, Ed Moritz, and new member Robert Frahme. We hope that you all will be able to attend and find the presentations interesting and worthwhile.

After the Minerals Valuation technical session, we will gather again that same afternoon at **4:00 PM** for our **AIMA annual meeting** and the usual freewheeling out-of-control discussion. AIMA will have a suite in the Hyatt Regency, which is where our meeting will be held. It will be furnished with a conference table. Following our meeting, we can relax with dinner, drinks and discussion.

We are looking forward to seeing you all at both the AIMA session and annual meeting, and hope to hear your advice on how we can make our small organization more effective, informative, and agreeable for the members. Please call or e-mail me with your suggestions or comments, and be thinking about what valuation papers you may like to prepare for the 2004 meeting in Denver.

Nominations For AIMA Officers

Election time for Year 2003 AIMA Officers is nearing. The offices of President, Vice President, Secretary and Treasurer are open for nomination. If you wish to nominate someone, including yourself, please contact Edwin Moritz (e-mail: emoritz@gustavson.com or tel. 303-443-2209).

ABSTRACTS

Editors Note: The following are Abstracts of papers which have been prepared and are to be presented by AIMA members at the 2003 SME Annual Meeting in Cincinnati, Ohio

An International Perspective on U.S. Minerals Appraisal Standards Development

Trevor R. Ellis, Ellis International Services, Denver, CO

Australia's mineral valuation code continues to mature while mineral valuation standards are being written for Canada and Southern Africa. The author is leading a task force for writing the extractive industries addition to the International Valuation Standards. Meanwhile, the International Accounting Standards Board is continuing the development of an extractive industries addition to its International Financial Reporting Standards, with an emphasis on valuation reporting. This paper analyzes the need, content and ownership for a U.S. mineral appraisal standard in the context of these developing international standards and existing U.S. regulations and appraisal standards.

Which Standard To Use In Oil and Mineral Appraisals

John B. Gustavson, Gustavson Associates, Inc., Boulder, CO

Frequently, it is necessary to prepare an appraisal of economic damages in case of loss of opportunity in oil and mining cases such as a breach of contract cases. Many minerals appraisers attempt to conform to the form and techniques of the Uniform Appraisal Standards for Federal Land Acquisitions (UASFLA) and/or Uniform Standards of Professional Appraisal Practice (USPAP) under the limitations presented by the property. The property may be an operating mine or oil field or just rank exploratory acreage or something in between. In so doing, minerals appraisers cannot adhere to strict compliance with these Standards under these limitations. In addition, these Standards are not strictly designed for the subject of such litigation.

For example, UASFLA is aimed at valuing a mineral in the ground under Federal Acquisitions on a date certain but not taking into account the value of the lost opportunity resulting from a breach of contract. As another example, the USPAP was developed for real estate appraisals. Neither Standard governs mineral appraisals of the type at issue in such litigation. The *American Institute of Mineral Appraisers* (AIMA) has now appointed an Ad Hoc Committee to study the problem and to adopt applicable portions of the UASFLA and/or the USPAP or to develop separate standards for minerals appraisals to be adopted by the membership of the Institute and presented to the public.

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Environmental Factors Which Should Be Considered In Appraisal Of Mineral Properties

Sam M. Pickering,* Industrial Mineral Services, Inc., Macon, GA and Lawrence T. Gregg, Qore Property Sciences, Duluth, GA

Mineral property appraisal estimates fair market value of commercially favorable in-ground minerals. Clearly, the real fair market value of mineral land is contingent on a variety of environmental factors which may limit or preclude economical mining.

A check list of potential value-limiting environmental factors will be presented with examples, including: 1. Regulated wetlands; 2. Endangered species; 3. Excessive associated perched or artesian groundwater; 4. Hazardous, toxic or radioactive minerals or chemical contamination in overburden or within the ore zone; 5. Unstable high wall slopes or underground roof failures near or beneath adjoining properties or structures; 6. Troublesome karst sinkhole terrain; etc.

It would reasonable to rate the hazard of these environmental conditions, if thought to be present, as risk factors I determining a Net Present Value discount rate or in extreme cases by disallowing any mineral value on the property at all. Failure to consider and account for these or other costly environmental conditions could result in a seriously flawed valuation.

*speaker

How to Account For Country Risk in the Discount Rate

Bernard J. Guarnera, Behre Dolbear & Co., Inc., Denver, CO

Summary, Two years ago the author presented a paper on the discount rate for use in the Discounted Cashflow approach to minerals valuation. Now, the author discusses the increases or decreases over and under the US discount rates taking into account the political risk. Questions that may be discussed include whether or not the political risk is directly additive to the discount rate, and whether country bond ratings are useful sources.

Research and Analysis of Market Royalty Rates; A Case History From the Sand and Gravel Sector

Edward C. Moritz, Gustavson Assoc., Inc., Boulder, CO

Summary:

This paper discusses methods and techniques for researching market royalty rates for use in appraising sand and gravel

properties. The paper discusses likely sources to find information on transactions where terms are disclosed. Also discussed are parameters for analysis when comparing the market data to the subject. One particular case is discussed where the research was conducted over a fifty year period. Statistical techniques were employed in order to analyze the large volume of transactions that took place over an extended period of time.

Is the Direct Capitalization Approach Applicable to Minerals Appraisals?

Robert Frahme, Hunsperger and Weston, Greenwood Village, CO

Summary:

Direct capitalization is a method used in the income capitalization approach to convert a single year's income expectancy into a value indication. This conversion is accomplished in one step, either by dividing the income estimate by an appropriate income rate or by multiplying it by an appropriate income factor. This technique is widely used in the appraisal of income producing real estate properties and is recognized by the market. The direct capital method does not appear to be widely used in the appraisal of mineral properties. This paper introduces the method as it is used for real estate properties and explores its possible use in the appraisal of mineral properties.

Extractive Industries IVSC Task Force

The Extractive Industries International Valuation Standards Committee Task Force has truly become "*International*". It is now composed of members from the United States, Canada, Australia and South Africa. Trevor Ellis, our Past President, was instrumental in forming the task force and is the task force leader. The task force is moving forward to create a set of extractive industries (minerals and petroleum) valuation guidelines for presentation to the IVSC Board.

Appraisers Mull Creation of Single Advocacy Group, With Single Designation

The Appraisal Intelligence has reported that consolidation of the 30,000 appraiser members of various professional associations into a single "umbrella" appraisal group, possibly with a single designation, is being considered. The associations have cited the ineffectiveness in prodding state- and federal- level legislation without a single "voice" as the basis for consideration. Two of the professions most prominent and influential organizations, the American Society of Appraisers (ASA) and the Appraisal Institute (AI), have
Continued on page 4

Appraisers Mull Creation of Single Advocacy Group, With Single Designation, *contd from page 3*

come out on opposite sides of the issues. The two most coetaneous issues are the formation of one consolidated professional organization and the offering of only one (new) single designation. The latter issue being the one most seriously contested. A significant number of Appraisal Institute MAI- and SRA- designated appraisers have expressed reluctance to dilute or eliminate their designation

An “umbrella” association became at least a step closer to reality, however with the recent approval of a series of motions by the Board of Governors of the ASA. An ASA representative has predicted consolidation under a single umbrella group is going to happen, despite the opposite tacks being taken. He has stated “the rest of the organizations are much more primed to do this than the Institute”. They appreciate that a “voice” on Capital Hill is needed and realize that a lot of voices are only good in a chorus. As it stands now, appraisers have a lot of dissonant voices. He has thus forecasted that everyone else will join, and then the Institute will get dragged along, kicking and screaming because they will be the only ones left out.

There is concern that before the proposals come to fruition, they will become splintered. That concern has prompted the National Association of Independent Fee Appraisers (NAIFA) to form the International Affiliation of Appraisal Associations (IAAA), an association of associations to promote unity.

FASB and IASB Memorandum of Understanding

The Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) have issued a memorandum of understanding, marking a significant step toward formalizing their commitment to the convergence of U.S. and international accounting standards. The agreement between the FASB and IASB represents their latest commitment to adopt compatible, high-quality solutions to existing and future accounting issues.

Oil & Gas References

Editor's Note: Michael Cartwright has submitted this information, which hopefully will be useful to our oil and gas members

“Scrutinizing Royalty Payments” (Frambrough) No. 1559, \$2.50. *Terra Grande*, reprint, 3 pp. (2002), Free download.

Texas appellate courts have decided three important cases affecting oil and gas royalty owners. Mineral owners should be aware of those decisions when negotiating future leases.

“Recovery of Surface Damages and Remediation Costs in the Oil Patch” (Frambrough) No. 1163, \$2.50. *Terra Grande*, reprint, 3pp (1997). Free download

Recovering property damages from an oil company depends on the lease terms and Texas case law. This reprint reviews relevant court decisions.

“Recent Rulings Affecting Oil and Gas Interests” (Frambrough) No. 1140, \$2.50. *Terra Grande* reprint. 2pp (1994). Free download.

A look at significant decisions by the Texas Supreme Court affecting oil and gas interests.

“Private Property; How Private Is It?” (Frambrough) No. 1053. \$2.50. *Terra Grande* reprint, 2 pp. (1994) Free download.

Land ownership does not guarantee the power of exclusive use of it. Texas law provides that, under certain circumstances, uninvited persons may legally enter private property. The author looks at mineral exploration, condemnation, easements and other areas.

“Rights and Responsibilities of Mineral Cotenants” (Frambrough) No. 843, \$5. Special report. 10 pp. (1996). Free download.

Co-tenancy in a mineral estate creates questions for co-owners and mineral lessees.

“Minerals, Surface Rights and Royalty Payments” (Frambrough) No. 840, \$4. Technical Report, 14 pp. (1996). Free download.

An explanation of the body of law that has evolved in Texas to define ownership rights to privately owned oil and gas.

“Subdivision Drill Sites” (Frambrough) No. 690, \$2.50. *Terra Grande* reprint, 1 p. (1989). Free download.

Mineral exploration and development are as vital as other legal issues in selecting a subdivision site but often receive less attention. This article explains the law governing developers and mineral rights.

“Termination of an Oil and Gas Lease” (Frambrough) No. 601, \$5. Special report. 15 pp. (1996). Free download.

Changing economic conditions created questions regarding oil and gas lease termination, mineral owner liability for plugging abandoned wells and rights to equipment and casing left on leased premises. This report answers most of those questions.

“Hints on Negotiating an Oil and Gas Lease” (Frambrough) No. 229, \$4. Special report, 20 pp. (1996). Free download

Update of the Center’s best-selling report details step-by-step
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Oil & Gas References, *continue from page 4*

the different clauses in an oil and gas lease and outlines important provisions for the mineral owner's consideration. Includes new sections on horizontal drilling and overall leasing.

The publications available as **Free downloads** are on Adobe Acrobat (pdf) format.

From <http://recenter.tamu.edu/pubs/catoilg.html>

Some Conversation Trivia **Gold Nanoparticles Extracted From Plants**

Editor's Note: Michael Cartwright has furnished this information

Two University of Texas (UT) researchers have developed a technique for extracting microscopic **gold** particles from wheat, alfalfa, and oats. They have presented their approach as a preferable alternative to the expensive and pollution-generating method commonly used to fabricate gold particles for use in nanotechnology. More information concerning the UT research, is a short news article from the Christian Science Monitor which can be viewed on the Web at

<http://www.csmonitor.com/2002/0829/p02s02-usgn.html>.

A second Web site; http://www-ssl.stanford.edu/research/highlights_archive/alfalfa.html also contains a scientific article about this research which was prepared by Dr. Gardea-Torresdey. He was a member of the UT team. An article concerning this research is also contained in the December 13, 2002 NSDL Life Sciences Report.

The NEWSLETTER is published by the American
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