

AMERICAN INSTITUTE OF MINERALS APPRAISERS

NEWSLETTER

January 2012

Vol. 16, No. 1

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A WORD FROM THE PRESIDENT

By Fredric Pirkle, AIMA President

As I assume my the role as President of AIMA, I am very excited about the prospects for the future of our organization. As some of us continue to mature and others consider more radical ideas such as retirement, we need to continue to bring in new, young members to help keep AIMA vibrant, relevant, and growing. I challenge everyone to try and recruit new Associate Members through our mentoring program and Certified Members through networking.

To maintain relevance, I encourage all members to take seriously our requirement for continuing education. A concerted effort is needed by all to improve our CEU compliance if AIMA is to remain a respected organization representing professional mineral appraisers.

On a different theme, our newsletter keeps us all connected over the course of the year. Don Warnken has done a wonderful job as the Newsletter Editor for the past 11 years, and he is still enjoying this role. Don is by no means retiring, but he is looking for someone to carry the torch when he retires. Please consider helping and contact Don if you are willing to help.

I hope to see many of you in Seattle and look forward to a productive year. I am sure many of you will hear from me throughout the year as I seek council.

AIMA 2012 ANNUAL MEETING

The 2012 AIMA Annual Meeting is at hand. It will be held in Seattle, Washington on February 21, at the Red Lion Inn which is located on Fifth Avenue. A cocktail and hors d'oeuvre reception will begin at 5:30 PM PT, dinner and meeting to follow.

There is a \$60 per person charge to cover the cost of the dinner and gratuity but there is no charge for the cocktail reception. The dinner will include a house salad and an entree of your choice; Mesquite Grilled Sirloin, Dover Sole Stuffed with Crab or Chicken Duxcell. Please send a check for your dinner to Jerry Clark before February 15th.

Make it a point to attend not only the AIMA Annual Meeting but also the SME Valuation Sessions. **There is no better or easier way to pick up your Continuing Education credits.** The added plus, is the opportunity for you to meet and discuss/exchange thoughts with your colleagues about mineral appraisals.

FYI last year's papers will soon be available as video presentations on our website. Just login to the member area and select video sessions on the left menu.

SME 2012 ANNUAL MEETING – VALUATION SESSIONS

As reported in the last Newsletter, two Valuation Sessions are planned. One will concern Case Histories, which will be
Continued on page 2

SME 2012 Annual Meeting – Valuation Sessions, *Continued from page 1*

Chaired by Jerry Clark and one will concern Valuation Lessons Learned, which will be Chaired by John Gustavson.

Valuation I: Valuation Lessons Learned

Chair: J. Gustavson, Mineral Appraiser LLC, Boulder, CO

9:00 AM

Introductions

9:05 AM

Discount Rate Extraction from Transaction Analysis for Income Approach Valuation of Mineral Properties

T. Ellis; Ellis International Services, Denver, CO

For Market Value appraisals of mineral properties, including mines and quarries, the commonly used methods of estimating the discount rate for Net Present Value (NPV) calculations are the Capital Asset Pricing Model (CAPM), Weighted Average Cost of Capital (WACC), and the buildup method from a safe rate. The author argues that extraction of discount rates from transactions of similar properties to the subject property of the appraisal provides rates that are a better representation of the discount rates in the specific mineral property market that are determined by negotiation between buyers and sellers. Examples of extraction of discount rates from real world transactions are used to illustrate the process.

9:25 AM

Underground Mining: Challenges for the Appraisal of Mineral Rights

J. Clark; AIMA, Springfield, OH

During the last few years, the author has experienced an increase in activity for consulting and appraisal of mineral rights that involve underground mining of hard rock minerals. The trend toward underground mining of these commodities are often influenced by market drivers as much as being a practical and cost efficient method of extraction. The dynamics of a few case studies will be examined. They will be used to illustrate how some factors that extend beyond the value of the commodity may influence the overall value of the right to mine it.

9:45 AM

Permitting and Environmental Considerations Observed During Minerals Appraisals

J. Manes and T. Quartiero; CMC, Inc., Scottsdale, AZ

Numerous federal, state, county and local municipalities are involved with permitting and regulating environmental activities at mining operations nationwide. Each State in the United States is usually different in regards to its permitting

and environmental requirements. Minerals Appraisers are required to evaluate and assess risks during the course of an appraisal assignment, of which one of these risks may be related to obtaining, extending, or modifying a permit. A local or regional permitting specialist is often contracted to prepare permit applications, as well as to determine time frames, cost and risks. Prior to consideration of an assignment, an appraiser may desire to pre-evaluate the efforts that will be necessary during the assignment to assess permitting and environmental risks. Lessons learned from permit friendly and not-so-friendly States will be presented.

10:05 AM

Comparison of Market Valuation Methods and Applications for Mineral Properties

D. Collins; Collins Productions, Littleton, CO

The market valuation of mineral properties utilizes the same three Approaches as conventional real estate valuation, under the USA's Uniform Standards of Professional Appraisal Practice (USPAP), the International Valuation Standards (IVSs), and many other valuation standards. The three valuation approaches are the Cost Approach, the Income Approach, and the Sales Comparison Approach (sometimes called by its business valuation term, the Market Approach). Each Approach contains a number of methods, which are tools in the mineral property valuer's toolbox.

Each method has certain applications that are useful under certain circumstances in real property valuation, many of these being specific circumstances when the real property is, or includes, the minerals estate, or an interest in the minerals estate. In this paper, the Author reviews the appropriate circumstances for application of methods within each approach, with primary emphasis on the diverse range of applications of the sales comparison approach.

10:25 AM

Lessons Learned from Mineral Appraisal with Subsequent Market Sale

M. Chapman; Gustavson Associates Affiliate, Louisville, KY

When originally accepting the assignment, the Client had described the property as vacant land. A prior appraisal was later discovered and revealed that the property included a mineral rights appraisal. Further research disclosed an old dispute with a court ruling based on testimony by AIMA-certified experts. The present appraisal was therefore based on data from findings of the court with a fresh look at discount rate, absorption period, and residual land value. Fortunately, the property subsequently sold on the market, while meeting all criteria for Fair Market Value.

This provided insight into a market-based discount rate. Also, the absorption period could be adjusted in accordance with the current market conditions. The residual land value was minimal (based on comparable sales and projecting trends in market) as the property was affected by a flood zone and the surrounding development was sparse.

Continued on page 3

2012 SME Annual Meeting Valuation Sessions, Continued from page 2

11:35 AM

Building Confidence and Public Trust in Mineral Valuation

S. Chan (Abstract not available)

Valuation II: Valuation Case Histories

Chair: J. Clark, AIMA, Springfield, OH

2:00 PM

Introductions

2:05 PM

Trona Mineral Estate Valuation, Green River, Wyoming

J. Gustavson; Mineral Appraiser LLC, Boulder, CO

Case deals with soda ash made from trona. Property is located near producing mines. Highest and best use of property is for the mining expansion into the property by neighboring mines, once underground access has been achieved. This is expected in the near future based on Mining Plans by two companies per State files. The appraisal is based on three approaches of descending level of confidence, the results of which have been reconciled. The three approaches are: Risk-adjusted DCF of expected development and production (high confidence), Time-adjusted Prior Transaction of negotiated lease of identical property (low confidence), and Transaction Comparison with executed mineral lease (low confidence). The Cost approach is inapplicable, because of property's advanced stage of reserve knowledge. Thus, the increase in value has surpassed the costs of original exploration activities. The three approaches yielded results for reconciliation: DCF \$6.59 million, Prior Transaction \$5.33 million and Comparable Transaction \$4.71 million. The reconciled value by giving triple weight to DCF approach is \$5.96 million (\$6 million rounded).

2:25 PM

Evaluation of Potash Resources and Feasibility of Sevier Lake Mineral Extraction Project

D. Waite¹, L. Henchel² and R. Dye³; ¹CH2M HILL, Salt Lake City, UT; ²Norwest Corporation, Salt Lake City, UT and ³Peak Minerals, Salt Lake City, UT

This paper presents a summary of the results of Sulfate of Potash (SOP) resource development efforts with the goal of submitting a Canadian NI 43-101 compliant technical report defining SOP resources. Early phases of the technical and economic evaluation of the proposed project are addressed.

The project includes mineral extraction of SOP from approximately 40,000 hectares of leases on a dry lakebed in southern Utah called Sevier Lake, which is a large terminal playa which has been shown to contain potassium-bearing saline brines. SOP and potentially other minerals will be produced through selective crystallization of the brine utilizing large evaporation ponds, and existing high evaporation rates. Limited exploration and pilot tests were performed in the late 1970s through early 1990s. The current exploration program builds upon this historical exploration data and incorporates current technical and design methods for this particular type of mineral extraction process.

2:45 PM

Continuous-Time Stochastic Process Modeling of Mineral Resources Uncertainty in Mineral Asset Valuation

S. Frimpong¹ and G. Dogbe²; ¹Mining and Nuclear Engineering, Missouri University of S & T, Rolla, MO and ²Long Range Mine Planning, Syncrude Canada Ltd., Fort McMurray, AB, Canada

Mineral resource uncertainty has a dominant effect on mineral asset valuation and investment decisions. Resource uncertainty could kill projects and introduce errors in portfolio values. However, if managed well, it could increase portfolio values. Current methods do not account for resource stochastic processes, and thus, do not capture the actual values of ventures. They consider the stochastic processes governing prices, convenience yield and risk-free rate but model resource with certainty. These methods are limited given that cut-off grade and resource revisions are a norm rather than the exception. The authors develop a mine valuation model that accounts for the stochastic processes governing both price and mineral reserve. This is a 3D price-reservetime state model that captures the dynamic mine value behavior. The results from this model are compared with that from a corresponding constant reserve model. The results show that the constant value models have severe limitations in capturing the real values of mineral resource ventures under uncertainty, which is corrected in the continuous-time stochastic process model.

3:05 PM

Mine Valuation Factors Not Related to Mineral Value

R.D. Peterson, PE, Mining Consultant, Wayan, ID

The purchase and sale of a mineral property is a complex process involving many interrelated factors that extend beyond the physical mineability and market value of mineral. This paper discusses some of the things learned from an actual transaction involving both the acquisition and sale of the Stansbury Mine near Rock Springs, Wyoming. From both the buyer's and seller's point of view major factors of due diligence are discussed and outlined in a way to maintain confidentiality of the parties involved and terms of agreement. Valuable lessons learned in lease negotiation, mine planning, permit transfer, permit renewal and permit revision are discussed along with the transfer of water rights and other permits. Mine valuation is compared to transaction price.

3:25 PM

Difficult Mineral Property Valuations – An Example from Zimbabwe

R. Lawrence (AIMA Member)

Abstract not available

ANNUAL DUES

The AIMA 2012 dues are now due. Certified Members Annual Dues are \$90.00/year. Associate Member Dues are \$45.00/year, and Emeritus Member Dues are \$30.00/ year. If you are requesting Emeritus member standing, please remit the amount so noted above.

Please make your checks payable to the “American Institute of Minerals Appraisers” and remit to the Treasurer at the address below:

Charles Howard,
Treasurer, AIMA
Howard Engineering, Inc.
411 Main Street
Mount Hope, WV 25880

MINERAL APPRAISAL DVD's

The 2012 SME/AIMA Valuation Session papers will be audio recorded and synchronized with the speakers' slides. Both Valuation Sessions from 2012 SME Annual Meeting & Exhibit, 19-22 February 2012 in Seattle, Washington will be available in electronic form.

Each session presents about 6 papers authored by your peers. Members of the American Institute of Minerals Appraisers may obtain up to 7 hours of Continuing Education Credits when attending the two sessions or when studying the DVD's.

The AIMA, organizer of the Appraisal Sessions for the SME since 1999, will at its own cost capture each of the 2012 presentations in audio, synchronized with the speaker's slides. This is particularly important, if you cannot attend the sessions in person.

The DVD's have been professionally recorded by Freeman Audio Visual Solutions and will be available at \$80.00 including handling and shipping for both sessions from the AIMA Headquarters:

American Institute of Minerals Appraisers
5757 Central Avenue, Suite D
Boulder, CO 80301

Please, mail check for \$80.00 made out to “AIMA” with your name and address and allow for delivery about 2-3 weeks after the conference.

Please, address all questions to the AIMA Past President at johngustavson1@aol.com

WELCOME TO NEW ASSOCIATE MEMBERS

Six new Associate Members have been added to our membership roster. They are in order of acceptance:

Matthew L. Chapman -- Associate Member No. 2011 -1
Chapman Appraisal LLC
10346 Bluegrass Parkway
Louisville, KY 40299

Daniel L. Collins, Esq. -- Associate Member No. 2011 -2
Sole Practitioner
7445 S. Alkire, #306
Littleton, CO 80127

George (Hin Yuen) Tsang -- Associate Member No. 2011-3
Visiting lecturer, Sun Yat Sen University
15-17, Hong Ning Road , 6/F, flat D
Yue Man Mansion, Kwun Tong
Hong Kong, China

Timothy S. Knobloch -- Associate Member No. 2011 - 4
James Knobloch Petroleum Consultants, Inc.
2163 B State Route 821
Marietta, OH 45750

Haydn (Yan Chai) Lee -- Associate Member No. 2011-5
Jones Lang LaSalle Sallmans
61F, Three Pacific Place
1 Queen's Road East
Hong Kong, China

Benjamin H. Thomas, Ph.D. Associate Member No. 2011-6
Thomas Consulting, LLC
100 Belle Meadow Drive
Marietta, OH 45750

We are very pleased to welcome these six candidates to our circle of Associates, who will study and improve their skills toward ultimate Certification.

Mentors have been assigned to several, but we still need volunteers from our cadre of Certified Mineral Appraisers to work with these candidates.

NEWLY CERTIFIED MEMBERS

Past President John Gustavson has announced that the following two Members have been certified as Certified Minerals Appraiser by the American Institute of Minerals Appraisers.

Louis R. Posgate, ASA, PE -- Member No. 2011-1
LRP Business Appraisal
681 Woodland Dr.
Driftwood, TX 78619
Continued on page 5

Newly Certified Members, *Continued from page 4*

Samuel Y.C. Chan, CVA, CM&AA -- Member No. 2011 - 2
Consulting Group
12/F, Yue Xiu Building
160 Lockhart Road, Wanchai
Hong Kong, China

Congratulations to both of you and welcome to the AIMA!
We have enjoyed Lou's company before at the Annual Meetings and hope to see him again in Seattle.

We have learned that Samuel Chan is coming all the way from Hong Kong to present a paper at one of the Valuation sessions. We will all try to attend and we will make you feel welcome among your peers!

Samuel joined several years ago as an Associate Member. We all thank Trevor Ellis for his mentoring of Samuel, which finally led to a successful Certification.

CE REQUIREMENT CHANGES

There has been some confusion concerning our Continuing Education Requirements. Our now Past President, John Gustavson, wrote a letter dated 22 April 2011 to all Members, including Associate Members, to clarify the CE requirements. Some confusion has persisted. Therefore, to clear up any misunderstanding, a copy of his letter is presented below.

To: All Certified Members
Copy to: All Associate Members and Members Emeritus
22 April 2011

Subject: Vote Required by the Certified Members on Bylaw Changes Relating to Continuing Education Requirements and Compliance Therewith.

Dear Certified Members:

As described to you earlier (see letter dated 25 February 2011) a long-gone Executive Committee entertained a resolution, which was proposed, seconded and passed at the Annual Meeting in 2005. AIMA management thereafter inadvertently allowed the resolution to be implemented as if it were in compliance with the AIMA Bylaws. However, it was not, because it was in violation of Section 10. See Bylaws: <http://www.mineralsappraisers.org/bylaws.html>

In fact, the resolution, albeit well meant, could "substantially [affect] the Rights and Responsibilities of Members or Associate Members". Thus, in case of non-compliance with

the CE requirements AIMA management could commence de-certification actions against a defaulting Certified Member. Consequently, any such resolution about compliance **in addition requires a vote by the full Certified Membership**. That voting did not take place at that time due to an oversight by the AIMA Executive Committee.

The voting must take place now. Most Members are compliant with the current requirements (or are almost there), and the audio taping with synchronized slides of three appraisal sessions at the 2011 SME Annual Conference can provide up to 10 hours of additional CE credits. The AIMA management on a one-time basis would also allow CE Credits obtained during 2010 to be included in the 2011-2013 three-year average, subject to the vote of the Certified Members.

In accordance with Bylaws Section *10.1 Amendments by the Membership* the Certified Members are herewith requested to vote and mail, fax or scan/E-mail prior to 31 May 2011 the attached BALLOT to:

American Institute of Minerals Appraisers
5757 Central Avenue, Suite D
Boulder, CO 80301, USA

or Fax ballot to: 1-303-443-3156 or E-mail scanned ballot to: wcuevas@gustavson.com

AMERICAN INSTITUTE OF MINERALS APPRAISERS



John B. Gustavson
2011 President

BALLOT

The following proposed AIMA Bylaw amendments are to be adopted (or rejected) by a majority vote of the Certified Members. This Ballot must be returned prior to close of business, 31 May 2011.

Amendment A.

Shall Article 2.5.2 *Membership Responsibilities and Obligations* be amended by addition of this new sub-article: "4. for Certified Members, only, to comply with the continuing education requirements to be established by vote of the Certified Members from time to time"?

YES

If adopted, Article 2.5.2 shall then read:

2.5.2 *Membership Responsibilities and Obligations*.
Members and Associate Members shall have the following responsibilities and obligations.

1. to pay annual dues as provided in these Bylaws;
2. to comply with the Code of Ethics in the professional practice of appraisal of minerals and encourage others to maintain similarly high standards;

Continued on page 6

CE Requirement Changes, Cont'd from page 5

3. to comply with other specific requirements set forth in, or adopted and published pursuant to the authority established in, these Bylaws; and
4. for Certified Members, only, to comply with the continuing education requirements to be established by vote of the Certified Membership from time to time.

Amendment B.

(If Amendment A above were adopted by majority of vote):

Shall the continuing education requirement be 5, 10 or 20 hours per year over a 3-year average, commencing in 2011 with allowance for inclusion in the 2011-2013 period of any claimed 2010 CE Credits?

5 HOURS
 20 HOURS
 10 HOURS

YES

As indicated on the Ballot, the Membership voted for adoption of Article 2.5.2 and for 20 hours of continuing education.

 The NEWSLETTER is published by the American Institute of Minerals Appraisers, 5757 Central Avenue, Suite D, Boulder, CO 80301

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CONTINUING EDUCATION REQUIREMENT

By John B. Gustavson, Past President

In early 2011 the AIMA membership was informed that we, your Executive Committee management had no authority to state that you must not designate yourself as a Certified Minerals Appraiser for reason of non-compliance with CE requirements. Likewise, we had no authority to prevent you from voting for the same reason. The reason was that the Bylaws did not formally impart that authority to AIMA management.

To remedy that flaw formal ballots were sent to all members with a due date of 31 May 2011. The ballots called for voting on the addition in Article 2.5.2 of the requirement “for Certified Members, only, to comply with the continuing education requirements to be established by vote of the Certified Membership from time to time.” All ballots, which were returned, voted in favor of that change of Bylaws and the Bylaws were accordingly changed.

In addition, the ballots queried the members as follows: “Shall the continuing education requirement be 5, 10 or 20 hours per year over a 3-year average, commencing in 2011 with allowance for inclusion in the 2011-2013 period of any claimed 2010 CE Credits?” The members vote fell by large majority on 10 hours per year over a 3-year average.

The current CE requirement is therefore 10 hours per year over a 3-year average, commencing in 2011 with allowance for inclusion in the 2011-2013 period of any claimed 2010 CE Credits.

The Institute applies the calendar year to the terms of its Officers (Bylaws *5.1.2 Duration of Terms* ... Officers shall assume office on the first day of January...). In parallel, the “year” for purposes of accumulation of CE Credits also runs from 1 January through 31 December.

Each member has the opportunity to claim and to keep record of his/her claimed CE Credits on the “Member Login” web site. Initial usernames and passwords have been provided to members in 2010. If you are a new Certified Member or if you have mislaid your username/password, please contact the Webmaster Jerry Clark jerry@mineralappraiser.com for an updated version.