

# AMERICAN INSTITUTE OF MINERALS APPRAISERS

---

## NEWSLETTER

May 2006

Vol.10, No. 2

---

### IN THIS ISSUE

Minutes of 2006 Annual Meeting  
President's Message  
MMSA Introduces Qualified Professional Class of Membership  
Continuing Education  
Finding Data for Appraising Non-producing Mineral Rights  
Appraisal Groups Urge Use of Market Value Appraisals on Tribal Land For Energy Rights  
Senate Committee Debates Alternative Appraisal Standards for Oil and Gas Valuations  
Call for Papers, SME 2007 Mineral Valuation Session  
Ethics and Continuing Education Committee Appointments  
Administrative Law, Civil Procedure, Environmental Law, Evidence, Government Law

---

### **Minutes of 2006 Annual Meeting Saint Louis, Missouri**

March 27, 2006

The 2006 Annual Meeting of the American Institute of Minerals Appraisers was held in downtown Saint Louis, Missouri, at the Holiday Inn Select, on Monday, 27 March 2006. It was held in conjunction with the Annual Meeting and Convention of the Society for Mining, Metallurgy, and Exploration (SME). The Valuation Session chaired by Alan Stagg, had been held at the SME convention during the afternoon of the same day. Arrangements for the AIMA meeting were made by Donald Warnken, AIMA President.

Donald Warnken called the meeting to order at 6:10 PM. In attendance were nine Members (three current Officers), one Associate Member, and three guests (attendance list attached herewith). AIMA Secretary, John Gustavson, announced that a quorum was in attendance. He then announced that 2006 is the 15<sup>th</sup> Anniversary of AIMA's founding.

John Gustavson read the Minutes of the 2005 Annual Meeting, which had been held in Salt Lake City on 28 February 2005. The minutes were approved by the meeting as read.

He then proposed thanks to Alan Stagg for organizing an excellent Valuation Session, which the meeting applauded. The meeting also applauded Donald Warnken for his continued service as AIMA website manager and for

continuing to obtain permission to post relevant minerals and petroleum appraisal professional papers on the AIMA website.

Treasurer Alan Stagg read the Treasurer's report, providing the status at 28 February 2006. He informed the meeting that there were: 32 active Certified Members of which 3 were unpaid; 2 retired Certified Members; and 5 Associate Members of which 1 was unpaid. The cash balance was \$9,685.69, up from \$8,009.81 at 28 February 2005, with receipts (dues) during the year being \$2,540.00, and expenses being \$864.12 (primarily annual meeting expenses of \$637.71). There was no debt or outstanding expenses reported. The meeting approved the Treasurer's report.

John Gustavson announced the results of the election for AIMA Officers, which closed 31 January 2006. Each candidate ran unopposed and was elected unanimously. The Officers taking over immediately after the Annual Meeting are:

President, Michael Cartwright  
Vice President, Charles Melbye  
Treasurer, Robert Frahme  
Secretary, John Gustavson  
Past President, Donald Warnken

John Gustavson then read the Ethics report. It is published in the January 2006 AIMA Newsletter and not summarized here. In regards to the first case, being about a minerals appraiser  
*Continued on page 2*

## Minutes of 2006 Annual Meeting, *Continued* from page 1

certified by the American Society of Appraisers (ASA) who was not an AIMA member, Mr. Gustavson recommended that incoming President, Michael Cartwright (ASA Member), take the matter up with the ASA. He advised that the second ethics case will be on hold until such time as an appeals court makes a decision on the appeal of the litigation case in which the subject AIMA Certified Member testified as an Expert.

Donald Warnken then asked Trevor Ellis to provide a brief review of the SME's new Registered Member option in the context of whether it detracted from the attractiveness of Certification of minerals appraisers by the AIMA. Mr. Ellis stated that he had provided some assistance to the SME in its development of the Code of Ethics that binds Registered Members, this being an abbreviated version of the Code of Ethics he drafted for the AIMA. He does not see any detraction from AIMA Certification. The *SME News* of 18 January 2006 states: "This membership option was developed in response to members who need such an affiliation in order to perform specialized functions related to reserve estimation and reporting. Members who qualify will satisfy the overseas requirement that, to be recognized as a competent/qualified person, they must belong to a Recognized Overseas Professional Organization (ROPO)." Mr. Ellis observed that the AIMA certification serves a different purpose, in being specifically for minerals and petroleum appraisal, particularly market value appraisal. He observed that Canadian stockmarket reporting regulations for the TSX Venture Exchange require a Qualified Valuator, as defined in the CIMVal minerals valuation standards, to sign valuation reports, rather than just a Qualified Person. He also mentioned that he had made a submission to the International Accounting Standards Board's Extractive Activities Project Team in the past week, responding to a request for input on the fair (market) valuation of reserve-resource assets, in which he emphasized the severe shortage of certified minerals valuers worldwide who would be competent to perform the necessary work for financial reporting.

Charles Melbye continued the discussion of a Qualified/Competent Person for financial reporting purposes, as compared to a Certified Minerals Appraiser, by raising the issue of the ROPO status provided by the Mining and Metallurgical Society of America (MMSA). He said that among the specializations that the MMSA lists in relation to its Code of Ethics is valuation. Trevor Ellis responded that this listing of valuation by the MMSA may be a hangover from when the MMSA had distributed a draft minerals valuation standard for the USA, the *USMinVal Code*, based on modifying the Australasian Institute of Mining and Metallurgy's VALMIN Code. (Much of this development had been done in 1998-99 by Trevor Ellis on the AIMA Standards Committee, in preparing a draft AIMA standard). Mr. Ellis said he had fought hard for the demise of the proposed MMSA standard, which violated the Generally Accepted Valuation Principles of the world as encompassed in the International  
*Continued on page 5*

## President's Message

By Michael Cartwright, AIMA President

Don Warnken thought it would be a good idea if I wrote a little something about what I might intend to accomplish as the latest President of the American Institute of Mineral Appraisers. I really do not have much of a big time plan at this time. The last time I was President I concentrated on trying to get our membership up and I still think that is one of the better things I can do.

I have received a few calls and emails about our continuing education requirements. I think we should get them, and our membership application package, on our website so that everyone, members and nonmembers, can easily find out about them and check for updates to acceptable courses. As a Certified General Appraiser under FIRREA regulations I would be remiss if I did not strongly suggest that every AIMA member, at least those in the US, should take the Uniform Standards of Professional Practice (USPAP) update course every two years just as every other real property appraiser in the US is required to do. Knowing and understanding USPAP is becoming a part of the Daubert examination for expert witnesses and those persons who want to call themselves appraisers are expected to be aware of and to follow those standards.

I would also suggest that engineers and geologists look into becoming registered or licensed in those states in which they perform mineral property related work. I have been called more than once about geologists/appraisers practicing in California without the proper license. I also understand that practicing without a license is part of an ethics case being looked into by the AIMA Ethics Committee. AIMA members may also want to investigate becoming Certified General Appraisers in the states they routinely work in as this has been a requirement for some of the engagements I have recently worked on. I am not a big fan of government regulation of professions but it is occurring more and more and it may become imperative for AIMA members to obtain appropriate state license to remain employable.

I am happy to see from our website membership [age] that we are retaining our older members and gaining new members. A few of us discussed a couple of years back what the potential upper limit might be on active AIMA membership and we concluded that it might be around 100 or so. We still have a ways to go to get to that level and I would also like to see us reach out for more members on a world wide basis. We may need to stress that there are distinct differences between Certified Minerals Appraisers and Qualified Persons.

If any AIMA members wants to contact me about some issues they think I should address or to just plain chat please feel free to telephone, fax, email or even use snail mail. I'll be happy to chat with you. If you're in the Reno area for some reason just call and I'll invite you over for a cold one. I try not to travel too much or too far but if I get in your neck of the woods I will likely call just to have the opportunity to meet you.

## **MMSA Introduces Qualified Professional Class of Membership**

The Mining and Metallurgical Society of America (MMSA) have stated in their May 2006 Newsletter that they have implemented a “Qualified Member” (QP) class of membership.

Canada and Australia now recognize MMSA QP members and accept their reports written on behalf of clients for public documents. South Africa and the U.K. are expected to follow.

They state that any existing member, in good standing, may apply for a change in status from regular membership to QP membership by submitting a status change application form. However, the QP members must acknowledge that they will continue to abide by the Society’s Code of Ethics. This requirement would be in addition to a signed statement confirming no breaches in Ethics have occurred since provision of the immediately prior signed ethics statement.

## **Continuing Education**

The Petroleum Institute for Continuing Education (*Peice*) will be presenting a course titled “Introduction to Petroleum Reserves Estimation and Reporting,” 23 – 24, October 06, in Houston, TX. Cost is \$1195.

The instructor will be Jerry Tabb, P.E. He is vice president of C – T Oil and Gas Consultants. His area of expertise includes reserves auditing, training and reservoir engineering projects.

An updated Uniform Standards of Professional Practice (USPAP) is to become effective 1 July. Thus, it would be in each Member’s interest to become acquainted with the changes and additions made as well as pick up some Continuing Education credits. The Appraisal Institute, through its various chapters, will be conducting classes concerning the changes/additions in various cities across the U.S. this summer. Class schedules and locations can be found on the Appraisal Institute’s web site; [www.appraisalinstitute.org](http://www.appraisalinstitute.org). Information on fees can be obtained from the sponsoring chapter.

The Appraisal Institute also offers an overview of the USPAP changes and additions through their online education. Cost of this program is \$215 for non-Appraisal Institute Members. Starting date for those courses is 1 June, 15 June, 1 July and 15 July. The instructor is Craig Hamilton. Enrollment can be made through the Institute’s web site.

The American Society of Farm Managers and Rural Appraiser’s also offer educational courses. Those that may be of interest to AIMA Members include; Basic Appraisal Principles, National USPAP, Eminent Domain, Income Capitalization and Advanced Resource Appraisal (concerns mineral rights, water rights & timber). More information concerning fees, schedule and class location can be obtained from their web site; [www.asfmra.org](http://www.asfmra.org).

## **Finding Data for Appraising Non-Producing Mineral Rights**

By Donald Warnken AIMA

Our Members are reportedly busier than ever as a consequence of rising mineral commodity prices and oil and gas prices. The most common appraisal assignment concerns a producing mineral or oil and gas property. With this land slide of requests for mineral appraisals, occasionally an assignment will also contain a request for valuation of non-producing mineral rights.

Appraising non-producing mineral rights is much different than appraising producing mineral rights. Furthermore, there is limited discussion of this subject in the literature. This has caused some Members to contact your *Editor* for guidance. The most frequently asked question has been “where do I get the data for such an appraisal.”

Your *Editor* invites those Members who also have questions about valuing non-producing mineral rights to read an article that was written by Edwin Moritz for our April 2002 Newsletter. The title of his article was “Techniques for Valuing Acreage With Unproved Oil and Gas Potential.” It is an excellent and comprehensive article that presents alternative techniques for valuing unproved or speculative acreage. Also, data sources are addressed in his article.

Your *Editor* would like to interject another data source not addressed in the Moritz article. That is; the Department of Indian Affairs. They are charged with the responsibility of estimating fair market value of Indian Restricted mineral rights which are placed on the market for sale. They are also charged with the responsibility of estimating fair market value of lease bonus for Indian Restricted minerals placed on the market for lease.

Another article that addresses the appraisal of non-producing mineral rights was written by your *Editor* for the October 2004 Newsletter. Title of that article is “Lease Bonus Method.”

## **Appraisal Groups Urge Use of Market Value Appraisals on Tribal Land for Energy Rights**

*Editors note: this article was furnished by Michael Cartwright, AIMA President, taken from Appraisal Institute publications*

In a May 12 letter, the Appraisal Institute, American Society of Appraisers and American Society of Farm Managers and Rural Appraisers promoted the use of “market value” appraisals for tribal land compensation. The letter came in comment to a study being conducted pursuant to Section 1813 of the Energy Policy Act of 2005. Section 1813 requires the Secretaries of the Departments of Interior and Energy to

*Continued on page 4*

## **Appraisal Groups Urge Use of Market Value Appraisals on Tribal Land for Energy Rights**, *Continued from page 3*

jointly conduct a study of energy rights-of-way on tribal land. Specifically, Section 1813 requires DOI and DOE to submit to Congress a report of findings of the study.

In a letter, the groups recommended using market value as the appropriate standards and procedures for determining fair and appropriate compensation to Indian tribes for grants, expansions and renewals for energy rights-of-way on such tribal lands over which Congress has legal authority.

“Our organizations strongly believe that the best standard and indicator for ‘fair and appropriate compensation’ is ‘market value.’ We believe further that the best procedure for determining ‘market value’ is the appraisal process whereby a professional real estate appraiser utilizes relevant market data specific to the property rights being considered. These standards and procedures are recognized routinely throughout public policies established by federal and state governments and courts of law, which have generally determined that *just compensation* is measured by market value,” the group wrote.

“Our organizations propose to work with the DOI and DOE to develop a ‘standard scope of work’ for this type of appraisal assignment, which we believe will help make these valuations more uniform. Our organizations strongly favor such an approach and would oppose, for example, a valuation matrix designed to set rates that would apply to Indian tribal lands. Compared to a properly developed real estate appraisal, we believe valuation matrices are far less likely to provide just compensation and will require continuous adjustment because of changing market conditions. Since the objective is to provide fair and just compensation, we believe that appraisals should be the preferred method of valuation.”

## **Senate Committee Debates Alternative Appraisal Standards for Oil and Gas Valuation**

*Editors note: this article was furnished by Michael Cartwright, AIMA President, taken from Appraisal Institute publications*

A bill that would provide for a “commonsense way to value minerals” was the subject of a May 24 hearing by the Senate Public Lands and Forests Subcommittee. The bill, S. 2788, sponsored by Senator Bob Barnett, R-Utah, would result in a land transfer of 40,000 acres owned by the Utah School and Institutional Trust Lands Administration to the Bureau of Land Management, in exchange for an equivalent amount of land.

The exchange is designed to correct a checkerboard pattern of ownership that currently leaves out proposed wilderness areas and omits viewsheds for Arches National Park and Dinosaur

National Monument, among other attractions. The bill recommends that the property appraisal use valuation methods other than those approved by the Interior Department, because the currently state-owned land might later be developed for oil, gas or oil shale resources.

Bennett said the bill would hold “the federal government is some magnificent windfall is found.”

Interior Deputy Assistant Secretary Chad Calvert noted in his testimony that “the result of using a standard appraisal process might be that properties with significant oil shale resources will probably have no additional value attributed to them. This could lead to the criticism that the United States is giving away potentially millions of dollars in oil shale.” Using an alternative valuation method would probably result in Utah’s lands being worth more and therefore exchanging fewer of them for BLM’s lands, Calvert said. He said the Interior Department supported the intent of the bill but that it needed work.

Bennett said he was “determined to slay that particular dragon in land valuation issues.”

## **Call for Papers, SME 2007 Mineral Valuation Session**

Donald Warnken, Chairman

The SME 2007 Annual Meeting will be held in Denver, Colorado the last week in February. The exact date(s) will be announced later. I will be chairing the Minerals Valuation Session at that meeting. Thus far, five AIMA Members, one Associate Member and one non-AIMA Member have agreed to present a paper at the meeting. The authors and the titles of their respective papers are;

### Member

Trevor Ellis – Cost Approach Methods in Mineral Valuations

James Evans- Concept of Mineral Rights Conveyance Value in Regard to Federal Mineral Estate

Stuart Limb – Mineral Appraisal and Real Estate Appraisal, Similarities and Differences

Richard Bate – Appraisal of a Lessor’s Interest in Mineral Reserves of Restricted Market Price Commodities

Michael Albert – Appraising 3 Bad Pennies

### Associate Member

Stephen Olmore – Affects of Latin American Affairs on Mineral Resource Valuation

### Non-Member

Jerry Clark – Local Market Effect on Aggregate Mine Value

*Continued on page 5*

## **Call for Papers, SME 2007 Mineral Valuation Session, *Continued from page 4***

*Call for papers* -Presenting a paper is an opportunity to attain national exposure therefore, all Members are encouraged to participate. **It is not too late.** Just contact me at [dongene32@sbcglobal.net](mailto:dongene32@sbcglobal.net) or telephone me at 918-663-3074 and furnish a title of your proposed paper.

### **Ethics and Continuing Education Committee Appointments**

By Michael Cartwright, AIMA President

I have appointed John Gustavson to continue as Chairman of the Ethics Committee for the year 2006-2007. I have also appointed Robert Frahme to continue as Chairman of the Education Committee for the year 2006-2007.

### **Administrative Law, Civil Procedure, Environmental Law, Evidence, Government Law**

Furnished by Michael Cartwright, AIMA President

Center for Biological Diversity v. United States Fish & Wildlife Service, No. 04-55084 (9<sup>th</sup> Cir. June 05, 2006)

Summary judgment for defendants, the U.S. Fish and Wildlife Service and a company involved in mining, is affirmed over environmental organization's claim that: 1) the service exceeded its statutory authority pursuant to the Endangered Species Act (ESA); 2) a certain critical habitat finding for a species of fish was arbitrary and capricious; and 3) the finding was invalid due to lack of a notice and comment period. <http://caselaw.lp.findlaw.com>.

### **Minutes of 2006 Annual Meeting, *Continued from page 2***

Valuation Standards (IVS) and the USA's Uniform Standards of Professional Appraisal Practice (USPAP). The Valuation Session he organized and Co-Chaired at the 2004 SME Annual Meeting was sponsored by the MMSA to determine the appropriateness of its proposed USMinVal Code within the international context of minerals valuation standards. Mr. Ellis was pleased to say that his understanding is that the proposed standard is now dead.

John Gustavson reviewed the reasons why he and the other founding members had formed the AIMA 15 years ago, in 1991, this being primarily due to US Federal agency requirements for minerals appraisals to be conducted by licensed (certified general) real estate appraisers. He also gave a brief synopsis of the success of the AIMA and its certification during its 15-year history.

Robert Frahme gave the Education Committee's report. He said that several members had submitted listings of their

continuing education hours, in accordance with requirements of the AIMA's continuing education resolutions. He said that courses and conference sessions focusing on appraisal and mineral economics were being accepted. Courses too heavily focused on residential real estate appraisal may not be accepted, and courses such as geology and geophysics will not be accepted. After a brief discussion it was also agreed that much of the time spent writing and presenting minerals appraisal papers would also qualify. The binding continuing requirement for Certified Members, which began on 1 March 2005, is an average of 10 hours per year in a 3-year cycle. This requirement increases to an average of 20 hours per year in a 3-year cycle beginning 2008. Certified Members should submit their hours annually.

Sam Pickering stated that he has observed a serious need for AIMA members to learn how to value minerals in various contexts, such as in condemnation and estates, correctly accounting for access and markets, particularly when valuing industrial minerals. No action on this matter was proposed by the meeting.

A listing of courses already deemed as acceptable for continuing education credit is to be posted on the AIMA's website. Donald Warnken said his ability to enhance the website had been limited during the past 12 months by demands on him of taking care of his ill wife. She had passed away unexpectedly two weeks before this meeting. Members at the meeting expressed their sympathies to him, and thanked him for attending this meeting under the stressful circumstances.

Mr. Warnken said that there had only been a little bit of development work happening for the planned AIMA minerals appraisal textbook.

Trevor Ellis gave an update report on activities of the International Valuation Standards Committee (IVSC) and International Accounting Standards Board (IASB) relevant to the minerals/petroleum valuation/appraisal profession. He continues to lead the IVSC's Extractive Industries Task Force, and Donald Warnken continues as its petroleum industry representative. Mr. Ellis proudly displayed a copy of the IVS 2005 book containing the Extractive Industries valuation standards that the Task Force had developed. He said that he is continuing to draft the supporting guidelines document, the *Extractive Industries Technical Paper*, for which he had received indications of high level regulatory demand internationally. The pace of development had been slowed by his receiving only a small amount of input from Task Force members. He reviewed his representation of the IVSC on the United Nations' ad hoc group of experts for classification of reserves and resources (reported in the January 2006 AIMA *Newsletter*). Since the November 2005 meeting which he attended in Geneva, the IASB has asked the classification setters of the major mining and petroleum societies of the world to work with the United Nations group on quickly converging their classifications as much as possible. Mr. Ellis said that he had recently received a request from the IASB's

*Continued on page 6*

**Minutes of 2006 Annual Meeting**, *Continued*  
*from page 5*

Extractive Activities Project Team for a submission responding to reserve-resource reporting questions, particularly addressing asset valuation issues. He said that he had assisted the United Nations group in developing its submission. Then he had written his own 7-page submission addressing only the valuation questions. He said that the IASB and US Financial Accounting Standards Board are closely aligned, working together, on accounting standards development.

Donald Warnken told the meeting that the 2006 edition of USPAP becomes effective on 1 July 2006. USPAP updates have now moved onto a 2-year cycle. Trevor Ellis added that the philosophical changes to operation of USPAP are significant in the 2006 edition.

Stuart Limb suggested that the AIMA should make its members aware of the “mine field” of state licensing for the various professions serving the minerals industry. Some discussion occurred about state licensing, but no decision was made.

John Gustavson thanked Donald Warnken for continuing as Editor of the AIMA *Newsletter*.

The outgoing President, Donald Warnken, called the meeting to a close at approximately 7:20 PM, at which time dinner and

drinks were served.

Trevor R. Ellis, As Meeting Secretary

**AIMA Annual Meeting Attendees**

Members:

Donald Warnken – President, Outgoing  
Alan Stagg – Treasurer, Outgoing  
Robert Frahme – Treasurer, Incoming  
John Gustavson – Secretary  
Charles Melbye – Vice President, Incoming  
John Brower  
Trevor Ellis  
Stuart Limb  
Sam Pickering, Jr

Associate Member:

Stephen Olmore

Guests:

Charles Howard  
Boyce Moody III  
Craig Wood

\*\*\*\*\*

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](mailto:gustavson@gustavson.com)

Editor: Donald Warnken

E-Mail: [Dongene32@sbcglobal.net](mailto:Dongene32@sbcglobal.net)

\*\*\*\*\*