

AMERICAN INSTITUTE OF MINERALS APPRAISERS

NEWSLETTER

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AIMA 2012 ANNUAL MEETING MINUTES

The Annual Meeting of the American Institute of Minerals Appraisers (AIMA) was held on 21 February, 2012, at 6:00 P.M. at the Red Lyon Hotel, 1415 Fifth Avenue, Seattle, Washington, 98101.

- **WELCOME:** Fred Pirkle, AIMA President, called the meeting to order and welcomed all members, guests and attendees. Fred Pirkle thanked John Manes and Stuart Limb, CMC, Inc., for sponsoring \$200.00 toward beverages at tonight's meeting.

- **2012 SESSION CHAIRS:** Fred Pirkle extended the thanks of the AIMA to John Gustavson and Jerry Clark for organizing and chairing the 2012 session. It was stated that Certified Members can claim 2 Continuing Education credits for attending the 2012 Annual Meeting, 3 Continuing Education credits for each SME session attended, and 7 Continuing Education credits for each paper presented during the session.

- **ATTENDEES:** A sign-in sheet was circulated to all attendees. Present at the 2012 Annual Meeting were the following people:

- Bagby, Bill (Certified Member # 2006-3)
- Bertrand, Frank (Associate Member # 2010-1)
- Chan, Samuel (Certified Member # 2011-2)
- Chapman, Matt (Associate Member # 2011-1)
- Clark, Jerry (Certified Member # 2009-1)
- Clark, Rosemarie (Guest)
- Collins, Dan (Associate Member # 2011-2)
- Ellis, Trevor (Certified Member # 1994-1)

- Gustavson, John (Member # 1992-1)
- Howard, Charles (Certified Member # 2008-2)
- Lamphier, Briana (Associate Member # 2009-1)
- Lawrence, Ross (Certified Member # 1999-4)
- Limb, Stuart (Certified Member # 1993-9)
- Manes, John (Certified Member # 2008-1)
- Pirkle, Fred (Certified Member # 2004-2)
- Rapier, William (Guest)
- Springer, Mark (Certified Member # 2006-4)
- Vass, Rachel (Guest)
- Warnken, Donald (Certified Member # 1992-2)
- Wyman, William (Associate Member # 2010-5)

- **QUORUM:** A call for certified members and at least two offices in attendance was performed via a show of hands and individual acknowledgment. A quorum was established.

- **SECRETARY:** A motion to approve John Manes as Secretary of the Annual Meeting was proposed by Fred Pirkle, and seconded by John Gustavson. The motion was unanimously approved. John Manes performed the role of AIMA Secretary for the 2012 Annual Meeting.

- **AGENDA:** A copy of the proposed agenda (Exhibit 1) for the Annual Meeting was provided to all attendees. John Gustavson motioned to approve the Agenda, and Jerry Clark seconded the motion. The motion was unanimously approved.

- **APPROVAL OF 2011 MINUTES:** John Gustavson motioned to approve the 2010 AIMA Annual Meeting Minutes, as published in the AIMA Newsletter, March 2011. Ross Lawrence seconded the motion. The motion was unanimously approved. The 2011 Annual Meeting Minutes were approved and adopted (Exhibit 2).

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- GUESTS: Fred Pirkle called for an introduction of guests attending the meeting:

- a. Jerry Clark's wife, Rosemarie
- b. William (Bill) Rapier, William F. Rapier & Associates
- c. Rachel Vass, a self-employed geologist from West Virginia, guest of Charles Howard.

- TREASURER'S REPORT: Charles Howard presented the Treasurer's Report (Exhibit 3), and circulated copies to each table.

- a. Year 2011 budget was discussed.
- b. Beginning balance on January 1, 2011 was \$4,630.81
- c. Income anticipated for 2011 is \$4,300.
- d. Expenses anticipated for 2011 are \$3,600.
- e. Ending Balance, projected for December 31, 2011, is \$5,400.
- f. The largest expense item anticipated for 2011 is the Annual Meeting DVD production expense (-\$2,859.97) of which anticipated DVD Sales are (\$1,710.00).
- g. Members are covering their own costs for dinner at this (2012) annual meeting.
- h. Approximately 80% of all AIMA members and associate members have paid their dues for 2012. Reminders will be sent out to anyone that has not paid their dues.
- i. Don Warnken motioned to approve the Treasurer's report, Ross Lawrence seconded the motion, and it was unanimously approved by all members.

- EXECUTIVE COMMITTEE: Fred Pirkle identified the members of the AIMA Executive Committee currently serving for 2012: Fred Pirkle (AIMA President), Mitch Albert (AIMA Vice President), Charles Howard (AIMA Treasurer), John Manes (AIMA Secretary), and John Gustavson (AIMA Past President).

- NEWSLETTER/WEBSITE: Don Warnken is looking for volunteers to help out as associate editor of the AIMA Newsletter. Matt Chapman and Dan Collins volunteered to assist. Tim Knobloch (Associate Member # 2011-4) had also offered to assist with the newsletter via a previous telephone call. Jerry Clark mentioned that a few people had mentioned that the member's area of the website was running very slow with updates. Jerry recommended that members attempt updating their information in the early morning (PST) to avoid traffic and slowdowns.

- COMMITTEE/UPDATES: Fred Pirkle asked members of various committees to provide information or status updates as follows:

- a. Continuing Education Committee: John Gustavson provided a brief update on the status of Continuing Education. It has been approximately one year since Michael Cartwright (Member # 1992-3) alerted the AIMA about a mistake in

procedures made to the bylaws regarding adoption of new Continuing Education requirements. Per the bylaws any changes to membership status requires a vote. Previous actions resulted in 10 Continuing Education credits per year, over an average 3 year period (2011 – 2013). Later in 2011 Bob Frahme (Member # 2002-2) was tasked with performing an informal audit of Continuing Education credits of all members. He was provided with the tools, but unfortunately was not informed about the 10 Continuing Education credits per year. Things got royally messed up, as findings initially stated that almost everyone was out of compliance. Don Warnken also published a Newsletter that inadvertently stated different Continuing Education requirements. A subsequent correction newsletter was sent out. Under the 10 Continuing Education credit basis, approximately 2/3 of the members are in compliance, while the remaining 1/3 of the members may not have used the website to tally their credits.

John Gustavson mentioned that regardless, everyone still has until 2013 for 30 Continuing Education units. John Gustavson also mentioned that he receives a lot of calls about Continuing Education, and he encourages members to add their units to the website. Lastly, the website has been setup for this year to allow associate members to add their units also.

John Gustavson mentioned that he has been locating useful webcasts/seminars/courses to negotiate costs and obtain discounts for AIMA Certified and Associate Members. In some cases the AIMA can even offer a rebate to Associate Members to help with costs/training.

- b. Mentor Committee – Trevor Ellis has been the Chairman of the committee, and has been overwhelmed. Ten associate members currently do not have mentors assigned, and only a few Certified Members are mentoring Associate Members. Several Associate Members have apparently not been keen on moving forward.

- c. Reference Materials Committee – Briana Lamphier commented that the Reference Materials Committee has slowly been adding information, and has a Microsoft Excel spreadsheet index of all cataloged court cases. She can e-mail out the spreadsheet to anyone that is interested, and also welcomes anyone to send her court cases not on the list, to be cataloged.

- d. Membership Tiers Committee – John Manes and Trevor Ellis presented the findings of the Membership Tiers Committee. During the 2010 Annual Meeting, a committee was established to research the creation of a fourth membership category for people that want to join the AIMA, but are not interested in certification. Over three dozen professional geology and engineering organizations were researched, including seven Self-Regulating Professional Organizations such as SME, CIM, SAImm and AUSImm. Based on findings, a fourth category to the AIMA, Affiliate Member, was recommended.

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- Jerry Clark mentioned that the membership needs to fit our organization.
- Stuart Limb mentioned that he objected to a new category, and that one professional organization that he belongs to, the Royal Institution of Chartered Surveyors (RICS), was not mentioned in the study.
- Ross Lawrence mentioned that there is some risk of non-qualified people signing off on appraisal reports as Affiliate Member of the AIMA.
- It was mentioned that the item should be put up for vote. John Gustavson mentioned that the item did not need to be voted on as it does not influence the members, nor does it affect membership, and that this was actually Old Business discussing the result of a previous committee finding, not a new item.
- William Wyman made a recommendation of voting yes to elect a fourth category, and then have the Executive Committee finish out the details later.
- Stuart Limb objected and stated that legally you cannot do this, as it is called Ultra Vires, which means that you cannot agree to agree. Associate Member Dan Collins (Attorney – Colorado) mentioned that was not the definition of Ultra Vires, which in this case would be making a vote outside your authority.

John Gustavson requested the AIMA Secretary to re-read the findings and for the Membership Tiers Committee to define the exact conditions of a proposed fourth category, prior to a vote by members.

John Manes stated that the proposed fourth category would be under the following conditions:

- non-technical
- non-voting
- not listed on website
- no privilege to sign any documents as an ‘Affiliate Member’.
- annual fee of \$60/year
- Executive Committee to decide on the name, however ‘Affiliate Member’ was recommended.

John Gustavson motioned to approve the Fourth Category, under those terms, and Ross Lawrence seconded the motion. Stuart Limb stated that he strongly opposed this motion, as it allows for any riffraff to join the AIMA, and therefore dilutes the AIMA’s credentials. He further stated that he is a Fellow of the Royal Institution of Chartered Surveyors, and it seems to him that the AIMA is now just taking money from people to hang onto its coat tails.

Trevor Ellis stated that all professional organizations have a client base conducted of not just its members, but in some cases students, associates and other non-professional levels of membership. Jerry Clark concurred with Trevor Ellis. Eight Certified Members voted for the motion, and two Certified Members voted against the motion. It was resolved that a fourth new category, under the conditions just read by John Manes be formed. The AIMA Secretary will make the necessary changes to the Bylaws and prepare the application form.

- **OLD BUSINESS:** Fred Pirkle called for order and to discuss old business:

CONTINUING EDUCATION COMMITTEE: Fred Pirkle asked John Gustavson to comment on Continuing Education. John Gustavson mentioned that he would like to acknowledge and thank Bob Frahme for his years of service to the AIMA in regards to developing and overseeing Continuing Education.

A formation of three members for the Continuing Education Committee was desired.

1. John Gustavson volunteered to serve as Chair for the Committee.
2. John Gustavson mentioned that Michael Cartwright sent an e-mail to him prior to the meeting, and requested to serve on the Continuing Education Committee.
3. Trevor Ellis volunteered to serve on the Committee.

IVSC: John Gustavson was asked to comment on the International Valuation Standards (IVS). John mentioned that years of work were conducted by Trevor Ellis and Don Warnken in cooperation with the International Valuation Standards Council (IVSC), specifically to Minerals Valuation. In 2007, the International Valuation Standards were published and included Guidance Note 14, specifically related to the Extractive Industries (Minerals and Petroleum properties). This was later suspended in the 2011 edition, as the IVSC felt that this did not neatly fit in with their typical accounting. It was a bloody battle and Trevor Ellis lost his hair over it! Now, the South African Institute of Mining and Metallurgy (SAIMM) is taking the lead with Australia, South Africa, Canada and others to get the codes standardized. A meeting is taking place in Brisbane, Australia in a few months, and Fred Pirkle has graciously received funding/blessing from his company to attend this meeting, and will be attending as President of the AIMA.

- **NEW BUSINESS:** Fred Pirkle called for order and to discuss new business:

a. **2012 SME DVD:** As per last year, the AIMA sessions of the 2012 SME meeting were recorded and will be converted to DVD’s available for purchase from the AIMA. The DVD’s are for sale for \$80 and count as 6 Continuing Education credits for anyone that purchases and watches them. Need people to buy the DVD’s. If you wish to purchase the DVD, please send payment of \$80 along with your name and address to AIMA, 5757 Central Avenue, Suite D, Boulder, CO 80305, USA. *Continued on Page 4*

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Jerry Clark asked if the AIMA would consider marketing the DVDs to non-members of the AIMA. John Gustavson stated that the AIMA's mission is to educate the public and this would not be a problem. Jerry Clark mentioned that he would put the word out and will volunteer to market the DVDs. Guest William (Bill) Rapier suggested putting the word out to State Geological groups for their continuing education purposes, as well as offering to the American Institute of Professional Geologists (AIPG). John Gustavson said that we should consider the SME as well.

b. CE CREDITS: Due to the previous issues with the Continuing Education credits, Fred Pirkle suggested that the AIMA could send out ballots to newly certified members to vote on Continuing Education credits. John Gustavson mentioned that the Continuing Education topic was already voted on and resolved, and that all Certified Members should be aware that the results of that vote, or any future vote, cannot be used to "de-certify" any already certified members, but simply sets the standards for the future. It was further discussed that since this item was already voted on and resolved, then there was no need to send out ballots to just the newly certified members.

c. RESPONSE TO M. CARTWRIGHT: Michael Cartwright recently sent an e-mail to the AIMA Executive Committee and all AIMA members a few weeks ago regarding some issues with voting, certification and other matters. Due to the e-mail arriving right before the SME conference/AIMA annual meeting, no time for response was possible, and thus no action has been performed. However, Fred Pirkle will specifically address and respond to all of Michael's issues in the near future, now that the 2012 annual meeting is almost finished.

d. EDITOR/NEWSLETTER: Previously discussed earlier in meeting.

e. MENTOR COMMITTEE: Fred Pirkle mentioned that Trevor Ellis has been overwhelmed with the Mentor Committee, and the AIMA would like to allow him to move into a more advisory role, as well as form a committee of three members for the Mentor Committee:

1. Mitch Albert was recommended to serve as the Committee Chair, and the AIMA Secretary will notify him to see if he is interested.
2. John Gustavson volunteered to serve on the Committee
3. John Manes volunteered to serve on the Committee
4. Trevor Ellis will serve in an advisory role only

f. BEST PAPER AWARD: Bill Bagby commented that Michael Cartwright started a tradition of offering a \$100 reward for the best paper presented at the annual conference, and also personally paid the winner. Although Michael was not here tonight, he personally forwarded \$100 to Bill for

paying the winner. This year's winner was Matt Chapman, who presented a paper entitled "Lessons Learned from Mineral Appraisal with Subsequent Market Sale". Matt was presented with the \$100 award by Bill Bagby.

g. OTHER: Other new business was discussed as follows:

- Trevor Ellis mentioned some new website software for Jerry Clark to review.
- William Wyman mentioned that Associate Members can also seek out their mentorship, and that the AIMA does not need to make all the efforts.
- William (Bill) Rapier mentioned that the AIMA could benefit from soliciting outside the SME to other organizations and also inform people of the AIMA.
- Jerry Clark mentioned that during a previous annual meeting in Salt Lake City, an idea of a Committee to talk to colleges about Minerals Appraisal/Valuations was brought up, and then dropped. This may be worth pursuing now.
- Stuart Limb reiterated that he disagreed with the previous vote to setup a fourth membership category. Stuart Limb further stated that the AIMA is designed to attract the crème of the crème, and now it will have a fourth category of undesirables.

h. 2013 SME VENUE: The 2013 SME Annual Conference will be held in Denver, Colorado. Fred Pirkle and John Gustavson mentioned that several members have mentioned issues with the AIMA annual meeting being on Tuesday evenings. Instead of an evening dinner, a luncheon will be considered for 2013, which will likely be less costly, and easier. The AIMA will check with Mitch Albert first about possibly chairing the 2013 venue.

i. ADJOURN: There being no further business, John Gustavson motioned to adjourn, and Ross Lawrence seconded the motion to adjourn. Upon motion made and unanimously approved, the meeting was adjourned at 8:36 pm.

APPRAISAL REPORT TIPS

By Mark Chapman

March, 2012

This article address's several suggested tips in the introductory section of an appraisal report to enhance clarity, define relationships, and liability protection.

The letter of transmittal identifies several key items: property, property-type, interest appraised, date of report, purpose, intended use/user, appraisal format, reference to assumptions and limiting conditions, extraordinary assumptions and hypothetical conditions, as well as state value(s) and be signed by the appraiser. I recommend adding a statement to the effect that the appraiser is not liable to any 3rd parties as well any liability of the appraiser is limited to the fee collected for the assignment. While I have been fortunate to never been sued, and I am not a lawyer, I believe that making such statements only helps to add protection to the appraiser.

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APPRAISAL REPORT TIPS, *Continued from* *Page 4*

Within the standard assumptions and limiting conditions are numerous statements designed to identify the work the appraiser does and also does not do to the client. This is fundamental to clearly communicating to clients what services we as appraisers provide and what services we do not and therefore cannot take responsibility for. Rather than mention all the standard assumptions and limiting conditions, I will highlight several I think are especially applicable to mineral rights appraisals.

- Information supplied by others is believed to be reliable. However, no warranty is given for its accuracy. This includes engineering reports, financial statements, environmental studies, etc.
- No responsibility is assumed for legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated.
- The property is appraised free and clear of any and all liens or encumbrances unless otherwise stated.
- It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless otherwise stated in this report.
- The distribution, if any, of the total valuation in this report between land and improvements applies only under the stated program of utilization. The separate valuations for land and buildings should not be used in conjunction with other appraisals and are invalid if so used.
- Responsible ownership and competent property management are assumed.
- This appraiser is not required to give further consultation, testimony, or be in attendance in court with reference to the property in question unless arrangements have been previously made in writing.
- The appraisal is to be used only in its entirety. Possession of the report or any copy does not carry with it the right of publication. The report may not be used by any person or corporation other than the client or the party to whom it is addressed or copied without the written consent of the signing appraiser(s).

A 2011 USPAP update is to include a statement for prior services provided within the past 3 years to the subject property in the signed certification. These services include not just appraisal but also other consulting or brokerage.

Most law suits affecting appraisers are due to lack of clarity in defining the purpose of the appraisal, interest appraised, intended use, and intended user. It is good to not just identify these components but also include definitions as your audience may not have the same level of fluency in appraisal as you do. Within the definitions section you should define the type of value (most commonly market value) being developed in your report.

Scope of work may be one of the most important introductory sections of the report. This section of the report tells the user

the extent of collecting, confirming, and reporting the data. This section should define what the appraiser did and also include what the appraiser did not do. It should reference the property inspection and its extent. Other topics discussed may include the investigation and parameters in determining appropriate market data and what data was provided by the property owner.

To summarize, we must be clear leading up to the body of the report so that the intended user can properly rely on our work. This was a quick write-up and if anybody has comments or would like further discussion on any point made within the article – feel free to contact me. I look forward to getting to know everyone better! Thank you. Matt Chapman, MAI

CONTINUING EDUCATION

Part 1

To All AIMA Members:

We again bring your attention to this Online course being presented next week:

<http://www.edumine.com/pd/MiningInvestmentWebcast/>

There is a 20% discount for AIMA Members (and an additional \$50 rebate from the AIMA for Associate Members). Certified Members, depending on what you judge you get out of this, may claim all or parts as CE credits.

We as Officers of the AIMA recommend this course both to our Certified Minerals Appraisers and to our Associate Members.

As Minerals Appraisers we are duty-bound to apply not only the DCF approach (which can work well for producing properties), but also the Sales Comparison approach. The latter is applicable to the whole range of properties from exploration to production stages, but it is tough to find "comparable sales".

There is rarely a clearly comparable transaction from the market, so we must make many (preferably small) adjustments from the market sale property to the subject property of our appraisal. We generally refer to that process as "gridding".

The gridding should be as objective as possible (commodity price change is an example, which can be reduced to calculation), but subjective opinions are often required. An example would be the expansion potential from surrounding exploration for an undeveloped mineral deposit as recently sold in the market place as compared to the expansion potential of the mineral deposit, which we are appraising. Also, subjective adjustment may have to be applied when social or environmental pressures are different between a recent sale (for example located in Newfoundland) versus the subject of valuation (maybe located in California).

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CONTINUING EDUCATION, *Continued from Page 5*

We visualize this course as illuminating many of these and additional components, which must be considered when adjusting comparable sales. Thus, we hope in this course to become further educated by the Instructor's description of the degree of risk associated with many of the components. And, we may perhaps come away with qualitative adjustment steps/percentages/factors for our adjustments in our future gridding processes.

The course description states: Jack Caldwell will explore the technical, social, political, and financial **factors that make one mining investment better or worse than another**, That sounds to me like a course from which we might derive new knowledge about components to include and maybe even derive a qualitative understanding of the sensitivities to some of the factors.

The course in its entirety promises to be a good learning experience for our Associates, and this is the reason for the \$50 rebate to any Associate presenting his/her claim of attendance after the course.

For everyone, be sure to mention the AIMA on the registration form to get the 20% discounted enrollment.

Regards,
John B. Gustavson, CMA #1992-1
From: John Gustavson <johngustavson1@aol.com>

Part 2

To: Johngustavson1@aol.com
Cc: swunsch@infomine.com
Sent: Sun, May 6, 2012 6:10:39 PM
Subject: Discounted Mineral Property Valuation course in Toronto

Dear AIMA Member:
We have again received an educational courtesy from EduMine. The one-day course "Mineral Property Valuation" is being presented on 4 June 2012 in Toronto, Ontario. From what we can see from the material about the course, this promises to be valuable Continuing Education for minerals appraisers. It is on the expensive side (CDN\$ 750.00), but AIMA members have been offered a 20% discount. Be sure to note that you are a member of the AIMA to receive the discount.

Here is a summary about the course:

This course examines the various approaches and methods of developing valuations for mineral properties and projects as well as mining companies. International standards are reviewed and the Canadian CIMVAL standard is discussed in more detail. The three valuation approaches (Cost, Market, Income) are examined along with the various methods within each approach. Techniques for risk assessment are described.

Reporting requirements are examined and a suggested table of contents for a valuation report is discussed.

Perhaps the most valuable material from the course would be the added availability of the so-called "Pre-Course e-Learning". Prior to the course, registered delegates have access to the online e-learning material consisting of two introductory courses titled Mineral Property Valuation 1 - Standards and Guidelines and Mineral Property Valuation 2 - Approaches and Methods.

All course details can be found here: <http://www.edumine.com/pd/mineralpropertyvaluation/>.

All questions can be answered by

Ms. Sandra Wunsch
Educational Events Manager - EduMine
Email: swunsch@infomine.com
Tel: +1 604 683 2037 ext. 229
Fax: +1 604 681 4166

INTRODUCTION

By Matt Chapman

February 22, 2012

Hello AIMA! I want to introduce Dan Collins as well as myself, Matt Chapman. We will be assisting Don Warnken with the quarterly newsletters. We are both associate members of AIMA on the certification tract and excited about the good times to come.

First off, the 2012 AIMA/SME event in Seattle was Epic! The SME conference was top notch with a number of informative talks in a great city which was fun for all. The AIMA dinner and annual meeting was equally productive. It was great to connect and re-connect with friends and colleagues, share ideas and stories, and grow as a profession. Cheers! A special appreciation goes to CMC for providing the libations! For those who were unable to attend, you were certainly missed. Hopefully next event we will see you there. And speaking for Don, Dan, and myself, we look forward to much correspondence throughout 2012!

Under Don's guidance, I want to make a statement in the newsletters but also will follow-up with members individually that we want your good karma. We as a close knit organization care about one another and want to share important current happenings in y'all's lives. If you have any updates or stories – please let either Don, Dan, or myself know and we will get it in here.

Next, I know that as valuation experts, not only do we get busy but we also work deals that are confidential. Respecting this, it would be nice to share insight into the market that may help each other with future valuation and consulting work. I'd
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INTRODUCTION, *Continued from Page 6*

be more than happy to compile market data and chart it and cite it in the member's only section of the website. I could either note significant confirmed transactions that are non-confidential or I could compile royalty and discount rates for various minerals which may add additional support in our -productive if only a few participate. However, if we collectively work together, I believe it will lead to positive results. Please give us your feedback.

Lastly, I'd like to pose an open-ended questions to the group and responses can be published in the following newsletter (please specify whether you would like anonymity). What are top reasons mining industry is misperceived by greater public, how do we as an industry help correct the misperception... and most importantly what are the value implications if able to do so? Please feel free to elaborate answers with specific examples. Thank you!

I look forward to getting to know everyone better. Have a great day!

Matt

ALERT ABOUT MARCELLUS

APPRAISAL

By John Gustavson

This is submitted to the *Newsletter* as a general alert to those AIMA members, who may be conducting Marcellus shale property appraisals or appraisal of other gas shale properties. The Henry Hub natural gas price fell to a low of \$2 per mmBtu in mid-April. In northern Pennsylvania with its dry Marcellus gas that is just a little more than \$2 per MCF plus a few pennies from being closer to the East Coast market. Still, very, very low!

Therefore, it is clearly uneconomic to drill new wells for Marcellus gas right now. Talisman (a big operator) states that it needs \$4 gas in order to go back in and drill.

Chesapeake moved its rigs to areas of wet gas, but even 1300 Btu/cf looks uneconomic now. Smaller companies are apt to bite the dust when they run out of hedge positions for higher prices (purchased last year) and cannot afford to drill. We can now expect a general pull-back (as has been seen before in our industry) of all activities for the the following types of properties, shown in order of increasing maturity in the table below:

- Unleased land over general shale area
- Unleased land over shale fairway
- Leased land over shale fairway
- Permitted well location
- Unitized acreage well location
- Spudded, but undrilled well
- Drilled, but unfrack'ed well

- Completed well awaiting hook-up
- Completed well with no production files
- Producing well with public history

Properties near the bottom of the list will be favored by the operators, while properties in the upper part will be dropped or not pursued towards moving them down the list for quite a while. Consequently, the FMV of the underlying mineral property must also be rattling down.

Lease bonuses will be expected to drop to lower dollar-per-acre levels or possibly the leasing will stop all together. Why would a company lease new acreage, if its existing leases are not being drilled and/or if its aging leases need renewal? This has an immediate downward impact on the FMV of immature properties.

In many cases, the *Highest & Best Use* for undeveloped shale property is no longer "production of income" in the near future. That *H&BU* may not be "financially feasible" any more.

The *H&BU* will drop to a different level such as "use as prospective acreage to barter, trade, sell, aggregate, and/or leverage work commitments for further testing of the gas potential". Likewise, the oil & gas companies will now have to use the term "Contingent Resources" for such acreage.

AIMA appraisers, who estimate FMV of shale properties for gifting or similar IRS-regulated purposes must be extra careful during times of drastic commodity changes.

John Gustavson
Certified Minerals Appraiser #1992-1

THANKS FROM YOUR EDITOR

By Donald Warnken: Editor

I want to thank Mark Chapman, Dan Collins and Tim Knobloch for volunteering to assist me in the preparation of the Newsletter. With their help and assistance your Newsletters will contain more articles and will be more timely.

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

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