

# INTERNATIONAL INSTITUTE OF MINERALS APPRAISERS

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## NEWSLETTER

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## **SME 2015 Annual Meeting and Exhibit**

**Denver Convention Center  
Denver Colorado  
February 15-18, 2014**

- 1) Mentor Clinic 2-16-15
- 2) Social Evening 2-16-15
- 3) Valuation Sessions 2-17-15
- 4) Annual IIMA Meeting 2-17-15
- 5) C/E Appraisal of Oil and Gas 2-18-15

**Please note – some of these events require RSVP in December and January. Please be proactive in letting the organizers know your plans for attendance.**

## **Continuing Education - Appraisal of Oil & Gas Properties**

**February 18, 2015  
RSVP December 10, 2014  
Edwin Moritz**

This venerable Continuing Education seminar is being offered in condensed form for IIMA

members, only, at a specially discounted price on Wednesday, 18 February in Denver. The seminar has run since 1985, mostly through the University of Tulsa. However, the seminar is the intellectual property of Gustavson Associates, whose President Ed Moritz (CMA No. 1993-7) will provide a substantial part of the one-day instruction.

The seminar, Appraisal of Oil & Gas Properties is normally a two-day course; but with a select audience of IIMA mineral appraisers Ed and his co-instructor can move fast into substance. Many of us may have taken the full seminar at prior venues; however, there is always new data from the market. Also, many of us may use this seminar to highlight differences between our metal or industrial minerals experience and petroleum minerals appraisals.

The seminar will be presented from 9 AM until Noon, with time out for lunch on your own. Thereafter, the afternoon session will start at 1:15 Pm and continue until roughly 4:15 PM.

Details are being worked out about location (possibly at Gustavson Associates' downtown Denver conference room within a few blocks of the Convention Center). Also, the special IIMA member prices are still being worked out. Ed Moritz has graciously offered a deep discount and the

IIMA will assist Associate Members with rebates. Associates may apply this seminar toward certification requirements, while Certified Minerals Appraisers may claim 6 hours of CE credit. Affiliate Members will of course be very welcome.

You are requested to indicate your intent (non-binding at this time) to participate in this seminar. That will enable us to finalize logistics and price. So, please reserve a spot for your attendance. Again, the day is 18 February (the day after our IIMA Annual Meeting) for this Appraisal Seminar, so **please send your intent to [wcuevas@gustavson.com](mailto:wcuevas@gustavson.com) prior to 10 December 2014.**

## **Mentor Clinic February 16, 2015 4-6 pm**

Associate Members and current/future Mentors are invited to a free Clinic on Monday as part of the IIMA Annual Meeting activities. We have had many calls for assistance from our Associate Members towards reaching the Certification level. Now, help is on the way!

The Clinic is split into three parts (plus one social hour, if you can stay!)

Part One will briefly outline the requirements for Certification and dispel the myth of why it should take so long. This will lead into the crux of the Clinic, namely the schedule of required/desired courses and seminars and where and how to attend (see also Appraisal of Oil & Gas Properties all day Wednesday, 18 February elsewhere in this Newsletter). Many Associates will be interested in the online courses for which lists will be provided. Also, discounts available for IIMA members will be presented.

Thereafter, two important sources of material will be presented, namely appraisal literature and selected DVD presentations. Tim Knobloch, our current Secretary and Mentor of several Associates will provide his list of recommended literature, a brief description of the content as well as access directions.

The other recommended source of mineral appraisal material is a carefully selected group of recorded slide presentations with underlying speakers' explanations. These have been selected from the roughly 50 papers presented over the last four years (2011 - 14). The emphasis is on mineral appraisal methods, which have been combined into one educational DVD. We aim to have the DVD's available for our Associates at the Clinic.

While not aiming for their own certification, both Affiliate Members and Certified Mineral Appraisers are cordially invited, also. We recognize the valuable real estate appraisal experience on part of some of our Affiliates and would like to see them get involved in the mentoring process. And we need more Mentors from our rank of CMA's to help get our Associates certified.

The Clinic is scheduled for 4 - 6 PM on Monday, 16 February at the IIMA Suite at the Hyatt Regency across from the Denver Convention Center. Our President, John Manes has rented the suite and we will make sure that there is plenty of seating plus refreshments.

After the Mentor Clinic we will change to stronger refreshments (see separate announcement) and slide into a social gathering for ALL our members to exchange trade news, experiences, meet old and make new friends.

All Mentors and Mentees! Let us see you there and get on with the Certification!

## **SOCIAL EVENING February 16, 2015 6 pm**

All members are invited to rub shoulders, enjoy a drink, exchange mineral property data and make new friends at the IIMA Social Evening Monday night before our Annual Meeting. The venue will be the IIMA Suite in John Manes' name at the Hyatt Hotel across from the Denver Convention Center. We will open at 6 PM and close at ...?

We will plan on a bartender and hope to hear of a couple of sponsors. Any offers? Please, let John

Manes know at john@minvalspec.com and you/your firm will be prominently mentioned.

**2015 ANNUAL MEETING**  
**February 17, 2015 12:15 pm**  
**RSVP John Manes; John Gustavson; Chris Wyatt**

Our Denver-based Co-Chair, Chris Wyatt is working on the reservations at Bubba Gump Shrimp Co. across from the Convention Center. As soon as the arrangements are firm our Secretary, Tim Knobloch will send out formal announcements about the venue. We expect the Annual Meeting to commence at 12:15 PM on 17 February 2015.

Any subjects to be considered under New Business should be forwarded to the Secretary well in advance of the Meeting.

*Chris Wyatt, John Manes, and John Gustavson are working on getting the menu and pricing details sent out to all IIMA. Payment needs to be sent to Charles Howard. Details to be sent out soon!!!*

**VALUATION SESSIONS**  
**February 17, 2015**

Tim Knobloch / Chris Wyatt Chairs

To all AIMA/IIMA members

As Valuation Session chairs for this year's SME meeting, Tim Knobloch and Chris Wyatt are pleased to present the following abstracts for the upcoming talks. We all want to extend a special thanks to all the authors for their time and energy into putting together their presentations.

Similar to last year's meeting, two sessions are planned. Session I will be "Valuation: Lessons Learned" and Session II "Valuation: Case Histories". Please contact Tim Knobloch (tknobloch@jkpcinc.com) or Chris Wyatt (chris.wyatt@dolbear.com) if you have any questions or comments about the upcoming conference.

*We look forward to seeing everyone there!*

## **Valuation I: Lessons Learned**

**The Comparison Sales Approach to Valuation: Science or Black Magic?** The comparison sales approach recommends that a target asset can be valued by finding sales of comparable properties and adjusting those sales for geological, geographical, political, and economic differences. The most common, and often only, adjustment is for size, where a per unit value is taken from the comparison sale and applied to the number of units of metal at the target property. This method assumes that project value is linear in scale, with an intercept of zero. The assumption has, to my knowledge, never been tested. In this paper I point out the linearity assumption made by this approach and show that it is unlikely to hold. The data I use for the analysis comes from engineering designs for an open pit copper project of the same grade and geology but of different scales. I also point out that much of the recommended practice of comparison sales has never been empirically validated, and as such this valuation method more black magic than science.

Graham A. Davis is Professor of Economics and Business at the Colorado School of Mines, where he has taught and researched mineral economics for 20 years. He holds a B.S. in Metallurgical Engineering from Queen's University, an MBA from the University of Cape Town, and a Ph.D. in Mineral Economics from the Pennsylvania State University. Prior to joining academia Graham worked as a metallurgical engineer at mines in Canada and Namibia. His research focuses on the valuation of mineral and energy assets under uncertainty, and on the impacts of mining on economic and human development. Graham has been a member of the Society for Mining, Metallurgy, and Exploration for over 30 years, where he is a Registered Member. He is also a Fellow of the Australasian Institute of Mining & Metallurgy.

**Comparable Mineral Properties – A Widening of Meaning for Appraisals** In August 2013, The Appraisal Foundation's Appraisal Practices Board (APB) issued Valuation Advisory #4, "Identifying Comparable Properties." The analysis and examples

in this Advisory lead to a wider meaning of the term "comparable properties" than this author expected. The Advisory is directed at the appraisal of real property of all kinds, including mineral interests, as indicated by two mineral property valuation papers being included in its Appendix of suggested further reading. The author discusses with the aid of examples, how this Advisory may influence the work of mineral property appraisers, particularly for situations where their sales comparison analysis may be challenged.

Trevor Ellis is a geologist, minerals economist, and Certified Minerals Appraiser who has specialized for 20 years in providing accurate market value appraisals of mineral properties. He chaired the development of the valuation standard for the minerals and petroleum sectors published in the 2005 and 2007 editions of the International Valuation Standards. Since 2012, he has chaired the SME Valuation Standards Committee.

### **Beware the Perfect Valuation Engagement!**

Consultants often presented with various job opportunities. Some are with existing clients, some new clients that work out well, some are new clients that we later regret, while others are turned away viewed as being not worth the trouble. Every once in a while everything seems perfect: A significant valuation, definable objectives, organized information, generous timeline, two separate valuations, a signed contract, and cash deposit.

This particular valuation engagement was related to the oil & gas interests in multiple properties in three states owned by a husband (deceased) and wife. Two evaluations: one for the deceased husband and for the wife's estate planning purposes.

Preliminary client information was provided, a pre-valuation meeting held with the clients after data review, and then the work began. The process included an interesting first meeting, a second overlapping appraiser, conflicting information, withheld information, a client who did not understand the valuation purpose, and report changes after finals submitted.

A review will be presented reviewing the lessons learned in this "Perfect Valuation".

Tim Knobloch is president of James Knobloch Petroleum Consultants Inc. (formerly James Engineering Inc.) based in Marietta, Ohio. Tim has been associated with the firm since 1997 performing reservoir analysis and economic appraisals, estimating and auditing oil and gas reserves, providing litigation support, production analysis, oil and gas appraisals, and acquisitions and divestitures.

Tim previously worked with Peake Energy as a district petroleum engineer where he was responsible for estimating and auditing oil and gas reserves, AFE preparation, and disposal well permitting, monitoring, and reporting. In addition, he also was responsible for compressor system evaluation, specification, permitting, and installation and assisting in telemetering installation and maintenance. Prior work experience included Quaker State Corporation in Bradford, Pennsylvania where he was responsible for the design and supervision of drilling, logging, cementing, stimulation, gas well testing, equipment design, and remedial operations. Tim began his career with Amoco Production Company in Traverse City, Michigan as a drilling and production engineer

He holds a Bachelor of Science in Petroleum Engineering from the Pennsylvania State University and is a certified minerals appraiser with the AIMA. Tim has been a lifelong member of the SPE and has co-authored technical papers for SPE Eastern Regional Meetings on both production analysis and corrosion.

**Alternative Mine Development and Capital Project Strategies** Completed in an environment of resources restraints, complex mining capital projects are fragile and sensitive to failure on overruns and against other metrics.

New delivery methods are required to ensure project certainty: safe delivery- on time and on budget within stakeholder expectations of success.

Innovative strategies from the initial feasibility design and project financing through design, construction and operations ramp-up will be identified and discussed. Risk identification,

mitigation and assigned responsibility; proactive versus reactive problem solving; elimination of scope changes and endless cost reimbursable cycles can be addressed through realigned project teams, assignments and accountability.

Innovative processes with appropriate project owner engagement within the committed team also accelerates the design, planning, permitting and construction process.

Michael Young is a mining engineer and MBA graduate with 27 years of diverse technical, operations and executive experience in the mining service and construction sector. Michael has worked across a spectrum of commodities and completed several international assignments.

Kiewit is an employee owned Fortune 250 firm and is ENR ranked third overall Contractor and first in the Heavy Domestic Contractor category (US). In addition to constructing complex mining projects; Kiewit is an active mine developer, owner and operator

**Marcellus Shale: Not your ordinary unconventional natural gas play** The Marcellus shale play in the Eastern US provides valuation experts with challenges. This boom had a start, accelerated, peaked, and subsided. What effects has this event had on the economic, social and political climate in the Northern Tier? One senior landman described the population as, "the most trusting he has seen in 30 years of this work". Chesapeake Energy has been targeted (fairly or unfairly) as a bad player. Pennsylvania law mandates a 12.5% minimum royalty. We shall explore Chesapeake's clever ploy to maximize profits and minimize payouts., Although gas continues to flow from its' wells, ,Chesapeake's lessors purportedly receive little or in some cases -0- zero royalties. The discussion will present what the current state of the mature market, how drummers (travelling lawyers, rights buyers) have descended upon the Shale play , enticing owners to sign on to lawsuits, sell their rights to speculators and complain to local state legislators. Is the fault Chesapeake's, or the local lawyers who jumped into the lease business without knowing what a standard 88 lease does present. As

the Chinese saying goes, "may you live in interesting times"

Frank J. Bertrand is a PA & NY state certified General Appraiser a practicing affiliate of the Appraisal Institute, associate member of the AIMA, IRWA, and AAP who resides in the Marcellus shale region, leases his land to Chesapeake and follows the play intimately. A retired former dairy farmer, PA Department of Transportation Right of Way negotiator and condemnation appraiser; (who nearly was a Landman for Chesapeake Energy) and retired Army Lieutenant Colonel, Bertrand brings a wide range of previous career experience to the valuation profession. With 22 years of rural commercial appraising, and active valuation expert of gas and oil values, land diminution due to oil and gas contamination and eminent domain assignments. He is a member of the County Court Board of View. He resides in rural Bradford County with his wife of 42 years and French Bulldog, Spike.

### **Mineral valuation in business combination settings**

The discussion will present the following topics:

1. The role of the mineral appraiser in purchase price allocation setting
2. Acceptance vs testing of the data submitted for consideration of its contributory value to the enterprise
3. If values are submitted, basis of estimate (eg. cost, market, income; USGAAP Level 1, 2, 3)
4. If cost approach is the basis, proper consideration of physical depreciation, functional obsolescence, and/or economic obsolescence.
5. Proof of statement to the general agreement of market participants that are not motivated to have a robust nor conservative value.
6. Auditor's review and acceptance

Gary R. Loke, ASA Director and Assistant Vice President, serves as a director for the US real estate and related assets practice of American Appraisal. In this capacity, he provides direction and technical support for special-purpose, large multi-property, and multidiscipline engagements.

### **The Role of Mentoring in the Development of New Minerals Appraisers**

A Minerals Appraiser specializes in the appraisal of properties containing minerals and thus integrates economic geology with real property appraisal. Candidates for Minerals Appraiser Certification commonly start with experience in mineral-project evaluation and a clear understanding of mineral resource categories coupled with the desire to apply this experience and knowledge to minerals appraisal. Certified Minerals Appraisers serve as mentors to support and encourage candidates in learning how to apply their mineral-project evaluation experience and mineral-deposit understanding to minerals appraisal. The appraisal concepts of market value versus project economic evaluation, highest and best use, the income, cost, and comparable sales approaches to value, and appraisal guidelines such as the Uniform Standards of Professional Appraisal Practice, Uniform Appraisal Standards for Federal Land Acquisitions, and the newer International Valuation Standards present most candidates with a steep learning curve. It is the Mentor's role to help a Mentee through this education gauntlet on his or her way to becoming a Certified Minerals Appraiser.

Fredric L. Pirkle, a Principal Geologist in Gannett Fleming, Inc.'s Jacksonville, Florida, office, began his career working for E.I. du Pont de Nemours & Co. while attending graduate school (1972-1977) and as a contract geologist (1977-78). Work responsibilities included exploration for fluorspar and heavy minerals, including mineral processing of foreign TiO<sub>2</sub> potential ores.

In 1978, he joined Bendix Field Engineering Corporation working in the National Uranium Resource Evaluation (NURE) program as a geologist specializing in the interpretation of aerial radiometric data. He accepted, in 1981, a Senior Geologist position with Conoco, Inc. in their uranium exploration program. When Conoco ceased uranium exploration, he transferred to oil and gas exploration. In 1984, DuPont, then Conoco's parent company, transferred him to their heavy-mineral mining operations in Florida where he worked as a Senior Exploration Associate in DuPont's worldwide heavy-mineral exploration program. He joined Gannett Fleming in 1999. Current Gannett Fleming assignments include mining and mineral

exploration projects as well as environmental and geotechnical tasks. He also is an adjunct professor at Florida State College at Jacksonville.

He graduated from Florida State University (1972) with a BS, from the University of Florida (1974) with a Master's Degree, and from Penn State (1977) with a Ph.D. all in Geology. He has been a member of the Society for Mining, Metallurgy, and Exploration, Inc. for 41 years and also belongs to the Florida Section of the American Water Resources Association, the Southeastern Geological Society where he has served as both Vice President and President. He currently holds the position of Past President of the American Institute of Minerals Appraisers, and is a registered professional geologist in Florida, Georgia, North and South Carolina, Tennessee and Texas.

**Small-Firm Risk in New Hydrocarbon Plays** For the purpose of valuing land in new hydrocarbon plays, there appears to be a habit of assuming that "all companies are created equal" and that only the terms of the lease affect value. As more acreage comes into production, we observe that even within the same township production rates vary dramatically between operators. In NE Pennsylvania, Chesapeake, Cabot and Southwest are major players with high IP rates where smaller companies typically have lower production rates. A range of "small-firm risk adjustments" to discount rates is derived from comparison of IP rate variation with the Sales Comparison Approach and observations of behavior of Institutional Investors.

Since 2011, Zack Smith has been a Geologist and Valuation Specialist with Congdon & Company Appraisers and Consultants working primarily in the Marcellus Play of NY and PA. Prior experience includes work on hydrothermal mineral reservoir characterization and evolution and natural hazard modeling.

**Enforceable Codes of Professional Ethics—Why, How, and in Practice** Those organizations seeking recognition from regulators like the Canadian Securities Administrators for NI 43-101 need to have an enforceable code of ethics providing for discipline of members who violate the code regardless of the disciplined member's residence or

where the property is located. The organization should have disciplinary procedures setting out the disciplinary process, the rights of those alleged to have violated the code, appellate procedures, and potential sanctions. Once a code of ethics and related disciplinary procedures are adopted, the organization's membership should be aware of several important aspects of their implementation. Investigations take time, frequently months. Because investigations should be conducted confidentially, those who have made allegations or those who know about particular cases often become impatient because resolution doesn't occur within a short period of time.

Mr. Abbott is the Chairman of AIPG's Ethics Committee. He has written extensively on professional ethics issues. He was a geologist for the US Securities and Exchange Commission for 21 years prior to becoming a consulting geologist in 1996.

## **Valuation II: Case Studies**

**Tales from the Trenches – Determining Mineral Value.** A case study review of in-situ mineral value determination using various methodologies, with emphasis on DCF considerations.

Brief Biography of Presenter(s): Mr. Thomas Keresztes is a Managing Director at Behre Dolbear Capital and has over 30 years of professional experience in industry and finance, with a particular emphasis on the natural resource sector. The activities of clients related to the natural resource sectors include; ferrous metals, base metals, specialty metals, precious metals, halite, coal, phosphate, uranium, oil and natural gas, pulp and paper, pipelines, oil field services, and packaging. Previously Mr. Keresztes was a Managing Director at Madison Williams & Co., a boutique investment banking firm focused on natural resources, where he was actively involved in public and private markets transactions of debt and equity. Prior positions include; Refco Securities, The Latin American Export Bank (BLADDEX), Princeton Emerging Markets and HSBC. Substantial transactional experience was gained on a global basis in debt and equity of all types, restructuring, special situations,

as well as developing extensive institutional investor relationships through sales and trading and publishing investment research. Mr. Keresztes is registered with FINRA (Series 7,63, 79) and has an MBA (Finance with Distinction) from New York University and a Bachelor of Applied Science (Engineering) from the University of Toronto.

**A comparison of two early stage valuations of similar industrial mineral projects** A comparison of two initial valuations of similar industrial mineral properties, where the markets are opaque and only initial exploration sampling and product testing has not yet been performed. The comparative review will cover the methods employed with an emphasis on the caveats and the resulting discounting of value.

Brief Biography of Presenter(s): Chris Wyatt is a Certified Minerals Appraiser and Managing Director Americas, Behre Dolbear & Company, Inc., Denver, Colorado he has over 25 years experience in the mineral industry and as been performing mineral valuations with Behre Dolbear since 2007.

**Case History re Actual Mineral Property Sales in Pennsylvania** The market for mineral properties in the Marcellus has matured. First, acreage with historic low-royalty and lease bonus, some Held-by-Production, was augmented by a giant land rush with high royalties (16-20%) and bonus in the thousands of dollars/acre. The latter enabled mineral appraisal by the lease bonus approach. This was followed by discoveries of liquid-rich "sweet spots". Royalty, or rather mineral property buyers finally appeared including long-term individual investors as well as funds, brokers and even syndicators. Examples, some of them crass, will be given. These buyers together with selling landowners now present a dynamic market. The transactions can be researched and adjusted to provide comparable sales of actual mineral property. Ways to arrive at "confidential" sales prices will be shown for Butler County. Many parameters must be included when adjusting these sales prices to appraise undeveloped mineral rights. Examples will be shown. Also, the old rule-of-thumb that Fair Market Value equals a multiple of lease bonus was found still to be valid, albeit

adjusted to reflect the resource play nature of this and other shale plays.

**Brief Biography of Presenter(s):** Mr. Gustavson is a minerals appraiser and consults in the areas of gold and precious metals; base metals; iron and aluminum; uranium; oil & gas; coal and coal bed methane; industrial minerals including evaporites and sand & gravel; and geothermal energy. His core competency is geology as applied to mineral resources with adjunct support in engineering, economics and appraisal based on his forty-five years of experience. Mr. Gustavson was founding President of the International Institute of Minerals Appraisers, also known as American Institute of Minerals Appraisers in 1991.

**Definition of Rights, A Fundamental Step in the Appraisal of Oil and Gas Interests** Oil and gas interests can be complex and need to be well understood before conducting an appraisal. Defining the type of interest along with any restrictions or reservations can impact subsequent steps in the appraisal process. This presentation reviews examples of various types of oil and gas interests and how they should be considered as part of the approach to value.

**Brief Biography of Presenter(s):** Mr. Moritz joined Gustavson Associates in September 1989 and became President of the firm in August 2007. Since that time he has been involved in and personally conducted numerous oil, gas, and mineral fair market appraisals, reserve and economic studies. These studies involved properties in all major producing regions in the U.S. and includes properties in the Anadarko, Permian and East Texas Basins of the Mid-Continent region as well as properties located in the Texas and Louisiana Gulf Coast. Recent emphasis has been placed on international properties and on oil and gas provinces in the Rocky Mountains. He has worked on numerous unconventional oil and gas projects that include basin-centered gas accumulations and coalbed methane.

**Google Earth Pro As Valuation Tool** Google Earth Pro is a valuable tool for the completion of valuation engagements and is a cost-efficient and effective tool for viewing and presenting geospatial

data relevant to valuations. Google Earth Pro includes high resolution aerial photos and cultural data for much of the world and in the United States often includes surface parcel ownership data. The Google Earth Pro environment can incorporate many different sources and formats of existing geospatial data including ESRI shapefiles, spreadsheets, and text files with coordinate data. We will demonstrate how we use Google Earth Pro and other tools to streamline our analysis and presentation of geospatial data and we will show examples of our workflow and data compilations for oil and gas valuation engagements.

**Brief Biography of Presenter(s):** Martin (Marty) Shumway has over 20 years of experience in the mining and petroleum industries and has extensive experience with both exploration and development of oil and gas properties in the Appalachian Basin. Mr. Shumway also has experience preparing petroleum reserve reports for internal use, for SEC reporting requirements, and for bank lending purposes. He also has experience with preparing fair market determinations of oil and gas properties.

Mr. Shumway earned his Bachelors and Masters degrees in Engineering from The Ohio State University in Columbus, Ohio and currently holds the following professional licenses/certifications or is a member of the following organizations: Certified Petroleum Geologist, DPA - American Association of Petroleum Geologists (CPG No. 6025), Licensed Professional Engineer in Ohio (PE.72266), Member of the Society of Independent Professional Earth Scientists (SIPES No. 3162), Associate Member of the American Institute of Mineral Appraisers, Society of Petroleum Engineers The Ohio Geological Society (currently serves as Treasurer)

**Mineral Appraisal Lessons** Appraising discussions follow the use of comparable sales vs the income approach involving USPAP and UASFLA content, valid appraisal subjects, methodologies, and preferences in report formatting and scope of work. Results from several past appraisals are noted relative to these issues.

**Brief Biography of Presenter(s):** Mitch Albert has 18 years Certified Mineral Appraiser, PhD Mineral



Economics, MSc Mineral Economics, BSc Geology, 36 year career in mining, railroads and valuation/appraising.

**Market Extraction of Income Modeling Parameters in New York and Pennsylvania** This study addresses market extraction of Bonus Multipliers, Discount Rates, and Time-to-Production in the Marcellus Shale play of NY and PA. One case that is studied includes a recent lease offer made to the Kirkwood Coalition in NY State for 11,500 acres, despite the existence of an indefinite moratorium. The primary focus is upon valuation from the perspective of the landowner.

Brief Biography of Presenter(s): Since 2011, Zack Smith has been a Geologist and Valuation Specialist with Congdon & Company Appraisers and Consultants working primarily in the Marcellus Play of NY and PA. Prior experience includes work on hydrothermal mineral reservoir characterization and evolution and natural hazard modeling.

#### **Price Versus Value: Was Oscar Wilde Right?**

Oscar Wilde, an Irish playwright, poet, and author, once wrote that “Nowadays people know the price of everything and the value of nothing.” Based on the author’s experience in the mineral industry during the course of his career, including a substantial measure of acquisition-related and appraisal involvement, it appears that this aphorism may have relevance to the appraisal industry more than a hundred years later. A synthesis of a number of projects completed during the past several years illustrates the tendency to confuse price with value in a variety of circumstances, including condemnation and takings matters, mineral trespass issues, and financial transactions. Appropriate appraisal techniques that are to be used based on circumstance and venue are discussed and placed in perspective.

Brief Biography of Presenter(s): Alan Stagg, a graduate of the University of Tennessee with a degree in geology, is the president of Stagg Resource Consultants, Inc. He has more than 50 years' experience in the mineral industry, with the last 34 including an emphasis on mineral appraisals. He has conducted appraisals in more than 40 states and internationally. Stagg is a registered

professional geologist in 14 states, a registered member of SME, and a certified member of the International Institute of Minerals Appraisers.

## **Oil and Gas Appraisal Diligence and Proper Citing**

Lou Posgate

Certain producing characteristics that shale (like the Eagle Ford in South Texas) exhibit, pose problems in forecasting condensate and gas production in wet or NGL rich shales. The areas south of San Antonio, i.e. southern Atascosa and the contiguous county south, Live Oak, contains tracts where wells were drilled in liquids-rich shale.

Such unstable pressure decline in an early stage with the higher gathering system pressure and high (62+) condensate gravity poses production prediction error, without analog well completion and performance comparisons (as statistical regression applied by some analysts without analysis is challengeable). High well stream pressure causes condensate and gas shrinkage from wellhead-measured and state-reported volumes on which many software programs rely. Comparison of state-reported volumes to actual royalty check stub volumes is required to estimate not only shrinkage but augmented gas equivalent prices when natural gas liquid revenues are included. This was observed in three producing fields in these counties and two in Lavaca and Gonzales Co. fields.

Due diligence is practiced by comparing royalty statement monthly volumes to state-reported production, and by considering crude oil API gravity and shrinkage, and adjusting downloaded production data by shrinkage when fitting data to a decline curve. This is significant in volatile rich gas windows of the Eagle Ford Shale, and any other volatile crude and condensate nonconventional shales, without which could subject a client to costly consequences, such as audit challenges of fair market value, invalid fair value of acquisitions and divestitures, or appraisals for other purposes. This affects accuracy as well as satisfies the competency requirement under USPAP.

Other competency and ethics items to consider regarding satisfying USPAP guidelines involve properly referencing appraisers contributing (significantly) to appraisal opinions stated in the report. When such an opinion of value is formed by reference in part of any other contributing appraiser's work or research, its provider or source should be listed in the references section, if it is not significant enough to be a cosigning appraiser. That applies not only to persons doing any contributive technical work subcontracted or requested as a favor for appraisal assistance (such as running decline curves, market analysis, discount rate analysis, and sharing geological maps or privately developed data), but also to published papers or presentations referenced. When such papers or presentations are quoted or footnoted, and interpretation of such is within the context of such work (ex. quoting an AIMA or other appraisal society presentation developing market multiples, acreage value sources or interpretation), the author should contact the referenced presenter should methods, multiples etc. be summarized in the author's own conclusions, whether such references are cited in published white papers, newsletters, books, or articles published in valuation magazines. This relates to a common courtesy and professional treatment of fellow appraisers.

A Reminder on USPAP-diligent Appraisal Practice and Proper Reference Citing.

*President Review Comment to Article –*

*Good short article Lou.*

*Plagiarism is addressed in USPAP, specifically "The Conduct section of the ETHICS RULE states that an appraiser must not use or communicate a misleading or fraudulent appraisal report. Presenting an appraisal report as yours when all or part is the work of someone else is clearly misleading."*

*John Manes*

## **Briana Lamphier Successfully Completes Certified General Appraisal Examination**

Bob Frahme

It is with great pleasure that I announce that on November 8, Briana Lamphier, an advanced candidate for certification by AIMA, successfully completed the 8-hour written comprehensive examination for Certified General Appraiser Licensure in Colorado. It continues to be my pleasure and honor to mentor such an enthusiastic and talented fellow geologist and up-coming fellow mineral property appraiser.

In a de-briefing with me, Briana reported that the examination was surprisingly difficult, even after completing the required 300 hours of formal education, many interim examinations, and intensive pre-exam study. She emphasized that the examination was not a regurgitation of appraisal theory and procedures, but required sufficient command of those theories and procedures to apply them. For example, it required thorough knowledge of The Advisory Opinions and the Ethics Rule for application to USPAP issues presented on the examination, not just knowledge of USPAP.

While mathematically adept, Briana reported difficulty in proper conversion of discount rates to direct capitalization rates reflecting increasing or decreasing income streams. As we know, this can be an esoteric procedure. It is one that I used recently in an appraisal of a large underground mine and I was pleased to have Briana as a sounding board on my application of that procedure.

Even with an excellent grasp of cash equivalency and buy-downs of interest rates, the examination required application of both in the same problem. Highest and best use (HBU) questions required a detailed, working knowledge of market-extracted depreciation in the Cost Approach. As we know, HBU in mineral property appraisal often requires an opinion of HBU of the surface estate as a test for compatibility.

Over the past 3 years, Briana completed this examination and the 300 hours of supporting education while employed full-time with Gustavson Associates and with full support of our firm.

From here, she needs only to submit sample reports to the Colorado Board of Real Estate Appraisers and a work log of 3,000 hours of creditable work, the latter of which I need to approve. Briana has also met the 5-year experience requirement for certification by AIMA as a Certified Minerals Appraiser and will be submitting that paperwork as well. Once she is licensed at the Certified General level in Colorado, she will be able to obtain that level of licensure in any state to which her work takes her.

We should all be proud to be associated with such a dedicated, enthusiastic and bright young professional in this milestone in her education as a mineral property appraiser. Briana has a promising future in the dual disciplines of geology and appraisal as a fully credentialed geologist, Certified General Appraiser, and Certified Minerals Appraiser. I will be pleased to continue to mentor her through her planned completion of her MAI designation from the Appraisal Institute. She lacks only three more classes, a 16-hour comprehensive examination, and a demonstration appraisal for that milestone.

Our profession benefits from practitioners having successfully undergone such academic rigor. Many readers will recall the rigors I encountered and recently reported in this newsletter in connection with obtaining temporary licensure in four states with my Colorado Certified General Licensure, and especially in obtaining my permanent Certified General License by reciprocity in my new home state of Idaho.

## **Mentors Needed!**

New associates continue to join AIMA/IIMA and Mentors are needed!

In 2013, a total of four new Associate Members joined the institute. It is only halfway through Year 2014 and we currently have eight new Associate Members!

Mentoring Committee Chair Fred Pirkle does not have enough mentors to assign to new Associates, nor enough mentors to assign to a few existing Associate Members.

We are asking Certified Members to consider providing mentorship to Associates. The Institute recognizes that mentoring requires some research and sharpening of skills. Therefore, the Institute allows mentors to claim 1 hour of Continuing Education credit for every 2 hours spent on mentoring.

**If you are interested in becoming a mentor, please contact Fred Pirkle.**

## **Comment to the Article "Appraisal Subcommittee Compiles State Certification / Licensure Requirements"**

John Gustavson

To All Minerals Appraisers:

Our recent IIMA Newsletter, Vol. 18, No. 2, dated August 2014 carried on article by Bob Frahme, MAI and CMA #2002-2 titled Appraisal Subcommittee Compiles State Certification / Licensure Requirements.

Upon reading this article I called our President, John Manes, regarding ASC and appraisal of real estate. John Manes' answer was that while applicable to real estate appraisers working on appraisal of collateral in transactions with federal financial institutions, mineral rights appraisal is specifically exempted.

My follow-up question to John Manes was: But since the mineral estate is a "stick in the bundle of rights" of real estate, do we or don't we as minerals appraisers fall under the Appraisal Subcommittee's "State Operations and Requirements"?

John Manes referred me to the Federal Register, which I researched and share below with our members. The intent of the regulation, which dates back twenty years (see Federal Register, Vol. 59, No. 108, Tuesday June 7, 1994, Rules and Regulations), is not questioned here and Bob was correct as an MAI to show the differences in treatment by various States. Also, each of us mineral appraisal professionals should of course

check with the respective State in which we practice.

However, the Federal Regulation cited above specifically reads (on page 29484, Subsection (h) Real Estate or Real Property) as follows:

"The Board is adding a definition of "real estate" and "real property" to §225.62 of its regulation. The Board proposed this amendment to incorporate the definition of real estate and real property employed by the other agencies [Office of the Comptroller of the Currency, Treasury; Board of Governors of the Federal Reserve System; Federal Deposit Insurance Corporation; and Office of Thrift Supervision, Treasury]. That definition specifically excludes mineral rights, timber rights, growing crops, water rights, and similar interest.

Title XI of FIRREA does not define "real estate" or "real property" nor does the context in which these terms are used suggest that the terms are intended to have different technical meanings. See 55 FR 27762 (July 5, 1990).

The Board used "real property" and "real estate" interchangeably throughout its appraisal rule to mean interest in an identified parcel or tract of land and improvements. However, the Board did not intend these terms to include mineral rights, timber rights, or growing crops when they are considered separately from the parcel or tract of land. Valuation of such interests generally requires the services of a professional other than a real estate appraiser.

To clarify this distinction, the Board has amended its regulation to define "real property" and "real estate" for purposes of the appraisal regulation as identified parcel or tract of land, including improvements, easements, rights of way, undivided or future interests and similar rights in a tract of land, but excluding mineral rights, timber rights, or growing crops."

After a few less relevant paragraphs the Federal Register continues:

"The Board's final rule clarifies that regulated institutions are not required to obtain appraisals of

the parcels of land to which mineral rights or similar severable interests in real estate are attached, if the transaction only involves the severable interest rather than the parcel or tract of land. Where mineral rights, timber rights, or growing crops, and the associated parcel or tract of land, are the subject of a real estate-related financial transaction, the services of a licensed or certified appraiser would be required unless the transaction is otherwise exempt.

In addition, the contribution of relevant mineral rights, timber rights, or growing crops should be included when appraising a parcel of land which possesses any of these features. However, valuation of these interests would not be required if they are not part of the transaction or if they are not relevant to the analyses which the appraiser needs to perform to arrive at an estimate of value for the parcel or tract of land."

My answer to my own question above is then that we as minerals appraisers do not fall under the Appraisal Subcommittee's "State Operations and Requirements" as long as:

1. either the appraised mineral property is not used for real estate collateral with a financial institution, or
2. our Client's use of our mineral appraisal only involves the severable interest of the mineral property.

Please, note that I have not checked with legal expertise on this subject and that I am not qualified to provide legal opinion.

Instead, after having read Bob's article I added the following sentence in my own mineral appraisal reports as part of the "Purpose of Appraisal" paragraph:

"This Appraiser understands that the Fair Market Value estimated in this Mineral Appraisal Report may be used under prevailing [name of State] rules and regulations, but not for valuing real estate collateral in transactions with federal financial institutions."

It may be enough protection, but check it out for yourselves! Or submit your own comments to our Editor.

## **ARE WE AIMA OR IIMA OR BOTH?**

John B. Gustavson, Vice President

We have now successfully made the name change, which was on the ballot a few months ago. The Institute is still exactly the same but with a new name: *International Institute of Minerals Appraisers* or IIMA.

The IIMA currently has only one geographical chapter, namely the *American Institute of Minerals Appraisers* or AIMA, and we are ALL members of that chapter.

The 2014-15 Executive Committee of the IIMA (for whose Officers you voted earlier this year) met on 10 July 2014. The Executive Committee voted to appoint themselves Officers of the *AIMA Chapter of the IIMA* for the remainder of the 2014-15 term. Thereafter, the Certified Members of the *AIMA Chapter* will elect new Officers at the same time at which the IIMA Officers are elected.

With time and growth other geographical regions or countries may be organized at the specific members' request. At such time we will form specific chapters such as the *Canadian Institute of Minerals Appraisers, a Chapter of the IIMA*, and we will register a Trade Name for that chapter.

So in summary, a member may for now call himself/herself: 1. a member of the *International Institute of Minerals Appraisers*; 2. a member of the *American Institute of Minerals Appraisers*; or choose the very long version 3. a member of the *American Institute of Minerals Appraisers, a Chapter of the International Institute of Minerals Appraisers* (or use the respective acronyms)!

A member must always specify his/her class of membership such as Certified Minerals Appraiser, Associate Member or Affiliate Member.

Questions, if any, will be answered immediately by John Gustavson, [john.gustavson1@aol.com](mailto:john.gustavson1@aol.com)

New certificates reflecting the name change as well as rubber stamps are now available. The Logo is shown below:



As members, you may choose to use your current AIMA certificate as the American Institute of Mineral Appraisers is a registered trade name and recognized trademark within the industry. Or you can order new certificates.

### ***Rubber Stamp***



### ***Embossing Seal***



Effective from 1 March 2014 the AIMA offers a \$50 rebate to Associates, who complete this USPAP course.

Good Luck! If any questions, please contact your Mentor and discuss this opportunity! Or contact our new Chair of the Mentoring Committee, Fred Pirkle, Past President.

## **CERTIFICATION PROCEDURES**

The AIMA Board has established a three-person certification review committee to decide for and against applicants for certification. The committee will meet physically once each quarter to review completed applications. A unanimous decision will be required to certify or not certify an individual by the three-member committee. Applications receiving a split decision will automatically be forwarded to the Executive Committee of AIMA for its review. In this case, a two-thirds majority of the Executive Committee will be required to obtain certification.

No individual will be certified without submitting to the full application and review procedure. Individuals denied certification may petition for a personal hearing before the review committee that denied his or her original application.

The application fee is \$75, which will cover application and membership fees through the current calendar year, and which should be submitted by check or money order with the completed application form.

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Special thanks to the contributions made. The strength of the AIMA organization is through the commitment, education, and contributions of its members. We are always looking for articles to enhance our profession and welcome any material that members may provide. Thanks!

E-mail: [matt@hapmanappraisers.com](mailto:matt@hapmanappraisers.com);

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**A rubber stamp with your professional seal and an embossing seal are available through the IIMA HQ office to all Certified Minerals Appraisers for \$50 and \$70, respectively. Your old stamps and seals are still valid.**

## **USPAP REBATE**

The new 2014-15 edition of the Uniform Standards for Professional Appraisal Practices is now governing. Therefore, the Appraisal Institute is offering its 15-hr USPAP course in a number of places (see [www.appraisalinstitutute.org](http://www.appraisalinstitutute.org) for details).

This is a great opportunity for an Associate to get that appraisal knowledge under the belt, which he/she needs together with the already existing technical/scientific background to move aggressively toward Certification.