

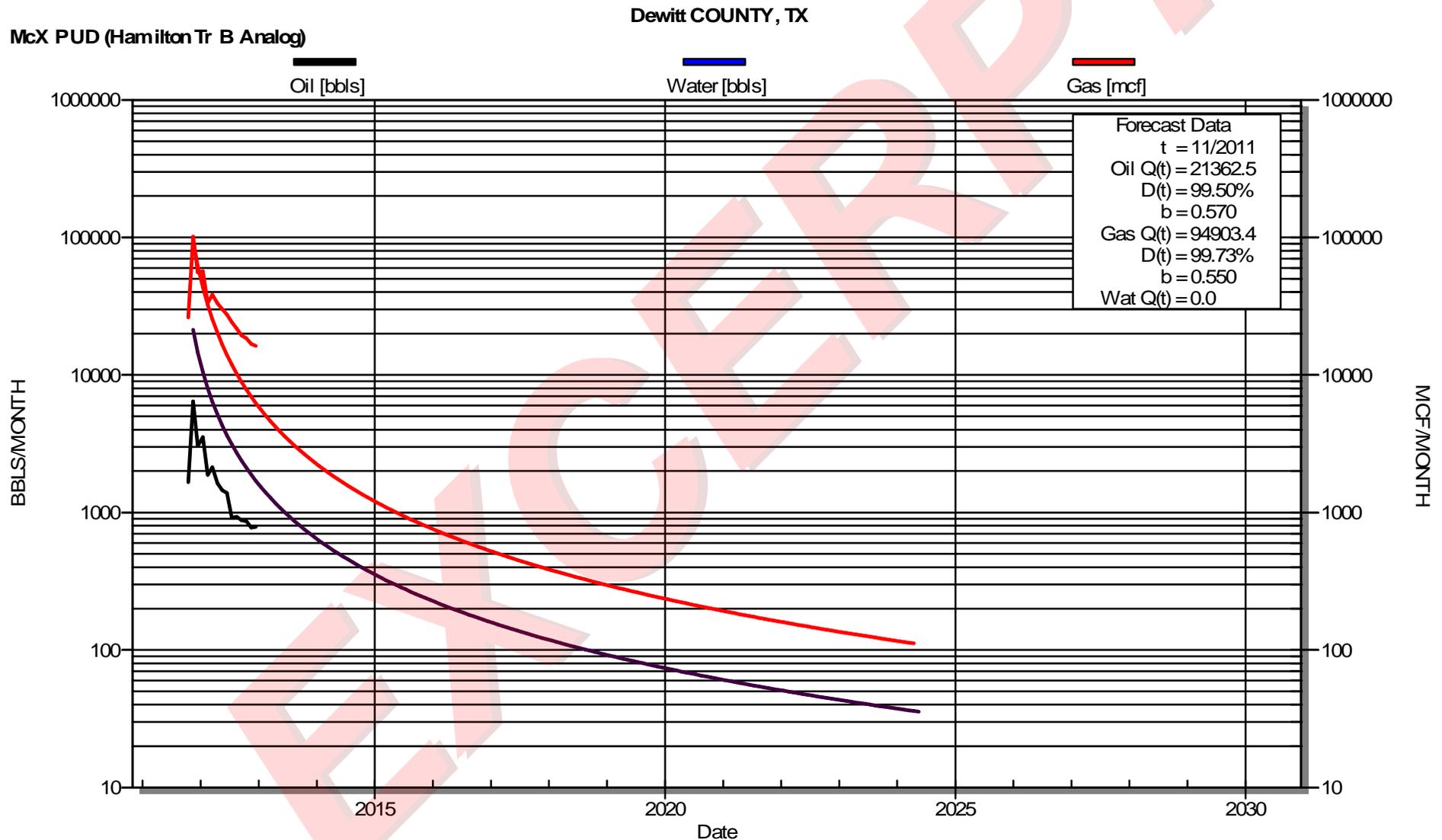
**INCOME APPROACH: LEASE BONUS AND DCF ANALOG WELL METHODS
OF ROYALTY AND LEASEHOLD APPRAISALS**

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- Example of Client's PUD Acreage Valuation 8/2011 in DeWitt Co. Eagleford Actual Production vs. Decline Projection Post-D&C/Valuation Shows Oil IP (too high, "b" too low vs. analog well in oil window, 1.5 Mi. NW). Client in wet gas window. (c) 2/2013



Operator : GEOSOUTHERN ENERGY CORPORATION
 Field Contact
 Reservoir : Eagleford

Cum Oil [bbls]: 28280
 Cum Gas [mcf]: 519003
 Cum Water [bbls]: 0

FACTORS AFFECTING DCF METHOD RISK AND CASH FLOW:

- *DISTANCE OF SUBJECT ACREAGE FROM PRODUCING WELLS AND OFFSET (**PUD**) WELL POTENTIAL*
- *DECLINE HISTORY OF ANALOG WELLS (EXPONENTIAL/HYPERBOLIC)*
- *DISTANCE OF SUBJECT FROM RECENT DRILLING ACTIVITY*
- *DRY HOLES IN AND AROUND SUBJECT ACREAGE, NEARBY ABANDONED RE-ENTRY WELLS TO LOWER **DRILLING COST, DRILL, & COMPLETE COST (BAAKEN FRACTURING CAN COST AS MUCH AS DRILLING)***
- *TIME ELAPSED, OIL & GAS **PRICING ENVIRONMENT** (VOLATILITY), ESPECIALLY WITH FAST-DECLINE SHALES*
- *COST OF MONEY AND ALTERNATIVE INVESTMENT RATES*
- *POOLING-ADDS CONTIGUOUS DEVELOPMENT, CAN DILUTE ROYALTY%*
- *RESTRICTIONS IN LEASE SUCH AS PUGH CLAUSE WATER, DAMAGES*

FACTORS AFFECTING LEASE BONUS MULTIPLE METHOD

- *ACTIVITY AND BONUS PAID FOR NEARBY ACREAGE*
- *PROSPECTS FOR RENEWAL OF LEASES, DEPTH OF OPEN ACREAGE, SEISMIC OPTION*
- *RELEVANT AND **AVAILABLE** ARM'S LENGTH FEE MINERAL INTEREST SALE COMPARABLES*
- *DRY HOLES IN AND AROUND SUBJECT ACREAGE, VS. NEARBY PRODUCTION AND OFFSET (**PUD**) WELL POTENTIAL*
- *EXTENSION OPTION BONUS – INCREASES BONUS MULTIPLE IN DCF*
- *EXECUTIVE RIGHT TO PARTICIPATE IN LEASING AND BONUS*
- *COST OF MONEY AND ALTERNATIVE INVESTMENT RATES*

DISCLAIMERS

- *Circular 230 Notice: Pursuant to requirements related to practice before the Internal Revenue Service, any tax advice contained in this communication (including any attachments) is not intended to be used, and cannot be used, for purposes of (i) avoiding penalties imposed under the United States Internal Revenue Code or (ii) promoting, marketing, or recommending to another person any tax-related matter.*

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