
What's It Worth?

Appraising Oil & Gas Royalties

Welcome! The following is a summary of a presentation prepared by Steve Smith, President of Legacy Royalties. Mr. Smith has given the talk to various groups, including royalty owners, probate and estate attorneys, CPA's, division order analysts and title analysts.

Pages 3 to 9 give an overview of the talk, and pages 10 to 13 are the conclusions. The full presentation takes 1½ hours with Q&A, but the talk can be reduced to 30 minutes.

Call us at 1-800-950-6954 if you would like to have Mr. Smith speak to your organization.

What's It Worth?

Appraising Oil & Gas Royalties

LEGACY
ROYALTIES



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Tyler, Texas

What's It Worth?

Different Points of View

- Royalty Owner
- Royalty Buyer
- Petroleum Engineer

What's It Worth?

Different Needs & Objectives

- Selling Interests
- Buying Interests
- Estate Valuation
- Transfer to a Trust

What's It Worth?

Different Methods

■ Rules of Thumb

1. 36 to 48 times the current monthly income
2. 36 to 48 times the monthly income averaged over the past three years
3. Other monthly multiples unique to the region or current conditions

What's It Worth?

Different Methods

- **Petroleum Engineering Economics Evaluation**
 - Discounting future net cash flow

What's It Worth?

Two Examples:

1. Single owner in single property
2. Three owners: Different properties but same current cash flow of \$1,000/Month

What's It Worth?

Two Examples:

1. Single owner in single property

- Objective: Learn how to set up economics model
- Objective: Verify calculations
- Objective: Change input to see effect on economics

What's It Worth?

Two Examples:

2. Three owners: Different properties but same current cash flow of \$1,000/Month

- Objective: Use different valuation methods to calculate asset value for each owner
- Objective: Compare owners to each other

Summary Points

1. Changes in operating expenses, decline rates and oil & gas prices affect values of royalties
 - Changes in operating expenses have only a minor affect on values
 - Offset drilling, enhanced recovery programs and new technology impact decline rates, which may have a significant affect on values
 - Rising or falling oil & gas prices may have a significant affect on values

Summary Points

2. Although current cash flows may be similar, other factors may impact the value

- Decline Rates
- Past production volumes & prices

Summary Points

3. Different valuation techniques lead to different values

Summary Points

4. There is not necessarily a “right” answer; often the value depends on the objective

- Seller: Desire to liquidate; re-invest elsewhere; simplify investments
- Buyer: Rate of return, payout, risks
- Appraiser: If working for estate, typically the lowest reasonable fair market value