

MINERAL VALUATION

BY ARDEN L. WEBB



{ 1 }

I. PERSPECTIVE

- 1. Oil & Gas
- 2. Western Kansas
- 3. Royalty Owner's Perspective

II. TOPICS TO COVER

- 1. How I do it
- 2. Current Trends and Problems
- 3. Questions and Discussion

{ 2 }

III. HOW I DO IT:

The royalty owner's perspective.

My most common assignment: An estate or estate plan with producing minerals in SW Kansas or Oklahoma Panhandle; more gas than oil.

1. Classic Multiple of Income Method
 - A. Compare Income to Value
 - Typically Annual Income
 - May be a multi-year average (How many years?)
 - B. Pitfalls and Problems, or
 - What do I Want to know about the sale?
 - How do I find out?
 - What makes a subject and sale similar?
- a) Typical Items as in any real estate:
 - Price, Parties, Date, Manner of Sale, Legal Description, Validity.

{ 3 }

- b) Minerals Characteristics – Producing
 - 100% or undivided interest?
 - Gas or Oil?
 - Well Names?
 - Producing Zone?
 - Decimal Interest?
 - Unit?
- Income information:
 - Check stubs?
 - 1099's?
 - Income reported at auction?
 - Estimated from production?
 - How many years?
- Public Filings:
 - Rendition & Division Order
 - Deed
 - Lease (1/8th or other?)
 - Kansas Geological Survey (KCC)
- Other Considerations:
 - How many wells?
 - How dependent on one well?
 - Age of well(s)?
 - How much property?
 - More than one unit?
 - How variable has the income been?
 - Is price of product typical?
 - Net Price?
 - Transportation Costs?
 - Severance Taxes?
 - Other Products – i.e. Helium?

{ 4 }

2. Another Approach:

- A. If price can be compared to income, price can also be to production.
- B. With the decimal interest and the production, the number of MCF's or barrels can be computed that are going to the owner's account in a year. This can be to the price paid for the property. (See example on next page)
- C. An explanatory statement:
This measurement means that the average price paid for a royalty interest that had been producing for the royalty owner an average of 1,000 MCF per year (his/her share) was \$48,070.00.
- D. Why a second approach? What are potential problems?

Sale	County	Sale Date	Well Zone or Depth	Comments	Total Annual MCF Prod. (2yr. Avg.)	Owner's Decimal Interest	Sale Price Allocated to Gas	Price per Owner's MCF
Sale #1	Morton	Dec-12	Hugoton, Panoma & Morrow	3 Chase Wells, 1 Panoma Well, 1 Morrow Well	51516 32432	.03222620 .01562500	\$ 97,000.00	\$ 44.76
Sale #2	Morton	Aug-12	Hugoton Chase	1 Chase Well	22478	0.01553470	\$ 17,000.00	\$ 48.68
Sale #3	Beaver	Jun-12	Chester	2 Chester Wells	36789	0.01562500	\$ 24,000.00	\$ 41.75
Sale #4	Grant	Feb-12	Hugoton Chase, Panoma	2 Chase Wells, 1 Panoma Well,	59831.5 93221	0.02927600 .0003125	\$ 76,000.00	\$ 43.39
Sale #5	Stevens	Oct-11	Hugoton Chase & Panoma	6 Chase Wells & 3 Panoma Wells	72869 81660	.003125 .0078125	\$ 52,000.00	\$ 58.11
Sale #6	Grant	Oct-11	Hugoton Chase & Panoma	2 Chase Wells & 1 Panoma Well	64678	0.00781300	\$ 25,500.00	\$ 50.46
Sale #7	Stevens	Jun-11	Hugoton Chase & Panoma	2 Chase Wells & 1 Panoma Well	82121	0.01562500	\$ 76,000.00	\$ 59.23
Sale #8	Stevens	Jun-11	Hugoton Chase & Panoma	2 Chase Wells & 1 Panoma Well	67604	0.02890600	\$ 87,000.00	\$ 44.52
Sale #9	Haskell	Apr-11	Hugoton Chase & Panoma	2 Chase Wells & 1 Panoma Well	103532	0.06250000	\$ 270,000.00	\$ 41.73
AVERAGE PRICE PER MCF (ALL SALES) =								\$ 48.07

IV. CURRENT TRENDS AND PROBLEMS

- 1. Areas in transition:
 - A. Minerals usually sell with the surface.
 - B. Severed minerals market not well developed.
 - C. Spotty or no production.
 - D. New Technology (horizontal).
 - E. Level of recent leasing activity.
 - F. Speculation on future possibilities may override the value of current production.
 - G. Is a non-producing mineral property more valuable or less valuable if it is leased?
- 2. Mineral Characteristics – Non-producing
 - A. Location.
 - B. 100% or undivided interest (mineral acres).
 - C. Leased or unleased?
 - D. Characteristics of Lease: term, fraction, lease bonus.
 - F. Leasing and Drilling activity in the area.