



**RISING PHOENIX**  
ROYALTIES

# How Oil and Gas Royalty Interests Are Valued





# RISING PHOENIX

ROYALTIES

**Rising Phoenix Royalties is a mineral and royalty acquisition company built on 4 generations of oil and gas industry expertise.**

Our experienced mineral advisors, backed by extensive industry knowledge and the latest technology, educate and guide mineral owners through each step of the evaluation and purchase process. This transparent valuation analysis and easy to understand approach gives owners peace of mind they are receiving the best price for their minerals.

## **Our Difference:**

Our business structure and proprietary financial technology provides optimal pricing for mineral interests and lump sum cash payouts, typically within 10 days. This allows owners to quickly access funds to use for investment purchases or needs for immediate cash.

## **Our Promise:**

- Transparent and fair offers
- Personal and straightforward communication
- Professionalism, integrity, and honesty
- Flexibility to partner with owners
- Quick hassle-free sale closing



## **Contact us today to learn more:**

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# Why You Need to Know Your Royalty Interest Values Today

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In this paper, we'll provide a general overview of how a royalty interest is valued, why it's important to know the value, and detail industry variables that impact royalty pricing.

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## Royalty Interest Definition

Mineral Wise® defines royalty interest as "An interest in an oil and natural gas lease that gives the owner of the interest the right to receive a portion of the production from the leased acreage (or of the proceeds of the sale thereof), but generally does not require the owner to pay any portion of the costs of drilling or operating the wells on the leased acreage."

Being proactive in knowing your royalty interest value today will help you with strategic financial planning, especially the case of unexpected life events such as catastrophic medical bills that may trigger the need to quickly raise cash.

Here are a few situations where mineral interest valuation is essential:

## Selling Your Royalty Interest

It's critical to know royalty interest value to ensure you receive fair market pricing when you decide to sell. Reasons to sell include needing immediate cash flow for life events like divorce, long term unemployment, retirement, unexpected hospital bills, and college tuition.

## Planning Your Estate

Knowing your royalty interest value will support efficient and appropriate tax planning for you or your heirs.

## Transferring Ownership

Other instances that require royalty interest valuations include "things that happen to you" like bankruptcy, divorce, and death, and "things you make happen" like collateralization, asset transfer, gifting programs, liquidity needs, and sale to outside investors.



# How Are Royalty Interests Valued?

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Royalty interests are valued by a number of factors including shale play location, lease development, operator efficiency, lease terms, well production levels and forecasts, 'upside potential', and oil and gas price forecast inputs such as cash flow discount rate, commodity prices, exchange rate, and mineral price forecast.

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## Contributing Industry Factors

Many oil and gas industry factors contribute to valuing a royalty interest. It's based on expected income produced by production and/or leasing, which is dependent on and oil market prices. The royalty interest value will vary over time based on external considerations including the political and economic climate of the Iso vary by type of mineral interest. Some of the most common royalty interests, working interests, and overriding royalty interests. Each is defined by unique restrictions, rights, and privileges.

## Price Volatility

Because the oil and gas industry is influenced by many global economic and political factors, including supply and demand, it's subject to highprice volatility.

## Technology

Technology advances in the oil and gas industry including enhanced hydraulic fracturing and horizontal drilling have significantly contributed to faster, more efficient, and cost-effective production. Decreased production cost has resulted in profit margins that keep wells running even whenprice per barrel dips.

## Regulation

The oil and gas industry is subject to compliance with many entities like the Bureau of Land Management (BLM), Federal Energy Regulatory Commission (FERC), Department of the Interior(DOI), and the Environmental Protection Agency (EPA). Increased compliance regulations directly increase production costs that can vary by shale play region.

# How Are Royalty Interests Valued?

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## Oil and Gas Play Geology & Location

Royalty interest values are directly related to specific oil and gas play geology which affects drilling costs. For example, wells using unconventional drilling methods of hydraulic fracturing and horizontal drilling are more costly to operate than those that can be drilled using conventional vertical drilling techniques. Play location also impacts transportation and drilling expenses.

## Financial Considerations

Royalty interests are also dependent on the operating efficiency of the E & P company to extract the minerals and mineral availability. Efficiency is tied to the operator's financial health and well economics.

## Well Economics

Well economics impacts royalty interest as it's paid on a specific revenue percent with revenue being directly proportional to production volume. Well economics is defined by well costs, production rates, and the production decline curve. The decline curve, which is the rate of production decrease over time, is unique to each well.

## Operator Financial Health & Production Efficiency

The more efficiently an operator can keep production costs low, especially to keep wells pumping during low market prices, the better the chances of the royalty interest owner to keep earning royalty payments during an economic downturn.

# How Are Royalty Interests Valued?

## Drilling Plans and Capital Budgeting

It's important to know how E&P companies structure their drilling plans and capital budgeting as reserves are assets that deplete. In order to assure consistent production rates, new wells need to be drilled or existing well production enhanced. Regarding operators' budgeting, drilled, uncompleted wells (DUCs) and proved undeveloped reserves (PUDs), both need significant capital to begin production.

## Post Production Deductions

In addition to paying royalty taxes, some owners may pay a portion of post production costs for treating, transportation, and gathering. Some lease agreements allow operators to subtract post production costs from royalty owners' payments. These deductions can significantly decrease the royalty interest value.

### Summary

Given the myriad of global variables impacting royalty interest values, it's important to choose a mineral advisor with extensive oil and gas industry knowledge that can provide a credible financial analysis of your unique mineral interests. Rising Phoenix Royalties has extensive expertise in valuing and purchasing mineral royalty interests in nationwide shale plays. We carefully analyze each valuation to provide optimal pricing and a lump cash offer that can be closed in as little as 10 days.