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M E M O R A N D U M

TO: County Assessors

FROM: Bear Chaney;
Robert McGee

DATE: March 14, 2016

RE: Oil, Gas & Minerals Schedules

Enclosed in this memorandum are the oil and gas factors and values that are to be used in the assessment of oil and gas Real Property for the year 2016.

Due to revisions being worked on by the ACD, Assessors, and the industry the full Mineral Guidelines are not ready at this time. We are providing the assessment factors and values to keep from further delaying the real property valuation process. We will publish the full Mineral Guidelines as soon as possible.

While calculating the factors for this year it came to our attention that an error was made in the calculation of the gas factor for last year (2015). The average price for gas in 2014 was actually $4.26 not $3.26 as was used in the formula. This error caused the factor to be published as $3.15 instead of the correct $3.49. We have corrected the error for the current year calculation. We apologize for any inconvenience this may cause. Please feel free to direct any inquiries about this to our office.

Values and factors provided in these guidelines should be used by all counties and applied to all producing mineral interests in the county each year. You will receive new values each year forward that you will use in valuation for that year.

The factor for oil has changed to $70.70 per barrel this year and the factor for gas has changed to $3.44 per M.C.F. These new schedules for 2016 assessments need to be sent to all operators/producers who have operations in your county.

If you have any questions concerning the Mineral Guidelines, please contact

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Incl. (1) Abridged Standard for Assessing Minerals 2016

Oil and Gas Assessment

Producing Mineral Interests should be assessed for Ad Valorem purposes at Market Value in regards to Arkansas Law, Rules and Guidelines as follows. Valuation of Mineral Interests for Ad Valorem tax purposes is not a tax on prior or current income. Market Value is the price a willing buyer, from the open market, would pay for your Mineral Interest in current prevailing market conditions as of the assessment date, January 1. The Market Value determined by the Assessor does not represent your prior annual income. Property taxes are based solely on the property's ability to produce future income for the life of the property based on current production as of January 1.

ACA 26-26-1308(2) [Effective January 1, 2014.] "Producing mineral interests shall be reappraised annually for ad valorem tax purposes.

Values provided in these guidelines should be used by all counties and applied to all producing mineral interests in the county each year.

Well Production Equipment Assessed Value (WPEV)
(Only Applied to Working Interest)

(WPEV Multiplier) = $1.00 per Vertical Foot of Well

Example: Well is 1250 feet in Vertical depth

1250 feet X $1.00(WPE Multiplier) = $1250 (WPEV)

$1250 (WPEV) X .20 (Assessment Rate)
=
$250 (Well Production Equip. Assessed Value)

The WPEV formula of $1 per foot brings the equipment at the well site directly involved with mineral production into the income approach model along with the minerals and is seen as an appropriate method of valuing this property type. It is only appropriate for the equipment directly related to the production of the mineral since production is what determines the value of the well and its mineral for ad valorem purposes.

Any gathering lines, production lines or any other industry specific nomenclature relating to the equipment involved with the transportation and or gathering of said minerals beyond the well site are not to be included in the WPEV formula.

For gas wells the first meter measuring the gas at the well site when said gas is ready for gathering and transportation is the meter that should be used as the termination for the WPEV. All equipment behind, but not including, said meter should be included in the WPEV formula. That would allow for well site water removal and minimal compression for further transportation to be included.

Rev.1/2016

Abridged 2016

For oil wells the point of transfer from production to transportation normally is the valve at the tank battery from which ground transportation originates.

It is at the above mentioned meter or valve that the mineral changes from being produced to being transported for consumption. Direct ownership of the equipment on either side of the meter is irrelevant to the valuation method either directly or indirectly. It is just the point at which the production/transportation exchange takes place regardless of ownership of the equipment.

Verification of vertical depths can be obtained from the Arkansas Oil and Gas Commission.

ASSESSMENT TABLES FOR PRODUCING GAS WELLS

Formulas and Minimum Pricing Guidelines

Annual Value per M.C.F. represents the present day value of the future worth of the mineral interest based on average Arkansas market pricing.

Gas	
2016	$3.44

$3.44 per M.C.F. X 365 days = $1,256 Annual Value per M.C.F.

WORKING INTEREST

Formula to arrive at a Net Working Interest Assessed Value

This now has two parts:

1. Price (Annual Value per M.C.F.) X Working Interest percent % - Production Expenses (13%) X .20 Assessment Rate = Working Interest Assessed Value per M.C.F. Average Daily Production (A.D.P.)

Example:

$1,256 (Annual Value per M.C.F.)
X
.875 (Working Interest percent %)
-
.13 (Production Expenses)
X
.20 (Assessment Rate)
=
$191 (Working Interest Assessed Value per M.C.F. Average Daily Production A.D.P.)

Rev.1/2016

Abridged 2016

2. Well Production Equipment Assessed Value + Working Interest Assessed Value = Net Working Interest Assessed Value

Example:

$191 (Working Interest Assessed Value)
+
$250 (Well Production Equip. Assessed Value)
=
$441 (Net Working Interest Assessed Value)

ROYALTY INTEREST

Formula to arrive at assessed value:

Annual Value per M.C.F. X Royalty Interest percent % X .20 Assessment Rate =
Assessed Value per M.C.F. Average Daily Production (A.D.P.)

Example:

$1,256 (Annual Value per M.C.F.)
X
.125 (Royalty Interest percent %)
X
.20 (Assessment Rate)
=
$31 (Assessed Value per M.C.F. A.D.P.)

The above prices reflect current averages.
Rounding in the above is to the nearest whole dollar for simplicity. In application, you may round to the nearest whole penny. Whichever rounding method you use, use it for all mineral assessments.

Note: A Division Order must be provided for each oil and gas lease or unit so individual interests can be assessed correctly. If no Division Order is provided, the total 8/8 value shall be assessed to the operator.

Abridged 2016

Rev.1/2016

ASSESSMENT TABLES FOR PRODUCING OIL WELLS

Annual Value per Barrel represents the present day value of the future worth of the mineral interest based on average Arkansas market pricing.

Oil	
2016	$70.70

The Assessment Tables are computed from the following:

1. Average price of oil on the Arkansas Market.

2. Price adjusted for severance tax and property (real estate) tax.

3. Assumptions.

   a. Price of oil per barrel - $70.70
   b. Decline rate - 30% per year - 20% on stripper
   c. Discount factor - 15.0%

Abridged 2016

Rev.1/2016

WORKING INTEREST

Formula to arrive at a Net Working Interest Assessed Value

This now has two parts:

Per Well Production Class (bbls per day)	Working Interest Amount per Barrel
0 - 2*	3,780
2.1 - 5	7,663
5.1 - 10	9,480
10.1 - 25	9,101
25.1 - 50	8,148
50.1 - 70	7,782
70.1 & Up	7,816

*** Equipment Value Only** - Minimum Assessment for any well in production.

1. Amount per barrel X A.D.P. x percent % of Interest = Assessed Value

   Example:

   $7,816 (Amount per barrel)
   X
   71 bbls. (A.D.P.)
   X
   .875 (percent % of Interest)
   =
   $485,569 (Working Interest Assessed Value)

2. Well Production Equipment Assessed Value + Working Interest Assessed Value = Net Working Interest Assessed Value

   Example:

   $485,569 (Working Interest Assessed Value)
   +
   $250 (Well Production Equip. Assessed Value)
   =
   $485,819 (Net Working Interest Assessed Value)

Abridged 2015

Injection systems may be eligible for the following reductions on the working interest only.

1. Water flood - up to 25% adjustment.
2. Enhanced Recovery - up to 50% adjustment.

OIL ROYALTY INTEREST

Formula to arrive at Royalty Interest Assessed value:

Per Well Production Class A.D.P.(bbls per day)	Royalties Interest & Overrides Amount per Barrel
0 - 2	8,392
2.1 - 5	11,957
5.1 - 10	12,488
10.1 - 25	11,001
25.1 - 50	9,468
50.1 - 70	8,907
70.1 & Up	8,907

Amount per barrel **X** A.D.P. **X** percent % of Interest **=** Assessed Value

Example:

$8,907 (Amount per barrel)
X
71 bbls. (A.D.P.)
X
.125 (percent % of Interest)
=
$79,049 (Royalty Interest Assessed Value)

August 2016