

6/2/2008

Will be in AP in 10 days
Baen

1

The Valuation and Individual Tax Implications of the Barnett Shale and the Statewide Oil and Gas boom.

By John S Baen Ph.D.

Blessings of various income from the oil and gas boom, also comes the "curses" of those pesky taxes that help keep this great country, state, counties, cities, and school districts running. The only thing worse than no cash or having no direct income from the oil and gas boom, is getting lease bonus money, damages money, and royalty payments....and being ignorant about your taxes that are due at the end of the year! Worse yet, not realizing that these income blessings are all taxable, if not NOW, eventually.

People, God love them, tend to take complicated tax laws and over simplify them or get them totally wrong. I am not a CPA, not a lawyer, however am wise enough to know I need one of each in my life to maximize my income and honestly defer, reduce, or avoid altogether my federal, state and local taxes.

The valuation of pipeline rights of ways and mineral rights, (undeveloped, leased, drilled/producing, partially developed or fully developed) is important for many reasons and the conclusions require multiple approaches to estimate their value depending on the intended use and purpose of the appraisal. Every mineral/royalty owner will be faced with the valuation of their rights by local, state, and federal taxing authorities and always wonder how much they are really worth when those offers to buy their rights come in the mail from those "fly by nighters" for 36 months of income!

* People Are Not Interested ☺

Until! - Pipelines

- Taxes

- Estate Tax

"DA"

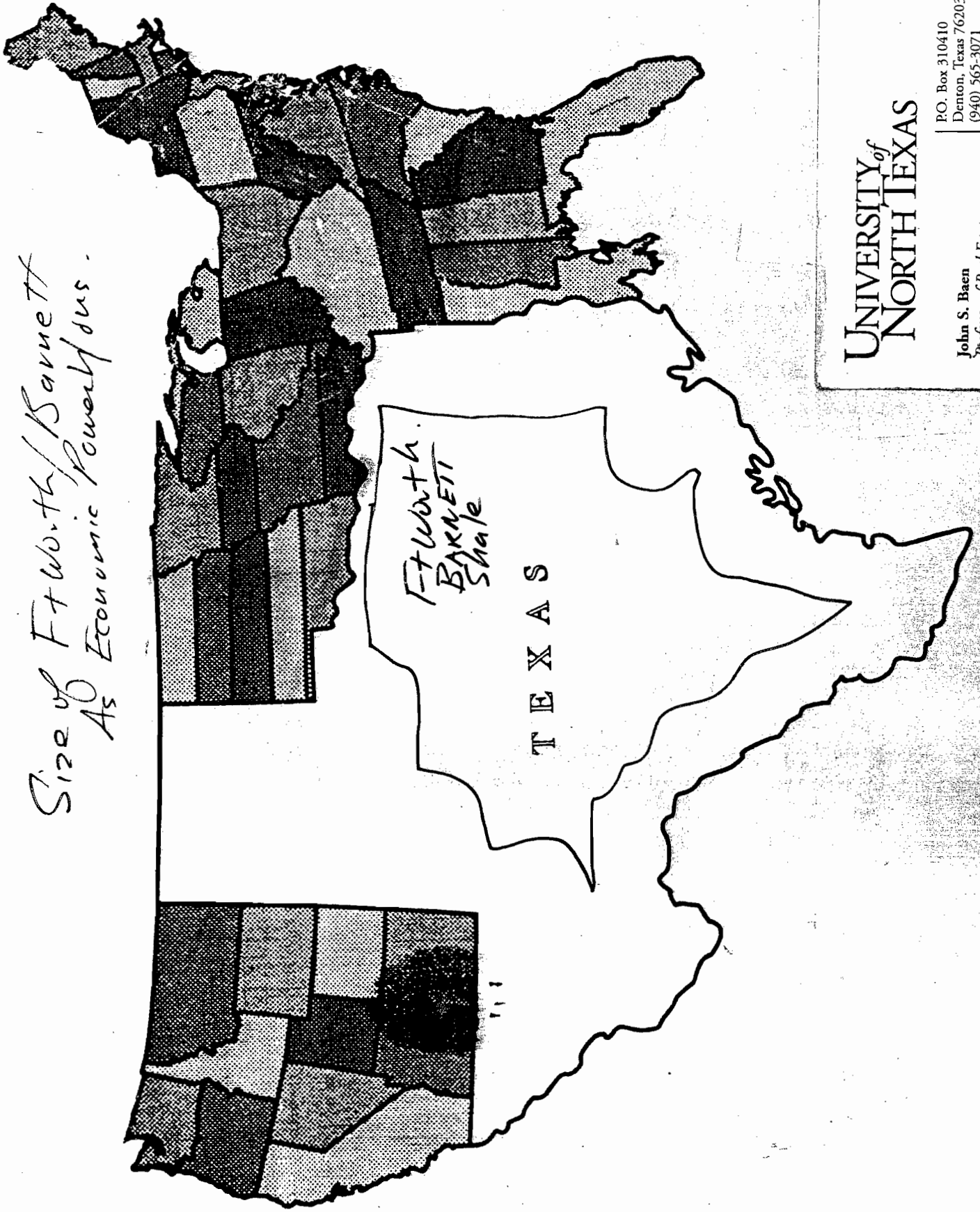
Danger! You are likely unaware which has an income stream from Mineral Rights (income plus potential Mineral Rights oil and gas producing zones). With your mineral estate will be valued at 35-55% on monies you or your \$10,000/month royalty checks are considering the value of all your bonds, etc) your estate could eas because of the value of your roy
Question: How can I reduce it to spend in my life?

- 1) Time your death carefully expires and greatly de any given year through
- 2) Deed your minerals to

The "BEST" of the 1 estate planners, law blessings, but taxes and minerals) is a mineral deed (\$35 IRS basis or rema

J.S.Baen Ph.D. offers free article at: www.coba.wi
This article needs permission, but

Size of Ft Worth/Barnett
As Economic Powerhouses.



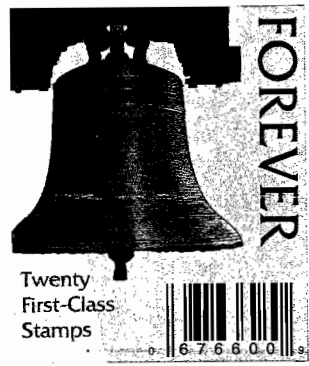
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IT WILL ONLY TAKE A MINUTE. I started not to do this, but as I read it.... I understood God to say, 'You need a miracle tomorrow.... so here goes... Prov. 29:25...

You never know when God is going to bless you!! Good things happen when you least expect them to !!!!!!!!

*Dear Lord, I thank You for this day, I thank You
For the BARNETT State
in North Texas*

*There are Only Two (2)
things for Certain -*

1) Death

2) NOW

**No + Taxes*



Wise

1) PLANNING

2) Good Counsel

3) Fed Prison

↳ if you Don't Report / Claim All income

NATIONAL

"Africa is going to have a hard time taking on another 1 billion people." — Carl Haub, population study

World population projected to hit 9 billion by 2050

By GENARO C. ARMA
THE ASSOCIATED PRESS

WASHINGTON — Africa's population could soar by more than 1 billion by 2050, further raining food and water supplies and social services in areas already struggling, according to a report released Tuesday.

The latest World Population Data Sheet estimates that the global population will rise 46 percent between now and 2050, to about 9 billion, a level also predicted by the United Nations and other groups.

Political unrest and war have limited many developing nations' ability to promote family planning and literacy programs, said Carl Haub, author of the study released by the Population Reference Bureau, a private research group.

In many developing countries, big families are the norm. African governments, especially

POPULATION Most growth is expected to be in poorer and developing nations that are already struggling to meet human needs, a report says.

those of sub-Saharan nations, will need to create millions of jobs and improve health care facilities and schools, the report says.

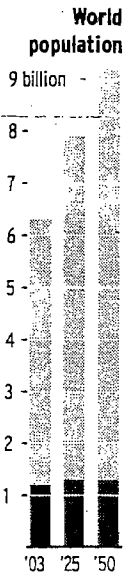
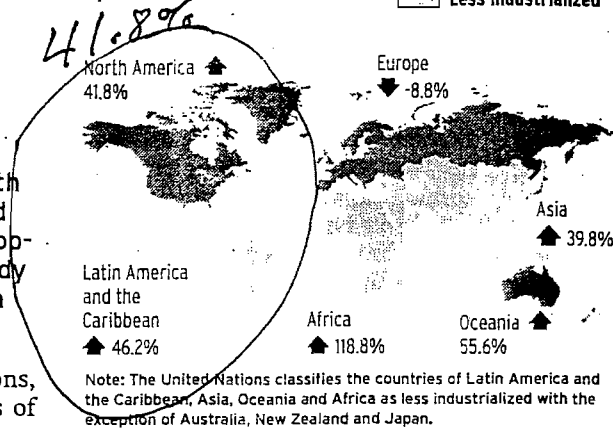
"Africa is going to have a hard time taking on another 1 billion people," Haub said. "How do you raise living standards, how do you educate, improve health care, and how do you battle AIDS at the same time?"

European nations, more industrialized and prosperous, are expected to lose population because of falling birth rates and low immigration. The researchers included all of Russia in calculating projections for

The future of the world population

World population is projected to increase 46 percent by 2050, with most of the growth occurring in less industrialized areas.

Projected growth in population by continent, 2003-2050



SOURCES: Population Reference Bureau; ESRI

THE ASSOCIATED PRESS

Europe; traditionally, Russia east of the Ural Mountains is considered part of Asia.

The U.S. population is expected to grow 45 percent to 422 million by 2050, paced by a stable birth rate and high immigration levels.

But most of the world's growth will be in developing nations. India's population is estimated to grow 52 percent to 1.6 billion by 2050, when it will surpass China as the world's most populous country.

The population in neighboring Pakistan is projected to grow to 349 million by 2050, up 134 percent. Triple-digit growth rates are also forecast for Iraq, Afghanistan and Nepal.

Africa is expected to more than double in population, to 1.9 billion by midcentury.

The population in Congo, which has been torn by civil war, could more than triple during the same period to 181 million. ONLINE: Population Reference Bureau, www.prb.org

JUST ANNOUNCING



You can benefit from Natural Gas Drilling.

Fort Worth Convention Center Saturday, March 29, 2008



Dr. John Baen's Look at the Barnett Shale of the Fort Worth Basin
Summary to January 1, 2008

Number of Producers: 8,960 Wells
Horizontal Wells: 4,982 Wells
Vertical Wells: 3,978

Cumulative Production:
3.69 Trillion Cubic Feet Gas + 11,596,245 BO

Total Production in 2007:
1.115 Trillion Cubic Feet Gas + 3,030,727 BO

Daily Production – Dec. 2007: 8,435 Active Wells:
3.524 Billion Cubic Feet Gas Per Day + 7,477 BO Per Day

493 Horizontal Wells Had Peak Month Daily Average Production of 3+ Million Cubic Feet Gas Per Day
Biggest Well: EOG / Fowler #4H, Johnson Co.: 8.635 MMCFGPD
The 20 Counties that have produced gas and/or oil from the Barnett Shale in the Fort Worth Basin

Bosque	Ellis	Montague
Clay	Erath	Palo Pinto
Comanche	Hamilton	Parker
Cooke	Hill	Somervell
Dallas	Hood	Tarrant
Denton	Jack	Wise
Eastland	Johnson	

Land/Lot Own
SAY Per Well.?
@ @
1000wms
↓
89k,000
Tax Payers/Year

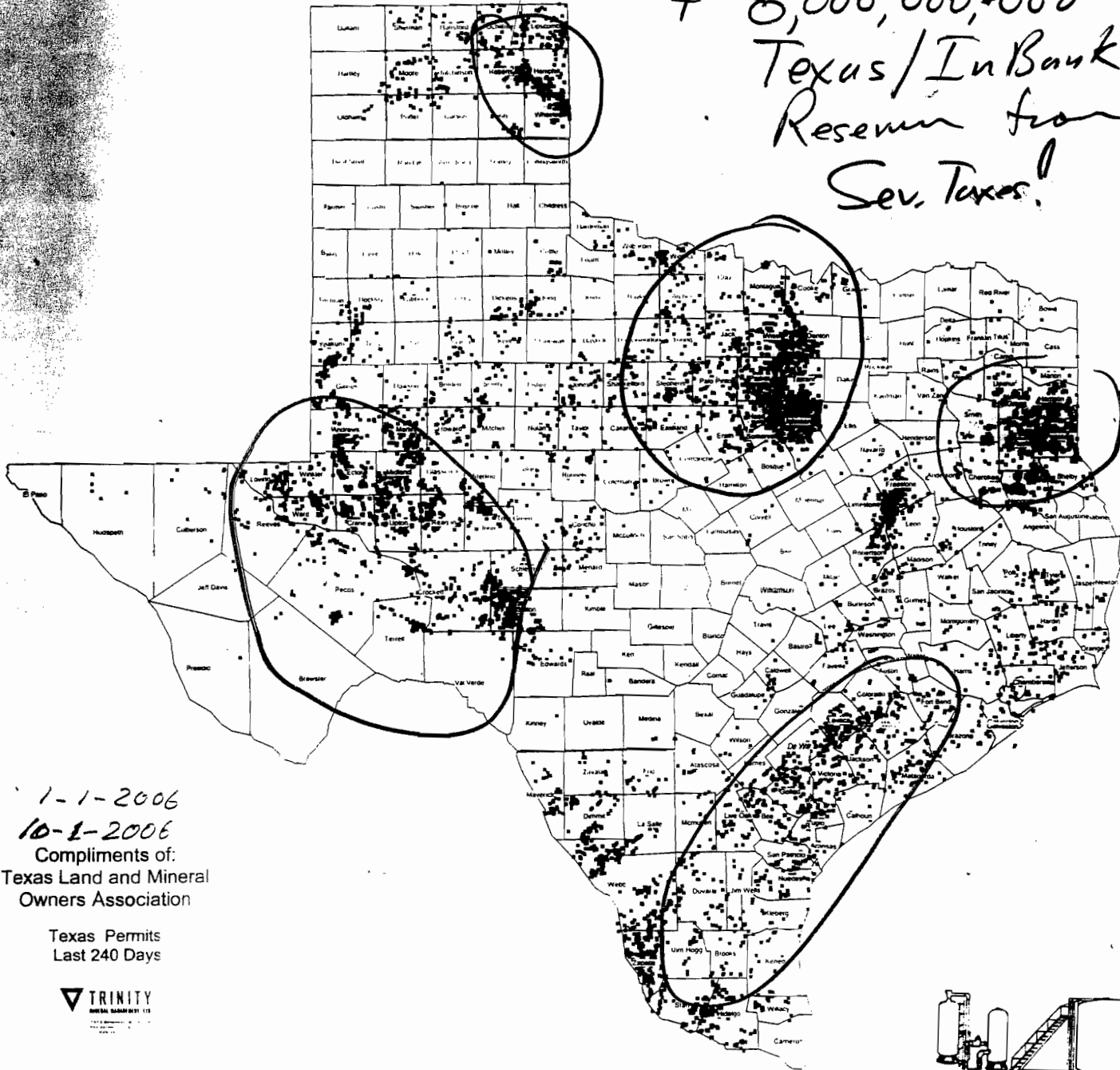
Oil + Gas Related ^⑨ Income / Expenses / Value Taxes

- ① Bonus
- ② Revenuer
- ③ Advanced Royalties
- ④ Royalties
- ⑤ ORRI / Surface Owners
with/without
minors
- ⑥ Seismic Payments
- ⑦ Sale of water
- ⑧ Other Settlements
- ⑨ "Sale" or Lease Compressors?
Site

You Are Lucky!

¹³ Texas is Rich

+ 8,000,000,000
Texas/In Bank
Reserve from
Sev. Taxes!



1-1-2006

10-1-2006

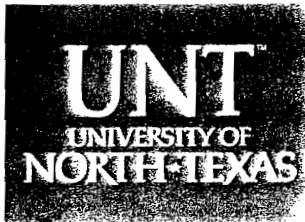
Compliments of:
Texas Land and Mineral
Owners Association

Texas Permits
Last 240 Days



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September 8, 2006



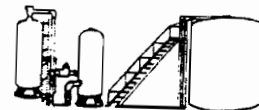
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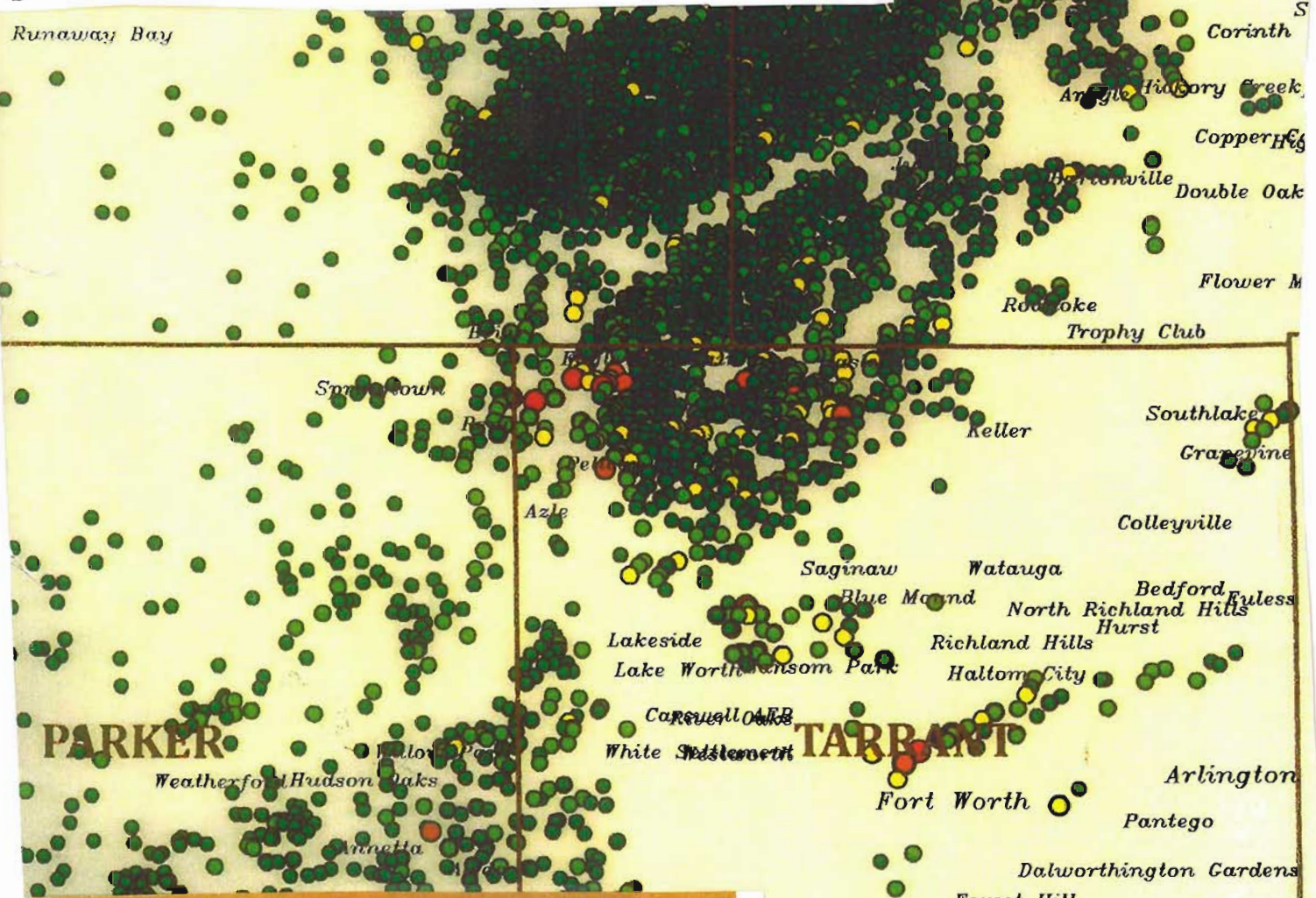
Production Data Provided by Powell Barnett Shale Newsletter

Texas Railroad Commission produced as of 01/01/2008

0 2.5 5 10



74



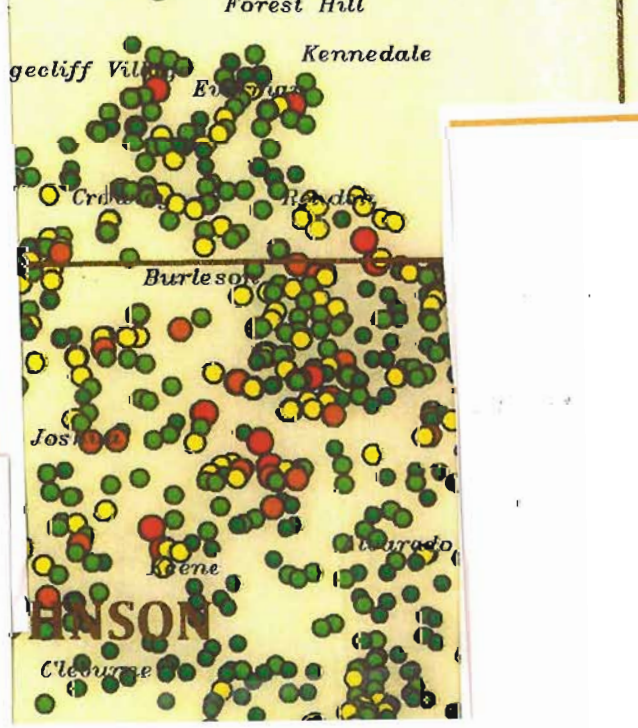
Legend

Barnett Shale Producers
Gas Peak Mo Daily AVG MCFGPD

- 0 - 1500
- 1500 - 3000
- 3000 - 4500
- 4500 - 6000
- >6000



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Simplified 1040

Next YEAR!

Latest Revision for:

1040

 Federal Income Tax Form

Department of the Internal Revenue Service

RETURN

Part 1: Income

Your Social Security Number

1. How much money did you make last year?

2. Send it in

. If you have any questions or comments, please write them in the box provided. .

Nation & world

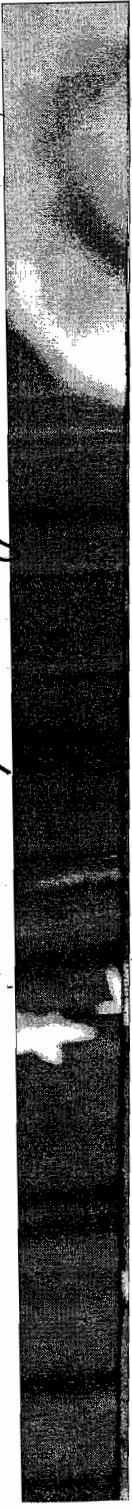
BLAME GAME

ENERGY

Good Bad? Less Royalty for You!

Windfall tax effort stalls

"Big Oil + Royalty"



SUSAN WALSH/The Associated Press

is failed Tuesday in their bid to move along a bill that would have taxed the extra profits of large oil companies. Listening to a ons were (from left) Jeff Bingaman, Charles Schumer, Max Baucus, Bernard Sanders and Claire McCaskill.

rats fail to stop debate on bill aimed at Big Oil's profits

N — Senate Republicans held emergency if there is a shortage, disruption or significant price irregularity in the oil market. Companies would be subject to civil penalties if they set excessive prices during such an emergency.

Stopped oil traders from using offshore markets to avoid speculative limits.

Let the attorney general bring price-fixing charges against any country or company that is conspiring to set the price of oil. Saudi's?

GOP senators shoved aside the Democratic proposal, arguing that punishing Big Oil won't do a thing to lower the \$4-a-gallon price of gasoline that is sending economic shock waves across the

Cox News Service
The Associated Press

AME - SAUDI'S? "DAH" "DA" = D

modity markets under review

orce to investigate how forces are affecting oil

Oil prices retreat \$2

\$131.31 a barrel on the New York Mercantile Exchange.

The report calmed a market that earlier sent oil up more than \$3 on a projection by the International Energy Agency that said global demand will continue to rise, especially in China.

The IEA, in its own monthly report, cut its demand growth forecasts, projecting that global demand for petroleum products such as gasoline, diesel and heating oil will grow 0.9 percent, or 800,000 barrels a day, in 2008. That's down from the 1.2 percent, or 1 million barrels, the IEA forecast earlier this year.

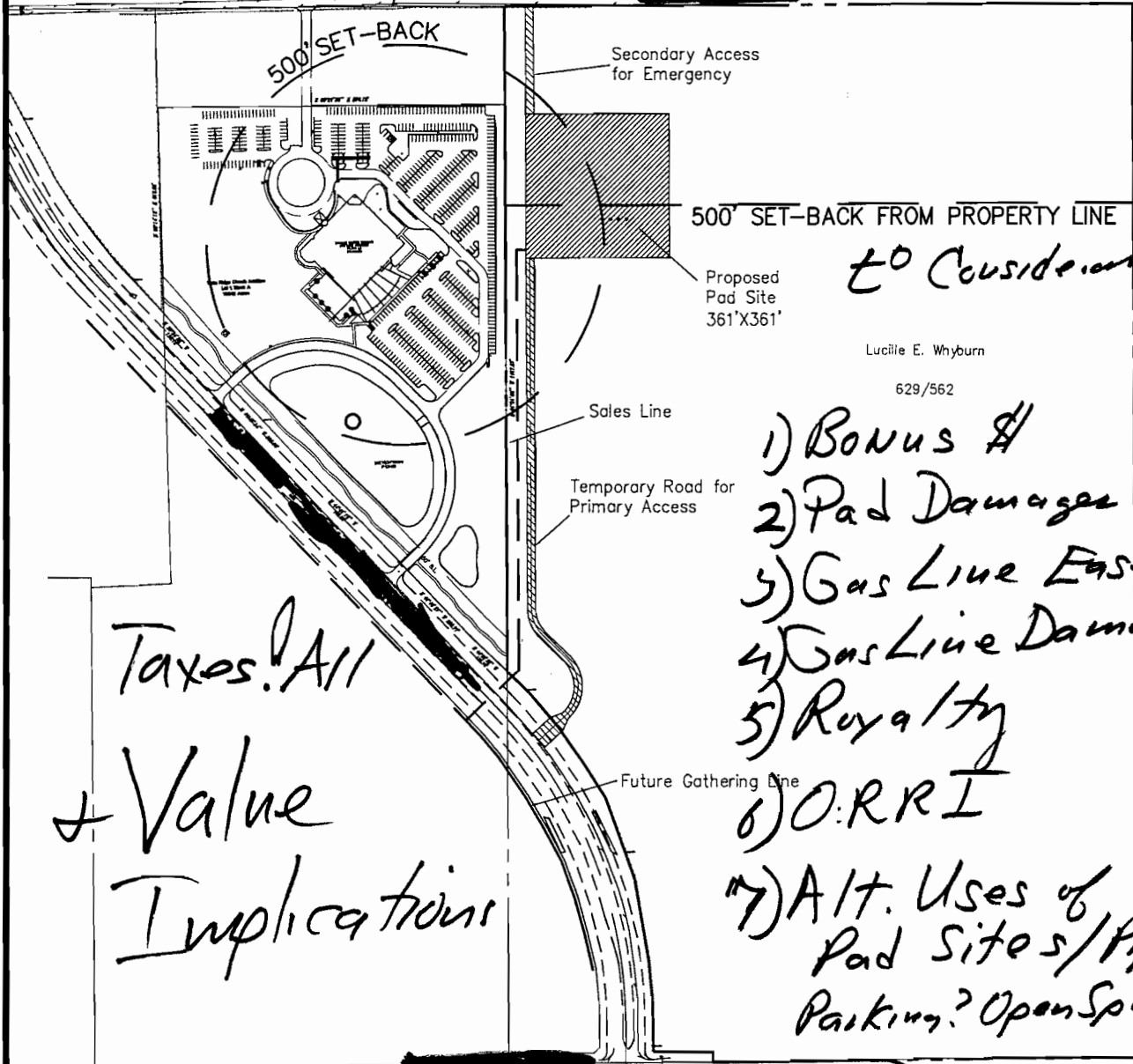
The Associated Press

At these prices, you'd walk, too

While gasoline prices

17

Values / Income / Taxes. Land / Minerals / Royalty etc.



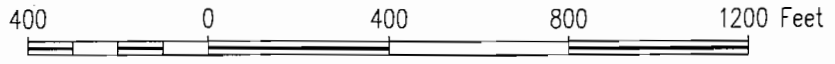
to Consideration.

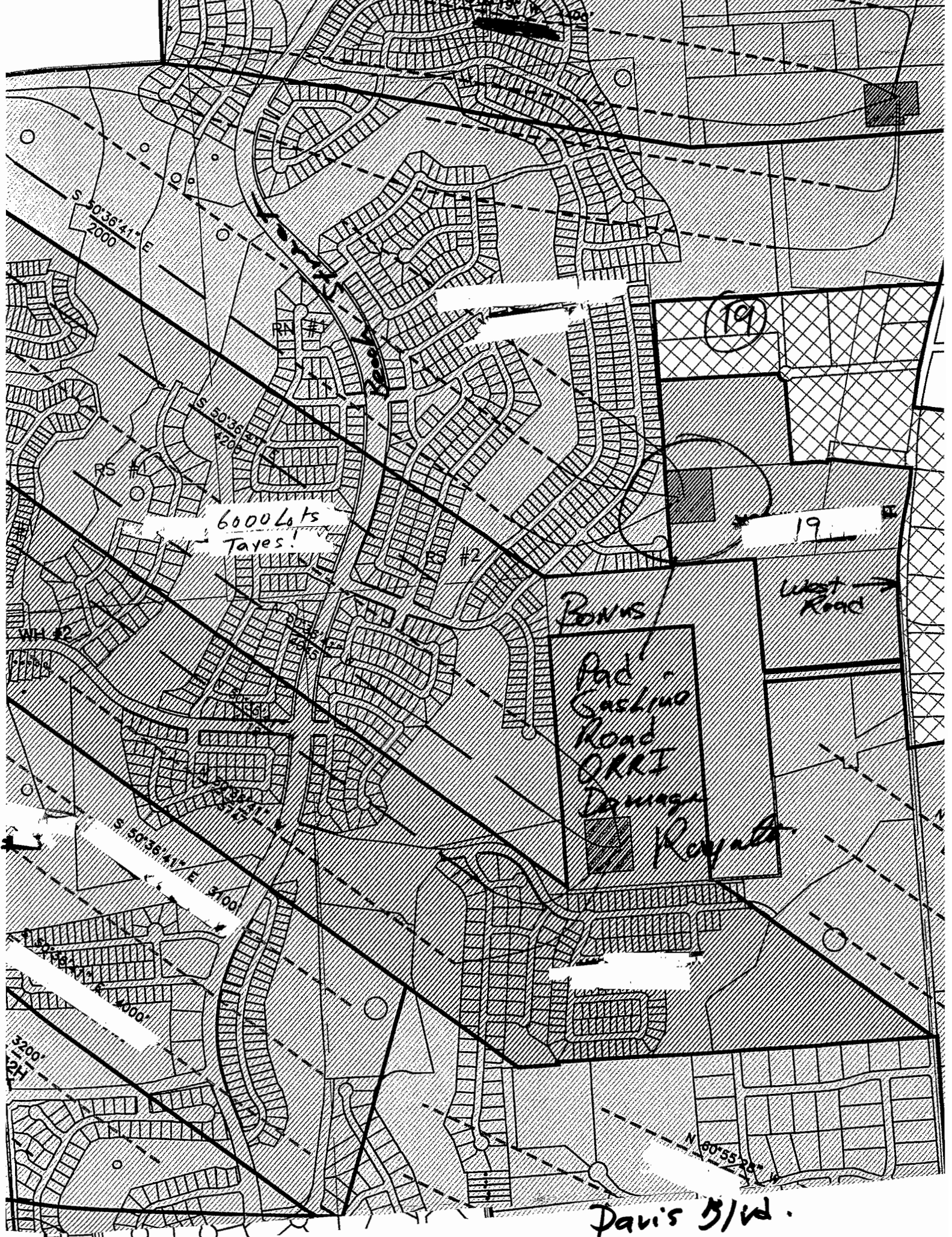
Lucille E. Whyburn
629/562

Taxes! All
+ Value
Implications

- 1) Bonus \$
- 2) Pad Damages \$
- 3) Gas Line Easement
- 4) Gas Line Damages
- 5) Royalty
- 6) O.R.R.I
- 7) Alt. Uses of Pad Sites / Pipeline Parking? Open Space

DEPENDS?
8) Water Sales





6000 Lots
Taves.

BONUS

Add
Gasline
Road
ORRI
Damage

Royalty

West
Road

(19)

19

Davis Blvd.

S 50°36'41" E
7000

S 50°36'42" E
720

RS

WH #2

S 50°36'42" E 3700

7000

S 50°36'42" E

N 60°55'20" E

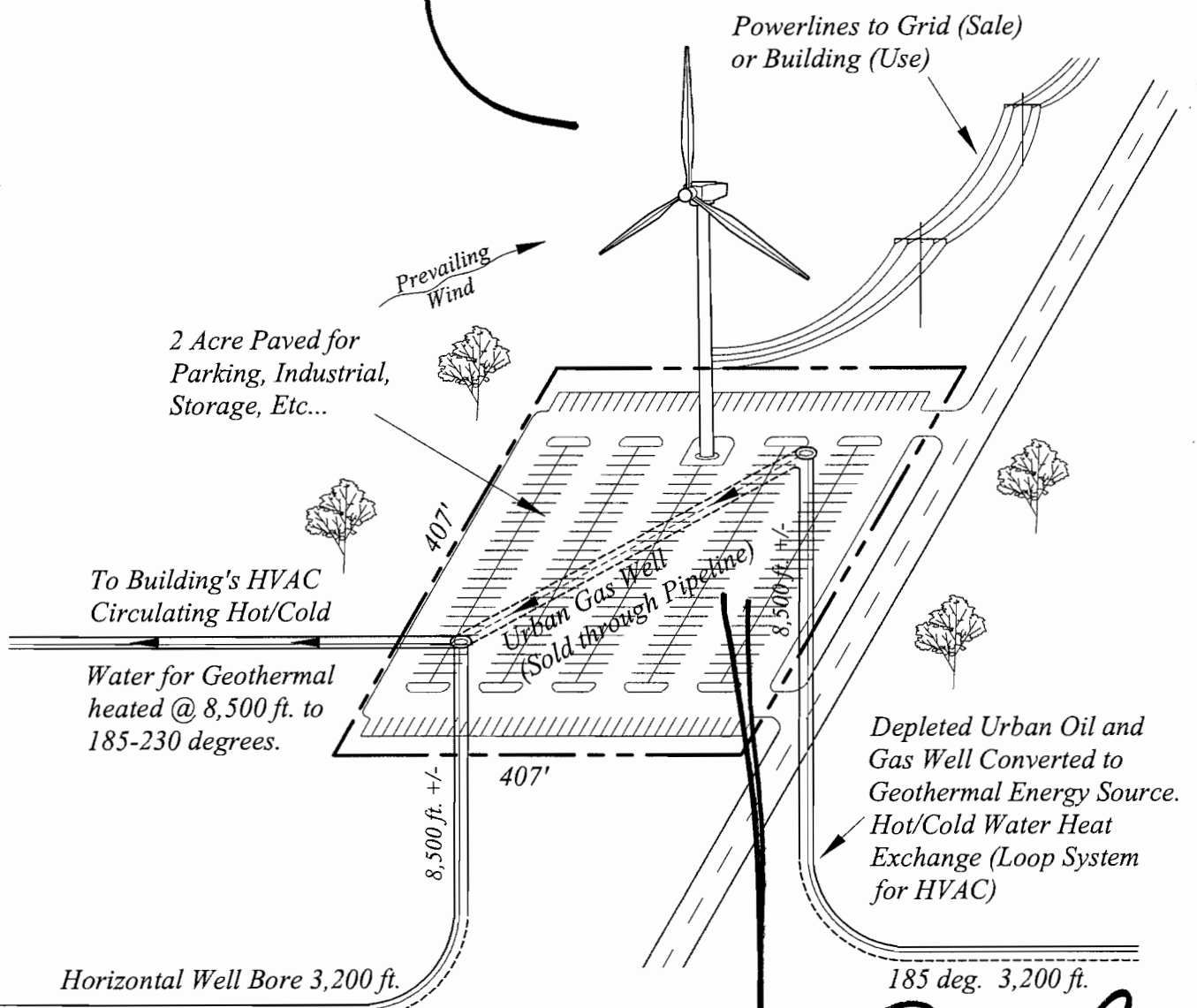
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Traditional Urban Energy Farm
 2 Acre Multiple Uses and Energy Production Methods
 (Regional Shopping Center Parking Lots, Industrial Complexes, Warehouse Districts, Ship Yards, Contaminated Land, Sanitary Landfills, Etc.)

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Wind Royalties ⁽²⁰⁾



Geothermal Roy
Gas Roy
Water Sales Roy

NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OF THE FOLLOWING INFORMATION FROM THIS INSTRUMENT BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.

21

**GENERAL WARRANTY DEED
(WATER)**

*Water Royalties
in the future?*

Date:

Grantor:

Grantor's Mailing Address: [include county]

Grantee:

Grantee's Mailing Address: [include county]

Consideration: Cash and other good and valuable consideration.

Property:

All groundwater, being all groundwater, percolating water, artesian water and other waters from any and all reservoirs, formations, depths and horizons beneath the surface of the earth in and under or that may be produced from the real property more particularly described on Exhibit "A" attached hereto and incorporated herein.

Reservations from Conveyance: NONE

Exceptions to Conveyance and Warranty: NONE

Grantor, for the Consideration and subject to the Reservations from Conveyance and the Exceptions to Conveyance and Warranty, grants, sells, and conveys to Grantee the Property, together with all and singular the rights and appurtenances thereto in any way belonging, to have and to hold it to Grantee and Grantee's heirs, successors, and assigns forever. Grantor binds Grantor and Grantor's heirs and successors to warrant and forever defend all and singular the Property to Grantee and Grantee's heirs, successors, and assigns against every person whomsoever lawfully claiming or to claim the same or any part thereof, except as to the Reservations from Conveyance and the Exceptions to Conveyance and Warranty.



DISCOVER THE POWER OF IDEAS

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Certificate of Successful Completion

JOHN S BAEN

This is to certify attendance at the "Water Rights Sales and Transfers" seminar presented March 29, 2007 in Fort Worth, TX.

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Provider Number: J206. Program Number: 105257.

This seminar may qualify for 6.0 hours of continuing education for Texas engineers.

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Kari J. Campbell
Kari J. Campbell, CE Coordinator

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23

Please ~~do~~ Listen and Believe \rightarrow
 \leftarrow in Your Attorney, CPA, Estate Planner,
Tax Advisor.

- 1) I am Not a Lawyer
- 2) I am Not a CPA
- 3) I am Not a Cert. Financial Planner
- 4) I am an Egg Head
School Teacher with
a lot of Experience in
Paying a Lot of Taxes -
 \rightarrow Which is a Good Thing

Please Use these ideas with
Your Professionals
And Good Luck! ☺

The basic over simplified version of oil and gas associated income and tax issues are as follows:

1. Bonus Payments at signing of a lease:

This Taxable income in the year received and is added to your other ordinary income.

Question: Could you defer, not sign the lease until January? This could delay taxes until the following year.

- 1) Up Front Bonus
 - 2) Delayed Rental / Extensions
 - 3) Other. — includes a well site? Yes No
 - 4) Bonus vs Term - 1, 2, 3, 5 years
- Varies widely } Royalty %
Goodies
Improvements
- "Market" vs
Left Out?

2. Well-site damages on your land

Can be claimed as ordinary IRS income or preferably treated as "damages" that reduce your basis or cost/price paid at the time you acquired the property. While still reportable, this changes the "value" of the damage payment and converts the "income" from ordinary income to capital gains (taxed at 15% in 2008) when and if the property is sold. The theory is that a well site "destroys" the use/value of the acreage by the amount of privately negotiated damages and the market value of the land.

Question: If they drill on my homestead and there are no taxes due on the sale (zero taxes due up to \$500,000 - tax free profit) of my homestead, is it ever taxed?

- 1) Life of well? — Ex. Use or?
- 2) Easement? — 1) Other Org
2) Public
- 3) Sale of site? — 3) Indus. Storage
- 4) Depends

In August 2004, Beeville-based Dan A. Hughes Co. pumped a large hydraulic fracture job in the prolific Barnett shale of North Texas. The Barnett is a tight shale that is the source for the largest gas field in Texas. It consists of an upper section and a thicker lower section with five lobes: A, B, C, D, and E.



Barnett shale wells were historically drilled vertically, but now it's common to drill laterally, with the kickoff at the top of the upper Barnett section, says Lee Roy Hoskins, a petroleum engineer at Dan A. Hughes.

Hughes drilled a horizontal well (City of Denton Airport No. 2H) in Denton County, Tex., using San Antonio-based Pioneer Drilling Co. Inc. The company's Rig No. 23 drilled to 11,000 ft in 34 days, including an 1,800 ft lateral section, and reached the lower Barnett shale target at about 8,700 ft TVD. The well was completed

with 7-in. diameter, 29 lb/ft, P-110 casing and 2 3/8-in. tubing.

The frac was designed by Jeff Ilse (Hughes's operations manager), Hoskins, Lee Matthews (consultant), and Dave Pronger (Halliburton Corp.). A total volume of 130,000 bbl was pumped into the E-lobe of the lower Barnett in three stages on 3 consecutive days. Each stage was pumped at a rate of 200 bbl/min at an anticipated well-head tubing

pressure (WHTP) of about 8,000 psi. The maximum pressure observed during this job was about 8,400 psi and the maximum rate achieved was 212 bbl/min.

Hoskins told OGI that it was one of the largest assemblies of hydraulic horsepower (hhp) capability for a Barnett shale frac, with a pump rate about 30-40% higher than frac jobs on simi-

From BAEN

Small operator pumps big frac in North Texas Barnett shale

*61,000 Horsepower
837,000 # of Sand
130,000 BBS of Water*

Nina M. Rach
Drilling Editor

*33 FRAC-D Trucks!
34 61,000 Horse Power
20 FRAC Tanks + 150,000 Gallons*

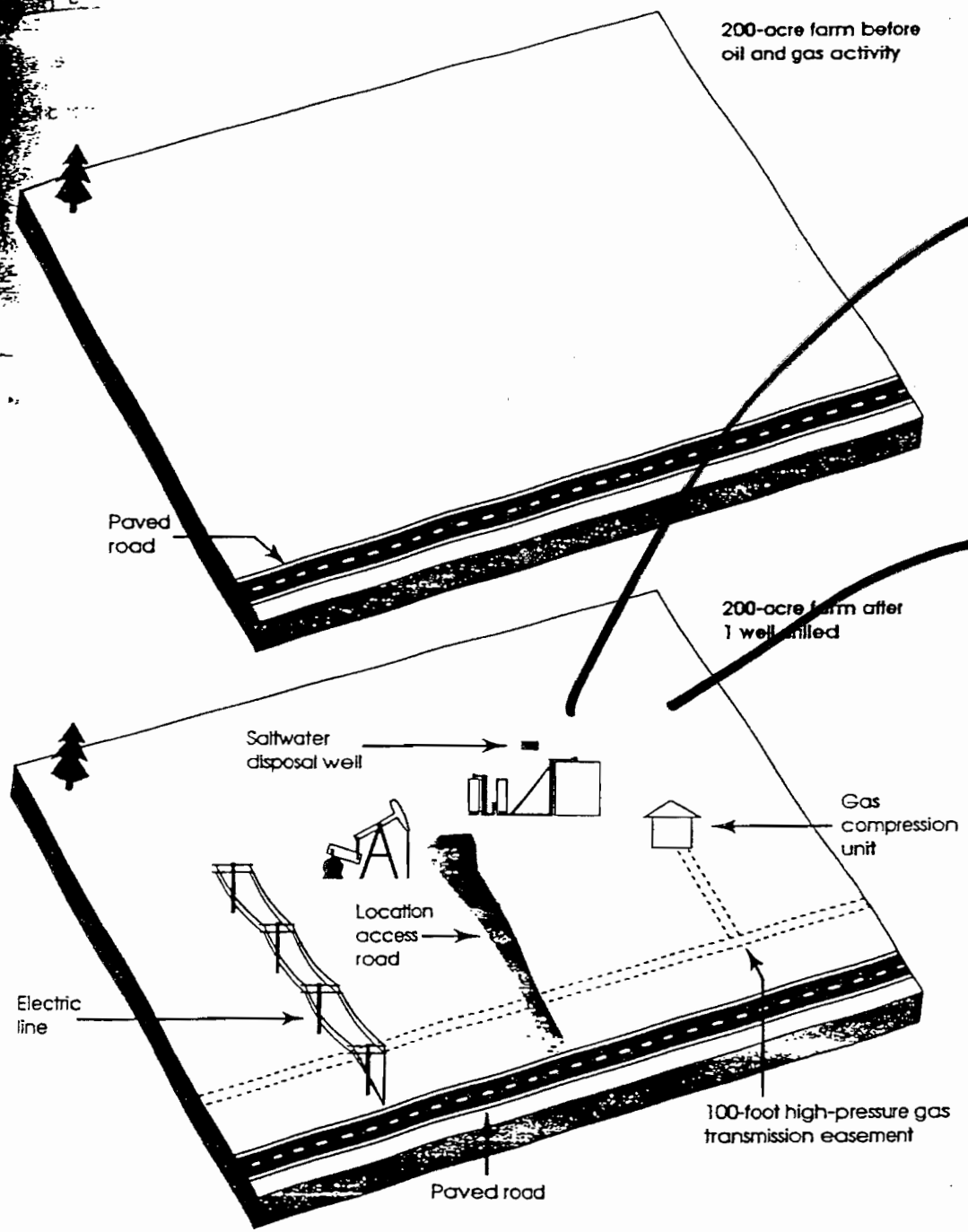
Halliburton assembled 34 pump trucks for the Barnett shale frac job in August 2004 (Fig. 1; photo from Halliburton Corp.).



*4 Million \square^3 Gas
Sept 2004
2.5 Million
5 months
Feb 2005
4,000 MCF
2.5 MCF*

*7" casing
Size is
Growth*

FIGURE 1 Surface Estate Before and After Oil Well Development



#1
Val
of Rights

#2
Surface
Value
Impact?
Ad. Taxes
Surtax

Damages
vs
Improvements
Goodies
or
Both?

to Document
or
By Treaty

Damages?

offered as to such effects on the value of the land. The conclusion, however, is that "oil and gas mineral rights can have important implications on the valuation of the surface rights being appraised."⁴ Most of the previ-

ous research has been written on the subject of mineral rights and mineral income valuation.⁵ The current trend in surface estate research is in the environmental impact realm and tends to be from the new envi-

4. *Ibid.*, 215.

5. Philip Grossman, "The Valuation of Land with Underlying Natural Resources," *The Appraisal Journal* (April 1935): 236-241. See also, H. J. Gruy and F. A. Garb, "Determining the Value of Oil and Gas in the Ground," *World Oil* (March 1982): 105-108; Walter Priddy, "Oil Property Evaluation," (Fort Worth, Texas: Pritchard and Abbott Inc., 1986): 1-14; and Anthony J. Rinaldi, "A Review of Hoskold and the Valuation of Mineral Property," *The Appraisal Journal* (October 1981): 578.

TABLE 1 Oil and Gas Drilling and Production Activities That Can Negatively Influence the Present and Future Value of the Surface Owner/Tenant

- I. Filing of the Oil and Gas Lease
 - A. Actual notice of pending activity and potential surface disruption. Filed in county/province. (Surface owner *not* generally notified until well is drilled.)
 - B. Current and future development plans need to be forwarded immediately to oil operator/driller to reduce negative influences to the future highest and best use of surface.
- II. Preliminary Activities Before Drilling Well
 - A. Seismograph activities are becoming more prevalent utilizing 3-D subsurface mapping of oil formation. Surface activities include dozing and drilling in strips across the property.
 - B. Planning the location of the drill site.
 1. Best geological site versus optimal surface location.
 2. Source of optimal surface location water for drilling well.
 3. Access road planned with long-term implications considered.
 4. Drill site planned.
 5. Environmental implications and plan.
 6. Surface owner/tenant notification planning, negotiation, and compensation for first well site only.
 - C. Multiple well locations/repeat steps IIB 1-6.
- III. Well Drilling and Completion Activities
 - A. Digging of surface mud pits and drill-site leveling.
 - B. Drilling activities (24 hours/day for 3-30 days depending on depth and number of wells drilled)
 1. Heavy equipment ruts can cause erosion and surface damage that can take years to heal.
 2. Legal trespass of drilling crews (three shifts/day) administrative staff, logging trucks, mud trucks, geologists, pipe trucks, cementing trucks, fuel trucks, and on array of other service providers and salespersons.
 3. Drilling rig noises and diesel electric generator units.
 - C. Well completion activities
 1. Fracturing and acidizing trucks.
 2. Workover rig crews and activities.
 3. Burning or flaring of gas and oil during workover operations.
 4. Temporary fracturing tanks and production tanks.
 5. "Swabbing" and testing of well into surface pits.
- IV. Post Completion Production Activities
 - A. Well site/lease location
 1. Covering of surface mud pits.
 2. Construction of surface equipment and systems.
 3. Rocking or graveling the access roads and production area.
 4. Construction of retaining walls and fences around oil tanks, well head, and other equipment.
 5. Construction of permanent gates, cattle guards, and culvert from a public road to the well site.
 6. Painting of all gates and surface equipment.
 7. Installation of locks and other security measures.
 - B. Construction of oil/gas pipelines and electricity to/through the property to the well/production/storage area.
 1. Obtain easements from landowner.
 2. Clear right-of-way 50-100 feet wide.
 3. Construct and bury pipeline to minimum/required depth.
 4. Reseed and plow disturbed pipeline right-of-way.
 5. Post high-pressure pipeline signs along easement with emergency notification telephone numbers.
 6. Implement pipeline monitoring program to check for leaks and right-of-way encroachments.
 7. Program to remove regrowth of trees.
 - C. Arrange for 24-hour access to well for the following service providers:
 1. Production employees
 2. Oil truck/purchaser
 3. Saltwater handlers
 4. Gas pipeline metering staff
 5. Electric company metering
 6. Supply and equipment deliveries
 7. Workover and repair personnel
 8. State and federal agency inspectors
 9. Access/road maintenance

TABLE 1 Continued

-
- D. Possible surface production equipment and/or chemicals on site
 - 1. Well head, valves, and gauges
 - 2. Pumping units
 - a. Gas-operated units (noise pollution)
 - b. Electric units (electric lines to well head)
 - 3. Oil, condensate, and saltwater storage tanks
 - 4. Oil, gas, water separator units
 - 5. Gas compressor units
 - 6. Oil or saltwater injection pump
 - 7. Gas collection and metering station
 - 8. Gas/oil/saltwater lease pipelines to each well
 - 9. Gas and/or oil pipelines for sale/transmission to and/or through the subject property
 - E. Production supplies, by-products, chemicals and well additives
 - 1. Oil tank sludge
 - 2. Bottom, sludge, and water
 - 3. Paraffin inhibitors
 - 4. Surfactants
 - 5. Emulsion breakers
 - 6. Scale inhibitors
 - 7. Paint
 - 8. Oily rags
 - 9. Pipe dope
 - 10. Injection and production filters
 - 11. Polish rod packing
 - 12. Various rubber products (seals, hoses, belts)
 - 13. Drums/barrels of chemicals
 - 14. Oil tank treatment chemicals
 - V. Drilling of Additional Wells on the Subject Property (repeat steps I-IV)
 - VI. Discontinuation of Oil and Gas Production—1 to 50 years after drilling
 - 1. Wells plugged and abandoned.
 - 2. Equipment removed from a site.
 - 3. Drilling pits should be permanently marked to prevent construction of home or other buildings at these particular locations.
 - 4. Mineral lease should be canceled and releases filed of record.
 - 5. Dormant pipelines (lease and transmission pipelines) should be dug up and removed.
 - 6. Surface should be restored to as close to predrilling conditions as possible.
 - VII. Environmental Site Assessment (Phase I, II, and III as required)
 - 1. Should be conducted at oil company's expense on behalf of the owner. Copy of report completed by outside environmental consulting firm should be provided to the landowner.
 - 2. Landowner should offer oil company a written release of further surface work on repairs to be completed.
-

ronmental litigation perspective, which is more regulatory in character.

Many newspaper articles have recently articulated the growing conflict between the surface estate owners and mineral owners and oil operators. Under new rules adopted by the Colorado Oil and Gas Conservation Division in September 1993, a landowner can ask the commission to make an oil operator post a bond before oil and gas activities begin on a lease if no surface agreement is in effect.⁶ While farmers can be royalty owners and make significant income on their minerals, many also want payment for crop and soil damages

and other economic burdens that affect their surface estates. It has been suggested that oil and gas operations can also create psychological stress in farm families, which may require compensation in some cases.

With any oil and gas well being developed, there will be some level of contamination that occurs on the property (addressed later in this article). Contamination of any kind can produce stigmas that have market implications, as presented by Patchin.⁷ A stigma may be broadly defined as a loss in value beyond the cost to cure the contamination itself. This can include,

6. Oil and Gas Journal, "Mineral, Surface Rights at Issue in Colorado," *Oil and Gas Journal*, v. 91, no. 43 (October 25, 1993): 30-32.

7. P. J. Patchin, "Contaminated Properties—Stigma Revisited," *The Appraisal Journal* (April 1991): 167-172.

TABLE 3 Theoretical Model of Estimating Damages of Oil and Gas Activities to Surface Owner Estate*

$$SD = PV - (W + RW + S + A + N + V + RLA + RHBV + PVRI + ATE + ELE + HAZ + STIG + RMORT + AR) (NW^x)$$

SD = Damages due surface owner at t^o or in stages of oil and gas development.

PV = Present value of surface estate in an undisturbed state before drilling.

W = Water, surface/subsurface contamination through production practices, spills and injection/disposal wells.

RW = Reduction in water supplies or quantity through dropping water table.

S = Soil (same as above).

A = Air—pollution/dust/odors/smells, etc.

N = Noise—compressors, pumping units, well servicing operation, daily vehicular traffic.

SW = Solid waste—some operators dispose of solid wastes inappropriately at well sites and pits.

V = Visual—changes in the landscape and natural environment.

RLA = Reduction in usable land area (value).

RHBV = Reduction in highest and best use of total parcel of land potential.

PVRI = Present value in future agricultural income as a result of reduced usable land area caused by well site, roads, rights-of-way, etc.

ATE = Additional title encumbrances to the property:

- Mineral leases
- Oil and gas transmission pipeline easements
- Electric utility easements
- Access road easements or rights

ELE = Environmental law exposure to landowner

HAZ = Personal or livestock health hazards, fire, chemical, accidents, spills, etc.

STIG = Reduced property value due to stigma.

RMORT = Reduced property value due to reduced mortgageability.

AR = Aesthetics and/or privacy.

NW^x = Number of wells factor that will be drilled or could be drilled in the future on the subject property (spacing factor). Figure 1 indicates one well drilled, the initial lease allows multiple wells to be drilled (depending on depth) every 10, 40, 80, or 160 acres.

* This equation represents theoretical factors that should be considered by appraisers. It is, however, no substitute or replacement for the professional judgment as to the market value impact on a subject property.

TABLE 2 Possible Federal Environmental Law Implications to Surface Owner/Tenants Because of Oil and Gas Production Drilling Operations

Resource Conservation and Recovery Act (RCRA, 1976) (42 U.S.C. ff 6901-6992k)

Solid Waste Disposal Act (SWDA, 1965)

Comprehensive Environmental Response, Compensation and Liability Act (CERCLA, 1980) (Superfund Act). (42 U.S.C. ff 9601-9675)

Emergency Planning and Community Right to Know Act (EPCRA, 1986) (42 U.S.C. ff 11001-11050)

Clean Water Act (CWA, 1972) (33 U.S.C. ff 1251-1387)

1. National Pollutant Discharge Elimination System (NPDES)—Point Discharge Permits
2. Spill Prevention Control and Countermeasure plans (SPCC)
3. Wetlands U.S. Army Corps of Engineers Section 404 Permit Process for discharge fill or dredged materials (Alvayay Baen).

Federal Water Pollution Control Act (1948)

Safe Drinking Water Act (SDWA, 1974) (42 U.S.C. ff 300f-300j-26)

Oil Pollution Control Act of 1990 (OPA-90) (33 U.S.C. ff 2701-2761)

Toxic Substances Control Act (TSCA, 1976) (15 U.S.C. ff 2601-2671)

Occupational Safety and Health Act (OSHA) (29 U.S.C. ff 651 et. seq.)

Endangered Species Act (ESA, 1988) (16 U.S.C. ff 1531-1544)

National Historic Preservation Act (NHPA) (16 U.S.C. ff 470-470-v-6)

Migratory Bird Treaty Act (MBTA) (16 U.S.C. ff 703-711)

Hazardous Material Transportation Act (HMTA, 1990) (49 U.S.C. ff 1801-1813)

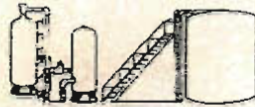
Department of Transportation (DOT) Gas Transmission Pipeline Regulations

8. J. Fambrough, "A Thin Layer of Rights," *Tierra Grande—Texas Real Estate Research Center* (1983): 4-6.

9. *Ibid.*, 7.

10. Butler and Binion, Attorneys at Law, *Environmental Law Simplified: A Practical Guide for Oil and Gas Operations* (Tulsa, Okla.: Penn Well Books, 1993)

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baen@unt.edu



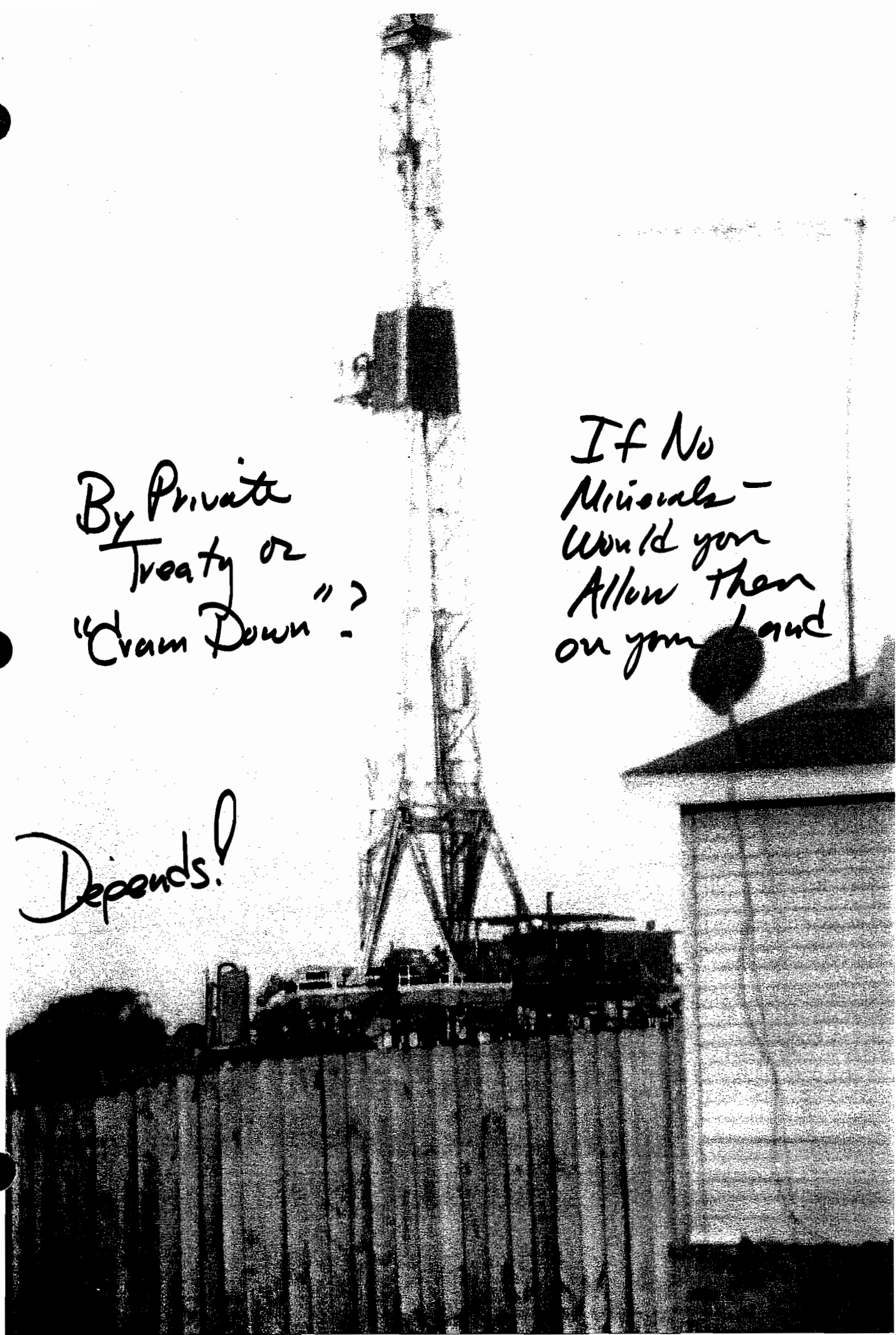
32

Alternative Uses of Land and Oil and Gas Equipment / Drill-sites
Happy 2006
J. S. Baen 12-31-06

By Private
Treaty or
"Crash Down"?

If No
Missiles -
Would you
Allow them
on your land

Depends!



3. Royalty Payment IRS Taxes:

Yes, these payments are taxable every year on April 15th by the IRS and there are few expenses or deductions to reduce or avoid paying the tax man.

Question: How can I minimize these taxes? Now you need a CPA!

- 1) Depletion Allowance: A small portion of the income is excluded from taxation.
- 2) Your annual royalty income Statement: The statement will be sent to you and the IRS at the end of the year by the oil company but is more income than you actually received. Danger! – Most oil companies send a gross income statement before legitimate expenses (you did not receive this amount of money!)

Question: How can I reduce these taxes? Keep every check stub, and every monthly report which is called a “check and well/lease detail statement”. A summary of real income is generally never sent to help you with your annual IRS return. Common deductible expenses include, but are not limited to, the following which are found in the monthly statements/checks.

- 1) State severance taxes
- 2) Marketing changes (rip off to us)
- 3) Compressor charges
- 4) Pipeline/Transportation charges
- 5) Other exotic charges (there are many)

Very Few Deductions!

(Only your initialed lease document will determine if you owe these expenses, but quite frankly, are a necessary and generally shared expenses or the charges will be” hidden” somewhere else or in some other form. Oil companies generally get paid on the same basis as you)

Deduct, Keep Track of Charges, Taxes, ALL V. your Expenses. Compare Very Widely EOY

April 1 is April Fools' Day.

April 15 is tax day.

For too many investors,

there's not much difference.

10

TAX PLANNING AND DETAILED FINANCIAL ANALYSIS

In the days of the Indians there were no taxes—no debts—and the women did all the work. The white man thought he could improve on this system.

Death and taxes will always be with us; but there is a difference . . . death cannot get any worse.

Hugo H. Lowenstam

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Nov 04 37
Baen
Spring 05 Padden

TAX ADVISORY

By John S. Baen

EVER-CHANGING TAX LAWS MAKE LONG-TERM TAX PLANNING A JOKE

As the Congress and President Clinton wrangle over trying to balance their budgets within seven years, the rest of us are required to balance our after-tax commercial real estate budgets *every year*. Currently, there is a great deal of anxiety within the investment community about various tax proposals that are being debated and which most likely will be tied to next year's operating "stop-gap" budget of the government.

This week I have been reviewing a pile of income-producing property proformas that contain from five- to 15-year projections of after-tax cash flows (ATCF) for various classes of investments that include, but are not limited to, apartments, retail centers, warehouses and office buildings currently for sale. A few of the more sophisticated and bold offerings even go so far as to project a resale price and assumed capital gains tax rates that will be due beyond the year 2000. All of the deals include appropriate disclaimers about future income, expenses and projected resale prices. But please give me a break: Do we have any sound business reasons to project after-tax anything out five years into the great unknown?

At this point in time it appears that an increased tax credit for our dependent children and more importantly, a reduced capital gains tax break (incentive) will be the extent of the immediate tax law changes. A reduced capital gains tax could spur both a significant number of sales from owners taking advantage of their significant appreciation over the past three years as well as a rush of new investors (mulletts) who will believe attractive capital gains tax rates will also be there at the end of their holding period.

Of major concern to all of us should be the extremely high "tax change risk" to property owners over the next seven years because of many variables beyond our control when considering the stated target of a balanced budget. Horrifying U.S. government budget variables that could change significantly and ultimately cause higher income taxes for commercial property investors if "budget cutting" and "government downsizing" fail are as follows:

- An increase in T-bill and T-bond rates

would wildly blow the proposed budgets:

- A recession could reduce taxes paid into the government, and
- An unforeseen requirement for government expenditures beyond the budget could occur (Bosnia, etc., etc.).

Tax-change risk has always been and will continue to be a very real factor for the long-term nature of real estate investments. Take for example long-term capital gains tax rates that have varied over the past 20 years from 40% of gain taxed at ordinary rates to a flat 28%. Depreciation of real estate for tax purposes has, during this same period, varied from 18 years, 19 years, 27.5 years and 31.5 years to the current 39 years.

While we may joke that frequent changes are orchestrated by Congress and the accountants to maintain full employment of the country's CPAs, it is really hard to analyze a prospective real estate investment based on the "snapshot" of the current tax law, IRS code and overcharging tax rulings. Take for example the massive and frequent changes that occurred during the 1980s. The following list of 1980s tax law changes, compiled by the Roulac Group, is offered to jar your memory as to just how much of a moving target our tax-rate risk really is:

- **Economic Recovery Tax Act of 1981:** reduced depreciation period; cut capital gains tax; provided investment credits for certain rehab projects.
- **Tax Equity and Fiscal Responsibility Act of 1982:** made technical changes; hearings on bill revealed opposition to 1981 tax act's largess.
- **Tax Reform Act of 1984:** effectively eliminated deduction for interest accrued but unpaid; eliminated tax-deferred exchanges for partnerships; raised interest rate caps for seller-financing; imposed restrictions on industrial development bonds; allowed states to issue mortgage credit certificates; extended general mortgage revenue bond program.
- **Tax Reform Act of 1986:** Cut individual tax rates: eliminated favorable

capital gains rates; extended depreciation timetable; reduced writeoffs from investment losses; created real estate mortgage investment conduits (REMICs).

- **Revenue Act of 1987:** Limited offsetting of passive incomes and losses: taxed publicly traded RELP income to tax-exempts as UBI; taxed dealers immediately on gain under installment sale; limited income deferral under long-term contracts.

So here we are on the eve of more sweeping tax change discussions while sitting like ducks in long-term real estate investments and actually seeking to increase our portfolios! What numbers are we as "sophisticated" investors to use in years two, three, four or further into the future in regard to tax rates? I for one am concerned about the proposed flat tax and its potential effects on the resale price of cash-flowing real estate. I happen to think it would be a lot like an enema for the country—uncomfortable, but "healthy" for the patient. It's the transition that worries me.

I would suggest the following prescription for those looking into the future of their current and proposed after-tax portfolios:

- Write your congressman and demand that with the balanced budget within seven years, they pledge to *not raise taxes* on property investment incomes or gains during that same period. They can reduce our taxes all they want to.
- Consider the long-term tax benefits of property ownership and income shelter as "icing on the cake" and not the cake. Invest only in economically viable deals that without current tax law advantages will still work—easy to say, but very hard to do.

Remember the seven-year itch concept of marriage during the 1970s? Well, the closer we get to year seven of a balanced budget without serious spending cuts, the more likely our recovering real estate cash flows and equities will be tempting to the tax man. They, the government, are moving marauders and we are stationary targets.

Periscopes up! Long-term tax planning is a joke. ■

John S. Baen, Ph.D. is an associate professor of real estate in the Department of Finance, Insurance, Real Estate and Law at the University of North Texas.

4. Texas State Severance Taxes:

No options here, everyone pays and your check always has this tax taken out first!

Texas is a very wealthy state and has no state income taxes due to our blessings of oil and gas. A visit by the Penn State Team in my office should lead to Pennsylvania following

the Texas model. They pay no severance taxes! Our Texas \$8 billion surplus (California is broke) is due to the following taxes collected at the well head on every drop and cubic foot of natural gas.

Severance taxes:

- 1) Oil = 7.5% on every barrel produced at market value. That is \$9.75 per barrel of oil at \$130/barrel.
- 2) Natural gas = 5.6% or 50¢/1000 ft³ (mcf) @ \$9.00.

Question: How do I know if I am getting paid fairly or how much oil and gas is actually being sold under my land?

Trust me, you are not getting cheated and I will explain this at the seminar.

3. Local Ad Valorem Taxes and Royalty: — Income for year

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Oil and gas rights and their values in Texas are NOT taxable as part of your real estate until oil and gas is produced and sold. One of the biggest little "dirty" secrets in the oil and gas boom is that you will get an end of the year tax statement from the appraisal district on the present accessed/market value of your royalty income stream..just like you do on your house. A good idea is to save 5-8% of your monthly income to pay your city and school taxes in December! Oil companies pay their part, but never yours!

There is much confusion on this for several reasons:

- 1) The tax offices are running months behind due to the 8,600 wells drilled in North Texas and delays in information, reporting and royalty payments held in suspension on many wells. State and local data nightmare!
- 2) Outside contracting firms handle your oil and gas valuation and tax statements from far-away places (like Austin).
- 3) The appeal process is cumbersome, time consuming and quite often the information provided on your statement is wrong. Not all wells show up in the data, but local taxes will eventually be due and payable or your rights can be sold on the court house steps.
- 4) The Texas law and valuation model on royalty/mineral taxes is complicated, but in my opinion, friendly to the oil companies and royalty owners, and is much less than "true market value".

— Oil Companies hire Exports = Free Ride
 — State is Friendly to Roy + Owners "Costs" etc.

DENTON CENTRAL APPRAISAL DISTRICT
 P. O. BOX 2816
 DENTON, TEXAS 76202-2816
 METRO: (972) 434-2602
 PHONE: (940) 349-3950

50

Good for Roy + OIG Co.

Dear Property Owner:

We have appraised your property for the tax year 2004 based on an appraisal date of January 1 of this year. Your estimated taxes are calculated using the previous year's tax rates and the taxable value for this year. This is the amount you would pay if the governing body of each jurisdiction were to adopt the same tax rate as last year. "The Texas legislature does not set the amount of your local taxes. Your property tax burden is decided by your locally elected officials, and all inquiries concerning your taxes should be directed to those officials." The governing body of each jurisdiction decides whether taxes on the property will increase, and the appraisal district only determines the property value. The property is described adjacent to your mailing address. If you are 65 or older and you received the school tax exemption on your home, your school taxes for this year will not be higher than when you received the exemption, unless you have improved your property (by adding rooms, other buildings, swimming pool, etc.)

State Comptroller Valuation OIG +

Account Number: 061-1-91-1000

Property Description:

W#4 91190738
 DEVON ENERGY O/NEWARK, EAST (BARNETT
 AB1034& 207 /PERRY W&BORDEN F B&FARRI
 .039486 R RRC# 190738

[Redacted] 6092-9321

40 Ac =

Royalty %

04106-19148

Property Values

Tax Year	Land Value Market	Productivity	Improvement Value	Personal Property Value	Total Appraised Value	Limited Appraised Value *
2003	30,400				30,400	
2004	42,540				42,540	

Taxing Units	Last Year Taxable Value	Exemptions	PROPOSED THIS YEAR		
			Taxable Value	Last Year Tax Rate	Estimated Taxes
DENTON COUNTY	30,400	<i>Last Turn</i>	42,540	.247170	105.15
NORTHWEST ISD	30,400		42,540	1.834810	780.53
CITY OF JUSTIN	16,810		23,530	.429690	101.11

42,540 / .039486 = Roy = 1,077,343 @ 100% Val

If you disagree with the proposed value or any other action the appraisal district may have taken on your property contact this office at the above telephone numbers. If you are unable to resolve the situation with the appraisal district, you have the right to file a protest and receive a hearing with the Appraisal Review Board (ARB). The form below is provided for your convenience. To appeal, your protest must be in writing and returned by:

MAY 20, 2004.

Sincerely,
 CHIEF APPRAISER

THE ARB WILL HEAR APPEALS 9:00 AM - 5:00 PM ON JUNE 9 AND JUNE 10, 2004 AT THE CAD OFFICE 3911 MORSE STREET, DENTON, TEXAS
 LAST DATE TO FILE PROTEST: MAY 20, 2004

Notice of Protest

061-1-91-190738-000-R-006251

DENTON CENTRAL APPRAISAL DISTRICT
 P. O. BOX 2816
 DENTON, TEXAS 76202-2816
 METRO: (972) 434-2602
 PHONE: (940) 349-3950

DEVON ENERGY O/NEWARK, EAST (BARNETT
 AB1034& 207 /PERRY W&BORDEN F B&FARRI
 .039486 R RRC# 190738

2003 VALUE: 30,400
 2004 VALUE: 42,540

If you want the Appraisal Review Board (ARB) to hear and decide your case, you must file this form with the ARB by the date indicated in the shaded box above (A). Place an X in the box(es) to indicate the reason(s):

- Value is over market value
- Property should not be taxed in this appraisal district
- Property should not be taxed in the following taxing unit: _____
- Failure to send required notice
- Other: _____
- Yes No I want the ARB to send me a copy of its hearing procedures
- Property description is incorrect
- Exemption was denied, modified, or cancelled
- Value is unequal compared with other properties
- Change in use of land appraised as ag-use, open space or timber land
- Ag-use open-space or other special valuation was denied, modified, or cancelled
- Owner's name is incorrect
- Owner's opinion of value (optional) _____

Signature

Date

Your Daytime Phone Number

Your Evening Phone Number or Email Address

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6. Pipeline Easements and Damage Payments:

All income is reportable to the IRS but not all income is taxable the year received if you have good representation at the time an easement is signed and also have a good professional and qualified CPA and appraiser. The actual damage income to the value of the land and remainder of your land can be deferred until the land is sold, similar to the well-site damages. I recommend two checks: one for the granting of the easement (taxable) and one for damages, marked damages.

Right of Way ⁵³

Volume 55 Number 2

MARCH/APRIL 2008

example may be useful.


Value of Whole Property: (5 acres @ \$50/sq. ft.)	\$10,890,000
Value of Part Taken: (1 acre easement @ \$50/sq. ft. x 40%)	\$871,200
Value of the Remainder as Part of the Whole: (\$10,890,000 less \$871,200)	\$10,018,800
Value of the Remainder After the Take ((5 acres) [encumbered with 1 acre] @ \$45/sq. ft.)	\$9,801,000
Damages	\$217,800
Benefits	\$100,000
Net Damages	\$117,800
Total Just Compensation	\$989,000

5. Add the ATF value for each value zone together to equal the total ATF value of the transportation corridor.

Standard Width for Pipeline Easement

As part of the appraisal process, I often include surveys of private companies and public agencies. The information I recently obtained from one survey is as follows:

Survey of Non-Exclusive Pipeline Easements

	Width of Easement Required	% of Fee Typically Paid <i>\$/Acre of R/W</i>
Gas Company	20 foot	25% - 50%
Transportation Agency	10 foot	25% - 50%
Railroad Company	10-12 foot	100%
Pipeline Company	5 foot	50% (30% for 10-foot)
County Sewer District	10 foot	25%

Valuation of a New Pipeline as Part of the Existing Corridor

As described previously, a corridor is a long, narrow strip of land or real property rights for which the highest and best use is to provide an economic benefit by connecting the end points and sometimes serving intermediate points along the way.

There are various methods that an appraiser uses to appraise corridors. The most common include the Across-the-Fence (ATF), Sales Comparison, Cost Approach, Net Liquidation Value and Going-Concern Value.

Since comparable sales of corridors are seldom available, the most common method is the ATF methodology, which is first found in the Interstate Commerce Commission (ICC) manual entitled "Instructions Pertaining To Land Appraisals" dated April 1, 1918.

The five steps to using the ATF method are as follows:

1. Define the value zone of the corridor based on zoning and uses of adjacent property

Search for comparable land sales for each of the value zones

This survey shows that there is no acceptable standard width for a pipeline easement, as it is usually determined through negotiations. Still, it may be helpful to understand the railroad's thought process in setting their standard 10-foot wide widths for pipeline easements.

Initially, railroads arrived at the easement width by rounding up the diameter of the pipe to the nearest foot. Then they added two feet on both sides as a buffer to ensure the pipeline's integrity and security, knowing that no other pipeline company would be interested in placing their pipeline less than two feet from the existing one. As such, the total width of the pipeline, assuming a one-foot or less diameter pipeline, would be five feet (1 foot pipe + 2 feet on both sides = 5 feet).

Since then, the railroads have realized that pipeline users have been getting free access onto their corridors to service and maintain their pipelines. The railroads reasoned that since automobile lanes on public roads are typically 11 to 12-feet wide, and given the width of a standard truck, a 10 to 12-foot width requirement to access the pipeline would seem reasonable. It is also reasonable to assume that the additional width of the easement dedicated solely for access use only should be charged at a lower rate. I call these areas the "arterial zone" and the "fringe zone."

6/2/2008

Estate or Sale of your Minerals 54

All income is reportable to the IRS but not all income is taxable the year received if you have good representation at the time an easement is signed and also have a good professional and qualified CPA and appraiser. The actual damage income to the value of the land and remainder of your land can be deferred until the land is sold, similar to the well-site damages. I recommend two checks: one for the granting of the easement (taxable) and one for damages, marked damages.

7. **Estate Taxes on Mineral Rights to the IRS:**

Danger! You are likely unaware that you have a Texas lotto ticket that you have won which has an income stream from **Royalty** that has a **market value** of 50-60 months of income plus potential **Mineral Right** values worth much more (all known and unknown oil and gas producing zones). Without estate planning at your death, the present value of your mineral estate will be values by the IRS and will be added to your estate and taxed at 35-55% on monies you or your heirs have not yet received! If you are blessed with \$10,000/month royalty checks and you are over the estate exclusion limits after considering the value of all your other assets, (house, business, cash, collectibles, stocks, bonds, etc) your estate could easily owe an additional \$200,000-\$300,000 to the IRS because of the value of your royalty and minerals rights.

Question: How can I reduce these estate taxes and liabilities, but yet still get the money to spend in my life?

- 1) Time your death carefully! 55% will be the new tax after Bush's tax relief expires and greatly depends on year of your death and the exclusion amounts for any given year through 2011.
- 2) Deed your minerals to a trust or family limited partnership.

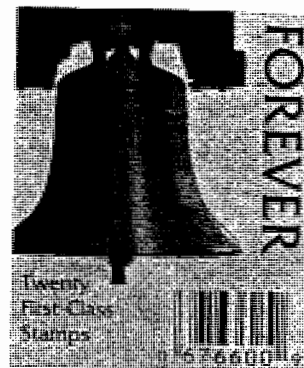
The "BEST" of the two options are topics of huge discussions between CPA's, estate planners, lawyers, professors and owners! Oil and gas income are blessings, but taxes will be paid! Dividing your land into two(2) estates (surface and minerals) is a very wise decision for many reasons and only requires a mineral deed (\$350-\$500/deed) and a valuation of both estates to establish an IRS basis or remaining values.

J.S.Baen Ph.D. is a professor of business at University of North Texas and offers free articles and newspapers on the Barnett Shale and Oil and Gas topics at: www.coba.unt.edu/firel/baen

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About.com Investing for Beginners

Estate Taxes



-55

What is the current estate tax rate and limits?

By Joshua Kennon, About.com

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P.V. of Your Min? Roy? 45% > 2Mil.

Question: What is the current estate tax rate and limits?

The estate tax, or inheritance tax as it is sometimes known, has long been regarded by its critics as an onerous example of socialistic wealth redistribution. Supporters argue that it prevents families from amassing fortunes and creating an American aristocracy like those found in the older European countries. Regardless of your viewpoint on the estate tax, you will have to deal with it if you are fortune enough to have amassed wealth. So, what are the current estate tax rate and limits?

Answer: The answer is complicated. Prior to the estate tax reduction, estates were taxed at rates beginning at 37 percent and going as high as 55 percent. Generally, the estate tax only applied to assets exceeding \$1 million.

Included in President Bush's tax cuts, however, was a provision to phase out the estate tax rate over the next few years. For families with large real estate holdings such as farms that have been held for generations or small businesses, this stroke of good luck will ensure that assets are passed onto posterity without Uncle Sam taking a majority of the bounty. This would be accomplished in two ways: 1.) by raising the amount exempt from the estate tax rate, and 2.) lowering the estate tax rate itself.

According to the IRS literature, an estate tax filing need only be made if the value of an estate exceeds the following amounts:

- 2005: First \$1,500,000 in assets
- 2006-2008: First \$2,000,000 in assets
- 2009: First \$3,500,000 in assets

→ 2,000,000 2008 House, Land \$, Mineral,
→ 3,500,000 2009
2010 = zero + 45% Over

In addition, the maximum estate tax rate applied to the amounts in excess of these figures are as follows:

- 2005: 47 percent
- 2006: 46 percent
- 2007- 2009: 45 percent

2011 = 55% Over 1.5 Million ±

In 2010, the estate tax rate drops to zero percent; if you die in that year, your heirs would not pay taxes, even if you passed on \$20 billion!

One caveat: Congress ensured that the law sunsets in 2011. That is, on January 1st, 2011, the estate tax rate will return to its pre-Bush levels. Practically speaking, this means the difference between dying on December 31, 2010 and January 1, 2011 can mean 55 percent of your estate if you are person of means!

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as Morning News

Dallas, Texas, Wednesday, June 11, 2008

dallasnews.com

56

*Exxon, Conoco Devon,
EOG, ENCANVA etc
etc*

ENERGY COMPANIES

FW firm to pay \$4.2B for Hunt Petroleum

XTO acquisition fuels growth strategy, fans trust fund fight

the legacy of oil tycoon H.L. Hunt. Hunt Petroleum becomes a jewel in XTO's ravenous, \$8.5 billion acquisition

used with Hunt Oil — is owned by the family trusts of Margaret Hunt Hill and Hassie Hunt, two of the children of H.L. Hunt.

Al Hill III, Margaret's grandson, has sued his father, Al Hill Jr., several other family members and advisers over their plan to sell Hunt Petroleum and recon-

ENERGY

XTO buys Hunt for \$4.2 billion

The company says its gas and oil production is expected to increase 30%.

By JIM FUQUAY
jfuquay@star-telegram.com

XTO Energy said Tuesday that it will pay \$4.2 billion for Hunt Petroleum Corp. of Dallas, which dates to 1925 when legendary wildcatter H.L. Hunt founded his first oil company.

About 70 percent of the Hunt property is in East Texas and Louisiana, already big areas of operation for Fort Worth-based XTO. Most of the rest is along the Gulf Coast, onshore and off, with the remainder in Europe's North Sea. Production is about 80 percent natural gas — XTO's strong suit — and 20 percent oil.

XTO Chairman Bob Simpson called the transaction "a history-making deal for XTO." It's the company's largest acquisition ever and pushes its acquisitions this year to about \$8.5 billion.

And Simpson told investors that he will probably make further acquisitions this year worth between \$1 billion and \$1.5 billion. He said that even with the sharp rise in petroleum prices in the past year, "this will be a year of excellent opportunities" to buy assets that will likely be more expensive in the future.

XTO also boosted its growth forecast for the rest of the year. XTO officials said its production of natural gas and crude oil is expected to

More on XTO on 3C

See HUNT Page 8A

HL Hunt!
INTERNET

*If No Tax Plan
45%*

*2,000,000,000
2000 Million
to IRS!*

ELECTRICITY

Why Deed off Minerals Estate Plan Water et. 58

- 1) Mistakes in Contracts,
Deeds, when Selling Land
- 2) Protect the Minerals
 - a) Mgt & Signant
 - b) Splitter Title
- 3) Land / Surface Owner
Estate Tension
 - Litigation / Damage
 - Property Taxes
- 5) Partition = Family Pol. A.
 - Minerals are Forever
- 4) LLC LLP FLP
Trust - Trust
 - After 1st 2nd Generation
who is BOSS? 1
in Hostage.

Fam. Lmt. Partnership?
Trust?
S Corp?

100 GP
99% L2P or LLC
in Trust? 59

MINERAL DEED

TARRANT COUNTY TEXAS

2001 DEC 27

THE STATE OF TEXAS)

COUNTY OF TARRANT)

KNOW ALL MEN BY THESE PRESENTS

BY _____

That I, _____, a widow, whose address is _____ 1046, Fort Worth, Texas, for and in consideration of the sum of One and No/100 Dollar (\$1.00), to me cash in hand paid by _____ S, the receipt of which is hereby acknowledged, have granted, given and conveyed, and by these presents do grant, give and convey unto _____, whose residence address is 2004 East Peters Colony, _____ Texas, the following, to-wit:

- (i) 0.0520421 interest in and to all the oil, gas and other minerals on, in and under, and that may be produced from First Tract described in Exhibit "A" attached hereto; and,
- (ii) 0.0693895 interest in and to all the oil, gas and other minerals on, in and under, and that may be produced from Second Tract and Third Tract described in Exhibit "A" attached hereto.

Together with the right of ingress and egress at all times for the purpose of mining, drilling and exploring said lands for oil and other minerals and producing, storing, treating, marketing and removing same therefrom.

The herein described tracts of land are now under, embraced in, and covered by an oil and gas mineral lease by and between Larry J. Langston, et al, Lessor, and Argali Resources, Lessee, dated August 29, 2001, and shown recorded in the Real Property Records of Tarrant County and Denton County, State of Texas; and it is understood and agreed that this grant, gift and conveyance is subject to said lease but covers and includes a said 0.0520421 part of the royalty on oil, gas and other minerals due and to be paid under the terms of said lease insofar as it covers the First Tract set forth and described in Exhibit "A" attached hereto, and the 0.0693895 part of the royalty on oil, gas and other minerals due and to be paid under the terms of said lease insofar as it covers the Second Tract and Third Tract set forth and described in Exhibit "A" attached hereto.

To have and to hold the above described property, together with all and singular the rights and appurtenances thereto in anywise belonging or in anywise appertaining unto the said _____ S, her heirs, successors, legal representatives and

Tab / Exhibit 6 Discussions and Definitions of Market Value, Price, Costs, and Other Types of Value

For the year 2001, an appraiser's report and conclusion have been changed from an "estimated market value" to "an opinion of market value."

DEFINITION OF MARKET VALUE (2001)

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- buyer and seller are typically motivated;
- both parties are well informed or well advised, and each acting in what he considers his own best interest;
- a reasonable time is allowed for exposure in the open market;
- payment is made in terms of cash in u.s. dollars or in terms of financial arrangements comparable thereto; and
- the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Other definitions and concepts of value:

- Estate "Value" "3X" IRS.*
- Market Value (as vacant or improved)
 - Market Value, Price, Cost
 - Use Value or Value In Use
 - Investment Value
 - Going Concern Value
 - Insurable Value
 - Liquidation Value
 - Assessed Value

- Purpose*
- ① *Estate Planning Valuation*
 - ② *Sale @ Mkt Value*
 - ③ *Condemnation*
 - ④ *Insurance*
 - ⑤ *Forced Sale etc etc.*

Tab / Exhibit 8 Highest and Best Use of the Subsurface Mineral Estate

The production of oil and gas is Highest and Best Use of the subsurface estate of the subject mineral and royalty estates, which may be in conflict with the highest and best use and/or ordinances of the surface estate use which is zoned as found in Tab 3.

Highest and Best Use is defined as:

Highest and Best Use¹ – The reasonably probably and legal use of mineral rights to land, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability.

For highest and best use of both mineral and royalty estates, a use must meet four criteria. The criteria are that the highest and best use must be:

1. Physically possible
2. Legally permissible (extraordinary and hypothetical assumption)
3. Financially feasible
4. Maximally productive

All criteria for complete development of oil and gas rights are quite achievable. There are no conflicts in regards to being legally permissible from the standpoint of Federal, State (Texas Railroad Commission/Oil and Gas Regulations/Permitting) or County of Denton Regulations. There are however some new and evolving local ordinances that may require special use or site-planning approvals prior to drilling some of the pad-sites. This appraisal assumes that all wells are drilled without delay (within 1 year) under the terms of the lease by the operator of record (Devon Oil and Gas Company) or the surface and/or mineral owners. Several wells have already been successfully drilled and completed on the subject property or on Gas Units which said minerals have been allocated. It is specifically assumed that three (3) drilling permits for the surface estate may be acquired from the City of Justin described on various plats found elsewhere in this report or that one (1) location will be used to fully develop those

Tab / Exhibit 9 Three (3) Approaches to Value and Other Valuation Techniques For Valuing Mineral Estates

There are three (3) approaches to be considered in valuing real estate and the various associated estates or components: market, income and replacement approaches to value. While the income approach to valuation of minerals and royalty estate is perhaps the most appropriate, there is very much a market and demand for the sale of mineral rights in Denton County although few sales are made public and absolute confidentially in the normal cause of business. Texas is a non-disclosure state and no details of minerals being sold are found in the public records.

→ more New.

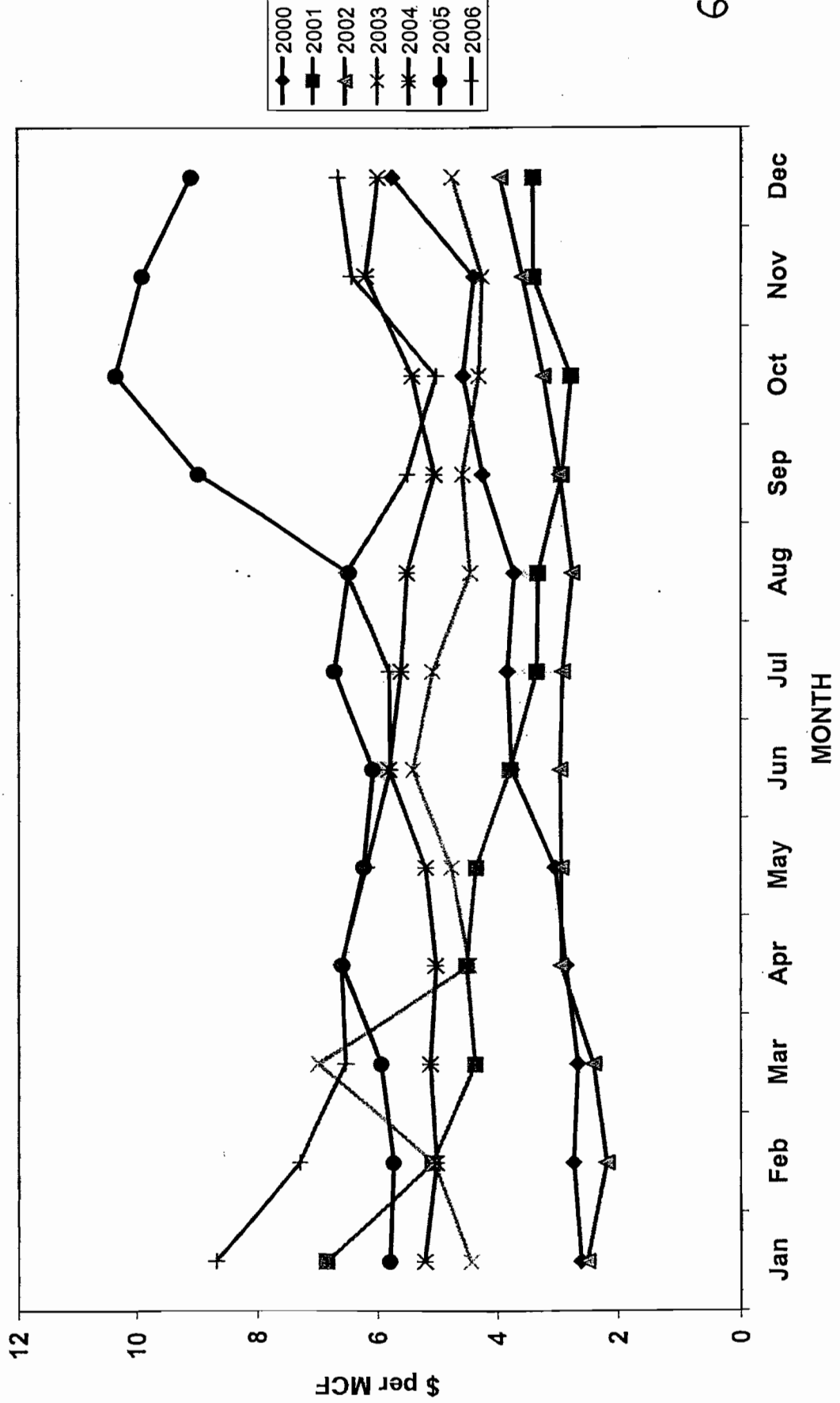
There are five (5) valuation approaches or indications of market value for mineral / royalty rights or interests in land located in areas having proven reserves and/or income from oil and gas production. (1988, Baen, Appraisal Journal, pp. 205-216)

VI Reducens
Cost Appra
IV Gross X
Net X

- I. Residual values or value by extraction of mineral rights from comparable sales
- II. Comparable sales of mineral and royalty rights by deeds or assignments
- III. Sale of undeveloped or underdeveloped reserves by oil and gas companies
- IV. The use of cash flow analysis of existing well performances, productivity, decline curves and allocation of values to producing and/or proven but non-producing mineral acres.
- V. The use of assessed values by local tax appraisal boards (Denton County) which follows state laws and utilizes a combination of methods I-IV while utilizing oil and gas reserve engineers and publicly available production reports and mineral sales.

Inefficient Market
Secrets.

2000 - 2006 U. S. Natural Gas Prices



65

67

drillinginfo

DrillingInfo One-Page Production Summary

This
ent
API#
Well#
Lease
Field
Lease
Operator
County
State
Location
Elevation
Date Spud
Date TD
Logs Run

Prod.	First Production	Most Recent Production	Cumulative (MCF & BBL)	Gravity (SG & API)	Gatherer
Oil	4/1/02	6/1/05	8,649	---	SUNOI
Gas	4/1/02	6/1/05	333,030	0.70	DEVGS

Most Recently Reported Monthly Production (12 Months)

Mo/Yr	Gas (MCF)				Oil (BBL)				Water (BW)	#Wells Flowing	#Wells Other	Avg Gas (MCF/D)	Avg Oil (BBL/D)	Avg W (BW/D)
	Produced	Sold	Used	Other	Produced	Sold	Other	Closing						
7/2004	4,755	4,660	0	95	86	173	0	82	---	---	---	153.39	2.77	---
8/2004	5,280	5,212	0	68	62	---	---	144	---	---	---	170.32	2.00	---
9/2004	4,652	4,565	0	87	79	---	---	223	---	---	---	155.07	2.63	---
10/2004	4,511	4,452	0	59	54	189	0	88	---	---	---	145.52	1.74	---
11/2004	4,731	4,625	0	106	96	---	---	184	---	---	---	157.70	3.20	---
12/2004	4,871	4,840	0	31	28	---	---	212	---	---	---	157.13	0.90	---
1/2005	5,093	0	4,951	142	129	199	0	142	---	---	---	164.29	4.16	---
2/2005	4,522	0	4,450	72	65	---	---	207	---	---	---	161.50	2.32	---
3/2005	5,071	4,995	0	76	69	192	0	84	---	---	---	163.58	2.23	---
4/2005	4,565	---	---	---	50	---	---	134	---	---	---	152.17	1.67	---
5/2005	4,611	4,558	0	53	48	---	---	182	---	---	---	148.74	1.55	---
6/2005	4,844	4,776	0	68	62	---	---	244	---	---	---	161.47	2.07	---
Totals	57,506	42,683	9,401	857	828	753	0	---	---	---	---	---	---	---

Annual Production

Year	Gas (MCF)	Oil (BBL)	Water (BW)	#Wells Flowing	#Wells Other	Avg Gas (MCF/D)	Avg Oil (BBL/D)	Avg Wtr (BW/D)	Annual Dec. Gas	Annual Dec. Oil
2002	126,891	4,395	---	---	---	463.78	16.06	---	---	---
2003	107,443	2,623	---	---	---	294.53	7.19	---	15.3%	40.3%
2004	69,990	1,208	---	---	---	191.86	3.31	---	34.9%	53.9%
2005	28,706	423	---	---	---	157.38	2.32	---	59.0%	65.0%
Totals	333,030	8,649	---	---	---	---	---	---	---	---

[Back](#)

2002 Vertical Well @ 400

Figure 5: Baen's Barnett Productivity

Value of Minerals
 ↳ 1 Vertical Well on 40 Acres
 More than wells over 200 Ac Production 68
 120 = 200 Ac Sparring/Foster Turn

J.S. Baen and Associates
 John S. Baen, Ph.D.
 P.O. Box 310410
 Denton, Texas 76203

Oil and Gas Leasing
 Lease Negotiating
 Land/Well Planning
 Estate Planning/Mineral Valuation/Appraisal

Office: (940)565-3071
 Home: (940)567-3120
 Mobile: (940)507-0312
 E-mail: baen@unt.edu
 Fax: (940)565-4234

TABLE #
 Baen's Barnett Productivity / "Cash Flows"
 Oil and Gas Reserve and Cashflow Analysis

BASE:	N/A	DECLINES		ESCALATION			
		SER.TAX. O:	4.61%	GAS. YR1:	30%	PRICES:	EXPENSES:
YIELD		SER.TAX. G:	7.50%	GAS. YR2:	25%	GAS. YR2:	3.25%
LOCATION:	Denton	AD Value:	2.40%	GAS. YR3:	10%	GAS. YR3:	3.25%
STATE:	Texas	OP EXP/IMO:	\$1000	GAS. YR4:	10%	GAS. YR4:	3.25%
OPER:		# WELLS:	1	AFTER:	10%	AFTER:	3.25%
OWNER:		OIL \$/BO:	\$23.00				
SCPD:	1.0	OIL \$/MCF:	\$40.00	OIL YR2:	50%	OIL YR2:	3.25%
VCFD:	577	GAS \$/MCF:	\$4.00	OIL YR3:	25%	OIL YR3:	3.25%
WI:	0.000%	GAS \$/MCF:	\$10.00	OIL YR4:	10%	OIL YR4:	3.25%
W. NRI:	0.000%	CAP. EXP/S:	\$750,000	AFTER:	10%	AFTER:	3.25%
ORR1(%)	18.750%	DISC FACT:	10.00%				

YEAR	OIL		GAS		REVENUE		EXPENSES		NET INCOME		DISCOUNT C/FLOW		PRICES		
	BARRELS	NET(*)	DAILY AVG	GROSS	OIL	GAS	TAXES	LOE	ADVALTAX	NET C/FLOW	NET 10%	CUM 10%	CUM	OIL \$/O	GAS \$/CF
1	263	49	577	210,603	1,233	157,934	11,903	0	3,375	143,908	130,826	130,826	130,826	\$25.00	\$4.00
2	132	25	289	105,303	636	81,544	6,145	0	1,688	74,347	218,226	192,270	61,444	\$23.81	\$4.13
3	99	18	216	78,977	493	63,145	4,759	0	1,266	57,614	225,870	235,556	43,286	\$26.65	\$4.26
4	89	17	195	71,079	438	58,678	4,422	0	1,139	53,573	329,444	272,148	36,392	\$27.52	\$4.40
5	80	15	175	63,971	426	54,576	4,109	0	1,025	49,818	379,262	303,081	30,933	\$28.41	\$4.55
6	72	13	158	57,374	395	50,669	3,818	0	923	46,323	425,585	329,229	26,148	\$29.34	\$4.69
7	64	12	142	51,817	367	47,084	3,548	0	830	43,073	468,658	351,332	22,103	\$30.29	\$4.85
8	58	11	128	46,633	341	43,253	3,297	0	747	40,050	508,707	370,016	18,683	\$31.27	\$5.00
9	52	10	115	41,972	317	40,657	3,064	0	673	37,238	545,945	385,808	15,793	\$32.29	\$5.17
10	47	9	103	37,974	295	37,781	2,847	0	605	34,623	580,568	399,157	13,349	\$33.34	\$5.33
11	42	8	93	33,997	274	35,108	2,646	0	545	32,191	612,760	410,440	11,283	\$34.42	\$5.51
12	38	7	84	30,397	255	32,624	2,459	0	490	29,910	642,689	428,037	9,536	\$35.54	\$5.69
13	34	6	75	27,338	237	30,316	2,285	0	441	27,826	670,515	448,317	8,060	\$36.70	\$5.87
14	31	6	68	24,784	220	28,171	2,123	0	397	25,871	696,386	474,849	6,813	\$37.89	\$6.06
15	28	5	61	22,305	204	26,178	1,973	0	357	24,032	720,438	499,578	5,738	\$39.12	\$6.26
16	25	5	55	20,075	188	24,326	1,833	0	322	22,359	742,797	519,515	4,866	\$40.40	\$6.46
17	23	4	49	18,067	169	22,605	1,703	0	290	20,781	763,578	540,000	4,111	\$41.79	\$6.67
18	20	4	45	16,261	152	21,005	1,582	0	261	19,315	782,893	560,000	3,474	\$43.27	\$6.89
19	18	3	40	14,633	137	19,519	1,470	0	235	17,932	800,844	578,000	2,935	\$44.84	\$7.11
20	16	3	36	13,171	123	18,138	1,366	0	211	16,684	817,529	594,000	2,480	\$46.47	\$7.34
21	15	3	32	11,854	111	16,855	1,269	0	190	15,507	833,035	610,000	2,095	\$48.16	\$7.58
22	13	2	29	10,669	100	15,662	1,179	0	171	14,412	847,447	626,000	1,770	\$50.00	\$7.83
23	12	2	26	9,602	90	14,554	1,096	0	154	13,395	860,842	642,000	1,496	\$52.00	\$8.08
24	11	2	24	8,642	81	13,525	1,018	0	138	12,449	873,291	657,000	1,264	\$54.00	\$8.35
25	10	2	21	7,777	73	12,568	946	0	123	11,570	884,861	672,000	1,068	\$56.00	\$8.62
26	9	2	19	7,000	66	11,679	879	0	112	10,753	895,614	687,000	902	\$58.00	\$8.90
27	8	1	17	6,300	59	10,852	817	0	101	9,994	905,608	702,000	762	\$60.00	\$9.19
28	7	1	16	5,670	53	10,085	759	0	91	9,288	914,896	717,000	644	\$62.00	\$9.49
29	6	1	14	5,103	48	9,371	705	0	82	8,632	923,528	732,000	544	\$64.00	\$9.79
30	6	1	13	4,592	43	8,611	648	0	74	7,933	931,461	747,000	455	\$66.00	\$10.00
Total	1329	249	2916	1064344	199664	\$7,645	\$1,017,540	\$76,668	30	\$17,056	\$19,997,216	\$12,025,797	\$469,474	\$469,474	\$11,736/AC

*No future profits may be promised and productivity varies widely
 ** Projections only, based on "average" to "above average well"
 *** All wells are "different", perform "differently" and are unique
 **** Variables over time are significant and can alter results (gas prices, gas contracts, line pressure, BTU content and supply/demand for gas)



royalty management

69
P. O. Box 1520 Palestine, TX 75802 903-723-2922

Fax 903-723-2443 E-mail: info@jdmillc.com

April 28, 2005

JOHN SPENCER BAEN
PO BOX 310410
DENTON TX 76203-0410

NOW EVEN MORE MONEY OFFERED FOR MINERAL AND ROYALTY INTERESTS

JDAMI, one of Texas' largest oil and gas royalty purchasing companies, announces its new royalty valuation program designed to offer you even more money for your mineral or royalty interest. Please review the enclosed letter to see the terms and conditions of our offer to you.

If our offer is not the best offer that you have received for your mineral or royalty interest described in our enclosed letter, send us a copy of any legitimate written offer that you have received for your interest in the last two (2) months to give us the opportunity to beat that offer by up to an additional \$500, depending on the extent of your interest.

We make selling your mineral or royalty interest easy and convenient by identifying your interest, preparing the paperwork and paying you up front (subject to title verification and approval).

Please read the following documents for details regarding this offer.

Sincerely,
JDAMI, L.L.C.

James H. Davis

James H. Davis
JHD

ROYALTY CLEARINGHOUSE
Acquisition of Oil and Gas Properties

EXHIBIT A
July 29, 2004
Denton County, Texas

<u>Lease</u>	<u>Operator</u>	<u>Interest</u>	<u>Offer Amount</u>
CADDELL LESLIE W#1	BURLINGTON RES	0.006425	\$197.51
RIGGS J H GU W#5	DEVON ENERGY O	0.005145	\$2,331.00
MASSEY GEORGIA GAS UNIT	DEVON ENERGY O	0.005148	\$4,256.00
CADDELL LESLIE W#2	BURLINGTON RES	0.006425	\$2,975.00
RIGGS J H GU W#4	DEVON ENERGY O	0.005145	\$2,763.00
RIGGS J H GU W#6	DEVON ENERGY O	0.005145	\$4,115.00
RIGGS J H GU W#3	DEVON ENERGY O	0.005145	\$4,005.00
RIGGS J H GU W#2	DEVON ENERGY O	0.005145	\$3,434.00
CADDELL LESLIE W#3	BURLINGTON RES	0.006425	\$5,762.00
RIGGS J H GU W#1	DEVON ENERGY O	0.005145	\$6,084.00
MASSEY GEORGIA GAS UNIT	DEVON ENERGY O	0.005148	\$3,883.00
MASSEY GEORGIA GAS UNIT	DEVON ENERGY O	0.005148	\$9,648.00
MASSEY GEORGE GAS UNIT W	DEVON ENERGY O	0.005148	\$5,942.00
MASSEY GEORGIA GAS UNIT	DEVON ENERGY O	0.005148	\$6,461.00
MASSEY GEORGIA GAS UNIT	DEVON ENERGY O	0.005148	\$5,073.00
RIGGS J H GU W#7	DEVON ENERGY O	0.005145	\$4,634.00
Total Offer:			\$71,563.51

PLEASE CONTACT US TODAY:

- Call 1-800-877-5122 and ask for extension 202
- Email:
- Visit w
- Mail or

This offer may include
Clearinghouse's
production.

*Would give up all
New wells drilled in
all Unit/Leases and
all other zones*

lity

(TEAR HERE)

CONDITIONAL DRAFT

DATE: April 28, 2005

71
4

On drawee's approval and acceptance of title to the interest described herein, not later than 30 banking days after arrival of this draft at collecting bank.

TO THE ORDER OF: JOHN SPENCER BAEN

\$221,925.00

****** \$221,925.00*****DOLLARS**

This draft is drawn to pay for that certain Universal, County-Wide Sale, Conveyance and Assignment of Mineral and Royalty Interests, (the "Conveyance"), covering all of Grantor's royalty interests in DENTON County, Texas.

The drawer, payee(s), and endorser(s) hereof, and the Grantor of the Conveyance described hereon, do hereby appoint the collecting bank escrow agent to hold this draft for the time above specified, subject alone to acceptance of payment hereof by drawee, within said time, and without any right of the drawer, payee or endorsers hereof, or said Grantor, to recall or demand return of this draft prior to the expiration of the above specified time, and there shall be no liability whatsoever on the collecting bank for refusal to return the same prior to such expiration. In the event that the draft is not paid within said time, the collecting bank shall return the same to the forwarding bank, and no liability for payment otherwise shall be attached to any of the parties hereto.

TO: JDMI, L.L.C., DRAWEE
AT: EAST TEXAS NATIONAL BANK
POST OFFICE DRAWER 770 - PALESTINE, TX 75802-0770

NOTIFY: JDMI at (903) 723-2922 when draft arrives

James W. Davis
Drawer

Pay To The Order Of:
JOHN SPENCER BAEN
PO BOX 310410
DENTON TX 76203-0410

NOW EVEN MORE MONEY OFFERED FOR MINERAL AND ROYALTY INTERESTS

22

JDMI, one of Texas' largest oil and gas royalty purchasing companies, announces its new royalty valuation program designed to offer you even more money for your mineral or royalty interest. Please review the enclosed letter to see the terms and conditions of our offer to you.

If our offer is not the best offer that you have received for your mineral or royalty interest described in our enclosed letter, send us a copy of any legitimate written offer that you have received for your interest in the last two (2) months to give us the opportunity to beat that offer by up to an additional \$500, depending on the extent of your interest.

We make selling your mineral or royalty interest easy and convenient by identifying your interest, preparing the paperwork and paying you up front (subject to title verification and approval).

Please read the following documents for details regarding this offer.

Sincerely,
JDMI, L.L.C.

James H. Davis

James H. Davis

4.4 X Months

31 Acres @ 6500/Ac

Min?
Roy?

All depths

Q?

(TEAR HERE)

CONDITIONAL DRAFT

DATE: January 5, 2004

On drawee's approval and acceptance of title to the interest described herein, not later than 30 banking days after arrival of this draft at collecting bank.

PAY TO THE ORDER OF: JOHN SPENCER BAEN
***** \$188,805.00 ***** DOLLARS

42000/year

\$188,805.00

This draft is drawn to pay for that certain Universal, County-Wide Sale, Conveyance and Assignment of Mineral and Royalty Interests, (the "Conveyance"), covering all of Grantor's royalty interests in DENTON/WISE County, Texas.

The drawer, payee(s), and endorser(s) hereof, and the Grantor of the Conveyance described hereon, do hereby appoint the collecting bank escrow agent to hold this draft for the time above specified, subject alone to acceptance of payment hereof by drawee, within said time, and without any right of the drawer, payee or endorser hereof, or said Grantor, to recall or demand return of this draft prior to the expiration of the above specified time, and there shall be no liability whatsoever on the collecting bank for refusal to return the same prior to such expiration. In the event that the draft is not paid within said time, the collecting bank shall return the same to the forwarding bank, and no liability for payment otherwise shall be attached to any of the parties hereto.

TO: JDMI, L.L.C., DRAWEE
AT: EAST TEXAS NATIONAL BANK
POST OFFICE DRAWER 770 - PALESTINE, TX 75802-0770

NOTIFY: JDMI at (903) 723-2922 when draft arrives

James H. Davis

Drawer

Pay To The Order Of:

JOHN SPENCER BAEN
PO BOX 310410
DENTON TX 76203

25,000 + PV 10 73

AREA LEASING NEWS

East Fort Worth Group Negotiates Record Lease with \$25,000/acre Bonus

As was first reported in an article on Fort Worth's East Side in the March 26, 2007 issue of *Fort Worth Weekly*, a neighborhood group calling itself **Fort Worth Eastsiders (Greater Meadowbrook Mineral Leasing Task Force)** confirmed to *Fort Worth Star-Telegram* business editor Scott Nishimura that the huge neighborhood bloc has **negotiated a gas lease deal with XTO Energy which includes a record-breaking signing bonus for a neighborhood lease. The lease terms include a \$25,000/acre bonus with a 26.5% royalty, and five-year primary term. The bonus is the highest reported so far in the Barnett Shale and eclipses the old record bonus of \$22,000/acre which was negotiated by several Arlington neighborhood groups in the past two weeks. Nishimura reports the 26.5% royalty is also believed to be a record for a neighborhood lease as well.**

The neighborhood group had asked for a bonus of \$30,000/acre with a 30% royalty but they're not complaining with the deal they've got.

"In addition, we were able to win the support of XTO in an agreement not to drill anywhere in the neighborhoods within the boundaries of the negotiated lease area, save and except two drill sites in industrial areas immediately adjacent to the Union Pacific rail line on our southern border," one of the organizers, "Machete" **Mike Tansey**, an "embedded software test engineer/F-16 Mission Planning Systems" for Lockheed Martin, told Nishimura.

The agreement covers the 4,100 acres of neighborhoods in the area bounded by Riverside Drive, Interstate 30, east Loop 820, and the Union Pacific Railroad. (see map on the next page)

The associations involved are **Brentwood Oak Hills Neighborhood Association, Central Meadowbrook Neighborhood Association, West Meadowbrook Neighborhood Association, Chimney Wood Homeowners Association, and Eastern Hills Neighborhood Association.**

What property owners should now expect, Tansey says:

- Receive a lease packet from XTO within the "next day or two...with all the information needed should you want to sign the Greater Meadowbrook Oil and Gas Lease."
- Packet will include a letter from the Task Force, copy of the letter of intent signed by the neighborhood presidents, a copy of the lease form, and a schedule of signing parties for the area that will begin March 31. "You may attend any of these scheduled meetings to sign your lease and/or ask questions."

Related Information: West Meadowbrook Neighborhood Association website, <http://www.neighborhoodlink.com/ftw/wmna/>
Related Article: Fort Worth Weekly 3/26/2008 The East Side Comes Out Swingin' by Jeff Prince
<http://www.fwweekly.com/content.asp?article=6793>

74

LISTINGS



PP 9405DV

SELLER

LISTING

ACTIVE/FOR SALE

COMPANY: PLS Inc
 CONTACT: Mr. Richard Martin
 TITLE: Director - Divestment Services
 ADDRESS: 1201 Louisiana 8th Floor
 CITY: Houston ST: TX ZIP: 77002
 PHN: 713-650-1212 FAX 713-658-1922
 EMAIL: martin@plsx.com

WHR: DENTON & TARRANT CO., TX
 WHT: 28-Wells. 1-Completion. 1-AFE Pending.
 FLD1: BARNETT SHALE
 FLD2:
 OBJ 1: 3,641-Acres. 20-Acre Spacing Approved.
 OBJ 2: Ongoing Development Drilling.
 C1: ReCompletions; ReFracs Possible.
 C4:
 %WI: 4-12% NonOperated WI For Sale.
 PROD: Gross Production: 30 BOPD & 8,200 MC
 C2: Current Cash Flow: \$70,000-\$80,000/Mn
 CF:
 RSRVS: Some Oil Reserves/Conglomerate Possi
 C3: 14 Vertical Wells & 13-Horizontal Wells.
 C5:
 CDM: Name Brand Operators. Motivated Seller
 OTHE --STILL AVAILABLE; CALL FOR UPDAT

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DENTON CO., TX PKG
 28 Wells. 2-Pending New Wells
 BARNETT SHALE
 4,097.8 Acres. Approved 20 Ac Sp
 ReFracs; ReCompletions Possible
 15-25 Immediate Locations Possible
 4-12% NonOperated WI For Sale

Monthly Gas Sales: \$101,500 Mn
 Lease Operating Expenses: \$21,165 Mn
 Other Deducts: \$1,081 Mn
 Production Tax Deduct: \$2,741 Mn
 Total Cash Flow: \$76,513 Mn After Tax

Devon Energy Product
 Eagle Farms #12H; API: 42-121-32728; TRRC: 09-215973; MCFD: 471.5
 Eagle Farms #7; API: 42-121-31733; TRRC: 09-194076; MCFD: 141.7
 Eagle Farms Unit #1; API: 42-121-32430; TRRC: 09-207259; MCFD: 469.0

Eagle Oil & Gas Co.
 AP Lands #1; API: 42-121-31429; TRRC: 09-192081; MCFD: 0.3
 Beall-Knight #1; API: 42-121-31663; TRRC: 09-193702; MCFD: 47.9
 Cates Partner Unit #1; API: 42-121-31566; TRRC: 09-192082; MCFD: 61.3
 Dee Ring #1; API: 42-121-31465; TRRC: 09-192080; MCFD: 67.4
 Denton CJW #1; API: 42-121-32464; TRRC: 09-208363; MCFD: 184.3
 Felix-Weems #1; API: 42-121-31880; TRRC: 09-202282; MCFD: 63.1
 Kay, Nancy #1; API: 42-121-31644; TRRC: 09-192619; MCFD: 39.6
 Lawrence, Darby #1; API: 42-121-32272; TRRC: 09-202289;

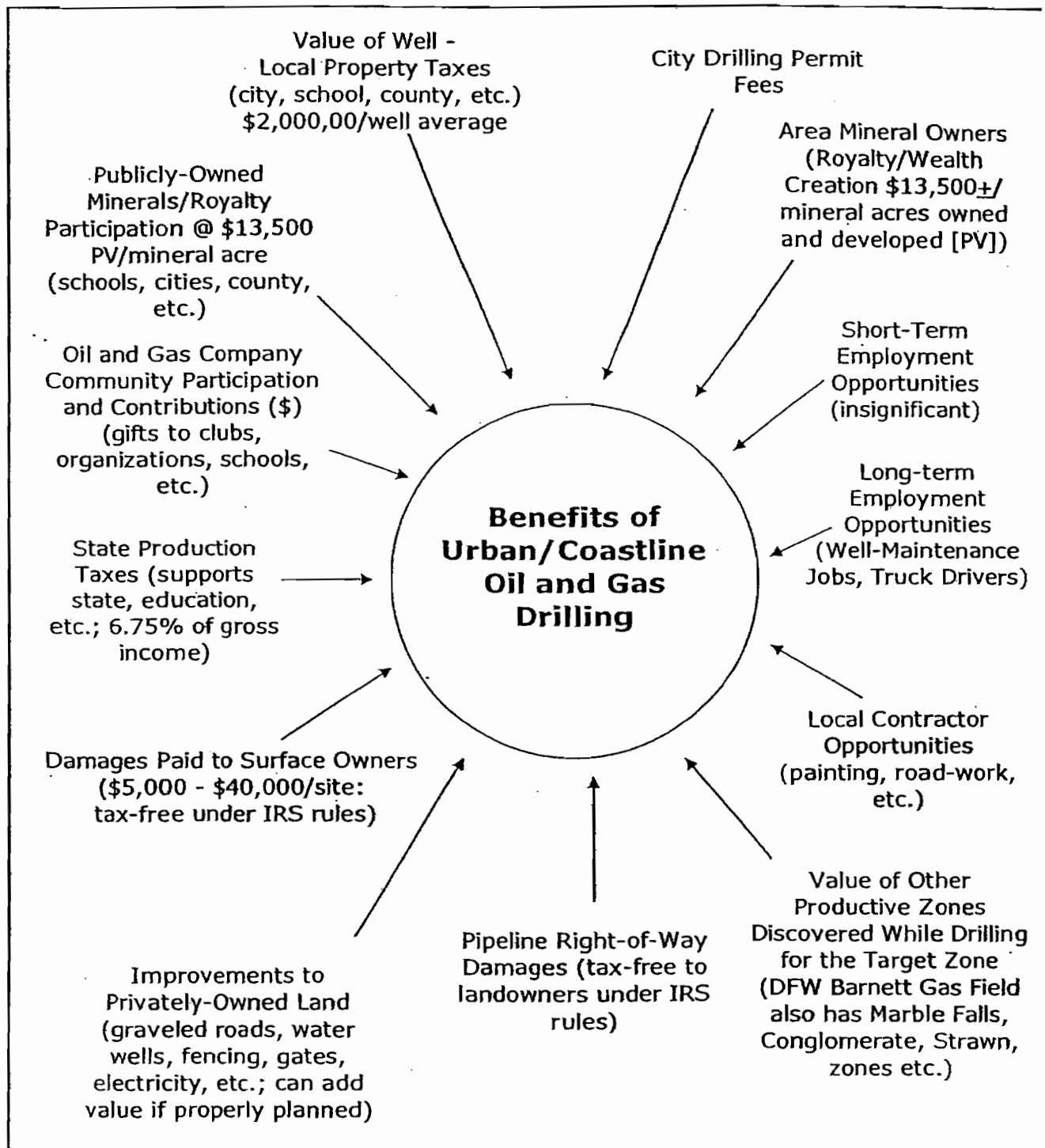
To Help PLS - Please Let Us Know If You Find Incorrect Information In Any Our Reports. All Standard Disclaimers Apply And Seller Rights Are Retained On All Listings In PLS. PLS Neither Warrants Nor Represents Information Herein. Buyer And Seller Beware.

909 Fannin Ste 3850 Houston TX 770010 PHN: 713-650-1212 FAX: 713-658-1922

Monday, October 22, 2007 11:04:

Figure 2: Quantifiable Financial Benefits of DFW Barnett Shale Oil and Gas Drilling in North Texas

By John S. Baen, Ph.D., College of Business Administration, University of North Texas 2005



Suggestion, with Love, Baen

< \$10,000/year
use HR Block

3 kinds
of Accountants

- 1) Never Audited
- 2) Middle of Road
- 3) Aggressive

> \$10,000/year
+ Upside Income

get a CPA
and Plan Your
Estate.

Avoid

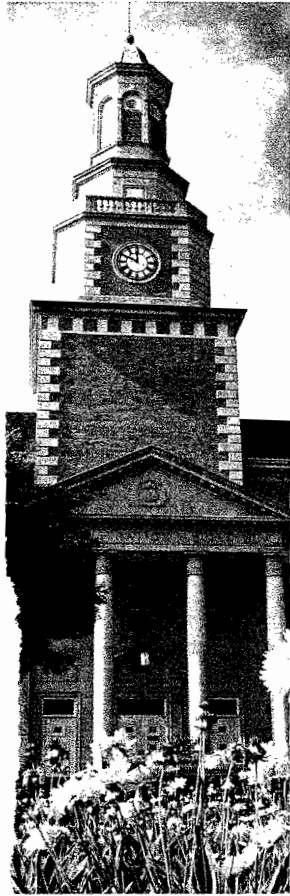
Report All Income

Not All is Taxable.

Now.

Save 30%
of Every
O+G on
\$!

- 1) Dead Off A.I.M.
- 2) Report All
Income Correctly
by Type
- 3) Save 30% of Key

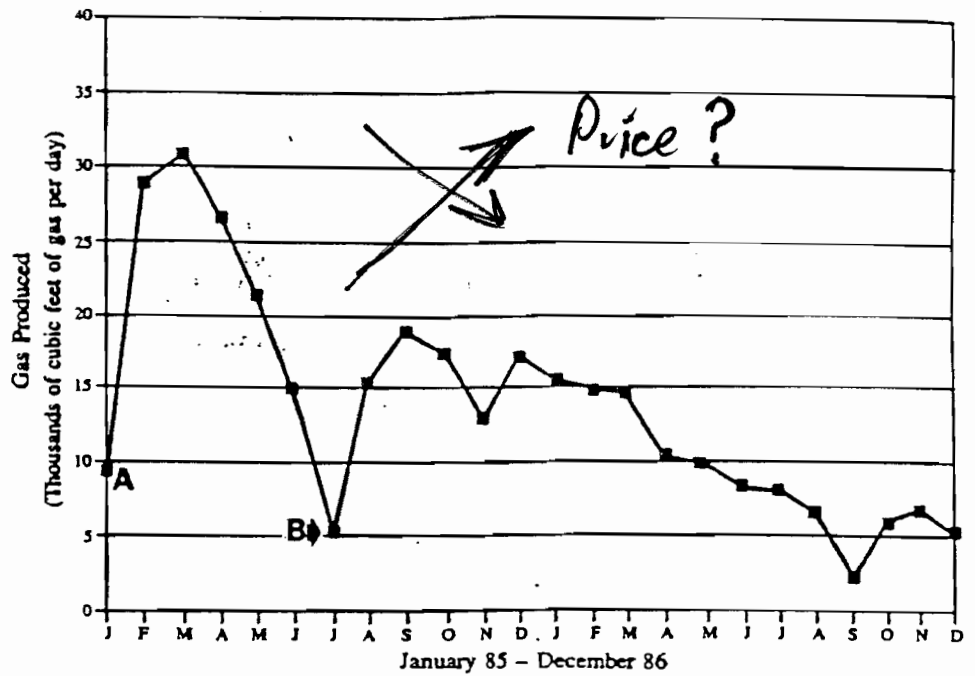


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FIGURE 2 Gas and Oil Decline Curves for a Well in North Central Texas



Given adequate comparable sale data, reliable production histories and projections, the professional appraiser can render an opinion of value of the surface, mineral, and royalty estates of a given property. The value of the three separate

estates for the 200-acre Michigan farm are as follows:

Adjusted value of the surface	\$195,000
Value of 50% of minerals	\$20,000
Value of 50% of the royalty	\$189,520
Total estimate of value	\$404,520

DESIGN BY:	J.S.B.
DRAWN BY:	J.W.B.
CHECKED BY:	J.S.B.
SCALE:	N.T.S.
DATE:	4/14/04
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**SIDE VIEW OF
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WELL**

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DENTON, TEXAS 76203-0410
TEL: (940)565-3071
FAX: (940)565-4234

GRAPHIC BY:
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PROFESSIONAL
DRAFTING**
(214)529-7510
JAMES BELL
8728 SOUTHWESTERN #1818
DALLAS, TEXAS 75246
jwb@bellsouth.com

Figure 4

Side View of Multilateral Drilling of Oil and Gas Wells and Mineral Drainage Development for a 360-acre parcel of land
By John S. Baen Ph.D. University of North Texas 2004. (Assumes blanket geologically productive zone and 40 acre spacing)

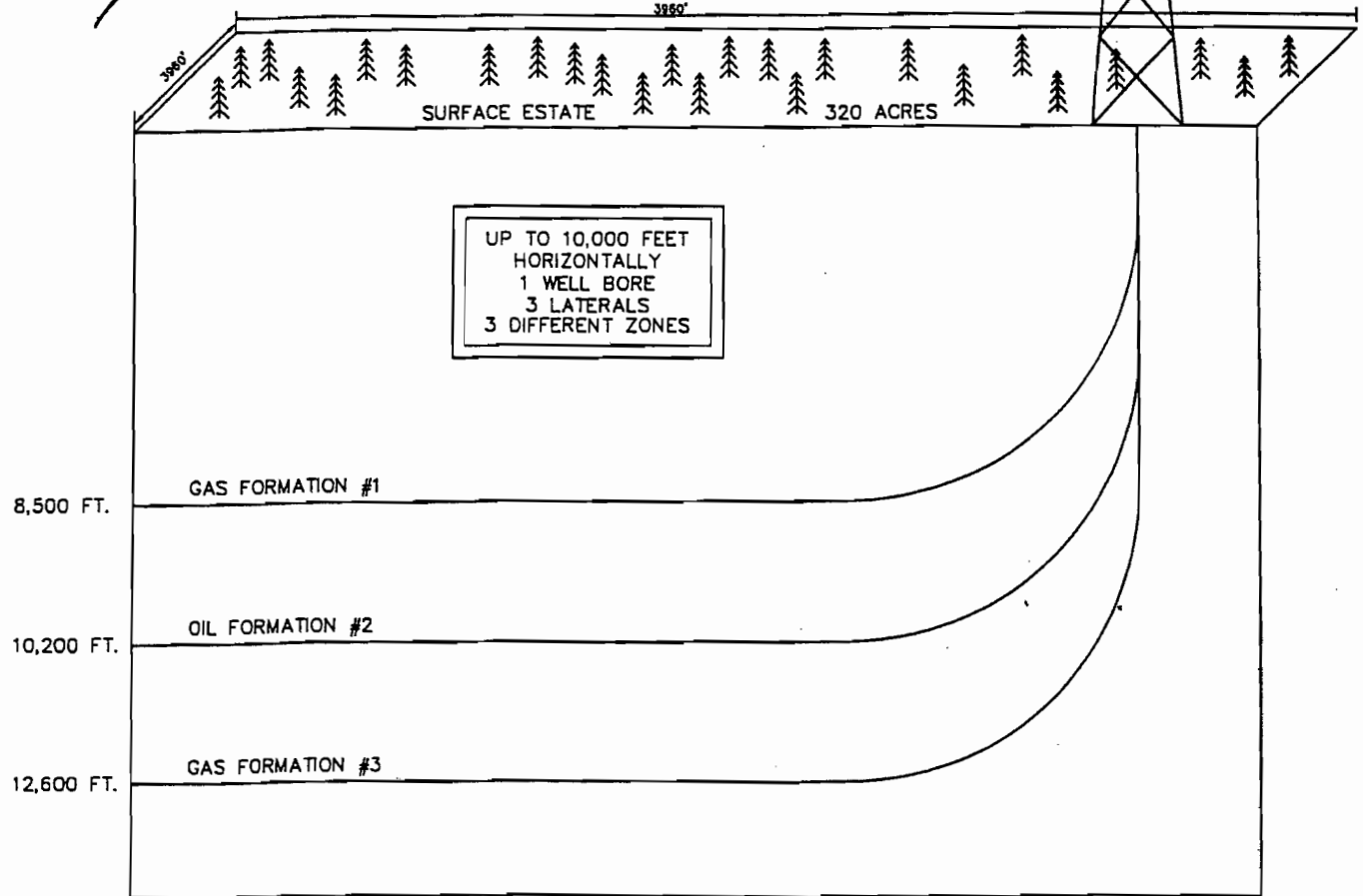
Figure 3 depicts the same surface land use required for multilateral wells on the subject property. The difference is that in many productive oil and gas areas, there are multiple productive oil and gas zones under the same property. Prior to the development of multilateral well technology, each zone required a new well or sets of wells to be drilled into each zone. Now several zones can be produced through the same well bore having off shoots or "side tracks" that allow for multiple zones production. This new technology reduces surface area impact and damages while maximizing the subsurface mineral production.

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- Layers

FIGURE 4

2008

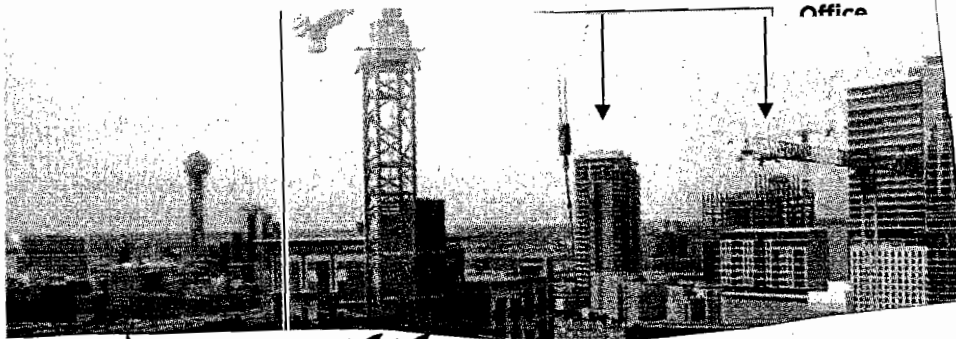


Change in Urban Life
↑ ↓ →

Friday, June 13, 2008

83

More Uptown is coming up



Gas Watch



Gasoline U.S.

\$4.06

▲ \$1.23 since Jan. 1

Tarrant County

\$3.93

▲ \$1.18 since Jan. 1

Sources: AAA and The Associated Press

The Dallas Morning News

75 cents

Dallas, Texas, Friday, June 13, 2008

Renderings by Crescent Real Estate, Hanes and Boone, Hillier

Photo by STEVE BROWN/Staff

MORE TOWN IS GOING UP

doubt, it's the tightest market in the city."

At the en

REAL ESTATE

Home-foreclosure postings increase in Tarrant County

By SANDRA BAKER

sabaker@star-telegram.com

The number of homes posted for foreclosure climbed slightly in Tarrant County in the past month, but postings for the 10-county Dallas-

What the experts say

There is still no sign that the trend of high foreclosures is changing, said George Roddy, president and chief executive of Foreclosure Listing Service.

"Foreclosure postings are on the high end of the

vn's district: resident high-rise

House 200 Houston 3 stories, 15 pens in No percent s

00 McKin 3 stories, 23 pens latest

House 28 McKin 3 stories, 37 pens in ear

Reside Carlton Street

ories, 96 ns in su sold

He 27 st pens

Good News/Bad News of Oil 8/1 ↑ 84

"Staycations"
 "Move Fun Time"
 "Less Traffic"
 Move Time
 Not Less
 to
 Sit?

and Journal: Churches Try the Franchise

ALL STREET JOURNAL

OIL SHOCKER!

FRIDAY, JUNE 13, 2008 - VOL. CCLI NO. 138

Stung by Soaring Transport Costs, Factories Bring Jobs Home Again

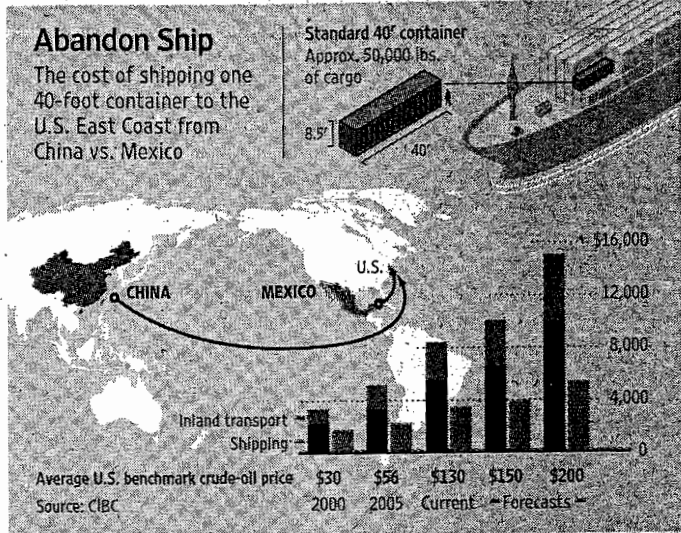
BY TIMOTHY AEPPEL

The rising cost of shipping everything from industrial-pump parts to lawn-mower batteries to living-room sofas is forcing some manufacturers to bring production back to North America and freeze plans to send even more work overseas.

"My cost of getting a shipping container here from China just keeps going up—and I don't see any end in sight," says Claude Hayes, president of the retail heating division at DESA LLC. He says that cost has jumped about 15%, to about \$5,300, since January and is set to increase again next month to \$5,600.

The privately held company, known for making the heaters that warm football players on the sidelines, recently moved most of its production back to Bowling Green, Ky., from China. Mr. Hayes says the company was lucky to have held onto its manufacturing machinery. "What looked like an albatross a year and a half ago," he says, "today looks like a pretty good asset."

The movement of factories to low-cost countries further and further away has been a bitter-sweet three-decade-long story for the U.S. economy, knocking



workers out of good-paying manufacturing jobs even as it drove down the price of goods for consumers. But, after exploding over the past 10 years, that march has been slowing.

The cost of shipping a standard, 40-foot container from Asia to the East Coast has already tripled since 2000 and will double again as oil prices head toward \$200 a barrel, says Jeff Rubin, chief economist at CIBC World Markets in Toronto. He estimates transportation costs are now the equivalent of a 9% tariff

on goods coming into U.S. ports, compared with the equivalent of only 3% when oil was selling for \$20 a barrel in 2000.

"In a world of triple-digit oil prices, distance costs money," Mr. Rubin wrote in a recent report. He figures that for every 10% increase in the distance of a trip, energy costs rise 4.5%.

Transportation costs are just part of a larger wave of inflation sweeping global manufacturing, which has also been pounded by higher costs for basic materials.

Please turn to page A9

Fri/Sat/Sun, June 13-15, 2008

Newsline

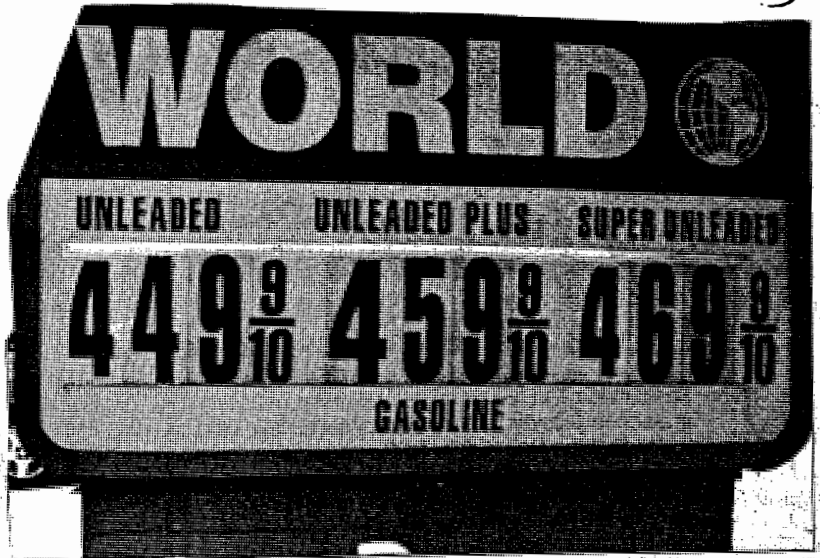
News Money Sports Life



AVIATION

Disaster looms for airlines, study asserts

The industry is "heading toward a catastrophe" unless oil prices drop or fundamental change occurs.



Sign of the times: Gas prices at a station in Sunnyvale, Calif., on Wednesday.

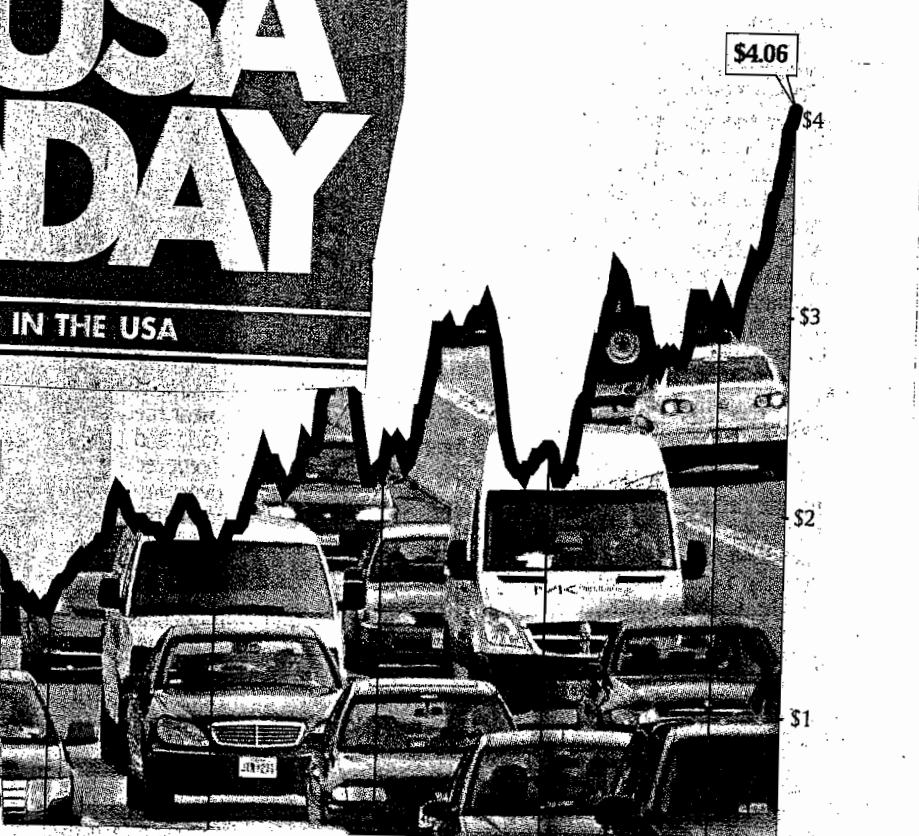
Alaska drilling is right approach

Which way out?

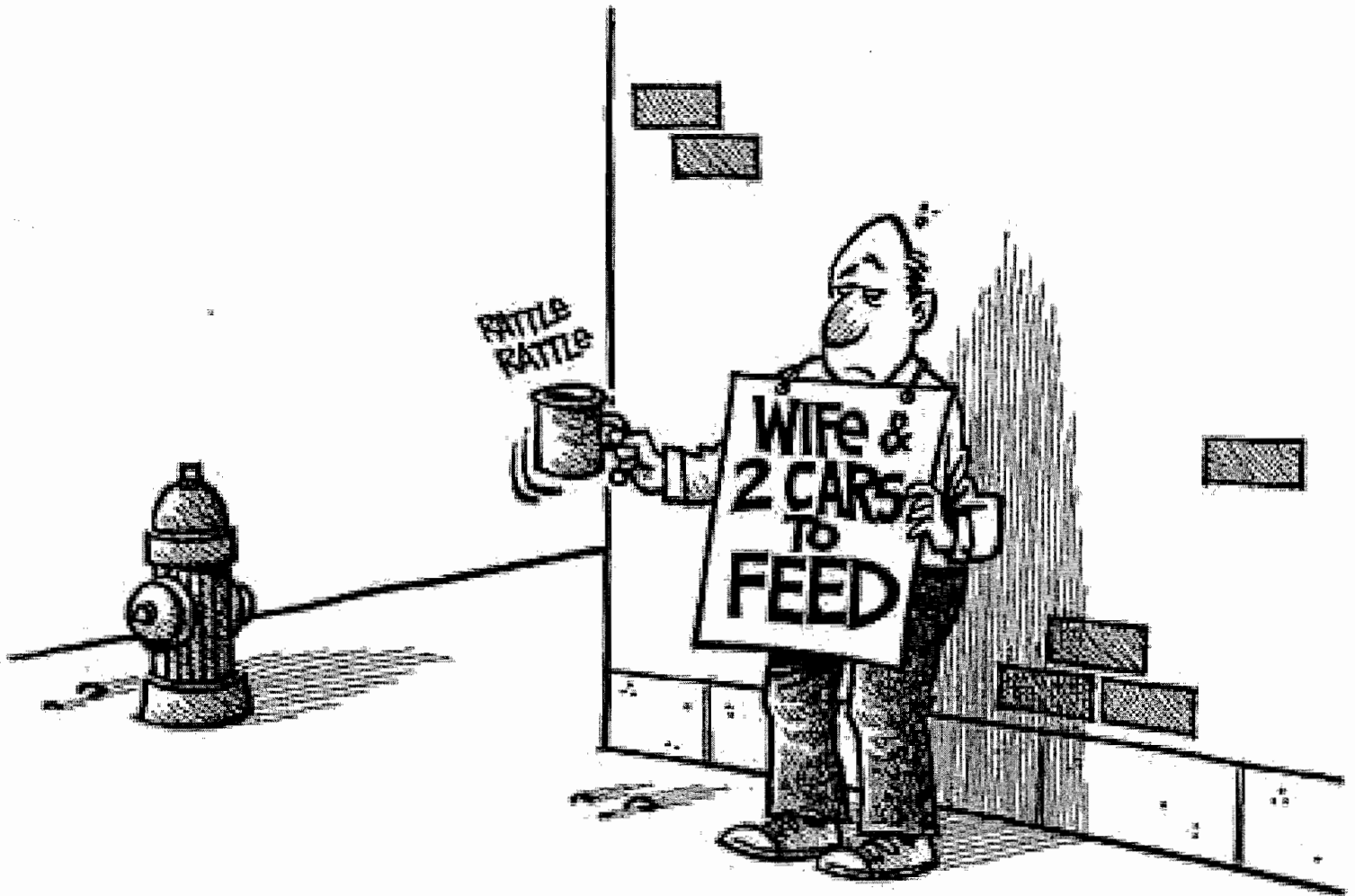


they compete against such as Southwest. The Statistics reported that up about 4 percent during the first quarter of 2007, the most recent... At least some airlines liquidate if there are wide... filings.

"We're in uncharted territory, the magnitude of this," author, Vaughn Cordle. His analysis was "a snapshot situation," and that this fuel prices decline or...



re. wa. cia. for. the. wo. Mo. V. ye. uti. sor. DA. did. that. of. th. T. bee. elec. kno. T. port. Y. mor. helj. mo. trail. proc. I. f.





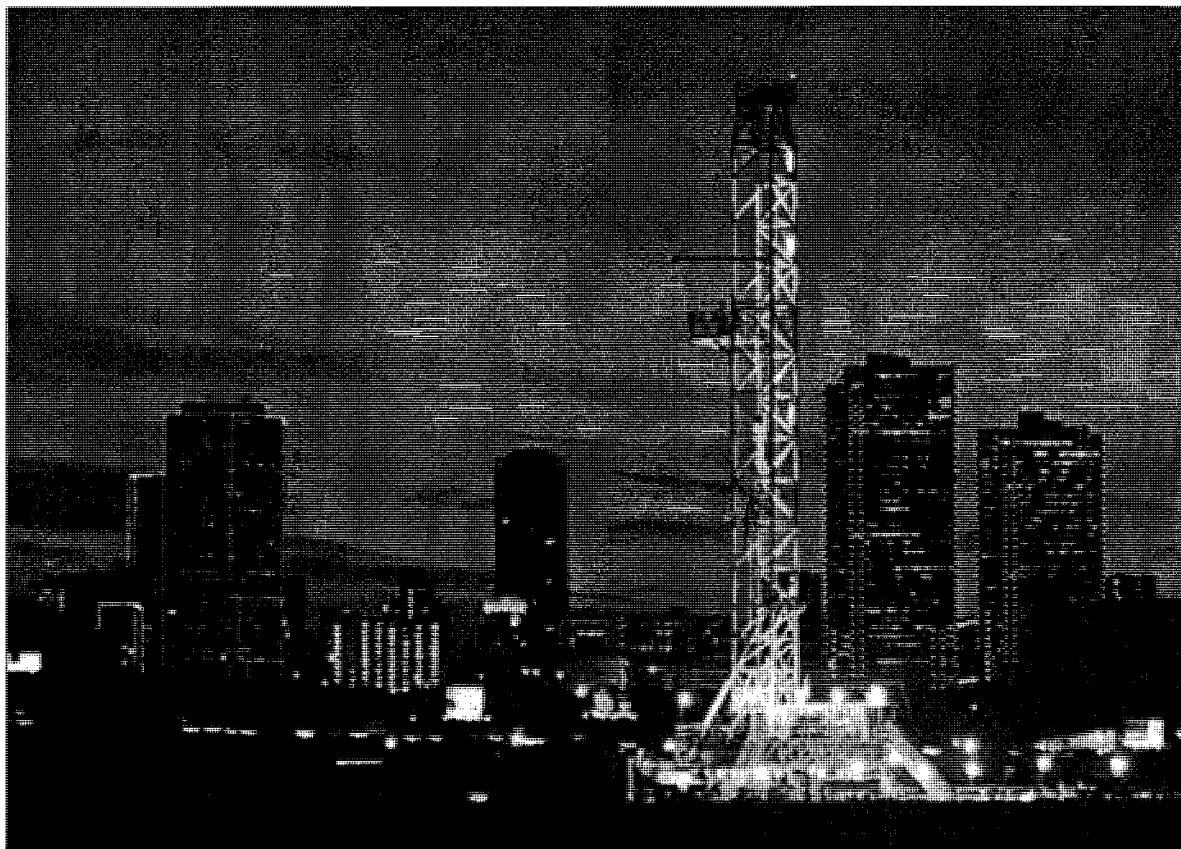
Powell Barnett Shale Newsletter

Barnett Shale in the Fort Worth Basin

Research and News

Since 2003

PERIOD: JUNE 3 TO JUNE 9, 2008



*Drilling The Dale Operating / Fourth Street 'A' Gas Unit #1H, East Downtown Fort Worth, Texas
October, 2006, Courtesy of Dale Operating, Photo by Mike Fuentes*

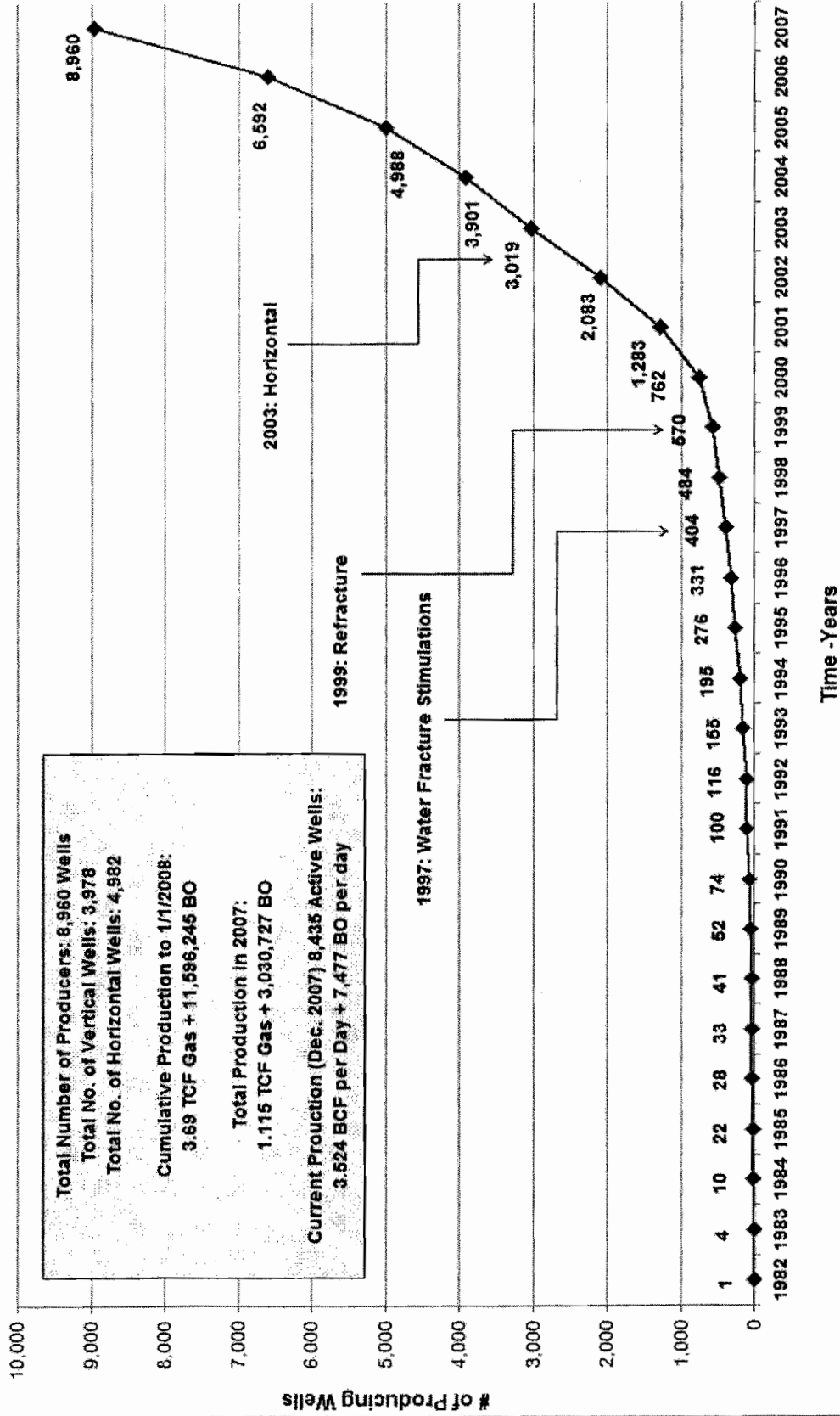
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PUBLISHER / EDITOR
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OFFICE: (817) 924-1900

WILL BRACKETT
MANAGING EDITOR
CELL: (817) 480-8657
wrb@barnettshalenews.com

Number of Producing Barnett Shale Wells Over Time as of January 1, 2008 All Counties/Fields in the Fort Worth Basin



Powell Barnett Shale Newsletter Research 03/27/2008

For Dr. John S. Baen, by Gene Powell, Powell Barnett Shale Newsletter, 3-28-2008

For Dr. John S. Baen by Gene Powell, Powell Barnett Shale Newsletter March 28, 2008 Page 3 of 5

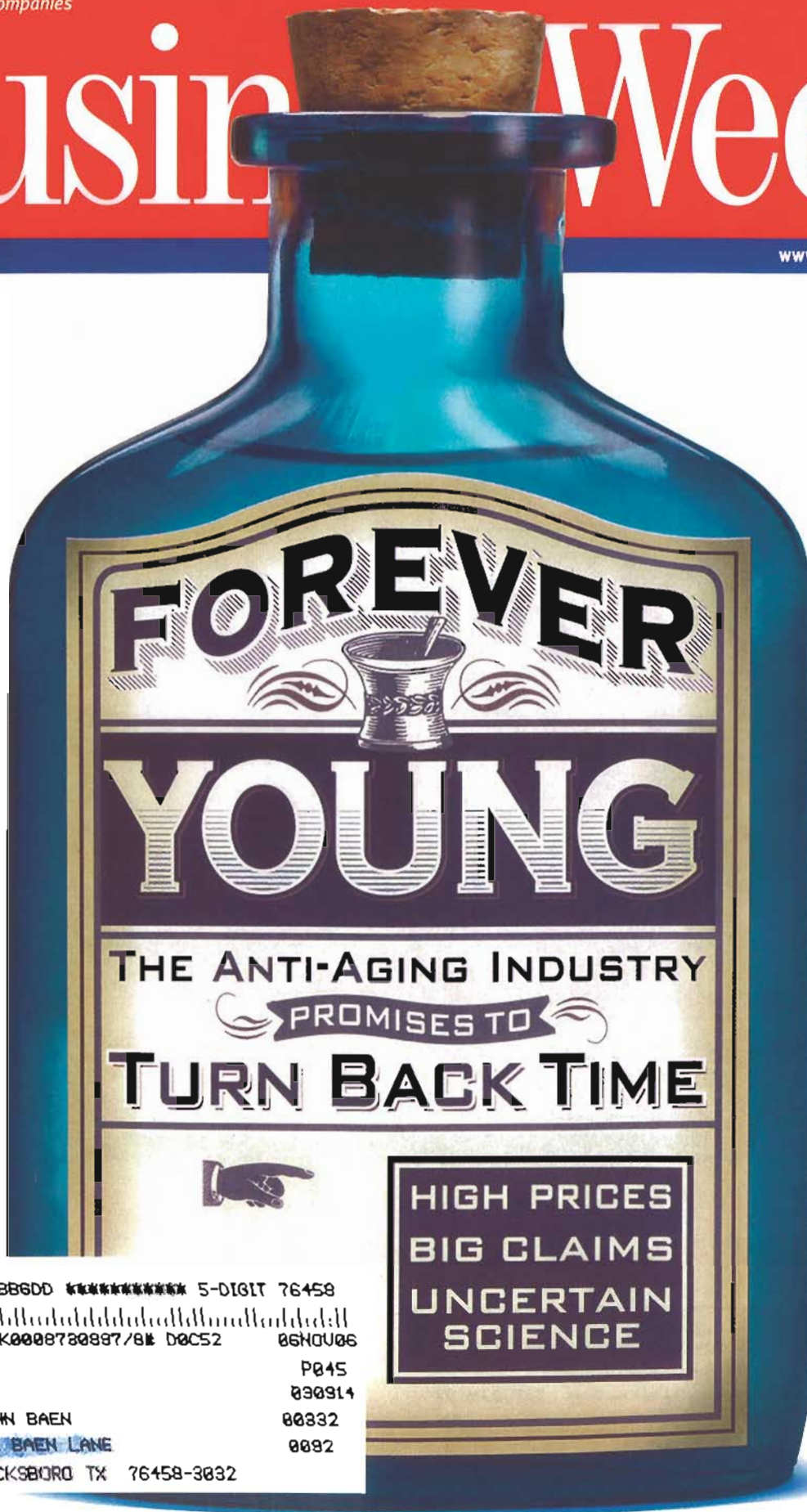
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SPECIAL REPORT
BY ARLENE WEINTRAUB
(P.64)

Accounting, Finance and ITDS Majors:



ENCANA™



Beta Alpha Psi and EnCana present:

A presentation on oil and gas
accounting

Where: Curry Hall 204

When: Thursday, March 27

Time: 5:00 - 6:30

Dress: Business Casual

Food and drinks provided

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91

Petroleum Land Practices October/November 2007 Session General Class Outline

Monday, October 15
8:00-12:00

- *Introduction to Program*
 - Class format and curriculum
 - Class requirements

- **Module 1: The Petroleum Land Professional**
 - Jobs and Careers
 - Basic Job Scope
 - Skills/Competencies Needed
 - Individual Competency Assessment
 - Partner review
 - AAPL and Certification

12:00-1:00 Lunch

- *Panel Discussion with Petroleum Land Professionals*

*Professor
Instructor*

John Baen



*Dr. Chris Riordan/Dr. John Baum
Associate Dean/Executive Director
Neeley School of Business*

*Robyn Forte, Executive Director
AAPL*

*Jetta
Hunt Oil
Four Sevens*

Dallas Ft Worth

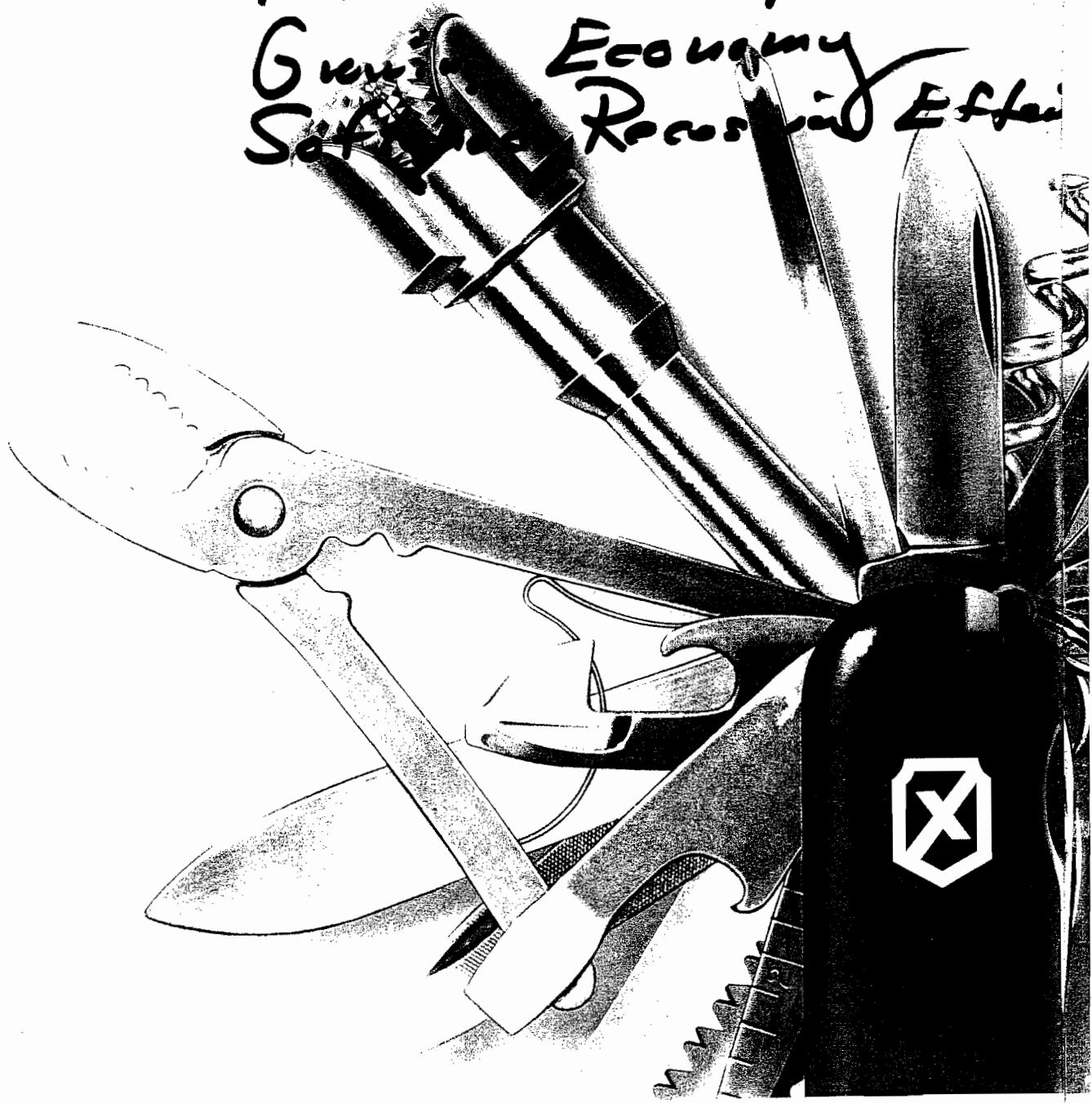
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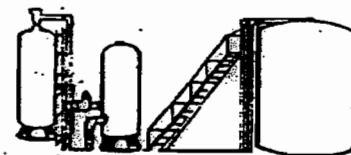
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Track Record: 30 years of experience, 5,000 acres of minerals and production, ownership in 70 wells

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- Arkansas
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- Hunt Oil Company
- Devon Energy Corp.
- EOG Resources Inc.
- EnCana Oil & Gas
- Chesapeake Operating Inc.
- ExxonMobil/ Harding
- Burlington Resources O&G
- ConocoPhillips Co.
- XTO Energy Inc.
- Miles Production
- Carrizo
- Williams Company
- Trio
- Peba
- Wynn Crosby
- Duke Energy
- Antero Resources
- J-W Operating Co.
- General Land Offices
- Adkins
- DUNES Energy
- Walters
- Zebra
- Dark Horse
- Gulf Tex
- Kingery Drilling

Legal Firms/ Litigation

- Fulbright & Jaworski
- Susman Godfrey
- Mac Barnhart
- Lee Vendig
- Holland & Hart
- Pryor, Robertson & Barry
- Jackson Walker
- Chesapeake Oil & Gas Counsel
- David Duckworth
- Shamoun, Klatsky, Norman
- Dale Wooton
- Denton, McKamie & Navarro
- Atlas & Hall
- Leigh Hilton
- Gast, Phillips & Murray

U.S./ Government Agencies/ Town Hall Meetings/ Consulting/ Workshops

- BLM
- Office of Mineral Management
- Dept. of Defense
- Various U.S. Senators/ Congressmen
- DFW Airport Board
- City of Flower Mound
- City of Argyle
- City of Benbrook
- City of Copper Canyon
- City of Denton
- City of Justin
- City of Double Oak
- Town of Westlake
- North Richland Hills

Partial Client List

- Gary Shafer
- Robert Grunah @ H.S. Miller
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- Dr. Larry Langston
- Standridge Companies
- Richard Tucker
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- Marc Myers
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- Furst Family Trust
- Siidell Baptist Church
- Hope Lutheran Church
- Briarwood Lutheran Church Camp
- Emmanuel Lutheran Church of Granbury
- 100's of individuals & families

Oil and Gas Appraisals & Estate Planning

- Frost Bank Trust Dept.
- Langston Family
- Jameson Estate
- Furst Family
- Helms Estate
- Waste-Management Inc.
- Maddoux Family
- Lybertt Minerals
- Federal Banking Count

Professional Designation and Organizations

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- Texas Certified Right of Way Agent
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- International Right of Way Association (IRWA/ Honorary)
- South Texas Property Rights Association (STPRA)
- American Association of Professional Landsmen (AAPL)
- American Real Estate Society (ARES/ Officer)
- Society of Petroleum Engineering (SPE Membership Pending)

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Please check the appropriate box and return this form with your remittance.

Payments of membership dues to the Texas Land and Mineral Owners Association may be deductible as an ordinary and necessary expense of your business; however, they are not deductible as a charitable contribution. A portion of these dues is not deductible as an ordinary and necessary business expense to the extent that Texas Land and Mineral Owners Association engages in lobbying. Contact the TLMA office for the non-deductible portion of dues for the current tax year.

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To the Executive Director and Members of the Texas Land & Mineral Owners Association:

I hereby state that I desire to become a member of this Association. In case of acceptance, I agree to conform to the bylaws governing the Association and to pay the cost of membership checked below.

Annual Membership Dues

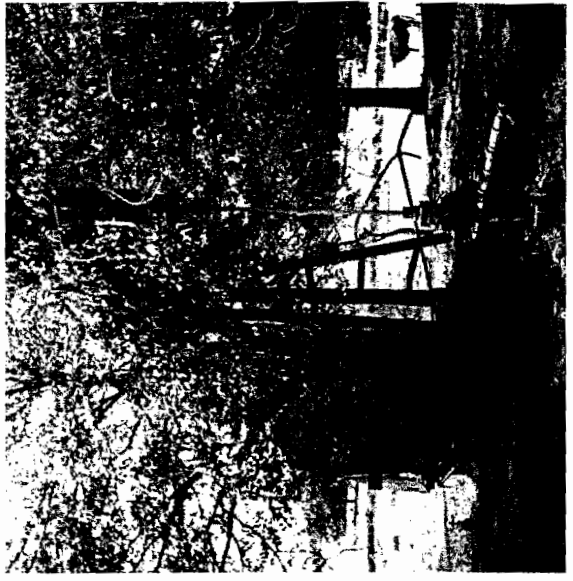
Individual - Basic	<input checked="" type="checkbox"/>	\$50/Yr.
Individual - Sustaining	<input type="checkbox"/>	\$100/Yr.
Good Neighbor	<input type="checkbox"/>	\$250/Yr.
Concerned Citizen	<input type="checkbox"/>	\$500/Yr.
Community Leader	<input type="checkbox"/>	\$1,000/Yr.
Statesman	<input type="checkbox"/>	\$2,500/Yr.
Large Land/Royalty Owner	<input type="checkbox"/>	\$5,000/Yr.
	<input type="checkbox"/>	\$10,000/Yr.
	<input type="checkbox"/>	\$15,000/Yr.
	<input type="checkbox"/>	\$25,000/Yr.

Date _____
 Name _____
 Ranch/Organization Name _____
 Mailing Address _____
 Town/City _____
 State _____ Zip _____
 Phone _____
Area code and number
 Fax _____
Area code and number
 E-mail _____
 (By providing your e-mail address or fax number you give TLMA permission to communicate with you by e-mail or fax)
 County/Countries where ranch or mineral interest is located _____

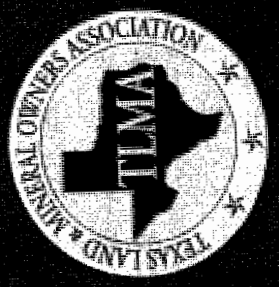
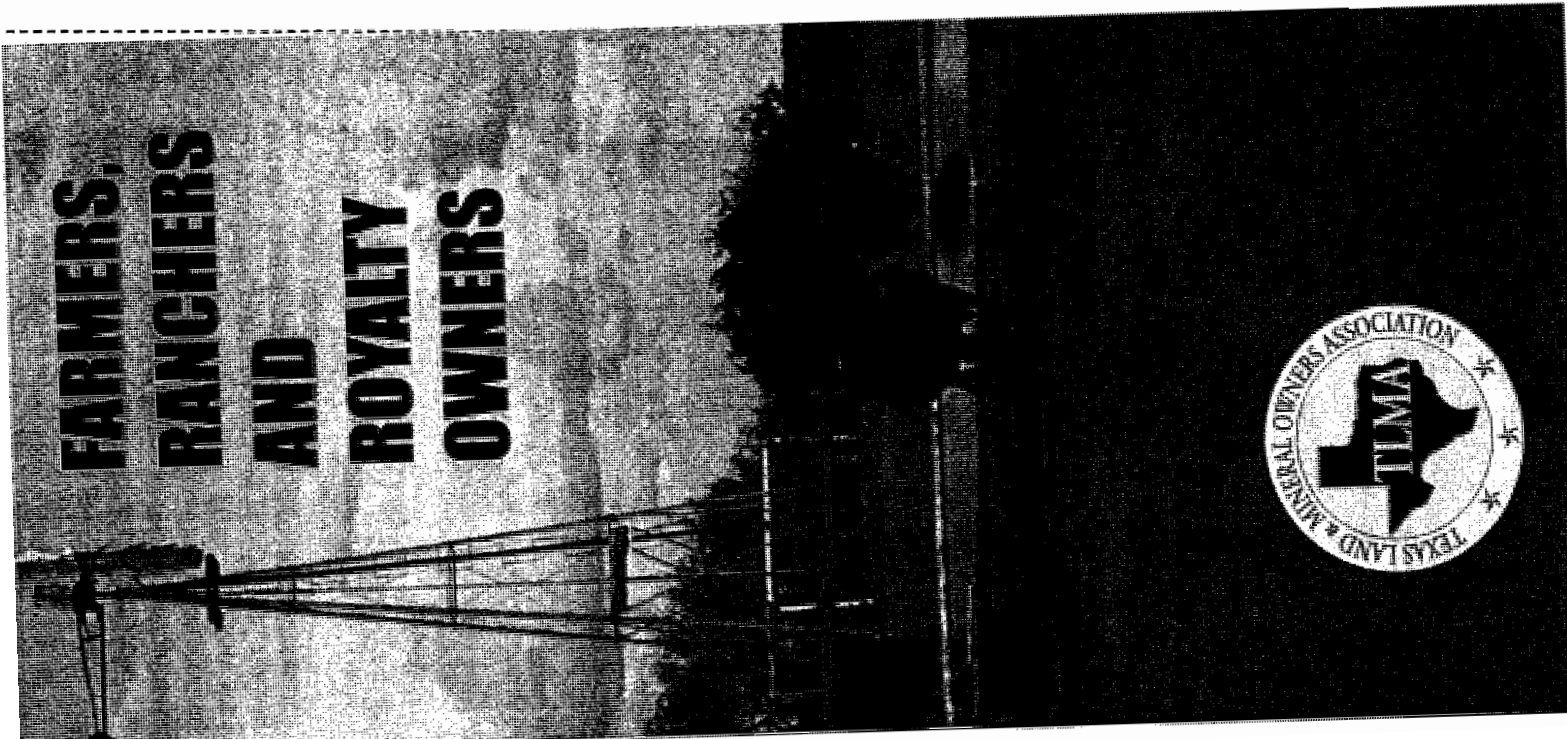
landowner _____ royalty owner _____ both _____
 Recommended by _____
 Signature _____

Please make check payable to TLMA and mail to TLMA remittance office in Houston using the postage paid envelope provided.

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Ranchers, farmers, landowners and concerned citizens must work together to express our concerns.



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 AND
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 OWNERS**

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Real Estate

Newsletter



2007

Here Unofficially 6-19-08

Free Info

September 2007

A Co-production of the UNT Real Estate Program and the UNT Real Estate Alumni Association
realestatealumni.unt.edu

2007 MAJOR PROGRESS AND ACTIVITIES OF THE UNT REAL ESTATE PROGRAM

While state and university budgets have been reduced, our numbers continue to climb and the growth and reputation of the UNT Real Estate program continues to grow! The following represents a snapshot of the last year.

- * The program has grown a record pace in terms of faculty and student numbers.
- * Over 20 scholarships were awarded during the last 12 months. Many donors are former recipients of scholarships returning the favor and keep the tradition of giving back alive!
- * The UNT Real Estate Alumni held two (2) major functions including the Byron Nelson Dinner/ Lecture/ Gathering and Happy "Hour" at Cool River which lasted until midnight for many!
- * Congratulations to Randy Guttery!! He was promoted to Associate Dean for Graduate Programs for COBA. Randy continues to contribute to the Real Estate Program by teaching various courses and attending real estate alumni functions.
- * Baen was invited to Washington D.C. to testify on oil and gas issues and had lunch with Newt Gingrich and dinner with

President Bush! National pipeline and U.S. royalty policies were changed by Congress shortly thereafter.

- * Professor Kimberly Geideman was hired away from Texas A&M and is a welcome addition to the Real Estate Program.
- * Guttery and Baen attended the American Real Estate Society Meeting in San Francisco in April 2007 where Baen impersonated Donald Trump- wig and all.
- * Real estate faculty continue to grace the national press and television coverage on various topics. Yes, we are the "Darlings of the Press Corp."

The State of Real Estate 2007: The Job Market, Job placements and the UNT Network

New positions or promotions of UNT Real Estate Alumni include but are not limited to the following students (all of whom have let us know about the good things that are happening!)



DISCOVER THE POWER OF IDEAS

John S. Baen, Ph.D.
Professor of Real Estate

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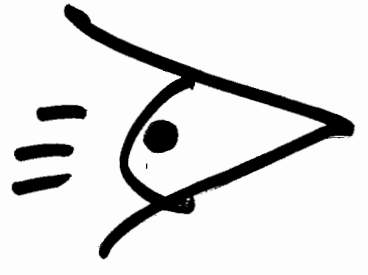
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