

OIL AND GAS PROPERTIES ANALYSIS

Tax Year 2005

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Capitalization Rate Analysis and Results:

In developing a capitalization rate for use in valuing specific income-producing properties consideration is given to the three approaches generally employed in estimating a discount rate. As a matter of practicality, the Bands-of-Investment and Summation Technique approaches are utilized in establishing discount rates for producing oil and gas properties. Data for analysis has been derived in accordance with current Legislative Rule Title 110, Series 1J.

Safe Rate (3-Month Constant Maturity Interest Rates)
 January December 2003 **1.0300%**

Risk Rate (Interest differential between Loan Rate and 3-Month Constant Maturity Interest Rates)

<u>Loan Rate*</u>		<u>Risk Rate</u>
2003	6.1225%	5.0925%

 *Prime plus 2%

Equity (Differential between Equity Rates and 3-Month Constant Maturity Interest Rates)

<u>Equity Rate**</u>		<u>Safe Rate</u>
2003	[12.5%/(1-.37)]-1.0325	18.8113%

 ** Moody's Handbook on Common Stocks and Value Line Investment Analysis

Composite Risk Rate Loan and Equity Rates weighted by industry estimated capital structure.

	<u>Equity Rate</u>	<u>Debt Rate</u>	<u>Composite Risk</u>
2003	12.2273%	1.7824%	14.702% ***

 Note: Debt equity Ratio Debt 35% Equity 65%
 *** Effective severance tax adjustment 0.9529

Non Liquidity Rate Interest differential between 3-month Constant Maturity Interest Rates and a 1 year Constant Maturity Interest Rates which reflects a reasonable time necessary to sell active property.

			<u>1yr T Bill</u>	<u>90 day T Bill</u>	<u>Non Liquidity Rate</u>
January	December	2003	1.244%	1.03%	0.214%

Management Rate Charges for the management of investment portfolios.
 Fixed Rate (by Rule) **0.500%**

Property Tax Rate Sixty percent (60%) of State average Class III property tax rate.

2003	60% of 2.25=	1.350%
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Inflation Rate
 January December 2003 **1.900%**

Capitalization Rate

Since the valuation of oil and gas property is predicated on a one year production , the capitalization rate will be considered in a similar manner.

	<u>2003</u>
Inflation Rate	-1.900%
Safe Rate	1.030%
Composite Risk Rate	14.702%
Non Liq. City Rate	0.214%
Management Rate	0.500%
Property Tax Rate	<u>1.350%</u>
Total	15.896%

Capitalization Rate Rounded to:

16.00%

MULTIPLIERS FOR 16.0 MID-YEAR LIFE (ANNUALLY)

<u>YEAR</u>		<u>YEAR</u>	
1	0.928477	21	0.047710
2	0.806411	22	0.041129
3	0.695009	23	0.035456
4	0.594336	24	0.030566
5	0.512789	25	0.026350
6	0.442060	26	0.022715
7	0.381086	27	0.019582
8	0.328522	28	0.016881
9	0.283209	29	0.014553
10	0.244146	30	0.012546
11	0.210470	31	0.010815
12	0.181440	32	0.009323
13	0.156414	33	0.008037
14	0.134340	34	0.006929
15	0.114241	35	0.005973
16	0.100208	36	0.005149
17	0.086386	37	0.004439
18	0.074471	38	0.003827
19	0.064199	39	0.003299
20	0.055344	40	0.002844