

# Things to Consider

## Oil & Gas Valuations

Upstream oil and gas or exploration and production (“E&P”) companies’ primary assets are the crude oil and natural gas reserves underlying their mineral resource leases. These reserves consist of hydrocarbons below ground that are economically viable to extract and have not yet been produced.

At Tall Oaks Partners, we understand and appreciate the importance of having a quality and supportable valuation of oil and gas assets and interests. The following includes six things to consider when preparing valuation estimates related to oil and gas assets:

- **Methodology Selection** – Consider each of the primary approaches to value, including the income approach, market approach, and cost approach. Typically, for oil and gas assets the income approach is emphasized, with indications of value corroborated using the market approach (e.g., via use of \$/daily production (BOE/MCFE), \$/proved BOE/MCFE, \$/acre multiples).
- **Forecast** – Utilize a reserve report representative of independent estimates of the company’s oil and gas reserves and estimate date commodity price forecasts and capital costs. The reserve report should reflect production and decline forecasts developed by a qualified reserve engineer.
- **Commodity Prices** – Estimate revenue based on commodity price expectations as of the valuation date. NYMEX futures prices and industry analyst pricing may be considered to estimate revenue. Net pricing should reflect estimated quality, transportation, and other price differentials between benchmark pricing and realized prices for the subject reserves/properties.
- **Reserve Risking** – Apply reserve risking based on one or a combination of the generally accepted approaches to estimating asset-specific risks, which include reserve adjustment factors and risk-adjusted discount rates. Reserve risking should be applied considering the applicable reserve classifications and current industry/market metrics from sources such as the SPEE report .
- **Other Assets and Liabilities** – Review and discuss the associated balance sheet to identify any assets and/or liabilities that may need to be separately accounted for in the valuation estimates to properly reflect the value of the company/assets (e.g., working capital, derivatives, JV interests).
- **Documentation** – Detail the approaches/methods and steps considered and selected in estimating the value of the company/assets. The valuation report should include documentation of supporting facts, key data and assumptions, and other considerations utilized in the analysis.

At Tall Oaks Partners, we bring together an in-depth understanding of technical valuation topics and knowledge of the oil and gas industry. We combine this knowledge and experience with a client-tailored approach to deliver cost-efficient and on-time valuation services. Our process is centered around collaboration with our clients, regular communication, and our team’s experience delivering advisory services. Have a question? Contact us at [info@talloakspartners.com](mailto:info@talloakspartners.com) to get time scheduled with one of our Managing Partners.

1. The Society of Petroleum Evaluation Engineers (“SPEE”) report is a survey conducted annually to obtain opinions from the evaluation community regarding a number of economic parameters used primarily in the U.S. and Canada to evaluate oil and gas properties.