Charitable Opportunities with Oil and Gas Rights
by Scott Porterfield, Business Development Manager - Northeast Division

From small businesses to large corporations, the need to increase revenue, manage risk, and help the bottom line has never been greater. Businesses are exploring every avenue to increase revenue. The same holds true for non-profit entities and charities.

Due to the need of finding new sources of revenue, Farmers National Company is seeing many universities, endowments, and foundations soliciting and accepting gifts of oil, gas, and mineral rights into their portfolio. Oil and gas assets are attractive as a source of revenue because the assets have a production life that can last for decades. However, management of these long-term assets in a portfolio can present many challenges. Before accepting such a gift, a non-profit organization needs to consider the following topics:

1. What is the value of the asset? This is important for both the donor and the entity.
2. What is the liability being assumed by accepting the oil and gas gift? A due diligence assessment of the gift is necessary prior to acceptance.
3. What type of ownership interest is being offered (i.e., royalty interest, overriding royalty interest, unleased interest, and/or working interest)?
4. What are the on-going management needs for the asset (i.e., lease marketing and negotiation, review of production versus revenue, and division order review)?
5. If the organization decides to sell an asset, how is the best price garnered from the market?

The oil and gas management division of Farmers National Company works with these types of opportunities for our non-profit clients every day. Having the right team of experts working for you can make all the difference. For additional information, please give me a call at (724) 493-6847 or email SPorterfield@FarmersNational.com.

It is Important to Know What You Own
by Melody Martinez, CPL, Vice President - Oil and Gas Management, Fort Worth, Texas

From farm management to real estate sales, there are multiple considerations when owning land. Something landowners may forget to consider is the ownership of the minerals beneath the surface (some refer to this as oil and gas rights). Have your minerals ever been severed from the surface? To sever the minerals means that someone, somewhere in the chain of title, made a reservation of all or some fraction of the minerals. Reservations are sometimes listed on the last deed of record, but the reservation can also be buried in deed records going back in time. If you are not sure of the ownership of your minerals, a landman can research and determine the mineral ownership status.

Why is it important to know what you own? Most of the time, minerals have value. If the mineral value has not already been factored into your listing price, that value can be used as a negotiating tool or you can consider reserving them. Oil and gas is...
prevailing throughout much of North America, so no matter where you own land, a mineral reservation is something to consider. Mineral interests, whether the ownership is 100% or a fractional interest, are a form of real property and can be passed generation to generation. If you do not live in the state where your mineral property is owned, you are encouraged to create an estate plan. Start building your mineral portfolio today, and when those oil and gas lease offers come along, Farmers National Company has the experts in the field to help you! For more information, please contact me at 1-888-880-8865 or MMartinez@FarmersNational.com.

The Benefits of a Professional
by Chay Jackson, RPL, Assistant Mineral Manager, Fort Worth, Texas

It is no secret that lately it has been rough times in the oil field. Oil prices have dropped significantly over the last couple years to a decade low of $26 per barrel in mid-February 2016. With these dips in commodity prices, we have also seen a significant cut in oil and gas drilling and leasing activity. What used to be wholesale county-wide leasing, land grabs have turned into very concentrated offset tract leasing, ie much smaller areas.

In times like these, it is very important to have a professional on your side. You need a professional that is an expert in knowing the hot areas of the country and who the companies are that are operating and leasing in these areas. Most lease brokers are trying to secure a lower price for leases in these down times, but at FNC we strive to ensure our clients are getting at or above market value despite the dip in commodity prices.

Below is an illustration of how FNC has been able to out-perform initial lease offers.

<table>
<thead>
<tr>
<th>State</th>
<th>Current</th>
<th>Last Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alaska</td>
<td>5</td>
<td>13</td>
</tr>
<tr>
<td>Arkansas</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>California</td>
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<td>9</td>
</tr>
<tr>
<td>Louisiana</td>
<td>41</td>
<td>70</td>
</tr>
</tbody>
</table>

Initial Lease Offer From Broker - Total Dollars: $3,991,652.25
Average Dollars Per Lease Offer: $13,439.91
Final Negotiated Bonus by FNC - Total Dollars: $4,728,519.72
Average Dollars Per Lease Final Bonus: $15,920.94

As you can see, FNC has been able to obtain on average $2,481.03 more for each lease negotiated. This does not include the added value of higher negotiated royalties as well as having the potential for an even greater payday if a well is drilled on the negotiated lease.

Having a professional who has a finger on the pulse of the industry and their specialized area has paid major dividends for FNC clients this year, despite the depressed oil and gas economy. To speak to an oil and gas professional today, please contact David Smith at 1-888-880-8865 or DSmith@FarmersNational.com to get you started in the right direction.

Drilling Activity: The United States drilling rig count two years ago was over 1,900 and last year it stood at 842. Today the national onshore rig count now is 482, which is down 75% in two years. Here is a breakdown by state according to Baker Hughes for the week ending 9/16/16.

- Directional drilling: 48
- Horizontal drilling: 394
- Vertical drilling: 64
- Miscellaneous: 1

Total: 532

For additional information, please visit our website...www.FarmersNational.com

Farmers National Company Services Include:
- Oil and Gas Management
- Farm and Ranch Management
- Real Estate Sales
- Auctions
- Appraisals
- Consultations
- Insurance
- Forest Resource Management
- Lake Management
- National Hunting Leases
- FNC Ag Stock

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5. Land Listings Catalog
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Oil and Gas Scene - Fall 2016

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