

Oil and Gas Scene



Summer 2015

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David Smith, CPL
Senior Vice President
Oil and Gas Management

5110 S. Yale, Suite 400
Tulsa, Oklahoma 74135
Business: 1-888-880-8865
DSmith@FarmersNational.com
www.FarmersNational.com/DavidSmith
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Rain Clouds or Silver Lining

by David Smith, Senior Vice President - Oil and Gas Management

Record rains in Oklahoma, Texas, Colorado, Nebraska, and Arkansas have officially ended a multi-year drought and that is the “Silver Lining”. Many people often look for a silver lining in challenging times. Is the glass half full, or half empty attitude.

For those that rely on monthly royalty checks, they have experienced a financial drought over the past several months. The dark clouds caused by a 40% decline in crude oil and natural gas prices is discouraging. However, our Gas Management division has been able to find a “Silver Lining” for many of its clients during this drought period. Here are a couple of success stories you may find interesting.



The chart below represents the revenue growth of one of our trust clients (Client A). The steady yet dramatic increase in revenue was a combination of factors. The focus on maximizing revenue through leasing and recovery of suspended revenue has brought a ray of sunshine in an otherwise cloudy year. As you can see from the chart, through the management team’s negotiations and drilling in Wise County, Texas, and in the SCOOP area of Oklahoma, our client experienced a significant increase in revenue.

Wise County, Texas, is primarily gas production from the Barnett Shale reservoir and with enhanced drilling techniques, this area is under development and continues to net substantial revenue. About 60% of the revenue reflected in the chart is oil from the SCOOP area of Oklahoma and, in particular, Stephens County, Oklahoma. These horizontal wells are producing from the Woodford formation.

Continued on reserve side...

	2012	2013	2014
Client A	\$653,650	\$1,823,277	\$6,719,481
Client B	\$4,604,479	\$6,216,438	\$12,098,502



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Although rig count and prices have significantly diminished overall, operators continue to explore in selected and targeted resource plays where we have leasing success. Since January of this year, the same mineral management team responsible for Client A's revenue has completed negotiations on over 90 oil and gas leases for a variety of other accounts totaling just over \$750,000 in lease bonus. A Silver Lining for several of our clients!

Farmers National Company started managing Client (B) properties in January 2012 (see page 1). The account management team negotiated and closed over 600 oil and gas leases. Many of those lease tracts have been drilled and new production continues to generate strong royalty income streams. The Farmers National Company proactive leasing program continues to pay dividends and allows our leasing professionals to combine acreage from a number of interest owners, which in turn gives us a stronger negotiating position. Therefore our managers leverage mineral properties to maximize income.

When you hear the words "oil and natural gas" these days, you automatically think about the huge drop in prices, and for mineral owners, those have been some extremely dark rain clouds. But, the sunshine will return and the "Silver Lining" for many is the Farmers National Company oil and gas management team doing everything to maximize the monthly income during this downturn in commodity prices and drilling activity.

Drilling Activity

The United States drilling rig count one year ago was 1,858. Today that count is 857, that is 1,001 less rigs drilling today, a 54% decrease. Here is a breakdown by state according to Baker Hughes the week of June 19, 2015.

State	Count
Arkansas	5
California	11
Colorado	38
Illinois	3
Indiana	0
Kansas	13
Kentucky	0
Louisiana	37
New Mexico	43
New York	0
North Dakota	77
Oklahoma	105
Pennsylvania	47
Texas	363
Utah	8
West Virginia	19
Wyoming	21
Other	67
Total	857



UPSTREAM STATISTICS

	June 2015	June 2014	2013	2012	ANNUAL % CHANGE
United States					
Average Hughes Rig Count (Rolling 12 Months)	857	1858	1956	2204	-53.9%
PRICES					
Average WTI Crude Price (Rolling 12 Months)	\$59.53	\$107.08	\$98.24	\$83.99	-44.4%
Average U.S. Spot Market Gas Price (Rolling 12 months)	\$2.77	\$4.14	\$3.73	\$2.75	-31.0%
INVENTORIES: EIA EST.					
Crude Oil storage Mmbo**	479	369	363	367	23.0%
Natural Gas storage Bcf**	2433	1703	1408	1736	42.9%
Source of Hughes Rig Count is Baker-Hughes **Latest Month - Not YTD					

Farmers National Company's Oil and Gas Division manages over 140,000 properties in 40 states generating \$55 million in lease bonus revenues.

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