



WATCHMEN
ENERGY LLC

Guide to Estimating Oil and Gas Asset Values





Collect the most recent 13 months of:

- Revenue Checks
- Bills

What if you don't have 13 months of data?

Collect the most recent month and go back as far as possible.

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Summarize the data

- Organize Revenue and Expenses by Production Month
- For each Production Month, calculate one value each for:
Revenue
Volume Sold (Mcf of gas, bbl of oil)
Expense

What is the Production Month?

That is the calendar month the oil and gas was produced.

It is not the date of the check or bill.

Also, it is not necessarily the “Accounting Month” listed.

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Calculate the Monthly Cash Flow

- For each Production Month, subtract Expenses from Revenue.
- Make a note of the Cash Flow for the most recent month.
- Make a note of the average Cash Flow.
- The Watchmen Team will help you decide which value best represents your asset.

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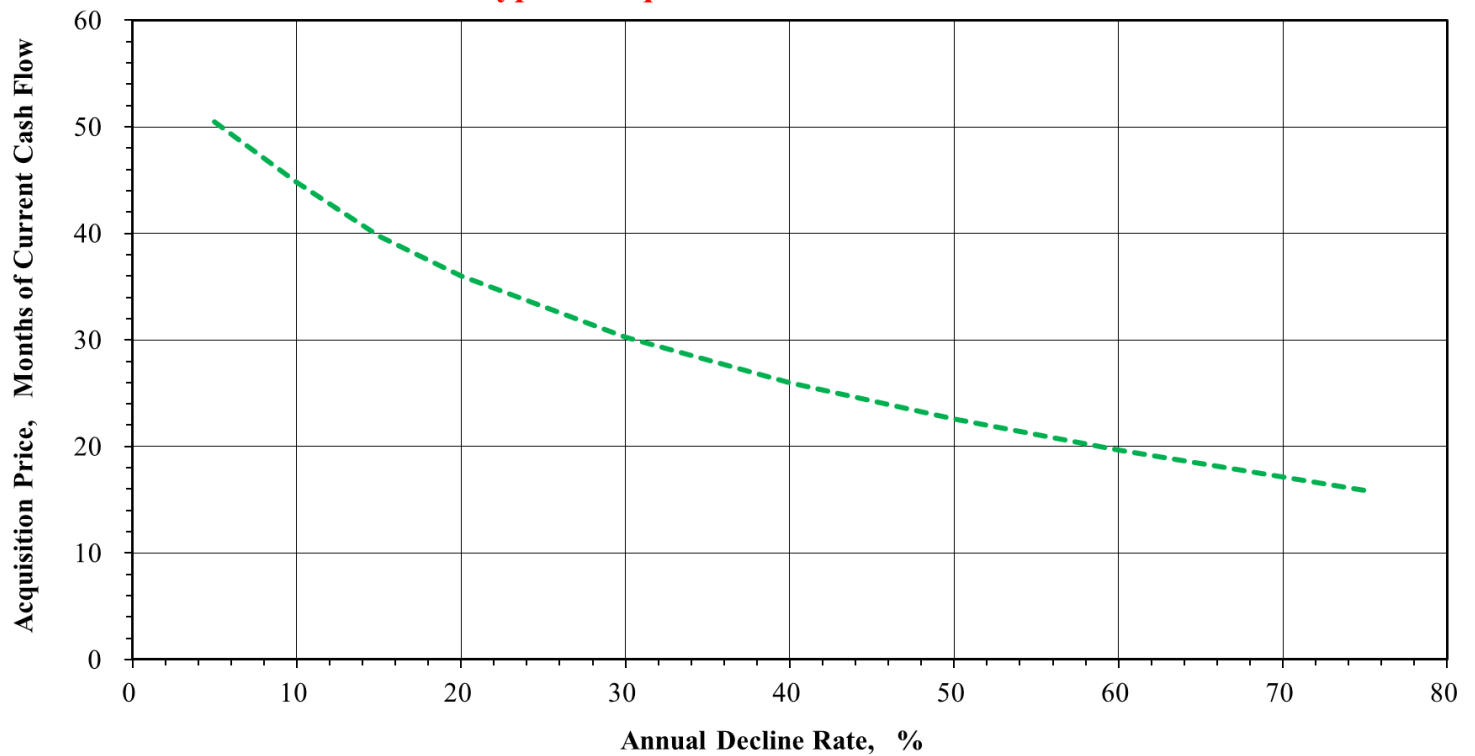
Calculate the Annual Decline Rate

- For the most recent Production Month, note the volumes of oil and gas sold and compare them to the respective volumes sold in the same month one year prior.
- The Annual Decline Rate is the percent the volumes have dropped in 12 months.
- If you have difficulty with this step, provide The Watchmen Team with your list of wells. We will help you using publicly available data.
- If your volumes are not declining, your wells will require a more detailed analysis than this quick guide offers. Contact the Watchmen Team for advice on how to proceed.

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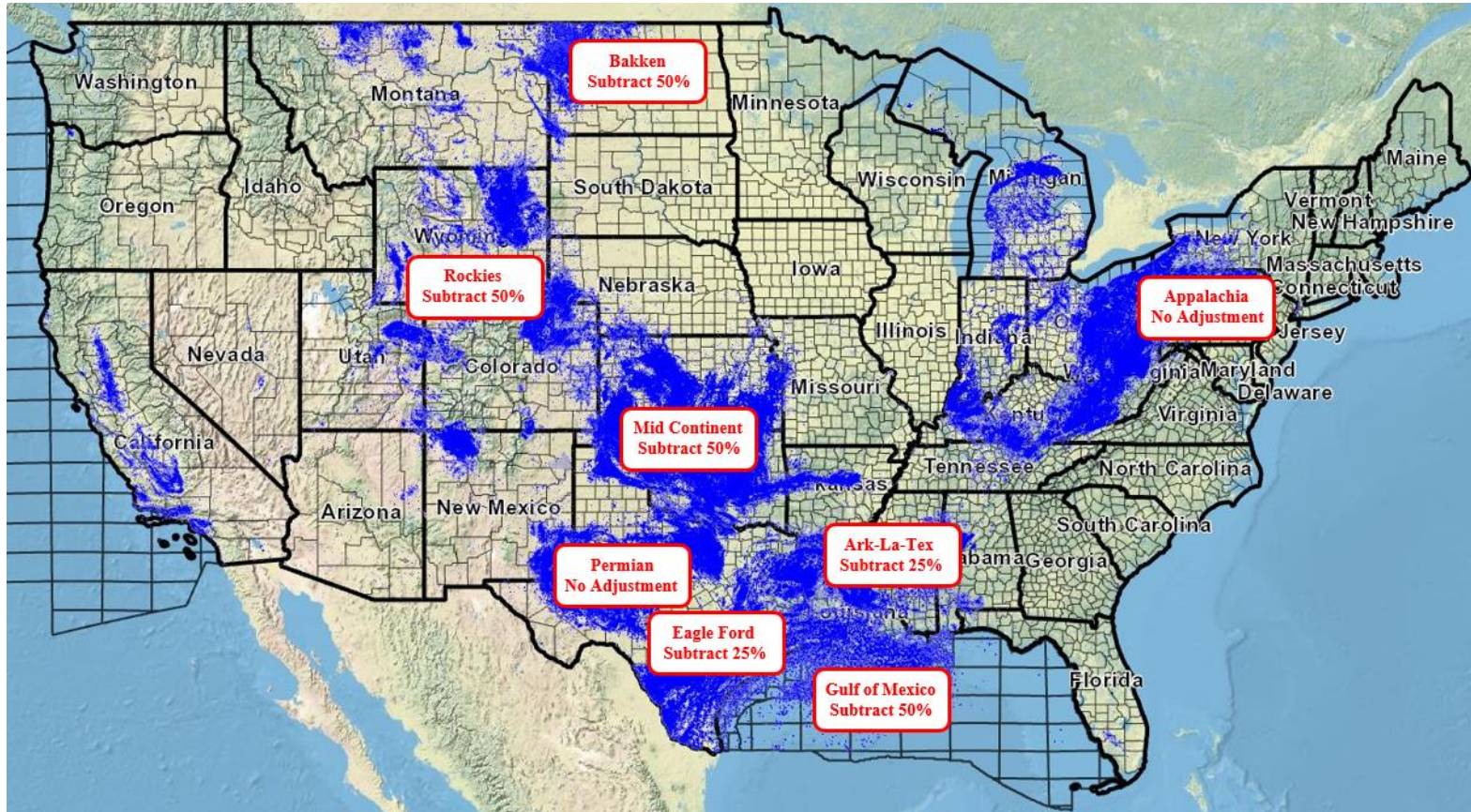
Estimate the Value using this chart:

Non-Operated Oil and Gas Property
Typical Acquisition Price vs. Decline Rate



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Adjust the Value using this map:



Example:

Suppose you wanted to sell this asset:

	Jan 2019	Jan 2020
Oil Volume Sold, bbl (=barrels)	1,000	900
Revenue less taxes and fees, \$	50,000	45,000
Expenses, \$	25,000	25,000
Cash Flow, \$	25,000	20,000

Example:

	Jan 2019	Jan 2020
Oil Volume Sold, bbl (=barrels)	1,000	900
Revenue less taxes and fees, \$	50,000	45,000
Expenses, \$	25,000	25,000
Cash Flow, \$	25,000	20,000

Calculations

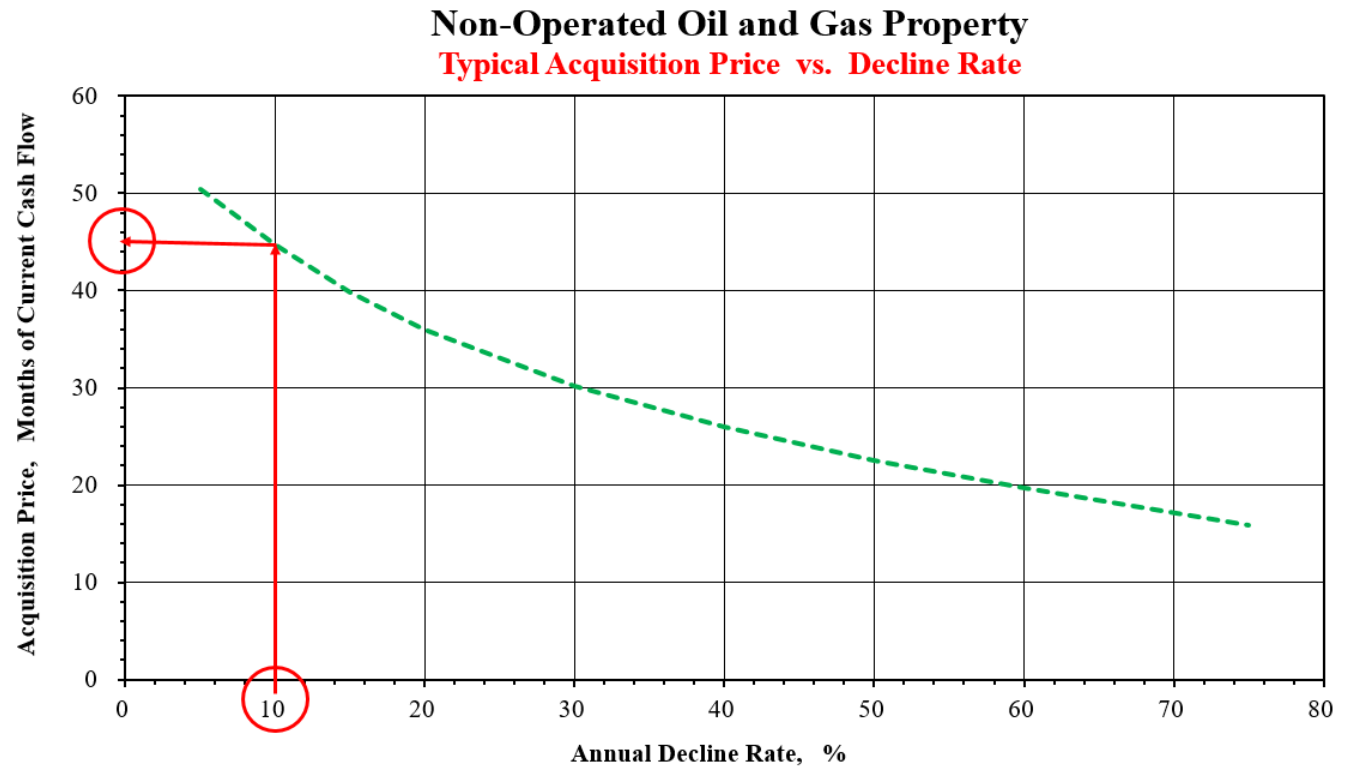
The oil volume sold dropped 100 bbl in one year, so the **Annual Decline = 10%**.

The **Cash Flow** is consistent with production and the most recent is **\$20,000 per month**.



Example:

Using the 10% Annual Decline, we find the typical asset value is worth about 45 months of current Cash Flow:



Example:

Using the 45 month multiplier, we calculate the following values for the various areas:

Area	Cash Flow	Multiplier	Value	Adjustment	Final Value
Ark-La-Tex	20,000	45	900,000	Less 25%	\$675,000
Appalachia	20,000	45	900,000	No Adjust.	\$900,000
Bakken	20,000	45	900,000	Less 50%	\$450,000
Eagle Ford	20,000	45	900,000	Less 25%	\$675,000
Gulf of Mexico	20,000	45	900,000	Less 50%	\$450,000
Mid Continent	20,000	45	900,000	Less 50%	\$450,000
Permian	20,000	45	900,000	No Adjust.	\$900,000
Rockies	20,000	45	900,000	Less 50%	\$450,000

Frequently asked questions:

What if my assets are mostly gas wells and not oil wells?

Some of that is accounted for in the Adjustments by area. After that, what matter most are the Annual Decline and Monthly Cash Flow regardless of fluid type.

What if my assets are Operated oil and gas wells (not Non-Operated)?

Operated wells are more valuable than Non-Operated wells. Typically, add about 30% to the Final Value calculated on the previous page.

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