

THE OPPORTUNITIES IN OIL & GAS ROYALTIES

Why high net worth investors are looking at the energy sector.

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Crude oil prices rose 77.94% across 2009. As amazing as that seems, RBOB gasoline futures rose 93.27%. Diesel fuel was up 49.16% for 2009 and heating oil rose 46.92%.¹ With great gains like these, qualified high net worth investors are taking a serious look at a special class of income-producing investments: oil, gas, coal, and shale royalties.

How do you get into this market? Well, oil and gas royalty interests may be bought and sold like any other investment. But they are intended for accredited investors. The Securities and Exchange Commission's definition of an "accredited investor" includes individuals with a net worth of \$1 million or more or annual income of \$200,000 or more, or trusts or partnerships with assets of \$5 million or more.²

How do many people enter this market? Through a 1031 exchange. Commonly, a real estate investor will want to exchange out of an unwanted property, and find an alternative replacement property solution. Since oil and gas royalty interests represent ownership of a percentage of gross revenue from real property, exchanging into one of these royalty interests qualifies as a like-kind exchange (provided the exchange is properly structured).^{3, 4}

Royalty and overriding royalty interests. If you own a royalty interest or overriding royalty interest in a property producing oil, natural gas, coal or shale, that means that you get some of the resulting revenue without having to pay the drilling or operating expenses. But the word "royalty" is often used loosely, so let's clarify how royalty interests and overriding royalty interests differ.

When you own a royalty interest, you own at least a portion of the minerals below the ground on that property. If you own an overriding royalty interest, you don't own any of those minerals: you own a portion of the revenues generated. When you own an override, your ownership interest expires when the wells run dry or the mine plays out, and the energy company stops leasing the mineral rights.⁵

There are actually royalty funds that buy and sell royalty interests; these are conceived as long-range, income-producing investment programs.

Would you like to learn more? Then talk with a qualified, securities-licensed financial advisor today - particularly, one that understands this sector and this distinct investment opportunity. This way, you can explore investment in oil and gas royalties with the right guidance.

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Citations.

¹ cnbc.com/id/34645043/page/2/ [12/31/09]

² sec.gov/answers/accred.htm [7/8/08]

³ irs.gov/irm/part4/ch35s03.html [7/31/02]

⁴ oscpa.com/cpa/enews/article-wire.asp?id=16204 [3/6/2008]

⁵ legacyroyalties.com/faq.htm#1 [7/8/08]