DEDUCTIONS FROM
HESS BAKKEN INVESTMENTS
BEAVER LODGE ROYALTY OWNERS
SINCE 2004

MASTER LIMITED PARTNERSHIPS
AFFILIATED AGREEMENTS

Year	"Other Deduction" as a % of Gross Royalty	Taxes as % of Gross Royalty	Total Deductions %	Source-IRS
2004	0.000		5.620	1099
2005	0.000		5.620	1099
2006	0.000		7.190	1099
2007	0.000		9.920	1099
2008	0.000		9.200	1099
2009	5.790	3.290	9.080	1099
2010	2.666	9.054	11.720	1099
2011	2.217	8.908	11.125	1099
2012	1.845	10.161	12.006	1099
2013	2.451	9.463	11.915	1099
2014	2.615	10.301	12.917	1099
2015	20.675	7.039	27.714	1099
2016	35.533	6.533	42.066	1099
2017	37.480	5.832	43.312	1099
2018	29.895	6.437	36.332	1099
2019	34.800	6.420	41.220	1099
2020	37.060	4.520	41.580	Monthly statements

ROYALTY INTEREST PDF

ROYALTY INTEREST CSV

Heade	OwnerNu	CheckNum	CheckDate	PropNur	PropS	PropNar	Product	Produ	TX	LeaseVo	Price	LeaseGr	LeaseTax	LeaseOt	LeaseNe	Disburse	Interest	InterestO	InterestT	IntrestO
1	14522601	E009173711	5/25/2019	100004	47	BEAVER L	42019	100		114.84	65.5159	7523.85	-601.51	-666.5	6255.84	0.002232	RI 01	16.79	-1.34	-1.44
1	14522601	E009173711	5/25/2019	100004	48	BEAVER L	42019	100		114.71	65.5237	7516.22	-600.93	-665.78	6249.51	0.001954	RI 01	14.69	-1.17	-1.26
1	14522601	E009173711	5/25/2019	100004	48	BEAVER L	42019	100		114.71	65.5237	7516.22	-600.93	-665.78	6249.51	0.000279	RI 02	2.1	-0.17	-0.17
1	14522601	E009173711	5/25/2019	100004	49	BEAVER L	42019	100		115.82	65.5196	7588.48	-606.7	-672.17	6309.61	0.001955	RI 01	14.83	-1.19	-1.26
1	14522601	E009173711	5/25/2019	100004	49	BEAVER L	42019	100		115.82	65.5196	7588.48	-606.7	-672.17	6309.61	0.000279	RI 02	2.12	-0.17	-0.17
1	14522601	E009173711	5/25/2019	100004	50	BEAVER L	42019	100		116.38	65.5235	7625.63	-609.66	-675.51	6340.46	0.001463	RI 01	11.16	-0.89	-0.96
1	14522601	E009173711	5/25/2019	100004	50	BEAVER L	42019	100		116.38	65.5235	7625.63	-609.66	-675.51	6340.46	0.000209	RI 02	1.59	-0.12	-0.14
1	14522601	E009173711	5/25/2019	100004	61	BEAVER L	42019	100		102.27	65.5239	6701.13	-535.74	-593.63	5571.76	0.001831	RI 01	12.27	-0.98	-1.05
1	14522601	E009173711	5/25/2019	100004	61	BEAVER L	42019	100		102.27	65.5239	6701.13	-535.74	-593.63	5571.76	0.000262	RI 02	1.75	-0.14	-0.15
1	14522601	E009173711	5/25/2019	100004	62	BEAVER L	42019	100		31.57	65.5496	2069.4	-165.44	-183.31	1720.65	0.000987	RI 01	2.04	-0.16	-0.16
1	14522601	E009173711	5/25/2019	100004	62	BEAVER L	42019	100		31.57	65.5496	2069.4	-165.44	-183.31	1720.65	0.000141	RI 02	0.29	-0.02	-0.01
1	14522601	E009173711	5/25/2019	100004	64	BEAVER L	42019	100		0.08	63.75	5.1	-0.42	-0.43	4.25	0.003662	RI 01	0.02	0	0
1	14522601	E009173711	5/25/2019	100004	65	BEAVER L	42019	100		3.26	65.4479	213.36	-17.05	-18.9	177.41	0.001953	RI 01	0.42	-0.03	-0.03
1	14522601	E009173711	5/25/2019	100004	65	BEAVER L	42019	100		3.26	65.4479	213.36	-17.05	-18.9	177.41	0.000279	RI 02	0.06	0	0
1	14522601	E009173711	5/25/2019	100004	66	BEAVER L	42019	100		0.4	65.45	26.18	-2.1	-2.32	21.76	0.001953	RI 01	0.05	0	0
1	14522601	E009173711	5/25/2019	100004	66	BEAVER L	42019	100		0.4	65.45	26.18	-2.1	-2.32	21.76	0.000279	RI 02	0.01	0	0
1	14522601	E009173711	5/25/2019	100004	67	BEAVER L	42019	100		0.07	60.2857	4.22	-0.33	-0.34	3.55	0.007813	RI 01	0.03	0	0
1	14522601	E009173711	5/25/2019	100004	138	BEAVER L	32019	204		0.04	0	0	-37.7	-13218.1	-13255.8	0.002232	RI 01	0	-0.08	-4.87
1	14522601	E009173711	5/25/2019	100004	138	BEAVER L	32019	400		4160.05	0.5687	2365.84	0	-145.8	2220.04	0.002232	RI 01	5.28	0	-0.24
1	14522601	E009173711	5/25/2019	100004	138	BEAVER L	102014	204		0	0	0	-103.19	-412.52	-515.71	0.002232	RI 01	0	-0.23	-0.92
1	14522601	E009173711	5/25/2019	100004	139	BEAVER L	32019	204		0.04	0	0	-37.66	-13204.7	-13242.4	0.000279	RI 02	0	-0.01	-0.61
1	14522601	E009173711	5/25/2019	100004	139	BEAVER L	32019	204		0.04	0	0	-37.66	-13204.7	-13242.4	0.001954	RI 01	0	-0.07	-4.26
1	14522601	E009173711	5/25/2019	100004	139	BEAVER L	32019	400		4155.83	0.5687	2363.44	0	-145.65	2217.79	0.001954	RI 01	4.62	0	-0.21
1	14522601	E009173711	5/25/2019	100004	139	BEAVER L	32019	400		4155.83	0.5687	2363.44	0	-145.65	2217.79	0.000279	RI 02	0.66	0	-0.03
1	14522601	E009173711	5/25/2019	100004	139	BEAVER L	102014	204		0	0	0	-103.09	-412.1	-515.19	0.000279	RI 02	0	-0.03	-0.12
1	14522601	E009173711	5/25/2019	100004	139	BEAVER L	102014	204		0	0	0	-103.09	-412.1	-515.19	0.001954	RI 01	0	-0.2	-0.81
1	14522601	E009173711	5/25/2019	100004	140	BEAVER L	32019	204		0.04	0	0	-38.03	-13331.7	-13369.7	0.001955	RI 01	0	-0.07	-4.3
1	14522601	E009173711	5/25/2019	100004	140	BEAVER L	32019	400		4195.78	0.5687	2386.16	0	-147.05	2239.11	0.001955	RI 01	4.66	0	-0.21
1	14522601	E009173711	5/25/2019	100004	140	BEAVER L	32019	400		4195.78	0.5687	2386.16	0	-147.05	2239.11	0.000279	RI 02	0.67	0	-0.03
1	14522601	E009173711	5/25/2019	100004	140	BEAVER L	102014	204		0	0	0	-104.08	-416.06	-520.14	0.001955	RI 01	0	-0.2	-0.81
1	14522601	E009173711	5/25/2019	100004	140	BEAVER L	102014	204		0	0	0	-104.08	-416.06	-520.14	0.000279	RI 02	0	-0.03	-0.12
1	14522601	E009173711	5/25/2019	100004	141	BEAVER L	32019	204		0.04	0	0	-38.21	-13396.9	-13435.1	0.001463	RI 01	0	-0.06	-3.23
1	14522601	E009173711	5/25/2019	100004	141	BEAVER L	32019	204		0.04	0	0	-38.21	-13396.9	-13435.1	0.000209	RI 02	0	-0.01	-0.46
1	14522601	E009173711	5/25/2019	100004	141	BEAVER L	32019	400		4216.32	0.5687	2397.84	0	-147.77	2250.07	0.001463	RI 01	3.51	0	-0.16

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ROYALTY STATEMENT OVERVIEW

$2.34/MCF

Product	TX	Lease Volume	Price	Lease Gross Value	Lease Taxes	Lease Other Deductions	Lease Net Value	Disbursements	Interest Type
100 Total	Crude	117,268.35		7,683,870.67		-680,644.59		-5.800	BBLS
203 Total	Gas	29,576.35		88,985.31		-20,914.95		-0.710	MCF
204 Total	Gas	263,381.21		783,609.41		-3,421,632.22		-12.990	MCF
300 Total	Condensate	2,750.64		180,226.91		-15,964.73		-5.800	BBLS
400 Total	Plant Product	3,995,189.98		2,036,063.94		-144,435.15		-0.036	GALS
								575	
						Price paid per MCF		$2.34	

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Hess Midstream Partners Quarterly Report 8/14/2020

· Stable and growing cash flows supported by long-term, fee-based contracts.

Our commercial agreements with Hess provide us with an attractive and stable cash flow base with significant opportunities to grow our business. Our long-term, fee-based commercial contracts with Hess, a high-quality commercial counterparty, provide substantially all of our revenues. They are based on broad Bakken production dedications with minimum volume commitments, annual inflation escalators and fee recalculation mechanisms, all of which are intended to provide us with cash flow stability and growth, as well as downside risk protection.

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HOW TO MAKE DEDUCTIONS FROM THE ROYALTY STREAM FOR POST-PRODUCTION EXPENSES

Minimizing Liability While Improving
the Company's Bottom Line

By Marlin K. Brown, CPL

While oil and gas producing companies are required to pay costs of producing liquid and gaseous hydrocarbons, many oil and gas leases set out certain costs that should be shared between lessors (mineral rights owners who leased their land to oil companies) and lessees (the oil companies that bought the rights to explore, drill for and produce oil and gas).

Past issues of *The Landman* (May/June 1989, May/June 1998, January/February 2013 and others) have featured articles exploring the legal basis for making deductions for post-production expenses and taxes. The information in these articles is useful for landmen to gain knowledge about the adjudication in the states that influence this area. However, once a landman has a sense of what items may be deducted under the applicable case law, the question remains as to how to work with his employer or client to actually implement such deductions.

Most oil and gas leases currently in force have a provision that says the lessee pays all taxes on producing properties; then the lessee reimburses itself for the lessor's royalty share (equal to the royalty percentage) of such tax payments. Most companies use accounting software that includes one or more "slots" for inputting ad valorem taxes (local county property taxes, also called "school taxes") on producing minerals as well as a slot for local or state severance taxes. And virtually all leases specifically allow the lessee to deduct the lessor's royalty share of those taxes from the royalty stream. Many companies deduct for these taxes.

However, depending on the adjudication and statute law in a state, the language in the leases and the circumstances of production, there may be many other items that may legally and properly be deducted. This article lists steps that may be followed to first find out if more deductions are possible and then implement such additional deductions in a fair,

consistent and defensible manner. It is recommended that you perform a study on your top five properties to determine feasibility.

There are seven steps in finding out how much your company can benefit by deducting for post-production expenses. Once this work is done and the decision is made to proceed, implementation can follow.

Feasibility Study

Adjudication

Review applicable case law and build a table for the state or states in which your properties are located. This table presents applicable rulings in a brief form (*see Table A*). This is a list of rulings for California. You may need to enlist the aid of an experienced oil and gas attorney to determine from adjudication (and statute law, if any) what items are deductible in your state.

Chart of Accounts

Review the company's chart of accounts and match line items with deductible expenses (*see Table B*). Use Table B as a go-by and be guided by your findings from Table A. Some "direct" costs (example: metering costs) may be for a particular lease while other "spreadable" costs (example: gas plant serving several properties) are spread among several leases.

Spreadable Expenses

If the company has both direct and allocated spreadable expenses, build a spreadsheet like the example shown in Table C (*see page 25*). Spreadable expenses are costs incurred at the field or regional level, which are split out (allocated) to individual properties. For example, the telephone bill for the office at which the management for a group of properties is done might be allocated out to each of those properties in the same

Issue: Lost North Dakota Tax Dollars

M.E. Denomy, CPA, MBA
Accredited Petroleum Accountant

==Oil and Gas Companies Use Master Limited Partnerships and Affiliate Agreements to
Divert Taxable Income away from North Dakota==

1. Oil and Gas Companies have split their operations into categories, such as Production, Marketing, Gathering, Processing. Each "division" is often filed as a separate business, frequently using the form of a Master Limited Partnership.
2. The Master Limited Partnership is not taxed as a business in North Dakota.
3. The net income of the division is "passed through" to the owners of the Master Limited Partnership. Each owner will report their own share of the net income.
4. Oil and Gas Companies can use each of the separate divisions to reduce their taxable income to North Dakota by raising postproduction costs (PPC's) paid to divisions that have high expenses, like plants.
5. The PPC's are deducted from the royalty owners.
6. Royalty owners will pay less tax because the PPC's are deducted from gross royalties thereby reducing net royalties received.
7. The production company will also pay less tax on the oil and gas income by applying PPC's paid to affiliates.

Potential Dollars Overlooked:

Scenario 1: Basic assumptions-annual loss (current price and production)

Production per day=	1,200,000 barrels
Per barrel price=	$45
North Dakota average lease=	1/8 royalty
Average PPC=	10% (one major prod. is over 35%)

1,200,000 x 45 X 0.125 x 0.10 x 365 days = $246,375,000 ND income tax exempt

Scenario 2: Basic assumptions-annual loss (January 2020 price & production)

Production per day=	1,400,000 barrels
Per barrel price=	$60
North Dakota average lease=	1/8 royalty
Average PPC=	10% (one major prod. is over 35%)

1,400,000 x 60 x 0.125 x 0.10 x 365 days = $383,250,000 ND income tax exempt

The total postproduction costs to royalty owners (taken by the oil producers) for one year would be $383,250,000. It appears that only a ridiculously small amount of ND State income tax is paid on this wealth generated from ND oil production.

Attached is a graphic that provides a simplified picture of what the consequences are on 1,000,000 barrels of oil at $45 per barrel when a $5 PPC per barrel is charged. That equates to $312,000 per day or $113,880,000 per year in untaxed wealth at the current production of 1,200,000 barrels per day and $5 PPC rates.
I believe the $5 PPC per barrel is very conservative.

The second ND State Income Tax avoidance is due to the PPC's charged on produced natural gas. That difference may be deduced by subtracting the dollars in red in the previous paragraph from the previous dollars shown in red earlier in this correspondence.

Respectfully,
|

Bob Skarphol
Williston Basin Royalty Owners Association (WBROA)

COMPANY A OWNS BOTH THE
PRODUCTION COMPANY AND
A MAJORITY OF THE MASTER LIMITED PARTNERSHIP(MLP)
Marginal Tax Rate Max is 5.2% (2019 rate)

Company A Produces a $45
Barrel of Oil, 1,000,000
barrels
Value = $45,000,000
Full Tax would be
$2,340,000

Company A MLP Charges $5
for expense
Taxed in Texas

Company A pays Tax in North Dakota on the
net of $40.00 per barrel, Value = $40,000,000
Tax is $2,080,000

Lost Tax Revenue=
$260,000 per million
barrels

Gas Plant Postproduction Charges (PPC's)

("Other Deductions")

An Actual Gas Plant PPC in May 2019

May 2019 PPC per MCF= $12.99 per MCF

250,000 MCF per day X $12.99 per MCF X 365 Days = $1,185,337,500

$1,185,337,500
Annual Postproduction Charges

Postproduction costs deducted from Private Royalty Owners and
Working Interest Royalty Owners

$1,185,337,500 X 1/8 lease = $148,167,187

$148,167,187
Annual PPC's deducted from Royalty Owners
at just <u>one</u> plant of this size

How would you, as a Royalty Owner, spend these dollars if you received
them as opposed to being withheld from your check?

Help fix this problem for Royalty Owners, join the Williston Basin Royalty Owners Association

Join Today at

wbroa.com