



LOCKE FUNDS

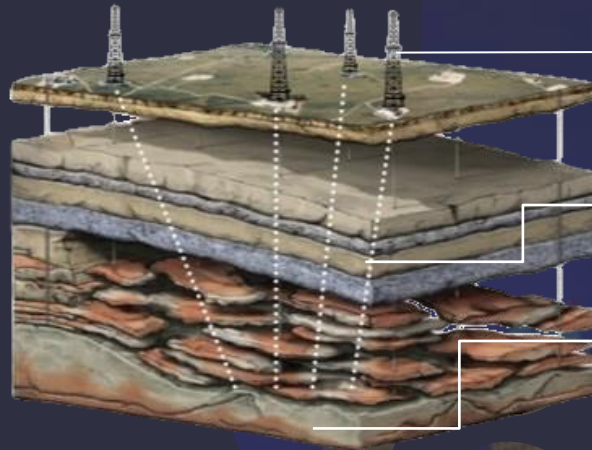




MINERALS 101

What is a Mineral Asset?

Mineral Rights represent the ownership of subsurface minerals on a particular tract of land. These rights are considered real property and are deeded to the owner of the rights. These rights are often severed from the rights to the deeded land and thus can have separate owners from the surface acreage.



WELLS ARE DRILLED

OIL AND GAS ARE FOUND

PROPERTY OWNER RECEIVES PAYMENT

Mineral Asset Value

Minerals and corresponding royalties carry value in various ways. Exploration companies typically will lease your mineral rights, granting the right to develop and explore for Oil, Natural Gas, or other natural resources. This usually results in multiple ways to earn a return. First, if your rights are unleased, a lease bonus will be paid to the owner in a lump sum payment.

In the Oil and Gas world, a new lease also comes with a royalty paid to the owner of the rights in the event hydrocarbons are extracted from the asset. These royalties are generally 12.5% - 25% of revenues an Oil and Gas company will generate from the property, resulting in an ongoing cash flow. Furthermore, once leased, ownership of minerals will entitle the owner to a royalty on all future development on their asset.

Tax Implications of Mineral Investments

Depletion – A portion of income from oil and gas assets is tax deductible on an annual basis. Typically, this deduction is approximately 15% of revenue.

Exchange Eligible – Minerals are recognized as real property by the IRS and thus can be acquired, or divested, using like-kind exchange rules defined in Section 1031 of the Internal Revenue Code.

Characteristics of a Mineral Investor

- ◆ Interested in a potential Like-Kind Exchange for tax deferral
- ◆ Long-term investors looking for passive income
- ◆ Value investors seeking potential new cash flows



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CONTACT US
DAVID NICKLOY @ 913.904.4230
IAN LANG @ 316.304.4325