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2023 ENERGY CONFERENCE

NOVEMBER 1st
11:00 AM - 5:00 PM

QUORUM SOFTWARE BUILDING
811 Main Street, Suite #2100
Houston, TX 77002

***4.5 HOURS OF CPE**
pending approval

quorum software

USI

Tommy Byrd

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WE ARE AN INDEPENDENT MEMBER OF
THE GLOBAL ADVISORY
AND ACCOUNTING NETWORK

Housekeeping Items

- If you need CPE, please make sure to sign via Conference.io QR Code. You can find on your tables and at registration table. If you need CLE Credit, please see the registration table.
  - Survey & Certificates will be sent to email after the conference concludes from LCVista.
  - Please fill out survey, your feedback is appreciated.
  - Sign-in located at registration table. Please make sure to sign out!
- Materials will be sent out after the event.
- Join us for Networking hour immediately following the conference.
- Other questions? Email Marketing@whitleypenn.com

Thank you to our sponsors!

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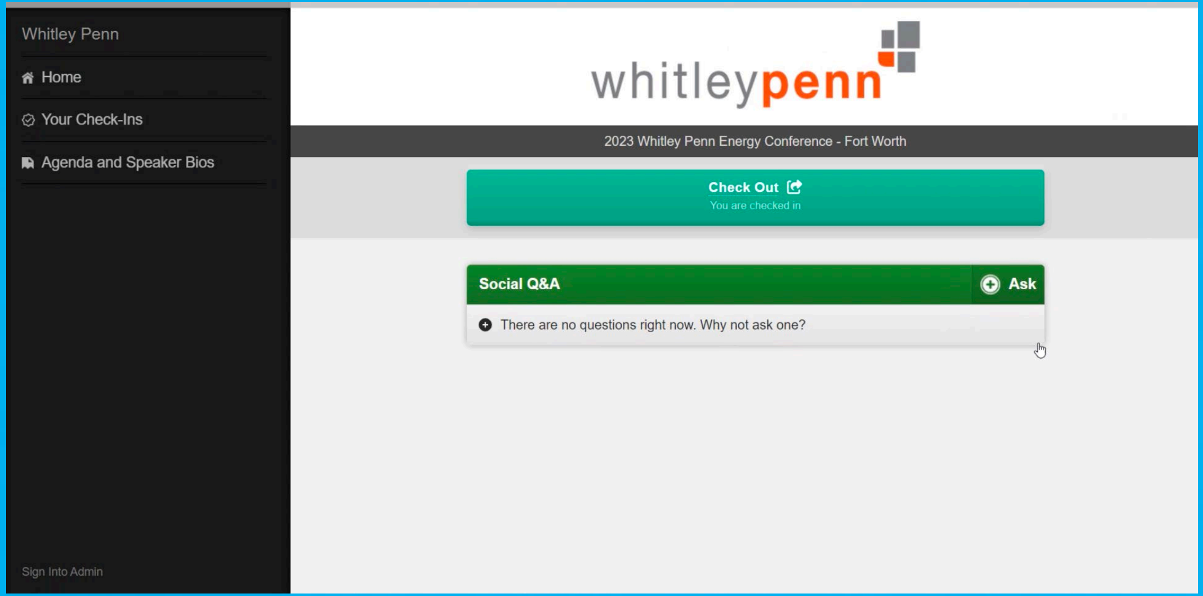
WHITLEYPENNCPE.CNF.IO

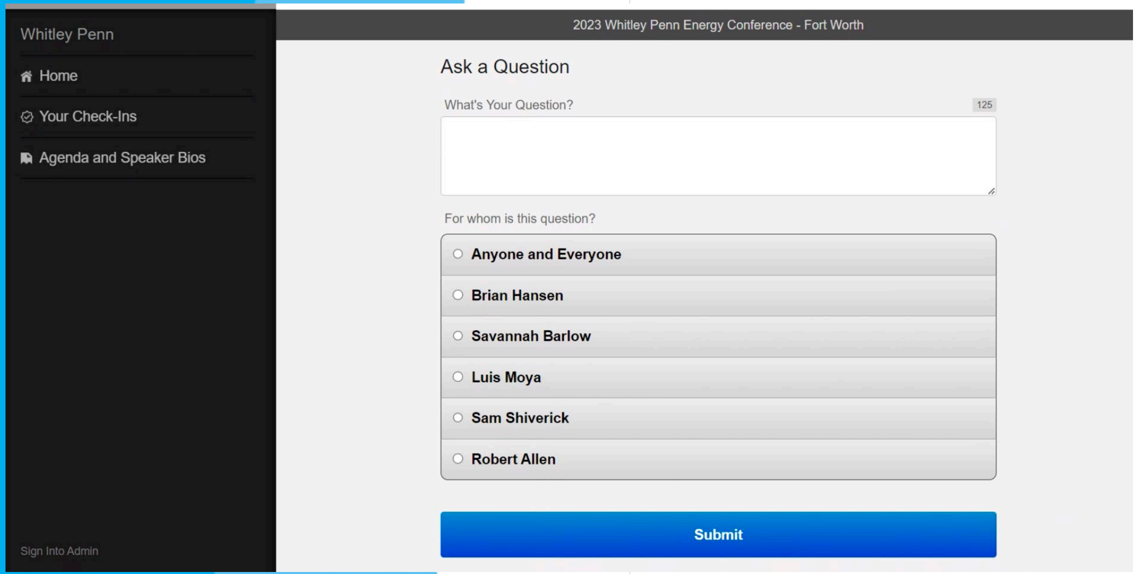
- Navigate to https://whitleypenncpe.cnf.io/ and tap the session titled "2023 Whitley Penn Energy Conference – Houston"
- OR just point your phone’s camera at the QR code to join directly or utilize QR Code on Table.
- Don’t forget to check out if you leave the conference

WHITLEYPENNCPE.CNF.IO Q&A feature



- Use the Q&A feature to ask our speakers questions!

- Select any of the listed speakers during their speaking time.



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About the Firm

Whitley Penn is the 37th largest firm in the nation based on 2023 rankings in Accounting Today, 39th in the nation based on 2023 rankings in INSIDE Public Accounting's "Top 100 Firms", and one of the fastest growing firms in the nation. We have an extensive team of experienced audit, tax, consulting, and valuation professionals that we are able to draw upon as needed.

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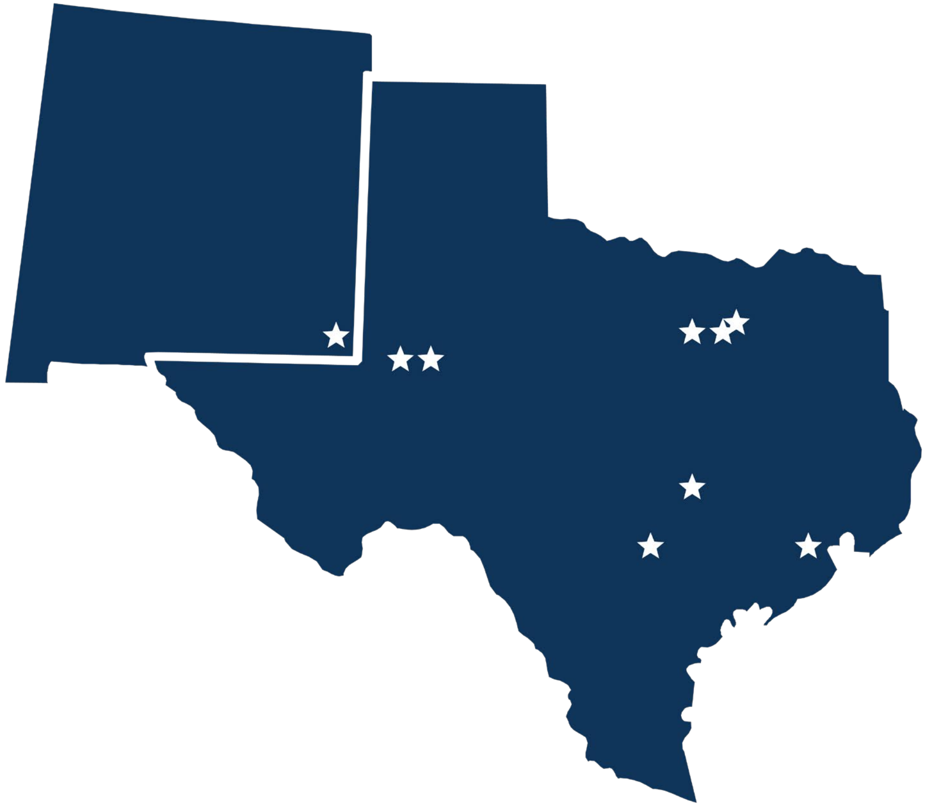

800+
Professionals

#37
by Accounting Today

9
Offices

HLB
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Our Services

- Audit
- Consulting
- Forensic, Litigation & Valuation
- Client Accounting & Advisory Services
- Risk Advisory Services
- Tax
  - International
  - SALT
- Transaction Advisory Services
- Wealth Management (WPWealth)

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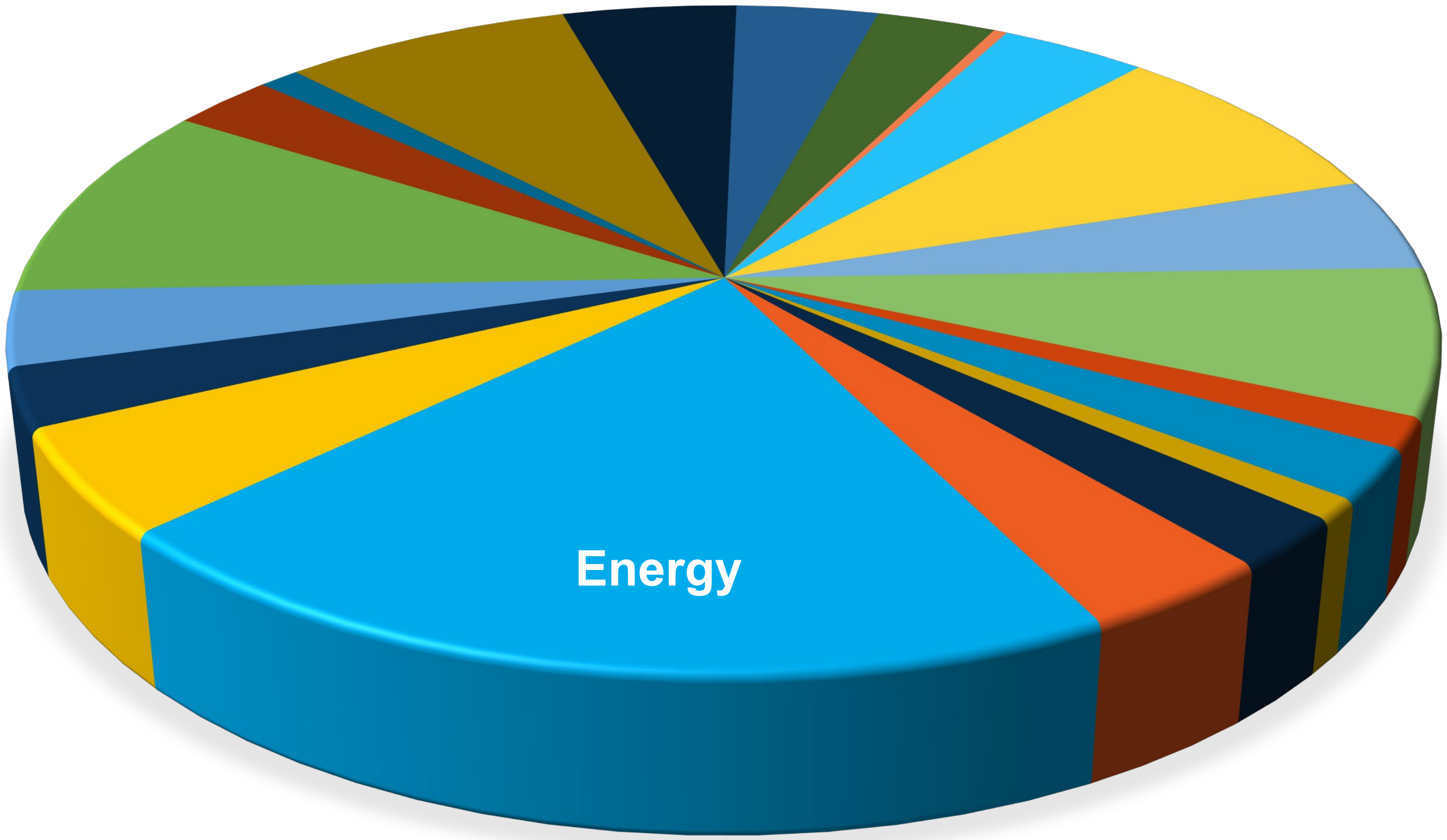
Our Industries

- Agriculture
- Construction
- Employee Benefit Plans
- **Energy**
- Estate & Gift Planning
- Family Office & High-Net-Worth Individuals
- Financial Institutions
- Healthcare
- Manufacturing, Distribution & Logistics
- Nonprofit
- Private Equity & Investment Funds
- Professional Services
- Public Sector
- Real Estate & Construction
- Restaurant, Entertainment, Retail & Hospitality
- Technology
- Transportation
- Veterinary Medicine

WP Industry Breakdown



Who we work with in the Energy Industry

- Upstream
- Midstream
- Oilfield Services
- Renewables

Up Next:
Mineral Management & Asset Update

Buffie Campbell, Senior Manager

Whitley Penn

Break

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Up Next:
On Demand: The Importance of a Modern Technology Suite in Oil & Gas

Ryan Monahan, Director

Quorum Software

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HLB THE GLOBAL ADVISORY AND ACCOUNTING NETWORK

Up Next:

Panel Discussion: Insights into Energy Finance

Amanda Beabout, **Audit Partner at Whitley Penn & Moderator**

Lidiya Deane, **Director – Valuation Advisory**

Leslie Simmons, **Controller at DG Petrol Oil & Gas**

Brianna Muhlenkamp, **Business Opportunity Manager, Deepwater Growth at Shell**

Break

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Up Next:

Navigating the Insurance Market

David Artzerounian, Sr. Vice President

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Up Next: IRA Update and Refresher on Upstream Oil & Gas Transactions

Robert Jacobson, Partner

Wilkie Farr

Up Next:

Tax Update feat. State and Local Tax Update

Joe Lavis, Tax Partner

Brandon Newton, SALT Sr. Manager

Whitley Penn

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Thank you for attending, see you all next year!

Join us for Networking Hour in the CEC!

MINERAL MANAGEMENT

ISSUES & UPDATES FOR MINERAL OWNERS

WHAT IS MINERAL MANAGEMENT?

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- The Whitley Penn Mineral Management Team's goal is to make the owner's life as easy as possible by moving all mail, depositing, paperwork, etc. to our team. We also want the client to fully understand the status of operation on what they own, while also having peace of mind that the highest value will be extracted from those assets for years to come.
- Our team of experts include attorneys, certified landmen, certified mineral managers, CPAs, tax specialists, and certified appraisers.
- WP currently manages over 1,500,000 gross mineral acres and ~9,000 individual well bores across the United States, representing individual mineral owners, working interest owners, trusts, family offices, foundations, charities and aggregate mineral buyers.

MINERAL MANAGEMENT 101

UNCOVER THE FULL VALUE OF YOUR MINERAL PORTFOLIO

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- **Asset Inventory -** Know what you own
- **Royalty Audit -** ex: 4-year look-back period
- **Division Order Review -** Confirm interest in a well or unit
- **Proactive Land Management -** Look for issues with payments before they get out of hand, monitor permits, drilling, and timeliness of payments.
- **Software that you're comfortable working with**

LAND & OPERATOR: THIS IS A PARTNERSHIP!

- Mineral/Landowner needs operator to drill
- Operator needs Mineral/Landowner for drillable acreage
- Without cooperation from both sides this doesn't work

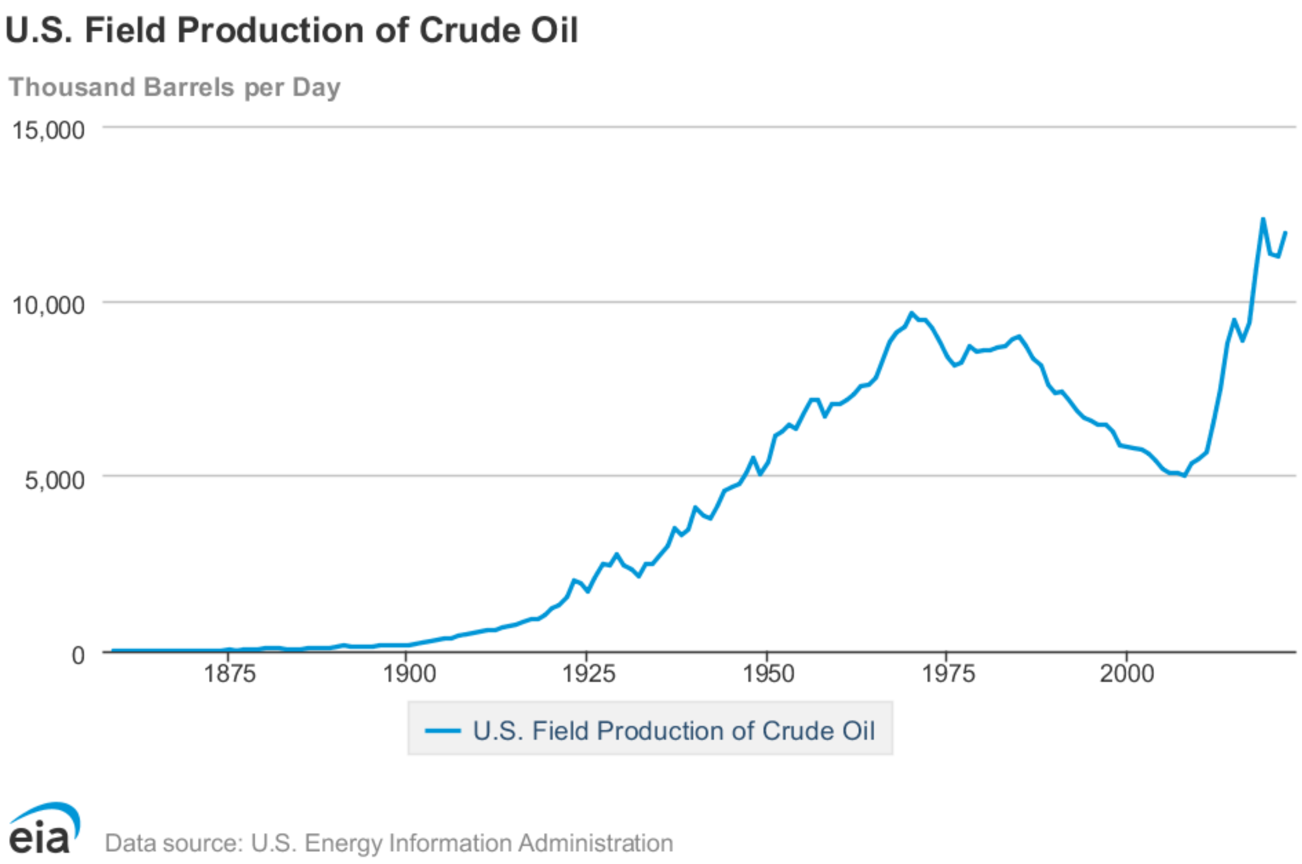
ALTHOUGH, ALL PARTIES ARE DUE THEIR CORRECT PAY BASED ON NEGOTIATED TERMS. TERMS CAN BE DIFFERENT IN EVERY LEASE!

WHAT TO WATCH OUT FOR

- Check detail reviews:
  1. Deductions
  2. Severance tax
  3. Decimal interest

- Property tax

- Case law we are watching:
  1. Produced water
  2. Rare earth minerals
  3. Pore space law



1. DEDUCTIONS

							0.00	TX_	
							6874.15	TX_SEV	
05/2023	OIL	0.0000	R2	68.75	13104.88	900997.23			859469.40
							81.93	TX_REG	TX Regu
							41445.90	TX_SEV	TX Severance
04/2023	GAS	1.0230	R3	0.17	14102.31	2376.10			-19601.76 0.00002943 0.00002
							446.63	CMP	Compression
							0.00	COMP_RR	COMPRESSION
							0.00	DEHY1_RR	DEHYDRATION
							0.00	GATH1_RR	GATHERING_RR
							0.00	LVF_RR	LOW VOLUME FEE_RR
							0.00	MKTNG_RR	MARKETING_RR
							16510.55	PROCC	PROCESSING
							3268.54	TREAT_RR	Treating Fee
							1735.88	TREAT1_RR	TREATING_RR
							16.26	TX_REG	TX Regulatory Fee
							0.00	TX_SEV	TX Severance Tax
04/2023	PPROD	0.0000	R3	0.61	149730.61	91655.47			84781.32 0.00002943 0.00002943
							0.00	TX_REG	TX Regulatory Fee
							6874.15	TX_SEV	TX Severance Tax
04/2023	GAS	1.0230	R4	0.17	14102.31	2376.10			-19601.76 0.00002943 0.00002943
							446.63	CMP	Compression
							0.00	COMP_RR	COMPRESSION
							0.00	DEHY1_RR	DEHYDRATION
							0.00	GATH1_RR	GATHERING_RR
							0.00	LVF_RR	LOW VOLUME FEE_RR
							0.00	MKTNG_RR	MARKETING_RR
							16510.55	PROCC	PROCESSING
							3268.54	TREAT_RR	Treating Fee
							1735.88	TREAT1_RR	TREATING_RR
							16.26	TX_REG	TX Regulatory Fee
							0.00	TX_SEV	TX Severance Tax

TYPES OF DEDUCTIONS

1. State imposed taxes
2. Post-production Costs - expenses incurred in order to get the product from the wellhead to market
   - Gathering
   - Compression
   - Dehydration
   - Transportation
   - Marketing
   - Treating
   - Processing
   - Handling
   - Fuel
   - Low volume fee

3 parts of a “no deducts” analysis:

1. What is being valued?

2. Where is the point of valuation (at the well, downstream, etc.)?

3. How is value measured (amounts realized v. market value)?

BURLINGTON RESOURCES OIL & GAS CO., LP V. TEXAS CRUDE ENERGY LLC, 573 S.W.3D 198 (TEX. 2019)

- *Burlington* – court re-iterated that royalty owners generally do not pay production costs, such as for geophysical surveying and drilling wells, but usually are required to pay post-production costs that are incurred to bring gas from the wellhead to market.
    - "market value at the well" defined as the commercial market value less expenses incurred to get product to market.

- *Burlington* allowed for varied definition of the value point and the value method so that post-production costs could be separated from the royalty calculated.
    - "gross value received" prohibits post-production deductions
    - "at the well" permits post-production deductions

OTHER NOTABLE CASES GUIDING POST-PRODUCTION COSTS

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Hawkins vs. Capitan

- Capitan is paid based on a price formula by purchaser and product is sold at or near the wellhead. Hawkins wanted PPC that are part of the pricing to be added back or "grossing up".
- Courts ruled in favor of Capitan, the operator is not obligated to "gross up" the price it receives from its purchaser when calculating the owners' royalty because the PPC charged by the purchaser were not "incurred" by the operator, but by the purchaser.

Devon vs. Sheppard

- Devon selling under pricing formula that sets the price based on an index and then subtracted a certain amount for "gathering, handling, and transportation."
- Royalties paid on price Devon actually received, but lease contains "add back" provision.
- Texas Supreme Court rules in favor of Shepard, Devon must add back costs when calculating royalties.

STRONG LEASE LANGUAGE IS KEY TO AVOIDING DEDUCTIONS

- Express wording in the Lease
- Cost-free clause for deductions
- Case law can be very specific

BE AWARE OF DEDUCTION CHANGES OVER TIME

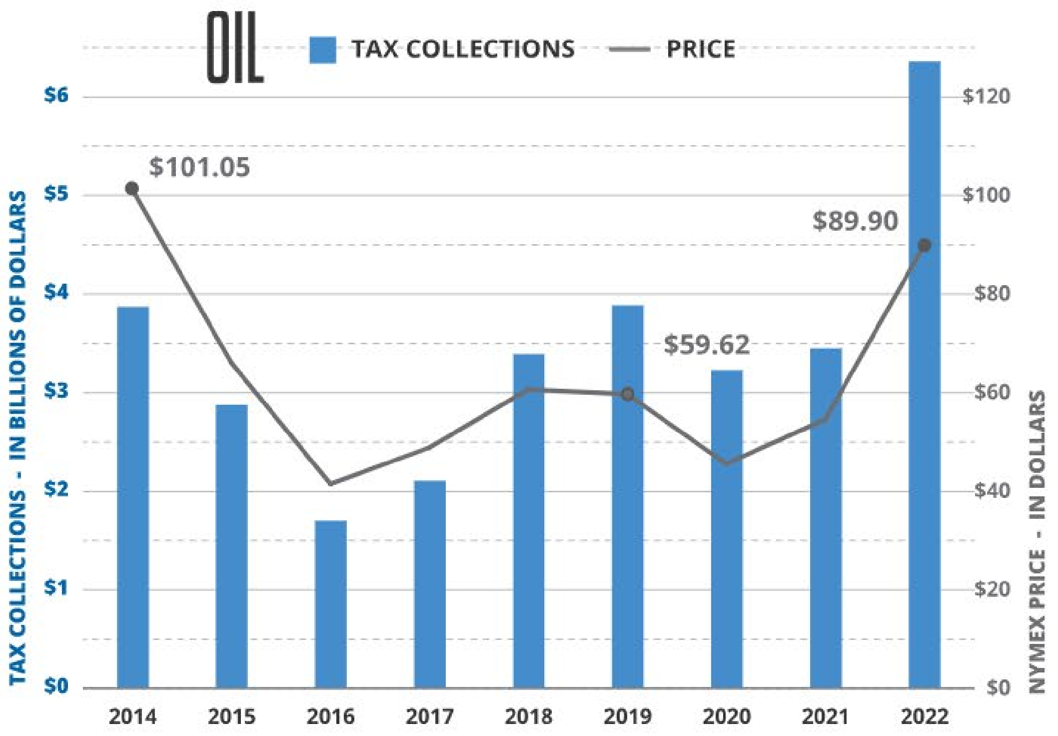
2. SEVERANCE TAX

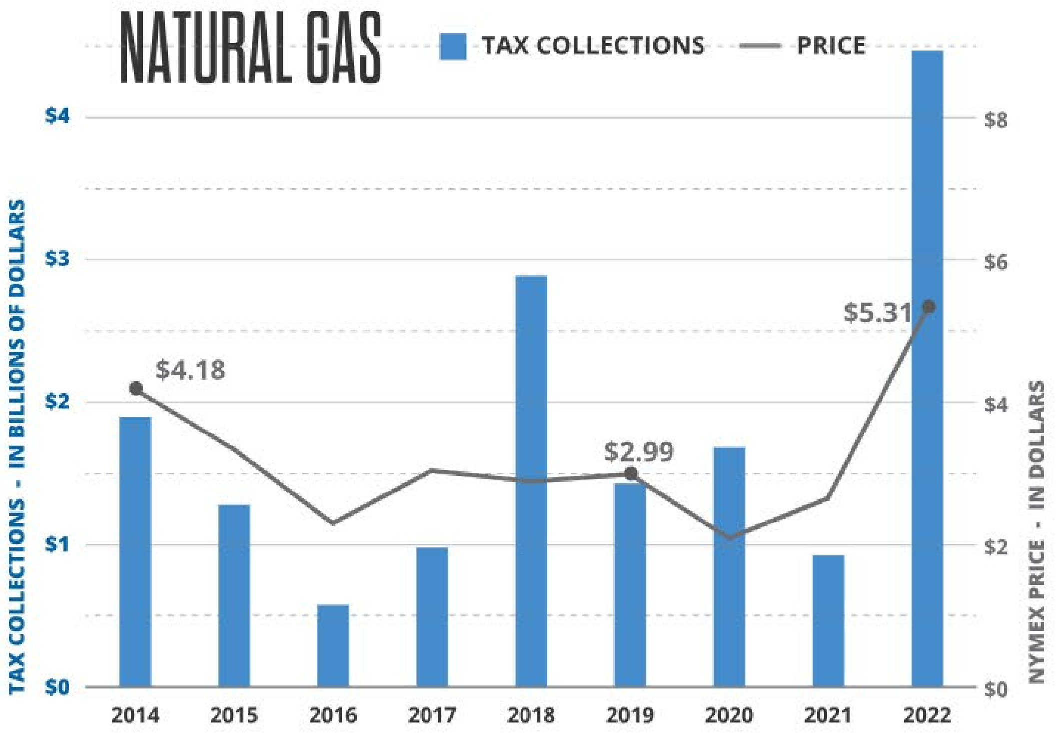
State tax imposed on the extraction of non-renewable natural resources, including oil, gas and mineral interests

HIGHLY VOLATILE! – determining factors are PRICE and PRODUCTION

County budgets are generally estimated based on multi-year severance tax averages

Oil and Natural Gas Production Taxes, Annual Collections and NYMEX Oil and Natural Gas Prices, FY 2014-2022





Sources: Texas Comptroller of Public Accounts; U.S. Energy Information Agency (E

SEVERANCE TAX RATES

North Dakota:
Generally 5%

Also levies oil extraction tax of 6.5%

Incentives for secondary and tertiary recovery projects

Oklahoma:
Generally 7%

New wells = 5% for first 36 months

Lower tax rates for secondary and tertiary recovery projects

Texas:
Gas = 7.5%
Oil = 4.6%
Condensate = 4.6%

Incentives for Enhanced Oil Recover (EOR), marginal wells and reuse/recycle hydraulic frac water, etc.

SHOW ME THE MONEY?

Most states allocate a larger portion of severance tax revenue to the general fund

OKLAHOMA: split between counties and school districts with remainder going to the state

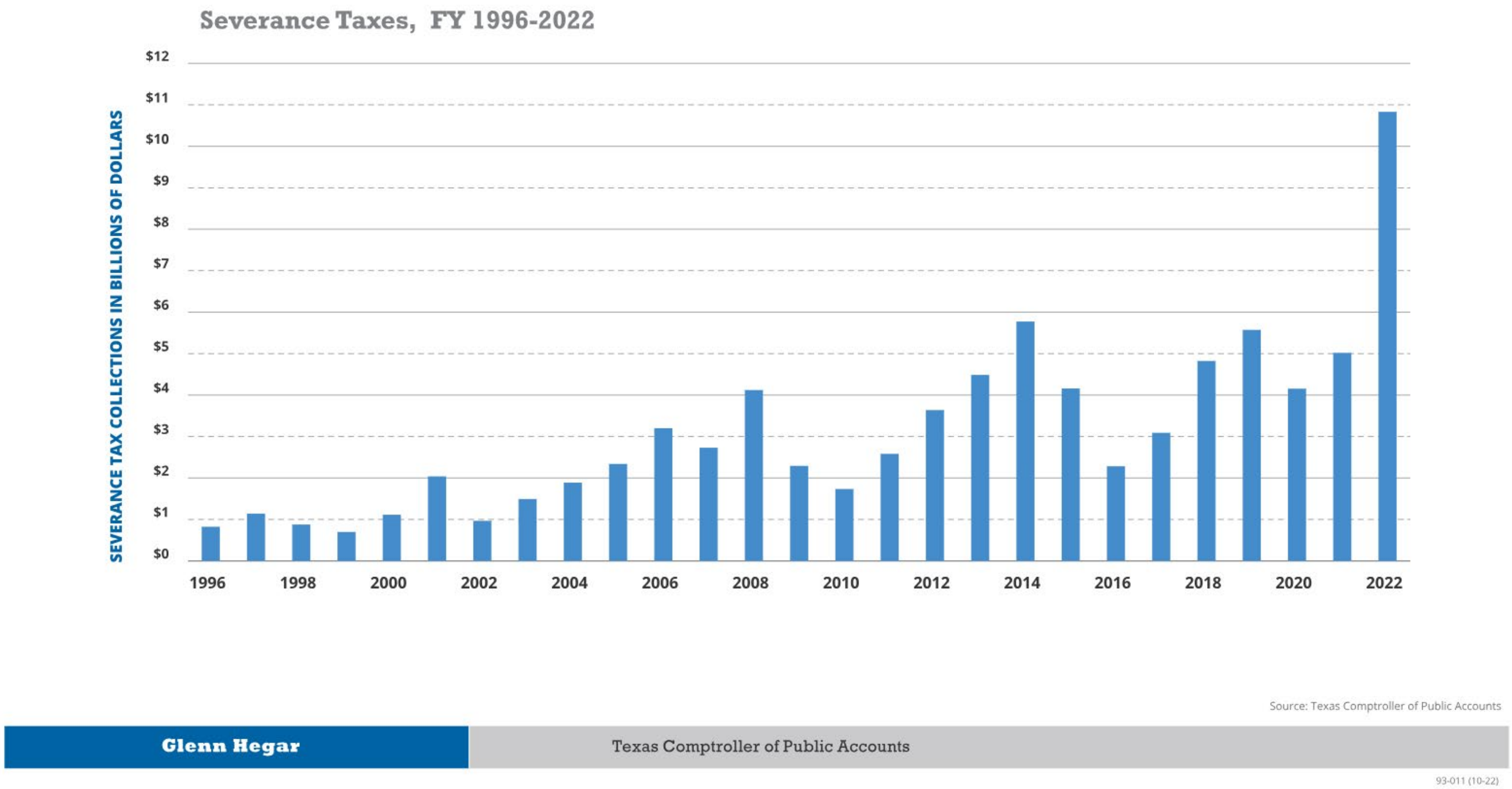
2022 – collected $1.152 billion

NORTH DAKOTA: split between State, Local, Tribal and permanent savings via the North Dakota Legacy Fund

2021- collected $1.662 billion

TEXAS: split between rainy day fund, state highway fund and the Foundation School Program (ensures that all school districts, receive "substantially equal access to similar revenue per student at similar tax effort.“ – Texas Education Agency)

Texas collected $10.83 billion in 2022 – HIGHTEST EVER!



3. ACCURATE OWNERSHIP DECIMAL

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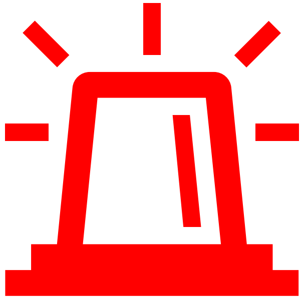
1. Calculate your interest
2. Confirm decimal on check is consistent with executed Division Orders
3. Work with the payor if there are any discrepancies.

WHAT CAN CAUSE DECIMAL DISCREPANCIES & CHANGE IN PAYMENTS?

- Title issues/concerns
- Human error
- System glitches
- Merger/Acquisition with incorrect deck pages
- Transitions
- Similar ownership names and/or ownership %



PROPERTY TAX

In March, county appraisal districts deliver value assessments which can be protested if the mineral owner does not agree with the value.

Mineral valuation can be determined using a

1. Market Value Comparison or
2. Discounted Cash Flow calculation

If not filing a protest, ask about early payment discounts.

DISCOUNTED CASH FLOW

Gross well valuation proportionately reduced by net ownership.

Accounts for 4 variables to determine well value:

1. production decline curve
   - compare volumes on check details to volumes reported at RRC
2. operating expenses
3. prices
4. discount rate

PENDING LEGISLATION

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House Bill 456 originally allowed royalties **donated** and owned by charities to be exempt from property tax.

The Texas Senate amended the bill to specific charities:

> non-profit hospital, certain shelters, elderly care facilities, museums, zoos, libraries, performing art theaters, volunteer fire departments, and organizations that provide direct human health, and welfare services

Signed by the Texas House and Senate in May 2023. Signed by Gov. Abbott in June 2023.
Effective 1/1/2024.

CURRENT ISSUES & PENDING CASE LAW

- Produced Water
- Rare Earth Minerals
- Carbon Capture & Storage

What is Produced Water?

- Produced Water – fluid byproduct that is returned to the surface during drilling and fracturing of wells.
- According to Energy.gov, the water can vary from fresh to brackish. The Appalachian Basin can present produced water that is 5-10 times saltier than seawater.

Photo by AhmadullinS Science & Technology
https://en.ahmadullins.com/publiclist/produced-water/produced-water-treatment

PRODUCED WATER LEGISLATION IN TEXAS

- House Bill 4856 – TCEQ has jurisdiction over recycled oil and gas fluids. Signed by Gov. Abbott in June 2023. Effective immediately.

- Senate Bill 1047 – Funding for Texas Produced Water Consortium. Signed by Gov. Abbott in May 2023. Effective immediately.

USING PRODUCED WATER

- Most is re-injected and stored underground
- Some operators treat and reuse on other drill sites
- Produced water can also bring up lithium and other rare earth minerals
- First projects look to be starting in Southern Arkansas. Several other targeted locations.

RARE EARTH MINERALS

Spot pricing as of February 2023:

Lithium carbonate (precursor to compound used in lithium-ion batteries) averaged $53,304/ton

Lithium-ion is most often used in rechargeable batteries

PRODUCED WATER & **RARE EARTH MINERALS**

Drilling can use from 1.5M to 16M gallons of water.

- At minimum, 1.5M gallons of water = 6,259 tons
  - If rare earth minerals make up 0.05% = 3.1295 tons X $53,304 = $166,815

- At maximum, 16M gallons of water = 66,763 tons
  - If rare earth minerals make up 0.05% = 33.38 tons X $53,304 = $1,779,368

RARE EARTH MINERALS

Who owns the rare earth minerals in produced water?

- Texas Natural Resources Code Sec. 122 – Unless expressly provided by in a contract (lease, SUA, etc.) the person who takes possession (operator) owns waste if treated for "beneficial use"
- RRC includes waste as an operator liability
- *Cactus Water Services vs. COG Operating, LLC*
  - Cactus leased the produced water from surface owner and attempted to claim the produced water
  - COG is the operator claiming produced water is waste which they possess
  - July 28, 2023 – Court of Appeals for 8th District of TX (El Paso) held that the mineral lessee under an O&G lease OWNS the water extracted simultaneously with oil and gas during production. Cactus has stated that they will appeal to the TX Supreme Court.

CARBON CAPTURE & STORAGE

CCUS – carbon capture utilization and storage

Who owns pore space in Texas?
Senate Bill 2107 was introduced but didn't pass committee. Its purpose was to clarify pore space as part of the surface estate and establish a Carbon Dioxide Storage Trust Fund to be held by the RRC to pay for damages occurring after the state assumes title to stored carbon dioxide.

Players in the space treading lightly on project launches unless they have an owner of surface AND minerals together (no severed estate).

North Dakota's Supreme Court issued a unanimous decision in August 2022 that affirmed the right of surface owners to profits and use of pore space for waste-water disposal and they can seek damages for unauthorized injections or migration into their pore space.

RECENT LEGISLATION IN TEXAS

- House Bill 450 – Bipartisan bill that provides a cause of action for bad faith washouts of an Overriding Royalty Interest in Oil & Gas leases
  Signed by Gov. Abbott in May 2023. Effective 9/1/2023.

  This occurs when an operator terminates or releases an older lease that includes overriding royalty burdens and then leases the same property shortly thereafter. Since the ORRI runs with the lease and not the land, this process effectively cuts out the ORRI holder from future production. This legislation provides for actual damages, the enforcement of a constructive trust on the new lease, and attorney's fees.

IMPORTANT TAKE-AWAYS

- Strong Lease language is essential
- Texas mineral owners are on notice to review and monitor oil and gas check detail for inaccuracies – Know what you own!
- A good rule of thumb is a 4 year look back period for reviews/corrections/adjustments
- Pay attention to new legislation and case law because it will affect your current and future leases.

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Buffie Campbell

Mineral Assets Senior Manager

Buffie Campbell brings 18 years of mineral management experience to Whitley Penn. She previously served as Director of Mineral Management at Merit Advisors, Vice President, Mineral Management at J.P. Morgan Chase, and Vice President, Mineral Management at Argent Mineral Management. She served as Vice President of Symposium for the Texas Energy Council (2020 and 2021), and in 2023 was elected to serve as President for TEC. She has been a featured speaker for numerous energy-related organizations, including the National Association of Royalty Owners (NARO). Buffie has significant experience in implementing processes and procedures for energy clients including bank set-up, internal accounting and controls, software set-up, and GIS mapping integration with revenue software. Throughout her career, she has managed assets for trusts, estates, foundations, charitable organizations, and agency accounts with real property and mineral interests throughout the United States.

Buffie received her BA in Psychology from the University of North Texas and JD from the Texas A&M University School of Law.

Contact

214.393.9305
Buffie.Campbell@whitleypenn.com

Practice Areas

Land Administration

Industry Experience

Asset Management
Business Development
Title Review
Royalty Revenue Audits

Education

Juris Doctorate - Texas Wesleyan University School of Law (now Texas A&M School of Law)

Bachelor of Arts in Psychology - University of North Texas

Professional Affiliations

State Bar of Texas

State Bar of North Dakota

Certified Professional Landman with American Association of Professional Landmen

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Jason Fitzgerald

Mineral Assets Manager

Jason Fitzgerald comes from a long line of oil & gas producers spanning four generations in North Texas and brings a unique perspective to the Mineral and Royalty space. With a background in both operating and mineral management, he leverages this knowledge daily, to shape the best management solutions possible for interest owners nationwide. Prior to joining Whitley Penn, Jason spent 4 years with MineralWare, a leading oil and gas management software where he led the business development team. Jason has participated and presented at several royalty owner education events including the World Oilman's: Mineral and Royalty Conference (MARC) and the Royalty Owner Institute's Mineral Management 101 classes. Jason is also a Registered Mineral Manager with the National Association of Royalty Owners. In 2023, Jason joined the Board of Directors for the National Association of Royalty Owners where he will serve a 3 year term as Director At Large.

Jason holds a Bachelor of Business Administration in Finance and Real Estate from Texas Christian University, and he is an active member of the TCU Block T Association and the TCU Frog Club. He currently resides in Fort Worth, TX.

Contact
817.259.9267
Jason.Fitzgerald@whitleypenn.com

Practice Areas
Oil and Gas Production
Mineral Management
Texas, Oklahoma, & Colorado

Industry Experience
Oil and Gas Software
Data and analytics
Oil and Gas Management
Oil and Gas Operations

Education
BBA in Finance and Real Estate from Texas Christian University

Professional Affiliations
National Association of Royalty Owners
National Association of Division Order Analysts
American Association of Professional Landman

Lee Caple

Mineral Advisor

Lee Caple draws from four decades of experience in the management of corporate and personal oil and gas interests in order to provide outstanding service and results for his clients. His experience includes mineral marketing, mineral appraisals, lease acquisitions, lease marketing on behalf of clients, advisory and support related mineral management services, exploration, and large production sales. Having worked extensively in the non-profit world, Lee provides distinctively wholistic counsel to clients, focusing upon client's personal and financial goals with consideration given to their risk tolerance and financial obligations. Lee is a former NARO Board Member and received his BBA in Marketing from Southern Methodist University.

Contact
lee@capleroyalty.com

Practice Areas
Lease Negotiation & Marketing
Mineral Management
Texas, & Oklahoma

Industry Experience
Operations
Expert Testimony
Land Management

Education
BBA in Marketing, Southern Methodist University

Professional Affiliations
National Association of Royalty Owners

On Demand

A Modern Technology Suite in Oil & Gas

November 1, 2023

Introductions

Ryan Monahan

Director, Channels & Global Alliances

Transforming the Business of Energy through Technology

Industry Leadership

95%
Top 20 E&P companies in the US trust Quorum

1,300+
Customers from emerging operators to supermajors & NOCs

1,450+
Team members with centuries of combined energy experience

Technology Leadership

25 Years
Of developing and delivering Energy Solutions

25%
Annual budget for R&D as a percentage of software revenue

500+
Employees dedicated to product development and innovation

quorum
Energy Suite

Planning, Economics & Reserves
- Strategy & Portfolio
- Business Planning
- Asset Development Planning
- Petroleum Economics
- Technical Forecasting
- Reserves Management

Execution & Well Operations
- Capital & Well Lifecycle Management
- Well Lifecycle Reporting
- Well Data Management

Production Management
- SCADA
- Production Operations

Land & Lease Management
- Land Management
- Land Acquisition
- Right of Way
- Renewable Development
- Document Management

Accounting
- Financials
- Revenue
- Division Order

Measurement
- Gas & Liquid Measurement
- Field Applications
- Oilfield Chemistry
- Environment & Emissions Management
- API Manual of Petroleum Measurement Standards (MPMS)

Midstream
- Gathering & Plant Accounting
- Pipeline Transaction Management
- Energy Marketing

LNG & Distribution
- Import/Export Terminal Management
- Utility/LDC Management

Logistics Management
- Personnel Logistics
- Cargo Logistics

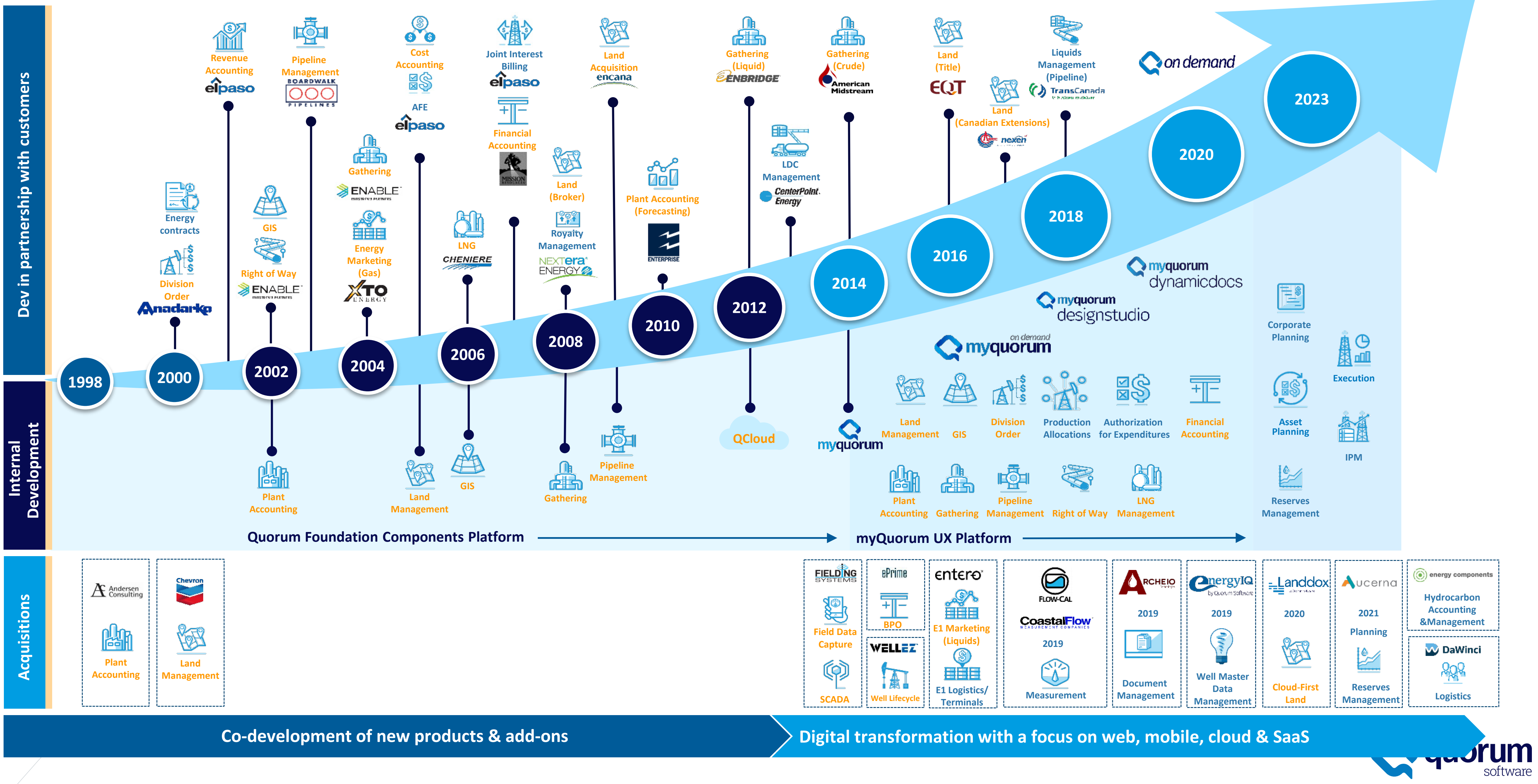
Energy IQ: Master Data Management | Visualization & API Integration | Document Management

Services & Support

Consulting | Implementation | Upgrades | Managed Services | Quorum University

Self Service | Help Desk | Incident & Service Requests | Out of Scope Support | Core Engineering Support | Hypercare

Quorum's Technology Evolution



What is SaaS?

- SaaS stands for Software-as-a-Service
- A software model in which software is licensed on a subscription basis and centrally hosted
- Delivery models:
  - Single-tenant
  - Multi-tenant

Understanding SaaS

- **Overall SaaS Benefits**
  - Eliminate IT infrastructure Costs
  - Accessible from anywhere
  - Predictable price model

- **Multi-Tenant SaaS Benefits**
  - Speed
  - Lower Cost
  - Scalability
  - Customization without Coding
  - Continuous, consistent updates & maintenance
  - Consistency improves product quality and supportability

SaaS Applications in Daily Life

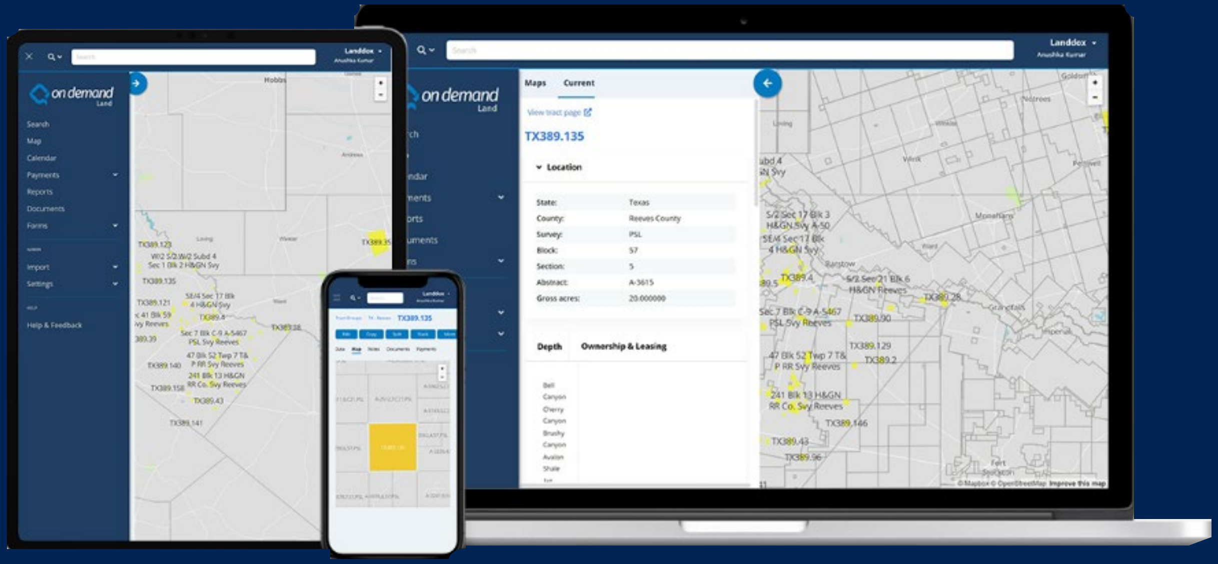
salesforce

DocuSign®

Office 365

slack

Software Built for the Modern Energy Business



Modern Platform Unique to O&G

The Upstream On Demand applications have a consistent, underlying architecture allowing each tool to be utilized uniquely and effectively for all different use cases.

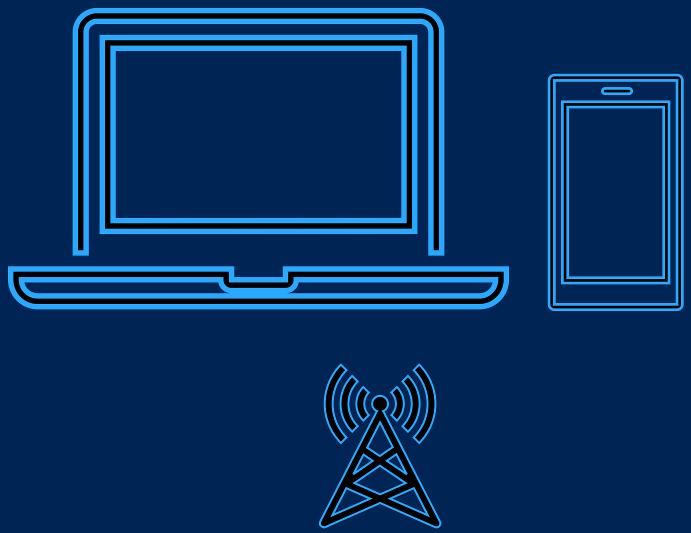
Accessibility	Maintenance And Support	Scalability	Flexible Configuration	Transparent Costs	Speed of Delivery

Core Functionalities

Accessibility	Maintenance and Support	Scalability	Flexible Configuration	Transparent Costs	Speed of Delivery

Built for the internet

Accessibility | Maintenance and Support | Scalability | Flexible Configuration | Transparent Costs | Speed of Delivery



Access your tools anytime & anywhere.

All of the On Demand applications are natively-built to be used on the web. Whether you access through a laptop, tablet, or mobile device, as long as you have an internet connection, you can connect to your business.

Improved approach to maintenance

Accessibility | **Maintenance and Support** | Scalability | Flexible Configuration | Transparent Costs | Speed of Delivery

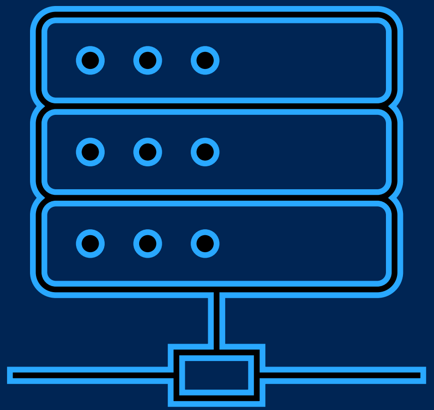
Standardized experience = simplified maintenance

All clients run the same version of each application meaning all updates and maintenance tasks can be performed centrally.

Upstream on demand

Sized for Startups & Majors

Accessibility | Maintenance and Support | Scalability | Flexible Configuration | Transparent Costs | Speed of Delivery



Architected to grow with you.

Each On Demand application has infrastructure designed to scale with your business. Companies managing 10s of wells can be running the same system as companies managing 1000s.

quorum software

Unique Setup for Each Company

Upstream on demand

Accessibility | Maintenance and Support | Scalability | Flexible Configuration | Transparent Costs | Speed of Delivery

Configurable for every client.

Clients can tailor their environments to suit their specific needs and requirements. Additional customization can occur via APIs and connecting 3rd party applications.

Simplified Subscription Model

Accessibility | Maintenance and Support | Scalability | Flexible Configuration | Transparent Costs | Speed of Delivery

No hidden fees.

Subscription-based pricing includes all support and maintenance elements. The upgrade and patch process are long gone and you no longer experience metered support.

Faster Time to Value

Accessibility | Maintenance and Support | Scalability | Flexible Configuration | Transparent Costs | Speed of Delivery

Database ready within days.

New environments can be created within a matter of days or weeks from request. These new databases can be uploaded with your data, configured to meet your needs, and set up ‘live’ in a matter of weeks.

Upstream on demand

Core Capabilities

Roles & Permissions

Auditability

Report Writer

API Capabilities

Master Data Integration

Validated Uploads

Enhanced Security

SOC Compliance

Public Cloud Stability

Disaster Recovery

Enhanced Data Reporting

Core Functionalities

Accessibility

Maintenance and Support

Scalability

Flexible Configuration

Transparent Costs

Speed of Delivery

quorum software

Unlock your data

Accessibility | Maintenance and Support | Scalability | Flexible Configuration | Transparent Costs | Speed of Delivery

Data Hub

No compiling, no correcting, just clean data from every part of your business in no time.

on demand Land

on demand Accounting

on demand Production

on demand Well Lifecycle

Free Your Data: Pull the data into your own on-premise data stores and integrate with other enterprise data.

BYO-BI: Use any leading BI tool (PowerBI, Spotfire, Tableau) to connect and build your own BI analytics.

Future Proof: We focus on serving you data so that you have the freedom to evolve your data visualization strategy independent of the operational applications

quorum software

Upstream On Demand

Upstream Energy Software with the Simplicity of the Cloud

Planning, Economics & Reserves

Execution & Well Operations

Production Management

Land & Lease Management

Accounting

Measurement

Midstream

LNG & Distribution

Logistics Management

OGsql

Upstream on demand

Land
Land Management
Land Acquisition

Accounting
Financial
Revenue
Division Order

Dynamic Docs
Document Management

Well Header
Business Associates
AFE
COA

Production Operations
SCADA
Field Data Capture
Allocations
Regulatory Reporting

Jobs

Well Operations
Well Lifecycle Reporting

Key Highlights

Upstream on demand

96%

Customer Renewal Rate Through On Demand Suite of Solutions

500+

Companies (and Counting) Trust One or More On Demand Products

95%

Average CSAT Score Across On Demand Suite of Solutions

quorum software

Some of Our Customers…

Boomtown Oil

Ovintiv

dp DAYLIGHT PETROLEUM

NPC NEW PROSPECT COMPANY™

BLACKBEARD OPERATING

LONGREACH ENERGY

BAYTEX

URBAN OIL & GAS GROUP LLC

POINT ENERGY PARTNERS

RAMenergy

Tall City Exploration

TEXAS AMERICAN RESOURCES CO.

SURGE Energy

BLACK MOUNTAIN OIL & GAS

WildFire Energy

SAGE NATURAL RESOURCES

TUG HILL OPERATING

bp

STEPHENS NATURAL RESOURCES

SAMSON OIL & GAS LIMITED

Thank You.

May We Answer Your Questions?

quorumsoftware.com

October 24, 2023

COMMERCIAL INSURANCE, SURETY & RISK MANAGEMENT EDUCATION

NAVIGATING THE INSURANCE MARKET

David Artzerounian, Partner, SVP, Energy Team Lead
www.usi.com

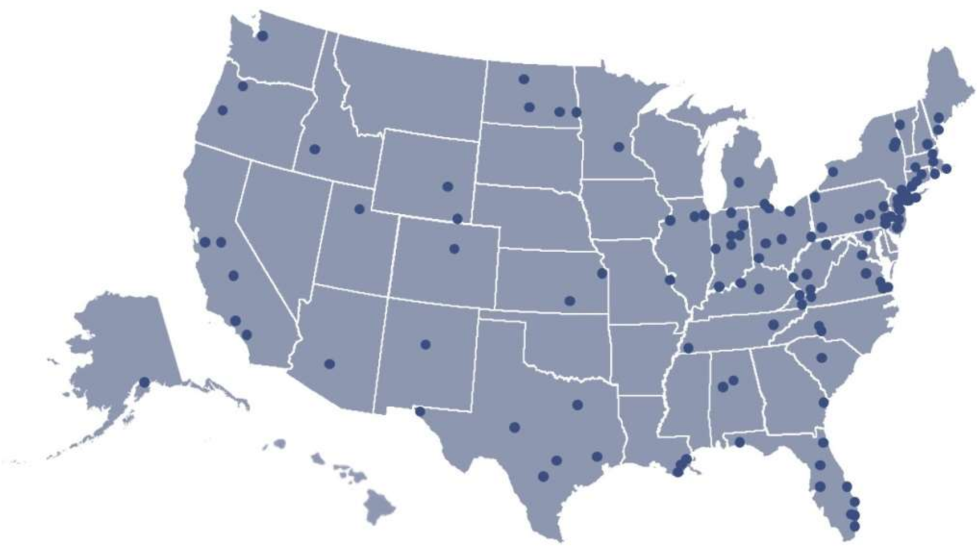
Agenda

- Who is USI?
- Current State of Market
- Challenge Areas / News
- Risk Financing
- Risk Mapping
- Risk Control | Risk Profile
- Risk Transfer | Niche Coverage
- Optimizing Value
- Questions | Contact | Connect

USI Brings National Capabilities & Local Expertise

USI is a national insurance brokerage and consulting firm with more than 200 local offices connected across the U.S. and a leading market position in all core businesses.

Top 10 US Broker - $2.6B+ in U.S. revenue

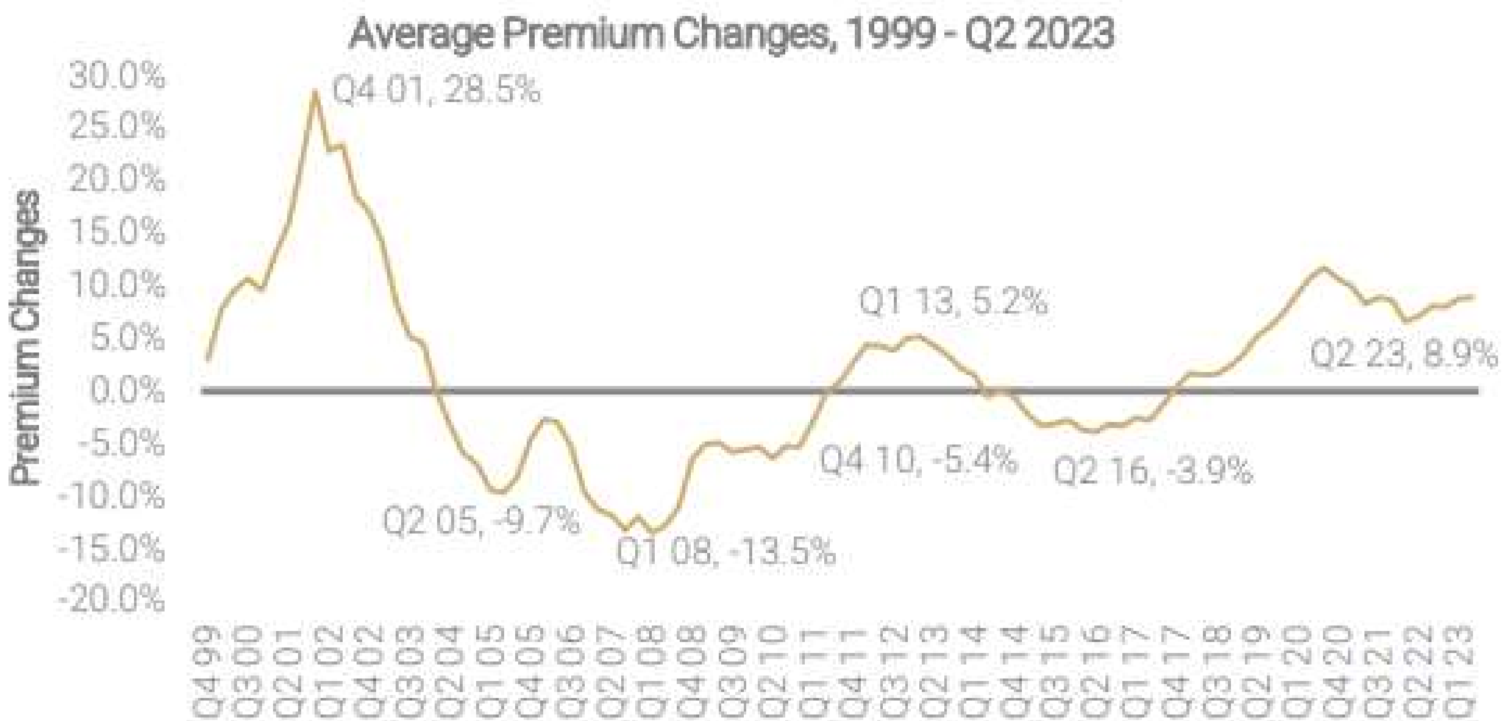


Commercial P&C | Employee Benefits | Personal Risk | Retirement Consulting

USI's Southwest Region

- Revenue $310M+ and over 750 insurance professionals with an average tenure of 13 years and specialists across a broad range of industries
- Dedicated technical experts in analytics, risk financing, claims advocacy, risk control, environmental, surety and executive risk
- Industry focus on **Energy**

Growing Fatigue Due to High-Rate Increases, Demanding Renewals



Source: The Council of Insurance Agents & Brokers

The Exponential Rise of Nuclear Verdicts

Extreme jury awards – known as "nuclear verdicts" – the new normal? From 2015 to 2019, the average verdict in the National Law Journal's Top 100 Verdicts more than **tripled from $64 million to $214 million**

What is a "nuclear" verdict? According to Harold Kim, President of the Institute for Legal Reform, it's **any verdict in excess of $10 million**. "It sounds very apocalyptic, but I think it's a fitting term," he remarked. "We've seen national headlines with verdicts reaching in the billions of dollars and, unfortunately, it's not just an isolated event."

The trucking industry is "under siege." In addition to pandemic-related pressures, freight carriers are among the hardest hit, with many forced to file for bankruptcy after receiving nuclear verdicts. "There is a significant concern that moving freight, which is so critical to our economy, is going to start freezing up," said Kim. "**The blast radius of this reaches well beyond the trucking industry,"** he said.

Nuclear Verdicts (cont.)

CAUSES

- **Online, TV and billboard advertising.** "Trial advertising is one of the biggest drivers of nuclear verdicts," noted Kim. Punctuating his point: in a poll of our 2,000-person audience, 88% had seen a mass tort ad in the past week. In addition to bringing in plaintiffs, these ads influence jury pools. "On TV alone, the plaintiffs' bar is spending billions," Kim added. "This is not just one-off ads … this is a systematic, orchestrated marketing effort."
- **Unregulated third-party funding.** "It's like the Wild West," Kim observed. Litigation funding – the leveraging of capital from third parties like hedge and sovereign wealth funds to back potentially lucrative lawsuits – is now a $39 billion industry, with limited regulation or disclosure requirements. Kim sees third parties with no interest injecting themselves into the system as a major concern. "They really hide in the shadows. If you're a defendant, you're not going to know who has a financial interest in the case."
- **Social inflation.** As public exposure to news of extreme jury awards, attorney advertising and litigation funding increases, jurors become desensitized to nuclear settlements. "It's hard to predict social inflation trends, making it challenging to underwrite the risks," noted Cruz. "And society seems to be getting more comfortable with overlooking the personal responsibility." Think Mahomes Contract

ACTIONS:

- **Pick your battles.** "We need to pick the right cases to settle, and the right cases to take to trial," Cruz noted – adding that, when a case goes to court, "it's imperative we win."
- **Pick the right insurance partner.** "Look for a carrier with a strong risk control department to help you evaluate the risks," Cruz advised. "Make sure your carrier is leveraging data and analytics to optimize outcomes for your clients. When the loss happens, you also want a carrier that will put the right resources on the case to protect your clients."
- **Require transparency in third-party funding.** A handful of states and judicial districts require disclosure of third-party funding agreements, and it's being discussed in the hallways of Congress. "There has to be an urgency in terms of making sure that your elected officials know that this is an important issue," Kim emphasized. (Travelers Institute)

JUDICIAL HELLHOLES®

1. GEORGIA
2. THE SUPREME COURT OF PENNSYLVANIA & THE PHILADELPHIA COURT OF COMMON PLEAS
3. CALIFORNIA
4. NEW YORK
5. COOK COUNTY, ILLINOIS
6. SOUTH CAROLINA ASBESTOS LITIGATION
7. LOUISIANA
8. ST. LOUIS

WATCH LIST

TEXAS'S COURT OF APPEALS FOR THE FIFTH DISTRICT repeatedly misapplies established U.S. Supreme Court and state precedents and procedures, requiring review and reversal by the state's high court. It has developed a reputation for being pro-plaintiff and pro-liability expansion.

Balance Sheet – Over/Under Insured

Universe of Coverage:

- Workers' Compensation
- General Liability
- Automobile Liability
- Umbrella/Excess
- Property / Equipment / Lease Property
- Control of Well / Operators Extra Expense
- Pollution
- Directors & Officers
- Employment Practices
- Crime
- Fiduciary
- Cyber
- Downhole Tool
- International / Kidnap & Ransom
- Maritime / Hull / Cargo
- Other

Art & Science of Program Design

- **Guaranteed Cost**
- **Dividend**
- **Deductible**
- **Captives**
- **Self - Insurance**

Articulate Your Risk Profile

MSAs & Contractual Risk Transfer

HSE Program | HR Procedures

Safety Hazards Associated with Oil and Gas Extraction Activities

Oil and gas well drilling and servicing activities involve many different types of equipment and materials. Recognizing and controlling hazards is critical to preventing injuries and deaths. Several of these hazards are highlighted below. See Standards and Enforcement for more information on evaluation and control requirements.

- Vehicle Collisions
- Struck-By/ Caught-In/ Caught-Between
- Explosions and Fires
- Falls
- Confined Spaces
- Ergonomic Hazards
- High Pressure Lines and Equipment
- Electrical and Other Hazardous Energy
- Machine Hazards
- Planning and Prevention

Potential health hazards are highlighted below. See Standards and Enforcement f
requirements.

- Diesel Particulate Matter
- Fatigue
- Hazardous Chemicals
- Hydrocarbon Gases and Vapors (HGVs) and Low Oxygen Environments
- Hydrogen Sulfide
- Naturally Occurring Radioactive Material (NORM)
- Noise
- Silica
- Temperature Extremes

Coverage Distinctions

Surety Bonds vs. Traditional Insurance

Surety Bonds	Traditional Insurance
Three Party Agreement Most surety bonds are three party agreements – the surety guarantees the faithful performance of the principal to the obligee	**Two Party Agreement** Insurance is usually two party agreements whereby the insurance company agrees to pay the insured directly for a covered loss incurred
Risk Transfer	**Risk Transfer**
Premium: fee for prequalification	**Premium: based on expected loss**
No expectation of loss	**Actuarially determined premiums cover losses and expenses**

Well Control Risk

What is Downhole Tool Insurance

	SELF-INSURED	LOST-IN-HOLE (CONTRACTOR)	DOWNHOLE TOOL INSURANCE
Coverage Limit	N/A	50% value (select tools)	100% value (max limit)
Insured Exposure	N/A	50%	10% deductible
Pricing	$0	Day rate	Day rate
Fishing Requirements	N/A	Most common wording: make three attempts	Make an attempt to retrieve tools
Damaged Tools	N/A	Not typically covered	Covered
Tools From Multiple Carriers Coverage	N/A	No	Yes, if scheduled
Operator-Owned Tool Coverage	N/A	No	Yes, if scheduled

‘Gradual’ Environmental Risks

Tanks Collapse & Pipeline Leak

Questions? Connect:

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Overview of Inflation Reduction Act

Update on Energy Tax Credits – IRA Overview

- Inflation Reduction Act (IRA) was signed into law on August 16, 2022

- IRA enhances and extends existing credits and creates many new credits
  - E.g., PTC for solar; standalone energy storage

- To receive full benefit of the credits, the taxpayer generally has to meet “prevailing wage and apprenticeship” requirements
  - Wage requirement satisfied if laborers employed by taxpayer or subcontractor are paid wages at rates not less than prevailing wages published by DOL
  - Apprenticeship requirement satisfied by ensuring that an applicable percentage of total labor hours with respect to construction, alteration or repair work is performed by qualified apprentices
  - Five times multiplier to the base ITC rate of 6% and the base PTC rate (generally .30 cents per kWh; adjusted for inflation)
  - Applies for 5 years (in the case of ITC) and 10 years (in the case of PTC)
  - Exception for projects less than 1MW
  - Exception for most credits if construction began before January 29, 2023
    - Physical work of a significant nature
    - 5% or more of total cost safe harbor

- **Bonus credits available**

- **New monetization options**
  - Transferability
  - Direct Pay

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Bonus Credits Available Under the IRA

- **Application to ITC and PTC**
  - PTC - 10% multiplier to a project's PTC value; however, noncompliance with PWA means the value of the PTC decreases by 80%, and thus, the energy credit multiplier applies to the decreased PTC amount.
  - ITC - adder is an increase to the credit itself, meaning the adder and the ITC are equally decreased by 80% if the PWA requirements are not met — thus, a 10% bonus to a 30% ITC would drop to a 2% bonus to a 6% ITC.
  - If a project is entitled to a PWA exemption because it is under 1 MW or began construction before Jan. 29, 2023, the full adders will apply.

- **Domestic Content Bonus:** 10% bonus credit is available to eligible projects where (i) 100% of any steel or iron is produced in the U.S., and (ii) an "applicable percentage" of the cost of manufactured components is produced in the U.S.
  - Applicable percentage is generally 40%; offshore wind is 20% (for projects that begin construction prior to January 1, 2025)
  - Recordkeeping; supplier agreements

- **Energy Communities:** 10% bonus credit is available to eligible projects located in energy communities, including: (i) brownfield sites, (ii) "statistical areas" with historically high fossil fuel industry activity and (iii) currently high unemployment under prior-year statistics that are released annually in May and census tracts with closed coal mines or coal-fired power plants (and adjoining tracts).

- **Low Income Communities:** An additional 10% and 20% credit is available for small (<5 MW) solar and wind facilities located in low-income communities

Permissible Transfer (Sale) of Tax Credits

- Section 6418 of the IRA permits the transfer (sale) of certain tax credits.
- Credits must be sold for U.S. dollars with an unrelated party,
  - Must be careful that other existing activity between the parties cannot be considered non-cash consideration for the tax credit transfer.
  - E.g., can't exchange credits for services (or reduced service fees)
  - A forward commitment to purchase the credits is not considered non-cash consideration
- Time period for receipt of cash is January 1st until due date of tax return (taking into account extensions).
  - Can't pay upfront for credits generated in a future year.
  - Timing of payments subject to negotiation; may be paid in connection with estimated tax savings (transferee taxpayer can take into account credits it intends to purchase)
- Transfer election has to be made each year for each facility
  - There is no late-election relief.
  - For ITCs, if you miss a transfer election then you may lose the ability to transfer. However, PTC elections can be made on a year-by-year basis.
- The cash received by the seller is treated as tax-exempt income
- The cash paid by the buyer is nondeductible
- Buyer not taxed on spread between value of credit and purchase price
- Credits can only be transferred once.
  - However, credits from one project can be transferred to multiple parties.
- No horizontal slice (i.e., bonus credits cannot be transferred separately from the project credits).

Permissible Transfer (Sale) of Tax Credits, cont.

- Pre-filing Registration Requirements
  - Transferors must pre-register the underlying eligible credit property before filing the return reflecting a transfer, and any transfer of credit that was not pre-registered or does not reference the registration number on the applicable tax return is essentially invalid.
- Recapture
  - Transferee bears the risk of recapturing the amount of previously claimed credits.
  - Relevant for ITCs which are subject to a 5-year vesting schedule
  - Indemnification
  - Tax insurance
  - Any risk will be accounted for in the deal pricing.

Permissible Transfer (Sale) of Tax Credits, cont.

- **Application to Partnerships**.
  - The partnership that owns the assets, not the partners, is the taxpayer eligible to transfer the credit
  - A partnership is eligible to transfer even if it has tax-exempt or non-U.S. partners
  - Partnership may elect to transfer a portion of credit that would otherwise be allocated to a specific partner and the partnership would still be able to allocate the non-transferred credit to the other partners
  - Cash received in connection with a transfer may be distributed or utilized however the partnership chooses

- **Other Considerations**:
  - Impact on Flip Structures?
    - How do you monetize depreciation?
  - Higher price for established technologies
  - Individuals unlikely to be buyers as they are subject to passive activity loss rules

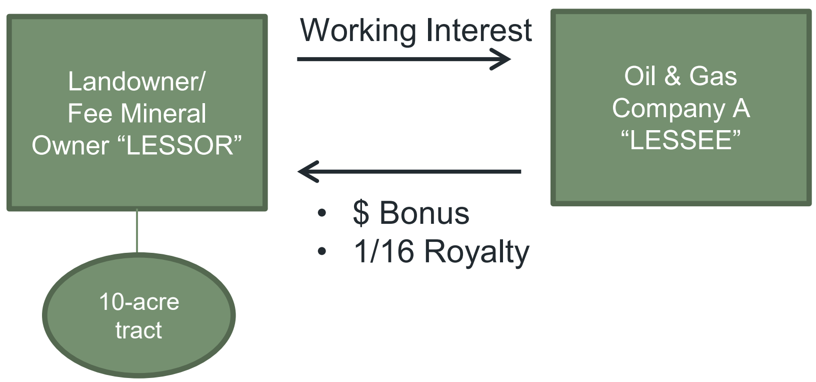
Tax Credit Direct Pay Option

- Section 6417 of the Code allows “applicable entities” to elect to receive payments for twelve clean energy tax credits.
  - Applicable Entities include tax-exempt organizations, States, and political subdivisions.
  - Eligible Credits: 48, 48E, 45, 45Y, 45W, 45U, 45X, 45V, 45Z, 45Q, 30C, 48C.
- Bonus Credits: For eligible projects, increased direct payments are available when bonus requirements are met.
- Application to Partnerships: Generally, a partnership is not applicable entity and thus the projects need to be owned as tenants in common by an applicable entity.
- Transferees are not eligible for direct pay.

Oil and Gas Tax Refresher

Fundamentals of Oil & Gas Taxation: Leasing

Example 1
Oil & Gas Lease

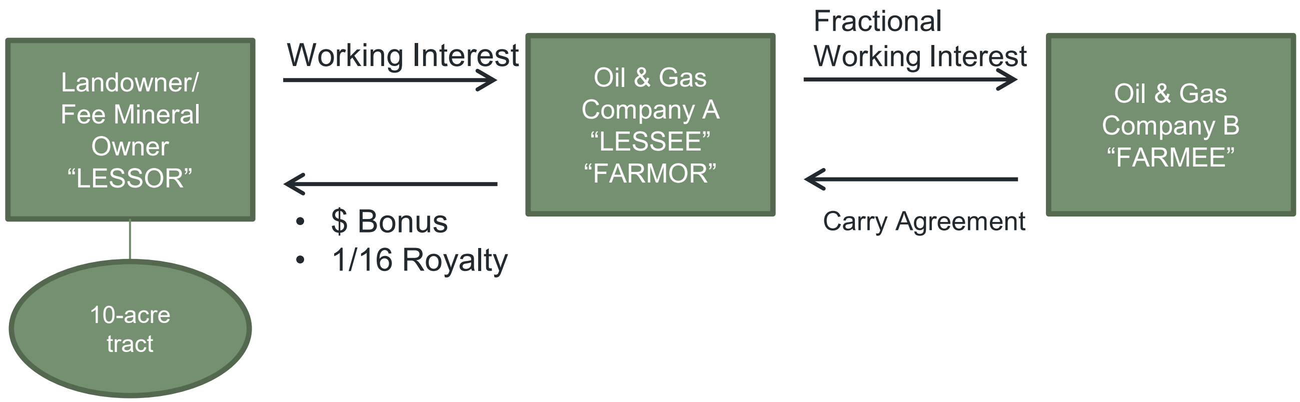


- Tax Owner Is the Holder of the Economic Interest
  - Holder taxed on share of production and entitled to depletion (cost or percentage).
  - "Working Interest/Operating Interest" owner can deduct intangible drilling and development costs ("IDC").

- Pool of Capital Doctrine Applies
  - Transfer of an "Economic Interest" is not taxable to either party if:
    - Transferor retains an Economic Interest; and
    - Transferee commits funds/efforts to development of property.
- No Separate Entity
  - Co-ownership and economic sharing result, but transaction characterized as a "lease."

Carried Interests

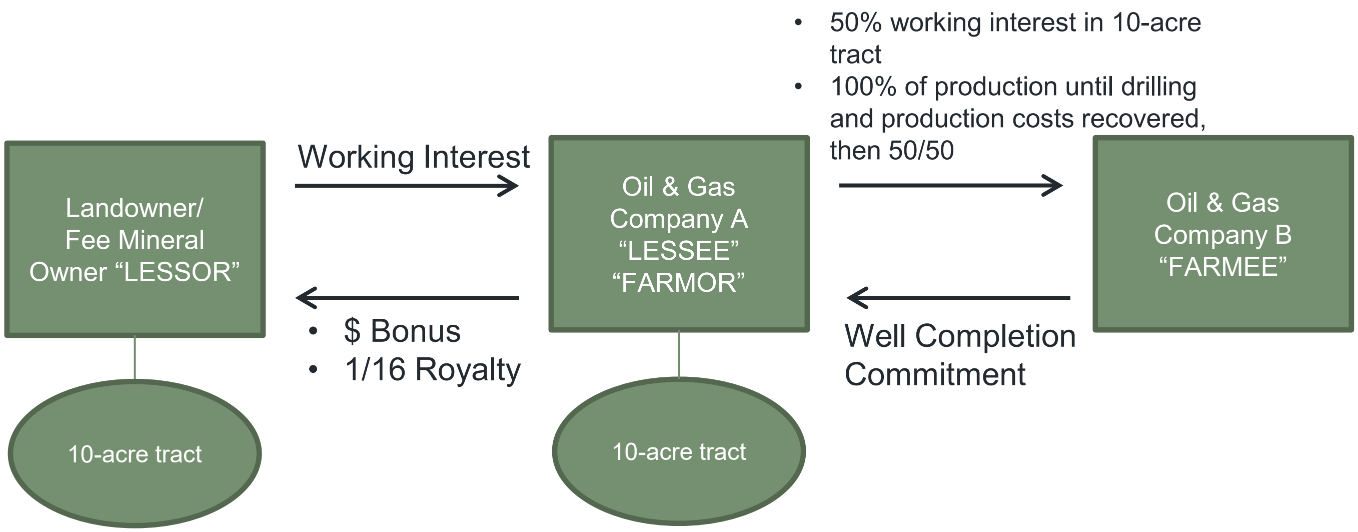
Example 2
Farmout



- Pool of Capital
  - Generally applies if § 761(a) election is made.
  - Limited by Rev. Rul. 77-176.
- IDC
  - Complete Payout
    - Farmee claims 100% of IDC.
  - No Complete Payout
    - "Fractional Interest Rule" applies.
    - Portion of IDC capitalized.

Carried Interests: Complete Payout

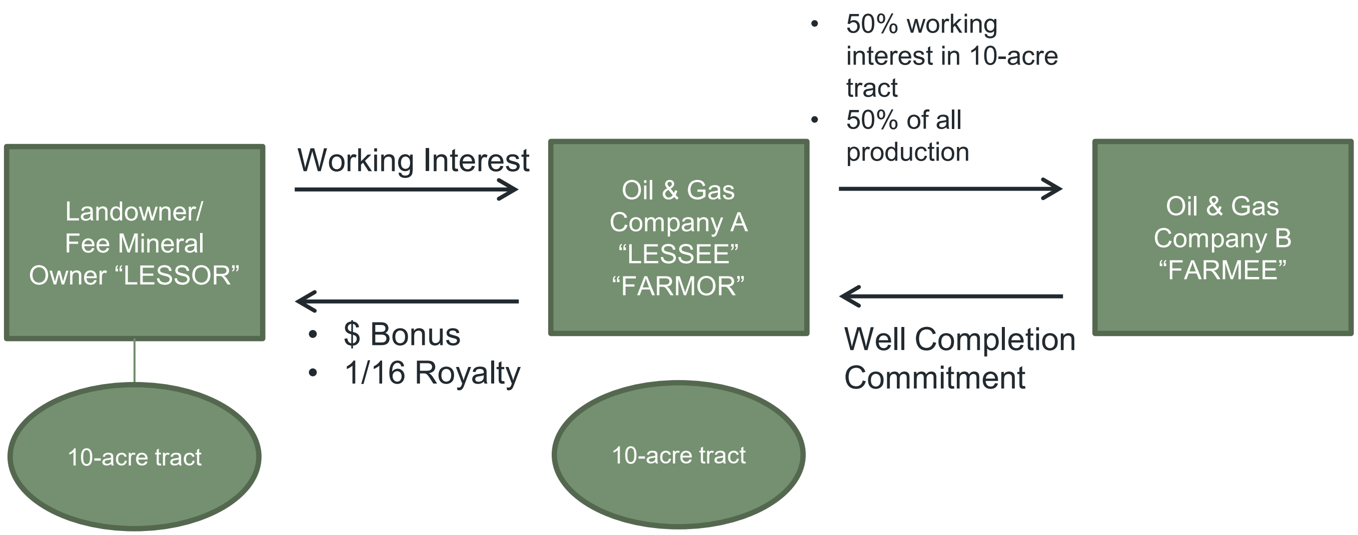
Example 3



- Complete Payout
  - Oil & Gas Company B
    - Treated as owning 100% of working interest in 10-acre tract until payout.
    - Deducts 100% of IDC.
    - Reports 100% of income until payout occurs.
    - Computes depletion based on 100% of gross production. *See* Rev. Rul. 71-207.
- Pool of Capital applies

Carried Interests: Fractional Interest Rule

Example 4



- Fractional Interest Rule
  - Oil & Gas Company B
    - Treated as owning 50% of working interest.
    - Deducts 50% of IDC and capitalizes 50% of IDC.
    - Reports 50% of production income.
- Pool of Capital applies

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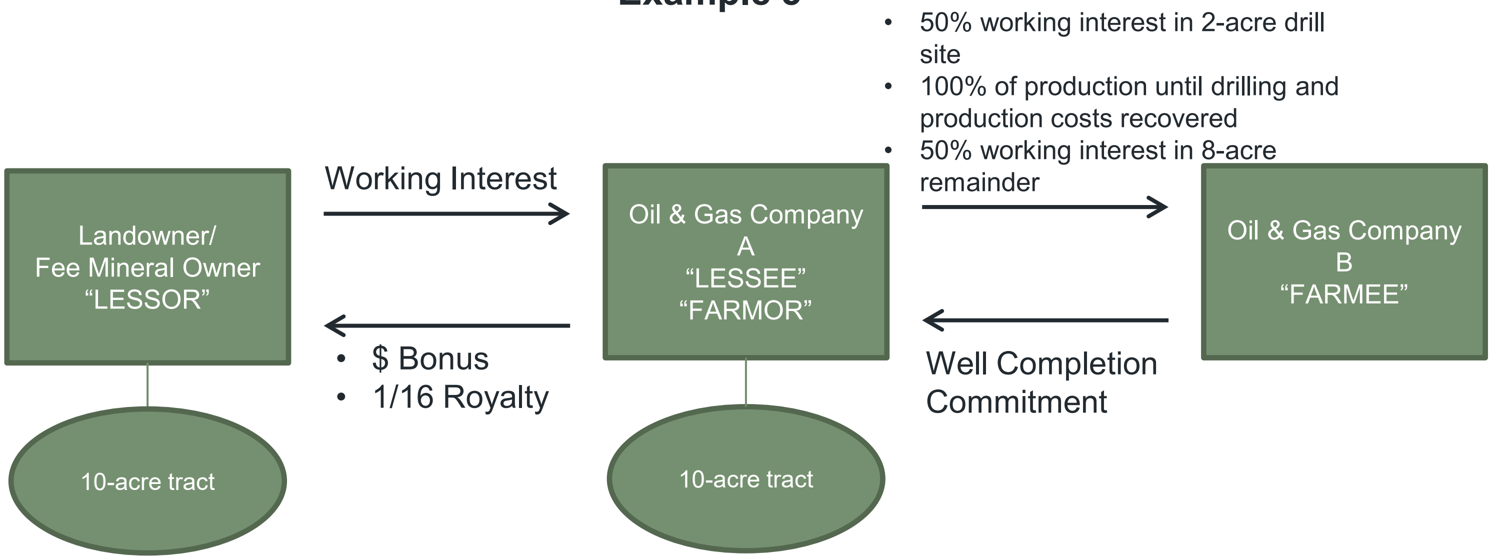
Carried Interests: Rev. Rul. 77-176

Example 5

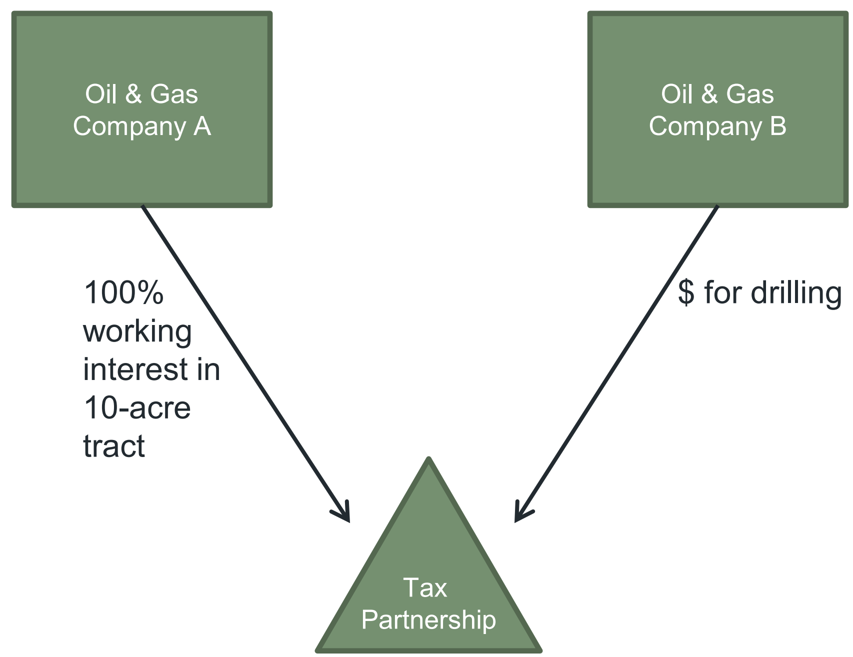


- 2-Acre Drill Site
  - Pool of Capital applies.
  - Same consequences as Example 3.
- 8-Acre Non-Drill Site
  - Pool of Capital does not apply.
    - O&G Company A has gain equal to 50% of gain in 8 acres.
    - O&G Company B has services income equal to 50% of FMV of 8 acres.

Tax Partnerships: Avoiding the Fractional Interest Rule

Example 6

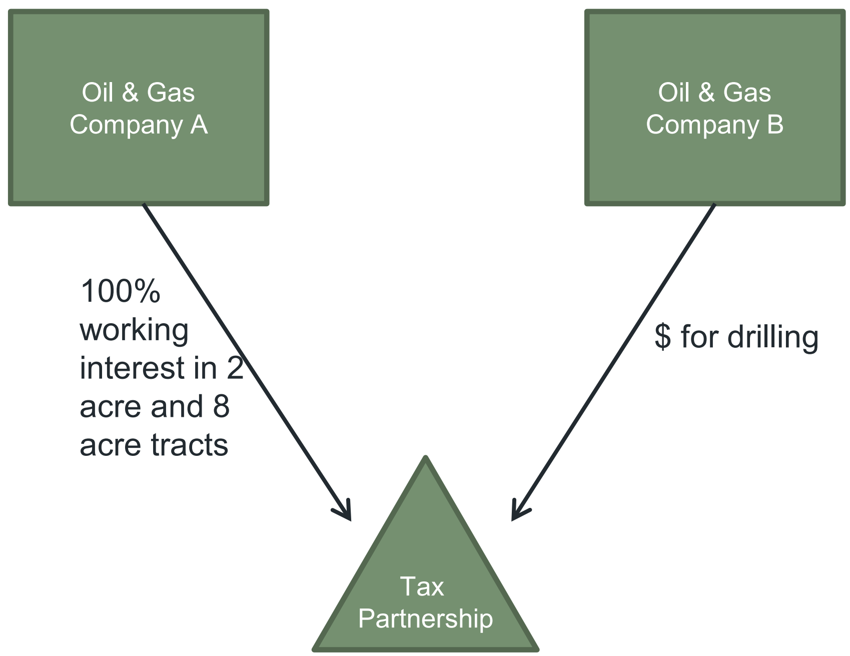
- Same facts as Example 4.
- If no § 761(a) election made, farmout is treated as formation of an entity classified as a partnership.
    - § 721(a) generally governs contributions.
    - Tax Partnership claims IDC.
    - If 704(b) SEE rules are complied with, IDC deduction may be allocated 100% to Company B
- No change in state law treatment.
    - No state law entity created.
    - Farmout agreement includes "Tax Partnership" exhibit.
        - Sets forth intended tax treatment, allocation provisions, etc.



Tax Partnerships: Avoiding Revenue Ruling 77-176

Example 7

- Same facts as Example 5.
- If no § 761(a) election made, farmout is treated as formation of an entity classified as a partnership.
    - § 721(a) generally governs contributions.
    - Rev. Rul. 77-176 avoided.
    - Fractional Interest Rule also avoided.



Drillcos: Business Objectives

- Business objectives underlying recent drilling program joint venture trend:
  - Access to traditional credit and other funding sources is limited for many operators
  - Operators need to continue to develop their assets and are looking for alternative funding sources, but don’t want to sell large stakes in their best assets
  - Certain PE funds and other investors still want exposure to higher quality upstream assets
  - Bankers and other advisors have sought a way to bridge the gap between sellers and certain investors that is attributable to future commodity price uncertainty.

Drillcos: Basic Economic Arrangement

- Economic Deal:
  - Parties' core legal rights and obligations are generally contained in a Farmout and Development Agreement;
  - Typically involves a defined drilling program involving higher quality assets; and
  - Investor commits to fund a particular dollar amount

Drillcos: Basic Economic Arrangement

- Economic Deal (continued):
  - Program is generally separated into multiple tranches, often based on wells spud during a 12 month or other defined period.
  - Investor is assigned an interest in each wellbore and acreage attributable to such wellbore as consideration for funding an agreed percentage of the drilling costs:
    - Terms vary, but assigned working interest is typically between 50% and 90%;
    - Some provide for Investor to pay a portion of the operator's cost with respect to its retained interest (i.e., a carry).
  - After the Investor has achieved an agreed return (e.g., 12% IRR), most of the Investor's interest reverts back to the operator:
    - Typically, Investor retains between a 5% and 25% interest after the reversion hurdle is met.

State And Local Tax Update

Pass-through Entity Tax Elections

- 36 states including: Colorado, Kansas, Louisiana, Montana, Nebraska, New Mexico, Oklahoma
- Provides a “work-around” the $10K limit on state tax deduction in effect through 2025
- Allows for payment of state tax at the entity-level by a pass-through entity
  - State tax is deductible at the entity-level where there is no limit
  - Owners of the pass-through entity receive a credit or a deduction (depending on the state)
  - Some states allow the entity to pay tax on the pre-apportioned income of residents, which provides enhanced benefit

whitleypenn

Pass-through Entity Tax Elections

- Colorado provides the ability to retroactively elect back to 2018 (must amend prior year return(s) between Sept 1, 2023 and July 1, 2024.)
- Louisiana 2023 legislature updated statute to provide income exclusion to estates, trusts and partnerships (previously was available only to individuals)
- Montana, Nebraska and New Mexico elections are all new beginning with 2023.
- Note that while there are many similarities between the states in how they operate their pass-through entity tax, virtually no two states are alike in how the “mechanics” of the tax work. So it’s important to look at each state individually.
- Key Considerations:
  - Timing and method of election
  - Estimated payment requirements
  - Method of claiming the benefit if a non-individual
  - Whether refundable or not / partners’ other income from the state
  - Administrative burden (e.g. Louisiana requires filing as if entity was a C Corp)

Pass-through Entity Tax Elections

- Generally, most valuable in a closely held business context where there are individuals and/or trusts with similar residency considerations
- Often not valuable in the context of a fund given multiple types of owners that may or may not benefit as well as various residency considerations
- We have seen a lot of value in doing a pass-through entity election when businesses have made a large sale of assets.

Severance Tax Exemption

- Earlier this year, the Texas Legislature passed legislation that provides a waiver from the severance tax that is otherwise imposed on flared gas consumed at the well site.
  - Exempts from severance tax gas produced and used onsite
  - Texas exemption became effective September 1, 2023. Wyoming exemption has been effective since January 1, 2022.
  - The exemptions have been billed as an incentive related to crypto-mining. However, the exemptions apply broadly to stranded gas of a qualifying well.
  - The well must meet certain qualifications in order for the flared gas at the site to apply.

State Withholding on Non-Resident Owner

- Required by many states, generally at highest individual rate
- Owner claims the withholding on its state return for that year
- Treated as distribution to the owners
- Some states provide exemption affidavits which are an affirmative statement by the owner saying that the owner will file on its own.
    - Owner should consider, especially if offsetting losses from other investments/sources
    - Some affidavits (Montana is one) require the entity to meet very specific conditions (such as principal place of business in Montana)
- Most states do not provide for the deduction of separately stated items (such as excess business interest expense and depletion)

Texas Tax Update

- Revised Texas Sales Tax regulations potentially forthcoming
  - Replaces taxable/non-taxable well-site services with real property new construction vs. repair/remodel distinction
  - Manufacturing exemption – pumps/compressors and chemicals not eligible for the manufacturing exemption for use after the oil/gas is "pipeline quality"
- The Comptroller's office has indicated that it is also working on
  - Additional guidance related to the taxability of flowback services
  - What equipment qualifies for the water recycling exemption

Texas Franchise Tax Considerations

- The basics
  - (Revenue minus COGS or Compensation) x sales percentage = taxable margin
  - Taxable margin x .75% = Tax
- Cost of Goods Sold: Generally includes the direct costs of acquiring or producing goods.
  - May include costs attributable to research, experimentation, engineering and design activities directly related to the production of the goods
  - Includes: Labor or materials related to a real property construction, improvement, remodeling, repair or industrial maintenance
  - Includes: Intangible drilling costs, depreciation (no bonus), depletion severance taxes and lease operating expense

Texas Franchise Tax – Sale of Business

- For purposes of apportionment, net gains (but not net losses) should be included. The net gain or loss is determined separately for each sale of a capital asset or investment.
  - For instance: Sale of Asset A gain of $100, Sale of Asset B loss of $200, sale of Asset C gain of $50.
  - Include $150 in apportionment (i.e. exclude $200 loss)
- For purposes of apportionment, the sale of an intangible (including sale of partnership interest, goodwill, sale of stock etc.) is sourced based on the "location of payor"
  - If the buyer is a corporation or an LLC, the location of payor is deemed to be the state of formation of the corporation or LLC.
  - Texas generally follows federal treatment of a deemed asset sale.

Texas Franchise Tax – Sale of Business

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- Texas does not conform to federal bonus depreciation rules (100% expensing of qualifying assets between Sept 27, 2017 and Dec 31, 2022 then 80% expensing in 2023, etc.)
  - As a result, a gain on sale of assets for Texas franchise tax purposes is generally less than a gain on sale of assets for federal tax purposes.
  - Consider sale of an asset that was acquired in 2022 for $100, fully expensed for federal purposes and sold in 2023.

	Federal Tax	Texas Franchise Tax
Asset Basis	$0	$86
Sale Price	$90	$90
Gain / (Loss)	**$90**	**($4)**