

COST DEPLETION TAX ADVANTAGE

ROYALTIES AND MINERALS CAN HAVE SUBSTANTIAL TAX-ADVANTAGES

to investors using Cost Depletion. Cost depletion is a calculation of your cost basis against the depleting reserves on a given oil and gas property. This tax advantage can be substantial in the first 5-7 years of investment ownership. Depending on varying client investment basis, it is likely, via cost depletion, for clients to protect 50-100% of their annual royalty cash flow from federal taxes. Below is an example of a three year scenario using Cost Depletion, assuming a complete basis in year one.

TERMS TO KNOW

COST DEPLETION: the percentage of reserves depleted on a portfolio in a 12 month period

COST DEPLETION CALCULATION: $Current\ Investment\ Basis / Annual\ Depletion\ Factor = Dollar\ amount\ available\ for\ Federal\ Tax\ Relief.$

YEAR 1	YEAR 2	YEAR 3
INVESTED PROCEEDS \$100,000	NEW BASIS \$92,000 (\$100k - \$8k = \$92,000)	NEW BASIS \$86,480 (\$92k - \$5,520 = \$86,480)
COST DEPLETION FACTOR 8%	COST DEPLETION FACTOR YR 2 6%	COST DEPLETION FACTOR YR 3 6%
ANNUALIZED RETURN* 8% or \$8,000	ANNUALIZED RETURN* 6% or \$6,000	ANNUALIZED RETURN* 7% or \$7,000
COST DEPLETION CALCULATION \$100,000 x .08 = \$8,000 <i>(Basis) (Dep.)</i>	COST DEPLETION CALCULATION \$92,000 x .06 = \$5,520	COST DEPLETION CALCULATION \$86,480 x .06 = \$5,189
\$8,000 - \$8,000 <i>(Tax Protected)</i> = \$0.00 <i>Taxed at ordinary Income Tax</i>	\$6,000 <i>(Income)</i> - \$5,520 <i>(Tax Protected)</i> = \$480 <i>Taxed at ordinary Income Tax</i>	\$7,000 <i>(Income)</i> - \$5,189 <i>(Tax Protected)</i> = \$1,811 <i>Taxed at ordinary Income Tax</i>
100% TAX PROTECTED INCOME TAX EQUIVALENT YIELD: ~12%	92% TAX PROTECTED INCOME TAX EQUIVALENT YIELD: ~10%	74% TAX PROTECTED INCOME TAX EQUIVALENT YIELD: ~10%

214 W. TEXAS, SUITE 400, MIDLAND, TEXAS 79701 | 432.683.9900 | MONTEGOCAPITALPARTNERS.COM

* For illustrative purposes only, but reflective of prior performance on earlier offerings. Past performance is not indicative of future results.

Montego Minerals nor its affiliates are providing tax advice/counsel, and recommend you consult your tax professional on your individual tax needs.

FOR BROKER DEALER/ RIA USE ONLY: The information contained herein is provided solely for use of authorized broker dealers and registered investment advisors ("RIA") and may not be distributed to prospective investors. NO OFFER OR SOLICITATION: This is neither an offer to sell nor a solicitation of an offer to buy any security. Any such offer can only be made to accredited investors by a confidential private placement memorandum and all exhibits, attachments and supplements thereto. Past results do not constitute a prediction or representation of future performance.

Securities offered through Crescent Securities Group, Inc., member FINRA, 8750 N. Central Expressway, Suite 750, Dallas, TX 75231