MINERAL MANAGEMENT

2021 UND Law Review Energy Symposium
Kate Black, Inland Oil & Gas
• Lease Broker
• Shallow Gas Operator
• Non-Operator / Working Interest Owner
• Royalty Purchaser
• Mineral Consulting & Appraisals
MINERAL MANAGEMENT

UNDERSTAND AND CALCULATE YOUR OWNERSHIP DECIMALS

AUDIT, MANAGE AND MITIGATE ISSUES

VALUATIONS AND UNDERSTANDING CASH FLOW
UNDERSTAND AND CALCULATE YOUR OWNERSHIP DECIMALS

Working Interest & Net Revenue Interest
Ownership, explained…

Dan
- Researches County Records and finds that Maria owns minerals and is unleased.
- Maria is interested in having her minerals developed and agrees to lease to Dan.
- AKA
  - Lease Owner
  - Lessee
  - Working Interest Owner
- Pays Maria $7,500 for signing the lease
- Responsible for 100% of the costs to develop Maria’s net acres
- Receives 80% of the revenue

Maria
- Owns 10 net acres
- Signed a lease with Dan
  - Royalty: 20%
  - Term: 3 Years
  - Bonus: $750/acre
- AKA
  - Mineral Owner
  - Lessor
  - Royalty Interest Owner
- Receives $7,500 for signing lease
- Responsible for 0% of the costs to develop her mineral acreage
- Receives 20% of the revenue
Well Expenses

- Dan 100%

Well Revenue

- Dan 80%
- Maria 20%
WORKING INTEREST (WI)

• This is the COST BEARING decimal interest.

• This is the decimal that Joint Interest Billings (JIBs) use to divvy up well expenses.

  • Well expenses are divided into 3 categories for different taxation methods.
    1. Tangible
    2. Intangible
    3. Lease Operating

• This interest usually belongs to
  • an operator who owns a lease and is also drilling the well
  • a non-operator who has taken a lease from a mineral owner
  • an unleased mineral owner

\[
WI = \frac{\text{Net Acres}}{\text{Gross Acres in Spacing Unit}}
\]

Dan, Lease Owner
NET REVENUE INTEREST (NRI)

- This is the REVENUE decimal interest, used to divide up well income
- This calculation looks a little different depending on who it belongs to:

Maria, Mineral Owner

$$\text{NRI} = \frac{\text{Net Acres} \times \text{Royalty \%}}{\text{Gross Acres in Spacing Unit}}$$

Dan, Lease Owner

$$\text{NRI} = \frac{\text{Net Acres} \times (1 - \text{Royalty \%})}{\text{Gross Acres in Spacing Unit}}$$
**WELL EXPENSES, WORKING INTEREST**

\[
WI = \frac{\text{Net Acres}}{\text{Gross Acres in Spacing Unit}}
\]

\[
WI = \frac{10}{1280} = 0.0078125
\]

**WELL REVENUE, NET REVENUE INTEREST**

\[
\text{NRI} = \frac{\text{Net Acres} \times \text{Royalty \%}}{\text{Gross Acres in Spacing Unit}}
\]

\[
\text{NRI} = \frac{10 \times 0.2}{1280} = 0.0015625
\]

\[
\text{NRI} = \frac{10 \times 0.8}{1280} = 0.00625
\]

\[
0.0015625 + 0.0062500 = 0.0078125
\]
**Gross Acres in Spacing Unit**

Section 10 = 640  
Section 11 = 640  
Section 14 = 640  
Section 15 = 640  

\[ \text{Total} = 2560 \]

**WEIGHTED %**

A. \[ \frac{11 \& 12 = 640}{2560} = 0.25 \]

B. \[ \frac{10 \& 15 = 1280}{2560} = 0.50 \]

C. \[ \frac{13 \& 14 = 640}{2560} = 0.25 \]

**Spacing Unit**

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\[ 0.001302 + 0.00078125 + 0.0000 = 0.00208325 \text{ NRI in “Green” well.} \ (0.208\%) \]
AUDIT, MANAGE AND MITIGATE ISSUES

HOW-TOS, TIPS & TRICKS
MANAGE: Important Documents

- **Vesting Document**
  - PRMD, MD, QCMD, WD without reservation, etc.

- **Oil & Gas Lease (If Leased)**
  - OGL or Memo of OGL
  - Offer Letter – usually contains $/ac bonus and net acres for each legal description
  - Company/Person you lease to isn’t necessarily the one who drills or operates the well

- **Well Ballot (If Unleased)**
  - Option to Participate, go non-consent or lease your interest.

- **Division Order**
  - Includes well name(s), Spacing Unit or ‘Property Description’, Interest Type, Decimal Interest, sometimes net acres.
  - Not required to sign in ND, will not change your ownership. Interests can change if there is a change in title interpretation.

- **Revenue Statements**
  - It never hurts to keep these – especially digitally.
Enerplus Resources (USA) Corporation

DIVISION ORDER – Your Copy

To: Enerplus Resources (USA) Corporation
950 – 17th Street, Suite 2200
US Bank Tower
Denver, CO 80202

Date: November 1, 2018
Effective Date: November 1, 2018

Property Number: 1000897
Property Name: NICKEL 147-93-16B-21H-TF
Operator: ENERPLUS RESOURCES (USA) CORPORATION
County and State: DUNN, ND
Property Description: T147N R93W SEC 16 & 21: 1280
Product: OIL

Owner Name: INLAND OIL AND GAS CORPORATION
Address:
PO BOX 1313
419 RIVERWOOD DRIVE, SUITE 101
BISMARCK, ND 58502
Owner Number: 14024
Interest Type: W1
Decimal Interest: 0.00520833

Reverse Calculate to Confirm.

The undersigned certifies the ownership of their decimal interest in production or proceeds as described above payable by Enerplus Resources (USA) Corporation.

Payor shall be notified, in writing, of any changes in ownership, decimal interest, or payment address. All such changes shall be effective the first day of the month following receipt of such notice.

Payor is authorized to withhold payment pending resolution of a title dispute or adverse claim asserted regarding the Interest in production claimed by the undersigned. The undersigned agrees to indemnify and reimburse Payor any amount attributable to an interest to which the undersigned is not entitled.

Payor may accrue proceeds until the total amount equals $100.00, or pay annually, whichever occurs first, or as required by applicable
North Dakota Oil & Gas
Lynn D. Helms, Director       Bruce E. Hicks, Assistant Director

Case File #28530
Confiscation Hearing, June 10, 2020 - Case File #28495
Case 28495 Wells Confiscated Subject to Director's Orders issued after September 1, 2020

Bakken Restart Task Force Action

NorthSTAR - North Dakota Statewide Tracking and Reporting System Information
For oil conditioning, gas capture information and more visit our Policies and Guidance

The Oil and Gas Division regulates the drilling and production of oil and gas in North Dakota. Our mission is to encourage and promote the development, production, and utilization of oil and gas in the state in such a manner as will prevent waste, maximize economic recovery, and fully protect the correlative rights of all owners to the end that the landowners, the royalty owners, the producers, and the general public realize the greatest possible good from these vital natural resources.
## AUDIT & MANAGE

Compile a list of your mineral assets:

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<th>Mineral File</th>
<th>County</th>
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AUDIT & MANAGE

Compile a list of your producing wells:
MITIGATE & RESOLVE ISSUES

◦ Contact Owner Relations
  ◦ Email – find on website
  ◦ What information to Include:
    ◦ Owner/Entity’s name
    ◦ owner number that is listed on your revenue checks/JIBs.
    ◦ Explanation of issue
      ◦ Can’t calculate a decimal?
      ◦ Aren’t receiving payment?
      ◦ After transferring/recording a document you also need to submit to Owner Relations for them to transfer payment/interest.

Contact Us Regarding

- Revenue payments
- Division orders
- Existing surface ownership or lease
- 1099s
- Joint interest billings
- Accounts payable

Continental Resources
Attn: MDG Department
P.O. Box 269000
Oklahoma City, OK 73126
Email: ownerrelations@CLR.com
Phone: 1-844-883-CLR (5257)

Continental Resources
About Continental
Operations
Investors
Community
News Center
Careers
VALUATIONS AND UNDERSTANDING CASH FLOW
Valuations & Appraisals

- Reasons to get an appraisal
  - Deaths – Estate Value
  - Divorces
  - Sale – what to expect
  - Gifting / Contribution to Trust or other entity
  - Loan Collateral
  - Tax Planning
    - Cost Depletion v. Percentage Depletion.
Tax Planning

- **Percentage Depletion**
  - Tax deduction of 15% of gross royalties annually.
  - Requires no forecasting and can be calculated easily from 1099s for royalty interest owners.

Limitations:
Percentage Depletion cannot exceed 65% of total taxable income.
If average daily production exceeds 1,000 barrels per day – use cost depletion.

- **Cost Depletion**
  - Tax deduction of ACTUAL well depletion
  - Use a well evaluation to estimate remaining EUR (Estimated Ultimate Recovery)
  - Calculate well’s actual BOE (Barrel of Oil Equivalent) produced each year.

\[
\text{Depletion \%} = \frac{\text{BOE Produced}}{\text{Remaining EUR}}
\]

\[
\text{Depletion \%} \times \text{Cost Basis} = \text{Cost Depletion}
\]

- May continue until cost basis is fully depleted and then switch to Percentage Depletion.

Works best for:
- new wells with steep declines
- High or new cost-basis to deduct from

**YOU CHOOSE**

We are not tax professionals, consult with your CPA.
Typical Bakken Well Production

Barrel(s) of Oil per Day

Year
## RESERVES AND ECONOMICS

**Effective Date:** 12/26

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- Date: 12/07/20
- Time: 14:56:39
# RESERVES AND ECONOMICS

**Effective Date:** 12/20

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**SUM**

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**Total**

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<th>GROSS GAS PRODUCTION</th>
<th>NET OIL PRODUCTION</th>
<th>NET GAS PRODUCTION</th>
<th>NET OIL PRICE</th>
<th>NET GAS PRICE</th>
<th>OIL SALES</th>
<th>GAS SALES</th>
<th>TOTAL OIL SALES</th>
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<td>117,523.6</td>
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**Net Present Value:**

- FUTURE NET: 10% FUTURE
- CUMULATIVE: 10% CUMULATIVE
- 10% CUMULATIVE: 10% CUMULATIVE
- G11 FUTURE: 10% FUTURE
- G11 CUMULATIVE: 10% CUMULATIVE
- G11: 10% CUMULATIVE
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<tr>
<th>MO-YR</th>
<th>NET ADVAL &amp; PROD. TAXES</th>
<th>DIRECT OPER EXPENSE</th>
<th>EQUITY INVESTMENT</th>
<th>SALVAGE</th>
<th>FUTURE NET CASHFLOW</th>
<th>CUMULATIVE CASHFLOW</th>
<th>10% FUTURE DISC CF</th>
<th>10% CUM DISC CF</th>
<th>20% FUTURE DISC CF</th>
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<td>856,470.5</td>
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<td>441,837.9</td>
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<table>
<thead>
<tr>
<th>OIL</th>
<th>GAS</th>
<th>P. W. %</th>
<th>P. W., $</th>
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<tbody>
<tr>
<td>GROSS WELLS</td>
<td>LIFE, YRS.</td>
<td>19.92</td>
<td>730,322.1</td>
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<td>GROSS UTL., MB &amp; MMF</td>
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<td>NET REVENUE, M$</td>
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<td>INITIAL PRICE, $</td>
<td>RATE-OF-RETURN, FCT.</td>
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<td>INITIAL W.I., FCT.</td>
<td>14.036328</td>
<td>336,915.9</td>
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</tbody>
</table>

| 12.281901 | 12.281901 |
My Ask:

◦ Don’t split mineral ownership up into <5 net acre parcels.
  ◦ Have one sibling purchase from other siblings
  ◦ Sell and split money
  ◦ Contribute to an entity/trust.

◦ Why?
  ◦ Splitting equally, to be ‘fair’ can diminish the value of the minerals. Consider the future costs of appraisals, recorded documents, probating an estate, diminished negotiating ability to sell/lease, etc.
My Ask:

◦ Encourage your clients to ACTIVELY MANAGE their minerals.
  ◦ They should have a full listing of exactly what they own.

◦ Reach out to someone if you need help researching or managing mineral assets.
  ◦ Landman’s Association of North Dakota (LAND) has plenty of members skilled in this sort of research.
  ◦ Come to our quarterly meetings, engage with us!
NDIC Oil & Gas Division

BLM Records

Montana Board of Oil & Gas Conservation

NDRIN (All Counties Except Mountrail, Williams and McKenzie)

MCVV McKenzie County Records

iDoc Williams and Mountrail Counties
Gross Acres in Spacing Unit
Section 17 = 640
Section 18 = 630.40
Section 19 = 630.72
+ Section 20 = 640
\[ \frac{2541.12}{2} \]

**WEIGHTED %**

\[ \frac{16 \& 17}{2541.12} = 0.251857 \]
\[ \frac{13 \& 18}{2541.12} = 0.248079 \]
\[ \frac{24 \& 19}{2541.12} = 0.248205 \]
\[ \frac{21 \& 20}{2541.12} = 0.251857 \]
WEIGHTED %
17 = 0.251857
18 = 0.248079
19 = 0.248205
20 = 0.251857

Spacing Unit 16/17
Dan
WI = 0.0078125
NRI = 0.00625

Maria
NRI = 0.0015625

Spacing Unit 16/17 13/18 19/24 20/21

0.251857 0.248079 0.248205 0.251857

X X X X

Maria’s NRI = 0.0015625 0.0000 0.0000 0.0000

0.0003935 + 0.0000 + 0.0000 + 0.0000 = 0.0003935 = Maria’s NRI in ODDIE 44-7HU
**Spacing Unit 16/17**

Dan

WI = 0.0078125

NRI = 0.00625

Maria

NRI = 0.0015625

**Spacing Unit 20/21**

Dan

WI = 0.015625

NRI = 0.012695

Mike (20 net acres, 3/16th Royalty)

NRI = 0.002929

```
<table>
<thead>
<tr>
<th>Spacing Unit</th>
<th>16/17</th>
<th>13/18</th>
<th>19/24</th>
<th>20/21</th>
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<tbody>
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<td>X</td>
<td>X</td>
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0.0019676 + 0.0000 + 0.0000 + 0.0039352 = 0.0059028 = Dan's WI in ODDIE 44-7HU
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