OILDIGGER RESOURCES

Oil & Gas Deal Structures

Darren Gollehon

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30 YEARS

‘JOCKO’ EVANS SYMPOSIUM

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Agenda

1. **A Third for a Quarter;**
2. **Carried Interest:**
    1. What is it?
    2. Example: 12.5% Carry
    3. What are the different variations?
3. **Back In After Payout (BIAPO);**
4. **Drill to Earn (DTE)**
5. **Overriding Royalty Interest (ORRI);**
6. **Heads up;**
7. **Classical NAPE Prospect; and**
8. **Deal structure heat index.**

NAPE
Where Deals Happen

The Basics: A Third for a Quarter

An investor pays 33.33% (1/3) of the capital for the project but receives a 25% (1/4) working interest in the project.

Investors

- Investor A – 33.33%
- Investor B – 33.33%
- Investor C – 33.33%
- **Total Capital: 100%**

WI Partners

- Investor A – 25%
- Investor B – 25%
- Investor C – 25%
- Operator/Promoter – 25%
- **TOTAL WI: 100%**

Total **promote** on the project is 25% or 8.33% to each investor (assuming you have three different investors).

Carried Interest – What is it?

- A **carried interest** is where one party is 'carried' (i.e. covering that carried party's bills/capital/cash call) by the other investors in the project to a certain point of the project/drilling of a well.
- In the last example, 1/3 for a 1/4, the carried interest there was 25%.
- If a deal maker/operator has a 1/8 carry (12.5%) on their project, then each of the other investors must 'carry' their share of the operator's interest, pro rata.

Example: 12.5% Carry, pro rata

A deal maker is promoting his project with a 12.5% carried interest. Three investors participate at 50%, 30% and 20%, respectively.

Investors

- Investor A – 50% →
- Investor B – 30% →
- Investor C – 20% →
- **Total Capital: 100%**

WI Partners

- Investor A – 43.75% (6.25%)
- Investor B – 26.25% (3.75%)
- Investor C – 17.5% (2.5%)
- Operator/Promoter – 12.5%
- **TOTAL WI: 100%**

Total **promote** on the project is 12.5% with each investor carrying their weighted average share of the promote.

Carried Interest Variations

- **Carried to Casing Point** – If the deal maker or operator is carried to casing point, then that means typically, the other partners are covering the operator's costs through the drilling and logging portion of the well to determine if the well is going to be a dry hole or a producer.
  - Typically used on vertical/exploratory wells

Carried Through Completion

- **Carried Through Completion** - If the deal maker or operator is carried to through completion, then that means typically, the other partners are covering the operator's costs through the drilling and completion portion of the well.
  - Typically the facility costs are not included in this deal since it was crafted before horizontal wells when the tank battery was built after casing is run on a vertical well.

Carried to the Tanks

- **Carried to the Tanks** – If the deal maker or operator is carried to the tanks, then that means the other partners are covering the operator’s costs through the drilling, completion and equipping (DC&E) portions of the well.
  - Typically 100% of the costs on an oil well

Carried Interest Variations (con't)

- **Carried to the Plant** - If the deal maker or operator is carried to the plant, then that means the other partners are covering the operator's costs through the DC&E portions of the well + any additional expenses (compression, processing, etc) of getting the products (gas) .
  - Typically 100% of the costs on an gas well (cost free lease)

- ***Carried through Flowback*** *– includes SWD/flowback costs; and*
- ***Carried to Sales*** *– includes costs of midstream hookups.*

Back In After Payout (BIAPO)

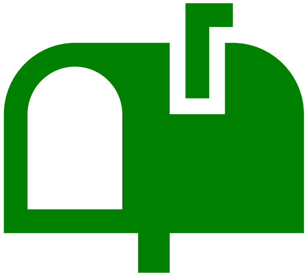
- **A Back In After Payout** (BIAPO) is a deal structure where the promoter/deal maker gains an interest (typically working interest) after all the investors have received their original investment back (net of expenses).
- **Example:**
  - AFE: $8,000,000 to drill a new horizontal well
  - Monthly CF: $750,000 (after production taxes, royalties);
  - <u>Monthly OpEx (LOE): $20,000</u>
  - **Net Monthly CF: $730,000**
  - **BPO:** Investor A receives all the monthly CF for 10.95 months (100% WI). *Income tax not included in the calculation.*
  - **APO:** Investor A 75% WI, Promoter: 25% WI

Drill to Earn

- In a **Drill to Earn** (DTE) structure, an operator will carry the acreage holder for a certain interest in a certain number of wells in order to earn into the entire acreage position.
- <u>Example:</u> **Operator B** carries **Operator A** for 25% on two wells to earn a 75% WI into all of **Operator A**'s 30,000 NMA.

Overriding Royalty Interest (ORRI)

- **An Overriding Royalty Interest** (ORRI) is a royalty on top of the Lessor's royalty (LOR) where the recipient receives a percentage of the proceeds, cost free and does not have any liability.
- **Example:**
  - The operator leases minerals at 1/6 royalty rate; however, they deliver an 80% NRI to the partners in the project retaining a 3.33% ORRI in the project.
  - Monthly CF: $750,000
  - **LOR:** 16.67% = $125,025/month
  - **ORRI:** 3.33% = $24,975/month
  - **WI:** 80% = $600,000/month



Heads Up

- **A Heads Up** deal structure is one where all parties get the same deal terms.
- <u>A deal maker may want to go heads up if</u>:
  - The prospect is so juicy and capital is scarce so they just want to get it drilled;
  - To establish a track record of getting deals done; or
  - The project is very risky so not many people are willing to pay any kind of promote.

Classical NAPE Prospect

Geologists writing AFEs. Scary!

Coyote Creek Field / Well 1

AFE Cost Estimate / Date: 10-2019 / Total Depth: 6,500'

DRILLING COSTS	DRILLING	COMPLETION	TOTAL
Drilling Contract to 6,500 Ft. Cyclone	$306,000.00		$306,000.00
Prospect Gen, Land Cost, Geol	$50,000.00		$50,000.00
Title Opinion, Abstracting	$15,000.00		$15,000.00
Drilling Permit - WYOG Com	$500.00		$500.00
Well Bond - WYOG Com	$65,000.00		$65,000.00
Surveying & Staking	$3,500.00		$3,500.00
Surface Damages - Land Owner	$5,000.00		$5,000.00
Location, Mud Pit, Road, Disposal	$50,000.00		$50,000.00
Reservoir Engineering/NSA	$15,000.00		$15,000.00
Open Hole Logging and Coring	$15,000.00		$15,000.00
Sidewall Core Analysis - Weatherford	$5,000.00		$5,000.00
Engineer/Wellsite Supervision	$7,000.00		$7,000.00
Liability Insurance	$5,000.00		$5,000.00
Legal - Permiting	$2,500.00		$2,500.00
Well Head	$3,500.00		$3,500.00
Operator's Overhead - Drilling	$0.00		$0.00
Contingencies - Drilling	$20,000.00		$20,000.00
COMPLETION/CASING, CEMENTING			
Rig Time to Run Casing, Condition Hole		$38,000.00	$38,000.00
6,500 ft of 5 1/2" Prod Casing. Trident Steel		$73,000.00	$73,000.00
Casing Crew/Unload and Run 5 1/2".		$12,500.00	$12,500.00
Lay Down Machine - 5 1/2" casing.		$6,000.00	$6,000.00
Cementing, Halliburton 800 sx		$59,300.00	$59,300.00
Centralizers / Turbalizers		$3,500.00	$3,500.00
Tubing Head. 3000#		$5,000.00	$5,000.00

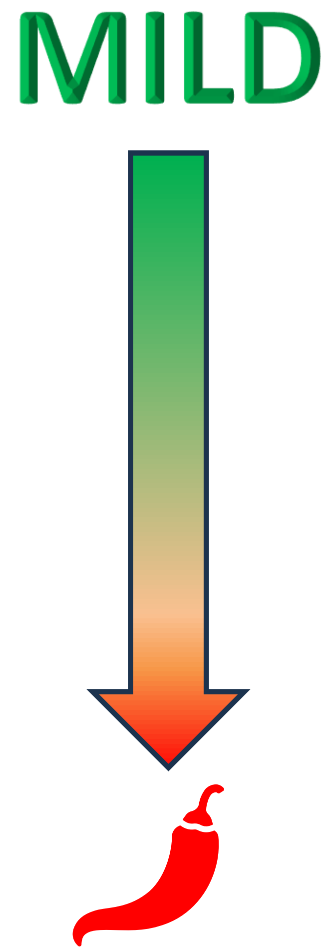
- **Prospect Fee:** $50,000
- **Carry:** Carried to the tanks
- **ORRI:** Deliver 75% NRI (thick ORRI).

*Negotiable. "Ask for the pony."

Deal Structure Heat Index

Deal Structures

- Heads Up
- BIAPO
- 1/8 Carry
- Prospect Fee
- Drill to Earn
- 1% ORRI
- 1/3 for ¼
- 5% ORRI
- Prospect Fee + ORRI + Carry



In Summary

- Any deal structure, regardless of industry, is negotiable.
- Keep supply and demand in mind:
  - How many other deals am I competing against?
  - What at the economics of those deals?
  - How much capital is available?
  - What is my track record?
  - What is my competitors track record?

Questions