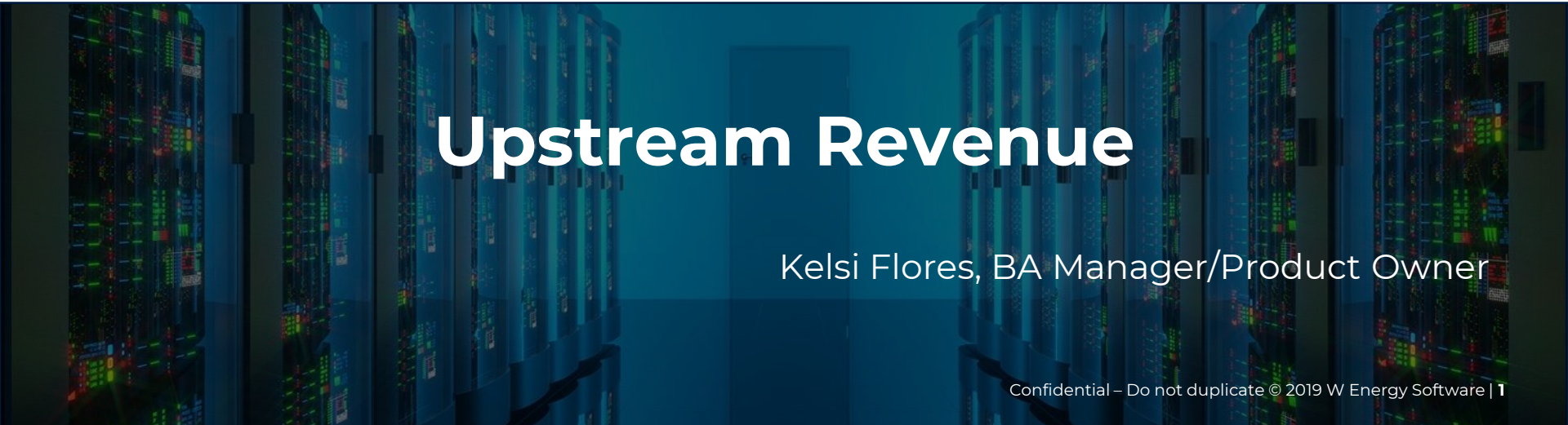
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Upstream Revenue

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Elements of Upstream Revenue

- Net Revenue Interest (NRI) vs Disbursement Interest (DI)
- Disbursement Interest: Non-Operated
- Disbursement Interest : Take-in-Kind
- Contract Management
- Fee Exemption Groups
- Revenue Disbursement / Revenue Corrections

Allocation of Costs associated with the GWI value are handled via Cost Accounting and the JIB Process

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Net Revenue Interest vs Disbursement Interest

Net Revenue Interest

- Calculated based on Land Record Title Ownership

Disbursement Interest

- Derived from Net Revenue Interest
- Matches record title NRI value unless Balancing Interest exists

Balancing Interest – used to balance a DOI to 100%

- Occurs in Non-Operated DOIs
- Occurs in DOIs with Take-in-Kind (TIK) Working Interest

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Disbursement Interest: Non-Operated

Non-Operated Division Orders

Ownership where the Company is not operating the well

- The company is not responsible for paying the ownership burdens**
  - These are customarily distributed by the operator as outlined in the JOA
  - The company typically only receives revenue for its WI or company owned RI, or company owned ORRI
- A Deleted Balancing interest is used in the Division Order to carry the remaining balance for the total to continue to equal 1.0

***In some cases, the company may be responsible for disbursement of certain burdens such as state or federal entities in addition to solely receiving revenues for their interest*

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Disbursement Interest: Non-Operated

Balancing Interest (BI) inflates the NRI in DI calculations

- A WI proportionate NRI share must be calculated in order to allocate back the NRI values not being disbursed to the Balancing Owner
  - The WI proportionate NRI share is calculated by taking the sum of the WI type allocations in the burden group and multiplying that value by the NRI for all non-WI interest types
  - The WI proportionate NRI share for any WI owners is simply its current NRI

1.0 x 0.125 gives a WI share of 0.125

Burden Group 1		
Owner	Interest Type	Allocation Share
Upstream LLC	WI	1.00000

Owner	Interest Type	GWI	NRI	*WI Proportionate NRI Share*	DI	Burden Group
State of North Dakota	RI		0.12500000	*0.12500000*	0.23809524	1
Upstream LLC	WI		0.40000000	*0.40000000*	0.76190476	
Deleted Owner	BI	1.00000000	0.47500000	*0.00000000*	0.00000000	
		1.00000000	1.00000000	*0.52500000*	1.00000000	

Disbursement Interest: Non-Operated

Balancing Interest (BI) inflates the NRI in DI calculations

- The DI value is then calculated using the WI proportionate NRI share
  - Each owner's DI is calculated by taking the newly generated WI proportionate NRI share and dividing by the total of the WI proportionate NRI share column

0.125 / 0.525 = 0.23809524

Burden Group 1		
Owner	Interest Type	Allocation Share
Upstream LLC	WI	1.00000

Owner	Interest Type	GWI	NRI	*WI Proportionate NRI Share*	DI	Burden Group
State of North Dakota	RI		0.12500000	*0.12500000*	0.23809524	1
Upstream LLC	WI		0.40000000	*0.40000000*	0.76190476	
Deleted Owner	BI	1.00000000	0.47500000	*0.00000000*	0.00000000	
		1.00000000	1.00000000	*0.52500000*	1.00000000	

Disbursement Interest: Take-in-Kind (TIK)

Division Orders with TIK ownership

- Ownership where at least one company (who is not the operator) elects to market its product and disburse its own burdens separately from the operator

- The Take-in-Kind company is designated with a TIK interest type
  - Classified as a type of balancing interest
  - No Deleted owner since these are operated wells

- The operator is no longer responsible for disbursing revenue to this type of company with this interest type (TIK) or any of its lease royalty burdens (i.e. RI/NPRI/ORI owned by the Take-in-Kind company

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Disbursement Interest: Take-in-Kind (TIK)

Take-in-Kind (TIK) interest inflates the NRI in DI calculations

- The same formula used to calculate the DI for a balancing interest also applies in the presence of a TIK owner
  - A WI proportionate NRI share must be calculated in order to allocate back the NRI values not being disbursed to the TIK owner
    - The WI proportionate NRI share is calculated by taking the sum of the WI type allocations in the burden group and multiplying that value by the NRI for all non-WI interest types
    - The WI proportionate NRI share for any WI owners is simply its current NRI
  - The DI value is then calculated using the WI proportionate NRI share
    - Each owner's DI is calculated by taking the newly generated WI proportionate NRI share and dividing by the total of the WI proportionate NRI share column

Disbursement Interest: Take-in-Kind (TIK)

Grop 1			
BHP	Lease 1	WI	0.2500
XOM	Lease 1	TIK	0.7500
Group 2			
XOM	Lease 2	TIK	1.0000
Group 3			
BHP	Lease 3	WI	0.3300
XOM	Lease 3	TIK	0.3300
Upstream LLC	Lease 3	WI	0.3400

Owner	Interest Type	GWI	NRI	WI Share NRI	DI	Burden Group
Brooke	RI		0.01171875	0.00292969	0.00643887	1
Jamie	RI		0.02734375	0.00683594	0.01502404	1
BHP	WI	0.07812500	0.06835938	0.06835938	0.15024038	
XOM	TIK	0.23437500	0.20507813		0.00000000	
Lacey	RI		0.02125000	0.00000000	0.00000000	2
Shelli	NPRI		0.00187500	0.00000000	0.00000000	2
Arletha	NPRI		0.00187500	0.00000000	0.00000000	2
XOM	TIK	0.12500000	0.10000000		0.00000000	
Dylan	RI		0.02812500	0.01884375	0.04141484	3
Tristan	RI		0.05625000	0.03768750	0.08282967	3
Michael	ORRI		0.00562500	0.00376875	0.00828297	3
Kelsi	ORRI		0.01125000	0.00753750	0.01656593	3
BHP	WI	0.18562500	0.15221250	0.15221250	0.33453297	
XOM	WI	0.18562500	0.15221250		0.00000000	
Upstream LLC	WI	0.19125000	0.15682500	0.15682500	0.34467033	
		1.00000000	1.00000000	0.45500000	1.00000000	

Contract Management



Marketing Contracts

- An agreement by which a party sells production on behalf of a producing company and then remits the proceeds, minus agreed-upon costs and expenses, to the producing company

Base vs Contract Override

- Different entities such as the BLM or ONRR may market their product under specific contracts apart from the general population
- In other cases, companies may elect to market their own product apart from the operator
  - Known as Take-in-Kind (TIK)

Fee Exemptions and FEGs



- In Revenue Disbursement, fees may be deducted by the operator to cover the costs of such things like transportation of the product
- Owners may negotiate exemptions from these fees as part of the lease agreement
- When an owner is exempt, the fee is still accounted for but is allocated back to the Working Interest owner instead of the Mineral Owner
- In cases where multiple exemptions exist for a group of owners, an operator may elect to form a group of fees known as a FEG or fee exemption group

Disbursement of Revenue



- Production and Volumes for a meter are entered in Midstream Revenue and allocated back to the appropriate meter
- Based on contractual agreements with a valuation, a gross value is attributed to the extracted quantities
- This data flows from Midstream to Upstream for Revenue Disbursement

Disbursement of Revenue



- Revenue is typically run on an Asset basis
  - Assets are a collection of meters usually established by region and product

- Revenue is run either once or twice a month for *original* production
  - Original production is paid on a 2-month lag
  - Other revenue runs may occur during the month for corrections

- Revenue is tied to an Accounting Date
  - The Accounting Date follows the revenue from Asset Processing through Revenue Disbursement and finally through to Financials where the checks are ultimately cut

Revenue Corrections - PPAs



Asset Prior Period Adjustment

- Contract changes for valuation and volume changes
- Reverse most recently distributed revenue and process adjusted revenue
- Disbursement of Reversal and Adjustment only impact current ownership

Distribution Prior Period Adjustment

- Ownership changes/corrections and Well Payouts
- Reverse most recently distributed revenue and process adjusted revenue
- Disbursement of Reversal impacts prior ownership before the correction and Adjustment impacts current ownership