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Division Orders

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Elements of Division Orders

- Gathering, Analyzing and Reviewing Legal Documentation
- Calculating Net Acreage
- Calculating Joint Interest Billing Interest (JIB)
- Calculating Net Revenue Interest (NRI)
- Creating Burden Groups
- Creating the Division of Interest (DOI)
- Maintenance via Transfer/Suspense/Release

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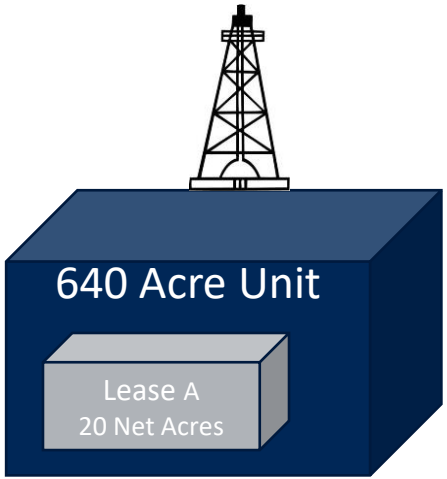
Gathering, Analyzing and Reviewing Legal Documentation



- DOUs/Pooling Agreements/JOAs
- Division Order Title Opinion
- Leases, Assignments, Deeds, other Title Documentation

- Complete legal description of the unit being drilled including full spaced acreage and breakdown of acreage by individual tracts of land
- Complete ownership review by participating tract including breakdown by owner and royalties due
- Any supplemental title ownership documentation rendered after the DOTO

Calculating Net Acreage



Unit Net Acreage

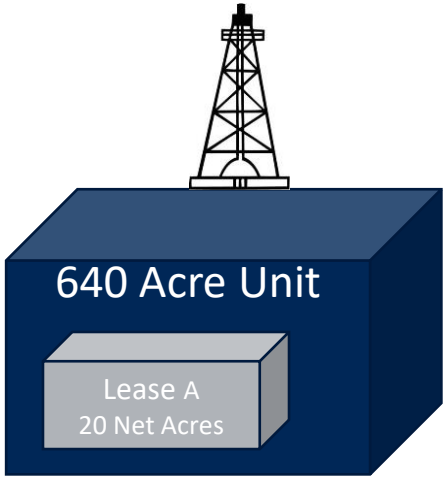
Because of Pooling/Unitization, each owner's minerals are thought of as a *proportionate share* of the entire unit

Example

- A person owns 20 mineral acres under Lease A
- These acres have been pooled into a 640 Acre unit

Lessor (Owner)'s ***net*** mineral acres (NMA) in the unit
= 20/640 or 0.03125 net acres

Calculating Joint Interest Billing Interest (JIB)



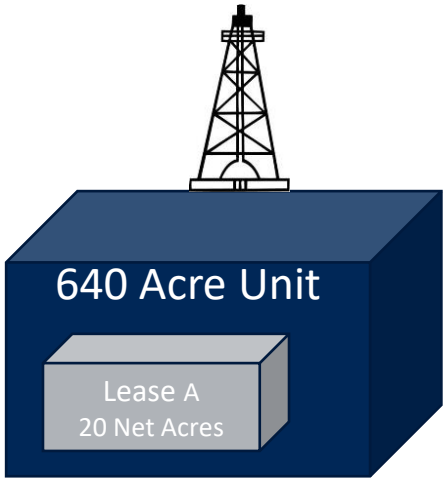
Example

- A company owns a 20 net mineral acre lease
- This lease has been pooled into a 640 Acre unit
- Lessee (Company)'s ***net*** mineral acres (NMA) in the unit = 20/640 or 0.03125 net acres
- Company's Joint Interest Billing interest = 3.125%

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It’s all about perspective…



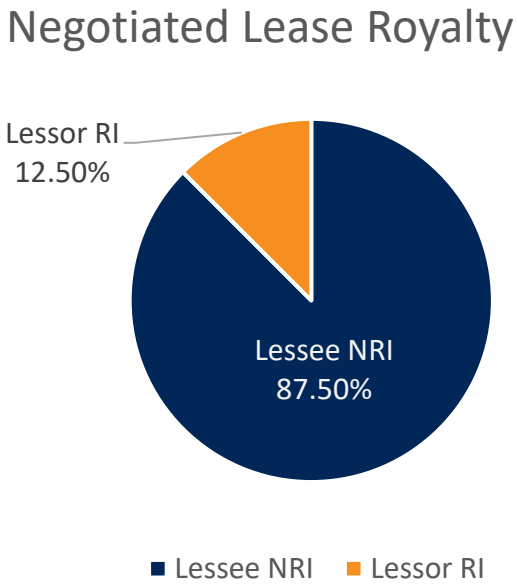


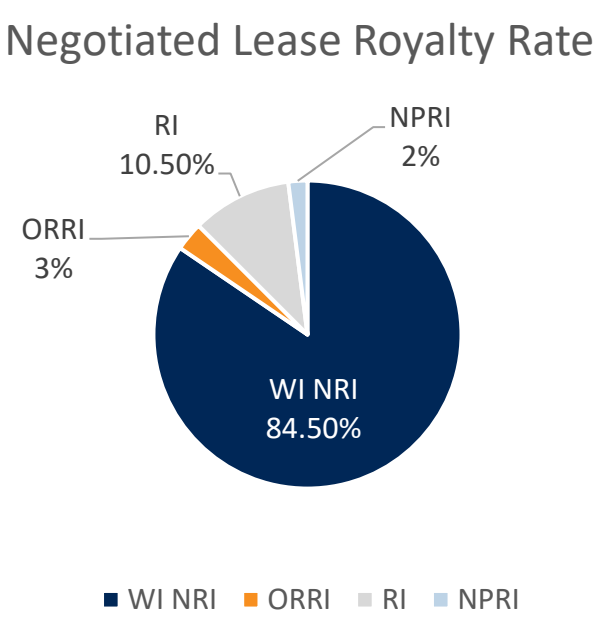
Net Mineral Acres (NMA) in Unit

Lessor (mineral owner) → Lease A
- 20 / 640 = 0.03125 3.125%

Lessee (company) → Lease A
- 20/640 = 0.03125 3.125%

Calculating Net Revenue Interest (NRI)

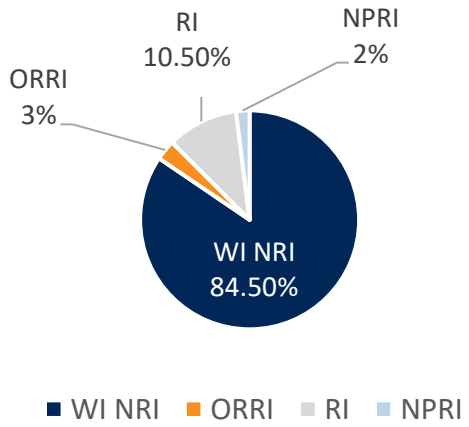




Calculating Net Revenue Interest (NRI)

Net Revenue Interest (NRI) Formula

Proportionate Net Acreage * Lease Royalty Burden



Example

Lessor (RI)	(20/640) * 0.105 = 0.00328125
NPRI	(20/640) * 0.02 = 0.00062500
Lessee (WI)	(20/640) * 0.845 = 0.02640625
ORRI	(20/640) * 0.03 = 0.00093750
Joint Interest Billing	(20/640) = 0.03125

Because you've essentially divided 100% of the revenue pie into "burden" pieces, the sum of all Net Revenue Interests on a lease should tie back to the original unit net acreage value

Creating Burden Groups

Burden Groups

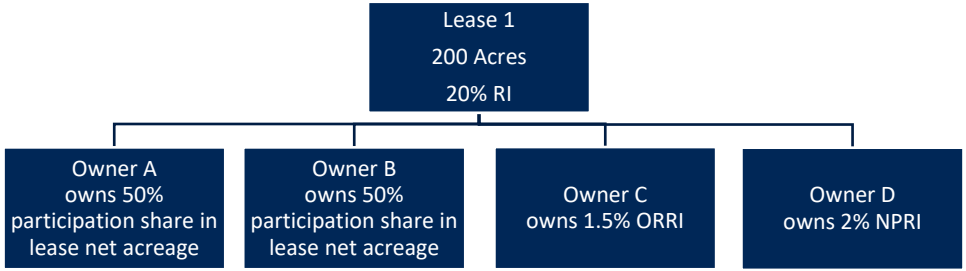
- Lease ownership by a company can be split among multiple companies
- Assignments allow companies to sell portions of their lease ownership
- Burden groups represent groups of Companies (Working Interest Owners) who share in the ownership of one or many leases

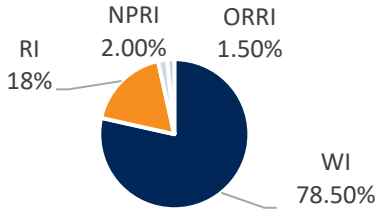
Example

- Burden Group 1
  - Company A → 20%
  - Company B → 30%
  - Company C → 50%
- Burden Group 2
  - Company A → 100%
- Burden Group 3
  - Company B → 75%
  - Company C → 25%

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Creating the Division of Interest (DOI)





Owner	Lease Number	Interest Type	Lease Net Acres	Lease Participation	Special Royalty Participation	Working Interest Owner Share	Proportionate Net Acres	Unit Spaced Acres	Calculated Royalty Burden	Owner Lease Royalty	Net Revenue Interest (NRI)
Owner A	Lease 1	RI	200.00000	0.50000			100.00000	640.00000	(20%-2%)	0.18000	0.028125
Owner B	Lease 1	RI	200.00000	0.50000			100.00000	640.00000	(20%-2%)	0.18000	0.028125
Owner C	Lease 1	ORRI	200.00000		1.00000		200.00000	640.00000	1.50%	0.01500	0.0046875
Owner D	Lease 1	NPRI	200.00000		1.00000		200.00000	640.00000	2%	0.02000	0.00625
Company	Lease 1	WI	200.00000			1.00000	200.00000	640.00000	100% - 20% - 1.5%	0.78500	0.24531

Net Revenue Interest (NRI) Formula

Proportionate Net Acreage * Lease Royalty Burden

Knowledge Application

640 Acre Unit

Lease 1 200 Acres 12.5% RI	BHP owns 25% XOM owns 75%	Brooke → owns 30% participation share in lease net acreage Jamie → owns 70% participation share in lease net acreage
Lease 2 80 Acres 20% RI	XOM owns 100%	Lacey → owns 100% participation share in lease net acreage Shelli → owns 50 % of a 3% non-participating royalty Arletha → owns 50% of a 3% non-participating royalty
Lease 3 360 Acres 15% RI	BHP owns 33% XOM owns 33% Upstream LLC owns 34%	Dylan → owns 1/3 participation share in lease net acreage Tristan → owns 2/3 participation share in lease net acreage Michael → owns 100% of a 1% Overriding RI Kelsi → owns 100% of a 2% Overriding RI

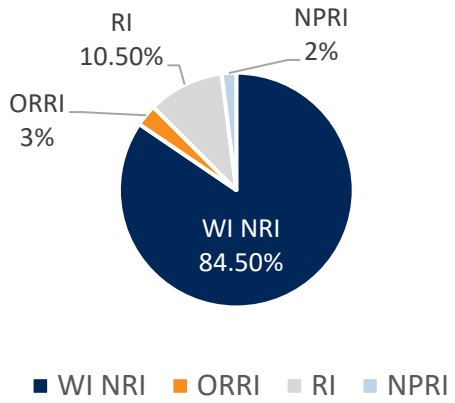
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Recall…

Determine Burden Groups

▪ Group 1	
▪ BHP	25%
▪ XOM	75%
▪ Group 2	
▪ XOM	100%
▪ Group 3	
▪ BHP	33%
▪ XOM	33%
▪ Upstream LLC	34%

Organize Lease Ownership by Royalty Interest Type



Solution

GWI = Proportionate Net Acres / Unit Spaced Acres
*NRI = Proportionate Net Acres / Unit Spaced Acres * Lease Royalty*

Proportionate breakdown of Lease Acres

Owner	Lease Number	Interest Type	Lease Participation	Special Royalty Participation	Working Interest Owner Share	Lease Net Acres	Proportionate Net Acres	Unit Spaced Acres	Calculated Royalty Burden	Owner Lease Royalty	Gross Working Interest (GWI)	Net Revenue Interest (NRI)
Brooke	Lease 1	RI	0.30000			200.00	60.000	640.000	Lease RI 12.5%	0.125		0.01171875
Jamie	Lease 1	RI	0.70000			200.00	140.000	640.000	Lease RI 12.5%	0.125		0.02734375
BHP	Lease 1	WI			0.2500	200.00	50.000	640.000	100% less 12.5%	0.875	0.07812500	0.06835938
XOM	Lease 1	WI			0.7500	200.00	150.000	640.000	100% less 12.5%	0.875	0.23437500	0.20507813
Lacey	Lease 2	RI	1.00000			80.00	80.000	640.000	Lease RI 20% less 3% NPRI	0.17		0.02125000
Shelli	Lease 2	NPRI		0.500		80.00	40.000	640.000	3% NPRI	0.03		0.00187500
Arletha	Lease 2	NPRI		0.500		80.00	40.000	640.000	3% NPRI	0.03		0.00187500
XOM	Lease 2	WI			1.0000	80.00	80.000	640.000	100% less 20%	0.8	0.12500000	0.10000000
Dylan	Lease 3	RI	0.33333			360.00	120.000	640.000	Lease RI 15%	0.15		0.02812500
Tristan	Lease 3	RI	0.66667			360.00	240.000	640.000	Lease RI 15%	0.15		0.05625000
Michael	Lease 3	ORRI		1.000		360.00	360.000	640.000	1% ORRI	0.01		0.00562500
Kelsi	Lease 3	ORRI		1.000		360.00	360.000	640.000	2% ORRI	0.02		0.01125000
BHP	Lease 3	WI			0.3300	360.00	118.800	640.000	100% less 15% less 3% ORRI	0.82	0.18562500	0.15221250
XOM	Lease 3	WI			0.3300	360.00	118.800	640.000	100% less 15% less 3% ORRI	0.82	0.18562500	0.15221250
Upstream LLC	Lease 3	WI			0.3400	360.00	122.400	640.000	100% less 15% less 3% ORRI	0.82	0.19125000	0.15682500
											1.00000000	1.00000000

Creating the Division of Interest (DOI)

Owner	Interest Type	GWI	NRI	Burden Group
Brooke	RI		0.01171875	1
Jamie	RI		0.02734375	1
BHP	WI	0.07812500	0.06835938	
XOM	WI	0.23437500	0.20507813	
Lacey	RI		0.02125000	2
Shelli	NPRI		0.00187500	2
Arletha	NPRI		0.00187500	2
XOM	WI	0.12500000	0.10000000	
Dylan	RI		0.02812500	3
Tristan	RI		0.05625000	3
Michael	ORRI		0.00562500	3
Kelsi	ORRI		0.01125000	3
BHP	WI	0.18562500	0.15221250	
XOM	WI	0.18562500	0.15221250	
Upstream LLC	WI	0.19125000	0.15682500	
		1.00000000	1.00000000	