

Mineral Management 101



2008 NARO-Arkansas Convention
March 8, 2008
Conway, Arkansas

Mineral Management 101

- Tina Bonner, CMM

Mineral Management 101

- Ten Duties of Mineral Owners
- Four Major Events for Mineral Owners
 - Ownership
 - Leasing
 - Division Orders
 - The Check

10 Duties (Responsibilities) of Mineral Owners

1- KNOW what you own

2-KNOW what information you need and where to get it

3- KNOW what is going on in your area of interest

10 Duties (Responsibilities) of Mineral Owners

4-**KNOW** what the future impact the small print in the oil and gas lease/division order will have on your royalty payment

5-**KNOW** who has it

10 Duties (Responsibilities) of Mineral Owners

6-**KNOW** what questions to ask and to whom to ask them

7-**KNOW** your limits

10 Duties (Responsibilities) of Mineral Owners

8-**KEEP** copies/originals of everything and organize it

9-**DO** something

10-**PLAN**

#1 Duty of Royalty Owners

Know what you own.

Hint: "I own minerals and royalties" is NOT the correct answer.



4 Major Mineral Owner Events

- **OWNERSHIP**
- Leasing
- Division Orders
- The Check

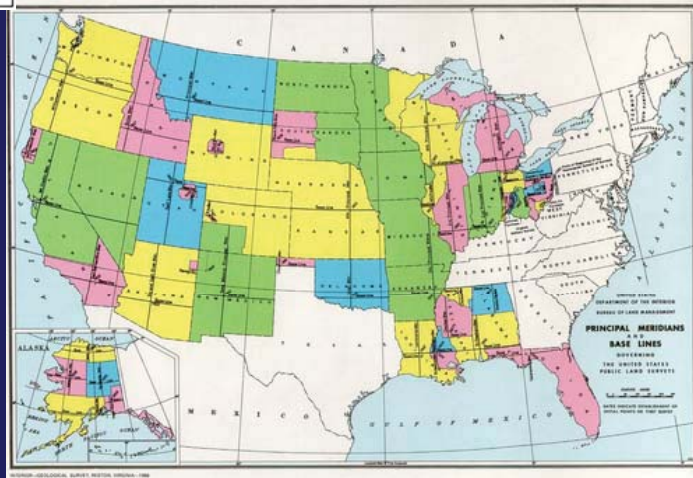
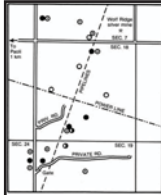


4 Major Events: Ownership

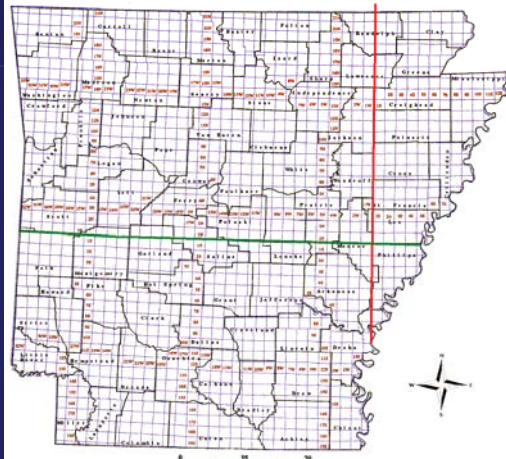
Components of Ownership

- Legal Description
- Number (amount) of Mineral Acres Owned
- Type of Ownership

Legal Descriptions



ARKANSAS TOWNSHIPS 5th Principal Meridian



— County Boundary
— Township Boundary
— Meridian and Base Lines

U.S. DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT
EASTERN STATES OFFICE
JACKSON DISTRICT
JACKSON, MISSISSIPPI
September 1997



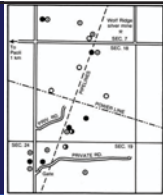
Legal Descriptions

Township 2 North

Township 1 North

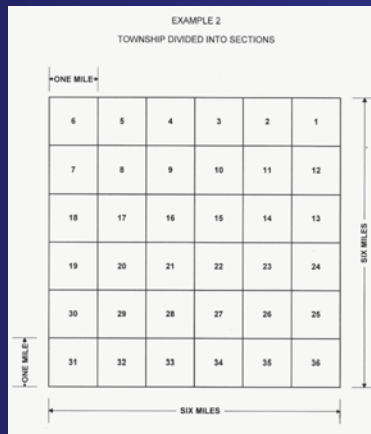
Township 1 South

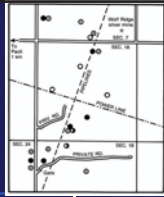
Township 2 South



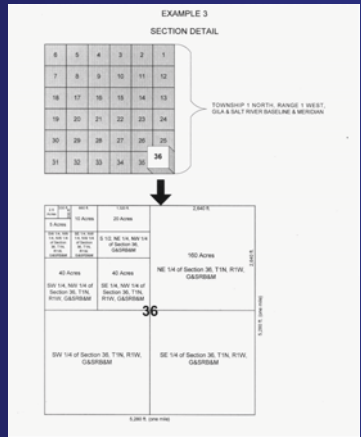
Legal Descriptions

A Township contains
36 Sections



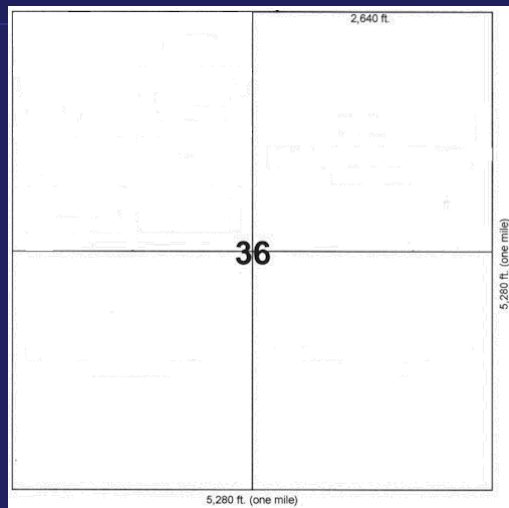


Legal Descriptions



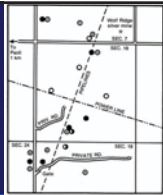
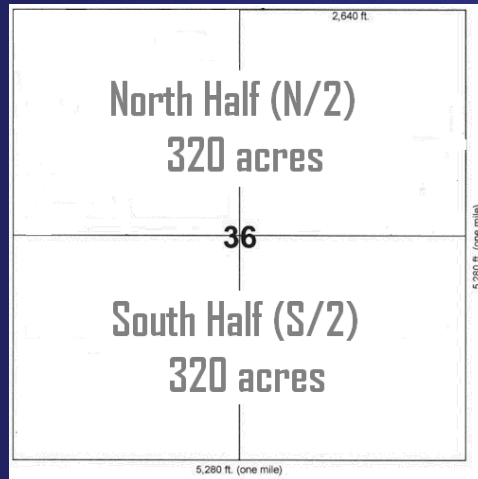
Legal Descriptions

One Section Contains 640 acres

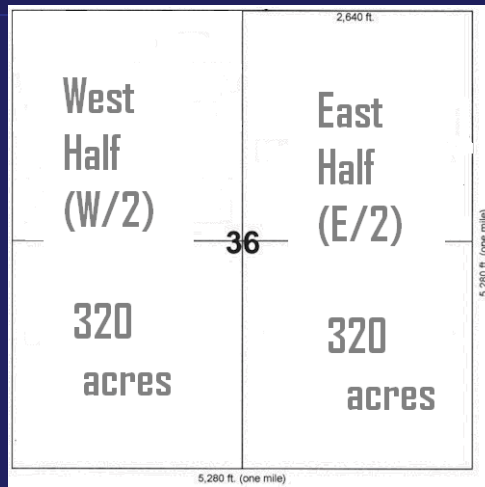




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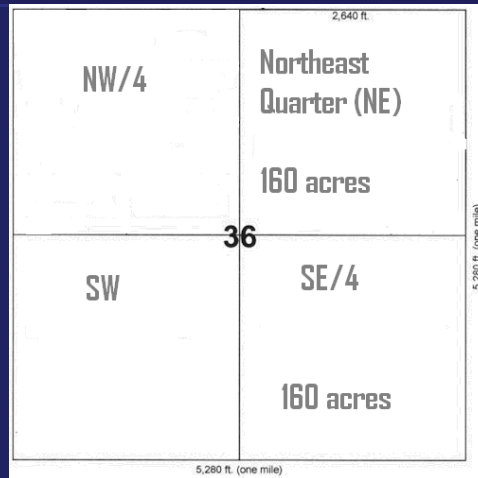


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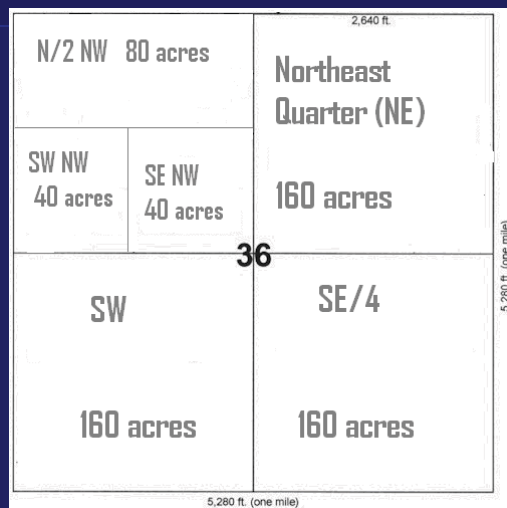




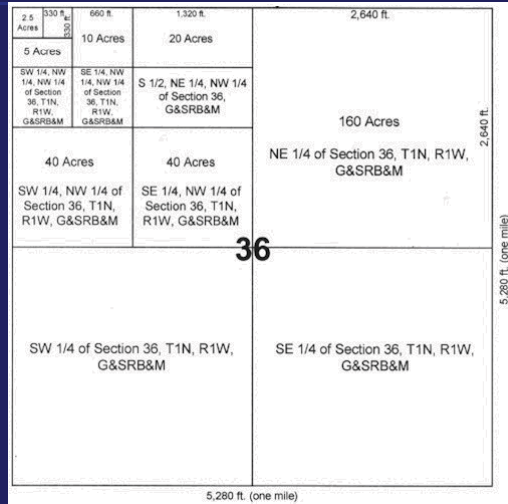
Legal Descriptions



Legal Descriptions



Legal Descriptions



Number of Mineral Acres Owned



- If described as "all of the mineral interest" in SE/4 SW/4 Section 11-Township 2 North, Range 8 West then you own **40** mineral acres

(Section 11 consists of 640 acres/ $4/4=40$)



Undivided Ownership

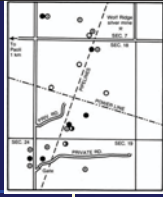
- Own a portion, usually expressed in a fraction, under the entire described property—sometimes called an “undivided interest.”
- Document will read: “An undivided $\frac{1}{2}$ interest under the SW SW of 11-2N-8W.”



Undivided Ownership

- Section 11 = 640 acres
- SW/4 SW/4 of Sec. 11 = $640/16=40$ acres
- Undivided $\frac{1}{2}$ interest in 40 acres=

20 acres owned



Types of Ownership

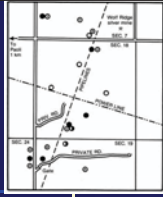
- Mineral Ownership
- Overriding Royalty Ownership
- Working Interest
- Royalty Ownership



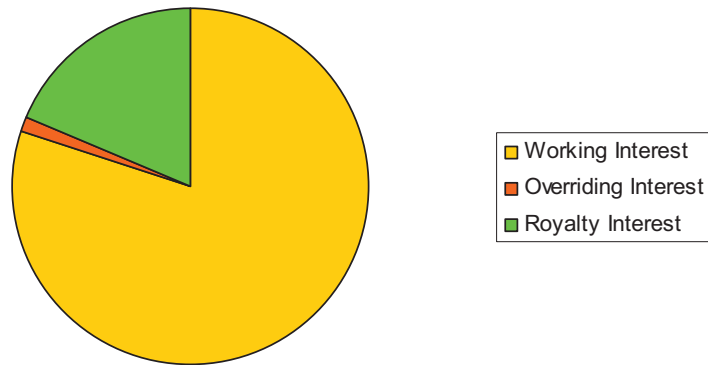
Types of Ownership: Non-Producing

- Mineral Ownership

The ownership of the minerals in place



Types of Ownership: Production Interests



Types of Ownership: Producing

- Working Interest (WI)
Investors in the well who share the actual costs incurred in drilling and completing
Production income is distributed proportionately
- Overriding Royalty Interest (ORRI)
Carved from the WI; non-cost bearing

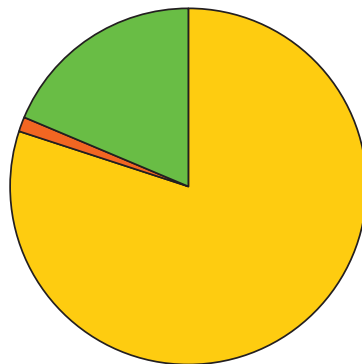


Types of Ownership: Producing

- Royalty Ownership/Interest (RI)
 - Begins with Production
 - Ends with Production
 - Does not have to be owned by the “Mineral Owner” but it usually is
 - Is based on the fraction retained in the lease and your ownership
 - Gets you the checks in the mail




Types of Ownership: Production Interests



- Working Interest
- Overriding Interest
- Royalty Interest



 **4 Major Mineral Owner Events**

- Ownership
- **LEASING**
- Division Orders
- The Check



4 Major Events: **Leasing**

The Oil and Gas Lease is

- the basic instrument in oil and gas development
- a legal instrument executed by a mineral owner granting the exclusive right to another to explore, drill and produce oil and gas from a particular piece of land



4 Major Events: **Leasing**

Many printed forms are available but

THERE IS NO SUCH THING AS A

STANDARD LEASE FORM



4 Major Events: Leasing

**VIRTUALLY ALL
LEASE TERMS ARE
NEGOTIABLE**



4 Major Events: Leasing

- Rights of Mineral Ownership
 - Enter the land to explore, drill, produce and otherwise carry on mining activities.
 - Lease those ownership rights to another party.
 - Ownership exists in perpetuity.
 - The minerals sit “in place” until developed; most mineral owners cannot afford to drill a well.

The Oil and Gas Lease

- Cooperative agreement between Mineral Owners and Producers
 - The Mineral Owner grants the right to enter his property to an oil and gas company for oil and gas exploration.
 - The grant is known as an “Oil and Gas Lease” where the Mineral Owner receives:
 - A certain amount of money (a “Bonus”)
 - Allows the Producer a certain amount of time to develop the property
 - Retains a certain percentage of the oil and gas that may or may not come out of the ground (the “Royalty”-which is usually 1/8 to 1/4 of the production proceeds based on mineral ownership)



Lease Negotiations

- The Lease Bonus
- Retained Fraction (Royalty Rate)
- Number of Years (Primary Term)

are only a PORTION of
Lease Negotiations



Negotiations

■ The Lease Bonus

Paid by the Lessee at the time the lease is executed

Usually is calculated on a per acre basis

Usually is paid by separate draft or check

Is not recited in the lease

Example: Ownership	=	10 NMA
Lease Bonus	=	<u>\$50 per acre</u>
Total Bonus Paid	=	\$500



Negotiations

■ Retained Fraction (Royalty Rate)

If production is established

the Fraction agreed upon

will be the royalty rate paid on production

Example: Ownership	=	10 NMA
Retained Fraction	=	1/8
<u>10 NMA</u>		
80 acre spacing unit	x	1/8 = .0015625 RI



Negotiations

- Number of Years (Primary Term)

States the maximum period of time for which the lessee can maintain the lease rights **WITHOUT** drilling



Negotiations

- The Lease Bonus
- Retained Fraction (Royalty Rate)
- Number of Years (Primary Term)

are only a PORTION of

Lease Negotiations



Bertha Rogers #1-27
 Center of SE/4 SE/4
 Section 27-10N-19W
 Washita County, Oklahoma
 Spud date: 11/25/1972
 Completed: 7/21/1974

SURFACE

Total Depth 31,441 Feet

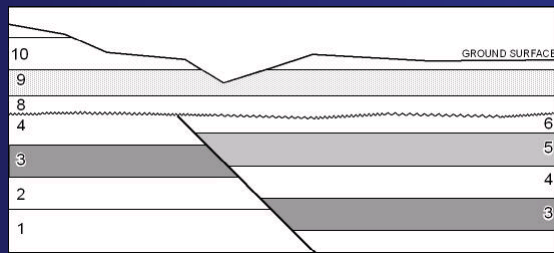


Bertha Rogers #1-27
 Center of SE/4 SE/4
 Section 27-10N-19W
 Washita County, Oklahoma
 Spud date: 11/25/1972
 Completed: 7/21/1974
 Last Production: July 1997
 Plugging Date: 6/24/03

SURFACE

Granite Wash 13,000 - 13,110 (13,600)

Total Depth 31,441 Feet



Lease Clauses that can Bite

"To pay Lessor for gas (including casinghead gas) and all other substances covered hereby, a royalty of 1/8 of the proceeds realized by Lessee from the sale thereof, less a proportionate part of the compressing, dehydrating, transporting, and marketing or otherwise making such gas or other substances ready for sale or use, said payments to be made monthly."



Lease Clause to Protect

"Commencement of a well according to the terms of this lease will require that a drilling rig capable of drilling to a total depth be on location and drilling on or before expiration of the primary term, and that the drilling of said well be continued with due diligence until completion. Construction of a well location without actual drilling as detailed above will not be deemed commencement of a well."



The Oil and Gas Lease

**...INCLUDING ALL THAT FINE PRINT
is a NEGOTIATED AGREEMENT
upon which
your future Royalty Income depends**



4 Major Mineral Owner Events

- Ownership
- Leasing
- **DIVISION ORDERS**
- The Check



4 Major Events: Division Orders

- Issued by the Company AFTER production is established
- States the decimal interest on which you will be paid
- Is the link to information on your check stub



4 Major Events: Division Orders

NADOA Model Form Division Order (Updated 1/03)

PRODUCTION PAYMENT

To: _____ Date: _____

Property Number: _____ Effective Date: _____
 Property Name: _____
 Operator: _____
 County and State: _____
 Property Description: _____
 Productive _____ Oil _____ Gas _____ Water _____

Owner Name: _____ OWNER NUMBER: _____
 and Address: _____ Type of Interest: _____
 (Deed or Lease)

The undersigned certifies the ownership of their oil and gas interest in production or proceeds as described above payable by _____ (Payee).

Payee shall be entitled to receive, in writing, all any change in ownership, interest, interest, or payment address. All such change shall be effective the first day of the month following receipt of such notice.

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

Payee may accept proceeds until the total interest reported _____ per _____ which may exceed five, or as required by applicable state statute.

This Division Order does not create any lease or operating agreement between the undersigned and the Payee or operator or any other person for the production of oil or gas.

In addition to the terms and conditions of this Division Order, the undersigned and Payee may have certain minority rights under the lease of the state in which the property is located.

Special Covenants:

Owner(s) Equipment: _____
 Owner(s) Tax ID Number(s): _____
 Owner Telephone Number: _____
 Owner FAX Telephone #: _____

Payee Law requires you to furnish your Social Security or Taxpayer Identification Number.
 Please see complete instructions on the accompanying check stub for instructions to Payee.

**NADOA
Model
Form Division
Order**



Model Form Division Order

NADOA Model Form Division Order (Adopted 9/95)

DIVISION ORDER

To:

Date:

Property Number:

Effective Date:

Property Name:

Operator:

County and State:

Property

Description:

Production: _____ Oil _____ Gas _____ Other: _____

Owner Name
and Address:

OWNER NUMBER:

Type of Interest:

Decimal Interest:



Model Form Division Order

The undersigned certifies the ownership of their decimal interest in production or proceeds as described above payable by _____ (Payor).
(Company Name)

Payor shall be notified, in writing, of any change 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 herein 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 _____, or pay _____ whichever occurs first, or as required by applicable state statute.

This Division Order does not amend any lease or operating agreement between the undersigned and the lessee or operator or any other contracts for the purchase of oil or gas.

In addition to the terms and conditions of this Division Order, the undersigned and Payor may have certain statutory rights under the laws of the state in which the property is located.

Special Clauses:



Model Form Division Order

Owner(s) Signature(s): _____

Owner(s) Tax I.D. Number(s): _____

Owner Daytime Telephone #: _____

Owner FAX Telephone #: _____

Federal Law requires you to furnish your Social Security or Taxpayer Identification Number.
Failure to comply will result in 28% tax withholding and will not be refundable by Payor



Interest Verification: The Decimal Interest

$$80/640 \times 3/16 = .0234375 \text{ RI}$$



Components of a Decimal Interest

- Mineral acres owned
- Drilling and Spacing Unit Size (in acres)
- Royalty retained from the Oil & Gas Lease
 - Aka: Fractional Retained Royalty


These components are not stagnant; they change from property to property.



Decimal Interest

$$80/640 \times 3/16 = .0234375 \text{ RI}$$



 **4 Major Mineral Owner Events**

- Ownership
- Leasing
- Division Orders
- **THE CHECK**



4 Major Events: The Check

Statement of Oil & Gas Payments
for
Royalty Owner

A SEECO, INC.
P O BOX 13408
FAYETTEVILLE AR 72703-1004
(479) 684-8777

B Owner No. 111111 **C** Check No. 11122233 **D** Check Date 09/25/2006 **E** Net Amount \$183.32
Page 2 of 2

Prod Date	Product	Interest	Type	Price	Volume	Gross Information			Net Information			Code	Net Amount			
						Gross	Prod Tax	Other	Volume	Gross	Prod Tax			Other		
Property 123456789A McGee Well #1-1 ST / County: ARKANSAS / FAULKNER																
07-06	GAS	0.0002925	Roy. Int	0.00	0.00	0.00	0.00	228.93	-228.93	0.00	0.00	0.00	0.00	MC	0.00	
07-06	GAS	0.0002925	Roy. Int	5.806	4.332	25,157.34	1,872.46	0	23,284.88	1.27	7.36	0.55	SV	0.00	6.81	
Total Net for Property 123456789A McGee Well #1-1 1.27 7.36 0.55 0.00 6.81																
Property 333456789A Walker Well #2-2 ST / County: ARKANSAS / FAULKNER																
07-06	GAS	0.0002925	Roy. Int	0.00	0.00	0.00	0.00	2,058.24	-2,058.24	0.00	0.00	0.00	0.00	MC	0.00	
07-06	GAS	0.0002925	Roy. Int	5.806	38,958.32	226,180.39	16,834.61	0	209,345.79	11.39	66.16	4.92	SV	0.00	61.23	
Total Net for Property 333456789A Walker Well #2-2 11.39 66.16 4.92 0.00 61.23																
Property 189345789A Smith Well #2-3-H ST / County: ARKANSAS / FAULKNER																
07-06	GAS	0.0005566	Roy. Int	5.776	25,662.22	149,224.98	76.99	0	148,147.99	14.28	82.48	0.54	SV	0.00	82.44	
07-06	GAS	0.0005566	Roy. Int	0.00	0.00	0.00	230.96	0	-230.96	0.00	0.00	0.13	VT	0.00	-0.13	
07-06	GAS	0.0005566	Roy. Int	0.00	-1,001.62	0.00	0.00	5,785.36	-5,773.34	-0.56	0.00	-0.01	SV	3.22	CC	-3.21
07-06	GAS	0.0005566	Roy. Int	0.00	0.00	0.00	0.00	1,233.03	-1,233.03	0.00	0.00	0.00	0.00	MC	0.00	
07-06	GAS	0.0005566	Roy. Int	0.00	0.00	0.00	0.00	10,906.44	-10,906.44	0.00	0.00	0.00	0.00	GA	-6.07	
07-06	GAS	0.0005566	Roy. Int	0.00	0.00	0.00	0.00	3,336.09	-3,336.09	0.00	0.00	0.00	1.86	TT	-1.86	
Total Net for Property 189345789A Smith Well #2-3-H 13.72 82.48 0.16 11.15 71.17																
Property 432899425A Plummer Well #1-2-H ST / County: ARKANSAS / VAN BUREN																
07-06	GAS	0.0002116	Roy. Int	5.776	42,876.99	247,657.49	128.63	0	247,528.86	9.07	52.39	0.03	SV	0.00	52.36	
07-06	GAS	0.0002116	Roy. Int	0.00	0.00	0.00	385.89	0	-385.89	0.00	0.00	0.08	VT	0.00	-0.08	
07-06	GAS	0.0002116	Roy. Int	0.00	-2,566.15	0.00	-30.79	14,622.08	-14,791.29	-0.54	0.00	-0.01	SV	3.14	CC	-3.13
07-06	GAS	0.0002116	Roy. Int	0.00	0.00	0.00	0.00	2,015.54	-2,015.54	0.00	0.00	0.00	0.00	MC	0.00	
07-06	GAS	0.0002116	Roy. Int	0.00	0.00	0.00	0.00	18,222.72	-18,222.72	0.00	0.00	0.00	3.86	GA	-3.86	
07-06	GAS	0.0002116	Roy. Int	0.00	0.00	0.00	0.00	5,574.01	-5,574.01	0.00	0.00	0.00	1.18	TT	-1.18	
Total Net for Property 432899425A Plummer Well #1-2-H 8.53 52.39 0.10 8.18 44.11																



4 Major Events: The Check

Chesapeake
Operating, Inc.

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
PROD DATE	PRICE	PV	CP	VOLUME	TAX	DEDUCT	NET VALUE	LEASE	PAYMENT REGION	VOLUME	GRS VALUE	TAX	DEDUCT	NET
111111-CHK WELL #5-1 STATE: OK COUNTY: GARVIN LEGAL: SW/4 SECTION 27-4N-4W														
502	2	3.864	2	01	898.08	249.77	00	3220.43	00173611	1.56	6.02	43	29	-29
602	2	3.604	2	01	863.51	224.05	00	2888.76	00173611	1.50	5.40	39	00	0.01
702	2	3.000	2	01	881.00	228.34	00	2944.06	00173611	1.63	5.51	40	00	5.11
802	2	3.533	2	01	873.00	172.12	00	2219.14	00173611	1.17	4.15	30	00	3.85
902	2	3.767	2	01	853.00	231.30	00	2982.38	00173611	1.49	5.58	40	00	5.18
1002	2	4.070	2	01	1239.00	362.97	00	4680.12	00173611	2.15	8.76	63	00	8.13
1102	2	4.530	2	01	1331.00	434.01	00	5596.25	00173611	2.31	10.47	75	00	9.72
1202	1	29.042	2	02	-155.65	-325.56	00	-4194.90	00173611	-27	-7.85	-57	00	-7.28
1202	1	29.043	2	02	178.43	377.10	00	4805.10	00173611	31	9.00	65	00	8.36
1202	1	29.042	2	02	155.65	325.56	00	4194.90	00173611	27	7.85	57	00	7.28
1202	2	4.679	2	01	1436.00	483.63	00	6236.22	00173611	2.49	11.67	84	00	10.83
103	2	5.409	2	01	1013.00	394.40	00	5085.83	00173611	1.76	9.51	68	00	8.83
203	2	6.233	2	01	807.00	362.00	00	4668.17	00173611	1.40	8.73	63	00	8.10
303	2	6.00	2	01	00	137.89	00	1778.72	00173611	00	3.33	24	00	3.09
403	2	6.166	2	01	726.00	260.04	00	3460.00	00173611	1.06	6.61	47	00	6.04
LEASE TOTAL 94.64 6.81														
OWNER TOTAL 94.64 6.81														
INTEREST TYPES (IT)			PRODUCT CODE (PC)			DEDUCT CODE								
1-NR 2-ROY 3-ORR			2-GAS 1-OIL			BW-BACKUP WITHHOLDING EV-SEV TAX KC-RES CONSERVATION NE-NETTING EXPENSE NRM-NR WITHHOLDING SB-OK WITHHOLDING SV-SEV TAX TC-LA CENT FAC GAS TR-LA CENT FAC OIL								
CHECK TOTAL 87.83														
OWNER NUMBER 00001					CHECK NUMBER 00001					CHECK DATE 11/11/00				



Mineral Management 101

- YOUR FILES
 - Evidence of Title (Ownership)
 - Leases and Offers
 - Division Orders
 - Correspondence



**The only national organization representing,
solely and without compromise,
oil and gas royalty owner interests.**