ENVERUS

WHITE PAPER

Maximize Revenue by Avoiding the Top 5 Mineral Management Mistakes

Introduction

More than ever, mineral and royalty owners struggle with managing portfolios of scale. The already daunting challenge of managing dozens of assets becomes an impossible one with hundreds or thousands of wells and the need to audit lease terms, ensure decimal accuracy to the eighth place, and verify production every month. And those are just the known risks. Mineral managers also face unknown risks from missing wells and missing payments, requiring even more vigilance. However, armed with the right technology and simple solutions, mineral owners can de-risk their portfolios faster than ever.

Here are the top 5 mineral management mistakes to avoid and the data-driven tools that enable mineral owners to identify lost revenue and drop more revenue to the bottom line.

Mistake #1: Overlooked Wells

Risk To Mineral Owners

Right now, your portfolio could be full of holes in the form of overlooked wells, holes that are draining your profits away. It can be complicated to determine what wells you should – but aren't – being paid on. And as your team manages a larger number of assets, this risk to your portfolio grows.

Both operators and non-ops are challenged with managing assets of scale; things can be overlooked on either side. Title errors – difficult to resolve as the burden of proof is on the mineral owner – can and do occur. On the non-op side, owners can fail to notify operators of ownership change or sign and return division orders.

Simple Solutions

Know your property and map your tracts with known assets. By overlaying data reported to the state, permits, and production, your team can quickly identify wells that have been drilled, completed and put into drilled uncompleted (DUC) inventory.

Know what to fix first. Once you have found missing wells, calculate your ownership and estimate your loss to prioritize recovery efforts. Perform this type of audit on your entire portfolio periodically and especially as part of your acquisition due diligence.

Mistake #2: Spotting Underpayments

Risk To Mineral Owners

Have a no-cost lease? There is a chance that the operator is still charging you for separation, compression, dehydration and myriad other post-production deductions. Overlooking lease provisions can also work the other way; if operators overpay you, you might have to cut them a check down the road.

Effectively organizing and accessing land records is critical to routine auditing of lease provisions, yet paper record keeping and scattered digital sources create barriers to timely analysis. Beyond improper deductions, your lease documents also document your ownership, key information needed to verify the accuracy of the decimals reported on check stubs.

Simple Solutions

Start by digitally organizing land and ownership information. Then link key lease provisions to your mineral revenue streams and individual wells to spot improper deductions or incorrect decimals.

MineralSoft, the leading mineral management platform from Enverus, offers automated auditing tools and reports that help you rapidly detect a wide range of underpayments, including incorrect deductions, decimals and check amounts.

Mistake #3: Missing Checks

Risk To Mineral Owners

Operators only send checks when payments meet a minimum threshold, so there may be months when it is normal to miss a payment if oil or gas pricing is down and your payment falls below a $50 minimum. Shut-in wells also create a temporary hold in mineral revenue. The challenge for owners is how to separate the normal from unintentional missing payments.

Checks do get lost in the mail, but the biggest risk to your bottom line is limited operator bandwidth. Accounting errors propagate in a fast-paced environment where operators often rush to close the month and cut checks to many interest owners.

Simple Solutions

Spotting missing checks requires both a continuous line of sight on your well level production and an easy way to compare that to your check details. Production datasets from Enverus simplify and automate this process with allocated volumes for states that only report lease level production.

Additionally, MineralSoft provides out-of-the-box charting tools that quickly compare revenue and reported production at a granular level, enabling users to see immediately when an operator failed to send a check. These techniques are especially important with many shut-ins triggered by economics, in addition to acquisitions and bankruptcy increasing the margin of error.

Mistake #4: Reconciling Well Names

Risk To Mineral Owners

Operators are diverse and so are their accounting procedures, systems and asset-naming conventions. That's why mineral owners routinely receive a check stub with a well name that is not immediately recognized. It's a persistent and time-consuming problem to match such unknown assets to the correct wells in a non-op accounting system every month.

Property codes reported in your monthly check details are not always related to wells.

These codes often represent multi-well leases with lease changes injecting even more naming complexity. And when the correct well can't be linked to a property, it becomes a big problem when owners want to divest and need proof of ownership other than their check stub.

Simple Solutions

The fastest way to reconcile a few well names is to simply call the operator's owner relations line and ask them to match the name to an API number. Additionally, examination of the original permits for the lease can assist in reconciling the current naming and identification of the correct API.

What's more, MineralSoft users can leverage integrations with the Enverus-operated EnergyLink revenue exchanges to match APIs with an extensive database of cross-referenced property codes, acronyms, truncations, unit, and well names, enabling large portfolios to be automatically reconciled.

Mistake #5: Waiting on the Operator

Risk To Mineral Owners

Mineral funds must constantly quantify short-term upside potential in their acreage and anticipate when to expect new revenue. However, the scale of many portfolios prevents a clear and current view across well delivery leaving mineral managers to manually piece together what is permitted, drilled, completed and waiting on first production.

Your cash flow hinges on finding new production on your property and contacting the operator first to get in pay as fast

as possible vs. waiting 6 months or never getting in pay if the operator has made an oversight. Large, scattered positions across many basins can make it difficult to track permit and rig activity manually, while complicated state agency websites and varying reporting formats make information difficult to find.

Simple Solutions

Be sure to keep up with mapping your acreage, units and wells. Maintain your active tracts and integrate or import datasets for permits and rigs to know when to begin reaching out for division orders. As soon as permits are filed, mineral owners can calculate revenue for short term forecasting while tracking well status changes with Enverus GIS tools and datasets.

Monitor by exception. MineralSoft provides automated daily e-mail alerts for rig and permit activity on acreage managed in the user's portfolio.

Takeaways for Mineral Owners

Mineral owners need instant access to land, well, and revenue data, all linked together. Success hinges on your ability to effectively map properties – a critical skillset that enables mineral owners to stay organized, analyze problems and spot opportunities faster. MineralSoft by Enverus can provide analysis-ready shape files for units, tools to draw your own polygons and professional services to simplify your GIS workflows. It's critical to be paperless in the digital economy.

Finally, don't assume that the assets you acquire were in pay, so build an audit for missing wells into every deal. These insights are important whether you are underwriting your investments, looking to add interests, exit positions or find underpayments.