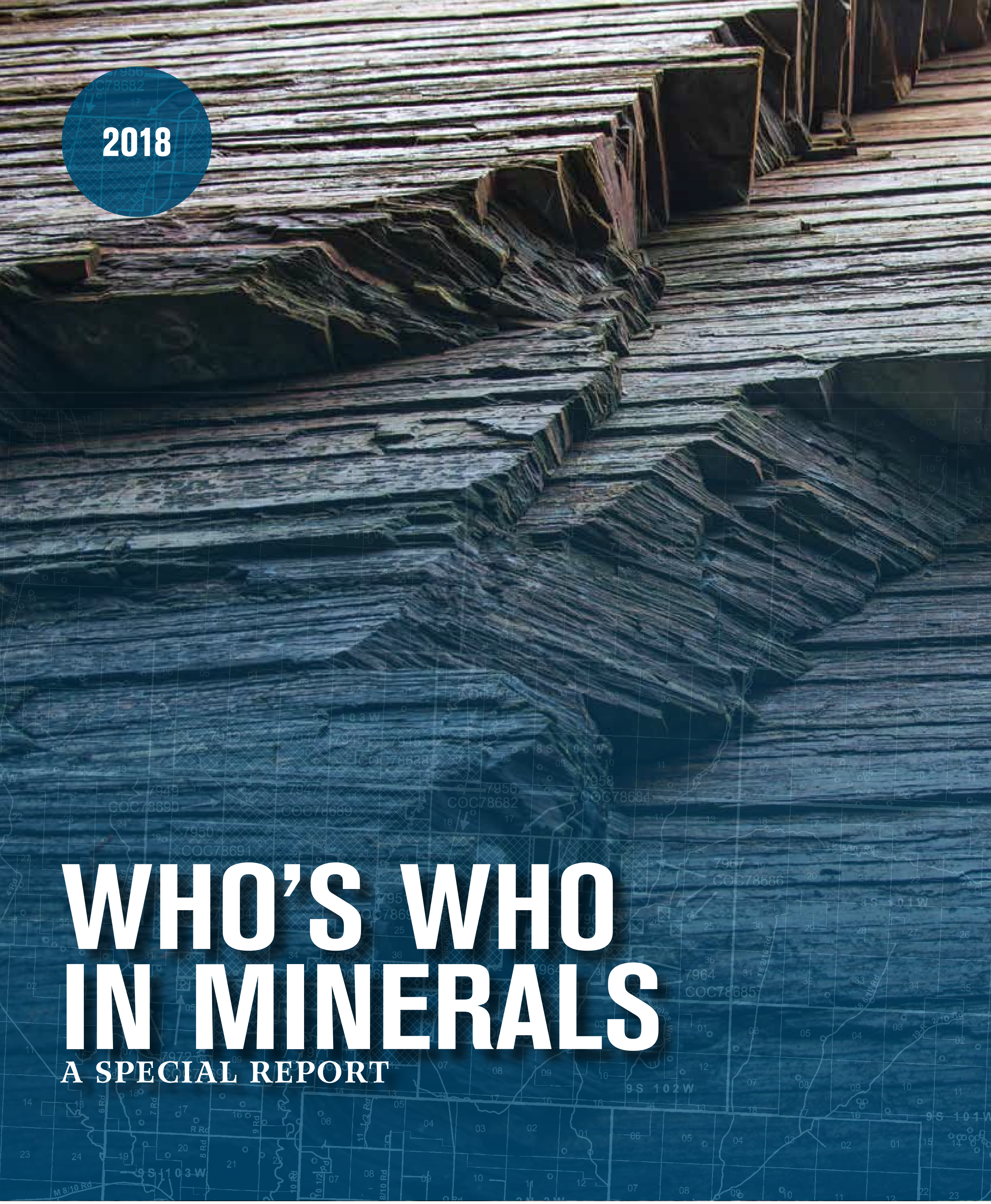

2018

WHO'S WHO IN MINERALS

A SPECIAL REPORT

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Oil and Gas Investor

JANUARY 2018

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SEARCHING FOR THE NEXT MINERALS DEAL

RECENT ESTIMATES INDICATE THERE IS AS much as $14 billion of value among U.S. minerals buyers.

Buyers and sellers in the relationship-driven marketplace must understand the rock, methods of well completion and how shale plays tend to evolve.

We hope the information provided in this special report, a directory of Who's Who in the minerals sector and a compilation of relevant minerals content, will help strengthen connections and deals among the major players and up-and-comers.

—**LESLIE HAINES**, *Executive Editor-at-Large*

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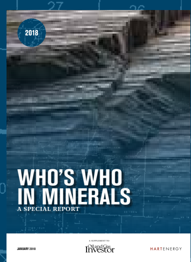


This photograph of a shale outcrop is overlain by an acreage map. The traditional minerals business has been revitalized by the rise of unconventional resource plays in the onshore U.S.

Shale image courtesy of Sigur/Shutterstock

Roberto Sorin/Shutterstock

THE MINERALS BUYERS

These minerals buyers describe their strategies in targeting and winning acres in the midst of ever-growing competition.

By Nissa Darbonne

Sitting across from Haymaker Minerals & Royalties LLC's senior vice president of land that afternoon were siblings. Karl Brensike, CEO, had authorized an offer for the family's minerals. The brother was interested; the sister wasn't so sure, but she was listening.

The brother thought Haymaker made a good offer. The sister declared, "Grandpa said to never sell the minerals." But the brother quickly replied, "No. Grandpa said to never sell the minerals because someday they may be worth something. I'm saying that he was right and that day is today."

The sister came around; they decided to sell a portion of the mineral estate.

Brensike told *Investor*, "A lot of the times, when we're buying minerals, the mineral owner may not want to sell his entire position. He may have a 25% royalty and say, 'Well, it would be great to have some money upfront, so maybe I'll sell half of my 25% and keep an eighth, but I'll cash out an eighth right now.'"

During the peak in competition for Haynesville leasehold in early 2008, for example, deals were being made with mineral owners retaining as much as 25%—in a few cases, more. Brensike said, "In the new shale plays, it's not uncommon to see 25% royalty ownership, which is nice: The more ownership the royalty owner has, the more willing he may be to sell a piece."

He added that this is why a majority of Haymaker's acquisitions are partial sales. "They generally want to keep some of the upside and we encourage them to."

Begun in 2013, Haymaker has a royalty interest in more than 35,000 wells involving more than 5 million gross acres in 26 states. The position was accumulated via more than 600 transactions.

"We buy wherever we believe good development is going to take place," said Brensike, who began working in the minerals space in 2004. "We don't care if it's oil or gas; we just want near-term development."

"To be nimble in the mineral space, we needed to operate autonomously and be able to make decisions not in the greater Apollo network."

—**JAMES ELDER**, *co-CEO, Momentum Minerals LLC*

Where will the next well be drilled? Knowing that requires understanding the rock—and the operator's motivations, he said. "That may be the difference between us and other groups. Some groups say, 'We're going to look at the absolute best rock and we're going to pay whatever it costs to get it and we don't really care about when it's going to be developed.'

"We're private-equity-funded, so rate of return is very important to us. We're only going to buy in the best areas—areas we really believe will be developed sooner rather than later."

At Haymaker, "sooner" is within 12 to 24 months. Also, "we don't buy anything that isn't leased. Some companies are buying unleased acreage. We're buying areas that are already leased—and by great operators," Brensike added.

Hot spots

Rig counts across U.S. basins have waxed and waned widely in the past three years in particular, according to Baker Hughes Inc.'s rig count. The Arkoma Basin count grew from zero in January 2016, when the gassy basin was believed to be finished at sub-$3 natgas, to 11 during the fall of 2017 with a new target of wet gas and oil.

The Cana Woodford gained 20 rigs since May 2017. The Eagle Ford count rose to nearly 80 in 2017 and fell to 60—the February count—again by autumn.

In the Permian, rigs at work fell to 132 in April 2016 and totaled 386 this past November. The Williston's rig count had slid to 22 and was 48 in November.

As does Haymaker, Momentum Minerals LLC uses the "boots on the ground" approach as well, said James Elder, co-CEO. Previously known as Apollo Royalties Management LLC, the firm was recently spun out of Apollo Global Management LLC and is now an independent portfolio company affiliated with the private-equity investor.

"To be nimble in the mineral space, we needed to operate autonomously and be able to make decisions not in the greater Apollo network," Elder said. "We weren't able to chase the smaller deals; we were seeing a lot of missed opportunity."

He and co-CEO Kevin Lorenzen started the platform in 2013. "We saw the mineral space as being a lower-risk, lower-return asset class—different from the typical E&P."

The firm manages the assets it procured as Apollo Royalties and it has the same team and structure. "We do look at the same type (i.e., large, proved developed producing [PDP]) deals we did before, but now we have the opportunity to get after other asset classes within the space."

The focus had been on heavily PDP property that was generating a targeted amount of yield. "With that, we buy PDP-heavy assets. To that end, we are for the most part geographically agnostic.

"But, at the same time, we are running geographically specific programs. 'Boots on the ground.' We draw a circle on a map and say, 'We want to buy in this area and with these operators.' And we price the drilling-spacing units accordingly to fit our return profile."

Because of $50 per barrel (bbl) oil and $3 gas, "we end up in areas that still make sense for future drilling," Elder said. That's the core of the Bakken, Permian Basin, Denver-Julesburg Basin, Scoop/Stack and the Eagle Ford.

As for gas plays, Momentum doesn't have much exposure. "That's mostly because we find sellers in the major gas plays—the Hayneville, Marcellus—have price expectations based on future development.

"For a lot of those plays, we don't see future development being terribly economic unless you're in the core areas and a lot of these sellers want whole—or at least partial—payment for future [proved undeveloped] PUD locations."

The core of many oil plays—other than the Permian and the Scoop/Stack—was much larger in early 2014 when Momentum got started. "Where we bought in the Bakken is still the sweet spot," Elder said. There, Momentum bought under Oasis Petroleum Inc.

Despite the commodity price collapse, "we've been pleased with the performance of our assets purchased in 2014 as they are in high-quality basins that are still economic to drill today." The thing about royalties is that "you don't have any additional capex after you buy them. You can wait quite a while and it doesn't reduce your [internal rate of return] too much.

"Meanwhile, you still get a good yield out of that asset while you wait around for future development," Elder added.

As mineral owners in gassy basins are reticent to accept an as-is price, owners of oily minerals are coming around to a new WTI price regime. "When prices first dropped in 2014, a lot of people weren't going to sell because they were thinking there would be an immediate rebound. They didn't want to sell at the bottom.

"I think, now that we're three years into this price slump, people are starting to realize that it's going to be a long road before we see some serious accretion in commodity prices and there could be geopolitical events to cause it to go down even further."

Momentum has some 20,000 mineral acres today. The most common challenge in growing it is "the sheer competitiveness in the business," Elder said. "There are hundreds of mineral buyers out there—from small shops to heavily funded entities that have been at it for a long time. Trying to get a good deal is tough."

At the same time, mineral buyers are passive investors. "You have no control over development. You have to be prepared to hold onto your assets for a while."

And, "you can't buy pretty much anything at a discount on current production. You better feel very confident that future development is going to come at some point," Elder said.

Scale vs. returns

Springbok Energy Partners LLC isn't agnostic, said Ryan Watts, founder and president. "We are in multiple basins, but the primary focus has been the Midcontinent and the Permian Basin. That would be the lion's share. We have a very strong feeling about what basins and what parts of a basin we want to be in," he said.

Watts launched Springbok's first iteration in 2015 with backing from NGP Energy Capital Management and additional investors. The current Springbok is capitalized by management and NGP. "A lot of our team goes back to 2007." In a previous business, the group put together and sold Barnett Shale leasehold during the land run there.

"We shifted and became primarily focused on minerals in 2009. We had Addax Minerals LLC. A lot of that team with Addax has continued on here."

The Barnett had been a good market for the group to start in. "You could definitely make some mistakes and we did make plenty of them, but, in a lot of ways, we got bailed out by a hot market.

"We were fortunate that we had a lot of companies that wanted to buy our leasehold."

The strategy used there—leasing where Watts and the team anticipated future interest in development—works the same in the minerals business. "We didn't have a ton of capital. We built it step by step from there."

Currently, Springbok has about 12,000 net royalty acres primarily in the Midcontinent and Permian. Challenges include the competition. "You've definitely seen a lot more capital coming into the space. I think we've continued to see good value and find good positions despite that."

Scaling the business is difficult in this environment. "It's not that you can't invest a lot of capital; you can. It's balancing getting scale while also keeping an eye on returns and making sure we're getting returns we want."

Has anything become easier over the years? "Our team has gotten better," Watts said, "so that part feels easier in many ways. We're always refining and improving."

While competition has grown for minerals, so has capital access. "In 2015, it was a real step change in terms of access to capital for us. We had capital to invest in the team and infrastructure in a way we didn't before.

"Now, being more than two years into it, it feels like the pace comes naturally. We've been able to scale capital right away."

Not buying minerals when WTI was $100/bbl has helped. "I think the timing of having launched in 2015 was definitely a benefit. And, as we look back, we're certainly happy about that."

Buying trends

To see the trend in demand and valuation of minerals in the past five years, EnergyNet.com Inc. has the data. In the 12 months ending in October, it closed on $185 million of royalty, mineral and overriding royalty transactions.

In the same time frame in 2012-2013, in contrast, transactions totaled $55 million "even when oil prices were substantially higher," said Chris Atherton, president of the negotiated transaction and online property-auction firm.

The number of deals each of the past years has held at between 250 and 275, "but the average deal size has increased," he said. A dozen or so packages sold for more than $20 million.

He added, "Relatively small acreage tracts from 100 to 2,000 net mineral acres can now have a very high market value."

Buying is being driven by public as well as private investment. "Royalty A&D is vying for a bigger audience and a bigger stage in the overall A&D market."

In addition, the firm is seeing more "side-car" royalty investment vehicles attached to or affiliated with E&P operators. "One of the major benefits the operator tied into a

"I've been in the mineral industry since 2004. People know that and, when they need the money, they know we're a great partner to transact with."

—**KARL BRENSIKE**, *CEO, Haymaker Minerals & Royalties LLC*

"The consolidation trend is underway. It's definitely happening."

—**RYAN WATTS**, *founder and president, Springbok Energy Partners LLC*

royalty/mineral-buying side-car has is that they have access to the royalty-owner pay decks, contact information and ownership verification.

"That allows them to easily and effectively target their own mineral-owners to purchase their interests. This is a major leg up on other royalty aggregators that do not have access to that information."

Old competition

Brensike said the challenges his group sees isn't coming "so much from new competition as it does from the same old competition," which is the mineral owner's desire to just hold.

"At the end of the day, the mineral owner has to decide if they want to sell. It costs them nothing to just hold it. The owner's hold value has always been the biggest challenge in buying minerals—whether it's us or one of our competitors. And it will always be the biggest challenge in buying minerals."

Motivating an owner to sell—when there is no cost of owning—is usually impossible unless there is a life event—wanting to buy a home, the children leaving for college, wanting to retire. "A lot of it is just being out there as much as possible—being in front of as many mineral owners as you can so, when the day comes, you're the first person they think of to call."

Longevity in the space is key here. "I've been in the mineral industry since 2004. People know that and, when they need the money, they know we're a great partner to transact with."

Consolidation ahead

Brensike expects consolidation in the space. "There's going to have to be consolidation in the industry simply because of the amount of private equity that is now in the space."

When Haymaker was funded by Kayne Anderson Capital Advisors in 2013, the question was whether a meaningful amount of minerals could be bought. "It's really hard to find people who want to sell them."

Now, billions of private-equity dollars have been spent. "We all know private equity has to exit," he said, "so all of these minerals will have to go somewhere. The private-equity companies can't hold them forever, so there will have to be consolidation of the space. It's just a fact."

Momentum's Elder said consolidation is possible. "We've certainly entertained the idea of merging with another group to go public. I think there are a lot of companies about our size that aren't quite big enough to go public, but might look at hitching a ride with somebody to get there."

Springbok's Watts said, "The consolidation trend is underway. It's definitely happening." Resource plays cover large swaths of acreage and are more predictable than bright-spot development.

"You're able to define the boundaries of these plays, giving folks a lot more confidence in investing in these areas," Watts said. "As people better understand these assets, more people want to invest in them. If you see more of these assets in the public markets, I think that's a natural trend."

'Very good time to sell'

At Springbok, Watts said, "We're well capitalized. We have a great partner in NGP. Our team is able to execute on very small transactions as well as very large transactions. We work quickly and we do what we say. Those are the things that make us a bit unique as we position ourselves as a buyer."

Elder said, "One of the things we pride ourselves on in Momentum is being transparent with sellers. In fact, we've gone as far as preparing a very comprehensive presentation, showing a mineral owner exactly what he owns, according to what we researched, and exactly how it's valued."

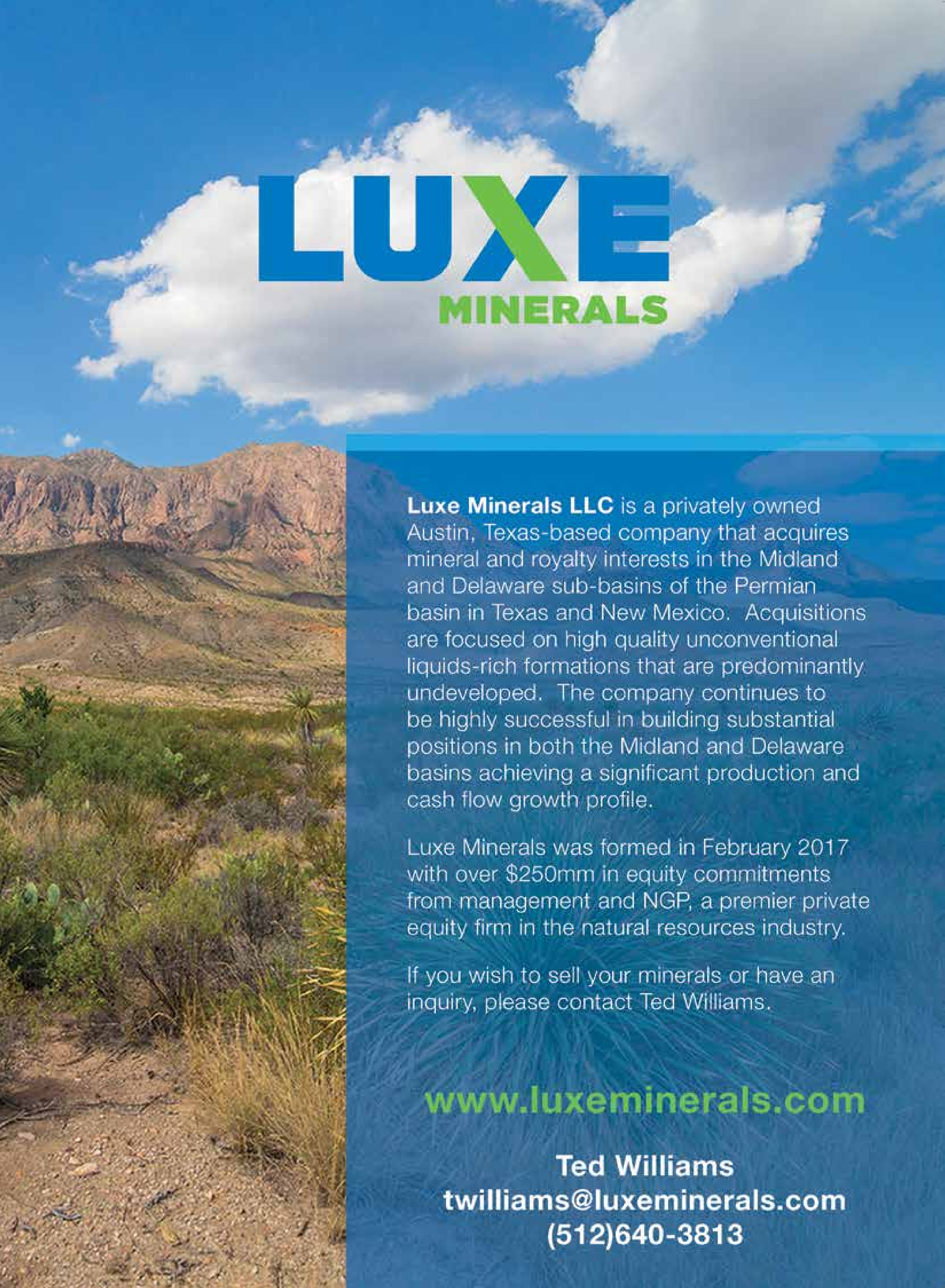
It will include the kind of return Momentum is trying to get to, "so we're transparent with sellers. We're not trying to rob anyone of their minerals; we are trying to make a return." Meanwhile, "we're not looking to trade dollars with anyone."

Brensike said, "There are a lot of [private-equity-backed] guys competing out there and statistically speaking, a lot of those bets should turn out wrong. Mineral owners are in a non-control position, so, no matter how private equity models it out, not every acre will be developed according to forecast.

"If you are a mineral owner in a hot area, it is probably a good idea to lay off a piece in what has become an overheated market."

Maybe the minerals aren't developed for years, "but, at the same time, you keep some of the upside. If I'm calling you and I'm wrong, you get some money upfront. If I'm calling you and I'm right, you still keep some of the future cash flow.

"Now is a very good time to sell part of your portfolio if you're in a good area. Not everything is going to be developed as fast as everyone thinks it is." ■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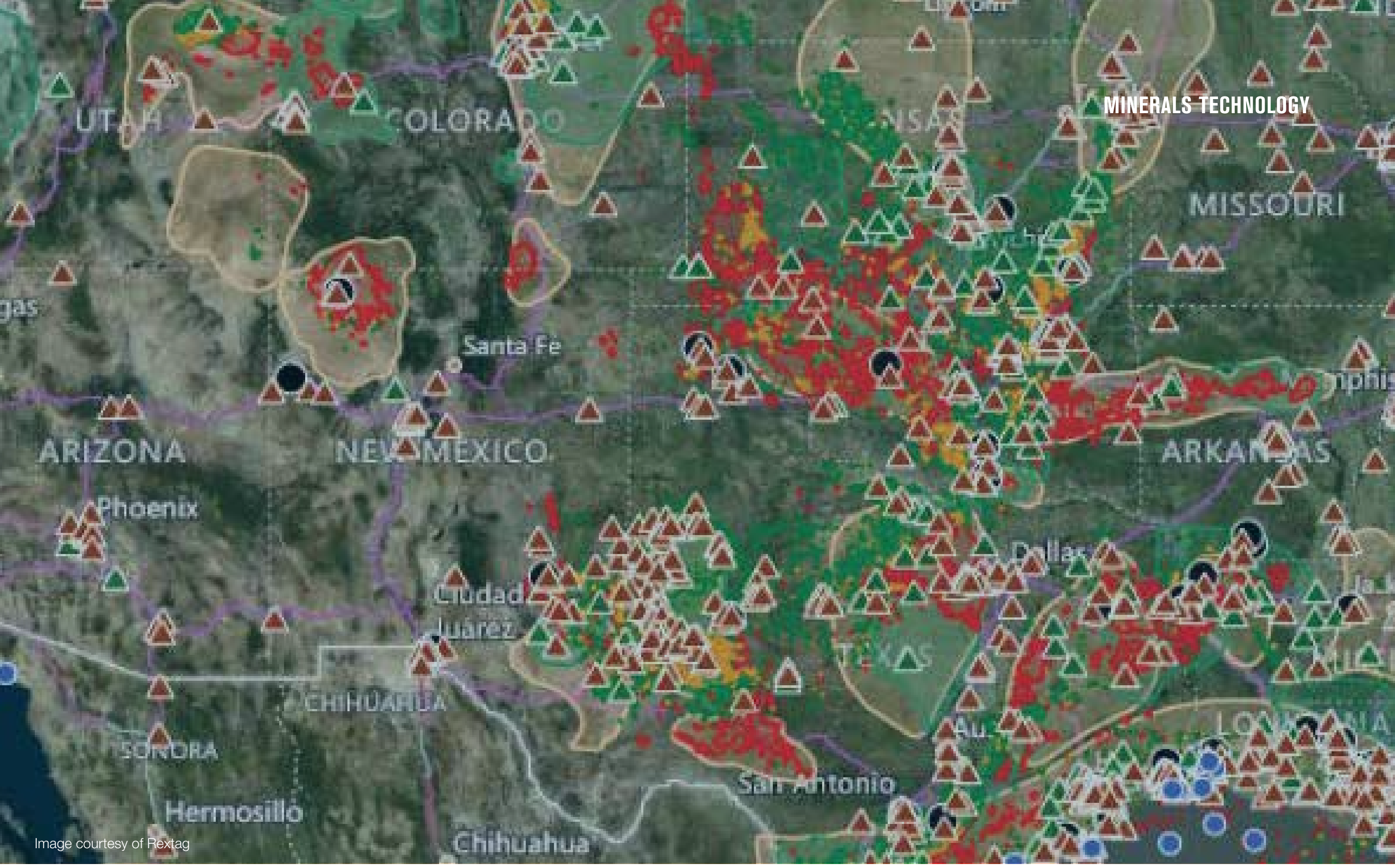


Image courtesy of Rextag

DATA BEFORE DEALS

While competition is stiff for Lower 48 mineral rights, having ready intel helps deals close faster. After closing, accurate asset data must be integrated into the portfolio.

By Nissa Darbonne

BEHIND EVERY MINERALS BUYER IS DATA—LOTS OF IT. YET, sometimes it's still too little. Possibly, it isn't accurate. "Oftentimes, what the records show vs. what you're actually receiving can be different. We see that all the time," said Rick Talley, a senior vice president with resource-evaluation firm Netherland, Sewell & Associates Inc. (NSAI).

"Most times, we've defaulted to all of the paid-statement data that mineral owners receive. At the end of the day, we use this as the actual."

NSAI's evaluations are usually in areas with existing wells "either on or around the owned mineral acreage," Scott Rees, chairman and CEO, said. "So we are typically trying to prepare cash-flow estimates like we would do in our normal evaluations—except, with minerals, we have to spend a little more time and investigative talents to determine which wells/units they really own and what percentage of the wells they actually own."

Well production rates are in the public domain, Talley noted, pointing out that often, what is publicly available lags real time by months. "Mineral owners generally don't have the same data available to them as working interest owners do."

Much intel can be derived from the check stubs—the checks mineral owners receive for their share of the production. "Some check stubs have a lot of information." Some simply state the amount being paid. "And that's all. We have to make a lot of interpretations, leaning heavily on the check-stub revenue."

Some data arrive on paper. "If it's not already tabulated in Excel, it will get there." Data include percent interest in the well, prices paid and any deductions. "That's assuming the data exist on the check stub, but, for the most part, it will always end up in a spreadsheet," Talley said.

Owners' record-keeping has been improving, added Nick Gnyra, an NSAI engineer. "Fast forward to today, I would say it is much more sophisticated." The data is in a database "where we can see the past 12 months of revenue for the same lease. It's gotten much better in the recent few years."

"Most times, we've defaulted to all of the paid-statement data that mineral owners receive. At the end of the day, we use this as the actual."

—RICK TALLEY,
senior vice president, NSAI

Thousands of wells

Over at MineralSoft Inc., Gabe Wilcox concurs on the state of minerals data. "There are tools being used that aren't a great fit for this part of the market. You see some homegrown solutions here and there."

Wilcox, CEO, formed MineralSoft in 2014 and rolled out the software in January 2016. "What we saw in the market is a lot of software tools mostly built for E&P companies and not designed from the ground up for this side of the acquisition world."

A native of central Arkansas, Wilcox left Vilonia in Faulkner County for Yale University in 2002 just as Southwestern Energy Corp. had the idea of leasing what would become the Fayetteville shale play. "I had exposure to minerals in my family and knew about the challenges of owning and managing this kind of asset." He pursued a career in finance and found his way to oil and gas.

"The increased private equity in the market has really driven increased sophistication in the strategy people are deploying in the market," Wilcox said.

A common hurdle in customers' minerals management is scale. "They have so much data coming in on a monthly basis. They tend to have so many wells they're trying to manage—hundreds and thousands of wells—and they're running with lean, focused teams."

To those unfamiliar with the business, Wilcox describes it as owning a portfolio of thousands of rental properties. "We think it isn't feasible to manage an asset base like that unless you have some technology or other process to drive efficiency."

Meanwhile, MineralSoft also aids clients in determining where to buy and what price to offer. It formed a partnership with Drillinginfo earlier this year. With an accurate understanding of offsetting-well production rates and, after buying, seeing how the clients' own wells are producing based on reported data, mineral owners "can see if their revenue is accurately reflected," Wilcox said.

The largest mineral owners may be able to afford to build their software in-house; smaller operators may not. "There aren't standards in data format or consistency or platform that all the relevant players are on. There are consistency-in-data issues.

"Your typical mineral company may not be organized enough at any given time to exchange data quickly or have real-time information about the portfolio," he said. "That all plays into valuation being a challenge."

As competition in the minerals space has increased during the past few years, "it used to not be enough to put in place a conservative assumption and go out and buy cash flow at really attractive rates. In the past you could probably just send out offer letters and, today, you're probably just not going to close deals that way.

"There is just too much competition. There are too many savvy investors that are able to properly value the asset."

Evaluated vs. closed

The increased competition is being driven by private-equity investment in minerals during the past five years. Jimmy Crain, a director with EnCap Investments LP, said at Hart Energy's recent A&D Strategies and Opportunities conference, "We've seen a big push in private equity to get into minerals and [nonoperated properties].

"We've seen over $1 billion buying minerals largely in [the Permian and Oklahoma] as ways in which to continue to be able to create value in those basins that don't look like our traditional operated E&P companies."

Denver-based LongPoint Minerals LLC estimates the public U.S. minerals market cap is $6.3 billion; private investment is $7 billion.

Wilcox told *Investor*, "You really can't afford to be passive anymore. Making a conservative bid is probably no longer going to win deals. And from a management perspective, we believe if you want to maximize value on the portfolio, active management of the asset and an informed, data-driven acquisition strategy is what will win."

MineralSoft finished a project recently where the investment fund was able to leverage its existing portfolio data to more accurately value future purchases. "On the acquisition side, bringing a sophisticated valuation mindset—and rapidly evaluating a large number of deals to find the best opportunities—yields real benefits," Wilcox said.

Before using MineralSoft, the client relied on public data sets to power its engineering models. "By working with us, they were able to analyze the massive revenue data set they had accumulated from their existing holdings, including well-level realized commodity prices and more granular production data with NGL yields, which aren't available in the public domain.

"That level of detail can really move the needle on how you value an asset."

Capturing a deal at a good price requires being prepared with market and asset intel. LongPoint vice president Will Cullen told attendees at the A&D conference that it has closed 464 transactions since formation in March 2016. "That works out to an acre about every 10 minutes," he said.

"But we haven't bought every deal that comes our way," he added. "Some people think we spend money like a drunken sailor and that's not the case. We have about a 17% hit rate [for successful bids]. We stay disciplined with our capital."

In that time frame, LongPoint has screened more than 2,500 potential deals. Competition for acreage or technical, valuation or title problems are the top reasons some deals aren't closed.

Prospective acres

Rees said that normally, if the minerals owned are mostly on undeveloped land without a lot of nearby wells, then NSAI suggests the client engage a land services company to value the minerals based on recent transactions in the area.

"Making a conservative bid is probably no longer going to win deals. And from a management perspective, we believe if you want to maximize value on the portfolio, active management of the asset and an informed, data-driven acquisition strategy is what will win."

—**GABE WILCOX**, *CEO, MineralSoft Inc.*

"I know that the active acquirers of minerals are more prospective in their analysis and look to ascribe value on acreage that may be in the direction that drilling activity is going, but said acreage is not 'nearby' existing wells," Rees said.

"So their evaluations are more geologically driven and do not normally tend to use the typical proved, probable and possible cash flow analysis."

Talley said, "I would definitely agree these companies are more sophisticated than just five years ago. It's really about data management because there is so much of it."

Over the years, NSAI has also seen increased sophistication in how minerals buyers choose the acreage on which to bid. Gnyra said, "You can own minerals; that's one thing. But it comes down to where you own them. It's just that simple. Are you getting ahead of where you think the activity is going to be?

"That's, obviously, a lot of the upside if you can acquire mineral ownership before it's been drilled. And if you're in an area where you think you will see a downtrend in activity, it's worth considering selling."

Buyers are being especially choosy today, Talley said. "Royalty companies are no longer saying 'We want royalties in the Permian Basin.' They're saying they want royalties in a particular core section [of a basin].

"They're doing the underlying engineering and geologic work on where the best production is and will be." ■

SAMPLING OF MINERALS TEAMS

COMPANY	FUND SOURCE	$MM COMMITMENT	COMMENTS/FOCUS
Brigham Minerals LLC	Pine Brook Partners	N/A	4 basins, 32,500 net acres
Brix & Harvest Royalties	Blackstone Energy Partners	$100-plus	Haynesville
Buckhorn Minerals III LP	22 investors	N/A	Multiple basins
CrownRock Minerals LP	Lime Rock	N/A	Permian Basin
Fortis Minerals LLC (a)	EnCap Investments	b)	Multiple oily basins
Haymaker Minerals & Royalties LLC	KKR, Kayne Anderson	N/A	Multiple basins, has made 500-plus acquisitions (some over $100 MM)
Live Oak Resource Partners I LLC	Family offices	11.3	Natural gas
LongPoint Minerals LLC	Canada Pension Plan Investment Board, et al.	632	Permian, Scoop/Stack
Luxe Minerals LLC	NGP, et al.	254	7 oily basins
MAP Royalty	College endowments	2,000	N/A
Mavros Minerals II	Post Oak Energy Capital	N/A	Permian Basin
Red Hawk Minerals Fund I	The Mitchell Group	58	Scoop/Stack
San Jacinto Minerals LLC	Lime Rock	N/A	Marcellus Shale
Santa Elena Minerals LP c)	EnCap Investments	N/A	Permian Basin
Saxet II Minerals LLC	Post Oak Capital	100	Multiple basins
Senex Energy Partners LLC	N/A	N/A	ArkLaTex plays
Springbok Energy Partners LLC	NGP	100	Unconventional basins
Stone Hill Minerals LLC	Quantum Energy Partners	N/A	Appalachian Basin
Royal Resources LP	Blackstone Energy Partners	550	Eagle Ford

a) Also manages assets of Phillips Energy and Sooner Trend minerals entities. b) EnCap's total commitment to minerals is $1 billion, via Fortis and Santa Elena. c) Formerly known as OGX Holdings.

Source: Hart Energy This partial list shows the breadth and depth of mineral buyers currently active.

BRIGHAM MINERALS LLC

> "We cooperate with operators on amendments, ratifications, rights-of-way and other negotiations surrounding oil and gas operations with the end goal of aiding the operator to produce our minerals as efficiently and successfully as possible."
>
> —ROB ROOSA, *CEO*

Brigham Minerals LLC was founded in 2012 by Bud Brigham, former chairman and CEO of Brigham Exploration (BEXP), after the successful sale of BEXP's 375,000 net acres to Statoil ASA in December 2011 for $4.4 billion.

Brigham Minerals was formed to capitalize on the resource play renaissance occurring throughout the U.S. With a management team comprised of experienced geology, engineering and land professionals, Rob Roosa, Brigham's CEO, crafted a clear business plan to acquire oil and gas rights in oil-weighted resource plays in core-of-the-core geologic areas under best-in-class, well-capitalized operators.

Despite the cyclical nature of oil and gas prices, this investment thesis generates ownership in world-class assets that should always be economically viable for operators to drill, significantly enhancing the probability of Brigham's assets' development.

To date, Brigham has acquired 53,800 net royalty acres in the Permian Basin, Williston Basin, Denver-Julesburg (D-J) Basin and the Scoop/Stack plays. The top five operators currently developing Brigham's diversified minerals portfolio are Anadarko Petroleum Corp., Newfield Exploration Co., Noble Energy Inc., Continental Resources Inc. and EOG Resources Inc.

In the past year, Brigham has seen a 90% increase in its production volumes to about 2,700 barrels of oil equivalent per day. Brigham's team anticipates significant future production and cash flow growth, given the 33 rigs currently running on its acreage drilling more than 100 wells. Furthermore, there are about 540 drilled wells waiting on completion, and 690 additional permits that will likely be drilled in the next 12 to 18 months.

Brigham continues to actively acquire minerals in the aforementioned basins and has the appetite and significant capital resources to close on transactions of any size via its longstanding financial backing from Warburg Pincus, Pine Brook Partners, and Yorktown Energy Partners. In particular, Brigham prides itself on successful and timely closings of transactions once a purchase and sale agreement has been executed.

A potential future path for Brigham is an IPO of securities, given the unique exposure it provides to institutional and retail investors in the most economic U.S. resource plays under world-class operators.

Hart Energy spoke with Roosa about the company's strategy, how it handles competition, and other topics.

Q *What philosophy informs your overall strategy at Brigham Minerals?*

At Brigham Minerals, our focus is purchasing the best rock beneath the best-in-class operators in oil-weighted shale plays. Our disciplined approach of pursuing Tier 1 areas allows us a relatively shorter development cycle time. By investing only in the best geology, we also believe we are exposing our investors to lower risk. When and if oil prices retreat, our acreage will likely still have rigs continuing to drill for oil and gas under our mineral position.

Q *In such a competitive environment, what opportunities do you see to buy mineral interests?*

We are flexible to any deal source as long as it is reliable and ethical. When working with brokers, we have a bias toward those dealing directly with the mineral owner. We also engage in targeted mailing campaigns and have accumulated large swaths of acreage organically through such efforts. Last, we see value in evaluating the growing number of mass-marketed deals. While these offerings are generally competitive, we always learn during the evaluation process, whether that is about the play, an operator, or the prices our competition is offering.

Q *Can you comment on rising mineral prices and how you handle that competition?*

While we monitor market prices in each basin, our buying philosophy is predicated on consistent underwriting criteria that incorporates our exhaustive research on operators and our extensive geologic knowledge of each basin. We constantly look to adjust our financial models to account for new completion data, rig counts and commodity pricing, but if prices rise beyond our comfort level, we seek to be disciplined investors and will pass on those opportunities that do not meet our economic hurdles. Finally, another key aspect to remaining competitive in this space is by honoring our commitments. We have consistent deal flow brought to us by brokers, attorneys and landowners who know our reputation for having a sense of urgency, being upfront and ethical in our negotiations and closing our transactions when promised.

Q *Would you hedge? What oil and gas prices does the company plan to work with in 2018?*

The decision to hedge is ultimately a reflection of scale and capital structure. Before reaching a certain size, it can be difficult to hedge efficiently. Additionally, we currently have minimal debt on our balance sheet. As far as planning around commodity prices in future years, we take a long-term view of the market because minerals are a buy-and-hold asset class. We are more focused on development timing and its impact on our valuations.

Q *How many net mineral acres, in which basins, plays or counties, does Brigham already own?*

Brigham has acquired 53,800 net royalty acres comprised of 16,300 acres in the Permian Basin, 15,800 acres in the Scoop/Stack, 14,500 acres in the D-J Basin, 6,700 acres in the Williston Basin, and a small complementary position in the Marcellus.

Q *On average, how many rigs are drilling these areas?*

We currently have 33 rigs developing our acreage and have averaged over 25 throughout 2017. Fifteen of the rigs are developing our Permian Basin acreage, eight are drilling in the Anadarko Basin, three in the D-J, and seven in the Williston Basin. Because in many plays operators are switching to manufacturing mode and therefore pad drilling, our 33 rigs are currently expected to drill over 115 wells in those drilling spacing units. Finally, in addition to this significant drilling activity, we currently have approximately 540 wells that are drilled and awaiting completion and close to 700 permits on our properties.

Q *How proactive are you in getting your minerals drilled?*

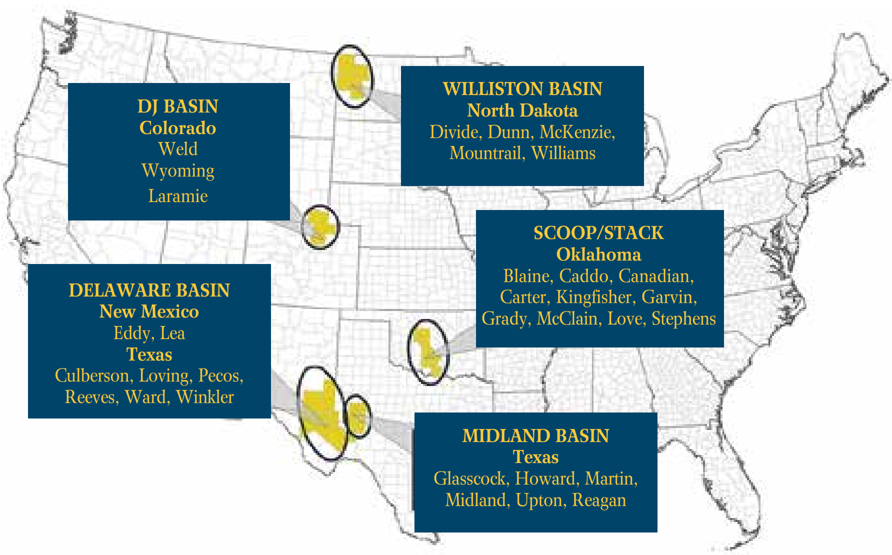
We cooperate with operators on amendments, ratifications, rights-of-way and other negotiations surrounding oil and gas operations with the end goal of aiding the operator to produce our minerals as efficiently and successfully as possible. When executing a new lease, while we ensure it has modern lease provisions such as continuous drilling provisions and Pugh clauses, we also appreciate that a lease that is too onerous for an operator will be slow to be developed. We always strive to benefit alongside operators.

Q *Is Brigham aligned with Brigham Minerals LLC, or are the two companies kept separate?*

Prior to the sale of Brigham Resources to Diamondback Energy Inc. in February 2017 for $2.55 billion, Brigham Resources and Brigham Minerals actively worked together to generate investment ideas and opportunities. When Brigham Resources exited to Diamondback Energy, Brigham Minerals participated in the sale by contributing approximately 10,500 net royalty acres in the Southern Delaware Basin for a very attractive return. ■

Brigham Minerals

brighamminerals.net



Focused Acquisition Approach:
31 counties with 64% of the U.S. rig fleet
Source: Brigham Minerals LLC

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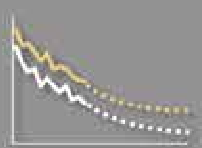

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MINERAL TRANSACTIONS REQUIRE CAREFUL ATTENTION

Mineral interests carry unique risks, so acquisition- and divestiture-related documents must be carefully drafted and negotiations must be meticulously approached.

By Elizabeth L. McGinley, Austin T. Lee and John L. Stavinoha

OVER THE PAST 12 MONTHS, WE HAVE WITNESSED A RAPID evolution in the way that E&P industry participants acquire and own minerals. While the perpetual nature and non-cost-bearing aspects of mineral ownership have long aided in maintaining a floor value in the asset class, an influx of money, technical and financial expertise has increased industry participants' understanding of the value of minerals and has resulted in minerals commanding renewed focus from investors. This has resulted in a complete reorganization of the minerals market and created opportunities for public and private companies alike to participate in the upside that minerals offer.

With the potential for this market to expand rapidly, it is timely to discuss some of the unique opportunities and risks that investors will likely encounter as the transactional landscape for mineral deals increases in both size and level of sophistication. These include the nature of the market itself, buyers' knowledge of transactional matters, and factors driving valuation, among other topics.

The evolving minerals market

Historically, mineral packages were acquired and aggregated by small groups of investors with pooled capital. These investors executed a large number of small transactions sourced by landmen, personal contacts or by sending out blanket solicitation mailers to mineral owners shown on county tax rolls. Many of these mineral buyers acted as middlemen to flip mineral interests and some just acquired as much as they could to create portfolios of "mailbox money" generated on royalties from the mineral interests that were producing.

In many cases, the traditional acquisition platform continues to dominate and companies of all sizes focus on growing their positions organically by executing a large number of smaller deals for disparate mineral fee interests in their chosen geographic area. However, as the industry has recognized the value that minerals represent, many private-equity-backed and public companies have entered and expanded the market for these deals.


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Indeed, these forces have proven to be quite disruptive as investors with different time horizons, target rates of return and mineral buying strategies have drastically increased competition for mineral acquisitions. This has resulted in opportunities for traditional mineral sector participants to act as brokers or middlemen in compiling mineral packages for larger investors. Such new investment in the minerals industry also has expanded the sources of capital to include the public capital markets, further expanding demand and competition.

As the pace and deal size of these transactions continues growing, transactions must be documented and structured to address risks and maximize returns to investors.

Corresponding evolution of transactional structures

Due to the fast pace of most minerals acquisitions and sales, the informal negotiation structure and the relatively small dollar value involved in each transaction, many of the legacy mineral packages were assembled without an appropriate level of due diligence or were documented without sufficient detail to address many title and operational risks. Thus, many of today's sellers may not have an adequate amount of information ready, or sufficiently organized, to satisfy sophisticated purchasers.

Buyers in today's market have a more complete understanding of the title to the mineral properties they are purchasing and the present (and future) operational attributes of the properties.

Are the minerals held by unfavorable lease terms, thus stifling potential cash flow growth? Are non-producing minerals subject to force pooling, which can impact the lease terms that the mineral owner ultimately achieves? What operators are in the area? What is the geological profile of the property? Are there any firm obligations on operators to drill the lands covered by the mineral interests purchased? All of these are questions that buyers are considering as they model the value of mineral interests available in the market.

This has resulted in large disconnects between the assumptions that today's more sophisticated buyers have built into their offered purchase prices and the sellers' expectations regarding the scope of representations.

Accordingly, the documentation for future acquisitions and divestitures of mineral packages should be drafted to bridge the gap between the assurances obtained when the mineral packages were acquired by the seller and the assurances a sophisticated buyer will require to close the transaction. To that end, many of today's sophisticated buyers demand more advanced contractual mechanics that are common to higher-level transactions in the upstream space. These mechanics create a more complete backstop of the assumptions that buyers are building into their offered purchase prices and evidence the higher level of diligence being conducted by buyers in this market.

One particular area where deal documents are changing is with respect to title defect mechanics. Title defect mechanics provide buyers with the ability to diligence the interests they are purchasing, assess the quantum of interest covered thereby and adjust the purchase price downward to reflect any discrepancies discovered. Today's deal documents include more refined title mechanisms that evidence a better understanding for the potential burdens and structural characteristics that can impact mineral ownership.

The traditional metric used to quantify the mineral interests to be transferred, "net revenue acres," has been bolstered in a number of ways to allow buyers to better describe the unique characteristics of the mineral interests to be purchased. While this metric was traditionally stated as a static amount, if it were addressed in the deal documents at all, title mechanics in current deal documents refine this metric to account for whether the mineral assets are (i) leased/unleased, (ii) term or perpetual in nature, or (iii) burdened by (or comprised of) non-participating royalty interests, and other attributes.

For example, it is common for buyers to require sellers to list their interests in unleased minerals both as they exist today and as if they were subject to an oil and gas lease with a stated level of assumed lessor's royalty. This is necessary due to the fact that some of the burdens that can encumber mineral interests are only quantifiable once that mineral interest is subject to an oil and gas lease.

In addition to a more advanced title mechanic, sellers generally are required to provide a broader suite of asset-level representations focused on insuring that the minerals to be sold possess the characteristics that the buyer assumes are necessary to realize the economic potential of the assets. Some examples of these representations include the level of preferential purchase rights or required consents that are binding on the mineral interests, what contracts are (and are

"Buyers in today's market have a more complete understanding of the title to the mineral properties they are purchasing and the present (and future) operational attributes of the properties."

"Mineral owners and operators are collaborating more and more on ways to mutually benefit from these arrangements and thus these structures can take any form that the parties can agree upon."

not) binding on the minerals, the absence of any environmental issues or existing lawsuits impacting the minerals.

Further, given the more developed understanding of valuation, buyers are proposing more specific and thoughtful methods to adjust the purchase price when the mineral interests included in a deal fail to meet the assumptions on which that valuation is based. These adjustment methods vary by deal but are often directly influenced by the buyer's investment time horizon and knowledge about the underlying geological and operational profile of the assets to be purchased.

What is driving valuation?

Historically, large mineral packages traded at a multiple of cash flow (i.e., the present value of existing and anticipated future production applied to an assumed strip price) and large exit events were typically limited to sales to the operator/lessee of the lands covered by the package. Today, it is more common for mineral buyers to have a comprehensive understanding of the geological, engineering and operational aspects of the various mineral packages they bid on. In fact, many of the clients we work with in this space have geological and engineering teams on staff as well as full service, in-house land departments.

Additionally, once a company has assembled a sizeable package of minerals, there is a keen focus on building systems to own and manage those minerals for longer periods and driving up the value by encouraging more and faster development by operators. It is increasingly common to see mineral owners take affirmative steps to influence the value of that upside.

Many clients have found that developing strong working relationships and, in many cases entering into strategic agreements with operators has proven to be essential in capturing the value of this asset class. Mineral owners and operators are collaborating more and more on ways to mutually benefit from these arrangements and thus these structures can take any form that the parties can agree upon. In some circumstances, operators have entered into arrangements to share confidential information about their drilling plans with mineral owners in exchange for an assignment of a portion of minerals acquired in the area of operation. In other situations, mineral owners enter into multiyear joint development agreements obligating operators to drill a set number of wells on the mineral interest owner's position.

As the creative element of these arrangements continues increasing, these deals begin to present their own legal issues both in how they are structured as well as more general legal concerns such as corporate governance, insider trading and antitrust issues. All of these issues require input from sophisticated legal counsel.

In addition to the strategic arrangements noted above, the more sophisticated mineral owners are putting a larger amount of thought into development of their own oil and gas lease forms in order to drive development of their minerals. From the mineral owner's point of view, a well-thought-out lease form can provide a consistent and clear suite of lessee obligations that appropriately incentivizes operators and can ease the administrative burden placed on the mineral owner's back office staff.

While many of the participants in the current minerals market are benefiting from the influx of capital into the space as well as the increased level of analysis used to prove up the value of their underlying asset class, the trick for the industry as a whole remains finding a way to educate and connect to more retail and institutional investors through the public markets. While much of that will require educating investors about the value of minerals, another key element is finding the right vehicle through which those investors can invest in the minerals space.

Corporate structure

Even as commodity prices have dropped over the past three years, we have witnessed just the start of what many believe to be the oncoming wave of mineral company IPOs, including Viper Energy Partners LP in June of 2014, Black Stone Minerals LP in May of 2015 and Kimbell Royalty Partners LP in February of 2017. While all three utilized the MLP structure, many advisers believe that the standard C corp may provide a more favorable structure and entice investors due to liquidity features and the poor reputation of MLPs in the upstream space. But advantages and disadvantages of each of these structures should be considered.


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The MLP structure does avoid double-taxation that is inherent with C corps, but many foreign and tax-exempt investors avoid investing in MLPs, as such investment can expose them to U.S. federal income taxation. In addition, the fixed distribution schedule that many MLP investors have come to expect may prove to be onerous for mineral companies, given the fact they are price takers with limited means of controlling the pace of development. While corporate tax reform may provide some relief to the C corp structure, those looking to time an IPO in the near future may find themselves playing a waiting game as legislation meanders through Congress. For mineral companies looking to avoid these issues, the UP-C structure may present the best option to unleash the full value of their underlying asset base.

Under the UP-C structure, there is no need for the historical owners who currently operate the mineral company as a partnership or an LLC ("MineralCo") to alter their ownership structure. Instead, a new corporate partner of the partnership may be formed to serve as the public vehicle ("PubCo").

In the IPO of the PubCo, the public investors acquire stock of PubCo for cash. PubCo then utilizes all of the cash to acquire partnership units in MineralCo. These units can either be newly issued or purchased from the historical owners. The historical owners who receive cash from this sale will generally recognize taxable gain, but may be able to offset such gain with historical losses.

The historical owners continue to manage the operation of the partnership through their voting control of PubCo. When the historical owners choose to exit the investment, in whole or in part, they exchange partnership units 1:1 for the class of publicly traded shares of the corporation, which can be sold for cash in the public market. The exchange is taxable and typically deferred until the historical owner intends to convert its interest to cash.

Conclusion

While we are likely to see an increased interest in pure mineral transactions in the coming year, parties need to remain disciplined in their approach to evaluating the unique risks that relate to conveying mineral interests. This will impact not only how future sellers should prepare for a divestment, but also how parties on both sides of the transaction should approach the negotiation and documentation of their arrangement. Furthermore, as the larger mineral owner contemplates accessing the public markets, consideration should be given as to the particular investor base targeted, the tax attributes of the entity involved and the level of cash distributions needed to drive future growth of the company. ■

ELIZABETH MCGINLEY, *chair of Bracewell's tax department, advises clients on A&D, restructurings, joint ventures and debt and equity investments in the upstream and midstream oil and gas and power industries. She represents both public and private energy companies as well as private-equity funds. Austin Lee is a partner in the firm's oil and gas projects group, representing clients in A&D as well as a broad range of transactional and operational matters in the upstream and midstream. John Stavinoha is an associate in the firm's oil and gas projects group. He represents developers, E&P and midstream companies, private-equity funds, and buyers and sellers in all aspects of upstream and midstream transactions.*

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MGX MINERALS INC.

> "This technology bridges petroleum and so-called new energy economies; it will play a critical role in the future of the petroleum industry."
>
> —**JARED LAZERSON**, *CEO*

On average, the oil industry in the U.S. produces seven barrels (bbl) of wastewater for every barrel of oil. In Oklahoma, as many as 20 bbl of wastewater are produced for every barrel of oil. In Texas' bustling Permian Basin region, oil and gas operations produce an estimated 30 million barrels per day (MMbbl/d) to 50 MMbbl/d of wastewater.

Today's most common approaches to treating and disposing of oilfield wastewater come at considerable cost to operators and present health and environmental risks. Many conventional methods also require long-term storage and long-distance transportation of wastewater, which can drive up costs and attract public scrutiny. The preferred disposal method of underground injection has been subjected to tightening regulatory restrictions in many jurisdictions across North America, and as a result, faces uncertain long-term viability.

Vancouver, British Columbia-based MGX Minerals Inc. is a full-service water treatment option for oil and gas developers that treats produced water and frack flowback on site with purity levels that allow for reuse or controlled release, all while harvesting lithium and other minerals, when they are present, from the brine. The lithium that MGX's technology yields from petroleum brine is known as petrolithium and can provide revenue to help offset wastewater handling and disposal costs.

The MGX Minerals wastewater treatment process, developed in collaboration with leading water treatment innovator and Katerva Award-nominated PurLucid Treatment Solutions Inc.—recently acquired by MGX—removes excess metals and hydrocarbons through a patented nano-flotation and filtration technology. The process is specifically designed to separate oil to a high degree of purity from any lithium-bearing brine, providing clean water as a final product.

The extraction technology enables production operations to treat wastewater onsite with a highly effective, low-energy solution that replaces conventional methods and uses produced water as the primary feedstock for the petrolithium extraction process.

Not only does the concept of recycling oilfield wastewater provide operators with a low-environmental-impact management method, it also significantly lowers costs of disposal and remediation. As demand for smartphones, electric vehicles and energy storage systems and other products powered by lithium-ion batteries continues growing, this technology bridges petroleum and so-called new energy economies; it will play a critical role in the future of the petroleum industry.

MGX Minerals is led by Jared Lazerson, president and CEO. He has worked in the mining and technology industries since 1994 with companies including Osprey Systems (GPS and digital mapping), United Helicopters, Copper Island Mines and Manto Resources.

MGX's chairman of the board, Marc Bruner, was previously the chairman and CEO of Falcon Oil & Gas Ltd. and also served as Ultra Petroleum Corp.'s founding chairman. At Ultra Petroleum, he was involved in developing the Pinedale Anticline unconventional gas field in Wyoming. ■

MGX MINERALS INC.

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These days, more and more companies are buying mineral rights, which makes it increasingly difficult to find the right partner when it comes to property acquisitions. But if you're looking to do business with an innovative, knowledgeable and sophisticated group of minerals investors, look no further than Springbok Energy, headquartered in Dallas, TX. They're a leading purchaser of oil and gas minerals rights and royalties and together you can break new ground in the field.

Since 2009, the Springbok team has made more than 13,000 individual mineral acquisitions, totaling over $160,000,000 in those transactions. Very well capitalized, the company is backed by Natural Gas Partners (NGP). With the support of a renowned capital partner like NGP, the firm has an established presence in the market as a scaled multi-basin buyer. Tactically, Springbok has focused on a growth strategy that features organic acquisitions directly from mineral owners.

"We're proud of the track record we have in partnering with large and small operators to enhance returns through joint ventures and minerals acquisitions." - Ryan Watts, President, Springbok Energy

Currently, Springbok's focus is on acquiring and managing assets in eight areas across the U.S., primarily the Permian Basin, the Mid-Continent, North Louisiana and The Rockies. In these regions, the company's team of nearly 30 people specializes in everything from small transactions to large-scale deals. When you work with Springbok, you're working with experienced oil and gas minerals investors.

The Springbok team has managed multiple mineral and royalty platforms, generating returns in varied commodity price cycles by applying a consistent, disciplined, risk-adjusted investment approach. This skilled and motivated group of individuals has produced an incredibly strong track record of successful partnerships with creative operators to enhance overall returns.

Experience. Innovation. Vision. When you partner with Springbok, you'll find these qualities in every step of the minerals acquisition process. That's because they're well grounded, well funded and they do things differently.

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MINERAL VOICES

By Leslie Haines

During Hart Energy's 2017 conferences, speakers focused on several aspects of the burgeoning minerals market and zeroed in on their specific strategies as well. Here, *Oil and Gas Investor* presents commentary from four executives at companies managing minerals: Will Cullen, vice president of LongPoint Minerals LLC in Denver; Brendan Fikes, co-founder and vice president of Santa Elena Minerals LP in Midland, Texas; Brandon O'Gara, CFO of Echo Energy LLC in Oklahoma City; and Rob Roosa, CEO of Brigham Minerals LLC in Austin, Texas. Their commentary touches on factors that matter to the minerals market, deal sizes, various ways in which deals can originate, and other topics.

Why are minerals sound investments?

O'GARA When you're buying minerals, you really think about that long-term hold in an asset class that can last for 10, 15, 20, 25 years.

FIKES We like that in a downturn in commodity prices, you won't be stuck in this situation where you have to drill additional wells to hold a lease. The cash flow may slow down a little bit, but you can still produce; you're still able to return cash flow to your investors, albeit at a slower pace. Your investments are very well protected while the economy lists.

Here are three factors that matter:

O'GARA I think there are really three things that matter when it comes to buying minerals: It's going to be quality of the rock, the commodity price at market and the pace of development.

What [Echo Energy is looking for] is core rock, which everybody in the world says they have. We really try to make sure we're focused in most of our areas on assets that have multiple layers of pay and downspacing ability, and organic production growth.

On the variety of deals …

CULLEN We see transactions of all different sizes; we'll do things all the way down to $20,000 up to over $100 million. Transactions come in the door in a variety of ways: from brokers, local teams out there on the ground, folks coming through [LongPoint's] website, relationships ... You pull all that together and we've been able to build a portfolio.

On the size of the prize …

CULLEN Why now? It's really tied to the shale revolution … Now these areas are being developed, from 2015-plus, in a manufacturing way, so you have more confidence in purchasing minerals and knowing the activity is going to show up and provide a return on your equity.

If you take the total amount of revenue paid out to royalties (you strip out what is paid to the government for the U.S. take on federal lands), and try to boil down to what is paid to private individuals or companies, I'm estimating around $44 billion. I'm estimating about a 20% royalty on average, so that's how I'm coming up with that number.

ROOSA Another key point: accumulating minerals takes discipline. Rome wasn't built in a day. [Brigham] made over 1,000 different deals over the past four years, or roughly 37 acres per deal. We're willing to get our hands dirty to put this portfolio together. Integrity [matters], but you've got to be willing to let a deal get away.

FIKES It's important to touch on why these things were in the closet for so long; they're generally closely held, and difficult to acquire. Generally, there's no debt associated with them. Banks don't understand them, they can't loan on them. We buy based on some function of [proved developed producing] PDP, but that's about it. That's nowhere near where the actual value of the asset is.

Mineral managers have questions of their own …

FIKES You can come up with all kinds of models that will suggest different things, but we feel like the mineral business is ultimately a land- and relationship-driven business. It's not models and statistics.

So you have to ask: Why are there these undeveloped swaths? Is it HBP, no need to drill it? Is it fractured title to the point where the operators can't put it together? Are there depth severances that are problematic that prevent

ROB ROOSA, *CEO, Brigham Minerals LLC*

WILL CULLEN, *vice president, LongPoint Minerals LLC*

BRENDAN FIKES, *co-founder, vice president, Santa Elena Minerals LP*

BRANDON O'GARA, *CFO, Echo Energy LLC*

pad drilling? Do different operators own different depths? Is there questionable leasehold? Does the operator have less than a 75% [net revenue interest]? I guarantee you that acreage is going to the bottom of the drilling pile.

Where can deals originate from?

ROOSA An incredible amount of brokers have come into the space in the last year or two. They do the ground game for you, talking to owners and aggregating positions. Privately negotiated transactions are great but require you to have an extensive network. Your network drives those to you.

A lot of E&P companies also have minerals positions, but to be honest, it's like they kind of put them in the file drawer and forgot about them … that's an opportunity for you where E&Ps looking for liquidity could sell those. A lot of deal flow comes through widely marketed auctions, but it's very difficult and highly competitive. You see a lot of folks in that space.

Regarding evaluations …

O'GARA If you're not careful, you can pay way in excess of what the technology can do if you're not looking at [an evaluation] on a section-by-section basis. We're making sure we're in the community and available for people to talk to—answering questions honestly goes a long way. We're making sure you close on time, and doing things right has a good effect on your ability to buy.

Regarding strategy …

ROOSA We buy in plays with multizone development, strong EURs that work in a sub-$40 environment, and stay with the very best operators, those using enhanced completions who have a significant balance sheet so they can continue to drill.

How has the mineral game changed?

ROOSA Early mineral companies focused strictly on buying PDP in traditional assets, purchasing on multiples of cash flow. Often these were family offices who'd raised a small fund, $10 million or $20 million, then go out and raise a second fund … some we've met with in the Permian are on fund five or six.

But, the game has changed: now, it's all resource-play driven and [Brigham needs] to take a net asset value approach and modeling is the way. It takes a very technical approach—we have geologists and engineers on staff looking at every single section, every single zone that is producible, the EURs of those wells, the oil content, and most important, the timing of the development of each of those sections—that's going to have the biggest impact on the value of those minerals.

The proliferation of this causes a need to find significant sources of funding, so we've seen private-equity-backed firms come in, and endowments and pension plans are in the mix now. Location and operator matter. We target Tier 1 operators who use the very best completions and have the financial ability to drill.

The perpetual optionality … of incremental zones that get de-risked over time is huge upside compared to what we originally modeled. Tighter well spacing, enhanced completions … all can deliver more value.

What's next?

FIKES [Santa Elena thinks] the market's fractionated, so we think there's still a lot of opportunity to consolidate. We're nowhere near the end of the window, but the market value of these assets and the inherent cash flow value there is beginning to be realized, and so the prices are escalating.

ROOSA We are seeing a proliferation of deals and middlemen. Larger deals are going to be difficult to value and analyze and put together, so we see in the future deals being regional packages that are much easier to manage and finance.

For the public markets, we think minerals are tremendous assets to drop into an MLP—they can provide consistent cash flows, like clipping coupons. There's no capex after the acquisition; and we see tremendous growth going forward.

On Awareness …

O'GARA As time has gone on and people see what's happened with Viper, Kimbell Royalty and Black Stone, there's more awareness from private-equity investors and pension funds about understanding mineral quality. That's reason one behind competition increasing. Two is the step change in how we drill wells, where you keep seeing drilling results get better, so you'd expect acreage prices to rise. It's something everybody should be happy about. ■

CLEAR FORK ROYALTY LLC

Founded in 2010, Clear Fork Royalty LLC is a family business with a long-term focus on evaluating and buying mineral, royalty and overriding royalty interests.

The Fort Worth, Texas-based company grew out of co-founder and CEO Joseph P. DeWoody's knowledge gained while working for his family's E&P company.

During the oil market crash of 2008-2009, he saw an opportunity to begin acquiring mineral interests. That led to joining with his father, Michael DeWoody, and brother-in-law, Ryan Haggerty, to form Clear Fork.

The company has accumulated and manages interests in 25 states from the Rockies and Appalachia to Texas, predominantly under producing properties, for its own portfolio and that of a select group of quality partners, rather than being backed by institutional funds or private equity.

"Clear Fork specializes in acquiring large, often complicated asset portfolios, whether held in trust or as a part of someone's estate," Joseph DeWoody said. It specializes in working with a variety of individual sellers: families, trusts and estates.

"We haven't traditionally paid top dollar for nonproducing acreage in order to get ahead of the drillbit like some of the larger private-equity-backed mineral companies do," he explained. "We've been a little more risk-averse than other mineral and royalty companies, so we have focused on cash flow and protecting our downside by acquiring producing mineral assets," he said.

"Building a portfolio of strong PDP [proved developed producing] assets in the right areas . . . provides good return on investment, while positioning us for potential unconventional development and upside."

—JOSEPH P. DEWOODY, *Co-Founder, CEO*

"Building a portfolio of strong PDP [proved developed producing] assets in the right areas … provides good return on investment, while positioning us for potential unconventional development and upside."

The portfolio is not focused on any one basin or play, but is more diverse. "We are slow and steady and so we're not necessarily chasing the latest play. Our focus with acquiring larger portfolios provides us exposure to many different basins."

Clear Fork's current focus areas include the Permian Basin and Scoop/Stack plays, but DeWoody emphasized that across the board, the aim is to acquire mineral rights in developed, producing plays in areas with unconventional resource upside. Clear Fork especially understands Texas and Oklahoma, and so concentrates its interests in producing conventional wells there, he added.

Meeting market challenges

One challenge Clear Fork encounters when working with conventional minerals is that the sellers' perceived value and asking prices will vary. Reports of the steeper prices paid for acreage in the so-called hot plays can be very real. The higher prices paid in the Permian Basin and the Stack are creating a domino effect in other basins, according to DeWoody.

However, these factors are just part of "preconceived notions and perceptions" that potential sellers have. The Clear Fork team is adept at evaluating the minerals' worth, and working with sellers to close a deal quickly, sometimes in days or weeks.

"Many sellers we work with have heard about the large dollar amounts and oftentimes come to the negotiation with a figure in mind that does not work economically for us," he said. "We run everything through our models and engineering and determine, based on our return needs, the price that works for both us and the seller."

DeWoody acknowledged that in some areas where Clear Fork works, "the rise in unconventional exploration and development has provided thousands of landowners new and/or increased royalty payments and has created a lot of excitement for both owners and acquirers." These areas include the Permian, the Mid-continent Scoop/Stack/Merge and the East Texas Basin.

Since production began in the shales the market of royalty owners has grown, DeWoody said, noting, "Out of the 2.27 billion acres of land that span the U.S., private individuals own approximately two-thirds."

To pursue this vast opportunity, the faces of Clear Fork's team, John "Jammer" Moncrief and Matt Autry, work daily with mineral owners from across the U.S. Moncrief, a partner and acquisitions landman, primarily handles Texas acquisitions while Autry primarily handles Oklahoma transactions. Both are seasoned and experienced landmen that have worked in multiple basins and handled hundreds of transactions. Jammer is the fourth-generation member of the Moncrief family to work in the oil and gas business.


From left, Ryan Haggerty, Joseph DeWoody, and Michael DeWoody at a Fort Worth/Tarrant County Better Business Bureau gala.

Vision and values

Clear Fork's company values include being community-minded and civic-oriented, and it has received several awards recognizing this commitment. In 2014, it received the Greater Tarrant Business Ethics Award from the Fort Worth Chamber of Commerce. It also received the Torch Award for Marketplace Excellence from the Fort Worth/Tarrant County Better Business Bureau.

"Being recognized by these awards has meant a lot to our team. We are humbled and greatly honored that the way we do business is recognized in such a way. We appreciate and value being recognized for these awards. Honesty and integrity are key pillars of our company values, and being recognized for ethics in the workplace does reinforce our vision and values." ■

CFR

clearforkroyalty.com

ONEMAP MINERAL SERVICES LLC

Mineral owners who interact with OneMap Mineral Services LLC as they contemplate a potential sale of their mineral interests will receive the following advice: it is important to fully understand the minerals they own and to scrutinize any companies they might involve in the sale.

Getting to know the ins and outs of acreage that might be sold "sounds simple, but we find that individual owners often don't know exactly where, or how much, they own," said Mackie Cannon, CEO of OneMap. "There have been multiple instances where our team validated that an ownership position was actually larger than the seller originally understood, leading to a higher total sales price for the seller and more acreage for our investors."

"We spent the majority of 2016 building on the organization's proven acquisition thesis, upgrading—and in some cases, adding—geology, engineering, land, accounting, reporting and compliance capabilities that allowed us to advance our competitive advantage, attract capital, and better serve mineral owners contemplating a transaction."

—MACKIE CANNON, *CEO*

Owners could be put at a disadvantage if their understanding of their acreage is less than complete. While OneMap acts "as an expert resource to help mineral sellers better define and value their ownership," owners are encouraged to take an active role in the process.

"One of the biggest challenges we observe is when third parties offer mineral owners a high price for an interest that is larger than they actually own and the mineral owner is later forced to sell at a much lower price per acre than they were expecting or that OneMap had offered. We build our reputation by avoiding overbids that must be walked down," Cannon said.

In addition, owners can also benefit from thoroughly vetting any group they plan to transact with, Cannon said, offering the following pointers. Prospective sellers should:

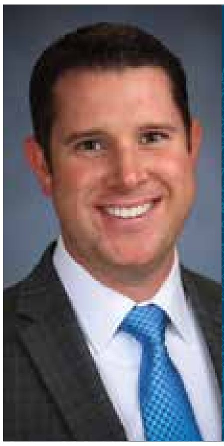
- Evaluate the track record of the organization;
- Ask for references;
- Avoid "no walk" sales contracts; and
- Be confident the buyer is well capitalized and will close the deal in a timely fashion.

"We believe these concepts are crucial to win-win deals and have built our reputation on upholding them," Cannon said.

Groundwork for the future

The Tyler and Houston, Texas-based firm has been successfully acquiring minerals since 2012. Cannon said that when the firm launched, it was created by "a successful group of oil and gas entrepreneurs and executives … who adapted existing surface mapping technology to address the specific challenges associated with focused, large-volume mineral investing."

The company had a vision to build "an acquisition machine capable of conducting a high volume of transactions directly with individual mineral interest owners," and over the years, OneMap Minerals has made that vision a reality.



"[Investors] appreciate the value proposition and long-term nature of our mineral asset portfolio, including the ability to ultimately own these assets directly."

—**ANDREW DAVIS**, *vice president, capital and strategy*

"We spent the majority of 2016 building on the organization's proven acquisition thesis, upgrading—and in some cases, adding—geology, engineering, land, accounting, reporting and compliance capabilities that allowed us to advance our competitive advantage, attract capital, and better serve mineral owners contemplating a transaction," Cannon said.

Andrew Davis, vice president of capital and strategy, explained that this growth involved hiring additional professionals in critical functional areas, forming data partnerships, and adding specific software enhancements to increase efficiency. As a result, OneMap is on track to "create a large ownership footprint in the core of the Permian—a valuable portfolio of assets for our investor base."

The investors backing OneMap range from institutions, to individuals and family offices, he said, noting that, although they range in structure and size, "they appreciate the value proposition and long-term nature of our mineral asset portfolio, including the ability to ultimately own these assets directly."

A differentiated strategy

As with any business, strategy is central to success. "Our strategy is based on working directly with individual owners to transact on large volumes of core early-stage minerals in the Midland and Delaware basins," Davis said, "and we are very pleased with the execution." This early-stage approach has been valuable to individual owners by exchanging development and timing risk for lump sum payments while also providing long term investors access to a large pool of aggregated assets.

In 2017 alone, OneMap acquired nearly $100 million in Permian Basin minerals through mid-November, supported by a first close on the latest fund in the first quarter.

Zeroing in on "small, direct-to-owner deals" in specific areas has paid off. OneMap will continue buying in the Midland and Delaware basins, Cannon said, adding that "while we are open to core locations in Colorado and Oklahoma, we think the value proposition in the Permian exceeds that of assets in competing basins. Additionally, the geographic opportunity in the Permian is four to five times larger than the target area we'd consider in Colorado and Oklahoma. That said, we constantly monitor activity across the country and are prepared to act consistent with our strategy."

He continued, "Our uniqueness is an outgrowth of our strategy, focused on conducting a large volume of transactions directly with individual sellers. In our view, not many groups blend the technical expertise, technology and data required to efficiently invest more than $100 million per year in small, direct-to-owner deals in such a targeted geographic area.

We see smaller groups doing great deals, but they are limited in scale. We observe large groups creating impressive portfolios, but they accomplish this by purchasing efficient, aggregated packages or by expanding the area in which they transact. Our approach is a tough thing to get right, but it delivers value to both the mineral sellers and the investors that work with OneMap." ■

OneMap™ Mineral Services LLC

onemapminerals.com

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LONGPOINT
MINERALS

LONGPOINT MINERALS LLC

Serial entrepreneur George Solich and his team officially formed LongPoint Minerals LLC in 2016. It was an idea born at the same time he chartered his fourth E&P company, FourPoint Energy LLC, in Denver. Since inception, the minerals acquisition company has received funding commitments of more than $800 million from the Canada Pension Plan Investment Board and several other institutional investors. Solich said he believes buying and managing long-lived mineral interests requires long-dated capital commitments.

During the first year that vice president Will Cullen joined LongPoint to ramp up activity, it closed on more than 450 mineral transactions, always underpinned by a highly technical approach.

Solich and Cullen told *Oil and Gas Investor* about LongPoint's current activities, plans for the future, and their thoughts on the broader minerals market.

Q *How do you see the minerals opportunity today?*

SOLICH The game is a whole lot more technical and sophisticated today. If you think about the growth of production from the shale revolution, there's going to be a lot left to do in the minerals space.

This is the dawn of a new, larger market. We believe it's a good time to be in the space if, and I say only if, you have the technical tool box that allows you to understand the resource in each zone and generally, when it's going to be developed.

Q *What is LongPoint's current position in minerals?*

CULLEN We have over 60,000 net mineral acres and our production is just under 5,000 boe a day. We are currently focused in the Permian Basin and Scoop/Stack, where there are over 30 rigs drilling on our acres today, but we would look at opportunities in other plays as well. I think having that many rigs drilling on our minerals speaks to the quality of the acreage we have.

Q *What is LongPoint's strategy for buying and managing minerals? Has this changed at all since you formed the company?*

SOLICH We hatched this idea at the same time we hatched FourPoint; our shareholders understood we'd do both. When we first conceived of LongPoint Minerals, we thought we should employ the same technical rigor as an E&P company and thus, fine-tune our approach to "shoot with a rifle, not a shotgun." So we're taking a very granular approach to how we buy minerals.

Our business model is 50% probabilistic and 50% deterministic, but it's really built on a good technical understanding of the subsurface and assigning reserves up and down the column. We have no interest in buying a section of land that may be in a good neighborhood, but where we don't know the subsurface all that well.

In the end, we want our assets to look like the assets you'd see in a traditional E&P company, where you understand what you own and have the reserve reports to show for it. Over time, we think our job is really that of managing a portfolio of minerals. We are building a sustainable, durable business with this approach and growing cash flow year after year. ■

LONGPOINT MINERALS

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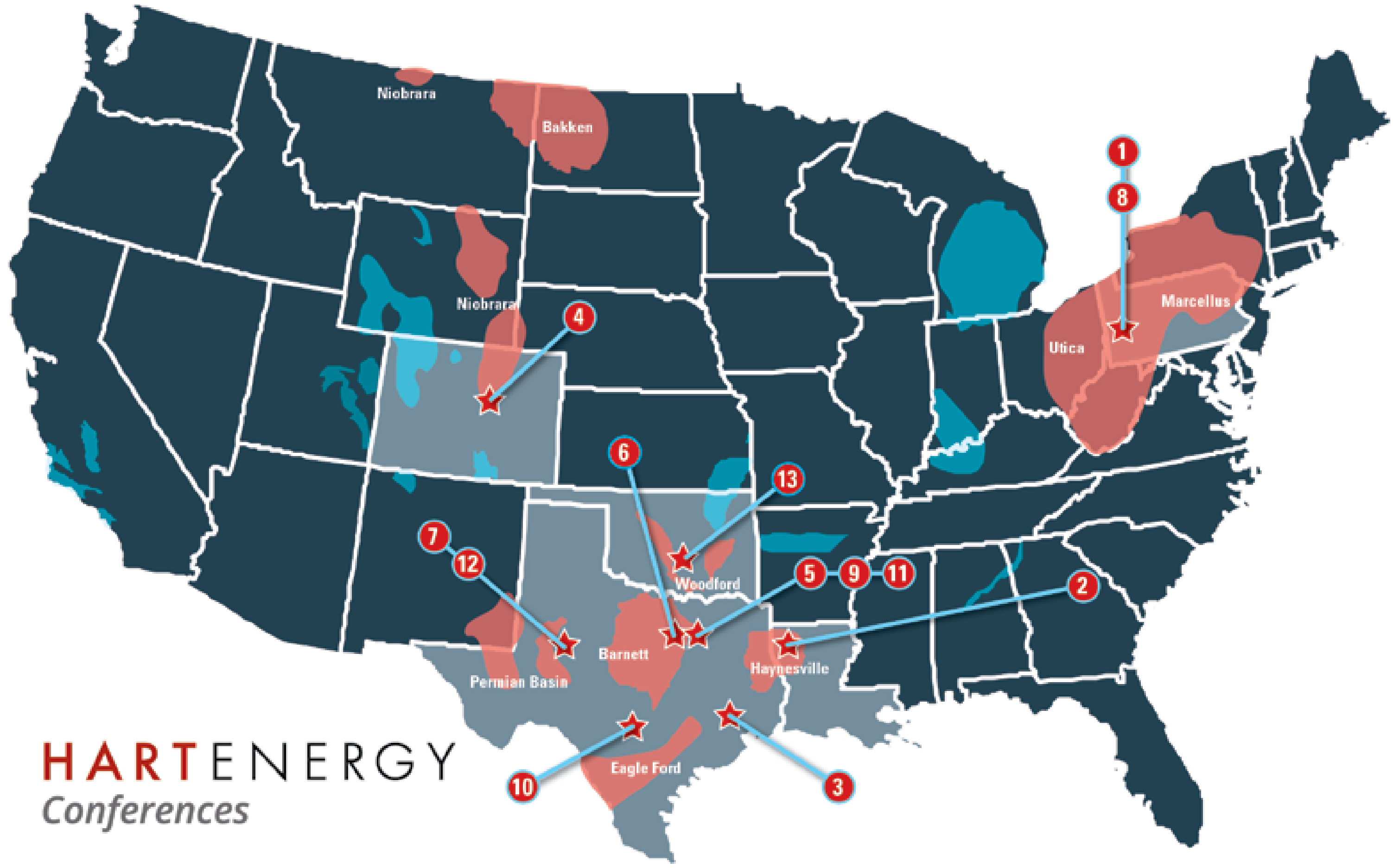

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Stone Hill Minerals is a privately-owned company that buys oil and gas mineral and royalty interests in oil and gas basins across the US with a focus in the Appalachian, Permian and DJ basins. Stone Hill, through its affiliates Stone Hill Minerals Holdings, LLC and SH Permian Minerals, LLC, owns and actively manages more than 100,000 net acres in seven states and has completed hundreds of mineral and royalty deals since the company was founded. Stone Hill is interested in deals of any size, whether producing or non-producing.

Please contact us for more information.

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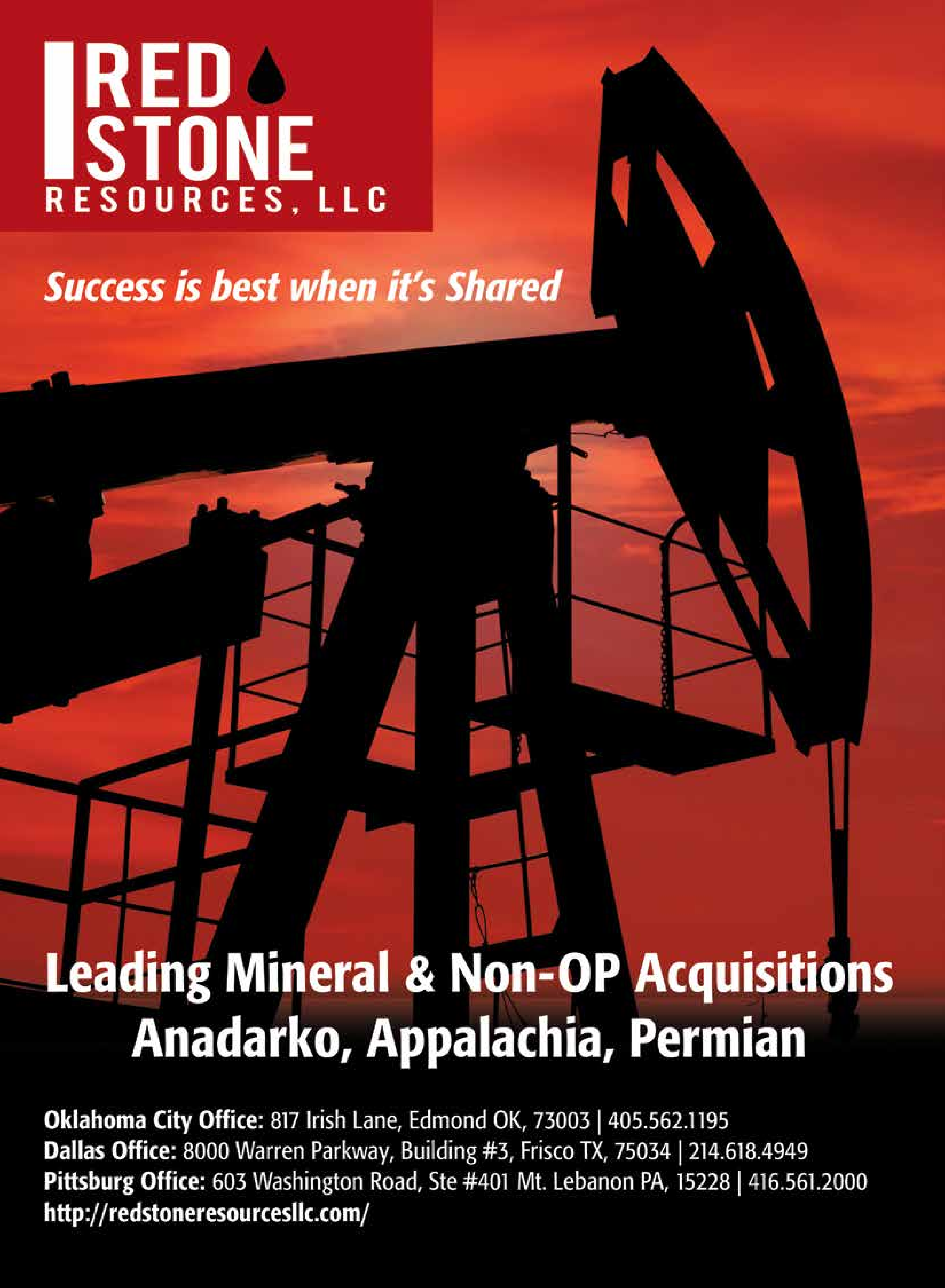
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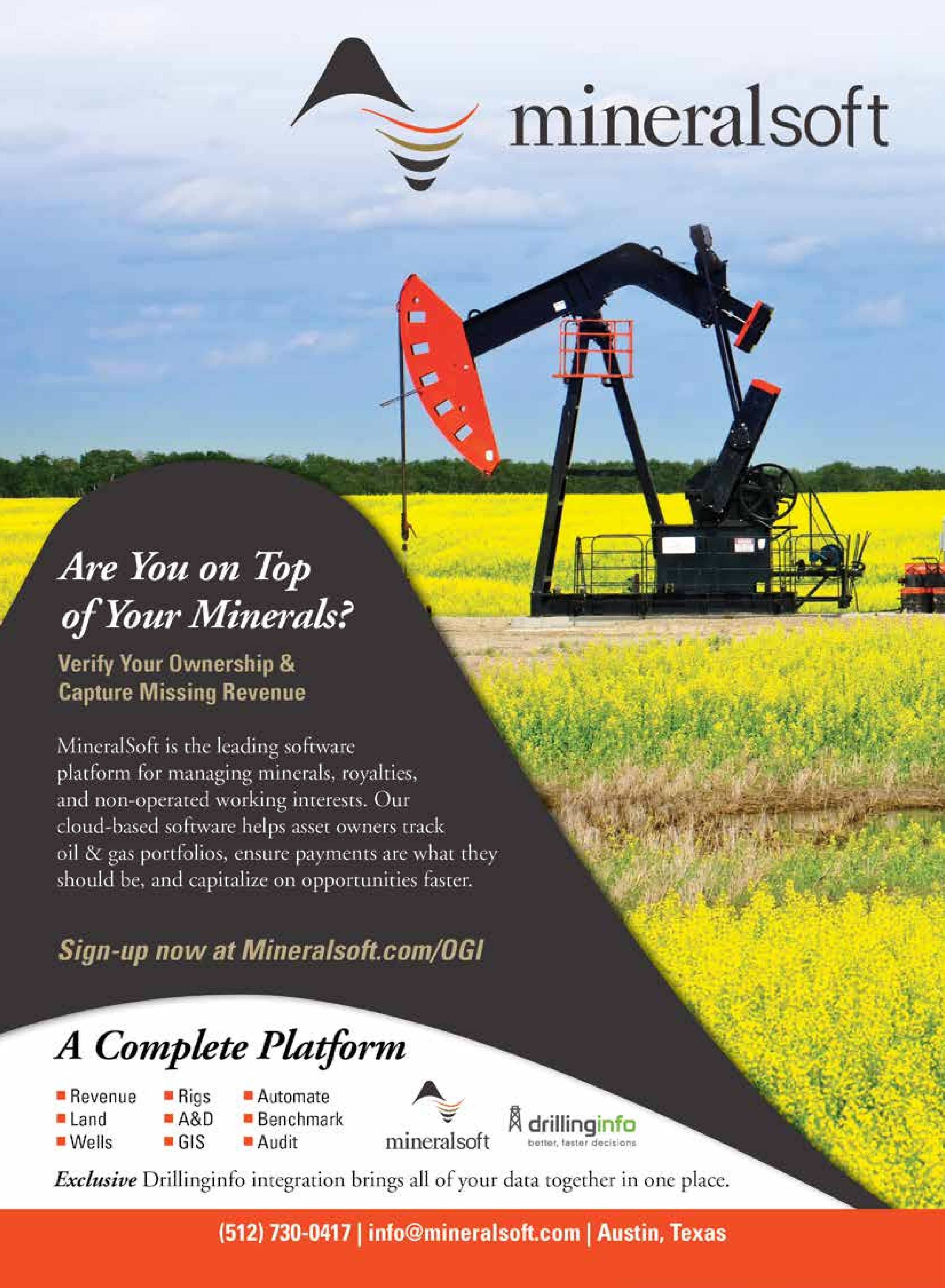
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