



DIVESTMENTS & ACQUISITIONS

OVERCOMING PITFALLS

Generally, Reserve and Operations engineers will have been included in the decision to buy or sell and related due diligence and valuation processes. Accounting may have provided reports indicating which properties have positive or negative cash flow. Once valuations are locked down, whether buying or selling (see Professional Management is the Only Way to Maximizing Value of your Oil and Gas Assets), assets must be separated or integrated from/into daily routines, technology and financial processes, procedures, and records. The accounting personnel may not have been included in the transaction process till now. Using the Purchase and Sale agreement (PSA) and related exhibits they must play catch up and understand the transaction details so it can be properly recorded.

Challenges

Divestments

Divestments are generally easier to separate from daily routines and financial records. The assets being divested are identified and the buyer has performed due diligence. Recording the transaction on your books happens as you are challenged with transferring physical assets to the buyer along with the transfer of operational and financial data.

Post-closing cash settlements can also be complicated, and it is critical to identify cut off dates and identify key data transfer expectations.

Acquisitions

Acquisitions can be a little trickier. There can be integration and financial issues. Due diligence has been performed and assets identified but the assimilation of people, technology, assets and financial transactions can pose complications. It is important to identify all liabilities, including legal, environmental issues, and revenue suspense during due diligence. How to allocate the purchase price between leasehold, intangibles, and equipment must be determined? Often a new entity maybe set up to track and measure the

return on acquisitions. Additionally, post-closing cash settlements impact the buyer.

Post-closing settlements play a key role when the transaction's closing date is after the effective date. This involves the settlement of cash received or paid in the period between the two dates. The buyer will often have audit rights for this period and settlement.

Solutions

Planning is essential for both parties.

For Divestments, how do you unplug these assets without too much disruption to ongoing business? Often there will be a transition agreement that allows for the related assets to continue being operated by the seller's personnel using the same technology, suppliers, and tools. This provides sufficient time for the seller to handle human resource issues (perhaps retention or severance agreements are required), technology issues (how are the assets extracted from related production and financial systems), and operational issues (do pumpers need to be rerouted geographically).

For Acquisitions, the buyer must determine how to seamlessly assimilate the assets into a new environment. As mentioned above, a transition period agreement is very helpful.

This allows for cross training and sharing of information between the personnel of the divestor and acquirer. The acquirer can assess staffing levels and resources needs, purchase and install new technology required to handle the assets, reroute personnel for efficient geographical deployment and identify how to integrate the the assets into the financial processes, procedures, and financial system.

Having the ability for old and new teams to interact allows for the transfer of operational and financial knowledge to be shared. Typical oil and gas leases and wells present no nuances. However, operationally there could be demanding lease owners, leases, or wells where unique operational issues exist, advantages to suppliers/vendors or locations where repairs or improvements are required.

For Accounting there can be many advantages to implementing a transition period. The transition period allows the accounting staff from buyer/seller to establish lines of communication for an exchange of data relevant to the transfer of data.

The sellers accounting staff can provide insight to the acquired master files and understanding

of property numbers, active/inactive decks, definitions of suspense codes, identification of utility providers for transition, and allocation definitions/purposes.

There are many operational items to be taken care of for the purchaser:

- Transfer of title
- Notice to purchasers
- Notice to working interest partners and revenue owners
- Notice to vendors

Oil and Gas post-closing settlement statements are common. The period covered and cutoffs are set in the purchase and sale agreement (PSA). The statement is drafted by the party selling within a certain time frame designated in the PSA. Audit rights might be provided by the agreement. When received by the purchaser, the statement should be reviewed along with any supporting cut off data provided for reasonableness. Any post-closing settlement amounts should have been estimated and recorded at sale. Any adjustment based on the settlement statement is a purchase price adjustment.

Conclusion

PetroLedger Financial Services is available and eager to assist you with any accounting divestment or acquisition transactional analysis, planning, or follow up. Our experience sifting through legal documents, asking pertinent, detail questions and recording acquisition and/or divestment transactions will ensure your transaction is handled timely and accurately. Specialized reporting can be used to assist in the divestment decision or tracking the performance of acquired assets.

Melinda Marks, CPA

VP of Operations

Melinda has been with PetroLedger since August 2019. She graduated from Baylor University and is a Certified Public Accountant. Melinda has more than 25 years of oil and gas accounting and management experience. She has been involved in transactional processing and reporting for public and private companies. She is passionate about providing outstanding timely and accurate client bookkeeping to support solid business decisions.

As PetroLedger's Vice President of Operations, Melinda wears many hats throughout the day. In addition to serving the needs of certain high-visibility recordkeeping clients, she oversees a team of associates, and is heavily influential in the company's decision-making processes.

PetroLedger Financial Services

PetroLedger Financial Services offers a full range of oil and gas accounting services and support that will save you time and money. We'll partner with you to manage your financial resources so you can focus on your business.