

Due Diligence

Due diligence is the process of reviewing work done by others to determine the quality and accuracy of the work. Based on the findings of due diligence, recommendations for the acceptance of the work or an adjustment of the work may be made. Due diligence may be done in lieu of an engineering report because one party may have already prepared a report or there is a tight time frame in which the work has to be done.

Due diligence is most commonly associated with the purchase of oil and gas properties. Working on behalf of the buyer, due diligence would involve reviewing data and reports prepared by the seller or a third-party firm. The results of due diligence allow the buyer to make a more informed bid than relying strictly on the seller's report.

The first step in performing due diligence is to sort the properties to be reviewed from highest to lowest value. Instead of reviewing every property (as in an engineering report), the top value properties can be reviewed in detail. This not only reduces the time frame required, but gives credence that the majority of the value of the proposed transaction has been reviewed. Due diligence requires, at minimum, the following to be reviewed:

- o Reserve or resource estimates
- o Ownership
- o Historic operating expenses
- o Historic capital costs
- o Historic oil and gas prices
- o Economic forecasts
- o Operating agreements
- o Development plans
- o Drilling permits
- o Spacing regulations

If any discrepancies in the data or significant differences in estimated value are found during due diligence, they should be summarized and presented to the client in a preliminary report. It is common to adjust significantly different values found during due diligence and prepare a final report noting the value changes.

Aeon Petroleum Consultants has performed due diligence on several projects. We know that due diligence almost always has time constraints associated with it. If so engaged, we promise to commit the effort necessary to complete the work to your satisfaction within the required time frame.