



Oil and Gas Advisory

JOINT VENTURE AUDITS

In our experience, given the industry's capital intensity, joint venture (JV) audits are an excellent tool to recover significant amounts of money for a non-operator and identify potential compliance and other third-party risks with subcontractors

Joint Ventures and Joint Venture Audits in the Oil and Gas Industry

- Joint ventures (JV) are highly developed in the oil and gas industry, as they are a convenient tool to diversify asset-specific risks and are significantly easier to execute than any other form of business combination.
- Even though JVs are usually governed through a complex and detailed joint operating agreement (JOA), a general conflict of interest exists between the JV's operating partner and the non-operating partner(s).
- To that effect, JOAs usually grant the non-operator(s) the right to run a joint venture audit, which is a periodic review the operator's record regarding operation, accounting, procurement, and overall management of the JV. Items that are generally reviewed in that context include advances, lease purchase costs, operating and overhead expenses, payouts, production volumes, and revenues can result in significant monetary claims against the operator.

At Duff & Phelps we have successfully helped non-operators claim and quickly recover significant monetary amounts by applying our industry expertise and a sophisticated financial due diligence approach.

DUFF & PHELPS CAN HELP YOU ADDRESS THE KEY QUESTIONS FACED BY NON-OPERATORS

- Is the operator is overcharging the joint account for HQ costs?
- Are direct and indirect costs classified and allocated in accordance with the JOA?
- Is the operator sharing facilities with other blocks and how does this affect me?
- Are revenues correctly accounted for, considering that production is blended with other JVs I'm not a part of?
- Am I aware of all off-balance sheet liabilities and risks of the JV, in particular those related to ARO and decomm?
- Is the operator optimizing cash management for funds collected through cash calls?
- Are the operational problems that I'm aware of being reflected in the audit report through procedural recommendations?

Our Services

Duff & Phelps has a dedicated industry group with more than 50 full-time professionals, perfectly combining the two essential aspects of the sector: (i) the operational knowledge of an experienced engineering team, and (ii) the finance and accounting knowledge of our financial advisory professionals.

As part of our integrated JV audit services, Duff & Phelps reviews the most important aspects of our client's JV interests, including central processes in finance and operations. The process resembles a due diligence approach in which potential errors, omissions, wrongdoings or even fraud by the operator is detected and recorded to construct substantiated claims for the non-operator(s).

Legal

- Determination of compliance with the legislation in force in each country
- Verification of compliance with the JOA and contracting regulations
- FCPA/Patriot-Act/UK-Anti-Bribery compliance

Budget

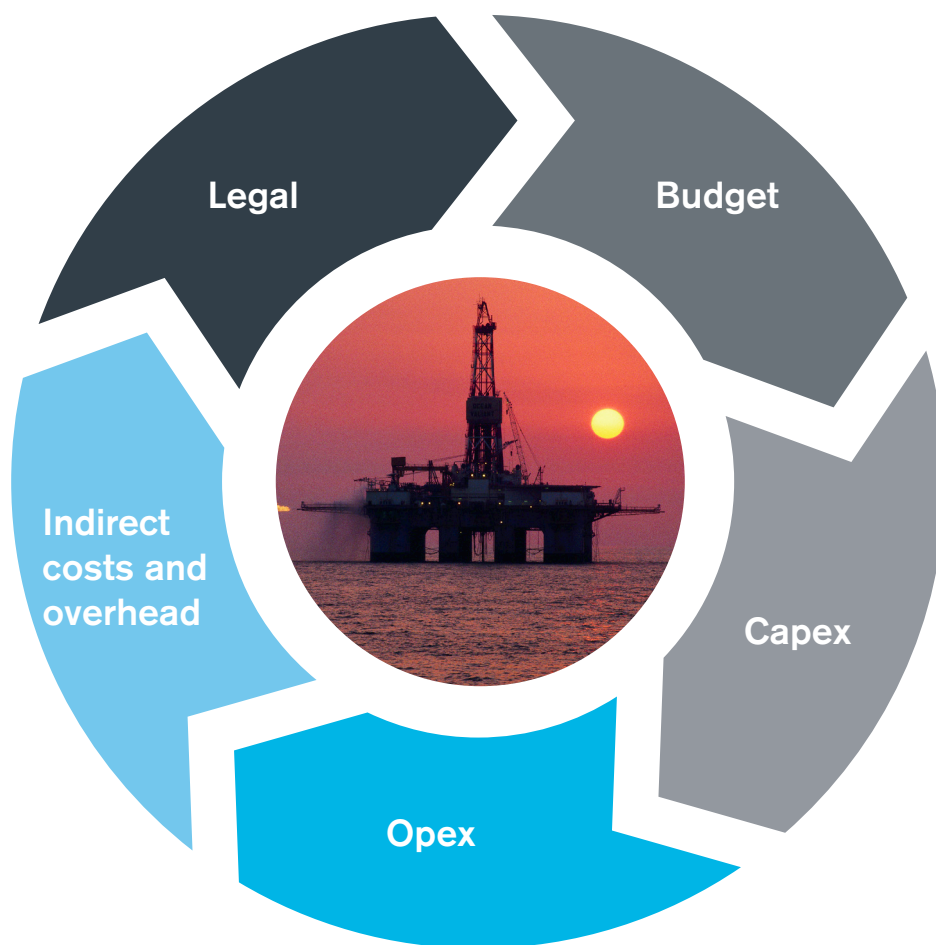
- Analysis of financing process (cash calls, billings, cash management, non-commingling of funds)
- Analysis of budget control (capex and opex) versus AFEs and overruns

Capex

- Determine the correct allocation of investments to various blocks (shared infrastructure)
- Comparison between budgeted and incurred figures, as well as the determination of the TCM
- Determination of deviations

Opex

- Review of expenditure control
- Review of costs and inventories
- Review of operator's intercompany operations (services, marketing, etc.)
- Validation of the procurement processes







Indirect costs and overhead

- Ensure the correct allocation of indirect costs and overheads
- Ensure indirect costs are assigned under an auditable and updated criteria for the JV
- Review back-office personnel cost allocation mechanisms
- Review allocation of secondary labor costs (pensions, layoffs, relocation, etc.)

We have extensive global experience performing JVAs that we leverage to best serve our clients

Select Engagements in Joint Venture Audits

<p>Joint Venture Audit</p>  <p>First Pemex joint venture audit in its history on the joint accounts of the Trión deepwater exploration project operated by BHP</p>	<p>Joint Venture Audit</p>  <p>Financial Review and analysis of internal control procedures of operations in the Libyan NC-186 block operated by Akakus Oil Operations (other non-operators: Equinor, OMV, Libyan NOC, Total)</p>	<p>Joint Venture Audit</p>  <p>Joint venture audit under the License Agreement for Block 101 operated by Talisman in Peru (other non-operators: Ecopetrol)</p>	<p>Joint Venture Audit</p>  <p>Review of cash calls, commingling of funds, opex and cost allocation procedures under the agreement in deepwater Block 14 offshore Angola operated by Chevron (other non-operators: Total, ENI, Sonangol)</p>
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Case Studies

<p>Incorporated joint venture in the Caribbean</p> <ul style="list-style-type: none"> Conducted the review of an incorporated joint venture producing oil and natural gas in the Caribbean Main activities included the analysis of all major account movements during the year and a detailed cost analysis that, in combination with systematic management interviews, allowed us to identify and reclaim significant costs that were unduly allocated in excess of JOA guidelines A revenue analysis showed that the operating shareholder was selling production below arm's length values to an affiliate who in turn would sell at market rates, excluding partners from such profit Client recovery: more than \$30 million Project duration: less than four months 	<p>Incorporated joint venture in West Africa</p> <ul style="list-style-type: none"> Conducted the review of joint accounts of an exploration asset in West Africa Main activities included a review of the operator's group and regional HQ cost allocation to the JV, which lacked transparency and equitable criteria resulting in over charges, and the review of procurement strategies and vendor contracts which our client to reject various previously accepted contractor costs wrongfully allocated Client recovery: more than \$38 million Project duration: six months
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About Duff & Phelps

Duff & Phelps is the global advisor that protects, restores and maximizes value for clients in the areas of valuation, corporate finance, disputes and investigations, cyber security, claims administration and regulatory issues. We work with clients across diverse sectors on matters of good governance and transparency. With Kroll, the leading global provider of risk solutions, and Prime Clerk, the leader in complex business services and claims administration, our firm has nearly 4,000 professionals in 25 countries around the world. For more information, visit www.duffandphelps.com.

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