

Minimum Rules for the Examination and Review of Oil and Gas Leases

A. Remuneration:

Royalty Clause (**The long term money is in the Royalty**):

1. 3/8th (37.5%) override v. royalty in the lease
2. Definition of proceeds (always gross value, never net proceeds)
3. Accounting and Audit for gas and oil proceeds
4. Sale without removal of the gas
5. No insider dealing and no self dealing, indirect or direct by lessee or well owner
6. Lease only formation or horizon they intend to drill on.

Signing Bonus: \$500 to \$5000.00 per Acre _____

Annual delay rental payments: \$100 per Acre _____

Free Gas:

1. Total cubic feet per year
2. Payment for unused free gas
3. Cost and responsibility for pipes and regulators
4. Front End or Hind End of lease period
5. Trust Fund for maintenance

Compulsory Integration vs Royalty Clause (Variable Risk): 1. Participation election: 100% return 2. Risk Penalty/Non Participating Owner: 100% return after risk penalty, no risk but moderate liability. 3. Royalty Only 12.5%, historically lowest return, no Risk or Liability

B. Use of the Property:

1. Use of Surface
 - a. Siting of Well
 - *size of site * placement of site
 - * maintenance of site
 - b. Roads
 - c. Pipelines: John Lacey, Pipeline Expert
 - d. Equipment
 - e. Waste *pollution *disposal or keeping on site
 - f. Reclamation
 - g. Storage
 - h. Release of Surface Rights around Improvements
 - i. Damage*to remaining resources *to improvements
 - j. Soil and soil hydrology
2. Use of Subsurface
 - a. Waste
 - b. Storage
 - c. Damage to other resources
 - d. Toxic pollution
3. Use of Resources (Free or for a Fee):
 - a. Water
 - b. Gravel
 - c. Timber
 - d. Electricity
 - e. Gas and Oil
 - f. All other resources
 - g. Permanent or temporary loss of resources

D. Expiration and Termination:

- a. Length of Term
- b. Causes of termination
- c. Surrender of Lease
- d. Drill or Surrender Clause

R Remuneration
U Use of the Property
L Legal
E Expiration and Termination

Note: Before you even consider a lease you must ask yourself "For what purpose do I own this land?" The answer will drive your decisions. Never forget this purpose.

The upfront money can easily seduce you into signing a lease bad for the land and your purpose. **Have the lease professionally examined.** Industrial Clauses can be deceptive.

C. Legal:

1. Grant - Lease only ONE FORMATION OR STRATA, reserving all others (Marcelus, Utica, Trenton BlackRiver) Lease the targeted formation
 - a. Lease vs contract
 - b. Mortgage rights
2. Indemnifications
3. Force Majeure
4. Assignments a. Continuing Liability b. Proportionate payment according to acreage if Lessee sells leases
5. Title
6. Contract and Lease
 - a. Fiduciary
 - b. Eviction
 - c. Statute of Limitations
7. Disputes:
 - a. Venue, New York Only
 - d. No Arbitration
 - b. Choice of Law
 - e. Litigation
 - c. Jurisdiction
 - f. Attorney Fees
8. Unitization: a. If all property is not in the production unit, then you need an override for the balance
9. Government Regulations
10. Taxes
11. Engineering: Calibration of Meters and **No** by-pass of the meter
12. Pugh Clause
13. No Gas Storage
14. No Warranties of Title
15. Pipeline issues: Depth, hydrology, width, abandonment, divisibility, fertility, contour, restoration, drainage, compaction, maintenance, assignment or substitution, number of pipelines (lump sum, annual or per unit volume).
16. Lease recordation or Memo of Lease
17. Lease must be signed by company before Landowner signs
18. Separate Leases for Separate Parcels, You can create your own
19. Limitation on 60 days to cure clauses
20. Impact on Forestry programs, tax abatement programs, land preservation already encumbering the land and recaptures or forfeitures costing the landowner money
21. Conditions of Lease not Covenants
22. Interpretation in favor of the landowner
23. Limitation on Severability Clauses to protect the landowner