BASIC INDIAN LEASES AND COMMUNITIZATION AGREEMENTS
Led by: Glen Reese
Date: September 6, 2018

Agenda

- Indian Lease/Agreement basics
- Standard Leases vs Non Standard Leases
- Actual production (Lease level reporting) vs Allocated production (Agreement level reporting)
- Trust Responsibility
- Explanation of Payments (EOP)

Annual Statistics

Interior’s Office of Natural Resources Revenue (ONRR) is the federal agency responsible for collecting, auditing and disbursing revenues associated with mineral leases on Federal and American Indian lands and the Outer Continental Shelf. Disbursements are made on a monthly basis from royalties, rents and bonuses collected by the ONRR.

Fiscal Year 2017 Total Disbursements: $7,111,809,625
Reference and Reporting Management (RRM)

ESTABLISH AND MAINTAIN LEASE AND AGREEMENT DATABASE FILES

IDENTIFY AND RESOLVE REPORTING AND DATABASE INCONSISTENCIES

SUPPORT PROMPT AND ACCURATE DISTRIBUTION OF ROYALTIES

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Life of a Lease

<table>
<thead>
<tr>
<th>Item</th>
<th>Federal Offshore</th>
<th>Federal Offshore</th>
<th>Indian</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease Issued &amp; Bonus Collected</td>
<td>BLM</td>
<td>BOEM</td>
<td>BIA</td>
</tr>
<tr>
<td>1st Year Rent Collected</td>
<td>BLM</td>
<td>BOEM</td>
<td>BIA</td>
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<tr>
<td>Subsequent Rent Collected</td>
<td>ONRR</td>
<td>ONRR</td>
<td>BIA</td>
</tr>
<tr>
<td>1st Production Notice Issued</td>
<td>BLM</td>
<td>BOEM</td>
<td>BLM</td>
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<tr>
<td>Producing Lease Royalty Reporting</td>
<td>ONRR</td>
<td>ONRR</td>
<td>ONRR</td>
</tr>
<tr>
<td>Lease Expiration</td>
<td>BLM</td>
<td>BOEM</td>
<td>BIA</td>
</tr>
</tbody>
</table>

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Terminable/Nonterminable

- Terminable Leases
  - not held by actual or allocated production and not located within a producing agreement.
  - automatically terminate for non-payment of rentals

- Nonterminable Leases
  - Onshore - held by actual or allocated production or located within a producing agreement
  - Indian Leases
  - Offshore Leases

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Payor (Customer)

* The party that agrees to remit the rent or royalty payment and report the royalty due from the sale of mineral products

* PAYORS MAY INCLUDE:
  * LESSEES
  * OPERATORS
  * PURCHASERS
  * INTEREST OWNERS

Indian Leases/Agreements

➢ Indian leases are those leases owned by any individual Indian or Alaska Native, Indian tribe, band, nation, pueblo, community, rancheria, colony, or other tribal group.

➢ These persons or individuals own lands or interest in the minerals, and title to these rights is either held in trust or subject to restriction against alienation by the United States.

BIA Lease Documents

Primary Term – time frame the company has to begin drilling (length of terms vary and can be up to 10 years)

Secondary Term - once mineral production is established the lease remains in force as long as it is producing in paying quantities

Lessee can assign or sell the lease
  * The buyer assumes responsibility for all of the original lease terms and liabilities

Lessor’s lease interest can pass to heirs
Lease Level Report & Payments

- Described by the terms of the lease
- INCLUDES:
  - Rent
  - Minimum Royalty
  - Well Fees
  - Gas Storage Agreement Fees

Rent

- Amount per Acre
- May be recoupable
- Due on or before Anniversary date of Lease
- Paid using on-line Rental or Form ONRR-2014

Minimum Royalty

- Amount per Acre
- Royalties count toward fulfilling obligation
- Due on or before last day of lease year
### Rent and Minimum Royalty – Onshore

- Entire lease in rental status from Anniversary Date until it receives actual or allocated production.
- Entire lease will be in a minimum royalty status if:
  - the lease contains a lease basis well
  - the entire lease is within a Participating Area
  - the lease is committed to a Sec. Rec. Unit
  - the lease is committed to a CA
- Lease will be in a split rent/min royalty status when:
  - part of the acres are within a PA and the acreage outside of the PA has no production from any other source.

### Lease Number Conversion

ONRR Converts the Alpha-Numeric Agency Assigned Lease Number into a 10-Digit Lease Number

<table>
<thead>
<tr>
<th>Assigned Number</th>
<th>ONRR Converted Number</th>
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<tr>
<td>WYW0308789</td>
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<td>14-20-H62-6510</td>
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### Communitization Agreement Number Conversion

ONRR Converts the Alpha-Numeric Agency Assigned Agreement Number into a 9-Digit Agreement Number for new CA’s. Older CA’s will have a 10 digit number.

- **OKNM75212** → **NM_ _ 75212**
- **WYW157376** → **W_ _157376**
- **MTM69248** → **6910001440**
ONRR Converts the Alpha-Numeric Agency Assigned Agreement Number into a 10-Digit Agreement Number

Bull Frog Exploratory Unit
Sundance PA
WYW109444A 8910160390
Sun Dog Unit PA "A"
WYW152954A W_ _152954A
Packsaddle Secondary Recovery Unit
WYW153461X W_ _ 153461X

Cross Reference Listings

Industry Compliance  Accurate Revenues & Data  Professionalism & Integrity
Select "GEO STATE" from drop-down menu.

Select "LAND OFFICE" from drop-down menu.

Enter Serial Number

Click on "Enter Value"
Indian Leases and Agreements

- **Standard Indian Leases**
  An agreement containing standard terms and provisions that a Tribe or an individual Indian has negotiated to develop its mineral resources.
  - Represents the majority of Indian Leases

- **Nonstandard Indian Leases**
  An agreement containing unique terms and provisions that a Tribe or an individual Indian has negotiated to develop its mineral resources.
  - Are becoming more common

Characteristics of Standard Indian Leases

- Contain fixed royalty rates and standard lease terms or provisions.

Standard Indian Leases (Standard Clause)

- **Granting:** specifies the rights granted to the lessee.
  - "... does hereby grant and lease to the lessee the exclusive right and privilege to drill for, mine, extract, remove, and dispose of all the oil and natural gas deposits including helium gas, carbon dioxide gas, and sulphur gas in or under the following described tracts of land."
Standard Indian Leases (Standard Clause)

- **Term**: specifies the primary and secondary term of the lease.
  
  “... for the term of 10 years from and after the approval hereof by the Secretary of the Interior and as much longer thereafter as oil and/or gas is produced in paying quantities from said land.”

Standard Indian Leases (Standard Clause)

- **Rental and Royalty**: obligates the lessee to pay a fixed rental amount per year beginning with the date of approval and a fixed royalty.
  
  “... a rental of $0.00 per acre per annum in advance during the continuance hereof, the rental so paid for any one year to be credited on the royalty for that year, together with a royalty of 0.00 percent of the value or amount of all oil, gas, and or natural gasoline, and /or all other hydrocarbon substances produced and saved...”

Standard Indian Leases (Standard Clause)

- **Rental and Royalty**: royalty value is based on the major portion price.
  
  “..."value" for the purposes hereof may, in the discretion of the Secretary, be calculated on the basis of the highest price paid or offered ... at the time of production for the major portion of the oil of the same gravity, and gas, and /or natural gasoline, and ... produced and sold from the field where the leased lands are situated.”
**Standard Indian Leases (Standard Clause)**

- **Rental and Royalty:** lessee may use oil and/or gas on the lease for development and operation purposes.
  
  "...a royalty of 0.00 percent ... save and except oil, and/or gas used by the lessee for development and operation purposes on said lease, which shall be royalty free."

- **Monthly Statements:** requires the lessee to provide detailed monthly statements to support the royalty due the Tribe.
  
  "... To furnish to the oil and gas supervisor monthly statements in detail in such form as may be prescribed by the Secretary of the Interior, showing the amount, quality and value of all oil, gas, natural gasoline, or other hydrocarbon substances produced and saved during the preceding calendar month ..."

- **Regulations:** requires the lessee to comply with all regulations.
  
  "To abide by and conform to any and all regulations of the Secretary of the Interior now or hereafter in force relative to such leases, including 30 CFR 221: Provided, That no regulation hereafter approved shall effect a change in rate of royalty or annual rental herein specified without the written consent of the parties to this lease."
Characteristics of Nonstandard Indian Leases

- Standard lease with special terms or provisions added through addendums or amendments.
  - Leases or agreements that are drafted in a different format using custom language to reference unique or special terms.
  - May have variable or conditional royalty rates, or may be based on a production payment, net profits share payment, or other form of payment.

Authority

- Indian Tribes and individual Indians negotiate agreements that govern the development and disposition of their mineral resources pursuant to authority granted by:
  - Specific Tribal Constitution or Charter
  - Indian Reorganization Act of 1934 (25 U.S.C. 461 et seq)

Exploratory Developmental Agreements

- Exploratory Development Agreements (EDA) are unleased blocks of land that companies can explore for oil and gas development.
- Once the companies find oil and gas and meet other terms of the EDA, if any, the company can apply for an oil and gas lease for the developed acreage.
- The lease must go through the BIA and tribal lease approval process.
Actual vs Allocated Production

- **Actual - Lease Basis Production**
  - Royalties based on 100% of production
  - Includes any and all wells located on a lease that are not committed to a pooling agreement.
  - Multiple lease basis wells on a lease with the same royalty rate can be reported together

Reporting Royalties on Lease Basis Production

ONRR needs BLM/BOEM approval document to put the lease in a producing status.

Has proper notification been sent to the managing agency, i.e. BLM or BOEM?
Reporting Royalties on Lease Basis Production

Lease Basis well -
100% federal interest

750 barrels oil sold in April
2017

Sales Volume = 750

100% x 750 bbls sold =

Actual vs Allocated Production

Allocated production used for Agreements

- Royalties based on an allocated % of production
  - Communitization Agreements
  - Unit Participating Areas
  - Secondary Recovery Units
Communitization Agreement

- Onshore Indian leases only
- Result of State/Tribe spacing requirements
- Usually based on 1 formation but can be more with horizontal drilling
- Allocation schedule based on surface acreage

ONRR Establishment of Agreements

- ONRR receives and maintains all allocations schedules of approved agreements
- Reporting is compared to allocations established in ONRR systems
- Companies cannot report on agreement until approval from BIA/BLM is received.
- Reporting must be adjusted back to effective date of CA, PA or PA revision.
When do you start Reporting Royalties on Agreements

Wells located on Indian lands should be reported on a lease basis until the CA or PA is approved by the BIA/BLM.

ONRR needs the approved allocation schedule from BIA/BLM to establish the agreement in our system.

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Reporting on Communitization Agreements

✓ Missing Agreement number when reporting royalties on production from an agreement.

✓ Incorrect Allocation to leases
  ✓ Entire volume of production from the agreement reported as the sales volume on the 2014.
  ✓ Agreement production reported on one lease when there are several leases receiving an allocation.

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Reporting Royalties based on a Communitization Agreement’s Allocation Schedule

CA W-112112

Federal Lease WYW12943A

Dakota Participating Area 891-001234-C
### Reporting Royalties based on a Communitization Agreement’s Allocation Schedule

320 Acre Communitization Agreement

- Lease WYW12943A receives a 50% allocation from the CA
- 500 barrels oil sold April 2014

Sales volume = 500 x .50 = 250

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### Reporting Royalties based on a Communitization Agreement’s Allocation Schedule

<table>
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<tr>
<th>1</th>
<th>CA Example</th>
<th>009</th>
<th>012943</th>
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<th>01ARMS042014</th>
<th>01</th>
<th>250 00</th>
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50% allocation x 500 bbls sold

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**FIDUCIARY TRUST RESPONSIBILITY**
The Trust Doctrine

Sources of the Trust Doctrine

The trust doctrine defines the relationship between the United States and Indian Tribes.
The doctrine is derived principally from:

• Law of Nations
• U.S. Constitution
• Treaties
• Statutes

The Trust responsibility and Fiduciary Relationship
OST Explanation of Payment Report (EOP)

- Summary of the royalty distribution including:
  A. Volumes Sold
  B. Sales Price
  C. Products Sold
- Itemizes any allowances, adjustments, and recoupments that affect the royalties
- Contains important information such as the lease number, ownership percentage, tract name, and tract number
Explanation of Payment to Individual Mineral Owners

Explanation of Payments to Individual Mineral Owners (cont)

Summary

- Lease/Agreement basics
  - Standard Leases vs Non Standard Leases
  - Actual production (Lease level reporting) vs Allocated production (Agreement level reporting)
  - Trust Responsibility
  - Explanation of Payments (EOP)