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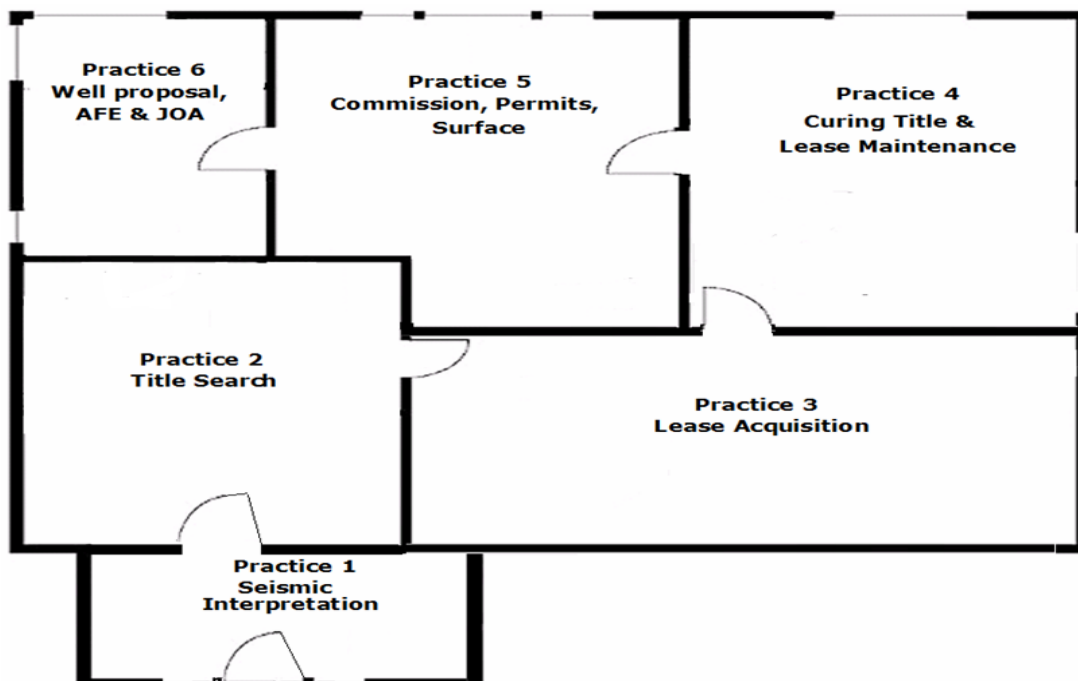
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# Class Objective

The land management professional plays an essential role in the success of oil and gas development. The tasks he or she is called upon to accomplish are often varied but each is vital.

Picture all of the functions in *Land Management* as being a house. The house contains several rooms. In the analogy, each room represents a specific land practice.

The objective of this class is to take the land management professional on a journey through each of the rooms in the house. This trip will enable each participant to engage in the land practices conducted in each of the rooms and will provide an opportunity for hands-on experience through varied activities and projects.





## ***“Practice 3”***

# **Lease Acquisition**

**Date: April 15, 2010**

Assume the date is April 15, 2010. Once title examination is complete, land personnel move into the next of our six rooms. Above the doorway of this room is a sign entitled “Lease Acquisition.” During the Lease Acquisition Phase of this class, participants will be responsible for completing the following tasks:

- After a review of the mineral lands that are available to be leased and based on the Structure Map results, participants must develop a leasing strategy for the Crimson Ranch Prospect.
- Participants must set about to acquire oil and gas leases from the appropriate parties. In order for a participant to be able to drill any wells in the Crimson Ranch Prospect, at least one lease must be acquired.
- Participants must negotiate the terms of the lease with the mineral owners including signing bonus, royalty, term, and any other items that need to be addressed in order to acquire the lease.
- Two Delay Rental Lease forms and an example lease form are included in the material. The lease forms must be accurately filled out to reflect all appropriate information. Bank Drafts are also included. Each Bank Draft must be attached to the lease reflecting the amount of signing bonus that is being offered to the lessor.
- If a lessor has any additional concerns, an exhibit addressing those concerns must be attached to the lease.

## **There is a similar construction to most modern leases**

Today's oil and gas lease has evolved over the years. Clauses in today's leases address issues that were not thought of when the first leases were signed.

As you can imagine, each of these added clauses made their way into the lease as problems reared their heads and as the industry grew. Many or perhaps all of these were added because of legal disputes being resolved by the courts.

As the industry matured so did the oil and gas lease. There is no real standard oil and gas lease today because every lease can be modified. However, today's modern leases contain a similar construction. People often refer to what has been known as the Producer's 88 oil and gas lease form; however, these words, which might appear at the top of a lease, are meaningless. The wording *Producer's 88* originated from a printing company that placed the term at the top of their first oil and gas lease as a way of identifying the print job.

Leases designated as Producer's 88 might contain many examples of different lease language. Depending on specific needs, company landmen and/or attorneys will change the wording or strike entire clauses on the lease. There is; however, a basic structure and design in our modern oil and gas leases that can be broken down into a grouping of a handful of lease clauses. They are

1. The Granting Portion of the Lease
2. The Habendum Clause or Term Clause
3. The Royalty Clause of the Lease
4. The Termination Clauses of the Lease
5. The Pooling Clause of the Lease
6. The Damage, Assignment, Surrender, Warranty, Force Majeure and Legal Effect Clauses

## **The Granting Clause and the Date of the Lease**

The lease date becomes a very important part of the oil and gas agreement. It not only identifies the exact effective date but also becomes the focal point around which other lease obligations must take place. It becomes the birthday of the lease and acts in a similar fashion as a person's birthday. On the anniversary date of that birthday, certain activities tied directly to the person might take place. In a similar way on or before the anniversary date of the oil and gas lease certain activities might be required to take place.

## The Granting Clause and Parties Entering the Lease

A lease involves two (2) parties, a “Lessor” and a “Lessee.” The “lessor” is the owner of all or part of the minerals located in the described lands of the lease. The “Lessee” is the party wishing to lease the minerals and is responsible for all terms and conditions of the lease.

The exact and correct names of the parties entering the lease agreement are vitally important. Some states, such as Louisiana, even require indication of the lessor’s marital status.

## The Legal Description Clause

Placing a correct legal description in the oil and gas lease is perhaps the most critical element of the lease. This legal description identifies the assets your company is attempting to acquire. To place an incorrect description is to cause the lease to be virtually ineffective.

## The Term Clause

The term clause follows the legal description clause and appears not only in oil and gas leases but also in conveyances or deeds. This clause is that part of the contract which sets out the period of time for which the grant is extended. Oil and gas leases contain this special limiting language.

It is agreed that this lease shall remain in force for a term of five years from this date (herein called the primary term) and as long thereafter as oil or gas, or either of them, is produced from said land by the lessee.

The language in this lease limits the grant for a period of five years (primary term) unless certain conditions are met. If these conditions are met the lease is automatically extended into what is known as the secondary term. If these conditions are not met, the lease will automatically terminate at the end of the primary term (five years from the date of the lease).

## The Royalty Clause

**Landowner Royalty** is a term sometimes used to refer to the fractional amount of production negotiated by the mineral owner at the time the oil and gas lease is signed. This fractional amount of production is the mineral owner’s share of gross production, free from the expenses of exploration, drilling, developing, and operating the lease.

Royalty ownership is not the oil or gas minerals being produced from the well, rather it is a share of the revenues from the production of oil or gas being produced. Royalty is nothing more than a person's piece of the production pie that comes from a producing oil and gas well. Just as an author of a best selling novel would receive a royalty check *based* on the sales of his or her book, a royalty owner would receive a royalty payment based on the production of a producing well.

## **The Delay Rental Clause**

Most mineral owners who sign an oil and gas lease want the oil company to drill a well. For most, the sooner the well is drilled the better. Oil companies, on the other hand, may not be ready to begin operations within the first, second or third year of the lease. Although oil companies want to drill wells, they must be strategic about the venture. So, in an attempt to accommodate both lessor and lessee, today's non-paid up leases are segregated into equal annual periods. Each of these periods begins on the anniversary date of the lease. During each of the annual periods, the oil company has the right but not the obligation to begin the drilling of a well.

In those cases where operations have not begun, a delay rental payment must be made to the lessor either on or before the anniversary date of the lease. This payment is the only vehicle that can perpetuate the lease into the next annual period. This payment also allows the company another year in which they have the right but not the obligation to begin drilling.

If a company chooses to use something other than a paid-up lease form, the lease requires *annual* delay rentals. Since these are annual rental payments and are to be made prior to the next ensuing 12-month period, the first annual rental is made to the lessor at the time the lease is signed and is usually incorporated into the bonus payment. In many cases, those who maintain oil and gas lease obligations (i.e. delay rental payments) make honest mistakes or inadvertent errors. Most states will not allow such mistakes or errors.

The words as set out in this clause create what is known as a *condition of title*. A condition of title simply means that in order for the lease to be maintained into the next annual period of the lease, certain *conditions* must have been met. Most states hold that such language is to be strictly interpreted and unless the lessee has complied with the terms, the lease will terminate automatically by its own terms.

## **Escalating Royalty Clause**

Some sophisticated mineral owners have been successful in negotiating "Escalating Royalty" language into their leases. In the following example, the before payout royalty would increase once the well reached payout.

"The royalties payable to the Lessor under this lease shall be well by well on a Before Pay Out ("BPO") and After Pay Out ("APO") basis. As to each and every well completed as a producer on the leased premises or on lands pooled therewith, the royalties paid to Lessor shall be one-eighth (1/8) BPO and one-fifth (1/5) APO."

## **Horizontal Pugh Clauses**

During the oil boom three to four decades ago, the negotiated land owner's royalty was the standard 1/8<sup>th</sup>. Many of those old leases were drilled and are still held by production (HBP) today. With the ability to produce wells horizontally, companies are drilling several horizons that were "out-of-bounds" when the leases were first taken. Since the leases are still HBP, the lessor's are still receiving a 1/8<sup>th</sup> royalty from these new horizons.

Conversely, in many parts of the country, the standard royalty rates being offered to mineral owners whose mineral rights are not HBP is a 3/16<sup>th</sup> royalty or greater. Many of these owners or their attorneys are much more knowledgeable than their counterparts some years ago. As a result "Horizontal Pugh Clauses" are seen frequently. In this case, the term "horizontal" refers to depth severance rather than surface severance.

## **Mineral Owners' Concerns**

Mineral owners often have varied concerns regarding signing an oil and gas lease. Severed mineral owners (those who own minerals but no surface lands) generally are concerned about how much signing bonus money is being paid, how large of a royalty they can receive from production and the term or length of the lease. Some of the more sophisticated mineral owners might request escalating royalty, a minimum royalty payment, specific shutin royalty provisions' and pugh clause language.

Those mineral owners who also own the surface lands may have each of these concerns but will have many other concerns. They might insist on a surface damage clause, water well clause, a road selection clause, a drill site location clause, or a no hunting or fishing clause.

The following are seventeen oil and gas lease clauses that can be added to an oil and gas lease in order to address a specific issue or concern.

## **1. TERM OF LEASE**

It is understood and agreed that the reference to a primary term of "five (5) years" in paragraph 2 hereof is hereby expressly amended to read "three (3) years".

## **2. OIL AND GAS ONLY CLAUSE:**

It is understood and agreed that this lease covers and includes oil and gas only (including with oil and gas, all constituent elements thereof and all other liquid or liquefiable hydrocarbons and products of every kind or character derived therefrom and produced therewith, including sulphur), and that all minerals other than oil and gas are excepted herefrom and reserved to Lessor. Included among the minerals reserved to Lessor and excluded from this lease are coal, uranium and lignite.

## **3. SURFACE DAMAGE CLAUSE:**

Lessee shall pay for all damage to roads, fences, improvements and growing crops caused by its operations hereunder, and will fill and level all pits and mounds, remove all board roads and board road materials, level and fill all ruts, and restore the surface of the ground to as near its original condition as is reasonably practical within a reasonable period of time after cessation of operations at each well location on the leased premises.

## **4. WATER WELL CLAUSE:**

In the event Lessee drills a water well on the above described property, when Lessee's need for same has ceased, upon Lessor's written request said water well and all pipe and connections, except for Lessee's pump, will be assigned to Lessor who shall assume all rights, responsibilities and liabilities, if any, for operation and maintenance of said water well.

In the event Lessee drills a water well on the above described property, when Lessee's need for same has ceased and provided that Lessee is the owner of the well and casing, then, upon Lessor's written request, said water well and all pipe and connections, except for Lessee's pump, will be assigned to Lessor who shall assume all rights, responsibilities and liabilities, if any, for operation and maintenance of said water well.

## **5. NO HUNTING/FISHING CLAUSE:**

It is understood and agreed that this lease grants no hunting or fishing rights whatsoever. Furthermore, Lessee, its agents, contractors, employees or

assigns shall be prohibited from carrying or transporting firearms of any type upon or across the herein leased premises.

#### **6. SALT WATER DISPOSAL CLAUSE:**

It is understood and agreed that Lessee or its assigns shall not let any salt water or any other deleterious substance run on or over Lessor's land, or let same run into Lessor's stock tanks or any natural creek, stream, river or other body of water, and, absent Lessor's prior written consent to the contrary, Lessee shall not use any wells for salt water disposal purposes.

#### **7. ROAD SELECTION CLAUSE:**

It is understood and agreed that Lessor shall have the right to participate in the selection of roadways to and from drillsite locations and that prior to beginning operations hereunder, Lessee shall contact Lessor for consent as to the location of such roadways, which consent will not be unreasonably withheld.

#### **8. DRILLSITE LOCATION CLAUSE:**

Notwithstanding anything herein contained to the contrary, it is understood and agreed that no drill sites, storage tanks or treatment facilities shall be established within three hundred feet (300') of any residence or barn now situated on the leased premises without Lessor's prior written consent, which consent shall not be unreasonably withheld.

#### **9. NON-SURFACE OWNER INDEMNIFICATION CLAUSE:**

Lessor and Lessee recognize that Lessor does not own any surface interest in and to the herein leased premises and, therefore, Lessee hereby agrees to indemnify, protect and save Lessor safe and harmless against all claims, actions, or causes of action resulting from loss, damage or injury to any person or persons or property caused by, connected with or resulting from Lessee's operations on the leased premises or any activities by Lessee's agents, servants, employees or invitees thereon.

#### **10. PUGH CLAUSE FOR PAID-UP LEASES:**

In the event a portion or portions of the leased premises is pooled or unitized with other land so as to form a pooled unit or units, operations on, completion of a well upon, or production from such unit or units will not maintain this lease in force as to that portion of the leased premises not included in such unit or units. The lease may be maintained in force as to any portion of the leased premises covered hereby and not included in such unit or units in any manner

provided for herein; provided, however, if at the end of the primary term or after the expiration of the primary term, Lessee is then engaged in drilling or reworking operations on the leased premises or on acreage pooled therewith, or if Lessee has completed a well as a producer or a dry hole anywhere on the leased premises or lands pooled therewith within ninety (90) days prior to the expiration of the primary term, this lease shall remain in full force and effect as to all non-unitized acreage so long as Lessee commences drilling operations on the leased premises or on acreage pooled therewith within ninety (90) days of the completion of such well as a producer or a dry hole and conducts continuous operations thereon with no cessation of longer than ninety (90) days between the completion of drilling or reworking operations on a well and the commencement of such operations for the next succeeding well.

#### **11. PUGH CLAUSE FOR LEASES PROVIDING FOR RENTAL PAYMENTS:**

In the event a portion or portions of the leased premises is pooled or unitized with other land so as to form a pooled unit or units, operations on, completion of a well upon, or production from such unit or units will not maintain this lease in force as to that portion of the leased premises not included in such unit or units. The lease may be maintained in force as to any portion of the leased premises covered hereby and not included in such unit or units in any manner provided for herein, provided that if it be by rental payments, rentals shall be reduced in proportion to the number of acres covered hereby and included in such unit or units; provided, however, if at the end of the primary term or after the expiration of the primary term, Lessee is then engaged in drilling or reworking operations on the leased premises or on acreage pooled therewith, or if Lessee has completed a well as a producer or a dry hole anywhere on the leased premises or lands pooled therewith within ninety (90) days prior to the expiration of the primary term, this lease shall remain in full force and effect as to all non-unitized acreage so long as Lessee commences drilling operations on the leased premises or on acreage pooled therewith within ninety (90) days of the completion of such well as a producer or a dry hole and conducts continuous operations thereon with no cessation of longer than ninety (90) days between the completion of drilling or reworking operations on a well and the commencement of such operations for the next succeeding well.

#### **12. VERTICAL DEPTH SEVERANCE CLAUSE:**

It is understood and agreed that one (1) year after the expiration of the primary term of this lease, upon the expiration of any extension or renewal, or after cessation of operations as provided herein, whichever occurs last, Lessee shall release all rights lying below one hundred feet (100') below the deepest depth drilled in any well drilled on the leased premises or on lands with which the leased premises has been pooled or unitized.

### **13. SHUT-IN ROYALTY CLAUSE:**

After the end of the primary term, this lease may not be maintained in force solely by reason of the shut-in royalty payments, as provided heretofore, for any one shut-in period of more than three (3) years, or, from time to time, for shorter periods which exceed three (3) cumulative years.

### **14. MINIMUM ROYALTY CLAUSE:**

Notwithstanding anything herein contained to the contrary, it is expressly agreed and understood that in the event production of oil, gas or other minerals is obtained from the herein leased premises, and the aggregate royalties paid to Lessor in the twelve (12) month period following the date of first production, or in any succeeding twelve (12) month period amounts to less than and \_\_\_\_\_ Dollars (\$\_\_\_\_\_ ) per net mineral acre per annum for each such acre subject to this lease during any such twelve (12) month period, then, and in that event, the Lessee, its successors or assigns, agrees to pay to Lessor [within ninety (90) days after the expiration of any such twelve (12) month period by depositing same to Lessor's credit in the depository hereinabove named] the difference, if any, between the total amount of royalties and shut-in royalties received by Lessor under this lease during such twelve (12) month period and the aggregate of \_\_\_\_\_ Dollars (\$\_\_\_\_\_ ) per net mineral acre for the acreage subject to this lease during such twelve (12) month period.

### **15. ESCALATING ROYALTY CLAUSE:**

The royalties payable to the Lessor under this lease shall be well by well on a Before Pay Out ("BPO") and After Pay Out ("APO") basis. As to each and every well completed as a producer on the leased premises or on lands pooled therewith, the royalties paid to Lessor shall be \_\_\_\_\_ Example: one-eighth (1/8) BPO and \_\_\_\_\_ Example: one-fifth (1/5) APO.

### **16. OPTION TO EXTEND PRIMARY TERM:**

Lessee is hereby given the option to extend the primary term of this lease for an additional (\_\_\_\_\_) years from the expiration of the original primary term hereof. This option may be exercised by Lessee at any time during the last year of the original primary term by paying the sum of \_\_\_\_\_ Dollars (\$\_\_\_\_\_ ) per net mineral acre to Lessor. This payment shall be based upon the number of net mineral acres then covered by this lease and not at such time being maintained by other provisions hereof.

## **17. OIL & GAS ONLY**

It is understood and agreed that this lease covers and includes oil and gas only (including with oil and gas, all constituent elements thereof and all other liquid or liquefiable hydrocarbons and products of every kind or character derived therefrom and produced therewith, including sulphur), and that all minerals other than oil and gas are excepted herefrom and reserved to Lessor. Included among the minerals reserved to Lessor and excluded from this lease are coal, uranium and lignite.

### **Leasing in the Crimson Ranch Prospect**

The names and contact information for potential lessors will be provided to each participant. In an attempt to acquire the owner's mineral interest, contact must be made with the mineral owner and an agreeable oil and gas lease must be negotiated. An initial bonus offer of \$150 to \$200 per mineral acre must be made to the potential lessors. Initial royalty to be offered is 1/8<sup>th</sup> to 1/7<sup>th</sup>.

The "sample" lease form on the following page is to be used as a guide when acquiring leases in the Crimson Ranch Prospect. Two blank delay rental forms follow and are the lease forms to be used when attempting to acquire a lease. Two blank "Bank Drafts" are also available. A bank draft must accompany any lease offer and will reflect the total signing bonus being offered any prospective lessor.

Each participant must attempt to lease two available mineral owners and submit two lease packages for review.

# (SAMPLE) OIL, GAS AND MINERAL LEASE

AGREEMENT, Made and entered into this 15th day of April, 2010, by and between Tom Brown, a single man, Party of the first part, hereinafter called Lessor (whether one or more), whose post office address is 123 Main St, Denver Colorado 80199, and ABC Oil Company, Party of the second part, hereinafter called Lessee, whose post office address is PO Box 123, Denver Colorado 87654

WITNESSETH, That the said lessor, for and in consideration of \*\*\*\*\*Ten and More\*\*\*\*\* DOLLARS, cash in hand paid, receipt of which is hereby acknowledged and of the covenants and agreements hereinafter contained on the part of lessee to be paid, kept and performed, has granted, demised, leased and let and by these presents does grant, demise, lease and let unto the said lessee, for the sole and only purpose of exploring by geophysical and other methods, mining and operating for oil (including but not limited to distillate and condensate), gas (including casinghead gas and helium and all other constituents), and for laying pipe lines, and building tanks, power stations and structures thereon, to produce, save and take care of said products, all that certain tract of land, together with any reversionary rights therein, situated in the County of Blaine, State of OK, described as follows, to-wit:

**NE/4**

of Section 33, Township 14N, Range 15W, and containing 160.00 acres, more or less.

It is agreed that this lease shall remain in force for a term of five years from date (herein call primary term) and as long thereafter as oil or gas, or either of them, is produced from said land by the lessee.

In consideration of the premises the said lessee covenants and agrees:

1<sup>st</sup>. To deliver to the credit of lessor free of cost, in the pipe line to which it may connect its wells, the 3/16th part of all oil (including but not limited to condensate and distillate) produced and saved from the leased premises.

2<sup>nd</sup>. To pay lessor for gas of whatsoever nature or kind (with all of its constituents) produced and sold or used off the leased premises, or used in the manufacture of products therefrom, 3/16th of the net proceeds realized by Lessee for the gas sold, used off the premises, or in the manufacture of products therefrom, such net proceeds to be less a proportionate part of the production, severance and other excise taxes and the cost incurred by Lessee in delivering, processing, compressing or otherwise making such gas merchantable, said payments to be made monthly.

During any period (whether before or after expiration of the primary term hereof) when gas is not being so sold or used and the well or wells are shut in and there is no current production of oil or operations on said leased premises sufficient to keep this lease in force, lessee shall pay or tender a royalty of One Dollar (\$1.00) per year per net royalty acre retained hereunder, such payment or tender to be made, on or before the anniversary date of this lease next ensuing after the expiration of ninety (90) days from the date such well is shut in and thereafter on the anniversary date of this lease during the period such well is shut in, to the royalty owners. When such payment or tender is made it will be considered that gas is being produced within the meaning of the entire lease. If the lessee shall commence to drill a well or commence reworking operations on an existing well within the term of this lease or any extension thereof, or on acreage pooled therewith, the lessee shall have the right to drill such well to completion or complete reworking operations with reasonable diligence and dispatch, and if oil or gas, or either of them, be found in paying quantities, this lease shall continue and be in force with like effect as if such well had been completed within the term of years first mentioned.

This lease shall terminate on April 15 2011 unless on or before said date the Lessee either (1) commences operations for the drilling of a well on the land, or on acreage pooled therewith, in search of oil, gas or other minerals and thereafter continues such operation and drilling to completion or abandonment; or (2) pays to the lessor a rental of \$1.00 Dollars (\$1.00 ) per acre for all or that part of the land which Lessee elects to continue to hold hereunder, which payment shall maintain Lessee's right in effect as to such land without drilling operations for one year from the date last above mentioned; and Lessee may continue to maintain the right granted without drilling operations for successive twelve month's periods (during the primary term) by paying Lessor, on or before the beginning of such respective periods \$1.00 Dollars (\$1.00 ) per acre for all or that part of the land held hereunder. If the lessee shall commence to drill a well or commence reworking operations on an existing well within the term of this lease or any extension thereof, or on acreage pooled therewith, the lessee shall have the right to drill such well to completion or complete reworking operations with reasonable diligence and dispatch, and if oil or gas, or either of them, be found in paying quantities, this lease shall continue and be in force with like effect as if such well had been completed within the term of years first mentioned.

Lessee is hereby granted the right at any time and from time to time to unitize the leased premises or any portion or portions thereof, as to all strata or any stratum or strata, with any other lands as to all strata or any stratum or strata, for the production primarily of oil or primarily of gas with or without distillate. However, no unit for the production primarily of oil shall embrace more than 80 acres, or for the production primarily of gas with or without distillate more than 320 acres; provided that if any governmental regulation shall prescribe a spacing pattern for the development of the field or allocate a producing allowable based on acreage per well, then any such unit may embrace as much additional acreage as may be so prescribed or as may be used in such allocation of allowable. Lessee shall file written unit designations in the county in which the leased premises are located. Operations upon and production from the unit shall be treated as if such operations were upon or such production were from the leased premises whether or not the well or wells are located thereon. The entire acreage within a unit shall be treated for all purposes as if it were covered by and included in this lease except that the royalty on production from the unit shall be as below provided, and except that in calculating the amount of any shut in gas royalties, only the part of the acreage originally leased and then actually embraced by this lease shall be counted. In respect to production from the unit, Lessee shall pay Lessor, in lieu of other royalties thereon, only such proportion of the royalties stipulated herein as the amount of his acreage placed in the unit, or his royalty interest therein on an acreage basis bears to the total acreage in the unit.

If said lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties herein provided shall be paid to the lessor only in the proportion which his interest bears to the whole and undivided fee.

Lessee shall pay for all damages caused by its operations to growing crops on said land.

If the estate of either party hereto is assigned, and the privilege of assigning in whole or in part is expressly allowed, the covenants hereof shall extend to their heirs, executors, administrators, successors or assigns. However, no change or division in ownership of the land or royalties shall enlarge the obligations or diminish the rights of Lessee. No change in the ownership of the land or royalties shall be binding on the lessee until after the lessee has been furnished with a written transfer or assignment or a true copy thereof. In case lessee assigns this lease, in whole or in part, lessee shall be relieved of all obligations with respect to the assigned portion or portions arising subsequent to the date of assignment.

IN TESTIMONY WHEREOF, we sign this the 15th day of April, 2010.

X\_\_\_\_\_ X\_\_\_\_\_

# OIL, GAS AND MINERAL LEASE

AGREEMENT, Made and entered into this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, by and between \_\_\_\_\_, Party of the first part, hereinafter called Lessor (whether one or more), whose post office address is \_\_\_\_\_, and \_\_\_\_\_, Party of the second part, hereinafter called Lessee, whose post office address is \_\_\_\_\_

WITNESSETH, That the said lessor, for and in consideration of \*\*\*\*\*Ten and More\*\*\*\*\* DOLLARS, cash in hand paid, receipt of which is hereby acknowledged and of the covenants and agreements hereinafter contained on the part of lessee to be paid, kept and performed, has granted, demised, leased and let and by these presents does grant, demise, lease and let unto the said lessee, for the sole and only purpose of exploring by geophysical and other methods, mining and operating for oil (including but not limited to distillate and condensate), gas (including casinghead gas and helium and all other constituents), and for laying pipe lines, and building tanks, power stations and structures thereon, to produce, save and take care of said products, all that certain tract of land, together with any reversionary rights therein, situated in the County of \_\_\_\_\_, State of \_\_\_\_\_, described as follows, to-wit:

of Section \_\_\_\_\_, Township \_\_\_\_\_, Range \_\_\_\_\_, and containing \_\_\_\_\_ acres, more or less.

It is agreed that this lease shall remain in force for a term of five years from date (herein call primary term) and as long thereafter as oil or gas, or either of them, is produced from said land by the lessee.

In consideration of the premises the said lessee covenants and agrees:

1<sup>st</sup>. To deliver to the credit of lessor free of cost, in the pipe line to which it may connect its wells, the \_\_\_\_\_ part of all oil (including but not limited to condensate and distillate) produced and saved from the leased premises.

2<sup>nd</sup>. To pay lessor for gas of whatsoever nature or kind (with all of its constituents) produced and sold or used off the leased premises, or used in the manufacture of products therefrom, \_\_\_\_\_ of the net proceeds realized by Lessee for the gas sold, used off the premises, or in the manufacture of products therefrom, such net proceeds to be less a proportionate part of the production, severance and other excise taxes and the cost incurred by Lessee in delivering, processing, compressing or otherwise making such gas merchantable, said payments to be made monthly.

During any period (whether before or after expiration of the primary term hereof) when gas is not being so sold or used and the well or wells are shut in and there is no current production of oil or operations on said leased premises sufficient to keep this lease in force, lessee shall pay or tender a royalty of One Dollar (\$1.00) per year per net royalty acre retained hereunder, such payment or tender to be made, on or before the anniversary date of this lease next ensuing after the expiration of ninety (90) days from the date such well is shut in and thereafter on the anniversary date of this lease during the period such well is shut in, to the royalty owners. When such payment or tender is made it will be considered that gas is being produced within the meaning of the entire lease. If the lessee shall commence to drill a well or commence reworking operations on an existing well within the term of this lease or any extension thereof, or on acreage pooled therewith, the lessee shall have the right to drill such well to completion or complete reworking operations with reasonable diligence and dispatch, and if oil or gas, or either of them, be found in paying quantities, this lease shall continue and be in force with like effect as if such well had been completed within the term of years first mentioned.

This lease shall terminate on \_\_\_\_\_ 20 \_\_\_\_ unless on or before said date the Lessee either (1) commences operations for the drilling of a well on the land, or on acreage pooled therewith, in search of oil, gas or other minerals and thereafter continues such operation and drilling to completion or abandonment; or (2) pays to the lessor a rental of \_\_\_\_\_ Dollars (\$ \_\_\_\_\_) per acre for all or that part of the land which Lessee elects to continue to hold hereunder, which payment shall maintain Lessee's right in effect as to such land without drilling operations for one year from the date last above mentioned; and Lessee may continue to maintain the right granted without drilling operations for successive twelve month's periods (during the primary term) by paying Lessor, on or before the beginning of such respective periods \_\_\_\_\_ Dollars (\$ \_\_\_\_\_) per acre for all or that part of the land held hereunder. If the lessee shall commence to drill a well or commence reworking operations on an existing well within the term of this lease or any extension thereof, or on acreage pooled therewith, the lessee shall have the right to drill such well to completion or complete reworking operations with reasonable diligence and dispatch, and if oil or gas, or either of them, be found in paying quantities, this lease shall continue and be in force with like effect as if such well had been completed within the term of years first mentioned.

Lessee is hereby granted the right at any time and from time to time to unitize the leased premises or any portion or portions thereof, as to all strata or any stratum or strata, with any other lands as to all strata or any stratum or strata, for the production primarily of oil or primarily of gas with or without distillate. However, no unit for the production primarily of oil shall embrace more than 80 acres, or for the production primarily of gas with or without distillate more than 320 acres; provided that if any governmental regulation shall prescribe a spacing pattern for the development of the field or allocate a producing allowable based on acreage per well, then any such unit may embrace as much additional acreage as may be so prescribed or as may be used in such allocation of allowable. Lessee shall file written unit designations in the county in which the leased premises are located. Operations upon and production from the unit shall be treated as if such operations were upon or such production were from the leased premises whether or not the well or wells are located thereon. The entire acreage within a unit shall be treated for all purposes as if it were covered by and included in this lease except that the royalty on production from the unit shall be as below provided, and except that in calculating the amount of any shut in gas royalties, only the part of the acreage originally leased and then actually embraced by this lease shall be counted. In respect to production from the unit, Lessee shall pay Lessor, in lieu of other royalties thereon, only such proportion of the royalties stipulated herein as the amount of his acreage placed in the unit, or his royalty interest therein on an acreage basis bears to the total acreage in the unit.

If said lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties herein provided shall be paid to the lessor only in the proportion which his interest bears to the whole and undivided fee.

Lessee shall pay for all damages caused by its operations to growing crops on said land.

If the estate of either party hereto is assigned, and the privilege of assigning in whole or in part is expressly allowed, the covenants hereof shall extend to their heirs, executors, administrators, successors or assigns. However, no change or division in ownership of the land or royalties shall enlarge the obligations or diminish the rights of Lessee. No change in the ownership of the land or royalties shall be binding on the lessee until after the lessee has been furnished with a written transfer or assignment or a true copy thereof. In case lessee assigns this lease, in whole or in part, lessee shall be relieved of all obligations with respect to the assigned portion or portions arising subsequent to the date of assignment.

IN TESTIMONY WHEREOF, we sign this the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_\_.

X \_\_\_\_\_ X \_\_\_\_\_

# OIL, GAS AND MINERAL LEASE

AGREEMENT, Made and entered into this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, by and between \_\_\_\_\_, Party of the first part, hereinafter called Lessor (whether one or more), whose post office address is \_\_\_\_\_, and \_\_\_\_\_, Party of the second part, hereinafter called Lessee, whose post office address is \_\_\_\_\_

WITNESSETH, That the said lessor, for and in consideration of \*\*\*\*\*Ten and More\*\*\*\*\* DOLLARS, cash in hand paid, receipt of which is hereby acknowledged and of the covenants and agreements hereinafter contained on the part of lessee to be paid, kept and performed, has granted, demised, leased and let and by these presents does grant, demise, lease and let unto the said lessee, for the sole and only purpose of exploring by geophysical and other methods, mining and operating for oil (including but not limited to distillate and condensate), gas (including casinghead gas and helium and all other constituents), and for laying pipe lines, and building tanks, power stations and structures thereon, to produce, save and take care of said products, all that certain tract of land, together with any reversionary rights therein, situated in the County of \_\_\_\_\_, State of \_\_\_\_\_, described as follows, to-wit:

of Section \_\_\_\_\_, Township \_\_\_\_\_, Range \_\_\_\_\_, and containing \_\_\_\_\_ acres, more or less.

It is agreed that this lease shall remain in force for a term of five years from date (herein call primary term) and as long thereafter as oil or gas, or either of them, is produced from said land by the lessee.

In consideration of the premises the said lessee covenants and agrees:

1<sup>st</sup>. To deliver to the credit of lessor free of cost, in the pipe line to which it may connect its wells, the \_\_\_\_\_ part of all oil (including but not limited to condensate and distillate) produced and saved from the leased premises.

2<sup>nd</sup>. To pay lessor for gas of whatsoever nature or kind (with all of its constituents) produced and sold or used off the leased premises, or used in the manufacture of products therefrom, \_\_\_\_\_ of the net proceeds realized by Lessee for the gas sold, used off the premises, or in the manufacture of products therefrom, such net proceeds to be less a proportionate part of the production, severance and other excise taxes and the cost incurred by Lessee in delivering, processing, compressing or otherwise making such gas merchantable, said payments to be made monthly.

During any period (whether before or after expiration of the primary term hereof) when gas is not being so sold or used and the well or wells are shut in and there is no current production of oil or operations on said leased premises sufficient to keep this lease in force, lessee shall pay or tender a royalty of One Dollar (\$1.00) per year per net royalty acre retained hereunder, such payment or tender to be made, on or before the anniversary date of this lease next ensuing after the expiration of ninety (90) days from the date such well is shut in and thereafter on the anniversary date of this lease during the period such well is shut in, to the royalty owners. When such payment or tender is made it will be considered that gas is being produced within the meaning of the entire lease. If the lessee shall commence to drill a well or commence reworking operations on an existing well within the term of this lease or any extension thereof, or on acreage pooled therewith, the lessee shall have the right to drill such well to completion or complete reworking operations with reasonable diligence and dispatch, and if oil or gas, or either of them, be found in paying quantities, this lease shall continue and be in force with like effect as if such well had been completed within the term of years first mentioned.

This lease shall terminate on \_\_\_\_\_ 20 \_\_\_\_ unless on or before said date the Lessee either (1) commences operations for the drilling of a well on the land, or on acreage pooled therewith, in search of oil, gas or other minerals and thereafter continues such operation and drilling to completion or abandonment; or (2) pays to the lessor a rental of \_\_\_\_\_ Dollars (\$ \_\_\_\_\_) per acre for all or that part of the land which Lessee elects to continue to hold hereunder, which payment shall maintain Lessee's right in effect as to such land without drilling operations for one year from the date last above mentioned; and Lessee may continue to maintain the right granted without drilling operations for successive twelve month's periods (during the primary term) by paying Lessor, on or before the beginning of such respective periods \_\_\_\_\_ Dollars (\$ \_\_\_\_\_) per acre for all or that part of the land held hereunder. If the lessee shall commence to drill a well or commence reworking operations on an existing well within the term of this lease or any extension thereof, or on acreage pooled therewith, the lessee shall have the right to drill such well to completion or complete reworking operations with reasonable diligence and dispatch, and if oil or gas, or either of them, be found in paying quantities, this lease shall continue and be in force with like effect as if such well had been completed within the term of years first mentioned.

Lessee is hereby granted the right at any time and from time to time to unitize the leased premises or any portion or portions thereof, as to all strata or any stratum or strata, with any other lands as to all strata or any stratum or strata, for the production primarily of oil or primarily of gas with or without distillate. However, no unit for the production primarily of oil shall embrace more than 80 acres, or for the production primarily of gas with or without distillate more than 320 acres; provided that if any governmental regulation shall prescribe a spacing pattern for the development of the field or allocate a producing allowable based on acreage per well, then any such unit may embrace as much additional acreage as may be so prescribed or as may be used in such allocation of allowable. Lessee shall file written unit designations in the county in which the leased premises are located. Operations upon and production from the unit shall be treated as if such operations were upon or such production were from the leased premises whether or not the well or wells are located thereon. The entire acreage within a unit shall be treated for all purposes as if it were covered by and included in this lease except that the royalty on production from the unit shall be as below provided, and except that in calculating the amount of any shut in gas royalties, only the part of the acreage originally leased and then actually embraced by this lease shall be counted. In respect to production from the unit, Lessee shall pay Lessor, in lieu of other royalties thereon, only such proportion of the royalties stipulated herein as the amount of his acreage placed in the unit, or his royalty interest therein on an acreage basis bears to the total acreage in the unit.

If said lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties herein provided shall be paid to the lessor only in the proportion which his interest bears to the whole and undivided fee.


Lessee shall pay for all damages caused by its operations to growing crops on said land.

If the estate of either party hereto is assigned, and the privilege of assigning in whole or in part is expressly allowed, the covenants hereof shall extend to their heirs, executors, administrators, successors or assigns. However, no change or division in ownership of the land or royalties shall enlarge the obligations or diminish the rights of Lessee. No change in the ownership of the land or royalties shall be binding on the lessee until after the lessee has been furnished with a written transfer or assignment or a true copy thereof. In case lessee assigns this lease, in whole or in part, lessee shall be relieved of all obligations with respect to the assigned portion or portions arising subsequent to the date of assignment.

IN TESTIMONY WHEREOF, we sign this the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

X \_\_\_\_\_ X \_\_\_\_\_

**A Bank Draft must be submitted with  
each lease proposal**



# First National Bank


On approval of oil and gas lease described hereon, and on approval of title to same by Lessee not later than (\_\_\_\_\_) days after arrival of this draft at collecting bank,

PAY TO THE ORDER OF \_\_\_\_\_ (LESSOR)  
\_\_\_\_\_ DOLLARS.

This draft is drawn to pay for Oil and Gas Lease dated \_\_\_\_\_ and covering \_\_\_\_\_ net mineral acres, in and to the following describe lands, to wit:

The Lessee hereof, and the grantors of the lease described hereon, do hereby constitute and appoint the collecting bank as escrow agent to hold this draft for the time above specified subject to acceptance of payment hereof by the lessee.

\_\_\_\_\_  
Lessee's Agent



# First National Bank

On approval of oil and gas lease described hereon, and on approval of title to same by Lessee not later than (\_\_\_\_\_) days after arrival of this draft at collecting bank,

PAY TO THE ORDER OF \_\_\_\_\_ (LESSOR)  
\_\_\_\_\_ DOLLARS.

This draft is drawn to pay for Oil and Gas Lease dated \_\_\_\_\_ and covering \_\_\_\_\_ net mineral acres, in and to the following describe lands, to wit:

The Lessee hereof, and the grantors of the lease described hereon, do hereby constitute and appoint the collecting bank as escrow agent to hold this draft for the time above specified subject to acceptance of payment hereof by the lessee.

\_\_\_\_\_  
Lessee's Agent

**OIL, GAS AND MINERAL LEASE  
(PAID UP)**

AGREEMENT, Made and entered into this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_, by and between \_\_\_\_\_, Party of the first part, hereinafter called Lessor (whether one or more), whose post office address is \_\_\_\_\_, and \_\_\_\_\_, Party of the second part, hereinafter called Lessee, whose post office address is \_\_\_\_\_

WITNESSETH, That the said lessor, for and in consideration of \_\_\_\_\_\*\*\*\*\*Ten and More\*\*\*\*\*\_\_\_\_\_ DOLLARS, cash in hand paid, receipt of which is hereby acknowledged and of the covenants and agreements hereinafter contained on the part of lessee to be paid, kept and performed, has granted, demised, leased and let and by these presents does grant, demise, lease and let unto the said lessee, for the sole and only purpose of exploring by geophysical and other methods, mining and operating for oil (including but not limited to distillate and condensate), gas (including casinghead gas and helium and all other constituents), and for laying pipe lines, and building tanks, power stations and structures thereon, to produce, save and take care of said products, all that certain tract of land, together with any reversionary rights therein, situated in the County of \_\_\_\_\_, State of \_\_\_\_\_, described as follows, to-wit:

of Section \_\_\_\_\_, Township \_\_\_\_\_, Range \_\_\_\_\_, and containing \_\_\_\_\_ acres, more or less.

It is agreed that this lease shall remain in force for a term of five years from date (herein call primary term) and as long thereafter as oil or gas, or either of them, is produced from said land by the lessee.

In consideration of the premises the said lessee covenants and agrees:

1<sup>st</sup>. To deliver to the credit of lessor free of cost, in the pipe line to which it may connect its wells, the \_\_\_\_\_ part of all oil (including but not limited to condensate and distillate) produced and saved from the leased premises.

2<sup>nd</sup>. To pay lessor for gas of whatsoever nature or kind (with all of its constituents) produced and sold or used off the leased premises, or used in the manufacture of products therefrom, \_\_\_\_\_ of the net proceeds realized by Lessee for the gas sold, used off the premises, or in the manufacture of products therefrom, such net proceeds to be less a proportionate part of the production, severance and other excise taxes and the cost incurred by Lessee in delivering, processing, compressing or otherwise making such gas merchantable, said payments to be made monthly. During any period (whether before or after expiration of the primary term hereof) when gas is not being so sold or used and the well or wells are shut in and there is no current production of oil or operations on said leased premises sufficient to keep this lease in force, lessee shall pay or tender a royalty of One Dollar (\$1.00) per year per net royalty acre retained hereunder, such payment or tender to be made, on or before the anniversary date of this lease next ensuing after the expiration of ninety (90) days from the date such well is shut in and thereafter on the anniversary date of this lease during the period such well is shut in, to the royalty owners. When such payment or tender is made it will be considered that gas is being produced within the meaning of the entire lease.

If the lessee shall commence to drill a well or commence reworking operations on an existing well within the term of this lease or any extension thereof, or on acreage pooled therewith, the lessee shall have the right to drill such well to completion or complete reworking operations with reasonable diligence and dispatch, and if oil or gas, or either of them, be found in paying quantities, this lease shall continue and be in force with like effect as if such well had been completed within the term of years first mentioned.

Lessee is hereby granted the right at any time and from time to time to unitize the leased premises or any portion or portions thereof, as to all strata or any stratum or strata, with any other lands as to all strata or any stratum or strata, for the production primarily of oil or primarily of gas with or without distillate. However, no unit for the production primarily of oil shall embrace more than 80 acres, or for the production primarily of gas with or without distillate more than 320 acres; provided that if any governmental regulation shall prescribe a spacing pattern for the development of the field or allocate a producing allowable based on acreage per well, then any such unit may embrace as much additional acreage as may be so prescribed or as may be used in such allocation of allowable. Lessee shall file written unit designations in the county in which the leased premises are located. Operations upon and production from the unit shall be treated as if such operations were upon or such production were from the leased premises whether or not the well or wells are located thereon. The entire acreage within a unit shall be treated for all purposes as if it were covered by and included in this lease except that the royalty on production from the unit shall be as below provided, and except that in calculating the amount of any shut in gas royalties, only the part of the acreage originally leased and then actually embraced by this lease shall be counted. In respect to production from the unit, Lessee shall pay Lessor, in lieu of other royalties thereon, only such proportion of the royalties stipulated herein as the amount of his acreage placed in the unit, or his royalty interest therein on an acreage basis bears to the total acreage in the unit.

If said lessor owns a less interest in the above described land than the entire and undivided fee simple estate therein, then the royalties herein provided shall be paid to the lessor only in the proportion which his interest bears to the whole and undivided fee.

Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for its operations thereon, except water from wells of lessor.

When requested by the lessor, lessee shall bury his pipe lines below plow depth.

No well shall be drilled nearer than 200 feet to the house or barn now on said premises, without the written consent of the lessor.

Lessee shall pay for all damages caused by its operations to growing crops on said land.

Lessee shall have the right at any time to remove all machinery and fixtures placed on said premises, including the right to draw and remove casing. During the term of this lease, Lessee shall have the exclusive right to conduct exploration by geophysical or other methods upon the lands covered hereby.

If the estate of either party hereto is assigned, and the privilege of assigning in whole or in part is expressly allowed, the covenants hereof shall extend to their heirs, executors, administrators, successors or assigns. However, no change or division in ownership of the land or royalties shall enlarge the obligations or diminish the rights of Lessee. No change in the ownership of the land or royalties shall be binding on the lessee until after the lessee has been furnished with a written transfer or assignment or a true copy thereof. In case lessee assigns this lease, in whole or in part, lessee shall be relieved of all obligations with respect to the assigned portion or portions arising subsequent to the date of assignment.

All express or implied covenants of this lease shall be subject to all Federal and State Laws, Executive Orders, Rules and Regulations, and this lease shall not be terminated, in whole or in part, nor lessee held liable in damages, for failure to comply therewith, if compliance is prevented by, or such failure is the result of any such Law, Order, Rule or Regulation.

Lessee may at any time and from time to time surrender this lease as to any part or parts of the leased premises by delivering or mailing a release thereof to lessor, or by placing a release or record in the proper County.

Lessor hereby warrants and agrees to defend the title to the lands herein described, and agrees that the lessee shall have the right at any time to redeem for lessor by payment any mortgages, taxes or other liens on the above described lands, in the event of default of payment by lessor, and be subrogated to the rights of the holder thereof.

IN TESTIMONY WHEREOF, we sign this the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_\_.

X\_\_\_\_\_ X\_\_\_\_\_

1001

PAY  
TO THE  
ORDER OF \_\_\_\_\_

DATE:

\$

\_\_\_\_\_ DOLLARS

MEMO \_\_\_\_\_

\_\_\_\_\_  
AUTHORIZED SIGNATURE(S)

⑈0 100 1⑈ ⑆ 1 1 1 2 2 2 3 3 3 ⑆ 4 4 4 5 5 5⑈

# On-Line Classes

## **Critical Legal Concepts Related to the Land Profession**

Crucial information dealing with a myriad of critical concepts surrounding the land profession and the oil and gas industry are covered in this class. Subject matter covers state specific title issues and statutes that impact how oil and gas interests are interpreted, calculated and maintained; specific language in conveyances and how each word or the placement of the words impact the conveyance outcome; and state specific legal concepts surrounding doctrines of oil, gas, royalty, trespass, pooling, types of ownerships, and ownership theories.

## **A Comprehensive Study of the Oil & Gas Lease, Lease Obligations and Lease Clauses**

This class is perhaps the best resource available for those wanting to learn about the management of a company's oil and gas lease assets. It is designed to offer specialized instruction for the landman, land tech. and lease or title analyst as they deal with particular lease and lease related issues.

## **A Comprehensive Study of Property Ownership and Transferring Title**

This course takes an in-depth and thorough look at property ownership beginning with the origins of ownership in the United States. Other topics include: differing types of property ownership such as real property, personal property, community property, separate property, homestead laws or dower estates; the rules surrounding mineral and royalty ownership including surface, divided and undivided interests; the rules for conveying property; varying types of conveyances, testate and intestate succession laws and the many types of title transfers that result from court actions.

## **Contracts Used by Petroleum Land Management**

Contracts are the heart and soul of the oil and gas industry which uses a number of unique agreements in order to explore for, develop, produce, and market oil and gas. This course will provide an understanding of contract law and is designed for all oil and gas professionals or those having a desire to work directly or indirectly in land or land administration. Contracts examined will include the Joint Venture Agreement, Area of Mutual Interest Agreement, Seismic Agreements, Surface Agreements, unit operating agreements, unit agreements, the AAPL Joint Operating Agreement and the Farmout Agreement.

## **An Introduction to Petroleum Land Management**

Choosing a career as an oil and gas landman or land administration professional is a job path that is highly sought by many individuals. These types of jobs can be rewarding both personally and financially, offering an income that can be substantially greater than many other professions that require far more training. This class is excellent for those wishing to examine the subjects and tasks the land professional is called upon to manage, including: land and mineral ownership in the United States, leasing available minerals, land strategies, pooling, unitization, and searching for and drilling for oil and gas.

## **Calculating your Division of Interest**

This on-line class comes with both a textbook and the Calculating Your Division of Interest Workbook and will be of tremendous value in helping the land professional calculate all types of interests, including net mineral acres, royalty, net revenue, gross working, and overriding royalty interest. Chapters also include unit calculations, calculating payouts, non-consents, farmouts, and calculating overrides based on farmout language.

## **Mastering Lease Obligations**

**This class provides the most practical, applicable, hands-on instruction available for those who administer the oil and gas lease and whose jobs are** affected by the lease. The class will deal with several lease clauses including: the granting clause, habendum clause, Pugh clause, force majeure clause, operations clause, shut-in clause and rental clause.

## **Critical Legal Concepts**

Crucial information dealing with a myriad of critical concepts surrounding the land profession and the oil and gas industry are covered in this class. Subject matter covers state specific title issues and statutes that impact how oil and gas interests are interpreted, calculated, and maintained; specific language in conveyances and how each word or the placement of the words impact the conveyance outcome; and state-specific legal concepts surrounding doctrines of oil, gas, royalty, trespass, pooling, types of ownerships, and ownership theories.

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