

THE 'LEASE-O-METER'
HOW TO GIVE YOUR OIL AND GAS LEASE A REPORT CARD AND DETERMINE IF THE LANDOWNER HAS A
GOOD DEAL OR NOT

A	B	C	D	E	F	G
	SUBJECT	Poor Grade - Oil Company Friendly	Score	Good Grade - Landowner Friendly	Score	Grade
OPERATIONAL SUBJECTS	Oil Company gives landowner notice of activities and schedule before starting work?	Does not give notice.	0	Gives notice.	1	
	Oil Company obligation to drill wells during Primary Term?	Not obligated to drill well.	0	Obligated to drill well.	1	
	Oil and Gas can only be produced through a well bore? (No mining)	Mining allowed.	0	Only well bore allowed.	1	
	Is Unitization based on proration of acreage or volume of petroleum?	Based on acreage allocation.	0	Based on volume allocation.	1	
	Oil Company restricted where it can locate facilities, wells and pipelines on landowner property?	Not restricted.	0	Restricted.	1	
	Oil Company obligation to restore land to original condition when operations are abandoned?	Only reasonable obligation to restore.	0	Absolute obligation to restore.	1	
	Oil Company obligation to notify landowner if Operator is to change and right of landowner to approve?	Oil Company free to change Operator at any time.	0	Oil Company obligation to notify landowner and opportunity to approve.	1	
	Oil Company obligation to construct pipelines with "double ditch" method?	No restriction on pipeline construction technique.	0	Obligation to use "double ditch" method.	1	
	Oil Company can only install pipelines on landowners property for oil and gas solely produced from landowners property?	Oil Company can install any pipelines.	0	Only pipelines used for landowner production allowed on property.	1	
	Any pipeline will be subject to agreement on right of way and rental fee.	No right of way agreement or fee allowed.	0	Right of way and rental fee required.	1	
	Oil Company Pooling rights allowed.	Oil Company not obligated to pool a minimum acreage amount from landowners property.	0	Landowner property must have a minimum acreage amount in any Pooled unit.	1	
	Oil Company Lessee must provide annually copies of financial statements to landowner.	No obligation of Oil Company to provide financial status reports to landowner.	0	Oil Company obligated to provide annually, financial reports to landowner.	1	
	Oil Company, if required by landowner, must provide financial security to landowner by way of Parent Company Guarantee, Letter of Credit, Bank Guarantee or other landowner required security.	No obligation of Oil Company to provide financial security to landowner.	0	Oil Company has obligation to provide financial security to landowner.	1	
	Oil Company has obligation to prevent drainage from landowners land by drilling offset wells.	No obligation of Oil Company to prevent drainage.	0	Oil Company has obligation to prevent drainage.	1	
	Oil Company has not right of gas storage on landowners property without approval and agreement on rental terms.	Oil Company has right to store gas without landowner approval.	0	Oil Company cannot store gas without landowner approval and agreement to terms.	1	

	SUBJECT	Poor Grade - Oil Company Friendly	Score	Good Grade - Landowner Friendly	Score	Grade
MISCELLANEOUS SUBJECT	Does Lease have a Pugh Clause?	No.	0	Yes.	1	
	Does Lease have a Mother Hubbard Clause?	Yes.	0	No.	1	
	Are there different royalty rates for oil and gas?	No.	0	Yes.	1	
	Are there prescribed royalty rates for other substances such as sulfur, water, sand, caliche, or other resources from the land?	No.	0	Yes.	1	
	Are royalty payments subject to being reduced by certain operating costs from the lease?	Yes.	0	No.	1	
	Are royalty rates variable (such as linked to the price of oil and gas), allowing the landowner to share in additional income from higher oil and gas prices?	No.	0	Yes.	1	
	Is the landowner obligated to warrant title to the land on which the lease is located?	Yes.	0	No.	1	
	Is the Oil Company free to produce any and all fresh water from the landowners property without restriction or payment of fees or water royalty to the landowner?		0	No.	1	
	Is the Oil Company obligated to set up an abandonment fund with cash, the proceeds of which provide security toward abandonment and land reclamation costs?	No.	0	Yes.	1	
	Is landowner entitled to copies of all technical and production data, seismic, well reports, etc. at Oil Company cost?	No.	0	Yes.	1	
	Is Oil Company obligated to obtain landowner prior approval before Oil Company can assign any interest in the lease to a third party?	No.	0	Yes.	1	
	Is Oil Company obligated to provide landowner a certain amount of gas produced on the property, free of charge along with certain pipeline and metering facilities?	No.	0	Yes.	1	
	Is Oil Company obligated to provide landowner free of charge copies of any and all land surveys?	No.	0	Yes.	1	
	Does landowner have annual audit rights of Oil Company records?	No.	0	Yes.	1	
	Is Force Majeure well defined to clarify those events in which Oil Company is excused from performance?	No.	0	Yes.	1	
	Does the lease contain any extra land rental charges for excessive use of the land surface by the Oil Company (such as storage yards, warehouses, etc.)?	No.	0	Yes.	1	

MISCELLANEOUS SUBJECT	SUBJECT	Poor Grade - Oil Company Friendly	Score	Good Grade - Landowner Friendly	Score	Grade
	Is Oil Company obligated to install fiscal metering on landowners property to confirm production and royalty entitlement rights?	No.	0	Yes.	1	
	Does the Lease generally provide for Oil Company to commit to 'covenants' or 'conditions' in the Lease? (Covenants are promises only enforceable by expensive court proceedings, whereas conditions if not met automatically cause the Lease to terminate).	Predominately Covenants.	0	Predominately Conditions.	1	
	Are disputes between the Oil Company and landowner settled by court proceedings (best for landowner) or arbitration (best for Oil Company)?	Arbitration	0	Courts	1	
	Is there a clear definition in regard to what meant by 'paying quantities' the condition for Oil Company to maintain in order to keep the Lease valid?	No clear definition.	0	Clear definition.	1	
	Is there a clear definition of the circumstances in which Shut In Royalty is paid?	No clear definition.	0	Clear definition.	1	
	Does the Lease contain clear understanding of what indemnification obligations Oil Company provides? (Oil Company liable for damages whether caused by negligence of Oil Company and its subcontractors, or negligence by landowner).	No clear definition.	0	Clear definition.	1	
	Does landowner have a right of first refusal or preferential right of purchase to acquire any interest the Oil Company desires to assign to a third party?	No.	0	Yes.	1	
	Can Oil Company only extend the Lease with landowner prior approval and on landowner new agreed commercial terms?	No.	0	Yes.	1	

ENVIRONMENTAL SUBJECTS	SUBJECT	Poor Grade - Oil Company Friendly	Score	Good Grade - Landowner Friendly	Score	Grade
	Is Oil Company obligated to dispose of all waste material (salt water, debris) off of landowners property?	No.	0	Yes.	1	
	Can Oil Company dispose of waste from other third party properties on landowners land?	Yes.	0	No.	1	
	Is Oil Company obligated to give free of charge an option to landowner to keep water wells drilled by Oil Company?	No.	0	Yes.	1	
	Is Oil Company obligated to provide free of charge to landowner an annual environmental and safety compliance report?	No.	0	Yes.	1	
	Is Oil Company obligated to provide free of charge to landowner annual test of various fresh water sources (ground water, lakes, rivers, ponds, etc.)?	No.	0	Yes.	1	
	Is Oil Company obligated to pay landowner pre-agreed damages in regard to trees, roads, and other landowner property damaged by Oil Company operations?	No.	0	Yes.	1	
	Does Lease contain ratification clause that acceptance of late payments is not deemed to be automatic compliance with the Lease without written approval from Lessor,?	No.	0	Yes.	1	
	In case of dispute, if Lessor (landowner) is successful party, Lessee (Oil Company) must pay all of Lessor's legal costs?	No.	1	Yes.	1	
	Is there a clear definition in production in paying quantities and what costs are allowed to be deducted?	No.	1	Yes.	1	
	Is there a clause that gives the Lessor (landowner) the option to keep water, gas or oil wells if any are still useful at the end of the lease?	No.	1	Yes.	1	
	Are there clear definitions of what is included in 'oil' and what is included in 'gas' if each has a different royalty rate?		1	Yes.	1	
	Is there a clear definition of 'market value' (including protection against Lessor 'selling' oil and gas to an affiliated marketing company at less than true area market prices?	No.	1	Yes.	1	
TOTAL REPORT CARD SCORE						
HIGHEST PERFECT REPORT CARD SCORE = 53						
IF THE TOTAL REPORT CARD SCORE IS 48 TO 53, GIVE YOURSELF A LEASE REPORT CARD OF =						A
IF THE TOTAL REPORT CARD SCORE IS 42 TO 47, GIVE YOURSELF A LEASE REPORT CARD OF =						B
IF THE TOTAL REPORT CARD SCORE IS 35 TO 41, GIVE YOURSELF A LEASE REPORT CARD OF =						C
IF THE TOTAL REPORT CARD SCORE IS 20 TO 34, GIVE YOURSELF A LEASE REPORT CARD OF =						D
IF THE TOTAL REPORT CARD SCORE IS 0 TO 19, GIVE YOURSELF A LEASE REPORT CARD OF =						F