



MASSIVE MINERALS

Texas Oil & Gas Lease

Presentation Overview

- Overview of the Texas Oil and Gas Lease (OGL)
- The OGL is a contract embodying the transaction between a mineral owner and an oil company for the production of oil and gas.

Common Lease Clauses

- The Lease Term
- The Royalty
- Bonus
- Delay Rental
- Shut-in Royalty
- Pooling and Pugh Clauses
- Continuous Operations Clauses
- Depth Severance
- Assignment
- Force Majeure Clause

The Lease Term

- **Primary Term** – The initial period, during which a well may be drilled, defined by a fixed number of years in the lease.
 - Lessee has the option, but not the obligation to drill.
- **Secondary Term** – The period, after the expiration of the primary term, in which the oil and gas lease is held in force by a fee simple determinable condition.
 - “For so long as,” oil or gas is produced from the leased premises.

The Royalty

- Consideration paid to the lessor based on their interest reserved in the lease, to be paid, based on production, without deduction for the costs of drilling or production.
- Usually between $1/8$ and $1/4$ Royalty interest reserved.

The Bonus

- Consideration paid up front by the oil and gas company to the land owner for the execution of the lease.
- Usually based on a per acre payment.

Delay Rental

- A payment made at the end of each lease year during the primary term of the lease if no production has been established in order to keep the lease in effect during the primary term.
- Paid-Up Lease - Leases that do not require delay rentals to keep the lease in effect.

Shut-In Royalty

- A royalty paid to the lessor after the primary term of the lease has expired, but when a completed well is not producing, or is “shut-in.”
- The well can be shut-in and the lease maintained by shut-in royalties in lieu of actual production until production can be started.
- This can be because pipelines, or other method of transportation are not ready for the well to produce.

Pooling and Pugh Clauses

- Pooling is the consolidation and combining of leased land with adjoining leased tracts.
 - Compulsory pooled units
 - Prevent waste
 - Protect correlative rights
 - Voluntary pooled units

Pooling and Pugh Clauses

- The Pugh Clause limits the rights of the lessee to hold only particular depths or amounts of leased property, in a pooled unit, after the expiration of the primary term.
 - In Texas, production from any portion of a leased tract is deemed production from the entire tract.

Continuous Operation Clauses

- A specific provision which gives lessees the right to continue the operations of drilling wells that began before the lease expiration.
- The term operations can be defined in the lease itself, or by law.
- This term can still allow for any unretained acreage/depths to be released back to the property owner.

Depth Severances

- A term in the lease which severs the lessee's rights in depths beyond a limit given within the lease.
- The lease stays in effect under the secondary term of the lease, but expires as to everything not being held by production.
- Depths can be held from the surface to a given distance below the deepest point of the well or below a formation.
 - Depths can also be severed as to the surface down to a certain point and only hold a given depth to another given depth.

Assignment

- Clause within the lease that determines how the lessee may assign a lease.
- Consent-to-Assign Provision
 - Lessor's Consent may be required.
- Some leases do not require lessor's consent to assign them.

Force Majeure

- The Force Majeure clause is designed to protect the lessee from being liable for damages or the lease from terminating for causes beyond the lessee's control.
- Excuses performance because of unforeseeable factors beyond the Lessee's control.



QUESTIONS?

YOUR PARTNER IN CREATING MASSIVE, OUTSIZED VALUE