

Module 1 Lesson 2 – Conducting Action Research

EXERCISE 2 - Review Lease Package

Instructions:

- This is an individual exercise.
- Imagine you were notified by an operator that they were starting construction of a new well site and short access road on February 31 (two days after you were notified). The well is located 990 FNL & 1980 FWL in Section 28, T. 43 N., R. 15 W. You decide you want to conduct an environmental/surface inspection during the construction activities. Imagine you are conducting action research for this upcoming environmental/surface inspection. You are now at the step in the action research process where you are reviewing the lease and any special stipulations. You acquire the lease and special stipulations from the lease file in your office (see attached lease package).
- Review the attached lease and associated special stipulations.
- Take notes of any items of interest that might be relevant to an upcoming environmental/surface inspection. Also note any additional research you would need to conduct based on the review of the special stipulations. For exercise purposes, note why certain stipulations would not be noted for the inspection.
- At the next webinar, students will be asked a series of questions related to this exercise.

Attachments:

1. Note Pad (1 page)
 - a. Student can use the first (top) section of the Note Pad to type notes to complete the exercise and reference during the exercise review.
 - b. Student can use the second (bottom) section of the Note Pad to type notes during the exercise review/instructor feedback and reference in the future.
2. Lease and Special Stipulations (11 pages)

Module 1 – Lesson 2: “Conducting Action Research”

Exercise 2 – Review Lease Package

Exercise Aid: NOTE PAD

Notes for Exercise (Filled in for Exercise)

Exercise Feedback – Optional Notes (Filled in during instructor feedback)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

Serial Number
COC78806

OFFER TO LEASE AND LEASE FOR OIL AND GAS

The undersigned (page 2) offers to lease all or any of the lands in Item 2 that are available for lease pursuant to the Mineral Lands Leasing Act of 1920, as amended and supplemented (30 U.S.C. 181 et seq.), the Mineral Leasing Act for Acquired Lands of 1947, as amended (30 U.S.C. 351-359), or _____ (other).

READ INSTRUCTIONS BEFORE COMPLETING

1. Name R&R ROYALTY, LTD.
Street 500 N SHORELINE
STE 322
City, State, Zip Code CORPUS CHRISTI, TX 78401

2. This application/offer/lease is for: (Check Only One) PUBLIC DOMAIN LANDS ACQUIRED LANDS (percent U.S. interest _____)

Surface managing agency if other than Bureau of Land Management (BLM): _____ Unit/Project: _____
Legal description of land requested: *Parcel No.: _____ *Sale Date (mm/dd/yyyy): 3/8/2018

*See Item 2 in Instructions below prior to completing Parcel Number and Sale Date.

T. _____ R. _____ Meridian _____ State _____ County _____

Amount remitted: Filing fee \$ _____ Rental fee \$ _____ Total acres applied for _____
Total \$ _____

DO NOT WRITE BELOW THIS LINE

T. 43 N R. 15 W Meridian NMPM State Colorado County San Miguel
Sec. 27: NENW,S2NW; Sec. 28: N2NW,S2N2;

Total acres in lease 360.000
Rental retained \$ 540.00

This lease is issued granting the exclusive right to drill for, mine, extract, remove and dispose of all the oil and gas (except helium) in the lands described in Item 3 together with the right to build and maintain necessary improvements thereupon for the term indicated below, subject to renewal or extension in accordance with the appropriate leasing authority. Rights granted are subject to applicable laws, the terms, conditions, and attached stipulations of this lease, the Secretary of the Interior's regulations and formal orders in effect as of lease issuance, and to regulations and formal orders hereafter promulgated when not inconsistent with lease rights granted or specific provisions of this lease.

NOTE: This lease is issued to the high bidder pursuant to his/her duly executed bid form submitted under 43 CFR 3120 and is subject to the provisions of that bid and those specified on this form.

Type and primary term:

- Noncompetitive lease (ten years)
- Competitive lease (ten years)
- Other _____

THE UNITED STATES OF AMERICA
Plat R2H 3/26/18 Qc'd SA 3/26/18 Cheryl Hunsick (BLM)
MAR 14 2018 (Date)
Chief Fluid Minerals Adjudication (Title)
SRP SA 4/5/18 GDL EFFECTIVE DATE OF LEASE APR 01 2018

Sec. 3. Bonds-A bond must be filed and maintained for lease operations as required under regulations.

Sec. 4. Diligence, rate of development, unitization, and drainage-Lessee must exercise reasonable diligence in developing and producing, and must prevent unnecessary damage to, loss of, or waste of leased resources. Lessor reserves right to specify rates of development and production in the public interest and to require lessee to subscribe to a cooperative or unit plan, within 30 days of notice, if deemed necessary for proper development and operation of area, field, or pool embracing these leased lands. Lessee must drill and produce wells necessary to protect leased lands from drainage or pay compensatory royalty for drainage in amount determined by lessor.

Sec. 5. Documents, evidence, and inspection-Lessee must file with proper office of lessor, not later than 30 days after effective date thereof, any contract or evidence of other arrangement for sale or disposal of production. At such times and in such form as lessor may prescribe, lessee must furnish detailed statements showing amounts and quality of all products removed and sold, proceeds therefrom, and amount used for production purposes or unavoidably lost. Lessee may be required to provide plats and schematic diagrams showing development work and improvements, and reports with respect to parties in interest, expenditures, and depreciation costs. In the form prescribed by lessor, lessee must keep a daily drilling record, a log, information on well surveys and tests, and a record of subsurface investigations and furnish copies to lessor when required. Lessee must keep open at all reasonable times for inspection by any authorized officer of lessor, the leased premises and all wells, improvements, machinery, and fixtures thereon, and all books, accounts, maps, and records relative to operations, surveys, or investigations on or in the leased lands. Lessee must maintain copies of all contracts, sales agreements, accounting records, and documentation such as billings, invoices, or similar documentation that supports costs claimed as manufacturing, preparation, and/or transportation costs. All such records must be maintained in lessee's accounting offices for future audit by lessor. Lessee must maintain required records for 6 years after they are generated or, if an audit or investigation is underway, until released of the obligation to maintain such records by lessor.

During existence of this lease, information obtained under this section will be closed to inspection by the public in accordance with the Freedom of Information Act (5 U.S.C. 552).

Sec. 6. Conduct of operations-Lessee must conduct operations in a manner that minimizes adverse impacts to the land, air, and water, to cultural, biological, visual, and other resources, and to other land uses or users. Lessee must take reasonable measures deemed necessary by lessor to accomplish the intent of this section. To the extent consistent with lease rights granted, such measures may include, but are not limited to, modification to siting or design of facilities, timing of operations, and specification of interim and final reclamation measures. Lessor reserves the right to continue existing uses and to authorize future uses upon or in the leased lands, including the approval of easements or rights-of-way. Such uses must be conditioned so as to prevent unnecessary or unreasonable interference with rights of lessee.

Prior to disturbing the surface of the leased lands, lessee must contact lessor to be apprised of procedures to be followed and modifications or reclamation measures that may be necessary. Areas to be disturbed may require inventories or special studies to determine the extent of impacts to other resources. Lessee may be required to complete minor inventories or short term special studies under guidelines provided by lessor. If in the conduct of operations, threatened or endangered species, objects of historic or scientific interest, or substantial unanticipated environmental effects are observed, lessee must immediately contact lessor. Lessee must cease any operations that would result in the destruction of such species or objects.

Sec. 7. Mining operations-To the extent that impacts from mining operations would be substantially different or greater than those associated with normal drilling operations, lessor reserves the right to deny approval of such operations.

Sec. 8. Extraction of helium-Lessor reserves the option of extracting or having extracted helium from gas production in a manner specified and by means provided by lessor at no expense or loss to lessee or owner of the gas. Lessee must include in any contract of sale of gas the provisions of this section.

Sec. 9. Damages to property-Lessee must pay lessor for damage to lessor's improvements, and must save and hold lessor harmless from all claims for damage or harm to persons or property as a result of lease operations.

Sec. 10. Protection of diverse interests and equal opportunity-Lessee must: pay when due all taxes legally assessed and levied under laws of the State or the United States; accord all employees complete freedom of purchase; pay all wages at least twice each month in lawful money of the United States; maintain a safe working environment in accordance with standard industry practices; and take measures necessary to protect the health and safety of the public.

Lessor reserves the right to ensure that production is sold as reasonable prices and to prevent monopoly. If lessee operates a pipeline, or owns controlling interest in a pipeline or a company operating a pipeline, which may be operated accessible to oil derived from these leased lands, lessee must comply with section 28 of the Mineral Leasing Act of 1920.

Lessee must comply with Executive Order No. 11246 of September 24, 1965, as amended, and regulations and relevant orders of the Secretary of Labor issued pursuant thereto. Neither lessee nor lessee's subcontractors must maintain segregated facilities.

Sec. 11 Transfer of lease interests and relinquishment of lease-As required by regulations, lessee must file with lessor any assignment or other transfer of an interest in this lease. Lessee may relinquish this lease or any legal subdivision by filing in the proper office a written relinquishment, which will be effective as of the date of filing, subject to the continued obligation of the lessee and surety to pay all accrued rentals and royalties.

Sec. 12. Delivery of premises-At such time as all or portions of this lease are returned to lessor, lessee must place affected wells in condition for suspension or abandonment, reclaim the land as specified by lessor and, within a reasonable period of time, remove equipment and improvements not deemed necessary by lessor for preservation of producible wells.

Sec. 13. Proceedings in case of default-If lessee fails to comply with any provisions of this lease, and the noncompliance continues for 30 days after written notice thereof, this lease must be subject to cancellation unless or until the leasehold contains a well capable of production of oil or gas in paying quantities, or the lease is committed to an approved cooperative or unit plan or communitization agreement which contains a well capable of production of unitized substances in paying quantities. This provision will not be construed to prevent the exercise by lessor of any other legal and equitable remedy, including waiver of the default. Any such remedy or waiver will not prevent later cancellation for the same default occurring at any other time. Lessee will be subject to applicable provisions and penalties of FOGPMA (30 U.S.C. 1701).

Sec. 14. Heirs and successors-in-interest-Each obligation of this lease will extend to and be binding upon, and every benefit hereof will inure to the heirs, executors, administrators, successors, beneficiaries, or assignees of the respective parties hereto.

QUALIFICATIONS

For leases that may be issued as a result of this sale under the Mineral Leasing Act (The Act) of 1920, as amended, the oral bidder must: (1) Be a citizen of the United States; an association (*including partnerships and trusts*) of such citizens; a municipality; or a corporation organized under the laws of the United States or of any State or Territory thereof; (2) Be in compliance with the acreage limitation requirements wherein the bidder's interests, direct and indirect, in oil and gas leases in the State identified do not exceed 246,080 acres each in public domain or acquired lands including acreage covered by this bid, of which not more than 200,000 acres are under options. If this bid is submitted for lands in Alaska, the bidder's holdings in each of the Alaska leasing districts do not exceed 300,000 acres, of which no more than 200,000 acres are under options in each district; (3) Be in compliance with Federal coal lease holdings as provided in sec. 2(a)2(A) of the Act; (4) Be in compliance with reclamation requirements for all Federal oil and gas holdings as required by sec. 17 of the Act; (5) Not be in violation of sec. 41 of the Act; and (6) Certify that all parties in this bid are in compliance with 43 CFR Groups 3000 and 3100 and the leasing authority cited herein.

For leases that may be issued as a result of this sale under the Geothermal Steam Act of 1970, as amended, the bidder must: (1) Be a citizen of the United States who is at least 18 years of age; an association of such citizens; a municipality; a corporation organized under the laws of the United States or of any State or Territory thereof; or a domestic governmental unit; and (2) Be in compliance with the acreage limitation requirements wherein the bidder's interests, direct and indirect, do not exceed 51,200 acres, and (3) Certify that all parties in this bid are in compliance with 43 CFR Group 3200 and the leasing authority cited herein.

For leases that may be issued as a result of this sale under the Department of the Interior Appropriations Act of 1981, the bidder must: (1) Be a citizen or national of the United States; an alien lawfully admitted for permanent residence; a private, public or municipal corporation organized under the laws of the United States or of any State or Territory thereof; an association of such citizens, nationals, resident aliens or private, public or municipal corporations; and (2) Certify that all parties in interest in this bid are in compliance with 43 CFR Part 3130 and the leasing authority cited herein.

NOTICES

The Privacy Act of 1974 and the regulation in 43 CFR 2.48(d) provide that you be furnished the following information in connection with information required by this bid for a Competitive Oil and Gas or Geothermal Resource Lease.

AUTHORITY: 30 U.S.C. 181 et seq.; 30 U.S.C. 351-359; 30 U.S.C. 1001-1025; 42 U.S.C. 6508

PRINCIPAL PURPOSE: The information is to be used to process your bid.

ROUTINE USES: (1) The adjudication of the bidder's rights to the resources for which this bid is made. (2) Documentation for public information. (3) Transfer to appropriate Federal agencies when comment or concurrence is required prior to granting a right in public lands or resources. (4)(5) Information from the record and/or the record will be transferred to appropriate Federal, State, local or foreign agencies, when relevant to civil, criminal or regulatory investigations or prosecutions.

EFFECT OF NOT PROVIDING INFORMATION: Disclosure of the information is voluntary. If all the information is not provided, your bid may be rejected.

EXHIBIT CO-34

Lease Number: COC78806

ENDANGERED SPECIES ACT SECTION 7 CONSULTATION STIPULATION

The lease area may now or hereafter contain plants, animals, or their habitats determined to be threatened, endangered, or other special status species. BLM may recommend modifications to exploration and development proposals to further its conservation and management objective to avoid BLM-approved activity that will contribute to a need to list such a species or their habitat. BLM may require modifications to or disapprove proposed activity that is likely to result in jeopardy to the continued existence of a proposed or listed threatened or endangered species or result in the destruction or adverse modification of a designated or proposed critical habitat. BLM will not approve any ground-disturbing activity that may affect any such species or critical habitat until it completes its obligations under applicable requirements of the Endangered Species Act as amended, 16 U.S.C. § 1531 et seq., including completion of any required procedure for conference or consultation.

On the lands described below:

ALL LANDS

EXHIBIT CO-39

Lease Number: COC78806

CONTROLLED SURFACE USE

This lease may be found to contain historic properties and/or resources protected under the National Historic Preservation Act (NHPA), American Indian Religious Freedom Act, Native American Graves Protection and Repatriation Act, E.O.13007, or other statutes and executive orders. The BLM will not approve any ground disturbing activities that may affect any such properties or resources until it completes its obligations under applicable requirements of the NHPA and other authorities. The BLM may require modification to exploration or development proposals to protect such properties, or disapprove any activity that is likely to result in adverse effects that cannot be successfully avoided, minimized or mitigated.

Any changes to this stipulation will be made in accordance with the land use plan and/or the regulatory provisions for such changes. (For guidance on the use of this stipulation, see BLM Manual 1624 and 3101 or FS Manual 1950 and 2820.)

On the lands described below:

ALL LANDS

EXHIBIT CO-56

Lease Number: COC78806

LEASE NOTICE

Due to potential air quality concerns, supplementary air quality analysis may be required for any proposed development of this lease. This may include preparing a comprehensive emissions inventory, performing air quality modeling, and initiating interagency consultation with affected land managers and air quality regulators to determine potential mitigation options for any predicted significant impacts from the proposed development. Potential mitigation may include limiting the time, place, and pace of any proposed development, as well as providing for the best air quality control technology and/or management practices necessary to achieve area-wide air resource protection objectives. Mitigation measures would be analyzed through the appropriate level of NEPA analysis to determine effectiveness, and will be required or implemented as a permit condition of approval (COA). At a minimum, all projects and permitted uses implemented under this lease will comply with all applicable National Ambient Air Quality Standards and ensure Air Quality Related Values are protected in nearby Class I or Sensitive Class II areas that are afforded additional air quality protection under the Clean Air Act (CAA).

On the lands described below:

ALL LANDS

EXHIBIT 3.3.1

Lease Number: COC78806

NO SURFACE OCCUPANCY

Southwestern Willow Flycatcher

Surface occupancy or use is subject to the following special operating constraints: Within 325 feet of the ordinary high water mark in mapped habitat.

For the purpose of: Prevent disruption of reproductive activity in mapped habitat.

Justification: The southwestern willow flycatcher is a federally designated endangered species with suitable breeding habitat within the planning area. Oil and gas activities have the potential to adversely affect the species.

Exceptions, modifications, and waivers would be considered for BLM leases.

On the lands described below:

ALL LANDS

EXHIBIT 3.10.2

Lease Number: COC78806

CONTROLLED SURFACE USE

Severe Winter Range, Winter Concentration and Mule Deer Critical Winter Range and Big Game Production Areas

Surface occupancy or use is subject to the following special operating constraints: In order to provide for healthy ungulate populations capable of meeting state population objectives, anthropomorphic activity and improvements should be designed to maintain and continue to provide effective habitat components that support critical life functions. This includes components of size and quality on the landscape providing connectivity to seasonal habitats (wildlife travel corridors), production areas, severe winter range, and winter concentration areas, along with other habitat components necessary to support herd viability.

For the purpose of: Protecting priority habitats such as winter concentration areas for big game in order to prevent abandonment of critical habitat, and to maintain reproductive success, recruitment, and survival.

Justification: There is a growing body of evidence that TL stipulations on oil and gas development activities are not adequate to protect critical winter habitat and migratory corridors for big game. Managing the concentration and development such as drilling, construction, and the density of surface facilities may be necessary to maintain big game populations in developing areas. Examples may include surface disturbance caps, collocation of facilities, and central gathering facilities, noise reduction, and efforts to minimize traffic and road densities. Routine production activities would be allowed, however workover activities should be handled on a case by case basis.

On the lands described below:

T.0430N., R.0150W., NMPM

Section 28: N2NW,S2N2;

EXHIBIT 3.10.3

Lease Number: COC78806

TIMING LIMITATION

Timing Limitation-Winter Range

No surface use is allowed during the following time period(s): In areas mapped as big game severe winter range, winter concentration areas, and mule deer critical winter habitat:

- Pronghorn antelope: December 1 through April 30
- Rocky Mountain bighorn sheep: November 1 through April 15
- Desert Bighorn Sheep: December 1 through April 15
- Mule Deer: December 1 through April 30
- Elk: December 1 through April 30

On the lands described below: Big game severe winter range, winter concentration areas, and mule deer critical winter range as defined by CPW and managing agency wildlife biologist.

For the purpose of: Protecting winter range to reduce behavioral disruption of big game during the winter season, which can result in mortality to the species.

Justifications: In order to reduce behavioral disruption during parturition and early young rearing period.

Exceptions, modifications, and waivers would be considered for BLM leases.

On the lands described below:

T.0430N., R.0150W., NMPM

Section 28: N2NW,S2N2;

EXHIBIT 3.11.1

Lease Number: COC78806

CONTROLLED SURFACE USE

Gunnison Prairie Dog

Surface occupancy or use is subject to the following special operating constraints: A survey of the lease area may be required to determine occupation of Gunnison prairie dog. Development of lease parcels that include prairie dog towns would require one or more of the following conservation measures prior to and during lease development:

- Develop a surface use plan of operations with the managing agencies that integrates and coordinates long-term lease development with measures necessary to minimize adverse impacts to prairie dog populations or their habitat.
- Abide by special daily and seasonal restrictions on construction, drilling, product transport, and service activities during the reproductive period (March 1–June 15).
- Incorporate special modifications to facility siting, design, construction, and operation, or NSO to minimize involvement of prairie dog burrow systems.

For the purpose of: Maintaining the integrity and extent of prairie dog complexes, and protecting high value wildlife habitat and recreation values associated with designated state wildlife areas.

Justification: Gunnison prairie dog is a designated sensitive species by the managing agencies and a keystone species for the ecosystem.

Exceptions, modifications, and waivers would be considered for BLM leases.

On the lands described below:

T.0430N., R.0150W., NMPM

Section 27: NENW,S2NW;

Parcel Stipulations (7986)

11/30/2017

Parcel: 7986

Stipulation	All Lands	Mer	Twp	Rge	Sec	Survey Type	Subdivision
CO-34	Yes						
CO-39	Yes						
CO-56	Yes						
3.10.2		23	0430N	0150W	28	A	N2NW, S2N2;
3.10.3		23	0430N	0150W	28	A	N2NW, S2N2;
3.11.1		23	0430N	0150W	27	A	NENW, S2NW;
3.3.1	Yes						