

Unless you choose to participate in the sharing of costs for drilling the well (a working interest), you will most likely be granted a simple royalty interest in production from the well (usually a one-eighth share of that portion allocated to your acreage). When forced pooling is granted, well operators are usually not granted any right to use or disturb the surface property of an unleased owner. If your interests are force pooled, you are not likely to receive annual lease rentals, signing bonuses or other considerations that the operator may have offered to other leased owners in the drilling unit. Rather than rely on the forced pooling process, landowners are encouraged to seek the advice of a qualified legal expert and engage in negotiations to establish mutually agreeable terms for the use of their land and the sharing of production from a successful well.



Role of the Division of Oil and Gas

The Division of Oil and Gas does not regulate private agreements between landowners and operators. However, we do require that a well owner or operator have a valid lease on all acres within a proposed drilling unit before issuing a permit. We also conduct hearings and make determinations on all forced pooling and well-spacing petitions submitted by operators.

The Division of Oil and Gas administers Indiana's laws governing the production of oil and natural gas. These laws regulate exploration and production operations, including well spacing, exploration, permitting, drilling, well completion, production, plugging, and abandonment operations; underground injection of fluids for enhanced oil recovery or for production fluid disposal; and the underground storage of natural gas or other petroleum products in underground formations.

Our staff reviews well-drilling permits, witnesses all well-plugging operations, conducts inspections throughout the life of a well, responds to citizen complaints and investigates all oil and produced water spills.

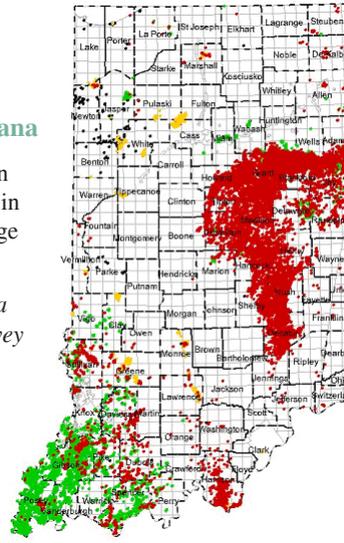
For more information about oil and gas in Indiana or the Division of Oil and Gas, see

www.dnr.IN.gov/dnroil

Oil and Gas Fields of Indiana

Gas wells shown in red, oil wells in green, gas storage wells in yellow.

Source: *Indiana Geological Survey*



INDIANA DEPARTMENT OF NATURAL RESOURCES

Division of Oil and Gas Indianapolis Office

402 W. Washington St., W293
Indianapolis, IN 46204

Herschel McDivitt, Director (hmcdivitt@dnr.IN.gov)

Jim AmRhein, Asst. Director, Inspections and Enforcement (jamrhein@dnr.IN.gov)

Mona Nemecek, Director of Technical Services, (mnemecek@dnr.IN.gov)

Mary Estrada, Manager of Orphaned and Abandoned Sites, (mestrada@dnr.IN.gov)

Phone: (317) 232-4055
Fax: (317) 232-1550
Web site: www.dnr.IN.gov/dnroil

Evansville Office
8215 Pollack Ave.
Evansville, IN 47715
Kevin York, Field Inspection Manager
(kyork@dnr.IN.gov)

Phone: (812) 853-8640
Fax: (812) 853-8648

DNR
Indiana Department of
Natural Resources

DNR
Indiana Department of
Natural Resources

Landowner Guide to Oil and Gas Leasing

Our Mission: Encouraging the responsible development of Indiana's oil and gas in a manner that is protective of public health and safety, and the environment



Drilling Rig at Sunset

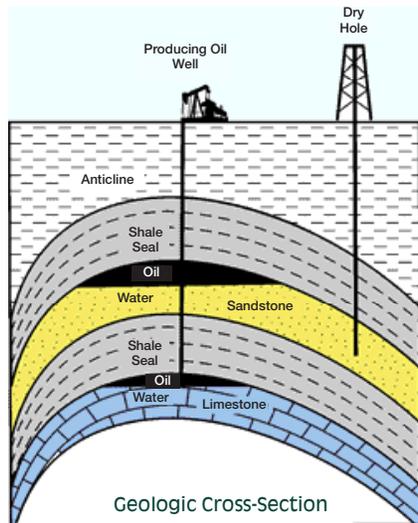


(317) 232-4055

www.dnr.IN.gov/dnroil

Introduction

Oil and natural gas are valuable commodities. Their presence beneath your land could mean extra income if you choose to grant a lease to an exploration company for development.



Exploration companies employ or contract with a professional called a "landman" to acquire leases of mineral rights to land with potential reserves of oil and natural gas. Not all landmen work for exploration companies.

You may have already been approached by a landman who has asked you to sign a lease that allows a company to drill in your property. If you are approached, it is important for you to consider not only the potential income you could receive as the owner of leased land, but also the risks and inconveniences you may encounter.

What is a Lease?

A lease is a legal document or contract between a landowner (lessor) and a company or individual (lessee) that grants exploration and development rights to subsurface oil and gas deposits.

Companies will usually present you with a pre-printed or standard lease form commonly used throughout the oil and gas industry. You should review it carefully and consult with an attorney or other professional who is experienced with oil and gas leases.

If there are terms or phrases you do not understand or if you have questions regarding lease payments, the nature of the proposed operations, any impacts they may have on your property, or any other matters relating to the lease, be sure to get those questions answered before signing the document. It's advisable to get all agreements and conditions in writing.

Entering into a lease agreement does not necessarily mean that a well will be drilled on your property.

Key Lease Terms

Cash Bonus - An upfront payment or bonus that may be computed on a per-acre basis for signing the lease. It is considered to be the first year's rent.

Primary Term - The period of time during which the lease will be in effect, in the absence of drilling, production, or other operations specified in the lease. The lease may be perpetuated beyond the primary term by production in paying quantities or by payment of Shut-In Royalty if specified in the lease. The primary term can be from one to 10 years or more.

Delay Rental - Annual rental payments paid to the lessor after the first year of the primary term, and before production in paying quantities, usually on a per-acre basis.

Secondary Term - The term of the lease in which the lease is held in force after expiration of the primary term. Production operations, continuous drilling, or shut-in payments are often used to extend the lease into its secondary term.

Royalty - A percentage share of the production or equivalent value derived from the production, which is granted to the lessor in the lease (usually one-eighth). Lessor royalty is free of the costs for drilling or production.

Shut-In Royalty - A payment usually stipulated in the oil and gas lease that royalty owners receive in lieu of actual production. This occurs when a well is shut-in due to lack of a suitable market, a lack of facilities to produce the product, or other cases defined within the shut-in provisions contained in the lease.



Termination - Occurs when the primary term expires or when economic production or shut-in royalty payments cease during the secondary term.

Other Things to Consider

Land disturbance from roads, drilling sites, and production facilities. The actual drilling of a well is a temporary activity involving a large amount of equipment similar to other construction projects. Be sure to consider how much of your land and which portions of it might be used for access, drilling, production, pipelines, tanks, compressors, and short or long term storage of equipment. Damages to timber, crops, fences, buildings and other personal property should also be considered. Ensure that you are appropriately compensated for any such impacts to your property.

Oil, gas or coalbed methane? Some companies may be primarily interested in drilling for oil while others may be looking to develop natural gas or coalbed methane. Others may be interested in developing any or all of these resources should they exist on your property. This will determine which type of facilities you might expect to be associated with the operations.

Forced pooling—Oil- and gas-well spacing and drilling unit requirements under state law are established to provide for: (1) the orderly and responsible development of oil and gas; and (2) to protect the rights and interests of all owners. As an owner of oil and gas, you have the right to: (1) participate, if you choose, in the sharing of the expenses and rewards resulting from drilling and operating a productive well within a drilling unit (including the risks associated with the drilling of a dry hole or an uneconomical well); or (2) otherwise receive your fair share of any production from a well drilled at the expense of others in the unit because the well is likely to drain oil or gas from beneath your property. For those rare instances where all of the oil and gas interests are unable to be leased by a person interested in drilling a well, Indiana law allows for the compulsory inclusion of those unleased interests into a drilling unit when that acreage is needed to form the required unit. This process is commonly referred to as forced pooling. Operators seeking to force pool unleased properties must have made a diligent and reasonable attempt to negotiate lease terms with unleased owners and demonstrate they have successfully leased the remaining acreage within the proposed drilling unit. Forced pooling is mandatory under the law with the sole objective of determining reasonable terms for the sharing of production from the well that are fair and equitable.