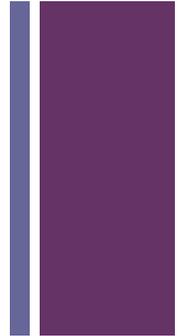
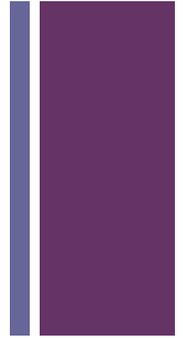


+ Spacing Order



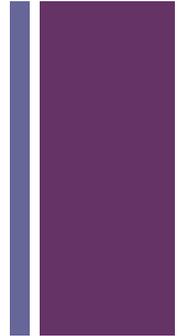
- 40-Acre spacing for all wells in Michigan.
 - They do allow numerous exceptions to this rule
 - For these exceptions you check the Department of Environmental Quality Website. (www.michigan.gov/deq)
 - They can be found by the township & formations.
 - You should get all of the orders covering your area
- There are numerous spacing orders for various formations (and depths).

+ Spacing Order



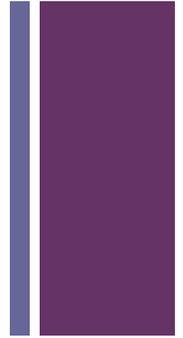
- **Antrim Shale** was originally spaced at one well per **40 acres**.
- But then they started to make changes.
 - 1983 - T30N R3W – one well per 160 acres
 - 1994 – Antrim one well per 80 acres.
 - Also set up the Uniform Spacing Pattern (USP)
 - This allowed pooling of 100s of acres into a single production unit
 - Permitted drilling of one well per 80 acres
 - No closer than 1320' or closer than 330' to the boundary of USP

+ State Leases



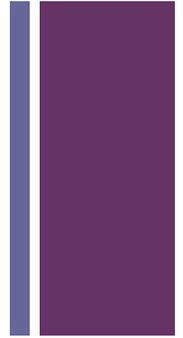
- Performance Bond – the lessee needs this based on the number of acres under the lease.
 - Minimum amount **\$2,000.00** – (subject to change)
 - **Certificate of Deposit** – done in the name of the State of Michigan
 - Allows the company the option of being paid the interest.
 - D/O Analyst lets the state know the interest should be paid to the company
 - Bank with the CD pays the state
 - State pays the lessee

+ State Leases



- Form Assignment required
 - Fee charged for approval of state assignments
 - The change these forms frequently so make sure you always check to make sure you have the most current version
 - Assignee has the obligation for performance under the lease.
 - Need a lease bond for approval of assignment

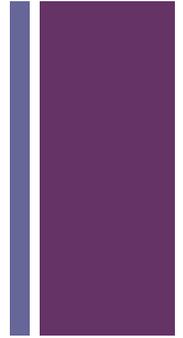
+ Pooling & Unitization



■ State Lease

- form is **found online**. (www.michigan.gov/dnr)
- It allows operator to pool into a spaced unit but not larger
- Operator must ratify or sign the pooling agreement if the production unit is larger than a spaced unit.
- The state lease form has been changed many times so make sure you read each of them.
- If you are unclear with any provisions you should contact the state for them to clarify.
- They are very particular as to how they should be interpreted.
- They also require certain language in any pooling or unitization agreement they are involved in.

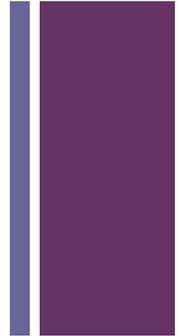
+ Pooling & Unitization



■ Private Leases

- Leases are pooled not lands
 - Leases describe the lands
 - Pooling or unitization agreement describes the area being pooled
 - Unitization agreement maps – show lands that parties with interest are bound, by agreement, to share investment cost & revenues within the defined boundary.
 - Units can be created by convention or by order of the State's Supervisor of Wells.
 - Compulsory pooled unit – unit formed by order

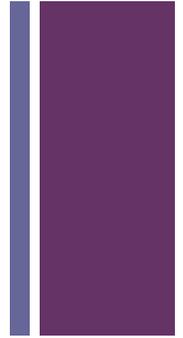
+ Shut in wells



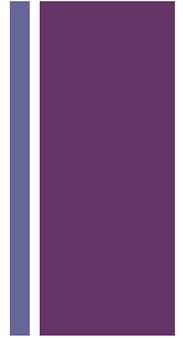
- **Oil wells** – older private leases almost never have shut in provision. No shut in payment can be made to extend lease.
- **Gas wells** – can shut in and make payments to extend lease.
- You should always go and check the lease form to see what the state classified it as. (oil well, gas well, or gas well that produces oil).
 - Must be confirmed by:
 - Michigan Public Service Commission (MPSC)
 - Michigan Department of Environmental Quality.

+ Shut in wells

- If classified as an oil well – remember most old lease forms don't allow for shut in.
 - But usually allows for 60 to 120 days of rework or redrill but then needs to be put back in production.
 - Force Majeure – can be used a short term possibility
 - Check with your legal department for options to avoid losing the lease and maybe well.

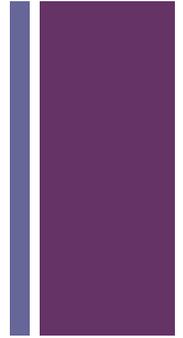


+ Compulsory Pooling



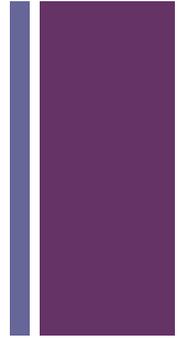
- Unleased interest within the spaced unit is subject to compulsory pooling
 - Done upon request to MDEQ
- Wells can't be drilled on unleased interest even if the request for compulsory pooling is approved
- State has specific provisions
 - You should have a Michigan title attorney review

+ Compulsory Pooling



- Division Order Analyst
 - documents the attempts to lease.
 - Always be nice to land owner as they attend hearing and can complain.
 - Must file an affidavit regarding contacts with the holdout party when requesting a hearing.
 - Affidavit of enumerating – the parties are notified of the hearing

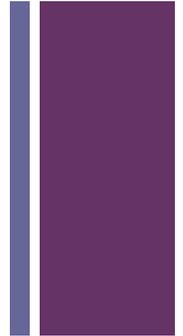
+ Compulsory Pooling



■ Final Order

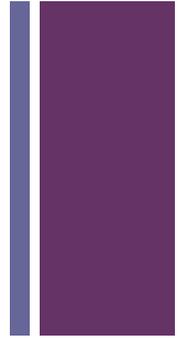
- Takes 6 to 12 months to receive
- 30-day time period runs for party being pooled to respond to the election
 - Choices
 - Join the unit by signing a lease
 - Do nothing and be considered pooled
 - If they don't want to join the unit the state gives them **1/8 royalty** (to be paid immediately with other owners)
 - Operator gets a contribution for costs for drilling, completion, and operational cost until recovers cost.

+ Division Orders & Revenue



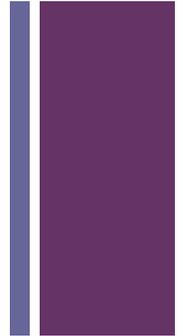
- State of Michigan will **NOT** sign division orders
- You can send a division order to them for their records
- If they agree with your calculations you will receive a letter.
- If you would rather you can send a letter including
 - Well name
 - Unit description
 - Owner number
 - Calculation
 - Interest

+ Michigan Dormant Mineral Act



- Passed in 1963
- Parties would reserve oil, gas & mineral rights but couldn't be found
 - Which caused producers issues since they couldn't drill if they couldn't lease the entire interest within the production unit.
- Only covers oil and gas
- Not hard minerals (coal, sand & gravel)

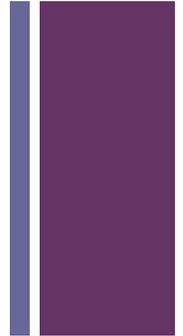
+ Michigan Dormant Mineral Act



■ Provision

- No activity on a severed mineral tract in a 20-year period
 - Oil & Gas went dormant
 - Reverts to the surface owner.
- Ways the owner can have the time start over
 - Recorded:
 - Leasing the property
 - Competing a sale
 - Mortgage or transfer of interest of record
 - Reserving or claiming the interest
 - Unrecorded:
 - Drilling permit
 - Withdrawing oil & gas
 - Storing gas underground

+ Michigan Dormant Mineral Act

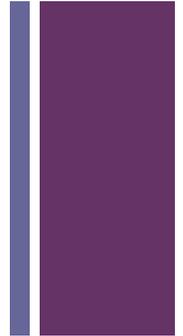


- Claim of Interest
 - Describe land

- Act was amended 2006 & 2007
 - New provisions on severed interest
 - Can toll his or her interest every 20 years
 - Prevents tax foreclosure
 - Claim of Interest required every 20 years
 - Even if there is an active tract and is held by production and receiving royalty payments.

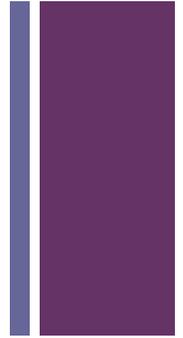
+ Tax Foreclosures on Severed Minerals

- If owner fails to pay real estate taxes and state forecloses on them.
 - State takes oil, gas and mineral rights
 - Extinguishes the existing oil & gas lease (even if it is being paid royalties)
 - State demands lessee/operator to buy a lease from them (usually at a higher royalty rate)
 - State gets paid

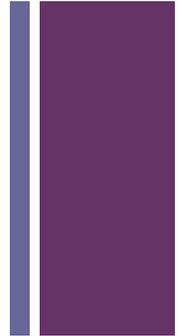


+ Tax Foreclosures on Severed Minerals

- State felt
 - the owner should be responsible and pay tax payments.
 - Severed mineral owners should have seen the notice in the newspaper (this can be an issue when they could live in another state).
 - They could have paid the surface owners taxes for them.



+ Tax Foreclosures on Severed Minerals

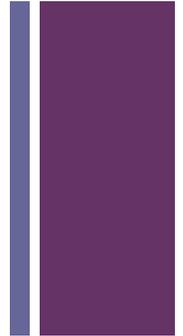


- **Comben v. State** –
 - Brought by Antrim County Treasurer – Sherrie Comben
 - Circuit ruled –
 - State had stolen the oil, gas & mineral interests through this bogus notice concept and had to give those rights back along with any royalty they were paid
 - Supreme Court vacated (reversed) the decision for technical reasons

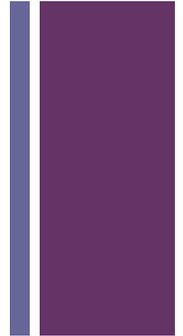
- Blackstone v State –
 - Class-action
 - Sought damages for theft of private property without the opportunity for a hearing.
 - Settled
 - State now:
 - For any tax foreclosures that took place after 1976
 - They would reassign the oil, gas and minerals to the severed owner
 - Few caveats
 - Making sure the minerals weren't dominant
 - Before 1976
 - Won't hear anything on this because of statute of limitations

+ Tax Foreclosures on Severed Minerals

- State – changed the Dormant Mineral Act – to try to protect them
- Attorneys –
 - Unclear if filing a notice ever 20 years protects losing the lease because of tax foreclosure sale
 - Need to look at title when leases are bought at state lease sale
 - Title needs to clarify whether the leased tract was pre or post 1976 foreclosure property or a fee purchase
 - Fee – state will issue the lease
 - Questioned – lease might not be issued.
 - If determined the state did not have ownership of the oil, gas & mineral they leases – money returned.

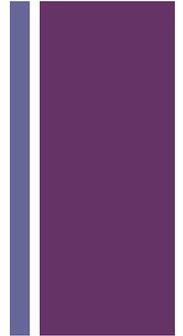


+ Leasing Trust



- Conveyances into and out of a trust
 - Grantor –
 - John Doe, Trustee of the John Doe Revocable Trust dated Month XX, 20XX
 - John Doe and Susan Roe, Co-Trustees of the Burton J Doe Family Trust dated Month XX, 20XX
 - Grantee –
 - John Doe, Trustee of the John Doe Revocable Trust dated Month XX, 20XX
 - John Doe and Susan Roe, Co-Trustees of the Burton J Doe Family Trust dated Month XX, 20XX
 - Certificate of Trust Existence
 - Michigan Land Title Standard 8.3
 - Affidavit
 - Can be requested from the company sending out Division Order to verify they are the authorized party.

+ Titles



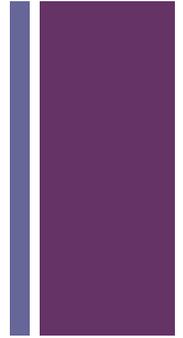
■ **Married Women**

- Can hold title in their own names
 - it is their sole and separate property
 - If she is married, her husband does not need to execute a sale or transfer.
 - The woman's marital status does not need to be listed.

■ **Married Men**

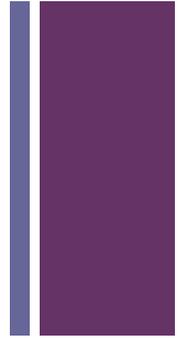
- Need to have their wives execute a sale or transfer because the wife has a dower interest
 - Unless she is a voluntary non-resident of the state
- Is marital status must be indicated
- If lessee
 - He can sell without wife because looked as personal and not real property. But wife should sign D/O, deed or royalty conveyance to release potential downer interest.

+ Titles



- Title can be held as:
 - Joint Tenants – full right of survivorship
 - Tenants by entireties – like Joint Tenants – used for married couples
 - Tenants in common – assumed automatically if it is not indicated
 - Parties have an undivided interest
 - If one dies – it goes to their heirs

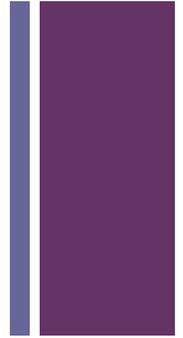
+ Post-production costs



- State lease forms:
 - Always review as the change

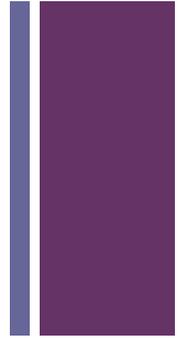
- **Private lease forms:**
 - **Will include a definition of post-production cost.**
 - Statutorily required
 - Ensures the lessor understands post-production cost deductions from royalty check
 - Cost
 - Used for natural gas
 - **Gas not purchased** at *wellhead*
 - Have to calculate or deduct –transportation and treating rates between well head and point of sale.
 - Point of sale in Antrim Shale – tailgate of a Merit Energy Plat in Kakaska, Michigan
 - **Oil and Natural** gas **purchased** at the wellhead
 - **Post-Production** costs usually **do not come into play** – just the net price

+ Riparian rights



- Lake front ownership –
 - Ownership **extends to the centerline of the adjoining lake.**
 - Some leases will include granting rights.
 - Map can be requested on the DOTO to determine rights
 - This can be a large amount of land and will be included in the production unit acres.
 - DOTO will require signatures of all involved prior to releasing the money to them.
 - In case someone feels cheated.
 - Some will state the court needs to figure out interest (most companies don't go to this expense).

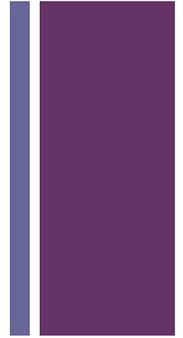
+ Descent & distribution in Michigan



- Dies intestate –
 - Succession is very fact specific
 - Involves the surviving **spouse and children**
 - Complicating factors:
 - Residency
 - Amount or size of estate
 - Cost of living allowance for surviving spouse
 - Property exemptions

- Dies Testate –
 - Attorney should probate will
 - Court follows

+ Escheatment of royalty payments



- **Does have** escheatment rules
 - Under the **Uniform Unclaimed Property Act**
- Before sending to state:
 - Investigate to locate siblings or other heirs
 - Michigan attorney can determine current status of escheating royalty if owner not found.
 - Michigan Department of Environmental Quality – has many resources that can help you as an Analyst.
 - “Who does what list”