

NEW YORK STATE DEPARTMENT OF ENVIRONMENTAL CONSERVATION
Revenue Competitive Contract - Oil and Gas Lease
CONTRACT _____(number)_____

This Lease entered into between the NEW YORK STATE DEPARTMENT OF ENVIRONMENTAL CONSERVATION (hereinafter referred to as the Department), with offices at 625 Broadway-3rd Floor, Albany, New York 12233, and (Name of Contractor) (hereinafter referred to as the Lessee), with offices at (Address of Contractor)

WITNESSTH:

WHEREAS the Department has jurisdiction over and is responsible for the protection of the environmental resources of the State; and

WHEREAS the need for this Lease has been identified and falls under the jurisdiction of the Department;

NOW, THEREFORE, in consideration of the mutual promises contained herein, the parties agree as follows:

ARTICLE 1: The scope of this Lease is as defined in Article 2 of the Invitation for Bid (IFB).

ARTICLE 2: The total Lease amount for the first year of the Primary Term is \$ (to be expressed as a dollar amount or percentage) as stated in Schedule 2, the Bid Form, submitted by the Lessee. The schedule for further payments is defined in Schedule 1, the IFB and Article 5 of this Lease. The Lessee shall make check(s) payable to the New York State Department of Environmental Conservation and forward the check(s) to the Department's contact person named in ARTICLE 6.

The Department, for and in consideration of the bonus payment of _____ Dollars (\$ _____) which represents _____ Dollars (\$ _____) per acre, the sums, royalties, covenants, stipulations and conditions hereinafter contained and hereby agreed to be paid, observed and performed by the Lessee, does hereby demise, grant, lease and let unto the Lessee all the oil deposits and natural gas, in or under all that tract or parcel of the following described land situate in _____ County(s),

_____, to wit: _____

containing _____ (_____) acres more or less, hereinafter referred to as the "Property".

All sums due the Department under this Lease shall be a first lien on the implements,

tools, and movable machinery or personal chattels used in operating the Property, and also upon all the unsold Oil and/or Gas obtained from the Property as security for the payment of said sums.

ARTICLE 3: The term of this Lease shall be from month, date, year to month, date, year. The Lease shall be effective upon approval by the Office of the State Comptroller, if the Lease amount exceeds \$10,000. This Lease may be amended and/or extended as defined in Schedule 1, the IFB, upon the mutual written consent of both parties and approval by the Office of the State Comptroller, if the Lease amount exceeds \$10,000.

Subject to the other provisions herein contained, this Lease shall become effective for a term of five years from the date this Lease is approved by the Comptroller of the State of New York, hereinafter referred to as the "Primary Term" and for an additional term thereafter for as long as oil or natural gas is or can be produced from the Property in commercially paying quantities, hereinafter referred to as the "Secondary Term".

ARTICLE 4: This Lease consists of the following documents in the following order of precedence:

1. Appendix A
2. Appendix B
3. The Lease (including Appendix C, schedules, attachments, performance bond, if applicable)
4. Price Bid Form
5. The Invitation for Bid

ARTICLE 5:

A. The Lessee covenants and agrees that during the Primary and Secondary Terms:

1. Lessee shall pay to the Department, as royalty, a sum equal to the value, at the field price per barrel, of one-eighth (1/8) part of all oil, distillate, condensate, natural gasoline or other liquid hydrocarbons, hereinafter referred to as "Oil", measured at the wellhead, produced from the Property and delivered into the pipeline or storage tanks to which the well is connected, without deduction for exploration, production, operation or other costs of Lessee, the field price being that which prevails in that area on the day the Oil is delivered into the pipeline or storage tanks. Payments or royalty for oil marketed during any calendar month are to be made on or about the 30th day of the following month.

2. Lessee shall pay to the Department, as royalty, a sum equal to one-eighth (1/8) of the Lease price of all natural gas, casinghead gas or other gaseous substance, hereinafter referred to as "Gas", produced from the Property, measured at the wellhead on the date delivered to the purchaser of the Gas and sold or used off the Property or used in the manufacturing of gasoline or other products therefrom, without deduction for exploration, production, operation or other costs of Lessee. Payments or royalty for gas

marketed during any calendar month are to be made on or about the 30th day of the following month.

3. Where the royalties payable under subparagraphs (a) and (b) above do not in any year equal or exceed the sum of five dollars (\$5.00) per acre of the Property per year, Lessee shall pay to the Department with respect to such year an amount equal to such sum.

4. Lessee shall pay Department an Annual Delay Rental in accordance with the provisions detailed in Article 5B of the Lease. The bonus payment is the first year's Annual Delay Rental payment.

These payments shall be remitted not less frequently than once per year nor more frequently than once per month and shall be accompanied by a sworn statement of the Lessee, its manager or other authorized agent in such form as may be prescribed by the Department which shall provide an itemized accounting of Oil and/or Gas produced from each well, the gross amounts of Oil and/or Gas produced since the last report, the market value of Oil on the applicable delivery dates and the Lease price of Gas during the applicable Lease periods. The schedule for these payments shall be established at the applicable time and shall be subject to annual revision. Copies of current and applicable gas sales Leases shall be provided to Department for its files as they are entered into.

For each producing well completed on the Property, Lessee shall install and properly maintain, at its expense, adequate and correct meters for the purpose of measuring, recording and reporting all hydrocarbons produced and sold off the Property.

B. If operations for drilling are not commenced on the Property on or before one year after the effective date of this lease, this Lease shall then terminate as to both parties, unless on or before that date Lessee shall pay to Department the sum of five dollars (\$5.00) per acre of the Property for the second year and for each remaining year of the Primary Term, hereinafter referred to as the "Annual Delay Rental", which shall permit the operator to defer commencement of drilling operations for successive periods of twelve (12) months each during the life of the Primary Term. The payment of Annual Delay Rental shall be mailed or delivered to Department on or before one year after the effective date of this lease or any anniversary thereof, hereinafter referred to as the "Annual Delay Rental payment date." Drilling operations herein shall be deemed to be commenced when a new well is "spudded in" or an existing well is re-entered for workover, deepening or plugging back in a continuous effort to reestablish production or obtain new production of oil or gas. Lessee may, at any time, upon 30 days written notice to Department and subject to Department's approval, execute and deliver to Department a release or releases covering any portion or portions of the Property and thereby surrender this Lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered, and thereafter, if such surrender be within the Primary Term, the Annual Delay Rentals payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

C. If, after operations have commenced but prior to discovery of Oil or Gas on the Property, Lessee drills a dry hole thereon or if, after discovery of Oil or Gas, the production thereof ceases for any reason, other than from one or more of the causes set forth in Appendix B

XVI, this Lease shall terminate as to both parties unless Lessee commences additional drilling or reworking operations within ninety (90) days after completion of such dry hole or cessation or production or commences or resumes the payment of Annual Delay Rental on the next succeeding Annual Delay Rental payment date.

D. If, at the expiration of the Primary Term, Oil or Gas is not being produced on the Property, this Lease shall terminate, but if Lessee is then engaged in maintenance drilling or redrilling operations thereon, this Lease shall remain in effect so long as any drilling or redrilling operations are prosecuted on the Property, with no interval of more than ninety (90) consecutive days during which no drilling or redrilling operations are conducted on the Property and, if such operations result in the continued production of Oil or Gas, so long thereafter as Oil or Gas in commercially paying quantities is produced from the Property.

E. All tools, derricks, boilers, boiler houses, buildings, pipelines, pumping and drilling equipment, tanks, engines and machinery, and the casing of all dry or exhausted wells, shall remain the property of the Lessee, and shall be removed at any time prior to or within ninety (90) days after termination of the Lease. Lessee shall not permit any nuisance to be maintained on the Property. Lessee shall not use the Property for any purpose other than those authorized in the Lease, and before abandoning any well, Lessee shall securely plug the same in accordance with the rules and regulations of the Department.

F. The Lessee agrees not to assign, transfer or convey, sublet or otherwise dispose of this Lease or any of its contents or of its rights, title or interest therein or of its power to execute the Lease to any other person, company or corporation without the previous consent in writing of the Department. With the written consent of the Department, the rights of Lessee hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, successors and assigns of Lessee, but no change or divisions in ownership of the Property, rentals or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee. Should Lessee assign this Lease in whole or in part with the approval of Department, Department may, as to the part assigned, look solely to the assignee for the performance of all duties and obligations hereunder, whether express or implied.

ARTICLE 6: Wherever it is provided in this Lease that notice shall be given or other communications sent to the Department or the Lessee, such notices or communications shall be delivered or sent by first class mail to:

Charles Gilchrist
Chief, Enforcement Section
Department of Environmental Conservation
Division of Mineral Resources
625 Broadway, 3rd Floor
Albany, NY 12233-6500

ARTICLE 7:

A. After the occurrence of either of the following events on the Property:

- the siting, drilling, completion or abandonment of three wells on the Property by the Lessee, its successors, heirs or assigns; or
- the discovery on the Property of producible Oil or Gas, and

prior to the siting of any additional well locations on the Property, Lessee shall develop a well siting plan to be approved by the Department in writing. In discharging this obligation, Lessee shall plan and conduct its operations in such a manner as will minimize surface disturbance of the Property; prevent waste; and fully protect the correlative rights of all owners and the rights of all persons, including landowners and the general public. Well spacing shall be consistent with the statutory requirements of Article 23 of the Environmental Conservation Law and its attendant regulations or any lawful spacing order issued thereunder by the Department.

B. Lessee, at its option, and upon complete disclosure to and approval thereof by the Department of the joint agreement and plan, is hereby granted the right to unitize the acreage or any portion thereof covered by this Lease as to Oil and Gas, or either of them, contiguously with other land, lease or leases in the immediate vicinity thereof to the extent hereinafter provided, when in Lessee's judgment it is necessary or advisable to do so in order to properly prospect, develop and operate the Property in compliance with the spacing rules of Department or when to do so would, in the judgment of Lessee, promote the conservation of Oil and Gas or either of them. Lessee under the provisions hereof may unitize acreage or any portion thereof covered by this Lease as above provided as to Oil in any one or more strata and as to Gas in any one or more strata. Units formed as to different strata need not conform in size or boundaries. The creation of units in one or more instances shall not exhaust the rights of the Lessee hereunder to unitize this Lease or portions thereof into other units. Lessee shall execute and deliver to Department and file or record an instrument describing and designating the unit. Operations for drilling on or production of Oil or Gas from any part of a unit embracing all or part of the Property, regardless of whether such operations for drilling were commenced or such production was secured before or after the execution of the instrument designating the unit, shall be considered as operations from drilling on or production of Oil or Gas from the Property irrespective of whether the well or wells be located on the Property, and the entire acreage constituting such unit or units, as to Oil and/or Gas as herein provided, shall be treated for all purposes, except the payment of rentals and the payment of royalties on production from the unit, as if the same were included in this Lease. For the purpose of computing all royalties payable hereunder on Oil and/or Gas produced and saved from the unit, there shall be allocated to the Property and included in said unit a fractional portion of the Oil and/or Gas produced and saved from the unit after deducting that used for operations on the unit, such fraction to have as its numerator the number of surface acres constituting the Property and included in said unit and as its denominator the number of surface acres included in the unit. Royalties hereunder shall be computed on the portion of such production, whether it be Oil and/or Gas, so allocated to the Property and included in the unit, just as though such production were from the Property. The creation of a unit or units shall not have the effect of changing the ownership of the Property or the amount of rental which may become payable under this Lease. A unit may be dissolved by Lessee at any time when there is not a unit well thereon producing or capable of producing Oil and/or Gas in paying quantities.

ARTICLE 8: The Lessee shall carry on the development and operations in a professional

manner, commit no waste on the Property and suffer none to be committed hereon, exercise proper care of the Property, and promptly surrender and return the Property upon termination of this Lease to the Department in a condition that in so far as possible is the same as at the commencement of this Lease, excepting natural changes.

ARTICLE 9: The Lessee shall keep an accurate account of all drilling operations. Accurate and reliable information concerning all wells and their production, operation, and management shall be furnished to Department upon demand. The said Lessee shall also keep an accurate account showing the sales, prices, dates, purchases and whole amount of Oil and/or Gas produced. The Department and the Comptroller of the State of New York or any of their duly authorized representatives shall have access to any of the Lessee's books, documents, papers and records directly pertinent to the subject matter of this Lease for the purpose of making audits, examination, excerpts or transcripts.

ARTICLE 10: This Lease is not, in and of itself, an authorization to drill. Issuance of drilling permits for specific locations are subject to separate application to and approval by the Department of Environmental Conservation pursuant to the policies and provisions of the Environmental Conservation Law.

A. In all activities of exploration, prospecting, extraction, piping, removal and other occupation and use of the Property, the Lessee shall be subject to the direction and control of the Department in so far as may be necessary to achieve compliance with the policies and provisions of the Environmental Conservation Law, as from time to time may be in effect, and rules and regulations issued thereunder. All work associated with prospecting for oil and gas, the drilling of wells and the laying of pipes shall be approved by the Department in writing in order to minimize damage to the natural resources contained in the Property. Prior to the drilling of any well by Lessee, the Department or its representative shall, upon application of the Lessee, designate the location of such well, the area to be occupied surrounding the well location and the rights-of-way necessary for ingress and egress to such well and for pipes necessary to be used for the purpose of conveying Oil and/or Gas from such location and for conducting water necessary in the operation of such well. Access to the property may be limited or restricted by the Department during periods of wet weather and muddy conditions. The Department shall similarly designate such rights-of-way as may be necessary to convey Oil and/or Gas across the Property from land adjacent thereto owned by or leased by the Lessee. Such rights-of-way, to be used by the Lessee during the life of the Lease only, and no longer, shall be maintained, to satisfaction of Department, in good operable condition pursuant to Department's Minimum Road Construction Standards and Minimum Maintenance Standards for the Development of Oil and Gas Resources on State Forest Lands (May, 2000) attached, hereto identified as Appendix C.

B. Notwithstanding forfeiture, termination or expiration of this lease, the Lessee shall be responsible for restoration of damaged areas in a manner approved by the Department. The Lessee shall also be liable to the Department for all damage or loss to the Department in the remainder of the Property including, but not limited to, the remaining trees growing thereon, the improvements thereupon and the appurtenances and hereditament thereunto belonging, by reason of the Oil and/or Gas drilling operations hereunder, including all damages that may be caused the Department by fires on the Property, if started by the Lessee or its agents or employees whether

the same be done willfully or carelessly or accidentally. The Lessee further agrees to pay for all such damage within ten (10) days after the amount thereof is determined by the Department. The Lessee covenants and agrees to take such precautions against setting fire to the Property or trees thereon as the Department may require, and shall prevent the contamination of water in any manner whatsoever. The Department shall be the sole judge as to whether any such contamination is occurring or adequate precautions are being taken. The Lessee shall further permit the full force of its employees to assist in any endeavor to extinguish all fires endangering forest or woodland burning on or within a reasonable distance of the Property which may be started from any cause whatsoever.

C. In furtherance of the obligations of Lessee under this Lease, but not by way of limitation of such obligations, Lessee hereby agrees to observe the following conditions incident to any planned exploration, drilling or extraction activities on the Property:

1. The Lessee shall notify the Department at least thirty (30) days prior to entry upon the Property and shall obtain written permission before such entry unless the Lessee can demonstrate that such thirty-day period creates an undue hardship, but under no conditions shall the Lessee enter the Property without prior approval by Department.
2. Lessee shall prior to making any disturbance to the Property apply for and obtain from Department a permit which may prescribe certain specific conditions required to protect the Property, including fish, wildlife, plant, land, air, water and recreational resources, and which may limit access to or disturbance of certain areas of the Property which, in the judgement of Department, should not be disturbed. In furtherance of this objective, Lessee shall maintain a copy of this Lease on each drill site at all times for reference and use by its employees, and shall further provide a copy of this contract to each of its subLessees and advise them of their obligations under its terms. The application for the permit shall be accompanied by such plans, maps or other information as the Department may require.
3. When it is deemed necessary in the judgment of Department, prior to any ground disturbing activities and approval for drilling, Lessee will conduct a Stage 1 archaeological survey on the proposed disturbed area(s). After the survey is completed, conditions of approval will be formulated, if necessary, to mitigate any adverse impacts upon archaeological resources.
4. Prior to the approval of drilling an examination will be performed by the Lessee to determine if any State or Federal listed threatened or endangered species are present. After the survey is completed, conditions of approval will be formulated, if necessary, to mitigate any adverse impacts upon threatened or endangered species.
5. All access roads to drilling sites and all pipelines shall be constructed and subsequently maintained on routes selected and designated by the Department and in a manner approved by Department.
6. No trees shall be cut on the Property without the express prior approval of the Department. All trees, brush and vegetation cut during the clearing operations shall be cut as close to the ground as practicable, but not higher than three (3) inches above the ground. All marketable forest products over four (4) inches in diameter resulting from the clearing operations shall be cut to specified lengths of not less than eight (8) feet and shall be transported to and piled at points designated by the Department. All

unmarketable woody material resulting from the clearing operation shall be toplogged, chipped or buried or removed from the Property, as the Department may direct. The Lessee shall reimburse the Department for the fair market value based on appraisals prepared by the Department for all marketable forest products removed in the clearing operations but not delivered to Department and for any other damage to the Property by the actions of the Lessee.

7. Lessee shall not damage existing boundary line or property corner markers; in the event that any such damage does occur, the Lessee shall bear the full cost of resurvey and marking.
8. No occupancy or other surface disturbance will be allowed within 250 feet of any waterbody (streams, lakes, etc.). This distance may be modified when specifically approved in writing by an authorized officer of the Department.
9. No occupancy or other surface disturbance is allowed in any wetlands without written approval from the authorized officer of the Department.
10. No occupancy or surface disturbance on slopes exceeding 15 percent without specific approval of the authorized officer of the Department.
11. Erosion control devices shall be constructed where necessary in the judgment of Department to prevent soil erosion, and shall be constructed and/or installed to the satisfaction of the Department.
12. Department may inspect any works, structures, operations, equipment, materials or other possessions or activities of Lessee at any time.
13. At all times, Lessee shall maintain the property in a neat and orderly condition and shall not permit surplus equipment, material or debris to be stored or to accumulate on the property.
14. For areas in which unproductive test wells have been drilled or in which producing wells have been taken out of production, all access roads thereto shall be returned as nearly as possible to their original condition. At the conclusion of drilling and/or production operations, all nonessential equipment, material and debris shall be removed from the site and the site shall be restored according to a plan approved in advance by the Department.
15. Department, at its discretion, may require, or, upon application of Lessee, may approve the installation of Department approved gates on access roads of Lessee when and where they are deemed necessary.
16. Any and all storage tanks installed on the property shall be diked to 150 percent of their capacity. Lessee shall be responsible for prompt removal of any and all fluid accumulations.
17. Approvals under this paragraph shall be secured from Department's Regional Supervisor of Natural Resources or his/her designated agent in the Region in which the Property is located.

ARTICLE 11: This Lease shall be subject to the Constitution and laws of the State of New York and the applicable rules and regulations of the Department now or hereafter in force all of which are made a part and condition of this Lease; provided however, that no rules or regulations made after the execution of this Lease affecting either the length of the term hereof or the rate or royalty, or payment hereunder, shall operate to affect the terms and conditions of this Lease pertaining to the term hereof or royalties or other payments hereunder.

ARTICLE 12: In the event that Lessee fails to comply with any provision of this Lease, notwithstanding the provisions of Appendix B, paragraph I thereof, the Department may terminate this Lease at any time upon fifteen (15) days written notice. In the event of termination, Lessee shall cease work upon the expiration of such fifteen (15) day period, or such other period as the Department shall specify. The Lessee may at any time hereafter surrender and wholly terminate this Lease upon payment of any sums due hereunder, and may exercise such right by executing and delivering to Department a release covering the above-described premises.

IF THIS LEASE BECOMES FORFEITED, TERMINATED OR EXPIRES, THE LESSEE, OR IF THE LEASE HAS BEEN ASSIGNED, THE ASSIGNEE, IS REQUIRED TO PROVIDE A DOCUMENT CANCELING THE LEASE AS OF RECORD, AT NO COST TO THE CURRENT LANDOWNER. IF THE LESSEE OR ASSIGNEE FAILS TO CANCEL THE LEASE, THE CURRENT LANDOWNER MAY COMPEL A CANCELLATION PURSUANT TO SECTION 15-304 OF THE GENERAL OBLIGATIONS LAW.

ARTICLE 13: The Department shall continue to have the full right to administer, control, manage, protect, maintain, develop and utilize the Property, and the natural resources thereof other than Oil and Gas, as though this Lease had not been made; but in so doing will, in so far as practicable, avoid doing any damage to any of the structures or equipment of the Lessee.

ARTICLE 14: It is hereby fully and mutually understood and agreed that no rights are granted in this Lease which shall be in any way so construed as to impair the powers or duties of the Department or its representatives in the execution of the Environmental Conservation Law of the State of New York.

ARTICLE 15: SPECIAL CONDITIONS (If none adopted, enter NONE).

Department Contact:

Charles Gilchrist
NYS Department of Environmental Conservation
Division of Mineral Resources
625 Broadway, 3rd Floor
Albany, New York 12233-6500

Lessee:

Name: _____

Title: _____

Address: _____

Federal Identification No. _____

SIGNATURE PAGE

Contract (Number)

Agency Certification:

"In addition to the acceptance of this Lease, I also certify that original copies of this signature page will be attached to all other exact copies of this Lease."

LESSEE SIGNATURE:

AGENCY SIGNATURE:

DATED: _____

DATED: _____

ATTORNEY GENERAL'S
SIGNATURE:

COMPTROLLER'S SIGNATURE:

DATED: _____

DATED: _____

STATE OF NEW YORK)
) ss.:
COUNTY OF ALBANY)

On this _____ day of _____, 20____, before me, the subscriber personally appeared _____ to me known to be a _____ of the Department of Environmental Conservation of the State of New York and he duly acknowledged that he executed the same as such for and in behalf of The People of the State of New York.

NOTARY PUBLIC