

CRITERIA FOR WAIVER OF LIQUIDATED DAMAGES FOR
THE LATE RELEASE OF A STATE MINERAL LEASE

AUTHORITY TO ASSESS LIQUIDATED DAMAGES

The State mineral lease form requires that within 90 days (or 30 days depending on the lease form) after expiration or termination of the lease, or any portion thereof, the Lessee shall execute and record an appropriate release evidencing such expiration or termination. Lessee shall pay Lessor liquidated damages of \$100.00 per day for each day of non-compliance. However the Board has the authority to waive all or a portion of the liquidated damages which may be assessed pursuant to the terms of the lease.

The Board has adopted the following criteria for waiver of liquidated damages:

A. FIRST INFRACTION:

Complete waiver of the entire assessment.

B. SUBSEQUENT INFRACTIONS

1. Determine the percentage of total acreage that was released late.

$$\frac{\text{Amount of acreage released late}}{\text{Total leased acreage}} = X$$

Multiply that amount by the liquidated damage assessment or the original lease bonus amount, whichever is less, to reduce further.

2. The number of prior infractions may or may not determine further reduction.
- a. 1 to 3 past infractions, assessment will be reduced by an additional 50%.
 - b. 4 or 5 infractions, assessment will be reduced by an additional 25%.
 - c. If more than 5 infractions, no further reduction of any kind will be granted.
3. If less than 5 infractions, a further reduction of assessment as follows may be determined:

If release was:

- a. 1 - 30 days late - reduce by 50%
- b. 31 - 90 days late - reduce by 30%
- c. 91 - 180 days late - reduce by 10%

The Mineral Board may waive the entirety or a further portion of the liquidated damage assessment for cause, or, if the circumstances of the late release demonstrate misconduct or bad faith, the Board may determine that no reduction of the assessment is warranted.

WAIVER OF LIQUIDATED DAMAGE ASSESSMENT
OLD AND NEW CRITERIA

EXAMPLE #1 - NOVEMBER 14, 2007

RIMCO Production Company, Inc.

State Lease No. 18593

Bonus paid: \$13,026.00 Original acreage: 26 acres Acreage released late: 20.3 acres

Liquidated damage assessment: \$3,600.00

Prior infractions: 2

Days late: 36 days

OLD CRITERIA:

1. Assessment no larger than bonus- No reduction
2. Reduce by fraction comprised of Late Released Acreage/Lease Acreage-
 $20.3 / 26.0 = 0.78 \times \$3,600.00 = \$2,810.77$
3. If first time offense Board could consider waiver of entirety, but not part of objective criteria

NEW CRITERIA:

1. Acreage released late (20.3)
 Total lease acreage (26.0) = $0.78 \times \text{Lesser of bonus or assessment } (\$3,600.00) =$
 $\$2,810.77$
2. If 1 to 3 prior infractions, reduce by additional 50% = \$1,405.39
3. Less than 5 infractions, if 31 - 90 days late, further reduce by 30% = \$983.77

WHAT BOARD DID:

Board waived entire amount because of circumstances.

EXAMPLE #2- NOVEMBER 14, 2007

Key Operating Company

State Lease No. 17226

Bonus paid: \$9,593.00 Original acreage: 53.11 acres Acreage released late: 10.95 acres

Liquidated damage assessment: \$20,600.00

Prior infractions: none

Days late: 206 days

OLD CRITERIA:

1. Assessment no larger than bonus- reduce assessment to \$9,593.00
2. Reduce by fraction comprised of Late Released Acreage/Lease Acreage-
 $10.95 / 53.11 = 0.206 \times \$9,593.00 = \$1,977.85$
3. If first time infraction Board could consider waiving entirety - this was first offense

NEW CRITERIA:

1. If first time offense, waive entirety of assessment - this was first time offense

WHAT BOARD DID:

Board waived entirety of damage as first offense.

EXAMPLE #3- JUNE 13, 2007

Forest Oil Corporation

State Lease No. 16556

Bonus paid: \$180,001.19 Original acreage: 915.99 acres Acreage released late: 473.504

Liquidated damage assessment: \$59,200.00

Prior infractions: one prior infraction

Offered to pay: \$5,000.00

Days late: 592 days

OLD CRITERIA:

1. Bonus larger than assessment- no reduction
2. Reduce by fraction comprised of Late Released Acreage/Lease Acreage =
 $473.504 / 915.99 = 0.517 \times \$59,200.00 = \$30,602.33$
3. If first infraction Board could waive, but not objective criteria.

NEW CRITERIA:

1. Not first infraction so no entire waiver
2. Acreage released late (473.504)
Total lease acreage (915.99) = $0.517 \times$ Lesser of bonus or assessment (\$59,200.00) =
\$30,602.33
3. 1 to 3 prior infractions reduce further by 50% = \$15,301.17
4. More than 189 days late - no further reduction

WHAT BOARD DID:

Staff recommended reduction to \$30,602.33, but Board further reduced to \$7,500.00 because of subjective determinations.

EXAMPLE #4 - April 11, 2007

Chesapeake Operating, Inc., Chesapeake Louisiana, LP & TLW Investments, Inc.

State Lease No. 14994

Bonus paid: \$13,460.00 Original acreage: 44 acres Late released acreage: same

Liquidated damage assessment: \$78,900.00

Prior infractions: more than 8

Days late: 789 days

OLD CRITERIA:

1. Reduce to no more than bonus - reduce assessment to \$13,460.00
2. No fractional acreage reduction

NEW CRITERIA:

1. Not first time so no entire waiver
2. Acreage released late (44)
Total lease acreage (44) = $1 \times$ lesser of bonus or assessment (\$13,460.00) = \$13,460.00
3. More than 5 infractions - no further reduction
4. More than 180 late - no further reduction

WHAT BOARD DID:

Board reduced assessment to \$13,460.00

EXAMPLE #5 - July 9,2008

Yuma Exploration and Production Company, Inc.

State Lease No. 15959

Bonus paid: \$140,738.75 Original acreage: 895 acres Late released acreage: 344.023 acres

Liquidated damage assessed: \$2,900.00

State Lease No. 15960

Bonus paid \$65,101.60 Original acreage: 414 acres Late released acreage: 4.15 acres

Liquidated damage assessed: \$2,900.00

State Lease No. 17109

Bonus paid: \$3,087.00 Original acreage: 13.72 acres Late released acreage: 1.563 acres

Liquidated damage assessed: \$2,900.00

Prior infractions: more than 8

Days late: 29 days

OLD CRITERIA:

SL 15959

1. Assessment less than bonus so no reduction
2. Reduce by fraction comprised of Late Released Acreage/ Lease Acreage =
 $344.023 / 895 = 0.384 \times \$2,900.00 = \$1,113.60$
3. No further reduction

SL 15960

1. Assessment less than bonus so no reduction
2. Reduce by fraction comprised of Late Released Acreage/ Lease Acreage =
 $4.15/414 = 0.010 \times \$2,900.00 = \$29.00$
3. No further reductions

SL 17109

1. Assessment less than bonus so no reduction
2. Reduce by fraction comprised of Late Released Acreage/ Leased Acreage =
 $1.563/13.72 = 0.1139 \times \$2,900.00 = \$330.31$

Total assessment recommended: \$1,472.91

NEW CRITERIA:

SL 15959

1. No first time waiver
2. Acreage released late (344.023)
Total lease acreage (895) = $0.384 \times$ lesser of bonus or assessment (\$2,900.00) =
\$1,113.60.
3. Less than 30 days late - reduce further by 50% = \$556.80
4. More than 5 prior infractions - no further reduction

SL 15960

1. No first time waiver
2. Acreage released late (4.15)
Total lease acreage (414) = $0.010 \times$ lesser of bonus or assessment (\$2,900.00) =

\$29.00

3. Less than 30 days late - reduce further by 50% = \$14.50

4. More than 5 prior infractions - no further reduction
SL 17109

1. No first time waiver

2. Acreage released late (1.563)

Total leased acreage(13.72) = 0.1139 x lesser of bonus or assessment (\$2,900.00) = \$

330.31

3. Less than 30 days late - reduce further by 50% = \$165.16

4. More than 5 prior infractions - no further reduction

Total assessment recommended: \$736.46

WHAT BOARD DID:

Board reduced to a total of \$2,209.59