

Our standard form of lease provides the following:

If, at the expiration of the Primary Term, oil or gas is not being produced from the Premises or on acreage pooled or unitized therewith but Lessee is then engaged in drilling, re-working or dewatering operations thereon, then this Lease shall continue in force so long as such operation are being continuously prosecuted. Operations shall be considered to be continuously prosecuted if not more than one hundred and twenty (120) days shall elapse between the completion or abandonment of one well and the beginning of operation for the drilling of a subsequent well. If after discovery of oil or gas on the Premises or on acreage pooled or unitized therewith, the production thereof should cease from any cause after the primary term, this Lease shall not terminate if Lessee commences additional drilling or re-working operations within one hundred twenty (120) days from the date of cessation of production or from date of completion of dry hole. If oil or gas shall be discovered and produced as a result of such operation at or after the expiration of the Primary Term, this Lease shall continue in force so long as oil or gas is produced from the Premises or on acreage pooled or unitized therewith.

This includes two concepts: (1) the primary Term will be extended either if production is occurring or if operations are being continuously conducted; and (2) if production is established and then ceases after the primary term, the lease will continue if continuous operations are conducted. This is fairly standard language.

Rule 22.02.b and .c contain the concept of extension of the lease beyond the primary term through continuing operations or production. I think Rule 55.03.b needs to be made consistent with 22.02.

The draft revised rules at 55.03.b as currently written obligate the lessee to drill continuously without reference to the primary or extended term. Continuous drilling isn't possible at the beginning of the lease, because the lessee still needs to conduct geophysical operations in order to determine where to drill. 22.02 and 55.03 also lack the concept of operations on or production from pooled or unitized acreage.

I added language to the draft to make Rules 22.02.b and 55.03.b work together and to address operations on or production from pooled or unitized acreage.

20.03.16 – RULES GOVERNING OIL AND GAS LEASING ON IDAHO STATE LANDS

000. LEGAL AUTHORITY.

This Chapter is adopted under the legal authorities of Sections 58-104(1), 58-104(6), 58-104(9), 58-105, 58-127, Idaho Code, and; Section 58-307, Idaho Code; Title 47, Chapter 7, Idaho Code; Title 47, Chapter 8, Idaho Code, and; Title 67, Chapter 52, Idaho Code. (3-18-22)

001. SCOPE.

(3-18-22)

02. Scope. These rules apply to the exploration and extraction of Oil and Gas resources situated in state-owned Mineral Lands. (3-18-22)

03. Other Laws. In addition to these rules, the Lessee must comply with all applicable federal, state and local laws, rules and regulations. Violating any applicable law, rule, or regulation may constitute a violation of the Lease. (3-18-22)

002. ADMINISTRATIVE APPEALS.

01. Appeal to Board. All decisions of the Director are appealable to the Board. An aggrieved party desiring to take such an appeal must, within thirty (30) days after notice of the Director's decision, file with the Director a written notice of appeal setting forth the basis for the appeal. (3-18-22)

02. Hearing. The Board will hear the appeal at the earliest practical time or in its discretion appoint a hearing officer to hear the appeal, within sixty (60) days after filing of the notice of appeal. The hearing officer will make findings and conclusions that the Board may accept, reject or modify. The decision of the Board after hearing or upon a ruling concerning the hearing officer's findings and conclusions is final. (3-18-22)

03. Judicial Review. Judicial review of the final decision of the Board will be in accord with the Administrative Procedure Act, Title 67, Chapter 52, Idaho Code, by filing a petition in the district court in Ada County, or the county where the Board heard the appeal and made its final decision, within thirty (30) days after notice of the Board's decision. Service of the Board's decision may be by personal service or by certified mail to the lessee. (3-18-22)

003. -- 009. (RESERVED)

010. DEFINITIONS.

The terms Mineral Lands and Mineral are defined in Section 47-701, Idaho Code. The term Motorized Exploration is defined in Section 47-703A, Idaho Code. The term Legal Subdivision is defined in Section 58-809, Idaho Code. In addition to the identified definitions in Idaho Code, the following definitions apply to these rules:

01. Board. The Idaho State Board of Land Commissioners or its designee, or where appropriate, the state of Idaho. (3-18-22)

02. Commission. The Idaho Oil and Gas Conservation Commission. (3-18-22)

03. Collateral Surety Bond and Corporate Surety Bond. See Subsections 080.04.a. and 080.04.b. (3-18-22)

04. Department. The Idaho Department of Lands. (3-18-22)

05. Director. The Director of the Idaho Department of Lands or their designee. (3-18-22)

06. Discretion. Exercising authority to make a decision, choice or judgment without being arbitrary,

capricious or illegal. (3-18-22)

07. Exploration. Activities related to the various geological and geophysical methods used to detect and determine the existence and extent of hydrocarbon deposits. (3-18-22)

08. Final Board Approval. Approval of a Lease occurs after the Lease is signed by the Governor, the Secretary of State, and the Director, on behalf of the Board, after approval of the Lease by a majority of the Board. All approved Leases must first be signed by the Lessee and then by the above-entitled state officials. (3-18-22)

09. Lease. A written agreement between the Department and a Person containing the terms and conditions upon which the Person will be authorized to use State Lands. (3-18-22)

10. Lessee. The person to whom a Lease has been issued and his successor in interest or assignee(s). More than one (1) person may be entered as an applicant on the application form but only one (1) person will be designated in the application for Lease or assignment as the Lessee of record with sole responsibility for the Lease under these rules. (3-18-22)

11. Lessor. The Board on behalf of the state of Idaho. (3-18-22)

12. Natural Gas Plant Liquids. Hydrocarbon compounds in raw gas that are separated as liquids at gas processing plants, fractionating plants, and cycling plants. Includes ethane, liquefied petroleum gases (propane and the butanes), and pentanes plus any heavier hydrocarbon compounds. Component products may be fractionated or mixed. (3-18-22)

13. Oil and Gas. Oil and gas means oil or gas, or both. (3-18-22)

14. Person. An individual, corporation, partnership, limited liability company, association, trust, unincorporated organization or other legal entity qualified to do business in the state of Idaho, and any federal, state, county, or local unit of government. (3-18-22)

15. Production in Paying Quantities. That gross income from oil and/or gas produced and saved (after deduction of taxes and royalty) that exceeds the cost of operation. (3-18-22)

16. State Lands. Lands, including the beds of navigable waters within Idaho in which the title to Mineral Rights is owned by the state of Idaho, that are under the jurisdiction and control of the Board or any other state agency. (3-18-22)

17. Tract. An expanse of land representing the surface expression of the underlying Mineral estate, which includes oil and gas rights owned by the State, that: (3-18-22)

a. May be identified by its public land survey system of rectangular surveys that subdivides and describes land in the United States in the public domain and is regulated by the U.S. Department of the Interior, Bureau of Land Management; (3-18-22)

b. Is of no particular size; (3-18-22)

c. Is a maximum size of six hundred forty (640) acres or one section, unless otherwise determined by the Director; (3-18-22)

d. May be irregular in form; (3-18-22)

e. Is contiguous; (3-18-22)

f. May lie in more than one township or one section; (3-18-22)

g. May have a boundary defined entirely or in part by natural monuments such as streams, divides, or

straight lines connecting prominent features of topography; (3-18-22)

h. May include the Mineral estate beneath navigable waters of the State; and (3-18-22)

i. May be combined with other tracts to form a lease. (3-18-22)

011. -- 014. (RESERVED) (3-18-22)

017. -- 019. (RESERVED)

020. QUALIFIED APPLICANTS AND LESSEES.

Any Person who does not have a contract in default with the state of Idaho, or any department or agency thereof, is a qualified applicant and Lessee. Neither Board members nor Department employees may take or hold such Lease.

021. EXPLORATION.

01. Written Permit Required. Any appreciable surface disturbing activity, including Motorized Exploration, on State Lands is prohibited, except when a written exploration permit is received. This permit is in addition to any permit required by the Commission. (3-18-22)

02. Permit Conditions. The Director will determine when the exploration permit expires. The permit contains conditions that the Director determines will protect the existing surface uses and resources of the State. The permit applicant must pay the fee required by Section 120 in advance of the permit being issued. (3-18-22)

022. LEASE ACQUISITION PROCESS.

01. Acquiring a Lease. A Lease may be acquired for the exclusive right and privilege to explore for and produce Oil and Gas by oral auction, online auction, or such other method of competitive bidding, which is authorized by the Board and, based on the Board's discretion, determined to be in the state's best interest. The Lease will be awarded to the winning bidder at close of auction. The winning bidder at auction will be issued the lease by the Department on the first day of the month following Final Board Approval. The Board and Department reserve the right to reject any or all nominations or bids, and expressly disclaim any liability for inconvenience or loss caused by errors that may occur concerning lease offerings. (3-18-22)

02. Lease Provisions. (3-18-22)

a. Advance Annual Rental. The Lessee must pay to the state of Idaho an advance annual rental for each lease of three dollars (\$3) per acre with a minimum of two hundred fifty dollars (\$250) per lease. (3-18-22)

b. Notification at End of Lease Period. The Lessee must notify the Director in writing prior to the final year of his Lease that drilling or reworking operations has commenced on the leased promises or on lands pooled or unitized therewith and will extend beyond the expiration date of the Lease. Advance annual rental, per Section 022.a. for any additional and each succeeding year, must be received by the Department prior to the expiration date and entitles the Lessee to hold the Lease only as long as drilling or rework operations are pursued in accord with these rules. There will be no refund of unused rental. (3-18-22)

c. Abandonment. During any additional or succeeding year of any lease, cessation of production for a period of six (6) months, or cessation of continuous operations as provided in Section 055.03.b. is considered as abandonment. The Lease will then automatically terminate at its next anniversary date unless the Director determines that such cessation of production or continuous operations is justified or the well meets the requirements of a shut in well under Subsection 022.02d. (3-18-22)

d. Suspension of Production. The Director may grant a suspension of production after receiving a Lessee's written application. The Lessee must show: that they are unable to market Oil and Gas from a well located on the leased premises, which is capable of Oil and Gas production in paying quantities, due to a lack of suitable production facilities of a lack of a suitable market for Oil and Gas and that such condition are outside of the

reasonable control of the Lessee, and; that the Lease is not being otherwise maintained in force and effect. The suspension of production cannot exceed one (1) year. The Lessee may request an extension of the suspension of production by submitting a written request to the Director at least thirty (30) days before the suspension period expires. If the well is shut in, and the Director approves the application for suspension of production prior to the expiration or termination of the Lease, then the Lease will be extended, per Section 47-801, Idaho Code, for a period of one (1) year if: (i) the well is shut in; (ii) the Lessee timely submits an application in a form approved by the Director, and; (iii) upon approval of said application, pays a shut-in royalty in the amount equal to double the annual rental, per Subsection 022.02.a, for each well capable of producing Oil or Gas in paying quantities. The Lessee must remit the shut-in royalty payment while the Lease is otherwise maintained in force and effect. Payment of shut-in royalty after the expiration or other termination of the Lease will not revive or extend the Lease. (3-18-22)

e. Water Rights. The Lessee will comply with all state laws and rules regulating the appropriation of water rights. No water rights developed or obtained by the Lessee in conjunction with operations under a Lease may be sold, assigned, or otherwise transferred without the Director's written approval. Upon surrender, termination, or expiration of the Lease, the Lessee must take all actions required by the Director to assign to the Board all water rights, including applications and permits, subject to applicable laws regarding the transfer or assignment of permits to appropriate water.

03. Nominating a Tract for Auction. A tract may be nominated for auction either by the Department or by application to the Department. Nomination must be made at least ninety (90) days prior to a Department-defined close of auction date. Any qualified Person may nominate a Tract for lease auction by submitting a Department nomination form to the Department and paying the nomination fee, which is determined by the Board. Each nomination for a Tract for auction is deemed an offer by the nominating person to lease the Tract for the advance annual rental amount, per Subsection 022.02.a. (3-18-22)

04. Withdrawing a Tract for Auction. A Tract nomination may be withdrawn by the nominator if a written request for withdrawal is received by the Department at least ten (10) business days prior to the auction's opening date. The nomination fee will not be refunded. (3-18-22)

05. Auction Conditions. The Department will determine the conditions associated with the auction, which may include: when or if a tract will be offered for auction; whether the tract is to be removed from the auction; whether multiple tracts will be combined in a single lease; and any disclaimers, additional information, and any other such terms and conditions associated with the auction of the tracts. Any such terms and conditions, disclaimers, and additional information will be posted on the Department's website. (3-18-22)

06. Lease Information for Auction. For each lease to be auctioned, the Department's website will provide : a lease number designated by the Department; the legal description; the lease length; the number of acres; a minimum bid ; a lease template; any lease stipulations; any other lease information; ; and a specific date, time, and location of the auction. A notice of lease auction will be published at least once per week for the four (4) consecutive weeks prior to the date of auction in a newspaper in general circulation in the county in which the nominated lease is located and in a newspaper in general circulation in Ada County. (3-18-22)

07. Auction Procedure. The Department will determine the procedures associated with the auction, including bidder registration procedure. Additional auction procedures are as follows: (3-18-22)

a. Bid Increments. The minimum bid increment is one dollar (\$1). (3-18-22)

b. Winning Bid. At close of auction, the winning bid will be the highest dollar amount offered by an auction participant. If, at close of auction, a bid for a lease has not been submitted , then the lease will be awarded to the nominating applicant. Entering a bid constitutes an enforceable contractual obligation. (3-18-22)

c. Amount Due. The amount due for a lease is the winning bid, plus the first year's annual rental amount, per Subsection 022.02.a, plus the nomination fee. If the nominator of the Tract(s) submits the winning bid, the nomination fee will not be included in the amount due since the fee was already submitted to the Department. If the nominator is not the winning bidder, they will be refunded the nomination fee. (3-18-22)

d. Transfer of Funds. Unless otherwise required in the notice of auction, the winning bidder for each lease has five (5) full business days after the close of auction to complete the transfer of funds to the Department. Failure of the winning bidder to transfer funds within the specified period constitutes a breach of contract and the state may pursue any action or remedy at law or in equity against the winning bidder. (3-18-22)

08. Execution of Lease. The completed lease must be executed by the winning bidder within thirty (30) days from the date of mailing after the close of auction, or from the date of receipt if personally delivered to the applicant or his agent by the Department. An individual who executes a lease on behalf of another Person must submit a power of attorney outlining such delegated authority. (3-18-22)

023. -- 044. (RESERVED)

045. ROYALTIES.

01. Royalty Payments. Unless otherwise specified by the Board, the Lessee will pay to the state of Idaho, in money or in kind, a royalty of no less than twelve and one-half percent (12.5%) of the Oil and/or Gas or Natural Gas Plant Liquids produced and saved. The Lessee will make payments in cash unless the state sends written instructions for payment in kind. Royalty is due on all production from the leased premises except that which was consumed for the direct operation of the producing wells or lost through no fault of the Lessee.

02. Royalty Not Reduced. If royalties are paid in cash, then costs of marketing, transporting and processing Oil and/or Gas or Natural Gas Plant Liquids, or all of them produced, are borne entirely by the Lessee, and such cost will not reduce the Lessor's royalty directly or indirectly. If the Director elects to take royalty in kind, the Lessee will be reimbursed for reasonable additional storage and transportation costs. (3-18-22)

03. Oil, Gas, and Natural Gas Plant Liquids Royalty Calculation and Reporting. All royalty owed to the Lessor, and not paid in kind, will be paid to the Lessor in the following manner: (3-18-22)

a. Payment of royalty on production of Oil is due and must be received by the Lessor on or before the 65th day after the month of production; (3-18-22)

b. Payment of royalty on production of Gas and Natural Gas Plant Liquids is due and must be received by the Lessor on or before the 95th day after the month of production; (3-18-22)

c. All royalty payments must be completed in the form and manner approved by the Department including, the gross amount and disposition of all Oil, Gas, and Natural Gas Plant Liquids produced and the market value of the Oil, Gas, and Natural Gas Plant Liquids; (3-18-22)

d. Lessee must maintain, and make available to the Lessor upon request, copies of all documents, records or reports confirming the gross production, disposition and market value. This includes gas meter readings, pipeline receipts, gas line receipts and other checks or memoranda of the amount produced and put into pipelines, tanks, or pools and gas lines or gas storage, and any other reports or records that the Lessor may require to verify the gross production, disposition and market value; and (3-18-22)

e. Each Royalty payment must be accompanied by a check stub that includes all information required by Idaho Code § 47-332; a schedule, summary or other remittance advice showing this Lease number; and the amount of Royalty being paid on this Lease. (3-18-22)

04. Overriding Royalty. Any assignment of overriding royalty without a working interest made directly by Lessee, from Lessee's working interest, and not included with an assignment of this Lease, must be filed with IDL, along with the processing fee of \$100.00 per document, within ninety (90) calendar days from the date of execution of the valid assignment. It is Lessee's responsibility, and not Lessor's or IDL's responsibility, to process and administer any overriding royalty. Any assignment that creates an overriding royalty that cumulatively (adding together all other overriding royalties), exceeds the Royalty payable to Lessor by greater than five percent (5%), will be deemed a violation of this Lease, unless that assignment expressly provides that the obligation of Lessee to pay

the excess overriding royalty must be suspended when the average Production of oil per well per day, averaged on a monthly basis, is fifteen (15) barrels or less at sixty (60) °F at atmospheric pressure; or when the average Production of gas per day, averaged on a monthly basis, is 60,000 cubic feet (1,700 m3) or less at fourteen and seventy-three hundredths (14.73) pounds per square inch absolute and the standard temperature base of sixty (60) °F. A reservation or assignment of an overriding royalty will not relieve Lessee of any of Lessee's obligations for payment of Royalties to Lessor. Any reservation or assignment of overriding royalty by Lessee must terminate upon the termination of this Lease. (3-18-22)

046. -- 049. (RESERVED)

050. LAND USE, SURFACE RIGHTS AND OBLIGATIONS.

01. Timber Removal. The Lessee may not unreasonably interfere with the removal of timber purchased prior or subsequent to the issuance of an Oil and Gas Lease. The Lessee may remove any timber required for ingress or egress or necessary for operations. The Lessee must pay the current stumpage price, as determined by the Director for any timber cut or removed. Such proceeds go to the state agency that has custody and control over the leased lands. (3-18-22)

02. Reclamation. The Lessee must reclaim all State Lands disturbed by its exploration and operations so that they are, at least, consistent with previous use by the surface owner. This may include segregating and protecting topsoil and regrading to approximate previous contour. If the Director has determined that substantial removal of topsoil has occurred, the Lessee will replace the topsoil and revegetate to the extent necessary to minimize erosion. (3-18-22)

052. -- 054. (RESERVED)

055. OPERATIONS UNDER THE LEASE.

01. Best Practices. The Lessee will, at all times, conduct exploration, development, drilling and all operations as a reasonably prudent operator and will conform to the best practice and engineering principles in use in the oil and gas industry. (3-18-22)

02. Designation of Operator. A designation of operator must be submitted to the Director prior to operations commencing when the operations are not conducted by the Lessee and are to be conducted under authority of an approved operating agreement, assignment or other arrangement. The designation authorizes the operator, or their local representative, to act for the Lessee and to sign any papers or reports. The Lessee must immediately report all address changes and termination of an operator's authority. (3-18-22)

03. Diligence. (3-18-22)

a. Lessee must diligently explore for the entire Lease. Diligent exploration means that the Lessee continually provides effort, as a reasonably prudent operator would, to achieving production on the leased premises or on lands pooled or unitized therewith, such as performing geological and geophysical surveys and/or drilling a test well.

b. Lessee must diligently and continuously conduct drilling operations on the leased premises or on lands pooled or unitized therewith during the extension of a Lease pursuant to Section 022.02.b. This means there is to be no delay or cessation of drilling for more than one hundred twenty (120) days, unless an extension is granted by the Director in writing. The Director must receive a written request for the extension at least then (10) days prior to the one hundred twenty (120) day period ending.

c. All wells under a Lease must be drilled, maintained, and operated to produce the maximum amount of oil and/or gas economically and efficiently possible, without injury to the well. The Lessee will, subject to the right to surrender the Lease, diligently drill and produce as many wells as necessary to protect the Board from loss resulting from production on other properties. The Lessee may, with the Director's written consent, compensate

the Board for failure to drill and produce such wells.

04. Loss Through Waste or Failure to Produce. If there is loss through waste or failure to drill and produce protection wells on the leased lands, the Director will determine the value of production accruing to the Board and the compensation due to the Board as reimbursement for such loss. Payment for such losses must be made within sixty (60) days after the date of billing. The value of production resulting from a loss through waste or failure to take corrective measures to protect a well is calculated at ninety percent (90%) of the last year's actual production royalty or a minimum royalty of five dollars (\$5) per acre or fraction thereof, whichever is greater. (3-18-22)

05. By-Products. Where production, use or conversion of Oil and Gas under a Lease, is susceptible of producing a valuable by-product(s), including, without limitation, commercially demineralized water, carbon dioxide or helium, the Lessee must submit to the Director all available information concerning the potential by-product(s). The Department may conduct tests or studies, at its expense, and may issue reasonable orders to produce and preserve such by-product(s). (3-18-22)

06. Geothermal Information. Prior to abandoning any well, the Lessee must submit to the Director all available information concerning geothermal resource potential. The Department may conduct tests or studies, at its expense, prior to the abandoning of any well to determine geothermal resource potential. Except as provided in Subsection 022.02.d, the Lessee must promptly plug and abandon any well on the leased land that is not used or useful, in accord with these rules, the Commission's rules, and any applicable rules and regulations of the Department of Water Resources. When drilling in a known geothermal resources area, the lessee may need a geothermal resource well permit from the Department of Water Resources. (3-18-22)

(3-18-22)

057. -- 059. (RESERVED)

060. ASSIGNMENTS.

01. Prior Written Approval. No Lease assignment is valid unless approved by the Director in writing. The assignment does not take effect until the first day of the month following its approval. (3-18-22)

02. Qualified Assignee. A Lease may be assigned to any qualified Person, provided that in the event an assignment partitions leased lands between two (2) or more Persons, neither the assigned nor the retained part created by the assignment may contain less than forty (40) acres or a government lot, whichever is less. (3-18-22)

03. Responsibilities. In an assignment of the complete interest of the leasehold, the assignor and his surety must continue to comply with the Lease and these rules until the effective date of the assignment. After the effective date of any assignment, the assignee and his surety are bound by the Lease to the same extent as if the assignee were the original Lessee, notwithstanding any conditions in the assignment to the contrary; however, the assignor-lessee remains liable for rentals and royalties due and damages accruing prior to the effective date of the assignment. (3-18-22)

04. Segregation of Assignment. If an assignment partitions leased lands between two (2) or more persons, it must clearly segregate the assigned and retained portions of the leasehold. Resulting segregated leases continue in full force and effect for the balance of the ten-year term of the original lease or as further extended pursuant to these rules. (3-18-22)

05. Joint Principal. Where an assignment does not segregate the record title to the Lease, the assignee, if the assignment so provides, may become a joint principal on the bond with the assignor. The application must be accompanied by a consent of assignor's surety to remain bound under the bond of record, if the bond by its terms does not contain such consent. If a party to the assignment has previously furnished a statewide bond, no additional showing by such party is necessary as to the bond requirement. (3-18-22)

06. Form of Assignment. An assignment is a valid legal instrument, properly executed and acknowledged, setting forth the number of the Lease, a legal description of the land involved, the name and address

of the assignee, the interest transferred and the consideration. A fully executed copy of the instrument of assignment must be filed with the application for approval pursuant to Subsection 060.07. An assignment may affect or concern more than one (1) Lease. (3-18-22)

07. Application. The application for approval of an assignment must be submitted on Department forms. The “lessee/assignee of record” must be designated in accordance with Subsection 010.11. If payments out of production are reserved, a statement must be submitted stating the amount, method of payment, and other pertinent items. The statement must be filed with the Department no later than fifteen (15) days after the filing of the application for approval of an assignment. (3-18-22)

08. Denial. The Director may deny an application for assignment if the Lessee or the assignee is delinquent in payment of rentals or royalties or has otherwise violated these rules. (3-18-22)

09. Fee. All applications for approval of assignment must be accompanied by the fee required by Section 120. (3-18-22)

061. -- 069. (RESERVED)

070. SURRENDER - RELINQUISHMENT.

01. Procedure. The Lessee may surrender its Lease, or any surveyed subdivision of the area covered by such lease, by filing a written relinquishment with the Department. A partial relinquishment may not reduce the remaining acreage in the lease to less than forty (40) acres or a government lot, whichever is less. The Director may waive the minimum acreage requirement if he finds it is justified on the basis of exploratory and development data derived from activity on the leasehold. (3-18-22)

02. Effective Date. A relinquishment takes effect thirty (30) days after it is received by the Department. After effective relinquishment, the Lessee is relieved of liability under these rules except for the continued obligation of the Lessee and their surety to: (3-18-22)

- a.** Make payments of all accrued rentals and royalties; (3-18-22)
- b.** Place all wells on the relinquished land in a condition for suspension of operations or abandonment; (3-18-22)
- c.** Comply with all of the Commission’s rules for plugging of abandoned wells; (3-18-22)
- d.** Comply with applicable laws and rules of the Department of Water Resources; and (3-18-22)
- e.** Reclaim the surface and natural resources in accord with these rules. (3-18-22)

03. Partial Surrender. In the event of a partial surrender, the annual rental rate will be reduced proportionately. (3-18-22)

071. TERMINATION - CANCELLATION OF LEASE.

01. Cause. Except as otherwise provided in these rules, the Director may terminate the Lease for any substantial violation of the Lease, ninety (90) days after notice of the violation has been given to Lessee by personal service or certified mail, unless: (3-18-22)

- a.** The violation has been corrected; or (3-18-22)
- b.** The violation is one that cannot be corrected within the notice period and the Lessee has in good faith commenced correcting the violation, within the notice period, and diligently proceeds to complete corrective action, within the time period set by the Director. If sent by certified mail, such notice will be deemed served upon mailing. (3-18-22)

02. Surrender After Termination. Upon the expiration or termination of the Lease, the Lessee will quietly and peaceably surrender possession of the premises to the state. Such surrender does not relieve the Lessee of liabilities that may have accrued in connection with the Lease prior to the surrendering.

(3-18-22)

03. Other Wells. Default by the Lessee in performing any of the Lease's conditions or provisions concerning well(s) on any Legal Subdivision of the leasehold do not affect the right of the Lessee to continue the possession or operation of any other well(s), that are situated upon any other Legal Subdivision of the leasehold. here such a default involving one (1) or more well(s) results in cancellation, and the Lessee has other wells on the Lease, which are not in default, such cancellation will result in the division of the defaulting acreage from the Lease and resultant reduction in the size of the Lease held by the Lessee.

(3-18-22)

04. Equipment Removal. Upon the expiration of the Lease, its termination, or surrender the Lessee must, remove from the premises all materials, tools, appliances, machinery, structures. The Lessee must do so within ninety (90) days or within the extension that may be granted because of adverse climatic conditions. Equipment subject to removal but not removed within the allotted time, may, at the option of the Director, become property of the state of Idaho, or the Director may cause the property to be removed at the Lessee's expense.

(3-18-22)

072. -- 079. (RESERVED)

080. BOND REQUIREMENTS.

01. Minimum Bond. Prior to Motorized Exploration on leased lands, the surface of which has been sold or leased, the Lessee must submit to the Director a corporate surety bond or collateral bond in the amount of one thousand dollars (\$1,000) in favor of the state of Idaho conditioned upon the payment of all damages to the surface that result from the Lessee's operation. Prior to entry upon the leased land with drilling equipment or prior to commencing any construction in preparation for drilling upon leased lands, the Lessee must submit to the Director a corporate security bond or collateral bond in the amount of six thousand dollars (\$6,000) in favor of the state of Idaho conditioned upon compliance with the Lease, these rules, and the payment of all damages to the land surface and all improvements thereon, including crops, which result from the Lessee's operation, regardless of whether the lands under this Lease have been sold or leased by the Board for any other purpose. This bond is in addition to the drilling bond pursuant to the Commission's rules. This rule notwithstanding, the Lessee may be required, on a case-by-case basis, to post a bond that exceeds six thousand dollars (\$6,000) to protect a surface lessee's or surface owner's interests, per Section 47-708, Idaho Code.

(3-18-22)

02. Statewide Bond. In lieu of the aforementioned bonds, the Lessee may furnish a good and sufficient "statewide" bond conditioned as above in the amount of fifty thousand dollars (\$50,000) in favor of the state of Idaho to cover all Lessee's Leases and operations carried out under these rules.

(3-18-22)

03. Period of Liability. The period of liability of any bond is not to be terminated until all obligations under the Lease and these rules have been fulfilled and the bond is released in writing by the Director.

(3-18-22)

04. Form of Performance Bond.

(3-18-22)

a. Corporate surety bond means an indemnity agreement executed by or for the Lessee and a corporate surety licensed to do business in the state of Idaho on a Department Oil and Gas Lease Bond form, conditioned in accord with Subsection 080.01 and payable to the state of Idaho.

(3-18-22)

b. Collateral bond means an indemnity agreement executed by or for the Lessee and payable to the state of Idaho, pledging cash deposits, negotiable bonds of the United States, state or municipalities, or negotiable certificates of deposit of any bank doing business in the United States. Collateral bonds are subject to the following conditions: The Department obtains possession and deposits such with the state treasurer. The Department will value collateral at its current market value, not face value. Certificates of deposit are made payable to the "State of Idaho or the lessee." Amount of an individual certificate may not exceed the maximum amount insured by the Federal Deposit Insurance Corporation or Federal Savings and Loan Insurance Corporation or their successors. Banks

issuing such certificates waive all rights of set-off or liens that they have or may have against such certificates. Any such certificates are automatically renewable. The certificate of deposit must be of sufficient amount to ensure that the Department would be able to liquidate such certificates prior to maturity, upon forfeiture, for the amount of the required bond including any penalty for early withdrawal. (3-18-22)

05. Bond Cancellation. Any surety company or indemnitor canceling a bond must give the Department at least sixty-days' (60) notice prior to cancellation. The Department will not release a surety or indemnitor from liability under existing bonds until the Lessee has submitted to the Department an acceptable replacement bond. Such replacement bond must cover any liability accrued against the bonded principal on the Lease covered by the previous bond. (3-18-22)

06. Surety License. If the license to do business in Idaho of any surety is suspended or revoked, the Lessee must find a substitute for such surety within thirty (30) days after notice by the Department. If the Lessee fails to secure a substitute surety, they must cease operations under the lease. The substitute surety must be licensed to do business in Idaho. (3-18-22)

07. Form. All bonds furnished must be on the Department bond form. (3-18-22)

081. -- 089. (RESERVED)

090. UNIT OR COOPERATIVE PLANS OF DEVELOPMENT OR OPERATION.

01. Unit Plan. For the purpose of properly conserving the natural resources of any Oil and Gas pool, field, or like area, the Lessee may, with the Director's written consent, commit the leased lands to a unit, cooperative or other plan of development or operation with other state, federal, Indian, or privately-owned lands. (3-18-22)

02. Contents. An agreement to unitize must: describe the separate tracts comprising the unit; disclose the apportionment of the production of royalties and costs to the several parties; disclose the name of the operation; and contain adequate provisions for the protection of the interests of all parties, including the state. The agreement must: be signed by or on behalf of those persons or entities having effective control of the geologic structure; be submitted to the Director with the application to unitize. The agreement is effective only after approval by the Director. (3-18-22)

03. Interested Parties. The owners of any right, title, or interest in the Oil and Gas resources to be developed or operated under an agreement may be regarded as interested parties to a proposed unitization agreement. Signature of a party with only an overriding royalty interest in unnecessary. (3-18-22)

04. Collective Bond. In lieu of separate bonds for each Lease committed to a unit agreement, the unit operator may furnish and maintain a collective corporate surety bond or a collateral bond, conditioned upon faithful performance of the duties and obligations of the agreement, the lease that is subject to the agreement and these rules. The liability under the bond will be for such amount the Director determines to be adequate to protect the state's interests. If the unit operator is changed, a new bond or consent of surety to the change in principal under the existing bond must be filed within thirty (30) days of assignment. (3-18-22)

05. Lease Modification. The terms of any Lease included in any cooperative or unit plan of development or operation may be modified by the Director with approval of the Lessee, except that a unit agreement must have final approval by the Director for a state cooperative plan or the final approval by the secretary of interior for a federal cooperative plan prior to extending any lease into its eleventh year and each year thereafter. A lease so extended expires two (2) years after the unit plan expires provided the lessee continues to pay the annual rental as outlined in Subsection 022.02.a. (3-18-22)

06. Rentals. Rentals and royalties on Leases so extended are at the rates specified in these rules. Advanced rental must be paid on or before the extended Lease's anniversary date. Any unused portion of annual rental will not be refunded. (3-18-22)

07. Evidence of Agreement. Before issuance of a Lease for lands within an approved unit agreement, the Lease applicant must file with the Department evidence that they have entered into an agreement with the unit operator for the development and operation of the lands in a Lease, or a statement giving satisfactory reasons for the failure to enter into such agreement. If such statement is acceptable, the applicant will be permitted to operate independently but be required to perform its operations in a manner that the Director deems to be consistent with the unit operations. (3-18-22)

08. Segregation Prohibited. A lease may not be segregated if any part thereof is included in a cooperative plan until the pool or field has been defined. Once defined, those areas outside the unit area or pool boundary can be surrendered as provided in Section 070. (3-18-22)

091. -- 094. (RESERVED)

095. LIABILITY INSURANCE; SPECIAL ENDORSEMENTS.

01. Liability Insurance Required. The Department will require the Lessee to purchase and maintain suitable insurance for the duration of the lease prior to entry upon the leased lands for other than casual exploration or inspection.

02. Certificate of Insurance. No work under this lease will commence prior to the Department's receipt of a certificate, signed by a licensed insurance agent, evidencing existence of insurance as required above. Further, such certificate must reflect that no change or cancellation in such coverage will become effective until after the Department receives written notice of such change or cancellation. (3-18-22)

097. -- 099. (RESERVED)

100. TITLE.

The state of Idaho does not warrant title to the leased lands or the oil and gas resources that may be discovered thereon; the Lease is issued only under such title as the state of Idaho may have as of the Lease's effective date or thereafter acquires. (3-18-22)

103. -- 119. (RESERVED)

120. FEES.

01. Exploration Permit. One hundred dollars (\$100) per linear mile or a minimum of one hundred dollars (\$100) per section. (3-18-22)

02. Nonrefundable Nomination Fee. The nomination fee is set by the Board at a minimum of two hundred fifty dollars (\$250) per tract. (3-18-22)

03. Processing Fee. The processing fee is set by the Board at a minimum of one hundred dollars (\$100) per each document. (3-18-22)

04. Fee Adjustment. The Board may annually adjust these fees without formal rulemaking procedures. (3-18-22)

121. -- 999. (RESERVED)