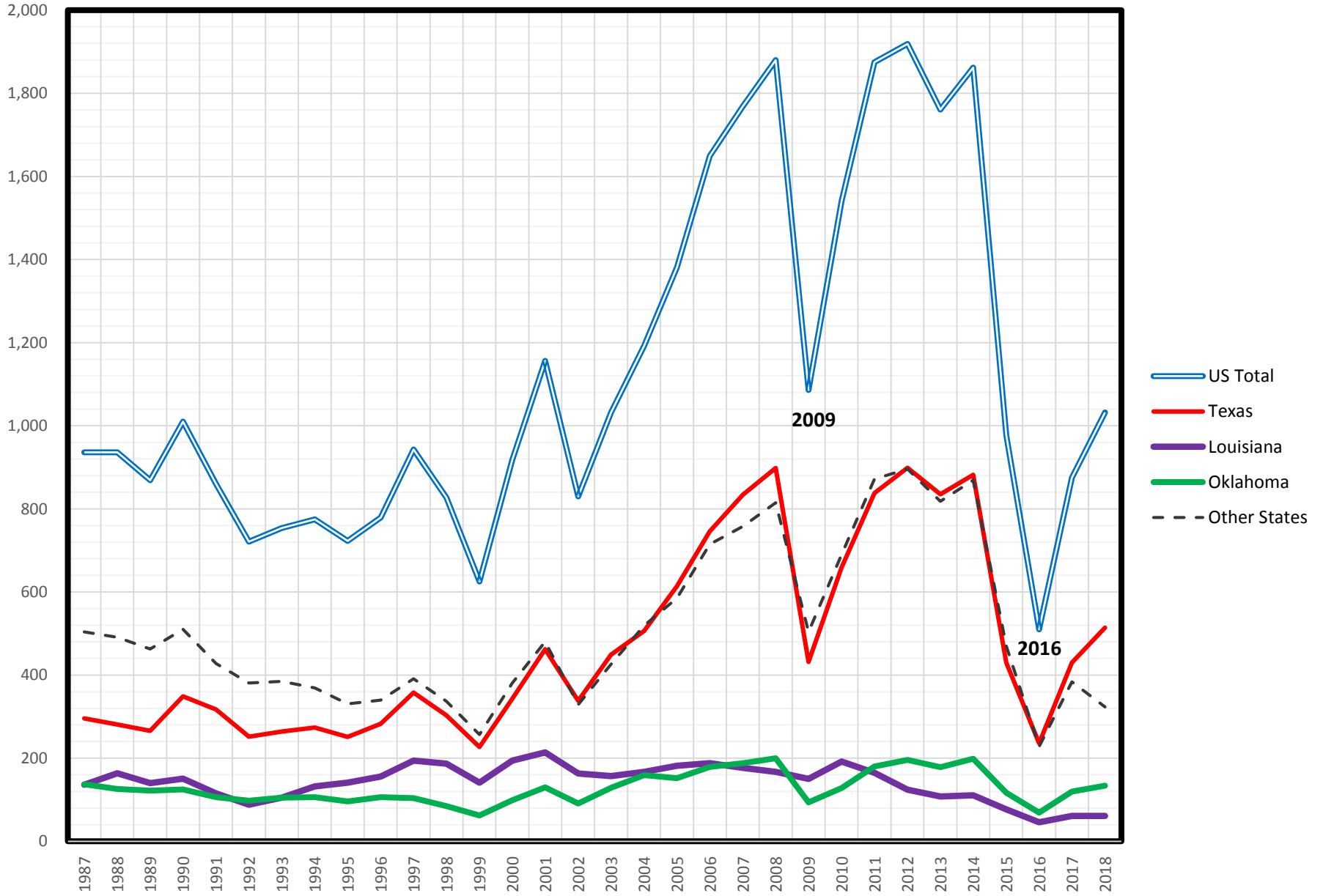


Royalty Incentive Evaluation

June 12, 2019

Baker Hughes Rig Counts 1987 - 2018

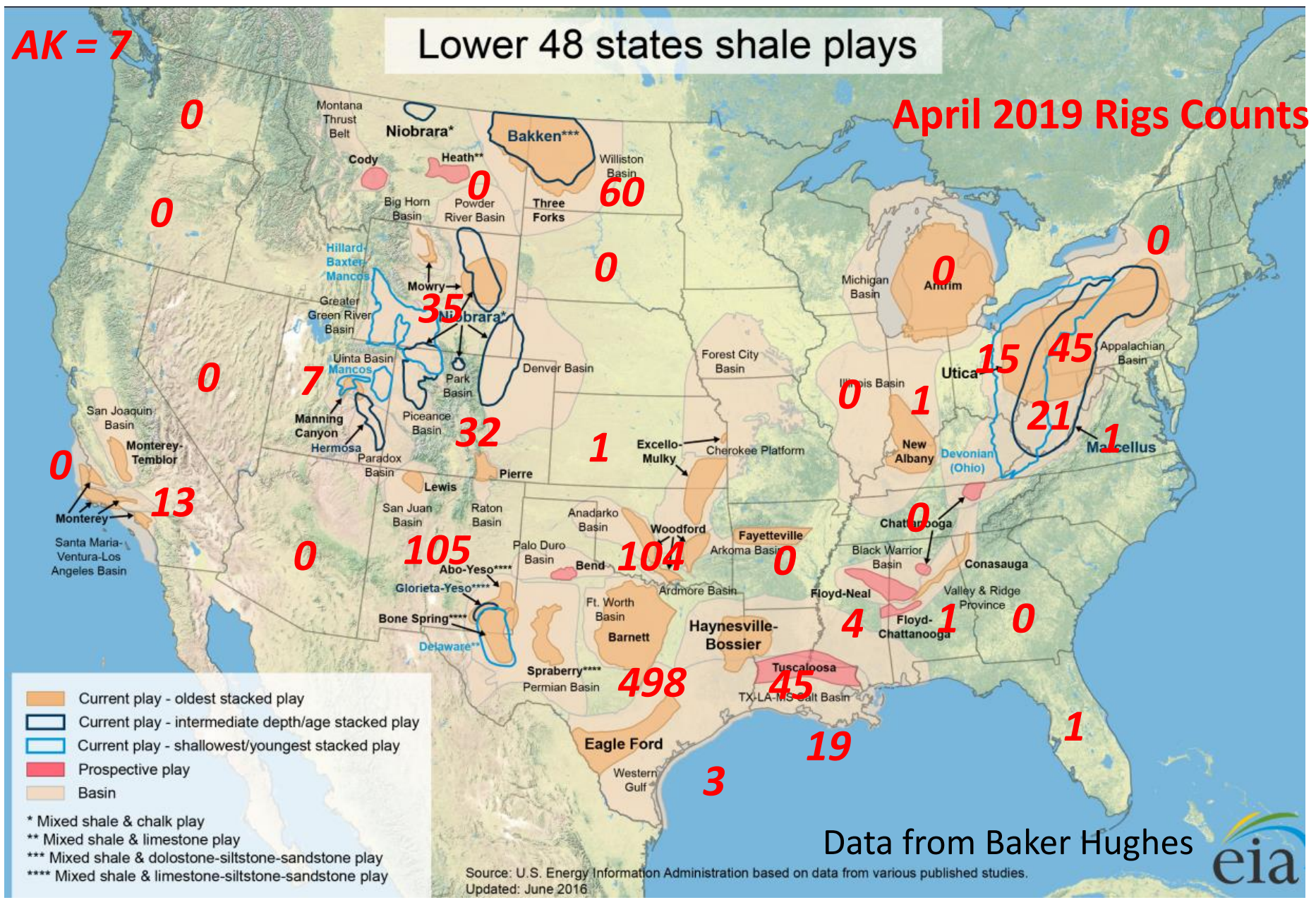
Data from Baker Hughes



AK = 7

Lower 48 states shale plays

April 2019 Rigs Counts



Current play - oldest stacked play
 Current play - intermediate depth/age stacked play
 Current play - shallowest/youngest stacked play
 Prospective play
 Basin

* Mixed shale & chalk play
 ** Mixed shale & limestone play
 *** Mixed shale & dolostone-siltstone-sandstone play
 **** Mixed shale & limestone-siltstone-sandstone play

Data from Baker Hughes

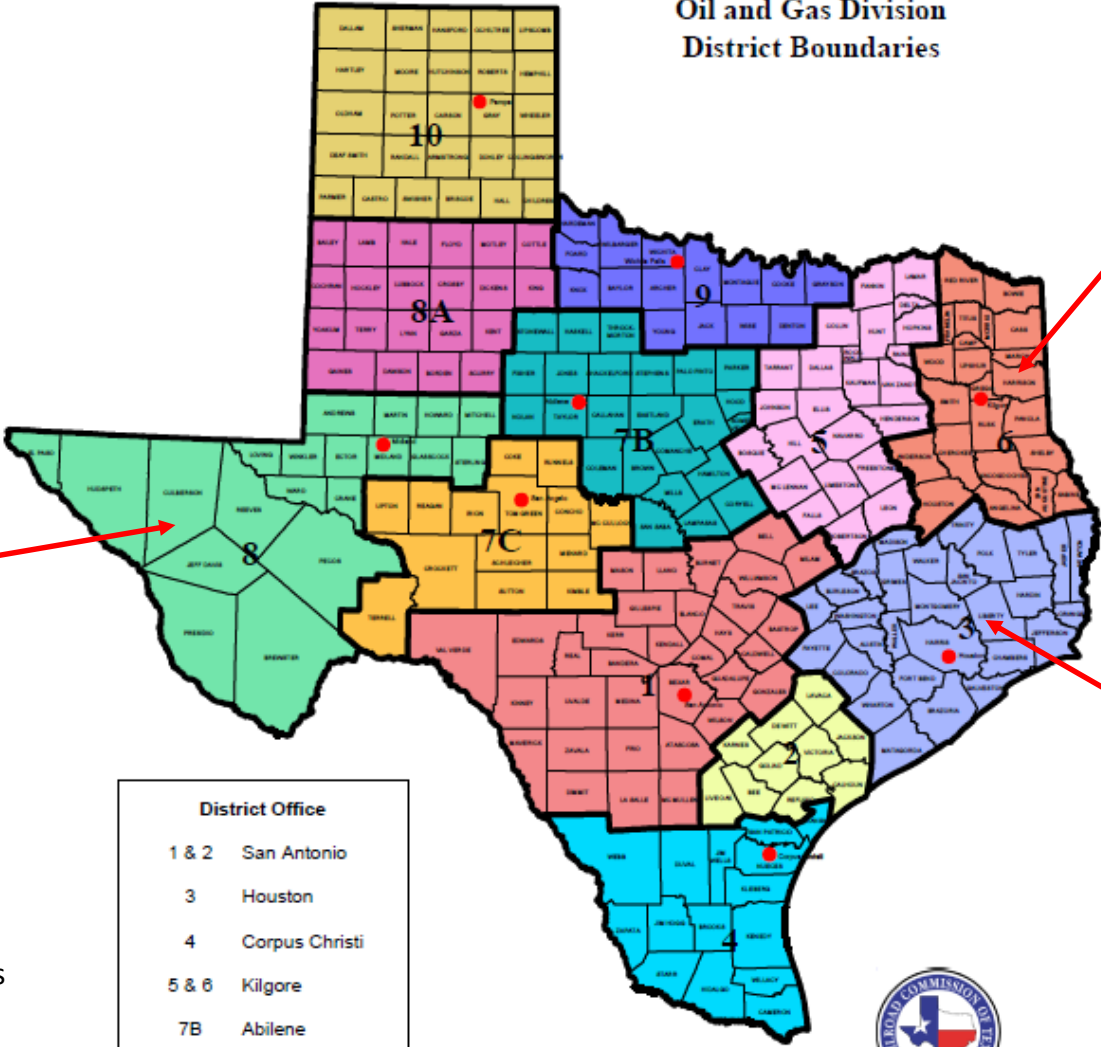


Source: U.S. Energy Information Administration based on data from various published studies. Updated: June 2016

Data from Baker Hughes

BAKER HUGHES					
ROTARY RIGS RUNNING - BY STATE					
April, 2019					
	<u>Apr 05</u>	<u>Apr 12</u>	<u>Apr 18</u>	<u>Apr 26</u>	<u>Apr Avg</u>
TEXAS-INL WATER	0	0	0	0	0
DISTRICT 1	45	43	41	37	42
DISTRICT 2	31	31	32	32	32
DISTRICT 3	15	15	13	14	14
DISTRICT 4	9	10	12	11	11
DISTRICT 5	2	2	2	2	2
DISTRICT 6	27	27	27	27	27
DISTRICT 7B	4	4	4	4	4
DISTRICT 7C	34	32	32	30	32
DISTRICT 8	306	310	310	308	309
DISTRICT 8A	13	15	14	16	15
DISTRICT 9	2	2	2	1	2
DISTRICT 10	8	8	8	6	8
TOTAL TEXAS	499	502	500	491	498
TOTAL UNITED STATES	1025	1022	1012	991	1013

**Oil and Gas Division
District Boundaries**



Dist. 6
27 Rigs

Dist. 8
309 Rigs
31% of US

Dist. 3
14 Rigs

District Office	
1 & 2	San Antonio
3	Houston
4	Corpus Christi
5 & 6	Kilgore
7B	Abilene
7C	San Angelo
8 & 8A	Midland
9	Wichita Falls
10	



RAILROAD COMMISSION OF TEXAS
Oil and Gas Division

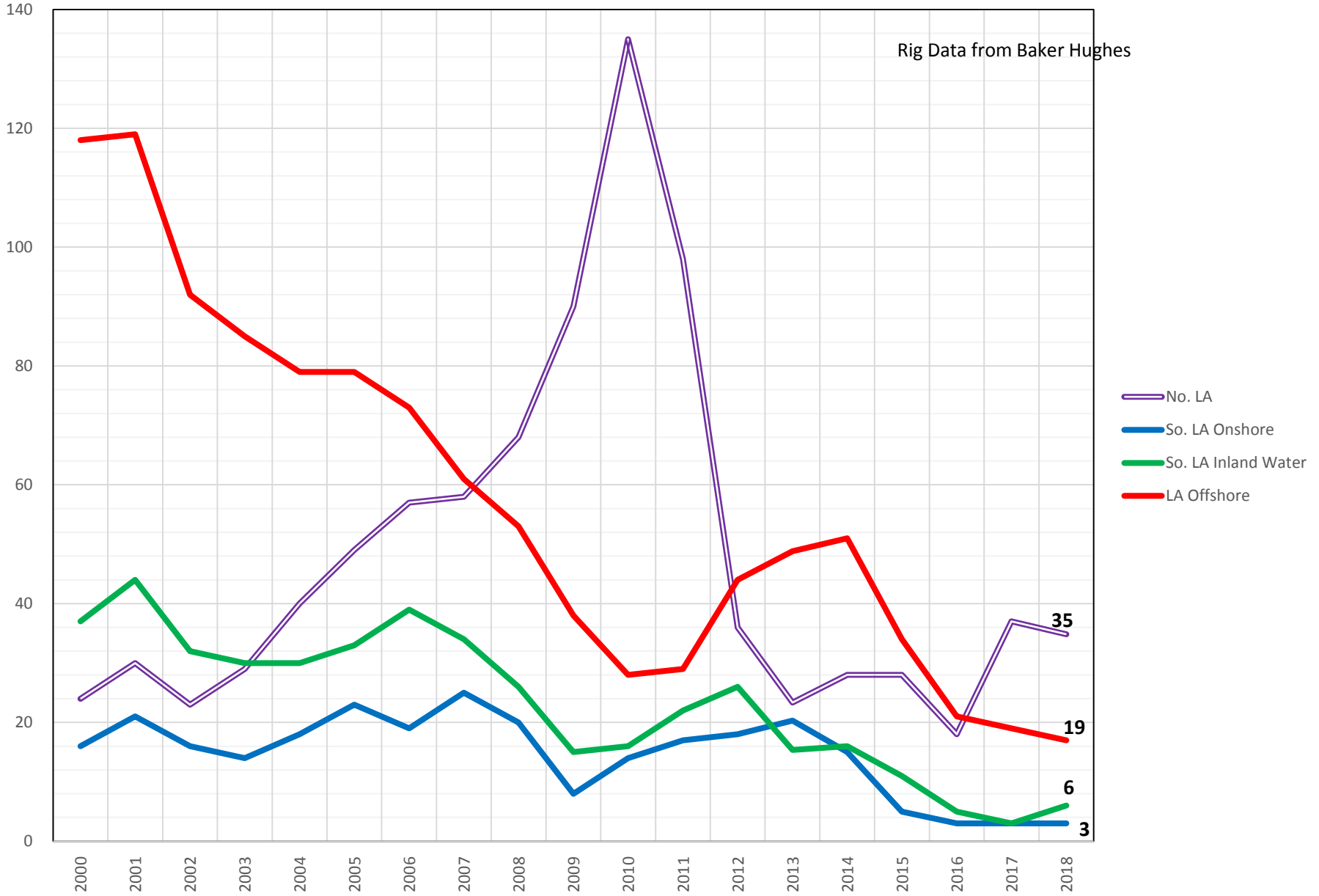
Rig Data from Baker Hughes

Navigation bar with icons for print, zoom, and page navigation. Page number 1 / 1 is displayed.

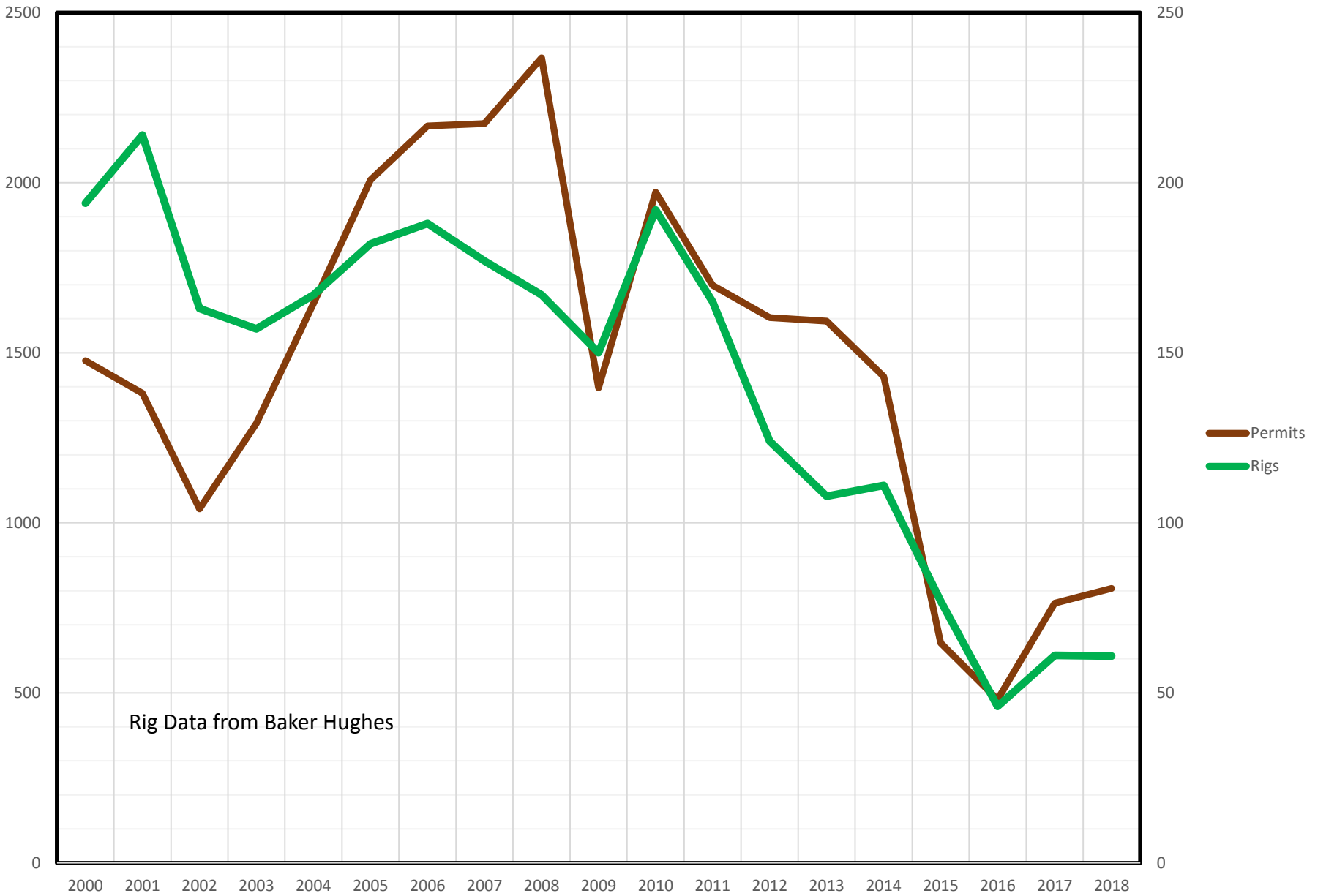


Louisiana Rig Activity 2000-2018

Rig Data from Baker Hughes



Well Permits per Year



Rig Data from Baker Hughes

Louisiana Rig Count

Source Baker Hughes

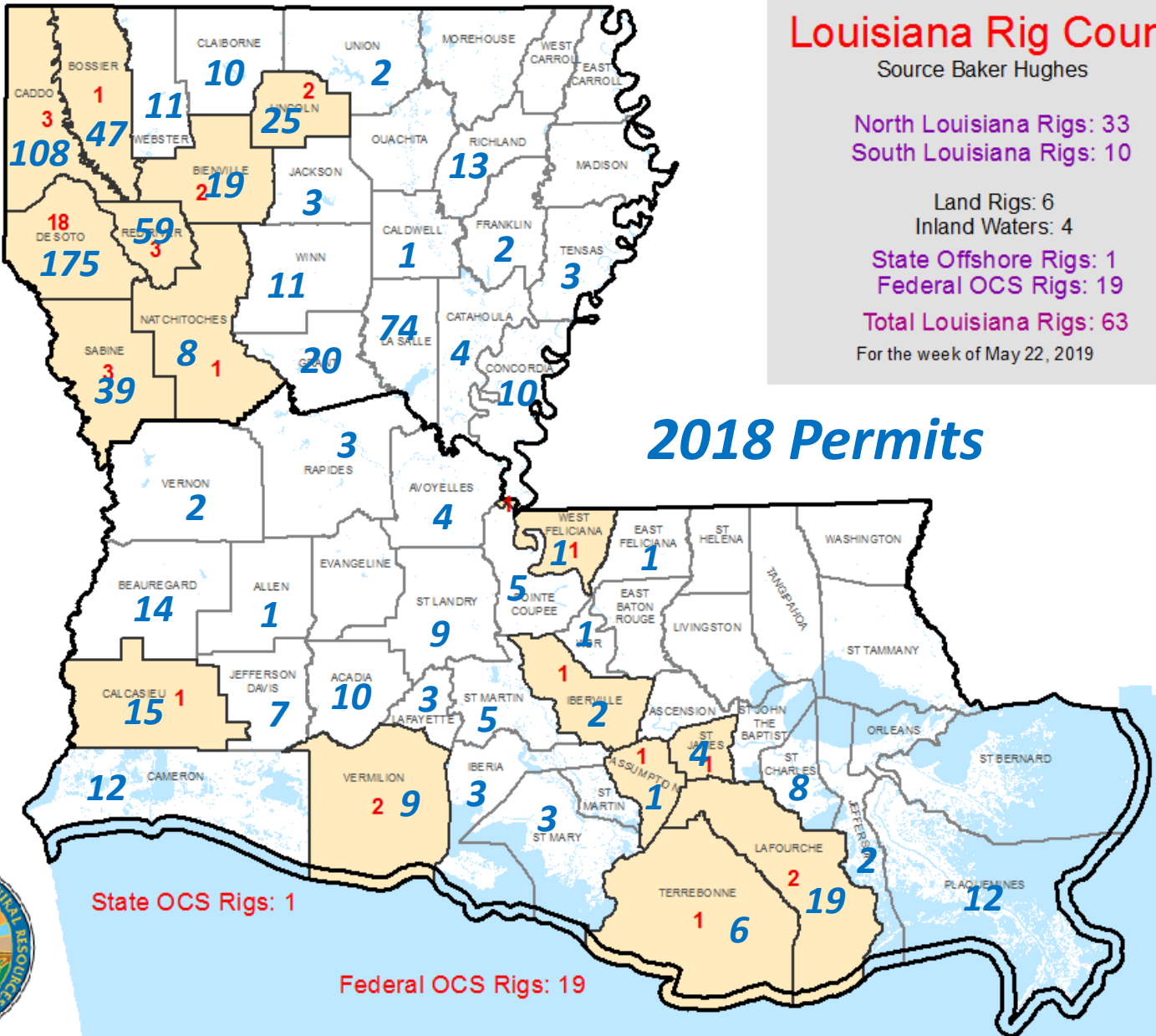
North Louisiana Rigs: 33
 South Louisiana Rigs: 10

Land Rigs: 6
 Inland Waters: 4

State Offshore Rigs: 1
 Federal OCS Rigs: 19

Total Louisiana Rigs: 63
 For the week of May 22, 2019

2018 Permits

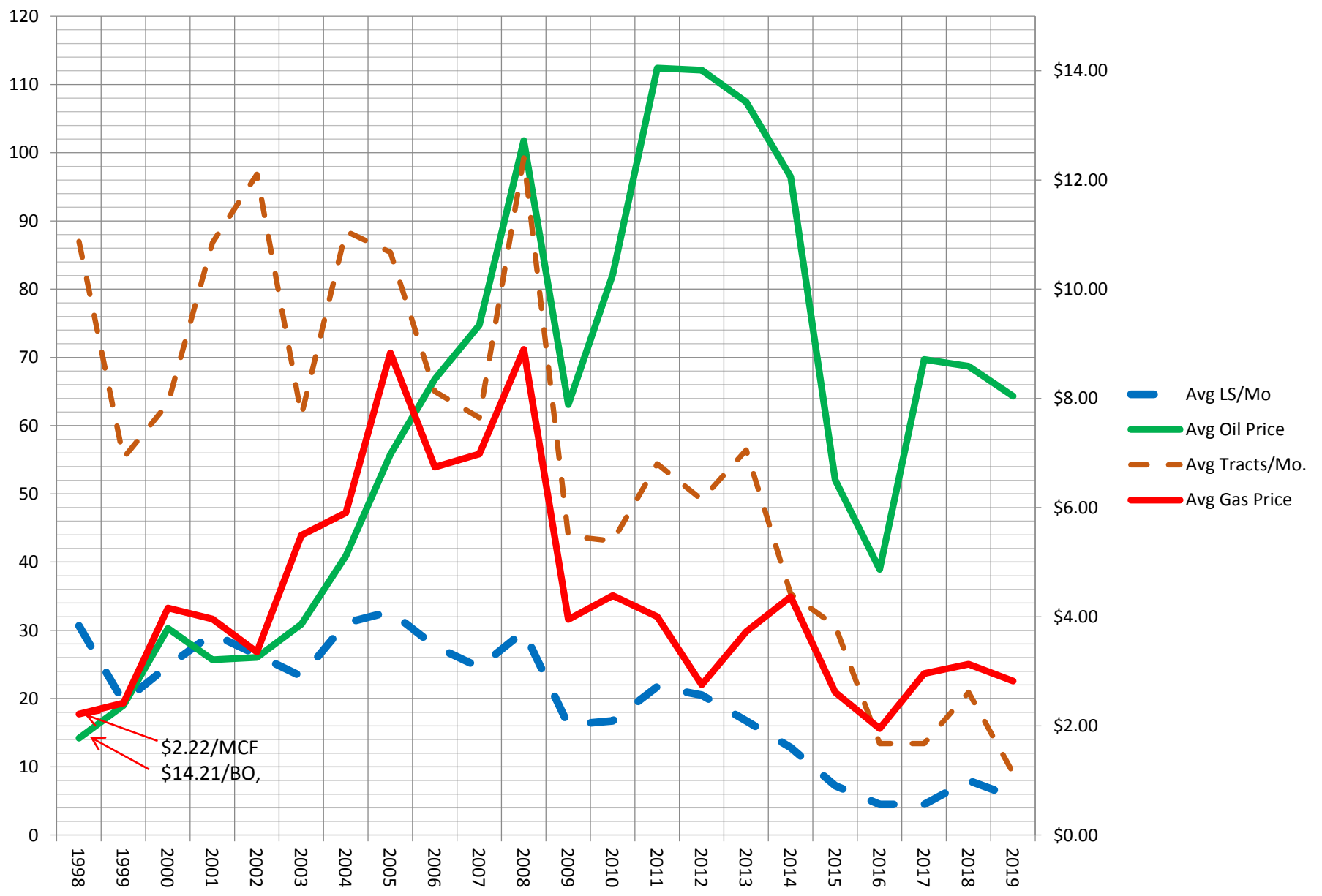


State OCS Rigs: 1

Federal OCS Rigs: 19



Average # Leases per Mo. vs Avg. Oil/Gas Prices



Mr. Hollenshead's Proposed Incentive Program is as follows:

PROPOSED CHANGES TO LOUISIANA LEASE FORM

1. Include a modified provision (i) from the Texas lease in the current Louisiana Lease form and the new lease form
2. Word the new provision to allow for a deduction of 5.5% of the bid royalty if a new well is drilled and sales are brought on line within 26 months. (this will allow two months for transfer if lease is purchased by a landman).
3. In no case can the royalty be less than 18.5% (Matches Federal Offshore Rate?). 12.5% allowed by RS 30:127.
4. The term of the reduced royalty shall be for 36 months after the sales from the new well are brought online. After this period royalty shall be paid to the state at the as bid royalty rate.
5. Working-over an existing wellbore to create production from a new productive zone shall qualify for the reduced royalty.
6. Production from any orphan wells shall qualify for the reduced royalty.
7. Should well drilling/work-over operations be delayed due to permit issues the Lessee may request an extension from the Mineral Board.

Texas Lease Form

- Bays, Bayous (influenced by Tides), Lakes and Offshore Waters – i.e. Large Bodies of Water
- 5 year Lease
- Max. reduction is 5% (Base Lease 25% Royalty)
- Max Credit for New Production in 1st 24 Months
- Applies to all future production

Texas Severance Taxes

- Oil/Condensate = 4.6% of Value

✓ LA = 12.5%

- Gas = 7.5% of value

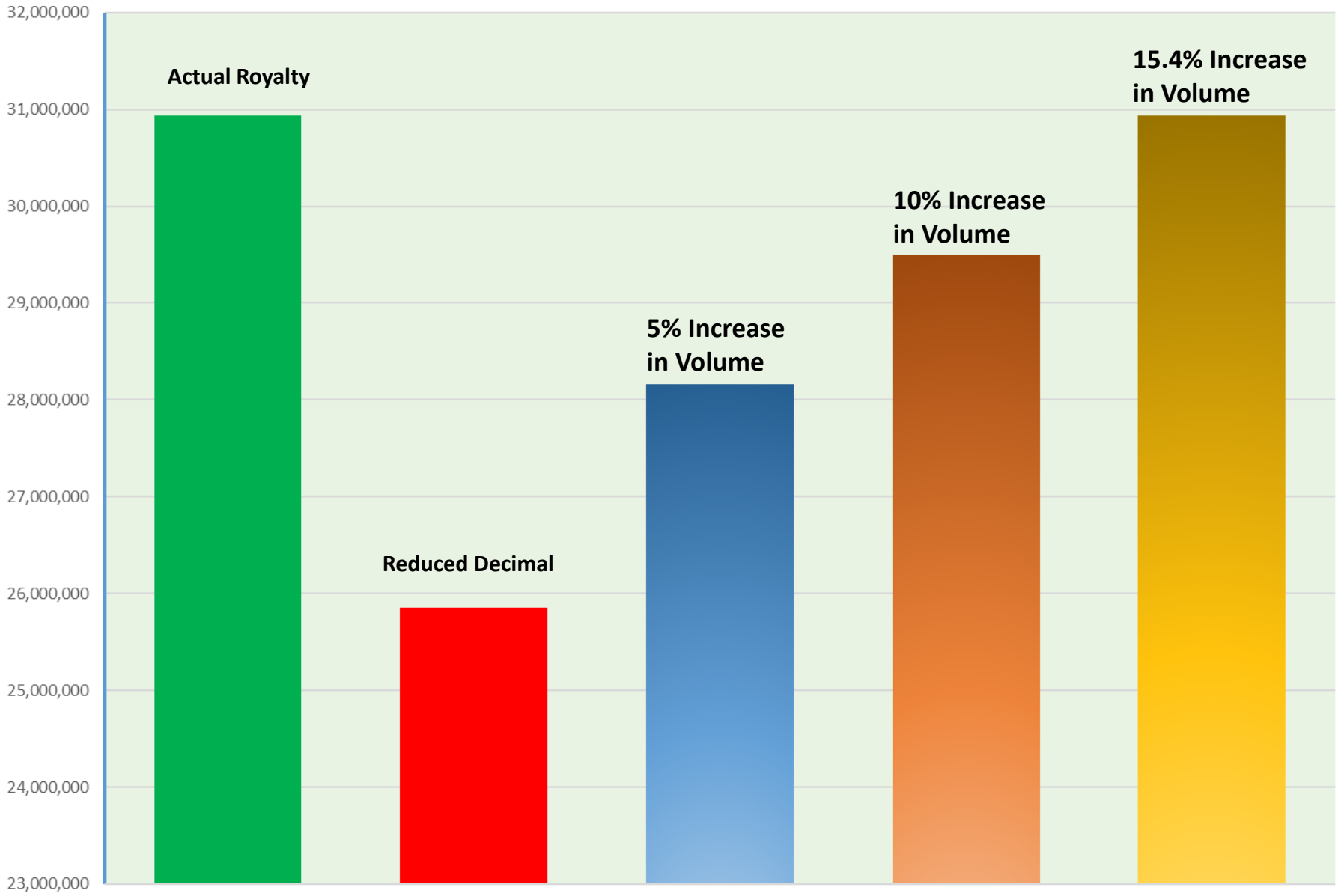
✓ (LA \$0.122/MCF = 5% June)

Economic Impact – Simplified Math

$$5.5\% / 25\% = 22\%$$

Royalty	Reduced Royalty	% Reduction
25%	19.5%	22%
24%	18.5%	23%
23%	18.5%	20%
22%	18.5%	16%
21%	18.5%	12%
20%	18.5%	8%
18.5%	18.5%	0%

Royalty Reduction Impact



Top 50 Royalty Collections

Rank	Field Code	Field Name	Average Royalty		Rank	Field Code	Field Name	Average Royalty	
1	0141	Atchafalaya Bay	25.0%	+	26	1616	West Black Bay	12.5%	
2	2184	Caillou Island	16.4%		27	1608	Black Bay, Southeast	12.5%	
3	0415	Bay Marchand	13.7%		28	7563	Quarantine Bay, South	12.5%	
4	3699	Eugene Island Block 10	24.3%	+	29	1600	Black Bay, North	12.5%	
5	5608	West Lake Salvador	23.0%	+	30	6434	Main Pass Block 74	21.0%	+
6	5759	Lake Washington	22.1%	+	31	4529	Hog Bayou, Offshore	13.0%	
7	2912	West Cote Blanche Bay	12.5%		32	3608	Elm Grove	23.9%	+
8	8453	South Pass Block 24	17.0%		33	9679	White Lake, West	15.7%	
9	6429	Main Pass Block 69	12.5%		34	1592	Black Bay, East	12.5%	
10	3705	Eugene Island Block 18	21.1%	+	35	9605	West Delta Block 83	18.8%	+
11	1944	Breton Sound Block 53	21.1%	+	36	7651	Red River-Bull Bayou	24.0%	+
12	8966	Timbalier Bay Onshore	19.7%	+	37	9291	Weeks Island	16.0%	
13	1888	Breton Sound Block 20	13.1%		38	0340	Bay Baptiste	25.8%	+
14	5083	Lake Barre	15.6%		39	1904	Breton Sound Block 32	16.7%	
15	2360	Caspiana	26.1%	+	40	8475	South Pass Block 27	17.0%	
16	4957	Lac Blanc	16.7%		41	5616	Lake Sand	17.4%	
17	9356	West Cameron Block 21	23.0%	+	42	3563	East Cox Bay	12.5%	
18	5564	Lake Raccourci	19.6%	+	43	4207	Grand Isle Block 18	18.0%	
19	3210	Deep Lake	19.8%	+	44	9528	West Delta Block 52	13.3%	
20	4082	Golden Meadow	18.6%	+	45	9540	West Delta Block 54	18.8%	+
21	4016	Garden Island Bay	12.5%		46	4196	Grand Isle Block 16	12.5%	
22	9484	West Delta Block 27	12.5%		47	7813	Sabine Lake, South	22.5%	+
23	3008	Creole Offshore	21.4%	+	48	8918	Thorn Lake	25.4%	+
24	5551	Lake Pelto	19.6%	+	49	0448	Bay St. Elaine	17.5%	
25	9309	West Bay	13.4%		50	0784	Bayou Hebert	23.0%	+

Specific Examples: Range of Affects

South Louisiana Water

Reduction Estimated Value

Field Code	Field Name	AVG		Reduced Royalty	One Year Impact		3 Year Impact	Avg Cost Well
		Royalty	By Prop/Unit					
0141	Atchafalaya Bay	25.0%	\$ 10,543,887	19.5%	\$ 2,407,955	\$ 7,223,865	\$26,790,196	
3699	Eugene Island Block 10	24.3%	\$ 3,139,809	18.8%	\$ 688,931	\$ 2,000,792	\$37,311,739	
AVG =				AVG =	\$ 1,548,443	\$ 4,645,329	\$32,050,968	
State Participation 100%							3 Yr Impact =	14.5%

North Louisiana Onshore

Field Code	Field Name	AVG		Reduced Royalty	One Year Impact		3 Year Impact	Avg Cost Well
		Royalty	By Prop/Unit					
2360	Caspiana	26.1%	\$ 28,636	20.6%	\$ 6,736	\$ 20,209	\$ 8,343,231	
7651	Red River-Bull Bayou	24.0%	\$ 16,544	18.5%	\$ 4,342	\$ 13,025	\$ 9,779,000	
3608	Elm Grove	23.9%	\$ 8,846	18.5%	\$ 2,092	\$ 6,277	\$ 8,787,757	
8918	Thorn Lake	25.4%	\$ 25,070	19.9%	\$ 5,858	\$ 17,575	\$ 8,898,231	
AVG =				AVG =	\$ 4,757	\$ 14,272	\$ 8,952,055	
State Participation Small %							3 Yr Impact =	0.16%

Specific Examples: Range of Affects

South Louisiana Water							
Field Code	Field Name	AVG Royalty	By Prop/Unit	Reduced Royalty	One Year Impact	3 Year Impact	
7813	Sabine Lake, South	22.5%	\$ 641,734	18.50%	\$ 114,086	\$ 342,258	

State Participation 100%

5% of \$7 million well

South Louisiana Water							
Field Code	Field Name	AVG Royalty	By Prop/Unit	Reduced Royalty	One Year Impact	3 Year Impact	Avg Cost Well
0784	Bayou Hebert	23.0%	\$ 1,213,082	18.50%	\$ 237,342	\$ 712,026.39	\$ 30,663,067
						3 Yr Impact =	2.32%

State Participation < 6% of 1600 ac Unit

Cumulative Production = 2 MMBO, 108 BCF

Resolution

1. Establish a policy for temporary royalty reduction on new state leases granted by the board with the installation of the New State Lease Form.
2. This time limited policy available for nominations for a period of 2 Years (24 months)
3. Temporarily reduce the royalty up to 5.5% for the first 36 consecutive months of production. The royalty shall not be reduced to less than 18.5%.

Resolution (cont.)

4. Applies to all production established from any well on the lease in the first 24 months from the effective date of the lease.
 - Covers all operations

5. Lessee must apply for the reduction within 90 days from the date of 1st production. There will be no retroactive adjustments.
 - LDR has had fits with operators requesting Severance tax relief years after and LDR was required to refund money with interest

6. The OMR Staff must qualify the reduced royalty status prior to making the first royalty payment.

Resolution(cont.)

- **Still applies to Orphan wells**
 - It is better than the “Severance Tax” relief law passed because it permits someone to restore production. This helps North Louisiana a lot with the number of stripper orphan wells
- **Removed “Suspending Event” from policy. i.e. extension due to inability to get permit**
- **Well must be Placed on Production to Qualify**