



CAUTION

Documents in this file have been placed in Table of Contents order and scanned.

Please help keep documents in content order and let the ScanLab know when new documents are added to this file.

Thank you for your assistance.

Archives and Records Staff

MF109559

State Lease	Control	Base File	County
MF109559	07-106632	92701	REEVES

EXPIRED
DATE 10/7/13
LEASING SSD
MAPS ML
GIS ML

Leasing: DL
Analyst: DOB
Maps: _____
GIS: B

Survey	PUBLIC SCHOOL LAND	
Block	71	
Block Name		
Township		
Section/Tract	33	
Land Part		
Part Description	NW4 & W2 OF NE4, & N2 OF SW4	
Acres	4.689	
Depth Below	Depth Above	Depth Other
0	0	
Name	CHESAPEAKE EXPLORATION, LLC	
Lease Date	10/7/2008	
Primary Term	5 yrs	
Bonus (\$)	\$9,026.33	
Rental (\$)	\$0.00	
Lease Royalty	0.2500	

CONTENTS OF FILE NO. MF- 109559

1. BID FORM	10/07/08
2. OIL & GAS LEASE	10/07/08
3. TRANSMITTAL LETTER	10/23/08

~~4. CERTIFIED COPY OF LEASE~~

See MF 104585 #10 for Pooling
Committee Report & Term
Pooling Agreement 11/13/09

Scanned 01/28/09 JA

4. GLO letter 2/3/09

ASSIGNMENT FILED IN MF 104585 #12, 5/21/09

Scanned 8/24/09 JA

See DIVISION ORDER 11-104585 #13, 10/27/09

5. RENTAL PAYMENT 9/25/09

6. Memo to file - status of lease 7/6/10

- 7. Rental Payment 9-20-10

Small lease PUT IN WRONG FILE 1-19-11
lease payment status

8. 3rd yr rental 9-22-11

9. Rental Payment 9/22/11

10. Rental Payment 09/11/2012

Scanned 6/10/13 JA

Expired at end of Primary term 10/7/13

Scanned PT 6-11-14

11 letter to Chesapeake 1-13-2020 5-18-2021

12 letter to Chesapeake 5-4-2020 5-18-2021

Scanned A 1 June 2021

State Lease Number

M-109559

For GLO Use Only

**OCTOBER 7, 2008****MINERAL LEASE BID APPLICATION****APPLICANT
AGREEMENT**

I agree, if awarded a lease on the referenced tract, to comply with all terms and conditions of said lease and with all applicable laws that so govern said lease, and as those laws may be amended.

**APPLICANT
IDENTIFICATION
TO APPEAR ON
LEASE** (type/print)Name: Chesapeake Energy CorporationAddress: 6100 N. Western Ave.City: Oklahoma City State: OK Zip: 73118-1044
(Include +4 Code)Telephone: (405) 879-7544**AREA
DESCRIPTION**County(ies): ReevesSurvey/Area: PSL

(If Applicable)

Block/Tsp.: 71 Section/Tract: 33 Acres: 4.689
(If Applicable)**BID
SUBMISSION**(A) Bonus Amount (\$ 9,026.33)Nine Thousand Twenty Six Dollars & Thirty Three Cents
(type/print above)(B) Sales Fee Amount (\$ 135.39)One Hundred Thirty Five Dollars & Thirty Nine Cents
(type/print above)

This Sales Fee is 1½% of the cash bonus as provided in Section 32.110 of the Natural Resources Code as amended.

MGL. NO.310**APPLICANT NAME**Chesapeake Energy Corporation
(same as above)**BONUS AMOUNT ONLY (A)**
(Do Not include sales fee)~~X~~ 9,026.33**STATE OF TEXAS
TAX I.D. #**[REDACTED]
(must be an 11-digit number)**SIGNATURE OF
AGENT**[Signature]
(signature)Kent E. Curran
(type/print name)~~X~~ 135.39

09002548

09002549

Chesapeake Operating, Inc.

008019 TX GENERAL LAND OFFICE

No. 1030840

VOUCHER NUMBER	INVOICE DATE	INVOICE NUMBER	DESCRIPTION OR GROSS AMOUNT DISCOUNT	NET AMOUNT
794258	09/29/08	092908	BALMORHEA PROSP LSE BNS 4.689	9026.33
Total for check				\$9,026.33

Chesapeake Operating, Inc.

008019 TX GENERAL LAND OFFICE

No. 1030841

VOUCHER NUMBER	INVOICE DATE	INVOICE NUMBER	DESCRIPTION OR GROSS AMOUNT DISCOUNT	NET AMOUNT
794259	09/29/08	092908A	BALMORHEA PROSP REC FEES	135.39
Total for check				\$135.39

1.

File No. WF 709559

Bed Form

Date Filed: 10/7/08
Jerry Patterson, Commissioner

By SP

The State of Texas



Austin, Texas

OIL AND GAS LEASE NO. M-109559

WHEREAS, pursuant to the Texas Natural Resources Code Chapters 32, 33, 51, and Chapter 52, Subchapters A-D and H, (said Code being hereinafter referred to as N.R.C.), and subject to all rules and regulations promulgated by the Commissioner of the General Land Office and/or the School Land Board pursuant thereto, and all other applicable statutes and amendments to said N.R.C., the following area, to-wit:

APPROXIMATELY 4.689 ACRES OF HIGHWAY RIGHT-OF-WAY FOR INTERSTATE HIGHWAY 20 (IH-20), BEING ALL OF SAID RIGHT-OF-WAY WITHIN THE NORTHWEST ONE QUARTER, WEST ONE-HALF OF THE NORTHEAST ONE-QUARTER AND NORTH ONE-HALF OF THE SOUTHWEST ONE-QUARTER (NW/4 & W/2 OF NE/4, & N/2 OF SW/4) OF SECTION 33, BLOCK 71, PUBLIC SCHOOL LAND SURVEY, REEVES COUNTY, AS SHOWN ON THE OFFICIAL MAP OF REEVES COUNTY, TEXAS NOW ON FILE IN THE TEXAS GENERAL LAND OFFICE, AUSTIN, TEXAS, (RELINQUISHMENT ACT TRACT),

was, after being duly advertised, offered for lease on the 7th day of October, 2008, at 10:00 o'clock a.m., by the Commissioner of the General Land Office of the State of Texas and the School Land Board of the State of Texas, for the sole and only purpose of prospecting and drilling for, and producing oil and/or gas that may be found and produced from the above described area; and

WHEREAS, after all bids and remittances which were received up to said time have been duly considered by the Commissioner of the General Land Office and the School Land Board at a regular meeting thereof in the General Land Office, on the 7th day of October, 2008, hereinafter the "effective date" and it was found and determined that CHESAPEAKE ENERGY CORPORATION whose address is 6100 N. WESTERN AVENUE, OKLAHOMA CITY, OKLAHOMA 73118-1044 had offered the highest and best bid for a lease of the area above described and is, therefore, entitled to receive a lease thereon:

NOW, THEREFORE, I, Jerry E. Patterson, Commissioner of the General Land Office of the State of Texas, hereinafter sometimes referred to as "Lessor," whose address is Austin, Texas, by virtue of the authority vested in me and in consideration of the payment by the hereinafter designated Lessee, the sum of Nine Thousand Twenty-Six And 33/100 Dollars (\$9,026.33), receipt of which is hereby acknowledged and of the royalties, covenants, stipulations and conditions contained and hereby agreed to be paid, observed and performed by Lessee, do hereby demise, grant, lease and let unto the above mentioned bidder the exclusive right to prospect for, produce and take oil and/or gas from the aforesaid area upon the following terms and conditions, to-wit:

1. **RESERVATION:** There is hereby excepted and reserved to Lessor the full use of the property covered hereby and all rights with respect to the surface and subsurface thereof for any and all purposes except those granted and to the extent herein granted to Lessee, together with the rights of ingress and egress and use of said lands by Lessor and its mineral lessees, for purposes of exploring for and producing the minerals which are not covered, or which may not be covered in the future, under the terms of this lease, but which may be located within the surface boundaries of the leased area. All of the rights in and to the leased premises retained by Lessor and all of the rights in and to the leased premises granted to Lessee herein shall be exercised in such a manner that neither shall unduly interfere with the operations of the other.

2. **TERM:** Subject to the other provisions hereof, this lease shall be for a term of five (5) years from the effective date hereof (herein called "primary term") and as long thereafter as oil or gas is produced in paying quantities from said area.

3. **DELAY RENTALS:** If no well is commenced on the land hereby leased on or before the anniversary date of this lease, this lease shall terminate as to both parties unless the Lessee on or before said date shall pay or tender to the Commissioner of the General Land Office of the State of Texas at Austin, Texas, the amount specified in the following schedule multiplied by the number of acres in the premises, which shall operate as a rental and cover the privilege of deferring the commencement of a well for twelve (12) months from said date. In like manner and upon payments or tenders of amounts set out in the following schedule, the commencement of a well may be further deferred for a like period of the same number of months.

<u>Anniversary Date</u>	<u>Delay Rental per Acre</u>
First	\$ 5.00
Second	\$ 5.00
Third	\$25.00
Fourth	\$25.00

4. **PRODUCTION ROYALTIES:** Subject to the provisions for royalty reductions set out in subparagraph (E) of this paragraph 4, upon production of oil and/or gas, the Lessee agrees to pay or cause to be paid to the Commissioner of the General Land Office in Austin, Texas, for the use and benefit of the State of Texas, during the term hereof:

(A) **OIL:** As a royalty on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well and also all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, 1/4 part of the gross production or the market value thereof, at the option of the Lessor, such value to be determined by 1) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity in the general area where produced and when run, or 2) the highest market price thereof offered or paid in the general area where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is the greater. Lessee agrees that before any gas produced from the land hereby leased is sold, used or processed in a plant, it will be run free of cost to Lessor through an adequate oil and gas separator of conventional type or other equipment at least as efficient to the end that all liquid hydrocarbons recoverable from the gas by such means will be recovered. Upon written consent of Lessor, the requirement that such gas be run through such a separator or other equipment may be waived upon such terms and conditions as prescribed by Lessor.

(B) **NON-PROCESSED GAS:** As a royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substances not defined as oil in subparagraph (A) above, produced from any well on said land (except as provided herein with respect to gas processed in a plant for the extraction of gasoline, liquid hydrocarbons or other products) 1/4 part of the gross production or the market value thereof, at the option of the Lessor, such value to be based on the highest market price paid or offered for gas of comparable quality in the general area where produced and when run, or the gross price paid or offered to the producer, whichever is greater provided that the maximum pressure base in measuring the gas under this lease contract shall not at any time exceed 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to test made by the Balance Method or by the most approved method of testing being used by the industry at the time of testing.

(C) **PROCESSED GAS:** As a royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbons, 1/4 part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the Lessor. All royalties due herein shall be based on one hundred percent (100%) of the total plant production of residue gas attributable to gas produced from this lease, and on fifty percent (50%) or that percent accruing to Lessee, whichever is the greater, of the total plant production of liquid hydrocarbons, attributable to the gas produced from this lease; provided that if liquid hydrocarbons are recovered from gas processed in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the percentage applicable to liquid hydrocarbons shall be fifty percent (50%) or the highest percent accruing to a third party processing gas through such plant under a processing agreement negotiated at arms' length (or if there is no such third party, the highest percent then being specified in processing agreements or contracts in the industry), whichever is the greater. The respective royalties on residue gas and on liquid hydrocarbons shall be determined by 1) the highest market price paid or offered for any gas (or liquid hydrocarbons) of comparable quality in the general area or 2) the gross price paid or offered for such residue gas (or the weighted average gross selling price for the respective grades of liquid hydrocarbons), whichever is the greater. In no event, however, shall the royalties payable under this paragraph be less than the royalties which would have been due had the gas not been processed.

(D) **OTHER PRODUCTS:** As a royalty on carbon black, sulphur or any other products produced or manufactured from gas (excepting liquid hydrocarbons) whether said gas be "casinghead," "dry" or any other gas, by fractionating, burning or any other processing, 1/4 part of gross production of such products, or the market value thereof, at the option of Lessor, such market value to be determined as follows:

- (1) On the basis of the highest market price of each product, during the same month in which such product is produced, or
- (2) On the basis of the average gross sale price of each product for the same month in which such products are produced; whichever is the greater.

(E) **VARIABLE ROYALTY:** (i) Subject to the other provisions of this lease, it is hereby provided that in the event production in paying quantities is established pursuant to the terms of this lease and such production is brought on line and sales thereof are commenced within eighteen (18) months of the effective date hereof, the royalty rate provided herein shall be reduced to 20%, and shall apply to each subsequent well drilled and produced on the land covered by this lease. Provided that, if during such eighteen (18) month term during which Lessee may earn a reduced royalty rate of 20% as herein provided, Lessee should drill in good faith and complete the first well as a dry hole on the land covered by this lease, Lessee may receive a three (3) month extension of the term in which to earn a reduced royalty rate by giving notice to the Commissioner of the General Land Office, commencing drilling operations on an additional well prior to the expiration of such three (3) month period and prosecuting diligently and in good faith the drilling of such additional well and completing same so that production in paying quantities is established and so that such production is brought on line and sales thereof are commenced prior to the expiration of such three (3) month extension period.

(ii) In the event production in paying quantities is established pursuant to the terms of this lease and such production is brought on line and sales thereof are commenced after the expiration of eighteen (18) months from the effective date hereof but prior to the expiration of twenty-four (24) months from the effective date hereof, the royalty rate provided herein shall be reduced to 22.5% and shall apply to each subsequent well drilled and produced on the land covered by this lease. Provided that, if during such six (6) month term during which Lessee may earn a reduced royalty rate of 22.5% as herein provided, Lessee should drill in good faith and complete the first well as a dry hole on the land covered by this lease, Lessee may receive a three (3) month extension of the term in which to earn a reduced royalty rate by giving notice to the Commissioner of the General Land Office, commencing drilling operations on an additional well prior to the expiration of such three (3) month period and prosecuting diligently and in good faith the drilling of such additional well and completing same so that production in paying quantities is established and so that such production is brought on line and sales thereof are commenced prior to the expiration of such three (3) month extension period.

(F) **NO DEDUCTIONS:** Lessee agrees that all royalties accruing to Lessor under this lease shall be without deduction for the cost of producing, transporting, and otherwise making the oil, gas and other products produced hereunder ready for sale or use.

(G) **ROYALTY IN KIND:** Notwithstanding anything contained herein to the contrary, Lessor may, at its option, upon not less than 60 days notice to Lessee, require at any time or from time to time that payment of all or any royalties accruing to Lessor under this lease be made in kind without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting and otherwise making the oil, gas and other products produced hereunder ready for sale or use. Lessor's right to take its royalty in kind shall not diminish or negate Lessor's rights or Lessee's obligations, whether express or implied, under this lease.

(H) **PLANT FUEL AND RECYCLED GAS:** No royalty shall be payable on any gas as may represent this lease's proportionate share of any fuel used to process gas produced hereunder in any processing plant. Notwithstanding anything contained herein to the contrary, and subject to the consent in writing of the Commissioner of the General Land Office, Lessee may recycle gas for gas lift purposes on the leased premises after the liquid hydrocarbons contained in the gas have been removed, and no royalties shall be payable on the gas so recycled until such time as the same may thereafter be produced and sold or used by Lessee in such manner as to entitle Lessor to a royalty thereon under the royalty provisions of this lease.

(I) **MINIMUM ROYALTY:** During any year after the expiration of the primary term of this lease, if this lease is maintained by production, the royalties paid to Lessor in no event shall be less than an amount equal to \$5.00 per acre; otherwise, there shall be due and payable on or before the last day of the month succeeding the anniversary date of this lease a sum equal to \$5.00 per acre less the amount of royalties paid during the preceding year.

(J) **MARGINAL PRODUCTION ROYALTY:** Upon Lessee's written application, the School Land Board may reduce the royalty rate set out in this paragraph and/or the minimum royalty set out in subparagraph 4 (I) to extend the economic life of this lease and encourage recovery of oil or gas that might otherwise remain unrecovered. Any such royalty reduction must conform to the requirements of any School Land Board administrative rules on this subject. Royalty may not be reduced below the applicable statutory minimum.

5. ROYALTY PAYMENTS AND REPORTS: All royalties not taken in kind shall be paid to the Commissioner of the General Land Office at Austin, Texas, in the following manner:

Payment of royalty on production of oil and gas shall be as provided in the rules set forth in the Texas Register. Rules currently provide that royalty on oil is due and must be received in the General Land Office on or before the 5th day of the second month succeeding the month of production, and royalty on gas is due and must be received in the General Land Office on or before the 15th day of the second month succeeding the month of production, accompanied by the affidavit of the owner, manager or other authorized agent, completed in the form and manner prescribed by the General Land Office and showing the gross amount and disposition of all oil and gas produced and the market value of the oil and gas, together with a copy of all documents, records or reports confirming the gross production, disposition and market value including gas meter readings, pipeline receipts, gas line receipts and other checks or memoranda of amount produced and put into pipelines, tanks, or pools and gas lines or gas storage, and any other reports or records which the General Land Office may require to verify the gross production, disposition and market value. In all cases the authority of a manager or agent to act for the Lessee herein must be filed in the General Land Office. Each royalty payment shall be accompanied by a check stub, schedule, summary or other remittance advice showing by the assigned General Land Office lease number the amount of royalty being paid on each lease. If Lessee pays his royalty on or before thirty (30) days after the royalty payment was due, then Lessee owes a penalty of 5% on the royalty or \$25.00, whichever is greater. A royalty payment which is over thirty (30) days late shall accrue a penalty of 10% of the royalty due or \$25.00 whichever is greater. In addition to a penalty, royalties shall accrue interest at a rate of 12% per year; such interest will begin accruing when the royalty is sixty (60) days overdue. Affidavits and supporting documents which are not filed when due shall incur a penalty in an amount set by the General Land Office administrative rule which is effective on the date when the affidavits or supporting documents were due. The Lessee shall bear all responsibility for paying or causing royalties to be paid as prescribed by the due date provided herein. Payment of the delinquency penalty shall in no way operate to prohibit the State's right of forfeiture as provided by law nor act to postpone the date on which royalties were originally due. The above penalty provisions shall not apply in cases of title dispute as to the State's portion of the royalty or to that portion of the royalty in dispute as to fair market value.

6. (A) RESERVES, CONTRACTS AND OTHER RECORDS: Lessee shall annually furnish the Commissioner of the General Land Office with its best possible estimate of oil and gas reserves underlying this lease or allocable to this lease and shall furnish said Commissioner with copies of all contracts under which gas is sold or processed and all subsequent agreements and amendments to such contracts within thirty (30) days after entering into or making such contracts, agreements or amendments. Such contracts and agreements when received by the General Land Office shall be held in confidence by the General Land Office unless otherwise authorized by Lessee. All other contracts and records pertaining to the production, transportation, sale and marketing of the oil and gas produced on said premises, including the books and accounts, receipts and discharges of all wells, tanks, pools, meters, and pipelines shall at all times be subject to inspection and examination by the Commissioner of the General Land Office, the Attorney General, the Governor, or the representative of any of them.

(B) **DRILLING RECORDS:** Written notice of all operations on this lease shall be submitted to the Commissioner of the General Land Office by Lessee or operator five (5) days before spud date, workover, re-entry, temporary abandonment or plug and abandonment of any well or wells. Such written notice to the General Land Office shall include copies of Railroad Commission forms for application to drill. Copies of well tests, completion reports and plugging reports shall be supplied to the General Land Office at the time they are filed with the Texas Railroad Commission. Lessee shall supply the General Land Office with any records, memoranda, accounts, reports, cuttings and cores, or other information relative to the operation of the above-described premises, which may be requested by the General Land Office, in addition to those herein expressly provided for. Lessee shall have an electrical and/or radioactivity survey made on the bore-hole section, from the base of the surface casing to the total depth of well, of all wells drilled on the above described premises and shall transmit a true copy of the log of each survey on each well to the General Land Office within fifteen (15) days after the making of said survey.

(C) **PENALTIES:** Lessee shall incur a penalty whenever reports, documents or other materials are not filed in the General Land Office when due. The penalty for late filing shall be set by the General Land Office administrative rule which is effective on the date when the materials were due in the General Land Office.

7. **RETAINED ACREAGE:** Notwithstanding any provision of this lease to the contrary, after a well producing or capable of producing oil or gas has been completed on the leased premises, Lessee shall exercise the diligence of a reasonably prudent operator in drilling such additional well or wells as may be reasonably necessary for the proper development of the leased premises and in marketing the production thereon.

(A) **VERTICAL:** In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall then terminate as to all of the leased premises, EXCEPT (1) 40 acres surrounding each oil well capable of producing in paying quantities and 320 acres surrounding each gas well capable of producing in paying quantities (including a shut-in oil or gas well as provided in Paragraph 11 hereof), or a well upon which Lessee is then engaged in continuous drilling or reworking operations, or (2) the number of acres included in a producing pooled unit pursuant to Natural Resources Code Sections 52.151-52.153, or (3) such greater or lesser number of acres as may then be allocated for production purposes to a proration unit for each such producing well under the rules and regulations of the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction. Within 90 days of a partial termination of this lease in accordance with this subparagraph and upon payment of the minimum filing fee set by General Land Office rules in effect at the time of the partial termination, Lessee shall have the right to obtain a surface lease for ingress and egress on and across the terminated portion of the leased premises as may be reasonably necessary for the continued operation of the portions of the lease remaining in force and effect. If Lessee fails to apply for a surface lease within the 90 day period specified above, Lessee may apply for a surface lease from the Land Office, but the Land Commissioner has the discretion to grant or deny such application and to set the fee for such surface lease.

(B) **HORIZONTAL:** In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall further terminate as to all depths below 100 feet below the total depth drilled (hereinafter "deeper depths") in each well located on acreage retained in Paragraph 7 (A) above, unless on or before two (2) years after the primary or extended term Lessee pays an amount equal to one-half (1/2) of the bonus originally paid as consideration for this lease (as specified on page 1 hereof). If such amount is paid, this lease shall be in force and effect as to such deeper depths, and said termination shall be delayed for an additional period of two (2) years and so long thereafter as oil or gas is produced in paying quantities from such deeper depths covered by this lease.

(C) **IDENTIFICATION AND FILING:** The surface acreage retained hereunder as to each well shall, as nearly as practical, be in the form of a square with the well located in the center thereof, or such other shape as may be approved by the School Land Board. Within thirty (30) days after partial termination of this lease as provided herein, Lessee shall execute and record a release or releases containing a satisfactory legal description of the acreage and/or depths not retained hereunder. The recorded release, or a certified copy of same, shall be filed in the General Land Office, accompanied by the filing fee prescribed by the General Land Office rules in effect on the date the release is filed. If Lessee fails or refuses to execute and record such release or releases within ninety (90) days after being requested to do so by the General Land Office, then the Commissioner at his sole discretion may designate by written instrument the acreage and/or depths to be released hereunder and record such instrument at Lessee's expense in the county or counties where the lease is located and in the official records of the General Land Office and such designation shall be binding upon Lessee for all purposes. If at any time after the effective date of the partial termination provisions hereof, the applicable field rules are changed or the well or wells located thereon are reclassified so that less acreage is thereafter allocated to said well or wells for production purposes, this lease shall thereupon terminate as to all acreage not thereafter allocated to said well or wells for production purposes.

8. **OFFSET WELLS:** If oil and/or gas should be produced in commercial quantities from a well located on land privately owned or on State land leased at a lesser royalty, which well is within one thousand (1,000) feet of the area included herein, or which well is draining the area covered by this lease, the Lessee shall, within sixty (60) days after such initial production from the draining well or the well located within one thousand (1,000) feet from the area covered by this lease begin in good faith and prosecute diligently the drilling of an offset well on the area covered by this lease, and such offset well shall be drilled to such depth as may be necessary to prevent the undue drainage of the area covered by this lease, and the Lessee, manager or driller shall use all means necessary in a good faith effort to make such offset well produce oil and/or gas in commercial quantities. Only upon the determination of the Commissioner and with his written approval, may the payment of a compensatory royalty satisfy the obligation to drill an offset well or wells required under this Paragraph.

9. **DRY HOLE/CESSATION OF PRODUCTION DURING PRIMARY TERM:** If, during the primary term hereof and prior to discovery and production of oil or gas on said land, Lessee should drill a dry hole or holes thereon, or if during the primary term hereof and after the discovery and actual production of oil or gas from the leased premises such production thereof should cease from any cause, this lease shall not terminate if on or before the expiration of sixty (60) days from date of completion of said dry hole or cessation of production Lessee commences additional drilling or reworking operations thereon, or pays or tenders the next annual delay rental in the same manner as provided in this lease. If, during the last year of the primary term or within sixty (60) days prior thereto, a dry hole be completed and abandoned, or the production of oil or gas should cease for any cause, Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term; and if Lessee has not resumed production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking operations pursuant to Paragraph 10, using the expiration of the primary term as the date of cessation of production under Paragraph 10. Should the first well or any subsequent well drilled on the above described land be completed as a shut-in oil or gas well within the primary term hereof, Lessee may resume payment of the annual rental in the same manner as provided herein on or before the rental paying date following the expiration of sixty (60) days from the date of completion of such shut-in oil or gas well and upon the failure to make such payment, this lease shall ipso facto terminate. If at the expiration of the primary term or any time thereafter a shut-in oil or gas well is located on the leased premises payments may be made in accordance with the shut-in provisions hereof.

10. **CESSATION, DRILLING, AND REWORKING:** If, after the expiration of the primary term, production of oil or gas from the leased premises, after once obtained, should cease from any cause, this lease shall not terminate if Lessee commences additional drilling or reworking operations within sixty (60) days after such cessation, and this lease shall remain in full force and effect for so long as such operations continue in good faith and in workmanlike manner without interruptions totaling more than sixty (60) days. If such drilling or reworking operations result in the production of oil or gas, the lease shall remain in full force and effect for so long as oil or gas is produced from the leased premises in paying quantities or payment of shut-in oil or gas well royalties or payment of compensatory royalties is made as provided herein or as provided by law. If the drilling or reworking operations result in the completion of a well as a dry hole, the lease will not terminate if the Lessee commences additional drilling or reworking operations within sixty (60) days after the completion of the well as a dry hole, and this lease shall remain in effect so long as Lessee continues drilling or reworking operations in good faith and in a workmanlike manner without interruptions totaling more than sixty (60) days. Lessee shall give written notice to the General Land Office within thirty (30) days of any cessation of production.

11. **SHUT-IN ROYALTIES:** For purposes of this paragraph, "well" means any well that has been assigned a well number by the state agency having jurisdiction over the production of oil and gas. If at any time after the expiration of the primary term of a lease that, until being shut in, was being maintained in force and effect, a well capable of producing oil or gas in paying quantities is located on the leased premises, but oil or gas is not being produced for lack of suitable production facilities or lack of a suitable market, then Lessee may pay as a shut-in oil or gas royalty an amount equal to \$10.00 per acre, but not less than \$1,200 a year for each well capable of producing oil or gas in paying quantities. To be effective, each initial shut-in oil or gas royalty must be paid on or before: (1) the expiration of the primary term, (2) 60 days after the Lessee ceases to produce oil or gas from the leased premises, or (3) 60 days after Lessee completes a drilling or reworking operation in accordance with the lease provisions; whichever date is latest. If the shut-in oil or gas royalty is paid, the lease shall be considered to be a producing lease and the payment shall extend the term of the lease for a period of one year from the end of the primary term, or from the first day of the month following the month in which production ceased, and, after that, if no suitable production facilities or suitable market for the oil or gas exists, Lessee may extend the lease for four more successive periods of one (1) year by paying the same amount each year on or before the expiration of each shut-in year.

12. **COMPENSATORY ROYALTIES:** If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is sold and delivered in paying quantities from a well located within one thousand (1,000) feet of the leased premises and completed in the same producing reservoir, or in any case in which drainage is occurring, the right to continue to maintain the lease by paying the shut-in oil or gas royalty shall cease, but the lease shall remain effective for the remainder of the year for which the royalty has been paid. The Lessee may maintain the lease for four more successive years by Lessee paying compensatory royalty at the royalty rate provided in the lease of the market value of production from the well causing the drainage or which is completed in the same producing reservoir and within one thousand (1,000) feet of the leased premises. The compensatory royalty is to be paid monthly to the Commissioner beginning on or before the last day of the month following the month in which the oil or gas is produced from the well causing the drainage or that is completed in the same producing reservoir and located within one thousand (1,000) feet of the leased premises; if the compensatory royalty paid in any 12-month period is in an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within thirty (30) days from the end of the 12-month period; and none of these provisions will relieve Lessee of the obligation of reasonable development nor the obligation to drill offset wells as provided in N.R.C. Section 52.034; however, at the determination of the Commissioner, and with the Commissioner's written approval, the payment of compensatory royalties shall satisfy the obligation to drill offset wells. Compensatory royalty payments which are not timely paid will accrue penalty and interest in accordance with Paragraph 5 of this lease.

13. EXTENSIONS: If, at the expiration of the primary term of this lease, production of oil or gas has not been obtained on the leased premises but drilling operations are being conducted thereon in good faith and in a good and workmanlike manner, Lessee may, on or before the expiration of the primary term, file in the General Land Office written application to the Commissioner of the General Land Office for a thirty (30) day extension of this lease, accompanied by payment of Three Thousand Dollars (\$3,000.00) if this lease covers six hundred forty (640) acres or less and Six Thousand Dollars (\$6,000.00) if this lease covers more than six hundred forty (640) acres and the Commissioner shall, in writing, extend this lease for a thirty (30) day period from and after the expiration of the primary term and so long thereafter as oil or gas is produced in paying quantities; provided further, that Lessee may, so long as such drilling operations are being conducted make like application and payment during any thirty (30) day extended period for an additional extension of thirty (30) days and, upon receipt of such application and payment, the Commissioner shall, in writing, again extend this lease so that same shall remain in force for such additional thirty (30) day period and so long thereafter as oil or gas is produced in paying quantities; provided, however, that this lease shall not be extended for more than a total of three hundred ninety (390) days from and after the expiration of the primary term unless production in paying quantities has been obtained.

14. USE OF WATER; SURFACE: Lessee shall have the right to use water produced on said land necessary for operations hereunder and solely upon the leased premises; provided, however, Lessee shall not use potable water or water suitable for livestock or irrigation purposes for water flood operations without the prior written consent of Lessor. Subject to its obligation to pay surface damages, Lessee shall have the right to use so much of the surface of the land that may be reasonably necessary for drilling and operating wells and transporting and marketing the production therefrom, such use to be conducted under conditions of least injury to the surface of the land. Lessee shall pay surface damages in an amount set by the General Land Office fee schedule which is effective on the date when the activity requiring the payment of surface damages occurs.

15. POLLUTION: In developing this area, Lessee shall use the highest degree of care and all proper safeguards to prevent pollution. Without limiting the foregoing, pollution of coastal wetlands, natural waterways, rivers and impounded water shall be prevented by the use of containment facilities sufficient to prevent spillage, seepage or ground water contamination. In the event of pollution, Lessee shall use all means at its disposal to recapture all escaped hydrocarbons or other pollutant and shall be responsible for all damage to public and private properties.

(A) UPLANDS: Lessee shall build and maintain fences around its slush, sump, and drainage pits and tank batteries so as to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level all slush pits and cellars and completely clean up the drilling site of all rubbish thereon.

(B) SUBMERGED LANDS: No discharge of solid waste or garbage shall be allowed into State waters from any drilling or support vessels, production platform, crew or supply boat, barge, jack-up rig or other equipment located on the leased area. Solid waste shall include but shall not be limited to containers, equipment, rubbish, plastic, glass, and any other man-made non-biodegradable items. A sign must be displayed in a high traffic area on all vessels and manned platforms stating, "Discharge of any solid waste or garbage into State Waters from vessels or platforms is strictly prohibited and may subject a State of Texas lease to forfeiture." Such statement shall be in lettering of at least 1" in size.

(C) RIVERS: To the extent necessary to prevent pollution, the provisions found in subsections (a) and (b) of this paragraph shall also apply to rivers and riverbeds.

(D) PENALTY: Failure to comply with the requirements of this provision may result in the maximum penalty allowed by law including forfeiture of the lease. Lessee shall be liable for the damages caused by such failure and any costs and expenses incurred in cleaning areas affected by the discharged waste.

16. IDENTIFICATION MARKERS: Lessee shall erect, at a distance not to exceed twenty-five (25) feet from each well on the premises covered by this lease, a legible sign on which shall be stated the name of the operator, the lease designation and the well number. Where two or more wells on the same lease or where wells on two or more leases are connected to the same tank battery, whether by individual flow line connections direct to the tank or tanks or by use of a multiple header system, each line between each well and such tank or header shall be legibly identified at all times, either by a firmly attached tag or plate or an identification properly painted on such line at a distance not to exceed three (3) feet from such tank or header connection. Said signs, tags, plates or other identification markers shall be maintained in a legible condition throughout the term of this lease.

17. ASSIGNMENTS: The lease may be transferred at any time; provided, however, that the liability of the transferor to properly discharge its obligation under the lease, including properly plugging abandoned wells, removing platforms or pipelines, or remediation of contamination at drill sites shall pass to the transferee upon the prior written consent of the Commissioner of the General Land Office. The Commissioner may require the transferee to demonstrate financial responsibility and may require a bond or other security. All transfers must reference the lease by the file number and must be recorded in the county where the area is located, and the recorded transfer or a copy certified to by the County Clerk of the county where the transfer is recorded must be filed in the General Land Office within ninety (90) days of the execution date, as provided by N.R.C. Section 52.026, accompanied by the filing fee prescribed by the General Land Office rules in effect on the date of receipt by the General Land Office of such transfer or certified copy thereof. Every transferee shall succeed to all rights and be subject to all obligations, liabilities, and penalties owed to the State by the original lessee or any prior transferee of the lease, including any liabilities to the state for unpaid royalties.

18. RELEASES: Lessee may relinquish the rights granted hereunder to the State at any time by recording the relinquishment in the county where this area is situated and filing the recorded relinquishment or certified copy of same in the General Land Office within ninety (90) days after its execution accompanied by the filing fee prescribed by the General Land Office rules in effect on the date of receipt by the General Land Office of such relinquishment or certified copy thereof. Such relinquishment will not have the effect of releasing Lessee from any liability theretofore accrued in favor of the State.

19. LIEN: In accordance with N.R.C. Section 52.136, the State shall have a first lien upon all oil and gas produced from the area covered by this lease to secure payment of all unpaid royalty and other sums of money that may become due under this lease. By acceptance of this lease, Lessee grants the State, in addition to the lien provided by N.R.C. Section 52.136 and any other applicable statutory lien, an express contractual lien on and security interest in all leased minerals in and extracted from the leased premises, all proceeds which may accrue to Lessee from the sale of such leased minerals, whether such proceeds are held by Lessee or by a third party, and all fixtures on and improvements to the leased premises used in connection with the production or processing of such leased minerals in order to secure the payment of all royalties or other amounts due or to become due under this lease and to secure payment of any damages or loss that Lessor may suffer by reason of Lessee's breach of any covenant or condition of this lease, whether express or implied. This lien and security interest may be foreclosed with or without court proceedings in the manner provided in the Title 1, Chapter 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this lease forfeited as provided herein.

20. FORFEITURE: If Lessee shall fail or refuse to make the payment of any sum within thirty (30) days after it becomes due, or if Lessee or an authorized agent should knowingly make any false return or false report concerning production or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith as required by law and the rules and regulations adopted by the Commissioner of the General Land Office, or if Lessee should fail to file reports in the manner required by law or fail to comply with rules and regulations promulgated by the General Land Office, the School Land Board, or the Railroad Commission, or refuse the proper authority access to the records pertaining to operations, or if Lessee or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or knowingly fail or refuse to furnish the General Land Office a correct log of any well, or if Lessee shall knowingly violate any of the material provisions of this lease, or if this lease is assigned and the assignment is not filed in the General Land Office as required by law, the rights acquired under

this lease shall be subject to forfeiture by the Commissioner, and he shall forfeit same when sufficiently informed of the facts which authorize a forfeiture, and when forfeited the area shall again be subject to lease to the highest bidder, under the same regulations controlling the original sale of leases. However, nothing herein shall be construed as waiving the automatic termination of this lease by operation of law or by reason of any special limitation arising hereunder. Forfeitures may be set aside and this lease and all rights thereunder reinstated before the rights of another intervene upon satisfactory evidence to the Commissioner of the General Land Office of future compliance with the provisions of the law and of this lease and the rules and regulations that may be adopted relative hereto.

21. RIVERBED TRACTS: In the event this lease covers a riverbed, Lessee is hereby specifically granted the right of eminent domain and condemnation as provided for in N.R.C. Sections 52.092-52.093, as a part of the consideration moving to Lessor for the covenants herein made by Lessee.

22. APPLICABLE LAWS AND DRILLING RESTRICTIONS: This lease shall be subject to all rules and regulations, and amendments thereto, promulgated by the Commissioner of the General Land Office governing drilling and producing operations on Permanent Free School Land (specifically including any rules promulgated that relate to plans of operations), payment of royalties, and auditing procedures, and shall be subject to all other valid statutes, rules, regulations, orders and ordinances that may affect operations under the provisions of this lease. Without limiting the generality of the foregoing, Lessee hereby agrees, by the acceptance of this lease, to be bound by and subject to all statutory and regulatory provisions relating to the General Land Office's audit billing notice and audit hearings procedures. Said provisions are currently found at 31 Texas Administrative Code, Chapter 4, and Texas Natural Resources Code Sections 52.135 and 52.137 through 52.140. In the event this lease covers land franchised or leased or otherwise used by a navigation district or by the United States for the purpose of navigation or other purpose

incident to the operation of a port, then Lessee shall not be entitled to enter or possess such land without prior approval as provided under Section 61.117 of the Texas Water Code, but Lessee shall be entitled to develop such land for oil and gas by directional drilling; provided, however, that no surface drilling location may be nearer than 660 feet and special permission from the Commissioner of the General Land Office is necessary to make any surface location nearer than 2,160 feet measured at right angles from the nearest bulkhead line or from the nearest dredged bottom edge of any channel, slip, or turning basin which has been authorized by the United States as a federal project for future construction, whichever is nearer.

23. REMOVAL OF EQUIPMENT: Upon the termination of this lease for any cause, Lessee shall not, in any event, be permitted to remove the casing or any part of the equipment from any producing, dry, or abandoned well or wells without the written consent of the Commissioner of the General Land Office or his authorized representative; nor shall Lessee, without the written consent of said Commissioner or his authorized representative remove from the leased premises the casing or any other equipment, material, machinery, appliances or property owned by Lessee and used by Lessee in the development and production of oil or gas therefrom until all dry or abandoned wells have been plugged and until all slush or refuse pits have been properly filled and all broken or discarded lumber, machinery, or debris shall have been removed from the premises to the satisfaction of the said Commissioner or his authorized representative.

24. FORCE MAJEURE: Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling operations thereon, or from producing oil and/or gas therefrom, after effort made in good faith, by reason of war, rebellion, riots, strikes, fires, acts of God or any order, rule or regulation of governmental authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended upon proper and satisfactory proof presented to the Commissioner of the General Land Office in support of Lessee's contention and Lessee shall not be liable for damages for failure to comply therewith (except in the event of lease operations suspended as provided in the rules and regulations adopted by the School Land Board); and this lease shall be extended while and so long as Lessee is prevented, by any such cause, from drilling, reworking operations or producing oil and/or gas from the leased premises; provided, however, that nothing herein shall be construed to suspend the payment of rentals during the primary or extended term, nor to abridge Lessee's right to a suspension under any applicable statute of this State.

25. LEASE SECURITY: Lessee shall take the highest degree of care and all proper safeguards to protect said premises and to prevent theft of oil, gas, and other hydrocarbons produced from said lease. This includes, but is not limited to, the installation of all necessary equipment, seals, locks, or other appropriate protective devices on or at all access points at the lease's production, gathering and storage systems where theft of hydrocarbons can occur. Lessee shall be liable for the loss of any hydrocarbons resulting from theft and shall pay the State of Texas royalties thereon as provided herein on all oil, gas or other hydrocarbons lost by reason of theft.

26. REDUCTION OF PAYMENTS: If, during the primary term, a portion of the land covered by this lease is included within the boundaries of a pooled unit that has been approved by the School Land Board in accordance with Natural Resources Code Sections 52.151-52.153, or if, at any time after the expiration of the primary term or the extended term, this lease covers a lesser number of acres than the total amount described herein, payments that are made on a per acre basis hereunder shall be reduced according to the number of acres pooled, released, surrendered, or otherwise severed, so that payments determined on a per acre basis under the terms of this lease during the primary term shall be calculated based upon the number of acres outside the boundaries of a pooled unit, or, if after the expiration of the primary term, the number of acres actually retained and covered by this lease.

27. SUCCESSORS AND ASSIGNS: The covenants, conditions and agreements contained herein shall extend to and be binding upon the heirs, executors, administrators, successors or assigns of Lessee herein.

28. ANTIQUITIES CODE: In the event that any feature of archeological or historical interest on Permanent School Fund Land is encountered during the activities authorized by this lease, Lessee will immediately cease activities and will immediately notify the General Land Office (ATTN: Archaeologist, Asset Management Division, 1700 N. Congress Ave., Austin, Texas 78701) and the Texas Historical Commission (P.O. Box 12276, Austin, TX 78711) so that adequate measures may be undertaken to protect or recover such discoveries or findings, as appropriate. Lessee is expressly placed on notice of the National Historical Preservation Act of 1966 (PB-89-66, 80 Statute 915; 16 U.S.C.A. 470) and the Antiquities Code of Texas, Chapter 191, Tex. Nat. Code Ann. (Vernon 1993 & Supp. 1998). On state-owned land not dedicated to the Permanent School Fund, lessee shall notify the Texas Historical Commission before breaking ground at a project location. An archaeological survey might be required by the commission before construction of the project can commence. Further, in the event that any site, object, location, artifact or other feature of archaeological, scientific, educational, cultural or historic interest is encountered during the activities authorize by this lease, lessee will immediately notify lessor and the Texas Historical Commission so that adequate measures may be undertaken to protect or recover such discoveries or findings, as appropriate.

29. VENUE: Lessor and lessee, including lessee's successors and assigns, hereby agree that venue for any dispute arising out of a provision of this lease, whether express or implied, regarding interpretation of this lease, or relating in any way to this lease or to applicable case law, statutes, or administrative rules, shall be in a court of competent jurisdiction located in Travis County, State of Texas.

30. LEASE FILING: Pursuant to Chapter 9 of the Tex. Bus. & Com. Code, this lease must be filed of record in the office of the County Clerk in any county in which all or any part of the leased premises is located, and certified copies thereof must be filed in the General Land Office. The prescribed filing fee shall accompany the certified copies sent to the General Land Office.

2

31. EXECUTION: This oil and gas lease must be signed and acknowledged by the Lessee before it is filed of record in the county records and in the General Land Office of the State of Texas.

File No. MF-109557
Lease
Date Filed: 10/7/2008
Jerry E. Patterson, Commissioner
By: [Signature]

LESSEE
BY: _____
TITLE: _____
DATE: _____

IN TESTIMONY WHEREOF, witness the signature of the Commissioner of the General Land Office of the State of Texas under the seal of the General Land Office.

COMMISSIONER OF THE GENERAL LAND OFFICE
OF THE STATE OF TEXAS

APPROVED
Contents _____
Legal _____
DC _____
Exec _____

STATE OF _____
COUNTY OF _____

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared _____
known to me to be the person whose name is subscribed to the foregoing instrument, as _____ of
_____ and acknowledged to me that he executed the same
for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the _____ day of _____, 20_____.

Notary Public in and for _____

STATE OF _____
COUNTY OF _____

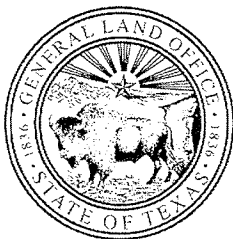
(INDIVIDUAL ACKNOWLEDGMENT)

Before me, the undersigned authority, on this day personally appeared _____
known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the
same for the purposes and consideration therein expressed.

Given under my hand and seal of office this the _____ day of _____, 20_____.

Notary Public in and for _____

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

October 23, 2008

Mr. Kent E. Curran
Chesapeake Energy Corporation
6100 N. Western Avenue
Oklahoma City, Oklahoma 73118-1044

Dear Mr. Curran:

Thank you for participating in the General Land Office Oil and Gas Lease Sale held on December 7, 2008. I am pleased to inform you that Chesapeake Energy Corporation was the high bidder on **MGL No. 310**, which has been assigned the lease number **M-109559**.

State Lease M-109559 is enclosed and serves as your receipt for your bid. This lease form must be fully executed by the lessee, and then recorded in the County Clerk's office of the county or counties in which lands covered by the lease are located. After signing and recording the lease, please submit a certified copy of the recorded lease to the attention of the undersigned. These requirements are material provisions of the lease; therefore, please return the certified copy at your earliest convenience.

The lessee's other contractual and statutory responsibilities are outlined in the lease agreement, such as Section 6(B), which requires submission of written notice for all drilling, production, and related activities. When forms are filed with the Texas Railroad Commission, they are required to submit copies of these forms to the General Land Office, such as Forms W-1, Application to Drill; W-2, Oil Well Completion Report and Log; G -1, Gas Well Completion Report and Log; W-3, Plugging Record; G-5, Gas Well Classification Report; G-10, Gas Well Status Report; W-10, Oil Well Status Report; W-12, Inclination Report; Electric Logs; Directional Surveys.

Please let me know if you have any questions or need any additional information.

Sincerely,

Robert B. Hatter, Director
Mineral Leasing Division

Stephen F. Austin Building • 1700 North Congress Avenue • Austin, Texas 78701-1495

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

www.glo.state.tx.us

3

File No. MF-109559

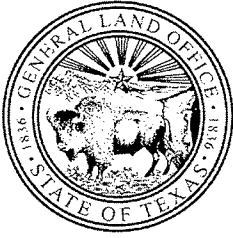
Letter

Date Filed: 10/23/2008

Jerry E. Patterson, Commissioner

By J. E. Guerra

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

February 3, 2009

Mr. Kent E. Curran
Chesapeake Exploration, L.L.C.
6100 N. Western Avenue
Oklahoma City, Oklahoma 73118-1044

Dear Mr. Curran:

Thank you for participating in the General Land Office Oil and Gas Lease Sale held on December 7, 2008. I am pleased to inform you that Chesapeake Energy Corporation was the high bidder on **MGL. No. 310**, which has been assigned the lease number **M-109559**.

State Lease M-109559 is enclosed and serves as your receipt for your bid. This lease form must be fully executed by the lessee, and then recorded in the County Clerk's office of the county or counties in which lands covered by the lease are located. After signing and recording the lease, please submit a certified copy of the recorded lease to the attention of the undersigned. These requirements are material provisions of the lease; therefore, please return the certified copy at your earliest convenience.

The lessee's other contractual and statutory responsibilities are outlined in the lease agreement, such as Section 6(B), which requires submission of written notice for all drilling, production, and related activities. When forms are filed with the Texas Railroad Commission, they are required to submit copies of these forms to the General Land Office, such as Forms W-1, Application to Drill; W-2, Oil Well Completion Report and Log; G -1, Gas Well Completion Report and Log; W-3, Plugging Record; G-5, Gas Well Classification Report; G-10, Gas Well Status Report; W-10, Oil Well Status Report; W-12, Inclination Report; Electric Logs; Directional Surveys.

Please let me know if you have any questions or need any additional information.

Sincerely,

Robert B. Hatter, Director
Mineral Leasing Division

Stephen F. Austin Building • 1700 North Congress Avenue • Austin, Texas 78701-1495

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

www.glo.state.tx.us

5

File No. MF-109559

G10 Letter

Date Filed: 12/9/2008

Jerry E. Patterson, Commissioner

By J. E. P.

3/3/09

CHESAPEAKE OPERATING, INC. P.O. BOX 18496 OKLAHOMA CITY, OK 73154

LEASE OBLIGATION DEPOSIT RECEIPT

WE HAVE THIS DAY **SEPTEMBER 23, 2009** TENDERED TO **COMMISSIONER OF THE GENERAL LAND**
THE SUM OF **\$23.45** DOLLARS FOR THE CREDIT OF PARTY OR PARTIES NAMED BELOW IN AMOUNT STATED
PURSUANT TO THE TERMS OF THE LEASE IDENTIFIED HEREIN, FOR THE PERIOD FROM **10/07/2009** TO **10/07/2010**
COVERING LESSOR'S INTEREST IN LAND DESCRIBED AS:

Township: Range: Section: 33 Block: 71/ Survey: PUBLIC SCHOOL LAND Abstract: 6034 County: REEVES Short Desc: NM

MF 109559

10700761

PAYMENT: RENTAL

LEASE NUMBER: TX3231417-000

LEASE DATE: 10/07/2008

PROSPECT: BALMORHEA

RECORDED BOOK: 811

PAGE: 716

ENTRY NUMBER: 000018

COUNTY/PARISH: REEVES

STATE: TX

FOR CREDIT OF:

ACCT:

AMOUNT

017397

COMMISSIONER OF THE GENERAL LAND
OF THE STATE OF TEXAS
1700 N CONGRESS, STE 600
STEPHEN F AUSTIN BUILDING
AUSTIN TX 78701

\$5/AC RENTAL FOR 1ST & 2ND ANNIV

\$23.45

X

PLEASE SIGN

File No. MF-109559

RENTAL PAYMENT

Date Filed: 9-25-09

Jerry E. Patterson, Commissioner

By MEW

11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65
66
67
68
69
70
71
72
73
74
75
76
77
78
79
80
81
82
83
84
85
86
87
88
89
90
91
92
93
94
95
96
97
98
99
100

MEMO TO FILES MF 104585, 104586, 108655, 109559, 109479, 109480-Unit 4385

Date: July 6, 2010

From: Harriet Dunne *HD*

Re: Unit 4385 (Chesapeake is Operator) expired 5-18-10; status of these leases

All the leases headlined in this memo became producing as part of Unit 4385 as of June 2009 when the Darden State 71-26 #1H Well began producing. The status of the leases was not changed in Globase for any of the leases except MF 104585, the surface location of this well.

The Darden State 71-26 #1H completed 6/03/09.

API 389 32585

RRC Lease #253047 Dist 08

Unit 4385, which was a temporary unit for 18 months, expired on May 18, 2010. The leases which are not along the well bore path are no longer participating in the royalty from this well and are no longer producing.

The leases still participating in the royalty from this well are:

MF 104585 (fee) Primary term expired 1/18/10; 2 year vertical and horizontal pugh clause.

MF 108655 (RAL) Primary term expires on 2 leases 9/23/10 and on 1 lease 11/06/10. Rentals are pd to end of primary term.

MF 104586 (fee) Primary term expired 1/18/10; 2 year vertical and horizontal pugh clause.

We need to determine the participation of each lease in the production of the well. The ownership of the royalty under MF 108655 is different than the other two leases.

The pooling agreement and division orders referred to on the Contents Card in the files of the following leases are no longer valid. These leases are "Active" so long as rental obligations are met and they are within their primary term.

Lease **MF 109559** (fee) is dated Oct 7, 2008 for a 5 yr term. Second yr rental was pd in 2009.

Leases (3) **MF 109479** (RAL) are dated July 11, 2008 for a 5 yr term. Rentals are prepaid through July 11, 2011.

Lease **MF 109480** (RAL) is dated September 10, 2008 for a 3 yr term. Second and third year rentals are paid up. However, paragraph 41 of the lease states, "Lessee...shall have the right to keep this lease in force and effect for the 4th and 5th years of the primary term ... by tendering a payment of \$400 per net acre on or before Sept 10, 2011." Robert states that this lease will expire on Sept 10, 2011 because it is a 3 year term lease. I will notify the working interest owner of this fact. Chesapeake appears to be the largest owner of working interest under this lease.

See File MF 104585 for GIS plat, RRC production figures and P-15 for the Darden State 71-26 #1H.

m.

6

File No. NF 109559
Memo to file - Status
of Delaney
Date Filed: 7/6/10
By: Jerry E. Patterson, Commissioner
JEP

CHESAPEAKE OPERATING, INC. P.O. BOX 18496 OKLAHOMA CITY, OK 73154

LEASE OBLIGATION DEPOSIT RECEIPT

WE HAVE THIS DAY **SEPTEMBER 16, 2010** TENDERED TO **COMMISSIONER OF THE GENERAL LAND**
THE SUM OF **\$23.45** DOLLARS FOR THE CREDIT OF PARTY OR PARTIES NAMED BELOW IN AMOUNT STATED
PURSUANT TO THE TERMS OF THE LEASE IDENTIFIED HEREIN, FOR THE PERIOD FROM **10/07/2010** TO **10/07/2011**
COVERING LESSOR'S INTEREST IN LAND DESCRIBED AS:

TOWNSHIP: RANGE: SECTION: 33 BLOCK: 71/ SURVEY: PUBLIC SCHOOL LAND ABSTRACT: 6034 COUNTY: REEVES SHORT DESC: NW,W2N

MF
109559

11700650

PAYMENT: RENTAL

LEASE NUMBER: TX3231417-000

LEASE DATE: 10/07/2008

PROSPECT: BALMORHEA

RECORDED BOOK: 811

PAGE: 716

ENTRY NUMBER: 000018

COUNTY/PARISH: REEVES

STATE: TX

FOR CREDIT OF:

ACCT:

AMOUNT

017397

COMMISSIONER OF THE GENERAL LAND

OF THE STATE OF TEXAS

1700 N CONGRESS, STE 600

STEPHEN F AUSTIN BUILDING

AUSTIN

TX 78701

\$5/AC RENTAL FOR 1ST & 2N

D ANNIV

\$23.45

PLEASE SIGN

121

10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44 45 46 47 48 49 50 51 52 53 54 55 56 57 58 59 60 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 100

File No. ME 109559
Revised program

Date Filed: 9-30-10
By Jerry E. Patterson, Commissioner
JEP

ME
(E)

CHESAPEAKE OPERATING, INC. P.O. BOX 18496 OKLAHOMA CITY, OK 73154

LEASE OBLIGATION DEPOSIT RECEIPT

WE HAVE THIS DAY SEPTEMBER 14, 2011 TENDERED TO COMMISSIONER OF THE GENERAL LAND
THE SUM OF \$117.23 DOLLARS FOR THE CREDIT OF PARTY OR PARTIES NAMED BELOW IN AMOUNT STATED
PURSUANT TO THE TERMS OF THE LEASE IDENTIFIED HEREIN, FOR THE PERIOD FROM 10/07/2011 TO 10/07/2012
COVERING LESSOR'S INTEREST IN LAND DESCRIBED AS:

TOWNSHIP: RANGE: SECTION: 33 BLOCK: 71/ SURVEY: PUBLIC SCHOOL LAND ABSTRACT: 6034 COUNTY: REEVES SHORT DESC: NW,W2N

12700934

PAYMENT: RENTAL

LEASE NUMBER: TX3231417-000

LEASE DATE: 10/07/2008

PROSPECT: TOYAH

RECORDED BOOK: 811

PAGE: 716

ENTRY NUMBER: 000018

COUNTY/PARISH: REEVES

STATE: TX

FOR CREDIT OF:

ACCT:

AMOUNT

017397

COMMISSIONER OF THE GENERAL LAND
OF THE STATE OF TEXAS
1700 N CONGRESS, STE 600
STEPHEN F AUSTIN BUILDING
AUSTIN TX 78701

\$25/AC RENTAL FOR 3RD & 4
TH ANNIV/ MF 109559

\$117.23

25X 4.69
\$ 117.25

RECEIVED
SEP 22 2011

COPY

PLEASE SIGN
AND RETURN

IMPORTANT

The attached check is for the person(s) named above. Please date, sign and return the attached receipts on the day you receive it. If directed to a bank, please deposit the amount to the credit of the person(s) named above and date, sign and return the receipt on the day you receive it. If correspondence required, please make reference to lease number.

Date Received _____

Sign Here _____

By _____

Title _____

Subtotal \$117.23
BANK SERVICE CHARGE \$0.00
Grand Total \$117.23
Check No. 402959

P

THE FACE OF THIS DOCUMENT HAS A COLORED BACKGROUND WITH VOID PATTERN

CHESAPEAKE OPERATING, INC.
DEBIT RENTAL ACCOUNT
P.O. Box 18496
Oklahoma City, OK 73154

Comerica Bank
ATM 081934

12700934

402959

SEPTEMBER 14 2011

ONE HUNDRED SEVENTEEN AND 23/100 Dollars

\$117.23

PAY TO THE ORDER OF
COMMISSIONER OF THE GENERAL LAND
OF THE STATE OF TEXAS
1700 N CONGRESS, STE 600
STEPHEN F AUSTIN BUILDING
AUSTIN TX 78701

VOID AFTER 120 DAYS
NO THIRD PARTY ENDORSEMENTS

Signature

0000402959

Q.

File No. MF 109559

3rd yr Rental

Date Filed: 9-22-11

Jerry E. Patterson, Commissioner

By [Signature]

CHESAPEAKE OPERATING, INC. P.O. BOX 18496 OKLAHOMA CITY, OK 73154

LEASE OBLIGATION DEPOSIT RECEIPT

WE HAVE THIS DAY **SEPTEMBER 14, 2011** TENDERED TO **COMMISSIONER OF THE GENERAL LAND**
THE SUM OF **\$117.23** DOLLARS FOR THE CREDIT OF PARTY OR PARTIES NAMED BELOW IN AMOUNT STATED
PURSUANT TO THE TERMS OF THE LEASE IDENTIFIED HEREIN, FOR THE PERIOD FROM **10/07/2011** TO **10/07/2012**
COVERING LESSOR'S INTEREST IN LAND DESCRIBED AS:

TOWNSHIP: RANGE: SECTION: 33 BLOCK: 71/ SURVEY: PUBLIC SCHOOL LAND ABSTRACT: 6034 COUNTY: REEVES SHORT DESC: NW,W2N

12700934

PAYMENT: RENTAL

LEASE NUMBER: TX3231417-000

LEASE DATE: 10/07/2008

PROSPECT: TOYAH

RECORDED BOOK: 811

PAGE: 716

ENTRY NUMBER: 000018

COUNTY/PARISH: REEVES

STATE: TX

FOR CREDIT OF:

ACCT:

AMOUNT

017397

COMMISSIONER OF THE GENERAL LAND
OF THE STATE OF TEXAS
1700 N CONGRESS, STE 600
STEPHEN F AUSTIN BUILDING
AUSTIN TX 78701

\$25/AC RENTAL FOR 3RD & 4
TH ANNIV/ MF 109559

\$117.23

COPY

CHESAPEAKE OPERATING, INC. P.O. BOX 18496 OKLAHOMA CITY, OK 73154

LEASE OBLIGATION DEPOSIT RECEIPT

WE HAVE THIS DAY **SEPTEMBER 14, 2011** TENDERED TO **COMMISSIONER OF THE GENERAL LAND**
THE SUM OF **\$117.23** DOLLARS FOR THE CREDIT OF PARTY OR PARTIES NAMED BELOW IN AMOUNT STATED
PURSUANT TO THE TERMS OF THE LEASE IDENTIFIED HEREIN, FOR THE PERIOD FROM **10/07/2011** TO **10/07/2012**
COVERING LESSOR'S INTEREST IN LAND DESCRIBED AS:

TOWNSHIP: RANGE: SECTION: 33 BLOCK: 71/ SURVEY: PUBLIC SCHOOL LAND ABSTRACT: 6034 COUNTY: REEVES SHORT DESC: NW,W2N

PAYMENT: RENTAL

LEASE NUMBER: TX3231417-000	LEASE DATE: 10/07/2008	PROSPECT: TOYAH
RECORDED BOOK: 811	PAGE: 716	ENTRY NUMBER: 000018
COUNTY/PARISH: REEVES	STATE: TX	

FOR CREDIT OF: ACCT: AMOUNT

017397	COMMISSIONER OF THE GENERAL LAND	
	OF THE STATE OF TEXAS	\$25/AC RENTAL FOR 3RD & 4
	1700 N CONGRESS, STE 600	TH ANNIV/ MF 109559
	STEPHEN F AUSTIN BUILDING	
	AUSTIN TX 78701	\$117.23

COPY FOR
YOUR RECORDS

IMPORTANT

The attached check is for the person(s) named above. Please date, sign and return the attached receipts on the day you receive it. If directed to a bank, please deposit the amount to the credit of the person(s) named above and date, sign and return the receipt on the day you receive it. If correspondence required, please make reference to lease number.

Date Received _____

Sign Here _____

By _____
Title

Subtotal	\$117.23
BANK SERVICE CHARGE	\$.00
Grand Total	\$117.23
Check No.	402959

CHESAPEAKE OPERATING, INC.
DELAY RENTAL ACCOUNT
P.O. Box 18496
Oklahoma City, OK 73154

Comerica Bank
74-478/724

402959

SEPTEMBER 14, 2011

ONE HUNDRED SEVENTEEN AND 23 /100 Dollars *****

\$117.23

PAY TO THE
ORDER OF

COMMISSIONER OF THE GENERAL LAND
OF THE STATE OF TEXAS
1700 N CONGRESS, STE 600
STEPHEN F AUSTIN BUILDING
AUSTIN TX 78701

VOID AFTER 120 DAYS
NO THIRD PARTY ENDORSEMENTS

Non-Negotiable

⑈0000402959⑈



Land Department

Notice to Lessor:

The well drilled on your leased lands or lands pooled therewith is temporarily "shut-in", which means it is not producing at this time. The enclosed payment is made in compliance with the shut-in provisions of your oil and gas lease for the amount stipulated in your lease.

This is not a payment of royalties for the production of minerals. Instead it is a "shut-in" payment to maintain the oil and gas lease for the period of time stipulated in the lease for a well that is prevented from producing due to lack of market or other circumstances. Please refer to your oil and gas lease for specific shut-in provisions.

When the production commences or resumes, royalty payments will be made to you.

If you have any questions or need additional information regarding this shut-in payment, please feel free to contact us at 877-245-1427 or email to AskChesapeake@chk.com.

Delay Renta

Date Filed: 9/22/11

Jerry E. Patterson, Commissioner

By _____

[illegible]

CHESAPEAKE OPERATING, INC. P.O. BOX 18496 OKLAHOMA CITY, OK 73154

LEASE OBLIGATION DEPOSIT RECEIPT

WE HAVE THIS DAY **AUGUST 28, 2012** TENDERED TO **COMMISSIONER OF THE GENERAL LAND**
THE SUM OF **\$117.23** DOLLARS FOR THE CREDIT OF PARTY OR PARTIES NAMED BELOW IN AMOUNT STATED
PURSUANT TO THE TERMS OF THE LEASE IDENTIFIED HEREIN, FOR THE PERIOD FROM **10/07/2012** TO **10/07/2013**
COVERING LESSOR'S INTEREST IN LAND DESCRIBED AS:

TOWNSHIP: RANGE: SECTION: 33 BLOCK: 71/ SURVEY: PUBLIC SCHOOL LAND ABSTRACT: 6034 COUNTY: REEVES SHORT DESC: NW,W2N

MF109559

13700358

PAYMENT: RENTAL

LEASE NUMBER: TX3231417-000

LEASE DATE: 10/07/2008

PROSPECT: TOYAH

RECORDED BOOK: 811

PAGE: 716

ENTRY NUMBER: 000018

COUNTY/PARISH: REEVES

STATE: TX

FOR CREDIT OF:

ACCT:

AMOUNT

017397

COMMISSIONER OF THE GENERAL LAND
OF THE STATE OF TEXAS
1700 N CONGRESS, STE 600
STEPHEN F AUSTIN BUILDING
AUSTIN TX 78701

\$25/AC RENTAL FOR 3RD & 4
TH ANNIV/ MF 109559

\$117.23

X

121

CHESAPEAKE OPERATING, INC. P.O. BOX 18496 OKLAHOMA CITY, OK 73154

LEASE OBLIGATION DEPOSIT RECEIPT

WE HAVE THIS DAY **AUGUST 28, 2012** TENDERED TO **COMMISSIONER OF THE GENERAL LAND**
THE SUM OF **\$117.23** DOLLARS FOR THE CREDIT OF PARTY OR PARTIES NAMED BELOW IN AMOUNT STATED
PURSUANT TO THE TERMS OF THE LEASE IDENTIFIED HEREIN, FOR THE PERIOD FROM **10/07/2012** TO **10/07/2013**
COVERING LESSOR'S INTEREST IN LAND DESCRIBED AS:

TOWNSHIP: RANGE: SECTION: 33 BLOCK: 71/ SURVEY: PUBLIC SCHOOL LAND ABSTRACT: 6034 COUNTY: REEVES SHORT DESC: NW,W2N

PAYMENT: RENTAL

LEASE NUMBER: TX3231417-000	LEASE DATE: 10/07/2008	PROSPECT: TOYAH
RECORDED BOOK: 811 PAGE: 716	ENTRY NUMBER: 000018	COUNTY/PARISH: REEVES
STATE: TX		
FOR CREDIT OF:	ACCT:	AMOUNT
017397	COMMISSIONER OF THE GENERAL LAND	
	OF THE STATE OF TEXAS	\$25/AC RENTAL FOR 3RD & 4
	1700 N CONGRESS, STE 600	TH ANNIV/ MF 109559
	STEPHEN F AUSTIN BUILDING	
	AUSTIN TX 78701	\$117.23

COPY FOR
YOUR RECORDS

IMPORTANT		Subtotal	\$117.23
The attached check is for the person(s) named above. Please date, sign and return the attached receipts on the day you receive it. If directed to a bank, please deposit the amount to the credit of the person(s) named above and date, sign and return the receipt on the day you receive it. If correspondence required, please make reference to lease number.	<i>Date Received</i> _____	BANK SERVICE CHARGE	\$.00
	<i>Sign Here</i> _____	Grand Total	\$117.23
	<i>By</i> _____	Check No.	512903
	_____ Title		

CHESAPEAKE OPERATING, INC.
DELAY RENTAL ACCOUNT
P.O. Box 18496
Oklahoma City, OK 73154

Comerica Bank
74-478/724

512903

AUGUST 28, 2012

ONE HUNDRED SEVENTEEN AND 23 /100 Dollars *****

\$117.23

PAY TO THE
ORDER OF

COMMISSIONER OF THE GENERAL LAND
OF THE STATE OF TEXAS
1700 N CONGRESS, STE 600
STEPHEN F AUSTIN BUILDING
AUSTIN TX 78701

VOID AFTER 120 DAYS
NO THIRD PARTY ENDORSEMENTS

Non-Negotiable

0000512903

10

File No. ME109559

Rental Payment

Date Filed: 09/11/2012

Jerry E. Patterson, Commissioner

By JEP



TEXAS GENERAL LAND OFFICE
GEORGE P. BUSH, COMMISSIONER

January 13, 2020

Certified Mail# 7011-1150-0001-2420-7145

Chesapeake Operating, LLC.
6100 N. Western Avenue
Oklahoma City, OK 73118
Attention: Lacy McCornack, Accounting Manager

RE: Final Audit Billing Notice for State Leases MF104792, MF084110, MF106201, MF109267 and other Toyah State Leases (in Exhibit A)

Dear Ms. McCornack:

The Texas General Land Office (GLO) has completed the audit of above referenced state leases (and other Toyah State leases on Exhibit A) that were operated and/or held by Chesapeake Operating, LLC. (Chesapeake). The audit covered the reporting period of January 2008 through March 2013. This letter constitutes an Audit Billing notice as defined in Section 52.135(c) of Texas Natural Resources Code. The audit resulted in the determination of additional amounts due as follows:

Royalty	\$1,556,486.81
Penalty	\$177,610.41
Interest	<u>\$1,481,854.03</u>
Total	<u>\$3,215,951.25</u>

Interest has been computed through August 31, 2019 in accordance with Section 52.131 of the Texas Natural Resources Code and will continue to accrue until the royalty has been paid.

The following documents are attached in support of our findings:

- Attachment I - Summary of the audit exceptions by lease;
- Attachment II – Final Audit Report which includes a brief discussion of the audit exceptions and recommendations;
- Attachment III - The procedures used for assessment of penalties and interest; and
- Attachment IV - Various schedules and documents that support royalty calculations

To ensure your company remains in good standing with the GLO, please respond within 30 days from the receipt of this Final Audit Billing Notice with your payment, or to request a hearing before the

Stephen F. Austin Building • 1700 North Congress Avenue • Austin, Texas 78701-1495

P.O. Box 12873 • Austin, Texas 78711-2873

512.463.5001 • 800.998.4GLO

glo.texas.gov

Chesapeake Operating, LLC.

January 13, 2020

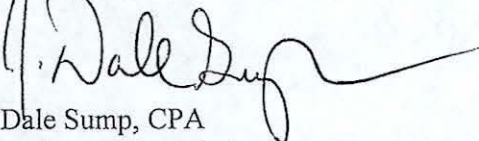
Page 2

Commissioner, or his representative, for redetermination of such assessment. In order to ensure proper credit, your payment should be mailed with your audit billing notice, to the following address:

Texas General Land Office
Stephen F. Austin Building
1700 North Congress Avenue
Austin, Texas 78701-1495

For any questions or additional information on this audit, please contact Brian B. Raygon at 512-463-0154 or send an email to brian.raygon@glo.texas.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Dale Sump", with a long, sweeping horizontal line extending to the right.

J. Dale Sump, CPA
Director of Minerals Audit
Texas General Land Office
(512) 463-2921 / dale.sump@glo.texas.gov

Attachments
Ltr. Log #0294

Attachment I

Summary of Audit Exceptions (Attachment I)

Lease/Unit Well Name		State Lease Number	Workpaper Reference#	Additional Gas Royalty Due	Penalty through 08/31/19	Interest through 08/31/19	Total Gas Revenue Amount	Production Months Covered
Pelican Ranch & Robertson State Units	1	MF104792	D.1.23	\$117,401.74	\$11,805.98	\$131,473.45	\$260,681.17	1/2008 through 3/2013
Harrison State	2	MF104871	D.1.26	\$170,812.60	\$17,298.97	\$165,370.03	\$353,481.60	1/2008 through 3/2013
Darden State 71-26-1H	3	MF104585	D.1.27	\$35,211.58	\$3,534.30	\$11,867.90	\$50,613.78	1/2008 through 3/2013
Darden State 71-26-1H	4	MF108655	D.1.29	\$25,760.53	\$2,595.43	\$8,971.51	\$37,327.47	1/2008 through 3/2013
Wright State Non-unit & Jobe State Unit	5	MF104186	D.1.30	\$60,571.32	\$6,147.71	\$69,337.04	\$136,056.07	1/2008 through 3/2013
Wright State Non-unit & Jobe State Unit	6	MF107630	D.1.31	\$5,222.47	\$1,054.14	\$5,918.45	\$12,195.06	1/2008 through 3/2013
Yada State	7	MF105495	D.1.32	\$73,034.10	\$7,521.51	\$83,109.78	\$163,665.39	1/2008 through 3/2013
Torrez State 61-1H	8	MF104587	D.1.33	\$41,714.56	\$4,417.20	\$37,026.77	\$83,158.53	1/2008 through 3/2013
Torrez State 61-1H	9	MF104601	D.1.35	\$19,691.33	\$2,219.26	\$15,552.98	\$37,463.57	1/2008 through 3/2013
Brackenridge State 57-44-1	10	MF105848	D.1.36	\$66,386.95	\$6,744.39	\$56,641.82	\$129,773.16	1/2008 through 3/2013
Block 59 State 27-11-1	11	MF104524	D.1.37	\$805.25	\$258.94	\$2,364.30	\$3,428.49	1/2008 through 3/2013
Block 59 State 27-11-1	12	MF104530	D.1.38	\$70,077.39	\$7,038.63	\$50,798.63	\$127,914.65	1/2008 through 3/2013
Block 59 State 27-11-1	13	MF104539	D.1.39	\$28,645.53	\$3,056.07	\$26,506.76	\$58,208.36	1/2008 through 3/2013
Jobe State 70-58-1H	14	MF104187	D.1.40	\$66,527.36	\$6,863.77	\$71,785.76	\$145,176.89	1/2008 through 3/2013
Block 59 State 35-1H	15	MF103430	D.1.42	\$36,150.35	\$3,655.27	\$23,154.50	\$62,960.12	1/2008 through 3/2013
Jobe State 70-1/C-17-18	16	MF104185	D.1.43	\$57,375.33	\$6,201.43	\$64,324.74	\$127,901.50	1/2008 through 3/2013
Caldwell State 71-5-1H	17	MF104190	D.1.44	\$15,353.63	\$1,751.66	\$14,945.44	\$32,050.73	1/2008 through 3/2013
Caldwell State 71-5-1H	18	MF104191	D.1.45	\$46,086.16	\$4,634.81	\$44,867.68	\$95,588.65	1/2008 through 3/2013
Johnson State 56-10-1	19	MF102645	D.1.46	\$27,859.69	\$2,884.52	\$34,437.38	\$65,181.59	1/2008 through 3/2013
Block 58 State Unit Wells	20	MF105285	D.1.47	\$38,573.99	\$4,010.42	\$29,846.71	\$72,431.12	1/2008 through 3/2013
McClure State 72-23 1H	21	MF105243	D.1.48	\$8,112.84	\$1,141.38	\$8,616.40	\$17,870.62	1/2008 through 3/2013
McClure State 72-23 1H	22	MF105497	D.1.49	\$25,404.10	\$2,684.14	\$26,661.03	\$54,749.27	1/2008 through 3/2013
Hodge ST 70-24, Jobe ST 72-7, Lowe ST 72-8	23	MF104184	D.1.50	\$56,178.45	\$5,926.06	\$64,335.89	\$126,440.40	1/2008 through 3/2013
Methodist ST 72-38	24	MF108406	D.1.51	\$31,229.60	\$3,296.19	\$19,580.27	\$54,106.06	1/2008 through 3/2013
Grove ST 72-21	25	MF105245	D.1.54	\$39,744.96	\$4,205.40	\$39,339.80	\$83,290.16	1/2008 through 3/2013
Grove ST 72-21	26	MF105320	D.1.55	\$6,599.95	\$1,185.80	\$6,304.99	\$14,090.74	1/2008 through 3/2013
Grove ST 72-21	27	MF106675	D.1.56	\$1,644.48	\$725.89	\$1,570.35	\$3,940.72	1/2008 through 3/2013
Grove ST 72-21	28	MF107499	D.1.57	\$1,314.60	\$700.00	\$1,255.86	\$3,270.46	1/2008 through 3/2013
Grove ST 72-21	29	MF109204	D.1.58	\$10,868.50	\$1,618.07	\$8,999.83	\$21,486.40	1/2008 through 3/2013

Lease/Unit Well Name		State Lease Number	Workpaper Reference#	Additional Gas Royalty Due	Penalty through 08/31/19	Interest through 08/31/19	Total Gas Revenue Amount	Production Months Covered
Grove ST 72-21	30	MF109189	D.1.60	\$1,067.37	\$575.00	\$1,020.28	\$2,662.65	1/2008 through 3/2013
Block 58 ST 40-14 & ST 42-1H	31	MF104778	D.1.61	\$33,431.77	\$3,529.30	\$18,889.76	\$55,850.83	1/2008 through 3/2013
Block 58 ST 40-14	32	MF104548	D.1.62	\$19,180.95	\$2,440.13	\$18,307.74	\$39,928.82	1/2008 through 3/2013
Block 58 ST 40-14	33	MF105287	D.1.63	\$5,972.00	\$820.53	\$5,971.22	\$12,763.75	1/2008 through 3/2013
Block 58 ST 40-14	34	MF107619	D.1.64	\$4,849.38	\$1,210.11	\$3,607.67	\$9,667.16	1/2008 through 3/2013
Block 58 ST 40-14 & ST 42-1H	35	MF107733	D.1.66	\$3,777.16	\$717.75	\$3,783.08	\$8,277.99	1/2008 through 3/2013
Block 58 ST 40-14	36	MF107769	D.1.67	\$8,743.67	\$1,435.89	\$4,821.60	\$15,001.16	1/2008 through 3/2013
Block 58 ST 42-1H	37	MF104580	D.1.68	\$14,231.69	\$1,762.90	\$7,575.78	\$23,570.37	1/2008 through 3/2013
Block 58 ST 42-1H	38	MF107612	D.1.70	\$764.51	\$202.79	\$1,383.69	\$2,350.99	1/2008 through 3/2013
Lowe ST 72-8	39	MF105534	D.1.73	\$19,303.67	\$2,295.64	\$24,211.92	\$45,811.23	1/2008 through 3/2013
Block 59 ST 37-1H	40	MF104526	D.1.74	\$15,100.95	\$1,844.85	\$12,624.43	\$29,570.23	1/2008 through 3/2013
Block 59 ST 37-1H	41	MF105485	D.1.75	\$2,951.39	\$430.31	\$4,354.67	\$7,736.37	1/2008 through 3/2013
Block 59 ST 37-1H	42	MF107610	D.1.76	\$1,639.72	\$313.46	\$2,419.30	\$4,372.48	1/2008 through 3/2013
Shuffield 72-14	43	MF108598	D.1.77	\$11,559.34	\$2,034.42	\$13,015.83	\$26,609.59	1/2008 through 3/2013
Shuffield 72-14	44	MF108599	D.1.78	\$11,505.14	\$2,030.36	\$12,954.85	\$26,490.35	1/2008 through 3/2013
Hill State 71-4	45	MF105230	D.1.79	\$8,803.83	\$1,594.23	\$9,351.52	\$19,749.58	1/2008 through 3/2013
Hill State 71-4	46	MF105236	D.1.80	\$3,956.07	\$1,082.59	\$4,201.69	\$9,240.35	1/2008 through 3/2013
Hill State 71-4	47	MF105494	D.1.81	\$3,205.23	\$927.68	\$3,404.19	\$7,537.10	1/2008 through 3/2013
Hodge ST 70-24	48	MF104981	D.1.82	\$5,080.79	\$574.60	\$5,999.92	\$11,655.31	1/2008 through 3/2013
Lowe ST 72-8	49	MF105532	D.1.83	\$4,825.67	\$1,154.06	\$6,052.98	\$12,032.71	1/2008 through 3/2013
Lowe ST 72-8	50	MF105433	D.1.84	\$3,602.79	\$980.71	\$4,519.11	\$9,102.61	1/2008 through 3/2013
Lowe ST 72-8, Jobe ST 72-7	51	MF105499	D.1.85	\$4,391.12	\$1,090.11	\$4,847.66	\$10,328.89	1/2008 through 3/2013
Block 58 ST 31-3	52	MF104780	D.1.86	\$2,481.59	\$770.91	\$2,691.22	\$5,943.72	1/2008 through 3/2013
Block 58 ST 31-3	53	MF104781	D.1.88	\$2,928.11	\$841.89	\$3,163.59	\$6,933.59	1/2008 through 3/2013
Block 58 ST 31-3	54	MF104782	D.1.87	\$4,804.73	\$953.22	\$5,191.20	\$10,949.15	1/2008 through 3/2013
Block 58 ST 31-3	55	MF105291	D.1.89	\$1,601.56	\$719.75	\$1,730.33	\$4,051.64	1/2008 through 3/2013
Block 58 ST 31-3	56	MF105490	D.1.90	\$4,504.73	\$913.96	\$4,866.99	\$10,285.68	1/2008 through 3/2013
Block 58 ST 31-3	57	MF106627	D.1.91	\$2,323.42	\$795.92	\$2,500.20	\$5,619.54	1/2008 through 3/2013
Block 58 ST 31-3, Block 55 T5 ST 31-1H	58	MF106641	D.1.92	\$807.14	\$550.00	\$874.02	\$2,231.16	1/2008 through 3/2013
Block 58 ST 31-3	59	MF108251	D.1.93	\$749.55	\$550.00	\$810.68	\$2,110.23	1/2008 through 3/2013
Hodge ST 70-24	60	MF104982	D.1.94	\$3,010.65	\$545.24	\$4,667.57	\$8,223.46	1/2008 through 3/2013
Hodge ST 70-24	61	MF105825	D.1.95	\$3,763.53	\$463.29	\$4,444.32	\$8,671.14	1/2008 through 3/2013
Jobe ST 72-7	62	MF106243	D.1.96	\$1,168.28	\$300.00	\$387.93	\$1,856.21	1/2008 through 3/2013
Vaquillas Ranch	63	MF084110	D.1.99	\$49,771.57	\$5,007.93	\$58,300.44	\$113,079.94	1/2008 through 12/2010
Indus-State & Ford Unit	64	MF106201	D.1.100	\$108,208.35	\$10,860.79	\$93,651.59	\$212,720.73	1/2008 through 12/2012
Ford Unit	65	MF106600	D.1.104	\$876.91	\$112.75	\$289.01	\$1,278.67	1/2008 through 12/2012
				\$1,559,303.67	\$177,610.41	\$1,481,854.03	\$3,218,768.11	Sub-total Amount
MBF Non-unit	66	MF104874	D.1.41	(\$2,816.86)	\$0.00	\$0.00	(\$2,816.86)	1/2008 through 3/2013
				\$1,556,486.81	\$177,610.41	\$1,481,854.03	\$3,215,951.25	Total Amount

Attachment II

ATTACHMENT II

Final Audit Report Chesapeake Operating, LLC. Discussion of Audit Exceptions

The Texas General Land Office (GLO) has reviewed the payment of royalties made by Chesapeake Operating, LLC. (Chesapeake) on selected State Leases for the period January 2008 through March 2013. Our review consisted of examining the components that comprise the royalty payments: volume, price, and royalty interest.

Our examination of volumes consisted of comparing amounts reported to the State with documents both produced by Chesapeake and third-party documents provided to Chesapeake. Prices reported by the royalty payor(s) were compared to governing provisions of the leases, statutes, rules, agreements and contracts. The appropriate royalty interest was verified by comparison to the governing contractual agreements. Other procedures were used, as we considered necessary to enable us to determine if royalties were reported and computed properly.

As a result of our audit, we have concluded the State is due additional royalty. The exceptions and related details for the audit exceptions are summarized below. Discrepancies noted in the audit period are calculated from January 2008 through March 2013.

<u>COUNTY NAME</u>	<u>LEASE#</u>	<u>LEASE TYPE</u>	<u>AUDIT PERIOD</u>
Reeves	MF104792	Relinquishment Act Lands	1/2008 thru 3/2013
Webb	MF084110	Relinquishment Act Lands	1/2008 thru 12/2010
Tarrant	MF106201	Department of Corrections	1/2008 thru 12/2012
Tarrant	MF109267	Mental Health & Retardation	1/2008 thru 12/2012

For complete listing of audited State leases, see Exhibit A.

Under-reporting of Non-Processed Gas Volumes (Audit Exception# 1):

Audit Exception Overview

The review of non-processed Gas volumes comprised on and off-lease fuel, unaccounted Gas and Gas sales. Our testing indicated material volume differences among Chesapeake's Wellhead Meter Statements, Allocation Statements, and GLO Reports. Specifically, the auditor noted material difference between "Theo MMBtu" gas from the Allocation Statements and MMBtu Gas from GLO-2 Reports. Note that "Theo MMBtu" gas from the Allocation Statements can be traced to Wellhead Meter Statements when Gas Lift is deducted. The Gas volumes in these meter statements were produced at the lease; they were measured after oil, gas and water were separated and before being commingled with other Gas volumes in the area. For production months in which meter statements were not available (January 2008 through December 2009), the auditor reviewed and compared Gas volumes on Daily Reports (provided by Chesapeake) to those in the Allocation Statements and noted that Gas volumes from both records were comparable. Finally, due to material differences in a comparison of prices conducted between MMBtu Gas prices and prices from GLO-2 Reports, the auditor notified Chesapeake that the Weighted Average Selling Price (WASP) would be used to recalculate the GLO's Gas royalties.

MF104792 Lease Agreement Relevant Royalty Provision

According to Section 4, Paragraph (B) entitled Non Processed Gas: "Royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substances not defined as oil in subparagraph (A) above, produced from any well on said land (except as provided herein with respect to gas processed in a plant for the extraction of gasoline, liquid hydrocarbons or other products) shall be 1/5 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be based on the highest market price paid or offered for gas of comparable quality in the general area where produced and when run, or the gross price paid or offered to the producer, whichever is greater..."

MF084110 Lease Agreement Relevant Royalty Provision

According to Section 3, Paragraph (b) entitled Non-Processed Gas: "As a royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substances not defined as oil in subparagraph (a) above, produced from any well on said land (except as provided herein with respect to gas processed in a plant for the extraction of gasoline, liquid hydrocarbons or other products) One-fourth (1/4) part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be based on the highest market price paid or offered for gas of comparable quality for the field where produced and when run, or the gross price paid or offered to the producer, whichever is greater..."

MF106201 and MF109267 Lease Agreement Relevant Royalty Provision

According to Section 4, Paragraph (B) entitled Non-Processed Gas: "As a royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substances not defined as oil in subparagraph (A) above, produced from any well on said land (except as provided herein with respect to gas processed in a plant for the extraction of gasoline, liquid hydrocarbons or other products) 1/4 part of the gross production or the market value thereof, at the option of the Lessor, such value to be based on the highest market price paid or offered for gas of comparable quality in the general area where produced and when run or the gross price paid or offered to the producer, whichever is greater..."

MF106600 Lease Agreement Relevant Royalty Provision

According to Section 3, Paragraph (b) entitled Non-Processed Gas: "To pay Lessor on gas and casinghead gas produced from said land (1) when sold by lessee 1/4 of the amount realized by Lessee, computed at the mouth of the well, or (2) when used by Lessee off said land or in the manufacture of gasoline or other products, the market value, at the mouth of the well, of 1/4 of such gas and casinghead gas..."

ADDITIONAL ROYALTY DUE:

\$1,506,715.24

Under-reporting of Processed Gas and NGLs (Audit Exception# 2)

A review of the field schematics indicated that State gas volumes were commingled with other gas volumes in the area; then production was sent to gas plants (i.e. Houston Central Plant CP) for processing of NGL and Residue Gas volumes. After processing, NGLs and Residue Gas were sold. To review and determine Processed Gas and NGL volumes and values, the auditor used the GLO's Processed Gas Model (PGM). The PGM simulates the Natural Gas Fractionation process that allows us to compute volume and value of products available in the gas stream.

The GLO used the following source documents as inputs into the PGM to determine the gross value and volume of NGL and Residue: The Gas Plant Settlement statements (Net Deliveries, Meter Totals Theoretical and Allocated Gallons, Plant Fuel Usage Percentage, Gas Mol% and prices for NGLs & Residue). Note that Inlet Gas volumes from the allocation statements were used as inlet gas inputs when gas meter statements were not available. The results from the PGM and GLO-2 Reports indicated material differences on Residue Gas, NGL volumes and values. Consequently, the PGM was used to determine the additional royalties due to the GLO.

MF084110 Lease Agreement Relevant Royalty Provision

According to Section 3, Paragraph (c) entitled Processed Gas: "As a royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbons, One-fourth (1/4) part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office. All royalties due herein shall be based on one hundred percent (100%) of the total plant production of residue gas attributable to gas produced from this lease, and on fifty percent (50%) or that percent accruing to Lessee, whichever is greater, of the total plant production of liquid hydrocarbons attributable to the gas produced from this lease..."

ADDITIONAL ROYALTY DUE:

\$49,771.57

Gas Royalty Overpayment (Audit Exception# 3)

Detail Testing results indicated that Chesapeake continued to report and pay royalties after the unit and associated State leases in the unit had expired, which resulted in royalty overpayments. Incorrect Btu Factors

were used on GLO-2 Production Reports (GLO-2) that resulted in overpayment. Noted MMBtu Gas Differences between Allocation Statements and GLO-2, misallocated MMBtu Gas among unitized leases and Chesapeake used incorrect Net Royalty Interest (NRI) that resulted in gas royalty overpayments. For MF104874, Chesapeake used Btu Factor of 1 instead of the actual Btu Factors from Wellhead Meter Statements of 0.7772213 and 0.859148 in reporting gas volumes. As a result, the auditor applied these overpayments as credits to audited State leases with outstanding balances and calculated the remaining balance.

TOTAL APPLIED GAS ROYALTY CREDIT:

- \$163,942.31

For an overview of this credit, see Exhibit B

Audit Exception #1 & #2 Resolution

After several months of discussion between the GLO and Chesapeake personnel via telephone, it was agreed upon that the MMBtu Gas from the Wellhead Meter Statements are reliable and can be used to recalculate the GLO's royalty on non-processed gas. Also, that Wellhead MMBtu Gas from the Allocation Statements are not just "Theoretical Gas" as previously indicated by Chesapeake personnel in response to the Draft Audit Billing Notice. The auditor demonstrated (using field schematics) that the Wellhead Meter Statements included Gas measured when the gas was first separated from water and condensate. Furthermore, the Detail Testing results indicated that Wellhead MMBtu Gas from the Allocation Statements are comparable to those in the Wellhead Meter Statements (and Daily Reports for 2008 and 2009 production months when Meter Statements were not provided) when Gas Lift is deducted. Therefore, the Wellhead MMBtu Gas from the Allocation Statements are royalty bearing.

To determine Non-Processed Gas royalty valuation, the auditor multiplied the MMBtu Gas from the Wellhead Meter Statements (or Allocation Statements and Daily Reports) by the Lease Royalty Rate or by the State Lease Net Royalty Interest (NRI) to determine State's Production in MMBtu's. The State's production MMBtu Gas were then multiplied by the MMBtu WASP (as agreed upon by GLO and Chesapeake) from the purchase statements to arrive with Gas Royalty Due. Lastly, the recalculated Gas Royalty Due was then subtracted by the Gas royalty payments reported to the GLO to attain the Additional Gas Royalty Due.

To determine the Processed Gas royalty, the auditor multiplied Processed Gas Values by the Lease Royalty Rate or by the State Lease Net Royalty Interest (NRI) to determine Royalty Due. Gas Royalty Due was subtracted from the Gas royalty payments reported to the GLO to determine Additional Gas Royalty Due. The key factors contributing to these differences were attributed to the allocation of Residue Gas and NGLs' molecular balance and values; the reporting of Residue Gas volumes and NGLs to the GLO in compliance with the lease agreements.

For more information on royalty provisions used in the audit for other State leases, see lease agreement(s) of applicable audited leases.

Total Additional Royalty Due:

\$1,556,486.81

ATTACHMENT II

GLO Recommendations Chesapeake Operating, LLC.

1. AE# 1 – Under-reporting of Non-Sales Gas Volumes:

Recommendations: Measure on-and off-lease fuel and report and pay royalties on these volumes to the GLO, including unaccounted gas volumes. Compare Wellhead Meter Statements to Allocated Gas from the Allocation Statements and review material differences. Pay the GLO on its royalties based on Gas Gross Production. Use the price based on the highest market price paid or offered for gas of comparable quality in the general area.

2. AE# 2 – Under-reporting of Processed Gas and NGL Sales Volumes:

Recommendations: Review the volumes returned for Residue Gas and NGLs from the Plant Settlement Statements to determine and allocate each product by molecular balance, including State leases. Pay the GLO's royalties on Residue Gas Volumes at 100% per the State Lease Agreement. Communicate and request "Permission to Commingle" with the GLO and solicit guidance from the GLO's Engineers in reporting Non-processed Gas, Residue Gas and NGL Components to the GLO.

Exhibit A

<u>County Name</u>	<u>Lease#</u>	<u>Lease Type</u>	<u>Audit Period</u>
Reeves	MF104792	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF104871	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF104585	Upland Fee	1/2008 through 3/2013
Reeves	MF108655	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF104186	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF107630	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF105495	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF104587	Upland Fee	1/2008 through 3/2013
Reeves	MF104601	Upland Fee	1/2008 through 3/2013
Reeves	MF105848	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF104524	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF104530	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF104539	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF104187	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF104874	Free Royalty Lease	1/2008 through 3/2013
Reeves	MF103430	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF104185	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF104190	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF104191	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF102645	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF105285	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF105243	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF105497	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF104184	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF108406	Surface Sold - All Minerals Reserved	1/2008 through 3/2013
Reeves	MF105229	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF105245	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF105320	Upland Fee	1/2008 through 3/2013
Reeves	MF106675	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF107499	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF109204	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF109205	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF109189	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF104778	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF104548	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF105287	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF107619	Relinquishment Act Lease	1/2008 through 3/2013

Reeves	MF107733	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF107769	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF104580	Upland Fee	1/2008 through 3/2013
Reeves	MF105289	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF107612	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF108664	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF105534	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF104526	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF105485	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF107610	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF108598	Free Royalty Lease	1/2008 through 3/2013
Reeves	MF108599	Free Royalty Lease	1/2008 through 3/2013
Reeves	MF105230	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF105236	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF105494	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF104981	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF105532	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF105433	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF105499	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF104780	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF104781	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF104782	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF105291	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF105490	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF106627	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF106641	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF108251	Free Royalty Lease	1/2008 through 3/2013
Reeves	MF104982	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF105825	Relinquishment Act Lease	1/2008 through 3/2013
Reeves	MF106243	Relinquishment Act Lease	1/2008 through 3/2013
Webb	MF084110	Relinquishment Act Lease	1/2008 through 12/2010
Tarrant	MF106201	Department of Corrections	1/2008 through 12/2012
Tarrant	MF109267	Mental Health & Retardation	1/2008 through 12/2012
Tarrant	MF106600	County Roads	1/2008 through 12/2012

Chesapeake Audit - Exhibit B (Royalty Overpayment to Chesapeake)

Lease#	WP#	Amount (Credit)
MF104585	D.1.27	(\$13,763.42)
MF104586	D.1.28	(\$28,449.06)
MF109479	D.1.28	(\$5,901.21)
MF109480	D.1.28	(\$1,003.08)
MF109559	D.1.28	(\$372.39)
MF108655	D.1.29	(\$11,150.59)
MF104186	D.1.30	(\$2,239.95)
MF107630	D.1.31	(\$11,232.67)
MF105495	D.1.32	(\$318.34)
MF104601	D.1.35	(\$2,567.74)
MF104530	D.1.38	(\$1,686.20)
MF104539	D.1.39	(\$1,555.21)
MF104874	D.1.41	(\$2,816.86)
MF103430	D.1.42	(\$2,221.14)
MF104190	D.1.44	(\$3,888.57)
MF104191	D.1.45	(\$11,665.76)
MF102645	D.1.46	(\$24,064.65)
MF105285	D.1.47	(\$1,670.99)
MF104184	D.1.50	(\$1,671.03)
MF108406	D.1.51	(\$922.32)
MF105229	D.1.52	(\$2,186.83)
MF104981	D.1.82	(\$1,437.63)
MF105825	D.1.95	(\$1,064.91)
MF106243	D.1.96	(\$2,401.75)
MF084110	D.1.99	(\$2,748.21)
MF106201	D.1.100	(\$4,877.68)
MF109267	D.1.101	(\$14,354.59)
MF106600	D.1.104	(\$5,709.53)
Total		(\$163,942.31)

Attachment III

ATTACHMENT III

SUMMARY OF PENALTY/ INTEREST ASSESSMENT RULES FOR DELINQUENT ROYALTIES AND DELINQUENT REQUIRED REPORTS OR DOCUMENTS

	Due Before 10/1/75 (Production prior to 8/1/75)	Due After 10/1/75 and Before 9/1/85 (Production 8/1/75 through 6/30/85)	Due After 9/1/85 (Production 7/1/85 through 12/31/09)	Due After 2/26/10 (Production 1/1/10 through present)
PENALTY (1) For delinquent royalty	None	The greater of 1% of the delinquent amount or \$5.00 for each 30-day delinquency	(2) For delinquencies of 30 days or less, the greater of 5% of the delinquent amount or \$25.00; for delinquencies of more than 30 days, the greater of 10% of the delinquent amount or \$25.00	(2) For delinquencies of 30 days or less, the greater of 5% of the delinquent amount or \$25.00; for delinquencies of more than 30 days, the greater of 10% of the delinquent amount or \$25.00
For delinquent report, affidavit, or other document	None	\$5.00 per document for each 30-day period of delinquency	\$10.00 per document for each 30-day period of delinquency	\$10.00 per document for each 30-day period of delinquency
INTEREST (2) For delinquent royalty	6% per year, simple; accrual begins 30 days after due date	6% per year, simple; accrual begins 30 days after due date	(3) 12% per year, simple; accrual begins 60 days after due date	(4) Prime plus 1% set on the first business day of each calendar year

(1) 31 TAC §9.51 (b) (3) (A)

(2) Penalties are not assessed in cases of title dispute as to the state's portion of the royalty or to royalty in dispute as to fair market value except when fraud is involved, in which case the fraud penalty is applicable. Penalty provisions are found at Tex Nat. Res. Code Ann §52.131 (e) (f) (h).

(3) Tex Nat. Res. Code Ann §52.131 (g)

(4) Per 31 TAC §9.51 (b) (3) (E), the interest rate on past due royalty is Wall Street Journal Prime plus 1%, to be adjusted annually.

Calendar Year	Prime Rate	Interest Rate
2010-2015	3.25%	4.25%
2016	3.50%	4.50%
2017	3.75%	4.75%
2018	4.50%	5.50%
2019	5.50%	6.50%

A royalty payment that is not accompanied by the required royalty affidavit identifying the GLO lease number is delinquent, 31 TAC §9.51 (2) (B).

The state's power to forfeit a lease shall not be affected by the assessment or payment of any delinquency, penalty, or interest provided in 31 TAC §9.51 (b) (3) (D).

11

File No. MA 109-559

Reaves County

Letter to Chesapeake 1-13-2020

Date Filed: 5-18-2021

George P. Bush, Commissioner

By S. Bush



TEXAS GENERAL LAND OFFICE
GEORGE P. BUSH, COMMISSIONER

May 4, 2020

CERTIFIED MAIL NO. 7016-2070-0000-7391-0902

Chesapeake Operating, LLC.
6100 N. Western Avenue
Oklahoma City, OK 73118
Attention: Lacy McCornack, Accounting Manager

RE: Audit Closure Letter for the Period January 2008 through March 2013

Dear Ms. Lacy:

Chesapeake Operating, LLC (Chesapeake) directly or indirectly holds or held interest in state oil and gas leases as listed on Exhibit A. The Texas General Land Office (GLO) conducted an audit of the books, accounts, reports and other records relating to the subject leases for the audit period of January 2008 through March 2013. As a result of the audit, the GLO has received Chesapeake's payment of \$1,556,486.81 on February 18, 2020 and \$400,000 on April 27, 2020 with a total audit payment of \$1,956,486.81 to close out audit exceptions.

In accordance with the Texas Natural Resource Code Section 52.139 (b), the Commissioner may not again audit the books and records covering the same issues, time period, and leases involved in this audit. However, the Texas Natural Resource Code Section 52.139 (c) states that nothing shall preclude the GLO from conducting subsequent audits or examinations covering the same issues, time periods and leases in cases where fraud exists.

For any questions or additional information on this audit, please contact me.

Sincerely,

Brian B. Raygon
Interim Director of Minerals Audit
Texas General Land Office
(512) 463-0154 / brian.raygon@glo.texas.gov

Ltr Log # 0297

Exhibit A (List of Audited State Leases in Chesapeake Audit)

# of Lease	Audit Property Category	County Name	Lease#	Lease Type	Audit Period
1	Toyah State Leases	Reeves	MF104792	Relinquishment Act Lease	1/2008 through 3/2013
2	Toyah State Leases	Reeves	MF104871	Relinquishment Act Lease	1/2008 through 3/2013
3	Toyah State Leases	Reeves	MF104585	Upland Fee	1/2008 through 3/2013
4	Toyah State Leases	Reeves	MF104586	Upland Fee	1/2008 through 3/2013
5	Toyah State Leases	Reeves	MF109479	Relinquishment Act Lease	1/2008 through 3/2013
6	Toyah State Leases	Reeves	MF109480	Relinquishment Act Lease	1/2008 through 3/2013
7	Toyah State Leases	Reeves	MF109559	Relinquishment Act Lease	1/2008 through 3/2013
8	Toyah State Leases	Reeves	MF108655	Relinquishment Act Lease	1/2008 through 3/2013
9	Toyah State Leases	Reeves	MF104186	Relinquishment Act Lease	1/2008 through 3/2013
10	Toyah State Leases	Reeves	MF107630	Relinquishment Act Lease	1/2008 through 3/2013
11	Toyah State Leases	Reeves	MF105495	Relinquishment Act Lease	1/2008 through 3/2013
12	Toyah State Leases	Reeves	MF104587	Upland Fee	1/2008 through 3/2013
13	Toyah State Leases	Reeves	MF104601	Upland Fee	1/2008 through 3/2013
14	Toyah State Leases	Reeves	MF105848	Relinquishment Act Lease	1/2008 through 3/2013
15	Toyah State Leases	Reeves	MF104524	Relinquishment Act Lease	1/2008 through 3/2013
16	Toyah State Leases	Reeves	MF104530	Relinquishment Act Lease	1/2008 through 3/2013
17	Toyah State Leases	Reeves	MF104539	Relinquishment Act Lease	1/2008 through 3/2013
18	Toyah State Leases	Reeves	MF104187	Relinquishment Act Lease	1/2008 through 3/2013
19	Toyah State Leases	Reeves	MF104874	Free Royalty Lease	1/2008 through 3/2013
20	Toyah State Leases	Reeves	MF103430	Relinquishment Act Lease	1/2008 through 3/2013
21	Toyah State Leases	Reeves	MF104185	Relinquishment Act Lease	1/2008 through 3/2013
22	Toyah State Leases	Reeves	MF104190	Relinquishment Act Lease	1/2008 through 3/2013
23	Toyah State Leases	Reeves	MF104191	Relinquishment Act Lease	1/2008 through 3/2013
24	Toyah State Leases	Reeves	MF102645	Relinquishment Act Lease	1/2008 through 3/2013
25	Toyah State Leases	Reeves	MF105285	Relinquishment Act Lease	1/2008 through 3/2013
26	Toyah State Leases	Reeves	MF105243	Relinquishment Act Lease	1/2008 through 3/2013
27	Toyah State Leases	Reeves	MF105497	Relinquishment Act Lease	1/2008 through 3/2013
28	Toyah State Leases	Reeves	MF104184	Relinquishment Act Lease	1/2008 through 3/2013
29	Toyah State Leases	Reeves	MF108406	Surface Sold - All Minerals Reserved	1/2008 through 3/2013
30	Toyah State Leases	Reeves	MF105229	Relinquishment Act Lease	1/2008 through 3/2013
31	Toyah State Leases	Reeves	MF105245	Relinquishment Act Lease	1/2008 through 3/2013
32	Toyah State Leases	Reeves	MF105320	Upland Fee	1/2008 through 3/2013
33	Toyah State Leases	Reeves	MF106675	Relinquishment Act Lease	1/2008 through 3/2013
34	Toyah State Leases	Reeves	MF107499	Relinquishment Act Lease	1/2008 through 3/2013
35	Toyah State Leases	Reeves	MF109204	Highway-Right-of-Way	1/2008 through 3/2013
36	Toyah State Leases	Reeves	MF109205	Relinquishment Act Lease	1/2008 through 3/2013

37	Toyah State Leases	Reeves	MF109189	Relinquishment Act Lease	1/2008 through 3/2013
38	Toyah State Leases	Reeves	MF104778	Relinquishment Act Lease	1/2008 through 3/2013
39	Toyah State Leases	Reeves	MF104548	Relinquishment Act Lease	1/2008 through 3/2013
40	Toyah State Leases	Reeves	MF105287	Relinquishment Act Lease	1/2008 through 3/2013
41	Toyah State Leases	Reeves	MF107619	Relinquishment Act Lease	1/2008 through 3/2013
42	Toyah State Leases	Reeves	MF107733	Relinquishment Act Lease	1/2008 through 3/2013
43	Toyah State Leases	Reeves	MF107769	Relinquishment Act Lease	1/2008 through 3/2013
44	Toyah State Leases	Reeves	MF104580	Upland Fee	1/2008 through 3/2013
45	Toyah State Leases	Reeves	MF105289	Relinquishment Act Lease	1/2008 through 3/2013
46	Toyah State Leases	Reeves	MF107612	Relinquishment Act Lease	1/2008 through 3/2013
47	Toyah State Leases	Reeves	MF108664	Relinquishment Act Lease	1/2008 through 3/2013
48	Toyah State Leases	Reeves	MF105534	Relinquishment Act Lease	1/2008 through 3/2013
49	Toyah State Leases	Reeves	MF104526	Relinquishment Act Lease	1/2008 through 3/2013
50	Toyah State Leases	Reeves	MF105485	Relinquishment Act Lease	1/2008 through 3/2013
51	Toyah State Leases	Reeves	MF107610	Relinquishment Act Lease	1/2008 through 3/2013
52	Toyah State Leases	Reeves	MF108598	Free Royalty Lease	1/2008 through 3/2013
53	Toyah State Leases	Reeves	MF108599	Free Royalty Lease	1/2008 through 3/2013
54	Toyah State Leases	Reeves	MF105230	Relinquishment Act Lease	1/2008 through 3/2013
55	Toyah State Leases	Reeves	MF105236	Relinquishment Act Lease	1/2008 through 3/2013
56	Toyah State Leases	Reeves	MF105494	Relinquishment Act Lease	1/2008 through 3/2013
57	Toyah State Leases	Reeves	MF104981	Relinquishment Act Lease	1/2008 through 3/2013
58	Toyah State Leases	Reeves	MF105532	Relinquishment Act Lease	1/2008 through 3/2013
59	Toyah State Leases	Reeves	MF105433	Relinquishment Act Lease	1/2008 through 3/2013
60	Toyah State Leases	Reeves	MF105499	Relinquishment Act Lease	1/2008 through 3/2013
61	Toyah State Leases	Reeves	MF104780	Relinquishment Act Lease	1/2008 through 3/2013
62	Toyah State Leases	Reeves	MF104781	Relinquishment Act Lease	1/2008 through 3/2013
63	Toyah State Leases	Reeves	MF104782	Relinquishment Act Lease	1/2008 through 3/2013
64	Toyah State Leases	Reeves	MF105291	Relinquishment Act Lease	1/2008 through 3/2013
65	Toyah State Leases	Reeves	MF105490	Relinquishment Act Lease	1/2008 through 3/2013
66	Toyah State Leases	Reeves	MF106627	Relinquishment Act Lease	1/2008 through 3/2013
67	Toyah State Leases	Reeves	MF106641	Relinquishment Act Lease	1/2008 through 3/2013
68	Toyah State Leases	Reeves	MF108251	Free Royalty Lease	1/2008 through 3/2013
69	Toyah State Leases	Reeves	MF104982	Relinquishment Act Lease	1/2008 through 3/2013
70	Toyah State Leases	Reeves	MF105825	Relinquishment Act Lease	1/2008 through 3/2013
71	Toyah State Leases	Reeves	MF106243	Relinquishment Act Lease	1/2008 through 3/2013
72	Toyah State Leases	Reeves	MF107483	Relinquishment Act Lease	1/2008 through 3/2013
73	Toyah State Leases	Reeves	MF106676	Relinquishment Act Lease	1/2008 through 3/2013
74	Non-Toyah State Leases	Webb	MF084110	Relinquishment Act Lease	1/2008 through 12/2010
75	Non-Toyah State Leases	Tarrant	MF106201	Mental Health & Retardation	1/2008 through 12/2012

76	Non-Toyah State Leases	Tarrant	MF109267	Mental Health & Retardation	1/2008 through 12/2012
77	Non-Toyah State Leases	Tarrant	MF106600	County Roads	1/2008 through 12/2012

12

File No.

MF 109559

County

Reese

Letter to Chesapeake 5-4-2020

Date Filed:

5-18-2021

George P. Bush, Commissioner

By

[Signature]