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Archives and Records Staff

7731

MF112451

<i>State Lease</i> MF112451	<i>Control</i> 04-019779	<i>Base File</i> 127858	<i>County</i> REEVES
<i>Survey</i>		PUBLIC SCHOOL LAND	
<i>Block</i>		53	
<i>Block Name</i>			
<i>Township</i>			
<i>Section/Tract</i>		23	
<i>Land Part</i>			
<i>Part Description</i>		S/2 & NE/4	
<i>Acres</i>		480.7	
<i>Depth Below</i>		<i>Depth Above</i>	<i>Depth Other</i>
		See Lease	
<i>Name</i>		ANGELLE & DONOHUE OIL & GAS PR	
<i>Lease Date</i>		4/5/2011	
<i>Primary Term</i>		5 yrs	
<i>Bonus (\$)</i>		\$1,328,174.10	
<i>Rental (\$)</i>		\$5.00	
<i>Lease Royalty</i>		0.2500	

Leasing: PR

Analyst: _____

Maps: JK

GIS: MC

DocuShare: _____

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CONTENTS OF FILE NO. MF- 112451

1. BID FORM	04/05/11	14. Drilling Permit Unit 7731-AP1389-36178	9/26/17
2. OIL & GAS LEASE	04/05/11	<i>scanned</i> <i>pt</i> <i>9-28-2017</i>	
3. TRANSMITTAL LETTER	04/28/11	See MF111869 #42, Assign #10471	
4. CERTIFIED COPY OF LEASE	7/5/11	Atlantic @ No Recv'd	11-30-17
ASSIGNMENT FILED IN MF-112402 #5,		<i>scanned</i> <i>pt</i> <i>12-4-2017</i>	
#7982, WI,	8/9/11	15. Commingling Denial	2/6/2018
5. Delay Rental	2/16/12	<i>scanned</i> <i>pt</i> <i>2-6-2018</i>	
<i>scanned</i> <i>pt</i> <i>3-21-13</i>		See MF111869 #45, Assign #10546	
6. Rental Payment - 3 rd yr.	03/25/2013	Crown to Atlantic	3-5-18
<i>Scanned</i> <i>sm</i> <i>7/18/13</i>		See MF111869 #46, Assign #10547	
7. Rentals - 4 th yr.	04/02/2014	Crump to Atlantic	3-5-18
See MF111132 #13 for Assignment #8929		See MF111869 #47, Assign #10548	
<i>scanned</i> <i>pt</i> <i>8-28-14</i>		Nadel & Gussman to Atlantic	3-5-18
See MF111132 #15 for Assignment #9188		<i>scanned</i> <i>pt</i> <i>3-8-2018</i>	
See MF112402 #14 for Assignment #8640		16. Commingling Approval	5/22/2018
<i>scanned</i> <i>pt</i> <i>1-12-15</i>		<i>scanned</i> <i>pt</i> <i>6-1-2018</i>	
8. Rentals - 5 th yr.	03/19/2015	17. Ltr. to Atlantic	8/28/19
<i>scanned</i> <i>pt</i> <i>5-29-15</i>		18. Am'd of Johnny/Cash Unit	8/28/19
9. Pooling Agrmt. Packet # 7731		19. Withdrawal Notice	12/30/19
Johnny/Cash 23 Unit	1/4/16	20. Atlantic Res. Response	12/30/19
10. Ltr. From Endurance	1/4/16	21. Request for Ptl Release	12/30/19
11. Ltr. to Endurance	1/4/16	22. Atlantic Res. Response	12/30/19
12. Ltr. to Endurance	1/4/16	23. Withdrawal Notice	12/30/19
<i>scanned</i> <i>pt</i> <i>3-7-16</i>		24. Force Majeure	1/13/20
13. Division Order	8/23/16	25. Letter accepting Force Majeure	1/13/20
See MF111869 #32, Assign #9849		26. January Report - Force Majeure	1/16/20
From: Nadel & Guss To: Endurance		27. February Force Majeure Report	6/24/20
<i>scanned</i> <i>pt</i> <i>11-14-16</i>		28. Notice of Return to production	6/24/20
See MF111869 #29, Assign #10135		29. RRC Production Report	6/24/20
Endurance to Atlantic		<i>scanned</i> <i>pt</i> <i>6-29-2020</i>	
<i>scanned</i> <i>pt</i> <i>1-11-17</i>		28. Memo 2020 Well Deferral Unit 7731	12/10/20
See MF112449 #10, Assign #10165		29. 2nd Amendment Unit 7731	12/10/20
Stipulation Crown, Crump, NG	2-13-17	<i>scanned</i> <i>pt</i> <i>2-8-2021</i>	

Contents of Mineral File Number: MF-11245/

30 Recon Billing 8/16/21

31 Recon Billing 8/16/2021

~~Scanned JG 8-18-21~~

32 Recon Billing 6/4/2024

~~Scanned SM 08/07/2024~~

Angelle & Donohue Oil & Gas Properties, Inc.

Commissioner, Texas General Land Office

MGL No. 70

4.11

4/1/2011

021140

1,328,174.10

Angelle & Donohue Le MGL No. 70

1,328,174.10

Angelle & Donohue Oil & Gas Properties, Inc.

Commissioner, Texas General Land Office

MGL No. 70

4/1/2011

021140

1,328,174.10

PAYMENT
RECORD

Angelle & Donohue Le MGL No. 70

1,328,174.10

Angelle & Donohue Oil & Gas Properties, Inc.

Commissioner, Texas General Land Office

MGL No. 70

4 511

4/1/2011

021142

19,922.61

Angelle & Donohue Le MGL No. 70

19,922.61

Angelle & Donohue Oil & Gas Properties, Inc.

021142

Commissioner, Texas General Land Office

MGL No. 70

4/1/2011

19,922.61

PAYMENT
RECORD

Angelle & Donohue Le MGL No. 70

19,922.61

4 5 11

State Lease Number
M- 112451
For GLO Use Only



APRIL 5, 2011

OIL AND GAS 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: Angelle & Donohue Oil & Gas Properties, Inc.
 Address: P.O. Box 52901
 City: Lafayette State: LA Zip: 70505
 Telephone: (337) 264-1151 (Include +4 Code)

AREA DESCRIPTION

County(ies): Reeves Survey/Area: PSL (If Applicable)
 Block/Tsp.: 53 Section/Tract: 23 Acres: 480.70
 (If Applicable)

BID SUBMISSION

(A) Bonus Amount (\$ 1,328,174.10)
One-Million Three-Hundred Twenty-Eight Thousand One-Hundred Seventy-Four & 10/100 Dollars
 (type/print above)
 (B) Sales Fee Amount (\$ 19,922.61)
Nineteen-Thousand Nine-Hundred Twenty-Two & 61/100 Dollars
 (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.
<u>70</u>

APPLICANT NAME

Angelle & Donohue Oil & Gas Properties, Inc.
 (same as above)

BONUS AMOUNT ONLY (A) (Do Not include sales fee)

(\$ 1,328,174.10)

STATE OF TEXAS TAX I.D. #

[REDACTED]
 (must be an 11-digit number)

SIGNATURE OF AGENT

[Signature]
 (signature)

Robert J. McFaul
 (type/print name)

11708303
11708304

TT108304
TT108304

File No. MF-112451 ①
Bid Form
Date Filed: 4-5-2011
Jerry E. Patterson, Commissioner
By JEP

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4

The State of Texas



Austin, Texas

OIL AND GAS LEASE NO. M-112451

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:

SOUTH ONE-HALF AND NORTHEAST ONE-QUARTER (S/2 & NE/4) OF SECTION 23, BLOCK 53, PUBLIC SCHOOL LAND SURVEY, REEVES COUNTY, TEXAS CONTAINING APPROXIMATELY 480.7 ACRES, AS SHOWN ON THE OFFICIAL MAP OF REEVES COUNTY, TEXAS CURRENTLY ON FILE IN THE TEXAS GENERAL LAND OFFICE, AUSTIN, TEXAS,

was, after being duly advertised, offered for lease on the 5th day of April, 2011, 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 5th day of April, 2011, hereinafter the "effective date" and it was found and determined that **ANGELLE & DONOHUE OIL & GAS PROPERTIES, INC.** whose address is **P.O. BOX 52901, LAFAYETTE, LOUISIANA, 70505** 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 **One Million Three Hundred Twenty-Eight Thousand One Hundred Seventy-Four And 10/100 Dollars (\$1,328,174.10)**, 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; the right to grant third parties seismic, geophysical and geological permits and to enter into other agreements with third parties, which allow such third parties to conduct geophysical, geological or seismic surveys on, over, under, through and across the land covered herein during the term of this lease; and 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	\$ 1,000.00
Fourth	\$ 5.00

4. PRODUCTION ROYALTIES: 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

(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, $\frac{1}{4}$ 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, $\frac{1}{4}$ 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) **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.

(F) **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.

(G) **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.

(H) **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.

(I) **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. DF 112451
lease
Date Filed: 9/5/11
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

April 28, 2011

Mr. Robert J. McFaul
Angelle & Donohue Oil & Gas Properties, Inc.
P.O. Box 52901
Lafayette, Louisiana 70505

Dear Mr. McFaul:

Thank you for participating in the General Land Office Oil and Gas Lease Sale held on April 5, 2011. I am pleased to inform you that Angelle & Donohue Oil & Gas Properties, Inc. was the high bidder on **MGL No. 70**, which has been assigned the lease number **M-112451**.

State Lease M-112451 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

File No. MF 112451

Letter

Date Filed: 4/28/11
Jerry E. Patterson, Commissioner

By [Signature]

FILE# 3042

Lease Form
Revised 04/11
Uplands

The State of Texas



Austin, Texas

OIL AND GAS LEASE
NO. M-112451

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:

SOUTH ONE-HALF AND NORTHEAST ONE-QUARTER (S/2 & NE/4) OF SECTION 23, BLOCK 53, PUBLIC SCHOOL LAND SURVEY, REEVES COUNTY, TEXAS CONTAINING APPROXIMATELY 480.7 ACRES, AS SHOWN ON THE OFFICIAL MAP OF REEVES COUNTY, TEXAS CURRENTLY ON FILE IN THE TEXAS GENERAL LAND OFFICE, AUSTIN, TEXAS,

was, after being duly advertised, offered for lease on the 5th day of April, 2011, 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 5th day of April, 2011, hereinafter the "effective date" and it was found and determined that ANGELLE & DONOHUE OIL & GAS PROPERTIES, INC. whose address is P.O. BOX 52901, LAFAYETTE, LOUISIANA, 70505 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 One Million Three Hundred Twenty-Eight Thousand One Hundred Seventy-Four And 10/100 Dollars (\$1,328,174.10), 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, the right to grant third parties seismic, geophysical and geological permits and to enter into other agreements with third parties, which allow such third parties to conduct geophysical, geological or seismic surveys on, over, under, through and across the land covered herein during the term of this lease; and 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.

Anniversary Date	Delay Rental per Acre
First	\$ 5.00
Second	\$ 5.00
Third	\$ 1,000.00
Fourth	\$ 5.00

4. **PRODUCTION ROYALTIES:** 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



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(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, $\frac{1}{4}$ 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, $\frac{1}{4}$ 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) **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.

(F) **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.

(G) **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.

(H) **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.

(I) **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 herof). 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



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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 tank, pump, 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 stub 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 vessel, 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, plastics, 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 law including forfeiture of the lease. Lessee shall be liable for the

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 each tank or header shall be legibly identified at all times, either by a firmly attached tag or plate or an identification properly painted on each 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 transferee 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 lease or any prior transfers 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 thereafter 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 Lessee 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 lease. 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 that 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 Lessee 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 hearing 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 that lease covers land provided 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 build-out line or from the nearest diverged bottom edge of any channel, ship, or turning basin which has been authorized by the United States as a federal project for future construction, whenever it occurs.

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 stub 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.



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.

P.L. Donohue
 LESSEE: ANGELLE & DONOHUE OIL & GAS PROPERTIES, INC.
 BY: PATRICK L. DONOHUE
 TITLE: PRESIDENT
 DATE: 5/10/11

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.

[Signature]
 COMMISSIONER OF THE GENERAL LAND OFFICE
 OF THE STATE OF TEXAS
 APPROVED
 Confirmed
 Legal
 DC
 Exec

STATE OF LOUISIANA
 PARISH OF LAFAYETTE
 COUNTY OF

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared PATRICK L. DONOHUE
 known to me to be the person whose name is subscribed to the foregoing instrument, as PRESIDENT of
ANGELLE & DONOHUE OIL & GAS PROPERTIES, INC. 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 10 day of May, 2011

[Signature]
 Notary Public in and for
 OFFICIAL SEAL
 LINDSEY PELLOQUIN
 NOTARY ID # 80256
 NOTARY PUBLIC
 LAFAYETTE PARISH, LA
 COMMISSIONED FOR LIFE

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 _____ day of _____, 20____.

Notary Public in and for _____

ANY PROVISION HEREIN WHICH RESTRICTS THE SALE, RENTAL,
 OR USE OF THE DESCRIBED REAL PROPERTY BECAUSE OF COLOR
 OR RACE IS INVALID AND UNENFORCEABLE UNDER FEDERAL
 LAW

FILE# 3042

FILED FOR RECORD ON THE 17TH DAY OF MAY A.D. 2011 4:21 P.M.

DULY RECORDED ON THE 27TH DAY OF MAY A.D. 2011 9:00 A.M.

BY: [Signature] DEPUTY DIANNE O. FLOREZ, COUNTY CLERK
 REEVES COUNTY, TEXAS



True and Correct
 copy of
 Original filed in
 Reeves County
 - Clerks Office

4.

File No. MF-112451

Certified Lease

Date Filed: 7/5/2011

Jerry E. Patterson, Commissioner

By JEP

**CERTIFIED TRUE AND CORRECT COPY CERTIFICATE
STATE OF TEXAS
COUNTY OF REEVES**

The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL. 879 PAGE 458 THRU 463 OFFICIAL PUBLIC RECORDS

I hereby certify on JUNE 7, 2011



DIANNE O. FLORES/COUNTY CLERK
REEVES COUNTY, TEXAS
BY Dianne Flores DEPUTY

TX1698-014-00	04/05/11	REEVES COURT	TX	BOOK	3042	WCP2	04/08/12
---------------	----------	--------------	----	------	------	------	----------

CHECK DATE 02/08/12 TOTAL AMT: 2403.50

REMARKS:

DELAY RENTALS

050923

DEPOSIT TO THE CREDIT OF:

TAX I.D.:

PAYABLE TO:

COMMISSIONER OF THE TEXAS

27.913

IMPORTANT

The attached check is for the person(s) named above. **PLEASE DATE, SIGN AND RETURN THIS RECEIPT** in the return envelope provided. 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 is required, please make reference to lease number.

DATE:

FEB 16 2012

SIGN HERE:  RENTAL PAYMENT

PETROHAWK ENERGY CORPORATION

1000 LOUISIANA STREET, SUITE 5600 • HOUSTON, TX 77002 832-204-2799

12707167

CHECK NO.

050923

IN PAYMENT OF DELAY RENTAL SHUT-IN ROYALTY/MIN. ROYALTY TO PARTY OR PARTIES NAMED BELOW PURSUANT TO THE TERMS OF LEASE IDENTIFIED HEREIN

LEASE NO	LEASE DATE	COUNTY	ST.	RECORDED		RENTAL PERIOD	
				BOOK	PAGE	MOS.	BEGINNING

TX1698-014-00 04/05/11 REEVES

TX

3042

12

04/06/12

STATE OF TEXAS M-112451

PROPERTY DESCRIPTION:

Prospect: COTTONWOOD PROSPECT

PUBLIC SCHOOL LAND SVY, A-3972 Twp Blk Sec
Gr acs: 480.7000 Net acs: 480.7000
S2, NE

DEPOSIT TO THE CREDIT OF:

2nd Yr Rental

G

A

TOTAL AMOUNT:

2,403.50

RENTAL AMOUNT:

2,403.50

BANK CHARGE:

PAYABLE TO:

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

121

ACCOUNT NO.

70170751

5

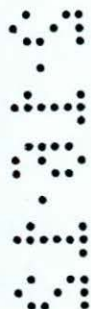
File No. MF 112751

Delay Rental

Date Filed: 2/16/12

Jerry E. Patterson, Commissioner

By EA

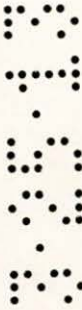


PETROHAWK ENERGY CORPORATION

155508

1360 POST OAK BLVD., SUITE 1900CT • HOUSTON, TX 77056 inquiry@bhpbilliton.com

CHECK NO.

REFERENCE	INVOICE DATE	INVOICE NO.	INVOICE AMT.	PRIOR PAYMENT	DISCOUNT	AMOUNT PAID
LAND COTTONWOOD PROSPECT m-112451	3/12/13	1385	2,403.50	13708343		2,403.50
					121	
437294 COMMISSIONER OF THE TEXAS GENERAL LAND OFFICE				CHECK DATE 03/14/13	TOTAL	\$2,403.50

PETROHAWK ENERGY CORPORATION

1360 POST OAK BLVD., SUITE 1900CT • HOUSTON, TX 77056 inquiry@bhpbilliton.com

CHECK NO.

REFERENCE	INVOICE DATE	INVOICE NO.	INVOICE AMT.	PRIOR PAYMENT	DISCOUNT	AMOUNT PAID
LAND COTTONWOOD PROSPECT m-112451	3/12/13	1385	2,403.50	13708343		2,403.50
437294 COMMISSIONER OF THE TEXAS GENERAL LAND OFFICE				CHECK DATE 03/14/13	TOTAL	\$2,403.50

BOLO-200

WARNING: DO NOT ACCEPT THIS DOCUMENT UNLESS YOU CAN SEE A WATERMARK.

PETROHAWK ENERGY CORPORATION

ACCOUNTS PAYABLE DISBURSEMENT ACCOUNT

1360 POST OAK BLVD., SUITE 1900CT

HOUSTON, TX 77056

inquiry@bhpbilliton.com

Bank of America

DATE

03/14/13

13708343

PAY Two Thousand Four Hundred Three Dollars And Fifty Cents***

AMOUNT \$*****2,403.50

TO THE
ORDER
OFCOMMISSIONER OF THE TEXAS GENERAL LAND OFFICE
ATTENTION MINERAL LEASING
1700 N CONGRESS AVE
AUSTIN, TX 78701 USA

VOID AFTER 180 DAYS



Check Receipt

Check No.: [REDACTED]

Check Date: 3/14/2013

Period Covered:
4/5/2013-4/5/2014

Payment Type: DELAY RENTAL

Payment Amount: \$2,403.50

Lease Number: TX1698-014-000

Original Lessor: STATE OF TEXAS

Lease Effective Date: 4/5/2011

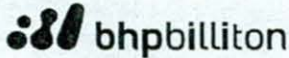
Recording Information: DOC#3042 B879 P458

State: TX

County: REEVES

Check Remarks:

M-112451. BLK 53, SEC 23, REEVES CO., TX. DELAY RENTAL PAYMENT.



resourcing the future
BHP BILLITON PETROLEUM (FAYETTEVILLE)
ATTN LAND ADMINISTRATION
1360 POST OAK BLVD STE 150
HOUSTON, TX 77056

Owner Relations:

1-877-311-1443

For the Credit of:

(BA#): 437294-1

Payment Amount: \$2,403.50

Owner:
Address:

COMMISSIONER OF THE TEXAS GENERAL LAND
OFFICE
1700 N CONGRESS AVE STEPHEN F AUSTIN STATE
AUSTIN, TX 78701

IMPORTANT

PLEASE SIGN AND RETURN

Date Received 03/25/2013

Sign Here

[Signature]

By _____

Title _____

File No. MF112451

(6)

Rental Payment

Date Filed: 03/25/2013

Jerry E. Patterson, Commissioner

By JEP

Check No.: 202295
Payment Type: DELAY RENTAL

Period Covered: 04/05/2014-04/05/2015
Payment Amount: \$480,700.00

Lease Number: 1044142/001 LSE

Original Lessor: STATE OF TEXAS M-112451



Lease Effective Date: 04/05/2011

Recording Information: Book # 879 Page # 458, 3042

State: TX

County: REEVES

Check Remarks:

DELAY RENTALS FOR THE 3RD ANNIVERSARY DATE

BLK 53 SEC 23

RENTAL PAYMENT

4th yr. (P)

14710087

For the Credit of:

Owner: COMMISSIONER OF THE TEXAS GENERAL
LAND OFFICE ATN MINERAL LEASING
Address: 1700 N CONGRESS AVE
AUSTIN, TX 78701

(BA#):80104210

121
X
Payment Amount: \$480,700.00

Check No.: 202295
Payment Type: DELAY RENTAL

Period Covered: 04/05/2014-04/05/2015
Payment Amount: \$480,700.00

Lease Number: 1044142/001 LSE

Original Lessor: STATE OF TEXAS M-112451

Lease Effective Date: 04/05/2011

Recording Information: Book # 879 Page # 458, 3042



State: TX

County: REEVES

Check Remarks:

DELAY RENTALS FOR THE 3RD ANNIVERSARY DATE

BLK 53 SEC 23

14710087

For the Credit of:

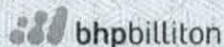
Owner: COMMISSIONER OF THE TEXAS GENERAL
LAND OFFICE ATN MINERAL LEASING
Address: 1700 N CONGRESS AVE
AUSTIN, TX 78701

(BA#):80104210

Payment Amount: \$480,700.00

VERIFY THE AUTHENTICITY OF THIS MULTI-TONE SECURITY DOCUMENT.

CHECK BACKGROUND AREA CHANGES COLOR GRADUALLY FROM TOP TO BOTTOM.



PETROHAWK ENERGY CORPORATION
ATTN LAND ADMINISTRATION
P.O. BOX 22719
HOUSTON, TX 77027-9998

Bank of America 1455 Market St. 4th Fl
San Francisco CA 94103

32-1
1110 GL

DATE 03/25/2014

CHECK NO. 202295

AMOUNT *****\$480,700.00

PAY *****480700*DOLLARS AND* 00*CENTS

VOID IF NOT CASHED WITHIN
SIX MONTHS OF ISSUE

NON TRANSFERABLE

Owner Call Center: 1-877-311-1443

PAY
TO
THE
ORDER
OF

COMMISSIONER OF THE TEXAS GENERAL
LAND OFFICE ATN MINERAL LEASING
1700 N CONGRESS AVE
AUSTIN, TX 78701

Daniel Powell
FACSIMILE SIGNATURE

May L. Bellamy
FACSIMILE SIGNATURE

⑈000 20 2295⑈

412

File No. ME112451

⑦

Rentals - 4th yr.

Date Filed: 04/02/2014

Jerry E. Patterson, Commissioner

By

JEP

Check No.: 204969

Payment Type: DELAY RENTAL

Period Covered: 04/05/2015-04/05/2016

Payment Amount: \$2,403.50

15709364

Lease Number: 1044142/001 LSE

Original Lessor: STATE OF TEXAS M-112451



Lease Effective Date: 04/05/2011

Recording Information: Book # 879 Page # 458, 3042

State: TX

County: REEVES

Check Remarks:

ANNUAL DELAY RENTAL M-112451 SEC 23 BLK 53

RENTAL PAYMENT

5th yr.

P

121

For the Credit of:

Owner: COMMISSIONER OF THE TEXAS GENERAL
LAND OFFICE ATN MINERAL LEASING

(BA#):80104210

Payment Amount: ~~\$2,403.50~~Address: 1700 N CONGRESS AVE
AUSTIN, TX 78701

Check No.: 204969
Payment Type: DELAY RENTAL

Period Covered: 04/05/2015-04/05/2016
Payment Amount: \$2,403.50

Lease Number: 1044142/001 LSE

Original Lessor: STATE OF TEXAS M-112451

Lease Effective Date: 04/05/2011

Recording Information: Book # 879 Page # 458, 3042

State: TX

County: REEVES

Check Remarks:

ANNUAL DELAY RENTAL M-112451 SEC 23 BLK 53

15709364



121

For the Credit of:

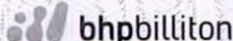
Owner: COMMISSIONER OF THE TEXAS GENERAL
LAND OFFICE ATN MINERAL LEASING
Address: 1700 N CONGRESS AVE
AUSTIN, TX 78701

(BA#):80104210

Payment Amount: \$2,403.50

VERIFY THE AUTHENTICITY OF THIS MULTI-TONE SECURITY DOCUMENT.

CHECK BACKGROUND AREA CHANGES COLOR GRADUALLY FROM TOP TO BOTTOM.



PETROHAWK ENERGY CORPORATION
ATTN LAND ADMINISTRATION
P.O. BOX 22719
HOUSTON, TX 77027-9998

Bank of America 1455 Market St. 4th Fl
San Francisco, CA 94103

32-1
1110 GL

15709364

DATE 03/13/2015

CHECK NO. 204969

AMOUNT *****\$2,403.50

PAY *****2403*DOLLARS AND* 50*CENTS

VOID IF NOT CASHED WITHIN
SIX MONTHS OF ISSUE

NON TRANSFERABLE

Owner Call Center: 1-877-311-1443

PAY
TO
THE
ORDER
OF

COMMISSIONER OF THE TEXAS GENERAL
LAND OFFICE ATN MINERAL LEASING
1700 N CONGRESS AVE
AUSTIN, TX 78701

Daniel Powell
FACSIMILE SIGNATURE

Jeffrey L. Sehlberg
FACSIMILE SIGNATURE

⑈000204969⑈

File No. MF112451 8

Rentals - 5th yr. County

Date Filed: 03/19/2015

George P. Bush, Commissioner

By GPB

2.13.12

DO NOT DESTROY



Texas General Land Office
UNIT AGREEMENT MEMO

UPA159005

Unit Number 7731
Operator Name Endurance Resources Holdings II, LLC Effective Date 12/01/2015
Customer ID C000088734 Unitized For Oil And Gas
Unit Name Johnny Cash 23 Unit Unit Term
County 1 Reeves RRC District 1 08 Old Unit Number Inactive Status Date
County 2 RRC District 2
County 3 RRC District 3
County 4 RRC District 4
Unit type Permanent
State Net Revenue Interest Oil 0.23437500
State Part in Unit 1.00000000
Unit Depth Specified Depths Well
From Depth Formation Top of Wolfcamp to Base of Wolfcamp
To Depth Participation Basis Surface Acreage
If Exclusions Apply: See Remarks

Lease Number	Tract No	Lease Acres in Unit	Total Unit Acres	Tract Participation	O/G	Lease Royalty	NRI of Lease in Unit	Royalty Rate Reduction Clause
MF112451	1	480.750000	1,282.000000	0.37500000	O/G	0.25000000	0.09375000	No
MF112452	2	641.000000	1,282.000000	0.50000000	O/G	0.25000000	0.12500000	No
MF113664	3	160.250000	1,282.000000	0.12500000	O/G	0.12500000	0.01562500	No

API Number

4238935064

Remarks:

Prepared By:

GLO Base Updated By:

RAM Approval By:

GIS By:

Well Inventory By:

Prepared Date:

GLO Base Date:

RAM Approval Date:

GIS Date:

WI Date:

12/07/2015

12/07/2015

12/07/2015

1-25-16

12/07/2015

Pooling Committee Report

To: School Land Board

UPA159005

Date of Board Meeting: 12/01/2015

Unit Number: 7731

Effective Date: 12/01/2015

Unit Expiration Date:

Applicant: Endurance Resources Holding II, LLC

Attorney Rep:

Operator: Endurance Resources LLC

Unit Name: Johnny Cash 23 Unit

Field Name: FORD, WEST (WOLFCAMP)

County: Reeves

<u>Lease Type</u>	<u>Lease Number</u>	<u>Lease Royalty</u>	<u>Expiration Date</u>	<u>Lease Term</u>	<u>Lease Acres</u>	<u>Lease Acres In Unit</u>	<u>Royalty Participation</u>
RAL	MF113664	0.12500000	08/26/2016	5 years	160.000000	160.250000	0.01562500
U Fee	MF112451	0.25000000	04/05/2016	5 years	480.700000	480.750000	0.09375000
U Fee	MF112452	0.25000000	04/05/2016	5 years	641.000000	641.000000	0.12500000

Private Acres: 0.000000
State Acres: 1282.000000
Total Unit Acres: 1282.000000

Participation Basis: Surface Acreage
Surface Acreage
State Acreage: 100.00%
State Net Revenue Interest: 23.44%

Unit Type: Unitized for:
Permanent Oil And Gas
Term:

RRC Rules: Spacing Acres:
Yes 1,830 acres for a 10,069 foot lateral (FTP to LTP).

Pooling Committee Report

To: School Land Board

UPA159005

Date of Board Meeting: 12/01/2015

Unit Number: 7731

Effective Date: 12/01/2015

Unit Expiration Date:

Applicant: Endurance Resources Holding II, LLC

Attorney Rep:

Operator: Endurance Resources LLC

Unit Name: Johnny Cash 23 Unit

Field Name: FORD, WEST (WOLFCAMP)

County: Reeves

<u>Lease Type</u>	<u>Lease Number</u>	<u>Lease Royalty</u>	<u>Expiration Date</u>	<u>Lease Term</u>	<u>Lease Acres</u>	<u>Lease Acres In Unit</u>	<u>Royalty Participation</u>
RAL	MF113664	0.12500000	08/26/2016	5 years	160.000000	160.000000	0.01562500
U Fee	MF112451	0.25000000	04/05/2016	5 years	480.700000	480.000000	0.09375000
U Fee	MF112452	0.25000000	04/05/2016	5 years	641.000000	640.000000	0.12500000

Private Acres:	0.000000
State Acres:	1280.000000
Total Unit Acres:	1280.000000

<u>Participation Basis:</u>	Surface Acreage
Surface Acreage	
<u>State Acreage:</u>	100.00%
<u>State Net Revenue Interest:</u>	23.44%

<u>Unit Type:</u>	<u>Unitized for:</u>
Permanent	Oil And Gas
<u>Term:</u>	

<u>RRC Rules:</u>	<u>Spacing Acres:</u>
Yes	1,830 acres for a 10,069 foot lateral (FTP to LTP).

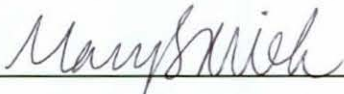
Working File Number: UPA159005

REMARKS:

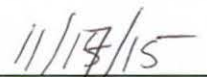
- Endurance Resources, LLC is requesting permanent oil and gas pooling of the Wolfcamp formation as seen on the well log of the Devon Energy Production Company, LP - Sebring 60-1-47, Well No. 1 (API 42-109-32367).
- The applicant plans to spud the first unit well on December 5, 2015, with a proposed TD of 11,000 feet TVD. A 10,069 foot lateral is expected to be drilled.
- With approval of the unit, the State's unit royalty participation will be 23.44%.
- The State will participate on a unitized basis from the date of first production.
- The applicant has agreed to drill a total of four unit wells. The applicant will have until August 26, 2019 to spud a second unit well at which time they will enter into a 180 day continuous development period from spud to spud for the remaining two unit wells or the unit will decrease in size to 320 acres per unit well drilled.

POOLING COMMITTEE RECOMMENDATION:

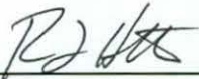
The Pooling Committee recommends Board approval of a permanent oil and gas unit under the above-stated provisions.



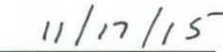
Mary Smith - Office of the Attorney General



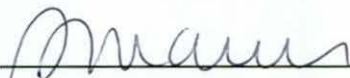
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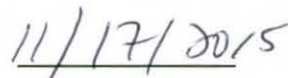
Robert Hatter - General Land Office



Date



Diane Morris - Office of the Governor



Date

PSL
A-5099

PSL
A-4334

PSL
A-2631

22

MF113664

PSL
A-4088

23

PSL
A-3570

PSL
A-3972
MF112451

PSL
A-2294

27

PSL
A-3568

A-4182

REEVES
COUNTY

26

A-3973

PSL
A-2293

MF112452

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A-4165

PSL
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PSL
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34

PSL
A-3567

PSL
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PSL
A-3467

CULBERSON
COUNTY



REEVES
COUNTY

Unit #7731
Endurance Resources, LLC.
Johnny Cash 23 Unit
Ford, West (Wolfcamp) Field
Reeves County, Texas

1,500 750 0 1,500 Feet



The Texas General Land Office makes no representations or warranties regarding the accuracy or completeness of the information depicted on this map or the data from which it was produced. This map IS NOT suitable for navigational purposes and does not purport to depict or establish boundaries between private and public land.



Map Generated by:
Mark Conway
IS/BAS/GIS
December 2015

POOLING AGREEMENT
ENDURANCE RESOURCES HOLDINGS II, LLC
JOHNNY CASH 23 UNIT
GLO UNIT NO. 7731
REEVES COUNTY, TEXAS

THIS AGREEMENT is entered into by and between the Commissioner of the General Land Office, on behalf of the State of Texas, as "Lessor" and Endurance Resources Holdings II, LLC, herein referred to as "Lessee", and such other interested parties as may join in the execution hereof, the undersigned parties herein collectively referred to as the "parties", in consideration of the mutual agreements hereinafter set forth and other valuable considerations, the receipt and sufficiency of which are hereby acknowledged, and for the purposes and upon the terms and conditions which follow:

PURPOSES:

1.

This Pooling Agreement ("Agreement") is made for the purposes of conservation and utilization of the pooled mineral, to prevent waste, to facilitate orderly development and to preserve correlative rights. To such end, it is the purpose of this Agreement to effect equitable participation within the unit formed hereby. This Agreement is intended to be performed pursuant to and in compliance with all applicable statutes, decisions, regulations, rules, orders and directives of any governmental agency having jurisdiction over the production and conservation of the pooled mineral and in its interpretation and application shall, in all things, be subject thereto.

UNIT DESCRIPTION:

2.

The oil and gas leases, which are included within the pooled unit, are listed on the attached Exhibit "A", to which leases and the records thereof reference is here made for all pertinent purposes. The pooled unit shall consist of all of the lands described in Exhibit "B" attached hereto and made a part hereof. A plat of the pooled unit is attached hereto as Exhibit "C". The unit description is subject to the provisions of Addendum "A".

MINERAL POOLED:

3.

The mineral pooled and unitized ("pooled mineral") hereby shall be oil and gas including all hydrocarbons that may be produced from an oil well or a gas well as such wells are recognized and designated by the Railroad Commission of Texas or other state regulatory agency having jurisdiction of the drilling and production of oil and gas wells. The pooled mineral shall extend to those depths underlying the surface boundaries of the pooled unit from the top of the Wolfcamp Formation to the base of the Wolfcamp Formation ("unitized interval").

POOLING AND EFFECT:

4.

The parties hereto commit all of their interests which are within the unit to the extent and as above described into said unit and unitize and pool hereunder the separate tracts described on the attached Exhibit "B", for and during the term hereof, so that such pooling or unitization shall have the following effect:

- (a) The unit, to the extent as above described, shall be operated as an entirety for the exploration, development and production of the pooled mineral, rather than as separate tracts.
- (b) All drilling operations, reworking or other operations with respect to the pooled mineral on land within the unit shall be considered as though the same were on each separate tract in the unit, regardless of the actual location of the well or wells thereon, for all purposes under the terms of the respective leases or other contracts thereon and this Agreement. In the event the unitized area covered by this Agreement is maintained in force by drilling or reworking operations conducted on a directional or horizontal well drilled under the unitized area from a surface location on adjacent or adjoining lands not included within the boundaries of the unitized area, such operations shall be considered to have been commenced on the unitized area when drilling is commenced on the adjacent or adjoining land for the purpose of directionally drilling under the unitized area and production of oil or gas from the unitized area through any directional well surfaced on adjacent or adjoining land or drilling or reworking of any such directional well shall be considered production or drilling or reworking operations, as the case may be, on the unitized area for all purposes under this Agreement. Nothing in this Agreement is intended or shall be construed as granting to Lessee any leasehold interest, easements, or other rights in or with respect to any such adjacent or adjoining land in addition to any such leasehold interests, easements, or other rights which the lessee, operator or other interest owner in the unitized area may have lawfully acquired from the state or others.
- (c) Production of the pooled mineral from the unit allocated to each separate tract, respectively, as hereinafter provided, shall be deemed to have been produced from each such separate tract in the unit, regardless of the actual location of the well or wells thereon, for all purposes under the terms of the respective leases or other contracts thereon and this Agreement.
- (d) All rights to the production of the pooled mineral from the unit, including royalties and other payments, shall be determined and governed by the lease or other contract pertaining to each separate tract, respectively, based upon the production so allocated to such tract only, in lieu of the actual production of the pooled mineral therefrom. Provided that, payments that are made on a per acre basis shall be reduced according to the number of acres pooled and included herein, so that payments made on a per acre basis shall be calculated based upon the number of acres actually included within the boundaries of the pooled unit covered by this Agreement.
- (e) A shut-in oil or gas well located upon any land or lease included within said unit shall be considered as a shut-in oil or gas well located upon each land or lease included within said unit; provided, however, that shut-in oil or gas well royalty shall be paid to the State on each State lease wholly or partially within the unit, according to the

terms of such lease as though such shut-in oil or gas well were located on said lease, it being agreed that shut-in royalties provided in each State lease shall not be shared with other royalty owners.

- (f) Notwithstanding any other provision hereof, it is expressly agreed that each State lease may be maintained in force as to areas lying outside the unitized area described in Exhibit "B" only as provided in each such lease without regard to unit operations or unit production. Neither production of the pooled mineral, nor unit operations with respect thereto, nor the payment of shut-in royalties from a unit well, shall serve to hold any State lease in force as to any area outside the unitized area described in Exhibit "B" regardless of whether the production or operations on the unit are actually located on the State lease or not. "Area" as used in this paragraph shall be based upon surface acres to the end that, except as may otherwise be provided in each State Lease, the area inside the surface boundaries of the pooled unit, if held, will be held as to all depths and horizons.
- (g) If the Railroad Commission of Texas (or any other Texas regulatory body having jurisdiction) shall adopt special field rules providing for oil and/or gas proration units of less than the number of acres included in the pooled unit, then Lessee agrees to either (1) drill to the density permitted by the Railroad Commission, (2) make application to the School Land Board of the State of Texas to reform the unit to comply with Railroad Commission unit rules, or (3) make application to the School Land Board of the State of Texas for such remedy as may be agreeable to the Board.
- (h) This Agreement shall not relieve Lessee from the duty of protecting the State leases described in Exhibit "A" and the State lands within the boundaries of the pooled unit described in Exhibit "B" from drainage from any well situated on privately owned land, lying outside the unitized area described in Exhibit "B", but, subject to such obligation, Lessee may produce the allowable for the entire unit as fixed by the Railroad Commission of Texas or other lawful authority, from any one or more wells completed thereon.
- (i) There shall be no obligation to drill internal offsets to any other well on separate tracts within the pooled unit, nor to develop the lands within the boundaries thereof separately, as to the pooled mineral.
- (j) Should this Agreement terminate for any cause, the leases and other contracts affecting the lands within the unit, if not then otherwise maintained in force and effect, shall remain and may be maintained in force and effect under their respective terms and conditions in the same manner as though there had been production or operations under said lease or contract and the same had ceased on the date of the termination of this Agreement.

ALLOCATION OF PRODUCTION:

5.

For the purpose of computing the share of production of the pooled mineral to which each interest owner shall be entitled from the pooled unit, there shall be allocated to each tract committed to said unit that pro rata portion of the pooled mineral produced from the pooled unit which the number of surface acres covered by each such tract and included in the unit bears to the total number of surface acres included in said unit, and the share of production to which each interest owner is entitled shall be computed on the basis of such owner's interest in the production so allocated to each tract.

TAKING ROYALTY IN KIND:

6.

Notwithstanding anything contained herein to the contrary, the State may, at its option, upon not less than sixty (60) days notice to Lessee, require that payment of all or any royalties accruing to the State under this pooling or unitization agreement 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.

EFFECTIVE DATE:

7.

Upon execution by the Commissioner of the General Land Office of the State of Texas this Agreement shall become effective as of December 1, 2015.

TERM:

8.

This Agreement shall remain in effect so long as the pooled mineral is being produced from said unit, or so long as all leases included in the pooled unit are maintained in force by payment of delay rentals or shut-in oil or gas well royalties, by drilling or rework, or by other means, in accordance with the terms of said leases. Nothing herein shall amend or modify Section 52.031 of the Natural Resources Code, or any of the provisions thereof, which are contained in any State lease covered by this Agreement.

SPECIAL TERMS AND CONDITIONS:

9.

Notwithstanding anything contained herein to the contrary, this Agreement is subject to the terms and conditions of the attached Addendum "A".

STATE LAND:

10.

Insofar as the royalty interest of the State of Texas in and under any State tract committed to the unit is concerned, this Agreement is entered into, made and executed by the undersigned Commissioner of the General Land Office by virtue of the authority and pursuant to the provisions of Subchapter E, Chapter 52, of the Natural

Resources Code, authorizing the same, after the prerequisites, findings and approval hereof, as provided in said Code having been duly considered, made and obtained.

DISSOLUTION:

11.

The unit covered by this Agreement may be dissolved by Lessee, his heirs, successors or assigns, by an instrument filed for record in Reeves County, Texas, and a certified copy thereof filed in the General Land Office at any time after the cessation of production on said unit or the completion of a dry hole thereon prior to production or upon such other date as may be approved by the School Land Board and mutually agreed to by the undersigned parties, their successors or assigns.

RATIFICATION/WAIVER:

12.

Nothing in this Agreement, nor the approval of this Agreement by the School Land Board, nor the execution of this Agreement by the Commissioner shall: (1) operate as a ratification or revivor of any State lease that has expired, terminated, or has been released in whole or in part or terminated under the terms of such State lease or the laws applicable thereto; (2) constitute a waiver or release of any claim for money, oil, gas or other hydrocarbons, or other thing due to the State by reason of the existence or failure of such lease; (3) constitute a waiver or release of any claim by the State that such lease is void or voidable for any reason, including, without limitation, violations of the laws of the State with respect to such lease or failure of consideration; (4) constitute a confirmation or recognition of any boundary or acreage of any tract or parcel of land in which the State has or claims an interest; or (5) constitute a ratification of, or a waiver or release of any claim by the State with respect to any violation of a statute, regulation, or any of the common laws of this State, or any breach of any contract, duty, or other obligation owed to the State.

COUNTERPARTS:

13.

This Agreement may be executed in counterparts and if so executed shall be valid, binding and have the same effect as if all the parties hereto actually joined in and executed one and the same document. For recording purposes and in the event counterparts of this Agreement are executed, the executed pages, together with the pages necessary to show acknowledgments, may be combined with the other pages of this Agreement so as to form what shall be deemed and treated as a single original instrument showing execution by all parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement upon the respective dates indicated below.

Date Executed 12-30-13

STATE OF TEXAS

Legal
Content
Geology
Executive

[Signature]

[Signature]

By: *[Signature]*
George P. Bush, Commissioner
General Land Office

Date Executed 12-8-2015

ENDURANCE RESOURCES HOLDINGS II, LLC

By: *[Signature]*

Its: CEO

CERTIFICATE

I, Stephanie Crenshaw, Secretary of the School Land Board of the State of Texas, do hereby certify that at a meeting of the School Land Board duly held on the 1st day of December, 2015, the foregoing instrument was presented to and approved by said Board under the provisions of Subchapter E, Chapter 52, of the Natural Resources Code, all of which is set forth in the Minutes of the Board of which I am custodian.

IN TESTIMONY WHEREOF, witness my hand this the 30th day of December, 2015.


Secretary of the School Land Board

STATE OF TEXAS

COUNTY OF MIDLAND

This instrument was acknowledged before me on December 8, 2015, by Donald G Ritter
as CEO for Endurance Resources Holdings II, LLC, a Delaware limited
liability company on behalf of said company.




Notary Public in and for the
State of Texas

Addendum "A"

To that certain Pooling Agreement for the Johnny Cash 23 Unit

The parties hereby agree that should a conflict exist between this Addendum and the body of the agreement that this Addendum shall prevail.

The pooled unit shall consist of all of the lands herein described in the attached Exhibit "B" and depicted in the attached Exhibit "C". Lessee agrees to drill a minimum of four (4) horizontal wells within the unit, provided however that, should Lessee fail to meet the "Drilling Obligation Timeframe", as specifically defined below, that such unit shall remain in full force and effect as to any and all wells drilled upon the unit acreage, but shall shrink down to allow for a maximum size of 320 acres per well drilled in the unit, as close as is reasonably practicable in the shape of a rectangle around the well or wells. In the event that Lessee choses to drill wells ahead of the Drilling Obligation Timeframe detailed below, then Lessee shall not be penalized for doing so and shall still conserve the benefit of the Drilling Obligation Timeframe described below.

Drilling Obligation Timeframe:

Lessee shall conduct drilling operations in the following manner:

- First well — Spud on or before February 15, 2016;
- Second well — Spud on or before August 26, 2019;
- Third well — Spud on or before 180 days from the spud date of the Second Well;
- Fourth well — Spud on or before 180 days from the spud date of the Third Well;

Once actual drilling operations have been commenced on a particular well, Lessee shall continue drilling and completion operations thereafter on such well with due diligence, as a reasonable prudent operator would under the same or similar circumstances.

In the event Lessee commences actual drilling operations on all four (4) wells committed to be drilled hereunder and such wells are thereafter completed as wells being capable of producing oil or gas in paying quantities, the parties hereby agree that the pooled unit shall remain in the original, unaltered size and shape as described in Exhibit "B" and depicted in Exhibit "C", in accordance with paragraph eight (8) of this Agreement.

End of Addendum "A"

The State of Texas



Austin, Texas

OIL AND GAS LEASE NO. M-112451

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:

SOUTH ONE-HALF AND NORTHEAST ONE-QUARTER (S/2 & NE/4) OF SECTION 23, BLOCK 53, PUBLIC SCHOOL LAND SURVEY, REEVES COUNTY, TEXAS CONTAINING APPROXIMATELY 480.7 ACRES, AS SHOWN ON THE OFFICIAL MAP OF REEVES COUNTY, TEXAS CURRENTLY ON FILE IN THE TEXAS GENERAL LAND OFFICE, AUSTIN, TEXAS,

was, after being duly advertised, offered for lease on the 5th day of April, 2011, 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 5th day of April, 2011, hereinafter the "effective date" and it was found and determined that ANGELE & DONOHUE OIL & GAS PROPERTIES, INC. whose address is P.O. BOX 52901, LAFAYETTE, LOUISIANA, 70505 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 One Million Three Hundred Twenty-Eight Thousand One Hundred Seventy-Four And 10/100 Dollars (\$1,328,174.10), 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; the right to grant third parties seismic, geophysical and geological permits and to enter into other agreements with third parties, which allow such third parties to conduct geophysical, geological or seismic surveys on, over, under, through and across the land covered herein during the term of this lease; and 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	\$ 1,000.00
Fourth	\$ 5.00

4. **PRODUCTION ROYALTIES:** 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

(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, $\frac{1}{4}$ 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, $\frac{1}{4}$ 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) **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.

(F) **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.

(G) **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.

(H) **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.

(I) **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.



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.

Patrick L. Donohue
LESSEE: ANGELLE & DONOHUE OIL & GAS PROPERTIES, INC.
BY: PATRICK L. DONOHUE
TITLE: PRESIDENT
DATE: 5/10/11

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.

Henry E. Patterson
COMMISSIONER OF THE GENERAL LAND OFFICE
OF THE STATE OF TEXAS

APPROVED

Contents
Legal
DC
Exec

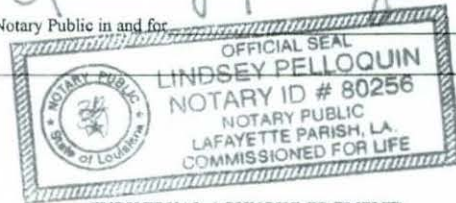
STATE OF LOUISIANA
PARISH
COUNTY OF LAFAYETTE

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared PATRICK L. DONOHUE
known to me to be the person whose name is subscribed to the foregoing instrument, as PRESIDENT
of ANGELLE & DONOHUE OIL & GAS PROPERTIES, INC. 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 10 day of May, 2011

Notary Public in and for



(INDIVIDUAL ACKNOWLEDGMENT)

STATE OF
COUNTY OF

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

12.29.15

Certificate of Record

\$35.⁰⁰ Recording Fee
\$11.⁰⁰ Certified Copy Fee
\$46.⁰⁰ Total Paid

003042

FILED FOR RECORD

2011 MAY 17 PM 4:21

FILED BY: D. O. FLOREZ
COUNTY CLERK, REEVES COUNTY, TX.
[Signature]

Return to:

Angelle + Donchue Oil & Gas

COMPARED

ANY PROVISION HEREIN WHICH RESTRICTS THE
SALE, RENTAL, OR USE OF THE DESCRIBED REAL
PROPERTY BECAUSE OF COLOR OR RACE IS INVALID
AND UNENFORCEABLE UNDER FEDERAL LAW.

THE STATE OF TEXAS, }
COUNTY OF REEVES. }

I, hereby certify that this instrument with its certificates of authenticity was FILED on the
date and at the time stamped hereon and was duly RECORDED in the OFFICIAL PUBLIC
RECORDS of Real Property of Reeves County, Texas, as indicated.

OPR VOL. 879 PAGE 458 DATE RECORDED 05/27/2011



DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

By: *[Signature]*, Deputy

The State of Texas



Austin, Texas

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 26th day of AUGUST, 2011, between the State of Texas, acting by and through its agent, SANDRA KORNEGAY METCALF, A/K/A HEARTSILL SANDRA KORNEGAY METCALF OF 3909 SPRINGHILL AVE, LAS VEGAS, NEVADA 89121-6224 and ROBERT J. KORNEGAY, OF 13656 TEAGUE LANE, APT. 61, CORPUS CHRISTI, TEXAS 78410-5211

(Give Permanent Address)

said agent herein referred to as the owner of the soil (whether one or more), and PETROHAWK PROPERTIES, LP

of 6100 SOUTH YALE AVENUE, SUITE 500, TULSA, OKLAHOMA 74136 hereinafter called Lessee.

(Give Permanent Address)

1. GRANTING CLAUSE. For and in consideration of the amounts stated below and of the covenants and agreements to be paid, kept and performed by Lessee under this lease, the State of Texas acting by and through the owner of the soil, hereby grants, leases and lets unto Lessee, for the sole and only purpose of prospecting and drilling for and producing oil and gas, laying pipe lines, building tanks, storing oil and building power stations, telephone lines and other structures thereon, to produce, save, take care of, treat and transport said products of the lease, the following lands situated in REEVES County, State of Texas, to-wit:

NORTHWEST QUARTER (NW/4) OF SECTION 23, BLOCK 53, A-4088, PSL SURVEY, REEVES COUNTY, TEXAS, CONTAINING 160 ACRES MORE OR LESS.

Containing 160 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: ONE HUNDRED SIXTY THOUSAND AND 00/100'S

Dollars (\$160,000.00)

To the owner of the soil: ONE HUNDRED SIXTY THOUSAND AND 00/100'S

Dollars (\$160,000.00)

Total bonus consideration: THREE HUNDRED TWENTY THOUSAND AND 00/100

Dollars (\$320,000.00)

The total bonus consideration paid represents a bonus of TWO THOUSAND AND 00/100 Dollars (\$2000.00) per acre, on 160 net acres.

Notice of Confidentiality Rights: If you are a natural person, you may remove or strike any of the following information from this instrument before it is filed for record in the public records: your social security number or your driver's license number.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of FIVE years from this date (herein called "primary term") and as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land. As used in this lease, the term "produced in paying quantities" means that the receipts from the sale or other authorized commercial use of the substance(s) covered exceed out of pocket operational expenses for the six months last past.

3. DELAY RENTALS. If no well is commenced on the leased premises on or before one (1) year from this date, this lease shall terminate, unless on or before such anniversary date Lessee shall pay or tender to the owner of the soil or to his credit in the Bank, at PAY DIRECTLY TO OWNER OF THE SOIL or its successors (which shall continue as the depository regardless of changes in the ownership of said land), the amount specified below; in addition, Lessee shall pay or tender to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATE OF TEXAS, AT AUSTIN, TEXAS, a like sum on or before said date. Payments under this paragraph shall operate as a rental and shall cover the privilege of deferring the commencement of a well for one (1) year from said date. Payments under this paragraph shall be in the following amounts:

To the owner of the soil:

Dollars (\$)

To the State of Texas: REFER TO ADDENDUM PARAGRAPH 40

Dollars (\$)

Total Delay Rental:

Dollars (\$)

In a like manner and upon like payments or tenders annually, the commencement of a well may be further deferred for successive periods of one (1) year each during the primary term. All payments or tenders of rental to the owner of the soil may be made by check or sight draft of Lessee, or any assignee of this lease, and may be delivered on or before the rental paying date. If the bank designated in this paragraph (or its successor bank) should cease to exist, suspend business, liquidate, fail or be succeeded by another bank, or for any reason fail or refuse to accept rental, Lessee shall not be held in default for failure to make such payments or tenders of rental until thirty (30) days after the owner of the soil shall deliver to Lessee a proper

TX1698-022-000

recordable instrument naming another bank as agent to receive such payments or tenders.

4. **PRODUCTION ROYALTIES.** Upon production of oil and/or gas, Lessee agrees to pay or cause to be paid one-half (1/2) of the royalty provided for in this lease to the Commissioner of the General Land Office of the State of Texas, at Austin, Texas, and one-half (1/2) of such royalty to the owner of the soil:

(A) **OIL.** Royalty payable on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well and also as all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, shall be 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 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 leased premises is sold, used or processed in a plant, it will be run free of cost to the royalty owners through an adequate oil and gas separator of conventional type, or other equipment at least as efficient, so that all liquid hydrocarbons recoverable from the gas by such means will be recovered. The requirement that such gas be run through a separator or other equipment may be waived, in writing, by the royalty owners upon such terms and conditions as they prescribe.

(B) **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 1/4 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 in the general area where produced and when run, or the gross price paid or offered to the producer, whichever is the greater; provided that the maximum pressure base in measuring the gas under this lease 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 tests 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.** Royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbons shall be 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 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 arm's 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.** 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 shall be 1/4 part of the gross production of such products, or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such market value to be determined as follows: 1) on the basis of the highest market price of each product for 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.

5. **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 under this lease in no event shall be less than an amount equal to the total annual delay rental herein provided; 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 the total annual rental less the amount of royalties paid during the preceding year. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre.

6. **ROYALTY IN KIND.** Notwithstanding any other provision in this lease, at any time or from time to time, the owner of the soil or the Commissioner of the General Land Office may, at the option of either, upon not less than sixty (60) days notice to the holder of the lease, require that the payment of any royalties accruing to such royalty owner under this lease be made in kind. The owner of the soil's or the Commissioner of the General Land Office's right to take its royalty in kind shall not diminish or negate the owner of the soil's or the Commissioner of the General Land Office's rights or Lessee's obligations, whether express or implied, under this lease.

7. **NO DEDUCTIONS.** Lessee agrees that all royalties accruing under this lease (including those paid in kind) shall be without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting, and otherwise making the oil, gas and other products hereunder ready for sale or use. Lessee agrees to compute and pay royalties on the gross value received, including any reimbursements for severance taxes and production related costs.

8. **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 any other provision of this lease, and subject to the written consent of the owner of the soil and the Commissioner of the General Land Office, Lessee may recycle gas for gas lift purposes on the leased premises or for injection into any oil or gas producing formation underlying the leased premises after the liquid hydrocarbons contained in the gas have been removed; no royalties shall be payable on the recycled gas until it is produced and sold or used by Lessee in a manner which entitles the royalty owners to a royalty under this lease.

9. **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 to accrue 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.

10. (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) **PERMITS, 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. All applications, permits, reports or other filings that reference this lease or any specific well on the leased premises and that are submitted to the Texas Railroad Commission or any other governmental agency shall include the word "State" in the title. Additionally, in accordance with Railroad Commission rules, any signage on the leased premises for the purpose of identifying wells, tank batteries or other associated improvements to the land must also include the word "State." 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.

11. 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 13, using the expiration of the primary term as the date of cessation of production under Paragraph 13. 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.

12. DRILLING AND REWORKING AT EXPIRATION OF PRIMARY TERM. If, at the expiration of the primary term, neither oil nor gas is being produced on said land, but Lessee is then engaged in drilling or reworking operations thereon, this lease shall remain in force so long as operations on said well or for drilling or reworking of any additional wells are prosecuted in good faith and in workmanlike manner without interruptions totaling more than sixty (60) days during any one such operation, and if they result in the production of oil and/or gas, so long thereafter as oil and/or gas is produced in paying quantities from said land, or payment of shut-in oil or gas well royalties or compensatory royalties is made as provided in this lease.

13. 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.

14. 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 double the annual rental provided in the lease, but not less than \$1,200 a year for each well capable of producing oil or gas in paying quantities. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre. 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. Such payment shall be made one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil. 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.

15. 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, one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil, 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 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. Compensatory royalty payments which are not timely paid will accrue penalty and interest in accordance with Paragraph 9 of this lease. None of these provisions will relieve Lessee of the obligation of reasonable development nor the obligation to drill offset wells as provided in Texas Natural Resources Code 52.173; however, at the determination of the Commissioner, and with the Commissioner's written approval, the payment of compensatory royalties can satisfy the obligation to drill offset wells.

16. 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 14 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 Texas Natural Resources Code 52.151-52.154, 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. 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. Notwithstanding the termination of this lease as to a portion of the lands covered hereby, Lessee shall nevertheless continue to have the right of ingress to and egress from the lands still subject to this lease for all purposes described in Paragraph 1 hereof, together with easements and rights-of-way for existing roads, existing pipelines and other existing facilities on, over and across all the lands described in Paragraph 1 hereof ("the retained lands"), for

access to and from the retained lands and for the gathering or transportation of oil, gas and other minerals produced from the retained lands.

(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 16 (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 Commissioner of the General Land Office. 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.

17. **OFFSET WELLS.** Neither the bonus, delay rentals, nor royalties paid, or to be paid, under this lease shall relieve Lessee of his obligation to protect the oil and gas under the above-described land from being drained. Lessee, sublessee, receiver or other agent in control of the leased premises shall drill as many wells as the facts may justify and shall use appropriate means and drill to a depth necessary to prevent undue drainage of oil and gas from the leased premises. In addition, if oil and/or gas should be produced in commercial quantities within 1,000 feet of the leased premises, or in any case where the leased premises is being drained by production of oil or gas, the Lessee, sublessee, receiver or other agent in control of the leased premises shall in good faith begin the drilling of a well or wells upon the leased premises within 100 days after the draining well or wells or the well or wells completed within 1,000 feet of the leased premises start producing in commercial quantities and shall prosecute such drilling with diligence. Failure to satisfy the statutory offset obligation may subject this lease and the owner of the soil's agency rights to forfeiture. Only upon the determination of the Commissioner of the General Land Office and with his written approval may the payment of compensatory royalty under applicable statutory parameters satisfy the obligation to drill an offset well or wells required under this paragraph.

18. **FORCE MAJEURE.** If, after a good faith effort, Lessee is prevented from complying with any express or implied covenant of this lease, from conducting drilling operations on the leased premises, or from producing oil or gas from the leased premises by reason of war, rebellion, riots, strikes, acts of God, or any valid order, rule or regulation of government authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended and Lessee shall not be liable for damages for failure to comply with such covenants; additionally, this lease shall be extended while Lessee is prevented, by any such cause, from conducting drilling and reworking operations or from producing oil or gas from the leased premises. However, nothing in this paragraph shall suspend the payment of delay rentals in order to maintain this lease in effect during the primary term in the absence of such drilling or reworking operations or production of oil or gas.

19. **WARRANTY CLAUSE.** The owner of the soil warrants and agrees to defend title to the leased premises. If the owner of the soil defaults in payments owed on the leased premises, then Lessee may redeem the rights of the owner of the soil in the leased premises by paying any mortgage, taxes or other liens on the leased premises. If Lessee makes payments on behalf of the owner of the soil under this paragraph, Lessee may recover the cost of these payments from the rental and royalties due the owner of the soil.

20. (A) **PROPORTIONATE REDUCTION CLAUSE.** If the owner of the soil owns less than the entire undivided surface estate in the above described land, whether or not Lessee's interest is specified herein, then the royalties and rental herein provided to be paid to the owner of the soil shall be paid to him in the proportion which his interest bears to the entire undivided surface estate and the royalties and rental herein provided to be paid to the Commissioner of the General Land Office of the State of Texas shall be likewise proportionately reduced. However, before Lessee adjusts the royalty or rental due to the Commissioner of the General Land Office, Lessee or his authorized representative must submit to the Commissioner of the General Land Office a written statement which explains the discrepancy between the interest purportedly leased under this lease and the actual interest owned by the owner of the soil. The Commissioner of the General Land Office shall be paid the value of the whole production allocable to any undivided interest not covered by a lease, less the proportionate development and production cost allocable to such undivided interest. However, in no event shall the Commissioner of the General Land Office receive as a royalty on the gross production allocable to the undivided interest not leased an amount less than the value of one-sixteenth (1/16) of such gross production.

(B) **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 and the owner of the soil in accordance with Natural Resources Code Sections 52.151-52.154, 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.

21. **USE OF WATER.** Lessee shall have the right to use water produced on said land necessary for operations under this lease except water from wells or tanks of the owner of the soil; provided, however, Lessee shall not use potable water or water suitable for livestock or irrigation purposes for waterflood operations without the prior consent of the owner of the soil.

22. **AUTHORIZED DAMAGES.** Lessee shall pay the owner of the soil for damages caused by its operations to all personal property, improvements, livestock and crops on said land.

23. **PIPELINE DEPTH.** When requested by the owner of the soil, Lessee shall bury its pipelines below plow depth.

24. **WELL LOCATION LIMIT.** No well shall be drilled nearer than two hundred (200) feet to any house or barn now on said premises without the written consent of the owner of the soil.

25. **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. 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. Lessee shall, while conducting operations on the leased premises, keep said premises free of all rubbish, cans, bottles, paper cups or garbage, and upon completion of operations shall restore the surface of the land to as near its original condition and contours as is practicable. Tanks and equipment will be kept painted and presentable.

26. **REMOVAL OF EQUIPMENT.** Subject to limitations in this paragraph, Lessee shall have the right to remove machinery and fixtures placed by Lessee on the leased premises, including the right to draw and remove casing, within one hundred twenty (120) days after the expiration or the termination of this lease unless the owner of the soil grants Lessee an extension of this 120-day period. However, Lessee may not remove casing from any well capable of producing oil and gas in paying quantities. Additionally, Lessee may not draw and remove casing until after thirty (30) days written notice to the Commissioner of the General Land Office and to the owner of the soil. The owner of the soil shall become the owner of any machinery, fixtures, or casing which are not timely removed by Lessee under the terms of this paragraph.

27. (A) **ASSIGNMENTS.** Under the conditions contained in this paragraph and Paragraph 29 of this lease, the rights and estates of either party to this lease may be assigned, in whole or in part, and the provisions of this lease shall extend to and be binding upon their heirs, devisees, legal representatives, successors and assigns. However, a change or division in ownership of the land, rentals, or royalties will not enlarge the obligations of Lessee, diminish the rights, privileges and estates of Lessee, impair the effectiveness of any payment made by Lessee or impair the effectiveness of any act performed by Lessee. And no change or division in ownership of the land, rentals, or royalties shall bind Lessee for any purpose until thirty (30) days after the owner of the soil (or his heirs, devisees, legal representatives or assigns) furnishes the Lessee with satisfactory written evidence of the change

in ownership, including the original recorded instruments of title (or a certified copy of such original) when the ownership changed because of a conveyance. A total or partial assignment of this lease shall, to the extent of the interest assigned, relieve and discharge Lessee of all subsequent obligations under this lease. If this lease is assigned in its entirety as to only part of the acreage, the right and option to pay rentals shall be apportioned as between the several owners ratably, according to the area of each, and failure by one or more of them to pay his share of the rental shall not affect this lease on the part of the land upon which pro rata rentals are timely paid or tendered; however, if the assignor or assignee does not file a certified copy of such assignment in the General Land Office before the next rental paying date, the entire lease shall terminate for failure to pay the entire rental due under Paragraph 3. Every assignee 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 assignee of the lease, including any liabilities to the State for unpaid royalties.

(B) ASSIGNMENT LIMITATION. Notwithstanding any provision in Paragraph 27(a), if the owner of the soil acquires this lease in whole or in part by assignment without the prior written approval of the Commissioner of the General Land Office, this lease is void as of the time of assignment and the agency power of the owner may be forfeited by the Commissioner. An assignment will be treated as if it were made to the owner of the soil if the assignee is:

- (1) a nominee of the owner of the soil;
- (2) a corporation or subsidiary in which the owner of the soil is a principal stockholder or is an employee of such a corporation or subsidiary;
- (3) a partnership in which the owner of the soil is a partner or is an employee of such a partnership;
- (4) a principal stockholder or employee of the corporation which is the owner of the soil;
- (5) a partner or employee in a partnership which is the owner of the soil;
- (6) a fiduciary for the owner of the soil, including but not limited to a guardian, trustee, executor, administrator, receiver, or conservator for the owner of the soil; or
- (7) a family member of the owner of the soil or related to the owner of the soil by marriage, blood, or adoption.

28. RELEASES. Under the conditions contained in this paragraph and Paragraph 29, Lessee may at any time execute and deliver to the owner of the soil and place of record a release or releases covering any portion or portions of the leased premises, and thereby surrender this lease as to such portion or portions, and be relieved of all subsequent obligations as to acreage surrendered. If any part of this lease is properly surrendered, the delay rental due under this lease shall be reduced by the proportion that the surrendered acreage bears to the acreage which was covered by this lease immediately prior to such surrender; however, such release will not relieve Lessee of any liabilities which may have accrued under this lease prior to the surrender of such acreage.

29. FILING OF ASSIGNMENTS AND RELEASES. If all or any part of this lease is assigned or released, such assignment or release must be recorded in the county where the land is situated, and the recorded instrument, or a copy of the recorded instrument certified by the County Clerk of the county in which the instrument is recorded, must be filed in the General Land Office within 90 days of the last execution date accompanied by the prescribed filing fee. If any such assignment is not so filed, the rights acquired under this lease shall be subject to forfeiture at the option of the Commissioner of the General Land Office.

30. DISCLOSURE CLAUSE. All provisions pertaining to the lease of the above-described land have been included in this instrument, including the statement of the true consideration to be paid for the execution of this lease and the rights and duties of the parties. Any collateral agreements concerning the development of oil and gas from the leased premises which are not contained in this lease render this lease invalid.

31. FIDUCIARY DUTY. The owner of the soil owes the State a fiduciary duty and must fully disclose any facts affecting the State's interest in the leased premises. When the interests of the owner of the soil conflict with those of the State, the owner of the soil is obligated to put the State's interests before his personal interests.

32. FORFEITURE. If Lessee shall fail or refuse to make the payment of any sum within thirty 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 if Lessee should 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 under the terms of the Relinquishment Act. 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.

33. LIEN. In accordance with Texas Natural Resources Code 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 Texas Natural Resources Code 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, Chap. 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.

34. POOLING. Lessee is hereby granted the right to pool or utilize the royalty interest of the owner of the soil under this lease with any other leasehold or mineral interest for the exploration, development and production of oil or gas or either of them upon the same terms as shall be approved by the School Land Board and the Commissioner of the General Land Office for the pooling or utilizing of the interest of the State under this lease pursuant to Texas Natural Resources Code 52.151-52.154. The owner of the soil agrees that the inclusion of this provision in this lease satisfies the execution requirements stated in Texas Natural Resources Code 52.152.

35. INDEMNITY. Lessee hereby releases and discharges the State of Texas and the owner of the soil, their officers, employees, partners, agents, contractors, subcontractors, guests, invitees, and their respective successors and assigns, of and from all and any actions and causes of action of every nature, or other harm, including environmental harm, for which recovery of damages is sought, including, but not limited to, all losses and expenses which are caused by the activities of Lessee, its officers, employees, and agents arising out of, incidental to, or resulting from, the operations of or for Lessee on the leased premises hereunder, or that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Agreement, or by any other negligent or strictly liable act or omission of Lessee. Further, Lessee hereby agrees to be liable for, exonerate, indemnify, defend and hold harmless the State of Texas and the owner of the soil, their officers, employees and agents, their successors or assigns, against any and all claims, liabilities, losses, damages, actions, personal injury (including death), costs and expenses, or other harm for which recovery of damages is sought, under any theory including tort, contract, or strict liability, including attorneys' fees and other legal expenses, including those related to environmental hazards, on the leased premises or in any way related to Lessee's failure to comply with any and all environmental laws; those arising from or in any way related to Lessee's operations or any other of Lessee's activities on the leased premises; those arising from Lessee's use of the surface of the leased premises; and those that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Agreement or any other act or omission of Lessee, its directors, officers, employees, partners, agents, contractors, subcontractors, guests, invitees, and their respective successors and assigns. Each assignee of this Agreement, or an interest therein, agrees to be liable for, exonerate, indemnify, defend and hold harmless the State of Texas and the owner of the soil, their officers, employees, and agents in the same manner provided above in connection with the activities of Lessee, its officers, employees, and agents as described above. EXCEPT AS OTHERWISE EXPRESSLY LIMITED HEREIN, ALL OF THE INDEMNITY OBLIGATIONS AND/OR LIABILITIES ASSUMED UNDER THE TERMS OF THIS AGREEMENT SHALL BE WITHOUT LIMITS AND WITHOUT REGARD TO THE CAUSE OR CAUSES THEREOF (EXCLUDING PRE-EXISTING CONDITIONS), STRICT LIABILITY, OR THE NEGLIGENCE OF ANY PARTY OR PARTIES (INCLUDING THE NEGLIGENCE OF THE INDEMNIFIED PARTY), WHETHER SUCH NEGLIGENCE BE SOLE, JOINT, CONCURRENT, ACTIVE, OR PASSIVE.

36. ENVIRONMENTAL HAZARDS. Lessee shall use the highest degree of care and all reasonable safeguards to prevent contamination or pollution of any environmental medium, including soil, surface waters, groundwater, sediments, and surface or subsurface strata, ambient air or any other environmental medium in, on, or under, the leased premises, by any waste, pollutant, or contaminant. Lessee shall not bring or permit to remain on the leased premises any asbestos containing materials, explosives, toxic materials, or substances regulated as hazardous wastes, hazardous materials, hazardous substances (as the term "Hazardous Substance" is defined in the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), 42 U.S.C. Sections 9601, et seq.), or toxic substances under any federal, state, or local law or regulation ("Hazardous Materials"), except ordinary products commonly used in connection with oil and gas exploration and development operations and stored in the usual manner and quantities. LESSEE'S VIOLATION OF THE FOREGOING PROHIBITION SHALL CONSTITUTE A MATERIAL BREACH AND DEFAULT HEREUNDER AND LESSEE SHALL INDEMNIFY, HOLD HARMLESS AND DEFEND THE STATE OF TEXAS AND THE OWNER OF THE SOIL FROM AND AGAINST ANY CLAIMS, DAMAGES, JUDGMENTS, PENALTIES, LIABILITIES, AND COSTS (INCLUDING REASONABLE ATTORNEYS' FEES AND COURT COSTS) CAUSED BY OR ARISING OUT OF (1) A VIOLATION OF THE FOREGOING PROHIBITION OR (2) THE PRESENCE, RELEASE, OR DISPOSAL OF ANY HAZARDOUS MATERIALS ON, UNDER, OR ABOUT THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OR CONTROL OF THE LEASED PREMISES. LESSEE SHALL CLEAN UP, REMOVE, REMEDY AND REPAIR ANY SOIL OR GROUND WATER CONTAMINATION AND DAMAGE CAUSED BY THE PRESENCE OR RELEASE OF ANY HAZARDOUS MATERIALS IN, ON, UNDER, OR ABOUT THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OF THE LEASED PREMISES IN CONFORMANCE WITH THE REQUIREMENTS OF APPLICABLE LAW. THIS INDEMNIFICATION AND ASSUMPTION SHALL APPLY, BUT IS NOT LIMITED TO, LIABILITY FOR RESPONSE ACTIONS UNDERTAKEN PURSUANT TO CERCLA OR ANY OTHER ENVIRONMENTAL LAW OR REGULATION. LESSEE SHALL IMMEDIATELY GIVE THE STATE OF TEXAS AND THE OWNER OF THE SOIL WRITTEN NOTICE OF ANY BREACH OR SUSPECTED BREACH OF THIS PARAGRAPH, UPON LEARNING OF THE PRESENCE OF ANY HAZARDOUS MATERIALS, OR UPON RECEIVING A NOTICE FROM ANY GOVERNMENTAL AGENCY PERTAINING TO HAZARDOUS MATERIALS WHICH MAY AFFECT THE LEASED PREMISES. THE OBLIGATIONS OF LESSEE HEREUNDER SHALL SURVIVE THE EXPIRATION OR EARLIER TERMINATION, FOR ANY REASON, OF THIS AGREEMENT.

37. APPLICABLE LAW. This lease is issued under the provisions of Texas Natural Resources Code 52.171 through 52.190, commonly known as the Relinquishment Act, and other applicable statutes and amendments thereto, and if any provision in this lease does not conform to these statutes, the statutes will prevail over any nonconforming lease provisions.

38. 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. Once the filing requirements found in Paragraph 39 of this lease have been satisfied, the effective date of this lease shall be the date found on Page 1.

39. LEASE FILING. Pursuant to Chapter 9 of the Texas Business and Commerce 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. This lease is not effective until a certified copy of this lease (which is made and certified by the County Clerk from his records) is filed in the General Land Office in accordance with Texas Natural Resources Code 52.183. Additionally, this lease shall not be binding upon the State unless it recites the actual and true consideration paid or promised for execution of this lease. The bonus due the State and the prescribed filing fee shall accompany such certified copy to the General Land Office.

ADDENDUM PROVISION - #40 and #41

40. DELAY RENTALS. As stipulated in Paragraph #3 of this lease, the rentals for this lease have been PAID-UP for the second (2nd) and third (3rd) years of the primary term hereof. Lessee or its assigns shall have the right to keep this lease in force and effect for the fourth (4th) and fifth (5th) years of the primary term provided for herein by tendering a payment of ONE THOUSAND THREE HUNDRED THIRTY THREE DOLLARS AND 34/100 (\$1,333.34) per net acre prior to AUGUST 26, 2014, as to any acreage covered hereby and not otherwise being maintained by any other provision herein at such time.

41. If, at the expiration of the primary term, this lease is being maintained in force under any provision of the lease, or within 180 days prior to the expiration of the primary term Lessee has completed a well as a dry hole or commenced a well on the leased premises or lands pooled therewith, or Lessee is then engaged in operations on the leased premises or lands pooled therewith, Lessee agrees to begin a continuous drilling program within 180 days after the end of the primary term or within 180 days after completion of such well or the cessation of such operations, whichever is the later date; and thereafter to carry on the continuous drilling program on the leased premises or lands pooled therewith until all proration units have been drilled, allowing not more than 180 days to elapse between the completion of one well and the commencement of the succeeding well. Should Lessee fail to begin the continuous drilling program or subsequently default in the performance thereof, then in either event, this lease shall terminate as to all lands covered hereby, save and except for the proration unit surrounding each well then producing, capable of producing or upon which operations are being conducted, limited, respectively, to those depths from the surface down to the stratigraphic equivalent of the depth 100 feet below the base of the deepest penetrated formation. As used in this paragraph: i) the term "commission" means the Railroad Commission of the State of Texas or any successor agency, ii) the term "proration unit" means any acreage designated as a drilling unit or production unit in accordance with the rules of the commission (or any other governmental authority having jurisdiction) or any unit formed by pooling as provided in this lease or otherwise, iii) the terms "commenced" and "commencement" mean the date when a well is spud, and iv) the terms "completed" and "completion" mean the date the initial potential test report is filed with the commission, if a productive well, or the date the plugging report is filed with the commission, if a dry hole, in either event no later than 60 days after the drilling rig has been released. Notwithstanding the partial termination of this lease, Lessee shall continue to have the rights of ingress and egress across all of the leased premises to and from lands that remain subject to this lease, or lands pooled therewith, for the purposes described in paragraph 1 hereof, together with easements and rights of way for roads, pipelines, flowlines and other facilities on or across all of the leased premises for the exploration, development, production, gathering or transportation of oil, gas and other products from the lands still subject to this lease or lands pooled therewith. The sole liability or penalty for the failure of Lessee to drill any well or wells required or permitted by this lease shall be the termination or partial termination of Lessee's rights under the lease as provided above.

42. COUNTERPARTS AND MULTIPLE SIGNATURES. This agreement may be executed in one or more counterparts and shall be binding upon each party executing the original or any counterpart hereof, regardless of whether all of the parties owning an interest in the Subject Premises join in the execution of this agreement. The failure of any party owning an interest in the Subject Premises to sign this agreement shall not affect its validity as to those whose signatures appear on the original or any counterpart hereof. This agreement may be executed in any number of multiple originals and the signature page(s) of any original(s) may be attached to and made a part of any original(s) so as to make one or more original(s) containing all or any number of signature(s) (Signature Pages) and be accompanied by respective notarial acknowledgment page(s) in order to make up one or more original(s).

IN WITNESS WHEREOF, this instrument is executed on the date first above written.

LESSEE: PETROHAWK PROPERTIES, LP,
by P-H Energy, L.L.C., Its General Partner

BY: D. R. Deffenbaugh

Title: Vice President - Land

Date: 9-14-11

STATE OF TEXAS

BY: SANDRA KORNEGAY METCALF
as agent for the State of Texas

Date: 08-29-11

STATE OF TEXAS

BY: ROBERT J. KORNEGAY
as agent for the State of Texas

Date: _____

STATE OF OKLAHOMA

(CORPORATION ACKNOWLEDGMENT)

COUNTY OF TULSA

BEFORE ME, the undersigned authority, on this day personally appeared D. R. Deffenbaugh
known to me to be the person whose name is subscribed to the foregoing instruments as Vice President - Land
of P-H Energy, LLC, General Partner of Petrohawk Properties, LP 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 11th day of September, 20 11.



Rita Kay Walker
Notary Public in and for Oklahoma

(INDIVIDUAL ACKNOWLEDGMENT)

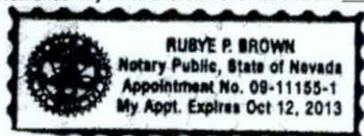
STATE OF Nevada

COUNTY OF Clark

BEFORE ME, the undersigned authority, on this day personally appeared Sandra Metcalf
(only)

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 29 day of August, 20 11.



Ruby P. Brown
Notary Public in and for State of Nevada

(INDIVIDUAL ACKNOWLEDGMENT)

STATE OF _____

COUNTY OF _____

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 _____

STATE OF TEXAS

STATE OF TEXAS

BY: SANDRA KORNEGAY METCALF
as agent for the State of Texas

BY: ROBERT J. KORNEGAY
as agent for the State of Texas

Date: _____

Date: 8/30/11

STATE OF _____

(CORPORATION ACKNOWLEDGMENT)

COUNTY OF _____

BEFORE ME, the undersigned authority, on this day personally appeared _____
known to me to be the person whose name is subscribed to the foregoing instruments 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 _____

(INDIVIDUAL ACKNOWLEDGMENT)

COUNTY OF _____

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 _____

STATE OF Texas

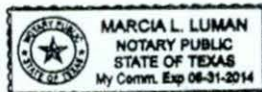
(INDIVIDUAL ACKNOWLEDGMENT)

COUNTY OF San Patricio

BEFORE ME, the undersigned authority, on this day personally appeared Robert J. Kornegay
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 30 day of August, 2011

Notary Public in and for San Patricio Co.



Marcia L. Luman
Notary Public in and for San Patricio Co.
Texas

12.29.11

Certificate of Record

43.00 Recording Fee
14.00 *already paid* Certified Copy Fee
57.00 Total Paid

007772

2011

Return to:

B B L S
PO Box 52826
Lafayette, LA 70505

MR. BBL

COMPARED

ANY PROVISION HEREIN WHICH RESTRICTS THE
SALE, RENTAL, OR USE OF THE DESCRIBED REAL
PROPERTY BECAUSE OF COLOR OR RACE IS INVALID
AND UNENFORCEABLE UNDER FEDERAL LAW.

THE STATE OF TEXAS, }
COUNTY OF REEVES. }

I, hereby certify that this instrument with its certificates of authenticity was FILED on the
date and at the time stamped hereon and was duly RECORDED in the OFFICIAL PUBLIC
RECORDS of Real Property of Reeves County, Texas, as indicated.

OPR VOL. 907 PAGE 203 DATE RECORDED 11/18/11



DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

By: *Elia Florez* Deputy

The State of Texas



Austin, Texas

OIL AND GAS LEASE NO. M-112452

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:

SECTION 26, BLOCK 53, PUBLIC SCHOOL LAND SURVEY, REEVES COUNTY, TEXAS CONTAINING APPROXIMATELY 641 ACRES, AS SHOWN ON THE OFFICIAL MAP OF REEVES COUNTY, TEXAS CURRENTLY ON FILE IN THE TEXAS GENERAL LAND OFFICE, AUSTIN, TEXAS,

was, after being duly advertised, offered for lease on the 5th day of April, 2011, 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 5th day of April, 2011, hereinafter the "effective date" and it was found and determined that ANGELLE & DONOHUE OIL & GAS PROPERTIES, INC. whose address is P.O. BOX 52901, LAFAYETTE, LOUISIANA, 70505 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 One Million Seven Hundred Seventy-One Thousand Eighty-Three And 00/100 Dollars (\$1,771,083.00), 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; the right to grant third parties seismic, geophysical and geological permits and to enter into other agreements with third parties, which allow such third parties to conduct geophysical, geological or seismic surveys on, over, under, through and across the land covered herein during the term of this lease; and 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	\$ 1,000.00
Fourth	\$ 5.00

4. **PRODUCTION ROYALTIES:** 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, $\frac{1}{4}$ 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) $\frac{1}{4}$ 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, $\frac{1}{4}$ 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, $\frac{1}{4}$ 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) **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.

(F) **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.

(G) **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.

(H) **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.

(I) **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.

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.

P L D
LESSEE: ANGELLE & DONOHUE OIL & GAS PROPERTIES, INC.

BY: PATRICK L. DONOHUE

TITLE: PRESIDENT

DATE: 5/10/11

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

Jerry E. Patterson
COMMISSIONER OF THE GENERAL LAND OFFICE
OF THE STATE OF TEXAS

APPROVED

Contents for

Legal for

DC for

Exec for

STATE OF LOUISIANA

PARISH
COUNTY OF LAFAYETTE

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared PATRICK L. DONOHUE

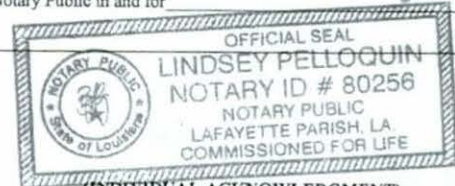
known to me to be the person whose name is subscribed to the foregoing instrument, as PRESIDENT of

ANGELLE & DONOHUE OIL & GAS PROPERTIES, INC. 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 10 day of May, 20 11

Lindsey Pelloguin
Notary Public in and for



(INDIVIDUAL ACKNOWLEDGMENT)

STATE OF

COUNTY OF

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 _____

12.29.15

* Certificate of Record

\$35.⁰⁰ Recording Fee
\$11.⁰⁰ Certified Copy Fee
\$46.⁰⁰ Total Paid

003041

FILED FOR RECORD
2011 MAY 17 PM 4:21

Return to:

Angelle + Donohue Oil & Gas

COMPARED

DIANE
COUNTY CLERK, REEVES COUNTY, TX.

D. J. F.

ANY PROVISION HEREIN WHICH RESTRICTS THE
SALE, RENTAL, OR USE OF THE DESCRIBED REAL
PROPERTY BECAUSE OF COLOR OR RACE IS INVALID
AND UNENFORCEABLE UNDER FEDERAL LAW.

THE STATE OF TEXAS, }
COUNTY OF REEVES. }

I, hereby certify that this instrument with its certificates of authenticity was FILED on the
date and at the time stamped hereon and was duly RECORDED in the OFFICIAL PUBLIC
RECORDS of Real Property of Reeves County, Texas, as indicated.

OPR VOL. 879 PAGE 452 DATE RECORDED 05/27/2011



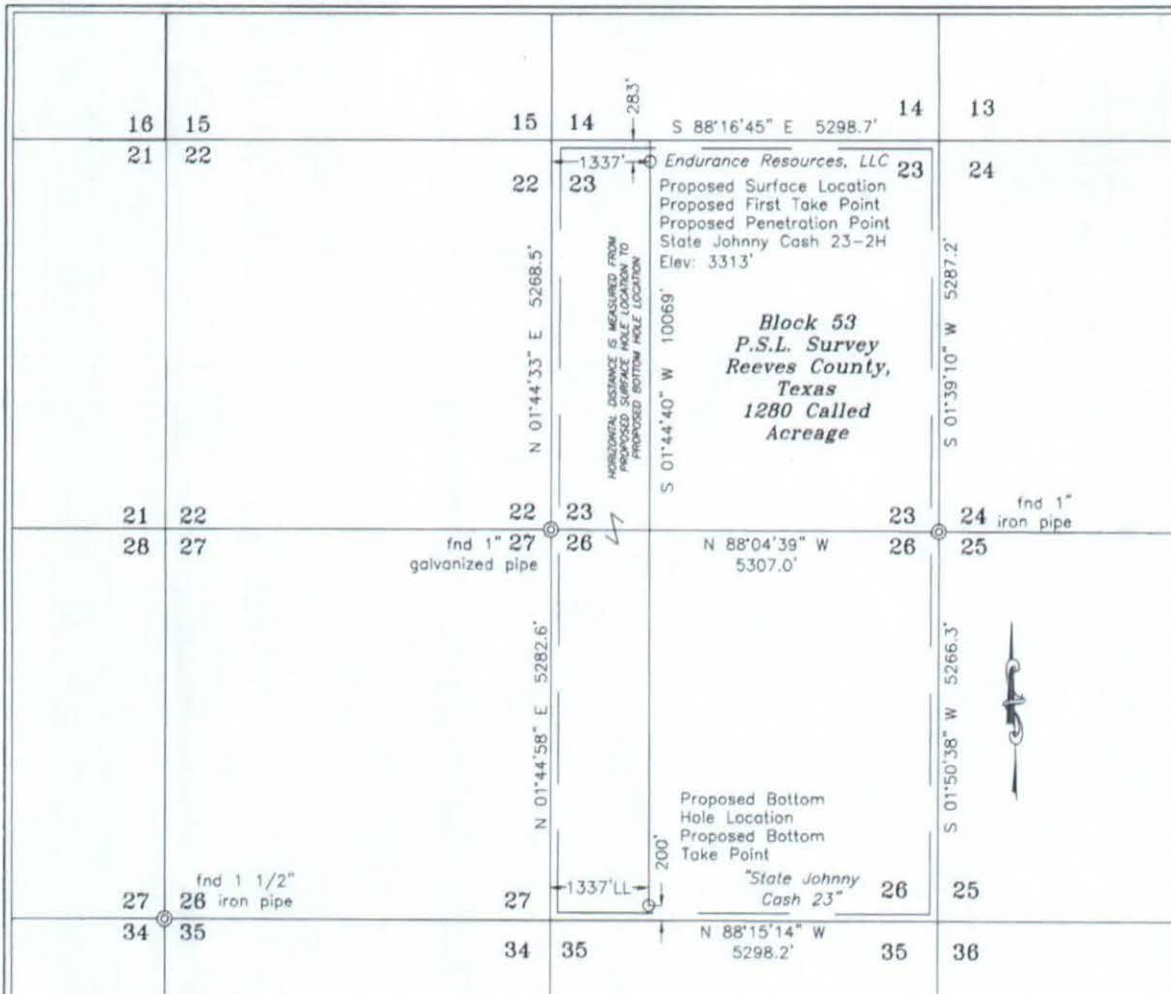
DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

By: [Signature], Deputy

Exhibit "B"

- All of Section 23 and Section 26, Block 53, Public School Lands Survey, Reeves County, Texas, containing 1,282 acres of land, more or less.





THE STATE JOHNNY CASH 23-2H IS LOCATED APPROXIMATELY 18± MILES SOUTHWEST OF ORLA, TEXAS

**PROPOSED
SURFACE LOCATION**
Plane Coordinate (NAD '83)
X = 1,146,175.16
Y = 10,558,269.96
Plane Coordinate (NAD '27)
X = 849,713.40
Y = 715,694.52

Geodetic Coordinate (NAD '83)
Latitude = 31°34'55.85" N
Longitude = 104°01'42.26" W

Decimal Degrees (NAD '83)
Latitude = 31.582125630° N
Longitude = 104.028404233° W

Geodetic Coordinate (NAD '27)
Latitude = 31°34'55.19" N
Longitude = 104°01'40.55" W

Decimal Degrees (NAD '27)
Latitude = 31.581997450° N
Longitude = 104.027930739° W

**PROPOSED
BOTTOM HOLE LOCATION**
Plane Coordinate (NAD '83)
X = 1,145,868.67
Y = 10,548,205.83
Plane Coordinate (NAD '27)
X = 849,406.86
Y = 705,630.57

Geodetic Coordinate (NAD '83)
Latitude = 31°33'16.00" N
Longitude = 104°01'41.93" W

Decimal Degrees (NAD '83)
Latitude = 31.554445288° N
Longitude = 104.028314613° W

Geodetic Coordinate (NAD '27)
Latitude = 31°33'15.54" N
Longitude = 104°01'40.23" W

Decimal Degrees (NAD '27)
Latitude = 31.554316665° N
Longitude = 104.027841448° W

Date Surveyed: 8/13/15
Weather: Hot & Breezy

LEGEND

- - DENOTES PROPOSED WELL LOCATION
- - DENOTES EXISTING WELL
- ⊙ - DENOTES FOUND MONUMENT AS NOTED



NOTE:

- 1) Coordinates, Bearings, Distances and Areas shown hereon are Lambert Grid and Conform to the "Texas Coordinate System", Texas Central Zone, North American Datum of 1983.
- 2) THIS PLAT IS PROVIDED FOR RAILROAD COMMISSION FILING PURPOSES ONLY AND SHOULD NOT BE CONSTRUED AS A BOUNDARY SURVEY.
- 3) ACREAGE PROVIDED BY ENDURANCE RESOURCES, LLC

I HEREBY CERTIFY THAT THIS PLAT WAS PREPARED FROM NOTES TAKEN IN THE FIELD IN A BOUNDARY SURVEY MADE UNDER MY SUPERVISION.

MARCUS HOSTAS TEXAS R.P.L.S. NO. 5643

WEST COMPANY
SURVEYORS - ENGINEERS - PLANNERS
ENGINEERING REGISTRATION: FIRM 2184
SURVEYING REGISTRATION: FIRM 100882-00
110 W. LOUISIANA AVE., SUITE 110
MIDLAND, TEXAS 79701
OF MIDLAND, INC. (432) 687-0865 - FAX (432) 687-0868



**ENDURANCE
RESOURCES, LLC**

Proposed Well Location of the:

STATE JOHNNY CASH 23-2H

283' FNL & 1337' FWL Sec 23 (Surface)
200' FSL & 1337' FWL Sec 26 (Bottom Hole)
Sections 23 & 26, Block 53,
Public School Lands Survey
Reeves County, Texas

Drawn By: B. Davis

Date: October 15, 2015

Scale: 1"=2000'

Revised: October 26, 2015

Sheet 1 OF 1

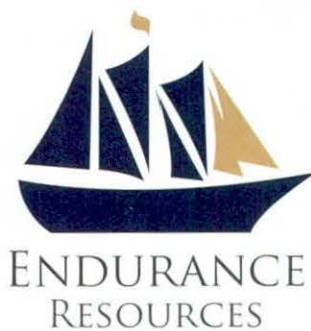
Field Book: Endurance 01 / 11-13

J:\2015\2015-0564\2015-0564 State Johnny Cash 23-2H.dwg

(9)

File No. M-112451
Pooling Agmt. Packet # 7731 County
Johnny Cash 23 Unit
Date Filed: 1/4/16
George P. Bush, Commissioner
By [Signature]

15.58.12



December 23, 2015

Texas General Land Office, Energy Resources
Attn: Mr. J. Daryl Morgan, CPL
1700 N. Congress Ave., Suite 840
Austin, Texas 78701

Re: Executed Pooling Agreement
Johnny Cash 23 Unit
All of Section 23 & Section 26, Block 53, PSL,
Reeves County, Texas

Dear Mr. Morgan,

Please find enclosed two executed Pooling Agreements on behalf of Endurance Resources Holdings II, LLC ("Endurance"), pertaining to the Johnny Cash 23 Unit, covering all of Section 23 & Section 26, Block 53, PSL, Reeves County, Texas. I have also included Exhibits A-C.

If you have any questions or need any additional information, please do not hesitate to contact the undersigned at (432) 242-4683 or by email at Jason@enduranceresourcesllc.com

Very truly yours,

Jason South, CPL
Landman
Endurance Resources Holdings II, LLC

10

File No. M-112451

Ltr. From Endurance County

Date Filed: 1/4/16

George P. Bush, Commissioner

By [Signature]

15.58.12



TEXAS GENERAL LAND OFFICE
GEORGE P. BUSH, COMMISSIONER

January 4, 2016

Mr. Jason South, CPL
Endurance Resources
203 West Wall, Suite 1000
Midland, Texas 79701

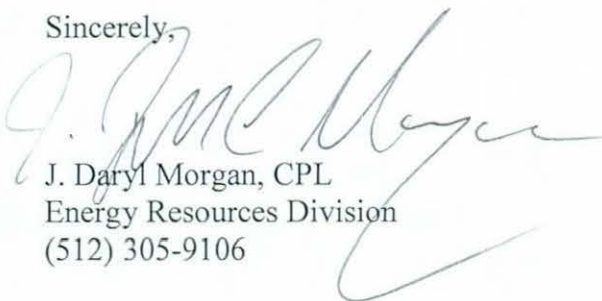
Re: Pooling Agreement
Johnny Cash 23 Unit
GLO Unit No. 7731
Reeves County, Texas

Dear Mr. South:

Enclosed is a duplicate original of the above referenced Pooling Agreement that has been executed by George P. Bush, Commissioner of the Texas General Land Office ("GLO"). We have retained the other original of the Pooling Agreement for our files. Please refer to the referenced GLO Unit No. when filing Royalty Reports with the GLO.

Thank you for your assistance with this matter, if you have any questions or need anything further, please feel free to call.

Sincerely,


J. Daryl Morgan, CPL
Energy Resources Division
(512) 305-9106

Enclosure

(12)

File No. M-112451

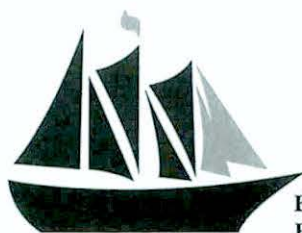
County

Ltr. to Endurance

Date Filed: 1/4/16

George P. Bush, Commissioner

By [Signature]



Endurance Revised 5/15 – NADOA Model
Form Division Order (Adopted 9/95)

ENDURANCE OIL & GAS DIVISION ORDER

To: COMMISSIONER TX GENERAL LAND OFFICE
GLO UNIT NO 7731 - ST TX MF 113664, 112451, 112452
1700 CONGRESS AVENUE
AUSTIN TX 78701-1495

Date: 5/4/16

Effective Date: date of 1st production

Property Number: 710005
Property Name: State Johnny Cash 23 2H
Operator: Endurance Resources LLC
County and State: Reeves Co., TX

Property
Description: All Section 23 & All 26, Block 53, PSL Survey

Production: _____ Oil ☒ Gas ☒ Other: _____

Owner Name
And Address: COMMISSIONER TX GENERAL LAND OFFICE
GLO UNIT NO 7731 - ST TX MF 113664, 112451, 112452
1700 CONGRESS AVENUE
AUSTIN TX 78701-1495

OWNER NUMBER:

Type of Interest: OR
Decimal Interest: 0.234375

The undersigned certifies the ownership of their decimal interest in production or proceeds as described above payable by
Endurance Resources LLC (Payor).
(Company Name)

Payor shall be notified in writing, of any change in ownership, decimal interest, or payment address. All such changes shall be effective the first day of the month following receipt of such notice.

Payor is authorized to withhold payment pending resolution of a title dispute or adverse claim asserted regarding the interest in production claimed herein by the undersigned. The undersigned agrees to indemnify and reimburse Payor any amount attributable to an interest to which the undersigned is not entitled.

Payor may accrue proceeds until the total amount equals \$100.00, or pay December 31st whichever occurs first, or as required by applicable state statute.

This Division Order does not amend any lease or operating agreement between the undersigned and the lessee or operator or any other contracts for the purchase of oil or gas.

In addition to the terms and conditions of this Division Order, the undersigned and Payor may have certain statutory rights under the laws of the state in which the property is located.

Special Clauses:

Owner(s) Signature(s): _____

Owner(s) Tax ID Number(s): _____

Owner Daytime Telephone #: _____

Owner Email or FAX Telephone #: _____

Federal Law requires you to furnish your Social Security or Taxpayer Identification Number.
Failure to comply will result in 28% tax withholding and will not be refundable by Payor.

15455 DALLAS PARKWAY, SUITE 1050 ADDISON, TEXAS 75001

PHONE: 214-996-0900 FAX: 214-996-0930 WWW.ENDURANCERESOURCESLLC.COM



TEXAS GENERAL LAND OFFICE
GEORGE P. BUSH, COMMISSIONER

August 23, 2016

Mary Van Pelt
Division Order Analyst
Endurance Resources, LLC
15455 N. Dallas Parkway, Suite 1050
Addison, Texas 75001

Re: State Lease Nos. MF112451, MF112452 and MF113664 State Johnny Cash 23 2H

Dear Mrs. Van Pelt:

The Texas General Land Office (GLO) has received your Division Orders for the referenced unit. This Division Order has been filed in the appropriate mineral files.

The payment of royalties attributable to state-owned mineral and royalty interests is set by contract and applicable statutes and rules. The execution of division orders may, in some cases, affect the manner in which such payments are made or calculated. Therefore, Title 31, §9.32, of the Texas Administrative Code specifies that GLO staff cannot execute a division order or bind the state to any terms contained within it.

Subject to applicable state law and the state's right to take its production in-kind, the GLO acquiesces to the sale of oil and gas in accordance with the terms and conditions set out in the oil and gas leases. If you have questions concerning this matter, please feel free to e-mail me at the address below my signature.

We look forward to being put on pay status as soon as you are able to set up the wells in our RRAC system.

Thank you,

Vivian Hernandez
Landman, Energy Resources
512-475-0428
512-475-1543 (fax)
vivian.hernandez@glo.texas.gov

File No. MF-112451

Division Order

Date Filed: 8/23/16

George P. Bush, Commissioner

By 

RAILROAD COMMISSION OF TEXAS

OIL & GAS DIVISION

PERMIT TO DRILL, DEEPEN, PLUG BACK, OR RE-ENTER ON A REGULAR OR ADMINISTRATIVE EXCEPTION LOCATION

PERMIT NUMBER 829039	DATE PERMIT ISSUED OR AMENDED (AMENDED) Aug 25, 2017	DISTRICT * 08	
API NUMBER 42-389-36178	FORM W-1 RECEIVED Aug 18, 2017	COUNTY REEVES	
TYPE OF OPERATION NEW DRILL	WELLBORE PROFILE(S) Horizontal	ACRES 1282	
OPERATOR ATLANTIC RESOURCES COMPANY, LLC PO BOX 3759 MIDLAND, TX 79702-0000 036555		NOTICE This permit and any allowable assigned may be revoked if payment for fee(s) submitted to the Commission is not honored. District Office Telephone No: (432) 684-5581	
LEASE NAME STATE JOHNNY CASH 23		WELL NUMBER 6H	
LOCATION 33 miles NW direction from PECOS		TOTAL DEPTH 10600	
Section, Block and/or Survey SECTION ◀ 23 BLOCK ◀ 53 ABSTRACT ◀ 4088 SURVEY ◀ PSL/BRYAN, W P			
DISTANCE TO SURVEY LINES 275 ft. NORTH 630 ft. EAST		DISTANCE TO NEAREST LEASE LINE 330 ft.	
DISTANCE TO LEASE LINES 275 ft. NORTH 630 ft. EAST		DISTANCE TO NEAREST WELL ON LEASE See FIELD(s) Below	
FIELD(s) and LIMITATIONS: * SEE FIELD DISTRICT FOR REPORTING PURPOSES *			
FIELD NAME LEASE NAME	ACRES NEAREST LEASE	DEPTH NEAREST LEASE	WELL # NEAREST WE
FORD, WEST (WOLFCAMP)	1282.00	10,600	6H
STATE JOHNNY CASH 23	330		3614
WELLBORE PROFILE(s) FOR FIELD: Horizontal			
RESTRICTIONS: This is a hydrogen sulfide field. Hydrogen Sulfide Fields with perforations must be isolated and tested per State Wide Rule 36 and a Form H-9 filed with the district office. Fields with SWR 10 authority to downhole commingle must be isolated and tested individually prior to commingling production. Lateral: TH1 Penetration Point Location Lease Lines: 775.0 F NORTH L 330.0 F EAST L Terminus Location BH County: REEVES Section: 23 Block: 53 Abstract: Survey: PSL/STATE Lease Lines: 2827.0 F SOUTH L 330.0 F EAST L Survey Lines: 2440.0 F NORTH L 330.0 F EAST L			
THE FOLLOWING RESTRICTIONS APPLY TO ALL FIELDS			

RAILROAD COMMISSION OF TEXAS

OIL & GAS DIVISION

PERMIT TO DRILL, DEEPEN, PLUG BACK, OR RE-ENTER ON A REGULAR OR ADMINISTRATIVE EXCEPTION LOCATION

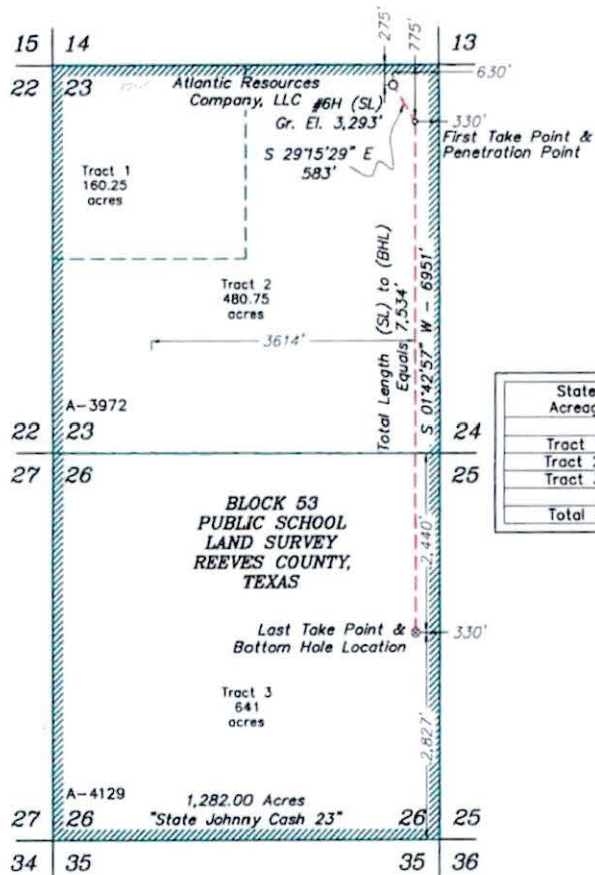
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DISTANCE TO SURVEY LINES 275 ft. NORTH 630 ft. EAST		DISTANCE TO NEAREST LEASE LINE 330 ft.										
DISTANCE TO LEASE LINES 275 ft. NORTH 630 ft. EAST		DISTANCE TO NEAREST WELL ON LEASE See FIELD(s) Below										
FIELD(s) and LIMITATIONS: * SEE FIELD DISTRICT FOR REPORTING PURPOSES *												
<table border="0"> <tr> <td>FIELD NAME</td> <td>ACRES</td> <td>DEPTH</td> <td>WELL #</td> <td>DIST</td> </tr> <tr> <td>LEASE NAME</td> <td>NEAREST LEASE</td> <td></td> <td>NEAREST WE</td> <td></td> </tr> </table>			FIELD NAME	ACRES	DEPTH	WELL #	DIST	LEASE NAME	NEAREST LEASE		NEAREST WE	
FIELD NAME	ACRES	DEPTH	WELL #	DIST								
LEASE NAME	NEAREST LEASE		NEAREST WE									
This well shall be completed and produced in compliance with applicable special field or statewide spacing and density rules. If this well is to be used for brine mining, underground storage of liquid hydrocarbons in salt formations, or underground storage of gas in salt formations, a permit for that specific purpose must be obtained from Environmental Services prior to construction, including drilling, of the well in accordance with Statewide Rules 81, 95, and 97. This well must comply to the new SWR 3.13 requirements concerning the isolation of any potential flow zones and zones with corrosive formation fluids. See approved permit for those formations that have been identified for the county in which you are drilling the well in.												

**RAILROAD COMMISSION OF TEXAS
OIL & GAS DIVISION
SWR #13 Formation Data**

REEVES (389) County

Formation	Shallow Top	Deep Top	Remarks	Geological Order	Effective Date
FORD-DELAWARE	2,500	2,500		1	12/17/2013
CASTILLE	2,800	2,800		2	12/17/2013
BELL CANYON	4,800	5,000		3	12/17/2013
DELAWARE	2,500	5,700		4	12/17/2013
DELAWARE CONSOLIDATED GAS	6,500	6,500		5	12/17/2013
CHERRY CANYON	3,800	7,800		6	12/17/2013
BONE SPRINGS	7,500	9,800		7	12/17/2013
PERMIAN	11,300	11,300		8	12/17/2013
WOLFCAMP	10,000	12,300		9	12/17/2013
PENNSYLVANIAN	11,000	14,900		10	12/17/2013
MISSISSIPPIAN	10,000	16,000		11	12/17/2013
DEVONIAN	13,600	17,800		12	12/17/2013
FUSSELMAN	14,000	17,800		13	12/17/2013
ELLENBURGER	15,000	20,800		14	12/17/2013

The above list may not be all inclusive, and may also include formations that do not intersect all wellbores. Formation "TOP" information listed reflects an estimated range based on geologic variances across the county. To clarify, the "Deep Top" is not the bottom of the formation; it is the deepest depth at which the "TOP" of the formation has been or might be encountered. This is a dynamic list subject to updates and revisions. It is the operator's responsibility to make sure that at the time of spudding the well the most current list is being referenced. Refer to the RRC website at the following address for the most recent information.
<http://www.rrc.texas.gov/oil-gas/compliance-enforcement/rule-13-geologic-formation-info>



State Johnny Cash 23 Acreage Allocation Table	
Tract 1 -	160.25 Acres
Tract 2 -	480.75 Acres
Tract 3 -	641.00 Acres
Total -	1,282.00 Acres

	State Plane Coordinate		Geodetic (D.M.S.)		Geodetic (D.D.)	
Surface Location	X = 853,044.42	Y = 715,602.27	Lat = 31°34'55.37" N	Long = 104°01'02.03" W	Lat = 31.58204761° N	Long = 104.01722989° W
First Take Point & Penetration Point	X = 853,329.38	Y = 715,093.61	Lat = 31°34'50.43" N	Long = 104°00'58.54" W	Lat = 31.58067591° N	Long = 104.01626122° W
Last Take Point & Bottom Hole Location	X = 853,121.27	Y = 708,145.80	Lat = 31°33'41.64" N	Long = 104°00'58.29" W	Lat = 31.56156638° N	Long = 104.01619063° W

The State Johnny Cash 23 #6H is located approximately
33.0 miles Northwest of Pecos, Texas.



Legend

- - - - - Denotes Proposed Well Bore
- ||||| Denotes Unit Boundary
- - - - - Denotes Tract Line
- Denotes Surface Well Location
- Denotes Proposed Take Points
- ⊗ Denotes Proposed Bottom Hole Location

NOTE:

- 1) Plane Coordinates shown hereon are Lambert Grid and Conform to the "Texas Coordinate System", Texas Central Zone, North American Datum of 1927, unless otherwise noted. Scale factor is 1.000219248.
- 2) Geodetic Coordinate shown hereon references the North American Datum of 1927, unless otherwise noted.
- 3) This plat is provided only for filing purposes with the Texas Railroad Commission and should not be construed as a boundary survey.

CERTIFICATION:

I hereby certify that this plat was made from notes taken in the field in a bona fide survey made under my supervision.

Lindsay Gygax

Texas R.P.L.S. No. 6434



WEST COMPANY

Land Surveyors & Civil Engineers

110 W. Louisiana Ave., Suite 100, Midland, Texas 79701
(432) 687-0865 - FAX (432) 687-0868
FIRM Registration Number: 100682-00

ATLANTIC
RESOURCES COMPANY

Location of the

STATE JOHNNY CASH 23 #6H

SH (275' FNL & 630' FEL), Section 23
BHL (2,440' FNL & 330' FEL), Section 26
All in Block 53
Public School Land Survey
Reeves County, Texas

Scale: 1" = 2000'

W.O.: 2017-0520

Surveyed: 07/11/17

Drawn By: SC

File: J:\2017\2017-0520\2017-0520 Orison & Cash Wells.dwg



RAILROAD COMMISSION OF TEXAS

1701 N. Congress
P.O. Box 12967
Austin, Texas 78701-2967

Status: Issued
Date: 07/25/2017
GAU No.: 176034
Version: 1
Pymt Trace No: 455RM001J192QB6

GROUND WATER APPLICATION REPORT

PREPARER INFORMATION			
Preparer Name:	Haylie Urias	Phone Number:	432-253-8312
E-mail Address:	hurias@arcoperating.com	Fax Number:	
FILING INFORMATION			
Reason for Filing:	New Drill	Expedite:	Y
API Number:	Previous GAU No. for this Well:		
Areal Extent:	Radius	Radius:	200 DP Number:
OPERATOR INFORMATION			
Operator Name:	ATLANTIC RESOURCES COMPANY, LLC	Operator Number:	036555
Address Line 1:	PO BOX 3759		
Address Line 2:		City:	MIDLAND
State:	TX	Zip Code:	79702
WELL IDENTIFICATION INFORMATION			
County:	REEVES	District:	08 Lease ID: 280225
Lease Name:	Johnny Cash 23	Well Number:	6H
Alternate Well ID:			
GPS COORDINATES INFORMATION			
NAD:	27	State Plane Zone:	
Latitude Degrees:		Longitude Degrees:	
Latitude Minutes:		Longitude Minutes:	
Latitude Seconds:		Longitude Seconds:	
Decimal Degrees Latitude:	31.582049	Decimal Degrees Longitude:	-104.016748
State Plane X-Coordinate:		State Plane Y-Coordinate:	
SURVEY INFORMATION			
Survey Name:	PSL	Abstract Number:	3972
Block:	53	Township:	Section: 23
Tract:		Lot:	League:
Labor:		Porcion:	Share:
REFERENCE LINES INFORMATION			
Reference Line:	Section		
First Distance:	275	First Direction:	North
Second Distance:	480	Second Direction:	East
ADDITIONAL INFORMATION			
Elevation:	3293		
Total Vertical Depth:	10500		
Formation at Total Vertical Depth:	Wolfcamp		
Remarks:			

14.
File No. MF112451
Reeves County
Drilling Permit - Unit 7731-API 389-36178
Date Filed: 09/26/2017
George P. Bush, Commissioner
By Jm



TEXAS GENERAL LAND OFFICE
GEORGE P. BUSH, COMMISSIONER

February 5, 2018

CERTIFIED MAIL: 7016 2070 0000 7391 9875

Mr. Douglas Prieto
Chief Commercial Officer
Atlantic Resources Company
300 North Marienfield, Suite 1000
Midland, TX 79701

RE: Request to Surface Commingle Oil and Gas Production from wells Armstrong State #1, GS State #1, Roberts State #1, Brackenridge State 57-44 #1, Harrison State 56-37 #1, and Harrison State 56-38 #3ST in Conjunction with Railroad Commission of Texas Commingling Permit (Unavailable) in Reeves County, Texas

Dear Mr. Prieto

The Texas General Land Office (GLO) has received notification by letter on November 28, 2017 of your intent to surface commingle oil and gas production from the above wells. GLO staff have performed an administrative and technical review of your request.

Based on your failure to file an application as of February 5, 2018, permission to surface commingle the above leases is hereby denied.

Please be advised that GLO is providing a copy of this letter to the Railroad Commission of Texas and that any commingling permit granted by them for Exception to Statewide Rules (SWR) 26 and/or 27 associated with the above leases may be subject to forfeiture. Furthermore, any surface commingling that occurs on the above leases in the absence of GLO permission represents a breach of your State leases, and may make the leases subject to forfeiture as well.

If you have further questions, please feel free to contact me at tom.ortiz@glo.texas.gov or 512-463-5296.

Sincerely

A handwritten signature in black ink, appearing to read "Thomas M. Ortiz". The signature is fluid and cursive, with the first name "Thomas" being the most prominent.

Thomas Manuel Ortiz, Ph.D., P.E.
Petroleum Engineer

TMO/tmo

cc: Dale Sump, Director of Minerals Audit
Darlene Williams, Railroad Commission of Texas



TEXAS GENERAL LAND OFFICE
GEORGE P. BUSH, COMMISSIONER

February 2, 2018

CERTIFIED MAIL: 7016 2070 0000 7391 9868

Mr. Douglas Prieto
Vice President
Atlantic Resources Company
300 North Marienfield, Suite 1000
Midland, TX 79701

RE: Request to Surface Commingle Oil and Gas Production from State Mineral Leases MF112682, MF112396, MF111869, MF117754, MF117755, MF117756, MF117757, MF117758, MF112451, MF112452, MF113664, MF115616, MF116656, MF118155, MF117612, MF114473, and MF116869 (Muddy Waters 30 2H, BB King 32H, Gateway 22 2H, Orbison 28 Unit, Johnny Cash 23 Unit, Gateway 38 2H, State Dagger 37-48 Unit, State Clark 38-47 Unit, State Gateway 37-48 Unit, State Pedro 9) in Conjunction with Railroad Commission of Texas Commingling Permit (Unavailable) in Reeves County, Texas

Dear Mr. Prieto

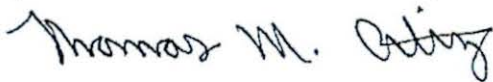
The Texas General Land Office (GLO) has received notification by letter on November 28, 2017 of your intent to surface commingle oil and gas production from State Mineral Leases MF112682, MF112396, MF111869, MF117754, MF117755, MF117756, MF117757, MF117758, MF112451, MF112452, MF113664, MF115616, MF116656, MF118155, MF117612, MF114473, and MF116869 (Muddy Waters 30 2H, BB King 32H, Gateway 22 2H, Orbison 28 Unit, Johnny Cash 23 Unit, Gateway 38 2H, State Dagger 37-48 Unit, State Clark 38-47 Unit, State Gateway 37-48 Unit, State Pedro 9), and to utilize gas lift with off-lease gas on the same State Mineral Leases. GLO staff have performed an administrative and technical review of your request.

Based on your failure to file an application as of February 2, 2018, permission to surface commingle the above leases is hereby denied.

Please be advised that GLO is providing a copy of this letter to the Railroad Commission of Texas and that any commingling permit granted by them for Exception to Statewide Rules (SWR) 26 and/or 27 associated with the above leases may be subject to forfeiture. Furthermore, any surface commingling that occurs on the above leases in the absence of GLO permission represents a breach of your State leases, and may make the leases subject to forfeiture as well.

If you have further questions, please feel free to contact me at tom.ortiz@glo.texas.gov or 512-463-5296.

Sincerely

A handwritten signature in black ink that reads "Thomas M. Ortiz". The signature is written in a cursive, flowing style.

Thomas Manuel Ortiz, Ph.D., P.E.
Petroleum Engineer

TMO/tmo

cc: Dale Sump, Director of Minerals Audit
Darlene Williams, Railroad Commission of Texas

File No. MF 112451

Reeves County

Commingle Denial

Date Filed: 2/6/2014

George P. Bush, Commissioner
By Thomas M. Atty



TEXAS GENERAL LAND OFFICE
GEORGE P. BUSH, COMMISSIONER

May 22, 2018

CERTIFIED MAIL: 7011 1150 0001 2420 5547

Mr. Douglas Prieto
Chief Commercial Officer
Atlantic Resources Company, LLC
300 North Marienfield, Suite 1000
Midland, TX 79701

RE: Application to Surface Commingle Oil and Gas Production from State Mineral Leases MF112451, MF112452, MF113664, MF112682, MF118838, MF117754, MF117755, MF117756, MF117757, MF117758, MF112396, MF111869, MF114473, MF116893, MF117612, MF115616, MF116656, and MF118155 (Orbison 28 Unit, BB King 32 2H, State Clark 38-47 Unit, State Dagger 37-48 Unit, State Gateway 22 2H, State Gateway 37-48 #3H Unit, State Gateway 38 #2H, Johnny Cash 23 Unit, State Muddy Waters 30 2H) in Conjunction with Railroad Commission of Texas Commingling Permit N/A in Reeves County, Texas

Dear Mr. Prieto

The Texas General Land Office (GLO) received your application, dated March 2, 2018 as revised on May 4, 2018, to surface commingle oil and gas production from and to utilize gas lift with off-lease gas on the above State Mineral Leases. GLO staff have performed an administrative and technical review of your application.

On the condition that Atlantic Resources Company, LLC first satisfies all of the requirements set out in #1 - #15 on p.1 - 3 of this letter, then, in that event, the application is approved.

1. Per 31 Texas Administrative Code (TAC) §9.35(a)(2), all fluids produced from the wells to be commingled must flow "through oil and gas separators of ample capacity and in good working order...before sale or surface commingling with production from any other lease and/or pooled unit". Gross production shall be measured by single-phase oil, gas, and water meters installed at the separator outlets prior to sale or surface commingling.

2. Per 31 TAC §9.35(a)(2), you are required to conduct all measurement “in accordance with the American Gas Association (AGA) standards and all applicable chapters of the American Petroleum Institute (API) Manual of Petroleum Measurement Standards (MPMS)”. Measurement shall be conducted, per those standards, for both the quantity and quality of all fluid streams.
3. Sampling frequency shall be equal to or greater than the recommendation in MPMS 20.1 §1.11.3, as required for accurate allocation. Samples shall be taken at the outlets of each first separator stage, at each gas lift supply and distribution meter, and at all points of custody transfer. Industry standard laboratory analysis shall be performed on each sample, with sampling and analysis performed in compliance with MPMS 8.1, 8.2, 9.1, 14.1 and any other applicable chapters.
4. Meter proving, testing and calibration plans as required per MPMS 20.2 §5, §6.5.1, §7.5.1 and §7.5.3 shall be made available to GLO staff for inspection upon request.
5. All lease oil and gas production royalties shall be due based upon the terms in your lease, and royalty payments shall be made per 31 TAC §9.51. Note that royalty is also due on all non-sales hydrocarbon dispositions (e.g. flare, fuel, instrument, lift, and vent gas).
6. Processed gas allocation factors shall be calculated on a mass (molecular) balance basis, i.e. each processed gas component shall be allocated individually in accordance with the requirements in MPMS 20.1 §1.15.3. Non-processed gas allocation factors shall be calculated on an energy balance basis.
7. You shall retain, for lease audit purposes, all meter and test records, volume statements/reports, oil and gas sample/stream analysis reports, shrinkage/flash calculation reports, and any other documents within the scope of this commingling approval for a period of at least seven (7) years after creation of each document.
8. You shall obtain permission from GLO before making any changes to the flow process or metering scheme, adding leases or wells to the list of those being commingled, or making any other material change to the commingling application as approved by this letter.
9. You shall obtain approval of your pending surface commingling permit application from the Railroad Commission of Texas, if applicable, and provide GLO with a copy within ten days of its approval.
10. You shall calculate all allocation factors on a proportional basis, i.e. gross (metered) lease production divided by gross (metered) commingled production. You shall not allocate by difference. The term production as used in this condition shall be defined as appropriate (i.e. volume, mass, energy) for each allocated phase (e.g. see Condition 6).

11. You shall continuously meter the gas lift supply to each well and the gas that passes through any other gas lift supply and distribution meter.
12. You shall account for the presence of any lift and/or buyback gas that is produced along with in situ reservoir gas at the allocation meters when calculating gas allocation factors: this accounting shall be by mass balance (processed gas components) and by energy balance (non-processed gas) as appropriate (see also Condition 6).
13. You shall sample and analyze, in the manner specified by Condition 3, the flare on each lease for which gas is not being sold through the allocation meter until such time as sufficient gas is being sold through the allocation meter to allow sampling at that location. At that time, the allocation meter analysis may be used for the flare.
14. You shall allocate and pay royalty on hydrocarbon liquids collected at the Lowe Compressor Station ("Lowe liquids") as oil.
15. You shall allocate all buyback, fuel and lift gas in the manner specified by Condition 6. Shrink shall be subtracted from gross energy content before computing residue allocation factors. Total residue to be allocated shall be the quantity reported on the processing plant settlement statement. Buyback allocation factors shall be determined using the quantities and analyses measured at the individual lease meters.

Please be advised that you have an ongoing obligation to maintain compliance with these standards and conditions. GLO staff will verify compliance during periodic financial audits, which will include, but are not limited to, independent allocation verification studies. GLO reserves the right to validate or question your measurement and detailed allocation methodology based on our own analysis.

If you have further questions, please feel free to contact me at tom.ortiz@glo.texas.gov or 512-463-5296.

Sincerely



Thomas Manuel Ortiz, Ph.D., P.E.
Petroleum Engineer

TMO/tmo

cc: Dale Sump, Director of Minerals Audit

File No. MF 112451Reeves CountyCommingling ApprovalDate Filed: 5/22/2018George P. Bush, Commissioner
By Thomas M. Ostry



TEXAS GENERAL LAND OFFICE
GEORGE P. BUSH, COMMISSIONER

August 28, 2019

Mr. Travis Hutt
Atlantic Resources Company, Inc.
300 N. Marienfeld, Suite 1000
Midland, Texas 79701

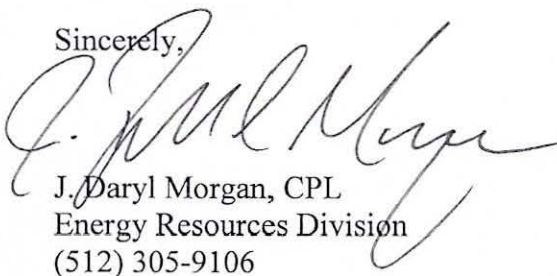
Re: Amendment of Pooling Agreement
Johnny Cash 23 Unit
GLO Unit No. 7731
Reeves County, Texas

Dear Mr. Hutt:

Enclosed is a duplicate original of the above referenced Amendment of Pooling Agreement that has been executed by George P. Bush, Commissioner of the Texas General Land Office ("GLO"). We have retained the other original of the Amendment Agreement for our files. Please refer to the referenced GLO Unit No. when filing Royalty Reports with the GLO.

Thank you for your assistance with this matter, if you have any questions or need anything further, please feel free to call.

Sincerely,


J. Daryl Morgan, CPL
Energy Resources Division
(512) 305-9106

Enclosure

17

File No. M-112451

Ltr. to Atlgntsg County

Date Filed: 8/28/69

George P. Bush, Commissioner

By [Signature]

DO NOT DESTROY



Texas General Land Office

UNIT AGREEMENT MEMO

UPA159005

Unit Number 7731
Operator Name Endurance Resources LLC
Customer ID C000088611
Unit Name Johnny Cash 23 Unit
County 1 Reeves **RRC District 1** 08
County 2 **RRC District 2**
County 3 **RRC District 3**
County 4 **RRC District 4**
Unit type Permanent
State Net Revenue Interest Oil 0.23437500
State Part in Unit 1.00000000
Unit Depth Specified Depths
From Depth Well
To Depth Formation Top of Wolfcamp to Base of Wolfcamp
Participation Basis Surface Acreage
If Exclusions Apply: See Remarks

Effective Date 12/01/2015
Unitized For Oil And Gas
Unit Term
Old Unit Number **Inactive Status Date**

Lease Number	Tract No	Lease Acres in Unit	Total Unit Acres	Tract Participation	O/G	Lease Royalty	NRI of Lease in Unit	Royalty Rate Reduction Clause
MF112451	1	480.750000	1,282.000000	0.37500000	O/G	0.25000000	0.09375000	No
MF112452	2	641.000000	1,282.000000	0.50000000	O/G	0.25000000	0.12500000	No
MF113664	3	160.250000	1,282.000000	0.12500000	O/G	0.12500000	0.01562500	No

API Number

4238935064, 4238936178

Remarks:

Prepared By:

GLO Base Updated By:

RAM Approval By:

GIS By:

Well Inventory By:

Prepared Date:

GLO Base Date:

RAM Approval Date:

GIS Date:

WI Date:

06/18/2019

06/18/2019

7/31/2019

06/18/2019

Pooling Committee Report

To: School Land Board

UPA159005

Date of Board Meeting: 06/18/2019

Unit Number: 7731

Effective Date: 12/01/2015

Unit Expiration Date:

Applicant: Atlantic Resources Company, LLC

Attorney Rep:

Operator: Atlantic Resources Company, LLC,

Unit Name: Johnny Cash 23 Unit

Field Name: FORD, WEST (WOLFCAMP)

County: Reeves

<u>Lease Type</u>	<u>Lease Number</u>	<u>Lease Royalty</u>	<u>Expiration Date</u>	<u>Lease Term</u>	<u>Lease Acres</u>	<u>Lease Acres In Unit</u>	<u>Royalty Participation</u>
RAL	MF113664	0.12500000	08/26/2016	5 years	160.000000	160.250000	0.01562500
U Fee	MF112451	0.25000000	04/05/2016	5 years	480.700000	480.750000	0.09375000
U Fee	MF112452	0.25000000	04/05/2016	5 years	641.000000	641.000000	0.12500000

Private Acres:	0.000000
State Acres:	1282.000000
Total Unit Acres:	1282.000000

<u>Participation Basis:</u>	Surface Acreage
Surface Acreage	
<u>State Acreage:</u>	100.00%
<u>State Net Revenue Interest:</u>	23.44%

Unit Type: Unitized for:

Permanent Oil And Gas

Term:

RRC Rules: Spacing Acres:

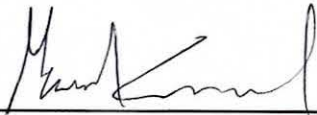
Yes 1,830 acres for a 10,069 foot lateral (FTP to LTP).

REMARKS:

- Atlantic Resources Company, LLC is requesting to amend the drilling commitment dates for the Johnny Cash 23 Unit which was approved by the School Land Board on December 1, 2015.
- Under the current agreement the second unit well must be spud by or before August 26, 2019 and the third and fourth wells in accordance with 180 day continuous development terms of lease MF113664.
- The applicant is requesting that the drilling obligation be amended to have three remaining unit well be spud by or before June 26, 2020 or the unit will reduce in size.
- The applicant also agrees that the lateral length of the three remaining unit wells be at least 9,800 feet in length or the unit will reduce in size based on the lateral length times 0.032 acreage formula.

POOLING COMMITTEE RECOMMENDATION:

The Pooling Committee recommends Board approval of the amended Johnny Cash 23 Unit under the above-stated provisions.



Mark Steinbach - Office of the Attorney General

6-7-19

Date



Robert Hatter - General Land Office

6/07/19

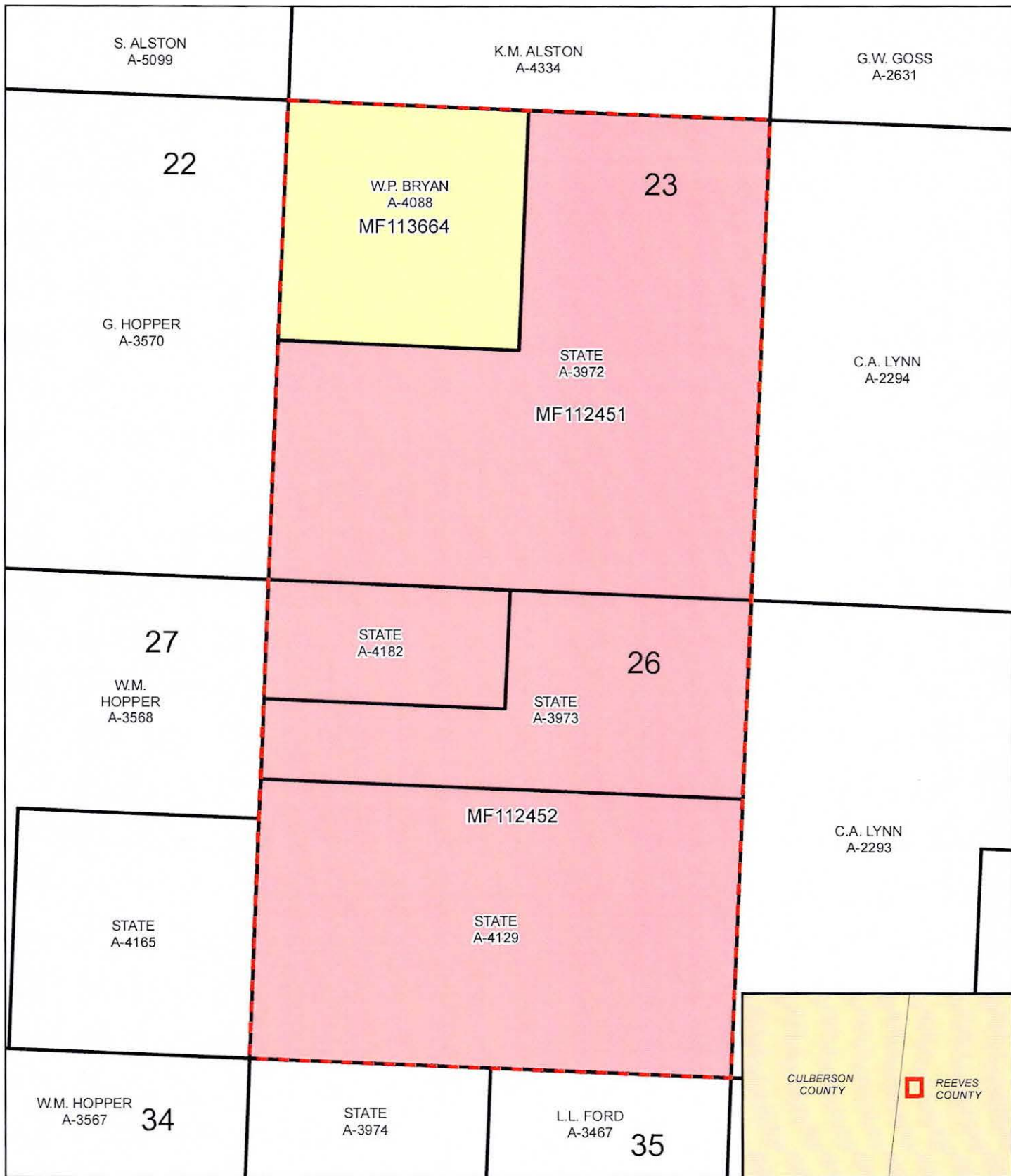
Date



Stacie Bennett - Office of the Governor

6/7/2019

Date



Unit #7731
Atlantic Resources Company, LLC.
Johnny Cash 23 Unit
Ford West (Wolfcamp) Field
Reeves County, Texas

1,400 700 0 1,400 Feet



The Texas General Land Office makes no representations or warranties regarding the accuracy or completeness of the information depicted on this map or the data from which it was produced. This map IS NOT suitable for navigational purposes and does not purport to depict or establish boundaries between private and public land.



Map Generated by:
Mark Conway
Enterprise Technology Solutions/GIS
June 2019

**AMENDMENT OF POOLING AGREEMENT
ENDURANCE RESOURCES HOLDINGS II, LLC
JOHNNY CASH 23 UNIT
GLO UNIT NO. 7731
REEVES COUNTY, TEXAS**

WHEREAS, on December 1, 2015, the Johnny Cash 23 Unit ("Unit") was presented to and approved by the School Land Board of the State of Texas pursuant to the provisions of Subchapter E, Chapter 52, of the Texas Natural Resources Code; and

WHEREAS, pursuant to such approval, Endurance Resources Holdings II, LLC and the Commissioner of the General Land Office of the State of Texas entered into that certain Pooling Agreement ("Agreement") to pool certain State lands into the 1,282-acre Unit in Reeves County, Texas, as more particularly described in said Agreement on file in the Archives and Records of the Texas General Land Office, Austin, Texas, in Mineral File No. M-112451; and

WHEREAS, Atlantic Resources Company, LLC is the current operator of the Unit; and

WHEREAS, on June 18, 2019, Atlantic Resources Company, LLC made application and the School Land Board approved its application to amend Addendum "A" to the Agreement; and

WHEREAS, the Commissioner of the General Land Office finds that amending said Agreement as approved by the School Land Board is in the best interest of the State of Texas:

NOW THEREFORE, in consideration of the premises and of the mutual agreements contained in the Agreement, it is agreed that the Agreement is amended by deleting Addendum "A" to the Agreement in its entirety and substituting the attached Addendum "A".

Nothing in this Amendment, nor the approval of this Amendment by the School Land Board, nor the execution of this Amendment by the Commissioner shall: (1) operate as a ratification or revivor of any State lease that has expired, terminated, or has been released in whole or in part or terminated under the terms of such State lease or the laws applicable thereto; (2) constitute a waiver or release of any claim for money, oil, gas or other hydrocarbons, or other thing due to the State by reason of the existence or failure of such lease; (3) constitute a waiver or release of any claim by the State that such lease is void or voidable for any reason, including, without limitation, violations of the laws of the State with respect to such lease or failure of consideration; or (4) constitute a confirmation or recognition of any boundary or acreage of any tract or parcel of land in which the State has or claims an interest; or (5) constitute a ratification of, or a waiver or release of any claim by the State with respect to any violation of a statute, regulation, or any of the common laws of this State, or any breach of any contract, duty, or other obligation owed to the State.

This Amendment of Pooling Agreement may be executed in counterparts and, if so executed, shall be valid, binding and have the same effect as if all the parties hereto actually joined in and executed one and the same document. For recording purposes and in the event counterparts of this Amendment of Pooling Agreement are executed, the executed pages, together with the pages necessary to show acknowledgments, may be combined with the other pages of this Amendment of Pooling Agreement so as to form what shall be deemed and treated as a single original instrument showing execution by all parties thereto.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment of Pooling Agreement upon the respective dates indicated below but effective as of December 1, 2015.

Date Executed 8/23/19

Legal UH
Content dlb
Geology AM
Executive any

STATE OF TEXAS

By: [Signature]
George P. Bush, Commissioner
General Land Office

CERTIFICATE

I, Stephanie Crenshaw, Secretary of the School Land Board of the State of Texas, do hereby certify that at a meeting of the School Land Board duly held on the 18th day of June, 2019, the foregoing instrument was presented to and approved by said Board under the provisions of Subchapter E, Chapter 52, of the Natural Resources Code, all of which is set forth in the Minutes of the Board of which I am custodian.

IN TESTIMONY WHEREOF, witness my hand this 26th day of August, 2019.

[Signature]
Stephanie Crenshaw
Secretary of the School Land Board

Date Executed

7/22/19

ATLANTIC RESOURCES COMPANY, LLC

By:

[Signature]
Vice-President - Land & Development

Its:

STATE OF TEXAS

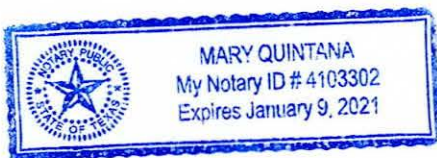
COUNTY OF

Texas

This instrument was acknowledged before me on

July 22, 2019, by Travis Hutt
as Vice-President - Land & Business Development of Atlantic Resources Company, LLC, a Delaware

limited liability company on behalf of said company.



[Signature]
Notary Public in and for the State of Texas

Date Executed 07/24/19

NORTH REEVES DEVELOPMENT LLC
By: Midtown Acquisitions GP LLC, its Manager

By: Morgan Blackwell
MORGAN BLACKWELL

Its: Authorized Signatory

STATE OF NEW YORK §
 §
COUNTY OF NEW YORK §

This instrument was acknowledged before me on July 24, 2019, by Morgan Blackwell
As Authorized Signatory of Midtown Acquisitions GP LLC, a Delaware
limited liability company on behalf of said company.

[Signature]
Notary Public in and for the State of New York

Addendum "A"

To that certain Pooling Agreement for the State Johnny Cash 23 Unit

The parties hereby agree that should a conflict exist between this Addendum and the body of the agreement that this Addendum shall prevail.

The pooled unit shall consist of all of the lands herein described in the attached Exhibit "B" and depicted in the attached plat as Exhibit "C". Lessee, in addition to the State Johnny Cash 23 2H (API: 42-389-35064) (the "Existing Horizontal Well"), agrees to drill a minimum of three (3) additional horizontal wells within the unit, provided however that, should Lessee fail to meet the "Drilling Obligation Timeframe", as specifically defined below, then such unit shall remain in full force and effect as to any and all wells drilled upon the unit acreage, but shall shrink down to allow for a maximum size of 320 acres per well drilled in the unit, as close as is reasonably practicable to the shape of a rectangle surrounding the well or wells. Furthermore, within six (6) months following the first production date of the last well drilled under the Drilling Obligation Timeframe below, this pooled unit shall terminate as to all of the lands EXCEPT 240 acres surrounding the Existing Horizontal Well plus the amount of acreage calculated when the total measured feet of the lateral portion of all additional horizontal wells drilled in the pooled unit is multiplied with .032, rounded up to the nearest whole number divisible by 20. As an example, should Lessee, within six (6) months following the first production date of the last well drilled under the Drilling Obligation Timeline below, have drilled three (3) additional horizontal wells located in the pooled unit with horizontal laterals that extend 7,500 feet each, the pooled unit shall remain active as to 960 acres and Lessee shall be required to release the difference in the current pooled unit size, as described on Exhibit "B" and depicted in Exhibit "C", and the new unit size as calculated above. In the event that Lessee chooses to drill wells ahead of the Drilling Obligation Timeframe detailed below, then Lessee shall not be penalized for doing so and shall still conserve the benefit of the Drilling Obligation Timeframe described below.

Drilling Obligation Timeframe:

Lessee shall have commenced actual Drilling Operations in the following manner:

Second, Third and Fourth wells - spud on or before June 26, 2020

Once actual drilling operations have been commenced on a particular well, Lessee shall continue drilling and completion operations thereafter on such well with due diligence, as a reasonably prudent operator would under the same or similar circumstances. In an effort to prevent physical and economic waste, subject to the terms and provisions of the Leases, and rules and regulations of the Texas Railroad Commission or any other applicable regulatory agency, Lessee shall make every effort to drill each horizontal well with the longest productive lateral, so long as the longest productive lateral is feasible geologically and a reasonable prudent operator would drill the same in such situation, within the boundaries of the Unit.

End of Addendum "A"

File No. M-112451

Amo. of Johnny Cash Unit County

Date Filed: 8/28/19

George P. Bush, Commissioner

By [Signature]



ATLANTIC
RESOURCES COMPANY

TRAVIS HUTT

Vice President of Land and Business Development

300 North Marienfeld
Suite 1000
Midland, Texas 79701
PO Box 3759
Midland, Texas 79702

O 432.683.3272

D 432.253.8330

M 214.532.8889

thutt@arcoperating.com

www.arcoperating.com

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(Endorsement Required)

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Travis Hutt

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Street, Apt. No.,
or PO Box No.

City, State, ZIP

Atlantic Resources Company, LLC
300 North Marienfeld, Suite 1000
Midland, TX 79701

7011 1150 0001 2420 7114

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- A record of delivery kept by the Postal Service for two years

Important Reminders:

- Certified Mail may ONLY be combined with First-Class Mail® or Priority Mail®.
- Certified Mail is *not* available for any class of international mail.
- NO INSURANCE COVERAGE IS PROVIDED with Certified Mail. For valuables, please consider Insured or Registered Mail.
- For an additional fee, a *Return Receipt* may be requested to provide proof of delivery. To obtain Return Receipt service, please complete and attach a Return Receipt (PS Form 3811) to the article and add applicable postage to cover the fee. Endorse mailpiece "Return Receipt Requested". To receive a fee waiver for a duplicate return receipt, a USPS® postmark on your Certified Mail receipt is required.
- For an additional fee, delivery may be restricted to the addressee or addressee's authorized agent. Advise the clerk or mark the mailpiece with the endorsement "*Restricted Delivery*".
- If a postmark on the Certified Mail receipt is desired, please present the article at the post office for postmarking. If a postmark on the Certified Mail receipt is not needed, detach and affix label with postage and mail.

IMPORTANT: Save this receipt and present it when making an inquiry.



TEXAS GENERAL LAND OFFICE
GEORGE P. BUSH, COMMISSIONER

August 22, 2019

Certified USPS # 7011 1150 0001 2420 7114

Travis Hutt
Atlantic Resources Company, LLC
300 North Marienfeld, Suite 1000
Midland, TX 79701

Re: Partial Release of State Lease No. MF 112451
State Johnny Cash 23 Well No. 2H / API No. 42-389-35064 / RRC Lease No. 08-280225
S/2 & NE/4 of Section 23, Block 53, Public School Lands Survey, Reeves County, Texas,
containing approximately 480.7 acres

Mr. Hutt:

The Texas General Land Office (GLO) has completed a review of the above captioned State Lease of which Atlantic Resources Company, LLC is the current listed operator. The review of our internal records indicated that the GLO has not received a Partial Release as required under the Retained Acreage Clause located in Paragraph No. 7 of the above referenced State Lease.

In accordance with Paragraph No. 7(B) of the State Lease dated April 5, 2011, it appears the above referenced State Lease terminated as to all depths lying below 9,693' subsurface, being 100' below the total depth drilled in the State Johnny Cash 23 Well No. 2H (API No. 42-389-35064), said well being the deepest well drilled, as reflected in the Haliburton Energy Services, Inc. (AKA Sperry Drilling Services) survey dated February 13, 2016.

Please provide the GLO with a Partial Release of the above referenced State Lease as to the terminated depths as required under Paragraph No. 7, effective as of the date of said termination. Additionally, Title 31, §9.92, of the Texas Administrative Code requires that a recorded original or certified copy of the Partial Release, along with a filing fee of twenty-five dollars (\$25.00) for each State Lease affected by said Partial Release, is to be filed with our office.

Should you disagree with this assessment please provide evidence to the GLO at the address shown below within thirty (30) days of receipt of this letter. If you have questions concerning this matter, please feel free to e-mail me at the address below my signature.

Best
COPY

Brian Gray
Energy Resources
512-463-5118
brian.gray@glo.texas.gov

COBY

File No. MF 112451 (19)
Reeves County
Request for PTH Release
Date Filed: 30 Dec 2019
George P. Bush, Commissioner
By  DBO

OSBORN, MARSLAND & HARGROVE

ATTORNEYS AT LAW
515 CONGRESS AVENUE, SUITE 2450
AUSTIN, TEXAS 78701

WILLIAM S. OSBORN
ANA MARIA MARSLAND
ROBERT G. HARGROVE

(512) 476-3529
FACSIMILE:
(512) 476-8310

ELMER F. PATMAN
(1907-1987)
PHILIP F. PATMAN
(1937-2005)

September 12, 2019

Mr. Ken Mills
Texas General Land Office
P.O. Box 12873
Austin, Texas 78711-2873

Via First Class Mail and via Email

RE: State of Texas Lease Nos. MF 113664, MF 112451, and MF 112452; Johnny
Cash 23 Unit (GLO Pooled Unit 7731), Reeves County, Texas

Dear Mr. Mills:

I represent Victerra Energy f/k/a Atlantic Resources Company, LLC ("Victerra"). On August 22, 2019, Brian Gray wrote to Victerra, on behalf of the Texas General Land Office ("GLO"), asserting that the above-referenced Leases have partially terminated and requesting partial releases of certain depths related to the Leases. Please accept this letter as Victerra's evidence and argument that the leases have not partially terminated. *See* 31 TEX. ADMIN. CODE §9.94(b). Respectfully, Victerra declines to provide the Partial Releases requested in the GLO's letters.

The Leases themselves were executed in favor of Victerra's predecessor-in-interest in April, 2011. They each have a five-year primary term, which would have ended in April, 2016. The Leases contain the standard GLO retained acreage clause of that era.

Effective December 1, 2015, the GLO agreed to pool the Leases, creating the Johnny Cash 23 Unit, GLO Unit No. 7731. A true and correct copy of the Pooling Agreement is attached as Exhibit A to this letter. The Pooling Agreement pooled the Leases, creating a unit that consisted of Sections 23 and 26, Block 53, PSL Survey, Reeves County, Texas, containing 1,282 acres (more or less). Pooling was effective as to the entire Wolfcamp formation.

The Pooling Agreement contains an Addendum "A," which contains certain negotiated terms in addition to the standard terms from the GLO's form pooling agreement. The provisions of Addendum A prevail in the event of a conflict between them and any other terms in either the Pooling Agreement or the Leases. *See* Pooling Agreement, ¶9.

Addendum A to the Pooling Agreement modifies the Leases and the Pooling Agreement in important ways. It is a provision commonly referred to as a continuous development clause. It provides a schedule whereby each well must be spud. The first well was due to be spud on February 15, 2016, the second on August 26, 2019, and wells 3 and 4 each 180 days later. It also sets out that each well can retain only 320 acres, accomplished by reducing the size of the Unit in the event the drilling schedule is not met. In other words, it both modifies the terms of the vertical retained acreage clause (in a manner favorable to the GLO) and delays the date on which the retained acreage clause triggers.

On January 19, 2016, the State Johnny Cash 23 Well No. 2H was spud (API No. 389-35064). It first produced on February 11, 2016, and it has consistently produced since then. Consistent with Railroad Commission special field rules for the Ford, West (Wolfcamp) Field, into which the well was completed, 1,282 acres were assigned to this well for proration purposes. Under the Leases, this single well could have therefore held 1,282 acres at the end of the primary term.

On June 18, 2019, Victerra applied for an amendment to the Pooling Agreement, which the School Land Board approved. The amendment changed the manner in which the acreage retention would work (by adding a formula based on wellbore length, a further modification to the GLO's benefit) and changed the dates by which the remaining three wells must be spud.

On August 22, 2019, Mr. Gray sent the letters referenced above, asserting that the leases have terminated as to all depths below 100' below the depth drilled in the State Johnny Cash 23 Well No. 2H. The GLO's assertion in this regard was based on the horizontal retained acreage clause found in each of the Leases (¶7(B) of MF 112451 and MF 112452, and ¶16(B) of MF 113664).

Victerra does not agree that the Leases have terminated as to any depths. First and foremost, it is Victerra's position that the Leases' horizontal retained acreage clause has been modified by the Pooling Agreement's definition of unitized interval, which includes the entire Wolfcamp formation. See *Albert v. Dunlap Exploration, Inc.*, 457 S.W.3d 554, 563 (Tex. App. -- Eastland 2015, pet. denied).¹

But even viewing the issue in what we believe is the light most favorable to the GLO, we still do not believe the horizontal retained acreage clause can even arguably apply until after the end of the Drilling Obligation Timeframe set out in Addendum A to the Pooling Agreement (as amended). The Drilling Obligation Timeframe changed the date on which the retained acreage clause applied.

Absent the Pooling Agreement's Addendum A, the Leases' vertical and horizontal retained acreage clauses would have triggered two years after the end of the primary term, since a well was

¹ This is the argument made by BHP against Double Eagle in Cause No. 18-04-904 in the 143rd Judicial District Court of Loving County, Texas (the same judicial district that includes Reeves County), in a case interpreting the GLO form pooling agreement. In that case, Judge Swanson granted BHP's Motion for Summary Judgment, ruling that the depth provision in the pooling agreement modified the horizontal retained acreage clause in the underlying leases.

drilled that perpetuated the Leases beyond the primary term. This two year "development" period was extended by Addendum A to the Pooling Agreement. In exchange for Victerra agreeing to drill three wells more than would otherwise be required by the Leases,² the GLO agreed to extend the time period by which those wells must be drilled.

As the Texas Supreme Court has recently explained, a continuous development clause, like the Pooling Agreement's Addendum A, extends the date on which a retained acreage clause triggers, so long as the continuous drilling obligation is complied with:

Continuous-development clauses often work in tandem with other clauses, including retained-acreage clauses. While a habendum clause generally extends the entire lease so long as some production is occurring on the lease, and a continuous-development clause further extends the entire lease so long as the operator remains engaged in the required development efforts, a retained-acreage clause typically divides the leased acreage such that production or development will preserve the lease only as to a specified portion of the leased acreage.

Endeavor Energy Resources, L.P. v. Discovery Operating, Inc., 554 S.W.3d 586, 597-98 (Tex. 2018). The clauses are companions and, working together, benefit both lessors and lessees: they allow time for full development, but do not allow retention of that which is not developed. *Id.* Lessors and lessees can agree in advance how much development is required, and by when, and what the development will earn, just as the GLO and Victerra did here.

A leading treatise on oil and gas law, Williams & Meyers, has also recently explained the timing component at play here:

It is becoming increasingly common for leases to include a combination of a continuous operations clause and a retained acreage clause. Where such clauses are combined in a lease, the lease will typically not terminate as to the undrilled acreage until such time as the lessee has failed to comply with the continuous operations clause even if that date is well into the secondary term.

Patrick H. Martin and Bruce M. Kramer, Williams & Meyers, Oil & Gas Law, §617.6 (2018).

Under the GLO's construction of these documents, the Pooling Agreement delays the triggering date of the vertical retained acreage clause (which is in turn amended to the GLO's benefit), but it does not delay the triggering date of the horizontal retained acreage clause. This interpretation is at odds with the authorities cited above, and it would undermine the entire purpose of Victerra's recent negotiation with the GLO: the development of the deeper horizons within the Wolfcamp Formation.

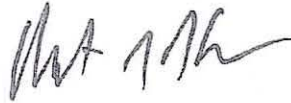
² The Johnny Cash 23 Well No. 2H was assigned enough proration acres to hold the entire Unit, under the Leases vertical retained acreage clause, but for Addendum A to the Pooling Agreement.

Mr. Ken Mills
September 12, 2019
Page 4

In summary: the only case of which we are aware that specifically addresses the issue of whether a pooling agreement modifies a lease's depth severance provision holds that it does. This is *Albert v. Dunlap* (cited above). Based on briefing relying heavily on that case, the District Court for the district that includes Reeves County ruled that a definition of "pooled mineral" in a GLO pooling agreement over-ruled the horizontal retained acreage provision in the underlying GLO leases, allowing an additional 1,000 feet of depth to be retained. And that pooling agreement in that case did not appear to contain an Addendum, whereas Victerra's does. It adds a continuous drilling clause, which in our view clearly delays the operation of the retained acreage clause pursuant to the agreed-upon deadlines. It expands by agreement the development period in the Leases.

Victerra, therefore, respectfully disagrees with the propositions set out in Mr. Gray's letters, declines to provide the requested Partial Releases, and requests from the GLO a letter concluding that the Leases did not partially terminated, pursuant to 31 TEX. ADMIN. CODE §9.94(b)(4). Please do not hesitate to contact me if you have any questions or wish to discuss the matter further.

Very Truly Yours,

A handwritten signature in black ink, appearing to read "R. Hargrove", written in a cursive style.

Robert G. Hargrove
for Victerra Energy, LLC

cc: Mr. Robert Hatter (via email)
Mr. Brian Gray (via email)
Mr. Larry Hargrave (via email)

File No. ME 112451

Reeves County
Atlantic Res. Response

Date Filed: 30 Dec 2019

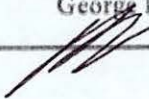
George P. Bush, Commissioner
By  DB

Brian Gray

From: Ken Mills
Sent: Friday, November 22, 2019 3:39 PM
To: Rob Hargrove
Cc: Robert Hatter; Brian Gray; Larry Hargrave
Subject: GLO Pooled Unit No. 7731, Reeves County (Johnny Cash)

Rob – As you and I had briefly previously discussed, and as we discussed again today, your client, Victerra Energy (fka Atlantic Resources Company), may disregard the depth termination letter sent by the GLO on August 22, 2019. Please note that GLO staff will continue to monitor both lease and Unit operations, including with regard to the drilling schedule described in the pooling agreement. Please let me know if I can answer any further questions. Thanks, Ken.

Ken Mills
Director – Oil, Gas & Energy Section
Office of General Counsel
Texas General Land Office
(512) 463-7341
Ken.mills@glo.texas.gov

File No. MF 112451 21
Reeves County
Withdrawal Notice
Date Filed: 30 Dec 2019
George P. Bash, Commissioner
By  DBD



MEMORANDUM

TEXAS GENERAL LAND OFFICE • GEORGE P. BUSH • COMMISSIONER

TIME SENSITIVE: Action Required by: December 20, 2019

Date: December 17, 2019

To: Commissioner Bush

From: Susan Draughn / Energy Resources (3-6521)

Through: Energy Resources RJA Legal CH Executive [Signature]
(if applicable)

Subject: Force Majeure suspension request by Victerra Energy, LLC

SUMMARY: Victerra Energy, LLC ("Victerra") is requesting a lease suspension under the Force Majeure provision for Oil and Gas Leases MF112451, MF112452, MF113664 due to a fire on November 26, 2019 that began in the battery area of the pad site for the State Johnny Cash 23 2H well (Unit 7731)

DETAILS: The fire is believed to have been started by static electricity present from high winds and caused significant damage to the production facilities. The well will be off production for a period as repairs are made. Repairs are expected to take three to four months.

RECOMMENDATION: Pursuant to TAC Rule §9.38(a)(3) staff recommends the Commissioner approve suspending the referenced State Mineral Leases from November 26, 2019 until production resumes. The suspension is granted with the condition that Victerra furnish the GLO monthly updates as to the condition of the lease facilities beginning January 1, 2020 and that the suspension not go beyond March 31, 2020 without GLO review and approval.

Accept

GEORGE P. BUSH
COMMISSIONER, GENERAL LAND OFFICE



(432) 253-8334
info@victerra.com

4000 N. Big Spring St.
Suite 230
Midland, Texas 79705

December 12, 2019

Via Certified Mail and Email

Texas General Land Office
Attn: Glenn Rosenbaum
Energy Resources/Mineral Leasing
1700 North Congress Avenue, Suite 840
Austin, TX 78701-1495
E-Mail: Glenn.Rosenbaum@glo.texas.gov

RE: Force Majeure Notice, State Johnny Cash 23 2H, GLO Unit 7731

Dear Mr. Rosenbaum,

This letter shall serve as formal notice that Victerra Energy, LLC ("Victerra"), as operator of the State Johnny Cash 2H (the "Well"), located in Section 23, Block 53, Public Land Survey, Reeves County, Texas, hereby applies to invoke that certain Force Majeure provision included in the oil and gas leases MF112451, MF112452, and MF113664, between the State of Texas and Victerra (the "Leases").

Victerra seeks relief under the Force Majeure provision because on the morning of November 26, 2019, a fire began in the battery area of the pad site for the Well. Significant damage to the production facilities for the Well were sustained and will likely cause the Well to be off production for a period of time. The cause of the fire has not been definitively determined but static electricity present from high winds has been identified as a likely contributing factor. Additional information related to this incident is attached on Exhibit A for your review.

Victerra is working to remediate any damage caused by the fire and will re-construct the production facilities as soon as possible. Once production facilities are re-built, Victerra will place the well back on production. Until such time as the Well is back to producing, we formally request that any obligations present in the Leases be suspended under the Force Majeure provision.

Should you have any questions regarding this notice, feel free to contact me at (432) 253-8330.

Sincerely,

A handwritten signature in blue ink, appearing to read "Travis Hutt", written over a blue horizontal line.

Travis Hutt
Vice President – Land & Business Development
Victerra Energy, LLC

01.01.21

Exhibit A

See attached

01-01-21

Johnny Cash 23 Battery Fire Copy

LSUSA Incident Report

Complete

Failed items	Created actions
0	0

Audit Title
Johnny Cash 23 Battery Fire
Document No.
000007
Client / Site
Victerra / Johnny Cash 23 Battery RRC ID #280225; Sec. 23, Blk. 53 PSL Reeves County
Conducted on
☐ 27th Nov, 2019 ☐ 8:30 AM CST
Prepared by
Clifton King
Personnel
Unanswered

Private & Confidential



Audit

SECTION I

Date and time of incident: ☐ 26th Nov, 2019 ⌚ 8:45 AM CST
Date and time incident was reported: ☐ 26th Nov, 2019 ⌚ 9:00 AM CST
To whom was the incident reported? Jonah Melancon
Location of incident. (Specify site location) South water tank at the Johnny Cash 23 Battery
Were there any witnesses? Give their names. Kenny Long and Josh England

DETAILS OF INJURY, IF APPLICABLE

Describe injury. There were no injuries.
Detail any first-aid or medical treatment administered. (Provide names) NA

DETAILS OF DAMAGE, IF APPLICABLE

Property Damage:	Major			
Photo of damage.				
— Photos				
				
Photo 1	Photo 2	Photo 3	Photo 4	Photo 5
				
Photo 6	Photo 7	Photo 8		
Property Damage:	Equipment			

File No. MF 112451
Force Majeure County

Date Filed: 12/23/11/13/20
George P. Bush, Commissioner
By: SSD



TEXAS GENERAL LAND OFFICE
GEORGE P. BUSH, COMMISSIONER

December 23, 2019

Mr. Travis Hutt
Victerra Energy, LLC
4000 N. Big Spring Street, Suite 230
Midland, TX 79705

RE: Suspension of State Leases MF112451, MF112452, and MF113664 and MF072432
Sections 23 and 26, Block 53, Reeves County, TX
Unit: State Johnny Cash 23 2H, Unit #7731

Dear Mr. Hutt:

The Texas General Land Office acknowledges receipt of your letter dated December 12, 2019, regarding the referenced State Leases and outlining the damage caused by a fire in the battery area of the pad site for the well damaging the production facilities. In your letter, you request a suspension of the referenced leases by reason of the Force Majeure clause due to the damage caused to the facilities.

Staff has recommended and the Commissioner of the Texas General Land Office, George P. Bush, has approved suspending the leases from November 26, 2019, until the facilities are operational and accepting production. Enclosed is a copy of the memorandum signed by the Commissioner evidencing his approval of the suspension and outlining the terms.

Please note: The suspension was granted with the condition that Victerra furnish the GLO with monthly updates as to the repairs beginning January 1, 2020, and that it not go beyond March 31, 2020, without GLO review and approval.

Please let me know if you have any questions in this regard or if I may be of further assistance.

Sincerely,

Susan Draughn, Landman
Energy Resources/Mineral Leasing
Direct: 512.463.6521 / Email: susan.draughn@glo.texas.gov

23.

File No. ME112451
Letter accepting County
Force Majeure
Date Filed: ~~12/23/19~~ 1/13/20
George P. Bush, Commissioner
By SSD

January Report - Force Majeure

Victerra Energy, LLC

Johnny Cash Battery



VICTERRA

Operation Summary- Battery Clean Up

DISTRICT	AFF #	COUNTY	FIELD NAME	SURFACE LOCATION
PERMIAN BASIN	19-5001	REEVES	Ford West, Wolfcamp	
START DATE	END DATE			
12/2/2019	12/2/2019	END DATE	12-02-2019 to 01-29-2020	
START DATE	END DATE	Daily Operations		
12/2/19	12/13/19	Pre- Remediation. Asses site and prep site for clean up operations.		
12/16/19	12/16/19	E-Tech started breaking out lines inside of containment. Removed stairway from inside containment. Cleaned up remains of water tank #1 and the area around tank. Working on hydrovaccing sludge out of remains of water tank #2		
12/17/19	12/17/19	ETech finished cleaning up the remains of water tank #2. Cleaned area inside of containment where water tanks set. Removed clean out hatch on oil tank #1 and cleaned out inside of tank. Removed clean out hatch on oil tank #2 and are working on cleaning out the inside of tank		
12/18/19	12/18/19	Finished cleaning all tanks. Sent one of the vac boxes today to disposal at PetroWaste (60 bbbls). Two more boxes with 60 bbbls each are scheduled to be picked up tomorrow and taken to PetroWaste. One 60bbbl vac box has elevated readings of NORM was sampled and is below regulatory limits for NORM, sent on to disposal. Sampled the area where the transformers leaked and impacted the soil to start the process of generating a profile for that soil as it will need to go to a Class I disposal facility.		
12/19/19	12/19/19	Finished decon today. Hydrovac released. Started taking down the lines and electrical. Will start laying down tanks tomorrow.		
12/20/19	12/20/19	Started demo work. Several items have been disconnected and staged for recycling. Started laying down tanks. Scheduling a recycler to pick up a load 1/6/20 - if truck is available. Disposal of any of the boxes will be done as soon as a truck is available.		
1/7/20	1/7/20	Mobed to site and loaded a truck of scrap metal that was taken to Odessa to be recycled. Started cutting one of the steel tanks. Started removing the floor liner and loading it into a rolloff to be disposed of at PetroWaste and the remaining fiberglass material. Started breaking down the steel wall which will go to Republic's Charter Landfill in West Odessa as commercial debris waste. There is one 14' joint of pipe that can't be recycled because it is above the recyclers limit for NORM - will try and clean it some more or take it to AEL for disposal. The transformer impacted soil has been approved at the disposal facility, began excavating and placing that material in the roll off.		
1/8/20	1/8/20	Continued tearing down the containment and cutting the steel tanks. Mobed equipment to the site to begin remediation work tomorrow.		
1/9/20	1/9/20	Continued to cut up and scrap material. Continued remediation work.		
1/10/20	1/10/20	The remaining fiberglass was disposed of at Petro Waste. The steel walls were taken to Charter for disposal. The impacted soil from the transformers was disposed of at Abilene Environmental Landfill. All the vac boxes have been disposed of at Petro Waste. We will be disposing of the liner tomorrow at Petro Waste. There was some heavily saturated soil underneath the liner that was encountered during cleanup. This was excavated and placed into a roll off to be disposed of at Petro Waste to speed up cleanup activities.		
1/12/20	1/12/20	Recycle truck picked up remaining scrap metal. The demo work is completed. Crews demoned from site 01/12/2020. Waiting on sample results to come back for the dirt work so we can complete the remediation work		
1/12/20	1/21/20	Sample results indicated additional remediation was needed. Additional remediation performed on 01/17/2020. Second sample sent in for analysis. Analysis results received on 01/21/2020 - analysis came back clean. Moving forward with reconstruction of battery		
1/21/20	1/29/20	Preping site for building of containment. Starting to move in battery equipment.		

File No. ME112451
January Report - County
Force Majeure
Date Filed: 1/16/2020
George P. Bush, Commissioner
By 38D

Johnny Cash Battery



VICTERRA

Operation Summary- Battery Clean Up

DISTRICT	AFE #	COUNTY	FIELD NAME	SURFACE LOCATION
PERMIAN BASIN	19-5001	REEVES	Ford West, Wolfcamp	
START DATE	END DATE	END DATE	END DATE	END DATE
12/2/2019	12/2/2019	12/2/2019	12-02-2019 to 03-02-2020	
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1/7/20	1/7/20	Moved to site and loaded a truck of scrap metal that was taken to Odessa to be recycled. Started cutting one of the steel tanks. Started removing the floor liner and loading it into a rolloff to be disposed of at PetroWaste and the remaining fiberglass material. Started breaking down the steel wall which will go to Republic's Charter Landfill in West Odessa as commercial debris waste. There is one 14' joint of pipe that can't be recycled because it is above the recyclers limit for NORM - will try and clean it some more or take it to AEL for disposal. The transformer impacted soil has been approved at the disposal facility, began excavating and placing that material in the roll off.		
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1/12/20	1/21/20	Sample results indicated additional remediation was needed. Additional remediation performed on 01/17/2020. Second sample sent in for analysis. Analysis results received on 01/21/2020 - analysis came back clean. Moving forward with reconstruction of battery		
1/21/20	1/29/20	Preping site for building of containment. Starting to move in battery equipment.		
1/30/20	1/30/20	Laser level and build 115' x 40' pad for containment.		
2/3/20	2/3/20	Build and Line Secondary Containment 105' x 30'.		
2/10/20	2/10/20	Met Banta crane and haul trucks. Went to Pedro. Removed stairways and catwalks. Loaded 2 500 bbl. water tanks and 2 500 bbl oil tanks. Hauled to Johnny Cash and set inside of containment. Installed catwalks and stairways. SDFD		
2/11/20	2/11/20	Plumbed in 4" load lines on water tanks. Plumbed in 4" load lines on oil tanks. Plumbed in 4" equalizing line on water tanks. Started plumbing 2" recirculating line. SDFD.		
2/12/20	2/12/20	Plumbed in 4" spillover lines on oil and water tanks. Start fabricating dump lines. Horsepower Electric disconnected power lines to the VRU at Gateway 38 Battery and the water transfer pump at the Gateway 22 Battery. SDFC		
2/17/20	2/17/20	Unhooked VRU at Gateway 38 Battery and moved to location. Unhooked water transfer pump at Gateway 22 Battery and moved to location. Moved panel rack from yard to location and set in place. SDFC		
2/18/20	2/18/20	Set water transfer pump in place. Set VRU in place. Connected new water and oil lines to existing lines. Electricians continued running conduit. JW Powerline pulled the transformers from the Clark/Daggard. Loaded poles at the yard. SDFC		
2/19/20	2/19/20	Plumbed in water transfer pump and filter to water line. Start fabricating 2" roll line. Electricians finished hanging conduit on containment. At report time, JW Powerline unloading poles on location.		
2/20/20	2/20/20	Fabricated and tied in 4" discharge line from water pump. Worked on 1" roll line. Electricians installed transducers on tanks and started pulling wire thru conduit. JW Powerline set poles and hung transformers. Lonestar Safety tested oxygen tanks and strung hose on catwalk		
2/26/20	2/26/20	Hooked up dump line for VRU. Set corner posts for fence. Electricians installed H2S monitors, dug ditches and started installing main Powerlines. XJ Automation terminating lines and programming PLC CentriPump serviced water transfer pump. Ordered new impeller		
2/27/20	2/27/20	Electricians continued pulling wire. Wired in water transfer pump and recirculating pump. XJ Automation continued terminating wires in PLC CentriPump installed new impeller in transfer pump Built fence around 3 sides of containment		
2/28/20	2/28/20	Installed grounding on tanks and containment. Checked rotation on motors. Installed lights. XJ Automation finished programming PLC and added alarms. Tank Safety Gauges installed external gauges on tanks. Put extensions on load lines. Worked on fence. Rescheduled turn on until Monday. Kinder Morgan unable to start plant due to an issue with the air compressor. Salt Creek's I&E will be out tomorrow.		
3/2/20	3/2/20	Well back online at 12:00PM.		

File No. MF112451
February Force Majeure County
Report
Date Filed: 6/24/20
George P. Bush, Commissioner
By SSD

Susan Draughn

From: Travis Hutt <hutt@victerra.com>
Sent: Monday, March 2, 2020 5:00 PM
To: Susan Draughn
Subject: RE: [EXTERNAL] Johnny Cash 23 2H
Attachments: Johnny Cash 23 2H Battery Ops Rpt vF.pdf

Susan,

Please see the attached operations report for the month of February. Note that we turned the well back to production this morning. Let me know if you have any questions.

Travis Hutt | *VP – Land & Business Development*

D: (432) 253-8330 | M: (214) 532-8889 | E: hutt@victerra.com
4000 N. Big Spring | Suite 230 | Midland, Texas 79705



VICTERRA

From: Susan Draughn <Susan.Draughn@GLO.TEXAS.GOV>
Sent: Thursday, February 06, 2020 1:23 PM
To: Travis Hutt <hutt@victerra.com>
Subject: RE: [EXTERNAL] Johnny Cash 23 2H

Thank you Travis,

I have updated the file.

Susan Draughn | Direct: 512.463.6521
Energy Resources/Mineral Leasing | Texas General Land Office

From: Travis Hutt <hutt@victerra.com>
Sent: Tuesday, February 4, 2020 3:34 PM
To: Susan Draughn <Susan.Draughn@GLO.TEXAS.GOV>
Subject: RE: [EXTERNAL] Johnny Cash 23 2H

Susan,

Please see attached the latest operations report for the Johnny Cash well. Let me know if you have any questions.

Travis Hutt | *VP – Land & Business Development*

D: (432) 253-8330 | M: (214) 532-8889 | E: hutt@victerra.com
4000 N. Big Spring | Suite 230 | Midland, Texas 79705



From: Susan Draughn <Susan.Draughn@GLO.TEXAS.GOV>
Sent: Thursday, January 16, 2020 10:31 AM
To: Travis Hutt <hutt@victerra.com>
Subject: RE: [EXTERNAL] Johnny Cash 23 2H

Thank you Travis,

Please send a report on or about the first of every month until the well is returned to production.

Susan Draughn | Direct: 512.463.6521
Energy Resources/Mineral Leasing | Texas General Land Office

From: Travis Hutt <hutt@victerra.com>
Sent: Thursday, January 16, 2020 10:16 AM
To: Susan Draughn <Susan.Draughn@GLO.TEXAS.GOV>
Subject: [EXTERNAL] Johnny Cash 23 2H

Susan,

I got your voicemail. Please see the attached report covering clean-up operations on the Johnny Cash 23 2H. Let me know if you need anything further.

Travis Hutt | *VP – Land & Business Development*

D: (432) 253-8330 | M: (214) 532-8889 | E: hutt@victerra.com
4000 N. Big Spring | Suite 230 | Midland, Texas 79705



CAUTION: This email is from OUTSIDE Texas General Land Office. Links or attachments may be dangerous. Click the Phish Alert button above if you think this email is malicious.

26.

File No. MF 112451
Notice of Return to County
Production
Date Filed: 6/24/20
George P. Bush, Commissioner
By SSD



Production Reports

[PR Queries Home](#) [New Lease ID's Built Query](#)

Query Results Production by Lease

Current Operator: VICTERRA ENERGY, LLC (885213)
 Field: FORD, WEST (WOLFCAMP)
 Lease: STATE JOHNNY CASH 23
 Prod Month Range: Jan 2019 - May 2020

District: 08
 RRC Identifier: 280225
 Gas Well #: 2H
 Lease Type: Gas

Showing: 1 - 12 of 17 results

Oil/Condensate (Whole Barrels)							Gas/Casinghead Gas - MCF		
Prod Month	Commingle Permit No.	On Hand Beginning of Month	Production	Disposition		On Hand End of Month	Formation Production	Disposition	
				Volume	Code			Volume	Code
01/2019		651	3,771	4,128	01	294	25,229	24,027	03
								1,202	04
		Gas 04 Flare							
02/2019		294	2,472	2,337	01	429	21,300	19,341	03
								1,959	04
		Gas 04 Flare							
03/2019		429	218	51	01	596	481	481	04
		Gas 04 FLARE							
04/2019		596	4,667	3,986	01	1,277	45,173	45,173	03
05/2019		1,277	3,898	4,228	01	947	37,447	34,607	03
								2,840	04
		Gas 04 FLARE							
06/2019		947	3,873	4,102	01	718	37,629	35,131	03
								2,498	04
		Gas 04 FLARE							
07/2019		718	3,197	3,183	01	732	35,606	29,516	03
								6,090	04
		Gas 04 FLARE							
08/2019		732	3,040	3,183	01	589	24,488	21,764	03
								2,724	04
		Gas 04 FLARE							
09/2019		589	2,947	2,820	01	716	32,301	31,115	03
								1,186	04
		Gas 04 FLARE							
10/2019		716	2,638	2,681	01	673	28,230	24,000	03
								4,230	04
		Gas 04 FLARE							
11/2019		673	2,228	2,403	01	0	25,676	22,625	03
				498	05			3,051	04
		Gas 04 FLARE							
12/2019		0	0			0	0		

[Next >] | Page: 1 of 2

Lease Comments

none

 ONLINE SYSTEM
Production Reports
[PR Queries Home](#) [New Lease ID's Built Query](#)
Query Results Production by Lease

Current Operator: VICTERRA ENERGY, LLC (885213)
Field: FORD, WEST (WOLFCAMP)
Lease: STATE JOHNNY CASH 23
Prod Month Range: Jan 2019 - May 2020

District: 08
RRC Identifier: 280225
Gas Well #: 2H
Lease Type: Gas

Showing: 13 - 17 of 17 results

Oil/Condensate (Whole Barrels)							Gas/Casinghead Gas - MCF		
Prod Month	Commingled Permit No.	On Hand Beginning of Month	Production	Disposition		On Hand End of Month	Formation Production	Disposition	
				Volume	Code			Volume	Code
01/2020		0	0			0	0		
02/2020		0	0			0	0		
03/2020		0	111			111	199	199	04
		Gas 04 FLARE							
04/2020		111	1,089	931	01	269	5,324	4,385	03
								939	04
		Gas 04 FLARE							
05/2020		NO REPORT ON FILE							

[< Previous](#) | Page: 1 2 of 2
Lease Comments

none

[Disclaimer](#) | [RRC Online Home](#) | [RRC Home](#) | [Contact](#)

File No. MF112451
RRC Production Report County

Date Filed: 6/24/20

George P. Bush, Commissioner

By SSD



MEMORANDUM

TEXAS GENERAL LAND OFFICE • GEORGE P. BUSH • COMMISSIONER

TIME SENSITIVE: Action Required by: (September 8, 2020)

DATE: August 27, 2020

TO: Commissioner Bush

FROM: Joy McCauley

SUBJECT: First Amendment of Pooling Agreement for the Johnny Cash 23 Unit to defer 2020 Drilling Obligation Wells for Six (6) Months for signature.

.....

SUMMARY: Attached for your approval and signature are duplicate originals of an Amended 2020 Plan of Development for the Johnny Cash 23 Unit for Drilling Deferral that was approved by the School Land Board on April 21, 2020, whereby the School Land Board delegated to the Commissioner, until December 31, 2020, the authority to grant extensions of time not to exceed six (6) months in duration.

DETAILS: This agreement complies with existing GLO rules and policies and has been reviewed and approved by Energy Resources staff and the Legal Services Division. Chapter 52, Subchapter F of the Texas Natural Resources Code, which constitutes the owner of the soil as agent for the State to lease the oil and gas that in certain State lands upon such terms and conditions as such owner may deem best and gives authority to the Commissioner to approve such lease and the terms and conditions therein contained.

Document Name	Recipient
First Amendment of Pooling Agreement Six (6) Month Drilling Deferral for Johnny Cash 23 Unit Reeves County, Texas	Endurance Resources Holdings II, LLC

Recommendation: Please sign and return to Joy McCauley in Energy Resources (3-4704).

Attachments: Two (2) First Amendments of Pooling Agreement for the Johnny Cash 23 Unit

Thru: Larry Hargrave
Legal

SECOND AMENDMENT OF POOLING AGREEMENT
ENDURANCE RESOURCES HOLDINGS II, LLC
JOHNNY CASH 23 UNIT
GLO UNIT NO. 7731
REEVES COUNTY, TEXAS

For mutual and adequate consideration, hereby acknowledged as received, the undersigned "Lessor" and "Lessee", as they are so identified in the Pooling Agreement dated effective December 1, 2015, creating GLO Unit No. 7731 (Johnny Cash 23 Unit) (the "Pooling Agreement"), hereby amend the Pooling Agreement as follows:

The Drilling Obligation Timeframe as set out on Addendum "A" to the Pooling Agreement is amended so that the second, third, and fourth unit wells must be spud on or before December 26, 2020.

The parties agree that the Pooling Agreement is hereby ratified and that no provision of the Pooling Agreement, including all attachments thereto, is amended except as expressly amended above in this Second Amendment.

This Second Amendment, once fully executed, is made effective as of April 21, 2020.

Given under my hand and seal of office on _____, 2020.

STATE OF TEXAS

Content
Dep. Dir.
OGC
Executive

DBO
[Signature]
[Signature]

By:

GEORGE P. BUSH, COMMISSIONER
GENERAL LAND OFFICE

VICTERRA ENERGY, LLC

By:

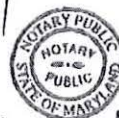
[Signature]
Printed name: Drew McManigle ("CTO")
Its: Chief Restructuring Officer
Date: 7/15/2020

MARYLAND
STATE OF TEXAS

Howard
COUNTY OF TRAVIS

This instrument was acknowledged before me on July 15th, 2020, by Drew McManigle
as CTO of Victerra Energy, LLC, a Delaware limited
liability company on behalf of said company.

[Signature]
Notary Public, State of ~~Texas~~ Maryland



STEPHANO T. NAM
Notary Public
State of Maryland
Howard County

My commission exp. November 16, 2023

File No. MF112451

Reeves County

Memo 2020 Well ~~Def~~ Deferral Unit 1731

Date Filed: 12/10/2020

George P. Bush, Commissioner

By gm

**SECOND AMENDMENT OF POOLING AGREEMENT
ENDURANCE RESOURCES HOLDINGS II, LLC
JOHNNY CASH 23 UNIT
GLO UNIT NO. 7731
REEVES COUNTY, TEXAS**

For mutual and adequate consideration, hereby acknowledged as received, the undersigned "Lessor" and "Lessee", as they are so identified in the Pooling Agreement dated effective December 1, 2015, creating GLO Unit No. 7731 (Johnny Cash 23 Unit) (the "Pooling Agreement"), hereby amend the Pooling Agreement as follows:

The Drilling Obligation Timeframe as set out on Addendum "A" to the Pooling Agreement is amended so that the second, third, and fourth unit wells must be spud on or before December 26, 2020.

The parties agree that the Pooling Agreement is hereby ratified and that no provision of the Pooling Agreement, including all attachments thereto, is amended except as expressly amended above in this Second Amendment.

This Second Amendment, once fully executed, is made effective as of April 21, 2020.

Given under my hand and seal of office on September 25, 2020.

STATE OF TEXAS

Content _____
Dep. Dir. _____
OGC _____
Executive _____

By: [Signature]
GEORGE P. BUSH, COMMISSIONER
GENERAL LAND OFFICE

VICTERRA ENERGY, LLC

By: [Signature]
Printed name: Drew McManigle ("CTO")
Its: Chief Restructuring Officer
Date: 7/15/2020

Maryland
STATE OF ~~TEXAS~~
Howard
COUNTY OF ~~TRAVIS~~

This instrument was acknowledged before me on July 15th, 2020, by Drew McManigle as CTO of Victerra Energy, LLC, a Delaware limited liability company on behalf of said company.

[Signature]
Notary Public, State of ~~Texas~~ Maryland



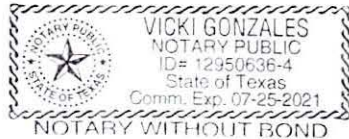
STEPHANO T. NAM
Notary Public
State of Maryland
Howard County
My commission exp. November 16, 2023

ACKNOWLEDGEMENT

STATE OF TEXAS

COUNTY OF Harris

This instrument was acknowledged before me on 26 of Sept., 2020, by George P. Bush as Commissioner of the General Land Office of the State of Texas on behalf of the State of Texas.



Vicki Gonzales
NOTARY PUBLIC- STATE OF TEXAS

File No. MF112451

Reeves County

2nd Amendment Unit 7731

Date Filed: 12/10/2020

By George P. Bush, Commissioner
Jm



Texas General Land Office

Reconciliation Billing

George P. Bush, Commissioner

PO Box 12873
Austin, TX 78711-2873
(800) 998-4456
8:00 - 5:00 M-F

EOG Resources, Inc.
Attn: Stephanie Toy
1111 Bagby Sky Lobby 2
Houston, TX 77002-2548

Billing Date: 4/12/2021
Billing Due Date: 5/12/2021
Customer Number: C000027065

Invoice	Mineral File	Gas Royalty	Oil Royalty	Penalty	Interest	Total Due
21I00659	MF112451	\$984.91	\$0.00	\$130.78	\$76.63	\$1,192.32
Total Due		\$984.91	\$0.00	\$130.78	\$76.63	\$1,192.32

Penalty and interest have been calculated thru 4/30/2021. Payment remitted after 4/30/2021 will result in additional penalty and interest charges.

Charlton, Andrea M (512) 463-5190 or Andrea.Charlton@GLO.TEXAS.GOV

NOTICE

- Please update GLO1 and GLO2 production reports to correct volumes.
- Please do not update GLO3 report to include billed royalty, penalty or interest. This receivable has already been recorded.
- For questions regarding this invoice, email us at glo123@glo.texas.gov.

This notice does not constitute an Audit Billing Notice as defined in Section 52.135 of the Texas Natural Resources Code and, consequently, does not preclude the TGLO from conducting further examinations of these leases, time periods or issues.

Detach and return with payment

Reconciliation Billing

EOG Resources, Inc.

Billing Date: 4/12/2021

Billing Due Date: 5/12/2021

Customer Number: C000027065

Remit Payment To:

Texas General Land Office

PO Box 12873

Austin, TX 78711-2873

Invoice	Mineral File	Gas Royalty	Oil Royalty	Penalty	Interest	Total Due
21I00659	MF112451	\$984.91	\$0.00	\$130.78	\$76.63	\$1,192.32
Total Due		\$984.91	\$0.00	\$130.78	\$76.63	\$1,192.32
Amt. Paid						

Customer ID: C000027065
 Invoice Number:
 GLO Lease: MF112451
 GLO Review: EOG RESOURCES, INC.
 Review Period: SEPT 2019 Through AUG 2020

Category: Gas
 Auditor/AE: Acharlto
 Billing Date: 4/5/2021
 P&I Calculation Date: 4/30/2021
 Royalty Rate: 25.00%

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Month / Year	RRC Number	Gas/Oil Volume	Tract Participa	Price	BTU	Gross Value	Royalty Due	Royalty Paid	Additional Roy	Number of Day	Interest Rate For A	Penalty Rate From	Interest Rate From	Revenue Due
Sep-19	08-280225	1,634	1.00000000	1.305297	1.000000	\$2,132.86	\$533.21	\$0.00	\$533.21	532	6.50%	\$53.32	\$44.91	\$631.44
Oct-19	08-280225	866	1.00000000	0.808126	1.000000	\$699.84	\$174.96	\$0.00	\$174.96	502	6.50%	\$25.00	\$13.80	\$213.76
Nov-19	08-280225	846	1.00000000	1.298549	1.000000	\$1,098.57	\$274.64	\$0.00	\$274.64	471	5.75%	\$27.46	\$17.83	\$319.93
Apr-20	08-280225	42	1.00000000	0.200299	1.000000	\$8.41	\$2.10	\$0.00	\$2.10	319	5.75%	\$25.00	\$0.09	\$27.19
TOTALS		3,388				\$3,939.68	\$984.91	\$0.00	\$984.91			\$130.78	\$76.63	\$1,192.32

ATTN: STEPHANIE TOY
 E-MAIL: STEPHANIE_TOY@EOGRESOURCES.COM

COMMENTS: SALES VOLUMES REPORTED TO THE GLO WERE COMPARED TO VOLUMES REPORTED TO THE RRC.
 IT HAS BEEN DETERMINED THAT THE SALES VOLUMES HAVE BEEN UNDER PAID.

COLUMN (3) RRC VOLUME - REPRESENTS UNDER REPORTED SALES VOLUMES TO THE GLO FROM RRC WELL ID# 08-280225

COLUMN (5) PRICE - TAKEN FROM PRODUCTION ROYALTY REPORTS SUBMITTED TO THE TEXAS GENERAL LAND OFFICE

COLUMN (6) BTU - TAKEN FROM PRODUCTION ROYALTY REPORTS SUBMITTED TO THE TEXAS GENERAL LAND OFFICE

COLUMN (13)(14)(15) PLEASE GO TO THIS WEB SITE FOR EXPLANATION OF PENALTY AND INTEREST ASSESSMENT:

<http://www.glo.texas.gov/energy-business/oil-gas/rrac/forms/penalty-interest-assessment-rules.pdf>

NOTE 1 : PLEASE REMIT PAYMENT OF THIS INVOICE SEPARATELY FROM REGULAR ROYALTY PAYMENTS. THE PREFERRED METHOD OF PAYMENT IS BY CHECK
 ACCOMPANIED WITH THE BOTTOM HALF OF THE ATTACHED INVOICE. IF PAYMENT IS MADE THROUGH ACH DEBIT, SEND AN EMAIL TO account.services@glo.texas.gov
 NOTING YOUR COMPANY NAME, CUSTOMER ID, INVOICE NUMBER, REMITTANCE DATE AND AMOUNT OF PAYMENT.

File No. MF112451

Recon Billing County

Date Filed: 8/16/2021

George P. Bush, Commissioner

By VD



Texas General Land Office Reconciliation Billing

George P. Bush, Commissioner

PO Box 12873
Austin, TX 78711-2873
(800) 998-4456
8:00 - 5:00 M-F

EOG Resources, Inc.
Attn: Stephanie Toy
1111 Bagby Sky Lobby 2
Houston, TX 77002-2548

Billing Date: 4/12/2021
Billing Due Date: 5/12/2021
Customer Number: C000027065

Invoice	Mineral File	Gas Royalty	Oil Royalty	Penalty	Interest	Total Due
21I00660	MF112451	\$0.00	\$2,556.66	\$255.67	\$169.97	\$2,982.30
Total Due		\$0.00	\$2,556.66	\$255.67	\$169.97	\$2,982.30

Penalty and interest have been calculated thru 4/30/2021. Payment remitted after 4/30/2021 will result in additional penalty and interest charges.

Charlton, Andrea M (512) 463-5190 or Andrea.Charlton@GLO.TEXAS.GOV

NOTICE

- Please update GLO1 and GLO2 production reports to correct volumes.
- Please do not update GLO3 report to include billed royalty, penalty or interest. This receivable has already been recorded.
- For questions regarding this invoice, email us at glo123@glo.texas.gov.

This notice does not constitute an Audit Billing Notice as defined in Section 52.135 of the Texas Natural Resources Code and, consequently, does not preclude the TGLO from conducting further examinations of these leases, time periods or issues.

Detach and return with payment

Reconciliation Billing

EOG Resources, Inc.

Billing Date: 4/12/2021

Billing Due Date: 5/12/2021

Customer Number: C000027065

Remit Payment To:

Texas General Land Office

PO Box 12873

Austin, TX 78711-2873

Invoice	Mineral File	Gas Royalty	Oil Royalty	Penalty	Interest	Total Due
21I00660	MF112451	\$0.00	\$2,556.66	\$255.67	\$169.97	\$2,982.30
Total Due		\$0.00	\$2,556.66	\$255.67	\$169.97	\$2,982.30
Amt. Paid						

Customer ID: C000027065
 Invoice Number:
 GLO Lease: MF112451
 GLO Review: EOG RESOURCES, INC.
 Review Period: SEPT 2019 Through AUG 2020

Category: Oil
 Auditor/IAE: Acharito
 Billing Date: 4/5/2021
 P&I Calculation Date: 4/30/2021
 Royalty Rate: 25.00%

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Month / Year	RRC Number	Gas/Oil Volume	Tract Participa	Price	BTU	Gross Value	Royalty Due	Royalty Paid	Additional Roy	Number of Day	Interest Rate For A	Penalty Rate From	Interest Rate From	Revenue Due
Nov-19	08-280225	187	1.00000000	54.688000	1.000000	\$10,226.66	\$2,556.66	\$0.00	\$2,556.66	481	5.75%	\$255.67	\$169.97	\$2,982.30
TOTALS		187				\$10,226.66	\$2,556.66	\$0.00	\$2,556.66			\$255.67	\$169.97	\$2,982.30

ATTENTION: STEPHANIE TOY
 E-MAIL : STEPHANIE_TOY@EOGRESOURCES.COM

COMMENTS: SALES VOLUMES REPORTED TO THE GLO WERE COMPARED TO VOLUMES REPORTED TO THE RRC.
 IT HAS BEEN DETERMINED THAT THE SALES VOLUMES HAVE BEEN UNDER PAID.

COLUMN (3) RRC VOLUME - REPRESENTS UNDER REPORTED SALES VOLUMES TO THE GLO FROM RRC WELL ID# 08-280225

COLUMN (5) PRICE - TAKEN FROM PRODUCTION ROYALTY REPORTS SUBMITTED TO THE TEXAS GENERAL LAND OFFICE

COLUMN (13)(14)(15) PLEASE GO TO THIS WEB SITE FOR EXPLANATION OF PENALTY AND INTEREST ASSESSMENT:

<http://www.glo.texas.gov/energy-business/oil-gas/rrac/forms/penalty-interest-assessment-rules.pdf>

NOTE 1 : PLEASE REMIT PAYMENT OF THIS INVOICE SEPARATELY FROM REGULAR ROYALTY PAYMENTS. THE PREFERRED METHOD OF PAYMENT IS BY CHECK
 ACCOMPANIED WITH THE BOTTOM HALF OF THE ATTACHED INVOICE. IF PAYMENT IS MADE THROUGH ACH DEBIT, SEND AN EMAIL TO account.services@glo.texas.gov
 NOTING YOUR COMPANY NAME, CUSTOMER ID, INVOICE NUMBER, REMITTANCE DATE AND AMOUNT OF PAYMENT.

File No. MF112451 31

Recon Billing County

Date Filed: 8/14/2021

George P. Bush, Commissioner VD

By _____



Texas General Land Office

Reconciliation Billing

Commissioner Dawn Buckingham, M.D.

PO Box 12873
Austin, TX 78711-2873
(800) 998-4456
8:00 - 5:00 M-F

EOG Resources, Inc.
Attn: Kaitlyn Marr
1111 Bagby Sky Lobby 2
Houston, TX 77002-2548

Billing Date: 5/9/2024
Billing Due Date: 6/8/2024
Customer Number: C000027065

Invoice	Mineral File	Gas Royalty	Oil Royalty	Penalty	Interest	Total Due
24I00733	MF112451	\$0.00	\$1,002.76	\$100.28	\$56.51	\$1,159.55
Total Due		\$0.00	\$1,002.76	\$100.28	\$56.51	\$1,159.55

Penalty and interest have been calculated thru 5/31/2024. Payment remitted after 5/31/2024 will result in additional penalty and interest charges.

NOTICE

- Please update GLO1 and GLO2 production reports to correct volumes.
- Please do not update GLO3 report to include billed royalty, penalty or interest. This receivable has already been recorded.

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Detach and return with payment

Reconciliation Billing

EOG Resources, Inc.

Billing Date: 5/9/2024

Billing Due Date: 6/8/2024

Customer Number: C000027065

Remit Payment To:

Texas General Land Office

PO Box 12873

Austin, TX 78711-2873

Invoice	Mineral File	Gas Royalty	Oil Royalty	Penalty	Interest	Total Due
24I00733	MF112451	\$0.00	\$1,002.76	\$100.28	\$56.51	\$1,159.55
Total Due		\$0.00	\$1,002.76	\$100.28	\$56.51	\$1,159.55
Amt. Paid						

Customer ID: C000027065

Invoice Number:

GLO Lease: MF112451

GLO Review: EOG RESOURCES, INC

Review Period: Sept 2022 - Aug 2023

Category Oil

Auditor/AE: Eric M

Billing Date: 5/6/2024

P&I Calculation Date: 5/31/2024

Royalty Rate: 25.00%

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Month / Year	RRC Number	Gas/Oil Volume	Tract Participation Rate	Price	BTU	Gross Value	Royalty Due	Royalty Paid	Additional Royalty Due	Number of Days Late	Interest Rate For Additional Royalty	Penalty Rate From Additional Royalty	Interest Rate From Additional Royalty2	Revenue Due
Oct-22	08-291005	44	1	\$91.160	1	\$4,011.04	\$1,002.76	\$0.00	\$1,002.76	543	4.25%	\$100.28	\$56.51	\$1,159.55
TOTALS		44				\$4,011.04	\$1,002.76	\$0.00	\$1,002.76			\$100.28	\$56.51	\$1,159.55

COMMENTS: BILLING IS FOR UNDERREPORTED VOLUMES FOR RRC ID: 08-280225 08-291005 08-291006 08-291007

COLUMN (3) UNDERREPORTED VOLUMES REPORTED TO THE GLO VERSUS VOLUMES REPORTED TO THE RRC

COLUMNS (5) & (6) AVERAGE PRICE AND BTU REPORTED TO THE GLO ON THE GLO 1'S

COLUMNS (12),(13),(14) PLEASE GO TO THIS WEB SITE FOR EXPLANATION OF PENALTY AND INTEREST ASSESSMENTS:

<http://www.glo.texas.gov/energy-business/oil-gas/rrac/forms/penalty-interest-assessment-rules.pdf>

FOR QUESTIONS REGARDING THIS INVOICE PLEASE E-MAIL: eric.martinez@glo.texas.gov

NOTE 1:

PAYMENT OF THIS INVOICE MAY BE MADE BY CHECK OR ACH DEBIT.

PLEASE REMIT PAYMENT OF THIS INVOICE SEPARATELY FROM REGULAR ROYALTY PAYMENTS.

WHEN PAYMENT IS REMITTED, PLEASE SEND AN EMAIL TO: account.services@glo.texas.gov and eric.martinez@glo.texas.gov

NOTING YOUR COMPANY NAME, CUSTOMER ID, INVOICE NUMBER(S) AND AMOUNT OF PAYMENT.

EMAIL:

RRAC EOG RESOURCES INC(Admin)

Stephanie_Toy@eogresources.com

Kaitlyn Marr

kaitlyn_marr@eogresources.com

File No. MF 112451

County

Recon Billing

Date Filed: 6/4/2024

Commissioner Dawn Buckingham, M.D.

By: JD