

MF114285

| State Lease | Control   | Base File | County |
|-------------|-----------|-----------|--------|
| MF114285    | 07-109611 | 151812    | REEVES |

|                            |                         |             |  |
|----------------------------|-------------------------|-------------|--|
| Survey                     | T & P RY CO             |             |  |
| Block                      | 54                      |             |  |
| Block Name                 |                         |             |  |
| Township                   | 4-S                     |             |  |
| Section/Tract              | 18                      |             |  |
| Land Part                  | SW/4 & NE/4             |             |  |
| Part Description           | NE/4 & SW/4             |             |  |
| Acres                      | 320                     |             |  |
| Depth Below                | Depth Above             | Depth Other |  |
| 0-100' below base Wolfcamp |                         |             |  |
| Name                       | PETROHAWK PROPERTIES LP |             |  |
| Lease Date                 | 6/16/2012               |             |  |
| Primary Term               | 5 yrs                   |             |  |
| Bonus (\$)                 | \$256,000.00            |             |  |
| Rental (\$)                | \$0.00                  |             |  |
| Lease Royalty              | 0.1250                  |             |  |

Leasing: Q  
 Analyst: Q  
 Maps: \_\_\_\_\_  
 GIS: ML  
 DocuShare: \_\_\_\_\_



## CAUTION

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

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

Thank you for your assistance.

Archives and Records Staff





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| 1. RAL Review Sheet                                      | 7/2/12  | scanned PT 5-25-2017                                                    |
| 2. Lease (A-E)                                           | 7/24/12 | 11. Division Order 11-9-17                                              |
| 3. Cover Letter, Bonus, and Fees                         | 7/3/12  | 12. Recon Billing 4/11/18                                               |
| 4. Final Letter                                          | 12/3/12 | scanned PT 4-11-2018                                                    |
| Scanned SM 10/8/13                                       |         | (See item # 27 in MF109880)                                             |
| 5. Lease "A" 4 <sup>th</sup> + 5 <sup>th</sup> yr Rental | 6/2/15  | (for SW Rule 32 Data Sheet)                                             |
| 6. Lease "B" 4 <sup>th</sup> + 5 <sup>th</sup> yr Rental | 6/2/15  | scanned PT 5-11-2018                                                    |
| 7. Lease "C" 4 <sup>th</sup> + 5 <sup>th</sup> yr Rental | 6/2/15  | See MF109880, #29, Memo to SLB                                          |
| 8. Lease "D" 4 <sup>th</sup> + 5 <sup>th</sup> yr Rental | 6/2/15  | See MF109880, #30, Memo to Commissioner                                 |
| 9. Lease "E" 4 <sup>th</sup> + 5 <sup>th</sup> yr Rental | 6/2/15  | See MF109880, #31, Letter to WPX Energy                                 |
| scanned PT 6-22-15                                       |         | See MF109880, #32, PSA for the Fiver State                              |
| See MF056135 #114                                        |         | Sharing Area                                                            |
| for Awn # 9347 7-2-15                                    |         | scanned PT 9-30-2019                                                    |
| See MF109880 #15 & #16                                   |         | See MF109882, #10, Recorded Production                                  |
| Awn ID # 9417 & 9418 (5-19-15)                           |         | Sharing Agreement, "Fiver State Sharing Area"                           |
| Permian: Sdr & Silverback to Panther                     |         | Scanned SM 10/18/2019                                                   |
| scanned PT 10-19-15                                      |         | See MF109880 #35 Division Order                                         |
| See MF109880 #18, ID# 9598                               |         | scanned PT 10-13-2020                                                   |
| Panther (C) CP2 5-20-16                                  |         | See MF109880 #36 Surface Damage Pmt                                     |
| scanned PT 7-20-16                                       |         | Scanned SM 08/04/2021                                                   |
| (See MF040133 #80, Assign #9886)                         |         | (See MF109880 Items 41-46)                                              |
| Petrohawk to Sovereign                                   |         | for iNuts 11265, 11266, 11267, 11268,                                   |
| (See MF040133 #81, Assign #9887)                         |         | 11269, and 11270                                                        |
| Sovereign to Permian                                     |         | Scanned KW 12-28-2021                                                   |
| scanned PT 12-2-16                                       |         | (See MF109880 #51, Comm EXMPTN: Gas lift Approval <sup>10/11/23</sup> ) |
| 10. Agree to commingle 3/9/17                            |         | (See MF109880 #52, Comm EXMPTN: Gas lift Approval <sup>10/11/23</sup> ) |
| See # 22 in M-109880 for the                             |         | Scanned SM 10/31/2023                                                   |
| Fiver State 1B 1H Unit # 8293                            |         | See MF 109880 # 53                                                      |
| (See MF075080 #50, Assign #10221)                        |         | Copy-Pooling Agreement 8293 9/4/24                                      |
| Panther & CP2 (C) RKE 4-26-17                            |         |                                                                         |

Contents of Mineral File Number: 114285

See MF 109880 #54  
Termination Packet 11/14/24  
scanned PJ 11-18-2024

# RAL REVIEW SHEET

Transaction # 7622

Geologist:

Lessor: J & M Raymond, LTD

Lease Date: 6/16/2012

UE ☒

Lessee: Petrohawk Prop., LP

Gross Acres: 320

Net Acres: 106.667

## LEASE DESCRIPTION

| County | PN#       | Base File No | Part           | Sec. | Block | Twp | Survey      | Abst# |
|--------|-----------|--------------|----------------|------|-------|-----|-------------|-------|
| REEVES | 07-109611 | 151812       | SW/4 &<br>NE/4 | 18   | 54    | 04S | T & P RY CO | 5785  |

## TERMS OFFERED

Primary Term: 5 years

Bonus/Acre: \$1,600.00

Rental/Acre: \$0.00

Royalty: 1/4

## TERMS RECOMMENDED

Primary Term: 5 years

Bonus/Acre: \$1,600.00

Rental/Acre: \$0.00

Royalty: 1/4

## COMPARISONS

| MF #     | Lessee             | Date      | Term    | Bonus/Ac. | Rental/Ac. | Royalty | Distance   |
|----------|--------------------|-----------|---------|-----------|------------|---------|------------|
| MF110021 | Petro-Hunt, L.L.C. | 9/29/2008 | 3 years | \$450.00  | \$1.00     | 1/4     | Last Lease |
|          |                    |           |         |           |            |         |            |
|          |                    |           |         |           |            |         |            |
|          |                    |           |         |           |            |         |            |
|          |                    |           |         |           |            |         |            |

Comments: Paid Up 2nd, 3rd & 5th yr // 4th yr \$1600.00 per ac.

Approved: DR 7.2.12



# RELINQUISHMENT ACT LEASE APPLICATION

Texas General Land Office

Jerry Patterson, Commissioner

TO: Jerry Patterson, Commissioner  
Larry Laine, Chief Clerk  
Bill Warnick, General Counsel  
Louis Renaud, Deputy Commissioner

DATE: 02-Jul-12

FROM: Robert Hatter, Director of Mineral Leasing  
Tracey Throckmorton, Geoscience Manager

|             |                     |             |            |
|-------------|---------------------|-------------|------------|
| Applicant:  | Petrohawk Prop., LP | County:     | REEVES     |
| Prim. Term: | 5 years             | Bonus/Acre  | \$1,600.00 |
| Royalty:    | 1/4                 | Rental/Acre | \$0.00     |

## Consideration

Recommended: RJA Date: 7/05/12

Not Recommended: \_\_\_\_\_

Comments: Paid Up 2nd, 3rd & 5th yr // 4th yr \$1600.00 per ac.

## Lease Form

Recommended: RJA Date: 7/05/12

Not Recommended: \_\_\_\_\_

Comments:

Louis Renaud, Deputy Commissioner Date: 7/10/12

Recommended: RJA

Not Recommended: \_\_\_\_\_

Bill Warnick, General Counsel Date: 7/16/12

Recommended: WFW

Not Recommended: \_\_\_\_\_

Larry Laine, Chief Clerk Date: 7/17/12

Approved: [Signature]

Not Approved: \_\_\_\_\_

Jerry Patterson, Commissioner Date: 7/18/12

Approved: Jerry E. Patterson

Not Approved: \_\_\_\_\_



1

File No. 114285

RAL Shier

Date Filed: 7/2/12

Jerry E. Patterson, Commissioner

By GA

*[Faint, illegible handwritten notes and signatures]*



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.

General Land Office  
Relinquishment Act Lease Form  
Revised, September 1997

114285 A

12-05295  
FILED FOR RECORD  
REEVES COUNTY, TEXAS  
Jul 19, 2012 at 04:22:00 PM

# The State of Texas



## Austin, Texas

### OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 16th day of June, 2012, between the State of Texas, acting

by and through its agent, VAUGHAN-MCELVAIN ENERGY, INC., represented herein by Brenda Vaughan Boucher, President

whose mailing address is POST OFFICE BOX 970, KENNETT SQUARE, PENNSYLVANIA 19348

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

whose mailing address is 6100 SOUTH YALE AVENUE, SUITE 500, TULSA, OKLAHOMA 74136 hereinafter called Lessee.

**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:

The SW/4 and the NE/4 of Section 18, Block 54, Township 4, Abstract 5785, T&P RR Co. Survey, Reeves County, Texas, containing 320.000 acres, more or less

containing 320.000 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: ONE HUNDRED SIX THOUSAND SIX HUNDRED SIXTY SIX DOLLARS AND 67/100

Dollars (\$106,666.67)

To the owner of the soil: ONE HUNDRED SIX THOUSAND SIX HUNDRED SIXTY SIX DOLLARS AND 67/100

Dollars (\$106,666.67)

Total bonus consideration: TWO HUNDRED THIRTEEN THOUSAND THREE HUNDRED THIRTY THREE DOLLARS AND 34/100

Dollars (\$213,333.34)

The total bonus consideration paid represents a bonus of ONE THOUSAND SIX HUNDRED DOLLARS AND 00/100

Dollars (\$1600.00) per acre, on 133.33333333 net acres.

**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 (THIS IS A PAID UP LEASE)

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



True and Correct  
copy of  
Original in  
Reeves County



**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.



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



**(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, until 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.



True and Correct  
copy of  
Original filed in  
Reeves County



**(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 muniments 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



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Harris County  
Clerks Office



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 unitize 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 unitizing 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.**



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Clerks Office



**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 PROVISIONS - #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 (2<sup>nd</sup>) and third (3<sup>rd</sup>) 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 (4<sup>th</sup>) and fifth (5<sup>th</sup>) years of the primary term provided for herein by tendering a payment of one thousand six hundred dollars (\$1600.00) per net acre, such payment to be divided equally between the State of Texas and the owner of the soil and made prior to June 16, 2015, 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 spudded, 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.

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



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



STATE OF TEXAS  
VAUGHAN-MCELVAIN ENERGY, INC.

LESSEE: PETROHAWK PROPERTIES, LP  
By: P-H Energy, LLC, Its General Partner

Brenda Vaughan Boucher

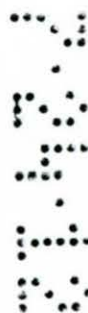
BY: BRENDA VAUGHAN BOUCHER  
President and as Agent for the State of Texas

Date: 6/27/12

John W. Walsh

BY: John W. Walsh, Attorney-in-Fact

Date: 7/9/2012



STATE OF TEXAS  
COUNTY OF HARRIS

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared John W. Walsh  
known to me to be the person whose name is subscribed to the foregoing instruments as Attorney-in-Fact  
of P-H Energy, LLC, general partner of Petrohawk Properties, LP, a Texas limited partnership 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 limited partnership.

Given under my hand and seal of office this the 9th day of July, 2012.

Notary Public in and for Texas



STATE OF Delaware  
COUNTY OF New Castle

no VME Corp Seal  
(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Brenda Vaughan Boucher known to me to be the person whose  
name is subscribed to the foregoing instruments as President of VAUGHAN-MCELVAIN ENERGY, INC. and acknowledged to me that she 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 27th day of June, 2012.

Linda M. Natali  
Notary Public in and for New Castle Co., Delaware



True and Correct  
copy of  
Original filed in  
Reeves County  
Clerk's Office

THE STATE OF TEXAS  
COUNTY OF REEVES  
I, Dianne O. Florez, Clerk of the County Court in and  
for said County and State do hereby certify that the foregoing is a true and correct copy of  
the original instrument filed for record in the County Clerk's Office on this day of  
June 2012 at 04:22 PM  
DIANNE O. FLOREZ  
COUNTY CLERK  
REEVES COUNTY, TEXAS  
By: AC Audra C. DEPUTY



01427 2A

File No. 114205

Lease A

Date Filed: 07/24/12

Jerry E. Patterson, Commissioner

By [Signature]

THE STATE OF TEXAS  
COUNTY OF REEVES  
I, Dianne O. Flores, Clerk of the County Court in and  
for said County and State do hereby certify that the foregoing is a true and correct copy of  
the same as the same was filed in my office this 19th day of April, 2012 at  
4:22 P.M., under Clerk's File No. 12-05295, to be recorded in the  
Record of Reeves County, Texas.  
this 19th day of July, 2012,  
By [Signature], Deputy, DIANNE O. FLORES, COUNTY CLERK  
REEVES COUNTY, TEXAS



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.

General Land Office  
Relinquishment Act Lease Form  
Revised, September 1997

114285 B

12-05294  
FILED FOR RECORD  
REEVES COUNTY, TEXAS  
Jul 19, 2012 at 04:22:00 PM

# The State of Texas



## Austin, Texas

### OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 16th day of June, 2012, between the State of Texas, acting

by and through its agent, J & M RAYMOND, LTD., represented herein by James M. Raymond, President of Raymond & Sons, LLC, General Partner

whose mailing address is POST OFFICE BOX 291445, KERRVILLE, TEXAS 78029

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

whose mailing address is 6100 SOUTH YALE AVENUE, SUITE 500, TULSA, OKLAHOMA 74136 hereinafter called Lessee.

**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:

The SW/4 and the NE/4 of Section 18, Block 54, Township 4, Abstract 5785, T&P RR Co. Survey, Reeves County, Texas, containing 320.000 acres, more or less

containing 320.000 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: EIGHTY FIVE THOUSAND THREE HUNDRED THIRTY THREE DOLLARS AND 34/100

Dollars (\$85,333.34)

To the owner of the soil: EIGHTY FIVE THOUSAND THREE HUNDRED THIRTY THREE DOLLARS AND 33/100

Dollars (\$85,333.33)

Total bonus consideration: ONE HUNDRED SEVENTY THOUSAND SIX HUNDRED SIXTY SIX DOLLARS AND 67/100

Dollars (\$170,666.67)

The total bonus consideration paid represents a bonus of ONE THOUSAND SIX HUNDRED DOLLARS AND 00/100

Dollars (\$1600.00) per acre, on 106.66666667 net acres.

**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 (THIS IS A PAID UP LEASE)

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



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Original filed in  
Reeves County  
Texas



**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.



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Reeves County  
Clerks Office



**(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 muniments 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 unitize 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 unitizing 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.**



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copy of  
Original filed in  
Reeves County  
Clerks Office



**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 PROVISIONS - #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 (2<sup>nd</sup>) and third (3<sup>rd</sup>) 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 (4<sup>th</sup>) and fifth (5<sup>th</sup>) years of the primary term provided for herein by tendering a payment of one thousand six hundred dollars (\$1600.00) per net acre, such payment to be divided equally between the State of Texas and the owner of the soil and made prior to June 16, 2015, 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 spudded, 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.

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



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



STATE OF TEXAS

J & M RAYMOND, LTD

By: Raymond & Sons, LLC, Its General Partner

LESSEE: PETROHAWK PROPERTIES, LP

By: P-H Energy, LLC, Its General Partner

BY: JAMES M. RAYMOND

President and as Agent for the State of Texas

Date:

6-27-12

BY: John W. Walsh, Attorney-in-Fact

Date:

7/9/2012

STATE OF TEXAS

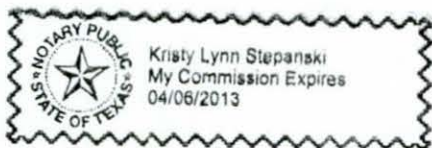
(CORPORATION ACKNOWLEDGMENT)

COUNTY OF HARRIS

BEFORE ME, the undersigned authority, on this day personally appeared John W. Walsh known to me to be the person whose name is subscribed to the foregoing instruments as Attorney-in-Fact of P-H Energy, LLC, general partner of Petrohawk Properties, LP, a Texas limited partnership 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 limited partnership.

Given under my hand and seal of office this 9th day of July, 2012.

Notary Public in and for Texas



True and Correct  
copy of  
Original Filed in  
Reeves County  
Clerks Office

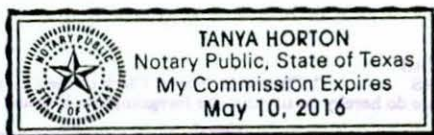
STATE OF Texas

(CORPORATION ACKNOWLEDGMENT)

COUNTY OF Kerr

BEFORE ME, the undersigned authority, on this day personally appeared James M. Raymond known to me to be the person whose name is subscribed to the foregoing instruments as President of Raymond & Sons, LLC, General Partner of J & M RAYMOND, LTD. 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 27th day of June, 2012.



Notary Public in and for the State of Texas

12-05294  
DIANNE O. FLOREZ  
COUNTY CLERK  
2012 Jul 19 at 04:22 PM  
REEVES COUNTY, TEXAS  
By: AC Aurora C, DEPUTY



01425

2B

File No. 114285

lease B

Date Filed: 07/24/12  
Jerry E. Patterson, Commissioner

By [Signature]

THE STATE OF TEXAS  
COUNTY OF REEVES

I, Dianne O. Florez, Clerk of the County Court in and for said County and State do hereby certify that the foregoing is a true and correct copy of

Wid. Last State dated June 14, 2012  
Filed for record in my office this 19th day of July, 2012 at  
4:22 M., under Clerk's File No. 13-05304, to be recorded in the  
Deborah Public Records

Records of Reeves County, Texas.  
this 19th day of July, 20 12.

By [Signature] . Deputy, DIANNE O. FLOREZ, COUNTY CLERK  
REEVES COUNTY, TEXAS



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.

General Land Office  
Relinquishment Act Lease Form  
Revised, September 1997

114285 C

12-05296  
FILED FOR RECORD  
REEVES COUNTY, TEXAS  
Jul 19, 2012 at 04:22:00 PM

# The State of Texas



Austin, Texas

## OIL AND GAS LEASE



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

THIS AGREEMENT is made and entered into this 16th day of June, 2012, between the State of Texas, acting by and through its agent, THE REVOCABLE LIVING TRUST OF E.P. WILLIAMS AND DOROTHY JANE WILLIAMS, DATED AUGUST 19, 1998, represented herein by Linda J. Marooney, Successor Trustee

whose mailing address is 2324 RODNEY COURT, SPRINGFIELD, OREGON 97477

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

whose mailing address is 6100 SOUTH YALE AVENUE, SUITE 500, TULSA, OKLAHOMA 74136 hereinafter called Lessee.

**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:

The SW/4 and the NE/4 of Section 18, Block 54, Township 4, Abstract 5785, T&P RR Co. Survey, Reeves County, Texas, containing 320.000 acres, more or less

containing 320.000 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: THIRTY TWO THOUSAND DOLLARS AND 00/100

Dollars (\$32,000.00)

To the owner of the soil: THIRTY TWO THOUSAND DOLLARS AND 00/100

Dollars (\$32,000.00)

Total bonus consideration: SIXTY FOUR THOUSAND DOLLARS AND 00/100

Dollars (\$64,000.00)

The total bonus consideration paid represents a bonus of ONE THOUSAND SIX HUNDRED DOLLARS AND 00/100

Dollars (\$1600.00) per acre, on 40.000 net acres.

**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 (THIS IS A PAID UP LEASE)  
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 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 muniments 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 unitize 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 unitizing 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 PROVISIONS - #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 (2<sup>nd</sup>) and third (3<sup>rd</sup>) 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 (4<sup>th</sup>) and fifth (5<sup>th</sup>) years of the primary term provided for herein by tendering a payment of one thousand six hundred dollars (\$1600.00) per net acre, such payment to be divided equally between the State of Texas and the owner of the soil and made prior to June 16, 2015, 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 spudded, 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.

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



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



STATE OF TEXAS

THE REVOCABLE LIVING TRUST OF E.P. WILLIAMS  
AND DOROTHY JANE WILLIAMS, DATED AUGUST 19, 1998

LESSEE: PETROHAWK PROPERTIES, LP

By: P-H Energy, LLC, Its General Partner

Linda J. Marooney  
BY: LINDA J. MAROONEY  
Successor Trustee and as Agent for the State of Texas

John W. Walsh  
BY: John W. Walsh, Attorney-in-Fact

Date: 6.27.12

Date: 7/9/2012

Oregon  
~~STATE OF TEXAS~~  
Lane  
~~COUNTY OF HARRIS~~

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared John W. Walsh  
known to me to be the person whose name is subscribed to the foregoing instruments as Attorney-in-Fact  
of P-H Energy, LLC, general partner of Petrohawk Properties, LP, a Texas limited partnership 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 limited partnership.

Given under my hand and seal of office this the \_\_\_\_\_ day of \_\_\_\_\_, 2012.

Notary Public in and for \_\_\_\_\_



True and Correct  
copy of  
Original filed in  
Reserve County  
Clerks Office

STATE OF OREGON

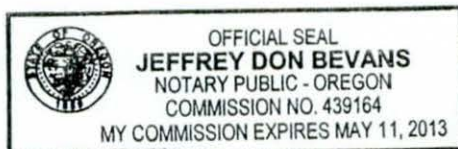
(ACKNOWLEDGMENT)

COUNTY OF Lane

BEFORE ME, the undersigned authority, on this day personally appeared Linda J. Marooney known to me to be the person whose name is  
subscribed to the foregoing instruments as Successor Trustee of THE REVOCABLE LIVING TRUST OF E.P. WILLIAMS AND DOROTHY JANE  
WILLIAMS, DATED AUGUST 19, 1998 and acknowledged to me that she executed the same for the purposes and consideration therein expressed, in  
the capacity stated, and as the act and deed of said trust.

Given under my hand and seal of office this the 27th day of June, 2012.

Jeffrey Don Bevans  
Notary Public in and for Lane / Oregon





STATE OF TEXAS  
THE REVOCABLE LIVING TRUST OF E.P. WILLIAMS  
AND DOROTHY JANE WILLIAMS, DATED AUGUST 19, 1998

LESSEE: PETROHAWK PROPERTIES, LP  
By: P-H Energy, LLC, Its General Partner

BY: LINDA J. MAROONEY  
Successor Trustee and as Agent for the State of Texas

BY: John W. Walsh, Attorney-in-Fact

Date: \_\_\_\_\_

Date: \_\_\_\_\_



STATE OF TEXAS  
COUNTY OF HARRIS

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared John W. Walsh  
known to me to be the person whose name is subscribed to the foregoing instruments as Attorney-in-Fact  
of P-H Energy, LLC, general partner of Petrohawk Properties, LP, a Texas limited partnership 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 limited partnership.

Given under my hand and seal of office this the 9<sup>th</sup> day of July, 2012.

*[Handwritten signature]*

Notary Public in and for Texas



STATE OF OREGON  
COUNTY OF \_\_\_\_\_

(ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Linda J. Marooney known to me to be the person whose name is  
subscribed to the foregoing instruments as Successor Trustee of THE REVOCABLE LIVING TRUST OF E.P. WILLIAMS AND DOROTHY JANE  
WILLIAMS, DATED AUGUST 19, 1998 and acknowledged to me that she executed the same for the purposes and consideration therein expressed, in  
the capacity stated, and as the act and deed of said trust.

Given under my hand and seal of office this the \_\_\_\_\_ day of \_\_\_\_\_, 2012.

Notary Public in and for \_\_\_\_\_

*[Faint, mostly illegible text from a notary seal or stamp, possibly from the Oregon section.]*

12-05296  
DIANNE O. FLOREZ  
COUNTY CLERK  
2012 Jul 19 at 04:22 PM  
REEVES COUNTY, TEXAS  
By: AC Aurora C. DEPUTY



114285

20

File No. 114285

Lease C

Date Filed: 07/24/12  
Jerry E. Patterson, Commissioner

By [Signature]

THE STATE OF TEXAS  
COUNTY OF REEVES

I, Dianne O. Flores, Clerk of the County Court in and for said County and State do hereby certify that the foregoing is a true and correct copy of

filed for record in my office this 19th day of June 2012 at 4:30 P.M. under Clerk's File No. 17-05796, to be recorded in the

Records of Reeves County, Texas.

TO CERTIFY WHICH, Witness my hand and official seal at Pecos, Texas this 19th day of July, 2012.

By [Signature], Deputy.

DIANNE O. FLORES, COUNTY CLERK  
REEVES COUNTY, TEXAS



ES-0102A

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.

General Land Office  
Relinquishment Act Lease Form  
Revised, September 1997

114205 D

12-05292  
FILED FOR RECORD  
REEVES COUNTY, TEXAS  
Jul 19, 2012 at 04:22:00 PM

# The State of Texas



## Austin, Texas

### OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 16th day of June, 2012, between the State of Texas, acting by and through its agent, DEAN ERIC SKINNER, husband of Susann Skinner, dealing herein with his separate property whose mailing address is N1118 MORMON DRIVE, LA CROSSE, WISCONSIN 54601 said agent herein referred to as the owner of the soil (whether one or more), and PETROHAWK PROPERTIES, LP whose mailing address is 6100 SOUTH YALE AVENUE, SUITE 500, TULSA, OKLAHOMA 74136 hereinafter called Lessee.

**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:

The SW/4 and the NE/4 of Section 18, Block 54, Township 4, Abstract 5785, T&P RR Co. Survey, Reeves County, Texas, containing 320.000 acres, more or less

containing 320.000 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: SIXTEEN THOUSAND DOLLARS AND 00/100  
Dollars (\$16,000.00)

To the owner of the soil: SIXTEEN THOUSAND DOLLARS AND 00/100  
Dollars (\$16,000.00)

Total bonus consideration: THIRTY TWO THOUSAND DOLLARS AND 00/100  
Dollars (\$32,000.00)

The total bonus consideration paid represents a bonus of ONE THOUSAND SIX HUNDRED DOLLARS AND 00/100  
Dollars (\$1600.00) per acre, on 20.000 net acres.

**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 (THIS IS A PAID UP LEASE)  
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 recordable instrument naming another bank as agent to receive such payments or tenders.

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



**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.



Original filed in  
Reeves County  
Clerk's Office



(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 muniments 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 unitize 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 unitizing 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.**



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Reeves County



**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 PROVISIONS - #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 (2<sup>nd</sup>) and third (3<sup>rd</sup>) 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 (4<sup>th</sup>) and fifth (5<sup>th</sup>) years of the primary term provided for herein by tendering a payment of one thousand six hundred dollars (\$1600.00) per net acre, such payment to be divided equally between the State of Texas and the owner of the soil and made prior to June 16, 2015, 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 spudded, 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.

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



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



STATE OF TEXAS

LESSEE: PETROHAWK PROPERTIES, LP

By: P-H Energy, LLC, Its General Partner

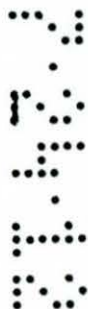
Dean Eric Skinner

BY: DEAN ERIC SKINNER  
Individually and as Agent for the State of Texas

John W. Walsh  
BY: John W. Walsh, Attorney-in-Fact

Date: 6-27-12

Date: 7/9/2012



STATE OF TEXAS

(CORPORATION ACKNOWLEDGMENT)

COUNTY OF HARRIS

BEFORE ME, the undersigned authority, on this day personally appeared John W. Walsh  
known to me to be the person whose name is subscribed to the foregoing instruments as Attorney-in-Fact  
of P-H Energy, LLC, general partner of Petrohawk Properties, LP, a Texas limited partnership 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 limited partnership.

Given under my hand and seal of office this 9th day of July, 2012.

K. Stepanski

Notary Public in and for Texas



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copy of  
Original filed in  
Reeves County  
Clerks Office

STATE OF WISCONSIN

(ACKNOWLEDGMENT)

COUNTY OF LACROSSE

BEFORE ME, the undersigned authority, on this day personally appeared DEAN ERIC SKINNER known to me to be the person whose name  
is subscribed to the foregoing instruments and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in  
the capacity stated and as his free act and deed.

Given under my hand and seal of office this 27th day of June, 2012.

Linda L. Gofus  
Notary Public in and for LACROSSE COUNTY  
STATE OF WI

DIANNE O FLOREZ  
COUNTY CLERK  
2012 Jul 18 at 04:22 PM  
REEVES COUNTY TEXAS  
By: AC Amara C DEPUTY



12-07-2014



31425

2D

File No. 114285

dease D

Date Filed: 07/24/12  
Jerry E. Patterson, Commissioner

By [Signature]

THE STATE OF TEXAS  
COUNTY OF REEVES

I, Dianne O. Flores, Clerk of the County Court in and  
for said County and State do hereby certify that the foregoing is a true and correct copy of

filed for record in my office this 19th day of July, 2012.

at 11:22 M., under Clerk's File No. 12-95392, to be recorded in the

Records of Reeves County, Texas.

Record of Reeves County, Texas.  
this 19th day of July, 2012.

By [Signature], Deputy, DIANNE O. FLORES, COUNTY CLERK  
REEVES COUNTY, TEXAS



ELS-0102E  
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.

General Land Office  
Relinquishment Act Lease Form  
Revised, September 1997

114285 E

12-05293  
FILED FOR RECORD  
REEVES COUNTY, TEXAS  
Jul 19, 2012 at 04:22:00 PM

# The State of Texas



Austin, Texas

## OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 16th day of June, 2012, between the State of Texas, acting by and through its agent, TIMOTHY A. SKINNER, husband of Colleen J. Skinner, dealing herein with his separate property whose mailing address is 2004 KING STREET, LA CROSSE, WISCONSIN 54601 said agent herein referred to as the owner of the soil (whether one or more); and PETROHAWK PROPERTIES, LP whose mailing address is 6100 SOUTH YALE AVENUE, SUITE 500, TULSA, OKLAHOMA 74136 hereinafter called Lessee.

**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:

The SW/4 and the NE/4 of Section 18, Block 54, Township 4, Abstract 5785, T&P RR Co. Survey, Reeves County, Texas, containing 320.000 acres, more or less

containing 320.000 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: SIXTEEN THOUSAND DOLLARS AND 00/100  
Dollars (\$16,000.00)

To the owner of the soil: SIXTEEN THOUSAND DOLLARS AND 00/100  
Dollars (\$16,000.00)

Total bonus consideration: THIRTY TWO THOUSAND DOLLARS AND 00/100  
Dollars (\$32,000.00)

The total bonus consideration paid represents a bonus of ONE THOUSAND SIX HUNDRED DOLLARS AND 00/100  
Dollars (\$1600.00) per acre, on 20.000 net acres.

**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 (THIS IS A PAID UP LEASE)  
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 recordable instrument naming another bank as agent to receive such payments or tenders.



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Original filed in  
Reeves County  
Clerks Office



**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.



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Reeves County



**(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 muniments 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 of 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 unitize 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 unitizing 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.**



True and Correct  
copy of  
Original filed in  
Reeves County  
on 04/11/2011



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 PROVISIONS - #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 (2<sup>nd</sup>) and third (3<sup>rd</sup>) 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 (4<sup>th</sup>) and fifth (5<sup>th</sup>) years of the primary term provided for herein by tendering a payment of one thousand six hundred dollars (\$1600.00) per net acre, such payment to be divided equally between the State of Texas and the owner of the soil and made prior to June 16, 2015, 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 spudded, 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.

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



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



STATE OF TEXAS

LESSEE: PETROHAWK PROPERTIES, LP  
By: P-H Energy, LLC, Its General Partner

Timothy A. Skinner  
BY: TIMOTHY A. SKINNER  
Individually and as Agent for the State of Texas

John W. Walsh  
BY: John W. Walsh, Attorney-in-Fact

Date: June 27, 2012

Date: 7/9/2012



STATE OF TEXAS  
COUNTY OF HARRIS

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared John W. Walsh  
known to me to be the person whose name is subscribed to the foregoing instruments as Attorney-in-Fact  
of P-H Energy, LLC, general partner of Petrohawk Properties, LP, a Texas limited partnership 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 limited partnership.

Given under my hand and seal of office this the 9th day of July, 2012.

K. Lynn Stepanski  
Notary Public in and for Texas



STATE OF WISCONSIN  
COUNTY OF La CROSSE

(ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared TIMOTHY A. SKINNER known to me to be the person whose name  
is subscribed to the foregoing instruments and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in  
the capacity stated and as his free act and deed.

Given under my hand and seal of office this the 27 day of June, 2012.

Jane De Vault  
Notary Public in and for Wells Fargo Bank N.A.  
State of Wisconsin  
My commission expires May 25, 2015



THIS STATE OF TEXAS  
COUNTY OF REEVES  
has in and to record with the County Clerk in and  
to the said County and State the foregoing instrument  
and the same has been duly recorded in the  
Books for record in my office this  
day of \_\_\_\_\_, 2012, at \_\_\_\_\_ o'clock in the  
P.M. under Clerk's file No. \_\_\_\_\_  
Records of Reeves County, Texas  
TO CERTIFY WHICH, Witness my hand and official seal at \_\_\_\_\_, Texas  
this \_\_\_\_\_ day of \_\_\_\_\_, 2012.

12-05293  
DIANNE O. FLOREZ  
COUNTY CLERK  
2012 Jul 19 at 04:22 PM  
REEVES COUNTY, TEXAS  
By: AC Aurora C. DEPUTY



② E

214285

File No. 214285

Lease (#-E)

Date Filed: 7/24/12

Jerry E. Patterson, Commissioner

By ad

THE STATE OF TEXAS  
COUNTY OF REEVES  
I, Dianne O. Florez, Clerk of the County Court in and  
for said County and State do hereby certify that the foregoing is a true and correct copy of  
filed for record in my office this 19th day of July 2012 at  
1039 M. under Clerk's File No. 1905493 to be recorded in the  
Official Public Records  
Records of Reeves County, Texas.  
this 19th day of July, 2012.  
By Mary Clark, Deputy. DIANNE O. FLOREZ, COUNTY CLERK  
REEVES COUNTY, TEXAS



1000 LOUISIANA STREET, SUITE 5600 • HOUSTON, TX 77002 832-204-2787

107345



# JULY 2, 2012 REQUEST

Section 18, Block 54, Township 4, T & P RR Co. Survey, Reeves County, Texas

THE SE/4 AND THE NW/4

| Lessor        | Gross Ac | Interest | Net Ac.      | Bonus Per Acre | Bonus to Lessor | Bonus to State | Lease Bonus  |
|---------------|----------|----------|--------------|----------------|-----------------|----------------|--------------|
| Petco Limited | 320      | 1/2      | 160.00000000 | \$1,600.00     | \$128,000.00    | \$128,000.00   | \$256,000.00 |
| <b>TOTALS</b> |          | 1/2      | 160.00000000 |                | \$128,000.00    | \$128,000.00   | \$256,000.00 |

Section 28, Block 54, Township 4, T & P RR Co. Survey, Reeves County, Texas

| Lessor                     | Gross Ac | Interest | Net Ac.      | Bonus Per Acre | Bonus to Lessor | Bonus to State | Lease Bonus    |
|----------------------------|----------|----------|--------------|----------------|-----------------|----------------|----------------|
| Ann Thompson White         | 640      | 1/3      | 213.33333333 | \$1,600.00     | \$170,666.67    | \$170,666.67   | \$341,333.33   |
| John M. Thompson, III      | 640      | 1/6      | 106.66666667 | \$1,600.00     | \$85,333.33     | \$85,333.33    | \$170,666.67   |
| James Cash Thompson        | 640      | 1/6      | 106.66666667 | \$1,600.00     | \$85,333.33     | \$85,333.33    | \$170,666.67   |
| James Cash Thompson, et ux | 640      | 1/3      | 213.33333333 | \$1,600.00     | \$170,666.67    | \$170,666.67   | \$341,333.33   |
| <b>TOTALS</b>              |          | 1        | 640.00000000 |                | \$512,000.00    | \$512,000.00   | \$1,024,000.00 |

Section 18, Block 54, Township 4, T & P RR Co. Survey, Reeves County, Texas

THE SW/4 AND THE NE/4

| Lessor                                                                  | Gross Ac | Interest | Net Ac.      | Bonus Per Acre | Bonus to Lessor | Bonus to State | Lease Bonus  |
|-------------------------------------------------------------------------|----------|----------|--------------|----------------|-----------------|----------------|--------------|
| Dean Eric Skinner ✓                                                     | 320      | 1/16     | 20.00000000  | \$1,600.00     | \$16,000.00     | \$16,000.00    | \$32,000.00  |
| Timothy A. Skinner ✓                                                    | 320      | 1/16     | 20.00000000  | \$1,600.00     | \$16,000.00     | \$16,000.00    | \$32,000.00  |
| J&M Raymond, Ltd ✓                                                      | 320      | 1/3      | 106.66666667 | \$1,600.00     | \$85,333.33     | \$85,333.33    | \$170,666.67 |
| Vaughan-McElvain Energy, Inc. ✓                                         | 320      | 5/12     | 133.33333333 | \$1,600.00     | \$106,666.67    | \$106,666.67   | \$213,333.33 |
| The Revocable Living Trust of E.P. Williams and Dorothy Jane Williams ✓ | 320      | 1/8      | 40.00000000  | \$1,600.00     | \$32,000.00     | \$32,000.00    | \$64,000.00  |
| <b>TOTALS</b>                                                           |          | 1        | 320.00000000 |                | \$256,000.00    | \$256,000.00   | \$512,000.00 |



# EXPLORATION LAND SERVICES, LLC

P O Box 52105 • Lafayette, Louisiana 70505-2105 • Phone: 337.234.3500 • Fax: 337.234.3525 • Email: contact@explorationland.com

July 2, 2012

Via FedEx

Mr. Drew Reid  
Texas General Land Office  
1700 Congress Avenue  
Stephen F. Austin Building, RM 847  
Austin, Texas 78701

Re: Oil, Gas and Mineral Leases  
Reeves County, Texas

Dear Drew:

Enclosed herewith, please find five (5) checks, made payable to the Commissioner of the General Land Office, as well as a copy of each check. Also enclosed is a report prepared for you containing a calculated breakdown of the interests and property the checks cover.

| <u>Date</u>              | <u>Check No.</u> | <u>Amount</u> |
|--------------------------|------------------|---------------|
| 06/29/2012               | 107342           | \$35,625.00   |
| 06/29/2012               | 107343           | \$128,000.00  |
| 06/29/2012               | 107344           | \$512,000.00  |
| MF 114285 A-E 06/29/2012 | 107345           | \$256,000.00  |
| 06/29/2012               | 107346           | \$106,000.00  |

Please sign and return the copies of the checks to me in the enclosed prepaid envelope.

I trust that you will not hesitate to call me with any questions that you may have concerning this matter.

Sincerely yours,

  
Natalie Holeman

encl.



EXPLORATION LAND SERVICES, LLC

Texas General Land Office

Date 7/23/2012 Type Bill Reference Filing&ProcessingFee

Original Amt. 2,250.00

Balance Due 2,250.00

7/23/2012

Discount

Check Amount

Payment 2,250.00  
2,250.00

4049

12714759  
12/9

Iberia Bank

Filing Fees-26 Leases; Processing Fees- 16 Tra

X 2,250.00

EXPLORATION LAND SERVICES, LLC

Texas General Land Office

Date 7/23/2012 Type Bill Reference Filing&ProcessingFee

Original Amt. 2,250.00

Balance Due 2,250.00

7/23/2012

Discount

Check Amount

Payment 2,250.00  
2,250.00

4049

Iberia Bank

Filing Fees-26 Leases; Processing Fees- 16 Tra

2,250.00

EXPLORATION LAND SERVICES, LLC

Texas General Land Office

Date 7/23/2012 Type Bill Reference Filing&ProcessingFee

Original Amt. 2,250.00

Balance Due 2,250.00

7/23/2012

Discount

Check Amount

Payment 2,250.00  
2,250.00

4049

**Please sign and date the copy  
of the check and return it in  
the enclosed envelope.  
Thanks!**

Received By:

Del. Basin Leasing

Iberia Bank

Filing Fees-26 Leases; Processing Fees- 16 Tra

2,250.00



3

File No. 114285

Cover Letter @ Brown @ Feed

Date Filed: 7/3/12

Jerry E. Patterson, Commissioner

By GH



TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

December 3, 2012

Micah Strother  
Petrohawk Properties  
1360 Post Oak, Suite 150  
Houston, Texas 77056

Re: **State Lease MF 114285**

Five RAL leases covering 320 ac., Sec. 18, Blk. 54, T-4, A-5785, T&P Ry Co. Survey, Reeves Co, TX

Dear Mr. Strother:

The certified copies of the Relinquishment Act leases covering the referenced tract have been approved and filed in our records under Mineral File numbers as set out on Page 2. **Please refer to these numbers when making payments to the State and in all future correspondence concerning the leases. Failure to include the mineral file numbers may delay processing of any payments towards the leases.**

There are several contractual and statutory responsibilities for the Lessee which are material provisions of the lease as outlined in the agreement such as Section 10(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 be submitted to the General Land Office as well. Examples are W-1, Application to Drill; W-2, Oil Well Completion Report and Log; G-1, Gas Well Completion Report and Log; W-3, Plugging Report; 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.

Chapter 52 of the Texas Natural Resources Codes specifies that the surface owner's right to receive a portion of the revenues generated by the lease shall be in lieu of all damages to the soil. Therefore, any payments made for surface use or damages other than the authorized damages set out in the lease form must be shared equally with the state.

Your remittances are set out on Page 2 and have been applied to the State's portion of the cash bonus. We are also in receipt of the processing and filing fees.

Sincerely yours,

Deborah A. Cantu  
Mineral Leasing, Energy Resources  
(512) 305-8598  
deborah.cantu@glo.texas.gov

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](http://www.glo.state.tx.us)



| State Lease No. | Lessor as agent for State of TX             | Dated    | Recorded Vol/Page | Bonus Amount |
|-----------------|---------------------------------------------|----------|-------------------|--------------|
| MF114285A       | Vaughan-McElvain Energy                     | 06/16/12 | File 12-05295     | \$106,666.67 |
| MF114285B       | J&M Raymond                                 | 06/16/12 | File 12-05294     | \$85,333.34  |
| MF114285C       | Living Trust EP Williams & Dorothy Williams | 06/16/12 | File 12-05296     | \$32,000.00  |
| MF114285D       | Dean Eric Skinner                           | 06/16/12 | File 12-05292     | \$16,000.00  |
| MF114285E       | Timothy A. Skinner                          | 06/16/12 | File 12-05293     | \$16,000.00  |



4

File No. 1141285

Final letter

Date Filed: 12/3/12

Jerry E. Patterson, Commissioner

By or H





PANTHER ENERGY COMPANY II LLC  
6100 S YALE, SUITE 600  
TULSA, OK 74136

Bank of America-Main  
Tulsa,

15712716

| CHECK NO | CHECK DATE | CHECK AMOUNT      |
|----------|------------|-------------------|
| 12374    | 05/26/15   | \$*****106,666.67 |

PAY \*\*\*106,666 Dollars and 67 Cents

PAY TO THE ORDER OF  
TEXAS GENERAL LAND OFFICE  
1700 N CONGRESS AVE  
AUSTIN TX 78701

*Buy & Sell*

⑈0012374⑈

PANTHER ENERGY COMPANY II LLC

6100 S YALE, SUITE 600, TULSA, OK 74136 918/583-1396

| INVOICE  | DATE     | DESCRIPTION        | NET          |
|----------|----------|--------------------|--------------|
| 5132015F | 05/13/15 | SAND LAKE PROSPECT | X 106,666.67 |

121

4th & 5th Year Delay Rental – Oil & Gas Lease

State of Texas, acting by and through its agent, Vaughan-McElvain Energy Inc MF-114285A

Sec 18, Blk 54, T4S, T&P Survey, Reeves Co TX

133.333333 acs @ \$1600 per acre split between State of Texas & Vaughan-McElvain Energy Inc

15712716

VENDOR TEX0009 CHECK 12374 DATE 05/26/15 106,666.67



File No. MF 114285 A  
4<sup>th</sup> + 5<sup>th</sup> yr Rental County  
Lease A  
Date Filed: 6/2/2015  
George P. Bush, Commissioner  
By BN





PANTHER ENERGY COMPANY II LLC

6100 S YALE, SUITE 600  
TULSA, OK 74136

Bank of America-Maryland  
Tulsa, OK

15712713

| CHECK NO | CHECK DATE | CHECK AMOUNT     |
|----------|------------|------------------|
| 12370    | 05/26/15   | \$*****85,333.34 |

PAY \*\*\*85,333 Dollars and 34 Cents

PAY TO THE ORDER OF  
TEXAS GENERAL LAND OFFICE  
1700 N CONGRESS AVE  
AUSTIN TX 78701

*Billy J. Muller*

⑈0012370⑈

PANTHER ENERGY COMPANY II LLC

6100 S YALE, SUITE 600, TULSA, OK 74136 918/583-1396

| INVOICE  | DATE     | DESCRIPTION        | NET         |
|----------|----------|--------------------|-------------|
| 5132015B | 05/13/15 | SAND LAKE PROSPECT | X 85,333.34 |

4th & 5th Year Delay Rental – Oil & Gas Lease

State of Texas, acting by and through its agent, J&M Raymond Ltd

Sec 18, Blk 54, T4S, T&P Survey, Reeves Co TX

106.666667 acs @ \$1600 per acre split between State of Texas & J&M Raymond Ltd

MF-114285B

15712713

VENDOR TEX0009 CHECK 12370 DATE 05/26/15 85,333.34



6

File No. M# 114285 B  
4<sup>th</sup> + 5<sup>th</sup> yr Rental County  
Lease B

Date Filed: 6/2/2015

By BN George P. Bush, Commissioner

0 572





PANTHER ENERGY COMPANY II LLC

6100 S YALE, SUITE 600  
TULSA, OK 74136

Bank of America-Main  
Tulsa,

15712712

| CHECK NO | CHECK DATE | CHECK AMOUNT     |
|----------|------------|------------------|
| 12369    | 05/26/15   | \$*****32,000.00 |

PAY \*\*\*32,000 Dollars and No Cents

PAY TO THE ORDER OF  
TEXAS GENERAL LAND OFFICE  
1700 N CONGRESS AVE  
AUSTIN TX 78701

*Buy & Sell*

⑈0012369⑈

PANTHER ENERGY COMPANY II LLC

6100 S YALE, SUITE 600, TULSA, OK 74136 918/583-1396

| INVOICE  | DATE     | DESCRIPTION        | NET         |
|----------|----------|--------------------|-------------|
| 5132015A | 05/13/15 | SAND LAKE PROSPECT | X 32,000.00 |

121

4th & 5th Year Delay Rental – Oil & Gas Lease

State of Texas, acting by and through its agent, The Revocable Living Trust of E P Williams and Dorothy Jane Williams, Linda J Marooney, Successor Trustee

Sec 18, Blk 54, T4S, T&P Survey, Reeves Co TX

40 acs @ \$1600 per acre split between State of Texas & Williams Trust

MF-114285C

15712712

VENDOR TEX0009 CHECK 12369 DATE 05/26/15 32,000.00



7

ire No. M# 114285C  
4<sup>th</sup> + 5<sup>th</sup> yr Rental County  
Lease C

Date Filed: 6/2/2015  
George P. Bush, Commissioner  
BN

0.5.12





PANTHER ENERGY COMPANY II LLC  
6100 S YALE, SUITE 600  
TULSA, OK 74136

Bank of America-Main  
Tulsa,

15712714

| CHECK NO | CHECK DATE | CHECK AMOUNT     |
|----------|------------|------------------|
| 12371    | 05/26/15   | \$*****16,000.00 |

PAY \*\*\* Sixteen Thousand Dollars and No Cents

PAY TO THE ORDER OF  
TEXAS GENERAL LAND OFFICE  
1700 N CONGRESS AVE  
AUSTIN TX 78701

*Buy & Sell*

⑈0012371⑈

PANTHER ENERGY COMPANY II LLC

6100 S YALE, SUITE 600, TULSA, OK 74136 918/583-1396

| INVOICE  | DATE     | DESCRIPTION        | NET         |
|----------|----------|--------------------|-------------|
| 5132015C | 05/13/15 | SAND LAKE PROSPECT | X 16,000.00 |

4th & 5th Year Delay Rental – Oil & Gas Lease

State of Texas, acting by and through its agent, Dean Eric Skinner MF-114285D

Sec 18, Blk 54, T4S, T&P Survey, Reeves Co TX

20 acs @ \$1600 per acre split between State of Texas & Dean Eric Skinner

15712714

VENDOR TEX0009 CHECK 12371 DATE 05/26/15 16,000.00



8

File No. MF 114285 D  
4<sup>th</sup> + 5<sup>th</sup> yr Rental County  
Lease D

Date Filed: 6/2/2015

By BN George P. Bush, Commissioner

0.542





PANTHER ENERGY COMPANY II LLC  
6100 S YALE, SUITE 600  
TULSA, OK 74136

Bank of America  
Tulsa, OK

15712715

| CHECK NO | CHECK DATE | CHECK AMOUNT     |
|----------|------------|------------------|
| 12372    | 05/26/15   | \$*****16,000.00 |

PAY \*\*\* Sixteen Thousand Dollars and No Cents

PAY TO THE ORDER OF  
TEXAS GENERAL LAND OFFICE  
1700 N CONGRESS AVE  
AUSTIN TX 78701

*Buy & Sell*

⑈0012372⑈

PANTHER ENERGY COMPANY II LLC

6100 S YALE, SUITE 600, TULSA, OK 74136 918/583-1396

| INVOICE  | DATE     | DESCRIPTION        | NET         |
|----------|----------|--------------------|-------------|
| 5132015D | 05/13/15 | SAND LAKE PROSPECT | X 16,000.00 |

121

4th & 5th Year Delay Rental – Oil & Gas Lease

State of Texas, acting by and through its agent, Timothy A Skinner MF-114285E

Sec 18, Blk 54, T4S, T&P Survey, Reeves Co TX

20 acs @ \$1600 per acre split between State of Texas & Timothy A Skinner

15712715

VENDOR TEX0009 CHECK 12372 DATE 05/26/15 16,000.00



File No. MA 117285 E  
4<sup>th</sup> + 5<sup>th</sup> yr Rental County  
Lease E

Date Filed: 6/2/2015

By BN George P. Bush, Commissioner





TEXAS GENERAL LAND OFFICE  
GEORGE P. BUSH, COMMISSIONER

March 23, 2017

Certified Mail: 7016 2070 0000 7391 7956

Mr. Steve Towns  
Consultant for Panther Exploration, LLC  
Towns & Hagemann, Inc.  
1301 Nueces Street  
Suite 102  
Austin, Texas 78701

RE: Your Application Requesting Permission to Surface Commingle Oil and Gas Production from the Titan State Unit 16 Lease, Relinquishment Act Lease (RAL) MF116554, MF116791, and MF118163, GLO Unit 8343; the Mac State 20 Lease, RAL MF116344; and the Fiver State 18, RAL MF109880, MF114285, MF115997, and MF118232, GLO Unit 8293, RRC Commingling Permit 08-Pending, Reeves County, Texas.

Dear Mr. Towns:

Please reference your letter, with attachments, dated March 7, 2017, requesting permission to surface commingle the subject State leases at the Titan State Unit 16 Tank Battery.

Panther Exploration, LLC staff propose to separate then meter the gas, oil, and water production from each individual state lease/unit utilizing dedicated three-phase production separators equipped with meters prior to commingling the production into common separation and storage at the Titan State Unit 16 Battery. The purpose of the commingling permit is to allow commingling of the oil and gas production from multiple RRC leases and State leases/units into common separation and storage at the Titan State Unit 16 Battery. The state's net royalty interest is the same for all leases/units in the scope of the commingling permit; however, in this case multiple surface owners and leases exist.

In this specific case, per the conditions of commingling below, the production royalty shall be due based on the proportionate share of the gross or total energy content (MMBTUs) of gas and stock tank barrels of oil produced monthly as determined by the metered volumes obtained monthly by Panther Exploration staff.

According to the narrative provided with the application, Panther Exploration staff propose to allocate the gas production of each state lease by application of the molecular balance method using the separated and metered gas volumes.

Please note that since Panther Exploration, LLC staff did not provide any specific details regarding their allocation methodology per the GLO commingling application requirements, then



the GLO may not accept any form of allocation unless and until we have been provided detailed allocation methodology information (e.g., gas volume and energy content determined by molecular balance and metered oil volumes corrected to stock tank conditions per API MPMS methods with stock tank oil inventory and sales allocations). If an allocation methodology has been applied, then GLO staff might disagree with your allocation methodology in the context of an audit.

Please be advised that the subject application is approved **subject to the following conditions.**

1. All lease oil production royalties shall be due based on the proportionate share of the total oil production (in stock tank barrels) that are allocated to each RRC Lease ID/lease determined by the oil meter readings of the Coriolis type meters at the dedicated three-phase metering production separators serving each lease/unit. The oil meter volumes shall be corrected from the indicated volumes to stock tank barrels per API MPMS methods. In this specific case the Lessee may pay monthly oil royalties per Texas Administrative Code (TAC) Title 31, Part 1, Chapter 9, Subchapter D, Rule §9.51.
2. All lease gas production royalties shall be due based on the proportionate share of the total gas production determined by the molecular balance method based on the sum of: (1) the gas production volumes and energy content as measured at the orifice meter located downstream of each well's dedicated metering separator, (2) the applicable separator flash gas as determined by the performance of laboratory flash separation tests or per industry standard correlations, based on the proportionate share of the total monthly oil production allocated to each lease well; and 3) any other non-sales dispositions such as fuel, vent, and flare volumes. Please be advised that GLO staff expects state lessees to periodically capture oil/condensate samples at each production separator. The captured oil/condensate sample should then be subjected to a flash separation test per API MPMS Chapter 20 to obtain the oil/condensate shrinkage factor, solution GOR, and solution gas composition at production separator conditions for each individual well. This data will be used during GLO audits to adjust metered oil/condensate volumes at the appropriate separator to stock tank conditions. Absent that oil/condensate shrinkage data, GLO staff will use industry standard correlations to make the oil or condensate metered volume adjustment. The gas BTU content and component analysis obtained at each well separator and facility gas meter shall be determined by gas sample chromatographic analysis or other industry-accepted practices.
3. Retain, for lease audit purposes, all meter and test records, volume statements/reports, oil and gas analysis reports, and shrinkage/flash gas calculation records for all state lease wells in the scope of the commingle permit for a period of at least seven (7) years after creation of each report or record.
4. All measurement shall be in accordance with the American Gas Association (AGA) standards and all applicable chapters of the American Petroleum Institute (API) Manual of Petroleum Measurement Standard (MPMS).
5. All measuring equipment (oil and gas) shall be calibrated and adjusted as necessary by Lessee or as frequently as deemed necessary due to cleaning, repair, replacement, or any



Mr. Steve Towns  
Consultant for Panther Exploration, LLC  
Towns & Hagemann, Inc.  
March 23, 2017  
Page 3 of 3

other condition that affects the accuracy, repeatability, and linearity of a meter, but not less frequently than once per calendar quarter, at intervals not to exceed 100 days.

6. Any changes to the flow process, metering scheme, or the addition of any wells that are not currently processed at the commingling facility shall require the Lessee to obtain permission from the GLO prior to making said changes.

If you have questions, please contact me at (512) 475-2230, or by FAX at (512) 475-1543. My e-mail address is [matthew.scott@glo.state.tx.us](mailto:matthew.scott@glo.state.tx.us)

Sincerely,

A handwritten signature in black ink that reads "Matthew T. Scott". The signature is written in a cursive, slightly slanted style.

Matthew T. Scott, P.E.  
Petroleum Engineer  
Energy Resources/Mineral Leasing

cc: Robert Hatter, Deputy Director of Energy Resources  
Dale Sump, Director of Minerals Audit



10

File No. ME114285

REEVES County

AGREE TO COMMINSLE

Date Filed: 3/29/2017

George P. Bush, Commissioner

By MTSCOTT



MF 114285  
Your Copy

MF 118232

Anadarko E&P Onshore LLC

Division Order

STATE OF TEXAS  
OFFICE  
1700 N CONGRESS AVENUE  
STEPHEN F AUSTIN BLDG  
AUSTIN, TX 78701-1436

See reverse for list of  
Properties and Interests.

Effective Date:    Date of First Sales

The undersigned certifies the ownership of their decimal interest in production as described above payable by Anadarko E&P Onshore LLC (Payor).

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, or Sept. 30 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.

Note: NADOA Model Form Division Order (Adopted 9/95)

Special Clause(s): Payee agrees that by execution of this DO and returning the signature page to Payor that the signature page will be attached to Payor's duplicate original of this instrument and treated as an original for all purposes.

RV45678204  
STATE OF TEXAS  
OFFICE  


\_\_\_\_\_  
Signature of Witness

\_\_\_\_\_  
Owner Signature/Corporate Title

\_\_\_\_\_  
Owner Address (if different from above)

\_\_\_\_\_  
Signature of Witness

\_\_\_\_\_  
Owner Signature/Corporate Title

\_\_\_\_\_  
City,            State            Zip Code

\_\_\_\_\_  
Owner Daytime Phone

\_\_\_\_\_  
Email Address

\*Failure to furnish your Social Security/Tax ID number will result in withholding tax in accordance with federal law and any tax withheld will not be refundable by payor.

\*\* All individual parties must complete and return the enclosed W9 to ensure proper payment. Additional forms may be obtained at [www.irs.gov](http://www.irs.gov)

Please return to:  
Anadarko E&P Onshore LLC  
P.O. BOX 1330  
HOUSTON, TX 77251-9874  
1-800-359-1692

Date Prepared:    August 25, 2017  
Prepared By:       MASON PAYNE  
Suspense Flag:     N



| <u>Property</u> | <u>Property Name</u> | <u>Product</u> | <u>State/County</u> | <u>Int Type</u> | <u>Int Seq</u> | <u>Interest</u> |
|-----------------|----------------------|----------------|---------------------|-----------------|----------------|-----------------|
| 407365          | FIVER STATE 18 1H    | All Products   | TX/REEVES           | RI              | 1              | 0.00634063      |

**Legal Description:**

640 ACRES MORE OR LESS BEING SECTION 18, BLOCK 54, T-4S, T&P RR CO SVY, REEVES COUNTY, TX,  
COMPRISED OF THE FOLLOWING TRACTS:

TR 1 (320 ACRES): NE/4 AND SW/4 OF SECTION 18, BLOCK 54, A-5785, REEVES COUNTY, TX  
TR 2 (320 ACRES): SE/4 AND NW/4 OF SECTION 18, BLOCK 54, A-1997, REEVES COUNTY, TX.

---

\*Failure to furnish your Social Security/Tax ID number will result in withholding tax in accordance with federal law and any tax withheld  
will not be refundable by payor.

\*\* All individual parties must complete and return the enclosed W9 to ensure proper payment. Additional forms may be obtained at [www.irs.gov](http://www.irs.gov)

Please return to:  
Anadarko E&P Onshore LLC  
P.O. BOX 1330  
HOUSTON, TX 77251-9874  
1-800-359-1692

Date Prepared: August 25, 2017  
Prepared By: MASON PAYNE  
Suspense Flag: N





TEXAS GENERAL LAND OFFICE  
GEORGE P. BUSH, COMMISSIONER

November 9, 2017

Mason Payne  
Division Order Analyst  
Anadarko E&P Onshore LLC  
P.O. Box 1330  
Houston, TX 77251-9874

Re: State Lease Nos. MF109880, MF114285, MF115997 and MF118232 Fiver State 18 1H

Dear Mr. Payne:

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

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](mailto:vivian.hernandez@glo.texas.gov)



File No. MF 114285

11.

County

Division Order

Date Filed: 11-9-17

George P. Bush, Commissioner  
By V.H.



7016 2070 0000 7390 6301

| U.S. Postal Service™<br>CERTIFIED MAIL® RECEIPT<br><i>Domestic Mail Only</i>                     |                                               |
|--------------------------------------------------------------------------------------------------|-----------------------------------------------|
| For delivery information, visit our website at <a href="http://www.usps.com">www.usps.com</a> ®. |                                               |
| OFFICIAL USE                                                                                     |                                               |
| Certified Mail Fee<br>\$                                                                         | MF 109880                                     |
| Extra Services & Fees (check box, add fee as appropriate)                                        | MF 114285                                     |
| <input type="checkbox"/> Return Receipt (hardcopy) \$                                            | Postmark                                      |
| <input type="checkbox"/> Return Receipt (electronic) \$                                          | Here                                          |
| <input type="checkbox"/> Certified Mail Restricted Delivery \$                                   | MF 115997                                     |
| <input type="checkbox"/> Adult Signature Required \$                                             | MF 118232                                     |
| <input type="checkbox"/> Adult Signature Restricted Delivery \$                                  |                                               |
| Postage<br>\$                                                                                    |                                               |
| Total Postage and Fees<br>\$                                                                     |                                               |
| Sent To                                                                                          | Attn: Lou Ann Gruber                          |
| Street and Apt. No., or PO Box No.                                                               | RKI Exploration & Production, LLC             |
| City, State, ZIP+4®                                                                              | 3500 One Williams Ctr<br>Tulsa, OK 74172-0135 |
| PS Form 3800, April 2015 PSN 7530-02-000-9047 See Reverse for Instructions                       |                                               |





# 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

COPY

RKI Exploration & Production, LLC  
Attn: Lou Ann Gruber  
3500 One Williams Ctr  
Tulsa, OK 74172-0135

Billing Date: 4/5/2018  
**Billing Due Date: 5/5/2018**  
Customer Number: C000048105

| Invoice   | Mineral File | Gas Royalty | Oil Royalty | Penalty     | Interest   | Total Due           |
|-----------|--------------|-------------|-------------|-------------|------------|---------------------|
| 18I00402  | MF109880     | \$3,286.90  | \$0.00      | \$344.11    | \$87.39    | \$3,718.40          |
| 18I00403  | MF109880     | \$0.00      | \$21,513.03 | \$2,151.31  | \$596.86   | \$24,261.20         |
| 18I00404  | MF114285     | \$6,762.75  | \$0.00      | \$688.18    | \$181.58   | \$7,632.51          |
| 18I00405  | MF114285     | \$0.00      | \$44,586.77 | \$4,458.67  | \$1,236.69 | \$50,282.13         |
| 18I00406  | MF115997     | \$1,644.00  | \$0.00      | \$184.61    | \$43.71    | \$1,872.32          |
| 18I00407  | MF115997     | \$0.00      | \$11,770.25 | \$1,177.02  | \$328.65   | \$13,275.92         |
| 18I00408  | MF118232     | \$1,692.07  | \$0.00      | \$209.61    | \$45.53    | \$1,947.21          |
| 18I00409  | MF118232     | \$0.00      | \$10,626.00 | \$1,062.60  | \$294.07   | \$11,982.67         |
| Total Due |              | \$13,385.72 | \$88,496.05 | \$10,276.11 | \$2,814.48 | <b>\$114,972.36</b> |

Penalty and interest have been calculated thru 4/30/2018. Payment remitted after 4/30/2018 will result in additional penalty and interest charges.

Contact Info: Andrea Charlton (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 other royalty reporting questions, visit <http://www.glo.texas.gov>, call (512) 463-6850 or email us at [glo123@glo.texas.gov](mailto: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

**RKI Exploration & Production, LLC**

Billing Date: 4/5/2018

Billing Due Date: 5/5/2018

**Customer Number: C000048105**

**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   |
|----------|--------------|-------------|-------------|------------|----------|-------------|
| 18I00402 | MF109880     | \$3,286.90  | \$0.00      | \$344.11   | \$87.39  | \$3,718.40  |
| 18I00403 | MF109880     | \$0.00      | \$21,513.03 | \$2,151.31 | \$596.86 | \$24,261.20 |
| 18I00404 | MF114285     | \$6,762.75  | \$0.00      | \$688.18   | \$181.58 | \$7,632.51  |





# Texas General Land Office

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

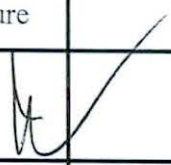
George P. Bush, Commissioner

|           |          |             |             |             |            |                     |
|-----------|----------|-------------|-------------|-------------|------------|---------------------|
| 18I00405  | MF114285 | \$0.00      | \$44,586.77 | \$4,458.67  | \$1,236.69 | \$50,282.13         |
| 18I00406  | MF115997 | \$1,644.00  | \$0.00      | \$184.61    | \$43.71    | \$1,872.32          |
| 18I00407  | MF115997 | \$0.00      | \$11,770.25 | \$1,177.02  | \$328.65   | \$13,275.92         |
| 18I00408  | MF118232 | \$1,692.07  | \$0.00      | \$209.61    | \$45.53    | \$1,947.21          |
| 18I00409  | MF118232 | \$0.00      | \$10,626.00 | \$1,062.60  | \$294.07   | \$11,982.67         |
| Total Due |          | \$13,385.72 | \$88,496.05 | \$10,276.11 | \$2,814.48 | <b>\$114,972.36</b> |
| Amt. Paid |          |             |             |             |            |                     |



**Energy Financial Management**  
**SMAR Activity / Invoicing Approval**

Auditor/Account Examiner: Andrea Charlton  
Company Name: RKI EXPLORATION & PRODUCTION LLC  
Customer Number: C000048105  
Mineral File #: MF114285  
Transaction Type: Volume Reconciliation  
Other / Invoice #:

| Previous Amount | Current Amount | Date     | AE / Reviewer's Notes                | Reviewer's Signature                                                                            | AR Notes                                                                            |
|-----------------|----------------|----------|--------------------------------------|-------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
|                 | \$7,632.51     | 04/02/18 | Under reported/paid sales<br>volumes | MM 4/3/2018  |  |
|                 |                |          |                                      |                                                                                                 |                                                                                     |
|                 |                |          |                                      |                                                                                                 |                                                                                     |
|                 |                |          |                                      |                                                                                                 |                                                                                     |

All original invoices must be approved.

All reductions in billing of more than \$1000 must be approved.



Customer ID: C000048105  
 Invoice Number:  
 GLO Lease: MF114285  
 GLO Review: RKI Exploration & Production LLC  
 Review Period: SEPT 2016 Through AUG 2017

Category: Gas  
 Auditor/AE: Acharito  
 Billing Date: 4/2/2018  
 P&I Calculation Date: 4/30/2018  
 Royalty Rate: 12.50%

| (1)           | (2)        | (3)            | (4)            | (5)      | (6)      | (7)                | (8)               | (9)           | (10)              | (11)         | (12)              | (13)             | (14)              | (15)              |
|---------------|------------|----------------|----------------|----------|----------|--------------------|-------------------|---------------|-------------------|--------------|-------------------|------------------|-------------------|-------------------|
| Month / Year  | RRC Number | Gas/Oil Volume | Tract Particip | Price    | BTU      | Gross Value        | Royalty Due       | Royalty Paid  | Additional Ro     | Number of Da | Interest Rate For | Penalty Rate For | Interest Rate For | Revenue Due       |
| Mar-17        | 08-48474   | 575            | 1.00000000     | 2.501058 | 1.060344 | \$1,524.89         | \$190.61          | \$0.00        | \$190.61          | 350          | 4.50%             | \$25.00          | \$6.84            | \$222.45          |
| Apr-17        | 08-48474   | 6,042          | 1.00000000     | 2.685726 | 1.054896 | \$17,117.96        | \$2,139.75        | \$0.00        | \$2,139.75        | 319          | 4.75%             | \$213.98         | \$72.40           | \$2,426.13        |
| May-17        | 08-48474   | 3,163          | 1.00000000     | 2.727366 | 1.057134 | \$9,119.53         | \$1,139.94        | \$0.00        | \$1,139.94        | 289          | 4.75%             | \$113.99         | \$34.12           | \$1,288.05        |
| Jun-17        | 08-48474   | 3,079          | 1.00000000     | 2.593002 | 1.054484 | \$8,418.85         | \$1,052.36        | \$0.00        | \$1,052.36        | 258          | 4.75%             | \$105.24         | \$27.25           | \$1,184.85        |
| Jul-17        | 08-48474   | 558            | 1.00000000     | 2.580231 | 1.058195 | \$1,523.56         | \$190.44          | \$0.00        | \$190.44          | 227          | 4.75%             | \$25.00          | \$4.16            | \$219.60          |
| Aug-17        | 08-48474   | 5,995          | 1.00000000     | 2.586005 | 1.057671 | \$16,397.18        | \$2,049.65        | \$0.00        | \$2,049.65        | 197          | 4.75%             | \$204.97         | \$36.81           | \$2,291.43        |
| <b>TOTALS</b> |            | <b>19,412</b>  |                |          |          | <b>\$54,101.97</b> | <b>\$6,762.75</b> | <b>\$0.00</b> | <b>\$6,762.75</b> |              |                   | <b>\$688.18</b>  | <b>\$181.58</b>   | <b>\$7,632.51</b> |

ATTN: Dan Eberly  
 CERTIFIED MAIL: 7016 2070 0000 7390 6301

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# 08-48474 08-283260

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/rac/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, NOTIFY THE AUDITOR AS TO THE REMITTANCE DATE SO THE INVOICE CAN BE PROPERLY CREDITED.



**Energy Financial Management**  
**SMAR Activity / Invoicing Approval**

Auditor/Account Examiner: Andrea Charlton  
Company Name: RKI EXPLORATION & PRODUCTION LLC  
Customer Number: C000048105  
Mineral File #: MF114285  
Transaction Type: Volume Reconciliation  
Other / Invoice #:

| Previous Amount | Current Amount | Date     | AE / Reviewer's Notes                | Reviewer's Signature                                                                            | AR Notes |
|-----------------|----------------|----------|--------------------------------------|-------------------------------------------------------------------------------------------------|----------|
|                 | \$50,282.13    | 04/02/18 | Under reported/paid sales<br>volumes | MM 4/3/2018  |          |
|                 |                |          |                                      |                                                                                                 |          |
|                 |                |          |                                      |                                                                                                 |          |
|                 |                |          |                                      |                                                                                                 |          |

All original invoices must be approved.

All reductions in billing of more than \$1000 must be approved.



Customer ID: C000048105  
 Invoice Number:  
 GLO Lease: MF114285  
 GLO Review: RKI Exploration & Production LLC  
 Review Period: SEPT 2016 Through AUG 2017

Category: Oil  
 Auditor/AE: Acharito  
 Billing Date: 4/2/2018  
 P&I Calculation Date: 4/30/2018  
 Royalty Rate: 12.50%

| (1)           | (2)        | (3)            | (4)            | (5)       | (6)      | (7)                 | (8)                | (9)           | (10)               | (11)         | (12)              | (13)              | (14)              | (15)               |
|---------------|------------|----------------|----------------|-----------|----------|---------------------|--------------------|---------------|--------------------|--------------|-------------------|-------------------|-------------------|--------------------|
| Month / Year  | RRC Number | Gas/Oil Volume | Tract Particip | Price     | BTU      | Gross Value         | Royalty Due        | Royalty Paid  | Additional Ro      | Number of Da | Interest Rate For | Penalty Rate For  | Interest Rate For | Revenue Due        |
| Apr-17        | 08-48474   | 2,210          | 1.00000000     | 46.779800 | 1.000000 | \$103,383.36        | \$12,922.92        | \$0.00        | \$12,922.92        | 329          | 4.75%             | \$1,292.29        | \$454.07          | \$14,669.28        |
| May-17        | 08-48474   | 1,370          | 1.00000000     | 44.044600 | 1.000000 | \$60,341.10         | \$7,542.64         | \$0.00        | \$7,542.64         | 299          | 4.75%             | \$754.26          | \$235.58          | \$8,532.48         |
| Jun-17        | 08-48474   | 1,218          | 1.00000000     | 41.291200 | 1.000000 | \$50,292.68         | \$6,286.59         | \$0.00        | \$6,286.59         | 268          | 4.75%             | \$628.66          | \$170.99          | \$7,086.24         |
| Jul-17        | 08-48474   | 1,530          | 1.00000000     | 43.596500 | 1.000000 | \$66,702.65         | \$8,337.83         | \$0.00        | \$8,337.83         | 237          | 4.75%             | \$833.78          | \$193.14          | \$9,364.75         |
| Aug-17        | 08-48474   | 1,699          | 1.00000000     | 44.717100 | 1.000000 | \$75,974.35         | \$9,496.79         | \$0.00        | \$9,496.79         | 207          | 4.75%             | \$949.68          | \$182.91          | \$10,629.38        |
| <b>TOTALS</b> |            | <b>8,027</b>   |                |           |          | <b>\$356,694.14</b> | <b>\$44,586.77</b> | <b>\$0.00</b> | <b>\$44,586.77</b> |              |                   | <b>\$4,458.67</b> | <b>\$1,236.69</b> | <b>\$50,282.13</b> |

ATTENTION: Dan Eberly  
 CERTIFIED MAIL : 7016 2070 0000 7390 6301

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# 08-48474 08-283260

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

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<http://www.glo.texas.gov/energy-business/oil-gas/rac/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, NOTIFY THE AUDITOR AS TO THE REMITTANCE DATE SO THE INVOICE CAN BE PROPERLY CREDITED.



12

File No. MF 114285

County

Recon Billing

Date Filed: 4/11/18

George P. Bush, Commissioner

By AT