

MF116482

DRR
A to 3/1/21
B to 3/17/21
C to 6/11/21
D to 6/11/21

Lease Type
RAL

Control
07-109023

Basefile
094108

County
REEVES

Survey T & P Ry Co

Block 57

Block Name

Township 2-S

Section/Tract 44

Land Part E/2

Acres Net: 106.000000 Gross: 320.000000

Depth Below Depth Above Depth Other

Name BHP BILLITON PETROLEUM (GOM) INC.

Lease Date 3/1/2014

Primary Term 3 years

Bonus \$224,000.00

Lease Royalty 0.12500000

Paid Up Yes

Leasing: [Signature]

Maps: [Signature]

GIS: MC

Scanlab: _____



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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RAL REVIEW SHEET

Working File #: RAL145865 MF:
 Lessor: Brennand Lazy H Ranch, Ltd. Lease Date: 03/01/2014 UI: Yes
 Lessee: Bhp Billiton Petroleum (Gom) Inc. Gross Acres: 320.00
 Net Acres: 106.00

LEASE DESCRIPTION

County	Control #	Base File No	Part	Sec	Block	Twp	Survey	Abst No
Reeves		094108	E/2	44	57	2-S	T & P Ry Co	2458

TERMS OFFERED

Primary Term: 3 Years
 Bonus / Acre: \$3,250.00
 Rental / Acre:

2nd Yr	3rd Yr	4th Yr	5th Yr
0.00	0.00		

 Royalty: 0.250000

TERMS RECOMMENDED

Primary Term: 3 Years
 Bonus / Acre: \$3,250.00
 Rental / Acre:

2nd Yr	3rd Yr	4th Yr	5th Yr
0.00	0.00		

 Royalty: 0.250000

COMPARISONS

Lease No	Lessee	Lease Date	Primary Term	Bonus/Acre	Rental/Acre				Royalty	Distance
MF116326	BHP Billiton	01/23/2014	5 yr	\$3,000.00	\$0.00	0.00	3,000.00	0.00	0.250000	0.000000 Adjacent West

Comments:

Paid Up

Approved:

DR 3.25.14

[Handwritten notes and signatures]
 This may need to go to MF-112692
 3.11.11 - 5yr
 3.11.14 - 4th yr due (only 211 Net Ac Canceled)
 [Signature]

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

FROM: Robert Hatter, Director of Mineral Leasing

Applicant: Bhp Billiton Petroleum (Gom) Inc.

County: Reeves

Prim. Term: 3 Years

Bonus/Acre: \$3,250.00

Royalty: 0.25000000

Rental/Acre 2nd Yr: \$0.00

3rd Yr: \$0.00

4th Yr: \$0.00

5th Yr: \$0.00

Consideration

Recommended: RJA

Date: 3/27/14

Not Recommended: _____

Comments: Paid Up

Lease Form

Recommended: RJA

Date: 3/27/14

Not Recommended: _____

Comments: _____

Louis Renaud, Deputy Commissioner

Date: 3.31.14

Recommended: CLR

Not Recommended: _____

Bill Warnick, General Counsel

Date: 4/4/14

Recommended: WFW

Not Recommended: _____

Larry Laine, Chief Clerk

Date: 4/3/14

Approved: ML

Not Approved: _____

Jerry Patterson, Commissioner

Date: 4/4/14

Approved: Jerry E. Patterson

Not Approved: _____

1
File No. 116482

RAL Review Sheet

Date Filed: 3/25/14

Jerry E. Patterson, Commissioner

By GH

MF116402A

OIL AND GAS LEASE

ES-0179A

THIS AGREEMENT is made and entered into this 1st day of March, 2014, between the State of Texas, acting by and through its agent, BRENNAND LAZY H RANCH, LTD., of 1330 Post Oak Blvd, Suite 2540, Houston, Texas 77056, said agent herein referred to as the owner of the soil (whether one or more), and BHP Billiton Petroleum Properties (N.A.), LP, of Post Office Box 22719, Houston, Texas 77027-9998 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:

E/2 of Section 44, Block 57, T-2, T&P Ry. Co. Survey

Containing 320 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Two Hundred Twenty Four Thousand and 00/100ths Dollars
(\$224,000.00)

To the owner of the soil: Two Hundred Twenty Four Thousand and 00/100ths Dollars
(\$224,000.00)

Total bonus consideration: Four Hundred Forty Eight Thousand and 00/100 Dollars
(\$448,000.00)

The total bonus consideration paid represents a bonus of Four Thousand Two Hundred and no/100 ths Dollars (\$4,200) per acre, on 106.66667 net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of three (3) 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 N/A Bank, at _____, 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: _____
Dollars (\$ _____)

Total Rental: _____
Dollars (\$ _____)

The total delay rental paid represents a rental of _____ Dollars (\$ _____ per acre, on _____ net acres.

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:



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

(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 25% 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 25% 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 25% 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 25% 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 the sum of Twenty-Five Dollars (\$25.00) per acre ~~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 of Twenty-Five Dollars (\$25.00) per acre 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 five dollars (\$5.00) 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. **All provisions accruing to the State with regard to time of payment and penalties shall also extend to the owner of the soil.**

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 with a copy of the same to the owner of the soil. 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 **and to the owner of the soil** 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 of Fifty Dollars (\$50.00) per acre ~~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 160 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 the stratigraphic equivalent of the base of the deepest formation from which oil and/or gas is then being produced in paying quantities (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. **Lessee also agrees to provide a recorded copy of any release to the owner of the soil promptly following the recordation thereof.**

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. **Additionally, Lessee shall pay one-half (1/2) to the State of Texas and one-half (1/2) to the owner of the soil the damage amounts stipulated on Exhibit A attached hereto, which amounts shall be rebuttably presumptive evidence of actual damages.** Lessee also agrees to comply with the other provisions set forth on Exhibit A. If the owner of the soil owns less than the entire undivided surface estate in the above described land, then the damages provided on Exhibit A shall be proportionately reduced, and paid in the proportion which owner of the soil's interest bears to the entire undivided surface estate.

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.



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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, 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. **A copy of any recorded assignment shall also be provided to the owner of the soil promptly following its recordation.**

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.



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~~BHP Billiton Petroleum Properties (N.A.), LP~~
By: ~~BHP Billiton Petroleum Properties (GP), LLC, its General Partner~~

By: _____
Name: John W. Walsh, Attorney-in-Fact

Date:

STATE OF TEXAS

BY: BRENNAND LAZY H RANCH, LTD.
Individually and as agent for the State of Texas

By: Brennan Interest L.L.C., its general partner

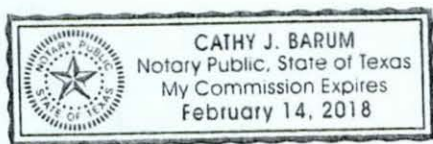
By: Dawson O. George, III Manager

Date:

STATE OF TEXAS

COUNTY OF HARRIS

This instrument was acknowledged before me on March 27, 2014, by Dawson O. George, III, Manager of Brennd Interest, LLC, general partner of BRENNAND LAZY H RANCH, LTD., a Texas limited partnership, as agent for the State of Texas.



Notary Public in and for the State of Texas

My Commission expires:

~~STATE OF TEXAS~~

COUNTY OF

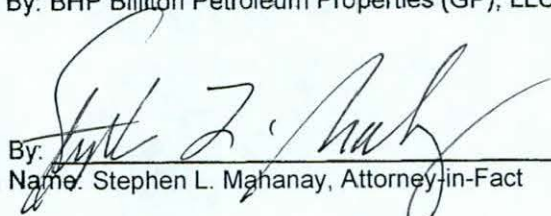
This instrument was acknowledged before me on _____ 2014, by John W. Walsh, Attorney-in-Fact of BHP Billiton Petroleum Properties (GP), LLC, general partner of BHP Billiton Petroleum Properties (N.A.), LP, a Texas Limited Liability Company, on behalf of said entity.

Notary Public in and for the State of Texas

~~My Commission expires:~~

LESSEE

BHP Billiton Petroleum Properties (N.A.), LP
By: BHP Billiton Petroleum Properties (GP), LLC, its General Partner

By: 
Name: Stephen L. Mahanay, Attorney-in-Fact

Date: April 2, 2014

ACKNOWLEDGMENTS



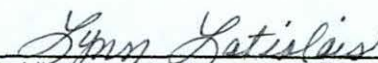
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STATE OF TEXAS

COUNTY OF HARRIS

This instrument was acknowledged before me on April 2, 2014, by Stephen L. Mahanay, Attorney-in-Fact of BHP Billiton Petroleum Properties (GP), LLC, general partner of BHP Billiton Petroleum Properties (N.A.), LP, a Texas Limited Liability Company, on behalf of said entity.




Notary Public in and for the State of Texas

My Commission expires: 10-10-2017

EXHIBIT A

SURFACE DAMAGE SCHEDULE

March 1, 2014

Brennand Lazy H Ranch, Ltd.

I. Lessee as a covenant of this lease, agrees to pay one-half (1/2) to the owner of the soil and one-half (1/2) to the State of Texas, within thirty (30) days after such operations are conducted, for the respective types of operations conducted on the Leased Premises, the sums set forth below:

Type of Operation

- | | |
|---|----------------------------------|
| 1. Well location (up to 5 acre pad site) | \$25,000.00 |
| 2. Additional wellbores from same well pad | \$ 5,000.00 |
| 3. Fresh Water Frac Pit (calculated from inside of berm) | \$.30/sf |
| Unused pits must be closed by end of primary term | |
| Requires reseeding upon closure of pit | |
| Fresh Water Frac Pit Site (calculated from outside of berm) | \$.10/sf |
| 4. Geophysical Permits | |
| 2-D | \$1,500 plus \$3,000.00 per mile |
| 3-D | \$1,000 plus \$20.00 per acre |
| 5. Roads for access to wells on location only (Maximum 10-year term) | |
| (a) Dirt Roads (limited to 15' in width) | \$50.00 per rod |
| (b) Caliche and gravel roads (limited to 15' wide) | \$55.00 per rod |
| (c) Temporary roads and pull-outs (less than 15') | \$500.00 each |
| (d) Use of existing roads | \$16.50 per rod |
| 6. Pipeline Easements for wells on location use only (Maximum 10-year term) | |
| (a) Less than 4" | \$22.00 per rod |
| (b) 4" to less than 6" | \$26.00 per rod |
| (c) 6" to less than 12" | \$42.00 per rod |
| (d) 12" to less than 24" | \$62.00 per rod |
| (e) 24" to 40" | \$100.00 per rod |
| Replacement of pipe due to damage 1/2 of original easement, minimum of \$500 | |
| 8. Utility Line Easement for use of wells on location only and limited to a single line pole (Maximum 10-year term) | \$ 100.00 per rod |
| 9. Workover and completion rigs, per occurrence | \$1,500.00 |
| 10. Tank Battery (on or off well location) | \$10,000.00 |
| 11. Leaks and spills | \$.25/sf |
| Minimum payment for any leak or spill shall be on basis of 500 square feet. All leaks or spills shall be reported to surface owner immediately and cleaned up and affected dirt hauled off within 30 days. If not cleaned up within first 30 days there will be additional payments due of the same amount each and every 30 days thereafter. | |

The amounts set forth in the above damage schedule shall increase by 5%, compounded, on each anniversary date of this agreement.

II. Surface/Subsurface Protection Clauses: As a part of the consideration of this Lease, Lessee covenants and agrees as follows:

- (a) Prior to commencing any operations under this lease, Lessee shall consult surface owner and provide information as to the form of operations, the proposed date of



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commencement and the location of said operations.

(b) Lessee and all persons entering or leaving said lands in connection with Lessee's operations hereunder shall keep all outside and interior gates along the route or routes designated for such use securely closed except immediately before and immediately after each such separate use. Lessee agrees that it will promptly repair any gate, fence or other improvement that may suffer damage or injury by reason of Lessee's operations hereunder.

(c) Lessee will maintain approaches, gates, cattle guards and roadways designated and used in connection with its operations in a good state of repair and will promptly cause to be repaired and restored any damage thereto occasioned by or resulting from Lessee's operations.

(d) Within ninety (90) days after completion of a well capable of producing in paying quantities or as soon thereafter as weather permits, Lessee will remove all pit liners (if used), fill all pits, level all mounds and other excavations, remove all caliche or other base materials from the drillsite except as to a minimum area around the wellbore necessary for maintaining and operating such well not exceeding 200' x 200', restore the top soil uniformly across the entire location area except the remaining location pad and clean up the well site and remove from said lands any and all oil and/or gas waste materials, oil spills, junk materials, pieces of iron, pipes, steel and other debris and foreign materials, and all deleterious materials and substances that might cause injury to persons or livestock and generally restore such location to its original condition

Within ninety (90) days after a well is plugged or any compression facility, tank battery or storage facility, metering station or other location on which Lessee erects surface facilities in connection with operations on and production from this Lease is abandoned or as soon thereafter as weather permits, Lessee shall remove all caliche or other base materials from the location and road leading to such location or facility (unless such road is then being utilized to gain access to another existing well or facility and restore the top soil uniformly across the entire location area (and, if applicable, road) and will clean up the site and remove from said lands any and all oilfield equipment, oil and/or gas waste materials, oil spills, junk materials, pieces of iron, pipes, steel and other debris and foreign materials, and all deleterious materials and substances that might cause injury to persons or livestock and generally restore such location to surface owner's reasonable satisfaction.

Lessee shall notify the surface owner prior to conducting any operations required under this Paragraph 2(d).

(e) Lessee will use its best efforts to prevent the escape of salt water or other deleterious substances and will not permit the same to run into any surface water tank, water well, creek, ravine, or upon or over the Leased Premises, nor to penetrate, seep or flow or be injected into any subsurface fresh water stratum, but will be contained and disposed of in keeping with applicable governmental rules and regulations, including without limitation, Environmental Laws, as hereinabove defined.

(f) Lessee will use its best efforts to prevent fires on said lands and will use its best efforts to prevent papers, boxes, sacks and containers and waste materials of any kind from coming on said lands and littering the Leased Premises.

(g) No employee, representative, contractor or subcontractor of Lessee or any other person will be allowed to hunt, fish, swim, camp or picnic on said land, and no dog, gun, firearm or fishing equipment will be permitted on the premises.

(h) With respect to each pipeline laid on the Leased Premises, Lessee expressly covenants and agrees: (1) to bury any pipeline so that the top thereof will be at least thirty-six inches (36") below the existing ground level contour, except and provided that, where said line crosses any drainage ditch, creek, slough or other waterway, the same should be buried at the place of such crossing at least forty-eight inches (48") below the bottom of such drainage ditch, creek, slough, or other waterway (whether flowing or intermittent); and further provided, that none of the facilities, valves or equipment installed or constructed in connection with such pipeline shall extend above the surface of

the ground, except that Lessee shall be permitted to place line posts or markers where said pipeline crosses surface owner's fence lines and except as may otherwise authorize. Surface owner reserves the right to impound water over any pipeline right-of-way; (2) during the period of construction of said pipeline and during the period of any subsequent altering, repairing, replacing or removing thereof, Lessee shall leave or arrange for reasonable crossings over and across said right-of-way for any vehicles, equipment, cattle and/or livestock of surface owner or surface owner's tenants, lessees, successors or assigns. Upon completion of construction of said pipeline, Lessee agrees to provide a caliche base road crossing to accommodate vehicles and equipment at all locations where the pipeline crosses existing roads; (3) to stack all trees and brush which are cut from the cleared right-of-way at the time any necessary clearing is performed, so as to leave the cleared right-of-way free of all trees, stumps, brush and debris, except for the stacked vegetation. All brush and other material which is stacked on the right-of-way shall be free of dirt so as to be capable of being burned completely and that no mounds of dirt or debris shall be left on or adjacent to the cleared right-of-way. Any trees, brush or other growth damaged outside the cleared right-of-way shall be removed; (5) following any such construction, repair, removal or other operations, to backfill (in the manner aforesaid), pack and level any such ditch or trench opened and fill, grade and restore the surface of the right-of-way as near as practicable to its original level and contour as when entered upon and in such manner that surface or rain water may pass and flow undisturbed and unimpeded from one side of the right-of-way to the other side of the right-of-way; Lessee's obligation to remove property and fixtures within ninety days (90) days after termination of the lease as provided in Paragraph 2(d) above shall include the obligation in said ninety days (90) day period to commence the removal of all pipelines and to restore the surface to the surface owner's reasonable satisfaction and in compliance with the restoration, reseeding and watering provisions of Paragraph 2(d) above.

(i) Water: Lessee shall have no right to use or take water from the leased premises or from any existing water production well, stock tank, irrigation ditch, river, or stream located on the lease premises; provided, however, that upon Lessor's written consent, Lessee shall have the right to drill, at its sole cost and expense, water wells on the leased premises for use in Lessee's operations thereon other than pressure maintenance or secondary recovery. As compensation for Lessee's production and use of water from any wells drilled or used by Lessee, Lessee shall pay to the owner of the soil the sum of fifty cents (\$0.50) per barrel, or the current rate as reflected in the then current University Lands Rate and Damage Schedule. Prior to drilling any new water wells, Lessee shall advise Lessor of Lessee's intentions, and Lessor and Lessee shall mutually decide upon the location of said water well, taking into consideration the surface use by Lessor and Lessee's needs in conducting its operations on the leased premises. As to any water wells drilled by Lessee on the leased premises, Lessee shall properly register any such water wells with the applicable groundwater conservation district and shall comply with all of such groundwater conservation district's requirements, including reporting requirements, in the use of such well(s). Lessor, upon receiving Lessee's written prior consent, shall have the free use of water from such wells when such water is no longer being used by Lessee in its operations. After cessation of Lessee's use of a water well drilled by Lessee on the leased premises, and prior to the plugging or removing the casing therefrom such water well, Lessee shall tender such water well or wells to Lessor and, if Lessor shall elect to accept same, such water well shall be and become the property of Lessor for no further payment; provided, however, that Lessee shall have the right to use such well or wells at any time during the continuance of this lease in connection with Lessee's operations on the leased premises, and provided further, that Lessor will thereafter assume all risks and obligations attendant to Lessor's ownership and use of said water well or wells. Provided, further, that if Lessor so elects, Lessee shall, at Lessee's sole cost and expense, plug and abandon each water well which surface owner elects not to take over.



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

Inst No. 14-03025
DIANNE O. FLOREZ
COUNTY CLERK
2014 Apr 04 at 02:53 PM
REEVES COUNTY, TEXAS
By: AC Musara Colaneri, DEPUTY

2
File No. 116482
LOASCA
Date Filed: 4/4/14
Jerry E. Patterson, Commissioner
By CH

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
a record in my office this 4th day of April, 2014
at Midland, Texas
Filed for record in my office this 4th day of April, 2014
at 2:53 P.M., under Clerk's File No. 14-03025, to be recorded in the
Records of Reeves County, Texas.
TO CERTIFY WHICH, Witness my hand and official seal at Pecos, Texas
this 4th day of April, 2014.
By Dianne O. Flores
DIANNE O. FLORES, COUNTY CLERK
REEVES COUNTY, TEXAS



MF 116482B

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

ES-0179B

The State of Texas



Austin, Texas

OIL AND GAS LEASE

MF-116482

THIS AGREEMENT is made and entered into this 17th day of March, 2014, between the State of Texas, acting by and through its agent, REDLANDS ROYALTY COMPANY, LLC, represented herein by BancFirst, Agent by and through Farmers National Company, Agent, represented herein by Terry L. Young, Assistant Vice President whose address is 5110 S. YALE AVENUE, SUITE 400, TULSA, OKLAHOMA 74135 said agent herein referred to as the owner of the soil (whether one or more), and BHP BILLITON PETROLEUM PROPERTIES (N.A.), LP formerly known as Petrohawk Properties, LP, whose address is POST OFFICE BOX 22719, HOUSTON, TEXAS 77027-9998 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:

All of the East Half (E/2) of Section 44, Block 57, Township 2, A-2458, T & P RR Co. Survey, Reeves County, Texas, containing 320 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 THOUSAND NINE HUNDRED TWENTY FIVE DOLLARS AND 93/100
Dollars (\$1,925.93)

To the owner of the soil: ONE THOUSAND NINE HUNDRED TWENTY FIVE DOLLARS AND 93/100
Dollars (\$1,925.93)

Total bonus consideration: THREE THOUSAND EIGHT HUNDRED FIFTY ONE DOLLARS AND 86/100
Dollars (\$3,851.86)

The total bonus consideration paid represents a bonus of THREE THOUSAND TWO HUNDRED FIFTY DOLLARS AND 00/100
Dollars (\$3250.00) per acre, on 1.18518519 net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of THREE 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.



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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



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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.



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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

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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.



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Original filed in
Reeves County
Clerks Office

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

STATE OF TEXAS

REDLANDS ROYALTY COMPANY, LLC

By: BancFirst, Its Agent

BY: TERRY L. YOUNG

As Assistant Vice President of Farmers National Company
Agent for BancFirst and as Agent for the State of Texas

Date: _____

LESSEE: BHP BILLITON PETROLEUM PROPERTIES (N.A.), LP

By: BHP Billiton Petroleum Properties (GP), LLC, Its General Partner

BY: STEPHEN L. MAHAYNAY

TITLE: Attorney-in-Fact

Date: 5/1/14

STATE OF TEXAS

(CORPORATION ACKNOWLEDGMENT)

COUNTY OF HARRIS

BEFORE ME, the undersigned authority, on this day personally appeared Stephen L. Mahaynay

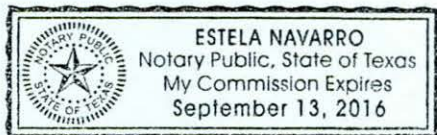
known to me to be the person whose name is subscribed to the foregoing instruments as Attorney-In-Fact

of BHP Billiton Petroleum Properties (GP), LLC, general partner of BHP BILLITON PETROLEUM PROPERTIES (N.A.), 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 1st day of May, 2014.



Estela Navarro
Notary Public in and for the State of Texas

STATE OF OKLAHOMA

(ACKNOWLEDGMENT)

COUNTY OF Tulsa

BEFORE ME, the undersigned authority, on this day personally appeared Terry L. Young known to me to be the person whose name is subscribed to the foregoing instrument as Assistant Vice President of Farmers National Company, as agent for BancFirst, agent of REDLANDS ROYALTY COMPANY, LLC 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 company.

Given under my hand and seal of office this the 27th day of March, 2014.



Julie D. Davis
Notary Public in and for the State of Texas

Inst No. 14-03976
DIANNE O. FLOREZ
COUNTY CLERK
2014 May 06 at 01:43 PM
REEVES COUNTY, TEXAS
By: VG [Signature] DEPUTY
True and Correct
copy of
Original filed in
Reeves County
Clerks Office

File No. 116482

Lease B

Date Filed: 5/21/14

Jerry E. Patterson, Commissioner

By GP

25774

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 14th day of May, 2014, to be recorded in the
Records of Reeves County, Texas.

TO CERTIFY WHICH, witness my hand and official seal at Pecos, Texas
this 14th day of May, 2014.

By Dianne O. Florez Deputy, DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS



resourcing the future
PETROHAWK ENERGY CORPORATION
CONTROLLED DISBURSEMENT
P.O. BOX 22719
HOUSTON, TX 77027-9998

AMEGY BANK N.A.
P.O. BOX 27459
HOUSTON, TEXAS 77227-7459

14709402

14102

03/18/14

PAY TO THE
ORDER OF Texas General Land Office

\$ 173,333.33

One Hundred Seventy-three Thousand Three Hundred Thirty-three and 33/100

DOLLARS

MEMO Bonus for Contract ELS-0179A(GLO)

VOID IF NOT CASHED WITHIN SIX MONTHS OF ISSUE
NON TRANSFERABLE
OWNER CALL CENTER 1-877-511-1443

Sept 2 / 14
AUTHORIZED SIGNATURE

⑈014102⑈

PETROHAWK ENERGY CORPORATION

14102

PETROHAWK ENERGY CORPORATION

14102

14709402

+ 173,333.33
121

bhpbilliton
resourcing the future
PETROHAWK ENERGY CORPORATION
CONTROLLED DISBURSEMENT
P.O. BOX 22719
HOUSTON, TX 77027-9998

AMEGY BANK N.A.
P.O. BOX 27459
HOUSTON, TEXAS 77227-7459

14710396

13997

04/02/14

PAY TO THE
ORDER OF

Texas General Land Office

\$ 50,666.67

Fifty Thousand Six Hundred Sixty-six and 67/100

DOLLARS

MEMO

Bonus for Contract ELS-0179A(GLO)

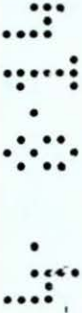
VOID IF NOT CASHED WITHIN SIX MONTHS OF ISSUE
NON TRANSFERABLE
OWNER CALL CENTER 1-877-311-1443

[Signature]
AUTHORIZED SIGNATURE

013997

PETROHAWK ENERGY CORPORATION

13997



X 50,666.67
121
14710396

PETROHAWK ENERGY CORPORATION

13997

bhpbilliton
resourcing the future
PETROHAWK ENERGY CORPORATION
CONTROLLED DISBURSEMENT
P.O. BOX 22719
HOUSTON, TX 77027-9998

AMEGY BANK N.A.
P.O. BOX 27459
HOUSTON, TEXAS 77227-7459

14711459

14004

04/23/14

PAY TO THE
ORDER OF General Land Office State of Texas

\$ 1,925.93

One Thousand Nine Hundred Twenty-five and 93/100

DOLLARS

VOID IF NOT CASHED WITHIN SIX MONTHS OF ISSUE
NON TRANSFERABLE
OWNER CALL CENTER 1-877-311-1443

MEMO

Lease Bonus Contract ELS-01798 pymt 19905

John A. Webb
AUTHORIZED SIGNATURE

⑈014004⑈

PETROHAWK ENERGY CORPORATION

14004

PETROHAWK ENERGY CORPORATION

14004

121

14711459

5674

EXPLORATION LAND SERVICES, LLC

P.O. BOX 52105
LAFAYETTE, LA 70505-2105

IBERIABANK

14710395

4/7/2014

PAY TO THE ORDER OF Texas General Land Office

\$ **125.00

One Hundred Twenty-Five and 00/100*****

DOLLARS

Texas General Land Office
1700 Congress Avenue
Stephen F. Austin Building RM847
Austin, TX 78701

Wah
AUTHORIZED SIGNATURE

MEMO Filing 1 Lease; Processing 1 Tract

⑈005674⑈

EXPLORATION LAND SERVICES, LLC

Texas General Land Office

5674

Date	Type	Reference
4/7/2014	Bill	Filing&ProcessingFee

Original Amt.
125.00

Balance Due
125.00

4/7/2014
Discount

Check Amount

Payment
125.00
125.00

1214710395

Iberia Bank

Filing 1 Lease; Processing 1 Tract

125.00

Drew Reid - Lease Approval - E/2 of Section 44, Block 57-2, Reeves County, Texas

From: "Adam St. Romain" <astromain@explorationland.com>
To: Drew.Reid@GLO.TEXAS.GOV; Drew.Reid@GLO.TEXAS.GOV
Date: 3/13/2014 2:01 PM
Subject: Lease Approval - E/2 of Section 44, Block 57-2, Reeves County, Texas
Attachments: Brennand Executed Lease COPY.pdf

Drew,

Please see the attached concerning an agreement we have with Brennand Lazy H. Ranch to lease their interest in the E/2 of Section 44, Block 57, Township 2, Reeves County, Texas.

Please let me know if you have any questions.

94108 MF-112692 - 3.11.11 - 5yr

3.11.14 ~ 4th yr Rental Due

MF-112096 - Terminated

Adam St. Romain



Post Office Box 52105 2205 West Pinhook Road
 Oil Center Station Suite 200
 Lafayette, LA 70505-2105 Lafayette, LA 70508-15105

Office: 337.234.3500 Fax: 337.234.3525
 Email: astromain@explorationland.com

The information contained in this transmission is legally privileged and confidential. If the reader of this message is not the intended recipient, or the employee or agent responsible to deliver it to the intended recipient, you are hereby notified that any dissemination, distribution or copying of this communication is strictly prohibited. If you have received this transmission in error, please destroy it immediately and notify us by telephone at 337.234.3500.

EXPLORATION LAND SERVICES, LLC

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

March 19, 2014

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

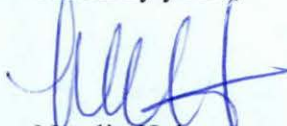
Dear Drew:

Enclosed herewith, please find one (1) check, made payable to the Commissioner of the General Land Office. Also enclosed is a report prepared for you containing a calculated breakdown of the interests and properties the check covers, as well as a copy of the lease that has been executed by the soil owner. A Certified Copy will be submitted upon recordation of said lease. Please sign and date the copy of the check and return it in the enclosed prepaid envelope.

<u>Date</u>	<u>Check No.</u>	<u>Amount</u>
03/18/2014	14102	\$173,333.33

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

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

April 7, 2014

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 Lease
Reeves County, Texas

Dear Drew:

Enclosed herewith, please find one (1) certified copy of an Oil and Gas Lease taken in the name of the State of Texas, in favor of BHP Billiton Petroleum Properties (N.A.), LP, listed as follows:

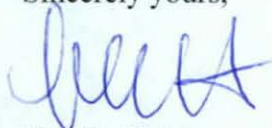
<u>Lease No.</u>	<u>Date</u>	<u>Lessor</u>
ELS-0179A	03/01/2014	Brennand Lazy H Ranch, Ltd.

Also enclosed, please find a check in the amount of \$125.00. This amount covers the filing fees for the lease taken in the name of the State of Texas @ \$25/per lease and the filing fees for the tract listed under said lease @ \$100/tract. This should cover all required fees associated with the above listed lease.

Please be advised that by letter dated March 19, 2014, we sent check number 14102, dated March 18, 2014 in the amount of \$173,333.33 to cover the bonus amount for the above listed lease. Prior to finalizing the lease with the soil owner, a higher bonus per acre was negotiated and we are now submitting a supplemental check to cover the remaining bonus. Enclosed herewith, please find one (1) check, made payable to the Commissioner of the General Land Office in the amount of \$50,666.67 to cover the remaining bonus owed to the state. Also enclosed, please find a revised spreadsheet showing the new bonus amount for said lease.

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

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

May 20, 2014

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 Lease
Reeves County, Texas

Dear Drew:

Enclosed herewith, please find one (1) certified copy of an Oil and Gas Lease taken in the name of the State of Texas, in favor of BHP Billiton Petroleum Properties (N.A.), LP, listed as follows:

<u>Lease No.</u>	<u>Date</u>	<u>Lessor</u>
ELS-0179B	03/17/2014	Redlands Royalty Company, LLC

Also enclosed, please find a check in the amount of \$25.00. This amount covers the filing fees for the lease taken in the name of the State of Texas @ \$25/per lease. Be advised that the fees for the tract listed under ELS-0179B was previously paid by check number 5674, issued April 7, 2014 @ \$100/tract. This should cover all required fees associated with the above listed lease.

Also enclosed, please find one (1) Act of Lease Ratification as follows:

- Act of Lease Ratification for that certain Lease filed under File Number 12-08575 of the Official Public Records of Reeves County, Texas, which was submitted to the GLO on January 2, 2013 (MF112820).

Please sign and return the copy of the check 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

P.O. BOX 52105
LAFAYETTE, LA 70505-2105

IBERIABANK

14712573

5/20/2014

PAY TO THE ORDER OF Texas General Land Office

\$ **25.00

Twenty-Five and 00/100*****

DOLLARS

Texas General Land Office
1700 Congress Avenue
Stephen F. Austin Building RM847
Austin, TX 78701

[Signature]
AUTHORIZED SIGNATURE

MEMO Filing - 1 Lease

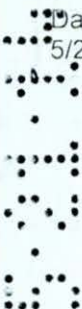
⑈005795⑈

EXPLORATION LAND SERVICES, LLC

5795

Texas General Land Office

Date	Type	Reference	Original Amt.	Balance Due	5/20/2014 Discount	Payment
5/20/2014	Bill	Filing Fee	25.00	25.00		25.00
					Check Amount	25.00



14712573

121
25.00

Iberia Bank Filing - 1 Lease

EXPLORATION LAND SERVICES, LLC

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

April 28, 2014

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

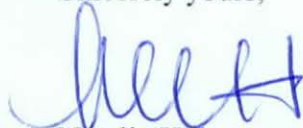
Dear Drew:

Enclosed herewith, please find one (1) check, made payable to the Commissioner of the General Land Office. Also enclosed is a report prepared for you containing a calculated breakdown of the interests and properties the check covers, as well as a copy of the lease that has been executed by the soil owner. A Certified Copy will be submitted upon recordation of said lease. Please sign and date the copy of the check and return it in the enclosed prepaid envelope.

<u>Date</u>	<u>Check No.</u>	<u>Amount</u>
04/23/2014	14004	\$1,925.93

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.

4.23.14

April 23, 2014 REQUEST

SECTION 44, BLOCK 57, TOWNSHIP 2, ABSTRACT 2458, T&P RR CO. SURVEY, REEVES COUNTY, TEXAS

E/2

Lessor	Gross Ac	Interest	Net Ac.	Bonus Per Acre	Bonus to Lessor	Bonus to State	Lease Bonus
REDLANDS ROYALTY COMPANY, LLC	320	1/270	1.18518519	\$3,250.00	\$1,925.93	\$1,925.93	\$3,851.85
TOTALS			1.18518519		\$1,925.93	\$1,925.93	\$3,851.85

Total Amount paid by check	\$1,925.93
----------------------------	------------

MARCH 19, 2014 REQUEST

SECTION 44, BLOCK 57, TOWNSHIP 2, ABSTRACT 2458, T&P RR CO. SURVEY, REEVES COUNTY, TEXAS

E/2

Lessor	Gross Ac	Interest	Net Ac.	Bonus Per Acre	Bonus to Lessor	Bonus to State	Lease Bonus
BRENNAND LAZY H RANCH, LTD.	320	1/3	106.66666667	\$3,250.00	\$173,333.33	\$173,333.33	\$346,666.66
TOTALS			106.66666667		\$173,333.33	\$173,333.33	\$346,666.66

Bonus Paid by Check No. 14102

\$173,333.33

APRIL 7, 2014 UPDATED BONUS PER ACRE

SECTION 44, BLOCK 57, TOWNSHIP 2, ABSTRACT 2458, T&P RR CO. SURVEY, REEVES COUNTY, TEXAS

E/2

Lessor	Gross Ac	Interest	Net Ac.	Bonus Per Acre	Bonus to Lessor	Bonus to State	Lease Bonus
BRENNAND LAZY H RANCH, LTD.	320	1/3	106.66666667	\$4,200.00	\$224,000.00	\$224,000.00	\$448,000.00
TOTALS			106.66666667		\$224,000.00	\$224,000.00	\$448,000.00

Remaining Bonus paid by check number 13997

\$50,666.67



File No. 116482

Casabianca

Date Filed: 3/21/14

Jerry E. Patterson, Commissioner

By (14)

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

June 23, 2014

Micah Strother
BHP Billiton Petroleum
Post Office Box 22719
Houston, Texas 77027

Re: **State Lease MF 116482**

Two RAL leases covering 320 ac., Sec. 44, Blk.
57, T-2, 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. In addition, we are in receipt of your 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

<u>State Lease No.</u>	<u>Lessor as agent for State of TX</u>	<u>Dated</u>	<u>Recorded Vol/Page</u>	<u>Bonus Amount</u>
MF116482A	Brennand Lazy H Ranch	03/01/14	14-03025	\$224,000.00
MF116482B	Redlands Royalty Co.	03/17/14	14-03976	\$1,925.93

File No. 116482

Final Letter

Date Filed: 6/23/14

Jerry E. Patterson, Commissioner

By GP

EXPLORATION LAND SERVICES, LLCP.O. BOX 52105
LAFAYETTE, LA 70505-2105**IBERIABANK**

9/3/2014

PAY TO THE ORDER OF Texas General Land Office

\$ **50.00

Fifty and 00/100*****

DOLLARS

Texas General Land Office
1700 Congress Avenue
Stephen F. Austin Building RM847
Austin, TX 78701

MEMO Filing 2 Leases; Processing 0 Tracts

AUTHORIZED SIGNATURE

⑈006065⑈

EXPLORATION LAND SERVICES, LLC

Texas General Land Office

9/3/2014

6065

Date	Type	Reference	Original Amt.	Balance Due	Discount	Payment
9/3/2014	Bill	Filing Fees	50.00	50.00		50.00
					Check Amount	50.00

Iberia Bank Filing 2 Leases; Processing 0 Tracts 50.00

EXPLORATION LAND SERVICES, LLC

Texas General Land Office

9/3/2014

6065

Date	Type	Reference	Original Amt.	Balance Due	Discount	Payment
9/3/2014	Bill	Filing Fees	50.00	50.00		50.00
					Check Amount	50.00

Iberia Bank Filing 2 Leases; Processing 0 Tracts 50.00

Delaware Basin Leasing

Received By:

5967

EXPLORATION LAND SERVICES, LLC
P.O. BOX 52105
LAFAYETTE, LA 70505-2105

IBERIABANK

14716294

7/29/2014

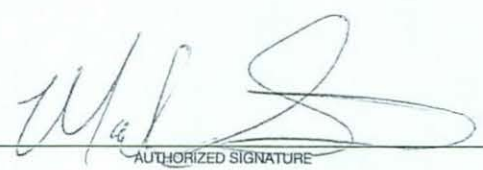
PAY TO THE ORDER OF Texas General Land Office

\$**150.00

One Hundred Fifty and 00/100*****

DOLLARS

Texas General Land Office
1700 Congress Avenue
Stephen F. Austin Building RM847
Austin, TX 78701


AUTHORIZED SIGNATURE

MEMO Filing 2 Leases; Processing 1 Tract

⑈005967⑈

EXPLORATION LAND SERVICES, LLC

5967

Texas General Land Office

Date	Type	Reference	Original Amt.	Balance Due	7/29/2014 Discount	Payment
7/29/2014	Bill	Filing&ProcessingFee	150.00	150.00		150.00
					Check Amount	150.00

\$25.00 to self lease
\$125.00 to William lease

121 14716294

Iberia Bank Filing 2 Leases; Processing 1 Tract 150.00

bhpbilliton
resourcing the future
PETROHAWK ENERGY CORPORATION
CONTROLLED DISBURSEMENT
P.O. BOX 22719
HOUSTON, TX 77027-9998

AMEGY BANK N.A.
P.O. BOX 27459
HOUSTON, TEXAS 77227-7459

14715318

14038

07/01/14

PAY TO THE
ORDER OF General Land Office State of Texas

\$ 198,518.39

One Hundred Ninety-eight Thousand Five Hundred Eighteen and 39/100

DOLLARS

MEMO Bonus Pymt 19952 ELS-0179C(GLO)

VOID IF NOT CASHED WITHIN SIX MONTHS OF ISSUE
NON TRANSFERABLE
OWNER CALL CENTER 1-877-311-1443

AUTHORIZED SIGNATURE

⑈014038⑈

PETROHAWK ENERGY CORPORATION

14038

14715318

14715317

121

PETROHAWK ENERGY CORPORATION

14038

14715733

14902

07/16/14

PAY TO THE
ORDER OF General Land Office State of Texas

\$ 45,629.60

Forty-five Thousand Six Hundred Twenty-nine and 60/100

DOLLARS

MEMO Section 44, Blk 57 T-2

⑈014902⑈

VOID IF NOT CASHED WITHIN SIX MONTHS OF ISSUE
NON TRANSFERABLE
OWNER CALL CENTER 1-877-311-1443

AUTHORIZED SIGNATURE

PETROHAWK ENERGY CORPORATION

14902

PETROHAWK ENERGY CORPORATION

14902

14715733

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 10, 2014

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

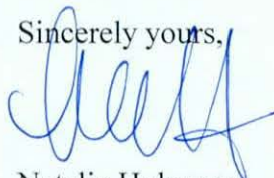
Dear Drew:

Enclosed herewith, please find one (1) check, made payable to the Commissioner of the General Land Office. Also enclosed is a report prepared for you containing a calculated breakdown of the interests and properties the check covers, as well as a copy of the lease that has been executed by the soil owner. A Certified Copy will be submitted upon recordation of said lease. Please sign and date the copy of the check and return it in the enclosed prepaid envelope.

<u>Date</u>	<u>Check No.</u>	<u>Amount</u>
07/01/2014	14038	\$198,518.39

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.

July 1, 2014 REQUEST

SECTION 44, BLOCK 57, TOWNSHIP 2, ABSTRACT 2458, T&P RR CO. SURVEY, REEVES COUNTY, TEXAS

E/2

Lessor	Gross Ac	Interest	Net Ac.	Bonus Per Acre	Bonus to Lessor	Bonus to State	Lease Bonus
Self Children's Management Trust	320	67/288	74.44444444	\$5,333.33	\$198,518.39	\$198,518.39	\$397,036.79
TOTALS			74.44444444		\$198,518.39	\$198,518.39	\$397,036.79

Total Amount paid by check	\$198,518.39
----------------------------	--------------

41.11.2

File No. 116482

6.

Bonus, fees, ltr C+D

Date Filed: 09/04/14

Jerry E. Patterson, Commissioner

By [Signature]

5.11.14

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

ELB-0179C

The State of Texas



Austin, Texas

MF-116482C

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 11th day of June, 2014, between the State of Texas, acting by and through its agent, SELF CHILDREN'S MANAGEMENT TRUST, represented herein by Bank of America N.A., Trustee by and through Larry W. Farris, Senior Vice President whose address is 500 W. 7th STREET, FORT WORTH, TEXAS 76102 said agent herein referred to as the owner of the soil (whether one or more), and BHP BILLITON PETROLEUM PROPERTIES (N.A.) LP whose address is POST OFFICE BOX 22719, HOUSTON, TEXAS 77027-9998 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:

All of the East Half (E/2) of Section 44, Block 57, Township 2, A-2458, T & P RR Co. Survey, Reeves County, Texas, containing 320 acres, more or less

FOR ADDITIONAL TERMS AND PROVISIONS, SEE EXHIBIT "A" ATTACHED HERETO AND MADE A PART HEREOF.

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

To the State of Texas: ONE HUNDRED NINETY EIGHT THOUSAND FIVE HUNDRED EIGHTEEN DOLLARS AND 39/100
Dollars (\$198,518.39)

To the owner of the soil: ONE HUNDRED NINETY EIGHT THOUSAND FIVE HUNDRED EIGHTEEN DOLLARS AND 39/100
Dollars (\$198,518.39)

Total bonus consideration: THREE HUNDRED NINETY SEVEN THOUSAND THIRTY SIX DOLLARS AND 78/100
Dollars (\$397,036.78)

The total bonus consideration paid represents a bonus of FIVE THOUSAND THREE HUNDRED THIRTY THREE DOLLARS AND 33/100
Dollars (\$5,333.33) per acre, on 74.44444444 net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of THREE 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.



Correct
copy of
Original filed in
Reeves County
Clerks Office

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: (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

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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



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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.

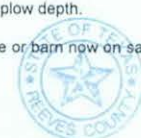
(B) REDUCTION OF PAYMENTS. If, during the primary term, a portion of the land covered by this lease is included within the boundaries of a pooled unit that has been approved by the School Land Board and the owner of the soil in accordance with Natural Resources Code Sections 52.151-52.154, or if, at 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.



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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

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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.



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Clerks Office

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

STATE OF TEXAS

SELF CHILDREN'S MANAGEMENT TRUST

By: Bank of America, N.A., Trustee

Larry W. Farris

BY: LARRY W. FARRIS

As Senior Vice President of Bank of America, N.A.
and as Agent for the State of Texas

Date: 6/16/14

~~LESSOR: BHP BILLITON PETROLEUM PROPERTIES (N.A.), LP~~

By: BHP Billiton Petroleum Properties (GP), LLC, Its General Partner

BY: STEPHEN L. MAHAYNAY

TITLE: Attorney-in-Fact

Date: _____

STATE OF TEXAS

(CORPORATION ACKNOWLEDGMENT)

COUNTY OF HARRIS

BEFORE ME, the undersigned authority, on this day personally appeared Stephen L. Mahaynay
known to me to be the person whose name is subscribed to the foregoing instruments as Attorney-in-Fact
of BHP Billiton Petroleum Properties (GP), LLC, general partner of BHP BILLITON PETROLEUM PROPERTIES (N.A.), 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 _____, 2014.

Notary Public in and for the State of Texas

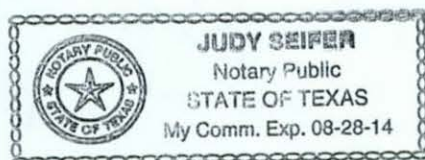
STATE OF TEXAS

(ACKNOWLEDGMENT)

COUNTY OF TARRANT

BEFORE ME, the undersigned authority, on this day personally appeared Larry W. Farris known to me to be the person whose name is
subscribed to the foregoing instrument as Senior Vice President of Bank of America, N.A., Trustee of SELF CHILDREN'S MANAGEMENT TRUST 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 trust.

Given under my hand and seal of office this the 16th day of JUNE, 2014.



Judy Seifer
Notary Public in and for the State of Texas



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Clerks Office

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

STATE OF TEXAS

SELF CHILDREN'S MANAGEMENT TRUST
By: Bank of America, N.A., Trustee

Larry W. Farris
BY: LARRY W. FARRIS
As Senior Vice President of Bank of America, N.A.
and as Agent for the State of Texas

Date: 6/16/14

LESSEE: BHP BILLITON PETROLEUM PROPERTIES (N.A.), LP

By: BHP Billiton Petroleum Properties (GP), LLC, Its General Partner

Stephen L. Mahanay
BY: Stephen L. Mahanay
TITLE: Attorney-in-Fact

Date: 7/24/14

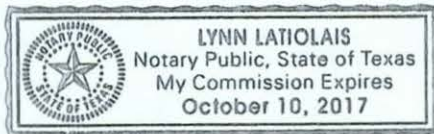
STATE OF TEXAS

(CORPORATION ACKNOWLEDGMENT)

COUNTY OF HARRIS

BEFORE ME, the undersigned authority, on this day personally appeared Stephen L. Mahanay
known to me to be the person whose name is subscribed to the foregoing instruments as Attorney-in-Fact
of BHP Billiton Petroleum Properties (GP), LLC, general partner of BHP BILLITON PETROLEUM PROPERTIES (N.A.), 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 24th day of July, 2014.



Lynn Latiolais
Notary Public in and for the State of Texas

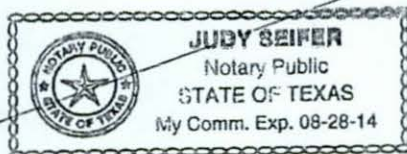
STATE OF TEXAS

(ACKNOWLEDGMENT)

COUNTY OF TARRANT

BEFORE ME, the undersigned authority, on this day personally appeared Larry W. Farris known to me to be the person whose name is
subscribed to the foregoing instrument as Senior Vice President of Bank of America, N.A., Trustee of SELF CHILDREN'S MANAGEMENT TRUST 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 trust.

Given under my hand and seal of office this the 16th day of JUNE, 2014.



Judy Seifer
Notary Public in and for the State of Texas



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EXHIBIT "A"

Attached to and made a part of that certain Oil & Gas Lease dated June 11, 2014 by and between the SELF CHILDREN'S MANAGEMENT TRUST, as Owner of The Soil and Agent for the State of Texas and BHP BILLITON PETROLEUM PROPERTIES (N.A.), LP as Lessee.

1. It is understood and agreed that Lessee, its successor or assigns, shall pay Lessor and/or Surface Lessee for any damage done to crops, pasture land, timber, fences, water wells, buildings, roads, culverts or other improvements as well as livestock owned by the Lessor and/or Surface Lessee located on the Leasehold Estate, resulting from their use by Lessee in connection with geophysical exploration thereof, or other mineral development thereon, by Lessee, its successors or assigns. Upon the cessation of drilling at each well location, the abandonment of said lease or surrender thereof, Lessee, its successor or assigns, shall promptly remove any liner material, level all drilling pits and other excavations and shall pay for and repair any and all damage to buildings, fences, roads, culverts, turf, water wells and/or other improvements and shall restore the same to their original condition within 90 days after the cessation of drilling activity. No drilling mud shall be spread on surface lands of Lessor without the express written consent of Lessor. Extreme care must be taken to reduce the risk of introducing any exotic invasive species of vegetation that are not already present on the Leasehold Estate.
2. Lessee's right to use water from the Leasehold Estate shall not include the right to use fresh water from any fresh water sands or strata underlying the Leasehold Estate for any secondary recovery operations that may be conducted on the Leasehold Estate. Lessee shall have the right to use fresh water from wells or surface impoundment's only with the expressed written permission of the Lessor and after negotiations for payment for use of water are completed.
3. All operations of Lessee shall be conducted so as to minimize the amount of surface land used or damaged by Lessee and Lessee agrees to construct not more than one road to each location on the Leasehold Estate and to confine all travel incident to the drilling and production of such well to the single road. All roads constructed by Lessee shall be of good quality and suitable for all-weather use. The routes for all roads shall be mutually agreed upon between Lessor and Lessee before the commencement of any road construction. Lessee agrees to maintain all roads used by Lessee on the Leasehold Estate in good condition and repair during the period of Lessee's operations on the Leasehold Estate. The surface estate owner(s) shall have the right to use all roads on the Leasehold Estate, whether or not constructed and maintained by Lessee or its designee.
4. It is understood and agreed that this lease does not cover or include any right or privilege of hunting with firearms and/or with dogs or otherwise on the Leasehold Estate or fishing on the Leasehold Estate, unless otherwise agreed to in writing with the owners of said rights; all such hunting and fishing rights being expressly reserved, and Lessee agrees that none of the Lessee's officers, agents employees or representatives will bring any dogs and/or firearms upon the Leasehold Estate, and that any one so doing shall be trespassers and subject to prosecution as such.
5. Prior to erecting or relocating any storage tank(s), pipeline compressor station(s) or other usual facilities required by Lessee for producing oil and gas and operating this lease, Lessee shall advise Surface Estate Owner(s) of Lessee's intention to do so in writing. Lessee's written notice must advise Surface Estate Owner(s) of the proposed location of the facility at least 30 days prior to the onset of construction in order to provide Surface Estate Owner(s) with the opportunity to withhold its consent and to negotiate a change in the proposed location..
6. Lessee, prior to the construction of any new road or the cutting, altering and removal of any existing fence on the Leasehold Estate, or the cutting or removal of any tree on the Leasehold Estate, shall notify Surface Estate Owner(s) of such intention. If Surface Estate Owner(s) can provide valid, reasonable rationale for retaining specific trees or habitat that add meaningful value to the land then Lessee will abide by such wishes as fully as possible. Lessee shall dispose of all brush, trees, trash and debris away from the property. Under no circumstances will trash, garbage or debris be buried or dumped on the property or adjacent lands of lessor. Brush and trees may be buried or burned on the property only with written permission from owner or his representative.
7. Lessee agrees to protect, defend, indemnify and hold harmless the Lessor and the Surface Estate Owner(s) of the Leasehold Estate, and their respective agent, employees and tenants, from and against all liabilities, losses, expenses, claims, demands, and causes of action of every kind and character, whether for death or personal injury to persons (including agents and employees of Lessee and Lessee's subcontractors) for loss or damage to property, in any way and at any time arising out of, incident to, or in connection with this Lease, operations conducted on the Leasehold Estate, or breach of the terms hereof, regardless of whether any such liability, loss, expenses, claim, demand or cause of action is based on the sole or concurrent negligence of any party indemnified hereunder.
8. Each location constructed by Lessee on Leasehold Estate shall be constructed so as to result in the least interference with surface usage as reasonably practicable under the circumstances. All pits shall be constructed and lined so as not to pollute the adjoining land. Lessee shall take all reasonable precautions necessary to prevent land, air and water pollution, including pollution to all underground fresh water zones. All locations constructed by Lessee on the Leasehold Estate must be fenced per the standard outlined in the Surface Use Agreement unless otherwise agreed upon in writing. All tank batteries must be surrounded by spill prevention berms that can accommodate at least 1 ½ times the volume of the tanks. Load line containment systems must be installed and properly maintained on all tanks to prevent environmental contamination when connecting and disconnecting from trucks. Stuffing box containment systems need to be installed and properly maintained on all pumpjacks to prevent environmental damage resulting from seal failures. Lessee shall collect all trash which accumulates in connection with his operations and remove such

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trash from the Leasehold Estate. Lessee shall take all reasonable precautions to prevent blowouts from occurring on the Leasehold Estate.

9. Lessee shall utilize only such area around each producing well as is reasonably necessary for such purposes, and Lessee shall restore the remainder of such drill site to its original condition as nearly as possible within ninety (90) days after the completion of exploration operations. On each drill site where no producing well is located, Lessee shall clear the location, remove all equipment placed upon the drill site by the Lessee, clean out and back fill all pits, and return the surface of the drill site to its original condition as nearly as possible. Reclamation of abandoned sites must include revegetation with native grass and forb species that have historically been found in the region. All reclamation plans including site preparation and the revegetation seed mix must be pre-approved in writing by the Surface Estate Owner(s) prior to the initiation of any reclamation activities.
10. Lessee shall construct and maintain gates at all places where any roads used by Lessee cross through fences on the Leasehold Estate, and Lessee shall keep such gates locked when not actually passing through such gates.
11. Upon termination of Lessee's operations on the Leasehold Estate, Lessee shall restore the surface of all lands utilized by Lessee, and not theretofore restored, to their original condition as nearly as possible. Within three (3) months after the termination of this Lease, Lessee shall remove any and all property placed by Lessee on the Leasehold Estate or Lessor and Surface Estate Owner shall cause same to be removed at Lessee's expense.
12. Lessee shall comply with all Federal and State regulations.
13. Lessee agrees to pay for damages resulting from any operations after initial construction/drilling is completed. Lessee shall pay market value for any and all livestock lost as a result of Lessee's operations under this lease.
14. All pipelines are to be buried 36 inches below the ground in rangeland and 48 inches below the ground in cultivated areas, which will be from the top of the pipe to the surface of the ground, unless otherwise agreed to in writing with the Lessor and Surface Estate Owner(s).
15. Only crude oil and natural gas (no other derivatives) will be allowed to be transported through any pipelines located on the property, unless otherwise agreed to in writing with the Lessor and Surface Estate Owner(s).
16. Lessee shall not conduct any operations within one thousand two hundred and fifty (1250) feet of any homestead, living quarters or livestock watering facilities without the express consent of Lessor.
17. Lessee hereby acknowledges that if the Leasehold Estate are subject to a Crop Reserve Program. Lessee agrees to compensate Lessor fully and completely for any penalty or other loss of subsidy or income that Lessor would otherwise receive in the absence of Lessee's activities or those of Lessee's employees, agents, servants, contractors, licensees or permittees on the Leasehold Estate.
18. It is understood and agreed that any surface damages related to the production of minerals held by this lease shall be divided and paid one-half (1/2) to the State of Texas and one-half (1/2) to the Surface Estate Owner(s). However, if the surface damages are not related to the production of minerals held by this lease, one hundred percent (100%) of the damages are to be paid to the Surface Estate Owner(s).
19. Lessee's right to the use of the surface of the Leasehold Estate in non-exclusive. Without limiting the generality of the foregoing, the Surface Estate Owner(s) may use, or permit third parties to use, the Leasehold Estate for the surface location of wells bottomed or with their terminus on other lands so long as such wells do not violate applicable spacing regulations and are not perforated in or otherwise open to producing formations directly under the Leasehold Estate. The owner(s) of the surface estate shall have the right, as between the the Surface Estate Owner(s) and Lessee, to allow third parties to conduct geophysical operations on the Leasehold Estate.
20. Lessee agrees to meet and escort the Surface Estate Owner(s) once per year to the Leasehold Estate so that an annual inspection can be performed. Advance notice of no less than seven (7) days will be given prior to the date of inspection.
21. Parties in Interest. Lessee represents that he/she is not an officer, director, or employee of Bank of America Corporation, Bank of America, N.A., or any of its affiliates and/or subsidiaries, nor is Lessee acting on behalf of any such officer, director, or employee.

Signed for Identification only.

SELF CHILDREN'S MANAGEMENT TRUST

By: Bank of America, Trustee

Larry W. Farris
LARRY W. FARRIS

Senior Vice President of Bank of America

Inst No. 14-06696
DIANNE O. FLOREZ
COUNTY CLERK

2014 Jul 28 at 02:15 PM

REEVES COUNTY, TEXAS

By: VG *[Signature]* DEPUTY

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



41.05.7

7,

File No. 116482

lease C

Date Filed: 07/30/14
Jerry E. Patterson, Commissioner

By _____

THE STATE OF TEXAS

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 21st day of July, 2014, under Clerk's File No. 14-00000000-0000 at

Records of Reeves County, Texas.

TO CERTIFY WHICH, Witness my hand and official seal at Pecos, Texas this 30th day of July, 2014.

By Dianne O. Florez, Deputy, DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

5.30.74

MF-116482D.

ELS-0179D

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

The State of Texas



Austin, Texas

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 11th day of June, 2014, between the State of Texas, acting by and through its agent, HENKE PETROLEUM CORPORATION, represented herein by Terry L. Toole, President whose address is 1421 E. 45th STREET, SHAWNEE OKLAHOMA 74804 said agent herein referred to as the owner of the soil (whether one or more), and BHP BILLITON PETROLEUM PROPERTIES (N.A.), LP whose address is POST OFFICE BOX 22719, HOUSTON, TEXAS 77027-9998 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:

All of the East Half (E/2) of Section 44, Block 57, Township 2, A-2458, T & P RR Co. Survey, Reeves County, Texas, containing 320 acres, more or less

FOR ADDITIONAL TERMS AND PROVISIONS, SEE EXHIBIT "A" ATTACHED HERETO AND MADE A PART HEREOF.

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

To the State of Texas: FORTY FIVE THOUSAND SIX HUNDRED TWENTY NINE DOLLARS AND 60/100
Dollars (\$45,629.60)

To the owner of the soil: FORTY FIVE THOUSAND SIX HUNDRED TWENTY NINE DOLLARS AND 60/100
Dollars (\$45,629.60)

Total bonus consideration: NINETY ONE THOUSAND TWO HUNDRED FIFTY NINE DOLLARS AND 20/100
Dollars (\$91,259.20)

The total bonus consideration paid represents a bonus of FIVE THOUSAND THREE HUNDRED THIRTY THREE DOLLARS AND 33/100
Dollars (\$5,333.33) per acre, on 17.11111111 net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of THREE 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.



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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: **(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



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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.

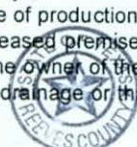
11. DRY HOLE/CESSATION OF PRODUCTION DURING PRIMARY TERM. If, during the primary term hereof and prior to discovery and production of oil or gas on said land, Lessee should drill a dry hole or holes thereon, or if during the primary term hereof and after the discovery and actual production of oil or 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



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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.



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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.

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instrument filed in
Reeves County
Clerks Office

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.



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

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

STATE OF TEXAS

HENKE PETROLEUM CORPORATION

BY: Terry L. Toole

As President and as Agent for the State of Texas

Date: July 1, 2014

LESSEE: BHP BILLITON PETROLEUM PROPERTIES (N.A.), LP

By: BHP Billiton Petroleum Properties (GP), LLC, Its General Partner

BY: Stephen L. Mahaynay

TITLE: Attorney-in-Fact

Date: _____

STATE OF TEXAS

(CORPORATION ACKNOWLEDGMENT)

COUNTY OF HARRIS

BEFORE ME, the undersigned authority, on this day personally appeared Stephen L. Mahaynay known to me to be the person whose name is subscribed to the foregoing instruments as Attorney-In-Fact of BHP Billiton Petroleum Properties (GP), LLC, general partner of BHP BILLITON PETROLEUM PROPERTIES (N.A.), 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 _____, 2014.

Notary Public in and for the State of Texas

STATE OF OKLAHOMA

(ACKNOWLEDGMENT)

COUNTY OF Pottawatomie

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

Given under my hand and seal of office this the 1ST day of July, 2014.

Notary Public in and for the State of Oklahoma



expiring September 10, 2017



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Reeves County
Clerks Office

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

STATE OF TEXAS
HENKE PETROLEUM CORPORATION

BY: TERRY L. TOOLE
As President and as Agent for the State of Texas

Date: _____

LESSEE: BHP BILLITON PETROLEUM PROPERTIES (N.A.), LP
By: BHP Billiton Petroleum Properties (GP), LLC, Its General Partner

BY: Stephen L. Mahanay
TITLE: Attorney-in-Fact

Date: 8/26/14

STATE OF TEXAS
COUNTY OF HARRIS

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Stephen L. Mahanay
known to me to be the person whose name is subscribed to the foregoing instruments as Attorney-In-Fact
of BHP Billiton Petroleum Properties (GP), LLC, general partner of BHP BILLITON PETROLEUM PROPERTIES (N.A.), 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 26th day of August, 2014.



Lynn Latolais
Notary Public in and for the State of Texas

STATE OF OKLAHOMA
COUNTY OF _____

(ACKNOWLEDGMENT)

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

Given under my hand and seal of office this the _____ day of _____, 2014.

Notary Public in and for the State of Oklahoma



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EXHIBIT "A"

Attached to and made a part of that certain Oil & Gas Lease dated June 11, 2014 by and between the HENKE PETROLEUM CORPORATION, as Owner of The Soil and Agent for the State of Texas and BHP BILLITON PETROLEUM PROPERTIES (N.A.), LP as Lessee.

1. It is understood and agreed that Lessee, its successor or assigns, shall pay Lessor and/or Surface Lessee for any damage done to crops, pasture land, timber, fences, water wells, buildings, roads, culverts or other improvements as well as livestock owned by the Lessor and/or Surface Lessee located on the Leasehold Estate, resulting from their use by Lessee in connection with geophysical exploration thereof, or other mineral development thereon, by Lessee, its successors or assigns. Upon the cessation of drilling at each well location, the abandonment of said lease or surrender thereof, Lessee, its successor or assigns, shall promptly remove any liner material, level all drilling pits and other excavations and shall pay for and repair any and all damage to buildings, fences, roads, culverts, turf, water wells and/or other improvements and shall restore the same to their original condition within 90 days after the cessation of drilling activity. No drilling mud shall be spread on surface lands of Lessor without the express written consent of Lessor. Extreme care must be taken to reduce the risk of introducing any exotic invasive species of vegetation that are not already present on the Leasehold Estate.
2. Lessee's right to use water from the Leasehold Estate shall not include the right to use fresh water from any fresh water sands or strata underlying the Leasehold Estate for any secondary recovery operations that may be conducted on the Leasehold Estate. Lessee shall have the right to use fresh water from wells or surface impoundment's only with the expressed written permission of the Lessor and after negotiations for payment for use of water are completed.
3. All operations of Lessee shall be conducted so as to minimize the amount of surface land used or damaged by Lessee and Lessee agrees to construct not more than one road to each location on the Leasehold Estate and to confine all travel incident to the drilling and production of such well to the single road. All roads constructed by Lessee shall be of good quality and suitable for all-weather use. The routes for all roads shall be mutually agreed upon between Lessor and Lessee before the commencement of any road construction. Lessee agrees to maintain all roads used by Lessee on the Leasehold Estate in good condition and repair during the period of Lessee's operations on the Leasehold Estate. The surface estate owner(s) shall have the right to use all roads on the Leasehold Estate, whether or not constructed and maintained by Lessee or its designee.
4. It is understood and agreed that this lease does not cover or include any right or privilege of hunting with firearms and/or with dogs or otherwise on the Leasehold Estate or fishing on the Leasehold Estate, unless otherwise agreed to in writing with the owners of said rights; all such hunting and fishing rights being expressly reserved, and Lessee agrees that none of the Lessee's officers, agents employees or representatives will bring any dogs and/or firearms upon the Leasehold Estate, and that any one so doing shall be trespassers and subject to prosecution as such.
5. Prior to erecting or relocating any storage tank(s), pipeline compressor station(s) or other usual facilities required by Lessee for producing oil and gas and operating this lease, Lessee shall advise Surface Estate Owner(s) of Lessee's intention to do so in writing. Lessee's written notice must advise Surface Estate Owner(s) of the proposed location of the facility at least 30 days prior to the onset of construction in order to provide Surface Estate Owner(s) with the opportunity to withhold its consent and to negotiate a change in the proposed location..
6. Lessee, prior to the construction of any new road or the cutting, altering and removal of any existing fence on the Leasehold Estate, or the cutting or removal of any tree on the Leasehold Estate, shall notify Surface Estate Owner(s) of such intention. If Surface Estate Owner(s) can provide valid, reasonable rationale for retaining specific trees or habitat that add meaningful value to the land then Lessee will abide by such wishes as fully as possible. Lessee shall dispose of all brush, trees, trash and debris away from the property. Under no circumstances will trash, garbage or debris be buried or dumped on the property or adjacent lands of lessor. Brush and trees may be buried or burned on the property only with written permission from owner or his representative.
7. Lessee agrees to protect, defend, indemnify and hold harmless the Lessor and the Surface Estate Owner(s) of the Leasehold Estate, and their respective agent, employees and tenants, from and against all liabilities, losses, expenses, claims, demands, and causes of action of every kind and character, whether for death or personal injury to persons (including agents and employees of Lessee and Lessee's subcontractors) for loss or damage to property, in any way and at any time arising out of, incident to, or in connection with this Lease, operations conducted on the Leasehold Estate, or breach of the terms hereof, regardless of whether any such liability, loss, expenses, claim, demand or cause of action is based on the sole or concurrent negligence of any party indemnified hereunder.
8. Each location constructed by Lessee on Leasehold Estate shall be constructed so as to result in the least interference with surface usage as reasonably practicable under the circumstances. All pits shall be constructed and lined so as not to pollute the adjoining land. Lessee shall take all reasonable precautions necessary to prevent land, air and water pollution, including pollution to all underground fresh water zones. All locations constructed by Lessee on the Leasehold Estate must be fenced per the standard outlined in the Surface Use Agreement unless otherwise agreed upon in writing. All tank batteries must be surrounded by spill prevention berms that can accommodate at least 1 ½ times the volume of the tanks. Load line containment systems must be installed and properly maintained on all tanks to prevent environmental contamination when connecting and disconnecting from trucks. Stuffing box containment systems need to be installed and properly maintained on all pumpjacks to prevent environmental damage resulting from seal failures. Lessee shall collect all trash which accumulates in connection with his operations and remove such



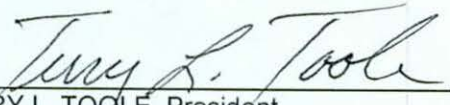
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Original filed in
Reeves County
Office

trash from the Leasehold Estate. Lessee shall take all reasonable precautions to prevent blowouts from occurring on the Leasehold Estate.

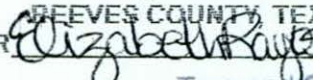
9. Lessee shall utilize only such area around each producing well as is reasonably necessary for such purposes, and Lessee shall restore the remainder of such drill site to its original condition as nearly as possible within ninety (90) days after the completion of exploration operations. On each drill site where no producing well is located, Lessee shall clear the location, remove all equipment placed upon the drill site by the Lessee, clean out and back fill all pits, and return the surface of the drill site to its original condition as nearly as possible. Reclamation of abandoned sites must include revegetation with native grass and forb species that have historically been found in the region. All reclamation plans including site preparation and the revegetation seed mix must be pre-approved in writing by the Surface Estate Owner(s) prior to the initiation of any reclamation activities.
10. Lessee shall construct and maintain gates at all places where any roads used by Lessee cross through fences on the Leasehold Estate, and Lessee shall keep such gates locked when not actually passing through such gates.
11. Upon termination of Lessee's operations on the Leasehold Estate, Lessee shall restore the surface of all lands utilized by Lessee, and not theretofore restored, to their original condition as nearly as possible. Within three (3) months after the termination of this Lease, Lessee shall remove any and all property placed by Lessee on the Leasehold Estate or Lessor and Surface Estate Owner shall cause same to be removed at Lessee's expense.
12. Lessee shall comply with all Federal and State regulations.
13. Lessee agrees to pay for damages resulting from any operations after initial construction/drilling is completed. Lessee shall pay market value for any and all livestock lost as a result of Lessee's operations under this lease.
14. All pipelines are to be buried 36 inches below the ground in rangeland and 48 inches below the ground in cultivated areas, which will be from the top of the pipe to the surface of the ground, unless otherwise agreed to in writing with the Lessor and Surface Estate Owner(s).
15. Only crude oil and natural gas (no other derivatives) will be allowed to be transported through any pipelines located on the property, unless otherwise agreed to in writing with the Lessor and Surface Estate Owner(s).
16. Lessee shall not conduct any operations within one thousand two hundred and fifty (1250) feet of any homestead, living quarters or livestock watering facilities without the express consent of Lessor.
17. Lessee hereby acknowledges that if the Leasehold Estate are subject to a Crop Reserve Program. Lessee agrees to compensate Lessor fully and completely for any penalty or other loss of subsidy or income that Lessor would otherwise receive in the absence of Lessee's activities or those of Lessee's employees, agents, servants, contractors, licensees or permittees on the Leasehold Estate.
18. It is understood and agreed that any surface damages related to the production of minerals held by this lease shall be divided and paid one-half (1/2) to the State of Texas and one-half (1/2) to the Surface Estate Owner(s). However, if the surface damages are not related to the production of minerals held by this lease, one hundred percent (100%) of the damages are to be paid to the Surface Estate Owner(s).
19. Lessee's right to the use of the surface of the Leasehold Estate in non-exclusive. Without limiting the generality of the foregoing, the Surface Estate Owner(s) may use, or permit third parties to use, the Leasehold Estate for the surface location of wells bottomed or with their terminus on other lands so long as such wells do not violate applicable spacing regulations and are not perforated in or otherwise open to producing formations directly under the Leasehold Estate. The owner(s) of the surface estate shall have the right, as between the the Surface Estate Owner(s) and Lessee, to allow third parties to conduct geophysical operations on the Leasehold Estate.
20. Lessee agrees to meet and escort the Surface Estate Owner(s) once per year to the Leasehold Estate so than an annual inspection can be performed. Advance notice of no less than seven (7) days will be given prior to the date of inspection.

Signed for Identification only.

HENKE PETROLEUM CORPORATION


TERRY L. TOOLE, President

THE STATE OF TEXAS
COUNTY OF HENKES
I, Dianne O. Florez, Clerk of the County Court in and for the County of Henkes, Texas, do hereby certify that the foregoing is a true and correct copy of the original of the same as the same is on file in my office and is a true and correct copy of the same as the same is on file in my office.

Inst No. 14-07907
DIANNE O. FLOREZ
COUNTY CLERK
2014 Aug 28 at 04:10 PM
HENKES COUNTY, TEXAS
By: ER  DEPUTY
True and Correct
copy of
Original filed in
Henkes County



6.
File No. 116482

Lease D

8. Date Filed: 09/04/14
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

Oil & Gas Lease dated 6-11-14

Filed for record in my office this 28th day of August at 4:00 P.M.

under Clerk's File No. 14-07907, to be recorded in the

Official Public Records

Records of Reeves County, Texas.

TO CERTIFY WHICH, Witness my hand and official seal at Pecos, Texas

this 28th day of August, 20 14.

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

bhpbilliton
resourcing the future
PETROHAWK ENERGY CORPORATION
CONTROLLED DISBURSEMENT
P.O. BOX 22719
HOUSTON, TX 77227-9927

AMEGY BANK N.A.
P.O. BOX 27459
HOUSTON, TEXAS 77227-7459

35-1058/1131
89

15711274

16521

04/23/15

PAY TO THE ORDER OF General Land Office State of Texas

\$ 888.89

Eight Hundred Eighty-eight and 89/100

DOLLARS

VOID IF NOT CASHED WITHIN SIX MONTHS OF ISSUE
NON TRANSFERABLE
OWNER CALL CENTER 1-877-311-1443

MEMO

P2 Cost 562 OGL 3/27/2015 Tier: Java

[Signature]
AUTHORIZED SIGNATURE

016521

PETROHAWK ENERGY CORPORATION

16521

MF. 116482 E

PETROHAWK ENERGY CORPORATION

16521

15711274

+ 888.89
121

EXPLORATION LAND SERVICES, LLC

4021-B Ambassador Caffery Pkwy, Suite 200, Lafayette, Louisiana 70503-5281 • Phone: 337.234.3500 • Fax: 337.234.3525 • Email: contact@explorationland.com

April 28, 2015

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 Lease
Section 44, Block 57, Township 2
Reeves County, Texas

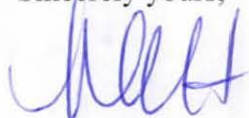
Dear Drew:

Enclosed herewith, please find one (1) check, made payable to the Commissioner of the General Land Office. Also enclosed is a report prepared for you containing a calculated breakdown of the interest and property the check covers, as well as a copy of the lease that has been executed by the soil owner. A certified copy will be submitted upon recordation of said lease. Please sign and date the copy of the check and return in the enclosed prepaid envelope.

<u>Date</u>	<u>Check No.</u>	<u>Amount</u>	<u>Lessor</u>
04/23/2015	16521	\$888.89	The Fitz-Gerald First Restated Trust

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

Sincerely yours,



Natalie Holeman

encl.

APRIL 27, 2015 BONUS SUBMITTAL

E/2 OF SECTION 44, BLOCK 57, TOWNSHIP 2, ABSTRACT 2458, 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	Check No.
The Fitz-Gerald First Restated Trust UTA dated December 26, 2001	320	1/540	0.59259259	\$3,000.00	\$888.89	\$888.89	\$1,777.78	16521
TOTALS			0.59259259		\$888.89	\$888.89	\$1,777.78	

Total Amount paid by check	\$888.89
----------------------------	----------

91.004

EXPLORATION LAND SERVICES, LLC4021-B AMBASSADOR CAFFERY PARKWAY, SUITE 200
LAFAYETTE, LA 70503
(337) 234-3500**IBERIABANK**

84-7041-2652

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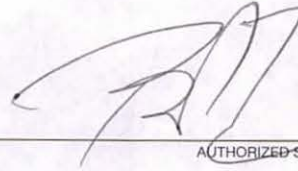
5/6/2015

PAY TO THE ORDER OF Texas General Land Office

\$ **25.00

Twenty-Five and 00/100*****

DOLLARS

Texas General Land Office
1700 Congress Avenue
Stephen F. Austin Building RM847
Austin, TX 78701

AUTHORIZED SIGNATURE

MEMO Recording Fees

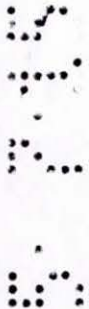
⑈006778⑈

EXPLORATION LAND SERVICES, LLC

Texas General Land Office

6778

Date	Type	Reference	Original Amt.	Balance Due	5/6/2015 Discount	Payment
5/6/2015	Bill	Recording Fees	25.00	25.00		25.00
					Check Amount	25.00

121
15711616

Iberia Bank

Recording Fees

X 25.00

EXPLORATION LAND SERVICES, LLC

4021-B Ambassador Caffery Pkwy, Suite 200, Lafayette, Louisiana 70503-5281 • Phone: 337.234.3500 • Fax: 337.234.3525 • Email: contact@explorationland.com

May 6, 2015

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 Lease
Section 44, Blk 57, T-2, T&P Ry Co. Survey
Reeves County, Texas

Dear Drew:

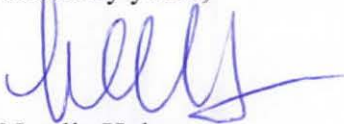
Enclosed herewith, please find one (1) certified copy of an Oil and Gas Lease taken in the name of the State of Texas, in favor of BHP Billiton Petroleum Properties (N.A.), LP, listed as follows:

<u>Lease No.</u>	<u>Date</u>	<u>Lessor</u>
ELS-0238	03/27/2015	The Fitz-Gerald First Restated Trust UTA dated 12/26/2001

Also enclosed, please find a check in the amount of \$25.00. This amount covers the filing fees for the leases taken in the name of the State of Texas @ \$25/per lease. Be advised that the fees for the tract listed on said lease were previously paid by check number 5674, issued April 7, 2014 @ \$100/per tract. This should cover all required fees associated with the above listed lease.

Please sign and return the copy of the check to me in the enclosed prepaid envelope. I trust you will not hesitate to call me with any questions that you may have concerning this matter.

Sincerely yours,



Natalie Holeman

encl.

File No. 116482

_____ County

Ltr, bonus, fees - E

Date Filed: 04/29/15

George P. Bush, Commissioner

By [Signature]

2. 1.42

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.

ELS-0238

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

The State of Texas



M.F. 116482E Austin, Texas

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 27th day of March, 2015, between the State of Texas, acting by and through its agent, Erin Fitz-Gerald, as Trustee of THE FITZ-GERALD FIRST RESTATED TRUST UTA DATED DECEMBER 26, 2001 whose address is 2912 CALLE GRANDE NW, ALBUQUERQUE, NEW MEXICO 87104 said agent herein referred to as the owner of the soil (whether one or more), and BHP BILLITON PETROLEUM PROPERTIES (N.A.), LP whose address is POST OFFICE BOX 22719, HOUSTON, TEXAS 77027-9998 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:

All of the East Half (E/2) of Section 44, Block 57, Township 2, A-2458, T & P RR Co. Survey, Reeves County, Texas, containing 320 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: EIGHT HUNDRED EIGHTY EIGHT DOLLARS AND 89/100
Dollars (\$888.89)

To the owner of the soil: EIGHT HUNDRED EIGHTY EIGHT DOLLARS AND 89/100
Dollars (\$888.89)

Total bonus consideration: ONE THOUSAND SEVEN HUNDRED SEVENTY SEVEN DOLLARS AND 78/100
Dollars (\$1,777.78)

The total bonus consideration paid represents a bonus of THREE THOUSAND DOLLARS AND 00/100
Dollars (\$3000.00) per acre, on 0.59259259 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.



TRUE & CORRECT
COPY OF
ORIGINAL FILED IN
REEVES COUNTY
CLERKS OFFICE

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: **(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.

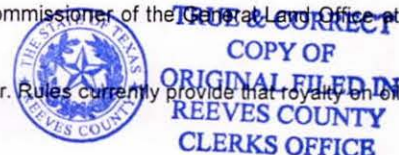
6. **ROYALTY IN KIND.** Notwithstanding any other provision in this lease, at any time or from time to time, the owner of the soil or the Commissioner of the General Land Office may, at the option of either, upon not less than sixty (60) days notice to the holder of the lease, require that the payment 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.

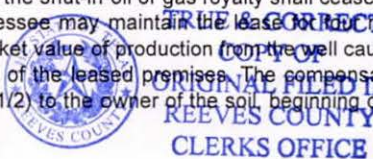
11. DRY HOLE/CESSATION OF PRODUCTION DURING PRIMARY TERM. If, during the primary term hereof and prior to discovery and production of oil or gas on said land, Lessee should drill a dry hole or holes thereon, or if during the primary term hereof and after the discovery and actual production of oil or 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 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.

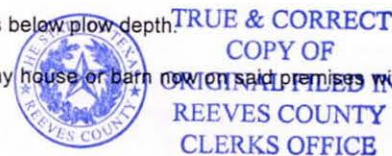
(B) REDUCTION OF PAYMENTS. If, during the primary term, a portion of the land covered by this lease is included within the boundaries of a pooled unit that has been approved by the School Land Board and the owner of the soil in accordance with Natural Resources Code Sections 52.151-52.154, or if, at 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 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



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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 PROVISION - #40

40. DELAY RENTALS. As stipulated in Paragraph #3 of this lease, the rentals for this lease have been PAID-UP for the second (2nd) and third (3rd) years of the primary term hereof. Lessee or its assigns shall have the right to keep this lease in force and effect for the fourth (4th) and fifth (5th) years of the primary term provided for herein by tendering a payment of three thousand dollars (\$3,000.00) per net acre, such payment to be divided equally between the State of Texas and the owner of the soil and made prior to March 27, 2018, as to any acreage covered hereby and not otherwise being maintained by any other provision herein at such time.



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

STATE OF TEXAS

THE FITZ-GERALD FIRST RESTATED TRUST UTA
DATED DECEMBER 26, 2001

LESSEE: BHP BILLITON PETROLEUM PROPERTIES (N.A.), LP

By: BHP Billiton Petroleum Properties (GP), LLC, Its General Partner

BY: ERIN FITZ-GERALD
As Trustee and as Agent for the State of Texas

BY: STEPHEN L. MAHANAY
TITLE: Attorney-in-Fact

Date: 4/3/2015

Date: 4/29/15

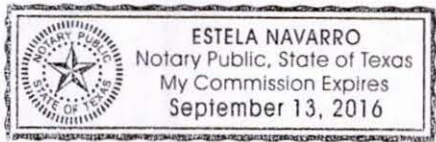
STATE OF TEXAS

(CORPORATION ACKNOWLEDGMENT)

COUNTY OF HARRIS

BEFORE ME, the undersigned authority, on this day personally appeared Stephen L. Mahanay
known to me to be the person whose name is subscribed to the foregoing instruments as Attorney-In-Fact
of BHP Billiton Petroleum Properties (GP), LLC, general partner of BHP BILLITON PETROLEUM PROPERTIES (N.A.), 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 29 day of April, 2015.



Estela Navarro
Notary Public in and for the State of Texas

STATE OF NEW MEXICO

(ACKNOWLEDGMENT)

COUNTY OF Bernalillo

BEFORE ME, the undersigned authority, on this day personally appeared Erin Fitz-Gerald, known to me to be the person whose name is
subscribed to the foregoing instrument as Trustee of THE FITZ-GERALD FIRST RESTATED TRUST UTA, DATED DECEMBER 26, 2001 and
acknowledged to me that she executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this the 3 day of April, 2015.



OFFICIAL SEAL
CARONA L GURULE
NOTARY PUBLIC-STATE of New Mexico

My Commission Expires 4-24-18

Carona L Gurule
Notary Public in and for the State of New Mexico

THIS STATE OF TEXAS
COUNTY OF HARRIS
I, Dianne O. Florez, Clerk of the County Court, do hereby certify that the foregoing is a true and correct copy of
the original instrument as the same was filed for record in my office on this day of
April, 2015, at the County Clerk's Office.
Dianne O. Florez, County Clerk
Records of Bernalillo County, New Mexico
FILED
APR 29 2015
COUNTY CLERK'S OFFICE
BERNALILLO COUNTY, NEW MEXICO

Inst No. 15-03771
DIANNE O. FLOREZ
COUNTY CLERK

2015 May 01 at 03:45 PM
REEVES COUNTY, TEXAS

By: ERIN FITZ-GERALD DEPUTY



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COPY OF
ORIGINAL FILED IN
REEVES COUNTY
CLERKS OFFICE

File No. 116 482

County
Lease E
Date Filed: 05/07/15
George P. Bush, Commissioner
By [Signature]

2. 472

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 13th day of May at
3:45 PM, under Clerk's File No. 15-0311, to be recorded in the
Official Public Records
Records of Reeves County, Texas.
this 1st day of May, 2015.
By [Signature] Deputy.
DIANNE O. FLORES, COUNTY CLERK
REEVES COUNTY, TEXAS

RAL REVIEW SHEET

Working File #: RAL168599

MF:

Lessor: Margaret S. Shockley Trust

Lease Date: 04/27/2016

UI: Yes

Lessee: BHP Billiton Petroleum Properties
(N.A.), LP

Gross Acres: 320.00

Net Acres: 6.67

LEASE DESCRIPTION

County	Control #	Base File No	Part	Sec	Block	Twp	Survey	Abst No
Reeves	07-109023	094108	E/2	44	57	2-S	T & P Ry Co	2458

TERMS OFFERED

Primary Term:	3 Years			
Bonus / Acre:	\$3,000.00			
Rental / Acre:	2nd Yr	3rd Yr	4th Yr	5th Yr
	0.00	0.00		
Royalty	0.250000			

TERMS RECOMMENDED

Primary Term:	3 Years			
Bonus / Acre:	\$3,000.00			
Rental / Acre:	2nd Yr	3rd Yr	4th Yr	5th Yr
	0.00	0.00		
Royalty	0.250000			

COMPARISONS

Lease No	Lessee	Lease Date	Primary Term	Bonus/Acre	Rental/Acre	Royalty	Distance
----------	--------	------------	--------------	------------	-------------	---------	----------

Comments:

paid up

Approved:

DR 5-16-16

RELINQUISHMENT ACT LEASE APPLICATION

Texas General Land Office

George P. Bush, Commissioner

TO: George P. Bush, Commissioner
Anne Idsal, Chief Clerk
Mark Havens, General Counsel

FROM: Robert Hatter, Energy

Applicant: BHP Billiton Petroleum Properties (N.A.), LP County: Reeves
Prim. Term: 3 Years Bonus/Acre: \$3,000.00
Royalty: 0.25000000
Rental/Acre 2nd Yr: \$0.00 3rd Yr: \$0.00 4th Yr: \$0.00 5th Yr: \$0.00

Terms & Consideration

Recommended: RJA

Date: 5/19/16

Not Recommended: _____

Comments: paid up

Mark Havens, General Counsel

Recommended: DS MH

Date: 5/26/2016

Not Recommended: _____

Anne Idsal, Chief Clerk

Approved: DS ALI

Date: 5/27/2016

Not Approved: _____

George P. Bush, Commissioner

Approved: DS GPB

Date: 5/27/2016

Not Approved: _____

File No. 116482

County

RAL Review- Lease F

Date Filed: 05/14/14

George P. Bush, Commissioner

By [Signature]

116482 F

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.

ELS-0357

The State of Texas



Austin, Texas

General Land Office
Relinquishment Act Lease Form
Revised 5/15

OIL AND GAS LEASE NO. _____

THIS OIL AND GAS LEASE is made and entered into to be effective April 27, 2016 (the "effective date"), by and between the State of Texas, acting by and through its agent, the MARGARET S. SHOCKLEY TRUST, represented herein by Margaret S. Shockley, Trustee, whose address is POST OFFICE BOX 880, ROCKPORT, TEXAS 78381-0880, said agent herein referred to as the owner of the soil (whether one or more) ("owner of the soil"), and BHP BILLITON PETROLEUM PROPERTIES (N.A.), LP ("Lessee"), whose address is POST OFFICE BOX 22719, HOUSTON, TEXAS 77027-9998.

1. GRANTING CLAUSE; RESERVATION; BONUS. For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and the covenants contained herein, the State of Texas, acting by and through the owner of the soil, hereby demises, grants, leases and lets unto Lessee the non-exclusive right to explore for, and the exclusive right to produce and take, Oil and/or Gas from the Leased Premises (defined below) on the terms and conditions set out in this lease. Lessee's right hereunder to explore for Oil and Gas from the Leased Premises is non-exclusive. The Texas General Land Office (the "GLO") expressly retains and reserves the concurrent right to grant third parties (i) seismic, geophysical and geological permits, and to enter into other agreements with third parties, which permits or agreements shall allow such third parties to conduct geophysical, geological, or seismic surveys on, over, under, through, and across the land covered herein during the term of this lease, and which seismic, geophysical, or geological surveys shall not unreasonably interfere with Lessee's drilling or production activities on the Premises, and (ii) ingress and egress and use of the Leased Premises by the GLO and its lessees and permittees to explore for and produce minerals that are not covered, or that might not be covered in the future, under the terms of this lease, but that might be located within the surface boundaries of the Leased Premises. All of the rights in and to the Leased Premises retained by the GLO and all of the rights in and to the Leased Premises granted to Lessee herein shall be exercised in such a manner that neither shall unduly interfere with the operations of the other. This lease is made and entered into subject to any existing rights of way, easements, geophysical or geochemical exploration permits.

The bonus consideration paid for this lease is as follows:

To the State of Texas: TEN THOUSAND AND 00/100 DOLLARS (\$10,000.00)

To the owner of the soil: TEN THOUSAND AND 00/100 DOLLARS (\$10,000.00)

Total bonus consideration: TWENTY THOUSAND AND 00/100 DOLLARS (\$20,000.00)

The total bonus consideration paid represents a bonus of three thousand dollars (\$3,000.00) per acre, on 6.66666667 net acres.

2. TERM. This lease shall be for a term of three (3) years commencing on the effective date (the "primary term"), and as long thereafter as Oil or Gas is produced in paying quantities from the following "Leased Premises" (herein so called), to-wit:

All of the East Half (E/2) of Section 44, Block 57, Township 2, A-2458, T & P RR Co. Survey, Reeves County, Texas,
containing 320 acres, more or less

3. DELAY RENTALS. If no well is commenced on the Leased Premises on or before one (1) year from the effective date, this lease shall terminate, unless on or before such anniversary date Lessee shall pay to the owner of the soil or to his credit in the _____ Bank, at _____, 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 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: THIS IS A PAID UP LEASE Dollars (\$ _____)

Total Delay Rental: _____ Dollars (\$ _____)

In a like manner and upon like payments annually, the commencement of a well may be further deferred for successive periods of one (1) year each during the primary term. All payments of rental to the owner of the soil may be made by check 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 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.

4. ROYALTY: All capitalized terms used in this lease that are not defined in this lease shall have the meanings given them in Title 31, Part 1, Chapter 9 of the Texas Administrative Code (the "Rules"). Upon production of Oil, Gas, and/or other products from the Leased Premises, Lessee agrees to pay or cause to be paid one-half (1/2) of the royalty provided for in this lease to the GLO, for the use and benefit of the State of Texas, and one-half (1/2) of such royalty to the owner of the soil, each of the following royalties as applicable to the substances actually produced from the Leased Premises and/or subsequent processing:

- (a) **OIL:** As a royalty on Oil, a monetary royalty of **twenty-five percent (25%)** of the value of the Gross Production, unless the Commissioner of the General Land Office of the State of Texas (the "Commissioner") or the owner of the soil, at the option of either, elects to receive its royalty in kind pursuant to section 4(l). The value of the Gross Production shall be calculated at the point the Oil is Ready for Sale and Use and without deduction for expenses, as described in section (4)(k), and determined by the greatest of: (i) the highest posted price, plus premium, if any, paid or offered for Oil of a like type and gravity in the general area where produced and when run, (ii) the highest market price thereof paid or offered in the general area where produced and when run, or (iii) the gross proceeds of the sale thereof.

- (b) **NON-PROCESSED GAS:** As a royalty on any Non-Processed Gas, a monetary royalty of **twenty-five percent (25%)** of the value of the Gross Production, unless the Commissioner or the owner of the soil, at the option of either, elects to receive its royalty in kind pursuant to section 4(l). The value of the Gross Production shall be calculated (i) at the point at which the Non-Processed Gas is Ready for Sale and Use and without deduction for expenses, as described in section (4)(k), (ii) on a Dry Gas basis as to both volume and energy content (as described in the section 30 definitions below), and (iii) based on the higher of:

(A) the highest market price paid or offered for Gas of comparable quality in the general area where produced and when run; or

(B) the gross price paid or offered to the Lessee; provided that the maximum pressure base in measuring the Gas under this lease contract shall equal 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 a test made by chromatographic analysis or the Balance Method.

Provided, however, that if Non-Processed Gas is sold to a parent, subsidiary or affiliate of Lessee, then the royalty due hereunder shall be based on the value of the Gas as either Non-Processed Gas or Processed Gas, as the case may be, in the first sale to a third party in an agreement negotiated at arms' length.

- (c) **PROCESSED GAS:** As a royalty on any Processed Gas, Lessee agrees to pay a monetary royalty of **twenty-five percent (25%)** of the value of the Residue Gas and the NGLs extracted, unless the Commissioner or the owner of the soil, at the option of either, elects to receive its royalty in kind pursuant to section 4(l). The value of the Gross Production shall be calculated at the point the Residue Gas and/or the NGLs, respectively, are Ready for Sale and Use. All royalties due herein shall be on 100% of the volume of the Gas produced from the Leased Premises (calculated on a Dry Gas basis as to both volume and energy content, as described in the section 30 definitions below) as measured or attributed at the inlet of the Processing Plant. The royalty due from Lessee hereunder shall be based on the greater value of:

(1) the sum of the values of (A) 100% of the Residue Gas MMBtus attributable to the Gas determined at the plant recovery efficiency applicable to each NGL component, plus (B) the net value of the NGLs after deduction of all applicable Gas processing fees and/or the value of the NGLs at the applicable liquids percent of proceeds accruing to the Processing Plant; or

(2) the sum of the values of (A) 100% of the available Residue Gas MMBtus attributable to the Gas, plus (B) the value of the NGLs at the applicable minimum liquids POP%, established herein in section 4(d), without deduction or reduction in the value of the NGLs by a percent of proceeds or any other fees or adjustments of any type, form, or character; or

(3) the "keep whole" value of the Gas as described in section (4)(f).

For purposes of calculating the royalty due hereunder, the respective values of the Residue Gas and the NGLs shall be based on the greater of:

(1) the highest market price paid or offered in the general area for (A) any Pipeline-Quality Residue Gas, and (B) NGLs, as either Raw Mix or merchantable and marketable commercial grades and/or blends of each of the individual components, after fractionation, of comparable quality in the general area, or

(2) the (A) gross price paid or offered to Lessee for such Pipeline-Quality Residue Gas, and (B) weighted monthly average gross selling price for the respective grades of NGLs, as either Raw Mix or merchantable and marketable commercial grades and/or blends of each of the individual components, after fractionation.

No fees or costs of any kind shall be deducted from the value of Gas that is bypassed around a Gas Processing Plant and then blended with Gas that was processed to remove liquefiable hydrocarbons at, or at a point downstream of, the tailgate of the Processing Plant, a.k.a. "conditioning". The value of Gas bypassed around a plant in which no liquefiable hydrocarbons or NGLs are removed from the Gas shall equal that for Non-Processed Gas per section (4)(b).

Provided, however, that if NGLs are recovered from Gas processed in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the POP% applicable to NGLs shall be the greater of (x) the applicable POP% per section 4(d), or (y) the highest percent accruing to a third party processing Gas through such plant under a processing agreement negotiated at arms' length.

- (d) **APPLICABLE MINIMUM LIQUIDS PERCENT OF PROCEEDS:** (1) The applicable minimum liquids percent of proceeds ("POP%") of the total available liquid hydrocarbon content volume for all NGLs, except ethane, shall, regardless of the natural Gas liquids recovery process or Gas processing agreement terms and/or conditions, be equal to the following:

(A) 70% for Gas with a heating content or BTU value equal to or greater than 1100 BTU/SCF;

(B) 60% for Gas with a heating content or BTU value equal to or greater than 1070 BTU/SCF but less than 1100 BTU/SCF; and

(C) 50% for Gas with a heating content or BTU value less than 1070 BTU/SCF.

(2) The available liquid hydrocarbon volume, in gallons, of each NGL component used to calculate the value of the NGLs at the applicable POP% shall equal the product of (A) the Processing Plant inlet Gas volume, in MSCF, on a Dry Gas basis, times (B) the gallons per MSCF of each component calculated per the applicable standards, at 14.65 pounds per square inch absolute and 60° Fahrenheit, according to a test made by chromatographic analysis of the Gas, except ethane, where the theoretical gallons of ethane available in the Gas shall be reduced by the Processing Plant recovery efficiency of ethane then being specified in processing agreements negotiated at arm's length between the Lessee and the plant for each dedicated Processing Plant and each Processing Plant that may process the Gas in a series of plants.

(3) The available Residue Gas MMBtu amount used in the calculation of the royalty value in section 4(c)(2) shall equal the product of (A) the Processing Plant inlet Gas MMBtu amount less the sum total MMBtu of shrinkage calculated for the available liquid hydrocarbon volume in section 4(d)(2) for each NGL component, times (B) one (1.0) minus the lesser of (1) the plant fuel MMBtu percentage divided by 100%, or (2) 0.035.

- (e) **OTHER PRODUCTS:** As a royalty on carbon black, carbon dioxide, sulphur or any other products (including water) produced (excepting Oil, Gas, or NGLs, addressed separately above), Lessee agrees to pay a monetary royalty of **twenty five percent (25%)** of the value of the Gross Production of such products, unless the Commissioner of the General Land Office of the State of Texas (the "Commissioner") or the owner of the soil, at the option of either, elects to receive its royalty in kind pursuant to section 4(l). The value of the Gross Production shall be calculated at the point the other products are Ready for Sale and Use and without deduction for expenses, as described in section (4)(k), such value to be based on the higher of:

(1) the highest market price of each product, during the same month in which such product is produced; or

(2) the average gross sale price of each product for the same month in which such products are produced.

- (f) **KEEP WHOLE:** Notwithstanding any other provision of this lease to the contrary, Lessee may not pay a royalty hereunder for Processed Gas that is less than the royalty that would have been due under section 4(b) for the total energy content of the Processing Plant inlet Gas if it had not been processed.

- (g) **NON-SALES DISPOSITIONS:** As a royalty on non-sales dispositions of Gas, including but not limited to vented Gas, flared Gas, flash Gas and lease fuel Gas, Lessee agrees to pay owner of the soil based on the royalty provisions for Non-Processed Gas described in section 4(b) of this Lease (but without requirement of merchantability or marketability) if the Gas produced from the Leased Premises is not processed; otherwise, the non-sales dispositions of Gas shall be based on the royalty provisions for Processed Gas described in section 4(c) for Residue Gas. If, for whatever reason, the Net Value of Gas Sales

dispositions, then Lessee agrees to pay to owner of the soil royalty on one fourth (1/4) part of the total energy content of the Gas, in MMBtu determined on a Dry Gas basis, based on the posted market price of natural Gas at the nearest applicable Gas market hub in \$/MMBtu.

- (h) **PLANT FUEL AND RECYCLED GAS:** No royalty shall be payable on any Gas as may represent this lease's proportionate share of any fuel used to process Gas produced hereunder in any third party Gas processing plant pursuant to section 4(c). Subject to the consent in writing of the owner of the soil and the GLO, Lessee may inject Gas for secondary or enhanced recovery operations or for Gas lift purposes into any Oil- or Gas-producing formation in the Leased Premises after the liquid hydrocarbons contained in the Gas have been removed, and no royalty shall be payable on the Gas so injected until such time as the same may thereafter be produced and sold or used.
- (i) **CONSERVATION:** Lessee shall use all reasonable means to prevent the underground or above ground waste of Oil or Gas and to avoid the physical waste, flaring or venting of Gas produced from the Leased Premises.
- (j) **DUTY TO MARKET:** Lessee shall exercise due diligence and use all reasonable efforts in marketing any and all production from the Leased Premises, at no cost to owner of the soil, to obtain the best price reasonably available for the Oil and Gas.
- (k) **NO DEDUCTIONS:** Except for fees or deductions that may be permitted pursuant to section 4(c), Lessee shall pay or cause to be paid royalty due under this lease without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, conditioning, compressing, processing, transporting and otherwise making the Oil, Non-Processed Gas, Processed Gas, and other products hereunder Ready For Sale and Use, whether borne by Lessee or by third-party purchasers and whether stated as a deduction from the price or an adjustment to the price based on location or condition. If any contract by which Lessee or an Affiliate of Lessee sells Oil or Gas produced hereunder makes deductions or adjustments to the price to account for costs of producing, gathering, storing, separating, treating, dehydrating, conditioning, compressing, processing, or transporting of Oil or Gas produced from the Leased Premises, then such deductions shall be added back to the price received for purposes of computing the Gross Production upon which royalties are to be paid. The owner of the soil, the GLO, and Lessee agree that the foregoing provision is to be given full effect and is not to be construed as "surplusage" under *Heritage Resources, Inc. v. Nationsbank*, 939 S.W.2d 118 (Tex. 1996).
- (l) **ROYALTY IN KIND:** Lessee shall pay monetary royalties based on the value of the Gross Production from the Leased Premises, unless the GLO or the owner of the soil, at the option of either, elects to receive its royalty in kind. Lessee shall pay Oil or Gas royalty, or both, in kind without deduction for expenses, as described in section (4)(k), necessary to make the Oil, Gas and any other products Ready for Sale and Use. The owner of the soil or the GLO may change its election to take royalty in kind or monetary form at any time or from time to time by giving Lessee notice of such election not less than sixty (60) days in advance. If the owner of the soil or the GLO elects to take its royalty production in kind, it may elect to have the royalty production of the Oil, Gas, and any other products that are in a Ready for Sale and Use condition delivered in kind at the location Lessee sells its production, or at another location mutually acceptable to owner of the soil or the GLO and Lessee. Lessee shall bear all costs to the point of delivery. If the GLO or the owner of the soil elects to take its royalty in kind, the parties agree to execute either the State's form of Gas Balancing Agreement or any other agreement that is acceptable to owner of the soil or the GLO and Lessee.
- (m) **SEPARATION:** Lessee agrees that before any hydrocarbons in liquid form and any Gas produced from the Leased Premises is sold, transferred, surface commingled with the production from any other lease tract and/or pooled unit, or is used or processed in a plant, it will be run free of cost to owner of the soil and the GLO through a gravity-based Oil and Gas separator of conventional type and of adequate size and efficiency such that all liquid hydrocarbons recoverable from the Gas by such means shall be recovered. Upon written consent of the GLO, Lessee may apply other forms of separation equipment that are at least as efficient as a gravity-based separator upon such terms and conditions as prescribed by the GLO. Upon written consent of the GLO, the requirement that such Gas and liquid hydrocarbons be run through a separator or other equipment may be waived upon such terms and conditions as prescribed by the GLO. Lessee must request and obtain a waiver in writing from the GLO before the installation and/or use of any full well stream/wet Gas/multiphase flow meters that measure any production on or from the Leased Premises.
- (n) **COMMINGLING:** Lessee must obtain prior written permission from the GLO per 31 TAC §9.35(a)(3) before surface commingling Oil and/or Gas production from a lease or pooled unit with the production from any other private or state lease and/or unit into (i) a common manifold and/or separator, (ii) common storage, (iii) a common gathering system or pipeline, or (iv) to utilize an off-lease Gas supply to inject Gas for lift purposes into any Oil- or Gas-producing formation in the Leased Premises. These requirements are in addition to, and apart from, the requirements of any other state and/or federal agency.
- (o) **METERING:** Lessee agrees that any hydrocarbons in liquid form and any Gas produced from the Leased Premises shall be measured separately before the liquid hydrocarbons and/or Gas leave the Leased Premises. Lessee agrees to comply with all applicable American Gas Association (AGA) Standards, as well as the American Petroleum Institute (API) Manual of Petroleum Measurement Standards (MPMS) for any measurement device or tank that covers the standards, practices, guidelines, recommendations and procedures which include, but are not limited to, the design, installation, calibration, testing and handling of samples and operation of a metering system used for the measurement of hydrocarbons in liquid form or Gas at any meter location on the Leased Premises, at a point of lease custody transfer, for the purpose of lease allocation in the event of surface commingling, or for the reporting and allocation of lease fuel, flared Gas volumes, vented volumes or any other lease use.
- (p) **ROYALTY ON CONTRACT SETTLEMENTS:** Lessee shall pay to the owner of the soil and the GLO royalty at the applicable royalty rate on any monetary settlement received by Lessee from any breach of contract by Lessee's purchaser relating to the marketing, pricing or taking of Oil or Gas production from the Leased Premises.

5. PAYMENTS, SUBMISSIONS AND NOTICES TO LESSOR:

- (a) **MONETARY ROYALTY PAYMENTS:** All royalty owed to the GLO hereunder and not paid in kind at the election of the GLO shall be paid to the GLO at Austin, Texas, in the following manner: payment of royalty on production of Oil and Gas shall be as provided in the Rules. The Rules currently provide that royalty on Oil is due and must be received in the GLO on or before the fifth (5th) day of the second (2nd) month succeeding the month of production or such later date as may be prescribed in the Rules. Royalty on Gas is due and must be received in the GLO on or before the fifteenth (15th) day of the second (2nd) month succeeding the month of production or such later date as may be prescribed in the Rules. All royalty payments must be accompanied by the affidavit of the owner, manager or other authorized agent, completed in the form and manner prescribed by the GLO and showing the gross amount and disposition of all Oil and Gas produced and the market value of the Oil and Gas. Lessee must maintain, and make available to the GLO upon request, copies 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 the amount produced and put into pipelines, tanks, or pools and Gas lines or Gas storage, and any other reports or records which the GLO 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 GLO. Each royalty payment shall be accompanied by a check stub, schedule, summary or other remittance advice showing, by the assigned GLO lease number, the amount of royalty being paid on each lease.
- (b) **MANNER AND TIMELINESS OF PAYMENTS:** A monetary royalty payment that is not submitted electronically shall be considered timely paid if delivered to the GLO on or before the applicable due date or if deposited in a postpaid, properly addressed wrapper with a post office or official depository under the care and custody of, and postmarked by, the United States Postal Service at least one (1) day before the applicable due date. A payment that is submitted electronically shall be considered timely paid if such payment is successfully transmitted to the proper account with the Comptroller of the State of Texas on or before the due date.
- (c) **PENALTIES AND INTEREST:** Lessee shall pay penalties and interest due on late royalty payments and other sums due, and for failure to provide documents, (whether physical documents or information in electronic form), as provided by law or the Rules. The right to collect penalties and interest is in addition to, and shall not in any way limit or restrict, the rights of the GLO to pursue other remedies at law or in equity, including without limitation forfeiture of this lease. If Lessee pays royalty on or before thirty (30) days after the royalty payment was due, then Lessee owes a penalty of five percent (5%) on the royalty or twenty-five dollars (\$25.00), whichever is greater. A royalty payment which is over thirty (30) days late shall accrue a penalty of ten percent (10%) of the royalty due or twenty-five dollars (\$25.00), whichever is greater. In addition to a penalty, royalties shall accrue interest 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 Rules that were in effect 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.
- (d) **PAYMENTS, NOTICES, AND CORRESPONDENCE TO LESSOR:** Lessee shall assure that all royalty payments, (such as royalty payments, delay rentals, and all other payments due under this lease, as well as documents, reports, notices, and other information, unless expressly provided herein, shall be



payment or information be directed to another office, are directed to the following address:

If to the owner of the soil, to the address first listed above.

If to the GLO:

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

or

Texas General Land Office
1700 N. Congress Avenue
Austin, Texas 78701

or such other address as may then be specified in the Rules. Any payments submitted electronically shall be delivered by electronic funds transfer to the proper account with the Comptroller.

- (e) **NOTICES AND CORRESPONDENCE TO LESSEE:** Notices and correspondence to Lessee shall be sent to the address shown above or such other address as Lessee shall provide in writing to the owner of the soil and the GLO. Any such notice of change of address must specifically reference this Lease.

6. RECORDS:

- (a) **RESERVES, CONTRACTS AND OTHER RECORDS:** Upon written request by the GLO, Lessee shall annually furnish the GLO with its best possible estimate of Oil and Gas reserves underlying this lease or allocable to this lease and shall furnish the GLO 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 GLO shall be held in confidence by the GLO unless otherwise authorized by Lessee. All other contracts and records pertaining to the production, transportation, sale and marketing of the Oil and Gas produced from these Leased Premises, including the books and accounts, receipts and discharges of all wells, tanks, pools, meters, and pipelines shall at all times be subject to audit, inspection, and examination by the GLO, the Attorney General, the Governor, or the representative of any of them.

- (b) **PERMITS, DRILLING RECORDS AND REQUIRED FILINGS:** Written notice of all operations on this lease shall be submitted to the GLO 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 GLO 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 GLO 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 must have the word "State" as the first word 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." Division orders must be submitted to the GLO within thirty (30) days of first production. GLO shall not be required to sign any division orders. Lessee shall supply the GLO with any records, memoranda, accounts, reports, cuttings and cores, or other information relative to the operation of the above-described Leased Premises, which may be requested by the GLO, in addition to those herein expressly provided for. Lessee shall have a basic electrical log as defined by the Railroad Commission 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 Leased Premises or such other log or logs as a reasonable and prudent operator would run and shall transmit a complete suite of such logs on each well to the GLO within fifteen (15) days after the making of said logs.

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

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

(a) **VERTICAL:** In the event this lease is in force and effect in whole or in part, two (2) years after the expiration date of the primary term it shall then terminate as to all of the Leased Premises, EXCEPT as to the following acreage amounts for wells drilled under this lease capable of producing in paying quantities (including a shut-in Oil or Gas well as provided in section 11 hereof), or a well that has been spud and upon which Lessee is then engaged in continuous drilling or reworking operations: (1) the lesser of 40 acres or the amount of acreage assigned to an Oil well for proration purposes under special field rules; (2) the lesser of 80 acres or the amount of acreage assigned to a Gas well for proration purposes under special field rules; (3) for horizontal drainhole wells the amount of acreage retained shall be the greater of 40 acres or the amount of acreage determined by the following formula: $0.032 \times L = A$, where L = the length (in feet) of the horizontal lateral component of the well from the first takepoint to the last takepoint and A = the area retained (in acres) provided that, if A is not divisible by the number 20, A will be rounded up to the next number divisible by 20, i.e. $(0.032 \times 4500 \text{ feet} = 144 \text{ acres, which rounds up to 160 acres})$; (4) if more acreage is required than is provided for in (1), (2) or (3) above in order to obtain the maximum allowable under special field rules for the permitted or producing interval or intervals, upon written approval from the GLO, such number of acres that are required to obtain the maximum allowable as required by the special field rules as approved by the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction; or (5) the number of acres held in a pooled unit pursuant to Natural Resources Code Sections 52.151-52.154. After termination pursuant to this subsection, each tract retained shall be considered a separate lease and must be maintained independently. Lessee shall retain the right of ingress and egress on and across the terminated portion of the Leased Premises as may be reasonably necessary for the continued operation of the portions of the lease remaining in force and effect. Further, Lessee shall retain an easement for its pipelines, tank batteries or other surface equipment or installations on the terminated acreage for so long as they continue to be used for the development and operations on the retained acreage.

(b) **HORIZONTAL:** Two (2) years after the expiration date of the primary term this lease shall further terminate as to those depths stipulated as follows for each tract retained in section 7 (a) above: for vertical wells, 100 feet true vertical depth below the deepest then producing perforations; for horizontal wells, 300 feet true vertical depth below the deepest depth reached by the horizontal lateral between the first takepoint and the last takepoint, and for acreage retained that is pooled or unitized, all depths above and below the pooled or unitized interval. If a well has been spud and is being drilled over this termination date, the acreage retained by said well under section 7 (a) shall be held as to all depths until completion of the well, and upon completion of the well as capable of producing in paying quantities, the acreage retained shall then terminate as to those depths as provided in this section.

(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 for vertical wells and a rectangle for horizontal wells, with the well located in the center thereof, or such other shape as may be approved by the GLO. Within thirty (30) days after partial termination of this lease as provided herein, Lessee must 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 GLO, within thirty (30) days of recording accompanied by the filing fee prescribed by the GLO rules in effect on the date the release is filed. If Lessee fails or refuses to execute and record such release or releases then the GLO, in its sole discretion, may designate, by written instrument, the acreage and/or depths that have terminated 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 GLO, and such designation shall be binding upon Lessee for all purposes. If at any time after the effective date of the partial termination provisions hereof, the applicable field rules are changed or the well or wells located thereon are reclassified so that less acreage is thereafter allocated to said well or wells for production purposes, this lease shall thereupon terminate as to all acreage not thereafter allocated to said well or wells for production purposes, and Lessee shall file a release or releases in the same manner as provided above.

(d) **FIELD RULES AND EXCEPTIONS:** If Lessee seeks to amend existing field rules to establish field rules applicable to the Leased Premises, and if Lessee requests a hearing for the amendment or establishment of field rules, or if Lessee requests the consolidation of existing field rules or an exemption from field rules or statewide rules, or if Lessee seeks to adopt field rules different from those in use in the immediate area, Lessee shall notify owner of the soil and the GLO of such request prior to any Railroad Commission hearing and provide all exhibits to the owner of the soil and the GLO relative to such hearing. Any attempt by Lessee to establish, amend, consolidate, or exempt such field rules without owner of the soil's and the GLO's prior consent shall not be applicable to the Leased Premises unless and until such consent is given.

8. **OFFSET WELLS:** If Oil and/or Gas should be produced in commercial quantities from a well located within one thousand (1,000) feet of the area included herein, or which well is draining the area covered by this lease, the Lessee shall, within one hundred (100) days after such initial production from the draining well or the well located within one thousand (1,000) feet from the area covered by this lease, begin in good faith and prosecute diligently the drilling of an offset well on the leased premises.

by this lease, and such offset well shall be drilled to such depth as may be necessary to prevent the undue drainage of the area covered by this lease, and the Lessee shall use all means necessary in a good faith effort to make such offset well produce Oil and/or Gas in commercial quantities. Only upon the determination of the GLO with its written approval, may the payment of a compensatory royalty satisfy the obligation to drill an offset well or wells required under this section.

9. DRY HOLE/CESSATION, DRILLING, AND REWORKING:

(a) If, during the primary term hereof, within sixty (60) days of a lease anniversary date, (i) Lessee should complete a well as a dry hole, or (ii) production should cease, then the lease is maintained over the anniversary date without the payment of a delay rental. If a dry hole is completed or production or drilling operations cease more than sixty (60) days before a lease anniversary date, a delay rental must be paid on or before such anniversary date to maintain the lease and upon failure to make such payment the lease shall terminate unless otherwise held over the anniversary date by additional drilling operations or re-establishment of production during the sixty (60) days prior to the anniversary date. If, during the last year of the primary term, the production of Oil or Gas should cease, 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 section 9(b), using the expiration of the primary term as the date of cessation of production under section 9(b). 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 automatically 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.

(b) If, at the expiration of the primary term, neither Oil nor Gas is being produced from the Leased Premises, 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 a workmanlike manner without interruptions totaling more than sixty (60) days during any one such operation, and if such operations result in the production of Oil and/or Gas, so long thereafter as Oil and/or Gas is produced in paying quantities from the Leased Premises, or payment of shut-in Oil or Gas well royalties or compensatory royalties is made as provided in this lease.

(c) If, after the expiration of the primary term, production of Oil or Gas from the Leased Premises, after once obtained, should cease for any cause, this lease shall not terminate if Lessee restores production in paying quantities within sixty (60) days after such cessation or 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 a 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 GLO within thirty (30) days of any cessation of production.

10. POOLING; ALLOCATION: (a) Lessee is hereby expressly prohibited from pooling or unitizing the Leased Premises or any interests therein with any other leasehold or mineral interest for the exploration, development and production of Oil or Gas or either of them without the express consent of the School Land Board and the Commissioner. A well, whether or not classified as an allocation well, that traverses multiple leases or units including the Leased Premises hereunder, one or more of which leases or units contains Oil and Gas owned by the state, and which well is not associated with an agreement approved by the GLO and owner of the soil specifying the allocation of the production of state-owned Oil and Gas, is hereby expressly not permitted and may not operate on or under this lease or a unit containing state-owned Oil and Gas without the prior written consent of the Commissioner or his authorized designee, which consent may be granted or withheld in the Commissioner's sole discretion.

(b) 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 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 set out in Texas Natural Resources Code §52.152.

11. SHUT-IN ROYALTIES: For purposes of this section, "well" means any well that has been assigned a well number by the governmental 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 (lack of suitable production facilities is not acceptable as a reason for making a shut-in payment if all or part of such production facilities are owned and/or operated by Lessee, and the cause is due to Lessee's improper maintenance or neglect) 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 section 3 of this lease does not specify a delay rental amount, then for the purposes of this section, the delay rental amount shall be one dollar (\$1.00) per acre. To be effective, each initial shut-in Oil or Gas royalty payment, accompanied by the GLO Shut-In Affidavit, must be paid on or before: (1) the expiration of the primary term, (2) Sixty (60) days after the Lessee ceases to produce Oil or Gas from the Leased Premises, or (3) Sixty (60) days after Lessee completes a drilling or reworking operation in accordance with the lease provisions; whichever date is the latest. Such payment shall be made one-half (1/2) to the Commissioner, and one-half (1/2) to owner of the soil. If the shut-in Oil or Gas royalty is paid, accompanied by the GLO Shut-In Affidavit, 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 (1) year from the end of the primary term, or from the first (1st) day of the month following the month in which production ceased, and, after that, if after a diligent effort, that being those of a reasonable and prudent operator to obtain or repair the production facilities or to obtain a market, no suitable production facilities or suitable market for the Oil or Gas exists, Lessee may, upon written approval of the GLO, extend the lease for four (4) more successive periods of one (1) year by paying the same amount each year on or before the expiration of each shut-in year.

12. COMPENSATORY ROYALTIES: If, during the period the lease is kept in effect by payment of the shut-in Oil or Gas royalty, Oil or Gas is sold and delivered in paying quantities from a well located within one thousand (1,000) feet of the Leased Premises and completed in the same producing reservoir, or in any case in which drainage is occurring, the right to continue to maintain the lease by paying the shut-in Oil or Gas royalty shall cease, but the lease shall remain effective for the remainder of the year for which the royalty has been paid. Upon written approval from the GLO, the Lessee may maintain the lease for four (4) 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, and one-half (1/2) to 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 twelve (12) month period is in an amount less than the annual shut-in Oil or Gas royalty, Lessee shall pay an amount equal to the difference within thirty (30) days from the end of the twelve (12) month period; and none of these provisions will relieve Lessee of the obligation of reasonable development nor the obligation to drill offset wells as provided in N.R.C. Section 52.034; however, at the determination of the GLO, and with the GLO's written approval, the payment of compensatory royalties shall satisfy the obligation to drill offset wells. Compensatory royalty payments which are not timely paid will accrue penalty and interest in accordance with section 5 of this lease.

13. 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 the Leased Premises.

14. USE OF WATER; SURFACE: Lessee shall have the right to use water produced on said land necessary for drilling operations hereunder and solely upon the Leased Premises; provided, however, Lessee shall not use potable water or water suitable for livestock or irrigation purposes for water flood, hydraulic fracturing, or completion operations, whether such water is from stock tanks, surface reservoirs, existing water wells, or streams on the Leased Premises, without the prior written consent of owner of the soil. Lessee shall have the right to use so much of the surface of the land that may be reasonably necessary for drilling and operating Oil and Gas wells and transporting and marketing the production therefrom, such use to be conducted under conditions of least injury to the surface of the land.

15. POLLUTION: In developing the Leased Premises, 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 pollutants and shall be responsible for all damage to public and private properties. Failure to comply with the requirements of this provision may result in the maximum penalty allowed by law including forfeiture of the lease. Lessee shall be liable for the damages caused by such failure and any costs and expenses incurred in cleaning areas affected by the discharged waste.

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

such line at a distance not to exceed three feet (3') from such tank or header connection. Said signs, tags, plates or other identification markers shall be maintained in a legible condition throughout the term of this lease.

17. ASSIGNMENTS: (a) Subject to the right of the GLO to require a demonstration by the transferee of its financial responsibility, this lease may be transferred at any time; provided, however, that the liability of the transferor to properly discharge its obligation under the lease, including properly plugging abandoned wells, removing platforms or pipelines or remediation of contamination at drill sites shall only pass to the transferee upon the prior written consent of the GLO. The GLO may require the transferee to demonstrate financial responsibility and may require a bond or other security. All transfers must reference the lease by the file number and must be recorded in the county where the area is located, and the recorded transfer or a copy certified to by the County Clerk of the county where the transfer is recorded must be filed in the GLO within ninety (90) days of the execution date, as provided by N.R.C. Section 52.026, accompanied by the filing fee prescribed by the GLO rules in effect on the date of receipt by the GLO of such transfer or certified copy thereof. Without limiting the liability of the original lessee or any prior transferee for that entity's debts owed to the GLO hereunder, every transferee shall succeed to all rights and be subject to all obligations, liabilities, and penalties owed to the State by the original lessee or any prior transferee of the lease, including any liabilities to the State for unpaid royalties.

(b) Notwithstanding any provision in subsection 17(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, 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.

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

19. 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 section, 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 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 herein provided to be paid to the GLO shall be likewise proportionately reduced. However, before Lessee adjusts the royalty due to the GLO, Lessee or his authorized representative must submit to the GLO 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. If an undivided interest remains unleased on the land covered by this lease on the date of first production from the Leased Premises, the GLO shall be paid a royalty of **twenty-five percent (25%)** of the value of the Gross Production allocable to said unleased undivided interest payable on the same terms and conditions as are provided in this lease for the payment of royalty to the GLO, until such time as the Lessee has recouped its drilling and completion costs ("payout") and upon payout the Lessee will give notice to the GLO and beginning on the first day of the month after payout the GLO shall be paid the value of 100% of the Gross Production allocable to said unleased undivided interest less the proportionate operating costs. Upon written request from the GLO, the Lessee will provide the GLO with a title opinion verifying the percentage of unleased undivided interest on the Leased Premises.

(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, 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. LIEN: In accordance with N.R.C. Section 52.136, the State shall have a first lien upon all Oil and Gas produced from the area covered by this lease to secure payment of all unpaid royalty and other sums of money that may become due under this lease. By acceptance of this lease, Lessee grants the State, in addition to the lien provided by N.R.C. Section 52.136 and any other applicable statutory lien, an express contractual lien on and security interest in all leased minerals in and extracted from the Leased Premises, all proceeds which may accrue to Lessee from the sale of such leased minerals, whether such proceeds are held by Lessee or by a third party, and all fixtures on and improvements to the Leased Premises used in connection with the production or processing of such leased minerals in order to secure the payment of all royalties or other amounts due or to become due under this lease and to secure payment of any damages or loss that owner of the soil may suffer by reason of Lessee's breach of any covenant or condition of this lease, whether express or implied. This lease, when filed in the real property records where the Leased Premises are located, and for purposes of perfecting owner of the soil's lien on and security interest in all proceeds, shall constitute a financing statement under the Texas Uniform Commercial Code. This lien and security interest may be foreclosed with or without court proceedings in the manner provided in Title 1, Chapter 9 of the Texas Business and Commerce Code. Lessee agrees that the GLO 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 GLO at any time determine that this representation is not true, then the GLO may declare this lease forfeited as provided herein.

22. FORFEITURE: If Lessee shall fail or refuse to make the payment of any sum within thirty (30) days after it becomes due, or if Lessee or an authorized agent should knowingly make any false return or false report concerning production or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith as required by law and the rules and regulations adopted by the GLO, 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 GLO, the SLB or the Railroad Commission, or refuse the proper authority access to the records pertaining to operations, or if Lessee or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or knowingly fail or refuse to furnish the GLO a correct log of any well, or if Lessee shall knowingly violate any of the provisions of this lease, or if this lease is assigned and the assignment is not filed in the GLO as required by law, or if Lessee shall fail or refuse to execute and file a release as required under this lease and by GLO rules, the rights acquired under the entirety of this lease shall be subject to forfeiture by the GLO, and it shall forfeit same when sufficiently informed of the facts which authorize a forfeiture, and when forfeited the area shall again be subject to lease. However, nothing herein shall be construed as waiving the automatic termination of this lease by operation of law or by reason of any special limitation arising hereunder. Forfeitures may be set aside and this lease and all rights thereunder reinstated before the rights of another intervene upon satisfactory evidence to the GLO of future compliance with the provisions of the law and of this lease and the rules and regulations that may be adopted relative hereto. Neither termination nor forfeiture of this lease shall have the effect of releasing Lessee from any liability theretofore accrued in favor of the State.

23. APPLICABLE LAWS AND DRILLING RESTRICTIONS: This lease shall be subject to all rules and regulations, and amendments thereto, promulgated by the Railroad Commission and the GLO governing drilling and producing operations on State land (specifically including any rules promulgated that relate to payment of royalties, and auditing procedures, and shall be subject to all other valid statutes, rules, regulations, orders and ordinances that may affect operations under the provisions of this lease. Without limiting the generality of the foregoing, Lessee hereby agrees, by the acceptance of this lease, to be bound by and subject to all statutory and regulatory provisions relating to the GLO's audit billing notice and audit hearings procedures. Said statutes are currently found at N.R.C. Sections 52.135 and 52.137 through 52.140.

24. REMOVAL OF EQUIPMENT: Subject to limitations in this section, 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, during or within six (6) months after the expiration or the termination of this lease. 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 GLO and to the owner of the soil. If Lessee fails to remove such machinery and fixtures within the allotted time, then such machinery and fixtures shall, at the election of the owner of the soil, either become the property of the owner of the soil or the owner of the soil may have such machinery and fixtures removed at the sole expense of Lessee. Notwithstanding the foregoing, if this lease is forfeited or terminated for any reason, Lessee shall not remove the casing or any equipment from the Leased Premises until wells have been plugged to the satisfaction of the Railroad Commission, all pits have been properly filled and all debris has been removed from the Leased Premises, and owner of the soil has provided written approval of all restoration.



25. FORCE MAJEURE: If, in the last year of the primary term or thereafter, Lessee is prevented from complying with any express or implied covenant of this lease, from conducting drilling operations thereon, or from producing Oil and/or Gas therefrom, after effort made in good faith, by reason of war, rebellion, riots, strikes, fires, acts of God or any other, rule or regulation of governmental authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended upon proper and satisfactory proof presented to the GLO (the GLO should be notified within fifteen (15) days of any force majeure event) and accepted by the GLO in support of Lessee's contention and Lessee shall not be liable for damages for failure to comply therewith; and this lease shall be extended while and so long as Lessee is prevented, by any such cause, from drilling, reworking operations or producing Oil and/or Gas from the Leased Premises. Lessee agrees to immediately notify the GLO when the reason for force majeure has ceased. Notwithstanding anything contained herein to the contrary, a well being shut-in as a result of pipeline disruptions that are subject to section 11 of this lease does not constitute an event of force majeure, and Lessee's obligations under this lease are not, for that reason, excused pursuant to this section 25.

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

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

28. VENUE: The owner of the soil and Lessee, including Lessee's successors and assigns, hereby agree that venue for any dispute involving the GLO and arising out of a provision of this lease, whether express or implied, regarding interpretation of this lease, or relating in any way to this lease or to applicable case law, statutes, or administrative rules, shall be in a court of competent jurisdiction either in Travis County, Texas, or in the county where the Leased Premises are located, at the option of the GLO.

29. LAND PROTECTIONS:

Lessee agrees to provide at least seven (7) days' prior notice to owner of the soil before commencing any surface operations on the Leased Premises, such notice to include location of operations and work to be performed.

(a) Upon written request of owner of the soil, Lessee shall construct a fence around any drill site during drilling operations, and if production is obtained, Lessee shall construct a fence around all production facilities capable of turning cattle and/or livestock. Lessee agrees to install gates at all fence crossings used by Lessee in connection with operations hereunder. Should a cattle guard or guards be placed on the Leased Premises by Lessee, then such cattle guard(s) shall be left in place and become the property of owner of the soil after the expiration of this lease.

(b) Lessee shall not cut any exterior or boundary fence nor open any locked exterior or boundary gates of the Leased Premises without owner of the soil's prior written permission, which shall not be unreasonably withheld.

(c) No employee, representative, contractor or any other person allowed by Lessee to come upon the Leased Premises shall be permitted to hunt, fish, trap, or camp on the Leased Premises, nor shall any such persons be permitted to bring alcoholic beverages or illegal drugs on to the Leased Premises at any time.

(d) All pits used by or on behalf of Lessee during drilling operations on the Leased Premises shall be lined with an impervious material so that no fluids may escape such pits. Lessee and its assigns shall not let any salt water or any other deleterious substance run on or over the Leased Premises, or let such substances run into owner of the soil's stock tanks or any creek, stream, river or other body of water, and absent owner of the soil's prior written consent to the contrary, Lessee shall not use any wells on the Leased Premises for salt water disposal purposes. If owner of the soil elects to consent to the use of wells located on the Leased Premises for salt water disposal purposes, the parties shall enter into a separate agreement covering such disposal.

(e) 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 and restore the surface to as near its original condition and contours as is practicable. Lessee shall, while conducting operations on the Leased Premises, keep said premises free of all rubbish, cans, bottles, paper cups or garbage. Lessee shall maintain trash containers at all work sites during construction on the Leased premises, such trash containers to be located at entrances and exits on each side of the road and near places of high activity. Tanks and equipment will be kept painted and presentable.

(f) When requested by the owner of the soil, Lessee shall bury its pipelines below plow depth.

(g) No drill site locations, storage tanks, or treatment facilities shall be established within three hundred feet (300') of any residence or barn now situated on the Leased Premises without owner of the soil's prior written consent. Lessee shall conduct all drilling and production operations entirely within each drill site. The owner of the soil shall have the right to participate in the selection of the location of roadways to and from any drill site on the Leased Premises and that prior to beginning operations hereunder, Lessee shall contact the owner of the soil for consent as to the location of such roadways, which consent will not be unreasonably withheld.

30. DEFINITIONS:

- a. **"BTU"** means British thermal unit, which is the quantity of heat required to raise the temperature of one-pound avoirdupois of pure water from 58.5 degrees Fahrenheit ("°F") to 59.5°F. An MMBtu is one million (1,000,000) British thermal units.
- b. **"Dry Gas"** means a Gas that contains less than or equal to seven (7) lbs of water per million standard cubic feet. The volume of Gas, on a Dry Gas basis, shall be determined by mathematically removing the water vapor from Gas that is partially or fully saturated with water vapor at measurement conditions of flowing pressure and temperature. The total energy content of Gas shall be the product of multiplying the volume of Gas, on a Dry Gas basis, times the heating value per unit volume, in Btu/SCF, on a Dry Gas basis, at the same base temperature and base pressure.
- c. **"Gas"** means methane and other Gaseous hydrocarbons, including Gaseous combustible, noncombustible, and inert elements, compounds, components or mixtures thereof, and liquefiable hydrocarbons in the vapor stream. Gas volumes shall be calculated and reported, at the option of the GLO, in standard cubic feet (SCF), one thousand (1,000) standard cubic feet of Gas (MSCF), or one million (1,000,000) standard cubic feet of Gas (MMSCF).
- d. **"Gross Heating Value or BTU Content"** means the energy per unit volume represented by the number of BTUs produced by the complete combustion of one standard cubic foot of Gas (excluding hydrogen sulfide) at a temperature base of sixty degrees (60° F) Fahrenheit and pressure base of 14.65 pounds per square inch absolute.
- e. **"Gross Production"** means all Gas and fluids brought from underground up to and through the well head, and includes: (i) all hydrocarbons produced in liquid form as Oil or condensate at the well head and also all condensate, distillate, and any other liquid hydrocarbons recovered from Oil, condensate, or Gas run through a separator or other equipment; (ii) all hydrocarbons and Gaseous substances not in liquid form produced from any well; and (iii) natural Gasoline or liquid hydrocarbons, carbon dioxide, carbon black, sulfur or any other products produced or manufactured from any Gas or liquid. The Gross Production volumes of Oil, condensate, and Gas includes all sales, custody transfer dispositions, and/or stored volumes and all non-sales disposition volumes, including but not limited to, lease use, fuel, vent, flare, spills, uncontrolled releases, theft, and any other loss. The Gross Production of Gaseous hydrocarbons shall be adjusted and reported in MMBTUs.
- f. **"Market Value"** means the greatest of (i) the highest posted price, plus premium, if any, offered or paid for Oil, Gas, condensate, distillate, other hydrocarbons, or any Other Products produced or manufactured from the Oil or Gas, of similar characteristics and type in the general area, (ii) the prevailing market price thereof in the general area, (iii) the proceeds of the sale thereof, or (iv) the highest value reasonably available to Lessee. The proceeds of sale shall include the total value accruing to the Lessee from the sale or use of the production, including proceeds and any other thing of value received by Lessee or the operator.
- g. **"Marketable"** means that sufficient infrastructure is in-place or installed to allow for the sale or delivery of merchantable Oil and/or Gas into the custody of an authorized carrier, receiving agency, or party.
- h. **"Merchantable"** means (i) with respect to Gas, a Gas that is commercially free of dust, sand, dirt, gum-forming constituents, natural Gasoline, liquid hydrocarbons, water, inerts, and any other substances that may become separated from the Gas during handling thereof and may be injurious to utility facilities, industrial, commercial, and/or residential users that would cause the Gas to be unmarketable or require additional treating and/or processing to be ready for use and consumption (sale and use), and (ii) with respect to Oil, a crude Oil, condensate, and other liquid hydrocarbons recovered in



liquid form from any hydrocarbon production (oil or Gas) produced on or from the Leased Premises that is suitable for normal refinery processing, sufficiently free of foreign contaminants or chemicals, and meets the appropriate pipeline or truck haul specifications for sediment and water.

- i. **"Natural Gas Liquids (NGLs)"** means those hydrocarbons liquefied, removed, recovered, or condensed from natural Gas at the surface in field production facilities as Oil or condensate or in natural Gas processing plants as Oil or stabilized condensate and as raw mix liquids prior to separation down to their base components. Natural Gas liquids that are not recovered or removed as condensate in plant systems located on or off the Leased Premises or in a Processing Plant consist of either: (i) Raw Mix, or (ii) component plant products consisting of merchantable and marketable commercial grades and/or blends of each of the individual components, after fractionation, of ethane, propane, iso-butane, normal butane, and natural Gasoline that include pentanes plus (iso-pentane, normal pentane and hydrocarbon components of higher molecular weight).
- j. **"Non-Processed Gas"** means all hydrocarbons and Gaseous substances not defined as Oil, that are not processed in plant systems located on or off the Leased Premises or in a Processing Plant to remove or extract Natural Gas Liquids to produce a Pipeline-Quality Natural Gas or Residue Gas (although the term includes such substances that have been removed from the Gas that include, but are not limited to, carbon dioxide, sulphur, water, or any other constituent or component necessary to produce a Pipeline-Quality Natural Gas).
- k. **"Oil"** means all hydrocarbons produced in a liquid form at the mouth of the well and also all condensate, distillate and other liquid hydrocarbons recovered in liquid form from any hydrocarbon production (oil or Gas) produced on or from the Leased Premises when run through a separator or other equipment that is stored at pressures less than or equal to 15 pounds per square inch gauge, and that is not extracted in the form of Raw Mix in plant systems located on or off the Leased Premises or in a Processing Plant prior to fractionation. All Oil volumes shall be corrected from the measurement condition to report the produced volume of Oil in Stock Tank Barrels at Stock Tank Conditions per the applicable API MPMS standards.
- l. **"Pipeline-Quality Natural Gas"** means a natural Gas that is merchantable and marketable that meets an interstate or intrastate transmission company's minimum specifications with respect to (i) delivery pressure, (ii) delivery temperature, (iii) BTU content, (iv) mercaptan sulfur, (v) total sulfur, (vi) moisture and/or water content, (vii) carbon dioxide, (viii) oxygen, (ix) total inerts (the total combined carbon dioxide, helium, nitrogen, oxygen, and any other inert compound percentage by volume), (x) hydrocarbon dew point limits, (xi) merchantability, (xii) content of any liquids at or immediately downstream of the delivery point into a pipeline, and (xiii) interchangeability with the typical composition of the Gas in the pipeline with respect to the following indices: Wobbe Number, Lifting Index, Flashback Index, and Yellow Tip Index per AGA Bulletin No. 36.
- m. **"Processed Gas"** means natural Gas processed in a Processing Plant(s) located on or off the Leased Premises where Gas is processed to remove or extract liquefiable hydrocarbons or Raw Mix from the natural Gas stream to produce a Pipeline-Quality Natural Gas or Residue Gas, NGLs, and other products, and as used herein includes the Residue Gas, the Raw Mix (and resulting NGLs), and other products.
- n. **"Processing Plant"** means plant systems, located on or off the Leased Premises, that include a Gas processing plant, natural Gasoline plant, Gasoline plant, or other plant where raw unprocessed natural Gas is processed to remove or extract Raw Mix from the natural Gas stream to produce a Pipeline-Quality Natural Gas or Residue Gas and other products, and the Raw Mix is then either (i) separated by fractionation down to its base components prior to storage and/or transport that meets or conforms to all applicable Gas Processors Association (GPA) Standards and/or Specifications for the commercial sale of each liquefiable hydrocarbon product, or (ii) transported to another plant for separation down to its base components by fractionation prior to storage and/or transport for the commercial sale of each liquefiable hydrocarbon product. Any deductions, costs, or processing fees associated with the removal or recovery of Natural Gas Liquids is strictly limited to only that part of any Processing Plant or facility where Raw Mix is recovered, and if applicable at that plant, also fractionated to their component parts.
- o. **"Raw Mix"** means a mixture of Natural Gas Liquids (NGLs) that has a true vapor pressure greater than fifteen (15) pounds per square inch gauge at 100 degrees Fahrenheit (°F) prior to separation down to its base components by fractionation, typically consisting of a mixture of liquefiable hydrocarbons, including but not limited to, the natural Gas liquids ethane, propane, iso-butane, normal butane, and natural Gasoline that include pentanes plus (iso-pentane, normal pentane and hydrocarbon components of higher molecular weight).
- p. **"Ready for Sale and Use"** means the following:
 - i. **For Oil:** Oil that is merchantable and marketable and otherwise in a condition such that the Oil is suitable for transfer of ownership and will be accepted by a purchaser under a sales contract typical for the field or area.
 - ii. **For Non-Processed Gas:** A Pipeline-Quality Natural Gas that is merchantable and marketable and otherwise in a condition suitable for transfer of ownership such that the natural Gas or other Gas product will be interchangeable with and accepted by a purchaser under an interstate and/or intrastate Gas sales contract typical for the field or area for use by an industrial, commercial, and/or residential user.
 - iii. **For Residue Gas:** A Pipeline-Quality Natural Gas at the tailgate of the only or last stage of Gas processing to remove Natural Gas Liquids that is merchantable and marketable and otherwise in a condition suitable for transfer of ownership such that the natural Gas or other Gas product will be interchangeable with and accepted by a purchaser under an interstate and/or intrastate Gas sales contract typical for the field or area for use by an industrial, commercial, and/or residential user.
 - iv. **For Natural Gas Liquids:** (A) merchantable and marketable Raw Mix at the point sold as such to a third party at arms' length, or (B) merchantable and marketable Natural Gas Liquids at the tailgate of a Processing Plant after fractionation that are suitable for transfer of ownership that will be interchangeable with and accepted by a purchaser for sale or use by an industrial and/or commercial user.
 - v. **For Other Products:** Products that are in a condition that will be accepted by a purchaser under a sales contract typical for the field or area for use by an industrial or commercial user.
- q. **"Residue Gas"** means (i) the material that remains after a separation, treatment, or Gas conditioning process, and (ii) that Gas remaining after the recovery of Natural Gas Liquids to produce a Pipeline-Quality Natural Gas. If the Gas is processed to remove liquefiable hydrocarbons in a series of Processing Plants, then the Residue Gas is that Gas remaining after the recovery of Natural Gas Liquids to produce a Pipeline-Quality Natural Gas at the last Processing Plant in the series.
- r. **"Stock Tank Barrel"** means the volume of liquid hydrocarbons that is equivalent to the volume of forty-two (42) U.S. gallons at atmospheric pressure and 60 °F.
- s. **"Stock Tank Conditions"** means a stock tank meeting all applicable API specifications and requirements at atmospheric pressure and 60° F.

31. DISCLOSURE CLAUSE. All provisions pertaining to the lease of the Leased Premises 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 are invalid.

32. 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.

33. 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 lease, 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, partners, agents, contractors, subcontractors, guests, invitees, and their respective 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 lease 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 lease, 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.**

34. 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 LEASE.**

35. EXECUTION: This lease must be signed and acknowledged by the Lessee before it is filed of record in the county records and in the GLO.

36. LEASE FILING: Pursuant to Chapter 9 of the Tex. Bus. & Com. Code, this lease must be filed of record in the office of the County Clerk in any county in which all or any part of the Leased Premises is located, and certified copies thereof must be filed in the GLO. This lease is not effective until a certified copy of this lease (that is made and certified by the County Clerk from his records) is filed in the GLO in accordance with Texas Natural Resources Code Sec. 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 GLO and the prescribed filing fee shall accompany the certified copies sent to the GLO.



**TRUE & CORRECT
COPY OF
ORIGINAL FILED IN
REEVES COUNTY
CLERKS OFFICE**

LESSEE:

BHP BILLITON PETROLEUM PROPERTIES (N.A.), LP
By: BHP Billiton Petroleum Properties (GP), LLC,
Its General Partner

BRIAN F. OWEN, Attorney-in-Fact

LESSOR:

MARGARET S. SHOCKLEY TRUST

By: Margaret S. Shockley
Trustee and as agent for the State of Texas

DATE:

5/10/2016

DATE:

April 27, 2016

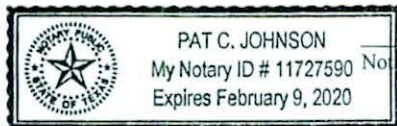
STATE OF TEXAS

(ACKNOWLEDGMENT)

COUNTY OF Cherokee

BEFORE ME, the undersigned authority, on this day personally appeared Margaret S. Shockley known to me to be the person whose name is subscribed to the foregoing instrument as Trustee of the MARGARET S. SHOCKLEY TRUST 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 27th day of April, 2016.



Notary Public in and for the State of Texas

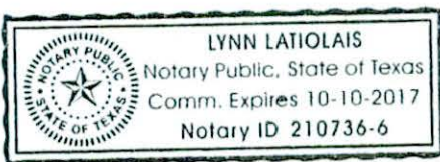
STATE OF TEXAS

(CORPORATION ACKNOWLEDGMENT)

COUNTY OF HARRIS

BEFORE ME, the undersigned authority, on this day personally appeared Brian F. Owen known to me to be the person whose name is subscribed to the foregoing instrument as Attorney-in-Fact of BHP Billiton Petroleum Properties (GP), LLC, general partner of BHP BILLITON PETROLEUM PROPERTIES (N.A.), 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 10th day of MAY, 2016.



Notary Public in and for the State of Texas

Inst No. 16-07847
DIANNE O. FLOREZ
COUNTY CLERK

2016 Jun 28 at 09:09 AM
REEVES COUNTY, TEXAS

By: MA Myra Manda DEPUTY

TRUE & CORRECT
COPY OF
ORIGINAL FILED IN
REEVES COUNTY
CLERKS OFFICE

File No. 116482
County _____
Lease F
Date Filed: 08/03/14
George P. Bush, Commissioner
By: [Signature]

315

378

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
0118985 Lease dated June 28 day of June
filed for record in my office this 28 day of June at
9:09AM, under Clerk's File No. 116-01847, to be recorded in the
Official Public Records
Records of Reeves County, Texas.
TO CERTIFY WHICH, Witness my hand and official seal at Pecos, Texas
this 28 day of June, 2014.
By: [Signature] Deputy, DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

EXPLORE ON LAND SERVICES, LLC

7886

Texas General Land Office

Date	Type	Reference	Original Amt.	Balance Due	8/1/2016 Discount	Payment
8/1/2016	Bill	Filing Fees	25.00	25.00		25.00
					Check Amount	25.00



16714704

121

Iberia Bank



25.00

EXPLORATION LAND SERVICES, LLC

4021-B Ambassador Caffery Pkwy, Suite 200, Lafayette, Louisiana 70503-5281 • Phone: 337.234.3500 • Fax: 337.234.3525 • Email: contact@explorationland.com

August 2, 2016

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 Lease
MF116482 F
Section 44, Block 57, T2, T&P Ry. Co. Survey
Reeves County, Texas

Dear Drew:

Enclosed herewith, please find one (1) certified copy of an Oil and Gas Lease taken in the name of the State of Texas, in favor of BHP Billiton Petroleum Properties (N.A.), LP, listed as follows:

<u>Lease No.</u>	<u>Date</u>	<u>Lessor</u>
ELS-0357	04/27/2016	Margaret S. Shockley Trust

Also enclosed, please find a check in the amount of \$25.00. This amount covers the filing fees for the lease taken in the name of the State of Texas @ \$25 per lease. Be advised that the fees for the tract listed under ELS-0357 @ \$100 per tract, was previously paid by check number 5674, issued April 7, 2014. This should cover all required fees associated with the above listed lease.

Please sign and return the copy of the check 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.

PETROHAWK ENERGY CORPORATION

5.12.16

15731

16710630

PETROHAWK ENERGY CORPORATION

15731

+ 10,000. /
121

5.12.16

EXPLORATION LAND SERVICES, LLC

4021-B Ambassador Caffery Pkwy, Suite 200, Lafayette, Louisiana 70503-5281 • Phone: 337.234.3500 • Fax: 337.234.3525 • Email: contact@explorationland.com

May 12, 2016

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 Lease
Section 44, Block 57, T2, T&P Ry. Co. Survey
Reeves County, Texas

Dear Drew:

Enclosed herewith, please find one (1) check, made payable to the Commissioner of the General Land Office. Also enclosed is a report prepared for you containing a calculated breakdown of the interest and property the check covers, as well as a copy of the lease that has been executed by the soil owner. A certified copy will be submitted upon recordation of said lease. Please sign and date the copy of the check and return in the enclosed prepaid envelope.

<u>Date</u>	<u>Check No.</u>	<u>Amount</u>	<u>Lessor</u>
05/09/2016	15731	\$10,000.00	Margaret S. Shockley Trust

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

Sincerely yours,



Natalie Holeman

encl.

13.

File No. 116482

____ County

Ltr, bonus, fee - F

Date Filed: 08/03/16

George P. Bush, Commissioner

By _____

121

X 10,833.34

Count 9/19
17700365



EXPLORATION LAND SERVICES, LLC

4021-B Ambassador Caffery Pkwy, Suite 200, Lafayette, Louisiana 70503-5281 • Phone: 337.234.3500 • Fax: 337.234.3525 • Email: contact@explorationland.com

September 7, 2016

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 Lease
Section 44, Block 57, T2, T&P Ry. Co. Survey
Reeves County, Texas

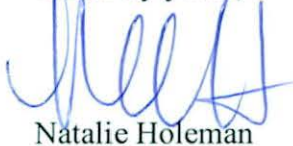
Dear Drew:

Enclosed herewith, please find one (1) check, made payable to the Commissioner of the General Land Office. Also enclosed is a report prepared for you containing a calculated breakdown of the interest and property the check covers, as well as a copy of the lease that has been executed by the soil owner. A certified copy will be submitted upon recordation of said lease. Please sign and date the copy of the check and return in the enclosed prepaid envelope.

<u>Date</u>	<u>Check No.</u>	<u>Amount</u>	<u>Lessor</u>
08/22/2016	18164	\$10,833.34	Jo Ann Shaw Barber Trust

I trust 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

4021-B Ambassador Caffery Pkwy, Suite 200, Lafayette, Louisiana 70503-5281 • Phone: 337.234.3500 • Fax: 337.234.3525 • Email: contact@explorationland.com

November 18, 2016

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 Lease
MF-116482
Section 44, Blk 57, T-2, T&P Ry Co. Survey
Reeves County, Texas

Dear Drew:

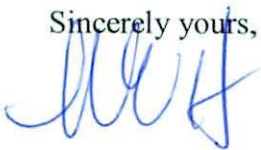
Enclosed herewith, please find one (1) certified copy of an Oil and Gas Lease taken in the name of the State of Texas, in favor of BHP Billiton Petroleum Properties (N.A.), LP, listed as follows:

<u>File No.</u>	<u>Date</u>	<u>Lessor</u>
16-14490	08/05/2016	Jo Ann Shaw Barber Trust

Also enclosed, please find a check in the amount of \$25.00. This amount covers the filing fees for the lease taken in the name of the State of Texas @ \$25/per lease. Be advised that the fees for the tract listed on said lease were previously paid by check number 5674, issued April 7, 2014 @ \$100/per tract. This should cover all required fees associated with the above listed lease.

Please sign and return the copy of the check to me in the enclosed prepaid envelope. I trust 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, LLC4021-B AMBASSADOR CAFFERY PARKWAY, SUITE 200
LAFAYETTE, LA 70503
(337) 234-3500**IBERIABANK**

84-7041/2652

17703950

8035

11/18/2016

PAY TO THE ORDER OF Texas General Land Office

\$ **25.00

Twenty-Five and 00/100*****

DOLLARS

Texas General Land Office
1700 Congress Avenue
Stephen F. Austin Building RM847
Austin, TX 78701
AUTHORIZED SIGNATURE

MEMO

⑈008035⑈

EXPLORATION LAND SERVICES, LLC

Texas General Land Office

Date Type Reference
11/18/2016 Bill Filing FeesOriginal Amt.
25.00Balance Due
25.0011/18/2016
Discount

Check Amount

Payment
25.00
25.00

8035

17703950

Iberia Bank

25.00

File No. 116482

County

Borns, Lee, 1hr - G

Date Filed: 09/08/14

George P. Bush, Commissioner

By _____

1164826

16-14490
FILED FOR RECORD
REEVES COUNTY, TEXAS
Nov 03, 2016 at 11:25:00 AM

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.

The State of Texas

ELS-0358



Austin, Texas

General Land Office
Relinquishment Act Lease Form
Revised 7/16

OIL AND GAS LEASE NO.

THIS OIL AND GAS LEASE is made and entered into to be effective August 5, 2016 (the "effective date"), by and between the State of Texas, acting by and through its agent, JO ANN SHAW BARBER TRUST, represented herein by Heritage Trust Company, Trustee whose address is: 2802 W. COUNTRY CLUB DRIVE, OKLAHOMA CITY, OKLAHOMA 73116 said agent herein referred to as the owner of the soil (whether one or more) ("owner of the soil"), and BHP BILLITON PETROLEUM PROPERTIES (N.A.), LP ("Lessee"), whose address is: POST OFFICE BOX 22719, HOUSTON, TEXAS 77027-9998.

1. GRANTING CLAUSE; RESERVATION; BONUS. For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and the covenants contained herein, the State of Texas, acting by and through the owner of the soil, hereby demises, grants, leases and lets unto Lessee the non-exclusive right to explore for, and the exclusive right to produce and take, Oil and/or Gas from the Leased Premises (defined below) on the terms and conditions set out in this lease. Lessee's right hereunder to explore for Oil and Gas from the Leased Premises is non-exclusive. The Texas General Land Office (the "GLO") expressly retains and reserves the concurrent right to grant third parties (i) seismic, geophysical and geological permits, and to enter into other agreements with third parties, which permits or agreements shall allow such third parties to conduct geophysical, geological, or seismic surveys on, over, under, through, and across the land covered herein during the term of this lease, and which seismic, geophysical, or geological surveys shall not unreasonably interfere with Lessee's drilling or production activities on the Premises, and (ii) ingress and egress and use of the Leased Premises by the GLO and its lessees and permittees to explore for and produce minerals that are not covered, or that might not be covered in the future, under the terms of this lease, but that might be located within the surface boundaries of the Leased Premises. All of the rights in and to the Leased Premises retained by the GLO and all of the rights in and to the Leased Premises granted to Lessee herein shall be exercised in such a manner that neither shall unduly interfere with the operations of the other. This lease is made and entered into subject to any existing rights of way, easements, geophysical or geochemical exploration permits.

The bonus consideration paid for this lease is as follows:

To the State of Texas	<u>TEN THOUSAND EIGHT HUNDRED THIRTY-THREE AND 34/100</u>
Dollars (\$ <u>10,833.34</u>)	
To the owner of the soil	<u>TEN THOUSAND EIGHT HUNDRED THIRTY-THREE AND 34/100</u>
Dollars (\$ <u>10,833.34</u>)	
Total bonus consideration	<u>TWENTY-ONE THOUSAND SIX HUNDRED SIXTY-SIX AND 68/100</u>
Dollars (\$ <u>21,666.68</u>)	

The total bonus consideration paid represents a bonus of three thousand two hundred fifty dollars (\$ 3,250.00) per acre, on 6.66666667 net acres.

2. TERM. This lease shall be for a term of three (3) years commencing on the effective date (the "primary term"), and as long thereafter as Oil or Gas is produced in paying quantities from the following "Leased Premises" (herein so called), to-wit:

Part/Section: All of the E/2 of Section 44, Block 57, Township 2, A-2458, T&P RR Co. Survey, Reeves County, Texas, containing 320 acres, more or less.

Block 57 T2

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Grantee **W.T. Simerley, A-6029**
Acres: **320**
County **Reeves**

3. DELAY RENTALS. If no well is commenced on the Leased Premises on or before one (1) year from the effective date, this lease shall terminate, unless on or before such anniversary date Lessee shall pay to the owner of the soil or to his credit in the _____ Bank, at _____ 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 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	(THIS IS A PAID UP LEASE)	Dollars (\$ _____)
To the State of Texas	(THIS IS A PAID UP LEASE)	Dollars (\$ _____)
Total Delay Rental	(THIS IS A PAID UP LEASE)	Dollars (\$ _____)

In a like manner and upon like payments annually, the commencement of a well may be further deferred for successive periods of one (1) year each during the primary term. All payments of rental to the owner of the soil may be made by check 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 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.

4. ROYALTY: All capitalized terms used in this lease that are not defined in this lease shall have the meanings given them in Title 31, Part 1, Chapter 9 of the Texas Administrative Code (the "Rules"). Upon production of Oil, Gas, and/or other products from the Leased Premises, Lessee agrees to pay or cause to be paid one-half (1/2) of the royalty provided for in this lease to the GLO, for the use and benefit of the State of Texas, and one-half (1/2) of such royalty to the owner of the soil, each of the following royalties as applicable to the substances actually produced from the Leased Premises and/or subsequent processing:

- (a) **OIL:** As a royalty on Oil, a monetary royalty of twenty-five percent (25 %) of the value of the Gross Production, unless the Commissioner of the General Land Office of the State of Texas (the "Commissioner") or the owner of the soil, at the option of either, elects to receive its royalty in kind pursuant to section 4(l). The value of the Gross Production shall be calculated at the point the Oil is Ready for Sale and Use and without deduction for expenses, as described in section 4(k), and determined by the greatest of: (i) the highest posted price, plus premium, if any, paid or offered for Oil of a like type and gravity in the general area where produced and when run, (ii) the highest market price thereof paid or offered in the general area where produced and when run, or (iii) the gross proceeds of the sale thereof.
- (b) **NON-PROCESSED GAS:** As a royalty on any Non-Processed Gas, a monetary royalty of twenty-five percent (25 %) of the value of the Gross Production, unless the Commissioner or the owner of the soil, at the option of either, elects to receive its royalty in kind pursuant to section 4(l). The value of the Gross Production shall be calculated (i) at the point at which the Non-Processed Gas is Ready for Sale and Use and without deduction for expenses, as described in section 4(k), (ii) on a Dry Gas basis as to both volume and energy content (as described in the section 30 definitions below), and (iii) based on the higher of:

(A) the highest market price paid or offered for Gas of comparable quality in the general area where produced and when run, or

(B) the gross price paid or offered to the Lessee, provided that the maximum pressure base in measuring the Gas under this lease contract shall equal 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 a test made by chromatographic analysis or the Balance Method.

Provided, however, that if Non-Processed Gas is sold to a parent, subsidiary or affiliate of Lessee, then the royalty due hereunder shall be based on the value of the Gas as either Non-Processed Gas or Processed Gas, as the case may be, in the first sale to a third party in an agreement negotiated at arms' length.

- (c) **PROCESSED GAS:** As a royalty on any Processed Gas, Lessee agrees to pay a monetary royalty of twenty-five percent (25 %) of the value of the Residue Gas and the NGLs extracted, unless the Commissioner or the owner of the soil, at the option of either, elects to receive its royalty in kind pursuant to section 4(l). The value of the Gross Production shall be calculated at the point the Residue Gas and/or the NGLs, respectively, are Ready for Sale and Use. All royalties due herein shall be on 100% of the volume of the Gas produced from the Leased Premises (calculated on a Dry Gas basis as to both volume and energy content, as described in the section 30 definitions below) as measured or attributed at the inlet of the Processing Plant. The royalty due from Lessee hereunder shall be based on the greater value of:

(1) the sum of the values of (A) 100% of the Residue Gas MMBtus attributable to the Gas determined at the plant recovery efficiency applicable to each NGL component, plus (B) the net value of the NGLs after deduction of all applicable Gas processing fees and/or the value of the NGLs at the applicable liquids percent of proceeds accruing to the Processing Plant, or

(2) the sum of the values of (A) 100% of the available Residue Gas MMBtus attributable to the Gas, plus (B) the value of the NGLs at the applicable minimum liquids POP%, established herein in section 4(d), without deduction or reduction in the value of the NGLs by a percent of proceeds or any other fees or adjustments of any type, form, or character, or

(3) the "keep whole" value of the Gas as described in section 4(f).

For purposes of calculating the royalty due hereunder, the respective values of the Residue Gas and the NGLs shall be based on the greater of:

(1) the highest market price paid or offered in the general area for (A) any Pipeline-Quality Residue Gas, and (B) NGLs, as either Raw Mix or merchantable and marketable commercial grades and/or blends of each of the individual components, after fractionation, of comparable quality in the general area, or

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(2) the (A) gross price paid or offered to Lessee for such Pipeline-Quality Residue Gas, and (B) weighted monthly average gross selling price for the respective grades of NGLs, as either Raw Mix or merchantable and marketable commercial grades and/or blends of each of the individual components, after fractionation.

No fees or costs of any kind shall be deducted from the value of Gas that is bypassed around a Gas Processing Plant and then blended with Gas that was processed to remove liquefiable hydrocarbons at, or at a point downstream of, the tailgate of the Processing Plant, a.k.a. "conditioning". The value of Gas bypassed around a plant in which no liquefiable hydrocarbons or NGLs are removed from the Gas shall equal that for Non-Processed Gas per section 4(b).

Provided, however, that if NGLs are recovered from Gas processed in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the POP% applicable to NGLs shall be the greater of (x) the applicable POP% per section 4(d), or (y) the highest percent accruing to a third party processing Gas through such plant under a processing agreement negotiated at arms' length.

- (d) **APPLICABLE MINIMUM LIQUIDS PERCENT OF PROCEEDS:** (1) The applicable minimum liquids percent of proceeds ("POP%") of the total available liquid hydrocarbon content volume for all NGLs, except ethane, shall, regardless of the natural Gas liquids recovery process or Gas processing agreement terms and/or conditions, be equal to the following:

- (A) 70% for Gas with a heating content or BTU value equal to or greater than 1100 BTU/SCF;
- (B) 60% for Gas with a heating content or BTU value equal to or greater than 1070 BTU/SCF but less than 1100 BTU/SCF; and
- (C) 50% for Gas with a heating content or BTU value less than 1070 BTU/SCF.

(2) The available liquid hydrocarbon volume, in gallons, of each NGL component used to calculate the value of the NGLs at the applicable POP% shall equal the product of (A) the Processing Plant inlet Gas volume, in MSCF, on a Dry Gas basis, times (B) the gallons per MSCF of each component calculated per the applicable standards, at 14.65 pounds per square inch absolute and 60° Fahrenheit, according to a test made by chromatographic analysis of the Gas, except ethane, where the theoretical gallons of ethane available in the Gas shall be reduced by the Processing Plant recovery efficiency of ethane then being specified in processing agreements negotiated at arm's length between the Lessee and the plant for each dedicated Processing Plant and each Processing Plant that may process the Gas in a series of plants.

(3) The available Residue Gas MMBtu amount used in the calculation of the royalty value in section 4(c)(2) shall equal the product of (A) the Processing Plant inlet Gas MMBtu amount less the sum total MMBtu of shrinkage calculated for the available liquid hydrocarbon volume in section 4(d)(2) for each NGL component, times (B) one (1) 0 minus the lesser of (1) the plant fuel MMBtu percentage divided by 100%, or (2) 0.035.

- (e) **OTHER PRODUCTS:** As a royalty on carbon black, carbon dioxide, sulphur or any other products (including water) produced (excepting Oil, Gas, or NGLs, addressed separately above), Lessee agrees to pay a monetary royalty of twenty-five percent (25 %) of the value of the Gross Production of such products, unless the Commissioner of the General Land Office of the State of Texas (the "Commissioner") or the owner of the soil, at the option of either, elects to receive its royalty in kind pursuant to section 4(l). The value of the Gross Production shall be calculated at the point the other products are Ready for Sale and Use and without deduction for expenses, as described in section 4(k), such value to be based on the higher of:

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

- (f) **KEEP WHOLE:** Notwithstanding any other provision of this lease to the contrary, Lessee may not pay a royalty hereunder for Processed Gas that is less than the royalty that would have been due under section 4(b) for the total energy content of the Processing Plant inlet Gas if it had not been processed.

- (g) **NON-SALES DISPOSITIONS:** As a royalty on non-sales dispositions of Gas, including but not limited to vented Gas, flared Gas, flash Gas and lease fuel Gas, Lessee agrees to pay a royalty based on the royalty provisions for Non-Processed Gas described in section 4(b) of this Lease (but without requirement of merchantability or marketability) if the Gas produced from the Leased Premises is not processed; otherwise, the royalty on non-sales dispositions of Gas shall be based on the royalty provisions for Processed Gas described in section 4(c) for Residue Gas. If, for whatever reason, there are no Gas sales dispositions, then Lessee agrees to pay royalty on one fourth (1/4) part of the total energy content of the Gas, in MMBtu determined on a Dry Gas basis, based on the posted market price of natural Gas at the nearest applicable Gas market hub in \$/MMBtu.

- (h) **PLANT FUEL AND RECYCLED GAS:** No royalty shall be payable on any Gas as may represent this lease's proportionate share of any fuel used to process Gas produced hereunder in any third party Gas processing plant pursuant to section 4(c); provided, however, that this lease's proportionate share of any such fuel used to process Gas shall be the lesser of (1) the plant fuel MMBtu percentage of the total plant inlet MMBtu amount (as determined by contract or, if none, by actual MMBtu amounts), or (2) 3.5%, and royalty shall be payable on any Gas in excess of that lesser amount. Subject to the consent in writing of the GLO, Lessee may inject Gas for secondary or enhanced recovery operations or for Gas lift purposes into any Oil- or Gas-producing formation in the Leased Premises after the liquid hydrocarbons contained in the Gas have been removed, and no royalty shall be payable on the Gas so injected until such time as the same may thereafter be produced and sold or used.

- (i) **CONSERVATION:** Lessee shall use all reasonable means to prevent the underground or above ground waste of Oil or Gas and to avoid the physical waste, flaring or venting of Gas produced from the Leased Premises.

- (j) **DUTY TO MARKET:** Lessee shall exercise due diligence and use all reasonable efforts in marketing any and all production from the Leased Premises, at no cost to owner of the soil, to obtain the best price reasonably available for the Oil and Gas.

- (k) **NO DEDUCTIONS:** Except for fees or deductions that may be permitted pursuant to section 4(c), Lessee shall pay or cause to be paid royalty due under this lease without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, conditioning, compressing, processing, transporting and otherwise making the Oil, Non-Processed Gas, Processed Gas, and other products hereunder Ready For Sale and Use, whether borne by Lessee or by third-party purchasers and whether stated as a deduction from the price or an adjustment to the price based on location or condition. If any contract by which Lessee or an Affiliate of Lessee sells Oil or Gas produced hereunder makes deductions or adjustments to the price to account for costs of producing, gathering, storing, separating, treating, dehydrating, conditioning, compressing, processing, or transporting of Oil or Gas produced from the Leased Premises, then such deductions shall be added back to the price received for purposes of computing the Gross Production upon which royalties are to be paid. The owner of the soil, the GLO, and Lessee agree that the foregoing provision is to be given full effect and is not to be construed as "surplusage" under *Heritage Resources, Inc. v. Nationsbank*, 939 S.W.2d 118 (Tex. 1996).



- (l) **ROYALTY IN KIND:** Lessee shall pay monetary royalties based on the value of the Gross Production from the Leased Premises, unless the GLO or the owner of the soil, at the option of either, elects to receive its royalty in kind. Lessee shall pay Oil or Gas royalty, or both, in kind without deduction for expenses, as described in section (4)(k), necessary to make the Oil, Gas and any other products Ready for Sale and Use. The owner of the soil or the GLO may change its election to take royalty in kind or monetary form at any time or from time to time by giving Lessee notice of such election not less than sixty (60) days in advance. If the owner of the soil or the GLO elects to take its royalty production in kind, it may elect to have the royalty production of the Oil, Gas, and any other products that are in a Ready for Sale and Use condition delivered in kind at the location Lessee sells its production, or at another location mutually acceptable to owner of the soil or the GLO and Lessee. Lessee shall bear all costs to the point of delivery. If the GLO or the owner of the soil elects to take its royalty in kind, the parties agree to execute either the State's form of Gas Balancing Agreement or any other agreement that is acceptable to owner of the soil or the GLO and Lessee.
- (m) **SEPARATION:** Lessee agrees that before any hydrocarbons in liquid form and any Gas produced from the Leased Premises is sold, transferred, surface commingled with the production from any other lease tract and/or pooled unit, or is used or processed in a plant, it will be run free of cost to owner of the soil and the GLO through a gravity-based Oil and Gas separator of conventional type and of adequate size and efficiency such that all liquid hydrocarbons recoverable from the Gas by such means shall be recovered. Upon written consent of the GLO, Lessee may apply other forms of separation equipment that are at least as efficient as a gravity-based separator upon such terms and conditions as prescribed by the GLO. Upon written consent of the GLO, the requirement that such Gas and liquid hydrocarbons be run through a separator or other equipment may be waived upon such terms and conditions as prescribed by the GLO. Lessee must request and obtain a waiver in writing from the GLO before the installation and/or use of any full well stream/wet Gas/multiphase flow meters that measure any production on or from the Leased Premises.
- (n) **COMMINGLING:** Lessee must obtain prior written permission from the GLO per 31 TAC §9.35(a)(3) before surface commingling Oil and/or Gas production from a state lease or pooled unit with the production from any other private or state lease and/or unit into (i) a common manifold and/or separator, (ii) common storage, (iii) a common gathering system or pipeline, or (iv) to utilize an off-lease Gas supply to inject Gas for lift purposes into any Oil- or Gas-producing formation in the Leased Premises. These requirements are in addition to, and apart from, the requirements of any other state and/or federal agency.
- (o) **METERING:** Lessee agrees that any hydrocarbons in liquid form and any Gas produced from the Leased Premises shall be measured separately before the liquid hydrocarbons and/or Gas leave the Leased Premises. Lessee agrees to comply with all applicable American Gas Association (AGA) Standards, as well as the American Petroleum Institute (API) Manual of Petroleum Measurement Standards (MPMS) for any measurement device or tank that covers the standards, practices, guidelines, recommendations and procedures which include, but are not limited to, the design, installation, calibration, testing and handling of samples and operation of a metering system used for the measurement of hydrocarbons in liquid form or Gas at any meter location on the Leased Premises, at a point of lease custody transfer, for the purpose of lease allocation in the event of surface commingling, or for the reporting and allocation of lease fuel, flared Gas volumes, vented volumes or any other lease use.
- (p) **ROYALTY ON CONTRACT SETTLEMENTS:** Lessee shall pay to the owner of the soil and the GLO royalty at the applicable royalty rate on any monetary settlement received by Lessee from any breach of contract by Lessee's purchaser relating to the marketing, pricing or taking of Oil or Gas production from the Leased Premises.

5. PAYMENTS, SUBMISSIONS AND NOTICES TO LESSOR:

- (a) **MONETARY ROYALTY PAYMENTS:** All royalty owed to the GLO hereunder and not paid in kind at the election of the GLO shall be paid to the GLO at Austin, Texas, in the following manner: payment of royalty on production of Oil and Gas shall be as provided in the Rules. The Rules currently provide that royalty on Oil is due and must be received in the GLO on or before the fifth (5th) day of the second (2nd) month succeeding the month of production or such later date as may be prescribed in the Rules. Royalty on Gas is due and must be received in the GLO on or before the fifteenth (15th) day of the second (2nd) month succeeding the month of production or such later date as may be prescribed in the Rules. All royalty payments must be accompanied by the affidavit of the owner, manager or other authorized agent, completed in the form and manner prescribed by the GLO and showing the gross amount and disposition of all Oil and Gas produced and the market value of the Oil and Gas. Lessee must maintain, and make available to the GLO upon request, copies 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 the amount produced and put into pipelines, tanks, or pools and Gas lines or Gas storage, and any other reports or records which the GLO 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 GLO. Each royalty payment shall be accompanied by a check stub, schedule, summary or other remittance advice showing, by the assigned GLO lease number, the amount of royalty being paid on each lease.
- (b) **MANNER AND TIMELINESS OF PAYMENTS:** A monetary royalty payment that is not submitted electronically shall be considered timely paid if delivered to the GLO on or before the applicable due date or if deposited in a postpaid, properly addressed wrapper with a post office or official depository under the care and custody of, and postmarked by, the United States Postal Service at least one (1) day before the applicable due date. A payment that is submitted electronically shall be considered timely paid if such payment is successfully transmitted to the proper account with the Comptroller of the State of Texas on or before the due date.
- (c) **PENALTIES AND INTEREST:** Lessee shall pay penalties and interest due on late royalty payments and other sums due, and for failure to provide documents, (whether physical documents or information in electronic form), as provided by law or the Rules. The right to collect penalties and interest is in addition to, and shall not in any way limit or restrict, the rights of the GLO to pursue other remedies at law or in equity, including without limitation forfeiture of this lease. If Lessee pays royalty on or before thirty (30) days after the royalty payment was due, then Lessee owes a penalty of five percent (5%) of the royalty or twenty-five dollars (\$25.00), whichever is greater. A royalty payment which is over thirty (30) days late shall accrue a penalty of ten percent (10%) of the royalty due or twenty-five dollars (\$25.00), whichever is greater. In addition to a penalty, royalties shall accrue interest 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 Rules that were in effect 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.
- (d) **PAYMENTS, NOTICES, AND CORRESPONDENCE TO LESSOR:** Lessee shall assure that all royalty payments, shut-in royalty payments, delay rentals, and all other payments due under this lease, as well as documents, reports, notices, and other information, unless expressly provided herein that such payment or information be directed to another office, are directed to the following address:

True & Correct Copy of a
document on file at
Reeves County Texas,
Dianne O. Florez, County Clerk
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If to the owner of the soil, to the address first listed above

If to the GLO:

Texas General Land Office
P O Box 12873
Austin, Texas 78711-2873

or

Texas General Land Office
1700 N. Congress Avenue
Austin, Texas 78701

or such other address as may then be specified in the Rules. Any payments submitted electronically shall be delivered by electronic funds transfer to the proper account with the Comptroller.

- (e) **NOTICES AND CORRESPONDENCE TO LESSEE.** Notices and correspondence to Lessee shall be sent to the address shown above or such other address as Lessee shall provide in writing to the owner of the soil and the GLO. Any such notice of change of address must specifically reference this Lease.

6. RECORDS:

- (a) **RESERVES, CONTRACTS AND OTHER RECORDS:** Upon written request by the GLO, Lessee shall annually furnish the GLO with its best possible estimate of Oil and Gas reserves underlying this lease or allocable to this lease and shall furnish the GLO 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 GLO shall be held in confidence by the GLO unless otherwise authorized by Lessee. All other contracts and records pertaining to the production, transportation, sale and marketing of the Oil and Gas produced from these Leased Premises, including the books and accounts, receipts and discharges of all wells, tanks, pools, meters, and pipelines shall at all times be subject to audit, inspection, and examination by the GLO, the Attorney General, the Governor, or the representative of any of them.
- (b) **PERMITS, DRILLING RECORDS AND REQUIRED FILINGS:** Written notice of all operations on this lease shall be submitted to the GLO 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 GLO 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 GLO 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 must have the word "State" as the first word 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." Division orders must be submitted to the GLO within thirty (30) days of first production. GLO shall not be required to sign any division orders. Lessee shall supply the GLO with any records, memoranda, accounts, reports, cuttings and cores, or other information relative to the operation of the above-described Leased Premises, which may be requested by the GLO, in addition to those herein expressly provided for. Lessee shall have a basic electrical log as defined by the Railroad Commission 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 Leased Premises or such other log or logs as a reasonable and prudent operator would run and shall transmit a complete suite of such logs on each well to the GLO within fifteen (15) days after the making of said logs.
- (c) **PENALTIES:** Lessee shall incur a penalty whenever reports, documents or other materials are not filed in the GLO when due. The penalty for late filing shall be set by the GLO administrative rule which is effective on the date when the materials were due to the GLO.

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

(a) **VERTICAL.** In the event this lease is in force and effect in whole or in part, two (2) years after the expiration date of the primary term it shall then terminate as to all of the Leased Premises, EXCEPT as to the following acreage amounts for wells drilled under this lease capable of producing in paying quantities (including a shut-in Oil or Gas well as provided in section 11 hereof), or a well that has been spud and upon which Lessee is then engaged in continuous drilling or reworking operations: (1) the lesser of 40 acres or the amount of acreage assigned to an Oil well for proration purposes under special field rules, (2) the lesser of 80 acres or the amount of acreage assigned to a Gas well for proration purposes under special field rules, (3) for horizontal drainhole wells the amount of acreage retained shall be the greater of 40 acres or the amount of acreage determined by the following formula: $0.032 \times L = A$, where L = the length (in feet) of the horizontal lateral component of the well from the first takepoint to the last takepoint and A = the area retained (in acres) provided that, if A is not divisible by the number 20, A will be rounded up to the next number divisible by 20, i.e. $(0.032 \times 4500 \text{ feet} = 144 \text{ acres, which rounds up to } 160 \text{ acres})$, (4) if more acreage is required than is provided for in (1), (2) or (3) above in order to obtain the maximum allowable under special field rules for the permitted or producing interval or intervals, upon written approval from the GLO, such number of acres that are required to obtain the maximum allowable as required by the special field rules as approved by the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction, or (5) the number of acres held in a pooled unit pursuant to Natural Resources Code Sections 52.151-52.154. After termination pursuant to this subsection, each tract retained shall be considered a separate lease and must be maintained independently. Lessee shall retain the right of ingress and egress on and across the terminated portion of the Leased Premises as may be reasonably necessary for the continued operation of the portions of the lease remaining in force and effect. Further, Lessee shall retain an easement for its pipelines, tank batteries or other surface equipment or installations on the terminated acreage for so long as they continue to be used for the development and operations on the retained acreage.

(b) **HORIZONTAL.** Two (2) years after the expiration date of the primary term this lease shall further terminate as to those depths stipulated as follows for each tract retained in section 7 (a) above: for vertical wells, 100 feet true vertical depth below the deepest then producing perforations; for horizontal wells, 300 feet true vertical depth below the deepest depth reached by the horizontal lateral between the first takepoint and the last takepoint, and for acreage retained that is pooled or unitized, all depths above and below the pooled or unitized interval. If a well has been spud and is being drilled over this termination date, the acreage retained by said well under section 7 (a) shall be held as to all depths until completion of the well, and upon completion of the well as capable of producing in paying quantities, the acreage retained shall then terminate as to those depths as provided in this section.

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(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 for vertical wells or a rectangle for horizontal wells, with the well located in the center thereof, or such other shape as may be approved by the GLO. Within thirty (30) days after partial termination of this lease as provided herein, Lessee must 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 GLO, within thirty (30) days of recording accompanied by the filing fee prescribed by the GLO rules in effect on the date the release is filed. If Lessee fails or refuses to execute and record such release or releases then the GLO, in its sole discretion, may designate, by written instrument, the acreage and/or depths that have terminated 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 GLO, and such designation shall be binding upon Lessee for all purposes. If at any time after the effective date of the partial termination provisions hereof, the applicable field rules are changed or the well or wells located thereon are reclassified so that less acreage is thereafter allocated to said well or wells for production purposes, this lease shall thereupon terminate as to all acreage not thereafter allocated to said well or wells for production purposes, and Lessee shall file a release or releases in the same manner as provided above.

(d) **FIELD RULES AND EXCEPTIONS:** If Lessee seeks to amend existing field rules to establish field rules applicable to the Leased Premises, and if Lessee requests a hearing for the amendment or establishment of field rules, or if Lessee requests the consolidation of existing field rules or an exemption from field rules or statewide rules, or if Lessee seeks to adopt field rules different from those in use in the immediate area, Lessee shall notify owner of the soil and the GLO of such request prior to any Railroad Commission hearing and provide all exhibits to the owner of the soil and the GLO relative to such hearing. Any attempt by Lessee to establish, amend, consolidate, or exempt such field rules without owner of the soil's and the GLO's prior consent shall not be applicable to the Leased Premises unless and until such consent is given.

8. OFFSET WELLS: If Oil and/or Gas should be produced in commercial quantities from a well located within one thousand (1,000) feet of the area included herein, or which well is draining the area covered by this lease, the Lessee shall, within one hundred (100) days after such initial production from the draining well or the well located within one thousand (1,000) feet from the area covered by this lease, begin in good faith and prosecute diligently the drilling of an offset well on the area covered by this lease, and such offset well shall be drilled to such depth as may be necessary to prevent the undue drainage of the area covered by this lease, and the Lessee shall use all means necessary in a good faith effort to make such offset well produce Oil and/or Gas in commercial quantities. Only upon the determination of the GLO with its written approval, may the payment of a compensatory royalty satisfy the obligation to drill an offset well or wells required under this section.

9. DRY HOLE/CESSATION, DRILLING, AND REWORKING:

(a) If, during the primary term hereof, within sixty (60) days of a lease anniversary date, (i) Lessee should complete a well as a dry hole, or (ii) production should cease, then the lease is maintained over the anniversary date without the payment of a delay rental. If a dry hole is completed or production or drilling operations cease more than sixty (60) days before a lease anniversary date, a delay rental must be paid on or before such anniversary date to maintain the lease and upon failure to make such payment the lease shall terminate unless otherwise held over the anniversary date by additional drilling operations or re-establishment of production during the sixty (60) days prior to the anniversary date. If, during the last year of the primary term, the production of Oil or Gas should cease, 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 section 9(b), using the expiration of the primary term as the date of cessation of production under section 9(b). 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 automatically 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.

(b) If, at the expiration of the primary term, neither Oil nor Gas is being produced from the Leased Premises, 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 such operations result in the production of Oil and/or Gas, so long thereafter as Oil and/or Gas is produced in paying quantities from the Leased Premises, or payment of shut-in Oil or Gas well royalties or compensatory royalties is made as provided in this lease.

(c) If, after the expiration of the primary term, production of Oil or Gas from the Leased Premises, after once obtained, should cease for any cause, this lease shall not terminate if Lessee restores production in paying quantities within sixty (60) days after such cessation or 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 GLO within thirty (30) days of any cessation of production.

10. POOLING; ALLOCATION: (a) Lessee is hereby expressly prohibited from pooling or unitizing the Leased Premises or any interests therein with any other leasehold or mineral interest for the exploration, development and production of Oil or Gas or either of them without the express consent of the School Land Board and the Commissioner. A well, whether or not classified as an allocation well, that traverses multiple leases or units including the Leased Premises hereunder, one or more of which leases or units contains Oil and Gas owned by the state, and which well is not associated with an agreement approved by the GLO and owner of the soil specifying the allocation of the production of state-owned Oil and Gas, is hereby expressly not permitted and may not operate on or under this lease or a unit containing state-owned Oil and Gas without the prior written consent of the Commissioner or his authorized designee, which consent may be granted or withheld in the Commissioner's sole discretion.

(b) 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 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 (lack of suitable production facilities is not acceptable as a reason for making a shut-in payment if all or part of such production facilities are owned and/or operated by Lessee, and the cause is due to Lessee's improper maintenance or neglect) 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 section 3 of this lease

11. SHUT-IN ROYALTIES: For purposes of this section, "well" means any well that has been assigned a well number by the governmental 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 (lack of suitable production facilities is not acceptable as a reason for making a shut-in payment if all or part of such production facilities are owned and/or operated by Lessee, and the cause is due to Lessee's improper maintenance or neglect) 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 section 3 of this lease

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does not specify a delay rental amount, then for the purposes of this section, the delay rental amount shall be one dollar (\$1.00) per acre. To be effective, each initial shut-in Oil or Gas royalty payment, accompanied by the GLO Shut-In Affidavit, must be paid on or before: (1) the expiration of the primary term, (2) Sixty (60) days after the Lessee ceases to produce Oil or Gas from the Leased Premises, or (3) Sixty (60) days after Lessee completes a drilling or reworking operation in accordance with the lease provisions, whichever date is the latest. Such payment shall be made one-half (1/2) to the Commissioner, and one-half (1/2) to owner of the soil. If the shut-in Oil or Gas royalty is paid, accompanied by the GLO Shut-In Affidavit, 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 (1) year from the end of the primary term, or from the first (1st) day of the month following the month in which production ceased, and, after that, if after a diligent effort, that being those of a reasonable and prudent operator to obtain or repair the production facilities or to obtain a market, no suitable production facilities or suitable market for the Oil or Gas exists, Lessee may, upon written approval of the GLO, extend the lease for four (4) more successive periods of one (1) year by paying the same amount each year on or before the expiration of each shut-in year.

12. COMPENSATORY ROYALTIES: If, during the period the lease is kept in effect by payment of the shut-in Oil or Gas royalty, Oil or Gas is sold and delivered in paying quantities from a well located within one thousand (1,000) feet of the Leased Premises and completed in the same producing reservoir, or in any case in which drainage is occurring, the right to continue to maintain the lease by paying the shut-in Oil or Gas royalty shall cease, but the lease shall remain effective for the remainder of the year for which the royalty has been paid. Upon written approval from the GLO, the Lessee may maintain the lease for four (4) 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, and one-half (1/2) to 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 twelve (12) month period is in an amount less than the annual shut-in Oil or Gas royalty. Lessee shall pay an amount equal to the difference within thirty (30) days from the end of the twelve (12) month period, and none of these provisions will relieve Lessee of the obligation of reasonable development nor the obligation to drill offset wells as provided in N.R.C. Section 52.034; however, at the determination of the GLO, and with the GLO's written approval, the payment of compensatory royalties shall satisfy the obligation to drill offset wells. Compensatory royalty payments which are not timely paid will accrue penalty and interest in accordance with section 5 of this lease.

13. 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 the Leased Premises.

14. USE OF WATER; SURFACE: Lessee shall have the right to use water produced on said land necessary for drilling operations hereunder and solely upon the Leased Premises; provided, however, Lessee shall not use potable water or water suitable for livestock or irrigation purposes for water flood, hydraulic fracturing, or completion operations, whether such water is from stock tanks, surface reservoirs, existing water wells, or streams on the Leased Premises, without the prior written consent of owner of the soil. Lessee shall have the right to use so much of the surface of the land that may be reasonably necessary for drilling and operating Oil and Gas wells and transporting and marketing the production therefrom, such use to be conducted under conditions of least injury to the surface of the land.

15. POLLUTION: In developing the Leased Premises, 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 pollutants and shall be responsible for all damage to public and private properties. Failure to comply with the requirements of this provision may result in the maximum penalty allowed by law including forfeiture of the lease. Lessee shall be liable for the damages caused by such failure and any costs and expenses incurred in cleaning areas affected by the discharged waste.

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

17. ASSIGNMENTS: (a) Subject to the right of the GLO to require a demonstration by the transferee of its financial responsibility, this lease may be transferred at any time; provided, however, that the liability of the transferor to properly discharge its obligation under the lease, including properly plugging abandoned wells, removing platforms or pipelines or remediation of contamination at drill sites shall only pass to the transferee upon the prior written consent of the GLO. The GLO may require the transferee to demonstrate financial responsibility and may require a bond or other security. All transfers must reference the lease by the file number and must be recorded in the county where the area is located, and the recorded transfer or a copy certified to by the County Clerk of the county where the transfer is recorded must be filed in the GLO within ninety (90) days of the execution date, as provided by N.R.C. Section 52.026, accompanied by the filing fee prescribed by the GLO rules in effect on the date of receipt by the GLO of such transfer or certified copy thereof. Without limiting the liability of the original lessee or any prior transferee for that entity's debts owed to the GLO hereunder, every transferee shall succeed to all rights and be subject to all obligations, liabilities, and penalties owed to the State by the original lessee or any prior transferee of the lease, including any liabilities to the State for unpaid royalties.

(b) Notwithstanding any provision in subsection 17(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, 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.

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

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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 section, 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 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 herein provided to be paid to the GLO shall be likewise proportionately reduced. However, before Lessee adjusts the royalty due to the GLO, Lessee or his authorized representative must submit to the GLO 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. If an undivided interest remains unleased on the land covered by this lease on the date of first production from the Leased Premises, the GLO shall be paid a royalty of **twenty-five percent (25%)** of the value of the Gross Production allocable to said unleased undivided interest payable on the same terms and conditions as are provided in this lease for the payment of royalty to the GLO, until such time as the Lessee has recouped its drilling and completion costs ("payout") and upon payout the Lessee will give notice to the GLO and beginning on the first day of the month after payout the GLO shall be paid the value of 100% of the Gross Production allocable to said unleased undivided interest less the proportionate operating costs. Upon written request from the GLO, the Lessee will provide the GLO with a title opinion verifying the percentage of unleased undivided interest on the Leased Premises.

(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, 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. **LIEN:** In accordance with N.R.C. Section 52.136, the State shall have a first lien upon all Oil and Gas produced from the area covered by this lease to secure payment of all unpaid royalty and other sums of money that may become due under this lease. By acceptance of this lease, Lessee grants the State, in addition to the lien provided by N.R.C. Section 52.136 and any other applicable statutory lien, an express contractual lien on and security interest in all leased minerals in and extracted from the Leased Premises, all proceeds which may accrue to Lessee from the sale of such leased minerals, whether such proceeds are held by Lessee or by a third party, and all fixtures on and improvements to the Leased Premises used in connection with the production or processing of such leased minerals in order to secure the payment of all royalties or other amounts due or to become due under this lease and to secure payment of any damages or loss that owner of the soil may suffer by reason of Lessee's breach of any covenant or condition of this lease, whether express or implied. This lease, when filed in the real property records where the Leased Premises are located, and for purposes of perfecting owner of the soil's lien on and security interest in all proceeds, shall constitute a financing statement under the Texas Uniform Commercial Code. This lien and security interest may be foreclosed with or without court proceedings in the manner provided in Title 1, Chapter 9 of the Texas Business and Commerce Code. Lessee agrees that the GLO 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 GLO at any time determine that this representation is not true, then the GLO may declare this lease forfeited as provided herein.

22. **FORFEITURE:** If Lessee shall fail or refuse to make the payment of any sum within thirty (30) days after it becomes due, or if Lessee or an authorized agent should knowingly make any false return or false report concerning production or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith as required by law and the rules and regulations adopted by the GLO, 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 GLO, the SLB or the Railroad Commission, or refuse the proper authority access to the records pertaining to operations, or if Lessee or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or knowingly fail or refuse to furnish the GLO a correct log of any well, or if Lessee shall knowingly violate any of the provisions of this lease, or if this lease is assigned and the assignment is not filed in the GLO as required by law, or if Lessee shall fail or refuse to execute and file a release as required under this lease and by GLO rules, the rights acquired under the entirety of this lease shall be subject to forfeiture by the GLO, and it shall forfeit same when sufficiently informed of the facts which authorize a forfeiture, and when forfeited the area shall again be subject to lease. However, nothing herein shall be construed as waiving the automatic termination of this lease by operation of law or by reason of any special limitation arising hereunder. Forfeitures may be set aside and this lease and all rights thereunder reinstated before the rights of another intervene upon satisfactory evidence to the GLO of future compliance with the provisions of the law and of this lease and the rules and regulations that may be adopted relative hereto. Neither termination nor forfeiture of this lease shall have the effect of releasing Lessee from any liability theretofore accrued in favor of the State.

23. **APPLICABLE LAWS AND DRILLING RESTRICTIONS:** This lease shall be subject to all rules and regulations, and amendments thereto, promulgated by the Railroad Commission and the GLO governing drilling and producing operations on State land (specifically including any rules promulgated that relate to payment of royalties, and auditing procedures, and shall be subject to all other valid statutes, rules, regulations, orders and ordinances that may affect operations under the provisions of this lease. Without limiting the generality of the foregoing, Lessee hereby agrees, by the acceptance of this lease, to be bound by and subject to all statutory and regulatory provisions relating to the GLO's audit billing notice and audit hearings procedures. Said statutes are currently found at N.R.C. Sections 52.135 and 52.137 through 52.140.

24. **REMOVAL OF EQUIPMENT:** Subject to limitations in this section, 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, during or within six (6) months after the expiration or the termination of this lease. 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 GLO and to the owner of the soil. If Lessee fails to remove such machinery and fixtures within the allotted time, then such machinery and fixtures shall, at the election of the owner of the soil, either become the property of the owner of the soil or the owner of the soil may have such machinery and fixtures removed at the sole expense of Lessee. Notwithstanding the foregoing, if this lease is forfeited or terminated for any reason, Lessee shall not remove the casing or any equipment from the Leased Premises until wells have been plugged to the satisfaction of the Railroad Commission, all pits have been properly filled and all debris has been removed from the Leased Premises, and owner of the soil has provided written approval of all restoration.

25. **FORCE MAJEURE:** If, in the last year of the primary term or thereafter, Lessee is prevented from complying with any express or implied covenant of this lease, from conducting drilling operations thereon, or from producing Oil and/or Gas therefrom, after effort made in good faith, by reason of war, rebellion, riots, strikes, fires, acts of God or any order, rule or regulation of governmental authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended upon proper and satisfactory proof presented to the GLO (the GLO should be notified within fifteen (15) days of any force majeure event) and accepted by the GLO in support of Lessee's contention and Lessee shall not be liable for damages for failure to comply therewith; and this lease shall be extended while and so long as Lessee is prevented, by any such cause, from drilling, reworking operations or producing Oil and/or Gas from the Leased Premises. Lessee agrees to immediately notify the GLO when the reason for force majeure has ceased. Notwithstanding anything contained herein to the contrary, a well being shut-in as a result of pipeline disruptions that are subject to section 11 of this lease does not constitute an event of force majeure, and Lessee's obligations under this lease are not, for that reason, excused pursuant to this section 25.

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

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

28. VENUE: The owner of the soil and Lessee, including Lessee's successors and assigns, hereby agree that venue for any dispute involving the GLO and arising out of a provision of this lease, whether express or implied, regarding interpretation of this lease, or relating in any way to this lease or to applicable case law, statutes, or administrative rules, shall be in a court of competent jurisdiction either in Travis County, Texas, or in the county where the Leased Premises are located, at the option of the GLO.

29. LAND PROTECTIONS:

Lessee agrees to provide at least seven (7) days' prior notice to owner of the soil before commencing any surface operations on the Leased Premises, such notice to include location of operations and work to be performed.

(a) Upon written request of owner of the soil, Lessee shall construct a fence around any drill site during drilling operations, and if production is obtained, Lessee shall construct a fence around all production facilities capable of turning cattle and/or livestock. Lessee agrees to install gates at all fence crossings used by Lessee in connection with operations hereunder. Should a cattle guard or guards be placed on the Leased Premises by Lessee, then such cattle guard(s) shall be left in place and become the property of owner of the soil after the expiration of this lease.

(b) Lessee shall not cut any exterior or boundary fence nor open any locked exterior or boundary gates of the Leased Premises without owner of the soil's prior written permission, which shall not be unreasonably withheld.

(c) No employee, representative, contractor or any other person allowed by Lessee to come upon the Leased Premises shall be permitted to hunt, fish, trap, or camp on the Leased Premises, nor shall any such persons be permitted to bring alcoholic beverages or illegal drugs on to the Leased Premises at any time.

(d) All pits used by or on behalf of Lessee during drilling operations on the Leased Premises shall be lined with an impervious material so that no fluids may escape such pits. Lessee and its assigns shall not let any salt water or any other deleterious substance run on or over the Leased Premises, or let such substances run into owner of the soil's stock tanks or any creek, stream, river or other body of water, and absent owner of the soil's prior written consent to the contrary, Lessee shall not use any wells on the Leased Premises for salt water disposal purposes. If owner of the soil elects to consent to the use of wells located on the Leased Premises for salt water disposal purposes, the parties shall enter into a separate agreement covering such disposal.

(e) 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 and restore the surface to as near its original condition and contours as is practicable. Lessee shall, while conducting operations on the Leased Premises, keep said premises free of all rubbish, cans, bottles, paper cups or garbage. Lessee shall maintain trash containers at all work sites during construction on the Leased premises, such trash containers to be located at entrances and exits on each side of the road and near places of high activity. Tanks and equipment will be kept painted and presentable.

(f) When requested by the owner of the soil, Lessee shall bury its pipelines below plow depth.

(g) No drill site locations, storage tanks, or treatment facilities shall be established within three hundred feet (300') of any residence or barn now situated on the Leased Premises without owner of the soil's prior written consent. Lessee shall conduct all drilling and production operations entirely within each drill site. The owner of the soil shall have the right to participate in the selection of the location of roadways to and from any drill site on the Leased Premises and that prior to beginning operations hereunder, Lessee shall contact the owner of the soil for consent as to the location of such roadways, which consent will not be unreasonably withheld.

30. DEFINITIONS:

- a. "BTU" means British thermal unit, which is the quantity of heat required to raise the temperature of one-pound avoirdupois of pure water from 58.5 degrees Fahrenheit (°F) to 59.5°F. An MMBtu is one million (1,000,000) British thermal units.
- b. "Dry Gas" means a Gas that contains less than or equal to seven (7) lbs of water per million standard cubic feet. The volume of Gas, on a Dry Gas basis, shall be determined by mathematically removing the water vapor from Gas that is partially or fully saturated with water vapor at measurement conditions of flowing pressure and temperature. The total energy content of Gas shall be the product of multiplying the volume of Gas, on a Dry Gas basis, times the heating value per unit volume, in Btu/SCF, on a Dry Gas basis, at the same base temperature and base pressure.
- c. "Gas" means methane and other Gaseous hydrocarbons, including Gaseous combustible, noncombustible, and inert elements, compounds, components or mixtures thereof, and liquefiable hydrocarbons in the vapor stream. Gas volumes shall be calculated and reported, at the option of the GLO, in standard cubic feet (SCF), one thousand (1,000) standard cubic feet of Gas (MSCF), or one million (1,000,000) standard cubic feet of Gas (MMSCF).
- d. "Gross Heating Value or BTU Content" means the energy per unit volume represented by the number of BTUs produced by the complete combustion of one standard cubic foot of Gas (excluding hydrogen sulfide) at a temperature base of sixty degrees (60° F) Fahrenheit and pressure base of 14.65 pounds per square inch absolute.
- e. "Gross Production" means all Gas and fluids brought from underground up to and through the well head, and includes (i) all hydrocarbons produced in liquid form as Oil or condensate at the well head and also all condensate, distillate, and any other liquid hydrocarbons recovered from Oil, condensate, or Gas run through a separator or other equipment, (ii) all hydrocarbons and Gaseous substances not in liquid form produced from any well, and (iii) natural Gasoline or liquid hydrocarbons, carbon dioxide, carbon black, sulfur or any other products produced or manufactured from any Gas or liquid. The Gross Production volumes of Oil, condensate, and Gas includes all sales, custody transfer dispositions, and/or stored volumes and all non-sales disposition volumes, including but not limited to, lease use, fuel, vent, flare, spills, uncontrolled releases, theft, and any other loss. The Gross Production of Gaseous hydrocarbons shall be adjusted and reported in MMBTUs.

- f. **"Market Value"** means the greatest of (i) the highest posted price, plus premium, if any, offered or paid for Oil, Gas, condensate, distillate, other hydrocarbons, or any Other Products produced or manufactured from the Oil or Gas, of similar characteristics and type in the general area, (ii) the prevailing market price thereof in the general area, (iii) the proceeds of the sale thereof, or (iv) the highest value reasonably available to Lessee. The proceeds of sale shall include the total value accruing to the Lessee from the sale or use of the production, including proceeds and any other thing of value received by Lessee or the operator.
- g. **"Marketable"** means that sufficient infrastructure is in-place or installed to allow for the sale or delivery of merchantable Oil and/or Gas into the custody of an authorized carrier, receiving agency, or party.
- h. **"Merchantable"** means (i) with respect to Gas, a Gas that is commercially free of dust, sand, dirt, gum-forming constituents, natural Gasoline, liquid hydrocarbons, water, inerts, and any other substances that may become separated from the Gas during handling thereof and may be injurious to utility facilities, industrial, commercial, and/or residential users that would cause the Gas to be unmarketable or require additional treating and/or processing to be ready for use and consumption (sale and use), and (ii) with respect to Oil, a crude Oil, condensate, and other liquid hydrocarbons recovered in liquid form from any hydrocarbon production (oil or Gas) produced on or from the Leased Premises that is suitable for normal refinery processing, sufficiently free of foreign contaminants or chemicals, and meets the appropriate pipeline or truck haul specifications for sediment and water.
- i. **"Natural Gas Liquids (NGLs)"** means those hydrocarbons liquefied, removed, recovered, or condensed from natural Gas at the surface in field production facilities as Oil or condensate or in natural Gas processing plants as Oil or stabilized condensate and as raw mix liquids prior to separation down to their base components. Natural Gas liquids that are not recovered or removed as condensate in plant systems located on or off the Leased Premises or in a Processing Plant consist of either: (i) Raw Mix, or (ii) component plant products consisting of merchantable and marketable commercial grades and/or blends of each of the individual components, after fractionation, of ethane, propane, iso-butane, normal butane, and natural Gasoline that include pentanes plus (iso-pentane, normal pentane and hydrocarbon components of higher molecular weight).
- j. **"Non-Processed Gas"** means all hydrocarbons and Gaseous substances not defined as Oil, that are not processed in plant systems located on or off the Leased Premises or in a Processing Plant to remove or extract Natural Gas Liquids to produce a Pipeline-Quality Natural Gas or Residue Gas (although the term includes such substances that have been removed from the Gas that include, but are not limited to, carbon dioxide, sulphur, water, or any other constituent or component necessary to produce a Pipeline-Quality Natural Gas).
- k. **"Oil"** means all hydrocarbons produced in a liquid form at the mouth of the well and also all condensate, distillate and other liquid hydrocarbons recovered in liquid form from any hydrocarbon production (oil or Gas) produced on or from the Leased Premises when run through a separator or other equipment that is stored at pressures less than or equal to 15 pounds per square inch gauge, and that is not extracted in the form of Raw Mix in plant systems located on or off the Leased Premises or in a Processing Plant prior to fractionation. All Oil volumes shall be corrected from the measurement condition to report the produced volume of Oil in Stock Tank Barrels at Stock Tank Conditions per the applicable API MPMS standards.
- l. **"Pipeline-Quality Natural Gas"** means a natural Gas that is merchantable and marketable that meets an interstate or intrastate transmission company's minimum specifications with respect to (i) delivery pressure, (ii) delivery temperature, (iii) BTU content, (iv) mercaptan sulfur, (v) total sulfur, (vi) moisture and/or water content, (vii) carbon dioxide, (viii) oxygen, (ix) total inerts (the total combined carbon dioxide, helium, nitrogen, oxygen, and any other inert compound percentage by volume), (x) hydrocarbon dew point limits, (xi) merchantability, (xii) content of any liquids at or immediately downstream of the delivery point into a pipeline, and (xiii) interchangeability with the typical composition of the Gas in the pipeline with respect to the following indices: Wobbe Number, Lifting Index, Flashback Index, and Yellow Tip Index per AGA Bulletin No. 36.
- m. **"Processed Gas"** means natural Gas processed in a Processing Plant(s) located on or off the Leased Premises where Gas is processed to remove or extract liquefiable hydrocarbons or Raw Mix from the natural Gas stream to produce a Pipeline-Quality Natural Gas or Residue Gas, NGLs, and other products, and as used herein includes the Residue Gas, the Raw Mix (and resulting NGLs), and other products.
- n. **"Processing Plant"** means plant systems, located on or off the Leased Premises, that include a Gas processing plant, natural Gasoline plant, Gasoline plant, or other plant where raw unprocessed natural Gas is processed to remove or extract Raw Mix from the natural Gas stream to produce a Pipeline-Quality Natural Gas or Residue Gas and other products, and the Raw Mix is then either (i) separated by fractionation down to its base components prior to storage and/or transport that meets or conforms to all applicable Gas Processors Association (GPA) Standards and/or Specifications for the commercial sale of each liquefiable hydrocarbon product, or (ii) transported to another plant for separation down to its base components by fractionation prior to storage and/or transport for the commercial sale of each liquefiable hydrocarbon product. Any deductions, costs, or processing fees associated with the removal or recovery of Natural Gas Liquids is strictly limited to only that part of any Processing Plant or facility where Raw Mix is recovered, and if applicable at that plant, also fractionated to their component parts.
- o. **"Raw Mix"** means a mixture of Natural Gas Liquids (NGLs) that has a true vapor pressure greater than fifteen (15) pounds per square inch gauge at 100 degrees Fahrenheit (°F) prior to separation down to its base components by fractionation, typically consisting of a mixture of liquefiable hydrocarbons, including but not limited to, the natural Gas liquids ethane, propane, iso-butane, normal butane, and natural Gasoline that include pentanes plus (iso-pentane, normal pentane and hydrocarbon components of higher molecular weight).
- p. **"Ready for Sale and Use"** means the following:
- i. **For Oil:** Oil that is merchantable and marketable and otherwise in a condition such that the Oil is suitable for transfer of ownership and will be accepted by a purchaser under a sales contract typical for the field or area.
 - ii. **For Non-Processed Gas:** A Pipeline-Quality Natural Gas that is merchantable and marketable and otherwise in a condition suitable for transfer of ownership such that the natural Gas or other Gas product will be interchangeable with and accepted by a purchaser under an interstate and/or intrastate Gas sales contract typical for the field or area for use by an industrial, commercial, and/or residential user.
 - iii. **For Residue Gas:** A Pipeline-Quality Natural Gas at the tailgate of the only or last stage of Gas processing to remove Natural Gas Liquids that is merchantable and marketable and otherwise in a condition suitable for transfer of ownership such that the natural Gas or other Gas product will be interchangeable with and accepted by a purchaser under an interstate and/or intrastate

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Gas sales contract typical for the field or area for use by an industrial, commercial, and/or residential user

- iv. **For Natural Gas Liquids:** (A) merchantable and marketable Raw Mix at the point sold as such to a third party at arms' length, or (B) merchantable and marketable Natural Gas Liquids at the tailgate of a Processing Plant after fractionation that are suitable for transfer of ownership that will be interchangeable with and accepted by a purchaser for sale or use by an industrial and/or commercial user

- v. **For Other Products:** Products that are in a condition that will be accepted by a purchaser under a sales contract typical for the field or area for use by an industrial or commercial user.

q. **"Residue Gas"** means (i) the material that remains after a separation, treatment, or Gas conditioning process, and (ii) that Gas remaining after the recovery of Natural Gas Liquids to produce a Pipeline-Quality Natural Gas. If the Gas is processed to remove liquefiable hydrocarbons in a series of Processing Plants, then the Residue Gas is that Gas remaining after the recovery of Natural Gas Liquids to produce a Pipeline-Quality Natural Gas at the last Processing Plant in the series.

r. **"Stock Tank Barrel"** means the volume of liquid hydrocarbons that is equivalent to the volume of forty-two (42) U.S. gallons at atmospheric pressure and 60 °F.

s. **"Stock Tank Conditions"** means a stock tank meeting all applicable API specifications and requirements at atmospheric pressure and 60° F.

31. DISCLOSURE CLAUSE. All provisions pertaining to the lease of the Leased Premises 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 are invalid.

32. 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.

33. 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 lease, 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 lease 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 lease, 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.**

34. 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 LEASE.**

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35. EXECUTION: This lease must be signed and acknowledged by the Lessee before it is filed of record in the county records and in the GLO.

36. LEASE FILING: Pursuant to Chapter 9 of the Tex. Bus. & Com. Code, this lease must be filed of record in the office of the County Clerk in any county in which all or any part of the Leased Premises is located, and certified copies thereof must be filed in the GLO. This lease is not effective until a certified copy of this lease (that is made and certified by the County Clerk from his records) is filed in the GLO in accordance with Texas Natural Resources Code Sec. 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 GLO and the prescribed filing fee shall accompany the certified copies sent to the GLO.


LESSEE: BHP BILLITON PETROLEUM PROPERTIES (N.A.), LP
By: BHP Billiton Petroleum Properties (GP), LLC, its General Partner

BY: BRIAN F. OWEN
TITLE: Attorney-in-Fact
DATE: 10/25/2016


OWNER OF THE SOIL
Individually and as agent for the State of Texas

BY: JO ANN SHAW BARBER TRUST
TITLE: Buffie Campbell, Heritage Trust Company, Trustee
DATE: 10/12/16

OWNER OF THE SOIL
Individually and as agent for the State of Texas
BY:
TITLE:
DATE:

OWNER OF THE SOIL
Individually and as agent for the State of Texas

BY:
TITLE:
DATE:

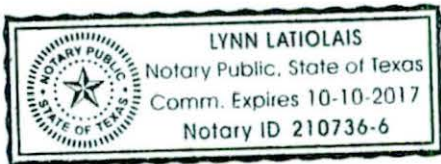
OWNER OF THE SOIL
Individually and as agent for the State of Texas
BY:
TITLE:
DATE:

STATE OF TEXAS
COUNTY OF HARRIS

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Brian F. Owen
known to me to be the person whose name is subscribed to the foregoing instruments as Attorney-in-Fact
of BHP Billiton Petroleum Properties (GP), LLC, general partner of BHP BILLITON PETROLEUM PROPERTIES (N.A.), 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 corporation.

Given under my hand and seal of office this the 25 day of OCTOBER, 2016



Lynn Latiolais
Notary Public in and for the State of Texas

STATE OF _____
COUNTY OF _____

(CORPORATION ACKNOWLEDGMENT)

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

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

Notary Public in and for _____

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Dianne O. Florez, County Clerk
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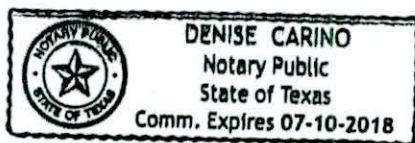
91.12.11

STATE OF TEXAS
COUNTY OF TARRANT

(INDIVIDUAL ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared BUFFIE CAMPBELL
Trustee of the JO ANN BARBER TRUST
known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this the 12th day of October, 20 16



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

STATE OF _____
COUNTY OF _____

(INDIVIDUAL ACKNOWLEDGMENT)

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

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

Notary Public in and for _____

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document on file at
Reeves County Texas,
Dianne O. Florez, County Clerk
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Inst No. 16-14490
DIANNE O. FLOREZ
COUNTY CLERK
2016 Nov 03 at 11:25 AM
REEVES COUNTY, TEXAS
By: RL [Signature], DEPUTY

01.13.11

File No. 116482

County _____

Lease GDate Filed: 11/21/14

George P. Bush, 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 Oil & Gas Lease dated August 5 2014 atfiled for record in my office this 14th day of November at11:25 AM, under Clerk's File No. 16-14490 to be recorded in theOfficial Public Record

Record of Reeves County, Texas.

TO CERTIFY WHICH, Witness my hand and official seal at Pecos, Texas

this 4th day of November, 2014.By Dianne O. Flores Deputy.DIANNE O. FLORES, COUNTY CLERK
REEVES COUNTY, TEXAS

11.21.14

MF112692
✓ MF 116482

EXHIBIT A

BHP

Date: 9/20/2017

CREDIT TO

Owner # 80113945
STATE OF TEXAS GLO
1700 N CONGRESS AVE NO 640
AUSTIN TX 78701-1495

BHP
Land Administration
P.O. Box 22719
Houston, TX 77227-9927
T (877) 311-1443
F (888) 484-3189
PetroleumOwnerRelations
Request@bhpbilliton.com

Special Clauses/Comments:

Issue Date: 9/20/2017
Property Name: STATE LAZY ACRE 57-T2-44 W101H
Property #: P1M872/00501
Production: ALL PRODUCTS
Operator: BHP BILLITON PETROLEUM (TXLA OPERATING)
Legal Description: T&P RR CO ABST/ID# 2458 Grantee W.T. SIMERLEY Twsp T2N Blk 57 Sec 44REEVES COUNTY/PARISH, TEXAS T&P RR CO ABST/ID# 5214 Grantee STATE Twsp T2 Blk 57 Sec 44REEVES COUNTY/PARISH, TEXAS T&P RR CO ABST/ID# 5210 Grantee E. ADKINS Twsp T2 Blk 57 Sec 44 REEVES COUNTY/PARISH, TEXAS (321.27 ACRES)

Decimal	Type	Status	Reason	Start Date
0.00023148	RI	PAY		7/1/2017
0.00046295	RI	PAY		7/1/2017
0.01388889	RI	PAY		7/1/2017
0.01388889	RI	PAY		7/1/2017
0.01388889	RI	PAY		7/1/2017
0.00260417	RI	PAY		7/1/2017
0.02907986	RI	PAY		7/1/2017
0.04166667	RI	PAY		7/1/2017
0.00260417	RI	PAY		7/1/2017
0.00668403	RI	PAY		7/1/2017

PLEASE KEEP THIS COPY FOR YOUR RECORDS
BERNL - 49907(P1M872_NotAmended)



TEXAS GENERAL LAND OFFICE
GEORGE P. BUSH, COMMISSIONER

November 28, 2017

Broderick Brown
Division Order Analyst
BHP Billiton Petroleum
P O BOX 22719
Houston, TX 77227-9927

Re: State Lease Nos. MF112692 and MF116482 State Lazy Acre 57-T2-44 W101H

Dear Mr. Brown:

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

16.
File No. MF116482

County

Division Order

Date Filed: 11-29-17

George P. Bush, Commissioner

By V.H.

7016 0600 0000 6595 5226

U.S. Postal Service TM CERTIFIED MAIL [®] RECEIPT <i>Domestic Mail Only</i>	
For delivery information, visit our website at www.usps.com [®] .	
OFFICIAL USE	
Certified Mail Fee \$	MF 112692
Extra Services & Fees (check box, add fee as appropriate)	MF 116482
☐ Return Receipt (hardcopy) \$	Postmark Here
☐ Return Receipt (electronic) \$	
☐ Certified Mail Restricted Delivery \$	
☐ Adult Signature Required \$	
☐ Adult Signature Restricted Delivery \$	
Postage \$	
Total Postage and Fees \$	ATTN: Holly Dutton
Sent To BHP Billiton Petroleum (TX LA Operating) Company	
Street and Apt. No., or PO Box No. 1360 Post Oak Blvd ste 150	
City, State, ZIP+4 [®] Houston, TX 77056-3030	
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

BHP Billiton Petroleum (TXLA Operating) Company
Attn: Holly Dutton
1360 Post Oak Blvd Ste 150
Houston, TX 77056-3030

Billing Date: 9/5/2018
Billing Due Date: 10/5/2018
Customer Number: C000046383

Invoice	Mineral File	Gas Royalty	Oil Royalty	Penalty	Interest	Total Due
19I00004	MF112692	\$6,929.48	\$0.00	\$692.95	\$279.64	\$7,902.07
19I00006	MF116482	\$13,858.61	\$0.00	\$1,385.87	\$559.27	\$15,803.75
Total Due		\$20,788.09	\$0.00	\$2,078.82	\$838.91	\$23,705.82

Penalty and interest have been calculated thru 9/30/2018. Payment remitted after 9/30/2018 will result in additional penalty and interest charges.

Contact Info: Jasmina Alapag (512) 475-1447 or jasmina.alapag@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.

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

BHP Billiton Petroleum (TXLA Operating) Company

Billing Date: 9/5/2018

Billing Due Date: 10/5/2018

Customer Number: C000046383

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
19I00004	MF112692	\$6,929.48	\$0.00	\$692.95	\$279.64	\$7,902.07
19I00006	MF116482	\$13,858.61	\$0.00	\$1,385.87	\$559.27	\$15,803.75
Total Due		\$20,788.09	\$0.00	\$2,078.82	\$838.91	\$23,705.82
Amt. Paid						

Customer ID: C000046383
 Invoice Number:
 GLO Lease: MF112692
 GLO Review: BHP Billiton (TxLA Op) Co
 Review Period: 201609-201708

Category: Gas
 Auditor/AE: Jalapag
 Billing Date: 9/4/2018
 P&I Calculation Date: 9/30/2018
 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
Jul-17	08-283932	13,073	1.00000000	2.624516	1.0287	\$35,295.00	\$4,411.88	\$0.00	\$4,411.88	380	4.75%	\$441.19	\$184.30	\$5,037.37
Aug-17	08-283932	7,460	1.00000000	2.624516	1.0287	\$20,140.80	\$2,517.60	\$0.00	\$2,517.60	350	4.75%	\$251.76	\$95.34	\$2,864.70
TOTALS		20,533				\$55,435.81	\$6,929.48	\$0.00	\$6,929.48			\$692.95	\$279.64	\$7,902.07

ATTN: Holly Dutton
 CERTIFIED MAIL: 7016 0600 0000 6595 5226

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# 08-283932

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

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

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

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

NOTE 1: PLEASE REMIT PAYMENT OF THIS INVOICE SEPARATELY FROM REGULAR ROYALTY PAYMENTS. THE PREFERRED METHOD OF PAYMENT IS BY CHECK ACCOMPANIED WITH THE BOTTOM HALF OF THE ATTACHED INVOICE. IF PAYMENT IS MADE THROUGH ACH DEBIT, NOTIFY THE AUDITOR AS TO THE REMITTANCE DATE SO THE INVOICE CAN BE PROPERLY CREDITED.

Customer ID: C000046383

Invoice Number:

GLO Lease: MF116482

GLO Review: BHP Billiton (TxLA Op) Co

Review Period: 201609-201708

Category: Gas

Auditor/AE: Jalapag

Billing Date: 9/4/2018

P&I Calculation Date: 9/30/2018

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
Jul-17	08-283932	26,146	1.00000000	2.624516	1.0287	\$70,590.01	\$8,823.75	\$0.00	\$8,823.75	380	4.75%	\$882.38	\$368.60	\$10,074.73
Aug-17	08-283932	14,919	1.00000000	2.624516	1.0287	\$40,278.91	\$5,034.86	\$0.00	\$5,034.86	350	4.75%	\$503.49	\$190.67	\$5,729.02
TOTALS		41,065				\$110,868.91	\$13,858.61	\$0.00	\$13,858.61			\$1,385.87	\$559.27	\$15,803.75

ATTN: Holly Dutton

CERTIFIED MAIL: 7016 0600 0000 6595 5226

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# 08-283932

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

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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.

File No. MF 116482

17

County

Recon Billing

Date Filed: 9/13/18

George P. Bush, Commissioner

By AT

Check No.: 211163
Payment Type: PUGHT PMT 2YRS

Period Covered: 03/01/2019-03/01/2019
Payment Amount: \$112,000.00

19707222

Lease Number: 1045384/001 LSE

Original Lessor: BRENNAND LAZY H RANCH LTD



Lease Effective Date: 03/01/2014

Recording Information: Book # 881 Page # 141, 14-03025

State: TX

County: REEVES

Check Remarks:

16B PAYMENT- DEPTH EXTENSION 2 YRS

NF 116482 A
Good to 3/1/21

For the Credit of:

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

(BA#):80104210

Payment Amount: \$112,000.00

Address: 1700 N CONGRESS AVE
AUSTIN, TX 78701

VERIFY THE AUTHENTICITY OF THIS MULTI-TONE SECURITY DOCUMENT.

CHECK BACKGROUND AREA CHANGES COLOR GRADUALLY FROM TOP TO BOTTOM.

BHP

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

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

32-1
1110 GL

DATE 02/12/2019

CHECK NO. 211163

19707222

AMOUNT *****\$112,000.00

VOID IF NOT CASHED WITHIN
SIX MONTHS OF ISSUE

NON TRANSFERABLE

Owner Call Center: 1-877-311-1443

PAY
TO
THE
ORDER
OF

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

FACSIMILE SIGNATURE

FACSIMILE SIGNATURE

⑈000211163⑈

Check No.: 211158
Payment Type: PUGH PMT 2YRS

Period Covered: 03/17/2019-03/17/2019
Payment Amount: \$962.97

19707227

Lease Number: 1045384/002 LSE

Original Lessor: REDLANDS ROYALTY COMPANY LLC



Lease Effective Date: 03/17/2014

Recording Information: Book # 1073 Page # 581, 14-03976

State: TX

County: REEVES

Check Remarks:

16B PAYMENT- DEPTH EXTENSION 2 YEARS

MF 116482B
Good to 3/17/21

For the Credit of:

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

(BA#):80104210

Payment Amount: \$962.97

Address: 1700 N CONGRESS AVE
AUSTIN, TX 78701

VERIFY THE AUTHENTICITY OF THIS MULTI-TONE SECURITY DOCUMENT.

CHECK BACKGROUND AREA CHANGES COLOR GRADUALLY FROM TOP TO BOTTOM.

BHP

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

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

32-1
1110 GL

DATE 02/12/2019

CHECK NO. 211158

19707227

PAY *****962*DOLLARS AND* 97*CENTS

AMOUNT *****\$962.97

VOID IF NOT CASHED WITHIN
SIX MONTHS OF ISSUE

NON TRANSFERABLE

Owner Call Center: 1-877-311-1443

PAY
TO
THE
ORDER
OF

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

FACSIMILE SIGNATURE

FACSIMILE SIGNATURE

⑈000211158⑈

18.

File No. MF116482
DRR Payments County
Leases A+B
Date Filed: 3/11/19
George P. Bush, Commissioner
By SSD

3.50.7d



May 29, 2019

Commissioner of the Texas General Land Office
ATTN: Mineral Leasing
1700 N Congress Ave
Austin, TX 78701

BHP Billiton Petroleum
Land Administration
P.O. Box 22719
Houston, TX 77227-9927
(877) 311- 1443
petroleumownerrelations@bhpbilliton.com

RE: MF112764I
MF1146840C
MF116840B
MF112764J
MF116842C MF116482C
MF116842D MF116482D

Susan,

Attached are checks #211613, #211609, #211610, #211612, #211614, #20853 for State Leases: MF112764I, MF1146840C, MF116840B, MF112764J, MF116842C, and MF116842D. BHP is tendering these payments for the Deep Rights Retention.

If you have any questions, please do not hesitate to contact me.

Kindest regards,



Monique Crump
PPU Lease Analyst
Monique.Crump@bhpbilliton.com
T - 713.297.6814
1500 Post Oak Blvd
Houston, Texas 77464

Check No.: 211614
Payment Type: EXTEND 2 YRS

Period Covered: 06/11/2019-06/11/2019
Payment Amount: \$99,259.20

19711153

Lease Number: 1045384/003 LSE

Original Lessor: SELF CHILDRENS MANAGEMENT TRUST



Lease Effective Date: 06/11/2014

Recording Information: Book # 1092 Page # 314, 14-06696

State: TX

County: REEVES

Check Remarks:

DEPTH PUGH PAYMENT/ EXTEND 2 YEARS MF116842C

For the Credit of:

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

(BA#):80104210

Payment Amount: \$99,259.20

VERIFY THE AUTHENTICITY OF THIS MULTI-TONE SECURITY DOCUMENT.

CHECK BACKGROUND AREA CHANGES COLOR GRADUALLY FROM TOP TO BOTTOM.

BHP

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

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

32-1
1110 GL

DATE 05/10/2019

19711153

CHECK NO. 211614

PAY *****99259*DOLLARS AND* 20*CENTS

AMOUNT *****\$99,259.20

VOID IF NOT CASHED WITHIN
SIX MONTHS OF ISSUE

NON TRANSFERABLE

Owner Call Center: 1-877-311-1443

PAY
TO
THE
ORDER
OF

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

FACSIMILE SIGNATURE

FACSIMILE SIGNATURE

⑈000211611⑈

BHP

PETROHAWK ENERGY CORPORATION
 CONTROLLED DISBURSEMENT
 P.O. BOX 22719
 HOUSTON, TX 77227-9927

AMEGY BANK N.A.
 P.O. BOX 27459
 HOUSTON, TEXAS 77227-7459

19711152 20853

05/21/2019

PAY TO THE
 ORDER OF COMMISSIONER OF THE TEXAS GENERAL LAND OFFICE ATN MINERAL
 LEASING

\$22,814.80

Twenty-two Thousand Eight Hundred Fourteen and 80/100 DOLLARS

Void if not cashed within six months of issue
 Non Transferable
 Owner Relations 1-877-311-1443

MEMO MF116482D/DEPTH PUGH PMT

Gray R. Hume
 AUTHORIZED SIGNATURE

⑈000 20853⑈

Petrohawk Energy Corporation

Check No: 20853 Check Date: 05/21/2019

Payment Type: Lease Obligation Payment

Payment Amount: \$22,814.80

Period Covered: 06/11/2019

For the Credit Of:

BA#: 80104210

Amount: \$22,814.80

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

Address: 1700 N CONGRESS AVE AUSTIN TX 78701

Owner Relations:
 1-877-311-1443

BHP

Lease Number: 1045384-004-LSE

Original Lessor: HENKE PETROLEUM CORPORATION

Lease Effective Date: 06/11/2014

Recording Information: 14-07907

State: TX County: REEVES

Remarks: MF116482D/DEPTH PUGH PMT

OWNER COPY**Petrohawk Energy Corporation**

Check No: 20853 Check Date: 05/21/2019

Payment Type: Lease Obligation Payment

Payment Amount: \$22,814.80

Period Covered: 06/11/2019

For the Credit Of:

BA#: 80104210

Amount: \$22,814.80

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

Address: 1700 N CONGRESS AVE AUSTIN TX 78701

Owner Relations:
 1-877-311-1443

BHP

Lease Number: 1045384-004-LSE

Original Lessor: HENKE PETROLEUM CORPORATION

Lease Effective Date: 06/11/2014

Recording Information: 14-07907

State: TX County: REEVES

Remarks: MF116482D/DEPTH PUGH PMT

IMPORTANT PLEASE SIGN AND RETURN

Date Received: 5/30/2019

Sign Here: GLO - Energy Resources

By: SSD

Title

20853

19711152



File No. MF 116482
DRR BOWNS County
Leases C + D
Date Filed: 6/3/19
George P. Rush, Commissioner
By SSP

2.30.77



Allie Huizenga

Land Negotiator
Permian BU

BP America Production Company
BPX Energy Inc.
1700 Platte Street
Suite 150
Denver, Colorado 80202
USA

Direct 720-682-0308
Allie.Huizenga@bpx.com

September 10, 2020

Texas General Land Office
Attention: Susan Draughn
1700 N. Congress Avenue, Suite 840
Austin, TX 78701-1495

Via FedEx

Re: Deep Rights Retention Payment Form
MF# 116482 A,B,C,D

Dear Ms. Draughn:

Enclosed please find a Deep Rights Retention Payment Form for MF116482. This form was not previously submitted by BPX Energy's predecessor. It is our understanding that this form is not required, but preferred by the General Land Office (the "GLO").

We respectfully request that the GLO confirm acceptance of this form and advise regarding any issues.

Please do not hesitate to contact me at the above should you have any questions.

Respectfully,

Allie Huizenga

Enclosures



Texas General Land Office
George P. Bush, Commissioner
1700 North Congress Avenue
Austin, Texas 78701-1495

DEEP RIGHTS RETENTION PAYMENT FORM

Complete a separate form for each State Mineral File (MF). Multiple undivided interest leases, in the common mineral file, for which retention is being requested, may be listed together.

Mail or Deliver with Attention to: Energy Resources

STATE LEASE # MF 116482		County REEVES	Gross Acres 320.00	Net Acres 199.4074074	Tract Part (Ex. NW/4) E/2
Section: 44	Block: 57	Survey: T&P RR CO.		Township: T2	Abstract: 2458
Agent for State (Lessor) BRENNAND LAZY H RANCH LTD, ET AL			Operator BPX OPERATING COMPANY		

FOR EACH WELL, PROVIDE THE FOLLOWING:

- "As-Drilled" Plat (horizontal wells must have lateral length set out on the plat)
- P-15 as submitted to RRC where required by RRC Field Rules

ALLIE HUIZENGA	9/10/2020
Contact	Date
LAND NEGOTIATOR	BPX ENERGY INC.
Title	Company
720-682-0308	1700 PLATTE STREET, SUITE 150
Telephone Number	Mailing Address
ALLIE.HUIZENGA@BPX.COM	DENVER, CO 80202
E-Mail Address	City, State, Zip

<u>Deep Rights Retention Bonus Work-Up</u>
Type of State Lease: (RAL, Fee, Free Royalty) RAL
Total Eligible Acres: 199.4074074
Total Amount Due: \$235,036.97
Check # 211163, 20853, 211158, 211614
<i>If there are undivided interests; there may be multiple checks</i>

For General Land Office Use Only:		
Received: _____	Payment Register No.: _____	
Amount: \$ _____	Lease Type: _____	Unit No.: _____

AGENT FOR STATE (LESSOR)				
(if multiple undivided interests are included; list below)				
Lease MF# & Undivided Interest Alpha #	Name of Agent for State of Texas	Original Bonus to State in \$	Bonus Amount Due One half (½) of Original (based on acres being retained)	Undivided Interest Net Acres
MF116482A	BRENNAND LAZY H RANCH LTD	\$224,000.00	\$112,000.00	106.66667
MF116482D	HENKE PETROLEUM CORPORATION	\$45,629.60	\$22,814.80	17.11111111
MF116482B	REDLANDS ROYALTY COMPANY LLC	\$1,925.93	\$962.97	1.18518519
MF116482C	SELF CHILDRENS MANAGEMENT TRUST	\$198,518.39	\$99,259.20	74.44444444
Deep Rights Retention Bonus Due to State TOTAL:			\$235,036.97	
Undivided Interest Net Acres TOTAL:				199.4074074

Copy and Complete Additional Sheets as Necessary

WELL INFORMATION

Copy and Complete Additional Sheets as Necessary

<u>WELL NAME & NO.</u> STATE LAZY ACRE 57-T2-44 W101H		<u>API</u> 38935706	<u>DISTRICT</u> 08	<u>RRC ID</u> 283932	<u>SPUD DATE</u> 5/5/2017	<u>COMPLETION DATE</u> 7/14/2017
<u>WELL LOCATION:</u> Land Part (Ex. NW/4): <u>E/2</u> Section: <u>44</u> Block: <u>57</u> Township: <u>T2</u> Survey: <u>T&P RR CO.</u> Abstract: <u>2458</u>			OIL ☐ VERTICAL ☐ GAS ☒ HORIZONTAL ☒ FIELD NAME & NUMBER: <u>PHANTOM (WOLFCAMP); 71052900</u>			
<u>TOTAL ALLOWABLE WELL ACRES</u> 321.27	<u>NUMBER OF STATE ACRES RETAINED AS PART OF ALLOWABLE WELL ACRES</u> 321.27	<u>NUMBER OF PRIVATE ACRES OF ALLOWABLE WELL ACRES</u> 0	<u>TRUE VERTICAL DEPTH (TVD) ON RETAINED ACREAGE</u> 10,674.83'			
<u>HORIZONTAL WELLS</u>	<u>TOTAL LENGTH OF LATERAL</u> 4,733'	<u>LENGTH OF LATERAL ON STATE LAND</u> 4,733'	<u>LENGTH OF LATERAL ON PRIVATE LAND</u> 0			
<u>3 MONTHS MOST RECENT PRODUCTION</u>	<u>MONTH/YEAR</u> 06/2020	<u>VOLUME</u> 41499 MCF, 6570 BBL	<u>MONTH/YEAR</u> 05/2020	<u>VOLUME</u> 39129 MCF, 5216 BBL	<u>MONTH/YEAR</u> 04/2020	<u>VOLUME</u> 44987 MCF, 6828 BBL

<u>WELL NAME & NO.</u>		<u>API</u>	<u>DISTRICT</u>	<u>RRC ID</u>	<u>SPUD DATE</u>	<u>COMPLETION DATE</u>
<u>WELL LOCATION:</u> Land Part (Ex. NW/4): _____ Section: _____ Block: _____ Township: _____ Survey: _____ Abstract: _____			OIL ☐ VERTICAL ☐ GAS ☒ HORIZONTAL ☒ FIELD NAME & NUMBER: _____			
<u>TOTAL ALLOWABLE WELL ACRES</u>	<u>NUMBER OF STATE ACRES RETAINED AS PART OF ALLOWABLE WELL ACRES</u>	<u>NUMBER OF PRIVATE ACRES OF ALLOWABLE WELL ACRES</u>	<u>TRUE VERTICAL DEPTH (TVD) ON RETAINED ACREAGE</u>			
<u>HORIZONTAL WELLS</u>	<u>TOTAL LENGTH OF LATERAL</u>	<u>LENGTH OF LATERAL ON STATE LAND</u>	<u>LENGTH OF LATERAL ON PRIVATE LAND</u>			
<u>3 MONTHS MOST RECENT PRODUCTION</u>	<u>MONTH/YEAR</u>	<u>VOLUME</u>	<u>MONTH/YEAR</u>	<u>VOLUME</u>	<u>MONTH/YEAR</u>	<u>VOLUME</u>

<u>WELL NAME & NO.</u>		<u>API</u>		<u>DISTRICT</u>	<u>RRC ID</u>	<u>SPUD DATE</u>	<u>COMPLETION DATE</u>
<u>WELL LOCATION:</u> Land Part (Ex. NW/4): _____ Section: _____ Block: _____ Township: _____ Survey: _____ Abstract: _____				OIL ☐ VERTICAL ☐ GAS ☐ HORIZONTAL ☐ FIELD NAME & NUMBER: _____			
<u>TOTAL ALLOWABLE WELL ACRES</u>		<u>NUMBER OF STATE ACRES RETAINED AS PART OF ALLOWABLE WELL ACRES</u>		<u>NUMBER OF PRIVATE ACRES OF ALLOWABLE WELL ACRES</u>		<u>TRUE VERTICAL DEPTH (TVD) ON RETAINED ACREAGE</u>	
<u>HORIZONTAL WELLS</u>	<u>TOTAL LENGTH OF LATERAL</u>		<u>LENGTH OF LATERAL ON STATE LAND</u>		<u>LENGTH OF LATERAL ON PRIVATE LAND</u>		
3 MONTHS MOST RECENT PRODUCTION	<u>MONTH/YEAR</u>	<u>VOLUME</u>	<u>MONTH/YEAR</u>	<u>VOLUME</u>	<u>MONTH/YEAR</u>	<u>VOLUME</u>	<u>VOLUME</u>

<u>WELL NAME & NO.</u>		<u>API</u>		<u>DISTRICT</u>	<u>RRC ID</u>	<u>SPUD DATE</u>	<u>COMPLETION DATE</u>
<u>WELL LOCATION:</u> Land Part (Ex. NW/4): _____ Section: _____ Block: _____ Township: _____ Survey: _____ Abstract: _____				OIL ☐ VERTICAL ☐ GAS ☐ HORIZONTAL ☐ FIELD NAME & NUMBER: _____			
<u>TOTAL ALLOWABLE WELL ACRES</u>		<u>NUMBER OF STATE ACRES RETAINED AS PART OF ALLOWABLE WELL ACRES</u>		<u>NUMBER OF PRIVATE ACRES OF ALLOWABLE WELL ACRES</u>		<u>TRUE VERTICAL DEPTH (TVD) ON RETAINED ACREAGE</u>	
<u>HORIZONTAL WELLS</u>	<u>TOTAL LENGTH OF LATERAL</u>		<u>LENGTH OF LATERAL ON STATE LAND</u>		<u>LENGTH OF LATERAL ON PRIVATE LAND</u>		
3 MONTHS MOST RECENT PRODUCTION	<u>MONTH/YEAR</u>	<u>VOLUME</u>	<u>MONTH/YEAR</u>	<u>VOLUME</u>	<u>MONTH/YEAR</u>	<u>VOLUME</u>	<u>VOLUME</u>

RAILROAD COMMISSION OF TEXAS

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

Form P-16

Page 1

Rev. 01/2016

Acreage Designation

SECTION I. OPERATOR INFORMATION

Operator Name: BHP BILLITON (TXLA OP) CO	Operator P-5 No.: 068596
Operator Address: 1360 POST OAK BLVD HOUSTON, TX 77056	

SECTION II. WELL INFORMATION

District No.: 08	County: REEVES	Purpose of Filing: ☐ Drilling Permit Application (Form W-1) ☒ Completion Report (Form G-1/W-2)
Well No.: 1H	API No.:	
Total Lease Acres: 321.27	Drilling Permit No.:	
Lease Name: STAT LAZY ACRE 57-T2-44 W101H	Lease No.:	
Field Name: PHANTOM (WOLFCAMP)	Field No.: 71052900	

Filer is the owner or lessee, or has been authorized by the owner or lessee, of all or an undivided portion of the mineral estate under each tract for which filer is listed as operator below. For all leases operated by other entities, the number of assigned acres shown are reflected on current Commission records or the filer has been authorized by the current operator to change the assigned acreage of that operator as shown below.

SECTION III. LISTING OF ALL WELLS IN THE APPLIED-FOR FIELD ON THE SAME ACREAGE AS THE LEASE, POOLED UNIT, OR UNITIZED TRACT DESIGNATED IN SECTION II ABOVE BY FILER

[illegible]

Total Well Count >	1	321.27	< A. Total Assigned Horiz. Acreage	321.27	< C. Total Assigned Acreage
		0	< Total Remaining Horiz. Acreage	0	< Total Remaining Acreage
		0	< B. Total Assigned Vert./Dir. Acreage		
		0	< Total Remaining Vert./Dir. Acreage		

SECTION IV. REMARKS / PURPOSE OF FILING (see instructions)

--

Attach Additional Pages As Needed. ☐ No additional pages ☐ Additional Pages: _____ (No. of additional pages)

CERTIFICATION: I declare under penalties prescribed in Sec. 91.143, Texas Natural Resources Code, that this report was prepared by me or under my supervision or direction, that I am authorized to make this report, and that the information contained in this report is true, correct, and complete to the best of my knowledge.

Vail, Nicole

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CH, (Printed Name), ISBN(10-4) 98765 43210 Editor Group Operations Pty Ltd.
www.vaid.com.au

NICOLE VAIL REGULATORY SPECIALIST

NICOLE.VAIL@BHPBILLITON.COM

Signature

Name and title (type or print)

Email (include email address *only* if you affirmatively consent to its public release)

1360 POST OAK

HOUSTON TX 77056

7134995391

02/09/2017

Address

City,	State,	Zip Code
-------	--------	----------

Tel: Area Code

Number

Date: mo. day yr.

--

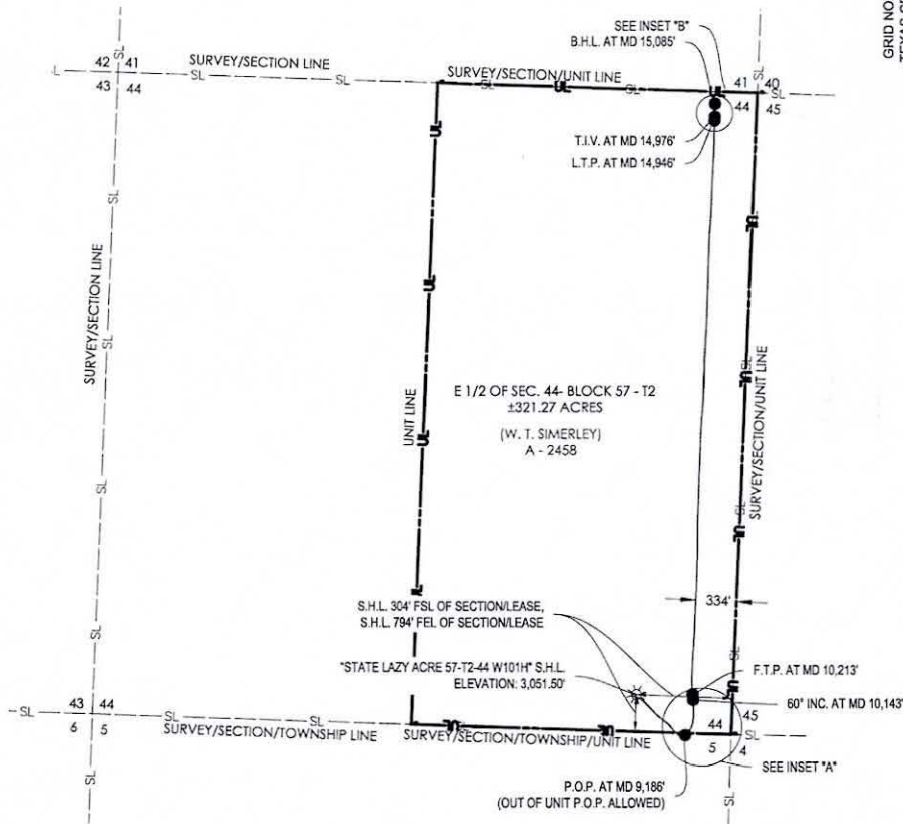
S.H.L. ELEVATION	
WELL NAME	ELEVATION
STATE LAZY ACRE 57-72-44 W101H	3,051.50'

NOTE: S.H.L. APPROXIMATE LOCATION IS S 48°12'32" W,
5.75 MILES FROM ORLA, TEXAS.
S.H.L. AND B.H.L. LOCATED IN THE W. T. SIMERLEY SURVEY A - 2458.

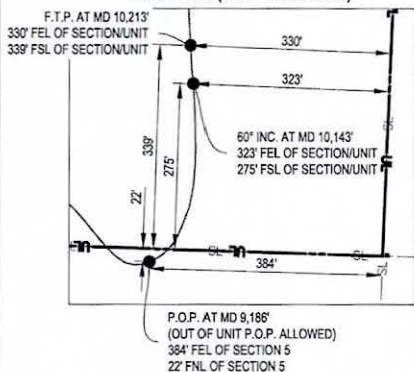
GRID NORTH (NAD 83)
TEXAS CENTRAL ZONE
GRID CONVERGENCE = -001.87794558

LEGEND

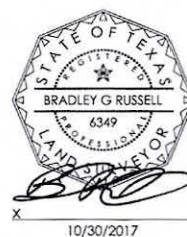
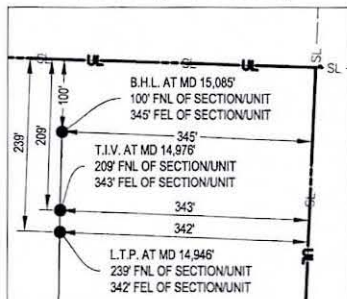
- UNIT LINE
- AS-DRILLED WELL PATH
- SECTION LINE
- S.H.L. SURFACE HOLE LOCATION
- P.O.P. POINT OF PENETRATION
- T.P. TURNING POINT
- L.T.P. LAST TAKE POINT
- B.H.L. BOTTOM HOLE LOCATION



INSET "A" (NOT TO SCALE)



INSET "B" (NOT TO SCALE)

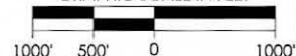


CONTACT INFORMATION:
Brad G. Russell
Crafton Tull
(101957115)
1000 Ledgeland Dr.
Conway, AR 72034

WELL BORE POSITIONS

REFERENCE	LAT. (NAD 83)	LONG. (NAD 83)	NORTHING (NAD 83)	EASTING (NAD 83)	LAT. (NAD 27)	LONG. (NAD 27)	NORTHING (NAD 27)	EASTING (NAD 27)
S.H.L.	31.76772604° N	103.97941856° W	10625245.35	1163633.16	31.76760015° N	103.97894436° W	31° 46' 03.361" N	103° 58' 44.200" W
P.O.P.	31.76683050° N	103.97810690° W	10624906.39	1164028.91	31.76670460° N	103.97763278° W	31° 46' 00.137" N	103° 58' 39.478" W
F.T.P.	31.76782188° N	103.97792549° W	10625264.99	1164098.07	31.76769598° N	103.97745135° W	31° 46' 03.706" N	103° 58' 38.825" W
L.T.P.	31.76808913° N	103.97785051° W	10629986.17	1164276.12	31.76808326° N	103.97737800° W	31° 46' 50.460" N	103° 58' 38.554" W
B.H.L.	31.78119095° N	103.97785614° W	10630125.05	1164278.93	31.78106508° N	103.97738162° W	31° 46' 51.834" N	103° 58' 38.574" W

GRAPHIC SCALE IN FEET



GENERAL NOTES

1. THE LOCATIONS OF UNDERGROUND UTILITIES AS SHOWN HEREON ARE BASED ON REASONABLE VISUAL OBSERVATION. LOCATIONS OF UNDERGROUND UTILITIES/STRUCTURES MAY VARY FROM LOCATIONS SHOWN HEREIN. ADDITIONAL BURIED UTILITIES/STRUCTURES MAY BE ENCOUNTERED. NO EXCAVATIONS WERE MADE DURING THE PROGRESS OF THIS SURVEY TO LOCATE BURIED UTILITIES/STRUCTURES. BEFORE EXCAVATIONS ARE BEGUN, THE OFFICES OF THE VARIOUS UTILITIES SERVING THIS AREA SHOULD BE CONTACTED FOR THEIR UTILITY LOCATION.

2. PROJECT COORDINATE SYSTEM: TEXAS STATE PLANE, CENTRAL ZONE, NAD83, U.S. FEET AS DETERMINED BY GPS OBSERVATION. CAF = 0.999825053.

REVISION		BHP BHP BILLITON PET (TXLA OP) CO	
1	PRELIM AS-DRILL 06-13-2017	STATE LAZY ACRE 57-72-44 W101H (MWN 836549) S.H.L. & B.H.L. IN W. T. SIMERLEY, A - 2458 REEVES COUNTY, TEXAS FINAL AS-DRILLED	
2	FINAL AS-DRILL 10-25-2017		
SCALE: 1" = 1000'		CHECKED BY: J.PARKER	APPROVED BY: MN
PLOT DATE: 10/30/2017		DRAWN BY: LDOW	SHEET NO.: 1 OF 1

09.11.20

20.

File No. MF 116482
DRR Form County
Leases A, B, C, + D
Date Filed: 9/28/20
George P. Bush, Commissioner
By SSD



TEXAS GENERAL LAND OFFICE
GEORGE P. BUSH, COMMISSIONER

May 7, 2021

Ms. Allie Huizenga
BPX Energy, Inc.
1700 Platte Street, Suite 150
Denver, CO 80202

RE: State Lease MF116482 – Relinquishment Act Lease
Deep Rights Retention Form, Leases A, B, C, and D
320 gross/199.4074074 net acres out of the E/2 of Section 44, Block 57, Township 2,
T&P RR Co. Survey, A-2458, Reeves County, Texas
Well: State Lazy Acre 57-T2-44 W101H, API 42-389-35706, RRC 08-283932

Dear Ms. Huizenga:

This letter acknowledges receipt of Deep Rights Retention checks on February 26, 2019 in the total amount of \$112,962.97 for Leases A and B and on May 30, 2019 in the total amount of \$122,074.00 for Leases C and D. The Deep Rights Retention form was received on September 11, 2020.

If you have any questions, please feel free to contact me.

Best regards,

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

File No. MF 116482
Letter accepting DRR Form County

Date Filed: 6/11/21
By George P. Bush, Commissioner
SSD





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

BPX Operating Company
Attn: Patty Burg
Office: WM11 6025-1
15377 Memorial Drive
Houston, TX 77079-4101

Billing Date: 6/15/2020
Billing Due Date: 7/15/2020
Customer Number: C000046383

Invoice	Mineral File	Gas Royalty	Oil Royalty	Penalty	Interest	Total Due
20I12671	MF116482	\$2,968.26	\$0.00	\$325.13	\$229.92	\$3,523.31
Total Due		\$2,968.26	\$0.00	\$325.13	\$229.92	\$3,523.31

Penalty and interest have been calculated thru 6/30/2020. Payment remitted after 6/30/2020 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.

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

BPX Operating Company

Billing Date: 6/15/2020

Billing Due Date: 7/15/2020

Customer Number: C000046383

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
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Total Due		\$2,968.26	\$0.00	\$325.13	\$229.92	\$3,523.31
Amt. Paid						

Customer ID: C000046383

Invoice Number:

GLO Lease: MF116482

GLO Review: BPX OPERATING COMPANY

Review Period: SEPT 2018 Through AUG 2019

Category: Gas
Auditor/AE: Acharito
Billing Date: 6/10/2020
P&I Calculation Date: 6/30/2020
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 Participa	Price	BTU	Gross Value	Royalty Due	Royalty Paid	Additional Ro	Number of Da	Interest Rate For	Penalty Rate Fron	Interest Rate Fron	Revenue Due
Sep-18	08-283932	4,399	1.00000000	1.484960	1.018300	\$6,651.88	\$831.49	\$0.00	\$831.49	593	5.50%	\$83.15	\$66.91	\$981.55
Oct-18	08-283932	3,578	1.00000000	1.818300	1.022600	\$6,652.91	\$831.61	\$0.00	\$831.61	563	5.50%	\$83.16	\$63.16	\$977.93
Nov-18	08-283932	3,182	1.00000000	1.578100	1.016000	\$5,101.86	\$637.73	\$0.00	\$637.73	532	6.50%	\$63.77	\$53.72	\$755.22
Jan-19	08-283932	643	1.00000000	2.011100	1.007900	\$1,303.35	\$162.92	\$0.00	\$162.92	473	6.50%	\$25.00	\$12.01	\$199.93
Feb-19	08-283932	2,626	1.00000000	1.362800	1.007000	\$3,603.76	\$450.47	\$0.00	\$450.47	442	6.50%	\$45.05	\$30.72	\$526.24
Mar-19	08-283932	785	1.00000000	0.545200	1.010100	\$432.30	\$54.04	\$0.00	\$54.04	412	6.50%	\$25.00	\$3.40	\$82.44
TOTALS		15,213				\$23,746.07	\$2,968.26	\$0.00	\$2,968.26			\$325.13	\$229.92	\$3,523.31

ATTN: Patty Burg

E-MAIL: Patty.Burg@bpx.com

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

COLUMN (3) RRC VOLUME - REPRESENTS UNDER REPORTED SALES VOLUMES TO THE GLO FROM RRC WELL ID# 08-283932

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.

File No. MF116482 22

Recon Billing County

Date Filed: 8/24/2021

George P. Bush, Commissioner

By VJ



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

BPX Operating Company
Attn: Patty Burg
Office: WM11 6025-1
15377 Memorial Drive
Houston, TX 77079-4101

Billing Date: 6/15/2020
Billing Due Date: 7/15/2020
Customer Number: C000046383

Invoice	Mineral File	Gas Royalty	Oil Royalty	Penalty	Interest	Total Due
20I12672	MF116482	\$0.00	\$30,788.32	\$3,078.83	\$1,315.88	\$35,183.03
Total Due		\$0.00	\$30,788.32	\$3,078.83	\$1,315.88	\$35,183.03

Penalty and interest have been calculated thru 6/30/2020. Payment remitted after 6/30/2020 will result in additional penalty and interest charges.

Contact Info: Andrea Charlton (512) 463-5190 or Andrea.Charlton@GLO.TEXAS.GOV

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Reconciliation Billing

BPX Operating Company

Billing Date: 6/15/2020

Billing Due Date: 7/15/2020

Customer Number: C000046383

Remit Payment To:

Texas General Land Office

PO Box 12873

Austin, TX 78711-2873

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Amt. Paid						

Customer ID: C000046383

Invoice Number:

GLO Lease: MF116482

GLO Review: BPX OPERATING COMPANY

Review Period: SEPT 2018 Through AUG 2019

Category: Oil
Auditor/AE: Acharito
Billing Date: 6/8/2020
P&I Calculation Date: 6/30/2020
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 Fron	Interest Rate Fron	Revenue Due
JUL-19	08-283932	0	1.00000000	0.000000	1.000000	\$252,686.32	\$31,585.79	\$797.47	\$30,788.32	299	6.50%	\$3,078.83	\$1,315.88	\$35,183.03
TOTALS		0				\$252,686.32	\$31,585.79	\$797.47	\$30,788.32			\$3,078.83	\$1,315.88	\$35,183.03

ATTENTION: Patty Burg
E-MAIL: Patty.Burg@bpx.com

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File No. MF116482

23

County

Recon Billing

Date Filed: 8/24/2021

George P. Bush, Commissioner

By

VT



Texas General Land Office

Reconciliation Billing

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Customer ID: C000046383
 Invoice Number:
 GLO Lease: MF116482
 GLO Review: BPX OPERATING COMPANY
 Review Period: SEPT 2018 Through AUG 2019

Category: Gas
 Auditor/AE: Acharlto
 Billing Date: 6/10/2020
 P&I Calculation Date: 6/30/2020
 Royalty Rate: 12.50%

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
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24

File No. MF 116482

County

Recor Billing

Date Filed: 12/13/2021

George R. Bush, Commissioner

By VT