

MF116549

NUML 8085

9349

Lease Type
RAL
DRR Lease A, B, C to 3/30/2021**Control**

07-108701

Survey

Block

Block Name

Township

Section/Tract

Land Part

Acres

Depth Below

Basefile

091353

T & P Ry Co

56

2-S

28

Parts of S/2 & NE/4

Net: 180.000000 Gross: 360.000000

Depth Above

Depth Other

Specified
Depths

Name

MARSHALL ENERGY, LLC

Lease Date

3/30/2014

Primary Term

3 years

Bonus

\$540,000.00

Lease Royalty

0.12500000

Paid Up

No

Leasing: *Q* Maps: 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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Contents of Mineral File Number: MF 116549

1. RAL Review Sheet	4/7/14	17. Letter accepting DRR - Leases A, B, & C	3/21/19
2. Bonus & Fees	4/17/14	scanned PJ	4-3-2019
3. Lease A	3/30/14	18. DIVISION ORDER	8/2/19
4. Lease B	3/30/14	scanned PJ	8-14-2019
5. Lease C	3/30/14	see MF 115668 #56 Surface Damage Prot	
6. Final Letter	7/8/14	19. Recon Billing	10/12/2021
7. Map of lease	7/31/14	20. Recon Billing	10/12/2021
8. Memo Re: Wells & Leases Sec. 28	8/1/14	scanned sm	10/14/2021
scanned PJ	12-4-14	see MF 115668 #60 Division Order	
9. Rentals - Lease A - 2 nd yr.	02/26/15	scanned WM	1-10-2023
10. Rentals - Lease B - 2 nd yr.	02/26/15		
11. Rentals - Lease C - 2 nd yr.	02/26/15		
See #10 in M-115668 for the State Scooter 56-TZ-33X28 Unit #7397			
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12. Mapping Memorandum	10/29/2015		
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13. Rentals 3 rd yr Lease A,B,C	2/23/16		
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14. Division Order	5-18-16		
See MF 115668 #19 NUML 8085 8/12/16			
15. Division Order	9-13-16		
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16. DRR payments - Leases A, B, & C	3/21/19		

RAL REVIEW SHEET

Working File #: RAL145956

MF:

Lessor: McGary, Mary Jane,

Lease Date: 03/30/2014

UI: Yes

Lessee: Marshall Energy, LLC

Gross Acres: 320.00

Net Acres: 189.00

LEASE DESCRIPTION

County	Control #	Base File No	Part	Sec	Block	Twp	Survey	Abst No
Reeves	07-108701	091353	Parts of S/2 & NE/4	28	56	2-S	T & P Ry Co	2214

TERMS OFFERED

Primary Term: 3 Years

Bonus / Acre: \$6,000.00

Rental / Acre:	2nd Yr	3rd Yr	4th Yr	5th Yr
	200.00	200.00		

Royalty: 0.250000

TERMS RECOMMENDED

Primary Term: 3 Years

Bonus / Acre: \$6,000.00

Rental / Acre:	2nd Yr	3rd Yr	4th Yr	5th Yr
	200.00	200.00		

Royalty: 0.250000

COMPARISONS

Lease No	Lessee	Lease Date	Primary Term	Bonus/Acre	Rental/Acre				Royalty	Distance
MF115668	Stephen C. Cole	07/17/2013	5 yr	\$2,000.00	\$0.00	0.00	2,000.00	0.00	0.250000	0.000000 Adjacent

Comments:

There is a flat \$200.00 rental for the 2nd Yr & 3rd Yr*SEE LEASE FOR DEPTH LIMITS AND TRACT BREAK DOWN*

Approved:

DR 4.7.14



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: Marshall Ewing
Marlin John Michael
Prim. Term: 3 Years
Royalty: 0.25000000

County: Reeves
Bonus/Acre: \$6,000.00

Rental/Acre 2nd Yr: \$200.00 3rd Yr: \$200.00 4th Yr: \$0.00 5th Yr: \$0.00

Consideration

Recommended: RJA

Date: 4/10/14

Not Recommended: _____

Comments: There is a flat \$200.00 rental for the 2nd Yr & 3rd Yr*SEE LEASE FOR DEPTH LIMITS AND TRACT BREAK DOWN*

Lease Form

Recommended: RJA

Date: 4/10/14

Not Recommended: _____

Comments: _____

Louis Renaud, Deputy Commissioner

Date: 4.28.14

Recommended: CLR

Not Recommended: _____

Bill Warnick, General Counsel

Date: 4/22/14

Recommended: WVW

Not Recommended: _____

Larry Laine, Chief Clerk

Date: 5/6/14

Approved: g

Not Approved: _____

Jerry Patterson, Commissioner

Date: 5/7/14

Approved: Jerry E. Patterson

Not Approved: _____

File No. MF 116549
RAL Worksheet - Review Sheet

Date Filed: 4/7/14
Jerry E. Patterson, Commissioner

By SSD

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

35-1058/1131
89

14710866

14000

04/02/14

PAY TO THE
ORDER OF Texas General Land Office

\$ 180,000.00

One Hundred Eighty Thousand and 00/100

DOLLARS

MEMO Bonus for Contract JR-0135A

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

[Handwritten Signature]
AUTHORIZED SIGNATURE

⑈014000⑈

PETROHAWK ENERGY CORPORATION

14000

PETROHAWK ENERGY CORPORATION

14000

14710866

X \$ 180,000.00
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
35-1058/1131
89

14710865

13999

04/02/14

PAY TO THE
ORDER OF Texas General Land Office

\$ 180,000.00

One Hundred Eighty Thousand and 00/100

DOLLARS

MEMO Bonus for Contract JR-0130A

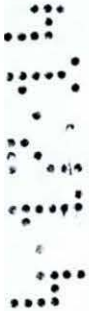
VOID IF NOT CASHED WITHIN SIX MONTHS OF ISSUE
NON TRANSFERABLE
OWNER CALL CENTER 1-877-311-1443

[Signature]
AUTHORIZED SIGNATURE

⑈013999⑈

PETROHAWK ENERGY CORPORATION

13999



14710865

PETROHAWK ENERGY CORPORATION

13999

\$180,000.00
121

bhpbilliton
resourcing the future
PETROHAWK ENERGY CORPORATION
CONTROLLED DISBURSEMENT
P.O. BOX 22719
HOUSTON, TX 77027-8968

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

35-1058/1131
89

14710864

13998

04/02/14

PAY TO THE
ORDER OF Texas General Land Office

\$ 180,000.00

One Hundred Eighty Thousand and 00 /100

DOLLARS

MEMO Bonus for Contract JR-0125A

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

[Signature]
AUTHORIZED SIGNATURE

⑈013998⑈

PETROHAWK ENERGY CORPORATION

13998

PETROHAWK ENERGY CORPORATION

13998

14710864

\$180,000.00

121

354



MICHAEL R ELENDER 05-08
2825 HIGHLAND BLVD 409-549-2793
NEDERLAND, TX 77627-4646

14710863

354

35-1054/1130
18371

4-16-14

Date

PAY to the
Order of

General Land Office - Texas

\$ 300.00

Three Hundred & no/100

Dollars



Security
Features
Details on
Back

BBVA Compass

Compass Bank
Jasper, TX

For Processing Fee

[Handwritten signature]

MP

1: [Redacted] 354

eland Clarke

COLONIAL CLASSIC®

121

355



MICHAEL R ELENDER 05-08
2825 HIGHLAND BLVD 409-549-2793
NEDERLAND, TX 77627-4646

14710862

355

35-1054/1130
18371

4-16-14

Date

PAY to the
Order of

General Land Office - Texas

\$ 75 00

Seventy Five & no/100

Dollars



Security
Features
Details on
Back

BBVA Compass

Compass Bank
Jasper, TX

For Filing Fee

[Signature]

MP

[Redacted area]

0355

121

Drew Reid - Fwd: Section 28 ogls

From: Michael Elender <mrelender@gmail.com>
To: Harriet.Dunne@GLO.TEXAS.GOV; Drew.Reid@GLO.TEXAS.GOV
Date: 3/26/2014 3:42 PM
Subject: Fwd: Section 28 ogls
Attachments: 032514 MLT - BHP ogl (Sec 28 MCL Reeves Co).pdf; 032514 MFT - BHP ogl (Sec 28 MCL Reeves Co).pdf; 032514 MJM - BHP ogl (Sec 28 MCL Reeves Co).pdf

Drew,

Please see the attached leases for your review and approval.

I have been in contact with Harriet Dunne regarding this acreage, and am waiting on her response as to the availability of the tracts and depths we are wishing to lease. My understanding is that these tracts are available, but the balance of the Section, being 280 acres, is HBP until atleast January 28, 2015.

We have a 10 day window from Bank of America to close this deal. If your files show something different, please let me know at your earliest convenience.

----- Forwarded message -----

From: Long, J.N. <j.n.long@ustrust.com>
Date: Wed, Mar 26, 2014 at 3:31 PM
Subject: Section 28 ogls
To: Michael Elender <mrelender@gmail.com>

J. N. Long, RPL

Vice President and Property Manager

U.S. Trust, Bank of America Private Wealth Management

Oil and Gas Department

901 Main Street, 17th Floor, TX1-492-17-01

Dallas, Texas 75202-3738

Phone: (214) 209-9888

Fax: (214) 416-0802

Please note my new e-mail address: j.n.long@ustrust.com

This message, and any attachments, is for the intended recipient(s) only, may contain information that is privileged, confidential and/or proprietary and subject to important terms and conditions available at <http://www.bankofamerica.com/emaildisclaimer>. If you are not the intended recipient, please delete this

message.

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Michael Elender, CPL



John L. Robertson, Inc. Oil & Gas
500 Spring Hill Drive, Ste 130
Spring, Texas 77386
Cell: 409-549-2793
Fax: 281-719-8647
Email: MRElender@gmail.com

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Michael R. Elender, CPL

500 Spring Hill Drive, Ste 130
Spring, Texas 77386
(409) 549-2793 Cell
email MRElender@gmail.com

April 16, 2014

State of Texas
General Land Office
1700 N. Congress Ave.
Austin, TX 78701

Attn: Mr. Drew Reid

RE: Block 56, T-2, T&P RR CO Survey
Section 28
Reeves County, Texas

Mr. Reid:

Enclosed please find 3 certified copies of Oil and Gas Leases from the following parties, as Agents for the State of Texas:

McGary Family Trust – Kelly Separate Property
Mary Jane McGary, a feme sole
McGary Living Trust – SPH

Marshall Energy, L.L.C. is the Lessee in the attached leases covering land in the above captioned area. Also enclosed is a check in the amount of \$75.00 to cover the filing fees for each lease, a check in the amount of \$300.00 to cover the Processing Fee, and 3 bonus checks in the following amounts:

\$180,000.00 -- McGary Family Trust – Kelly Separate Property
\$180,000.00 -- Mary Jane McGary, a feme sole
\$180,000.00 -- McGary Living Trust – SPH

Please advise if you have any questions or comments.

Thank You,



Michael Elender

Enclosures:

- 3 Checks made out to the General Land Office State of Texas in the amounts of \$180,000.00, \$180,000.00, \$180,000.00.
- Certified Copy of Relinquishment Act Lease Form executed by McGary Family Trust – Kelly Separate Property, Individually and as Agent for the State of Texas
- Certified Copy of Relinquishment Act Lease Form executed by Mary Jane McGary, a feme sole, Individually and as Agent for the State of Texas
- Certified Copy of Relinquishment Act Lease Form executed by McGary Living Trust – SPH, Individually and as Agent for the State of Texas

2.

File No. MF 116549

Bonus + Fees

Date Filed: 4/17/14

Jerry E. Patterson, Commissioner

By SSD

AT&T

116549A

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 30th day of March 2014, between the State of Texas, acting by and through its agent, McGary Family Trust - Kelly Separate Property; Kelly McGary, Trustee; Bank of America, N.A., Agent of Post Office Box 830308; Dallas, Texas 75283-0308
(Give Permanent Address)
said agent herein referred to as the owner of the soil (whether one or more), and Marshall Energy, L.L.C. of 6215 Groveswood Lane; Houston, Texas 77008-3217 hereinafter called Lessee.
(Give Permanent Address)

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

Texas & Pacific Railway Company Survey
Section 28, Block 56, Township 2 South, A-2214

Tract 1: W/2 SW/4, NE/4 SW/4 (all depths)

Tract 2: SE/4 SW/4 (all depths below 3,518 feet being 100 feet below the total depth drilled in the Draco Energy - Trinity State "28" #3 - API# 42-389-32481)

Tract 3: NW/4 SE/4 (all depths below 3,900 feet being 100 feet below the total depth drilled in the Draco Energy - Trinity State "28" #1 - API# 42-389-32391)

Tract 4: SW/4 SE/4 (all depths below 3,550 feet, being 100 feet below the total depth drilled in the Draco Energy - Trinity State "28" #4 - API# 42-389-32541)

Tract 5: NE/4 SE/4 (all depths below 3,494 feet, being the total depth drilled in the Kimlar Oil - Northrup "A" Estate #1 - API# 42-389-31897)

Tract 6: SE/4 NE/4 (all depths below 4,900 feet, being 100 feet below the total depth drilled in the Kimlar Oil - Northrup P.G. Estate #1 - API# 42-389-31698)

Tract 7: SW/4 NE/4 (all depths)

containing 360.000 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: One Hundred Eighty Thousand Dollars and No Cents
Dollars (\$180,000.00)

To the owner of the soil: One Hundred Eighty Thousand Dollars and No Cents
Dollars (\$180,000.00)

Total bonus consideration: Three Hundred Sixty Thousand Dollars and No Cents
Dollars (\$360,000.00)

The total bonus consideration paid represents a bonus of Six Thousand Dollars and No Cents
(\$6,000.00) per acre, on sixty (60) 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)

Page 1 of 11



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Clerks Office

covered exceed out of pocket operational expenses for the six months last past.

3. DELAY RENTALS. If no well is commenced on the leased premises on or before one (1) year from this date, this lease shall terminate, unless on or before such anniversary date Lessee shall pay or tender to the owner of the soil or to his credit in the _____ Bank of America, N.A. _____ Bank, at 901 Main St.; Dallas, Texas 75202 _____ 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: One Hundred Dollars and No Cents _____
Dollars (\$ 100.00 _____)
To the State of Texas: One Hundred Dollars and No Cents _____
Dollars (\$ 100.00 _____)
Total Delay Rental: Two Hundred Dollars and No Cents _____
Dollars (\$200.00 _____)

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 Leasehold Estate 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 Twenty-Five Dollars (\$25.00) per acre the total annual delay rental



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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 ~~Twenty-Five Dollars (\$25.00) per acre 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 Leasehold Estate or for injection into any oil or gas producing formation underlying the leased-premises Leasehold Estate 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 Leasehold Estate 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 Leasehold Estate 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



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

actual production of oil or gas from the leased premises Leasehold Estate 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 Leasehold Estate, 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 Leasehold Estate, 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 Leasehold Estate 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 Leasehold Estate, 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 One Hundred Dollars (\$100.00) per acre no longer maintained due to a shut-in well 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 Leasehold Estate, 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 (4) more successive periods of one (1) year by paying Five Hundred Dollars (\$500.00) per acre no longer maintained due to a shut-in well the same amount each year on or before the expiration of each the first 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 Leasehold Estate 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 Leasehold Estate. 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 Leasehold Estate. 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 Leasehold Estate, 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 Leasehold Estate 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 Leasehold Estate, 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 Leasehold Estate 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 Leasehold Estate. In addition, if oil and/or gas should be produced in commercial quantities within 1,000 feet of the leased-premises Leasehold Estate, or in any case where the leased-premises Leasehold Estate is being drained by production of oil or gas, the Lessee, sublessee, receiver or other agent in control of the leased-premises Leasehold Estate shall in good faith begin the drilling of a well or wells upon the leased-premises Leasehold Estate within 100 days after the draining well or wells or the well or wells completed within 1,000 feet of the leased-premises Leasehold Estate 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 Leasehold Estate, or from producing oil or gas from the leased-premises Leasehold Estate 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 Leasehold Estate. However, nothing in this paragraph shall suspend the payment of delay rentals in order to maintain this lease in effect during the primary term in the absence of such drilling or reworking operations or production of oil or gas.

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

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

(B) REDUCTION OF PAYMENTS. If, during the primary term, a portion of the land covered by this lease is included within the boundaries of a pooled unit that has been approved by the School Land Board and the owner of the soil in accordance with Natural Resources Code Sections 52.151-52.154, or if, at any time after the expiration of the primary term or the extended term, this lease covers a lesser number of acres than the total amount described herein, payments that are made on a per acre basis hereunder shall be reduced according to the number of acres pooled, released, surrendered, or otherwise severed, so that payments determined on a per acre basis under the terms of this lease during the primary term shall be calculated based upon the number of acres outside the boundaries of a pooled unit, or, if after the expiration of the primary term, the number of acres actually retained and covered by this lease.

21. USE OF WATER. Lessee shall have the right to use water produced on said land necessary for operations under this lease except water from wells or tanks of the owner of the soil; provided, however, Lessee shall not use potable water or water suitable for livestock or irrigation



purposes for waterflood operations without the prior consent of the owner of the soil.

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

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

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

25. **POLLUTION.** In developing this area, Lessee shall use the highest degree of care and all proper safeguards to prevent pollution. Without limiting the foregoing, pollution of coastal wetlands, natural waterways, rivers and impounded water shall be prevented by the use of containment facilities sufficient to prevent spillage, seepage or ground water contamination. In the event of pollution, Lessee shall use all means at its disposal to recapture all escaped hydrocarbons or other pollutant and shall be responsible for all damage to public and private properties. Lessee shall build and maintain fences around its slush, sump, and drainage pits and tank batteries so as to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level all slush pits and cellars and completely clean up the drilling site of all rubbish thereon. Lessee shall, while conducting operations on the leased premises Leasehold Estate, 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 Leasehold Estate, 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 Leasehold Estate, 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 Leasehold Estate 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 Leasehold Estate. 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 Leasehold Estate, 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 Leasehold Estate 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 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 Leasehold Estate 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 Leasehold Estate 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 Leasehold Estate; those arising from Lessee's use of the surface of the leased-premises Leasehold Estate; 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 Leasehold Estate, by any waste, pollutant, or contaminant. Lessee shall not bring or permit to remain on the leased-premises Leasehold Estate 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**



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THE FOREGOING PROHIBITION OR (2) THE PRESENCE, RELEASE, OR DISPOSAL OF ANY HAZARDOUS MATERIALS ON, UNDER, OR ABOUT THE ~~LEASED PREMISES~~ LEASEHOLD ESTATE DURING LESSEE'S OCCUPANCY OR CONTROL OF THE ~~LEASED PREMISES~~ LEASEHOLD ESTATE. 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~~ LEASEHOLD ESTATE DURING LESSEE'S OCCUPANCY OF THE ~~LEASED PREMISES~~ LEASEHOLD ESTATE 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~~ LEASEHOLD ESTATE. 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~~ Leasehold Estate 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 PARAGRAPHS 40, 41, 42, 43, 44, and 45

40. **SURFACE USE COVENANTS.** Lessee's rights of ingress and egress, use of the surface of the Leasehold Estate, use of water from the Leasehold Estate, and all other physical activities thereon, shall be governed by the Oil and Gas Surface Use Covenants which are attached hereto as Exhibit A. In the event of a conflict between the provisions of this Lease and the printed provisions of said Oil and Gas Surface Use Covenants, said Covenants shall prevail.

41. **OWNER OF THE SOIL, TIME FOR PAYMENT OF ROYALTIES.** Lessee agrees and undertakes to pay or tender all royalties otherwise accruing hereunder to the interest of the Owner of the Soil simultaneously with the payment or tendering thereof of royalties accruing to the interest of the State of Texas. Should payment or tender of royalties accruing to the interest of the Owner of the Soil not be so timely made, then Lessee shall be subject to the same penalties in favor of the Owner of the Soil for late payments made to the Commissioner of the General Land Office as set forth in Paragraph 9 hereof.

42. **ROYALTY INFORMATION.** In addition to other information required to be furnished by Lessee to the Owner of the Soil, either by law or under the terms of this lease, within thirty (30) days following receipt of Owner of the Soil's written request, Lessee shall promptly provide Owner of the Soil with sufficient information for Owner of the Soil to monitor and calculate all royalty payments due Owner of the Soil hereunder. If Lessee does not have access to the requested information, Lessee will have thirty (30) days from the date upon which such information becomes available to Lessee to provide same to Owner of the Soil. If such information is not so provided or is incorrect or incomplete, Lessee extends for four years, or the longest period allowed by law if less, the applicable time period for any defense based upon the statute of limitations, laches or any other delay in bringing suit, with respect to any matter which would reasonably have been revealed by such information, even if Owner of the Soil had access to relevant information from other sources, it being intended that Owner of the Soil may rely upon Lessee to keep it fully and truthfully informed without the necessity of obtaining information from other sources. Lessee hereby grants Owner of the Soil a lien on the Leasehold Estate to secure the timely and proper payment of royalties and other sums due hereunder, all interest thereon, and all expenses of collecting delinquent or improper royalty payments including, but not limited to, attorney, paralegal, and legal assistant fees, expert witness fees, all associated expenses, and court costs. Said lien shall be in the same manner and form as the lien granted the State of Texas in Paragraph 33 hereof, but ranking subordinate thereto.

43. **INFORMATION TO BE PROVIDED BY LESSEE.** Lessee shall advise Owner of the Soil in writing as to the location of each well drilled upon the Leasehold Estate, or on lands pooled therewith, on or before seven (7) days after commencement of operations, and shall advise Owner of the Soil in writing as to the date of completion or abandonment of each well drilled within thirty (30) days after such completion or abandonment. Lessee agrees to furnish Owner of the Soil with all well drilling, completion and production data, reports, title opinions, logs, and information when specifically requested by Owner of the Soil. Lessee agrees that immediately following this instrument being recorded in the county records where the Leasehold Estate is located that Lessee will provide Owner of the Soil with a copy of this fully recorded instrument as it appears in said records.

45. **UNIT DESIGNATION.** Should Lessee elect to exercise the power to pool given it by Paragraph 34 of this lease, then Lessee shall execute and record a written unit designation describing all tracts and leases included in the pooled unit, and containing a surveyor's plat of the pooled unit, in the records of the county in which the land is located. A copy of the pooled unit designation showing recording information shall be promptly furnished to owner of the soil. A pooled unit is strictly limited to the Leasehold Estate and will automatically terminate if this lease expires as to the part of the Leasehold Estate included in the pooled unit.

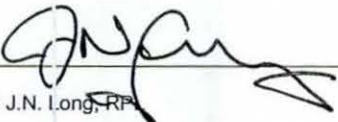
46. **MINIMUM ROYALTY.** "Minimum Royalty Year" shall be each year which commences (a) with the first day that a royalty payment on actual production of oil or gas becomes due hereunder and (b) on each anniversary of that date thereafter, for so long as production of oil and gas is obtained by Lessee in paying quantities as set out in numerical paragraph 2 above or shut-in royalties are paid by Lessee as required in numerical paragraph 14 above. Lessor shall always receive, from the delay rentals and royalties payable hereunder, at least \$100.00 (ONE HUNDRED DOLLARS AND NO CENTS) during each Minimum Royalty Year for each acre held in force under this lease at the beginning of the Minimum Royalty Year, and this amount shall be referred to as the "minimum royalty amount." If Lessor receives less than the minimum royalty amount during a Minimum Royalty Year, then it is agreed that the State of Texas shall be entitled to have this Lease declared cancelled or forfeited, unless on or before sixty (60)



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days after the end of that Minimum Royalty Year, Lessee pays or tenders to Lessor the difference between the total of delay rental, production royalty and shut-in gas royalties received during the Minimum Royalty Year and the minimum royalty amount. Any sums which may be paid by Lessee for surface or water use or damages, or for any reason other than as delay rentals and royalties, shall not be included in calculating whether the minimum royalty amount has been paid. Beginning as of the date upon which this lease is executed, the minimum royalty amount shall be adjusted on the first day of each calendar year applying the overhead adjustment factor most recently published by the Council of Petroleum Accountants Societies, Inc. It is understood and agreed that any minimum royalty payments shall be divided and paid one-half (1/2) to the State of Texas and one-half (1/2) to the Owner of the Soil.

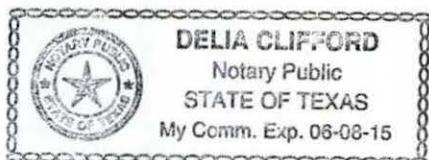
Executed on the dates indicated below but effective for all purposes as of the date first above written.

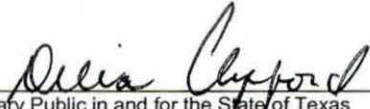
LESSOR: State of Texas by its Agent McGary Family Trust - Kelly Separate Property; Kelly McGary, Trustee By: Bank of America, N.A., Agent By:  Name: J.N. Long, RP Title: Vice President Lease: <u>30005</u> Address: 901 Main St. Fl. 17 Dallas, TX 75202-3738	LESSEE: Marshall Energy, L.L.C. By:  Name: John Michael Martin Title: Manager Address: 6215 Grovewood Ln. Houston, TX 77008-3217
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STATE OF TEXAS §
 §
COUNTY OF DALLAS §

Before me, the undersigned, a Notary Public in and for said County and State, on this day personally appeared J.N. Long, Vice President of Bank of America, N.A., known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity therein stated, and as the act and deed of said Bank in the capacity therein stated.

Given under my hand and seal of office this the 3rd day of April, 2014.



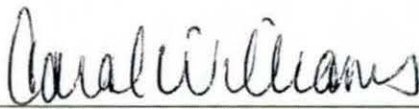

Notary Public in and for the State of Texas

STATE OF TEXAS §
 §
COUNTY OF ~~DALLAS~~ Harris §

Before me, the undersigned, a Notary Public in and for said County and State, on this day personally appeared John Michael Martin, Manager of Marshall Energy, L.L.C., known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity therein stated, and as the act and deed of said limited liability company in the capacity therein stated.

Given under my hand and seal of office this the 27 day of March, 2013.




Notary Public in and for the State of Texas



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EXHIBIT "A"

BANK OF AMERICA, N. A. SURFACE AMENDMENTS

Attached to and made a part of that certain Oil & Gas Lease dated the 25th day of March, 2014, by and between the State of Texas, by and through McGary Family Trust - Kelly Separate Property; Kelly McGary, Trustee; Bank of America, N.A., Agent its agent as Owner of the Soil (Lessor), and Marshall Energy, L.L.C. (Lessee).

1. It is understood and agreed that Lessee, its successor or assigns, shall pay actual damages to Owner of the Soil 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 Owner of the Soil and/or Surface Lessee located on the lease premises, 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 then level all drilling pits and other excavations and shall pay for and repair all damage done, or cause to be done, to buildings, fences, roads, culverts, turf, water wells and/or other improvements and to restore same to their original condition within 90 days after the cessation of activity. No drilling mud shall be spread on surface lands of Owner of the Soil without express written consent of Owner of the Soil. Guidelines or parameters for any surface damage payments shall be agreed on in advance, and in writing, by Owner of the Soil and Lessee.
2. Lessee's right to use water from the lease premises shall not include the right to use fresh water from any fresh water sands or strata underlying the lease premises 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 impoundments only with the expressed permission of the Owner of the Soil 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 Owner of the Soil 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 lease premises. The surface owner shall have the right to use all roads on the Leasehold Estate.
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 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 new storage tanks, pipelines compressor stations or other usual facilities required by Lessee for producing oil and gas and operating this lease, Lessee shall advise Owner of the Soil of Lessee's intention. Owner of the Soil must be advised in writing of the proposed location of the facility at least 30 days prior to the onset of construction and would have the right to negotiate a change, if Owner of the Soil can present a valid reason for re-location of the facility.
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 Owner of the Soil of such intention. If Owner of the Soil can provide valid, reasonable rationale for retaining unusually valuable specimen trees or trees 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 Owner of the Soil. 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 Owner of the Soil the owners of the surface 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 drill site location 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 at the request of Owner of the Soil. Lessee shall take all reasonable precautions necessary to prevent land, air and water pollution, including pollution to all underground fresh water zones. Lessee shall collect all trash which accumulates in connection with his operations and remove such trash from the Leasehold Estate. Lessee shall take all reasonable precautions to prevent blowouts from occurring on the Leasehold Estate. 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 a reasonable time after the completion of 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. 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. 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 six (6) months after the termination of this Lease,



Lessee shall remove any and all property placed by Lessee on the Leasehold Estate or Owner of the Soil shall cause same to be removed at Lessee's expense.

9. Lessee is to comply with all Federal and State regulations.
10. 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.
11. All pipelines are to be buried 36 inches below the ground, which will be from the top of the pipe to the surface of the ground. Only crude oil and natural gas (no other derivatives) and water will be allowed to be transported through any pipelines located on the property.
12. Lessee shall not conduct any operations within three hundred (300) feet of any homestead, living quarters or livestock watering facilities without express consent of Owner of the Soil.
13. Lessee hereby acknowledges that if the Leasehold Estate is subject to a Crop Reserve Program, Lessee agrees to compensate Owner of the Soil fully and completely for any penalty or other loss of subsidy or income that Owner of the Soil 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.
14. It is understood and agreed that any surface damages paid under the terms of this lease shall be divided and paid one-half (1/2) to the State of Texas and one-half (1/2) to the Owner of the Soil.
15. Lessee's right to the use of the surface of the Leasehold Estate is non-exclusive. Without limiting the generality of the foregoing, the Owner of the Soil 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 of the Soil shall have the right, as between the Owner of the Soil and Lessee, to allow third parties to conduct geophysical operations on the Leasehold Estate.

Signed for Identification only.

McGary Family Trust - Kelly Separate Property; Kelly McGary, Trustee
Bank of America, N.A., Agent

By: _____

Name: J.N. Long

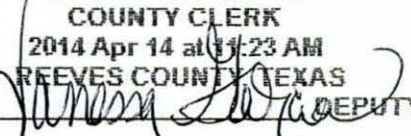
Title: Vice President

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Clerks Office



Inst No. 14-03336
DIANNE O. FLOREZ
COUNTY CLERK
2014 Apr 14 at 11:23 AM
REEVES COUNTY TEXAS

By: VG  DEPUTY

File No. MF 116549
Lease A
Date Filed: 3/30/14
Jerry E. Patterson, Commissioner
By SSD

2014

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 Oil & Gas Lease dated March 30, 2014 filed for record in my office this 14th day of April 2014 at 11:30 A.M., under Clerk's File No. 46355 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 14th day of April, 2014.
By [Signature] Deputy.
DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

116549B

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 30th day of March 2014, between the State of Texas, acting by and through its agent, Mary Jane McGary, a *feme sole*; Bank of America, N.A., Agent _____ of Post Office Box 830308; Dallas, Texas 75283-0308 _____
(Give Permanent Address)
said agent herein referred to as the owner of the soil (whether one or more), and Marshall Energy, L.L.C. _____ of 6215 Grovewood Lane; Houston, Texas 77008-3217 _____ hereinafter called Lessee.
(Give Permanent Address)

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

Texas & Pacific Railway Company Survey
Section 28, Block 56, Township 2 South, A-2214

Tract 1: W/2 SW/4, NE/4 SW/4 (all depths)

Tract 2: SE/4 SW/4 (all depths below 3,518 feet being 100 feet below the total depth drilled in the Draco Energy – Trinity State "28" #3 - API# 42-389-32481)

Tract 3: NW/4 SE/4 (all depths below 3,900 feet being 100 feet below the total depth drilled in the Draco Energy – Trinity State "28" #1 - API# 42-389-32391)

Tract 4: SW/4 SE/4 (all depths below 3,550 feet, being 100 feet below the total depth drilled in the Draco Energy – Trinity State "28" #4 - API# 42-389-32541)

Tract 5: NE/4 SE/4 (all depths below 3,494 feet, being the total depth drilled in the Kimlar Oil – Northrup "A" Estate #1 - API# 42-389-31897)

Tract 6: SE/4 NE/4 (all depths below 4,900 feet, being 100 feet below the total depth drilled in the Kimlar Oil – Northrup P.G. Estate #1 - API# 42-389-31698)

Tract 7: SW/4 NE/4 (all depths)

containing 60.000 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: One Hundred Eighty Thousand Dollars and No Cents _____
Dollars (\$180,000.00 _____)

To the owner of the soil: One Hundred Eighty Thousand Dollars and No Cents _____
Dollars (\$180,000.00 _____)

Total bonus consideration: Three Hundred Sixty Thousand Dollars and No Cents _____
Dollars (\$360,000.00 _____)

The total bonus consideration paid represents a bonus of Six Thousand Dollars and No Cents _____
(\$6,000.00 _____) per acre, on sixty (60) _____ 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)

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covered exceed out of pocket operational expenses for the six months last past.

3. DELAY RENTALS. If no well is commenced on the leased premises on or before one (1) year from this date, this lease shall terminate, unless on or before such anniversary date Lessee shall pay or tender to the owner of the soil or to his credit in the _____ Bank of America, N.A. _____ Bank, at 901 Main St.; Dallas, Texas 75202 _____ 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: One Hundred Dollars and No Cents _____
Dollars (\$ 100.00 _____)
To the State of Texas: One Hundred Dollars and No Cents _____
Dollars (\$ 100.00 _____)
Total Delay Rental: Two Hundred Dollars and No Cents _____
Dollars (\$200.00 _____)

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 Leasehold Estate 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 Twenty Five Dollars (\$25.00) per acre the total annual delay rental



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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 ~~Twenty-Five Dollars (\$25.00) per acre~~ 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 Leasehold Estate or for injection into any oil or gas producing formation underlying the leased premises Leasehold Estate 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 Leasehold Estate 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 Leasehold Estate 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 Leasehold Estate 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 Leasehold Estate, 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 Leasehold Estate, 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 Leasehold Estate 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 Leasehold Estate, 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 One Hundred Dollars (\$100.00) per acre no longer maintained due to a shut-in well 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 Leasehold Estate, 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 one more successive periods of one (1) year by paying Five Hundred Dollars (\$500.00) per acre no longer maintained due to a shut-in well the same amount each year on or before the expiration of each the first 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 Leasehold Estate 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 Leasehold Estate. 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 Leasehold Estate. 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 Leasehold Estate, 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 Leasehold Estate 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 Leasehold Estate, 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 Leasehold Estate 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 Leasehold Estate. In addition, if oil and/or gas should be produced in commercial quantities within 1,000 feet of the leased-premises Leasehold Estate, or in any case where the leased-premises Leasehold Estate is being drained by production of oil or gas, the Lessee, sublessee, receiver or other agent in control of the leased-premises Leasehold Estate shall in good faith begin the drilling of a well or wells upon the leased-premises Leasehold Estate within 100 days after the draining well or wells or the well or wells completed within 1,000 feet of the leased-premises Leasehold Estate 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 Leasehold Estate, or from producing oil or gas from the leased-premises Leasehold Estate 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 Leasehold Estate. 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



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purposes for waterflood operations without the prior consent of the owner of the soil.

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

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

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

25. **POLLUTION.** In developing this area, Lessee shall use the highest degree of care and all proper safeguards to prevent pollution. Without limiting the foregoing, pollution of coastal wetlands, natural waterways, rivers and impounded water shall be prevented by the use of containment facilities sufficient to prevent spillage, seepage or ground water contamination. In the event of pollution, Lessee shall use all means at its disposal to recapture all escaped hydrocarbons or other pollutant and shall be responsible for all damage to public and private properties. Lessee shall build and maintain fences around its slush, sump, and drainage pits and tank batteries so as to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level all slush pits and cellars and completely clean up the drilling site of all rubbish thereon. Lessee shall, while conducting operations on the leased-premises Leasehold Estate, 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 Leasehold Estate, 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 Leasehold Estate, 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 Leasehold Estate 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 Leasehold Estate. 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 Leasehold Estate, 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 Leasehold Estate 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 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 Leasehold Estate 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 Leasehold Estate 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 Leasehold Estate; those arising from Lessee's use of the surface of the leased-premises Leasehold Estate; 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 Leasehold Estate, by any waste, pollutant, or contaminant. Lessee shall not bring or permit to remain on the leased-premises Leasehold Estate 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**



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THE FOREGOING PROHIBITION OR (2) THE PRESENCE, RELEASE, OR DISPOSAL OF ANY HAZARDOUS MATERIALS ON, UNDER, OR ABOUT THE ~~LEASED PREMISES~~ LEASEHOLD ESTATE DURING LESSEE'S OCCUPANCY OR CONTROL OF THE ~~LEASED PREMISES~~ LEASEHOLD ESTATE. 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~~ LEASEHOLD ESTATE DURING LESSEE'S OCCUPANCY OF THE ~~LEASED PREMISES~~ LEASEHOLD ESTATE 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~~ LEASEHOLD ESTATE. 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~~ Leasehold Estate 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 PARAGRAPHS 40, 41, 42, 43, 44, and 45

40. **SURFACE USE COVENANTS.** Lessee's rights of ingress and egress, use of the surface of the Leasehold Estate, use of water from the Leasehold Estate, and all other physical activities thereon, shall be governed by the Oil and Gas Surface Use Covenants which are attached hereto as Exhibit A. In the event of a conflict between the provisions of this Lease and the printed provisions of said Oil and Gas Surface Use Covenants, said Covenants shall prevail.

41. **OWNER OF THE SOIL, TIME FOR PAYMENT OF ROYALTIES.** Lessee agrees and undertakes to pay or tender all royalties otherwise accruing hereunder to the interest of the Owner of the Soil simultaneously with the payment or tendering thereof of royalties accruing to the interest of the State of Texas. Should payment or tender of royalties accruing to the interest of the Owner of the Soil not be so timely made, then Lessee shall be subject to the same penalties in favor of the Owner of the Soil for late payments made to the Commissioner of the General Land Office as set forth in Paragraph 9 hereof.

42. **ROYALTY INFORMATION.** In addition to other information required to be furnished by Lessee to the Owner of the Soil, either by law or under the terms of this lease, within thirty (30) days following receipt of Owner of the Soil's written request, Lessee shall promptly provide Owner of the Soil with sufficient information for Owner of the Soil to monitor and calculate all royalty payments due Owner of the Soil hereunder. If Lessee does not have access to the requested information, Lessee will have thirty (30) days from the date upon which such information becomes available to Lessee to provide same to Owner of the Soil. If such information is not so provided or is incorrect or incomplete, Lessee extends for four years, or the longest period allowed by law if less, the applicable time period for any defense based upon the statute of limitations, *laches* or any other delay in bringing suit, with respect to any matter which would reasonably have been revealed by such information, even if Owner of the Soil had access to relevant information from other sources, it being intended that Owner of the Soil may rely upon Lessee to keep it fully and truthfully informed without the necessity of obtaining information from other sources. Lessee hereby grants Owner of the Soil a lien on the Leasehold Estate to secure the timely and proper payment of royalties and other sums due hereunder, all interest thereon, and all expenses of collecting delinquent or improper royalty payments including, but not limited to, attorney, paralegal, and legal assistant fees, expert witness fees, all associated expenses, and court costs. Said lien shall be in the same manner and form as the lien granted the State of Texas in Paragraph 33 hereof, but ranking subordinate thereto.

43. **INFORMATION TO BE PROVIDED BY LESSEE.** Lessee shall advise Owner of the Soil in writing as to the location of each well drilled upon the Leasehold Estate, or on lands pooled therewith, on or before seven (7) days after commencement of operations, and shall advise Owner of the Soil in writing as to the date of completion or abandonment of each well drilled within thirty (30) days after such completion or abandonment. Lessee agrees to furnish Owner of the Soil with all well drilling, completion and production data, reports, title opinions, logs, and information when specifically requested by Owner of the Soil. Lessee agrees that immediately following this instrument being recorded in the county records where the Leasehold Estate is located that Lessee will provide Owner of the Soil with a copy of this fully recorded instrument as it appears in said records.

44. **UNIT DESIGNATION.** Should Lessee elect to exercise the power to pool given it by Paragraph 34 of this lease, then Lessee shall execute and record a written unit designation describing all tracts and leases included in the pooled unit, and containing a surveyor's plat of the pooled unit, in the records of the county in which the land is located. A copy of the pooled unit designation showing recording information shall be promptly furnished to owner of the soil. A pooled unit is strictly limited to the Leasehold Estate and will automatically terminate if this lease expires as to the part of the Leasehold Estate included in the pooled unit.

45. **MINIMUM ROYALTY.** "Minimum Royalty Year" shall be each year which commences (a) with the first day that a royalty payment on actual production of oil or gas becomes due hereunder and (b) on each anniversary of that date thereafter, for so long as production of oil and gas is obtained by Lessee in paying quantities as set out in numerical paragraph 2 above or shut-in royalties are paid by Lessee as required in numerical paragraph 14 above. Lessor shall always receive, from the delay rentals and royalties payable hereunder, at least \$100.00 (ONE HUNDRED DOLLARS AND NO CENTS) during each Minimum Royalty Year for each acre held in force under this lease at the beginning of the Minimum Royalty Year, and this amount shall be referred to as the "minimum royalty amount." If Lessor receives less than the minimum royalty amount during a Minimum Royalty Year, then it is agreed that the State of Texas shall be entitled to have this Lease declared cancelled or forfeited, unless on or before sixty (60)

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days after the end of that Minimum Royalty Year, Lessee pays or tenders to Lessor the difference between the total of delay rental, production royalty and shut-in gas royalties received during the Minimum Royalty Year and the minimum royalty amount. Any sums which may be paid by Lessee for surface or water use or damages, or for any reason other than as delay rentals and royalties, shall not be included in calculating whether the minimum royalty amount has been paid. Beginning as of the date upon which this lease is executed, the minimum royalty amount shall be adjusted on the first day of each calendar year applying the overhead adjustment factor most recently published by the Council of Petroleum Accountants Societies, Inc. It is understood and agreed that any minimum royalty payments shall be divided and paid one-half (1/2) to the State of Texas and one-half (1/2) to the Owner of the Soil.

Executed on the dates indicated below but effective for all purposes as of the date first above written.

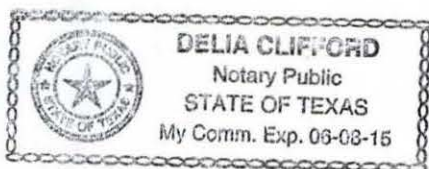
LESSOR: State of Texas by its Agent Mary Jane McGary, a <i>feme sole</i> By: Bank of America, N.A., Agent By: <u>[Signature]</u> Name: J.N. Long, RPL Title: Vice President Lease: <u>30018</u> Address: 901 Main St. Fl. 17 Dallas, TX 75202-3738	LESSEE: Marshall Energy, L.L.C. By: <u>[Signature]</u> Name: John Michael Martin Title: Manager Address: 6215 Grovewood Ln. Houston, TX 77008-3217
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STATE OF TEXAS

COUNTY OF DALLAS

Before me, the undersigned, a Notary Public in and for said County and State, on this day personally appeared J.N. Long, Vice President of Bank of America, N.A., known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity therein stated, and as the act and deed of said Bank in the capacity therein stated.

Given under my hand and seal of office this the 28th day of April, 2014.



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

STATE OF TEXAS

COUNTY OF ~~DALLAS~~ Harris

Before me, the undersigned, a Notary Public in and for said County and State, on this day personally appeared John Michael Martin, Manager of Marshall Energy, L.L.C., known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity therein stated, and as the act and deed of said limited liability company in the capacity therein stated.

Given under my hand and seal of office this the 27 day of March, 2013.



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



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EXHIBIT "A"

BANK OF AMERICA, N. A. SURFACE AMENDMENTS

Attached to and made a part of that certain Oil & Gas Lease dated the 25th day of March, 2014, by and between the State of Texas, by and through Mary Jane McGary, a *feme sole*; Bank of America, N.A., Agent its agent as Owner of the Soil (Lessor), and Marshall Energy, L.L.C. (Lessee).

1. It is understood and agreed that Lessee, its successor or assigns, shall pay actual damages to Owner of the Soil 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 Owner of the Soil and/or Surface Lessee located on the lease premises, 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 then level all drilling pits and other excavations and shall pay for and repair all damage done, or cause to be done, to buildings, fences, roads, culverts, turf, water wells and/or other improvements and to restore same to their original condition within 90 days after the cessation of activity. No drilling mud shall be spread on surface lands of Owner of the Soil without express written consent of Owner of the Soil. Guidelines or parameters for any surface damage payments shall be agreed on in advance, and in writing, by Owner of the Soil and Lessee.
2. Lessee's right to use water from the lease premises shall not include the right to use fresh water from any fresh water sands or strata underlying the lease premises 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 impoundments only with the expressed permission of the Owner of the Soil 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 Owner of the Soil 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 lease premises. The surface owner shall have the right to use all roads on the Leasehold Estate.
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 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 new storage tanks, pipelines compressor stations or other usual facilities required by Lessee for producing oil and gas and operating this lease, Lessee shall advise Owner of the Soil of Lessee's intention. Owner of the Soil must be advised in writing of the proposed location of the facility at least 30 days prior to the onset of construction and would have the right to negotiate a change, if Owner of the Soil can present a valid reason for re-location of the facility.
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 Owner of the Soil of such intention. If Owner of the Soil can provide valid, reasonable rationale for retaining unusually valuable specimen trees or trees 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 Owner of the Soil. 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 Owner of the Soil the owners of the surface 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 drill site location 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 at the request of Owner of the Soil. Lessee shall take all reasonable precautions necessary to prevent land, air and water pollution, including pollution to all underground fresh water zones. Lessee shall collect all trash which accumulates in connection with his operations and remove such trash from the Leasehold Estate. Lessee shall take all reasonable precautions to prevent blowouts from occurring on the Leasehold Estate. 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 a reasonable time after the completion of 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. 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. 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 six (6) months after the termination of this Lease,



Lessee shall remove any and all property placed by Lessee on the Leasehold Estate or Owner of the Soil shall cause same to be removed at Lessee's expense.

9. Lessee is to comply with all Federal and State regulations.
10. 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.
11. All pipelines are to be buried 36 inches below the ground, which will be from the top of the pipe to the surface of the ground. Only crude oil and natural gas (no other derivatives) and water will be allowed to be transported through any pipelines located on the property.
12. Lessee shall not conduct any operations within three hundred (300) feet of any homestead, living quarters or livestock watering facilities without express consent of Owner of the Soil.
13. Lessee hereby acknowledges that if the Leasehold Estate is subject to a Crop Reserve Program, Lessee agrees to compensate Owner of the Soil fully and completely for any penalty or other loss of subsidy or income that Owner of the Soil 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.
14. It is understood and agreed that any surface damages paid under the terms of this lease shall be divided and paid one-half (1/2) to the State of Texas and one-half (1/2) to the Owner of the Soil.
15. Lessee's right to the use of the surface of the Leasehold Estate is non-exclusive. Without limiting the generality of the foregoing, the Owner of the Soil 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 of the Soil shall have the right, as between the Owner of the Soil and Lessee, to allow third parties to conduct geophysical operations on the Leasehold Estate.

Signed for Identification only.
Mary Jane McGary, a *feme sole*
Bank of America, N.A., Agent

By: _____

Name: J.N. Long

Title: Vice President

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Clerks Office



Inst No. 14-03335
DIANNE O. FLOREZ
COUNTY CLERK
2014 Apr 14 at 11:23 AM
REEVES COUNTY, TEXAS

By: VG _____ DEPUTY

4

File No. MF 116549
Lease B

Date Filed: 3/30/14

Jerry E. Patterson, Commissioner

By SSD

4.3.14

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 Oil Gas Lease dated March 20, 2014, filed for record in my office this 14th day of April, 2014 at 11:23 AM, under Clerk's File No. 1403335, to be recorded in the Official Public Records of Reeves County, Texas.

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

By [Signature] Deputy.

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

116549C

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 30th day of March, 2014, between the State of Texas, acting by and through its agent, McGary Living Trust - SPH; Brian McGary, Trustee; Bank of America, N.A., Agent of Post Office Box 830308; Dallas, Texas 75283-0308 (Give Permanent Address) said agent herein referred to as the owner of the soil (whether one or more), and Marshall Energy, L.L.C. of 6215 Grovewood Lane; Houston, Texas 77008-3217 hereinafter called Lessee. (Give Permanent Address)

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

Texas & Pacific Railway Company Survey
Section 28, Block 56, Township 2 South, A-2214

Tract 1: W/2 SW/4, NE/4 SW/4 (all depths)

Tract 2: SE/4 SW/4 (all depths below 3,518 feet being 100 feet below the total depth drilled in the Draco Energy - Trinity State "28" #3 - API# 42-389-32481)

Tract 3: NW/4 SE/4 (all depths below 3,900 feet being 100 feet below the total depth drilled in the Draco Energy - Trinity State "28" #1 - API# 42-389-32391)

Tract 4: SW/4 SE/4 (all depths below 3,550 feet, being 100 feet below the total depth drilled in the Draco Energy - Trinity State "28" #4 - API# 42-389-32541)

Tract 5: NE/4 SE/4 (all depths below 3,494 feet, being the total depth drilled in the Kimlar Oil - Northrup "A" Estate #1 - API# 42-389-31897)

Tract 6: SE/4 NE/4 (all depths below 4,900 feet, being 100 feet below the total depth drilled in the Kimlar Oil - Northrup P.G. Estate #1 - API# 42-389-31698)

Tract 7: SW/4 NE/4 (all depths)

containing 60.000 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: One Hundred Eighty Thousand Dollars and No Cents
Dollars (\$180,000.00)

To the owner of the soil: One Hundred Eighty Thousand Dollars and No Cents
Dollars (\$180,000.00)

Total bonus consideration: Three Hundred Sixty Thousand Dollars and No Cents
Dollars (\$360,000.00)

The total bonus consideration paid represents a bonus of Six Thousand Dollars and No Cents (\$6,000.00) per acre, on sixty (60) 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)

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covered except out of pocket operational expenses for the six months last past.

3. DELAY RENTALS. If no well is commenced on the leased premises on or before one (1) year from this date, this lease shall terminate, unless on or before such anniversary date Lessee shall pay or tender to the owner of the soil or to his credit in the _____
Bank of America, N.A. Bank, at 901 Main St.; Dallas, Texas 75202 _____
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: One Hundred Dollars and No Cents _____
Dollars (\$ 100.00 _____)
To the State of Texas: One Hundred Dollars and No Cents _____
Dollars (\$ 100.00 _____)
Total Delay Rental: Two Hundred Dollars and No Cents _____
Dollars (\$200.00 _____)

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 Leasehold Estate 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.

(E) **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 Twenty Five Dollars (\$25.00) per acre the total annual delay rental



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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 ~~Twenty Five Dollars (\$25.00) per acre~~ 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 Leasehold Estate or for injection into any oil or gas producing formation underlying the leased premises Leasehold Estate 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.

(E) **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 Leasehold Estate 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 Leasehold Estate 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 Leasehold Estate 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 Leasehold Estate, 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 Leasehold Estate, 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 Leasehold Estate 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 Leasehold Estate, 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 One Hundred Dollars (\$100.00) per acre no longer maintained due to a shut-in well 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 Leasehold Estate, 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 (4) more successive periods of one (1) year by paying Five Hundred Dollars (\$500.00) per acre no longer maintained due to a shut-in well the same amount each year on or before the expiration of each the first 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 Leasehold Estate 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 Leasehold Estate. 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 Leasehold Estate. 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 Leasehold Estate, 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 Leasehold Estate 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 Leasehold Estate, 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.

(3) **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 Leasehold Estate 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 Leasehold Estate. In addition, if oil and/or gas should be produced in commercial quantities within 1,000 feet of the leased-premises Leasehold Estate, or in any case where the leased-premises Leasehold Estate is being drained by production of oil or gas, the Lessee, sublessee, receiver or other agent in control of the leased-premises Leasehold Estate shall in good faith begin the drilling of a well or wells upon the leased-premises Leasehold Estate within 100 days after the draining well or wells or the well or wells completed within 1,000 feet of the leased-premises Leasehold Estate 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 Leasehold Estate, or from producing oil or gas from the leased-premises Leasehold Estate 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 Leasehold Estate. However, nothing in this paragraph shall suspend the payment of delay rentals in order to maintain this lease in effect during the primary term in the absence of such drilling or reworking operations or production of oil or gas.

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

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

(B) **REDUCTION OF PAYMENTS.** If, during the primary term, a portion of the land covered by this lease is included within the boundaries of a pooled unit that has been approved by the School Land Board and the owner of the soil in accordance with Natural Resources Code Sections 52.151-52.154, or if, at any time after the expiration of the primary term or the extended term, this lease covers a lesser number of acres than the total amount described herein, payments that are made on a per acre basis hereunder shall be reduced according to the number of acres pooled, released, surrendered, or otherwise severed, so that payments determined on a per acre basis under the terms of this lease during the primary term shall be calculated based upon the number of acres outside the boundaries of a pooled unit, or, if after the expiration of the primary term, the number of acres actually retained and covered by this lease.

21. **USE OF WATER.** Lessee shall have the right to use water produced on said land necessary for operations under this lease except water from wells or tanks of the owner of the soil; provided, however, Lessee shall not use potable water or water suitable for livestock or irrigation



purposes for waterflood operations without the prior consent of the owner of the soil.

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

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

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

25. **POLLUTION.** In developing this area, Lessee shall use the highest degree of care and all proper safeguards to prevent pollution. Without limiting the foregoing, pollution of coastal wetlands, natural waterways, rivers and impounded water shall be prevented by the use of containment facilities sufficient to prevent spillage, seepage or ground water contamination. In the event of pollution, Lessee shall use all means at its disposal to recapture all escaped hydrocarbons or other pollutant and shall be responsible for all damage to public and private properties. Lessee shall build and maintain fences around its slush, sump, and drainage pits and tank batteries so as to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level all slush pits and cellars and completely clean up the drilling site of all rubbish thereon. Lessee shall, while conducting operations on the leased premises Leasehold Estate, 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 Leasehold Estate, 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 or 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 Leasehold Estate, 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 Leasehold Estate 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 Leasehold Estate. 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 Leasehold Estate, 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 Leasehold Estate 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 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 Leasehold Estate 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 Leasehold Estate 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 Leasehold Estate; those arising from Lessee's use of the surface of the leased-premises Leasehold Estate; 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 Leasehold Estate, by any waste, pollutant, or contaminant. Lessee shall not bring or permit to remain on the leased-premises Leasehold Estate 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~~ LEASEHOLD ESTATE DURING LESSEE'S OCCUPANCY OR CONTROL OF THE ~~LEASED PREMISES~~ LEASEHOLD ESTATE. 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~~ LEASEHOLD ESTATE DURING LESSEE'S OCCUPANCY OF THE ~~LEASED PREMISES~~ LEASEHOLD ESTATE 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~~ LEASEHOLD ESTATE. 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~~ Leasehold Estate 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 PARAGRAPHS 40, 41, 42, 43, 44, and 45

40. **SURFACE USE COVENANTS.** Lessee's rights of ingress and egress, use of the surface of the Leasehold Estate, use of water from the Leasehold Estate, and all other physical activities thereon, shall be governed by the Oil and Gas Surface Use Covenants which are attached hereto as Exhibit A. In the event of a conflict between the provisions of this Lease and the printed provisions of said Oil and Gas Surface Use Covenants, said Covenants shall prevail.

41. **OWNER OF THE SOIL, TIME FOR PAYMENT OF ROYALTIES.** Lessee agrees and undertakes to pay or tender all royalties otherwise accruing hereunder to the interest of the Owner of the Soil simultaneously with the payment or tendering thereof of royalties accruing to the interest of the State of Texas. Should payment or tender of royalties accruing to the interest of the Owner of the Soil not be so timely made, then Lessee shall be subject to the same penalties in favor of the Owner of the Soil for late payments made to the Commissioner of the General Land Office as set forth in Paragraph 9 hereof.

42. **ROYALTY INFORMATION.** In addition to other information required to be furnished by Lessee to the Owner of the Soil, either by law or under the terms of this lease, within thirty (30) days following receipt of Owner of the Soil's written request, Lessee shall promptly provide Owner of the Soil with sufficient information for Owner of the Soil to monitor and calculate all royalty payments due Owner of the Soil hereunder. If Lessee does not have access to the requested information, Lessee will have thirty (30) days from the date upon which such information becomes available to Lessee to provide same to Owner of the Soil. If such information is not so provided or is incorrect or incomplete, Lessee extends for four years, or the longest period allowed by law if less, the applicable time period for any defense based upon the statute of limitations, *laches* or any other delay in bringing suit, with respect to any matter which would reasonably have been revealed by such information, even if Owner of the Soil had access to relevant information from other sources, it being intended that Owner of the Soil may rely upon Lessee to keep it fully and truthfully informed without the necessity of obtaining information from other sources. Lessee hereby grants Owner of the Soil a lien on the Leasehold Estate to secure the timely and proper payment of royalties and other sums due hereunder, all interest thereon, and all expenses of collecting delinquent or improper royalty payments including, but not limited to, attorney, paralegal, and legal assistant fees, expert witness fees, all associated expenses, and court costs. Said lien shall be in the same manner and form as the lien granted the State of Texas in Paragraph 33 hereof, but ranking subordinate thereto.

43. **INFORMATION TO BE PROVIDED BY LESSEE.** Lessee shall advise Owner of the Soil in writing as to the location of each well drilled upon the Leasehold Estate, or on lands pooled therewith, on or before seven (7) days after commencement of operations, and shall advise Owner of the Soil in writing as to the date of completion or abandonment of each well drilled within thirty (30) days after such completion or abandonment. Lessee agrees to furnish Owner of the Soil with all well drilling, completion and production data, reports, title opinions, logs, and information when specifically requested by Owner of the Soil. Lessee agrees that immediately following this instrument being recorded in the county records where the Leasehold Estate is located that Lessee will provide Owner of the Soil with a copy of this fully recorded instrument as it appears in said records.

45. **UNIT DESIGNATION.** Should Lessee elect to exercise the power to pool given it by Paragraph 34 of this lease, then Lessee shall execute and record a written unit designation describing all tracts and leases included in the pooled unit, and containing a surveyor's plat of the pooled unit, in the records of the county in which the land is located. A copy of the pooled unit designation showing recording information shall be promptly furnished to owner of the soil. A pooled unit is strictly limited to the Leasehold Estate and will automatically terminate if this lease expires as to the part of the Leasehold Estate included in the pooled unit.

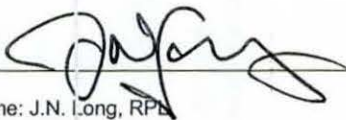
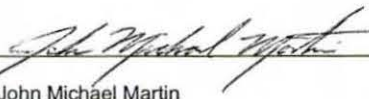
46. **MINIMUM ROYALTY.** "Minimum Royalty Year" shall be each year which commences (a) with the first day that a royalty payment on actual production of oil or gas becomes due hereunder and (b) on each anniversary of that date thereafter, for so long as production of oil and gas is obtained by Lessee in paying quantities as set out in numerical paragraph 2 above or shut-in royalties are paid by Lessee as required in numerical paragraph 14 above. Lessor shall always receive, from the delay rentals and royalties payable hereunder, at least **\$100.00 (ONE HUNDRED DOLLARS AND NO CENTS)** during each Minimum Royalty Year for each acre held in force under this lease at the beginning of the Minimum Royalty Year, and this amount shall be referred to as the "minimum royalty amount." If Lessor receives less than the minimum royalty amount during a Minimum Royalty Year, then it is agreed that the State of Texas shall be entitled to have this Lease declared cancelled or forfeited, unless on or before sixty (60)



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

days after the end of that Minimum Royalty Year, Lessee pays or tenders to Lessor the difference between the total of delay rental, production royalty and shut-in gas royalties received during the Minimum Royalty Year and the minimum royalty amount. Any sums which may be paid by Lessee for surface or water use or damages, or for any reason other than as delay rentals and royalties, shall not be included in calculating whether the minimum royalty amount has been paid. Beginning as of the date upon which this lease is executed, the minimum royalty amount shall be adjusted on the first day of each calendar year applying the overhead adjustment factor most recently published by the Council of Petroleum Accountants Societies, Inc. It is understood and agreed that any minimum royalty payments shall be divided and paid one-half (1/2) to the State of Texas and one-half (1/2) to the Owner of the Soil.

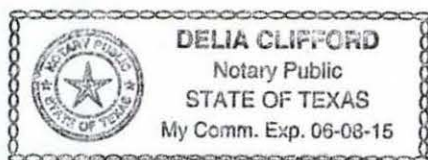
Executed on the dates indicated below but effective for all purposes as of the date first above written.

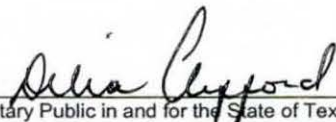
LESSOR: State of Texas by its Agent McGary Living Trust - SPH; Brian McGary, Trustee By: Bank of America, N.A., Agent By:  Name: J.N. Long, RPD Title: Vice President Lease: 30010 Address: 901 Main St. Fl. 17 Dallas, TX 75202-3738	LESSEE: Marshall Energy, L.L.C. By:  Name: John Michael Martin Title: Manager Address: 6215 Grovewood Ln. Houston, TX 77008-3217
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STATE OF TEXAS §
COUNTY OF DALLAS §

Before me, the undersigned, a Notary Public in and for said County and State, on this day personally appeared J.N. Long, Vice President of Bank of America, N.A., known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity therein stated, and as the act and deed of said Bank in the capacity therein stated.

Given under my hand and seal of office this the 3rd day of April, 2014.




Notary Public in and for the State of Texas

STATE OF TEXAS §
COUNTY OF ~~DALLAS~~ Harris §

Before me, the undersigned, a Notary Public in and for said County and State, on this day personally appeared John Michael Martin, Manager of Marshall Energy, L.L.C., known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity therein stated, and as the act and deed of said limited liability company in the capacity therein stated.

Given under my hand and seal of office this the 27 day of March, 2013.




Notary Public in and for the State of Texas



EXHIBIT "A"

BANK OF AMERICA, N. A. SURFACE AMENDMENTS

Attached to and made a part of that certain Oil & Gas Lease dated the 25th day of March, 2014, by and between the State of Texas, by and through McGary Living Trust - SPH; Brian McGary, Trustee; Bank of America, N.A., Agent its agent as Owner of the Soil (Lessor), and Marshall Energy, L.L.C. (Lessee).

1. It is understood and agreed that Lessee, its successor or assigns, shall pay actual damages to Owner of the Soil 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 Owner of the Soil and/or Surface Lessee located on the lease premises, 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 then level all drilling pits and other excavations and shall pay for and repair all damage done, or cause to be done, to buildings, fences, roads, culverts, turf, water wells and/or other improvements and to restore same to their original condition within 90 days after the cessation of activity. No drilling mud shall be spread on surface lands of Owner of the Soil without express written consent of Owner of the Soil. Guidelines or parameters for any surface damage payments shall be agreed on in advance, and in writing, by Owner of the Soil and Lessee.
2. Lessee's right to use water from the lease premises shall not include the right to use fresh water from any fresh water sands or strata underlying the lease premises 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 impoundments only with the expressed permission of the Owner of the Soil 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 Owner of the Soil 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 lease premises. The surface owner shall have the right to use all roads on the Leasehold Estate.
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 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 new storage tanks, pipelines compressor stations or other usual facilities required by Lessee for producing oil and gas and operating this lease, Lessee shall advise Owner of the Soil of Lessee's intention. Owner of the Soil must be advised in writing of the proposed location of the facility at least 30 days prior to the onset of construction and would have the right to negotiate a change, if Owner of the Soil can present a valid reason for re-location of the facility.
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 Owner of the Soil of such intention. If Owner of the Soil can provide valid, reasonable rationale for retaining unusually valuable specimen trees or trees 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 Owner of the Soil. 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 Owner of the Soil the owners of the surface 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 drill site location 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 at the request of Owner of the Soil. Lessee shall take all reasonable precautions necessary to prevent land, air and water pollution, including pollution to all underground fresh water zones. Lessee shall collect all trash which accumulates in connection with his operations and remove such trash from the Leasehold Estate. Lessee shall take all reasonable precautions to prevent blowouts from occurring on the Leasehold Estate. 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 a reasonable time after the completion of 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. 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. Upon termination of Lessee's operations on the Leasehold Estate, Lessee shall restore the surface of all lands utilized by Lessee, and not the surface restored, to their original condition as nearly as possible. Within six (6) months after the termination of this Lease,



Lessee shall remove any and all property placed by Lessee on the Leasehold Estate or Owner of the Soil shall cause same to be removed at Lessee's expense.

9. Lessee is to comply with all Federal and State regulations.
10. 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.
11. All pipelines are to be buried 36 inches below the ground, which will be from the top of the pipe to the surface of the ground. Only crude oil and natural gas (no other derivatives) and water will be allowed to be transported through any pipelines located on the property.
12. Lessee shall not conduct any operations within three hundred (300) feet of any homestead, living quarters or livestock watering facilities without express consent of Owner of the Soil.
13. Lessee hereby acknowledges that if the Leasehold Estate is subject to a Crop Reserve Program, Lessee agrees to compensate Owner of the Soil fully and completely for any penalty or other loss of subsidy or income that Owner of the Soil 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.
14. It is understood and agreed that any surface damages paid under the terms of this lease shall be divided and paid one-half (1/2) to the State of Texas and one-half (1/2) to the Owner of the Soil.
15. Lessee's right to the use of the surface of the Leasehold Estate is non-exclusive. Without limiting the generality of the foregoing, the Owner of the Soil 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 of the Soil shall have the right, as between the Owner of the Soil and Lessee, to allow third parties to conduct geophysical operations on the Leasehold Estate.

Signed for Identification only.
McGary Living Trust - SPH; Brian McGary, Trustee
Bank of America, N.A., Agent

By: _____

Name: J.N. Long

Title: Vice President

Inst No. 14-03334
DIANNE O. FLOREZ
COUNTY CLERK
2014 Apr 14 at 11:23 AM
REEVES COUNTY, TEXAS
By: VG _____ DEPUTY

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

STATE OF TEXAS
REEVES COUNTY

5.

File No. MF 116549
Lease C
Date Filed: 3/30/14
Jerry E. Patterson, Commissioner
By SSD

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 Oil & Gas lease dated March 30, 2014 filed for record in my office this 14th day of April 2014 at 11:23 AM, under Clerk's File No. 1403334, 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 14th day of April, 2014.

By Dianne O. Florez Deputy

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

4433

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

July 8, 2014

John Michael Martin
Marshall Energy
6215 Grovewood Ln.
Houston, Texas 77008

Re: **State Lease MF 116549**

Three RAL leases covering 360 ac., Sec. 28,
Blk. 56, T&P Ry. Co. Survey, Reeves Co, TX

Dear Mr. Martin:

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

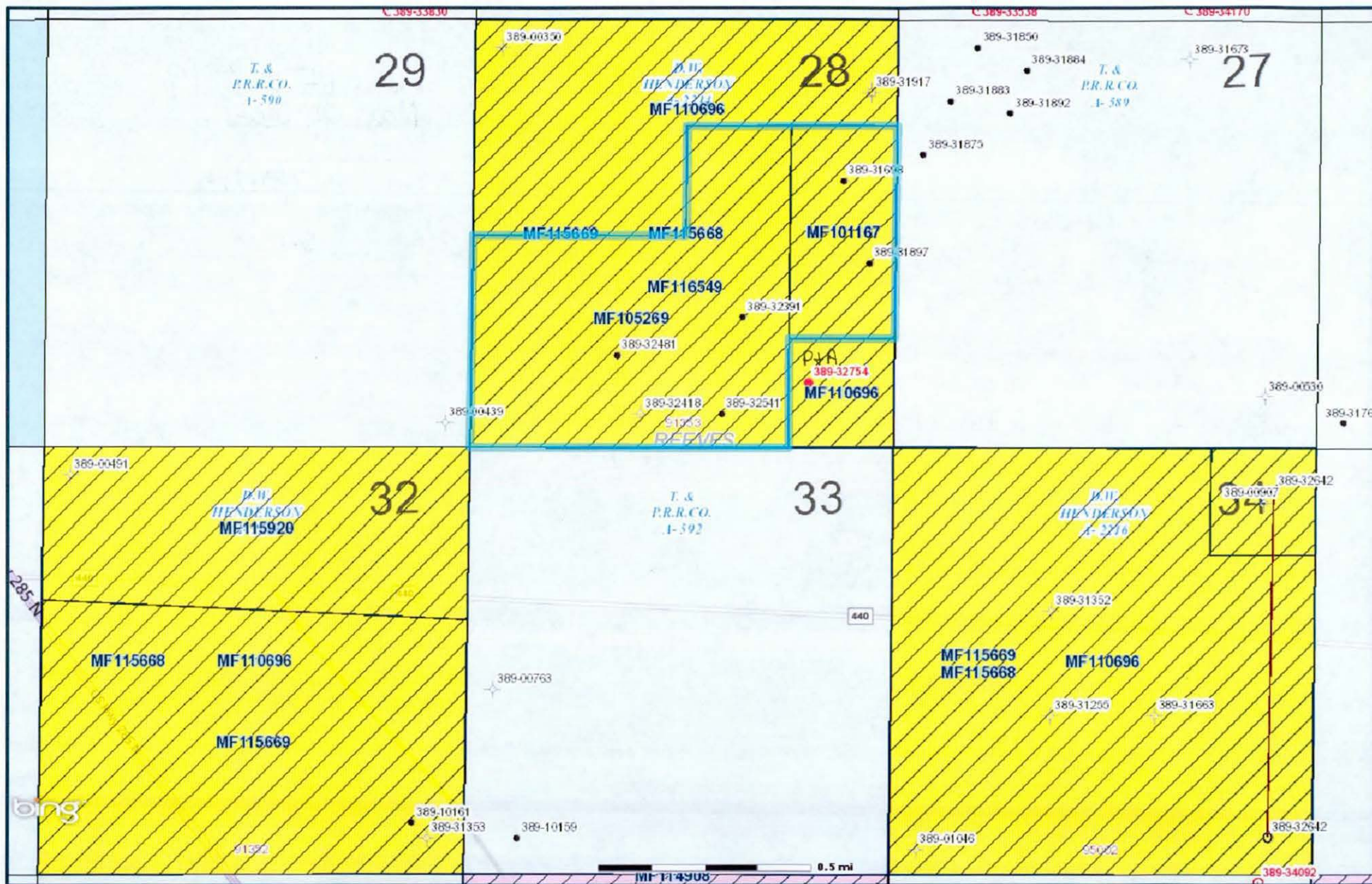
<u>State Lease No.</u>	<u>Lessor as agent for State of TX</u>	<u>Dated</u>	<u>Recorded Vol/Page</u>	<u>Bonus Amount</u>
MF116549A	McGary Family Trust – Kelly Separate Property	03/30/14	14-03336	\$180,000.00
MF116549B	Mary Jane McGary	03/30/14	14-03335	\$180,000.00
MF116549C	McGary Living Trust – SPH	03/30/14	14-03334	\$180,000.00

6.

File No. MF 116549
Final letter

Date Filed: 7/8/14
Jerry E. Patterson, Commissioner

By SSD



Lease Date
3/30/14

MF116549

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

Printed: Jul 31, 2014



7.

File No. MF 116549

Map of Lease

Date Filed: 7/31/14

Jerry E. Patterson, Commissioner

By SSD

August 1, 2014

RE: Review of Section 28, Block 56, T-2S, T & P Ry Co., Reeves County

There are multiple leases in this Section.

The following leases S&E shallower depths where there is already production: There are no permits or producing wells related to these leases as of this date.

MF115668

MF115669

~~MF115920~~

MF116549

As of this date the following wells are related to the following MF's:

MF101167

42-389-31698 / 08-30453

42-389-31897 / 08-32329

MF105269

42-389-32481 / 08-37754

42-389-32541 / 08-37754

42-389-32391 / 08-37754

This lease was terminated for lack of production:

MF110696

File No. MF 116549
Memo Re: Wells + Hoases
Sec. 28
Date Filed: 8/1/14
Jerry E. Patterson, Commissioner
By SSD

Check No.: 204858
Payment Type: DELAY RENTAL

Period Covered: 03/30/2015-03/29/2016
Payment Amount: \$100.00

Lease Number: 1045469/002 LSE

Original Lessor: MCGARY FAMILY TRUST - KELLY SEPARATE

Lease Effective Date: 03/30/2014

Recording Information: 14-03336

State: TX

County: REEVES

Check Remarks:
ANNUAL DELAY RENTAL

BLOCK 56, TWN 2, SECTION 28, A-2214

15708341

MF116549A

RENTAL PAYMENT

2nd yr. (P)

121

For the Credit of:

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

(BA#):80104210

Payment Amount: ~~\$100.00~~

Check No.: 204858
Payment Type: DELAY RENTAL

Period Covered: 03/30/2015-03/29/2016
Payment Amount: \$100.00

Lease Number: 1045469/002 LSE

Original Lessor: MCGARY FAMILY TRUST - KELLY SEPARATE

Lease Effective Date: 03/30/2014

Recording Information: 14-03336

State: TX

County: REEVES

Check Remarks:
ANNUAL DELAY RENTAL

BLOCK 56, TWN 2, SECTION 28, A-2214

15708341

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: \$100.00

VERIFY THE AUTHENTICITY OF THIS MULTI-TONE SECURITY DOCUMENT.

CHECK BACKGROUND AREA CHANGES COLOR GRADUALLY FROM TOP TO BOTTOM.

bhpbilliton
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

15708341
DATE 02/12/2015 CHECK NO. 204858

AMOUNT *****\$100.00

PAY *****100*DOLLARS AND* 00*CENTS

VOID IF NOT CASHED WITHIN
SIX MONTHS OF ISSUE

NON TRANSFERABLE

Owner Call Center: 1-877-311-1443

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

Daniel Powell
FACSIMILE SIGNATURE

Jeffrey L. Seelinger
FACSIMILE SIGNATURE

0000204858

File No. MF116549 (9)

Rentals - Lease A - 2nd yr. County

Date Filed: 02/26/15

George P. Bush, Commissioner

By GPB

5.30.12

Check No.: 204857
Payment Type: DELAY RENTAL

Period Covered: 03/30/2015-03/29/2016
Payment Amount: \$100.00

Lease Number: 1045469/001 LSE

Original Lessor: MARY JANE MCGARY, A FEME SOLE

Lease Effective Date: 03/30/2014

Recording Information: 14-03335

State: TX

County: REEVES

Check Remarks:
DELAY RENTAL ANNUAL

15708340

BLOCK 56, TWN 2, SECTION 28, A-2214

RENTAL PAYMENT

MF116549B

2nd yr. (P)

121

For the Credit of:

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

(BA#):80104210

Payment Amount: ~~\$100.00~~

Check No.: 204857
Payment Type: DELAY RENTAL

Period Covered: 03/30/2015-03/29/2016
Payment Amount: \$100.00

Lease Number: 1045469/001 LSE

Original Lessor: MARY JANE MCGARY, A FEME SOLE

Lease Effective Date: 03/30/2014

Recording Information: 14-03335

State: TX

County: REEVES

Check Remarks:
DELAY RENTAL ANNUAL

15708340

BLOCK 56, TWN 2, SECTION 28, A-2214

121

For the Credit of:

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

(BA#):80104210

Payment Amount: \$100.00

VERIFY THE AUTHENTICITY OF THIS MULTI-TONE SECURITY DOCUMENT.

CHECK BACKGROUND AREA CHANGES COLOR GRADUALLY FROM TOP TO BOTTOM.

 **bhpbilliton**
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 02/12/2015 CHECK NO. 204857

AMOUNT *****\$100.00

PAY *****100*DOLLARS AND* 00*CENTS

VOID IF NOT CASHED WITHIN
SIX MONTHS OF ISSUE

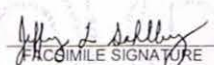
NON TRANSFERABLE

Owner Call Center: 1-877-311-1443

PAY
TO
THE
ORDER
OF

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


FACSIMILE SIGNATURE


FACSIMILE SIGNATURE

000204857

File No. MF116549 10

Rentals- Lease B County

Date Filed: 02/26/2015

George P. Bush, Commissioner

By GPB

5.00.12

Check No.: 204859
Payment Type: DELAY RENTAL

Period Covered: 03/30/2015-03/29/2016
Payment Amount: \$100.00

Lease Number: 1045469/003 LSE

Original Lessor: MCGARY LIVING TRUST - SPH



Lease Effective Date: 03/30/2014

Recording Information: 14-03334

State: TX

County: REEVES

Check Remarks:
ANNUAL DELAY RENTAL

15708342

BLOCK 56, TWN 2, SECTION 28, A-2214

RENTAL PAYMENT

MF116549C
2nd yr. (P)

121

For the Credit of:

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

(BA#):80104210

Payment Amount: ~~\$100.00~~

Check No.: 204859
Payment Type: DELAY RENTAL

Period Covered: 03/30/2015-03/29/2016
Payment Amount: \$100.00

Lease Number: 1045469/003 LSE

Original Lessor: MCGARY LIVING TRUST - SPH

Lease Effective Date: 03/30/2014

Recording Information: 14-03334

State: TX

County: REEVES

Check Remarks:
ANNUAL DELAY RENTAL

15708342

BLOCK 56, TWN 2, SECTION 28, A-2214

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: ~~\$100.00~~

VERIFY THE AUTHENTICITY OF THIS MULTI-TONE SECURITY DOCUMENT.

CHECK BACKGROUND AREA CHANGES COLOR GRADUALLY FROM TOP TO BOTTOM.

 **bhpbilliton**
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

15708342
DATE 02/12/2015 CHECK NO. 204859

PAY *****100*DOLLARS AND* 00*CENTS

AMOUNT *****\$100.00

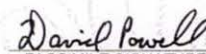
VOID IF NOT CASHED WITHIN
SIX MONTHS OF ISSUE

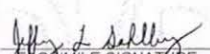
NON TRANSFERABLE

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

⑈000204859⑈

File No. ME116549 (11)

Rentals - Lease C - 2nd yr. County

Date Filed: 02/26/2015

George P. Bush, Commissioner

By: [Signature]

2015



MEMORANDUM

TEXAS GENERAL LAND OFFICE • GEORGE P. BUSH • COMMISSIONER

Date: October 29, 2015

To: State Lease Nos. MF105269; MF115669; MF115668; MF116549; MF116837; MF116838; MF116839; MF115920; and MF101167

From: Dustin Brian Oslick

Subject: Mapping Issues in Alamo

Short Answer: Alamo is unable to reflect the proper depth interval cross-hatching in the Alamo GIS system when: 1) a tract of land is owned by multiple undivided interest owners; 2) one of those undivided interest owners includes additional tracts they may own in their State Lease; and 3) one of the tracts is an "Allow All Depths" tract, and the other tract is a "Specified Depths" tract. In such scenario, both red and blue cross-hatching will be reflected in Alamo GIS.

Long Answer: The above referenced mineral files were originally flagged by Jesse Arellano due to the fact that the cross-hatching reflected conflicting depth intervals. A review of the mineral files indicated the following:

- A. MF105269 originally covered the SW/4, SW/4NE/4, W/2SE/4 of Section 28, Block 56, Township 2, T&P Ry. Co. Survey, Reeves County, Texas. A Termination Letter was sent by this office on May 2, 2014 which indicated the following:
1. The Trinity State "28" #3 Well (API #42-389-32481) was completed to a total depth of 3,420' subsurface and further indicated that Draco Energy may retain the SE/4SW/4 from the surface down to 3,520' subsurface. This depth interval is supported by the Well Records. New State Leases MF115668, MF115669 and MF101167, in so far as said State Leases cover the SE/4SW/4, cover all the deep rights lying below 3,518' subsurface. No correction in Alamo was made due to the small amount of vertical footage at issue.
 2. The Trinity State "28" #4 (API No. 42-389-32541) was completed to a total depth of 3,450' subsurface and further indicated that Draco Energy may retain the SW/4SE/4 down to 3,540' subsurface. New State Leases MF115668, MF115669 and MF101167, in so far as said State Leases cover the SW/4SE/4, cover all the deep rights lying below 3,550' subsurface. Well Records confirm total depth drilled was 3,450' subsurface. It appears the depth on the Termination Letter was incorrectly calculated and should have been 3,550' subsurface, being 100' below the deepest well drilled. This has been corrected in Alamo.
 3. The Trinity State "28" #161 (API No. 42-389-32391) was completed to a total depth of 3,800' subsurface and further indicated that Draco Energy may retain the NW4/SE4 down to 3,900' subsurface. New State Leases MF115668, MF115669 and MF101167, in so far

as said State Leases cover the NW4/SE4, cover all the deep rights lying below 3,900' subsurface. There were no depth issues with this tract.

B. MF101167 originally covered the SE/4NE/4 and NE/4SE/4 of Section 28, Block 56, Township 2, T&P Ry. Co. Survey, Reeves County, Texas. A Termination Letter was sent by this office on May 2, 2014 which indicated the following:

1. The Northrup "A" Estate #1 (API No. 42-389-31897) was completed to a total depth of 3,394' subsurface and further indicated Kimlar Energy may retain the NE/4SE/4 down to 3,494' subsurface. New State Leases MF115668 and MF115669 covering the NE/4SE/4 cover all the deep rights lying below 3,494' subsurface. There were no depth issues with this tract.
2. The Northrup "A" Estate #1 (API No. 42-389-31698) was completed to a total depth of 4,800' subsurface and further indicated Kimlar Energy may retain the SE/4NE/4 down to 4,900' subsurface. New State Leases MF115668 and MF115669 covering the SE/4NE/4 cover all the deep rights lying below 4,900' subsurface. There were no depth issues with this tract.

Based on the above review, the depths for MF105269 and for MF101167 were updated in Alamo to reflect the specified depth intervals outline above. These tracts appear to now be reflected correctly in Alamo GIS. Additionally, MF101167A was updated in Alamo to reflect the correct the following: lease date; control number; base file; and legal description.

Furthermore, a review of the above captioned mineral files also indicated the following:

- C. MF116837 covers all depths in so far as it covers Section 34, Block 56, Township 2 *South*¹, T&P Ry. Co. Survey, Reeves County, Texas.
- D. MF116838 covers all depths in so far as it covers the NW/4, N/2NE/4, and the SE/4SE/4 of Section 28, Block 56, Township 2 *South*¹, T&P Ry. Co. Survey, Reeves County, Texas.
- E. MF116839 covers all depths in so far as it covers Section 32, Block 56, Township 2 *South*¹, T&P Ry. Co. Survey, Reeves County, Texas.
- F. MF115920 covers all depths in so far as it covers 240 acres out to the N/2 of Section 32, Block 56, Township 2, T&P Ry. Co. Survey, Reeves County, Texas.
- G. MF116549 covers both all depth tracts and the following specified depths in Section 28, Block 56, Township 2 *South*¹, T&P Ry. Co. Survey, Reeves County, Texas, to wit:

¹ Township 2 *South* appears to be erroneous based on a review of the Texas GLO Land Grant Search. The legal description should only read "Township 2."

1. W/2SW/4 and the NE/4SW/4 as to all depths;
2. SE/4SW/4- all depths below 3,518' subsurface;
3. NW/4SE/4- all depths below 3,900' subsurface;
4. SW/4SE/4- all depths below 3,550' subsurface;
 - i. Note: The correct depth interval was used on the Lease. See Section (1) (b) hereinabove.
5. NE/4SE/4- all depths below 3,494' subsurface;
6. SE/4NE/4- depths below 4,900' subsurface; and
7. SW/4NE/4 as to all depths.

H. MF115668 and MF115669 cover the following specified depths in Section 28, Section and all depths in Section 32 and Section 34, Block 56, Township 2, T&P Ry. Co. Survey, Reeves County, Texas, to wit:

1. Section 34 SAVE AND EXCEPT the NE/4NE/4- as to all depths;
2. Section 32- as to all depths;
3. NW/4; N/2NE/4; SE/4SE/4 of Section 28- as to all depths;
4. W/2SW/4 and the NE/4SW/4 of Section 28- as to all depths;
5. SE/4SW/4 of Section 28- all depths below 3,518' subsurface;
6. NW/4SE/4 of Section 28- all depths below 3,900' subsurface;
7. SW/4SE/4- all depths below 3,550' subsurface;
 - i. Note: The correct depth interval was used on the Lease. See Section (1) (b) hereinabove.
8. NE/4SE/4- all depths below 3,494' subsurface;
9. SE/4NE/4- depths below 4,900' subsurface; and
10. SW/4NE/4 as to all depths.

A review of the Alamo GIS system with Jesse Arellano indicated that the system analyzes the depth interval specified in Alamo and then reflects the mineral file in Alamo GIS as either: 1) cross-hatched in blue, indicating a the tract is an "Allow All Depths" tract; or 2) cross-hatched in red, indicating the tract is a "Specified Depths" tract. When a mineral file is cross-hatched in both red and blue, there is a discrepancy in the depth intervals. Generally, this is corrected by updating the depth interval of the older mineral file after the deep rights have terminated.

However, correcting conflicting cross-hatching in Alamo GIS is not possible when: 1) a tract of land is owned by multiple undivided interest owners; 2) one of those undivided interest owners includes additional tracts they may own in their State Lease; and 3) one of the tracts is

an "Allow All Depths" tract, and the other tract is a "Specified Depths" tract, then, in this situation, Alamo is unable to reflect the proper depth interval cross-hatching in Alamo GIS due to system limitations. To further illustrate using MF116839 and MF115669 outlined hereinabove: 1) MF116839 covers all depths in Section 32 from one undivided interest owner; and 2) MF115669 also covers all depths in Section 32 from a different undivided mineral interest owner; however, MF115669 also covers "Specified Depth" tracts in Section 28 which are owned by the same undivided interest owner. As such, Alamo GIS reflects Section 32 as both "Allow All Depths," due to MF116839, being the cross-hatches in blue, and also as "Specified Depths," due to MF115669, being the cross-hatches in red. Due to the limitations of the Alamo depth field, said tracts are not able to be corrected.

File No. MF 116549
Reeves County
Mapping Memorandum
Date Filed: 29 Oct 2015
George P. Bush, Commissioner
By  DBO

Check No.: 206834
Payment Type: DELAY RENTAL

Period Covered: 03/30/2016-03/29/2017
Payment Amount: \$100.00

Lease Number: 1045469/002 LSE

Original Lessor: MCGARY FAMILY TRUST - KELLY SEPARATE



Lease Effective Date: 03/30/2014

Recording Information: 14-03336

State: TX

County: REEVES

Check Remarks:

ANNUAL DELAY RENTAL

BLOCK 56, TWN 2, SECTION 28, A-2214 MF116549A

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: \$100.00

IMPORTANT

PLEASE SIGN & RETURN

Date Received _____

Sign Here _____

By _____

Title



resourcing the future
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 02/16/2016

CHECK NO. 206834

PAY *****100*DOLLARS AND* 00*CENTS

VOID

AMOUNT *****\$100.00

VOID IF NOT CASHED WITHIN
SIX MONTHS OF ISSUE

NON TRANSFERABLE

Owner Call Center: 1-877-311-1443

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

FACSIMILE SIGNATURE

FACSIMILE SIGNATURE





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

Check No.: 206833
Payment Type: DELAY RENTAL

Period Covered: 03/30/2016-03/29/2017
Payment Amount: \$100.00

Lease Number: 1045469/001 LSE

Original Lessor: MARY JANE MCGARY, A FEME SOLE



Lease Effective Date: 03/30/2014

Recording Information: 14-03335

State: TX

County: REEVES

Check Remarks:

ANNUAL DELAY RENTAL

BLOCK 56, TWN 2, SECTION 28, A-2214 MF116549B

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: \$100.00

IMPORTANT

PLEASE SIGN & RETURN

Date Received _____

Sign Here _____

By _____

Title



resourcing the future
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 02/16/2016

CHECK NO. 206833

PAY *****100*DOLLARS AND* 00*CENTS

VOID

AMOUNT *****\$100.00

VOID IF NOT CASHED WITHIN
SIX MONTHS OF ISSUE

NON TRANSFERABLE

Owner Call Center: 1-877-311-1443

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

FACSIMILE SIGNATURE

FACSIMILE SIGNATURE





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

Check No.: 206835
Payment Type: DELAY RENTAL

Period Covered: 03/30/2016-03/29/2017
Payment Amount: \$100.00

Lease Number: 1045469/003 LSE

Original Lessor: MCGARY LIVING TRUST - SPH

Lease Effective Date: 03/30/2014

Recording Information: 14-03334

State: TX

County: REEVES

Check Remarks:

ANNUAL DELAY RENTAL

BLOCK 56, TWN 2, SECTION 28, A-2214 MF116549C

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: \$100.00

IMPORTANT

PLEASE SIGN & RETURN

Date Received _____

Sign Here _____

By _____
Title



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 02/16/2016

CHECK NO. 206835

PAY *****100*DOLLARS AND* 00*CENTS

VOID

AMOUNT *****\$100.00

VOID IF NOT CASHED WITHIN
SIX MONTHS OF ISSUE

NON TRANSFERABLE

Owner Call Center: 1-877-311-1443

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

FACSIMILE SIGNATURE

FACSIMILE SIGNATURE



13

File No. MF ~~116549~~

Lease ABC Rentals County

3rd yr

Date Filed: 2/23/16

By George P. Bush, Commissioner

BN

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

2016

MF115668
MF115669
mf 1165494
mf 116838
DIVISION ORDER



To: BHP Billiton Petroleum
Land Administration
P O Box 22719
Houston, TX 77227-9927
(877) 311- 1443

Issue Date: 9/28/2015
Property Name: STATE SCOOTER 56-T2-33X28 1H
Property #: P1M673/00501
Production: ALL PRODUCTS
Operator: BHP BILLITON PETROLEUM (TXLA OPERATING)
Legal Description: T&P RR CO ABST/ID# 592 Grantee T. & P.R.R.CO. Twsp T2 Blk 56 Sec 33REEVES
COUNTY, TEXAS T&P RR CO ABST/ID# 2214 Grantee D.W. HENDERSON Twsp T2 Blk
56 Sec 28 REEVES COUNTY, TEXAS (482.130 ACRES)

API 389 31803

CREDIT TO

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

Decimal	Type	Status	Reason	Start Date
0.01668015	RI	PAY		8/1/2015
0.00694444	RI	PAY		8/1/2015
0.02085019	RI	PAY		8/1/2015
0.00695568	RI	PAY		8/1/2015
0.00695568	RI	PAY		8/1/2015
0.00417004	RI	PAY		8/1/2015
0.00694444	RI	PAY		8/1/2015
0.00695568	RI	PAY		8/1/2015
0.00694444	RI	PAY		8/1/2015

PLEASE KEEP THIS COPY FOR YOUR RECORDS

DIVISION ORDER



To: **BHP Billiton Petroleum**
Land Administration
P O Box 22719
Houston, TX 77227-9927
(877) 311- 1443

Issue Date: 9/28/2015
Property Name: STATE SCOOTER 56-T2-33X28 1H
Property #: P1M673/00501
Production: ALL PRODUCTS
Operator: BHP BILLITON PETROLEUM (TXLA OPERATING)
Legal Description: T&P RR CO ABST/ID# 592 Grantee T. & P.R.R.CO. Twsp T2 Blk 56 Sec 33REEVES COUNTY, TEXAS T&P RR CO ABST/ID# 2214 Grantee D.W. HENDERSON Twsp T2 Blk 56 Sec 28 REEVES COUNTY, TEXAS (482.130 ACRES)

CREDIT TO

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

Decimal	Type	Status	Reason	Start Date
0.01668015	RI	PAY		8/1/2015
0.00694444	RI	PAY		8/1/2015
0.02085019	RI	PAY		8/1/2015
0.00695568	RI	PAY		8/1/2015
0.00695568	RI	PAY		8/1/2015
0.00417004	RI	PAY		8/1/2015
0.00694444	RI	PAY		8/1/2015
0.00695568	RI	PAY		8/1/2015
0.00694444	RI	PAY		8/1/2015



TEXAS GENERAL LAND OFFICE
GEORGE P. BUSH, COMMISSIONER

May 17, 2016

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

Re: State Lease Nos. MF115668/MF115669/MF116549 and MF116838
State Scooter 56-T2- 33X28 1H

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 files.

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

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

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

Thank you,

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

File No. MF 116549

Division Order

Date Filed: 5-18-16

George P. Bush, Commissioner VH

By _____

DIVISION ORDER



Date: 7/18/2016

To: BHP Billiton Petroleum
Land Administration
P O Box 22719
Houston, TX 77227-9927
(877) 311- 1443

Issue Date: 7/18/2016
Property Name: STATE TIEMANN 56-T2-28 1H
Property #: P1M585/00501 API 389-35168
Production: ALL PRODUCTS
Operator: BHP BILLITON PETROLEUM (TXLA OPERATING)
Legal Description: T&P RR CO ABST/ID# 2214 Grantee D.W. HENDERSON Twsp T2 Blk 56 Sec 28
REEVES COUNTY/PARISH, TEXAS (322.07 ACRES)

CREDIT TO

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

Decimal	Type	Status	Reason	Start Date
0.03125000	RI	PAY		5/1/2016
0.01823167	RI	PAY		5/1/2016
0.00260166	RI	PAY		5/1/2016
0.02500000	RI	PAY		5/1/2016
0.00625000	RI	PAY		5/1/2016
0.01823167	RI	PAY		5/1/2016
0.00260167	RI	PAY		5/1/2016
0.00260166	RI	PAY		5/1/2016
0.01823167	RI	PAY		5/1/2016



TEXAS GENERAL LAND OFFICE
GEORGE P. BUSH, COMMISSIONER

September 12, 2016

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

Re: State Lease Nos. MF116838, MF116549, MF115668 and MF115669
State Tiemann 56-T2-28 1H

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 files.

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

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

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

Thank you,

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

File No. MF 116549

Division Order County

Date Filed: 9-13-16

George P. Bush, Commissioner

By U.H.

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

19708132 20748

03/14/2019

PAY TO THE
ORDER OF

COMMISSIONER OF THE TEXAS GENERAL LAND OFFICE ATN MINERAL
LEASING

\$90,000.00

Ninety Thousand and 00/100 DOLLARS

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

MEMO 1045469-001/DEPTH PUGH PMT/#14-03335

MF116549A

Cassie Baldwin
AUTHORIZED SIGNATURE

⑈00020748⑈

Petrohawk Energy Corporation

20748

Check No: 20748

Check Date: 03/14/2019

••••• Payment Type: Lease Obligation Payment

••••• Payment Amount: \$90,000.00

••••• Period Covered: 03/30/2019

••••• For the Credit Of:

••••• BA#: 80104210

••••• Amount: \$90,000.00

••••• 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

Lease Number: 1045469-001-LSE

Original Lessor: MARY JANE MCGARY, A FEME SOLE

Lease Effective Date: 03/30/2014

Recording Information: 14-03335

State: TX County: REEVES

Remarks: DEPTH PUGH PMT

BHP**OWNER COPY****Petrohawk Energy Corporation**

Check No: 20748

Check Date: 03/14/2019

Payment Type: Lease Obligation Payment

Payment Amount: \$90,000.00

Period Covered: 03/30/2019

For the Credit Of:

BA#: 80104210

Amount: \$90,000.00

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

Lease Number: 1045469-001-LSE

Original Lessor: MARY JANE MCGARY, A FEME SOLE

Lease Effective Date: 03/30/2014

Recording Information: 14-03335

State: TX County: REEVES

Remarks: DEPTH PUGH PMT

19708132
BHP

20748

IMPORTANT PLEASE SIGN AND RETURN

Date Received: _____

Sign Here: _____

By: _____

Title

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

19708131 20750

03/14/2019

PAY TO THE
ORDER OF

COMMISSIONER OF THE TEXAS GENERAL LAND OFFICE ATN MINERAL
LEASING

\$90,000.00

Ninety Thousand and 00/100 DOLLARS

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

MEMO 1045469-002/DEPTH PUGH PMT/#14-03336 MF1165498

Cassie Baldwin
AUTHORIZED SIGNATURE

⑈000 20750⑈

Petrohawk Energy Corporation

20750

Check No: 20750 Check Date: 03/14/2019

Payment Type: Lease Obligation Payment

Payment Amount: \$90,000.00

Period Covered: 03/30/2019

For the Credit Of:

BA#: 80104210

Amount: \$90,000.00

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

Lease Number: 1045469-002-LSE

Original Lessor: MCGARY FAMILY TRUST - KELLY SEPARATE

Lease Effective Date: 03/30/2014

Recording Information: #14-03336

State: TX County: REEVES

Remarks: DEPTH PUGH PMT/1045469-002

BHP
19708131
121

OWNER COPY**Petrohawk Energy Corporation**

20750

Check No: 20750 Check Date: 03/14/2019

Payment Type: Lease Obligation Payment

Payment Amount: \$90,000.00

Period Covered: 03/30/2019

For the Credit Of:

BA#: 80104210

Amount: \$90,000.00

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

Lease Number: 1045469-002-LSE

Original Lessor: MCGARY FAMILY TRUST - KELLY SEPARATE

Lease Effective Date: 03/30/2014

Recording Information: #14-03336

State: TX County: REEVES

Remarks: DEPTH PUGH PMT/1045469-002

BHP**IMPORTANT PLEASE SIGN AND RETURN**

Date Received: _____

Sign Here: _____

By: _____

Title

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

19708130

20752

03/14/2019

PAY TO THE
ORDER OF

COMMISSIONER OF THE TEXAS GENERAL LAND OFFICE ATN MINERAL
LEASING

\$90,000.00

Ninety Thousand and 00/100 DOLLARS

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

MEMO 1045469-003/DEPTH PUGH PMT/#14-03334 *MELL6549C*

Cassie Baldin
AUTHORIZED SIGNATURE

⑈00020752⑈

Petrohawk Energy Corporation

20752

Check No: 20752 Check Date: 03/14/2019

Payment Type: Lease Obligation Payment

Payment Amount: \$90,000.00

Period Covered: 03/30/2019

For the Credit Of:

BA#: 80104210

Amount: \$90,000.00

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: 1045469-003-LSE

Original Lessor: MCGARY LIVING TRUST - SPH

Lease Effective Date: 03/30/2014

Recording Information: #14-03334

State: TX County: REEVES

Remarks: RECORDING #14-03334/DEPTH PUGH PMT

OWNER COPY**Petrohawk Energy Corporation**

20752

Check No: 20752 Check Date: 03/14/2019

Payment Type: Lease Obligation Payment

Payment Amount: \$90,000.00

Period Covered: 03/30/2019

For the Credit Of:

BA#: 80104210

Amount: \$90,000.00

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: 1045469-003-LSE

Original Lessor: MCGARY LIVING TRUST - SPH

Lease Effective Date: 03/30/2014

Recording Information: #14-03334

State: TX County: REEVES

Remarks: RECORDING #14-03334/DEPTH PUGH PMT

IMPORTANT PLEASE SIGN AND RETURN

Date Received: _____

Sign Here: _____

By: _____

Title



March 18, 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
request@bhpbilliton.com](mailto:petroleumownerrelationsrequest@bhpbilliton.com)

RE: MF- 116549C / Deep Rights Retention
MF- 116549A / Deep Rights Retention
MF- 116549B / Deep Rights Retention

Susan,

Attached are checks **#20752, #20750 and #20748** for State Leases **MF-116549C, MF-116549A and MF-116549B**. BHP is tendering these payments for the Deep Rights Retention. We will send the Deep Rights Retention forms via email.

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 77056

Re.

File No. MF 116549

DRR Payments County

Leases A, B, & C

Date Filed: 3/21/19

George P. Bush, Commissioner
By SSD

2019



TEXAS GENERAL LAND OFFICE
GEORGE P. BUSH, COMMISSIONER

March 21, 2019

Ms. Monique Crump
BHP Billiton Petroleum Company
1500 Post Oak Blvd.
Houston, TX 77056

RE: MF116549 – Relinquishment Act Lease
Deep Rights Retention, Reeves County, Texas
180.00 acres, Section 28, Block 56, T2S, T&P RR Co. Survey, A-2214
Wells: State Tiemann 56-T2-28 1H, API 42-389-35168, RRC 08-281608
State Scooter 56-T2-33X28 1H, API 42-389-34803, RRC 08-278911

Dear Ms. Crump,

The Deep Rights Retention checks in the total amount of \$270,000.00 have been accepted and will retain the deep rights until March 30, 2021 for State Lease MF116549 A, B, and C. Enclosed are the check stubs received on March 19, 2019.

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

Enclosure

File No. MF116549
Letter accepting DRR County
Leases A, B + C
Date Filed: 3/21/19
George P. Bush, Commissioner
By SSD

MF115668 ✓ MF116549
MF 115669 MF 116838
unit 9349

BHP

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

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

Division Order Instruction Sheet

We are pleased to deliver this Division Order which sets forth your share of production proceeds from the well indicated thereon and the name and address to which payments will be made. Please return one fully executed copy and retain the other copy for your records. Your Division Order contains information that will aid in your communication with BHP. When contacting us about any questions regarding your interest or Division Order, please have the Division Order in hand as it contains identifying information that will assist us in answering your questions.

WE ARE NOT ABLE TO ACCEPT ANY ALTERATIONS TO THIS DIVISION ORDER FORM.

SIGNATURES:

- Sign exactly as shown on the Division Order. If your signature is different, please enclose legal documentation authorizing the name change with your returned Division Order.
- Signatures by Agents, Attorneys-in-Fact, Guardians, or Trustees must be verified by attaching a copy of the recorded legal evidence of the rights vested in the signing party.
- In the event of multiple trustees/executors, all signatures are required unless documentation is provided evidencing authority to sign on behalf of all parties.
- An authorized official, with the name and title of the signing party printed beneath the signature, must execute for companies, corporations, or partnerships.
- All signatures must be witnessed. Notary is not required.

TAXPAYER IDENTIFICATION NUMBER OR SOCIAL SECURITY NUMBER:

Include your Tax ID or Social Security Number in the space provided on your Division Order. Failure to furnish this number will result in 24% tax withholding in accordance with Section 3406 of the Internal Revenue Service Code, and any tax withheld will not be refundable by BHP.

ADDRESS & TITLE CHANGES:

- Please note any change of address directly on your Division Order
- Subsequent address changes must be submitted in writing either by mail, fax or email (a change of address form can be found at <http://www.bhpbilliton.com/investor-centre/owner-relations>).
- If a change in title occurs, please furnish us with a copy of the recorded deed or document transferring the title.

PAYMENTS: Royalty check payments are mailed on or before the 30th of each month. Our policy is to remit checks monthly when your account reaches \$100, or once a year, whichever occurs first. We can reduce the minimum hold on your account from \$100 to \$25 upon written request.

PRIVACY: BHP respects the privacy of our owners. Please remember we are unable to release information to third parties on any ownership account without prior written authorization from the owner unless legally required. In order for us to discuss your lease, agreement, and/or royalty information with your appointed representative, we must be furnished with your written authorization.

CONTACT US: The following information will assist us in serving you: (1) name & owner number (2) county and state where well is located (3) well name and property number (4) telephone number with area code (5) nature of your inquiry

Owner Relations Call Center

Phone Number: 1-877-311-1443

Fax: 1-888-484-3189

E-mail: petroleumownerrelationsrequest@bhpbilliton.com

BHP

Land Administration

P O Box 22719

Houston, TX 77227-9927

unit 9349
EXHIBIT A

BHP

Date: 4/17/2019

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: 4/17/2019
Property Name: STATE DOUG 56-T2-33X28 W101H
Property #: P1M674/00501 389-37315
Production: ALL PRODUCTS
Operator: BHP BILLITON PETROLEUM (TXLA OPERATING)
Legal Description: T&P RR CO ABST/ID# 592 Grantee T. & P.R.R.CO. Twsp T2 Blk 56 Sec 33 REEVES COUNTY/PARISH, TEXAS (1.000 ACRES); T&P RR CO ABST/ID# 2214 Grantee D.W. HENDERSON Twsp T2 Blk 56 Sec 28 REEVES COUNTY/PARISH, TEXAS (1.000 ACRES)

Decimal	Type	Status	Reason	Start Date
0.01250778	RI	PAY		3/1/2019
0.00520736	RI	PAY		3/1/2019
0.01563472	RI	PAY		3/1/2019
0.00520736	RI	PAY		3/1/2019
0.00312695	RI	PAY		3/1/2019
0.00520736	RI	PAY		3/1/2019
0.00521579	RI	PAY		3/1/2019
0.00521579	RI	PAY		3/1/2019
0.00521579	RI	PAY		3/1/2019

PLEASE KEEP THIS COPY FOR YOUR RECORDS
HANNS - 51565(P1M674_NotAmended)



TEXAS GENERAL LAND OFFICE
GEORGE P. BUSH, COMMISSIONER

August 1, 2019

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

Re: State Lease Nos. MF115668, MF115669, MF116549 and MF116838
State Doug 56-T2-33X28 W101H Unit 9349

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 Zamora
Landman, Energy Resources
512-475-0428
512-475-1404 (fax)
vivian.zamora@glo.texas.gov

File No. MF116549

County

DIVISION ORDER

Date Filed: 8/02/19

George P. Bush, Commissioner

By VR



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: 7/16/2021
Billing Due Date: 8/15/2021
Customer Number: C000046383

Invoice	Mineral File	Gas Royalty	Oil Royalty	Penalty	Interest	Total Due
21I00900	MF116549	\$10,752.69	\$0.00	\$1,151.96	\$820.15	\$12,724.80
Total Due		\$10,752.69	\$0.00	\$1,151.96	\$820.15	\$12,724.80

Penalty and interest have been calculated thru 7/31/2021. Payment remitted after 7/31/2021 will result in additional penalty and interest charges.

Jacquet, David (512) 463-5262 or david.jacquet@glo.texas.gov

NOTICE

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

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

Detach and return with payment

Reconciliation Billing

BPX Operating Company

Billing Date: 7/16/2021

Billing Due Date: 8/15/2021

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		\$10,752.69	\$0.00	\$1,151.96	\$820.15	\$12,724.80
Amt. Paid						

Customer ID: C000046383
 Invoice Number: MF116549
 GLO Lease: BPX OPERATING COMPANY
 GLO Review: SEPT 2019 - AUG 2020
 Review Period:

Category Gas
 Auditor/AE: DJACQUET
 Billing Date: 7/6/2021
 P&I Calculation Date: 7/31/2021
 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 Participation Rate	Price	BTU	Gross Value	Royalty Due	Royalty Paid	Additional Royalty Due	Number of Days Late	Interest Rate For Additional Royalty	Penalty Rate From Additional Royalty	Interest Rate From Additional Royalty2	Revenue Due
Oct-19	08-288555	393	1	\$1.12	1.005	\$441.61	\$55.20	\$0.00	\$55.20	594	6.50%	\$25.00	\$5.26	\$85.46
Nov-19	08-278911	837	1	\$1.30	1.003	\$1,093.58	\$136.70	\$0.00	\$136.70	563	5.75%	\$0.00	\$10.85	\$147.55
Nov-19	08-281608	468	1	\$1.30	1.003	\$611.79	\$76.47	\$0.00	\$76.47	563	5.75%	\$0.00	\$6.07	\$82.54
Nov-19	08-288555	37,063	1	\$1.30	1.003	\$48,435.57	\$6,054.45	\$0.00	\$6,054.45	563	5.75%	\$605.45	\$480.71	\$7,140.61
Dec-19	08-278911	545	1	\$1.31	1.003	\$714.78	\$89.35	\$0.00	\$89.35	532	5.75%	\$0.00	\$6.66	\$96.01
Dec-19	08-288555	22,653	1	\$1.31	1.003	\$29,721.14	\$3,715.14	\$0.00	\$3,715.14	532	5.75%	\$371.51	\$276.83	\$4,363.48
Feb-20	08-288555	2,437	1	\$0.46	1.005	\$1,130.38	\$141.30	\$0.00	\$141.30	472	5.75%	\$25.00	\$9.19	\$175.49
Mar-20	08-288555	2,757	1	\$0.40	1.005	\$1,121.97	\$140.25	\$0.00	\$140.25	442	5.75%	\$25.00	\$8.46	\$173.71
Apr-20	08-288555	3,043	1	\$0.25	1.006	\$763.12	\$95.39	\$0.00	\$95.39	411	5.75%	\$25.00	\$5.29	\$125.68
May-20	08-288555	433	1	\$1.50	1.002	\$650.33	\$81.29	\$0.00	\$81.29	381	5.75%	\$25.00	\$4.12	\$110.41
Jun-20	08-288555	391	1	\$1.37	1.002	\$536.64	\$67.08	\$0.00	\$67.08	350	5.75%	\$25.00	\$3.08	\$95.16
Aug-20	08-288555	616	1	\$1.29	1.007	\$800.52	\$100.07	\$0.00	\$100.07	289	5.75%	\$25.00	\$3.63	\$128.70
TOTALS		71,695				\$86,021.42	\$10,752.69	\$0.00	\$10,752.69			\$1,151.96	\$820.15	\$12,724.80

COMMENTS: BILLING ON UNDER REPORTED VOLUMES FOR RRC ID#S: UNIT 7397 08-278911, UNIT 8085 08-281608 & UNIT 9349 08-288555
 NOTE THIS MINERAL FILE IS BEING BILLED ON UNDER REPORTED VOLUMES FOR UNIT 9349.(UNIT EFFECTIVE 6-5-18. OPERATOR HAS NOT BEEN REPORTING MF116549 & MF116838)
 COLUMN (3) VOLUMES - REPRESENTS THE VOLUMES REPORTED TO THE RRC VERSUS VOLUMES REPORTED TO THE GLO.
 COLUMNS (5),(6) PRICES AAND BTU FACTORS DETERMINED BY USING THE AVERAGE PRICE AND BTU FACTORS REPORTED ON THE GLO2S.
 COLUMNS (12),(13),(14) 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, SEND AN EMAIL TO account.services@glo.texas.gov
 NOTING YOUR COMPANY NAME, CUSTOMER ID, INVOICE NUMBER, REMITTANCE DATE AND AMOUNT OF PAYMENT.

ATTN: PATTY BURG
 SENT VIA E-MAIL: Patty.Burg@bpx.com

File No. MF 116549 19
County _____
Recon Billing
Date Filed: 10/12/2021
George P. Bush, Commissioner
By JD



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: 7/16/2021
Billing Due Date: 8/15/2021
Customer Number: C000046383

Invoice	Mineral File	Gas Royalty	Oil Royalty	Penalty	Interest	Total Due
21I00901	MF116549	\$0.00	\$2,272.85	\$277.35	\$167.18	\$2,717.38
Total Due		\$0.00	\$2,272.85	\$277.35	\$167.18	\$2,717.38

Penalty and interest have been calculated thru 7/31/2021. Payment remitted after 7/31/2021 will result in additional penalty and interest charges.

Jacquet, David (512) 463-5262 or david.jacquet@glo.texas.gov

NOTICE

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

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

Detach and return with payment

Reconciliation Billing

BPX Operating Company

Billing Date: 7/16/2021

Billing Due Date: 8/15/2021

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
21I00901	MF116549	\$0.00	\$2,272.85	\$277.35	\$167.18	\$2,717.38
Total Due		\$0.00	\$2,272.85	\$277.35	\$167.18	\$2,717.38
Amt. Paid						

Customer ID: C000046383
 Invoice Number:
 GLO Lease: MF116549
 GLO Review: BPX OPERATING COMPANY
 Review Period: SEP 2019 Through AUG 2020

Category Oil
 Auditor/AE: DJACQUET
 Billing Date: 7/5/2021
 P&I Calculation Date: 7/31/2021
 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 Participation Rate	Price	BTU	Gross Value	Royalty Due	Royalty Paid	Additional Royalty Due	Number of Days Late	Interest Rate For Additional Royalty	Penalty Rate From Additional Royalty	Interest Rate From Additional Royalty2	Revenue Due
Sep-19	08-281608	6	1	\$51.86	1	\$286.57	\$35.82	\$0.00	\$35.82	634	6.50%	\$0.00	\$3.67	\$39.49
Sep-19	08-288555	89	1	\$51.86	1	\$4,598.37	\$574.80	\$0.00	\$574.80	634	6.50%	\$57.48	\$58.86	\$691.14
Oct-19	08-281608	6	1	\$50.35	1	\$282.66	\$35.33	\$0.00	\$35.33	604	6.50%	\$0.00	\$3.43	\$38.76
Oct-19	08-288555	23	1	\$50.35	1	\$1,151.57	\$143.95	\$0.00	\$143.95	604	6.50%	\$25.00	\$13.97	\$182.92
Nov-19	08-281608	4	1	\$53.90	1	\$208.42	\$26.05	\$0.00	\$26.05	573	5.75%	\$0.00	\$2.11	\$28.16
Nov-19	08-288555	24	1	\$53.90	1	\$1,269.64	\$158.71	\$0.00	\$158.71	573	5.75%	\$25.00	\$12.85	\$196.56
Dec-19	08-288555	7	1	\$57.08	1	\$395.20	\$49.40	\$0.00	\$49.40	542	5.75%	\$25.00	\$3.76	\$78.16
Jan-20	08-288555	30	1	\$54.68	1	\$1,623.25	\$202.91	\$0.00	\$202.91	513	5.75%	\$25.00	\$14.51	\$242.42
Feb-20	08-288555	16	1	\$47.81	1	\$777.86	\$97.23	\$0.00	\$97.23	482	5.75%	\$25.00	\$6.48	\$128.71
May-20	08-288555	286	1	\$14.69	1	\$4,194.19	\$524.27	\$0.00	\$524.27	391	5.75%	\$52.43	\$27.42	\$604.12
Jun-20	08-288555	98	1	\$34.81	1	\$3,395.03	\$424.38	\$0.00	\$424.38	360	5.75%	\$42.44	\$20.12	\$486.94
TOTALS		586				\$18,182.76	\$2,272.85	\$0.00	\$2,272.85			\$277.35	\$187.18	\$2,717.38

COMMENTS: BILLING ON UNDER REPORTED VOLUMES FOR UNIT 8085 RRC ID#s 08-281608 & UNIT 9349 RRC ID# 08-28855.
 NOTE THIS MINERAL FILE IS BEING BILLED ON UNDER REPORTED VOLUMES FOR UNIT 9349,(UNIT EFFECTIVE 6-5-18. OPERATOR HAS NOT BEEN REPORTING MF116549 & MF116838)
 COLUMN (3) UNDER REPORTED VOLUMES - REPRESENTS THE VOLUMES REPORTED TO THE GLO VERSUS VOLUMES REPORTED TO THE RRC.
 COLUMNS (5) & (6) THE PRICES -BASED OFF THE AVERAGE PRICE REPORTED TO THE GLO ON THE GLO1 REPORTS.

COLUMNS (12),(13),(14) 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>

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 NOTING YOUR COMPANY NAME, CUSTOMER ID, INVOICE NUMBER, REMITTANCE DATE AND AMOUNT OF PAYMENT.

ATTN: PATTY BURG
 SENT VIA E-MAIL: Patty.Burg@bpx.com

20

File No. MF116549

County

Recon Billing

Date Filed: 10/12/2021

George P. Bush, Commissioner

Fy VD