

#8951

MF116786

NUML Sec.30 Blk60 #8527

NUML Sec.30-2017 #8638-~~Terminated~~ Lease Type
1/1/18

Unit 12095
#12916
#13490

Control	Basefile	County
07-034194	139520	CULBERSON
07-034201	139521	CULBERSON
Survey	T & P Ry Co	
Block	60	
Block Name		
Township	1-S	
Section/Tract	30. 32	
Land Part	All	
Acres	Net: 189.500000	Gross: 758.000000
Depth Below	Depth Above	Depth Other
Name	COC OPERATING LLC	
Lease Date	3/4/2014	
Primary Term	3 years	
Bonus	\$94,939.50	
Lease Royalty	0.12500000	
Paid Up	Yes	

Leasing: OL
Maps: AB
GIS: ML
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

F1094603

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1. RAL Review Sheet	3-10-14	(See MF121030 item # 5)
2. Ltr w/ proposal & fees	3-31-14	for Buckslip 12095 "DR-
3. Bonus & corresp.	3-31-14	Ranch Wise State Unit #1)
4a. Lease A	7-25-14	(See MF121030 item
4b. Lease B	7-25-14	#11 for Pooling Agreement
5. Final Ltr	11-6-14	12095)
Scanned sm	8/25/15	Scanned WM 3.7.2023
See #32 MF114883 NUML 8527	6/3/17	(see MF121030 #12 2 nd Amend.
Scanned Pt	6-22-2017	Dev. Agmt DR-Wise State Unit No.1)
6. NUML 8638 (terminated 11/18)	8/16/17	(see MF121030 #13 4 th Amend
Scanned sm	9/15/2017	DR-Wise State Unit No. 2)
See #45 in M-114883 for the		GLO Unit # 12916 (FKA GLO Unit #12095)
Delaware Ranch, Wise Unit No. 1-610 #8954		Scanned WM 1-10-2024
Scanned Pt	4-27-2018	(see MF114883 #337 Recorded
(See MF 114883 #52 Agmt #10594		4 th Amend DR-Wise State Unit No 1)
COG (C) Chevron	5-22-18	GLO Unit #12916
Scanned Pt	5-24-2018	Scanned WM 2-27-2024
7. Recon Billing		See MF 114883 # 392 Designation of
Scanned Pt	12-18-2018	Participation Units 2024
Scanned Pt	1-10-2019	Scanned WM 9.30.2025
8. DIVISION ORDER	7-25-19	
Scanned Pt	8-5-2019	
See MF114883, #157, Ltr from Chevron		
See MF114883, #158, Desig. of Producing		
Unit DR State East #3029 H		
See MF114883, #159, Desig. of Producing		
Unit DR State East #3028 H		
Scanned sm	10/16/2019	
9. Recon Billing	1/4/2022	
Scanned Pt	1/11/2022	
10. Min Royalty	3-23-22	
Scanned Pt	3/29/2022	

RAL REVIEW SHEET

Working File #: RAL145807

MF:

Lessor: Prewitt, John Collins

Lease Date: 03/04/2014

UI: Yes

Lessee: Cog Operating Llc

Gross Acres: 758.00

Net Acres: 189.50

LEASE DESCRIPTION

County	Control #	Base File No	Part	Sec	Block	Twp	Survey	Abst No
Culberson	07-034194	139520	All	30	60	1-S	T & P Ry Co	5569
Culberson	07-034201	139521	S/2SE/4	32	60	1-S	T & P Ry Co	5570

TERMS OFFERED

Primary Term:	3 Years
Bonus / Acre:	\$1,002.00
Rental / Acre:	2nd Yr 3rd Yr 4th Yr 5th Yr
	0.00 0.00
Royalty	0.250000

TERMS RECOMMENDED

Primary Term:	3 Years
Bonus / Acre:	\$1,002.00
Rental / Acre:	2nd Yr 3rd Yr 4th Yr 5th Yr
	0.00 0.00
Royalty	0.250000

COMPARISONS

Lease No	Lessee	Lease Date	Primary Term	Bonus/Acre	Rental/Acre				Royalty	Distance
MF114883	COG Operating	03/28/2013	3 yr	\$800.00	\$0.00	0.00			0.250000	0.000000 Adjacent/same tracts

Comments:

Paid Up

Approved:

DR 3.10.14

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: Cog Operating Llc

County: Culberson

Prim. Term: 3 Years

Bonus/Acre: \$1,002.00

Royalty: 0.25000000

Rental/Acre 2nd Yr: \$0.00

3rd Yr: \$0.00

4th Yr: \$0.00

5th Yr: \$0.00

Consideration

Recommended: RJH

Date: 3/24/14

Not Recommended: _____

Comments: Paid Up

Lease Form

Recommended: RJH

Date: 3/24/14

Not Recommended: _____

Comments: _____

Louis Renaud, Deputy Commissioner

Recommended: CLR

Date: 3.26.14

Not Recommended: _____

Bill Warnick, General Counsel

Recommended: WKN

Date: 4/14/14

Not Recommended: _____

Larry Laine, Chief Clerk

Approved: [Signature]

Date: 4/3/14

Not Approved: _____

Jerry Patterson, Commissioner

Approved: [Signature]

Date: 4/4/14

Not Approved: _____

File No. MF116786

RAL Review Sheet

Date Filed: 3-10-14

Jerry E. Patterson, Commissioner

By 

CASH ONLY IF ALL CheckLock™ SECURITY FEATURES LISTED ON BACK INDICATE NO TAMPERING OR COPYING

CLAY JOHNSON
1603 N. BIG SPRING ST.
MIDLAND, TX 79701
(432) 684-4110

14709878

FIRSTCAPITAL BANK OF TEXAS, N.A.
MIDLAND, TX 79701

14709877

17371

3/27/2014

PAY TO THE ORDER OF General Land Office - State of Texas

\$ **25.00

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

DOLLARS



General Land Office - State of Texas
Stephen F. Austin Bldg.
1700 N. Congress Ave.
Austin, TX 78701

▲ TAMPER RESISTANT TONER AREA ▲



MEMO

Filing Fee-Stephen Prewit, Blk. 60, TWP 1-Culberso

CLAY JOHNSON

⑈017371⑈

CLAY JOHNSON

General Land Office - State of Texas

3/27/2014

17371

Filing Fee-Stephen Prewit, Blk. 60, TWP 1-Culberso

25.00

14709878

121

FIRST NATIONAL CH Filing Fee-Stephen Prewit, Blk. 60, TWP 1-Culbe

X 25.00

NATHAN W. SYKES
PO BOX 45
MIDLAND, TX 79702
(432) 664-1352

FIRSTCAPITAL BANK OF TEXAS, NA
MIDLAND, TX 79701

14713669

1119

6/10/2014

PAY TO THE ORDER OF Texas General Land Office

\$25.00

Twenty-Five and 00/100

DOLLARS

▲ TAMPER RESISTANT TONER AREA ▲

Texas General Land Office
1700 North Congress Ave.
Austin, Texas 78701

VOID AFTER 180 DAYS

Nate Sykes

Processing Fee-John Collins Prewit-OGL

⑈001119⑈

NATHAN W. SYKES

Texas General Land Office

6/10/2014

1/8 Int- Sec 30, S/2SE/4 of Sec. 32, Blk. 60, Twp 1, T

25.00

14713669

First Capital Bank Che Processing Fee-John Collins Prewit-OGL

25.00

NATHAN W. SYKES
PO BOX 45
MIDLAND, TX 79702
(432) 664-1352

FIRSTCAPITAL BANK OF TEXAS, NA
MIDLAND, TX 79701

1118

14713668

6/10/2014

PAY TO THE ORDER OF Texas General Land Office

\$100.00

One Hundred and 00/100

DOLLARS



Texas General Land Office
1700 North Congress Ave.
Austin, Texas 78701

▲ TAMPER RESISTANT TONER AREA ▲



VOID AFTER 180 DAYS

Nate Sykes

MEMO

Approval Fee-John Collins Prewit-OGL

⑈001118⑈

NATHAN W. SYKES

1118

Texas General Land Office

6/10/2014

1/8 Int- Sec 30, S/2SE/4 of Sec. 32, Blk. 60, Twp 1, T

100.00

14713668

First Capital Bank Che Approval Fee-John Collins Prewit-OGL

X 121
100.00



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CLAY JOHNSON.
1603 N. BIG SPRING ST.
MIDLAND, TX 79701
(432) 684-4110

FIRSTCAPITAL BANK OF TEXAS, NA
MIDLAND, TX 79701

14709879 17370

3/27/2014

PAY TO THE ORDER OF General Land Office - State of Texas

\$ **100.00

One Hundred and 00/100*****

DOLLARS

▲ TAMPER RESISTANT TONER AREA ▲

General Land Office - State of Texas
Stephen F. Austin Bldg.
1700 N. Congress Ave.
Austin, TX 78701

MEMO

Processing Fee-Stephen Prewit, Blk. 60, TWP 1-Cul

⑈017370⑈

CLAY JOHNSON

CLAY JOHNSON

General Land Office - State of Texas

3/27/2014

17370

Processing Fee-Stephen Prewit, Blk. 60, TWP 1-Cul

100.00

14709879

X 121

FIRST NATIONAL CH Processing Fee-Stephen Prewit, Blk. 60, TWP 1-

100.00

Clay Johnson Oil & Gas Properties

1603 N. BIG SPRING STREET * MIDLAND, TEXAS 79701 * (432) 684-4110 * FAX (432) 684-5166



AAPL-CPL

July 21, 2014

GENERAL LAND OFFICE

Mr. Drew Reid
Stephen F. Austin Bldg.
1700 North Congress Ave.
Austin, TX 78701

Re: Relinquishment Act Leases
All of Section 30, S/2SE/4 of Section 32
Block 60, Township 1, T&P Ry. Co.
758.00 acres, more or less,
Culberson Co., Texas

Dear Drew:

Find enclosed for your files and further handling the following certified copies of recorded Oil and Gas Lease covering the above described lands

- 1) Oil and Gas Lease covering an undivided 1/8 interest, dated March 4, 2014, recorded in vol. 112, page 734 of the Oil and Gas Records of Culberson Co., Texas, by and between The State of Texas, acting by and through its agent, Stephen Neil Prewit, as Lessor and COG Operating LLC, as Lessee.
- 2) Oil and Gas Lease covering an undivided 1/8 interest, dated March 4, 2014, recorded in vol. 112, page 744 of the Oil and Gas Records of Culberson Co., Texas, by and between The State of Texas, acting by and through its agent, John Collins Prewit, as Lessor and COG Operating LLC, as Lessee.

If you have any questions, please advise, my cell number is 432-664-1352. Thank you for your time and consideration in this matter.

Respectfully,

A handwritten signature in blue ink that reads "Nate Sykes". The signature is stylized with a large, looped 'N' and a cursive 'Sykes'.

Nate Sykes

4750.2

Clay Johnson Oil & Gas Properties

1603 N. BIG SPRING STREET * MIDLAND, TEXAS 79701 * (432) 684-4110 * FAX (432) 684-5166



AAPL-CPL

June 10, 2014

GENERAL LAND OFFICE

Mr. Drew Reid
Stephen F. Austin Bldg.
1700 North Congress Ave.
Austin, TX 78701

Re: Relinquishment Act Lease
Reeves County, Texas

Dear Drew:

Find enclosed for your files and further handling a copy of the following described Relinquishment Act Oil and Gas Lease:

Oil and Gas Lease dated March 4, 2014, by and between The State of Texas, acting by and through its agent, John Collins Prewit, dealing in his sole and separate property, as Lessor and COG Operating LLC, as Lessee. This lease is executed by the Lessor but currently unrecorded but upon signature by COG and once I record the lease, I will forward you a certified copy of the same.

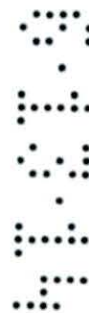
Find enclosed COG Operating LLC's check no. 0000234189 in the amount of \$47,469.75 as payment for the State's 1/2 bonus due for the 3 year primary term.

To cover the required processing fees for handling this matter find enclosed Nate Sykes Check in the amount of \$25.00 made payable to the order of Texas General Land Office and for the approval fees, find enclosed Nate Sykes Check in the amount of \$100.00 made payable to the order of the Texas General Land Office.

Respectfully

A handwritten signature in blue ink that reads "Nate Sykes". The signature is fluid and cursive.

Nate Sykes



Clay Johnson Oil & Gas Properties

1603 N. BIG SPRING STREET * MIDLAND, TEXAS 79701 * (432) 684-4110 * FAX (432) 684-5166



AAPL-CPL

March 27, 2014

GENERAL LAND OFFICE

Mr. Drew Reid
Stephen F. Austin Bldg.
1700 North Congress Ave.
Austin, TX 78701

Re: Relinquishment Act Lease
Reeves County, Texas

Dear Drew:

Find enclosed for your files and further handling a copy of the following described Relinquishment Act Oil and Gas Lease:

Oil and Gas Lease dated March 4, 2014, by and between The State of Texas, acting by and through its agent, Stephen Neil Prewit, dealing in his sole and separate property, as Lessor and COG Operating LLC, as Lessee. This lease is currently unrecorded but upon signature by COG and once I record the lease, I will forward you a certified copy of the same.

Find enclosed COG Operating LLC's check no. 0000221419 in the amount of \$47,469.75 as payment for the State's 1/2 bonus due for the 3 year primary term.

To cover the required filing fees for handling this matter find enclosed Clay Johnson Check in the amount of \$25.00 made payable to the order of General Land Office - State of Texas and for the processing fees, find enclosed Clay Johnson Check in the amount of \$100.00 made payable to the order of the General Land Office - State of Texas.

Respectfully

A handwritten signature in blue ink that reads "Nate Sykes". The signature is written in a cursive, flowing style.

Nate Sykes

File No. MF116786

~~RECEIVED~~ 145 w/ prop.
2 fees

Date Filed: 3-31-14

Jerry E. Patterson, Commissioner

By [Signature]



Accounts Payable

COG OPERATING LLC

600 W ILLINOIS AVE
MIDLAND TX 79701
(855) 687-8097

BANK OF AMERICA

Atlanta, GA

14709880

32-2
1110 TX

Check No	Check Date	Check Amount
0000221419	03/20/2014	*****\$47,469.75

PAY Forty Seven Thousand Four Hundred Sixty Nine Dollars and Seventy Five Cents

TO
THE
ORDER
OFTEXAS GENERAL LAND OFFICE
1700 N. CONGRESS AVENUE STE 935
AUSTIN TX 78701-1495

TWO SIGNATURES REQUIRED FOR CHECKS OVER \$200,000

⑈0000221419⑈

PLEASE DETACH AT PERFORATION ABOVE

COG OPERATING LLC

600 W ILLINOIS AVE
MIDLAND TX 79701
(855) 687-8097

PLEASE DETACH AT PERFORATION ABOVE

Invoice #	Inv. Date	Description	Amount	Discount	Net Amount
031714	03/17/2014		47,469.75	0.00	47,469.75

Check Number 0000221419

Bonus Consideration for Oil & Gas lease covering 94.75 acres in
Sections 30 & 32, BLK 60 T1, T&P RR Co Survey, Calhoun County, Texas

14709880

001523

Vendor

Check Date: 03/20/2014

Check Amount ➡

121
X 47,469.75

Drew Reid - Re: Prewit Lease Offer: Sections 30 & 32, Blk 60 T1, Culberson County, Texas

From: Clay Johnson <buddyjack1@aol.com>
To: Drew.Reid@GLO.TEXAS.GOV
Date: 3/5/2014 4:38 PM
Subject: Re: Prewit Lease Offer: Sections 30 & 32, Blk 60 T1, Culberson County, Texas
Attachments: Mineral_Classified_John Collins Prewit.doc; Mineral_Classified_Stephen Neil Prewit.doc

Drew,

FYI, these two leases went out this week and I wanted to go ahead and get the form to you to start a workup on them. If you want me to send the \$100 for approval on each now I can or I can do it all at once like I have before, just let me know. It is my understanding that you have approved a three year paid up lease for \$1,002/net acre and 1/4 royalty.

Let me know if I am incorrect in this.

Thanks,

Nate
 Clay Johnson Oil & Gas Properties
 1603 N. Big Spring Street
 Midland, Texas 79701
 432-684-4110
 BuddyJack1@aol.com

-----Original Message-----

From: David McElyea <DMcElyea@concho.com>
 To: drew.reid <drew.reid@glo.texas.gov>
 Cc: buddyjack1 <buddyjack1@aol.com>
 Sent: Thu, Jan 23, 2014 4:01 pm
 Subject: FW: Prewit Lease Offer: Sections 30 & 32, Blk 60 T1, Culberson County, Texas

Drew, attached are copies of Lease Offer we discussed. Clay said he would give you a call.

Thanks,

David McElyea

-----Original Message-----

From: PRT39-1CC06@conchoresources.com [<mailto:PRT39-1CC06@conchoresources.com>]
 Sent: Thursday, January 23, 2014 4:58 PM
 To: David McElyea
 Subject: Scanned from a Xerox multifunction device

Please open the attached document. It was scanned and sent to you using a Xerox multifunction device.

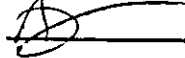
Attachment File Type: pdf, Multi-Page

multifunction device Location: PRT39-1CC06
 Device Name: PRT39-1CC06

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<http://www.xerox.com>

File No. MF116786Bonus & correspondenceDate Filed: 3-~~13~~³¹-14

Jerry E. Patterson, Commissioner

By 

116786A

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 4th day of March, 2014, between the State of Texas, acting by and through its agent, **JOHN COLLINS PREWIT, dealing in his sole and separate property**, 10684 Pagewood, Dallas, Texas 75230

_____ said agent
(Give Permanent Address)

herein referred to as the owner of the soil (whether one or more), and **COG Operating LLC, a Delaware limited liability company**
of 600 W. Illinois Ave
Midland, Texas 79701
(Give Permanent Address)

hereinafter called Lessee.

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

Block 60, Township 1, T&P Rv. Co. Survey

Section 30: **ALL, containing 678.00 acres, more or less**

Section 32: **South One-Half of the Southeast Quarter (S/2SE/4), containing 80.00 acres, more or less**

Containing 758.00 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Forty Seven Thousand Four Hundred and Sixty Nine Dollars and 75/100-----
Dollars (\$ 47,469.75)

To the owner of the soil: Forty Seven Thousand Four Hundred and Sixty Nine Dollars and 75/100-----
Dollars (\$ 47,469.75)

Total bonus consideration: Ninety Four Thousand Nine Hundred Thirty Nine Dollars and 50/100-----
Dollars (\$ 94,939.50)

The total bonus consideration paid represents a bonus of One Thousand and Two Dollars and No/100-----
Dollars (\$ 1,002.00) per acre, on 94.75 net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of Three (3) years from this date (herein called primary term") and as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land. As used in this lease, the term "produced in paying quantities" means that the receipts from the sale or other authorized commercial use of the substance(s) covered exceed out of pocket operational expenses for the six months last past.

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

To the owner of the soil: see Paragraphs 40 for amended Delay Rental Provisions
Dollars (\$ _____)

To the State of Texas: see Paragraphs 40 for amended Delay Rental Provisions
Dollars (\$ _____)

Total Rental: see Paragraphs 40 for amended Delay Rental Provisions
Dollars (\$ _____)

In a like manner and upon like payments or tenders annually, the commencement of a well may be further deferred for successive periods of one (1) year each during the primary term. All payments or tenders of rental to the owner of the soil may be made by check or sight draft of Lessee, or any assignee of this lease, and may be delivered on or before the rental paying date. If the bank designated

47504



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

7-15-14
rell

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 1/4th part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be determined by 1) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity in the general area where produced and when run, or 2) the highest market price thereof offered or paid in the general area where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is the greater. Lessee agrees that before any gas produced from the leased premises is sold, used or processed in a plant, it will be run free of cost to the royalty owners through an adequate oil and gas separator of conventional type, or other equipment at least as efficient, so that all liquid hydrocarbons recoverable from the gas by such means will be recovered. The requirement that such gas be run through a separator or other equipment may be waived in writing by the royalty owners upon such terms and conditions as they prescribe.

(B) **NON PROCESSED GAS.** Royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substances not defined as oil in subparagraph (A) above, produced from any well on said land (except as provided herein with respect to gas processed in a plant for the extraction of gasoline, liquid hydrocarbons or other products) shall be 1/4th 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 1/4th 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 1/4th part of the gross production of such products, or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such market value to be determined as follows: 1) on the basis of the highest market price of each product for the same month in which such product is produced, or 2) on the basis of the average gross sale price of each product for the same month in which such products are produced; whichever is the greater.

5. **MINIMUM ROYALTY.** During any year after the expiration of the primary term of this lease, if this lease is maintained by production, the royalties paid under this lease in no event shall be less than an amount equal to the total annual delay rental herein provided; otherwise, there shall be due and payable on or before the last day of the month succeeding the anniversary date of this lease a sum equal to the total annual rental less the amount of royalties paid during the preceding year. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre.

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

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

8. **PLANT FUEL AND RECYCLED GAS.** No royalty shall be payable on any gas as may represent this lease's proportionate share of any fuel used to process gas produced hereunder in any processing plant. Notwithstanding any other provision of this lease, and subject to the written consent of the owner of the soil and the Commissioner of the General Land Office, Lessee may recycle gas for gas lift purposes on the leased premises or for injection into any oil or gas producing formation underlying the leased premises after the liquid hydrocarbons contained in the gas have been removed; no royalties shall be payable on the recycled gas until it is produced and sold or used by Lessee in a manner which entitles the royalty owners to a royalty under this lease.

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

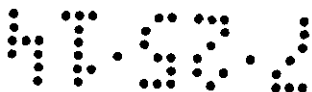
Payment of royalty on production of oil and gas shall be as provided in the rules set forth in the Texas Register. Rules currently provide that royalty on oil is due and must be received in the General Land Office on or before the 5th day of the second month succeeding the month of production, and royalty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

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

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

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

11. **DRY HOLE/CESSATION OF PRODUCTION DURING PRIMARY TERM.** If, during the primary term hereof



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and prior to discovery and production of oil or gas on said land, Lessee should drill a dry hole or holes thereon, or if during the primary term hereof and after the discovery and actual production of oil or gas from the leased premises such production thereof should cease from any cause, this lease shall not terminate if on or before the expiration of sixty (60) days from date of completion of said dry hole or cessation of production Lessee commences additional drilling or reworking operations thereon, or pays or tenders the next annual delay rental in the same manner as provided in this lease. If, during the last year of the primary term or within sixty (60) days prior thereto, a dry hole be completed and abandoned, or the production of oil or gas should cease for any cause, Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term; and if Lessee has not resumed production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking operations pursuant to Paragraph 13, using the expiration of the primary term as the date of cessation of production under Paragraph 13. Should the first well or any subsequent well drilled on the above described land be completed as a shut-in oil or gas well within the primary term hereof, Lessee may resume payment of the annual rental in the same manner as provided herein on or before the rental paying date following the expiration of sixty (60) days from the date of completion of such shut-in oil or gas well and upon the failure to make such payment, this lease shall ipso facto terminate. If at the expiration of the primary term or any time thereafter a shut-in oil or gas well is located on the leased premises, payments may be made in accordance with the shut-in provisions hereof.

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

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

14. **SHUT-IN ROYALTIES.** For purposes of this paragraph, "well" means any well that has been assigned a well number by the state agency having jurisdiction over the production of oil and gas. If, at any time after the expiration of the primary term of a lease that, until being shut in, was being maintained in force and effect, a well capable of producing oil or gas in paying quantities is located on the leased premises, but oil or gas is not being produced for lack of suitable production facilities or lack of a suitable market, then Lessee may pay as a shut-in oil or gas royalty an amount equal to double the annual rental provided in the lease, but not less than \$1,200 a year for each well capable of producing oil or gas in paying quantities. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre. To be effective, each initial shut-in oil or gas royalty must be paid on or before: (1) the expiration of the primary term, (2) 60 days after the Lessee ceases to produce oil or gas from the leased premises, or (3) 60 days after Lessee completes a drilling or reworking operation in accordance with the lease provisions; whichever date is latest. Such payment shall be made one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil. If the shut-in oil or gas royalty is paid, the lease shall be considered to be a producing lease and the payment shall extend the term of the lease for a period of one year from the end of the primary term, or from the first day of the month following the month in which production ceased, and, after that, if no suitable production facilities or suitable market for the oil or gas exists, Lessee may extend the lease for four more successive periods of one (1) year by paying the same amount each year on or before the expiration of each shut-in year.

15. **COMPENSATORY ROYALTIES.** If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is sold and delivered in paying quantities from a well located within one thousand (1,000) feet of the leased premises and completed in the same producing reservoir, or in any case in which drainage is occurring, the right to continue to maintain the lease by paying the shut-in oil or gas royalty shall cease, but the lease shall remain effective for the remainder of the year for which the royalty has been paid. The Lessee may maintain the lease for four more successive years by Lessee paying compensatory royalty at the royalty rate provided in the lease of the market value of production from the well causing the drainage or which is completed in the same producing reservoir and within one thousand (1,000) feet of the leased premises. The compensatory royalty is to be paid monthly, one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil, beginning on or before the last day of the month following the month in which the oil or gas is produced from the well causing the drainage or that is completed in the same producing reservoir and located within one thousand (1,000) feet of the leased premises. If the compensatory royalty paid in any 12-month period is in an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within thirty (30) days from the end of the 12-month period. 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.



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

(A) **VERTICAL.** In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall then terminate as to all of the leased premises, EXCEPT (1) 40 acres surrounding each oil well capable of producing in paying quantities and 320 acres surrounding each gas well capable of producing in paying quantities (including a shut-in oil or gas well as provided in Paragraph 14 hereof), or a well upon which Lessee is then engaged in continuous drilling or reworking operations, or (2) the number of acres included in a producing pooled unit pursuant to Texas Natural Resources Code 52.151-52.153, or (3) such greater or lesser number of acres as may then be allocated for production purposes to a proration unit for each such producing well under the rules and regulations of the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction. 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 right-of-ways for existing roads, existing pipelines and other existing facilities on, over and across all the lands described in Paragraph 1 hereof ("the retained lands"), for access to and from the retained lands and for the gathering or transportation of oil, gas and other minerals produced from the retained lands.

(B) **HORIZONTAL.** In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall further terminate as to all depths below 100 feet below the total depth drilled (hereinafter "deeper depths") in each well located on acreage retained in Paragraph 16(A) above, unless on or before two (2) years after the primary or extended term Lessee pays an amount equal to one-half (1/2) of the bonus originally paid as consideration for this lease (as specified on page 1 hereof). If such amount is paid, this lease shall be in force and effect as to such deeper depths, and said termination shall be delayed for an additional period of two (2) years and so long thereafter as oil or gas is produced in paying quantities from such deeper depths covered by this lease.

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

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

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

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

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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 watertlood operations without the prior consent of the owner of the soil.

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

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

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

25. POLLUTION. In developing this area, Lessee shall use the highest degree of care and all proper safeguards to prevent pollution. Without limiting the foregoing, pollution of coastal wetlands, natural waterways, rivers and impounded water shall be prevented by the use of containment facilities sufficient to prevent spillage, seepage or ground water contamination. In the event of pollution, Lessee shall use all means at its disposal to recapture all escaped hydrocarbons or other pollutant and shall be responsible for all damage to public and private properties. Lessee shall build and maintain fences around its slush, sump, and drainage pits and tank batteries so as to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level all slush pits and cellars and completely clean up the drilling site of all rubbish thereon. Lessee shall, while conducting operations on the leased premises, keep said premises free of all rubbish, cans, bottles, paper cups or garbage, and upon completion of operations shall restore the surface of the land to as near its original condition and contours as is practicable. Tanks and equipment will be kept painted and presentable.

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

27. (A) ASSIGNMENTS. Under the conditions contained in this paragraph and Paragraph 29 of this lease, the rights and estates of either party to this lease may be assigned, in whole or in part, and the provisions of this lease shall extend to and be binding upon their heirs, devisees, legal representatives, successors and assigns. However, a change or division in ownership of the land, rentals, or royalties will not enlarge the obligations of Lessee, diminish the rights, privileges and estates of Lessee, impair the effectiveness of any payment made by Lessee or impair the effectiveness of any act performed by Lessee. And no change or division in ownership of the land, rentals, or royalties shall bind Lessee for any purpose until thirty (30) days after the owner of the soil (or his heirs, devisees, legal representatives or assigns) furnishes the Lessee with satisfactory written evidence of the change in ownership, including the original recorded muniments of title (or a certified copy of such original) when the ownership changed because of a conveyance. A total or partial assignment of this lease shall, to the extent of the interest assigned, relieve and discharge Lessee of all subsequent obligations under this lease. If this lease is assigned in its entirety as to only part of the acreage, the right and option to pay rentals shall be apportioned as between the several owners ratably, according to the area of each, and failure by one or more of them to pay his share of the rental shall not affect this lease on the part of the land upon which pro rata rentals are timely paid or tendered; however, if the assignor or assignee does not file a certified copy of such assignment in the General Land Office before the next rental paying date, the entire lease shall terminate for failure to pay the entire rental due under Paragraph 3. Every assignee shall succeed to all rights and be subject to all obligations, liabilities, and penalties owed to the State by the original lessee or any prior assignee of the



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lease, including any liabilities to the State for unpaid royalties.

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

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

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

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

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

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

32. **FORFEITURE.** If Lessee shall fail or refuse to make the payment of any sum within thirty days after it becomes due, or if Lessee or an authorized agent should knowingly make any false return or false report concerning production or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith as required by law and the rules and regulations adopted by the Commissioner of the General Land Office, or if Lessee should fail to file reports in the manner required by law or fail to comply with rules and regulations promulgated by the General Land Office, the School Land Board, or the Railroad Commission, or if Lessee should refuse the proper authority access to the records pertaining to operations, or if Lessee or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or knowingly fail or refuse to furnish the General Land Office a correct log of any well, or if Lessee shall knowingly violate any of the material provisions of this lease, or if this lease is assigned and the assignment is not filed in the General Land Office as required by law, the rights acquired under this lease shall be subject to forfeiture by the Commissioner, and he shall forfeit same when sufficiently informed of the facts which authorize a forfeiture, and when forfeited the area shall again be subject to lease under the terms of the Relinquishment Act. However, nothing herein shall be construed as waiving the automatic termination of this lease by operation of law or by reason of any special limitation arising hereunder. Forfeitures may be set aside and this lease and all rights thereunder reinstated before the rights of another intervene upon satisfactory evidence to the Commissioner of the General Land Office of future compliance with the provisions of the law and of this lease and the rules and regulations that may be adopted relative hereto.

33. **LIEN.** In accordance with Texas Natural Resources Code 52.136, the State shall have a first lien upon all oil and gas produced from the area covered by this lease to secure payment of all unpaid royalty and other sums of money that may become due under this lease. By acceptance of this lease, Lessee grants the State, in addition to the lien provided by Texas Natural Resources Code 52.136 and any other applicable statutory lien, an express contractual lien on and security interest in all leased minerals in and extracted from the leased premises, all proceeds which may accrue to Lessee from the sale of such leased minerals, whether such proceeds are held by Lessee or by a third party, and all fixtures on and improvements to the leased premises used in connection with the production or processing of such leased minerals in order to secure the payment of all royalties or other amounts due or to become due under this lease and to secure payment of any damages or loss that Lessor may suffer by reason of Lessee's breach of any covenant or condition of this lease, whether express or implied. This lien and security interest may be foreclosed with or without court proceedings in the manner provided in the Title I, Chapter 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this

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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 52.151-52.153. The owner of the soil agrees that the inclusion of this provision in this lease satisfies the execution requirements stated in Texas Natural Resources Code 52.152.

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

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

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

38. **EXECUTION.** This oil and gas lease must be signed and acknowledged by the Lessee before it is filed of record in the county records and in the General Land Office of the State of Texas. Once the filing requirements found in Paragraph 39 of this lease have been satisfied, the effective date of this lease shall be the date found on Page 1.

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

40. Notwithstanding anything to the contrary contained in Paragraph Three (3) of this Lease, for all purposes this lease shall be a fully Paid-Up Oil & Gas Lease for the first three years. Delay Rentals have been paid in full with the Bonus Consideration tendered herein. Delay Rental payment was based on a \$1.00 per net mineral acre per year for Two (2) Years. Concluding a \$2.00 per acre Pd-Up Rental Payment was made in advance for the Two (2) Year Period on the net mineral acres indicated in this Lease.

41. **PAYMENTS OF MINIMUM ROYALTY AND SHUT-IN ROYALTY.** Paragraph 5 (minimum Royalty) and Paragraph 14 (Shut in Royalty) contains a reference to a computation based upon the delay rental amount specified in Paragraph 3. However, notwithstanding anything contained herein to the contrary, the undersigned do hereby recognize, acknowledge and agree that i) all minimum royalty payments due pursuant to Paragraph 5 shall be calculated on the basis of the delay rental amount being one dollar (\$1.00) per acre, and ii) all shut-in royalty payments due pursuant to Paragraph 14 shall be calculated on the basis of double the annual rental amount of one dollar (\$1.00) per acre (being two dollars (\$2.00) per acre), but not less than \$1200.00 a year for each well capable of producing oil and gas in paying quantities.

COG Operating LLC, a Delaware limited liability company

Mona D. Ables
Mona D. Ables, Vice President of Land

DEM

Date: June 20, 2014

STATE OF TEXAS

STATE OF TEXAS

BY: John Collins Prewit
Individually and as agent for the State of Texas
John Collins Prewit, dealing in his sole and separate property

DATE: 5/13/14

BY: _____
Individually and as agent for the State of Texas

DATE: _____

STATE OF TEXAS

(CORPORATE ACKNOWLEDGMENT)

COUNTY OF MIDLAND

BEFORE ME, the undersigned authority, on this day personally appeared Mona D. Ables known to me to be the person whose name is subscribed to the foregoing instrument, as Vice President of Land of COG OPERATING LLC, a Delaware limited liability company, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said partnership.

Given under my hand and seal of office this the 20th day of June, 2014.



Mollie McAuliffe
Notary Public in and for the State of TEXAS



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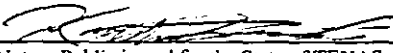
STATE OF TEXAS

(INDIVIDUAL ACKNOWLEDGMENT)

COUNTY OF DALLAS

Before me, the undersigned authority, on this day personally appeared John Collins Prewitt, dealing in his sole and separate property known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this the 13th day of May, 2014.


Notary Public in and for the State of TEXAS



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File No. MF 116786
Lease A

Date Filed: 7-25-14

Jerry E. Patterson, Commissioner
By [Signature]

CERTIFIED TRUE AND CORRECT COPY CERTIFICATE
STATE OF TEXAS
COUNTY OF CULBERSON

The above and foregoing is a full, true and correct photographic copy of the
original record now in my lawful custody and possession, as the same is
filed/recorded in the DA & SOS Records of my office, found
in VOL. 112, PAGE 744.

I hereby certified on 7 15 2014

LINDA McDONALD, COUNTY & DISTRICT CLERK
CULBERSON COUNTY, TEXAS
BY [Signature] DEPUTY

2014

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General Land Office
Relinquishment Act Lease Form
Revised, September 1997

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 4th day of March, 2014, between the State of Texas, acting by and through its agent, **STEPHEN NEIL PREWIT, dealing in his sole and separate property**, 1016 Russell, Scott City, Kansas 67871

_____ said agent
(Give Permanent Address)

herein referred to as the owner of the soil (whether one or more), and **COG Operating LLC, a Delaware limited liability company** of 600 W. Illinois Ave
Midland, Texas 79701
(Give Permanent Address)

hereinafter called Lessee.

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

Block 60, Township 1, T&P Ry. Co. Survey

Section 30: **ALL, containing 678.00 acres, more or less**

Section 32: **South One-Half of the Southeast Quarter (S/2SE/4), containing 80.00 acres, more or less**

Containing 758.00 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Forty Seven Thousand Four Hundred and Sixty Nine Dollars and 75/100-----
Dollars (\$ 47,469.75)

To the owner of the soil: Forty Seven Thousand Four Hundred and Sixty Nine Dollars and 75/100-----
Dollars (\$ 47,469.75)

Total bonus consideration: Ninety Four Thousand Nine Hundred Thirty Nine Dollars and 50/100-----
Dollars (\$ 94,939.50)

The total bonus consideration paid represents a bonus of One Thousand and Two Dollars and No/100-----
Dollars (\$ 1,002.00) per acre, on 94.75 net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of Three (3) years from this date (herein called primary term") and as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land. As used in this lease, the term "produced in paying quantities" means that the receipts from the sale or other authorized commercial use of the substance(s) covered exceed out of pocket operational expenses for the six months last past.

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

To the owner of the soil: see Paragraphs 40 for amended Delay Rental Provisions
Dollars (\$ _____)

To the State of Texas: see Paragraphs 40 for amended Delay Rental Provisions
Dollars (\$ _____)

Total Rental: see Paragraphs 40 for amended Delay Rental Provisions
Dollars (\$ _____)

In a like manner and upon like payments or tenders annually, the commencement of a well may be further deferred for successive periods of one (1) year each during the primary term. All payments or tenders of rental to the owner of the soil may be made by check or sight draft of Lessee, or any assignee of this lease, and may be delivered on or before the rental paying date. If the bank designated

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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 1/4th part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be determined by 1) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity in the general area where produced and when run, or 2) the highest market price thereof offered or paid in the general area where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is the greater. Lessee agrees that before any gas produced from the leased premises is sold, used or processed in a plant, it will be run free of cost to the royalty owners through an adequate oil and gas separator of conventional type, or other equipment at least as efficient, so that all liquid hydrocarbons recoverable from the gas by such means will be recovered. The requirement that such gas be run through a separator or other equipment may be waived in writing by the royalty owners upon such terms and conditions as they prescribe.

(B) **NON PROCESSED GAS.** Royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substances not defined as oil in subparagraph (A) above, produced from any well on said land (except as provided herein with respect to gas processed in a plant for the extraction of gasoline, liquid hydrocarbons or other products) shall be 1/4th 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 1/4th 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 1/4th part of the gross production of such products, or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such market value to be determined as follows: 1) on the basis of the highest market price of each product for the same month in which such product is produced, or 2) on the basis of the average gross sale price of each product for the same month in which such products are produced; whichever is the greater.

5. **MINIMUM ROYALTY.** During any year after the expiration of the primary term of this lease, if this lease is maintained by production, the royalties paid under this lease in no event shall be less than an amount equal to the total annual delay rental herein provided; otherwise, there shall be due and payable on or before the last day of the month succeeding the anniversary date of this lease a sum equal to the total annual rental less the amount of royalties paid during the preceding year. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre.

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

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

8. PLANT FUEL AND RECYCLED GAS. No royalty shall be payable on any gas as may represent this lease's proportionate share of any fuel used to process gas produced hereunder in any processing plant. Notwithstanding any other provision of this lease, and subject to the written consent of the owner of the soil and the Commissioner of the General Land Office, Lessee may recycle gas for gas lift purposes on the leased premises or for injection into any oil or gas producing formation underlying the leased premises after the liquid hydrocarbons contained in the gas have been removed; no royalties shall be payable on the recycled gas until it is produced and sold or used by Lessee in a manner which entitles the royalty owners to a royalty under this lease.

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

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

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

(B) PERMITS, DRILLING RECORDS. Written notice of all operations on this lease shall be submitted to the Commissioner of the General Land Office by Lessee or operator five (5) days before spud date, workover, re-entry, temporary abandonment or plug and abandonment of any well or wells. Such written notice to the General Land Office shall include copies of Railroad Commission forms for application to drill. Copies of well tests, completion reports and plugging reports shall be supplied to the General Land Office at the time they are filed with the Texas Railroad Commission. All applications, permits, reports or other filings that reference this lease or any specific well on the leased premises and that are submitted to the Texas Railroad Commission or any other governmental agency shall include the word "State" in the title. Additionally, in accordance with Railroad Commission rules, any signage on the leased premises for the purpose of identifying wells, tank batteries or other associated improvements to the land must also include the word "State." Lessee shall supply the General Land Office with any records, memoranda, accounts, reports, cuttings and cores, or other information relative to the operation of the above described premises, which may be requested by the General Land Office, in addition to those herein expressly provided for. Lessee shall have an electrical and/or radioactivity survey made on the bore-hole section, from the base of the surface casing to the total depth of well, of all wells drilled on the above described premises and shall transmit a true copy of the log of each survey on each well to the General Land Office within fifteen (15) days after the making of said survey.

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

11. DRY HOLE/CESSATION OF PRODUCTION DURING PRIMARY TERM. If, during the primary term hereof

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and prior to discovery and production of oil or gas on said land, Lessee should drill a dry hole or holes thereon, or if during the primary term hereof and after the discovery and actual production of oil or gas from the leased premises such production thereof should cease from any cause, this lease shall not terminate if on or before the expiration of sixty (60) days from date of completion of said dry hole or cessation of production Lessee commences additional drilling or reworking operations thereon, or pays or tenders the next annual delay rental in the same manner as provided in this lease. If, during the last year of the primary term or within sixty (60) days prior thereto, a dry hole be completed and abandoned, or the production of oil or gas should cease for any cause, Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term; and if Lessee has not resumed production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking operations pursuant to Paragraph 13, using the expiration of the primary term as the date of cessation of production under Paragraph 13. Should the first well or any subsequent well drilled on the above described land be completed as a shut-in oil or gas well within the primary term hereof, Lessee may resume payment of the annual rental in the same manner as provided herein on or before the rental paying date following the expiration of sixty (60) days from the date of completion of such shut-in oil or gas well and upon the failure to make such payment, this lease shall ipso facto terminate. If at the expiration of the primary term or any time thereafter a shut-in oil or gas well is located on the leased premises, payments may be made in accordance with the shut-in provisions hereof.

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

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

14. **SHUT-IN ROYALTIES.** For purposes of this paragraph, "well" means any well that has been assigned a well number by the state agency having jurisdiction over the production of oil and gas. If, at any time after the expiration of the primary term of a lease that, until being shut in, was being maintained in force and effect, a well capable of producing oil or gas in paying quantities is located on the leased premises, but oil or gas is not being produced for lack of suitable production facilities or lack of a suitable market, then Lessee may pay as a shut-in oil or gas royalty an amount equal to double the annual rental provided in the lease, but not less than \$1,200 a year for each well capable of producing oil or gas in paying quantities. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre. To be effective, each initial shut-in oil or gas royalty must be paid on or before: (1) the expiration of the primary term, (2) 60 days after the Lessee ceases to produce oil or gas from the leased premises, or (3) 60 days after Lessee completes a drilling or reworking operation in accordance with the lease provisions; whichever date is latest. Such payment shall be made one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil. If the shut-in oil or gas royalty is paid, the lease shall be considered to be a producing lease and the payment shall extend the term of the lease for a period of one year from the end of the primary term, or from the first day of the month following the month in which production ceased, and, after that, if no suitable production facilities or suitable market for the oil or gas exists, Lessee may extend the lease for four more successive periods of one (1) year by paying the same amount each year on or before the expiration of each shut-in year.

15. **COMPENSATORY ROYALTIES.** If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is sold and delivered in paying quantities from a well located within one thousand (1,000) feet of the leased premises and completed in the same producing reservoir, or in any case in which drainage is occurring, the right to continue to maintain the lease by paying the shut-in oil or gas royalty shall cease, but the lease shall remain effective for the remainder of the year for which the royalty has been paid. The Lessee may maintain the lease for four more successive years by Lessee paying compensatory royalty at the royalty rate provided in the lease of the market value of production from the well causing the drainage or which is completed in the same producing reservoir and within one thousand (1,000) feet of the leased premises. The compensatory royalty is to be paid monthly, one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil, beginning on or before the last day of the month following the month in which the oil or gas is produced from the well causing the drainage or that is completed in the same producing reservoir and located within one thousand (1,000) feet of the leased premises. If the compensatory royalty paid in any 12-month period is in an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within thirty (30) days from the end of the 12-month period. 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.

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

(A) **VERTICAL.** In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall then terminate as to all of the leased premises, EXCEPT (1) 40 acres surrounding each oil well capable of producing in paying quantities and 320 acres surrounding each gas well capable of producing in paying quantities (including a shut-in oil or gas well as provided in Paragraph 14 hereof), or a well upon which Lessee is then engaged in continuous drilling or reworking operations, or (2) the number of acres included in a producing pooled unit pursuant to Texas Natural Resources Code 52.151-52.153, or (3) such greater or lesser number of acres as may then be allocated for production purposes to a proration unit for each such producing well under the rules and regulations of the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction. 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 right-of-ways for existing roads, existing pipelines and other existing facilities on, over and across all the lands described in Paragraph 1 hereof ("the retained lands"), for access to and from the retained lands and for the gathering or transportation of oil, gas and other minerals produced from the retained lands.

(B) **HORIZONTAL.** In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall further terminate as to all depths below 100 feet below the total depth drilled (hereinafter "deeper depths") in each well located on acreage retained in Paragraph 16(A) above, unless on or before two (2) years after the primary or extended term Lessee pays an amount equal to one-half (1/2) of the bonus originally paid as consideration for this lease (as specified on page 1 hereof). If such amount is paid, this lease shall be in force and effect as to such deeper depths, and said termination shall be delayed for an additional period of two (2) years and so long thereafter as oil or gas is produced in paying quantities from such deeper depths covered by this lease.

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

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

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

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

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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 watertlood operations without the prior consent of the owner of the soil.

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

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

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

25. **POLLUTION.** In developing this area, Lessee shall use the highest degree of care and all proper safeguards to prevent pollution. Without limiting the foregoing, pollution of coastal wetlands, natural waterways, rivers and impounded water shall be prevented by the use of containment facilities sufficient to prevent spillage, seepage or ground water contamination. In the event of pollution, Lessee shall use all means at its disposal to recapture all escaped hydrocarbons or other pollutant and shall be responsible for all damage to public and private properties. Lessee shall build and maintain fences around its slush, sump, and drainage pits and tank batteries so as to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level all slush pits and cellars and completely clean up the drilling site of all rubbish thereon. Lessee shall, while conducting operations on the leased premises, keep said premises free of all rubbish, cans, bottles, paper cups or garbage, and upon completion of operations shall restore the surface of the land to as near its original condition and contours as is practicable. Tanks and equipment will be kept painted and presentable.

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

27. (A) **ASSIGNMENTS.** Under the conditions contained in this paragraph and Paragraph 29 of this lease, the rights and estates of either party to this lease may be assigned, in whole or in part, and the provisions of this lease shall extend to and be binding upon their heirs, devisees, legal representatives, successors and assigns. However, a change or division in ownership of the land, rentals, or royalties will not enlarge the obligations of Lessee, diminish the rights, privileges and estates of Lessee, impair the effectiveness of any payment made by Lessee or impair the effectiveness of any act performed by Lessee. And no change or division in ownership of the land, rentals, or royalties shall bind Lessee for any purpose until thirty (30) days after the owner of the soil (or his heirs, devisees, legal representatives or assigns) furnishes the Lessee with satisfactory written evidence of the change in ownership, including the original recorded muniments of title (or a certified copy of such original) when the ownership changed because of a conveyance. A total or partial assignment of this lease shall, to the extent of the interest assigned, relieve and discharge Lessee of all subsequent obligations under this lease. If this lease is assigned in its entirety as to only part of the acreage, the right and option to pay rentals shall be apportioned as between the several owners ratably, according to the area of each, and failure by one or more of them to pay his share of the rental shall not affect this lease on the part of the land upon which pro rata rentals are timely paid or tendered; however, if the assignor or assignee does not file a certified copy of such assignment in the General Land Office before the next rental paying date, the entire lease shall terminate for failure to pay the entire rental due under Paragraph 3. Every assignee shall succeed to all rights and be subject to all obligations, liabilities, and penalties owed to the State by the original lessee or any prior assignee of the

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lease, including any liabilities to the State for unpaid royalties.

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

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

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

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

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

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

32. **FORFEITURE.** If Lessee shall fail or refuse to make the payment of any sum within thirty days after it becomes due, or if Lessee or an authorized agent should knowingly make any false return or false report concerning production or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith as required by law and the rules and regulations adopted by the Commissioner of the General Land Office, or if Lessee should fail to file reports in the manner required by law or fail to comply with rules and regulations promulgated by the General Land Office, the School Land Board, or the Railroad Commission, or if Lessee should refuse the proper authority access to the records pertaining to operations, or if Lessee or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or knowingly fail or refuse to furnish the General Land Office a correct log of any well, or if Lessee shall knowingly violate any of the material provisions of this lease, or if this lease is assigned and the assignment is not filed in the General Land Office as required by law, the rights acquired under this lease shall be subject to forfeiture by the Commissioner, and he shall forfeit same when sufficiently informed of the facts which authorize a forfeiture, and when forfeited the area shall again be subject to lease under the terms of the Relinquishment Act. However, nothing herein shall be construed as waiving the automatic termination of this lease by operation of law or by reason of any special limitation arising hereunder. Forfeitures may be set aside and this lease and all rights thereunder reinstated before the rights of another intervene upon satisfactory evidence to the Commissioner of the General Land Office of future compliance with the provisions of the law and of this lease and the rules and regulations that may be adopted relative hereto.

33. **LIEN.** In accordance with Texas Natural Resources Code 52.136, the State shall have a first lien upon all oil and gas produced from the area covered by this lease to secure payment of all unpaid royalty and other sums of money that may become due under this lease. By acceptance of this lease, Lessee grants the State, in addition to the lien provided by Texas Natural Resources Code 52.136 and any other applicable statutory lien, an express contractual lien on and security interest in all leased minerals in and extracted from the leased premises, all proceeds which may accrue to Lessee from the sale of such leased minerals, whether such proceeds are held by Lessee or by a third party, and all fixtures on and improvements to the leased premises used in connection with the production or processing of such leased minerals in order to secure the payment of all royalties or other amounts due or to become due under this lease and to secure payment of any damages or loss that Lessor may suffer by reason of Lessee's breach of any covenant or condition of this lease, whether express or implied. This lien and security interest may be foreclosed with or without court proceedings in the manner provided in the Title I, Chapter 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this

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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 52.151-52.153. The owner of the soil agrees that the inclusion of this provision in this lease satisfies the execution requirements stated in Texas Natural Resources Code 52.152.

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

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

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

38. **EXECUTION.** This oil and gas lease must be signed and acknowledged by the Lessee before it is filed of record in the county records and in the General Land Office of the State of Texas. Once the filing requirements found in Paragraph 39 of this lease have been satisfied, the effective date of this lease shall be the date found on Page 1.

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

40. Notwithstanding anything to the contrary contained in Paragraph Three (3) of this Lease, for all purposes this lease shall be a fully Paid-Up Oil & Gas Lease for the first three years. Delay Rentals have been paid in full with the Bonus Consideration tendered herein. Delay Rental payment was based on a \$1.00 per net mineral acre per year for Two (2) Years. Concluding a \$2.00 per acre Pd-Up Rental Payment was made in advance for the Two (2) Year Period on the net mineral acres indicated in this Lease.

41. PAYMENTS OF MINIMUM ROYALTY AND SHUT-IN ROYALTY. Paragraph 5 (minimum Royalty) and Paragraph 14 (Shut in Royalty) contains a reference to a computation based upon the delay rental amount specified in Paragraph 3. However, notwithstanding anything contained herein to the contrary, the undersigned do hereby recognize, acknowledge and agree that i) all minimum royalty payments due pursuant to Paragraph 5 shall be calculated on the basis of the delay rental amount being one dollar (\$1.00) per acre, and ii) all shut-in royalty payments due pursuant to Paragraph 14 shall be calculated on the basis of double the annual rental amount of one dollar (\$1.00) per acre (being two dollars (\$2.00) per acre), but not less than \$1200.00 a year for each well capable of producing oil and gas in paying quantities.

COG Operating LLC, a Delaware limited liability company

Mona D. Ables
Mona D. Ables, Vice President of Land

Date: June 16, 2014

DAM
AL

STATE OF TEXAS

BY: Stephen Neil Prewit
Individually and as agent for the State of Texas
Stephen Neil Prewit, dealing in his sole and separate property

DATE: 3/11/14

STATE OF TEXAS

BY: _____
Individually and as agent for the State of Texas

DATE: _____

STATE OF TEXAS

COUNTY OF MIDLAND

(CORPORATE ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Mona D. Ables, known to me to be the person whose name is subscribed to the foregoing instrument, as Vice President of Land of COG OPERATING LLC, a Delaware limited liability company, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said partnership.

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



Mollie McAuliffe
Notary Public in and for the State of TEXAS



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

7-15-14
neu

STATE OF KANSAS

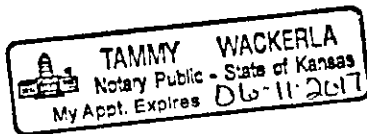
(INDIVIDUAL ACKNOWLEDGMENT)

COUNTY OF Scott

Before me, the undersigned authority, on this day personally appeared Stephen Neil Prewit, dealing in his sole and separate property known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this the 11th day of March, 2014.

Tammy Wackerla
Notary Public in and for the State of KANSAS



41522



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

7-15-14
rell

46

File No. MF 116 786
Lease B
Date Filed: 7-25-14
Jerry E. Patterson, Commissioner
By [Signature]

CERTIFIED TRUE AND CORRECT COPY CERTIFICATE
STATE OF TEXAS
COUNTY OF CULBERSON

The above and foregoing is a full, true and correct photographic copy of the
original record now in my lawful custody and possession, as the same is
filed/recorded in the Oil & Gas Records of my office, found
in VOL. 112, PAGE 134 7 15 2014

I hereby certified on

LINDA McDONALD, COUNTY & DISTRICT CLERK
CULBERSON COUNTY, TEXAS
BY [Signature] DEPUTY

5307

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

November 6, 2014

Nate Sykes
Clay Johnson Oil & Gas
1603 N. Big Spring
Midland, Texas 79701

Re: **State Lease MF 116786**

Two Relinquishment Act Leases described on **Page 2** hereof
Covering 758 ac., Sec. 30, 32, Blk. 60, T&P Ry. Co. Survey,
Culberson County, TX

Dear Mr. Sykes:

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>
MF116786A	John Collins Prewit	03/04/14	70627	\$47,469.75
MF116786B	Stephen Neil Prewit	03/04/14	70626	\$47,469.75

5
File No. MF116786

Final Ltr

Date Filed: 11-6-14

Jerry E. Patterson, Commissioner

By 

USPS TRACKING#



MIDLAND TX 79701

RED GRANDE DISTRICT

14 DEC 2018 PM 1 T

First-Class Mail
Postage & Fees Paid
USPS
Permit No. G-10

9590 9402 1749 6074 7582 88

United States
Postal Service

• Sender: Please print your name, address, and ZIP+4® in this box •



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

Verdis
MF 116786 / MF 118811

EN4064
2th Floor

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

COB Operating LLC
Two Concho Center 600 W ~~TX~~
ILLINOIS AVE
Midland, TX 79701-4882



9590 9402 1749 6074 7582 88

2. Article Number (Transfer from service label)

7016 0600 0000 6595 5790

COMPLETE THIS SECTION ON DELIVERY

A. Signature

X

☐ Agent☐ Addressee

B. Received by (Printed Name)

C. Date of Delivery

D. Is delivery address different from item 1? ☐ Yes
If YES, enter delivery address below: ☐ No

MF

116786

3. Service Type

- ☐ Adult Signature
- ☐ Adult Signature Restricted Delivery
- ☐ Certified Mail®
- ☐ Certified Mail Restricted Delivery
- ☐ Collect on Delivery
- ☐ Collect on Delivery Restricted Delivery
- ☐ Insured Mail
- ☐ Mail Restricted Delivery (0)

- ☐ Priority Mail Express®
- ☐ Registered Mail™
- ☐ Registered Mail Restricted Delivery
- ☐ Return Receipt for Merchandise
- ☐ Signature Confirmation™
- ☐ Signature Confirmation Restricted Delivery

U.S. Postal Service™
CERTIFIED MAIL® RECEIPT
Domestic Mail Only

For delivery information, visit our website at www.usps.com®.

OFFICIAL USE

Certified Mail Fee

\$

Extra Services & Fees (check box, add fee as appropriate)

- ☐ Return Receipt (hardcopy) \$ _____
☐ Return Receipt (electronic) \$ _____
☐ Certified Mail Restricted Delivery \$ _____
☐ Adult Signature Required \$ _____
☐ Adult Signature Restricted Delivery \$ _____

Postmark
Here

MF 116786
MF 118811

Postage

\$

Total Postage and Fees

\$

MARCUS ARGUELLO

Sent To

COG OPERATING LLC

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

Two Concho Center 600 W IL Ave

City, State, ZIP+4®

Midland, Tx 79701-4882

7016 0600 0000 6595 5790

Certified Mail service provides the following benefits:

- A receipt (this portion of the Certified Mail label).
- A unique identifier for your mailpiece.
- Electronic verification of delivery or attempted delivery.
- A record of delivery (including the recipient's signature) that is retained by the Postal Service™ for a specified period.

Important Reminders:

- You may purchase Certified Mail service with First-Class Mail®, First-Class Package Service®, or Priority Mail® service.
- Certified Mail service is *not* available for international mail.
- Insurance coverage is *not* available for purchase with Certified Mail service. However, the purchase of Certified Mail service does not change the insurance coverage automatically included with certain Priority Mail items.
- For an additional fee, and with a proper endorsement on the mailpiece, you may request the following services:
 - Return receipt service, which provides a record of delivery (including the recipient's signature). You can request a hardcopy return receipt or an electronic version. For a hardcopy return receipt, complete PS Form 3811, *Domestic Return Receipt*; attach PS Form 3811 to your mailpiece; for an electronic return receipt, see a retail associate for assistance. To receive a duplicate return receipt for no additional fee, present this USPS®-postmarked Certified Mail receipt to the retail associate.
 - Restricted delivery service, which provides delivery to the addressee specified by name, or to the addressee's authorized agent.
 - Adult signature service, which requires the signee to be at least 21 years of age (not available at retail).
 - Adult signature restricted delivery service, which requires the signee to be at least 21 years of age and provides delivery to the addressee specified by name, or to the addressee's authorized agent (not available at retail).
- To ensure that your Certified Mail receipt is accepted as legal proof of mailing, it should bear a USPS postmark. If you would like a postmark on this Certified Mail receipt, please present your Certified Mail item at a Post Office™ for postmarking. If you don't need a postmark on this Certified Mail receipt, detach the barcoded portion of this label, affix it to the mailpiece, apply appropriate postage, and deposit the mailpiece.

IMPORTANT: Save this receipt for your records.



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

COG Operating LLC
Attn: Marcus Arguello
Two Concho Center, 600 W Illinois Ave
Midland, TX 79701-4882

Billing Date: 12/11/2018
Billing Due Date: 1/10/2019
Customer Number: C000044811

Invoice	Mineral File	Gas Royalty	Oil Royalty	Penalty	Interest	Total Due
19I00158	MF116786	\$36,385.48	\$0.00	\$3,638.54	\$1,886.79	\$41,910.81
19I00160	MF118811	\$96,057.65	\$0.00	\$9,605.77	\$4,981.15	\$110,644.57
Total Due		\$132,443.13	\$0.00	\$13,244.31	\$6,867.94	\$152,555.38

Penalty and interest have been calculated thru 12/31/2018. Payment remitted after 12/31/2018 will result in additional penalty and interest charges.

Contact Info: Mike Nicklaus (512) 475-1517 or Mike.Nicklaus@GLO.TEXAS.GOV

NOTICE

- Please update GLO1 and GLO2 production reports to correct volumes.
- Please do not update GLO3 report to include billed royalty, penalty or interest. This receivable has already been recorded.
- For other royalty reporting questions, visit <http://www.glo.texas.gov>, call (512) 463-6850 or email us at glo123@glo.texas.gov.

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

Detach and return with payment

Reconciliation Billing

COG Operating LLC

Billing Date: 12/11/2018

Billing Due Date: 1/10/2019

Customer Number: C000044811

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
19I00158	MF116786	\$36,385.48	\$0.00	\$3,638.54	\$1,886.79	\$41,910.81
19I00160	MF118811	\$96,057.65	\$0.00	\$9,605.77	\$4,981.15	\$110,644.57
Total Due		\$132,443.13	\$0.00	\$13,244.31	\$6,867.94	\$152,555.38
Amt. Paid						

Customer ID: C000044811
 Invoice Number: MF116786
 GLO Lease: COG Operating LLC
 GLO Review: COG Operating LLC
 Review Period: Sept 2016 - Aug 2017

Category: Gas
 Auditor/AE: Mnicklau
 Billing Date: 12/5/2018
 P&I Calculation Date: 12/31/2018
 Royalty Rate: 12.500%

(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
Jun-17	08-282876	15,829	0.25000000	\$ 2.691707	1.039397	\$11,071.40	\$1,383.93	\$0.00	\$1,383.93	503	4.75%	\$138.39	\$79.96	\$1,602.28
Jul-17	08-282876	197,595	0.25000000	\$ 2.485177	1.039402	\$127,601.81	\$15,950.23	\$0.00	\$15,950.23	472	4.75%	\$1,595.02	\$857.27	\$18,402.52
Aug-17	08-282876	227,226	0.25000000	\$ 2.581268	1.039403	\$152,410.57	\$19,051.32	\$0.00	\$19,051.32	442	4.75%	\$1,905.13	\$949.56	\$21,906.01
TOTALS		440,650				\$291,083.79	\$36,385.48	\$0.00	\$36,385.48			\$3,638.54	\$1,886.79	\$41,910.81

COMMENTS: COLUMN (3) ---VOLUMES SHOWN REPRESENT THE TOTAL OF RESIDUE SALES VOLUMES AND VENTED/FLARED VOLUMES SHOWN ON RRC REPORTS FILED FOR WELL #08-282876 (DRILLING PERMIT #08-821603). THESE VOLUMES ARE FOR GLO UNIT #8638 (DR STATE WISE UNIT 1) WHICH WAS TERMINATED IN JANUARY 2018. COG OPERATING FILED GLO2 REPORTS FOR THIS WELL FOR SEPT 2017 - JAN 2018.

COLUMNS (5) & (6)---PRICES & BTU'S SHOWN ARE RESIDUE PRICES & BTU'S TAKEN FROM GLO2 REPORTS FILED BY COG OPERATING FOR STATE LEASE M-114883, RRC #08-821048 FOR JUNE & JULY 2017 AND FOR STATE LEASE M-118811, RRC #08-821048 FOR AUGUST 2017.

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>

ATTENTION: MARCOS ARGUELLO

CERTIFIED MAIL: 7016 0600 0000 6595 5790

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

7
File No. MF 116 286

Recon Billing County

Date Filed: 12/12/18
George P. Bush, Commissioner

By 87

DIVISION ORDER
USER: PBYN
Date: 04/03/2019
Effective Date: 05/01/2018
Property: 073478
Owner: 8040628

To **Chevron U.S.A. Inc.**
PO Box 4538
Houston, TX 77210-4538

Unit 8954 MF114883
MF116786

The undersigned severally and not jointly certifies it is the legal owner of the interest in all the oil, gas and related liquid hydrocarbons produced from the property described on Exhibit A attached hereto. Until further written notice, Chevron U.S.A. Inc. is hereby authorized to receive and purchase the oil or gas belonging to the undersigned and to account to the undersigned for their interest.

THIS AGREEMENT DOES NOT AMEND ANY LEASE OR OPERATING AGREEMENT BETWEEN THE INTEREST OWNERS AND THE LESSEE OR OPERATOR OR ANY OTHER CONTRACTS FOR THE PURCHASE OF OIL OR GAS.

The following provisions apply to each interest owner ("owner") who executes this agreement:

INDEMNITY: The owner agrees to indemnify and hold payor harmless from all liability resulting from payments made to the owner in accordance with such division of interest, including but not limited to attorney fees or judgments in connection with any suit that affects the owner's interest to which payor is made a party.

WITHHOLDING OF FUNDS: If a suit is filed that affects the interest of the owner, written notice shall be given to payor by the owner together with a copy of the complaint or petition filed. In the event of a claim or dispute that affects title to the division of interest credited herein, payor is authorized to withhold payments accruing to such interest, without interest unless otherwise required by applicable statute, until the claim or dispute is settled.

TERMINATION: Termination of this agreement is effective on the first day of the month that begins after the 30th day after the date written notice of termination is received by either party.

NOTICES: The owner agrees to notify payor in writing of any change in the division of interest, including changes of interest contingent on payment of money or expiration of time.

No change of interest is binding on payor until the recorded copy of the instrument of change or documents satisfactorily evidencing such change are furnished to payor at the time the change occurs.

Any change of interest shall be made effective on the first day of the month following receipt of such notice by payor.

In addition to the legal rights provided by the terms and provisions of this division order, an owner may have certain statutory rights under the laws of this state.

Signature of Interest Owner

Social Security/ Tax I.D. No.

Address

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

EXHIBIT A

BA NUMBER: 8040628
NAME: STATE OF TEXAS COMMISSIONER
OF GENERAL LAND OFFICE
1700 N CONGRESS AVE
OIL ROYALTY - UNV LANDS ACCTING
AUSTIN TX 78701-1436

DATE: 04/03/2019 12:40:16
PAGE: 1

TAX ID:

DOI/ PROPERTY CODE	DOI SUFFIX	TRACT FACTOR	TRACT INTEREST	TYPE INTEREST	PRODUCT CODE	UNIT INTEREST
73478	1	1.00000000	0.06251856	ROYALTY INTEREST	Oil, Condensates	0.06251856

PROPERTY NAME: DELAWARE RANCH WISE UNIT NO 1

PROPERTY TRACT DESCRIPTION: ALL OF SECTIONS 5, 6, 7, 8, 14, 16, 17, 18, 19, 20, 21, 23, 27, 28, 29,
30, 31, 32, 33, AND 34 OUT OF BLOCK 60, TOWNSHIP 1 AND ALL OF
SECTIONS
1-48 OUT OF BLOCK 61, TOWNSHIP 1, T&P RR CO SURVEY, CULBERSON
COUNTY,
TEXAS.

COUNTY OR PARISH: CULBERSON
STATE: TEXAS

DOI/ PROPERTY CODE	DOI SUFFIX	TRACT FACTOR	TRACT INTEREST	TYPE INTEREST	PRODUCT CODE	UNIT INTEREST
73478	2	1.00000000	0.06251856	ROYALTY INTEREST	Gas/NGL'S	0.06251856

PROPERTY NAME: DELAWARE RANCH WISE UNIT NO 1

PROPERTY TRACT DESCRIPTION: ALL OF SECTIONS 5, 6, 7, 8, 14, 16, 17, 18, 19, 20, 21, 23, 27, 28, 29,
30, 31, 32, 33, AND 34 OUT OF BLOCK 60, TOWNSHIP 1 AND ALL OF
SECTIONS
1-48 OUT OF BLOCK 61, TOWNSHIP 1, T&P RR CO SURVEY, CULBERSON
COUNTY,
TEXAS.

COUNTY OR PARISH: CULBERSON
STATE: TEXAS



TEXAS GENERAL LAND OFFICE
GEORGE P. BUSH, COMMISSIONER

July 23, 2019

Kelly Sandoval
Division Order Analyst
Chevron U.S.A., Inc.
P.O. Box 4538
Houston, TX 77210-4538

Re: State Lease Nos. MF114883 and MF116786 Delaware Ranch Wise Unit No. 1 – Unit 8954

Dear Ms. Sandoval:

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. MF 116786Culberson CountyDivision OrderDate Filed: 7/25/19

George P. Bush, Commissioner

By VB



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

Chevron U.S.A. INC.
Attn: Tanjalyn Hill-Smith
1600 Smith St Rm 29032B
Houston, TX 77002-7362

Billing Date: 7/16/2020
Billing Due Date: 8/15/2020
Customer Number: C000025263

Invoice	Mineral File	Gas Royalty	Oil Royalty	Penalty	Interest	Total Due
20I13971	MF114883	\$48,993.66	\$0.00	\$4,288.64	\$3,514.83	\$56,797.13
20I13972	MF116786	\$8,302.31	\$0.00	\$909.12	\$656.08	\$9,867.51
Total Due		\$57,295.97	\$0.00	\$5,197.76	\$4,170.91	\$66,664.64

Penalty and interest have been calculated thru 7/31/2020. Payment remitted after 7/31/2020 will result in additional penalty and interest charges.

Jacquet, David

() - 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

Chevron U.S.A. INC.

Billing Date: 7/16/2020

Billing Due Date: 8/15/2020

Customer Number: C000025263

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
20I13971	MF114883	\$48,993.66	\$0.00	\$4,288.64	\$3,514.83	\$56,797.13
20I13972	MF116786	\$8,302.31	\$0.00	\$909.12	\$656.08	\$9,867.51
Total Due		\$57,295.97	\$0.00	\$5,197.76	\$4,170.91	\$66,664.64
Amt. Paid						

Customer ID: C000025263
 Invoice Number:
 GLO Lease: MF116786
 GLO Review: CHEVRON U SA INC
 Review Period: SEPT 2018 - AUG 2019

Category Gas
 Auditor/AE: DJACQUET
 Billing Date: 7/3/2020
 P&I Calculation Date: 7/31/2020
 Royalty Rate: 12.50%

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Month / Year	RRC Number	Gas/Oil Volume	Tract 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-18	08-278364	88	1	\$3.36	1.28	\$376.98	\$47.12	\$0.00	\$47.12	624	5.50%	\$25.00	\$4.01	\$76.13
Oct-18	08-278364	819	1	\$3.02	1.27	\$3,140.08	\$392.51	\$0.00	\$392.51	594	5.50%	\$39.25	\$31.64	\$463.40
Nov-18	08-278364	463	1	\$2.39	1.25	\$1,386.44	\$173.31	\$0.00	\$173.31	563	6.50%	\$25.00	\$15.56	\$213.87
Dec-18	08-278364	117	1	\$1.91	1.25	\$279.38	\$34.92	\$0.00	\$34.92	532	6.50%	\$25.00	\$2.94	\$62.86
Jan-19	08-278364	327	1	\$2.57	1.26	\$1,059.97	\$132.50	\$0.00	\$132.50	504	6.50%	\$0.00	\$10.50	\$143.00
Jan-19	08-278364	0	1	\$0.00	1.00	\$0.00	\$23,718.23	\$16,519.53	\$7,198.70	504	6.50%	\$719.87	\$570.47	\$8,489.04
Feb-19	08-278364	0	1	\$0.00	1.00	\$0.00	\$20,051.56	\$19,840.66	\$210.90	473	6.50%	\$25.00	\$15.55	\$251.45
Mar-19	08-278364	90	1	\$2.06	1.24	\$229.95	\$28.74	\$0.00	\$28.74	443	6.50%	\$25.00	\$1.97	\$55.71
Aug-19	08-278364	0	1	\$0.00	1.00	\$0.00	\$5,599.07	\$5,515.46	\$83.61	290	6.50%	\$25.00	\$3.44	\$112.05
TOTALS		1,903				\$6,472.80	\$50,177.96	\$41,875.65	\$8,302.31			\$909.12	\$656.08	\$9,867.51

COMMENTS: BILLING ON UNDER PAID ROYALTIES FOR RRC ID# 08-278364, 08-282876 & 08-283166.

COLUMN (3) VOLUMES - REPRESENTS THE UNDER REPORTED VOLUMES BASED OFF VOLUMES REPORTED TO THE RRC VERSUS VOLUMES REPORTED TO THE GLO.
 NOTE: ZERO VALUES FOR VOLUMES AND PRICES INDICATES BILLING FOR ROYALTIES REPTED DUE TO THE GLO VERSUS WHAT WAS PAID.
 COLUMNS (5) & (6) THE PRICES AND BTU FACTORS WERE DETERMINED BY USING THE AVERAGE PRICES AND BTU FACTOR REPORTED ON THE GLO2 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>

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

9

File No. MF 116 885

County

Recon Billing

Date Filed: 1/4/2022 ~~1/13/2021~~

George P. Buch, Commissioner

VD

By



Chevron U.S.A. Inc
Houston, Texas

62-20
311

No. 52 071296

File

956286

Agreement No.

02/08/2022

Mo. Day Year

22704812

Pay to
order of

COMMISSIONER GENERAL LAND OFFICE
STATE OF TEXAS
STEPHEN F AUSTIN BLDG
1700 NORTH CONGRESS
AUSTIN TX 78701-0000

Men Roy
MF116786

Amount *****47.37**

Not Valid for More Than \$5,000,000

Chevron

Citibank Delaware

One Penn's Way, New Castle, DE 19720

CK-157 (06-16)

⑈ 52071296 ⑈

No. 52 071296

This payment is tendered on behalf of the owner or owners of record of the said
Lease - Oil And Gas or credit of:

COMMISSIONER GENERAL LAND OFFICE STATE OF TEXAS

STEPHEN F AUSTIN BLDG
1700 NORTH CONGRESS
AUSTIN, TX 78701-0000

22704812

Agreement Number	Payment Period Beginning	Payment Frequency	Payment Type	Payee ID	Depository Acct Number	Depository ID	Service Charge	Payment	Total
956286	03/04/2022	Annual	Minimum Royalty Payment	611939			\$0.00	\$47.37	\$47.37

Agreement Name	Effective Date	Acres Covered (More or Less)	Recorded in the records of County or Parish	
PREWIT STEPHEN NEIL MF116786B LSE	03/04/2014	758.00	CULBERSON, TX	VOL 112 PG 734

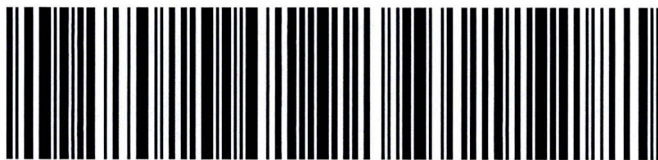
MF116786-B

Paid on behalf of Chevron U.S.A. Inc., Four Star Oil & Gas Company, McFarland Energy Inc., Chevron Shale Oil Company,
Chevron Midcontinent, L.P., Union Oil Company of California, Pure Partners, L.P., or Chevron Appalachia, LLC

Inquiries regarding this check should refer to "Agreement Number" and be addressed to:
Chevron E&P, P O Box 1635, Houston, Texas 77251

Land Dept QLS
Payment Administration
P.O. Box 1635
Houston Texas 77210

USPS CERTIFIED MAIL



9214 8901 7899 3400 2490 29

MF116786

••••• COMMISSIONER GENERAL LAND OFFICE
••••• STATE OF TEXAS
••••• STEPHEN F AUSTIN BLDG
• 1700 NORTH CONGRESS
••••• AUSTIN TX 78701-0000
•••••
•••••
•••••

Agreement Number:956286
Obligation Date:03/04/2022
Check Number:52071296

10

File No. MI-116786
Mr Roy
Date Filed: 3-23-22
By George P. Bush, Commissioner

3.11.55