

MF116980

| Lease Type | Control       | Basefile                                     | County            |
|------------|---------------|----------------------------------------------|-------------------|
| RAL        | 07-106455     | 153252                                       | REEVES            |
|            | Survey        | Public School Land                           |                   |
|            | Block         | 71                                           |                   |
|            | Block Name    |                                              |                   |
|            | Township      |                                              |                   |
|            | Section/Tract | 4                                            |                   |
|            | Land Part     |                                              |                   |
|            | Acres         | Net: <sup>93.3332</sup> <del>23.330000</del> | Gross: 140.000000 |
|            | Depth Below   | Depth Above                                  | Depth Other       |
|            | Name          | WINNE LAND & MINERALS, INC.                  |                   |
|            | Lease Date    | 7/15/2014                                    |                   |
|            | Primary Term  | 5 years                                      |                   |
|            | Bonus         | \$40,833.28                                  |                   |
|            | Lease Royalty | 0.12500000                                   |                   |
|            | Paid Up       | No                                           |                   |

Leasing:           *Q*            
Maps:           *JB*            
GIS:           *MC*            
Scanlab:                     





Contents of Mineral File Number: 116980

- |                              |          |
|------------------------------|----------|
| 1. RAL Review                | 08/13/14 |
| 2. Bonus, fees               | 10/10/14 |
| 3. Lease                     | 08/17/15 |
| 4. Ltr from Common Resources | 08/17/15 |
| 5. Final Ltr                 | 11/03/15 |
| 6. Bonus, fees, Ltr (B+C)    | 12/29/14 |
| 7. Ltr from Common Resources | 08/03/15 |
| 8. Lease B                   | 08/17/15 |
| 9. Lease C                   | 08/17/15 |

Scanned SM 2/23/16

See MF 116548 #7 for Release.

Scanned PJ 6-11-2018

# RAL REVIEW SHEET

Working File #: RAL146984

MF:

Lessor: Awp 1983 Trust

Lease Date: 09/10/2014

UI: Yes

Lessee: Winne Land & Minerals, Inc.

Gross Acres: 140.00

Net Acres: 23.33

## LEASE DESCRIPTION

| County | Control # | Base File No | Part        | Sec | Block | Twp | Survey             | Abst No |
|--------|-----------|--------------|-------------|-----|-------|-----|--------------------|---------|
| Reeves | 07-106455 | 153252       | E/ 7/16 S/2 | 4   | 71    |     | Public School Land | 6000    |

## TERMS OFFERED

|                |            |        |          |        |
|----------------|------------|--------|----------|--------|
| Primary Term:  | 5 Years    |        |          |        |
| Bonus / Acre:  | \$3,500.00 |        |          |        |
| Rental / Acre: | 2nd Yr     | 3rd Yr | 4th Yr   | 5th Yr |
|                | 0.00       | 0.00   | 3,500.00 | 0.00   |
| Royalty        | 0.250000   |        |          |        |

## TERMS RECOMMENDED

|                |            |        |          |        |
|----------------|------------|--------|----------|--------|
| Primary Term:  | 5 Years    |        |          |        |
| Bonus / Acre:  | \$3,500.00 |        |          |        |
| Rental / Acre: | 2nd Yr     | 3rd Yr | 4th Yr   | 5th Yr |
|                | 0.00       | 0.00   | 3,500.00 | 0.00   |
| Royalty        | 0.250000   |        |          |        |

## COMPARISONS

| Lease No | Lessee                | Lease Date | Primary Term | Bonus/Acre |        | Rental/Acre   | Royalty       | Distance    |
|----------|-----------------------|------------|--------------|------------|--------|---------------|---------------|-------------|
| MF116792 | Winne Land & Minerals | 07/01/2014 | 5 yr         | \$3,502.00 | \$0.00 | 0.00 3,501.00 | 0.00 0.250000 | 0.000000 NE |

Comments: paid up 2nd & 3rd yr, 4th yr rental \$3500.00 per ac, pays up 5th yr

Approved:

DR 11.10.14

# 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: Winne Land & Minerals, Inc.

County: Reeves

Prim. Term: 5 Years

Bonus/Acre: \$3,500.00

Royalty: 0.25000000

Rental/Acre 2nd Yr: \$0.00

3rd Yr: \$0.00

4th Yr: \$3,500.00

5th Yr: \$0.00

## Consideration

Recommended: RCM

Date: 11/17/14

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

Comments: paid up 2nd & 3rd yr, 4th yr rental \$3500.00 per ac, pays up 5th yr

## ✓ Lease Form

Recommended: RCM

Date: 11/17/14

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

Comments: \_\_\_\_\_

## Louis Renaud, Deputy Commissioner

Date: 11.25.14

Recommended: CLR

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

## Bill Warnick, General Counsel

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

Recommended: \_\_\_\_\_

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

## Larry Laine, Chief Clerk

Date: 12/3/14

Approved: \_\_\_\_\_

Not Approved: ML

## Jerry Patterson, Commissioner

Date: 12/5/14

Approved: Jerry E. Patterson

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



# RAL REVIEW SHEET

Working File #: RAL146593

MF:

Lessor: Williams, Et Al, John Ward

Lease Date: 07/15/2014

UI: No

Lessee: Winne Land & Minerals, Inc.

Gross Acres: 160.00

Net Acres: 160.00

## LEASE DESCRIPTION

| County | Control # | Base File No | Part | Sec | Block | Twp | Survey             | Abst No |
|--------|-----------|--------------|------|-----|-------|-----|--------------------|---------|
| Reeves | 07-106464 | 092703       | NE/4 | 4   | 71    |     | Public School Land | 2455    |

## TERMS OFFERED

Primary Term: 5 Years

Bonus / Acre: \$3,250.00

| Rental / Acre: | 2nd Yr | 3rd Yr | 4th Yr   | 5th Yr |
|----------------|--------|--------|----------|--------|
|                | 0.00   | 0.00   | 3,250.00 | 0.00   |

Royalty: 0.250000

## TERMS RECOMMENDED

Primary Term: 5 Years

Bonus / Acre: \$3,250.00

| Rental / Acre: | 2nd Yr | 3rd Yr | 4th Yr   | 5th Yr |
|----------------|--------|--------|----------|--------|
|                | 0.00   | 0.00   | 3,250.00 | 0.00   |

Royalty: 0.250000

## COMPARISONS

| Lease No | Lessee                | Lease Date | Primary Term | Bonus/Acre | Rental/Acre |      |          |      | Royalty  | Distance      |
|----------|-----------------------|------------|--------------|------------|-------------|------|----------|------|----------|---------------|
| MF116792 | Winne Land & Minerals | 07/01/2014 | 5 yr         | \$3,502.00 | \$0.00      | 0.00 | 3,502.00 | 0.00 | 0.250000 | 0.000000 East |

Comments:

paid up 2nd & 3rd yr, 4th yr rental \$3250.00 per ac, pays up 5th yr

Approved:

DR 8.13.14

\* Two less: need 2 MF#s

# 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: Winne Land & Minerals, Inc.

County: Reeves

Prim. Term: 5 Years

Bonus/Acre: \$3,250.00

Royalty: 0.25000000

Rental/Acre 2nd Yr: \$0.00

3rd Yr: \$0.00

4th Yr: \$3,250.00

5th Yr: \$0.00

## Consideration

Recommended: RJA

Date: 8/14/14

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

Comments: paid up 2nd & 3rd yr, 4th yr rental \$3250.00 per ac, pays up 5th yr

## ✓ Lease Form

Recommended: RJA

Date: 8/14/14

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

Comments: \_\_\_\_\_

## Louis Renaud, Deputy Commissioner

Recommended: CLR

Date: 8-15-14

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

## Bill Warnick, General Counsel

Recommended: WVW

Date: 8/18/14

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

## Larry Laine, Chief Clerk

Approved: LL

Date: 8/18/14

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

## Jerry Patterson, Commissioner

Approved: Jerry E. Patterson

Date: 8/19/14

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



File No. 116980

RAL Review

re 113 114

John Peterson, Commissioner



**WINNE LAND & MINERALS, INC.**

NORTH TEXAS LEASE ACCOUNT  
10330 LAKE ROAD, BLDG 26  
HOUSTON, TEXAS 77070

**CHASEWOOD BANK**

P.O. BOX 90888 • HOUSTON, TEXAS 77290  
www.chasewoodbank.com

15702196 1331

10/7/2014

PAY TO THE  
ORDER OF State of Texas

\$ \*\*40,833.28

Forty Thousand Eight Hundred Thirty-Three and 28/100 \*\*\*\*\* DOLLARS

State of Texas

1700 North Congress Avenue  
Austin, Texas 78701



*[Signature]*

AUTHORIZED SIGNATURE

MEMO

Lease Bonus Consideration

⑈001331⑈

**WINNE LAND & MINERALS, INC.**

State of Texas

10/7/2014

1331

Lease Bonus Consideration  
Date of Lease: 7/25/2014  
140.0 Ac, East 7/16 of S/2  
Sec 4, Blk 71, A-6000, PSL Sur  
Reeves County, Texas  
(Charles R Meeker Trust)

40,833.28

121  
15702196

WLMI - North Texas L Lease Bonus Consideration

40,833.28





**WINNE LAND & MINERALS, INC.**

10330 LAKE ROAD, BLDG 26  
HOUSTON, TEXAS 77070

**CHASEWOOD BANK**

P.O. BOX 90488 • HOUSTON, TEXAS 77290  
www.chasewoodbank.com

Check Guard  
Protection for Checks

10/7/2014

PAY TO THE ORDER OF State of Texas

\$ \*\*125.00

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

DOLLARS

State of Texas  
1700 North Congress Avenue  
Austin, Texas 78701

AUTHORIZED SIGNATURE

MEMO

Processing and Filing Fee

⑈008260⑈

**WINNE LAND & MINERALS, INC.**

State of Texas

Processing and Filing Fees  
State of Texas Lease  
dated 7/25/14  
covering 140.0 Ac  
Reeves County, Texas  
(Charles R Meeker Trust)

10/7/2014

X 125.00

121  
15702197

8260

Chasewood Bank Che Processing and Filing Fee

125.00

File No. 116980

Bonus, fees

Date Filed: 10/10/14

Jerry E. Patterson, Commissioner

SE

10-10-14

General Land Office  
Relinquishment Act Lease Form  
Revised, September 1997

14-10297  
FILED FOR RECORD  
REEVES COUNTY, TEXAS  
Nov 03, 2014 at 03:55:00 PM

The State of Texas



Austin, Texas

OIL AND GAS LEASE

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THIS AGREEMENT is made and entered into this 25<sup>th</sup> day of July, 2014, between the State of Texas, acting by and through its agent, Charles R. Meeker Trust U/A, dated July 6, 1992 but amended and restated on June 5, 1998, U. S. Trust, Bank of America, N.A., Trustee by Janet M Cunningham, Vice President of 500 W. 7<sup>th</sup> Street, 2<sup>nd</sup> Floor TX1-497-02-11 Fort Worth, Texas 76102

(Give Permanent Address)  
said agent herein referred to as the owner of the soil (whether one or more), and WINNE LAND AND MINERALS, INC  
of 10330 Lake Road, Building 26, Houston, Texas 77070 hereinafter called Lessee.  
(Give Permanent Address)

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

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The East Seven Sixteenths (7/16) of the South One-Half (S/2) of Section No. Four (4), Block No. Seventy-One (71), A-6000, Public School Land Survey, situated in Reeves County, Texas.

containing One Hundred Forty (140.00) acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: FORTY THOUSAND EIGHT HUNDRED THIRTY-THREE AND 28/100  
Dollars (\$40,833.28)

To the owner of the soil: FORTY THOUSAND EIGHT HUNDRED THIRTY-THREE AND 28/100  
Dollars (\$40,833.28)

Total bonus consideration: EIGHTY-ONE THOUSAND SIX HUNDRED SIXTY-SIX AND 56/100  
Dollars (\$81,666.56)

The total bonus consideration paid represents a bonus of THREE THOUSAND FIVE HUNDRED AND NO/100  
Dollars (\$3,500.00) per acre, on 23.3333 Net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of FIVE (5) years from this date (herein called "primary term") and as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land. As used in this lease, the term "produced in paying quantities" means that the receipts from the sale or other authorized commercial use of the substance(s) covered exceed out of pocket operational expenses for the six months last past.



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REEVES COUNTY  
CLERKS OFFICE



3. DELAY RENTALS. SEE EXHIBIT "A" If no well is commenced on the leased premises on or before one (1) year from this date, this lease shall terminate, unless on or before such anniversary date Lessee shall pay or tender to the owner of the soil or to his credit in the \_\_\_\_\_

Bank, at PAY DIRECTLY TO OWNER OF THE SOIL or its successors (which shall continue as the depository regardless of changes in the ownership of said land), the amount specified below, in addition, Lessee shall pay or tender to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATE OF TEXAS, AT AUSTIN, TEXAS, a like sum on or before said date. Payments under this paragraph shall operate as a rental and shall cover the privilege of deferring the commencement of a well for one (1) year from said date. Payments under this paragraph shall be in the following amounts:

To the owner of the soil \_\_\_\_\_  
Dollars - (\$ \_\_\_\_\_)  
To the State of Texas \_\_\_\_\_  
Dollars - (\$ \_\_\_\_\_)  
Total Delay Rental \_\_\_\_\_  
Dollars - (\$ \_\_\_\_\_)

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

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

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

(B) NON PROCESSED GAS. Royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substances not defined as oil in subparagraph (A) above, produced from any well on said land (except as provided herein with respect to gas processed in a plant for the extraction of gasoline, liquid hydrocarbons or other products) shall be 1/4 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be based on the highest market price paid or offered for gas of comparable quality in the general area where produced and when run, or the gross price paid or offered to the producer, whichever is the greater; provided that the maximum pressure base in measuring the gas under this lease shall not at any time exceed 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to tests made by the Balance Method or by the most approved method of testing being used by the industry at the time of testing.

(C) PROCESSED GAS. Royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbons shall be 1/4 part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office. All royalties due herein shall be based on one hundred percent (100%) of the total plant production of residue gas attributable to gas produced from this lease, and on fifty percent (50%), or that percent accruing to Lessee, whichever is the greater, of the total plant production of liquid hydrocarbons attributable to the gas produced from this lease; provided that if liquid hydrocarbons are recovered from gas processed in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the percentage applicable to liquid hydrocarbons shall be fifty percent (50%) or the highest percent accruing to a third party processing gas through such plant under a processing agreement negotiated at arm's length (or if there is no such third party, the highest percent then being specified in processing agreements or contracts in the industry), whichever is the greater. The respective royalties on residue gas and on liquid hydrocarbons shall be determined by 1) the highest market price paid or offered for any gas (or liquid hydrocarbons) of comparable quality in the general area, or 2) the gross price paid or offered for such residue gas (or the weighted average gross selling price for the respective grades of liquid hydrocarbons), whichever is the greater. In no event, however, shall the royalties payable under this paragraph be less than the royalties which would have been due had the gas not been processed.

(D) OTHER PRODUCTS. Royalty on carbon black, sulphur or any other products produced or manufactured from gas (excepting liquid hydrocarbons) whether said gas be "casinghead," "dry," or any other gas, by fractionating, burning or any other processing shall be 1/4 part of the gross production of such products, or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such market value to be determined as follows: 1) on the basis of the highest market price of each product for the same month in which such product is produced, or 2) on the basis of the average gross sale price of each product for the same month in which such products are produced, whichever is the greater.

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

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

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

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

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

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

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

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

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

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

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

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

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

15. COMPENSATORY ROYALTIES. If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is sold and delivered in paying quantities from a well located within one thousand (1,000) feet of the leased premises and completed in the same producing reservoir, or in any case in which drainage is occurring, the right to continue to maintain the lease by paying the shut-in oil or gas royalty shall cease, but the lease shall remain effective for the remainder of the year for which the royalty has been paid. The Lessee may maintain the lease for four more successive years by Lessee paying compensatory royalty at the royalty rate provided in the lease of the market value of production from the well causing the drainage or which is completed in the same producing reservoir and within one thousand (1,000) feet of the leased premises. The compensatory royalty is to be paid monthly, one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil, beginning on or before the last day of the month following the month in which the oil or gas is produced from the well causing the drainage or that is completed in the same producing reservoir and located within one thousand (1,000) feet of the leased premises. If the compensatory royalty paid in any 12-month period is an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within thirty (30) days from the end of the 12-month period. Compensatory royalty payments which are not timely paid will accrue penalty and interest in accordance with Paragraph 9 of this lease. None of these provisions will relieve Lessee of the obligation of reasonable development nor the obligation to drill offset wells as provided in Texas Natural Resources Code 52.173; however, at the determination of the Commissioner, and with the Commissioner's written approval, the payment of compensatory royalties can satisfy the obligation to drill offset wells.

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

(A) VERTICAL. In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall then terminate as to all of the leased premises, EXCEPT (1) 40 acres surrounding each oil well capable of producing in paying quantities and 320 acres surrounding each gas well capable of producing in paying quantities (including a shut-in oil or gas well as provided in Paragraph 14 hereof), or a well upon which Lessee is then engaged in continuous drilling or reworking operations, or (2) the number of acres included in a producing pooled unit pursuant to Texas Natural Resources Code 52.151-52.154, or (3) such greater or lesser number of acres as may then be allocated for production purposes to a proration unit for each such producing well under the rules and regulations of the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction. If at any time after the effective date of the partial termination provisions hereof, the

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applicable field rules are changed or the well or wells located thereon are reclassified so that less acreage is thereafter allocated to said well or wells for production purposes, this lease shall thereupon terminate as to all acreage not thereafter allocated to said well or wells for production purposes. Notwithstanding the termination of this lease as to a portion of the lands covered hereby, Lessee shall nevertheless continue to have the right of ingress to and egress from the lands still subject to this lease for all purposes described in Paragraph 1 hereof, together with easements and rights-of-way for existing roads, existing pipelines and other existing facilities on, over and across all the lands described in Paragraph 1 hereof ("the retained lands"), for access to and from the retained lands and for the gathering or transportation of oil, gas and other minerals produced from the retained lands.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

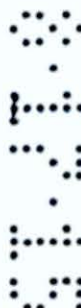
**(B) ASSIGNMENT LIMITATION.** Notwithstanding any provision in Paragraph 27(a), if the owner of the soil acquires this lease in whole or in part by assignment without the prior written approval of the Commissioner of the General Land Office, this lease is void as of the time of assignment and the agency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

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

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

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

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



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

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

33. LIEN. In accordance with Texas Natural Resources Code 52.136, the State shall have a first lien upon all oil and gas produced from the area covered by this lease to secure payment of all unpaid royalty and other sums of money that may become due under this lease. By acceptance of this lease, Lessee grants the State, in addition to the lien provided by Texas Natural Resources Code 52.136 and any other applicable statutory lien, an express contractual lien on and security interest in all leased minerals in and extracted from the leased premises, all proceeds which may accrue to Lessee from the sale of such leased minerals, whether such proceeds are held by Lessee or by a third party, and all fixtures on and improvements to the leased premises used in connection with the production or processing of such leased minerals in order to secure the payment of all royalties or other amounts due or to become due under this lease and to secure payment of any damages or loss that Lessor may suffer by reason of Lessee's breach of any covenant or condition of this lease, whether express or implied. This lien and security interest may be foreclosed with or without court proceedings in the manner provided in the Title 1, Chap. 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this lease forfeited as provided herein.

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

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

36. ENVIRONMENTAL HAZARDS. Lessee shall use the highest degree of care and all reasonable safeguards to prevent contamination or pollution of any environmental medium, including soil, surface waters, groundwater, sediments, and surface or subsurface strata, ambient air or any other environmental medium in, on, or under, the leased premises, by any waste, pollutant, or contaminant. Lessee shall not bring or permit to remain on the leased premises any asbestos containing materials, explosives, toxic materials, or substances regulated as hazardous wastes, hazardous materials, hazardous substances (as the term "Hazardous Substance" is defined in the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), 42 U.S.C. Sections 9601, et seq.), or toxic substances under any federal, state, or local law or regulation ("Hazardous Materials"), except ordinary products commonly used in connection with oil and gas exploration and development operations and stored in the usual manner and quantities. LESSEE'S VIOLATION OF THE FOREGOING PROHIBITION SHALL CONSTITUTE A MATERIAL BREACH AND DEFAULT HEREUNDER AND LESSEE SHALL INDEMNIFY, HOLD HARMLESS AND DEFEND THE STATE OF TEXAS AND THE OWNER OF THE SOIL FROM AND AGAINST ANY CLAIMS, DAMAGES, JUDGMENTS, PENALTIES, LIABILITIES, AND COSTS (INCLUDING REASONABLE ATTORNEYS' FEES AND COURT COSTS) CAUSED BY OR ARISING OUT OF (1) A VIOLATION OF THE FOREGOING PROHIBITION OR (2) THE PRESENCE, RELEASE, OR DISPOSAL OF ANY HAZARDOUS MATERIALS ON, UNDER, OR ABOUT THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OR CONTROL OF THE LEASED PREMISES. LESSEE SHALL CLEAN UP, REMOVE, REMEDY AND REPAIR ANY SOIL OR GROUND WATER

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CONTAMINATION AND DAMAGE CAUSED BY THE PRESENCE OR RELEASE OF ANY HAZARDOUS MATERIALS IN, ON, UNDER, OR ABOUT THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OF THE LEASED PREMISES IN CONFORMANCE WITH THE REQUIREMENTS OF APPLICABLE LAW. THIS INDEMNIFICATION AND ASSUMPTION SHALL APPLY, BUT IS NOT LIMITED TO, LIABILITY FOR RESPONSE ACTIONS UNDERTAKEN PURSUANT TO CERCLA OR ANY OTHER ENVIRONMENTAL LAW OR REGULATION. LESSEE SHALL IMMEDIATELY GIVE THE STATE OF TEXAS AND THE OWNER OF THE SOIL WRITTEN NOTICE OF ANY BREACH OR SUSPECTED BREACH OF THIS PARAGRAPH, UPON LEARNING OF THE PRESENCE OF ANY HAZARDOUS MATERIALS, OR UPON RECEIVING A NOTICE FROM ANY GOVERNMENTAL AGENCY PERTAINING TO HAZARDOUS MATERIALS WHICH MAY AFFECT THE LEASED PREMISES. THE OBLIGATIONS OF LESSEE HEREUNDER SHALL SURVIVE THE EXPIRATION OR EARLIER TERMINATION, FOR ANY REASON, OF THIS AGREEMENT.

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

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

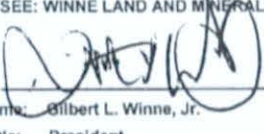
39. **LEASE FILING.** Pursuant to Chapter 9 of the Texas Business and Commerce Code, this lease must be filed of record in the office of the County Clerk in any county in which all or any part of the leased premises is located, and certified copies thereof must be filed in the General Land Office. This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

**ADDENDUM PROVISION #40 - #41**

40. **CONTINUOUS DEVELOPMENT.** Notwithstanding anything contained herein to the contrary, at the end of the primary term, this lease will terminate as to all lands, except lands included in proration units approved or allowed by the Railroad Commission of the State of Texas for each well from which oil and/or gas is being produced in paying quantities. However, if at the end of the primary term, Lessee has completed a well that will maintain this lease at the end of the primary term or is drilling at least one (1) well on the leased premises, this lease shall continue so long as Lessee begins to drill (with diligence) a well within six (6) months after the end of the primary term, and begins thereafter to drill (with diligence) another well within each six (6) month interval after the primary term. This lease shall continue until Lessee fails to begin to drill (with due diligence), a well during a six (6) months interval after the end of the primary term as provided above, then this lease will terminate as to all lands not included in a minimum size producing proration unit for the maximum allowable permitted by the Railroad Commission of Texas, or as otherwise provided herein, of a well producing in paying quantities, and all depths one hundred feet (100') below the base of the deepest producing perforation for a vertical well and three hundred feet (300') below the deepest producing perforation for a horizontal well thereof as to each producing well. After the primary term, if the production of oil or gas as to any proration unit should cease, this lease shall not terminate as to such proration unit if Lessee commences additional drilling, reworking or other operations within sixty (60) days of cessation to attempt to establish production of oil or gas in paying quantities without cessation of operations of more than sixty (60) days, and in the event production of oil or gas is restored, for so long thereafter as oil and gas is produced from proration unit in paying quantities.

41. **SURFACE AMENDMENTS.** The attached Surface Amendment, label Exhibit B, is incorporated into and made a part of, this lease.

LESSEE: WINNE LAND AND MINERALS, INC.

BY:   
Name: Gilbert L. Winne, Jr.  
Title: President  
Date: 9/22/2014

STATE OF TEXAS

BY:   
Janet M. Cunningham, Vice President  
U.S. Trust, Bank of America, Trustee for  
Charles R. Meeker Trust U/A dated July 6, 1992  
But amended and restated June 5, 1998 and as Agent for the State of Texas

Date: 9-10-14



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REEVES COUNTY  
CLERKS OFFICE



STATE OF TEXAS  
COUNTY OF HARRIS

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Gilbert L. Winne, Jr.  
known to me to be the person whose name is subscribed to the foregoing instruments as President  
of WINNE LAND AND MINERALS, INC. and acknowledged to me that he  
executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this 22nd day of September, 2014.



Peggy D. Blanchard  
Notary Public in and for the State of Texas

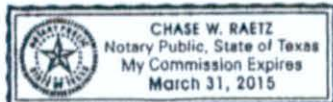
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STATE OF TEXAS  
COUNTY OF TARRANT

(INDIVIDUAL ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Charles R. Meeker Trust U/A, dated July 6, 1992 but amended and restated on June 5, 1998, U. S. Trust, Bank of America, N.A., Trustee by Janet M Cunningham, Vice President and as Agent for the State of Texas known to me to be the person whose name is subscribed to the  
foregoing instrument and acknowledged to me that she executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this 18th day of September, 2014.



Chase W. Raetz  
Notary Public in and for the State of Texas

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EXHIBIT "A"

Attached to and made a part of that certain Oil and Gas Lease dated July 25, 2014, between the State of Texas, acting by and through Charles R. Meeker Trust U/A dated July 6, 1992 but amended and restated on June 5, 1998, U. S. Trust, Bank of America, N.A., Trustee by Janet M. Cunningham, Vice President, Lessor, and Winne Land & Minerals, Inc., as Lessee upon and covering 140 acres of land, more or less, situated in Reeves County, Texas.

Insert to Oil and Gas Lease:

3. Delay Rentals for years two (2) and three (3) of this lease have been prepaid as part of the total bonus consideration for the first three years of this lease. One-half (1/2) of the initial bonus consideration has been paid to the Lessor and one-half (1/2) has been paid to the State of Texas. The Delay Rental for the fourth year of the primary term of the lease in the amount of \$81,666.56 has not been paid. On or before the anniversary date of the third year of the lease, Lessee shall pay Lessor one-half of the fourth year delay rental and one-half of delay rental to the State of Texas. The Delay Rental for the fifth year of the primary term is included with the fourth year delay rental payment; therefore, no delay rental is required for the fifth year.

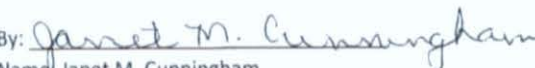
LESSEE:

Winne Land and Minerals, Inc.

By:   
Name: Gilbert Winne, Jr.  
Title: President

LESSOR:

Charles R. Meeker Trust U/A dated July 6, 1992  
But amended and restated on June 5, 1998  
By: U.S. Trust, Bank of America, Trustee

By:   
Name: Janet M. Cunningham  
Title: Vice President

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## BANK OF AMERICA, N. A.

1. It is understood and agreed that Lessee, its successor or assigns, shall pay Lessor and/or Surface Lessee for any damage done to crops, pasture land, timber, fences, water wells, buildings, roads, culverts or other improvements as well as livestock owned by the Lessor and/or Surface Lessee located on the Leasehold Estate, resulting from their use by Lessee in connection with geophysical exploration thereof, or other mineral development thereon, by Lessee, its successors or assigns. Upon the cessation of drilling at each well location, the abandonment of said lease or surrender thereof, Lessee, its successor or assigns, shall promptly remove any liner material, level all drilling pits and other excavations and shall pay for and repair any and all damage to buildings, fences, roads, culverts, turf, water wells and/or other improvements and shall restore the same to their original condition within 90 days after the cessation of drilling activity. No drilling mud shall be spread on surface lands of Lessor without the express written consent of Lessor. Extreme care must be taken to reduce the risk of introducing any exotic invasive species of vegetation that are not already present on the Leasehold Estate.

2. Lessee's right to use water from the Leasehold Estate shall not include the right to use fresh water from any fresh water sands or strata underlying the Leasehold Estate for any secondary recovery operations that may be conducted on the Leasehold Estate. Lessee shall have the right to use fresh water from wells or surface impoundment's only with the expressed written permission of the Lessor and after negotiations for payment for use of water are completed.

3. All operations of Lessee shall be conducted so as to minimize the amount of surface land used or damaged by Lessee and Lessee agrees to construct not more than one road to each location on the Leasehold Estate and to confine all travel incident to the drilling and production of such well to the single road. All roads constructed by Lessee shall be of good quality and suitable for all-weather use. The routes for all roads shall be mutually agreed upon between Lessor and Lessee before the commencement of any road construction. Said mutual agreement shall not be unreasonably withheld by Lessor. Lessee agrees to maintain all roads used by Lessee on the Leasehold Estate in good condition and repair during the period of Lessee's operations on the Leasehold Estate. The surface estate owner(s) shall have the right to use all roads on the Leasehold Estate, whether or not constructed and maintained by Lessee or its designee.

4. It is understood and agreed that this lease does not cover or include any right or privilege of hunting with firearms and/or with dogs or otherwise on the Leasehold Estate or fishing on the Leasehold Estate, unless otherwise agreed to in writing with the owners of said rights; all such hunting and fishing rights being expressly reserved, and Lessee agrees that none of the Lessee's officers, agents employees or representatives will bring any dogs and/or firearms upon the Leasehold Estate, and that any one so doing shall be trespassers and subject to prosecution as such.

5. Prior to erecting or relocating any storage tank(s), pipeline compressor station(s) or other usual facilities required by Lessee for producing oil and gas and operating this lease, Lessee shall advise Surface Estate Owner(s) of Lessee's intention to do so in writing. Lessee's written notice must advise Surface Estate Owner(s) of the proposed location of the facility at least 30 days prior to the onset of construction in order to provide Surface Estate Owner(s) with the opportunity to withhold its consent which shall not be unreasonable and attempt to negotiate a change in the proposed location..

6. Lessee, prior to the construction of any new road or the cutting, altering and removal of any existing fence on the Leasehold Estate, or the cutting or removal of any tree on the Leasehold Estate, shall notify Surface Estate Owner(s) of such intention. If Surface Estate Owner(s) can provide valid, reasonable rationale for retaining specific trees or habitat that add meaningful value to the land then Lessee will abide by such wishes as fully as possible.

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Lessee shall dispose of all brush, trees, trash and debris away from the property. Under no circumstances will trash, garbage or debris be buried or dumped on the property or adjacent lands of lessor. Brush and trees may be buried or burned on the property only with written permission from owner or his representative.

7. Lessee agrees to protect, defend, indemnify and hold harmless the Lessor and the Surface Estate Owner(s) of the Leasehold Estate, and their respective agent, employees and tenants, from and against all liabilities, losses, expenses, claims, demands, and causes of action of every kind and character, whether for death or personal injury to persons (including agents and employees of Lessee and Lessee's subcontractors) for loss or damage to property, in any way and at any time arising out of, incident to, or in connection with this Lease, operations conducted on the Leasehold Estate, or breach of the terms hereof, regardless of whether any such liability, loss, expenses, claim, demand or cause of action is based on the sole or concurrent negligence of any party indemnified hereunder.
8. Each location constructed by Lessee on Leasehold Estate shall be constructed so as to result in the least interference with surface usage as reasonably practicable under the circumstances. All pits shall be constructed and lined so as not to pollute the adjoining land. Lessee shall take all reasonable precautions necessary to prevent land, air and water pollution, including pollution to all underground fresh water zones. All locations constructed by Lessee on the Leasehold Estate must be fenced per the standard outlined in the Surface Use Agreement unless otherwise agreed upon in writing. All tank batteries must be surrounded by spill prevention berms that can accommodate at least 1 1/4 times the volume of the tanks. Load line containment systems must be installed and properly maintained on all tanks to prevent environmental contamination when connecting and disconnecting from trucks. Stuffing box containment systems need to be installed and properly maintained on all pumpjacks to prevent environmental damage resulting from seal failures. Lessee shall collect all trash which accumulates in connection with his operations and remove such trash from the Leasehold Estate. Lessee shall take all reasonable precautions to prevent blowouts from occurring on the Leasehold Estate.
9. Lessee shall utilize only such area around each producing well as is reasonably necessary for such purposes, and Lessee shall restore the remainder of such drill site to its original condition as nearly as possible within ninety (90) days after the completion of exploration operations. On each drill site where no producing well is located, Lessee shall clear the location, remove all equipment placed upon the drill site by the Lessee, clean out and back fill all pits, and return the surface of the drill site to its original condition as nearly as practicable. Reclamation of abandoned sites must include revegetation with native grass and forb species that have historically been found in the region. All reclamation plans including site preparation and the revegetation seed mix must be pre-approved in writing by the Surface Estate Owner(s) prior to the initiation of any reclamation activities.
10. Lessee shall construct and maintain gates at all places where any roads used by Lessee cross through fences on the Leasehold Estate, and Lessee shall keep such gates locked when not actually passing through such gates.
11. Upon termination of Lessee's operations on the Leasehold Estate, Lessee shall restore the surface of all lands utilized by Lessee, and not theretofore restored, to their original condition as nearly as practicable. Within three (3) months after the termination of this Lease, Lessee shall remove any and all property placed by Lessee on the Leasehold Estate or Lessor and Surface Estate Owner shall cause same to be removed at Lessee's expense.
12. Lessee shall comply with all Federal and State regulations.
13. Lessee agrees to pay for damages resulting from any operations after initial construction/drilling is completed. Lessee shall pay market value for any and all livestock lost as a result of Lessee's operations under this lease.
14. All pipelines are to be buried 36 inches below the ground in rangeland and 48 inches below the ground in cultivated areas, which will be from the top of the pipe to the surface of the ground, unless otherwise agreed to in writing with the Lessor and Surface Estate Owner(s).
15. Only crude oil and natural gas (no other derivatives) will be allowed to be transported through any pipelines located on the property, unless otherwise agreed to in writing with the Lessor and Surface Estate Owner(s).



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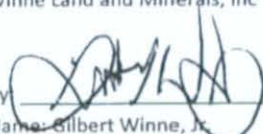
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16. Lessee shall not conduct any operations within six hundred feet of any homestead, living quarters or livestock watering facilities without the express consent of Lessor.
17. Lessee hereby acknowledges that if the Leasehold Estate are subject to a Crop Reserve Program. Lessee agrees to compensate Lessor fully and completely for any penalty or other loss of subsidy or income that Lessor would otherwise receive in the absence of Lessee's activities or those of Lessee's employees, agents, servants, contractors, licensees or permittees on the Leasehold Estate.
18. It is understood and agreed that any surface damages related to the production of minerals held by this lease shall be divided and paid one-half (1/2) to the State of Texas and one-half (1/2) to the Surface Estate Owner(s). However, if the surface damages are not related to the production of minerals held by this lease, one hundred percent (100%) of the damages are to be paid to the Surface Estate Owner(s).
19. Lessee's right to the use of the surface of the Leasehold Estate in non-exclusive. Without limiting the generality of the foregoing, the Surface Estate Owner(s) may use, or permit third parties to use, the Leasehold Estate for the surface location of wells bottomed or with their terminus on other lands so long as such wells do not violate applicable spacing regulations and are not perforated in or otherwise open to producing formations directly under the Leasehold Estate. The owner(s) of the surface estate shall have the right, as between the the Surface Estate Owner(s) and Lessee, to allow third parties to conduct geophysical operations on the Leasehold Estate.
20. Lessee agrees to meet and escort the Surface Estate Owner(s) once per year to the Leasehold Estate so than an annual inspection can be performed. Advance notice of no less than seven (7) days will be given prior to the date of inspection.
21. Parties in Interest. Lessee represents that he/she is not an officer, director, or employee of Bank of America Corporation, Bank of America, N.A., or any of its affiliates and/or subsidiaries, nor is Lessee acting on behalf of any such officer, director, or employee.

Signed for Identification only.

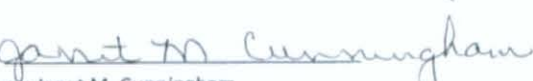
LESSEE:

Winne Land and Minerals, Inc

By:   
Name: Gilbert Winne, Jr.  
Title: President

LESSOR:

Charles R. Meeker Trust U/A dated July 6, 1992  
But amended and restated on June 5, 1998  
By: U.S. Trust, Bank of America, Trustee

By:   
Name: Janet M. Cunningham  
Title: Vice President

Inst No. 14-10297  
DIANNE O. FLOREZ  
COUNTY CLERK  
2014 Nov 03 at 03:55 PM  
REEVES COUNTY, TEXAS  
By: VG  DEPUTY



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CLERKS OFFICE

3418

File No. 116980  
County Lease  
Date Filed: 08/17/15  
By: George P. Bush, Commissioner

CERTIFICATE OF RECORD

THE STATE OF TEXAS, }  
COUNTY OF REEVES. }

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

Date Filed 11/3/14 File # 144027 Vol. 1119 Page 517



DIANNE O. FLOREZ, COUNTY CLERK  
REEVES COUNTY, TEXAS

By: [Signature] Deputy





## Common Resources III

August 14, 2015

VIA FEDERAL EXPRESS

Ms. Deborah A. Cantu  
Texas General Land Office  
1700 North Congress Avenue  
Austin, Texas 78701

Re: Certified Copies of Leases  
Reeves County, Texas

Dear Ms. Cantu:

In response to your letters dated July 20<sup>th</sup> and July 27<sup>th</sup> addressed to Winne Land & Minerals, Inc. attached are certified copies of the below listed leases:

| State Lease<br>MF# | Lessor as Agent for State of Texas                                                                             |
|--------------------|----------------------------------------------------------------------------------------------------------------|
| 116795             | Wiggins Partnership                                                                                            |
| 116796A            | Midland AOG Partners, LTD                                                                                      |
| 116796B            | Wade P. Koehl                                                                                                  |
| 116872             | Lori Lynn Hodge and Karen Kay Neal                                                                             |
| 116874A            | The Patricia Penrose Schleffer Testamentary Trust                                                              |
| 116873             | William T. Ortiz and Jessica Matson-Ortiz                                                                      |
| 116874B            | Belmont Sisters, L.P.                                                                                          |
| 116924A            | Mary Ann Shelton                                                                                               |
| 116924B            | Eugenia K. Benson                                                                                              |
| 116925A            | David Shelton                                                                                                  |
| 116925B            | Charles Wayland Benson                                                                                         |
| 116926A            | Jocelyn M. Greeman                                                                                             |
| 116926B            | Carol Hall Majzlin                                                                                             |
| 116926C            | Donald E. Handelman and Richard Handelman as Co-Trustee of the<br>Stephanie Robertson Saunders Revocable Trust |
| 116927             | Lowe Royalty Partners, LP                                                                                      |
| 116929             | Lowe Royalty Partners, LP                                                                                      |
| 116979             | Russell Swayne Williams, et al                                                                                 |
| 116980A            | Charles R. Meeker Trust U/A                                                                                    |
| 117141             | CMC/SC Beckham Holdings, LP et al                                                                              |
| 117263A            | Meeker Investments, Inc.                                                                                       |
| 117263B            | AWP 1983 Trust by Windi Grimes, Trustee                                                                        |

August 14, 2015  
Page 2

Should you have any questions or require additional information please do not hesitate to contact me at 281/210-5901.

Very truly yours,

**COMMON RESOURCES III, L.L.C.**

Carla S. Stark  
Land-Contract Administrator

Attachments (21)

C: Peggy Blanchard – Winne Land & Minerals, Inc.



File No 116980County  
Ltr from Common ResourcesDate Filed: 08/17/15

George P. Bush, Commissioner

By [Signature]



TEXAS GENERAL LAND OFFICE  
GEORGE P. BUSH, COMMISSIONER

November 3, 2015

Peggy Blanchard  
Winne Land & Minerals  
10330 Lake Rd., Bldg. 26  
Houston, Texas 77070

Re: **State Lease MF 116980A**

RAL Lease dated July 25, 2014, recorded in V. 1119, P. 517,  
Reeves Co, covering 140 ac., Sec. 4, Blk. 71, PSL Survey,  
Charles Meeker Trust, agent for State of TX, Lessor

Dear Ms. Blanchard:

The certified copy of the Relinquishment Act lease covering the above referenced tract has been approved and filed in our records under Mineral File numbers **MF-116980A**. **Please refer to this lease number when making payments to the State and in all future correspondence concerning the lease. Failure to include the mineral file number may delay processing of any payments towards the lease.**

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 remittance of **\$40,833.28** has been applied to the State's portion of the cash bonus. In addition, we are in receipt of the processing and filing fees.

Sincerely yours,

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



cc No 116980CountyFinal ltrDate Filed: 11/03/15

George P. Bush, Commissioner

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**CHASEWOOD BANK** 15705839  
P.O. BOX 90888 • HOUSTON, TEXAS 77290  
www.chasewoodbank.com

**WINNE LAND & MINERALS, INC.**  
NORTH TEXAS LEASE ACCOUNT  
10330 LAKE ROAD, BLDG 26  
HOUSTON, TEXAS 77070

10/10/2014

PAY TO THE ORDER OF State of Texas \$ \*\*81,666.67

Eighty-One Thousand Six Hundred Sixty-Six and 67/100 \*\*\*\*\* DOLLARS

State of Texas  
1700 North Congress Avenue  
Austin, Texas 78701

MEMO Lease Bonus Consideration

AUTHORIZED SIGNATURE

"00 1333"

**WINNE LAND & MINERALS, INC.**

State of Texas

Lease Bonus Consideration  
Date of Lease: 9/10/2014  
140.0 Ac, E-7/16 of S/2  
Sec 4, Blk 71, A-6000  
PSL Sur, Reeves Co, Tx  
(Meeker Investments, Inc.)

10/10/2014

81,666.67

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WLMI - North Texas L Lease Bonus Consideration

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**CHASEWOOD BANK**P.O. BOX 90888 • HOUSTON, TEXAS 77290  
www.chasewoodbank.com

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**WINNE LAND & MINERALS, INC.**NORTH TEXAS LEASE ACCOUNT  
10330 LAKE ROAD, BLDG 26  
HOUSTON, TEXAS 77070

10/10/2014

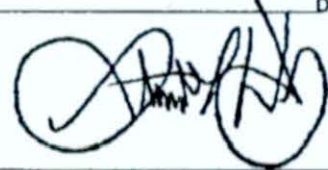
PAY TO THE  
ORDER OF State of Texas

\$ \*\*40,833.28

Forty Thousand Eight Hundred Thirty-Three and 28/100\*\*\*\*\*

DOLLARS

State of Texas

1700 North Congress Avenue  
Austin, Texas 78701

AUTHORIZED SIGNATURE

MEMO

Lease Bonus Consideration

⑈001334⑈

**WINNE LAND & MINERALS, INC.**

State of Texas

10/10/2014

1334

Lease Bonus Consideration  
Date of Lease: 9/10/2014  
140.0 Ac, E-7/16 of S/2  
Sec 4, Blk 71, A-6000  
PSL Sur, Reeves Co, Tx  
(AWP 1983 Trust)

X 40,833.28

121 15707545

WLMI - North Texas L Lease Bonus Consideration

40,833.28



**WINNE LAND & MINERALS, INC.**

10330 LAKE ROAD, BLDG 26  
HOUSTON, TEXAS 77070

**CHASEWOOD BANK** 5707546

P.O. BOX 90888 • HOUSTON, TEXAS 77290  
www.chasewoodbank.com

Equal Housing Lender  
Member FDIC

8263

10/10/2014

PAY TO THE  
ORDER OF State of Texas

\$ \*\*125.00

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

DOLLARS

State of Texas  
1700 North Congress Avenue  
Austin, Texas 78701

MEMO

Processing and Filing Fee



*[Handwritten Signature]*  
AUTHORIZED SIGNATURE

⑈008263⑈

**WINNE LAND & MINERALS, INC.**

State of Texas

10/10/2014

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Processing and Filing Fees  
State of Texas Lease  
dated 9/10/14  
covering 140.0 Ac  
Reeves County, Texas  
(AWP 1983 Trust)

X 125.00

125707546

Chasewood Bank Che Processing and Filing Fee

125.00



**WINNE LAND & MINERALS, INC.**

10330 LAKE ROAD, BLDG 26  
HOUSTON, TEXAS 77070

**CHASEWOOD BANK** 15705840

P.O. BOX 90888 • HOUSTON, TEXAS 77290  
www.chasewoodbank.com

8262

10/10/2014

PAY TO THE  
ORDER OF State of Texas

\$ \*\*125.00

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

DOLLARS

State of Texas  
1700 North Congress Avenue  
Austin, Texas 78701

MEMO

Processing and Filing Fee



*[Handwritten Signature]*  
AUTHORIZED SIGNATURE

⑈008262⑈

**WINNE LAND & MINERALS, INC.**

State of Texas

10/10/2014

Processing and Filing Fees  
State of Texas Lease  
dated 9/10/14  
covering 140.0 Ac  
Reeves County, Texas  
(Meeker Investments, Inc.)

8262

125.00

15705840

Chasewood Bank Che Processing and Filing Fee

125.00





## **Drew Reid - AWP 1983 Trust Lease**

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**From:** Drew Reid  
**To:** maxw.hamilton@gmail.com  
**Subject:** AWP 1983 Trust Lease

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Max,

This lease is approved as to term. There are a few changes that need to be made to the addendum.

First, your paragraph 40. Continuous Development., please delete this paragraph, Continuous Dev. is address in paragraph 22 of Exhibit "A"

Second, in Exhibit A paragraph 1. Leased Interests. Delete the second sentence of this paragraph, it starts with "If it is determined".... and ends with "for such acreage."

Third is a QUESTION - in paragraph 21. your delay rental for the 4th year is \$163,333.10 (\$7000.00 per ac.) I'm happy with this number but just want to make sure it was not a mistake.

Drew



**WINNE LAND & MINERALS, INC.**

10330 Lake Road, Bldg. 26  
Houston, TX 77070

Gilbert L. Winne, Jr., CPL  
President

Tel 281-290-4990  
Fax 281-290-4992

December 23, 2014

**VIA FEDEX DELIVERY**

Mr. Drew Reid  
Texas General Land Office  
1700 North Congress Avenue  
Austin, Texas 78701

**RE: Oil and Gas Leases-Mineral Classified Lands  
Reeves County, Texas**

Dear Drew:

Enclosed for your final approval and further handling are the following:

1. Oil and Gas Lease dated September 10, 2014 from **Meeker Investments, Inc.** as Lessor, to Winne Land & Minerals, Inc., as Lessee, upon and covering 140.0 gross acres of land, more or less, situated in Reeves County, Texas, together with check no. 1333 in the amount of \$81,666.67, being the 50% share of the Lease Bonus Consideration due The State of Texas, plus check no. 8262 in the amount of \$125.00 for processing and filing fees.
2. Oil and Gas Lease dated November 1, 2014 from **CMC/Rock House Partners, L.P., et al**, as Lessor, to Winne Land & Minerals, Inc., as Lessee, upon and covering 365.47 gross acres of land, more or less, situated in Reeves County, Texas, together with check no. 1342 in the amount of \$639,937.97, being the 50% share of the Lease Bonus Consideration due The State of Texas, plus check no. 8403 in the amount of \$125.00 for processing and filing fees.

*J.*

Once you have approved the leases, please notify me at your earliest convenience so that I may send the original lease to be filed in Reeves County, Texas. Should you have any questions, please contact our office. As always, thank you for your help and cooperation.

Sincerely,

**WINNE LAND & MINERALS, INC.**

*Gilbert L. Winne, Jr.*  
Gilbert L. Winne, Jr., CPL

GLW/pdb

Enclosures, as stated

*New*

**Drew Reid - Section 4, Block 71 Meeker Investments**

---

**From:** Max Hamilton <maxw.hamilton@gmail.com>  
**To:** Drew.Reid@GLO.TEXAS.GOV  
**Date:** 11/7/2014 4:46 PM  
**Subject:** Section 4, Block 71 Meeker Investments  
**Attachments:** EXECUTED LEASE Meeker Investments 10 10 2014.pdf

---

A lease for 140 acres being the East 7/16 of S/2 Section 4, Block 71, for your Pre-approval is attached.  
 Respectfully,

Max W. Hamilton

Independent Petroleum Landman

936-348-4645

\*\*\*\*\*  
 The company reserves the right to amend statements made herein in the event of a  
 mistake. Unless expressly stated herein to the contrary, only agreements in writing  
 signed by an authorized officer of the Company may be enforced against it.  
 \*\*\*\*\*



File No. 116980

Bonus, fees, etc (B+C)

Date Filed: 12/29/14

Jerry E. Patterson, Commissioner

By [Signature]



## Common Resources III

August 30, 2015

Deborah A. Cantu  
Texas General Land Office  
1700 North Congress Avenue  
Austin, Texas 78701

Re: **Oil and Gas Lease-Mineral Classified Lands-MF117263**  
**Reeves County, Texas**

Dear Ms. Cantu:

Please find enclosed the Certified Copy of subject lease per your request.

- Oil and Gas Lease dated September 10, 2014 from **Meeker Investments, Inc.** as Lessor, to **Winne Land and Minerals, Inc.**, as Lessee, upon and covering 140.00 gross acres of land, more or less, situated in Reeves County, Texas.

Should you have any questions, please contact our office. As always, thank you for your help and cooperation.

Sincerely,

**CR3 WESTERN HOLDING COMPANY, LLC**

Patti T. Payne, CPLTA

PP/

Enclosure

210

7.  
File No. 116980  
County \_\_\_\_\_  
Ltr from Common Resources  
Date Filed: 08/03/15  
George P. Bush, Commissioner  
By [Signature]



117263A  
116980B

General Land Office  
Relinquishment Act Lease Form  
Revised, September 1997

15-00805  
FILED FOR RECORD  
REEVES COUNTY, TEXAS  
Jan 27, 2015 at 03:53:00 PM

# The State of Texas



Austin, Texas

## OIL AND GAS LEASE

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THIS AGREEMENT is made and entered into this 10 th day of September, 2014, between the State of Texas, acting by and through its agent, Meeker Investments, Inc by J. J. Meeker, President of 1080 Marina Village Pkwy. Ste. 530, Alameda, California 94501

said agent herein referred to as the owner of the soil (whether one or more), and WINNE LAND AND MINERALS, INC of 10330 Lake Road, Building 26, Houston, Texas 77070 hereinafter called Lessee.  
(Give Permanent Address)

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G

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

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The East Seven Sixteenths (7/16) of the South One-Half (S/2) of Section No. Four (4), Block No. Seventy-One (71), A-6000, Public School Land Survey, situated in Reeves County, Texas.

containing One Hundred Forty (140.00) acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: EIGHTY-ONE THOUSAND SIX HUNDRED SIXTY-SIX AND 55/100  
Dollars (\$81,666.55)

To the owner of the soil: EIGHTY-ONE THOUSAND SIX HUNDRED SIXTY-SIX AND 55/100  
Dollars (\$81,666.55)

Total bonus consideration: ONE HUNDRED SIXTY-THREE THOUSAND THREE HUNDRED THIRTY-THREE AND 10/100  
Dollars (\$163,333.10)

The total bonus consideration paid represents a bonus of THREE THOUSAND FIVE HUNDRED AND NO/100  
Dollars (\$3,500.00) per acre, on 46.6666 Net acres.

**2. TERM.** Subject to the other provisions in this lease, this lease shall be for a term of FIVE (5) years from this date (herein called "primary term") and as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land. As used in this lease, the term "produced in paying quantities" means that the receipts from the sale or other authorized commercial use of the substance(s) covered exceed out of pocket operational expenses for the six months last past.

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3. DELAY RENTALS. SEE EXHIBIT "A" If no well is commenced on the leased premises on or before one (1) year from this date, this lease shall terminate, unless on or before such anniversary date Lessee shall pay or tender to the owner of the soil or to his credit in the

Bank, at \_\_\_\_\_ PAY DIRECTLY TO OWNER OF THE SOIL \_\_\_\_\_ or its successors (which shall continue as the depository regardless of changes in the ownership of said land), the amount specified below; in addition, Lessee shall pay or tender to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATE OF TEXAS, AT AUSTIN, TEXAS, a like sum on or before said date. Payments under this paragraph shall operate as a rental and shall cover the privilege of deferring the commencement of a well for one (1) year from said date. Payments under this paragraph shall be in the following amounts:

To the owner of the soil: \_\_\_\_\_  
Dollars (\$ \_\_\_\_\_ )  
To the State of Texas: \_\_\_\_\_  
Dollars (\$ \_\_\_\_\_ )  
Total Delay Rental: \_\_\_\_\_  
Dollars (\$ \_\_\_\_\_ )

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

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

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

(B) NON PROCESSED GAS. Royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substances not defined as oil in subparagraph (A) above, produced from any well on said land (except as provided herein with respect to gas processed in a plant for the extraction of gasoline, liquid hydrocarbons or other products) shall be 1/4 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be based on the highest market price paid or offered for gas of comparable quality in the general area where produced and when run, or the gross price paid or offered to the producer, whichever is the greater; provided that the maximum pressure base in measuring the gas under this lease shall not at any time exceed 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to tests made by the Balance Method or by the most approved method of testing being used by the industry at the time of testing.

(C) PROCESSED GAS. Royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbons shall be 1/4 part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office. All royalties due herein shall be based on one hundred percent (100%) of the total plant production of residue gas attributable to gas produced from this lease, and on fifty percent (50%), or that percent accruing to Lessee, whichever is the greater, of the total plant production of liquid hydrocarbons attributable to the gas produced from this lease; provided that if liquid hydrocarbons are recovered from gas processed in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the percentage applicable to liquid hydrocarbons shall be fifty percent (50%) or the highest percent accruing to a third party processing gas through such plant under a processing agreement negotiated at arm's length (or if there is no such third party, the highest percent then being specified in processing agreements or contracts in the industry), whichever is the greater. The respective royalties on residue gas and on liquid hydrocarbons shall be determined by 1) the highest market price paid or offered for any gas (or liquid hydrocarbons) of comparable quality in the general area, or 2) the gross price paid or offered for such residue gas (or the weighted average gross selling price for the respective grades of liquid hydrocarbons), whichever is the greater. In no event, however, shall the royalties payable under this paragraph be less than the royalties which would have been due had the gas not been processed.

(D) OTHER PRODUCTS. Royalty on carbon black, sulphur or any other products produced or manufactured from gas (excepting liquid hydrocarbons) whether said gas be "casinghead," "dry," or any other gas, by fractionating, burning or any other processing shall be 1/4 part of the gross production of such products, or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such market value to be determined as follows: 1) on the basis of the highest market price of each product for the same month in which such product is produced, or 2) on the basis of the average gross sale price of each product for the same month in which such products are produced; whichever is the greater.

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

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

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

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

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

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

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

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

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

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

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

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

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

**15. COMPENSATORY ROYALTIES.** If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is sold and delivered in paying quantities from a well located within one thousand (1,000) feet of the leased premises and completed in the same producing reservoir, or in any case in which drainage is occurring, the right to continue to maintain the lease by paying the shut-in oil or gas royalty shall cease, but the lease shall remain effective for the remainder of the year for which the royalty has been paid. The Lessee may maintain the lease for four more successive years by Lessee paying compensatory royalty at the royalty rate provided in the lease of the market value of production from the well causing the drainage or which is completed in the same producing reservoir and within one thousand (1,000) feet of the leased premises. The compensatory royalty is to be paid monthly, one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil, beginning on or before the last day of the month following the month in which the oil or gas is produced from the well causing the drainage or that is completed in the same producing reservoir and located within one thousand (1,000) feet of the leased premises. If the compensatory royalty paid in any 12-month period is an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within thirty (30) days from the end of the 12-month period. Compensatory royalty payments which are not timely paid will accrue penalty and interest in accordance with Paragraph 9 of this lease. None of these provisions will relieve Lessee of the obligation of reasonable development nor the obligation to drill offset wells as provided in Texas Natural Resources Code 52.173; however, at the determination of the Commissioner, and with the Commissioner's written approval, the payment of compensatory royalties can satisfy the obligation to drill offset wells.

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

**(A) VERTICAL.** In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall then terminate as to all of the leased premises, EXCEPT (1) 40 acres surrounding each oil well capable of producing in paying quantities and 320 acres surrounding each gas well capable of producing in paying quantities (including a shut-in oil or gas well as provided in Paragraph 14 hereof), or a well upon which Lessee is then engaged in continuous drilling or reworking operations, or (2) the number of acres included in a producing pooled unit pursuant to Texas Natural Resources Code 52.151-52.154, or (3) such greater or lesser number of acres as may then be allocated for production purposes to a proration unit for each such producing well under the rules and regulations of the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction. If at any time after the effective date of the partial termination provisions hereof, the

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applicable field rules are changed or the well or wells located thereon are reclassified so that less acreage is thereafter allocated to said well or wells for production purposes, this lease shall thereupon terminate as to all acreage not thereafter allocated to said well or wells for production purposes. Notwithstanding the termination of this lease as to a portion of the lands covered hereby, Lessee shall nevertheless continue to have the right of ingress to and egress from the lands still subject to this lease for all purposes described in Paragraph 1 hereof, together with easements and rights-of-way for existing roads, existing pipelines and other existing facilities on, over and across all the lands described in Paragraph 1 hereof ("the retained lands"), for access to and from the retained lands and for the gathering or transportation of oil, gas and other minerals produced from the retained lands.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

29. **FILING OF ASSIGNMENTS AND RELEASES.** If all or any part of this lease is assigned or released, such assignment or release must be recorded in the county where the land is situated, and the recorded instrument, or a copy of the recorded instrument certified by the County Clerk of the county in which the instrument is recorded, must be filed in the General Land Office within 90 days of the last execution date of the County Clerk of 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.



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

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

33. **LIEN.** In accordance with Texas Natural Resources Code 52.136, the State shall have a first lien upon all oil and gas produced from the area covered by this lease to secure payment of all unpaid royalty and other sums of money that may become due under this lease. By acceptance of this lease, Lessee grants the State, in addition to the lien provided by Texas Natural Resources Code 52.136 and any other applicable statutory lien, an express contractual lien on and security interest in all leased minerals in and extracted from the leased premises, all proceeds which may accrue to Lessee from the sale of such leased minerals, whether such proceeds are held by Lessee or by a third party, and all fixtures on and improvements to the leased premises used in connection with the production or processing of such leased minerals in order to secure the payment of all royalties or other amounts due or to become due under this lease and to secure payment of any damages or loss that Lessor may suffer by reason of Lessee's breach of any covenant or condition of this lease, whether express or implied. This lien and security interest may be foreclosed with or without court proceedings in the manner provided in the Title 1, Chap. 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this lease forfeited as provided herein.

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

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

36. **ENVIRONMENTAL HAZARDS.** Lessee shall use the highest degree of care and all reasonable safeguards to prevent contamination or pollution of any environmental medium, including soil, surface waters, groundwater, sediments, and surface or subsurface strata, ambient air or any other environmental medium in, on, or under, the leased premises, by any waste, pollutant, or contaminant. Lessee shall not bring or permit to remain on the leased premises any asbestos containing materials, explosives, toxic materials, or substances regulated as hazardous wastes, hazardous materials, hazardous substances (as the term "Hazardous Substance" is defined in the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), 42 U.S.C. Sections 9601, et seq.), or toxic substances under any federal, state, or local law or regulation ("Hazardous Materials"), except ordinary products commonly used in connection with oil and gas exploration and development operations and stored in the usual manner and quantities. **LESSEE'S VIOLATION OF THE FOREGOING PROHIBITION SHALL CONSTITUTE A MATERIAL BREACH AND DEFAULT HEREUNDER AND LESSEE SHALL INDEMNIFY, HOLD HARMLESS AND DEFEND THE STATE OF TEXAS AND THE OWNER OF THE SOIL FROM AND AGAINST ANY CLAIMS, DAMAGES, JUDGMENTS, PENALTIES, LIABILITIES, AND COSTS (INCLUDING REASONABLE ATTORNEYS' FEES AND COURT COSTS) CAUSED BY OR ARISING OUT OF (1) A VIOLATION OF THE FOREGOING PROHIBITION OR (2) THE PRESENCE, RELEASE, OR DISPOSAL OF ANY HAZARDOUS MATERIALS ON, UNDER, OR ABOUT THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OR CONTROL OF THE LEASED PREMISES. LESSEE SHALL CLEAN UP, REMOVE, REMEDY AND REPAIR ANY SOIL OR GROUND WATER**



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CONTAMINATION AND DAMAGE CAUSED BY THE PRESENCE OR RELEASE OF ANY HAZARDOUS MATERIALS IN, ON, UNDER, OR ABOUT THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OF THE LEASED PREMISES IN CONFORMANCE WITH THE REQUIREMENTS OF APPLICABLE LAW. THIS INDEMNIFICATION AND ASSUMPTION SHALL APPLY, BUT IS NOT LIMITED TO, LIABILITY FOR RESPONSE ACTIONS UNDERTAKEN PURSUANT TO CERCLA OR ANY OTHER ENVIRONMENTAL LAW OR REGULATION. LESSEE SHALL IMMEDIATELY GIVE THE STATE OF TEXAS AND THE OWNER OF THE SOIL WRITTEN NOTICE OF ANY BREACH OR SUSPECTED BREACH OF THIS PARAGRAPH, UPON LEARNING OF THE PRESENCE OF ANY HAZARDOUS MATERIALS, OR UPON RECEIVING A NOTICE FROM ANY GOVERNMENTAL AGENCY PERTAINING TO HAZARDOUS MATERIALS WHICH MAY AFFECT THE LEASED PREMISES. THE OBLIGATIONS OF LESSEE HEREUNDER SHALL SURVIVE THE EXPIRATION OR EARLIER TERMINATION, FOR ANY REASON, OF THIS AGREEMENT.

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

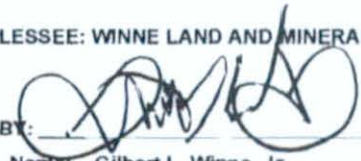
38. **EXECUTION.** This oil and gas lease must be signed and acknowledged by the Lessee before it is filed of record in the county records and in the General Land Office of the State of Texas. Once the filing requirements found in Paragraph 39 of this lease have been satisfied, the effective date of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

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

#### ADDENDUM PROVISION #40

40. **CONTINUOUS DEVELOPMENT.** Notwithstanding anything contained herein to the contrary, at the end of the primary term, this lease will terminate as to all lands, except lands included in proration units approved or allowed by the Railroad Commission of the State of Texas for each well from which oil and/or gas is being produced in paying quantities. However, if at the end of the primary term, Lessee has completed a well that will maintain this lease at the end of the primary term or is drilling at least one (1) well on the leased premises, this lease shall continue so long as Lessee begins to drill (with diligence) a well within six (6) months after the end of the primary term, and begins thereafter to drill (with diligence) another well within each six (6) month interval after the primary term. This lease shall continue until Lessee fails to begin to drill (with due diligence), a well during a six (6) months interval after the end of the primary term as provided above, then this lease will terminate as to all lands not included in a minimum size producing proration unit for the maximum allowable permitted by the Railroad Commission of Texas, or as otherwise provided herein, of a well producing in paying quantities, and all depths one hundred feet (100') below the base of the deepest producing horizon or the stratigraphic equivalent thereof as to each producing well. After the primary term, if the production of oil or gas as to any proration unit should cease, this lease shall not terminate as to such proration unit if Lessee commences additional drilling, reworking or other operations within sixty (60) days of cessation to attempt to establish production of oil or gas in paying quantities without cessation of operations of more than sixty (60) days, and in the event production of oil or gas is restored, for so long thereafter as oil and gas is produced from proration unit in paying quantities.

LESSEE: WINNE LAND AND MINERALS, INC.

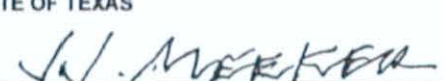
BY: 

Name: Gilbert L. Winne, Jr.

Title: President

Date: 10/27/2014

STATE OF TEXAS

BY: 

J. J. Meeker, President

Meeker Investments, Inc., Agent for the State of Texas

Date: 9/17/14

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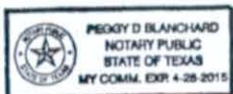


STATE OF TEXAS  
COUNTY OF HARRIS

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Gilbert L. Winne, Jr.  
known to me to be the person whose name is subscribed to the foregoing instruments as President  
of WINNE LAND AND MINERALS, INC. and acknowledged to me that he  
executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the 27<sup>th</sup> day of October, 20 14



Peggy D. Blanchard  
Notary Public in and for the State of Texas

STATE OF California  
COUNTY OF San Diego

(INDIVIDUAL ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Meeker Investments, Inc by J. J. Meeker, President, Agent for the State of Texas known to me to be the person whose name is subscribed to the  
foregoing instrument and acknowledged to me that she executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this the 27 day of September, 20 14



Gini Araiza  
Notary Public in and for the State of Texas

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Exhibit A to  
Oil and Gas Lease Dated September 10, 2014  
Between  
Meeker Investments, Inc., by J. J. Meeker, President as Lessor and  
Winne Land and Minerals, Inc as Lessee

To the extent any of the following provisions are inconsistent with the provisions contained in the body of the referenced lease (the "Lease"), the provisions of this Exhibit A will control. For purposes of this Addendum, the phrase "leased premises" will be the same as "said land" in the Lease.

1. **Leased Interests.** The Lease covers only oil, gas and associated liquid or liquefiable or gaseous hydrocarbons as may be necessarily and incidentally produced therewith (the "covered minerals"). If it is determined that the leased premises cover more than 320 net mineral acres, Lessee will make an additional bonus payment to Lessor for such acreage.

2. **Royalty.** If production from the leased premises is sold to an affiliate of Lessee, Lessor's royalty will not be less than the amount Lessor would have realized had such sale been made at arm's length to a non-affiliated purchaser pursuant to the provisions of Section 4 of the Lease. An affiliate for these purposes is any entity in which Lessee owns directly or indirectly a 10% or greater interest, and any entity which is controlled by or under common control with Lessee. Upon written request, Lessee will provide Lessor with a copy of any contract entered into by Lessee for sales of covered minerals from the leased premises. Lessor agrees not to disclose the terms of these contracts to any person, other than its counsel and consultants, without the prior written consent of Lessee.

3. **Reports.** The reports and other information Lessee is required to provide to the Texas General Land Office from time to time under Section 10 of the Lease shall also be furnished to Lessor at the same time as provided to the General Land Office.

4. **Pooling.** Upon written request, Lessee will provide Lessor with a file-marked copy of any declaration of pooled unit which includes any portion of the leased premises.

5. **Continuous Operations.** For purposes of Lessor verifying compliance with the continuous operations provisions after the end of the primary term of the Lease, Lessee agrees that it will provide Lessor, within 30 days after receipt of Lessor's written request for same, copies of daily drilling reports or other Lessee created reports that describe the time and nature of operations on the leased premises or on lands pooled therewith. Lessor agrees not to disclose the information to any person, other than its counsel and consultants, without the prior written consent of Lessee. For purposes of this lease drilling operations will have been commenced at such time as lessee has surveyed a location for the drill site, obtained a drilling permit from the Texas Railroad Commission, and started actual on the ground work in preparing the drill site. After a well is commenced, drilling operations must continue with diligence and in a good and workmanlike manner in a good faith effort to reach the anticipated total depth. A well will be deemed to have been completed on the date of the release of the completion rig from the drillsite.

6. **No Warranty as to Title.** The Lease is granted without warranty, express or implied, in law or in equity; provided that, Lessee at its option, may discharge any tax, mortgage, or other lien upon said leased premises, either in whole or in part, and if Lessee does so, it will have the right to apply rentals and royalties accruing hereunder towards satisfying the same.

7. **Water.** The Lease grants no surface or subsurface water rights to Lessee. If Lessee intends to drill a well for water, Lessee shall give Lessor 30 days prior written notice and accompany the notice with an explanation of what specific steps Lessee will implement to protect all fresh water zones that will be encountered in the drilling of the well. After such

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notice, Lessor and Lessee agree to reasonably negotiate additional requirements that Lessor may request for protecting the fresh water zones and compensating Lessor for the water pumped from the well.

8. **Rates and Damages Schedule.** The damages payable by Lessee for the use of the leased premises shall be the minimum Rate and Damage Schedule published from time to time by the University of Texas System - University Lands. Damages will be paid one-half (1/2) to the State of Texas - General Land Office and one-half (1/2) to Lessor, except amounts payable for damages to improvements on the surface will be payable to Lessor.

9. **Surface and Subsurface Use.** No rights are granted to Lessee to use the surface or subsurface of the leased premises for any activities or facilities not directly related to finding, producing, storing, marketing, and transporting oil, gas and related substances from the leased premises and lands pooled with the leased premises. All activities of Lessee on the surface shall be conducted in a manner that preserves existing water drainage grades and systems.

10. **Removal of Equipment and Facilities; Plugging of Wells.**

(a) Upon the partial or complete termination of the Lease, Lessee, within 90 days of said termination, shall commence the removal of all casing, pipes, equipment, and fixtures from the surface of the leased premises no longer subject to the Lease, as well as all underground pipelines and gathering lines, and shall proceed with due diligence to complete said removal within 180 days after lease termination. If Lessee fails to comply with these requirements within 180 days after the lease termination, Lessee shall be liable to Lessor for the cost of removing the remaining materials from the leased premises.

(b) Within 90 days after the completion of any drilling, fracing, or re-working operations on the leased premises and after the abandonment of any producing well on the leased premises (which abandonment will be evidenced by a lack of production from the well for a period of 60 consecutive days without re-working, re-completion, or other substantive operations having been conducted within such time), Lessee shall remove and deposit off the leased premises the contents of all pits, remove all pits, fill, and level all excavations to one foot above the surrounding ground, thoroughly clean the leased premises of all debris and trash, level all dumps and mounds, neutralize all acids, remove all roads (except as directed by Lessor), and replace topsoil on the surface of the land in the same condition as it was prior to the commencement of such operations to the extent reasonably practical. Lessee shall at all times keep all work areas neat and orderly, and shall not deposit any materials or objects on the ground that may be harmful to livestock or growing crops.

(c) Upon abandonment of a well, regardless whether immediately after the drilling of a dry hole or after production from said well has ceased, Lessee must plug and abandon the well in compliance with all applicable federal and state laws, rules, and regulations in order to fully protect and preserve all groundwater sands that are present within the leased premises. The plugging and abandonment of a well shall be completed within 180 days after the drilling of a dry hole or abandonment.

11. **Pipelines; Electrical Lines.** In connection therewith, all rocks unearthed in digging the pipeline shall, at Lessor's direction and Lessee's expense, be disposed of off-premises by Lessee, buried in the pipeline trench, or moved by Lessee to a location upon the leased premises satisfactory to Lessor. Lessee shall be required to maintain the pipeline right-of-way in order to prevent or correct sinkage, settlement, and erosion of the soil caused by pipelines. Lessee shall pay Lessor for specific damages caused by Lessee to the land, livestock, growing crops and grasses, crops ready to harvest, land prepared for planting, and land seeded for crops during such pipeline installations (or removals). Upon completion of each pipeline installation, Lessee shall restore the surface above the pipeline to its previous condition as nearly as practicable.

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12. **Disposal and Injection Wells.** Lessor's prior written consent, which may be withheld in Lessor's sole discretion, shall be required for the drilling of a well, or for the completion of a previously drilled well, on the leased premises for the disposal and/or injection of liquids.

13. **Livestock Damages.** Lessee will be responsible to Lessor for loss or damage to Lessor's livestock if such loss or damage is a result of Lessee's operations.

14. **Drilling and Operating Practices of Lessee.** All wells drilled by Lessee on the leased premises shall be drilled, completed, and equipped for production, or plugged and abandoned, in a workmanlike manner and in accordance with recognized and approved oil field practice, and shall be operated in accordance with recognized and approved oil field practice. Lessee shall conform to all applicable federal and state laws, rules, and regulations pertaining thereto, all as would a reasonably prudent operator.

15. **Indemnification and Hold Harmless.** If, as a result of activities or omissions of Lessee, or its agents, servants, employees, or subcontractors, damages or other remedial action is sought by a governmental agency or by others against Lessor, Lessee shall have the obligation to defend, indemnify, and hold harmless Lessor from any and all fines, costs, obligations, attorney fees, expenses, or legal proceedings in courts of law or otherwise at Lessee's cost and shall be obligated to pay any and all damages and claims or perform any remedial actions assessed against Lessor. Lessee agrees to indemnify, hold harmless, and defend Lessor against any and all claims, demands, or suits for bodily injury, death, property damage, or loss of any kind by Lessee, Lessee's employees, agents, subcontractors and their employees or agents and by any third parties that arise out of, result from, or are related to Lessee's operations. The provisions of this paragraph will be binding between the parties and their successors.

16. **Pollution Control and Indemnification.** Lessee covenants and agrees that it will in no way undertake any action or practice that will cause pollution to the leased premises or adjacent land, underground aquifer, free-flowing streams, run-off areas, and/or lakes. Lessee agrees to defend, indemnify, and hold harmless Lessor from any action, claim, penalty, and fine imposed on or expense incurred by Lessor as a result of the practices of Lessee. Lessee further covenants and agrees that it will remove all fluids, contaminated soils, and materials from the leased premises expeditiously upon completion or abandonment of a well and will comply with any and all directives of the Environment Protection Agency, state regulatory agencies, underground water district, lake authority and/or county regulations with regard to the disposition of same. Furthermore, Lessee agrees that it will remain liable for, and defend Lessor against, any and all claims for "clean up" around all well sites by any governmental agency, regulatory body, or party should the same be imposed as a result of the action of Lessee, regardless whether such claim is made during the term of the Lease or after the Lease terminates. Lessor agrees to notify Lessee in writing of any legal or administrative proceeding initiated against Lessor within ten (10) days of Lessor's notification of such action in connection with such contamination or required remediation. The obligations in this paragraph shall survive the termination of the Lease.

17. **Strict Liability for Damages.** Lessee shall be strictly liable and shall promptly pay for, and defend Lessor against, any and all damages caused by or resulting from any of Lessee's operations or activities on the leased premises or in connection with the Lease including items owned by Lessor, tenants of Lessor, surface owners other than Lessor, or others. Lessee shall likewise be strictly liable for any and all contamination of surface soil and water or subsurface water.

18. **Release.** Upon Lessor's written request after the termination of the Lease as to all or any portion of the leased premises, Lessee agrees to sign and record a release of the acreage in question and to provide Lessor with a copy of the file-marked release.

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19. **Attorney's Fees.** Lessee shall pay to Lessor all reasonable attorney's fees and costs incurred by Lessor in connection with any legal proceedings brought to enforce compliance with and/or collect damages for a breach or violation of any of Lessee's agreements and obligations hereunder, whether expressed or implied, in the event Lessor prevails in such proceedings.

20. **Seismic Operations.** Lessee will have the right to conduct seismic operations on the leased premises only on such terms as are mutually agreed upon by Lessee and Lessor which shall not be unreasonably withheld or delayed by Lessor.

21. **Delay Rentals** for years two (2) and three (3) of this lease have been prepaid as part of the total bonus consideration for the first three years of this lease. One-half (1/2) of the initial bonus consideration has been paid to the Lessor and one-half (1/2) has been paid to the State of Texas. The Delay Rental for the fourth year of the primary term of the lease in the amount of \$163,333.10 has not been paid. On or before the anniversary date of the third year of the lease, Lessee shall pay Lessor one-half of the fourth year delay rental and one-half of delay rental to the State of Texas. The Delay Rental for the fifth year of the primary term is included with the fourth year delay rental payment; therefore, no delay rental is required for the fifth year.

22. **Continuous Development.** Notwithstanding anything contained herein to the contrary, at the end of the primary term, this lease will terminate as to all lands, except lands included in proration units approved or allowed by the Railroad Commission of the State of Texas for each well from which oil and/or gas is being produced in paying quantities. However, if at the end of the primary term, Lessee has completed a well that will maintain this lease at the end of the primary term or is drilling at least one (1) well on the leased premises, this lease shall continue so long as Lessee begins to drill (with diligence) a well within six (6) months after the end of the primary term, and begins thereafter to drill (with diligence) another well within each six (6) month interval after the primary term. This lease shall continue until Lessee fails to begin to drill (with due diligence), a well during a six (6) months interval after the end of the primary term as provided above, then this lease will terminate as to all lands not included in a minimum size producing proration unit for the maximum allowable permitted by the Railroad Commission of Texas, or as otherwise provided herein, of a well producing in paying quantities, and all depths one hundred feet (100') below the base of the deepest producing perforation for a vertical well and two hundred feet (200') below the deepest producing perforation for a horizontal well thereof as to each producing well. After the primary term, if the production of oil or gas as to any proration unit should cease, this lease shall not terminate as to such proration unit if Lessee commences additional drilling, reworking or other operations within sixty (60) days of cessation to attempt to establish production of oil or gas in paying quantities without cessation of operations of more than sixty (60) days, and in the event production of oil or gas is restored, for so long thereafter as oil and gas is produced from proration unit in paying quantities.

23. **Headings.** All paragraph headings contained in the Lease are for reference purposes only, and in no way expand, limit or in any way affect the rights of the parties hereunder.

LESSOR

LESSEE

Meeker Investments, Inc

Winne Land and Minerals, Inc.

By: J. J. MEERKE

By: GILBERT WINNE, JR.

Name: J. J. Meeker

Name: Gilbert Winne, Jr.

Title: President, Agent for State of Texas

Title: President

Exhibit A - Page 4 of 4

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Inst No. 15-00805  
DIANNE O. FLOREZ  
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2015 Jan 27 at 03:53 PM  
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By: N. J. [Signature] DEPUTY

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File No. 116980  
County \_\_\_\_\_  
Lease B  
Date Filed: 08/17/15  
George P. Bush, Commissioner  
By: [Signature]

CERTIFICATE OF RECORD

THE STATE OF TEXAS, }  
COUNTY OF REEVES. }

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

Date Filed 1/27/15 File # 15-00805 Vol. 1141 Page 34



DIANNE O. FLOREZ, COUNTY CLERK  
REEVES COUNTY, TEXAS

By: [Signature] Deputy

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General Land Office  
Relinquishment Act Lease Form  
Revised, September 1997

15-01083  
FILED FOR RECORD  
REEVES COUNTY, TEXAS  
Feb 04 2015 at 01:10:00 PM

# The State of Texas



Austin, Texas

## OIL AND GAS LEASE

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THIS AGREEMENT is made and entered into this 10<sup>th</sup> day of September, 2014, between the State of Texas, acting by and through its agent, AWP 1983 Trust by Windi Grimes, Trustee of 3310 W. Main Street Houston, Texas 77098

(Give Permanent Address)

said agent herein referred to as the owner of the soil (whether one or more), and WINNE LAND AND MINERALS, INC

of 10330 Lake Road, Building 26, Houston, Texas 77070 hereinafter called Lessee.

(Give Permanent Address)

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

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The East Seven Sixteenths (7/16) of the South One-Half (S/2) of Section No. Four (4), Block No. Seventy-One (71), A-6000, Public School Land Survey, situated in Reeves County, Texas.

containing One Hundred Forty (140.00) acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: FORTY THOUSAND EIGHT HUNDRED THIRTY-THREE AND 28/100  
Dollars (\$40,833.28)

To the owner of the soil: FORTY THOUSAND EIGHT HUNDRED THIRTY-THREE AND 28/100  
Dollars (\$40,833.28)

Total bonus consideration: EIGHTY-ONE THOUSAND SIX HUNDRED SIXTY-SIX AND 56/100  
Dollars (\$81,666.56)

The total bonus consideration paid represents a bonus of THREE THOUSAND FIVE HUNDRED AND N0/100  
Dollars (\$3,500.00) per acre, on 23.3333 Net acres.

**2. TERM.** Subject to the other provisions in this lease, this lease shall be for a term of FIVE (5) years from this date (herein called "primary term") and as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land. As used in this lease, the term "produced in paying quantities" means that the receipts from the sale or other authorized commercial use of the substance(s) covered exceed out of pocket operational expenses for the six months last past.

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

To the owner of the soil: \_\_\_\_\_  
Dollars (\$ \_\_\_\_\_)  
To the State of Texas: \_\_\_\_\_  
Dollars (\$ \_\_\_\_\_)  
Total Delay Rental: \_\_\_\_\_  
Dollars (\$ \_\_\_\_\_)

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

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

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

(B) NON PROCESSED GAS. Royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substances not defined as oil in subparagraph (A) above, produced from any well on said land (except as provided herein with respect to gas processed in a plant for the extraction of gasoline, liquid hydrocarbons or other products) shall be 1/4 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be based on the highest market price paid or offered for gas of comparable quality in the general area where produced and when run, or the gross price paid or offered to the producer, whichever is the greater; provided that the maximum pressure base in measuring the gas under this lease shall not at any time exceed 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to tests made by the Balance Method or by the most approved method of testing being used by the industry at the time of testing.

(C) PROCESSED GAS. Royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbons shall be 1/4 part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office. All royalties due herein shall be based on one hundred percent (100%) of the total plant production of residue gas attributable to gas produced from this lease, and on fifty percent (50%), or that percent accruing to Lessee, whichever is the greater, of the total plant production of liquid hydrocarbons attributable to the gas produced from this lease; provided that if liquid hydrocarbons are recovered from gas processed in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the percentage applicable to liquid hydrocarbons shall be fifty percent (50%) or the highest percent accruing to a third party processing gas through such plant under a processing agreement negotiated at arm's length (or if there is no such third party, the highest percent then being specified in processing agreements or contracts in the industry), whichever is the greater. The respective royalties on residue gas and on liquid hydrocarbons shall be determined by 1) the highest market price paid or offered for any gas (or liquid hydrocarbons) of comparable quality in the general area, or 2) the gross price paid or offered for such residue gas (or the weighted average gross selling price for the respective grades of liquid hydrocarbons), whichever is the greater. In no event, however, shall the royalties payable under this paragraph be less than the royalties which would have been due had the gas not been processed.

(D) OTHER PRODUCTS. Royalty on carbon black, sulphur or any other products produced or manufactured from gas (excepting liquid hydrocarbons) whether said gas be "casinghead," "dry," or any other gas, by fractionating, burning or any other processing shall be 1/4 part of the gross production of such products, or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such market value to be determined as follows: 1) on the basis of the highest market price of each product for the same month in which such product is produced, or 2) on the basis of the average gross sale price of each product for the same month in which such products are produced; whichever is the greater.



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

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

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

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

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

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

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

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

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

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

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

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

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

**15. COMPENSATORY ROYALTIES.** If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is sold and delivered in paying quantities from a well located within one thousand (1,000) feet of the leased premises and completed in the same producing reservoir, or in any case in which drainage is occurring, the right to continue to maintain the lease by paying the shut-in oil or gas royalty shall cease, but the lease shall remain effective for the remainder of the year for which the royalty has been paid. The Lessee may maintain the lease for four more successive years by Lessee paying compensatory royalty at the royalty rate provided in the lease of the market value of production from the well causing the drainage or which is completed in the same producing reservoir and within one thousand (1,000) feet of the leased premises. The compensatory royalty is to be paid monthly, one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil, beginning on or before the last day of the month following the month in which the oil or gas is produced from the well causing the drainage or that is completed in the same producing reservoir and located within one thousand (1,000) feet of the leased premises. If the compensatory royalty paid in any 12-month period is an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within thirty (30) days from the end of the 12-month period. Compensatory royalty payments which are not timely paid will accrue penalty and interest in accordance with Paragraph 9 of this lease. None of these provisions will relieve Lessee of the obligation of reasonable development nor the obligation to drill offset wells as provided in Texas Natural Resources Code 52.173; however, at the determination of the Commissioner, and with the Commissioner's written approval, the payment of compensatory royalties can satisfy the obligation to drill offset wells.

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

**(A) VERTICAL.** In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall then terminate as to all of the leased premises, EXCEPT (1) 40 acres surrounding each oil well capable of producing in paying quantities and 320 acres surrounding each gas well capable of producing in paying quantities (including a shut-in oil or gas well as provided in Paragraph 14 hereof), or a well upon which Lessee is then engaged in continuous drilling or reworking operations, or (2) the number of acres included in a producing pooled unit pursuant to Texas Natural Resources Code 52.151-52.154, or (3) such greater or lesser number of acres as may then be allocated for production purposes to a proration unit for each such producing well under the rules and regulations of the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction. If at any time after the effective date of the partial termination provisions hereof, the

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applicable field rules are changed or the well or wells located thereon are reclassified so that less acreage is thereafter allocated to said well or wells for production purposes, this lease shall thereupon terminate as to all acreage not thereafter allocated to said well or wells for production purposes. Notwithstanding the termination of this lease as to a portion of the lands covered hereby, Lessee shall nevertheless continue to have the right of ingress to and egress from the lands still subject to this lease for all purposes described in Paragraph 1 hereof, together with easements and rights-of-way for existing roads, existing pipelines and other existing facilities on, over and across all the lands described in Paragraph 1 hereof ("the retained lands"), for access to and from the retained lands and for the gathering or transportation of oil, gas and other minerals produced from the retained lands.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

33. **LIEN.** In accordance with Texas Natural Resources Code 52.136, the State shall have a first lien upon all oil and gas produced from the area covered by this lease to secure payment of all unpaid royalty and other sums of money that may become due under this lease. By acceptance of this lease, Lessee grants the State, in addition to the lien provided by Texas Natural Resources Code 52.136 and any other applicable statutory lien, an express contractual lien on and security interest in all leased minerals in and extracted from the leased premises, all proceeds which may accrue to Lessee from the sale of such leased minerals, whether such proceeds are held by Lessee or by a third party, and all fixtures on and improvements to the leased premises used in connection with the production or processing of such leased minerals in order to secure the payment of all royalties or other amounts due or to become due under this lease and to secure payment of any damages or loss that Lessor may suffer by reason of Lessee's breach of any covenant or condition of this lease, whether express or implied. This lien and security interest may be foreclosed with or without court proceedings in the manner provided in the Title 1, Chap. 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this lease forfeited as provided herein.

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

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

36. **ENVIRONMENTAL HAZARDS.** Lessee shall use the highest degree of care and all reasonable safeguards to prevent contamination or pollution of any environmental medium, including soil, surface waters, groundwater, sediments, and surface or subsurface strata, ambient air or any other environmental medium in, on, or under, the leased premises, by any waste, pollutant, or contaminant. Lessee shall not bring or permit to remain on the leased premises any asbestos containing materials, explosives, toxic materials, or substances regulated as hazardous wastes, hazardous materials, hazardous substances (as the term "Hazardous Substance" is defined in the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), 42 U.S.C. Sections 9601, et seq.), or toxic substances under any federal, state, or local law or regulation ("Hazardous Materials"), except ordinary products commonly used in connection with oil and gas exploration and development operations and stored in the usual manner and quantities. **LESSEE'S VIOLATION OF THE FOREGOING PROHIBITION SHALL CONSTITUTE A MATERIAL BREACH AND DEFAULT HEREUNDER AND LESSEE SHALL INDEMNIFY, HOLD HARMLESS AND DEFEND THE STATE OF TEXAS AND THE OWNER OF THE SOIL FROM AND AGAINST ANY CLAIMS, DAMAGES, JUDGMENTS, PENALTIES, LIABILITIES, AND COSTS (INCLUDING REASONABLE ATTORNEYS' FEES AND COURT COSTS) CAUSED BY OR ARISING OUT OF (1) A VIOLATION OF THE FOREGOING PROHIBITION OR (2) THE PRESENCE, RELEASE, OR DISPOSAL OF ANY HAZARDOUS MATERIALS ON, UNDER, OR ABOUT THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OR CONTROL OF THE LEASED PREMISES. LESSEE SHALL CLEAN UP, REMOVE, REMEDY AND REPAIR ANY SOIL OR GROUND WATER**

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CONTAMINATION AND DAMAGE CAUSED BY THE PRESENCE OR RELEASE OF ANY HAZARDOUS MATERIALS IN, ON, UNDER, OR ABOUT THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OF THE LEASED PREMISES IN CONFORMANCE WITH THE REQUIREMENTS OF APPLICABLE LAW. THIS INDEMNIFICATION AND ASSUMPTION SHALL APPLY, BUT IS NOT LIMITED TO, LIABILITY FOR RESPONSE ACTIONS UNDERTAKEN PURSUANT TO CERCLA OR ANY OTHER ENVIRONMENTAL LAW OR REGULATION. LESSEE SHALL IMMEDIATELY GIVE THE STATE OF TEXAS AND THE OWNER OF THE SOIL WRITTEN NOTICE OF ANY BREACH OR SUSPECTED BREACH OF THIS PARAGRAPH, UPON LEARNING OF THE PRESENCE OF ANY HAZARDOUS MATERIALS, OR UPON RECEIVING A NOTICE FROM ANY GOVERNMENTAL AGENCY PERTAINING TO HAZARDOUS MATERIALS WHICH MAY AFFECT THE LEASED PREMISES. THE OBLIGATIONS OF LESSEE HEREUNDER SHALL SURVIVE THE EXPIRATION OR EARLIER TERMINATION, FOR ANY REASON, OF THIS AGREEMENT.

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

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

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

**ADDENDUM PROVISION #40**

*WB* *refer to CONTINUOUS development on Attached Exhibit "A", No. 22*

*WB* **40. CONTINUOUS DEVELOPMENT.** Notwithstanding anything contained herein to the contrary, at the end of the primary term, this lease will terminate as to all lands, except lands included in proration units approved or allowed by the Railroad Commission of the State of Texas for each well from which oil and/or gas is being produced in paying quantities. However, if at the end of the primary term, Lessee has completed a well that will maintain this lease at the end of the primary term or is drilling at least one (1) well on the leased premises, this lease shall continue so long as Lessee begins to drill (with diligence) a well within six (6) months after the end of the primary term, and begins thereafter to drill (with diligence) another well within each six (6) month interval after the primary term. This lease shall continue until Lessee fails to begin to drill (with due diligence), a well during a six (6) months interval after the end of the primary term as provided above, then this lease will terminate as to all lands not included in a minimum size producing proration unit for the maximum allowable permitted by the Railroad Commission of Texas, or as otherwise provided herein, of a well producing in paying quantities, and all depths one hundred feet (100') below the base of the deepest producing horizon or the stratigraphic equivalent thereof as to each producing well. After the primary term, if the production of oil or gas as to any proration unit should cease, this lease shall not terminate as to such proration unit if Lessee commences additional drilling, reworking or other operations within sixty (60) days of cessation to attempt to establish production of oil or gas in paying quantities without cessation of operations of more than sixty (60) days, and in the event production of oil or gas is restored, for so long thereafter as oil and gas is produced from proration unit in paying quantities.

LESSEE: WINNE LAND AND MINERALS, INC.

BY: *[Signature]*

Name: Gilbert L. Winne, Jr.

Title: President

Date: *10/29/2014*

STATE OF TEXAS

BY: *[Signature]*

Windi Grimes, Trustee

AWP 1983 Trust, Agent for the State of Texas

Date: *9/23/14*

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STATE OF TEXAS  
COUNTY OF HARRIS

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Gilbert L. Winne, Jr.  
known to me to be the person whose name is subscribed to the foregoing instruments as President  
of WINNE LAND AND MINERALS, INC. and acknowledged to me that he  
executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the 29<sup>th</sup> day of October, 2014.



Peggy D. Blanchard  
Notary Public in and for the State of Texas

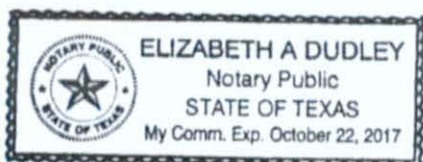
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STATE OF Texas  
COUNTY OF HARRIS

(INDIVIDUAL ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared AWP 1983 Trust by Windi Grimes, Trustee, Agent for the State of Texas  
known to me to be the person whose name is subscribed to the  
foregoing instrument and acknowledged to me that she executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this the 23<sup>rd</sup> day of September, 2014.



Elizabeth A. Dudley  
Notary Public in and for the State of Texas

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Exhibit A to  
Oil and Gas Lease Dated September 10, 2014  
Between  
AWP 1983 Trust by Windi Grimes, Trustee as Lessor and  
Winne Land and Minerals, Inc as Lessee

To the extent any of the following provisions are inconsistent with the provisions contained in the body of the referenced lease (the "Lease"), the provisions of this Exhibit A will control. For purposes of this Addendum, the phrase "leased premises" will be the same as "said land" in the Lease.

1. **Leased Interests.** The Lease covers only oil, gas and associated liquid or liquefiable or gaseous hydrocarbons as may be necessarily and incidentally produced therewith (the "covered minerals"). ~~If it is determined that the leased premises cover more than 320 net mineral acres, Lessee will make an additional bonus payment to Lessor for such acreage.~~ *WGS*

2. **Royalty.** If production from the leased premises is sold to an affiliate of Lessee, Lessor's royalty will not be less than the amount Lessor would have realized had such sale been made at arm's length to a non-affiliated purchaser pursuant to the provisions of Section 4 of the Lease. An affiliate for these purposes is any entity in which Lessee owns directly or indirectly a 10% or greater interest, and any entity which is controlled by or under common control with Lessee. Upon written request, Lessee will provide Lessor with a copy of any contract entered into by Lessee for sales of covered minerals from the leased premises. Lessor agrees not to disclose the terms of these contracts to any person, other than its counsel and consultants, without the prior written consent of Lessee.

3. **Reports.** The reports and other information Lessee is required to provide to the Texas General Land Office from time to time under Section 10 of the Lease shall also be furnished to Lessor at the same time as provided to the General Land Office.

4. **Pooling.** Upon written request, Lessee will provide Lessor with a file-marked copy of any declaration of pooled unit which includes any portion of the leased premises.

5. **Continuous Operations.** For purposes of Lessor verifying compliance with the continuous operations provisions after the end of the primary term of the Lease, Lessee agrees that it will provide Lessor, within 30 days after receipt of Lessor's written request for same, copies of daily drilling reports or other Lessee created reports that describe the time and nature of operations on the leased premises or on lands pooled therewith. Lessor agrees not to disclose the information to any person, other than its counsel and consultants, without the prior written consent of Lessee. For purposes of this lease drilling operations will have been commenced at such time as lessee has surveyed a location for the drill site, obtained a drilling permit from the Texas Railroad Commission, and started actual on the ground work in preparing the drill site. After a well is commenced, drilling operations must continue with diligence and in a good and workmanlike manner in a good faith effort to reach the anticipated total depth. A well will be deemed to have been completed on the date of the release of the completion rig from the drillsite.

6. **No Warranty as to Title.** The Lease is granted without warranty, express or implied, in law or in equity; provided that, Lessee at its option, may discharge any tax, mortgage, or other lien upon said leased premises, either in whole or in part, and if Lessee does so, it will have the right to apply rentals and royalties accruing hereunder towards satisfying the same.

7. **Water.** The Lease grants no surface or subsurface water rights to Lessee. If Lessee intends to drill a well for water, Lessee shall give Lessor 30 days prior written notice and accompany the notice with an explanation of what specific steps Lessee will implement to protect all fresh water zones that will be encountered in the drilling of the well. After such

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notice, Lessor and Lessee agree to reasonably negotiate additional requirements that Lessor may request for protecting the fresh water zones and compensating Lessor for the water pumped from the well.

8. **Rates and Damages Schedule.** The damages payable by Lessee for the use of the leased premises shall be the minimum Rate and Damage Schedule published from time to time by the University of Texas System - University Lands. Damages will be paid one-half (1/2) to the State of Texas - General Land Office and one-half (1/2) to Lessor, except amounts payable for damages to improvements on the surface will be payable to Lessor.

9. **Surface and Subsurface Use.** No rights are granted to Lessee to use the surface or subsurface of the leased premises for any activities or facilities not directly related to finding, producing, storing, marketing, and transporting oil, gas and related substances from the leased premises and lands pooled with the leased premises. All activities of Lessee on the surface shall be conducted in a manner that preserves existing water drainage grades and systems.

10. **Removal of Equipment and Facilities; Plugging of Wells.**

(a) Upon the partial or complete termination of the Lease, Lessee, within 90 days of said termination, shall commence the removal of all casing, pipes, equipment, and fixtures from the surface of the leased premises no longer subject to the Lease, as well as all underground pipelines and gathering lines, and shall proceed with due diligence to complete said removal within 180 days after lease termination. If Lessee fails to comply with these requirements within 180 days after the lease termination, Lessee shall be liable to Lessor for the cost of removing the remaining materials from the leased premises.

(b) Within 90 days after the completion of any drilling, fracing, or re-working operations on the leased premises and after the abandonment of any producing well on the leased premises (which abandonment will be evidenced by a lack of production from the well for a period of 60 consecutive days without re-working, re-completion, or other substantive operations having been conducted within such time), Lessee shall remove and deposit off the leased premises the contents of all pits, remove all pits, fill, and level all excavations to one foot above the surrounding ground, thoroughly clean the leased premises of all debris and trash, level all dumps and mounds, neutralize all acids, remove all roads (except as directed by Lessor), and replace topsoil on the surface of the land in the same condition as it was prior to the commencement of such operations to the extent reasonably practical. Lessee shall at all times keep all work areas neat and orderly, and shall not deposit any materials or objects on the ground that may be harmful to livestock or growing crops.

(c) Upon abandonment of a well, regardless whether immediately after the drilling of a dry hole or after production from said well has ceased, Lessee must plug and abandon the well in compliance with all applicable federal and state laws, rules, and regulations in order to fully protect and preserve all groundwater sands that are present within the leased premises. The plugging and abandonment of a well shall be completed within 180 days after the drilling of a dry hole or abandonment.

11. **Pipelines; Electrical Lines.** In connection therewith, all rocks unearthed in digging the pipeline shall, at Lessor's direction and Lessee's expense, be disposed of off-premises by Lessee, buried in the pipeline trench, or moved by Lessee to a location upon the leased premises satisfactory to Lessor. Lessee shall be required to maintain the pipeline right-of-way in order to prevent or correct sinkage, settlement, and erosion of the soil caused by pipelines. Lessee shall pay Lessor for specific damages caused by Lessee to the land, livestock, growing crops and grasses, crops ready to harvest, land prepared for planting, and land seeded for crops during such pipeline installations (or removals). Upon completion of each pipeline installation, Lessee shall restore the surface above the pipeline to its previous condition as nearly as practicable.

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12. **Disposal and Injection Wells.** Lessor's prior written consent, which may be withheld in Lessor's sole discretion, shall be required for the drilling of a well, or for the completion of a previously drilled well, on the leased premises for the disposal and/or injection of liquids.

13. **Livestock Damages.** Lessee will be responsible to Lessor for loss or damage to Lessor's livestock if such loss or damage is a result of Lessee's operations.

14. **Drilling and Operating Practices of Lessee.** All wells drilled by Lessee on the leased premises shall be drilled, completed, and equipped for production, or plugged and abandoned, in a workmanlike manner and in accordance with recognized and approved oil field practice, and shall be operated in accordance with recognized and approved oil field practice. Lessee shall conform to all applicable federal and state laws, rules, and regulations pertaining thereto, all as would a reasonably prudent operator.

15. **Indemnification and Hold Harmless.** If, as a result of activities or omissions of Lessee, or its agents, servants, employees, or subcontractors, damages or other remedial action is sought by a governmental agency or by others against Lessor, Lessee shall have the obligation to defend, indemnify, and hold harmless Lessor from any and all fines, costs, obligations, attorney fees, expenses, or legal proceedings in courts of law or otherwise at Lessee's cost and shall be obligated to pay any and all damages and claims or perform any remedial actions assessed against Lessor. Lessee agrees to indemnify, hold harmless, and defend Lessor against any and all claims, demands, or suits for bodily injury, death, property damage, or loss of any kind by Lessee, Lessee's employees, agents, subcontractors and their employees or agents and by any third parties that arise out of, result from, or are related to Lessee's operations. The provisions of this paragraph will be binding between the parties and their successors.

16. **Pollution Control and Indemnification.** Lessee covenants and agrees that it will in no way undertake any action or practice that will cause pollution to the leased premises or adjacent land, underground aquifer, free-flowing streams, run-off areas, and/or lakes. Lessee agrees to defend, indemnify, and hold harmless Lessor from any action, claim, penalty, and fine imposed on or expense incurred by Lessor as a result of the practices of Lessee. Lessee further covenants and agrees that it will remove all fluids, contaminated soils, and materials from the leased premises expeditiously upon completion or abandonment of a well and will comply with any and all directives of the Environment Protection Agency, state regulatory agencies, underground water district, lake authority and/or county regulations with regard to the disposition of same. Furthermore, Lessee agrees that it will remain liable for, and defend Lessor against, any and all claims for "clean up" around all well sites by any governmental agency, regulatory body, or party should the same be imposed as a result of the action of Lessee, regardless whether such claim is made during the term of the Lease or after the Lease terminates. Lessor agrees to notify Lessee in writing of any legal or administrative proceeding initiated against Lessor within ten (10) days of Lessor's notification of such action in connection with such contamination or required remediation. The obligations in this paragraph shall survive the termination of the Lease.

17. **Strict Liability for Damages.** Lessee shall be strictly liable and shall promptly pay for, and defend Lessor against, any and all damages caused by or resulting from any of Lessee's operations or activities on the leased premises or in connection with the Lease including items owned by Lessor, tenants of Lessor, surface owners other than Lessor, or others. Lessee shall likewise be strictly liable for any and all contamination of surface soil and water or subsurface water.

18. **Release.** Upon Lessor's written request after the termination of the Lease as to all or any portion of the leased premises, Lessee agrees to sign and record a release of the acreage in question and to provide Lessor with a copy of the file-marked release.

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19. **Attorney's Fees.** Lessee shall pay to Lessor all reasonable attorney's fees and costs incurred by Lessor in connection with any legal proceedings brought to enforce compliance with and/or collect damages for a breach or violation of any of Lessee's agreements and obligations hereunder, whether expressed or implied, in the event Lessor prevails in such proceedings.

20. **Seismic Operations.** Lessee will have the right to conduct seismic operations on the leased premises only on such terms as are mutually agreed upon by Lessee and Lessor which shall not be unreasonably withheld or delayed by Lessor.

21. Delay Rentals for years two (2) and three (3) of this lease have been prepaid as part of the total bonus consideration for the first three years of this lease. One-half (1/2) of the initial bonus consideration has been paid to the Lessor and one-half (1/2) has been paid to the State of Texas. <sup>4/8</sup> The Delay Rental for the fourth year of the primary term of the lease in the amount of ~~\$163,333.10~~ has not been paid. On or before the anniversary date of the third year of the lease, Lessee shall pay Lessor one-half of the fourth year delay rental and one-half of delay rental to the State of Texas. The Delay Rental for the fifth year of the primary term is included with the fourth year delay rental payment; therefore, no delay rental is required for the fifth year.

22. **Continuous Development.** Notwithstanding anything contained herein to the contrary, at the end of the primary term, this lease will terminate as to all lands, except lands included in proration units approved or allowed by the Railroad Commission of the State of Texas for each well from which oil and/or gas is being produced in paying quantities. However, if at the end of the primary term, Lessee has completed a well that will maintain this lease at the end of the primary term or is drilling at least one (1) well on the leased premises, this lease shall continue so long as Lessee begins to drill (with diligence) a well within six (6) months after the end of the primary term, and begins thereafter to drill (with diligence) another well within each six (6) month interval after the primary term. This lease shall continue until Lessee fails to begin to drill (with due diligence), a well during a six (6) months interval after the end of the primary term as provided above, then this lease will terminate as to all lands not included in a minimum size producing proration unit for the maximum allowable permitted by the Railroad Commission of Texas, or as otherwise provided herein, of a well producing in paying quantities, and all depths one hundred feet (100') below the base of the deepest producing perforation for a vertical well and two hundred feet (200') below the deepest producing perforation for a horizontal well thereof as to each producing well. After the primary term, if the production of oil or gas as to any proration unit should cease, this lease shall not terminate as to such proration unit if Lessee commences additional drilling, reworking or other operations within sixty (60) days of cessation to attempt to establish production of oil or gas in paying quantities without cessation of operations of more than sixty (60) days, and in the event production of oil or gas is restored, for so long thereafter as oil and gas is produced from proration unit in paying quantities.

23. **Headings.** All paragraph headings contained in the Lease are for reference purposes only, and in no way expand, limit or in any way affect the rights of the parties hereunder.

LESSOR

AWP 1983 Trust

By: Windi Grimes

Name: Windi Grimes

Title: Trustee, Agent for State of Texas

LESSEE

Winne Land and Minerals, Inc.

By: Gilbert Winne, Jr.

Name: Gilbert Winne, Jr.

Title: President

Exhibit A - Page 4 of 4

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Inst No. 15-01083  
DIANNE O. FLOREZ  
COUNTY CLERK  
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REEVES COUNTY, TEXAS  
By: DR Diana Rodriguez DEPUTY

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File No. 116980  
Lease C County  
Date Filed: 08/17/15  
By: George P. Bush, Commissioner

CERTIFICATE OF RECORD

THE STATE OF TEXAS, }  
COUNTY OF REEVES. }

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

Date Filed 2/4/16 File # 15-01083 Vol 143 Page 77



DIANNE O. FLOREZ, COUNTY CLERK  
REEVES COUNTY, TEXAS

By: K. G. Martinez Deputy