

MF117344

EXPIRED

DATE 8/22/2017
 LEASING [Signature]
 MAPS [Signature]
 GIS KW

Lease Type
 RAL

Control
 07-105349

Basefile
 149363

County
 REEVES

Survey
 Public School Land

Block
 59

Block Name

Township

Section/Tract
 1

Land Part
 E/100 ac SE/4

Acres
 Net: 100.000000 Gross: 100.000000

Depth Below
 Depth Above Depth Other

Name
 SILVERBACK EXPLORATION LLC

Lease Date
 8/22/2014

Primary Term
 3 years

Bonus
 \$175,000.00

Lease Royalty
 0.12500000

Paid Up
 Yes

Leasing: [Signature]
 Maps: [Signature]
 GIS: MC
 Scanlab: _____

**CAUTION**

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

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

Thank you for your assistance.

Archives and Records Staff



Contents of Mineral File Number: 117344

1. RAL Review Sheet	12-17-14	Scanned	KW	9.8.2021
2. Bonuses and Fees	12-9-14			
3. Lease A	2-16-15			
4. Lease B	2-16-15			
5. Lease C	2-16-15			
6. Lease D	2-16-15			
7. Final Letter	6-17-15			
Scanned SM 9/8/15				
8. Release - C	08/01/17			
9. Lease E	08/01/17			
10. Bonus, fee, ltr - E	07/18/17			
Scanned PJ 8-21-2017				
(See MF116869 #9, Assign #10373				
Centennial (to) Atlantic 8-29-17				
(See MF111869 #36, Assn 10374				
Atlantic (to) No Reever 9-7-17				
Scanned KW 9.19.2017				
11. Release - A	09/19/17			
Scanned KW 9.22.2017				
See MF111869 #42, Assn #10471				
Atlantic (to) No Reever 11-30-17				
Scanned PJ 12-4-2017				
12. Assign #10475, Assign #10475				
Atlantic (to) No Reever 12-6-17				
Scanned PJ 12-7-2017				
(See MF117086 #6, Assign #10520				
Atlantic (to) No Reever 1-25-18				
Scanned PJ 1-30-2018				

RAL REVIEW SHEET

Working File #: RAL147121

MF:

Lessor: Sigmar, Inc.

Lease Date: 09/22/2014

UI: Yes

Lessee: SILVERback Exploration LLC

Gross Acres: 100.00

Net Acres: 100.00

LEASE DESCRIPTION

County	Control #	Base File No	Part	Sec	Block Twp	Survey	Abst No
Reeves	07-105349	149363	E/100 ac SE/4	1	59	Public School Land	5442

TERMS OFFERED

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

TERMS RECOMMENDED

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

COMPARISONS

Lease No	Lessee	Lease Date	Primary Term	Bonus/Acre	Rental/Acre	Royalty	Distance
Pending	Bellomy Group LLC	10/09/2014	3 yr	\$3,250.00	\$0.00 0.00	0.250000	0.000000

Comments:

paid up

Approved:

DR 12.17.14

R ...QUISHMENT 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: SILVERback Exploration LLC

County: Reeves

Prim. Term: 3 Years

Bonus/Acre: \$3,500.00

Royalty: 0.25000000

Rental/Acre 2nd Yr: \$0.00

3rd Yr: \$0.00

4th Yr: \$0.00

5th Yr: \$0.00

Consideration

Recommended: RJA

Date: 8/15/14

Not Recommended: _____

Comments: paid up

Lease Form

Recommended: RJA

Date: 8/15/14

Not Recommended: _____

Comments: _____

Louis Renaud, Deputy Commissioner

Recommended: CLR

Date: 8.15.14

Not Recommended: _____

Bill Warnick, General Counsel

Recommended: BFW

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: _____

1.
File No. MF 117344
RAL Review sheet

Date Filed: 12-17-14

Jerry E. Patterson, Commissioner

By JK

E & G ENERGY, INC.
DRAFT ACCOUNT
4925 GREENVILLE AVE STE 825
DALLAS, TX 75206
(214) 360-0360



15705085

3791

12/3/2014

PAY TO THE
ORDER OF Commissioner of General Land Office

\$**51,041.67

Fifty-One Thousand Forty-One and 67/100***** DOLLARS

Texas General Land Office
1700 N. Congress Ave., Room 600
Austin, TX 78701-1495

AUTHORIZED SIGNATURE

MEMO

1/2 Bonus Consideration for Agent: LAJ Corporation

⑈003791⑈

E & G ENERGY, INC.
DRAFT ACCOUNT

3791

Commissioner of General Land Office

Date	Type	Reference	Original Amt.	Balance Due	12/3/2014 Discount	Payment
9/9/2014	Bill	LAJ Corporation	51,041.67	51,041.67		51,041.67
					Check Amount	51,041.67

121

15705085

E&G - Draft Account 1/2 Bonus Consideration for Agent: LAJ Corpora

51,041.67

E & G ENERGY, INC.
DRAFT ACCOUNT

3791

Commissioner of General Land Office

Date	Type	Reference	Original Amt.	Balance Due	12/3/2014 Discount	Payment
9/9/2014	Bill	LAJ Corporation	51,041.67	51,041.67		51,041.67
					Check Amount	51,041.67

MF 117344

E&G - Draft Account 1/2 Bonus Consideration for Agent: LAJ Corpora

51,041.67

E & G ENERGY, INC.
DRAFT ACCOUNT
4925 GREENVILLE AVE STE 825
DALLAS, TX 75206
(214) 360-0360

Coppermark
BANK
(409) 467-0302 • 1-800-481-4122

15705086

3799

12/3/2014

PAY TO THE
ORDER OF Commissioner of General Land Office

\$ **51,041.67

Fifty-One Thousand Forty-One and 67/100***** DOLLARS

Texas General Land Office
1700 N. Congress Ave., Room 600
Austin, TX 78701-1495


AUTHORIZED SIGNATURE

MEMO

1/2 Bonus Consideration - Sigmar, Inc., Agent

⑈003799⑈

E & G ENERGY, INC.
DRAFT ACCOUNT

3799

Commissioner of General Land Office

Date	Type	Reference	Original Amt.	Balance Due	12/3/2014 Discount	Payment
9/25/2014	Bill	Sigmar	51,041.67	51,041.67		51,041.67
					Check Amount	51,041.67

15705086

121

E&G - Draft Account 1/2 Bonus Consideration - Sigmar, Inc., Agent

X 51,041.67

E & G ENERGY, INC.
DRAFT ACCOUNT

3799

Commissioner of General Land Office

Date	Type	Reference	Original Amt.	Balance Due	12/3/2014 Discount	Payment
9/25/2014	Bill	Sigmar	51,041.67	51,041.67		51,041.67
					Check Amount	51,041.67

E&G - Draft Account 1/2 Bonus Consideration - Sigmar, Inc., Agent

51,041.67

E & G ENERGY, INC.

DRAFT ACCOUNT
 4925 GREENVILLE AVE STE 825
 DALLAS, TX 75206
 (214) 360-0360

Coppermark
 BANK
(409) 487-0302 • 1-800-481-4122

15705088

12/3/2014

PAY TO THE ORDER OF Commissioner of General Land Office

\$ **43,750.00

Forty-Three Thousand Seven Hundred Fifty and 00/100*****

DOLLARS

Texas General Land Office
 1700 N. Congress Ave., Room 600
 Austin, TX 78701-1495

[Signature]
 AUTHORIZED SIGNATURE

MEMO

1/2 Bonus Consideration for Agent: Blake Oil & Gas

⑈003795⑈

E & G ENERGY, INC.
DRAFT ACCOUNT

3795

Commissioner of General Land Office

Date	Type	Reference	Original Amt.	Balance Due	12/3/2014 Discount	Payment
9/9/2014	Bill	Blake Oil & Gas	43,750.00	43,750.00		43,750.00
					Check Amount	43,750.00

15705088

121

E&G - Draft Account 1/2 Bonus-Consideration for Agent: Blake Oil &

X 43,750.00

E & G ENERGY, INC.
DRAFT ACCOUNT

3795

Commissioner of General Land Office

Date	Type	Reference	Original Amt.	Balance Due	12/3/2014 Discount	Payment
9/9/2014	Bill	Blake Oil & Gas	43,750.00	43,750.00		43,750.00
					Check Amount	43,750.00

E&G - Draft Account 1/2 Bonus Consideration for Agent: Blake Oil &

43,750.00

E & G ENERGY, INC.

DRAFT ACCOUNT
 4925 GREENVILLE AVE STE 825
 DALLAS, TX 75206
 (214) 360-0360

Coppermark
 BANK
(409) 467-0302 • 1-800-461-4122

15705087

12/3/2014

PAY TO THE
 ORDER OF Commissioner of General Land Office

\$ **29,166.67

Twenty-Nine Thousand One Hundred Sixty-Six and 67/100*****

DOLLARS

Texas General Land Office
 1700 N. Congress Ave., Room 600
 Austin, TX 78701-1495

[Signature]
 AUTHORIZED SIGNATURE

MEMO

1/2 Bonus Consideration - Judson Operations, Ltd.,

⑈003803⑈

E & G ENERGY, INC.**DRAFT ACCOUNT**

Commissioner of General Land Office

3803

Date	Type	Reference	Original Amt.	Balance Due	12/3/2014 Discount	Payment
10/7/2014	Bill	Judson 50 ac	29,166.67	29,166.67		29,166.67
					Check Amount	29,166.67

121
 15705087

E&G - Draft Account 1/2 Bonus Consideration - Judson Operations, Lt

29,166.67

E & G ENERGY, INC.**DRAFT ACCOUNT**

Commissioner of General Land Office

3803

Date	Type	Reference	Original Amt.	Balance Due	12/3/2014 Discount	Payment
10/7/2014	Bill	Judson 50 ac	29,166.67	29,166.67		29,166.67
					Check Amount	29,166.67

E&G - Draft Account 1/2 Bonus Consideration - Judson Operations, Lt

29,166.67

E & G ENERGY, INC.
DRAFT ACCOUNT
4925 GREENVILLE AVE STE 825
DALLAS, TX 75206
(214) 360-0360



15705084

12/3/2014

PAY TO THE ORDER OF Commissioner of General Land Office

\$**100.00

One Hundred and 00/100***** DOLLARS

Texas General Land Office
1700 N. Congress Ave., Room 600
Austin, TX 78701-1495

[Signature]
AUTHORIZED SIGNATURE

MEMO
\$100.00 Processing Fee for 100 Acre Tract

⑈003792⑈ [Redacted]

Security features. Details on back.

E & G ENERGY, INC.
DRAFT ACCOUNT

3792

Commissioner of General Land Office

Date	Type	Reference	Original Amt.	Balance Due	12/3/2014 Discount	Payment
9/9/2014	Bill	LAJ Corp 100 ac	100.00	100.00		100.00
Check Amount						100.00

X

1215705084

E&G - Draft Account \$100.00 Processing Fee for 100 Acre Tract 100.00

E & G ENERGY, INC.
DRAFT ACCOUNT

3792

Commissioner of General Land Office

Date	Type	Reference	Original Amt.	Balance Due	12/3/2014 Discount	Payment
9/9/2014	Bill	LAJ Corp 100 ac	100.00	100.00		100.00
Check Amount						100.00



E&G - Draft Account \$100.00 Processing Fee for 100 Acre Tract 100.00

15709088 3807

E & G ENERGY, INC.
DRAFT ACCOUNT
4925 GREENVILLE AVE STE 825
DALLAS, TX 75206
(214) 360-0360



3/3/2015

PAY TO THE ORDER OF Commissioner of General Land Office

\$ **25.00

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

Texas General Land Office
1700 N. Congress Ave., Room 600
Austin, TX 78701-1495

AUTHORIZED SIGNATURE

MEMO
640 ac.
\$25.00 Filing Fee for Agent: Judson Operations, Ltd.

⑈003807⑈

E & G ENERGY, INC.
DRAFT ACCOUNT

3807

Commissioner of General Land Office

Date	Type	Reference	Original Amt.	Balance Due	3/3/2015 Discount	Payment
8/18/2014	Bill	Judson Operations	25.00	25.00		25.00
		640 ac			Check Amount	25.00

121
15709088

E&G - Draft Account \$25.00 Filing Fee for Agent: Judson Operations, 25.00

E & G ENERGY, INC.
DRAFT ACCOUNT

3807

Commissioner of General Land Office

Date	Type	Reference	Original Amt.	Balance Due	3/3/2015 Discount	Payment
8/18/2014	Bill	Judson Operations	25.00	25.00		25.00
		640 ac			Check Amount	25.00

E&G - Draft Account \$25.00 Filing Fee for Agent: Judson Operations, 25.00

E & G ENERGY, INC.
DRAFT ACCOUNT
4925 GREENVILLE AVE STE 825
DALLAS, TX 75206
(214) 360-0360

Coppermark
BANK
(409) 882-0303 • 1-800-481-4122

15709087 3853

3/3/2015

PAY TO THE ORDER OF Commissioner of General Land Office

\$ **25.00

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

DOLLARS

Texas General Land Office
1700 N. Congress Ave., Room 600
Austin, TX 78701-1495


AUTHORIZED SIGNATURE

MEMO

\$25.00 Filing Fee for Agent: Judson Operations, Ltd.

⑈003853⑈

E & G ENERGY, INC.
DRAFT ACCOUNT

Commissioner of General Land Office

3853

Date	Type	Reference	Original Amt.	Balance Due	3/3/2015 Discount	Payment
10/7/2014	Bill	Judson 100 ac	25.00	25.00		25.00
					Check Amount	25.00

⑈003853⑈

121
15709087

E&G - Draft Account \$25.00 Filing Fee for Agent: Judson Operations, 25.00

E & G ENERGY, INC.
DRAFT ACCOUNT

Commissioner of General Land Office

3853

Date	Type	Reference	Original Amt.	Balance Due	3/3/2015 Discount	Payment
10/7/2014	Bill	Judson 100 ac	25.00	25.00		25.00
					Check Amount	25.00

E&G - Draft Account \$25.00 Filing Fee for Agent: Judson Operations, 25.00

E & G ENERGY, INC.
DRAFT ACCOUNT
4925 GREENVILLE AVE STE 825
DALLAS, TX 75206
(214) 360-0360

Coppermark
BANK
(800) 662-0077 • 1-800-481-4122

15709086

3855

3/3/2015

PAY TO THE ORDER OF Commissioner of General Land Office

\$ **25.00

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

DOLLARS

Texas General Land Office
1700 N. Congress Ave., Room 600
Austin, TX 78701-1495


AUTHORIZED SIGNATURE

MEMO \$25.00 Filing Fee for Agent: Judson Operations, Ltd.

⑈003855⑈

E & G ENERGY, INC.
DRAFT ACCOUNT

Commissioner of General Land Office

Date	Type	Reference	Original Amt.	Balance Due	3/3/2015 Discount	Payment
10/7/2014	Bill	Judson 80 ac	25.00	25.00		25.00
					Check Amount	25.00

E&G - Draft Account \$25.00 Filing Fee for Agent: Judson Operations,

25.00

E & G ENERGY, INC.
DRAFT ACCOUNT

Commissioner of General Land Office

Date	Type	Reference	Original Amt.	Balance Due	3/3/2015 Discount	Payment
10/7/2014	Bill	Judson 80 ac	25.00	25.00		25.00
					Check Amount	25.00

E&G - Draft Account \$25.00 Filing Fee for Agent: Judson Operations,

25.00

E & G ENERGY, INC.
DRAFT ACCOUNT
4925 GREENVILLE AVE STE 825
DALLAS, TX 75206
(214) 360-0360

Coppermark
BANK
(409) 467-0302 • 1-800-461-4122

15709085

3856

3/3/2015

PAY TO THE
ORDER OF Commissioner of General Land Office

\$ **25.00

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

Texas General Land Office
1700 N. Congress Ave., Room 600
Austin, TX 78701-1495

[Signature]
AUTHORIZED SIGNATURE

MEMO

\$25.00 Filing Fee for Agent: Judson Operations, Ltd.

⑈003856⑈

E & G ENERGY, INC.
DRAFT ACCOUNT

3856

Commissioner of General Land Office

Date	Type	Reference	Original Amt.	Balance Due	3/3/2015 Discount	Payment
10/7/2014	Bill	Judson 160 ac	25.00	25.00		25.00
					Check Amount	25.00



15709085
12/85

E&G - Draft Account \$25.00 Filing Fee for Agent: Judson Operations,

X 25.00

E & G ENERGY, INC.
DRAFT ACCOUNT

3856

Commissioner of General Land Office

Date	Type	Reference	Original Amt.	Balance Due	3/3/2015 Discount	Payment
10/7/2014	Bill	Judson 160 ac	25.00	25.00		25.00
					Check Amount	25.00

E&G - Draft Account \$25.00 Filing Fee for Agent: Judson Operations,

25.00

E&G Energy, Inc.

Oil & Gas Properties

One Energy Square
4925 Greenville Avenue
Suite 825
Dallas, Texas 75206

Phone 214-360-0360
Fax 214-360-0302

March 13, 2015

Drew Reid
Mineral Leasing Division
Texas General Land Office
1700 North Congress Avenue, Rm 600
Austin, Texas 78701

Via FedEx # 7731 2504 5500

RE: **Multiple Oil & Gas Leases
Reeves County, Texas**

Dear Mr. Reid:

On December 5, 2014 I mailed you the following lease packages but had failed to have them filed of record in Reeves County prior to sending. Therefore, you had phoned me that I need to have them filed and return a Certified Copy along with the \$25.00 filing fee per lease. You retained the other documents (Mineral Ownership Report & Plat) and returned the leases to me for recording. Please see enclosed Certified Copies of the following leases with the \$25.00 fee attached to each lease. Please match them accordingly with the documents that you retained.

Lessor	Gross Ac	Net Ac	Description	Bonus Consideration	Processing Fee	Filing Fee (Enclosed)
State of Texas, acting by and through its agent, Blake Oil & Gas Corporation	40.00	40.00	NE/4 NE/4 of Section 32, Blk 59, Public School Land Survey, A-5949	\$70,000.00 Paid 12/05/2014	\$100.00 Paid 12/05/2014	\$25.00
State of Texas, acting by and through its agent, Blake Oil & Gas Corporation	100.00	25.00	East 100 acres, <u>Section 1</u> , Blk 59, Public School Lands Survey	\$43,750.00 Paid 12/05/2014	\$100.00 Paid 12/05/2014	\$25.00
State of Texas, acting by and through its agent, Blake Oil & Gas Corporation	80.000	20.00	E/2NE/4 of Section 12, Blk 59, Public School Land Survey, A-5949	\$35,000.00 Paid 12/05/2014	\$100.00 Paid 12/05/2014	\$25.00
State of Texas, acting by and through its agent, Blake Oil & Gas Corporation	160.00	40.000	E/2NE/4, E/2SW/4 of Section 13, Blk 59, Public School Land Survey, A-5949	\$70,000.00 Paid 12/05/2014	\$100.00 Paid 12/05/2014	\$25.00
State of Texas, acting by and through its agent, Blake Oil & Gas Corporation	640.00	160.00	Section 26, A-5046, Block C-17, Public School Lands	\$280,000.00 Paid 12/05/2014	\$100.00 Paid 12/05/2014	\$25.00
State of Texas, acting by and through its agent, Judson Operations, LTD	100.000	16.6666667	East 100 acres, <u>Section 1</u> , Blk 59, Public School Lands Survey	\$29,166.67 Paid 12/05/2014	\$100.00 Paid 12/05/2014	\$25.00
State of Texas, acting by and through its agent, Judson Operations, LTD	80.000	13.333333	E/2NE/4 of Section 12, Blk 59, Public School Land Survey, A-5949	\$23,333.33 Paid 12/05/2014	\$100.00 Paid 12/05/2014	\$25.00
State of Texas, acting by and through its agent, Judson Operations, LTD	160.00	26.666667	E/2NE/4, E/2SW/4 of Section 13, Blk 59, Public School Land Survey, A-5949	\$46,666.66 Paid 12/05/2014	\$100.00 Paid 12/05/2014	\$25.00
State of Texas, acting by and through its agent, Judson Operations, LTD	640.00	106.6667	Section 26, A-5046, Block C-17, Public School Lands	\$186,668.16 Paid 12/05/2014	\$100.00 Paid 12/05/2014	\$25.00
State of Texas, acting by and through its agent, LAJ Corporation	100.00	29.1667	East 100 acres, <u>Section 1</u> , Blk 59, Public School Lands Survey	\$51,041.67 Paid 12/05/2014	\$100.00 Paid 12/05/2014	\$25.00
State of Texas, acting by and through its agent, LAJ Corporation	80.000	23.3333	E/2 NE/4 of Section 12, A-5942, Block 59, Public School Lands Survey	\$81,666.67 Paid 12/05/2014	\$100.00 Paid 12/05/2014	\$25.00

State of Texas, acting by and through its agent, LAJ Corporation	160.00	46.6667	E/2NE/4, E/2SW/4 of Section 13, Blk 59, Public School Land Survey, A-5949	\$81,666.67 Paid 12/05/2014	\$100.00 Paid 12/05/2014	\$25.00
State of Texas, acting by and through its agent, LAJ Corporation	640.00	186.66624	Section 26, A-5046, Block C-17, Public School Lands	\$326,665.92 Paid 12/05/2014	\$100.00 Paid 12/05/2014	\$25.00
State of Texas, acting by and through its agent, Sigmar, Inc.	100.000	29.1667	East 100 acres, <u>Section 1</u> , Blk 59, Public School Lands Survey	\$51,041.67 Paid 12/05/2014	\$100.00 Paid 12/05/2014	\$25.00
State of Texas, acting by and through its agent, Sigmar, Inc.	80.000	23.3333	E/2NE/4, of Section 12, Blk 59, Public School Land Survey, A-5949	\$81,666.67 Paid 12/05/2014	\$100.00 Paid 12/05/2014	\$25.00
State of Texas, acting by and through its agent, Sigmar, Inc.	160.00	46.666	E/2NE/4, E/2SW/4 of Section 13, Blk 59, Public School Land Survey, A-5949	\$81,666.67 Paid 12/05/2014	\$100.00 Paid 12/05/2014	\$25.00
State of Texas, acting by and through its agent, Sigmar, Inc.	640.00	186.66624	Section 26, A-5046, Block C-17, Public School Lands	\$326,665.92 Paid 12/05/2014	\$100.00 Paid 12/05/2014	\$25.00

Should you have any questions or require additional information, please do not hesitate to call me at (817)517-9522 or Rick Everett at (214)360-0360.

Sincerely,



Karen Milam

Enclosures

E & G Energy, Inc.
Oil & Gas Properties

One Energy Square
4925 Greenville Avenue
Suite 825
Dallas, Texas 75206

Phone 214-360-0360
Fax 214-360-0302

December 5, 2014

Drew Reid
Mineral Leasing Division
Texas General Land Office
1700 North Congress Avenue, Rm 600
Austin, Texas 78701

Via FedEx # 7721 1891 3166

RE: **LAJ Corporation Lease**
Reeves County, Texas

Dear Mr. Reid:

We transmit herewith the following lease package including the pertinent documents listed below:

Lessor	Gross Ac.	Net Ac.	Description
State of Texas, acting by and through its agent, LAJ Corporation	100.00	29.1667	East 100 acres, Section 1, Blk 59, Public School Lands Survey

- a) **Original** Paid Up Oil & Gas Lease (to be signed and returned)
- b) Mineral Ownership Report(s)
- c) Plat(s)
- d) Check # 3791 in the amount of \$51,041.67 for Bonus Consideration
- e) Check #3792 for \$100.00 Processing Fee
- f) Return FedEx Airbill #7901 0097 2600

Please execute the enclosed Lease and return to the undersigned for further handling. I have enclosed a FedEx return label for your convenience. Should you have any questions or require additional information, please do not hesitate to call.

Sincerely,


Karen Milam

Enclosures

E & G Energy, Inc.
Oil & Gas Properties

One Energy Square
4925 Greenville Avenue
Suite 825
Dallas, Texas 75206

Phone 214-360-0360
Fax 214-360-0302

December 5, 2014

Drew Reid
Mineral Leasing Division
Texas General Land Office
1700 North Congress Avenue, Rm 600
Austin, Texas 78701

Via FedEx # 7721 1891 3166

RE: **Sigmar, Inc. Lease**
Reeves County, Texas

Dear Mr. Reid:

We transmit herewith the following lease package including the pertinent documents listed below:

Lessor	Gross Ac.	Net Ac.	Description
State of Texas, acting by and through its agent, Sigmar, Inc.	100.000	29.1667	East 100 acres, Section 1, Blk 59, Public School Lands Survey

- a) **Original** Paid Up Oil & Gas Lease (to be signed and returned)
- b) Mineral Ownership Report(s)
- c) Plat(s)
- d) Check # 3799 in the amount of \$51,041.67 for Bonus Consideration
- e) Check #3792 for \$100.00 Processing Fee
- f) Return FedEx Airbill #7901 0097 2600

Please execute the enclosed Lease and return to the undersigned for further handling. I have enclosed a FedEx return label for your convenience. Should you have any questions or require additional information, please do not hesitate to call.

Sincerely,


Karen Milam

Enclosures

E&G Energy, Inc.
Oil & Gas Properties

One Energy Square
4925 Greenville Avenue
Suite 825
Dallas, Texas 75206

Phone 214-360-0360
Fax 214-360-0302

December 5, 2014

Drew Reid
Mineral Leasing Division
Texas General Land Office
1700 North Congress Avenue, Rm 600
Austin, Texas 78701

Via FedEx # 7721 1891 3166

RE: **Blake Oil & Gas Corporation Lease**
Reeves County, Texas

Dear Mr. Reid:

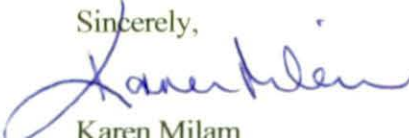
We transmit herewith the following lease package including the pertinent documents listed below:

Lessor	Gross Ac.	Net Ac.	Description
State of Texas, acting by and through its agent, Blake Oil & Gas Corporation	100.00	25.00	East 100 acres, Section 1, Blk 59, Public School Lands Survey

- a) **Original** Paid Up Oil & Gas Lease (to be signed and returned)
- b) Mineral Ownership Report(s)
- c) Plat(s)
- d) Check # 3795 in the amount of \$43,750.00 for Bonus Consideration
- e) Check #3792 for \$100.00 Processing Fee
- f) Return FedEx Airbill #7901 0097 2600

Please execute the enclosed Lease and return to the undersigned for further handling. I have enclosed a FedEx return label for your convenience. Should you have any questions or require additional information, please do not hesitate to call.

Sincerely,



Karen Milam

Enclosures

E & G Energy, Inc.
Oil & Gas Properties

One Energy Square
4925 Greenville Avenue
Suite 825
Dallas, Texas 75206

Phone 214-360-0360
Fax 214-360-0302

December 5, 2014

Drew Reid
Mineral Leasing Division
Texas General Land Office
1700 North Congress Avenue, Rm 600
Austin, Texas 78701

Via FedEx # 7721 1891 3166

RE: **Judson Operations, LTD Lease**
Reeves County, Texas

Dear Mr. Reid:

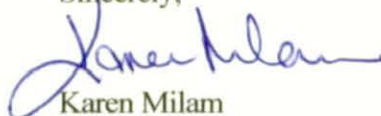
We transmit herewith the following lease package including the pertinent documents listed below:

Lessor	Gross Ac.	Net Ac.	Description
State of Texas, acting by and through its agent, Judson Operations, LTD	100.000	16.6666667	East 100 acres, Section 1, Blk 59, Public School Lands Survey

- a) **Original** Paid Up Oil & Gas Lease (to be signed and returned)
- b) Mineral Ownership Report(s)
- c) Plat(s)
- d) Check # 3803 in the amount of \$29,166.67 for Bonus Consideration
- e) Check #3792 for \$100.00 Processing Fee
- f) Return FedEx Airbill #7901 0097 2600

Please execute the enclosed Lease and return to the undersigned for further handling. I have enclosed a FedEx return label for your convenience. Should you have any questions or require additional information, please do not hesitate to call.

Sincerely,


Karen Milam

Enclosures

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File No. ME 117344
BONUSES and Fees

Date Filed: 12-9-14

Jerry E. Patterson, Commissioner

By JX

117344 A

The State of Texas



Austin, Texas

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 22nd day of August, 2014, between the State of Texas, acting
by and through its agent, LAJ Corporation
of P.O. Box 10626, Midland, Texas 79702
(Give Permanent Address)
said agent herein referred to as the owner of the soil (whether one or more), and Silverback Exploration, LLC
of 1826 North Loop 1604 West, Suite 325, San Antonio, Texas 78248, hereinafter called Lessee.
(Give Permanent Address)

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

East 100 acres of the SE/4 of Section 1, A-5442, Block 59, Public School Lands Survey,

Containing 100 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Fifty One Thousand Forty One and 67/100 Dollars
Dollars (\$51,041.67)

To the owner of the soil: Fifty One Thousand Forty One and 67/100 Dollars
Dollars (\$51,041.67)

Total bonus consideration: One Hundred and Two Thousand Eighty Three and 34/100 Dollars
Dollars (\$102,083.34)

The total bonus consideration paid represents a bonus of Three Thousand Five Hundred Dollars and No/100 Dollars
Dollars (\$ 3,500.00) per acre, on 29.1667 net acres.

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



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Reeves County
Clarks Office

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3. **DELAY RENTALS.** If no well is commenced on the leased premises on or before one (1) year from this date, this lease shall terminate, unless on or before such anniversary date Lessee shall pay or tender to the owner of the soil or to his credit in the "THIS IS A PAID-UP LEASE: SEE PARAGRAPH 40" Bank, at _____

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

To the owner of the soil: N/A; Paid-Up Lease; See Paragraph 40

Dollars (\$N/A; Paid-Up Lease; See Paragraph 40)

To the State of Texas: N/A; Paid-Up Lease; See Paragraph 40

Dollars (\$N/A; Paid-Up Lease; See Paragraph 40)

Total Delay Rental: N/A; Paid-Up Lease; See Paragraph 40

Dollars (\$N/A; Paid-Up Lease; See Paragraph 40)

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:

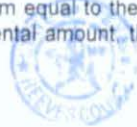
(A) **OIL.** Royalty payable on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well and also as all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, shall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

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

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

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

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



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Roevies County
Clarks Office

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 in 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, core tests, or other information relative to the operation of the above-described premises, which may be requested by the General Land Office, in addition to those herein expressly provided for. Lessee shall have an electrical and/or radioactivity survey made on the bore-hole section, from the base of the surface casing to the total depth of well, of all wells drilled on the above described premises and shall transmit a true copy of the log of each survey on each well to the General Land Office within fifteen (15) days after the making of said survey.

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

11. **DRY HOLE/CESSATION OF PRODUCTION DURING PRIMARY TERM.** If, during the primary term hereof and prior to discovery and production of oil or gas on said land, Lessee should drill a dry hole or holes thereon, or if during the primary term hereof and after the discovery and actual production of oil or gas from the leased premises such production thereof should cease from any cause, this lease shall not terminate if on or before the expiration of sixty (60) days from date of completion of said dry hole or cessation of production Lessee commences additional drilling or reworking operations thereon, or pays or tenders the next annual delay rental in the same manner as provided in this lease. If, during the last year of the primary term or within sixty (60) days prior thereto, a dry hole be completed and abandoned, or the production of oil or gas should cease for any cause, Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term; and if Lessee has not resumed production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking



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Clerks Office

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 two (2) more successive periods of one (1) year by paying the same amount each year on or before the expiration of each shut-in year.

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

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

(A) VERTICAL. In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall then terminate as to all of the leased premises, EXCEPT (1) 40 acres surrounding each oil well capable of producing in paying quantities and 320 acres surrounding each gas well capable of producing in paying quantities (including a shut-in oil or gas well as provided in Paragraph 14 hereof), or a well upon which Lessee is then engaged in continuous drilling or reworking operations, or (2) the number of acres included in a producing pooled unit pursuant to Texas Natural Resources Code 52.151-52.154, or (3) such greater or lesser number of acres as may then be allocated for production purposes to a proration unit for each such producing well under the rules and regulations of the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction. If at any time after the effective date of the partial termination provisions hereof, the applicable field rules are changed or the well or wells located thereon are reclassified so that less acreage is thereafter allocated to said well or wells for production purposes, this lease shall thereupon terminate as to all acreage not thereafter allocated to said well or wells for production purposes. Notwithstanding the termination of this lease as to a portion of the lands covered hereby, Lessee shall nevertheless continue to have the right of ingress to and egress from the lands still subject to this lease for all purposes described in Paragraph 1 hereof, together with easements and rights-of-way for existing roads, existing pipelines and other existing facilities on, over and across all the lands described in Paragraph 1 hereof ("the retained lands"), for access to and from the retained lands and for the gathering or transportation of oil, gas and other minerals produced from the retained lands.



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(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 deepest perforation (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, strikes, acts of God, or any valid order, rule or regulation of government authority, then while so prevented, Lessee's obligation to comply with each covenant shall be suspended and Lessee shall not be liable for damages for failure to comply with such covenants; additionally, this lease shall be extended while Lessee is prevented, by any such cause, from conducting drilling and reworking operations or from producing oil or gas from the leased premises. However, nothing in this paragraph shall suspend the payment of delay rentals in order to maintain this lease in effect during the primary term in the absence of such drilling or reworking operations or production of oil or gas.

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

32. FORFEITURE. If Lessee shall fail or refuse to make the payment of any sum within thirty days after it becomes due, or if Lessee or an authorized agent should knowingly make any false return or false report concerning production or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith as required by law and the rules and regulations adopted by the Commissioner of the General Land Office, or if Lessee should fail to file reports in the manner required by law or fail to comply with rules and regulations promulgated by the General Land Office, the School Land Board, or the Railroad Commission, or if Lessee should refuse the proper authority access to the records pertaining to operations, or if Lessee or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or knowingly fail or refuse to furnish the General Land Office a correct log of any well, or if Lessee shall knowingly violate any of the material provisions of this lease, or if this lease is assigned and the assignment is not filed in the General Land Office as required by law, the rights acquired under this lease shall be subject to forfeiture by the



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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 Owner of the Soil may suffer by reason of Lessee's breach of any covenant or condition of this lease, whether express or implied. This lien and security interest may be foreclosed with or without court proceedings in the manner provided in the Title 1, Chap. 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this lease forfeited as provided herein.

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

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

36. **ENVIRONMENTAL HAZARDS.** Lessee shall use the highest degree of care and all reasonable safeguards to prevent contamination or pollution of any environmental medium, including soil, surface waters, groundwater, sediments, and surface or subsurface strata, ambient air or any other environmental medium in, on, or under, the leased premises, by any waste, pollutant, or contaminant. Lessee shall not bring or permit to remain on the leased premises any asbestos containing materials, explosives, toxic materials, or substances regulated as hazardous wastes, hazardous materials, hazardous substances (as the term "Hazardous Substance" is defined in the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), 42 U.S.C. Sections 9601, et seq.), or toxic substances under any federal, state, or local law or regulation ("Hazardous Materials"), except ordinary products commonly used in connection with oil and gas exploration and development operations and stored in the usual manner and quantities. **LESSEE'S VIOLATION OF THE FOREGOING PROHIBITION SHALL CONSTITUTE A MATERIAL BREACH AND DEFAULT HEREUNDER AND LESSEE SHALL INDEMNIFY, HOLD HARMLESS AND DEFEND THE STATE OF TEXAS AND THE OWNER OF THE SOIL FROM AND AGAINST ANY CLAIMS, DAMAGES, JUDGMENTS, PENALTIES, LIABILITIES, AND COSTS (INCLUDING REASONABLE ATTORNEYS' FEES AND COURT COSTS) CAUSED BY OR ARISING OUT OF (1) A VIOLATION OF THE FOREGOING PROHIBITION OR (2) THE PRESENCE, RELEASE, OR DISPOSAL OF ANY HAZARDOUS MATERIALS ON, UNDER, OR ABOUT THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OR CONTROL OF THE LEASED PREMISES. LESSEE SHALL CLEAN UP, REMOVE, REMEDY AND REPAIR ANY SOIL OR GROUND WATER CONTAMINATION AND DAMAGE CAUSED BY THE PRESENCE OR RELEASE OF ANY HAZARDOUS MATERIALS IN, ON, UNDER, OR ABOUT THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OF THE LEASED PREMISES IN CONFORMANCE WITH THE REQUIREMENTS OF APPLICABLE LAW. THIS INDEMNIFICATION AND ASSUMPTION SHALL APPLY, BUT IS NOT LIMITED TO, LIABILITY FOR RESPONSE ACTIONS UNDERTAKEN PURSUANT TO CERCLA OR ANY OTHER ENVIRONMENTAL LAW OR REGULATION. LESSEE SHALL IMMEDIATELY GIVE THE STATE OF TEXAS AND THE OWNER OF THE SOIL WRITTEN NOTICE OF ANY BREACH OR SUSPECTED BREACH OF THIS PARAGRAPH, UPON LEARNING OF THE PRESENCE OF ANY HAZARDOUS MATERIALS, OR UPON RECEIVING A NOTICE FROM ANY GOVERNMENTAL AGENCY PERTAINING TO HAZARDOUS MATERIALS WHICH MAY AFFECT THE LEASED PREMISES. THE OBLIGATIONS OF LESSEE HEREUNDER SHALL SURVIVE THE EXPIRATION OR EARLIER TERMINATION, FOR ANY REASON, OF THIS AGREEMENT.**

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



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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.

40. RENTALS. ** THIS IS A PAID-UP OIL AND GAS LEASE.

SEE ADDENDUM 1 ATTACHED HERETO FOR ADDITIONAL PROVISIONS

LESSEE: Silverback Exploration, LLC

By: David Frye

Title: Vice President

Date: 11/21/14

STATE OF TEXAS

Robert W. Hodge
LAJ CORPORATION

Individually and as agent for the State of Texas

By: Robert W. Hodge (printed name)

Title: Vice President of Land

Date: 9/22/14

STATE OF TEXAS

Individually and as agent for the State of Texas

By: _____ (printed name)

Title: _____

Date: _____

STATE OF TEXAS

Individually and as agent for the State of Texas

By: _____ (printed name)

Title: _____

Date: _____

STATE OF TEXAS

Individually and as agent for the State of Texas

By: _____ (printed name)

Title: _____

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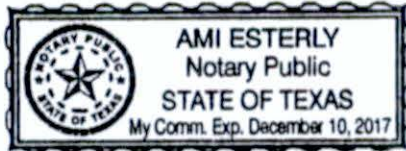
STATE OF TEXAS

(CORPORATION ACKNOWLEDGMENT)

COUNTY OF MIDLAND

BEFORE ME, the undersigned authority, on this day personally appeared Robert W. Hodge
known to me to be the person whose name is subscribed to the foregoing instruments as Vice President of Land
of LAJ Corporation, a Texas corporation and acknowledged to me that he
executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the 22nd day of August 2014.



Ami Esterly

Notary Public in and for Midland County, Texas

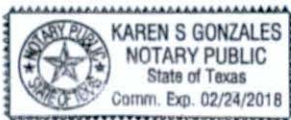
STATE OF Texas

(CORPORATION ACKNOWLEDGMENT)

COUNTY OF Bexar

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

Given under my hand and seal of office this the 21 day of November, 2014.



Karen S. Gonzales

Notary Public in and for Texas

STATE OF Texas

(INDIVIDUAL ACKNOWLEDGMENT)

COUNTY OF Bexar

BEFORE ME, the undersigned authority, on this day personally appeared _____

known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the
purposes and consideration therein expressed.

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

Notary Public in and for _____

STATE OF _____

(INDIVIDUAL ACKNOWLEDGMENT)

COUNTY OF _____

BEFORE ME, the undersigned authority, on this day personally appeared _____

known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the
purposes and consideration therein expressed.

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

Notary Public in and for _____



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ADDENDUM 1

Attached to and made a Part of Oil and Gas Lease dated August 22, 2014,
From the State of Texas, acting by and through its agent, LAJ Corporation,
as the Owner of the Soil, to Silverback Exploration, LLC, as Lessee

The printed lease form to which this addendum is attached contains printed Paragraphs 1 through 40. The provisions set forth below, including Paragraphs 41 through 49, are made a part of the printed lease form, as though originally contained therein. In the event of a conflict between any of the provisions of Paragraphs 1 through 40 and any of the provisions contained in this addendum, the conflicting provision of this addendum shall prevail. The term "this lease," whether appearing in the printed lease form or this addendum, shall mean the agreement contained in the printed lease form, as amended, supplemented and superseded by this addendum.

41. The term "Actual Drilling" will be defined as having a rig on location (and drilling operations underway) that is capable of drilling to the permitted total depth, which must be within a formation reasonably believed to contain commercially recoverable deposits of oil and/or gas.

42. After the expiration of the primary term and/ or the extended term, whichever is later, this Oil, Gas and Mineral Lease shall be construed to be a separate lease as to each separate production unit.

43. Lessee may drill a water well or wells on the leased premises. Lessee agrees to install a meter on each well and to pay the owner of the soil for water produced from said well, or wells, at a rate of \$0.50 per barrel. Prior to abandonment of such well, Lessee shall offer the well or wells, to the owner of the soil, with casing intact, at no cost. The owner of the soil shall elect within fifteen (15) days of receipt of such notice to take over the well. In agreeing to take over the water well(s) the owner of the soil hereby agrees to release Lessee from any liability arising from drilling, operating, producing or otherwise maintaining such well or wells.

44. Unless otherwise agreed by the owner of the soil, acting as agent on behalf of the State of Texas, in writing and in advance, Lessee shall be prohibited from disposing of salt water on the leased premises. Disposal of any such salt water or the removal of salt water from the leased premises shall be accomplished in strict compliance with the rules and regulations of the RRC and any other governmental agency having jurisdiction thereof.

45. Upon written request Lessee shall furnish the owner of the soil with copies of the following related to wells operated by Lessee on the Land or lands pooled therewith:

- (A) Plats or maps showing the location of the well and all forms filed with the appropriate state governmental authority;
- (B) Copies of monthly production reports
- (C) Daily drilling and completion reports, and mud log if a mud log is run in such well;
- (D) The details of any drillstem tests taken in said well and the final results of any core analyses which are run on cores taken while drilling said well;
- (E) Copies of all testing reports and logs run in such well.

46. All said information will be furnished in a timely manner to the Owner of the Soil at the above address or e-mail (lajcorp@northstarop.com). Contact information is subject to change.

47. The owner of the soil makes no warranty of title to the leased premises, either express or implied.

48. As an additional cash bonus due and payable as and when drilling operations, construction, pipeline installation and other surface operations are conducted, any operations conducted on the surface of the premises, related to this lease, shall be subject to payment by Lessee for all of the types of operations and in the payment amounts and terms as set out in the then current University of Texas System Rate and Damage Schedule promulgated by University Lands Surface and Mineral Interests, and/or by the Board of Regents of the University of Texas System, applicable to oil and gas operations on lands owned by the State of Texas and subject to lease by the Board for Lease of University Lands. Such payments shall be made 1/2 directly to the owner of the soil and a like amount paid or tendered to the Commissioner of the General Land Office of the State of Texas, at Austin, Texas.

49. The provisions of this lease shall inure to the benefit of and be binding upon the owner of the soil, the State of Texas, and Lessee, and their respective heirs, successors, assigns, representatives, directors, principals, agents, employees, contractors and subcontractors.

50. In the event this lease is perpetuated beyond the primary term by production or drilling or reworking operations, this lease shall remain in full force and effect as to all of the lands covered by this lease if on or before One Hundred Eighty (180) days after the primary term, lessee commences a continuous development drilling program on the leased premises in accordance with the following, and thereafter diligently continues and prosecutes such continuous drilling operations on the leased premises with no cessation of more than One Hundred Eighty (180) days between the completion of any one well and the commencement of the actual drilling of the next succeeding oil and/or gas well. At and after the expiration of the primary term, failure to timely commence or prosecute the continuous development program provided hereinabove shall terminate this lease as to all of the above described premises, SAVE and EXCEPT as to each "production unit" as hereinafter defined. A production unit for a vertical well shall be (i) the maximum number of acres required by the Railroad Commission of Texas for a proration unit under then existing special field rules or (ii) if there are no special field rules 40 acres around each vertical oil well and 160 acres around each vertical gas well then producing or capable of producing oil and/or gas in paying quantities. In the event of a horizontal well, Lessee may allocate acreage to each production unit that amount of acreage as allowed by Rule 86 of the Railroad Commission of Texas. Notwithstanding the foregoing, the production unit for a vertical oil or gas well shall not exceed 160 acres, and for a horizontal oil or gas well shall not exceed 320 acres. Each production unit retained by Lessee shall be limited to those depths from the surface of the ground to 100' below the base of the deepest perforations from which production of oil or gas in paying quantities is being maintained (or, in the case of a shut-in gas well, can be maintained) in the well on such production unit and all other deeper depths shall be released.

The term "completion," as used herein, shall mean the earlier of the date of completion shown on the Railroad Commission Initial Potential Form W-2 or 60 days from the date of release of the drilling rig. Upon termination of this lease as to any portion of the leased premises, Lessee shall deliver to Owner of the soil a plat showing the designated production units around each well and a partial release complying with the requirements of this paragraph, suitable for recording.



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Original filed in
Roanoke County
Clarks Office

SIGNED FOR IDENTIFICATION:

LESSEE

LESSEE: Silverback Exploration, LLC

By: David Faye

Title: Vice President

Date: 11/21/14

OWNER OF THE SOIL

LAJ CORPORATION

Individually and as agent for the State of Texas

By: Robert W. Hodge (printed name)

Title: Vice President of Land

Date: 8/22/14

STATE OF TEXAS

Individually and as agent for the State of Texas

By: _____ (printed name)

Title: _____

Date: _____

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Inst No. 15-00485
DIANNE O. FLOREZ
COUNTY CLERK

2015 Jan 16 at 10:41 AM

REEVES COUNTY TEXAS

By: ER Elizabeth Ray DEPUTY



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copy of
Original filed in
Reeves County
Clarks Office

After Recording please return to:
E & G Energy, Inc.
4925 Greenville Ave, Ste 825
Dallas, Texas 75206

File No. MF 117344
LEASE A Quantity

Date Filed: 2-16-15

George P. Bush, Commissioner
By *GPB*

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

The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same was filed in the public records of my office, found in VOL. 1138 PAGE 413 THRU 428

I hereby certified on 10th Mar 2015



DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS
BY *Elizabeth Rags* DEPUTY

34042

The State of Texas



Austin, Texas

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 22nd day of September, 2014, between the State of Texas, acting

by and through its agent, Sigmar, Inc.

of 400 N. Marienfeld, Suite 100, Midland, TX 79701

(Give Permanent Address)

said agent herein referred to as the owner of the soil (whether one or more), and Silverback Exploration, LLC

of 1826 North Loop 1604 West, Suite 325, San Antonio, Texas 78248

(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:

East 100 acres of the SE/4 of Section 1, A-5442, Block 59, Public School Lands Survey,

Containing 100 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Fifty One Thousand Forty One and 67/100
Dollars (\$51,041.67)

To the owner of the soil: Fifty One Thousand Forty One and 67/100
Dollars (\$51,041.67)

Total bonus consideration: One Hundred and Two Thousand Eighty Three and 34/100
Dollars (\$102,083.34)

The total bonus consideration paid represents a bonus of Three Thousand Five Hundred and 00/100
Dollars (\$ 3,500.00) per acre, on 29.1667 net acres.

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



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

PARAGRAPH 40" Bank, at _____, or its successors (which shall continue as the depository regardless of changes in the ownership of said land), the amount specified below; in addition, Lessee shall pay or tender to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATE OF TEXAS, AT AUSTIN, TEXAS, a like sum on or before said date. Payments under this paragraph shall operate as a rental and shall cover the privilege of deferring the commencement of a well for one (1) year from said date. Payments under this paragraph shall be in the following amounts:

To the owner of the soil: N/A; Paid-Up Lease; See Paragraph 40

Dollars (\$N/A; Paid-Up Lease; See Paragraph 40)

To the State of Texas: N/A; Paid-Up Lease; See Paragraph 40

Dollars (\$N/A; Paid-Up Lease; See Paragraph 40)

Total Delay Rental: N/A; Paid-Up Lease; See Paragraph 40

Dollars (\$N/A; Paid-Up Lease; See Paragraph 40)

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

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

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

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

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



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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, core tests, or other information relative to the operation of the above-described premises, which may be requested by the General Land Office, in addition to those herein expressly provided for. Lessee shall have an electrical and/or radioactivity survey made on the bore-hole section, from the base of the surface casing to the total depth of well, of all wells drilled on the above described premises and shall transmit a true copy of the log of each survey on each well to the General Land Office within fifteen (15) days after the making of said survey.

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

11. **DRY HOLE/CESSATION OF PRODUCTION DURING PRIMARY TERM.** If, during the primary term hereof and prior to discovery and production of oil or gas on said land, Lessee should drill a dry hole or holes thereon, or if during the primary term hereof and after the discovery and actual production of oil or gas from the leased premises such production thereof should cease from any cause, this lease shall not terminate if on or before the expiration of sixty (60) days from date of completion of said dry hole or cessation of production Lessee commences additional drilling or reworking operations thereon, or pays or tenders the next annual delay rental in the same manner as provided in this lease. If, during the last year of the primary term or within sixty (60) days prior thereto, a dry hole be completed and abandoned, or the production of oil or gas should cease for any cause, Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term; and if Lessee has not resumed production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking

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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 two (2) more successive periods of one (1) year by paying the same amount each year on or before the expiration of each shut-in year.

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

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

(A) VERTICAL. In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall then terminate as to all of the leased premises, EXCEPT (1) 40 acres surrounding each oil well capable of producing in paying quantities and 320 acres surrounding each gas well capable of producing in paying quantities (including a shut-in oil or gas well as provided in Paragraph 14 hereof), or a well upon which Lessee is then engaged in continuous drilling or reworking operations, or (2) the number of acres included in a producing pooled unit pursuant to Texas Natural Resources Code 52.151-52.154, or (3) such greater or lesser number of acres as may then be allocated for production purposes to a proration unit for each such producing well under the rules and regulations of the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction. If at any time after the effective date of the partial termination provisions hereof, the applicable field rules are changed or the well or wells located thereon are reclassified so that less acreage is thereafter allocated to said well or wells for production purposes, this lease shall thereupon terminate as to all acreage not thereafter allocated to said well or wells for production purposes. Notwithstanding the termination of this lease as to a portion of the lands covered hereby, Lessee shall nevertheless continue to have the right of ingress to and egress from the lands still subject to this lease for all purposes described in Paragraph 1 hereof, together with easements and rights-of-way for existing roads, existing pipelines and other existing facilities on, over and across all the lands described in Paragraph 1 hereof ("the retained lands"), for access to and from the retained lands and for the gathering or transportation of oil, gas and other minerals produced from the retained lands.



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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

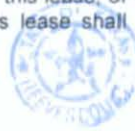
28. RELEASES. Under the conditions contained in this paragraph and Paragraph 29, Lessee may at any time execute and deliver to the owner of the soil and place of record a release or releases covering any portion or portions of the leased premises, and thereby surrender this lease as to such portion or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

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

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

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

32. FORFEITURE. If Lessee shall fail or refuse to make the payment of any sum within thirty days after it becomes due, or if Lessee or an authorized agent should knowingly make any false return or false report concerning production or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith as required by law and the rules and regulations adopted by the Commissioner of the General Land Office, or if Lessee should fail to file reports in the manner required by law or fail to comply with rules and regulations promulgated by the General Land Office, the School Land Board, or the Railroad Commission, or if Lessee should refuse the proper authority access to the records pertaining to operations, or if Lessee or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or knowingly fail or refuse to furnish the General Land Office a correct log of any well, or if Lessee shall knowingly violate any of the material provisions of this lease, or if this lease is assigned and the assignment is not filed in the General Land Office as required by law, the rights acquired under this lease shall be subject to forfeiture by the



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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 Owner of the Soil may suffer by reason of Lessee's breach of any covenant or condition of this lease, whether express or implied. This lien and security interest may be foreclosed with or without court proceedings in the manner provided in the Title 1, Chap. 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this lease forfeited as provided herein.

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

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

36. ENVIRONMENTAL HAZARDS. Lessee shall use the highest degree of care and all reasonable safeguards to prevent contamination or pollution of any environmental medium, including soil, surface waters, groundwater, sediments, and surface or subsurface strata, ambient air or any other environmental medium in, on, or under, the leased premises, by any waste, pollutant, or contaminant. Lessee shall not bring or permit to remain on the leased premises any asbestos containing materials, explosives, toxic materials, or substances regulated as hazardous wastes, hazardous materials, hazardous substances (as the term "Hazardous Substance" is defined in the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), 42 U.S.C. Sections 9601, et seq.), or toxic substances under any federal, state, or local law or regulation ("Hazardous Materials"), except ordinary products commonly used in connection with oil and gas exploration and development operations and stored in the usual manner and quantities. **LESSEE'S VIOLATION OF THE FOREGOING PROHIBITION SHALL CONSTITUTE A MATERIAL BREACH AND DEFAULT HEREUNDER AND LESSEE SHALL INDEMNIFY, HOLD HARMLESS AND DEFEND THE STATE OF TEXAS AND THE OWNER OF THE SOIL FROM AND AGAINST ANY CLAIMS, DAMAGES, JUDGMENTS, PENALTIES, LIABILITIES, AND COSTS (INCLUDING REASONABLE ATTORNEYS' FEES AND COURT COSTS) CAUSED BY OR ARISING OUT OF (1) A VIOLATION OF THE FOREGOING PROHIBITION OR (2) THE PRESENCE, RELEASE, OR DISPOSAL OF ANY HAZARDOUS MATERIALS ON, UNDER, OR ABOUT THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OR CONTROL OF THE LEASED PREMISES. LESSEE SHALL CLEAN UP, REMOVE, REMEDY AND REPAIR ANY SOIL OR GROUND WATER CONTAMINATION AND DAMAGE CAUSED BY THE PRESENCE OR RELEASE OF ANY HAZARDOUS MATERIALS IN, ON, UNDER, OR ABOUT THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OF THE LEASED PREMISES IN CONFORMANCE WITH THE REQUIREMENTS OF APPLICABLE LAW. THIS INDEMNIFICATION AND ASSUMPTION SHALL APPLY, BUT IS NOT LIMITED TO, LIABILITY FOR RESPONSE ACTIONS UNDERTAKEN PURSUANT TO CERCLA OR ANY OTHER ENVIRONMENTAL LAW OR REGULATION. LESSEE SHALL IMMEDIATELY GIVE THE STATE OF TEXAS AND THE OWNER OF THE SOIL WRITTEN NOTICE OF ANY BREACH OR SUSPECTED BREACH OF THIS PARAGRAPH, UPON LEARNING OF THE PRESENCE OF ANY HAZARDOUS MATERIALS, OR UPON RECEIVING A NOTICE FROM ANY GOVERNMENTAL AGENCY PERTAINING TO HAZARDOUS MATERIALS WHICH MAY AFFECT THE LEASED PREMISES. THE OBLIGATIONS OF LESSEE HEREUNDER SHALL SURVIVE THE EXPIRATION OR EARLIER TERMINATION, FOR ANY REASON, OF THIS AGREEMENT.**

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



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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.

40. RENTALS. ** THIS IS A PAID-UP OIL AND GAS LEASE.

SEE ADDENDUM 1 ATTACHED HERETO FOR ADDITIONAL PROVISIONS

LESSEE: Silverback Exploration, LLC

By: David Frye

Title: Vice President

Date: 11/21/14

STATE OF TEXAS

Marjean M. Murphy
SIGMAR, INC.

Individually and as agent for the State of Texas

By: Marjean Murphy

Title: President

Date: 9-22-14

STATE OF TEXAS

Individually and as agent for the State of Texas

By: _____ (printed name)

Title: _____

Date: _____

STATE OF TEXAS

Individually and as agent for the State of Texas

By: _____ (printed name)

Title: _____

Date: _____

STATE OF TEXAS

Individually and as agent for the State of Texas

By: _____ (printed name)

Title: _____

Date: _____



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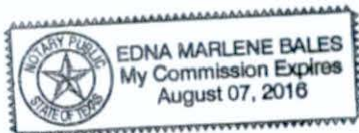
STATE OF TEXAS

(CORPORATION ACKNOWLEDGMENT)

COUNTY OF MIDLAND

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

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



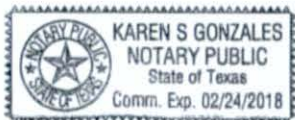
Edna Marlene Bales
Notary Public in and for Midland County, Texas

STATE OF Texas
COUNTY OF Bexar

(CORPORATION ACKNOWLEDGMENT)

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

Given under my hand and seal of office this the 21 day of November, 2014.



Karen S. Gonzales
Notary Public in and for Texas

STATE OF Texas
COUNTY OF Bexar

(INDIVIDUAL ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared _____

known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the
purposes and consideration therein expressed.

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

Notary Public in and for _____

STATE OF _____
COUNTY OF _____

(INDIVIDUAL ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared _____

known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the
purposes and consideration therein expressed.

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

Notary Public in and for _____



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ADDENDUM 1

Attached to and made a Part of Oil and Gas Lease dated September 22, 2014,
From the State of Texas, acting by and through its agent, Sigmar, Inc.
as the Owner of the Soil, to Silverback Exploration, LLC, as Lessee

The printed lease form to which this addendum is attached contains printed Paragraphs 1 through 40. The provisions set forth below, including Paragraphs 41 through 49, are made a part of the printed lease form, as though originally contained therein. In the event of a conflict between any of the provisions of Paragraphs 1 through 40 and any of the provisions contained in this addendum, the conflicting provision of this addendum shall prevail. The term "this lease," whether appearing in the printed lease form or this addendum, shall mean the agreement contained in the printed lease form, as amended, supplemented and superseded by this addendum.

41. The term "Actual Drilling" will be defined as having a rig on location (and drilling operations underway) that is capable of drilling to the permitted total depth, which must be within a formation reasonably believed to contain commercially recoverable deposits of oil and/or gas.

42. After the expiration of the primary term and/ or the extended term, whichever is later, this Oil, Gas and Mineral Lease shall be construed to be a separate lease as to each separate production unit.

43. Lessee may drill a water well or wells on the leased premises. Lessee agrees to install a meter on each well and to pay the owner of the soil for water produced from said well, or wells, at a rate of \$0.50 per barrel. Prior to abandonment of such well, Lessee shall offer the well, or wells, to the owner of the soil, with casing intact, at no cost. The owner of the soil shall elect within fifteen (15) days of receipt of such notice to take over the well. In agreeing to take over the water well(s) the owner of the soil hereby agrees to release Lessee from any liability arising from drilling, operating, producing or otherwise maintaining such well or wells.

44. Unless otherwise agreed by the owner of the soil, acting as agent on behalf of the State of Texas, in writing and in advance, Lessee shall be prohibited from disposing of salt water on the leased premises. Disposal of any such salt water or the removal of salt water from the leased premises shall be accomplished in strict compliance with the rules and regulations of the RRC and any other governmental agency having jurisdiction thereof.

45. Upon written request Lessee shall furnish the owner of the soil with copies of the following related to wells operated by Lessee on the Land or lands pooled therewith:

- (A) Plats or maps showing the location of the well and all forms filed with the appropriate state governmental authority;
- (B) Copies of monthly production reports
- (C) Daily drilling and completion reports, and mud log if a mud log is run in such well;
- (D) The details of any drillstem tests taken in said well and the final results of any core analyses which are run on cores taken while drilling said well;
- (E) Copies of all testing reports and logs run in such well.

46. All said information will be furnished in a timely manner to the Owner of the Soil at the above address or e-mail (arklandprod@yahoo.com). Contact information is subject to change.

47. The owner of the soil makes no warranty of title to the leased premises, either express or implied.

48. As an additional cash bonus due and payable as and when drilling operations, construction, pipeline installation and other surface operations are conducted, any operations conducted on the surface of the premises, related to this lease, shall be subject to payment by Lessee for all of the types of operations and in the payment amounts and terms as set out in the then current University of Texas System Rate and Damage Schedule promulgated by University Lands Surface and Mineral Interests, and/or by the Board of Regents of the University of Texas System, applicable to oil and gas operations on lands owned by the State of Texas and subject to lease by the Board for Lease of University Lands. Such payments shall be made 1/2 directly to the owner of the soil and a like amount paid or tendered to the Commissioner of the General Land Office of the State of Texas, at Austin, Texas.

49. The provisions of this lease shall inure to the benefit of and be binding upon the owner of the soil, the State of Texas, and Lessee, and their respective heirs, successors, assigns, representatives, directors, principals, agents, employees, contractors and subcontractors.

50. In the event this lease is perpetuated beyond the primary term by production or drilling or reworking operations, this lease shall remain in full force and effect as to all of the lands covered by this lease if on or before One Hundred Eighty (180) days after the primary term, lessee commences a continuous development drilling program on the leased premises in accordance with the following, and thereafter diligently continues and prosecutes such continuous drilling operations on the leased premises with no cessation of more than One Hundred Eighty (180) days between the completion of any one well and the commencement of the actual drilling of the next succeeding oil and/or gas well. At and after the expiration of the primary term, failure to timely commence or prosecute the continuous development program provided hereinabove shall terminate this lease as to all of the above described premises, SAVE and EXCEPT as to each "production unit" as hereinafter defined. A production unit for a vertical well shall be (i) the maximum number of acres required by the Railroad Commission of Texas for a proration unit under then existing special field rules or (ii) if there are no special field rules 40 acres around each vertical oil well and 160 acres around each vertical gas well then producing or capable of producing oil and/or gas in paying quantities. In the event of a horizontal well, Lessee may allocate acreage to each production unit that amount of acreage as allowed by Rule 86 of the Railroad Commission of Texas. Notwithstanding the foregoing, the production unit for a vertical oil or gas well shall not exceed 160 acres, and for a horizontal oil or gas well shall not exceed 320 acres. Each production unit retained by Lessee shall be limited to those depths from the surface of the ground to 100' below the base of the deepest perforations from which production of oil or gas in paying quantities is being maintained (or, in the case of a shut-in gas well, can be maintained) in the well on such production unit and all other deeper depths shall be released.

The term "completion," as used herein, shall mean the earlier of the date of completion shown on the Railroad Commission Initial Potential Form W-2 or 60 days from the date of release of the drilling rig. Upon termination of this lease as to any portion of the leased premises, Lessee shall deliver to Owner of the soil a plat showing the designated production units around each well and a partial release complying with the requirements of this paragraph, suitable for recording.



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SIGNED FOR IDENTIFICATION:

LESSEE

LESSEE: Silverback Exploration, LLC

By:

Title:

Date:

David Fyfe

David Fyfe
Vice President

11/21/14

OWNER OF THE SOIL

STATE OF TEXAS

SIGMAR, INC.

Individually and as agent for the State of Texas

By: Marjean Murphy

Title: President

Date:

Marjean M. Murphy

9-22-14

Individually and as agent for the State of Texas

By: _____ (printed name)

Title: _____

Date: _____

Inst No. 15-00486

DIANNE O. FLOREZ

COUNTY CLERK

2015 Jan 16 at 10:41 AM

REEVES COUNTY, TEXAS

By: ER *Elizabeth Ray* DEPUTY



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Reeves County
Clarks Office

After Recording please return to:

E & G Energy, Inc.

4925 Greenville Ave, Ste 825

Dallas, Texas 75206

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File No. MF 117344
LEEKEB County
Date Filed: 2-16-15
By George P. Bush, Commissioner
GPB

5-10-12

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

The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the undersigned, Clerk of my office, found in VOL. 1132 PAGE 424 THRU 434

I hereby certify on 10th Mar 2015

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS
BY Dianne O. Florez DEPUTY



The State of Texas

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Austin, Texas

OIL AND GAS LEASE

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THIS AGREEMENT is made and entered into this 15th day of August, 2014, between the State of Texas, acting by and through its agent, Blake Oil & Gas Corporation of 400 North Main Street, Midland, Texas 79701 (Give Permanent Address) said agent herein referred to as the owner of the soil (whether one or more), and Silverback Exploration, LLC of 1826 North Loop 1604 West, Suite 325, San Antonio, Texas 78248 hereinafter called Lessee. (Give Permanent Address)

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

East 100 Acres of the SE/4 of Section 1, A-5442, Block 59, Public School Lands Survey

Containing 100 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Forty Three Thousand Seven Hundred Fifty and No/100 Dollars
Dollars (\$43,750.00)

To the owner of the soil: Forty Three Thousand Seven Hundred Fifty and No/100 Dollars
Dollars (\$43,750.00)

Total bonus consideration: Eighty Seven Thousand Five Hundred and No/100 Dollars
Dollars (\$87,500.00)

The total bonus consideration paid represents a bonus of Three Thousand Five Hundred and No/100 Dollars
Dollars (\$3,500.00) per acre, on 25.00 net acres.

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



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3. DELAY RENTALS. If no well is commenced on the leased premises on or before one (1) year from this date, this lease shall terminate, unless on or before such anniversary date Lessee shall pay or tender to the owner of the soil or to his credit in the "THIS IS A PAID-UP LEASE: SEE PARAGRAPH 40" Bank, at _____, or its successors (which shall continue as the depository regardless of changes in the ownership of said land), the amount specified below; in addition, Lessee shall pay or tender to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATE OF TEXAS, AT AUSTIN, TEXAS, a like sum on or before said date. Payments under this paragraph shall operate as a rental and shall cover the privilege of deferring the commencement of a well for one (1) year from said date. Payments under this paragraph shall be in the following amounts:

To the owner of the soil: N/A; Paid-Up Lease; See Paragraph 40

Dollars (\$N/A; Paid-Up Lease; See Paragraph 40)

To the State of Texas: N/A; Paid-Up Lease; See Paragraph 40

Dollars (\$N/A; Paid-Up Lease; See Paragraph 40)

Total Delay Rental: N/A; Paid-Up Lease; See Paragraph 40

Dollars (\$N/A; Paid-Up Lease; See Paragraph 40)

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:

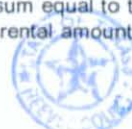
(A) OIL. Royalty payable on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well and also as all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, shall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

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

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

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

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



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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 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 owner 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:

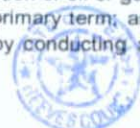
Payment of royalty on production of oil and gas shall be as provided in the rules set forth in the Texas Register. Rules currently provide that royalty on oil is due and must be received in the General Land Office on or before the 5th day of the second month succeeding the month of production, and royalty 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, core tests, or other information relative to the operation of the above-described premises, which may be requested by the General Land Office, in addition to those herein expressly provided for. Lessee shall have an electrical and/or radioactivity survey made on the bore-hole section, from the base of the surface casing to the total depth of well, of all wells drilled on the above described premises and shall transmit a true copy of the log of each survey on each well to the General Land Office within fifteen (15) days after the making of said survey.

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

11. DRY HOLE/CESSATION OF PRODUCTION DURING PRIMARY TERM. If, during the primary term hereof and prior to discovery and production of oil or gas on said land, Lessee should drill a dry hole or holes thereon, or if during the primary term hereof and after the discovery and actual production of oil or gas from the leased premises such production thereof should cease from any cause, this lease shall not terminate if on or before the expiration of sixty (60) days from date of completion of said dry hole or cessation of production Lessee commences additional drilling or reworking operations thereon, or pays or tenders the next annual delay rental in the same manner as provided in this lease. If, during the last year of the primary term or within sixty (60) days prior thereto, a dry hole be completed and abandoned, or the production of oil or gas should cease for any cause, Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term; and if Lessee has not resumed production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking



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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 two (2) more successive periods of one (1) year by paying the same amount each year on or before the expiration of each shut-in year.

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

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

(A) VERTICAL. In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall then terminate as to all of the leased premises, EXCEPT (1) 40 acres surrounding each oil well capable of producing in paying quantities and 320 acres surrounding each gas well capable of producing in paying quantities (including a shut-in oil or gas well as provided in Paragraph 14 hereof), or a well upon which Lessee is then engaged in continuous drilling or reworking operations, or (2) the number of acres included in a producing pooled unit pursuant to Texas Natural Resources Code 52.151-52.154, or (3) such greater or lesser number of acres as may then be allocated for production purposes to a proration unit for each such producing well under the rules and regulations of the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction. If at any time after the effective date of the partial termination provisions hereof, the applicable field rules are changed or the well or wells located thereon are reclassified so that less acreage is thereafter allocated to said well or wells for production purposes, this lease shall thereupon terminate as to all acreage not thereafter allocated to said well or wells for production purposes. Notwithstanding the termination of this lease as to a portion of the lands covered hereby, Lessee shall nevertheless continue to have the right of ingress to and egress from the lands still subject to this lease for all purposes described in Paragraph 1 hereof, together with easements and rights-of-way for existing roads, existing pipelines and other existing facilities on, over and across all the lands described in Paragraph 1 hereof ("the retained lands"), for access to and from the retained lands and for the gathering or transportation of oil, gas and other minerals produced from the retained lands.



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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

32. FORFEITURE. If Lessee shall fail or refuse to make the payment of any sum within thirty days after it becomes due, or if Lessee or an authorized agent should knowingly make any false return or false report concerning production or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith as required by law and the rules and regulations adopted by the Commissioner of the General Land Office, or if Lessee should fail to file reports in the manner required by law or fail to comply with rules and regulations promulgated by the General Land Office, the School Land Board, or the Railroad Commission, or if Lessee should refuse the proper authority access to the records pertaining to operations, or if Lessee or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or knowingly fail or refuse to furnish the General Land Office a correct log of any well, or if Lessee shall knowingly violate any of the material provisions of this lease, or if this lease is assigned and the assignment is not filed in the General Land Office as required by law, the rights acquired under this lease shall be subject to forfeiture by the



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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 Owner of the Soil may suffer by reason of Lessee's breach of any covenant or condition of this lease, whether express or implied. This lien and security interest may be foreclosed with or without court proceedings in the manner provided in the Title 1, Chap. 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this lease forfeited as provided herein.

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

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

36. ENVIRONMENTAL HAZARDS. Lessee shall use the highest degree of care and all reasonable safeguards to prevent contamination or pollution of any environmental medium, including soil, surface waters, groundwater, sediments, and surface or subsurface strata, ambient air or any other environmental medium in, on, or under, the leased premises, by any waste, pollutant, or contaminant. Lessee shall not bring or permit to remain on the leased premises any asbestos containing materials, explosives, toxic materials, or substances regulated as hazardous wastes, hazardous materials, hazardous substances (as the term "Hazardous Substance" is defined in the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), 42 U.S.C. Sections 9601, et seq.), or toxic substances under any federal, state, or local law or regulation ("Hazardous Materials"), except ordinary products commonly used in connection with oil and gas exploration and development operations and stored in the usual manner and quantities. **LESSEE'S VIOLATION OF THE FOREGOING PROHIBITION SHALL CONSTITUTE A MATERIAL BREACH AND DEFAULT HEREUNDER AND LESSEE SHALL INDEMNIFY, HOLD HARMLESS AND DEFEND THE STATE OF TEXAS AND THE OWNER OF THE SOIL FROM AND AGAINST ANY CLAIMS, DAMAGES, JUDGMENTS, PENALTIES, LIABILITIES, AND COSTS (INCLUDING REASONABLE ATTORNEYS' FEES AND COURT COSTS) CAUSED BY OR ARISING OUT OF (1) A VIOLATION OF THE FOREGOING PROHIBITION OR (2) THE PRESENCE, RELEASE, OR DISPOSAL OF ANY HAZARDOUS MATERIALS ON, UNDER, OR ABOUT THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OR CONTROL OF THE LEASED PREMISES. LESSEE SHALL CLEAN UP, REMOVE, REMEDY AND REPAIR ANY SOIL OR GROUND WATER CONTAMINATION AND DAMAGE CAUSED BY THE PRESENCE OR RELEASE OF ANY HAZARDOUS MATERIALS IN, ON, UNDER, OR ABOUT THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OF THE LEASED PREMISES IN CONFORMANCE WITH THE REQUIREMENTS OF APPLICABLE LAW. THIS INDEMNIFICATION AND ASSUMPTION SHALL APPLY, BUT IS NOT LIMITED TO, LIABILITY FOR RESPONSE ACTIONS UNDERTAKEN PURSUANT TO CERCLA OR ANY OTHER ENVIRONMENTAL LAW OR REGULATION. LESSEE SHALL IMMEDIATELY GIVE THE STATE OF TEXAS AND THE OWNER OF THE SOIL WRITTEN NOTICE OF ANY BREACH OR SUSPECTED BREACH OF THIS PARAGRAPH, UPON LEARNING OF THE PRESENCE OF ANY HAZARDOUS MATERIALS, OR UPON RECEIVING A NOTICE FROM ANY GOVERNMENTAL AGENCY PERTAINING TO HAZARDOUS MATERIALS WHICH MAY AFFECT THE LEASED PREMISES. THE OBLIGATIONS OF LESSEE HEREUNDER SHALL SURVIVE THE EXPIRATION OR EARLIER TERMINATION, FOR ANY REASON, OF THIS AGREEMENT.**

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



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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.

40. RENTALS. ** THIS IS A PAID-UP OIL AND GAS LEASE.

SEE ADDENDUM 1 ATTACHED HERETO FOR ADDITIONAL PROVISIONS

LESSEE: Silverback Exploration, LLC

By:

David Frye

Title:

Vice President

Date:

11/21/14

STATE OF TEXAS

Carol Jo Blake

BLAKE OIL & GAS CORPORATION

Individually and as agent for the State of Texas

By: Carol Jo Blake (printed name)

Title: President

Date: 8-15-14

STATE OF TEXAS

Individually and as agent for the State of Texas

By: (printed name)

Title:

Date:

STATE OF TEXAS

Individually and as agent for the State of Texas

By: (printed name)

Title:

Date:

STATE OF TEXAS

Individually and as agent for the State of Texas

By: (printed name)

Title:

Date:



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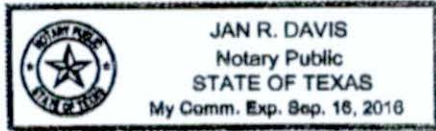
STATE OF TEXAS

(CORPORATION ACKNOWLEDGMENT)

COUNTY OF MIDLAND

BEFORE ME, the undersigned authority, on this day personally appeared Carol Jo Blake
known to me to be the person whose name is subscribed to the foregoing instruments as President
of Blake Oil & Gas Corporation, a Texas corporation and acknowledged to me that he
executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the 15th day of August 2014.



Jan R. Davis
Notary Public in and for Midland County, Texas

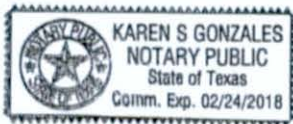
STATE OF Texas

(CORPORATION ACKNOWLEDGMENT)

COUNTY OF Bexar

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

Given under my hand and seal of office this the 21 day of November, 2014.



Karen S. Gonzales
Notary Public in and for Texas

STATE OF Texas

(INDIVIDUAL ACKNOWLEDGMENT)

COUNTY OF Bexar

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

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

Notary Public in and for _____

STATE OF _____

(INDIVIDUAL ACKNOWLEDGMENT)

COUNTY OF _____

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

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

Notary Public in and for _____



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ADDENDUM 1

Attached to and made a Part of Oil and Gas Lease dated August 15, 2014,
From the State of Texas, acting by and through its agent, Blake Oil & Gas Corporation, as
the Owner of the Soil, to Silverback Exploration, LLC, as Lessee

The printed lease form to which this addendum is attached contains printed Paragraphs 1 through 40. The provisions set forth below, including Paragraphs 41 through 49, are made a part of the printed lease form, as though originally contained therein. In the event of a conflict between any of the provisions of Paragraphs 1 through 40 and any of the provisions contained in this addendum, the conflicting provision of this addendum shall prevail. The term "this lease," whether appearing in the printed lease form or this addendum, shall mean the agreement contained in the printed lease form, as amended, supplemented and superseded by this addendum.

41. The term "Actual Drilling" will be defined as having a rig on location (and drilling operations underway) that is capable of drilling to the permitted total depth, which must be within a formation reasonably believed to contain commercially recoverable deposits of oil and/or gas.

42. After the expiration of the primary term and/ or the extended term, whichever is later, this Oil, Gas and Mineral Lease shall be construed to be a separate lease as to each separate production unit.

43. Lessee may drill a water well or wells on the leased premises. Lessee agrees to install a meter on each well and to pay the owner of the soil for water produced from said well, or wells, at a rate of \$0.50 per barrel. Prior to abandonment of such well, Lessee shall offer the well, or wells, to the owner of the soil, with casing intact, at no cost. The owner of the soil shall elect within fifteen (15) days of receipt of such notice to take over the well. In agreeing to take over the water well(s) the owner of the soil hereby agrees to release Lessee from any liability arising from drilling, operating, producing or otherwise maintaining such well or wells.

44. Unless otherwise agreed by the owner of the soil, acting as agent on behalf of the State of Texas, in writing and in advance, Lessee shall be prohibited from disposing of salt water on the leased premises. Disposal of any such salt water or the removal of salt water from the leased premises shall be accomplished in strict compliance with the rules and regulations of the RRC and any other governmental agency having jurisdiction thereof.

45. Upon written request Lessee shall furnish the owner of the soil with copies of the following related to wells operated by Lessee on the Land or lands pooled therewith:

- (A) Plats or maps showing the location of the well and all forms filed with the appropriate state governmental authority;
- (B) Copies of monthly production reports
- (C) Daily drilling and completion reports, and mud log if a mud log is run in such well;
- (D) The details of any drillstem tests taken in said well and the final results of any core analyses which are run on cores taken while drilling said well;
- (E) Copies of all testing reports and logs run in such well.

46. All said information will be furnished in a timely manner to the Owner of the Soil at the above address or e-mail (jack.blake@navigatortx.com, reader@navigatortx.com, racosta@navigatortx.com, bog@suddenlinkmail.com). Contact information is subject to change.

47. The owner of the soil makes no warranty of title to the leased premises, either express or implied.

48. As an additional cash bonus due and payable as and when drilling operations, construction, pipeline installation and other surface operations are conducted, any operations conducted on the surface of the premises, related to this lease, shall be subject to payment by Lessee for all of the types of operations and in the payment amounts and terms as set out in the then current University of Texas System Rate and Damage Schedule promulgated by University Lands Surface and Mineral Interests, and/or by the Board of Regents of the University of Texas System, applicable to oil and gas operations on lands owned by the State of Texas and subject to lease by the Board for Lease of University Lands. Such payments shall be made 1/2 directly to the owner of the soil and a like amount paid or tendered to the Commissioner of the General Land Office of the State of Texas, at Austin, Texas.

49. The provisions of this lease shall inure to the benefit of and be binding upon the owner of the soil, the State of Texas, and Lessee, and their respective heirs, successors, assigns, representatives, directors, principals, agents, employees, contractors and subcontractors.

50. In the event this lease is perpetuated beyond the primary term by production or drilling or reworking operations, this lease shall remain in full force and effect as to all of the lands covered by this lease if on or before One Hundred Eighty (180) days after the primary term, lessee commences a continuous development drilling program on the leased premises in accordance with the following, and thereafter diligently continues and prosecutes such continuous drilling operations on the leased premises with no cessation of more than One Hundred Eighty (180) days between the completion of anyone well and the commencement of the actual drilling of the next succeeding oil and/or gas well. At and after the expiration of the primary term, failure to timely commence or prosecute the continuous development program provided hereinabove shall terminate this lease as to all of the above described premises, SAVE and EXCEPT as to each "production unit" as hereinafter defined. A production unit for a vertical well shall be (i) the maximum number of acres required by the Railroad Commission of Texas for a proration unit under then existing special field rules or (ii) if there are no special field rules 40 acres around each vertical oil well and 160 acres around each vertical gas well then producing or capable of producing oil and/or gas in paying quantities. In the event of a horizontal well, Lessee may allocate acreage to each production unit that amount of acreage as allowed by Rule 86 of the Railroad Commission of Texas. Notwithstanding the foregoing, the production unit for a vertical oil or gas well shall not exceed 160 acres, and for a horizontal oil or gas well shall not exceed 320 acres. Each production unit retained by Lessee shall be limited to those depths from the surface of the ground to 100' below the base of the deepest perforations from which production of oil or gas in paying quantities is being maintained (or, in the case of a shut-in gas well, can be maintained) in the well on such production unit and all other deeper depths shall be released.

The term "completion," as used herein, shall mean the earlier of the date of completion shown on the Railroad Commission Initial Potential Form W-2 or 60 days from the date of release of the drilling rig. Upon termination of this lease as to any portion of the leased premises, Lessee shall deliver to Owner of the soil a plat showing the designated production units around each well and a partial release complying with the requirements of this paragraph, suitable for recording.



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Clarks Office

SIGNED FOR IDENTIFICATION:

LESSEE



LESSEE: Silverback Exploration, LLC

By: David Faye

Title: Vice President

Date: 11/21/14

OWNER OF THE SOIL



BLAKE OIL & GAS CORPORATION

Individually and as agent for the State of Texas

By: Carol Jo Blake (printed name)

Title: President

Date: 8-15-14

STATE OF TEXAS

Individually and as agent for the State of Texas

By: _____ (printed name)

Title: _____

Date: _____

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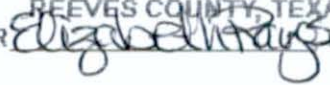
Inst No. 15-00483

DIANNE O. FLOREZ

COUNTY CLERK

2015 Jan 16 at 10:41 AM

REEVES COUNTY, TEXAS

By: ER  DEPUTY

After Recording please return to:

E & G Energy, Inc.

4925 Greenville Ave, Ste 825

Dallas, Texas 75206



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ccpy of
Original filed in
Reeves County
Clerks Office

File No. MF 117344
Lease C County
Date Filed: 2-16-15
George P. Bush, Commissioner
By JK

3.10.15

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

The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL 1138
PAGE 391 THRU 401

I hereby certify on 16th Mar 2015



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

117344D

The State of Texas



Austin, Texas

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 26th day of September 2014, between the State of Texas, acting by and through its agent,
JUDSON OPERATIONS, LTD.

of P.O. Box 3340, Midland, Texas 79702

(Give Permanent Address)

said agent herein referred to as the owner of the soil (whether one or more), and SILVERBACK EXPLORATION, LLC

of 1826 North Loop 1604 West, Suite 325, San Antonio, Texas 75248

(Give Permanent Address)

hereinafter called Lessee.

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

**EAST 100 Acres of the SE/4 of Section 1,
A-5442, Block 59, Public Lands Survey**

Containing 100 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Twenty Nine Thousand One Hundred Sixty Six and 67/100

Dollars (\$29,166.67)

To the owner of the soil: Twenty Nine Thousand One Hundred Sixty Six and 67/100

Dollars (\$29,166.67)

Total bonus consideration: Fifty Eight Thousand Three Hundred Thirty Three and 34/100

Dollars (\$58,333.34)

The total bonus consideration paid represents a bonus of Three Thousand Five Hundred and 00/100 Dollars (\$3,500.00) per acre, on 16.6666667 net acres.

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



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

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.



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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, core tests, or other information relative to the operation of the above-described premises, which may be requested by the General Land Office, in addition to those herein expressly provided for. Lessee shall have an electrical and/or radioactivity survey made on the bore-hole section, from the base of the surface casing to the total depth of well, of all wells drilled on the above described premises and shall transmit a true copy of the log of each survey on each well to the General Land Office within fifteen (15) days after the making of said survey.

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

11. **DRY HOLE/CESSATION OF PRODUCTION DURING PRIMARY TERM.** If, during the primary term hereof and prior to discovery and production of oil or gas on said land, Lessee should drill a dry hole or holes thereon, or if during the primary term hereof and after the discovery and actual production of oil or gas from the leased premises such production thereof should cease from any cause, this lease shall not terminate if on or before the expiration of sixty (60) days from date of completion of said dry hole or cessation of production Lessee commences additional drilling or reworking operations thereon, or pays or tenders the next annual delay rental in the same manner as provided in this lease. If, during the last year of the primary term or within sixty (60) days prior thereto, a dry hole be completed and abandoned, or the production of oil or gas should cease for any cause, Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term; and if Lessee has not resumed production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking



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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 two (2) more successive periods of one (1) year by paying the same amount each year on or before the expiration of each shut-in year.

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

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

(A) VERTICAL. In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall then terminate as to all of the leased premises, EXCEPT (1) 40 acres surrounding each oil well capable of producing in paying quantities and 320 acres surrounding each gas well capable of producing in paying quantities (including a shut-in oil or gas well as provided in Paragraph 14 hereof), or a well upon which Lessee is then engaged in continuous drilling or reworking operations, or (2) the number of acres included in a producing pooled unit pursuant to Texas Natural Resources Code 52.151-52.154, or (3) such greater or lesser number of acres as may then be allocated for production purposes to a proration unit for each such producing well under the rules and regulations of the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction. If at any time after the effective date of the partial termination provisions hereof, the applicable field rules are changed or the well or wells located thereon are reclassified so that less acreage is thereafter allocated to said well or wells for production purposes, this lease shall thereupon terminate as to all acreage not thereafter allocated to said well or wells for production purposes. Notwithstanding the termination of this lease as to a portion of the lands covered hereby, Lessee shall nevertheless continue to have the right of ingress to and egress from the lands still subject to this lease for all purposes described in Paragraph 1 hereof, together with easements and rights-of-way for existing roads, existing pipelines and other existing facilities on, over and across all the lands described in Paragraph 1 hereof ("the retained lands"), for access to and from the retained lands and for the gathering or transportation of oil, gas and other minerals produced from the retained lands.



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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

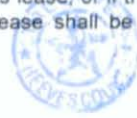
28. RELEASES. Under the conditions contained in this paragraph and Paragraph 29, Lessee may at any time execute and deliver to the owner of the soil and place of record a release or releases covering any portion or portions of the leased premises, and thereby surrender this lease as to such portion or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

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

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

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

32. FORFEITURE. If Lessee shall fail or refuse to make the payment of any sum within thirty days after it becomes due, or if Lessee or an authorized agent should knowingly make any false return or false report concerning production or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith as required by law and the rules and regulations adopted by the Commissioner of the General Land Office, or if Lessee should fail to file reports in the manner required by law or fail to comply with rules and regulations promulgated by the General Land Office, the School Land Board, or the Railroad Commission, or if Lessee should refuse the proper authority access to the records pertaining to operations, or if Lessee or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or knowingly fail or refuse to furnish the General Land Office a correct log of any well, or if Lessee shall knowingly violate any of the material provisions of this lease, or if this lease is assigned and the assignment is not filed in the General Land Office as required by law, the rights acquired under this lease shall be subject to forfeiture by the



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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 Owner of the Soil may suffer by reason of Lessee's breach of any covenant or condition of this lease, whether express or implied. This lien and security interest may be foreclosed with or without court proceedings in the manner provided in the Title 1, Chap. 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this lease forfeited as provided herein.

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

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

36. ENVIRONMENTAL HAZARDS. Lessee shall use the highest degree of care and all reasonable safeguards to prevent contamination or pollution of any environmental medium, including soil, surface waters, groundwater, sediments, and surface or subsurface strata, ambient air or any other environmental medium in, on, or under, the leased premises, by any waste, pollutant, or contaminant. Lessee shall not bring or permit to remain on the leased premises any asbestos containing materials, explosives, toxic materials, or substances regulated as hazardous wastes, hazardous materials, hazardous substances (as the term "Hazardous Substance" is defined in the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), 42 U.S.C. Sections 9601, et seq.), or toxic substances under any federal, state, or local law or regulation ("Hazardous Materials"), except ordinary products commonly used in connection with oil and gas exploration and development operations and stored in the usual manner and quantities. **LESSEE'S VIOLATION OF THE FOREGOING PROHIBITION SHALL CONSTITUTE A MATERIAL BREACH AND DEFAULT HEREUNDER AND LESSEE SHALL INDEMNIFY, HOLD HARMLESS AND DEFEND THE STATE OF TEXAS AND THE OWNER OF THE SOIL FROM AND AGAINST ANY CLAIMS, DAMAGES, JUDGMENTS, PENALTIES, LIABILITIES, AND COSTS (INCLUDING REASONABLE ATTORNEYS' FEES AND COURT COSTS) CAUSED BY OR ARISING OUT OF (1) A VIOLATION OF THE FOREGOING PROHIBITION OR (2) THE PRESENCE, RELEASE, OR DISPOSAL OF ANY HAZARDOUS MATERIALS ON, UNDER, OR ABOUT THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OR CONTROL OF THE LEASED PREMISES. LESSEE SHALL CLEAN UP, REMOVE, REMEDY AND REPAIR ANY SOIL OR GROUND WATER CONTAMINATION AND DAMAGE CAUSED BY THE PRESENCE OR RELEASE OF ANY HAZARDOUS MATERIALS IN, ON, UNDER, OR ABOUT THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OF THE LEASED PREMISES IN CONFORMANCE WITH THE REQUIREMENTS OF APPLICABLE LAW. THIS INDEMNIFICATION AND ASSUMPTION SHALL APPLY, BUT IS NOT LIMITED TO, LIABILITY FOR RESPONSE ACTIONS UNDERTAKEN PURSUANT TO CERCLA OR ANY OTHER ENVIRONMENTAL LAW OR REGULATION. LESSEE SHALL IMMEDIATELY GIVE THE STATE OF TEXAS AND THE OWNER OF THE SOIL WRITTEN NOTICE OF ANY BREACH OR SUSPECTED BREACH OF THIS PARAGRAPH, UPON LEARNING OF THE PRESENCE OF ANY HAZARDOUS MATERIALS, OR UPON RECEIVING A NOTICE FROM ANY GOVERNMENTAL AGENCY PERTAINING TO HAZARDOUS MATERIALS WHICH MAY AFFECT THE LEASED PREMISES. THE OBLIGATIONS OF LESSEE HEREUNDER SHALL SURVIVE THE EXPIRATION OR EARLIER TERMINATION, FOR ANY REASON, OF THIS AGREEMENT.**

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



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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.

40. RENTALS. ** THIS IS A PAID-UP OIL AND GAS LEASE.

SEE ADDENDUM 1 ATTACHED HERETO FOR ADDITIONAL PROVISIONS

LESSEE: SILVERBACK EXPLORATION, LLC

By: David Frye

Title: Vice President

Date: 11/21/14

STATE OF TEXAS

JUDSON OPERATIONS, LTD.

Individually and as agent for the State of Texas

By: Donald H. Judson (printed name)

Title: Vice President

Date: 9-30-14

STATE OF TEXAS

Individually and as agent for the State of Texas

By: _____ (printed name)

Title: _____

Date: _____

STATE OF TEXAS

Individually and as agent for the State of Texas

By: _____ (printed name)

Title: _____

Date: _____

STATE OF TEXAS

Individually and as agent for the State of Texas

By: _____ (printed name)

Title: _____

Date: _____



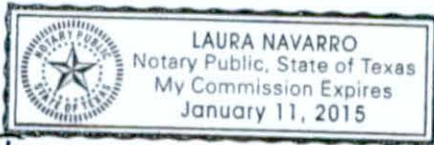
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STATE OF TEXAS
COUNTY OF MIDLAND

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Donald H. Judson
known to me to be the person whose name is subscribed to the foregoing instruments as Vice President of JUDSON DEVELOPMENT CORPORATION,
a Texas Corporation, General Partner of JUDSON OPERATIONS, LTD., a Texas Limited Partnership, and acknowledged to me that he executed the
same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the 30th day of September 2014.



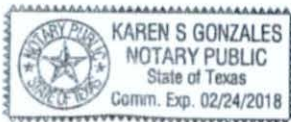
Laura Navarro
Notary Public in and for Midland County, Texas

STATE OF Texas
COUNTY OF Bexar

(CORPORATION ACKNOWLEDGMENT)

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

Given under my hand and seal of office this the 21 day of November, 2014.



Karen S. Gonzales
Notary Public in and for Texas

STATE OF Texas
COUNTY OF Bexar

(INDIVIDUAL ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared _____

known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the
purposes and consideration therein expressed.

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

Notary Public in and for _____

STATE OF _____
COUNTY OF _____

(INDIVIDUAL ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared _____

known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the
purposes and consideration therein expressed.

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

Notary Public in and for _____



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ADDENDUM 1

Attached to and made a Part of Oil and Gas Lease dated September 26, 2014,
From the State of Texas, acting by and through its agent, Judson Operations, Ltd.,
as the Owner of the Soil, to Silverback Exploration, LLC, as Lessee

The printed lease form to which this addendum is attached contains printed Paragraphs 1 through 40. The provisions set forth below, including Paragraphs 41 through 50, are made a part of the printed lease form, as though originally contained therein. In the event of a conflict between any of the provisions of Paragraphs 1 through 40 and any of the provisions contained in this addendum, the conflicting provision of this addendum shall prevail. The term "this lease," whether appearing in the printed lease form or this addendum, shall mean the agreement contained in the printed lease form, as amended, supplemented and superseded by this addendum.

41. The term "Actual Drilling" will be defined as having a rig on location (and drilling operations underway) that is capable of drilling to the permitted total depth, which must be within a formation reasonably believed to contain commercially recoverable deposits of oil and/or gas.

42. After the expiration of the primary term and/ or the extended term, whichever is later, this Oil, Gas and Mineral Lease shall be construed to be a separate lease as to each separate production unit.

43. No water may be used without the written consent of the owner of the soil, which may be denied for any reason.

44. Unless otherwise agreed by the owner of the soil, acting as agent on behalf of the State of Texas, in writing and in advance, Lessee shall be prohibited from disposing of salt water on the leased premises. Disposal of any such salt water or the removal of salt water from the leased premises shall be accomplished in strict compliance with the rules and regulations of the RRC and any other governmental agency having jurisdiction thereof.

45. Upon written request Lessee shall furnish the owner of the soil with copies of the following related to wells operated by Lessee on the Land or lands pooled therewith:

- (A) Plats or maps showing the location of the well and all forms filed with the appropriate state governmental authority;
- (B) Copies of monthly production reports
- (C) Daily drilling and completion reports, and mud log if a mud log is run in such well;
- (D) The details of any drillstem tests taken in said well and the final results of any core analyses which are run on cores taken while drilling said well;
- (E) Copies of all testing reports and logs run in such well.
- (F) Lessee shall provide the Owner of the soil with a complete copy of any and all Title Opinions prepared, before and after a well is drilled on the above-described lands.

46. All said information will be furnished in a timely manner to the Owner of the Soil at the above address or e-mail (edmar_79701@yahoo.com). Contact information is subject to change.

47. The owner of the soil makes no warranty of title to the leased premises, either express or implied.

48. As an additional cash bonus due and payable as and when drilling operations, construction, pipeline installation and other surface operations are conducted, any operations conducted on the surface of the premises related to this lease, shall be subject to payment by Lessee for all of the types of operations and in the payment amounts and terms as set out in the then current University of Texas System Rate and Damage Schedule promulgated by University Lands Surface and Mineral Interests, and/or by the Board of Regents of the University of Texas System, applicable to oil and gas operations on lands owned by the State of Texas and subject to lease by the Board for Lease of University Lands. Such payments shall be made 1/2 directly to the owner of the soil and a like amount paid or tendered to the Commissioner of the General Land Office of the State of Texas, at Austin, Texas.

49. The provisions of this lease shall inure to the benefit of and be binding upon the owner of the soil, the State of Texas, and Lessee, and their respective heirs, successors, assigns, representatives, directors, principals, agents, employees, contractors and subcontractors.

50. In the event this lease is perpetuated beyond the primary term by production or drilling or reworking operations, this lease shall remain in full force and effect as to all of the lands covered by this lease if on or before One Hundred Eighty (180) days after the primary term, lessee commences a continuous development drilling program on the leased premises in accordance with the following, and thereafter diligently continues and prosecutes such continuous drilling operations on the leased premises with no cessation of more than One Hundred Eighty (180) days between the completion of any one well and the commencement of the actual drilling of the next succeeding oil and/or gas well. At and after the expiration of the primary term, failure to timely commence or prosecute the continuous development program provided hereinabove shall terminate this lease as to all of the above described premises, SAVE and EXCEPT as to each "production unit" as hereinafter defined. A production unit for a vertical well shall be (i) the maximum number of acres required by the Railroad Commission of Texas for a proration unit under then existing special field rules or (ii) if there are no special field rules 40 acres around each vertical oil well and 160 acres around each vertical gas well then producing or capable of producing oil and/or gas in paying quantities. In the event of a horizontal well, Lessee may allocate acreage to each production unit that amount of acreage as allowed by Rule 86 of the Railroad Commission of Texas. Notwithstanding the foregoing, the production unit for a vertical oil or gas well shall not exceed 160 acres, and for a horizontal oil or gas well shall not exceed 320 acres. Each production unit retained by Lessee shall be limited to those depths from the surface of the ground to 100' below the base of the deepest perforations from which production of oil or gas in paying quantities is being maintained (or, in the case of a shut-in gas well, can be maintained) in the well on such production unit and all other deeper depths shall be released.

The term "completion," as used herein, shall mean the earlier of the date of completion shown on the Railroad Commission Initial Potential Form W-2 or 60 days from the date of release of the drilling rig. Upon termination of this lease as to any portion of the leased premises, Lessee shall deliver to Owner of the soil a plat showing the designated production units around each well and a partial release complying with the requirements of this paragraph, suitable for recording.



True and Correct
copy of
Original filed in
Rooves County
Clarks Office

SIGNED FOR IDENTIFICATION:

LESSEE



LESSEE: SILVERBACK EXPLORATION, LLC

By: David Frye

Title: Vice President

Date: 11/21/14

OWNER OF THE SOIL



JUDSON OPERATIONS, LTD.

Individually and as agent for the State of Texas

By: Donald H. Judson (printed name)

Title: Vice President

Date: 9-30-14

STATE OF TEXAS

Individually and as agent for the State of Texas

By: _____ (printed name)

Title: _____

Date: _____

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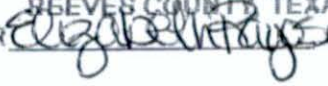
Inst No. 15-00484

DIANNE O. FLOREZ

COUNTY CLERK

2015 Jan 16 at 10:41 AM

REEVES COUNTY, TEXAS

By: ER  DEPUTY

After Recording please return to:

E & G Energy, Inc.

4925 Greenville Ave, Ste 825

Dallas, Texas 75206



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

File No. MF 117344
Lease D Gentry
Date Filed: 2-16-15
George P. Bush, Commissioner
By [Signature]

5.10.12

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

The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL. 188 PAGE 408 HRU 412

I hereby certified on 10th Mar 2015



DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS
Elizabeth Trays DEPUTY



TEXAS GENERAL LAND OFFICE
GEORGE P. BUSH, COMMISSIONER

June 17, 2015

David Frye
Silverback Exploration, LLC
1826 North Loop 1604 West, Suite 325
San Antonio, TX 78248

Re: **State Lease MF 117344**

Four RAL leases covering 100 ac., Sec. 1 A-
5442, Blk. 59, PSL Survey, Reeves Co, TX

Dear Mr. Frye:

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

There are several contractual and statutory responsibilities for the Lessee which are material provisions of the lease as outlined in the agreement such as Section 10(B) which requires submission of written notice for all drilling, production and related activities. When forms are filed with the Texas Railroad Commission, they are required to be submitted to the General Land Office as well. Examples are W-1, Application to Drill; W-2, Oil Well Completion Report and Log; G-1, Gas Well Completion Report and Log; W-3, Plugging Report; G-5, Gas Well Classification Report; G-10, Gas Well Status Report; W-10, Oil Well Status Report; W-12, Inclination Report; electric logs; directional surveys.

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

Your remittances are set out on Page 2 and have been applied to the State's portion of the cash bonus. In addition, we are in receipt of your processing and filing fees.

Sincerely yours,

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

<u>State Lease No.</u>	<u>Lessor as agent for State of TX</u>	<u>Dated</u>	<u>Recorded Vol/Page</u>	<u>Bonus Amount</u>
MF117344A	LAJ Corporation	08/22/14	V. 1138, P. 413	\$51,041.67
MF117344B	Sigmar, Inc.	09/22/14	V. 1138, P. 424	\$51,041.67
MF117344C	Blake Oil & Gas Corporation	08/15/14	V. 1138, P. 391	\$43,750.00
MF117344D	Judson Operations, Ltd.	09/26/14	V. 1138, P. 402	\$29,166.67

7.
File No. MF117344
FINAL letter ~~Copy~~

Date Filed: 6-17-15

George P. Bush, Commissioner

By JP

NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OF THE FOLLOWING INFORMATION FROM THIS INSTRUMENT BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.

RELEASE OF OIL AND GAS LEASES

STATE OF TEXAS §
 §
COUNTY OF REEVES §

This Release of Oil and Gas Leases (this "Release") is made effective as of June 29, 2017 (the "Effective Date") by Atlantic Resources II Interests LLC ("Lessee"), whose address is 600 N. Marienfeld, Ste. 1000, Midland, Texas 79701 to the State of Texas, acting by and through its agent, Blake Oil & Gas Corporation (collectively, "Lessors"), whose addresses can be found in the leases referenced below.

NOTICE IS HEREBY TAKEN OF THE FOLLOWING:

1. **WHEREAS**, Lessee is the current owner of record of the following Oil and Gas Leases (the "Leases") covering those lands described below (the "Lands"):
 - a. Oil and Gas Lease dated August 15, 2014, between the State of Texas, acting by and through its agent, Blake Oil & Gas Corporation, as Lessor, and Silverback Exploration, LLC, as Lessee, recorded in Volume 1138, Page 391 of the Official Public Records of Reeves County, Texas, covering the East 100 acres of the SE/4 of Section 1, Block 59, PSL Survey, Reeves County, Texas, containing 100.00 acres, more or less;
 - b. Oil and Gas Lease dated August 15, 2014, between the State of Texas, acting by and through its agent, Blake Oil & Gas Corporation, as Lessor, and Silverback Exploration, LLC, as Lessee, recorded in Volume 1138, Page 435 of the Official Public Records of Reeves County, Texas, covering E/2NE/4 of Section 12, Block 59, PSL Survey, Reeves County, Texas, containing 80.00 acres, more or less.
2. **WHEREAS**, Lessee desires to release of record all right, title, and interest in the Leases as to all depths.
3. **WHEREAS**, Lessor and Lessee have executed, and will be filing of record after this instrument, two (2) new oil and gas leases effective as of June 30, 2017 (the "New Leases"), covering the Lands. This Release is not intended to release and shall not be construed to release any interest in the New Leases.

NOW THEREFORE, for Ten Dollars (\$10.00) and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Lessee does hereby relinquish, release,

True & Correct Copy of a
document on file at
Reeves County Texas,
Dianne O. Florez, County Clerk
Page 1 of 2

and surrender, to the present owners of the mineral estate, all of Lessee's right, title and interest in and to the Leases.

This Release is not intended to release and does not release any interest in the New Leases.

This Release is signed by Lessee as of the date of the acknowledgment below, but is effective for all purposes as of the Effective Date.

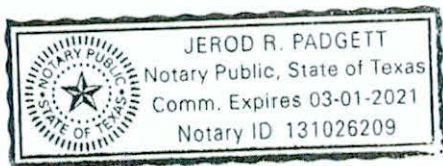
LESSEE:

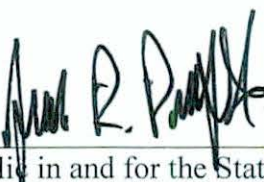
ATLANTIC RESOURCES II INTERESTS LLC

By: 
R.A. Jennings, Chief Executive Officer

STATE OF TEXAS §
 §
COUNTY OF MIDLAND §

The foregoing instrument was acknowledged before me this 7th day of July, 2017, by R.A. Jennings, as Chief Executive Officer of Atlantic Resources II Interests LLC, on behalf of said company.




Notary Public in and for the State of TEXAS
My Commission expires: 03-01-2021

Inst No. 17-12204
DIANNE O. FLOREZ
COUNTY CLERK
2017 Jul 21 at 11:32 AM
REEVES COUNTY, TEXAS
By: MS.  DEPUTY

File No. 117344
County _____
Release C
Date Filed: 08/01/17
George P. Bush, Commissioner
By [Signature]

THE STATE OF TEXAS
COUNTY OF REEVES
I, Dianne O. Florez, Clerk of the County Court in and
for said County and State do hereby certify that the foregoing is a true and correct copy of
Set of oil & gas leases dated July 1 2017
filed for record in my office this 21st day of July at
132A M, under Clerk's File No. 17-1A204, to be recorded in the
Official Public Records
Records of Reeves County, Texas.
TO CERTIFY WHICH, Witness my hand and official seal at Pecos, Texas
this 21st day of July, 2017.
By [Signature] Deputy, DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

17-12205
FILED FOR RECORD
REEVES COUNTY, TEXAS
Jul 21, 2017 at 11:32:00 AM
117344E

The State of Texas



Austin, Texas

General Land Office
Relinquishment Act Lease Form
Revised 7/16

OIL AND GAS LEASE NO.

THIS OIL AND GAS LEASE is made and entered into to be effective the 30th day of June, 2017, (the "effective date"), by and between the State of Texas, acting by and through its agent, Blake Oil & Gas Corporation, whose address is: 400 N. Main St., Midland, Texas 79701, said agent herein referred to as the owner of the soil (whether one or more) ("owner of the soil"), and Atlantic Resources II Interests LLC ("Lessee"), whose address is: P.O. Box 3759, Midland, Texas 79702.

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

The bonus consideration paid for this lease is as follows:

To the State of Texas: <u>One Hundred Twelve Thousand Five Hundred Dollars & 00/100</u>	Dollars (\$ <u>112,500.00</u>)
To the owner of the soil: <u>One Hundred Twelve Thousand Five Hundred Dollars & 00/100</u>	Dollars (\$ <u>112,500.00</u>)
Total bonus consideration: <u>Two Hundred Twenty-Five Thousand Dollars & 00/100</u>	Dollars (\$ <u>225,000.00</u>)

The total bonus consideration paid represents a bonus of Nine Thousand Dollars & 00/100 dollars (\$9,000.00) per acre, on 25.00 net acres.

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

The East 100.00 acres of the SE/4 of Section 1, Block 59, Public School Land Survey, A-5442, Reeves County, Texas

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

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

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

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

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

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document on file at
Reeves County Texas,
Dianne O. Florez, County Clerk
Page 1 of 12

- area where produced and when run, (ii) the highest market price thereof paid or offered in the general area where produced and when run, or (iii) the gross proceeds of the sale thereof.
- (b) **NON-PROCESSED GAS:** As a royalty on any Non-Processed Gas, a monetary royalty of **Twenty-Five percent (25 %)** of the value of the Gross Production, unless the Commissioner or the owner of the soil, at the option of either, elects to receive its royalty in kind pursuant to section 4(l). The value of the Gross Production shall be calculated (i) at the point at which the Non-Processed Gas is Ready for Sale and Use and without deduction for expenses, as described in section 4(k), (ii) on a Dry Gas basis as to both volume and energy content (as described in the section 30 definitions below), and (iii) based on the higher of:
- (A) the highest market price paid or offered for Gas of comparable quality in the general area where produced and when run, or
- (B) the gross price paid or offered to the Lessee; provided that the maximum pressure base in measuring the Gas under this lease contract shall equal 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to a test made by chromatographic analysis or the Balance Method.
- Provided, however, that if Non-Processed Gas is sold to a parent, subsidiary or affiliate of Lessee, then the royalty due hereunder shall be based on the value of the Gas as either Non-Processed Gas or Processed Gas, as the case may be, in the first sale to a third party in an agreement negotiated at arms' length.
- (c) **PROCESSED GAS:** As a royalty on any Processed Gas, Lessee agrees to pay a monetary royalty of **Twenty-Five percent (25 %)** of the value of the Residue Gas and the NGLs extracted, unless the Commissioner or the owner of the soil, at the option of either, elects to receive its royalty in kind pursuant to section 4(l). The value of the Gross Production shall be calculated at the point the Residue Gas and/or the NGLs, respectively, are Ready for Sale and Use. All royalties due herein shall be on 100% of the volume of the Gas produced from the Leased Premises (calculated on a Dry Gas basis as to both volume and energy content, as described in the section 30 definitions below) as measured or attributed at the inlet of the Processing Plant. The royalty due from Lessee hereunder shall be based on the greater value of:
- (1) the sum of the values of (A) 100% of the Residue Gas MMBtu attributable to the Gas determined at the plant recovery efficiency applicable to each NGL component, plus (B) the net value of the NGLs after deduction of all applicable Gas processing fees and/or the value of the NGLs at the applicable liquids percent of proceeds accruing to the Processing Plant, or
- (2) the sum of the values of (A) 100% of the available Residue Gas MMBtu attributable to the Gas, plus (B) the value of the NGLs at the applicable minimum liquids POP%, established herein in section 4(d), without deduction or reduction in the value of the NGLs by a percent of proceeds or any other fees or adjustments of any type, form, or character, or
- (3) the "keep whole" value of the Gas as described in section 4(f).
- For purposes of calculating the royalty due hereunder, the respective values of the Residue Gas and the NGLs shall be based on the greater of:
- (1) the highest market price paid or offered in the general area for (A) any Pipeline-Quality Residue Gas, and (B) NGLs, as either Raw Mix or merchantable and marketable commercial grades and/or blends of each of the individual components, after fractionation, of comparable quality in the general area, or
- (2) the (A) gross price paid or offered to Lessee for such Pipeline-Quality Residue Gas, and (B) weighted monthly average gross selling price for the respective grades of NGLs, as either Raw Mix or merchantable and marketable commercial grades and/or blends of each of the individual components, after fractionation.
- No fees or costs of any kind shall be deducted from the value of Gas that is bypassed around a Gas Processing Plant and then blended with Gas that was processed to remove liquefiable hydrocarbons at, or at a point downstream of, the tailgate of the Processing Plant, a.k.a. "conditioning". The value of Gas bypassed around a plant in which no liquefiable hydrocarbons or NGLs are removed from the Gas shall equal that for Non-Processed Gas per section 4(b).
- Provided, however, that if NGLs are recovered from Gas processed in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the POP% applicable to NGLs shall be the greater of (x) the applicable POP% per section 4(d), or (y) the highest percent accruing to a third party processing Gas through such plant under a processing agreement negotiated at arms' length.
- (d) **APPLICABLE MINIMUM LIQUIDS PERCENT OF PROCEEDS:** (1) The applicable minimum liquids percent of proceeds ("POP%") of the total available liquid hydrocarbon content volume for all NGLs, except ethane, shall, regardless of the natural Gas liquids recovery process or Gas processing agreement terms and/or conditions, be equal to the following:
- (A) 70% for Gas with a heating content or BTU value equal to or greater than 1100 BTU/SCF;
- (B) 60% for Gas with a heating content or BTU value equal to or greater than 1070 BTU/SCF but less than 1100 BTU/SCF; and
- (C) 50% for Gas with a heating content or BTU value less than 1070 BTU/SCF.
- (2) The available liquid hydrocarbon volume, in gallons, of each NGL component used to calculate the value of the NGLs at the applicable POP% shall equal the product of (A) the Processing Plant inlet Gas volume, in MSCF, on a Dry Gas basis, times (B) the gallons per MSCF of each component calculated per the applicable standards, at 14.65 pounds per square inch absolute and 60° Fahrenheit, according to a test made by chromatographic analysis of the Gas, except ethane, where the theoretical gallons of ethane available in the Gas shall be reduced by the Processing Plant recovery efficiency of ethane then being specified in processing agreements negotiated at arm's length between the Lessee and the plant for each dedicated Processing Plant and each Processing Plant that may process the Gas in a series of plants
- (3) The available Residue Gas MMBtu amount used in the calculation of the royalty value in section 4(c)(2) shall equal the product of (A) the Processing Plant inlet Gas MMBtu amount less the sum total MMBtu of shrinkage calculated for the available liquid hydrocarbon volume in section 4(d)(2) for each NGL component, times (B) one (1.0) minus the lesser of (1) the plant fuel MMBtu percentage divided by 100%, or (2) 0.035
- (e) **OTHER PRODUCTS:** As a royalty on carbon black, carbon dioxide, sulphur or any other products (including water) produced (excepting Oil, Gas, or NGLs, addressed separately above), Lessee agrees to pay a monetary royalty of **Twenty-Five percent (25%)** of the value of the Gross Production of such products, unless the Commissioner of the General Land Office of the State of Texas (the "Commissioner") or the owner of the soil, at the option of either, elects to receive its royalty in kind pursuant to section 4(l). The value of the Gross Production shall be calculated at the point the other products are Ready for Sale and Use and without deduction for expenses, as described in section 4(k), such value to be based on the higher of:
- (1) the highest market price of each product, during the same month in which such product is produced, or
- (2) the average gross sale price of each product for the same month in which such products are produced.
- (f) **KEEP WHOLE:** Notwithstanding any other provision of this lease to the contrary, Lessee may not pay a royalty hereunder for Processed Gas that is less than the royalty that would have been due under section 4(b) for the total energy content of the Processing Plant inlet Gas if it had not been processed.
- (g) **NON-SALES DISPOSITIONS:** As a royalty on non-sales dispositions of Gas, including but not limited to vented Gas, flared Gas, flash Gas and lease fuel Gas, Lessee agrees to pay a royalty based on the royalty provisions for Non-Processed Gas described in section 4(b) of this Lease (but without requirement of merchantability or marketability) if the Gas produced from the Leased Premises is not processed; otherwise, the royalty on non-sales dispositions of Gas shall be based on the royalty provisions for Processed Gas described in section 4(c) for Residue Gas. If, for whatever reason, there are no Gas sales dispositions, then Lessee agrees to pay royalty on one fourth (1/4) part of the total energy content of the Gas, in MMBtu determined on a Dry Gas basis, based on the posted market price of natural Gas at the nearest applicable Gas market hub in \$/MMBtu.
- (h) **PLANT FUEL AND RECYCLED GAS:** No royalty shall be payable on any Gas as may represent this lease's proportionate share of any fuel used to process Gas produced hereunder in any third party Gas processing plant pursuant to section 4(c), provided, however, that this lease's proportionate share of any such fuel used to process Gas shall be the lesser of (1) the plant fuel MMBtu percentage of the total plant inlet MMBtu amount (as determined by contract or, if none, by actual MMBtu amounts), or (2) 3.5%, and royalty shall be payable on any Gas in excess of that lesser amount. Subject to the consent in writing of the GLO, Lessee may inject Gas for secondary or enhanced recovery operations or for Gas lift purposes into any Oil- or Gas-producing formation in the Leased Premises after the liquid hydrocarbons contained in the Gas have been removed, and no royalty shall be payable on the Gas so injected until such time as the same may thereafter be produced and sold or used.

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

5. PAYMENTS, SUBMISSIONS AND NOTICES TO LESSOR:

- (a) **MONETARY ROYALTY PAYMENTS:** All royalty owed to the GLO hereunder and not paid in kind at the election of the GLO shall be paid to the GLO at Austin, Texas, in the following manner: payment of royalty on production of Oil and Gas shall be as provided in the Rules. The Rules currently provide that royalty on Oil is due and must be received in the GLO on or before the fifth (5th) day of the second (2nd) month succeeding the month of production or such later date as may be prescribed in the Rules. Royalty on Gas is due and must be received in the GLO on or before the fifteenth (15th) day of the second (2nd) month succeeding the month of production or such later date as may be prescribed in the Rules. All royalty payments must be accompanied by the affidavit of the owner, manager or other authorized agent, completed in the form and manner prescribed by the GLO and showing the gross amount and disposition of all Oil and Gas produced and the market value of the Oil and Gas. Lessee must maintain, and make available to the GLO upon request, copies of all documents, records or reports confirming the Gross Production, disposition and market value including Gas meter readings, pipeline receipts, Gas line receipts and other checks or memoranda of the amount produced and put into pipelines, tanks, or pools and Gas lines or Gas storage, and any other reports or records which the GLO may require to verify the Gross Production, disposition and market value. In all cases the authority of a manager or agent to act for the Lessee herein must be filed in the GLO. Each royalty payment shall be accompanied by a check stub, schedule, summary or other remittance advice showing, by the assigned GLO lease number, the amount of royalty being paid on each lease.
- (b) **MANNER AND TIMELINESS OF PAYMENTS:** A monetary royalty payment that is not submitted electronically shall be considered timely paid if delivered to the GLO on or before the applicable due date or if deposited in a postpaid, properly addressed wrapper with a post office or official depository under the care and custody of, and postmarked by, the United States Postal Service at least one (1) day before the applicable due date. A payment that is submitted electronically shall be considered timely paid if such payment is successfully transmitted to the proper account with the Comptroller of the State of Texas on or before the due date.
- (c) **PENALTIES AND INTEREST:** Lessee shall pay penalties and interest due on late royalty payments and other sums due, and for failure to provide documents, (whether physical documents or information in electronic form), as provided by law or the Rules. The right to collect penalties and interest is in addition to, and shall not in any way limit or restrict, the rights of the GLO to pursue other remedies at law or in equity, including without limitation forfeiture of this lease. If Lessee pays royalty on or before thirty (30) days after the royalty payment was due, then Lessee owes a penalty of five percent (5%) on the royalty or twenty-five dollars (\$25.00), whichever is greater. A royalty payment which is over thirty (30) days late shall accrue a penalty of ten percent (10%) of the royalty due or twenty-five dollars (\$25.00), whichever is greater. In addition to a penalty, royalties shall accrue interest when the royalty is sixty (60) days overdue. Affidavits and supporting documents which are not filed when due shall incur a penalty in an amount set by the Rules that were in effect on the date when the affidavits or supporting documents were due. The Lessee shall bear all responsibility for paying or causing royalties to be paid as prescribed by the due date provided herein. Payment of the delinquency penalty shall in no way operate to prohibit the State's right of forfeiture as provided by law nor act to postpone the date on which royalties were originally due. The above penalty provisions shall not apply in cases of title dispute as to the State's portion of the royalty or to that portion of the royalty in dispute as to fair market value.
- (d) **PAYMENTS, NOTICES, AND CORRESPONDENCE TO LESSOR:** Lessee shall assure that all royalty payments, shut-in royalty payments, delay rentals, and all other payments due under this lease, as well as documents, reports, notices, and other information, unless expressly provided herein that such payment or information be directed to another office, are directed to the following address:

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

If to the GLO:

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

or

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

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

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

6. RECORDS:

- (a) **RESERVES, CONTRACTS AND OTHER RECORDS:** Upon written request by the GLO, Lessee shall annually furnish the GLO with its best possible estimate of Oil and Gas reserves underlying this lease or allocable to this lease and shall furnish the GLO with copies of all contracts under which Gas is sold or processed and all subsequent agreements and amendments to such contracts within thirty (30) days after entering into or making such contracts, agreements or amendments. Such contracts and agreements when received by the GLO shall be held in confidence by the GLO unless otherwise authorized by Lessee. All other contracts and records pertaining to the production, transportation, sale and marketing of the Oil and Gas produced from these Leased Premises, including the books and accounts, receipts and discharges of all wells, tanks, pools, meters, and pipelines shall at all times be subject to audit, inspection, and examination by the GLO, the Attorney General, the Governor, or the representative of any of them.
- (b) **PERMITS, DRILLING RECORDS AND REQUIRED FILINGS:** Written notice of all operations on this lease shall be submitted to the GLO by Lessee or operator five (5) days before spud date, workover, re-entry, temporary abandonment or plug and abandonment of any well or wells. Such written notice to the GLO shall include copies of Railroad Commission forms for application to drill. Copies of well tests, completion reports and plugging reports shall be supplied to the GLO at the time they are filed with the Texas Railroad Commission. All applications, permits, reports or other filings that reference this lease or any specific well on the Leased Premises and that are submitted to the Texas Railroad Commission or any other governmental agency must have the word "State" as the first word in the title. Additionally, in accordance with Railroad Commission rules, any signage on the Leased Premises for the purpose of identifying wells, tank batteries or other associated improvements to the land must also include the word "State." Division orders must be submitted to the GLO within thirty (30) days of first production. GLO shall not be required to sign any division orders. Lessee shall supply the GLO with any records, memoranda, accounts, reports, cuttings and cores, or other information relative to the operation of the above-described Leased Premises, which may be requested by the GLO, in addition to those herein expressly provided for. Lessee shall have a basic electrical log as defined by the Railroad Commission made on the bore-hole section, from the base of the surface casing to the total depth of well, of all wells drilled on the above described Leased Premises or such other log or logs as a reasonable and prudent operator would run and shall transmit a complete suite of such logs on each well to the GLO within fifteen (15) days after the making of said logs.
- (c) **PENALTIES:** Lessee shall incur a penalty whenever reports, documents or other materials are not filed in the GLO when due. The penalty for late filing shall be set by the GLO administrative rule which is effective on the date when the materials were due to the GLO.

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

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

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

(c) **IDENTIFICATION AND FILING:** The surface acreage retained hereunder as to each well shall, as nearly as practical, be in the form of a square for vertical wells or a rectangle for horizontal wells, with the well located in the center thereof, or such other shape as may be approved by the GLO. Within thirty (30) days after partial termination of this lease as provided herein, Lessee must execute and record a release or releases containing a satisfactory legal description of the acreage and/or depths not retained hereunder. The recorded release, or a certified copy of same, shall be filed in the GLO, within thirty (30) days of recording accompanied by the filing fee prescribed by the GLO rules in effect on the date the release is filed. If Lessee fails or refuses to execute and record such release or releases then the GLO, in its sole discretion, may designate, by written instrument, the acreage and/or depths that have terminated hereunder, and record such instrument at Lessee's expense in the county or counties where the lease is located and in the official records of the GLO, and such designation shall be binding upon Lessee for all purposes. If at any time after the effective date of the partial termination provisions hereof, the applicable field rules are changed or the well or wells located thereon are reclassified so that less acreage is thereafter allocated to said well or wells for production purposes, this lease shall thereupon terminate as to all acreage not thereafter allocated to said well or wells for production purposes, and Lessee shall file a release or releases in the same manner as provided above.

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

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

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

(a) If, during the primary term hereof, within sixty (60) days of a lease anniversary date, (i) Lessee should complete a well as a dry hole, or (ii) production should cease, then the lease is maintained over the anniversary date without the payment of a delay rental. If a dry hole is completed or production or drilling operations cease more than sixty (60) days before a lease anniversary date, a delay rental must be paid on or before such anniversary date to maintain the lease and upon failure to make such payment the lease shall terminate unless otherwise held over the anniversary date by additional drilling operations or re-establishment of production during the sixty (60) days prior to the anniversary date. If, during the last year of the primary term, the production of Oil or Gas should cease, Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term; and if Lessee has not resumed production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking operations pursuant to section 9(b), using the expiration of the primary term as the date of

cessation of production under section 9(b). Should the first well or any subsequent well drilled on the above described land be completed as a shut-in Oil or Gas well within the primary term hereof, Lessee may resume payment of the annual rental in the same manner as provided herein on or before the rental paying date following the expiration of sixty (60) days from the date of completion of such shut-in Oil or Gas well and upon the failure to make such payment, this lease shall automatically terminate. If, at the expiration of the primary term or any time thereafter, a shut-in Oil or Gas well is located on the Leased Premises, payments may be made in accordance with the shut-in provisions hereof.

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

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

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

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

11. SHUT-IN ROYALTIES: For purposes of this section, "well" means any well that has been assigned a well number by the governmental agency having jurisdiction over the production of Oil and Gas. If at any time after the expiration of the primary term of a lease that, until being shut in, was being maintained in force and effect, a well capable of producing Oil or Gas in paying quantities is located on the Leased Premises, but Oil or Gas is not being produced for lack of suitable production facilities (lack of suitable production facilities is not acceptable as a reason for making a shut-in payment if all or part of such production facilities are owned and/or operated by Lessee, and the cause is due to Lessee's improper maintenance or neglect) or lack of a suitable market, then Lessee may pay as a shut-in Oil or Gas royalty an amount equal to double the annual rental provided in the lease, but not less than \$1,200 a year for each well capable of producing Oil or Gas in paying quantities. If section 3 of this lease does not specify a delay rental amount, then for the purposes of this section, the delay rental amount shall be one dollar (\$1.00) per acre. To be effective, each initial shut-in Oil or Gas royalty payment, accompanied by the GLO Shut-In Affidavit, must be paid on or before: (1) the expiration of the primary term, (2) Sixty (60) days after the Lessee ceases to produce Oil or Gas from the Leased Premises, or (3) Sixty (60) days after Lessee completes a drilling or reworking operation in accordance with the lease provisions, whichever date is the latest. Such payment shall be made one-half (1/2) to the Commissioner, and one-half (1/2) to owner of the soil. If the shut-in Oil or Gas royalty is paid, accompanied by the GLO Shut-In Affidavit, the lease shall be considered to be a producing lease and the payment shall extend the term of the lease for a period of one (1) year from the end of the primary term, or from the first (1st) day of the month following the month in which production ceased, and, after that, if after a diligent effort, that being those of a reasonable and prudent operator to obtain or repair the production facilities or to obtain a market, no suitable production facilities or suitable market for the Oil or Gas exists, Lessee may, upon written approval of the GLO, extend the lease for four (4) more successive periods of one (1) year by paying the same amount each year on or before the expiration of each shut-in year.

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

13. AUTHORIZED DAMAGES: Lessee shall pay the owner of the soil for damages caused by its operations to all personal property, improvements, livestock and crops on the Leased Premises.

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

15. POLLUTION: In developing the Leased Premises, Lessee shall use the highest degree of care and all proper safeguards to prevent pollution. Without limiting the foregoing, pollution of coastal wetlands, natural waterways, rivers and impounded water shall be prevented by the use of containment facilities sufficient to prevent spillage, seepage or ground water contamination. In the event of pollution, Lessee shall use all means at its disposal to recapture all escaped hydrocarbons or other pollutants and shall be responsible for all damage to public and private properties. Failure to comply with the requirements of this provision may result in the maximum penalty allowed by law including forfeiture of the lease. Lessee shall be liable for the damages caused by such failure and any costs and expenses incurred in cleaning areas affected by the discharged waste.

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

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

(b) Notwithstanding any provision in subsection 17(a), if the owner of the soil acquires this lease in whole or in part by assignment without the prior written approval of the Commissioner, this lease is void as of the time of assignment and the agency power of the owner may be forfeited by the Commissioner. An assignment

will be treated as if it were made to the owner of the soil if the assignee is:

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

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

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

20. (a) PROPORTIONATE REDUCTION CLAUSE: If the owner of the soil owns less than the entire undivided surface estate in the above described land, whether or not Lessee's interest is specified herein, then the royalties herein provided to be paid to the owner of the soil shall be paid to him in the proportion which his interest bears to the entire undivided surface estate and the royalties herein provided to be paid to the GLO shall be likewise proportionately reduced. However, before Lessee adjusts the royalty due to the GLO, Lessee or his authorized representative must submit to the GLO a written statement which explains the discrepancy between the interest purportedly leased under this lease and the actual interest owned by the owner of the soil. If an undivided interest remains unleased on the land covered by this lease on the date of first production from the Leased Premises, the GLO shall be paid a royalty of **twenty-five percent (25%)** of the value of the Gross Production allocable to said unleased undivided interest payable on the same terms and conditions as are provided in this lease for the payment of royalty to the GLO, until such time as the Lessee has recouped its drilling and completion costs ("payout") and upon payout the Lessee will give notice to the GLO and beginning on the first day of the month after payout the GLO shall be paid the value of 100% of the Gross Production allocable to said unleased undivided interest less the proportionate operating costs. Upon written request from the GLO, the Lessee will provide the GLO with a title opinion verifying the percentage of unleased undivided interest on the Leased Premises.

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

21. LIEN: In accordance with N.R.C. Section 52.136, the State shall have a first lien upon all Oil and Gas produced from the area covered by this lease to secure payment of all unpaid royalty and other sums of money that may become due under this lease. By acceptance of this lease, Lessee grants the State, in addition to the lien provided by N.R.C. Section 52.136 and any other applicable statutory lien, an express contractual lien on and security interest in all leased minerals in and extracted from the Leased Premises, all proceeds which may accrue to Lessee from the sale of such leased minerals, whether such proceeds are held by Lessee or by a third party, and all fixtures on and improvements to the Leased Premises used in connection with the production or processing of such leased minerals in order to secure the payment of all royalties and other amounts due or to become due under this lease and to secure payment of any damages or loss that owner of the soil may suffer by reason of Lessee's breach of any covenant or condition of this lease, whether express or implied. This lease, when filed in the real property records where the Leased Premises are located, and for purposes of perfecting owner of the soil's lien on and security interest in all proceeds, shall constitute a financing statement under the Texas Uniform Commercial Code. This lien and security interest may be foreclosed with or without court proceedings in the manner provided in Title 1, Chapter 9 of the Texas Business and Commerce Code. Lessee agrees that the GLO may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the GLO at any time determine that this representation is not true, then the GLO may declare this lease forfeited as provided herein.

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

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

24. REMOVAL OF EQUIPMENT: Subject to limitations in this section, Lessee shall have the right to remove machinery and fixtures placed by Lessee on the Leased Premises, including the right to draw and remove casing, during or within six (6) months after the expiration or the termination of this lease. However, Lessee may not remove casing from any well capable of producing Oil and Gas in paying quantities. Additionally, Lessee may not draw and remove casing until after thirty (30) days written notice to the GLO and to the owner of the soil. If Lessee fails to remove such machinery and fixtures within the allotted time, then such machinery and fixtures shall, at the election of the owner of the soil, either become the property of the owner of the soil or the owner of the soil may have such machinery and fixtures removed at the sole expense of Lessee. Notwithstanding the foregoing, if this lease is forfeited or terminated for any reason, Lessee shall not remove the casing or any equipment from the Leased Premises until wells have been plugged to the satisfaction of the Railroad Commission, all pits have been properly filled and all debris has been removed from the Leased Premises, and owner of the soil has provided written approval of all restoration.

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

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

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

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

29. LAND PROTECTIONS:

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

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

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

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

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

(e) Upon completion or abandonment of any well or wells, Lessee shall fill and level all slush pits and cellars and completely clean up the drilling site of all rubbish thereon and restore the surface to as near its original condition and contours as is practicable. Lessee shall, while conducting operations on the Leased Premises, keep said premises free of all rubbish, cans, bottles, paper cups or garbage. Lessee shall maintain trash containers at all work sites during construction on the Leased premises, said trash containers to be located at entrances and exits on each side of the road and near places of high activity. Tanks and equipment will be kept painted and presentable.

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

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

30. DEFINITIONS:

- a. **"BTU"** means British thermal unit, which is the quantity of heat required to raise the temperature of one-pound avoirdupois of pure water from 58.5 degrees Fahrenheit ("°F") to 59.5° F. An MMBtu is one million (1,000,000) British thermal units.
- b. **"Dry Gas"** means a Gas that contains less than or equal to seven (7) lbs of water per million standard cubic feet. The volume of Gas, on a Dry Gas basis, shall be determined by mathematically removing the water vapor from Gas that is partially or fully saturated with water vapor at measurement conditions of flowing pressure and temperature. The total energy content of Gas shall be the product of multiplying the volume of Gas, on a Dry Gas basis, times the heating value per unit volume, in Btu/SCF, on a Dry Gas basis, at the same base temperature and base pressure.
- c. **"Gas"** means methane and other Gaseous hydrocarbons, including Gaseous combustible, noncombustible, and inert elements, compounds, components or mixtures thereof, and liquefiable hydrocarbons in the vapor stream. Gas volumes shall be calculated and reported, at the option of the GLO, in standard cubic feet (SCF), one thousand (1,000) standard cubic feet of Gas (MSCF), or one million (1,000,000) standard cubic feet of Gas (MMSCF).
- d. **"Gross Heating Value or BTU Content"** means the energy per unit volume represented by the number of BTUs produced by the complete combustion of one standard cubic foot of Gas (excluding hydrogen sulfide) at a temperature base of sixty degrees (60° F) Fahrenheit and pressure base of 14.65 pounds per square inch absolute.
- e. **"Gross Production"** means all Gas and fluids brought from underground up to and through the well head, and includes: (i) all hydrocarbons produced in liquid form as Oil or condensate at the well head and also all condensate, distillate, and any other liquid hydrocarbons recovered from Oil, condensate, or Gas run through a separator or other equipment; (ii) all hydrocarbons and Gaseous substances not in liquid form produced from any well, and (iii) natural Gasoline or liquid hydrocarbons, carbon dioxide, carbon black, sulfur or any other products produced or manufactured from any Gas or liquid. The Gross Production volumes of Oil, condensate, and Gas includes all sales, custody transfer dispositions, and/or stored volumes and all non-sales disposition volumes, including but not limited to, lease use, fuel, vent, flare, spills, uncontrolled releases, theft, and any other loss. The Gross Production of Gaseous hydrocarbons shall be adjusted and reported in MMBTUs.
- f. **"Market Value"** means the greatest of (i) the highest posted price, plus premium, if any, offered or paid for Oil, Gas, condensate, distillate, other hydrocarbons, or any Other Products produced or manufactured from the Oil or Gas, of similar characteristics and type in the general area, (ii) the prevailing market price thereof in the general area, (iii) the proceeds of the sale thereof, or (iv) the highest value reasonably available to Lessee. The proceeds of sale shall include the total value accruing to the Lessee from the sale or use of the production, including proceeds and any other thing of value received by Lessee or the operator.
- g. **"Marketable"** means that sufficient infrastructure is in-place or installed to allow for the sale or delivery of merchantable Oil and/or Gas into the custody of an authorized carrier, receiving agency, or party.
- h. **"Merchantable"** means (i) with respect to Gas, a Gas that is commercially free of dust, sand, dirt, gum-forming constituents, natural Gasoline, liquid hydrocarbons, water, inerts, and any other substances that may become separated from the Gas during handling thereof and may be injurious to utility facilities, industrial, commercial, and/or residential users that would cause the Gas to be unmarketable or require additional treating and/or processing to be ready for use and consumption (sale and use), and (ii) with respect to Oil, a crude Oil, condensate, and other liquid hydrocarbons recovered in liquid form from any hydrocarbon production (oil or Gas) produced on or from the Leased Premises that is suitable for normal refinery processing, sufficiently free of foreign contaminants or chemicals, and meets the appropriate pipeline or truck haul specifications for sediment and water.
- i. **"Natural Gas Liquids (NGLs)"** means those hydrocarbons liquefied, removed, recovered, or condensed from natural Gas at the surface in field production facilities as Oil or condensate or in natural Gas processing plants as Oil or stabilized condensate and as raw mix liquids prior to separation down to their base components. Natural Gas liquids that are not recovered or removed as condensate in plant systems located on or off the Leased Premises or in a Processing Plant consist of either: (i) Raw Mix, or (ii) component plant products consisting of merchantable and marketable commercial grades and/or blends of each of the individual components, after fractionation, of ethane, propane, iso-butane, normal butane, and natural Gasoline that include pentanes plus (iso-pentane, normal pentane and hydrocarbon components of higher molecular weight).
- j. **"Non-Processed Gas"** means all hydrocarbons and Gaseous substances not defined as Oil, that are not processed in plant systems located on or off the Leased Premises or in a Processing Plant to remove or extract Natural Gas Liquids to produce a Pipeline-Quality Natural Gas or Residue Gas (although the term includes such substances that have been removed from the Gas that include, but are not limited to, carbon dioxide, sulphur, water, or any other constituent or component necessary to produce a Pipeline-Quality Natural Gas).
- k. **"Oil"** means all hydrocarbons produced in a liquid form at the mouth of the well and also all condensate, distillate and other liquid hydrocarbons recovered in liquid form from any hydrocarbon production (oil or Gas) produced on or from the Leased Premises when run through a separator or other equipment that is stored at pressures less than or equal to 15 pounds per square inch gauge, and that is not extracted in the form of Raw Mix in plant

systems located on or off the Leased Premises or in a Processing Plant prior to fractionation. All Oil volumes shall be corrected from the measurement condition to report the produced volume of Oil in Stock Tank Barrels at Stock Tank Conditions per the applicable API MPMS standards.

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

31. DISCLOSURE CLAUSE. All provisions pertaining to the lease of the Leased Premises have been included in this instrument, including the statement of the true consideration to be paid for the execution of this lease and the rights and duties of the parties. Any collateral agreements concerning the development of Oil and Gas from the Leased Premises which are not contained in this lease are invalid.

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

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

34. ENVIRONMENTAL HAZARDS. Lessee shall use the highest degree of care and all reasonable safeguards to prevent contamination or pollution of any environmental medium, including soil, surface waters, groundwater, sediments, and surface or subsurface strata, ambient air or any other environmental medium in, on, or under, the Leased Premises, by any waste, pollutant, or contaminant. Lessee shall not bring or permit to remain on the Leased Premises any asbestos containing materials, explosives, toxic materials, or substances regulated as hazardous wastes, hazardous materials, hazardous substances (as the term "Hazardous Substance" is defined in the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), 42 U.S.C. Sections 9601, et seq.), or toxic substances under any federal, state, or local law or regulation ("Hazardous Materials"), except ordinary products commonly used in connection with Oil and Gas exploration and development operations and stored in the usual manner and quantities. **LESSEE'S VIOLATION OF THE FOREGOING PROHIBITION SHALL CONSTITUTE A MATERIAL BREACH AND DEFAULT HEREUNDER AND LESSEE SHALL INDEMNIFY, HOLD HARMLESS AND DEFEND THE STATE OF TEXAS AND THE**

OWNER OF THE SOIL FROM AND AGAINST ANY CLAIMS, DAMAGES, JUDGMENTS, PENALTIES, LIABILITIES, AND COSTS (INCLUDING REASONABLE ATTORNEYS' FEES AND COURT COSTS) CAUSED BY OR ARISING OUT OF (1) A VIOLATION OF THE FOREGOING PROHIBITION OR (2) THE PRESENCE, RELEASE, OR DISPOSAL OF ANY HAZARDOUS MATERIALS ON, UNDER, OR ABOUT THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OR CONTROL OF THE LEASED PREMISES. LESSEE SHALL CLEAN UP, REMOVE, REMEDY AND REPAIR ANY SOIL OR GROUND WATER CONTAMINATION AND DAMAGE CAUSED BY THE PRESENCE OR RELEASE OF ANY HAZARDOUS MATERIALS IN, ON, UNDER, OR ABOUT THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OF THE LEASED PREMISES IN CONFORMANCE WITH THE REQUIREMENTS OF APPLICABLE LAW. THIS INDEMNIFICATION AND ASSUMPTION SHALL APPLY, BUT IS NOT LIMITED TO, LIABILITY FOR RESPONSE ACTIONS UNDERTAKEN PURSUANT TO CERCLA OR ANY OTHER ENVIRONMENTAL LAW OR REGULATION. LESSEE SHALL IMMEDIATELY GIVE THE STATE OF TEXAS AND THE OWNER OF THE SOIL WRITTEN NOTICE OF ANY BREACH OR SUSPECTED BREACH OF THIS PARAGRAPH, UPON LEARNING OF THE PRESENCE OF ANY HAZARDOUS MATERIALS, OR UPON RECEIVING A NOTICE FROM ANY GOVERNMENTAL AGENCY PERTAINING TO HAZARDOUS MATERIALS WHICH MAY AFFECT THE LEASED PREMISES. THE OBLIGATIONS OF LESSEE HEREUNDER SHALL SURVIVE THE EXPIRATION OR EARLIER TERMINATION, FOR ANY REASON, OF THIS LEASE.

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

36. LEASE FILING: Pursuant to Chapter 9 of the Tex. Bus. & Com. Code, this lease must be filed of record in the office of the County Clerk in any county in which all or any part of the Leased Premises is located, and certified copies thereof must be filed in the GLO. This lease is not effective until a certified copy of this lease (that is made and certified by the County Clerk from his records) is filed in the GLO in accordance with Texas Natural Resources Code Sec. 52.183. Additionally, this lease shall not be binding upon the State unless it recites the actual and true consideration paid or promised for execution of this lease. The bonus due the GLO and the prescribed filing fee shall accompany the certified copies sent to the GLO.

LESSEE:

Atlantic Resources II Interests LLC

BY: *[Signature]*

NAME: Douglas Prieto

TITLE: Vice President

DATE: 7-7-17

OWNER OF THE SOIL:

Blake Oil & Gas Corporation, Individually and as
agent for the State of Texas

BY: *[Signature]*

NAME: Carol Jo Blake

TITLE: President

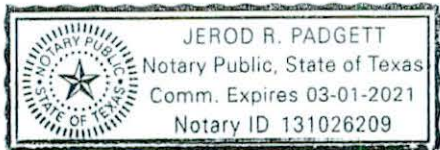
DATE: 7/6/2017

STATE OF TEXAS
COUNTY OF MIDLAND

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Douglas Prieto
known to me to be the person whose name is subscribed to the foregoing instruments as Vice President
of Atlantic Resources II Interests LLC and acknowledged to me that he
executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said limited liability company.

Given under my hand and seal of office this the 7th day of July, 2017.



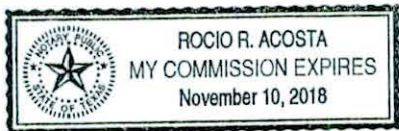
Jerod R. Padgett
Notary Public in and for State of Texas

STATE OF TEXAS
COUNTY OF MIDLAND

(CORPORATION ACKNOWLEDGMENT)

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

Given under my hand and seal of office this the 6th day of July, 2017.



Rocio R. Acosta
Notary Public in and for State of Texas

ADDENDUM 1

Attached to and Made a Part of Oil and Gas Lease dated June 30, 2017,
From the State of Texas, acting by and through its agent, Blake Oil & Gas Corporation,
as the Owner of the Soil, to Atlantic Resources II Interests LLC, as Lessee

The printed lease form to which this addendum is attached contains printed Paragraphs 1 through 36. The provisions set forth below, including Paragraphs 37 through 44, are made a part of the printed lease form, as though originally contained therein. In the event of a conflict between any of the provisions of Paragraphs 1 through 36 and any of the provisions contained in this addendum, the conflicting provision of this addendum shall prevail. The term "this lease," whether appearing in the printed lease form or this addendum, shall mean the agreement contained in the printed lease form, as amended, supplemented and superseded by this addendum.

37. The term "Actual Drilling" will be defined as having a rig on location (and drilling operations underway) that is capable of drilling to the permitted total depth, which must be within a formation reasonably believed to contain commercially recoverable deposits of oil and/or gas.
38. After the expiration of the primary term and/ or the extended term, whichever is later, this Oil, Gas and Mineral Lease shall be construed to be a separate lease as to each separate production unit.
39. No water may be used without the written consent of the owner of the soil, which may be denied for any reason.
40. Unless otherwise agreed by the owner of the soil, acting as agent on behalf of the State of Texas, in writing and in advance, Lessee shall be prohibited from disposing of salt water on the leased premises. Disposal of any such salt water or the removal of salt water from the leased premises shall be accomplished in strict compliance with the rules and regulations of the RRC and any other governmental agency having jurisdiction thereof.
41. Well Information. Lessee shall furnish owner of the soil with the following, upon request, related to Wells operated by Lessee on the Lands or lands pooled therewith:
- (a) Plats or maps showing the location of the well and all forms filed with the appropriate state governmental authority;
 - (b) Daily drilling and completion reports, and mud log if a mud log is run in such well;
 - (c) The details of any drillstem tests taken in said well and the final results of any core analysis or analyses which are run on cores taken while drilling said well;
 - (d) Upon completion of any drilling or reworking operation, copies of all production and testing reports and logs run in such well.
- All said information will be furnished in a timely manner to the Owner of the Soil at the above address or e-mail (jack.blake@navigatortx.com and rleader@navigatortx.com). Contact information is subject to change.
42. The owner of the soil makes no warranty of title to the leased premises, either express or implied.
43. As an additional cash bonus due and payable as and when drilling operations, construction, pipeline installation and other surface operations are conducted, any operations conducted on the surface of the premises, related to this lease, shall be subject to payment by Lessee for all of the types of operations and in the payment amounts and terms as set out in the then current University of Texas System Rate and Damage Schedule promulgated by University Lands Surface and Mineral Interests, and/or by the Board of Regents of the University of Texas System, applicable to oil and gas operations on lands owned by the State of Texas and subject to lease by the Board for Lease of University Lands. Such payments shall be made 1/2 directly to the owner of the soil and a like amount paid or tendered to the Commissioner of the General Land Office of the State of Texas, at Austin, Texas.
44. The provisions of this lease shall inure to the benefit of and be binding upon the owner of the soil, the State of Texas, and Lessee, and their respective heirs, successors, assigns, representatives, directors, principals, agents, employees, contractors and subcontractors.

SIGNED FOR IDENTIFICATION:

By: Atlantic Resources II Interests LLC

LESSEE

BY: Douglas Prieto
TITLE: Vice President
DATE: July 7, 2017

OWNER OF THE SOIL

STATE OF TEXAS

Carol Jo Blake

BLAKE OIL & GAS CORPORATION

Individually and as agent for the State of Texas

By: Carol Jo Blake (printed name)

Title: President

Date: June 30, 2017

Individually and as agent for the State of Texas

By: _____ (printed name)

Title: _____

Date: _____



Inst No. 17-12205
DIANNE O. FLOREZ
COUNTY CLERK
2017 Jul 21 at 11:32 AM
REEVES COUNTY, TEXAS
By: MS Maldonado DEPUTY

[Faint, illegible text from the reverse side of the page]

True & Correct Copy of a
document on file at
Reeves County Texas,
Dianne O. Florez, County Clerk
Page 12 of 12

File No. 117344
County _____
lease E
Date Filed: 08/01/17
George P. Bush, Commissioner
By [Signature]

711 0

THE STATE OF TEXAS
COUNTY OF REEVES

I, Dianne O. Flores, Clerk of the County Court in and for said County and State do hereby certify that the foregoing is a true and correct copy of Oil and Gas Lease dated July 7, 2017, filed for record in my office this 21st day of July at 1138 AM, under Clerk's File No. 17-12205, to be recorded in the Official Public Records.

Records of Reeves County, Texas.
TO CERTIFY WHICH, Witness my hand and official seal at Pecos, Texas this 21st day of July, 2017.

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

Atlantic Resources II Interests LLCP.O. Box 3759
Midland, TX 79702JPMorgan Chase Bank, N.A.
Dallas, Texas
32-61/1110

17716141

007058

7058

PAY One hundred twelve thousand six hundred twenty-five dollars and no centsTO THE
ORDER OF

DATE

07/10/2017

AMOUNT

\$\$\$112,625.00*

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

⑈007058⑈

Atlantic Resources II Interests LLC - P.O. Box 3759 - Midland, TX 79702

007058

To: Texas General Land Office
1700 N. Congress Avenue
Austin, TX 78701Vendor Code
TEX160Check Date
07/10/2017Check Amount
\$112,625.00Check Number
1075-7058

Invoice #	Invoice Amt
07/06/2017	112,625.00
Lease Bonus	
Blake Oil & Gas - Sec. 1	
Centennial	
The East 100.00 Acres of the SE/4 of Section	
1, Block 59, PSL Survey,	
Reeves County, TX	
Net Acres - 12.50	

17716141

C 7.17



PO Box 3759
Midland, TX 79702

300 North Marienfeld, Suite 600
Midland, Texas 79701

P 432.683.3272
F 432.683.3244

July 11, 2017

Certified Mail – 7016-3010-0000-0733-0153

Mr. Drew Reid
Texas General Land Office
1700 N. Congress Avenue, Room 600
Austin, TX 78701-1495

RE: East 100.00 acres of the SE/4 of Section 1, Block 59, Public School Land Survey,
A-5442, Reeves County, Texas

Dear Mr. Reid:

Enclosed is Check No. 7058 in the amount of \$112,625.00 for the State of Texas' share of the bonus consideration for the following Oil & Gas Leases covering the referenced Lands:

That certain Oil & Gas Lease by and between the State of Texas, acting by and through its agent, Blake Oil & Gas Corporation, and Atlantic Resources II Interests LLC.

This lease covers a total of 25.00 net acres, and the terms are \$9,000.00/ac Bonus Consideration, 3 Year Primary Term and 1/4th Royalty.

The fully executed original lease has been sent to Reeves Country, Texas to be filed of record and a copy of the recorded lease will be sent to you when it becomes available. Please assign a Mineral File number and furnish Atlantic with same at your earliest convenience.

Feel free to let me know if you have any questions or require further information.

Sincerely,

ATLANTIC RESOURCES HOLDING CO., LLC

Jerod Padgett
Land Manager

File No. 117 344

County

Bonus, fee, 1 dr - E

Date Filed: 07/18/17

George P. Bush, Commissioner

By _____ 

2025

NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OF THE FOLLOWING INFORMATION FROM THIS INSTRUMENT BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.

17-13295

FILED FOR RECORD
REEVES COUNTY, TEXAS
Aug 08, 2017 at 01:46:00 PM

RELEASE OF OIL AND GAS LEASES

STATE OF TEXAS §
 §
COUNTY OF REEVES §

This Release of Oil and Gas Leases (this "Release") is made effective as of July 20, 2017 (the "Effective Date") by Atlantic Resources II Interests LLC ("Lessee"), whose address is 600 N. Marienfeld, Ste. 1000, Midland, Texas 79701 to the State of Texas, acting by and through its agent, LAJ Corporation (collectively, "Lessors"), whose addresses can be found in the leases referenced below.

NOTICE IS HEREBY TAKEN OF THE FOLLOWING:

1. **WHEREAS**, Lessee is the current owner of record of the following Oil and Gas Leases (the "Leases") covering those lands described below (the "Lands"):
 - a. Oil and Gas Lease dated August 22, 2014, between the State of Texas, acting by and through its agent, LAJ Corporation, as Lessor, and Silverback Exploration, LLC, as Lessee, recorded in Volume 1138, Page 413 of the Official Public Records of Reeves County, Texas, covering the East 100 acres of the SE/4 of Section 1, Block 59, PSL Survey, Reeves County, Texas, containing 100.00 acres, more or less;
 - b. Oil and Gas Lease dated August 22, 2014, between the State of Texas, acting by and through its agent, LAJ Corporation, as Lessor, and Silverback Exploration, LLC, as Lessee, recorded in Volume 1138, Page 457 of the Official Public Records of Reeves County, Texas, covering E/2NE/4 of Section 12, Block 59, PSL Survey, Reeves County, Texas, containing 80.00 acres, more or less.
2. **WHEREAS**, Lessee desires to release of record all right, title, and interest in the Leases as to all depths.
3. **WHEREAS**, Lessor and Lessee have executed, and will be filing of record after this instrument, one (1) new oil and gas lease effective as of July 21, 2017 (the "New Lease"), covering the Lands. This Release is not intended to release and shall not be construed to release any interest in the New Lease.

NOW THEREFORE, for Ten Dollars (\$10.00) and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Lessee does hereby relinquish, release,

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Document on file at
Reeves County Texas,
Dianne O. Florez, County Clerk
Page 2 of 2

and surrender, to the present owners of the mineral estate, all of Lessee's right, title and interest in and to the Leases.

This Release is not intended to release and does not release any interest in the New Lease.

This Release is signed by Lessee as of the date of the acknowledgment below, but is effective for all purposes as of the Effective Date.

LESSEE:

ATLANTIC RESOURCES II INTERESTS LLC

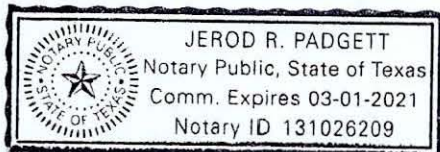
By: *R.A. Jennings*
R.A. Jennings, Chief Executive Officer

STATE OF TEXAS

§
§
§

COUNTY OF MIDLAND

The foregoing instrument was acknowledged before me this 21st day of July, 2017, by R.A. Jennings, as Chief Executive Officer of Atlantic Resources II Interests LLC, on behalf of said company.



Jerod R. Padgett
Notary Public in and for the State of Texas
My Commission expires: _____

Inst No. 17-13295
DIANNE O. FLOREZ
COUNTY CLERK
2017 Aug 08 at 01:46 PM
REEVES COUNTY, TEXAS
By: ER *E. Ray*, DEPUTY

True & Correct Copy of a
Document on file at
Reeves County Texas,
Dianne O. Florez, County Clerk
Page 2 of 2

File No. 117344
County _____
Release - A
Date Filed: 09/19/17
By George P. Bush, Commissioner

THE STATE OF TEXAS
COUNTY OF REEVES

I, Dianne O. Florez, Clerk of the County Court in and
for said County and State do hereby certify that the foregoing is a true and correct copy of
Release 013965 dated 8th day of July 20th 2017
filed for record in my office this 14th day of August at
1:44 PM, under Clerk's File No. 17-13295, to be recorded in the
Official Public Record

Records of Reeves County, Texas.

TO CERTIFY WHICH, Witness my hand and official seal as Poore, Texas
this 8th day of August, 2017.

By EFlores, Deputy. DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS



TEXAS GENERAL LAND OFFICE
GEORGE P. BUSH, COMMISSIONER

December 6, 2017

Mary Quintana, Sr. Lease/Div Order Analyst
Atlantic Resources Company, LLC
300 North Marienfeld, Ste 600
Midland, Texas 79701

RE: Assignment ID 10475 - MF117344 E & MF117348 E
Reeves County

Dear Ms. Quintana:

The General Land Office received the following instrument and has filed it in the appropriate files.

Assignment and Bill of Sale, effective April 6, 2017, from Atlantic Resources II Interests LLC, Assignor to North Reeves Development LLC, Assignee. Filed for record under Doc #17-13281

Filing fees in the amount of \$50.00 were received on the referenced assignment.

Please feel free to contact me at (512) 463-5407 or email carl.bonn@glo.texas.gov if you have further questions.

Best regards,

Carl Bonn, CPL
Mineral Leasing – Energy Resources

This document prepared by, and when recorded return to:

Kirkland & Ellis LLP
609 Main Street
Houston, TX 77002
Attention: Rahul Vashi
Telephone: 713-836-3639
Fax: 713-836-3601

ID 10475
MF 117344 E
MF 117348 E
CF 4-6-17

ASSIGNMENT AND BILL OF SALE

This Assignment and Bill of Sale (this "Assignment") from Atlantic Resources II Interests LLC, a Delaware limited liability company with an address at 300 N. Marienfeld Street, Suite # 1000, Midland, Texas 79701 (the "Assignor"), to North Reeves Development LLC, a Delaware limited liability company with an address at P.O. Box 845, New York, NY 10150 (the "Assignee") is executed on the dates set forth in the respective notary certifications below, but effective for all purposes as to each of the Properties or Assets, as of 12:01 a.m. in Houston, Texas on the date set forth for such Property or Asset as indicated on Exhibit A (the "Effective Date").

25%

RECITALS

WHEREAS, Assignor owns interests in and to certain oil and gas other assets as more specifically set forth herein; and

WHEREAS, pursuant to Article XVI.CC of that certain Joint Operating Agreement by and among Assignor, Assignee, Atlantic Resources Company, LLC and Atlantic Resources Holding Co., LLC, dated as of April 6, 2017, as amended from time to time (the "JOA"), Assignor has agreed to assign to Assignee certain undivided interests in and to the Assets (as hereinafter defined).

ASSIGNMENT

Section 1. Assignment. NOW THEREFORE, Assignor, for and in consideration of the sum of Ten Dollars (\$10) cash in hand paid and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, hereby GRANTS, BARGAINS, SELLS, AND CONVEYS, and by these presents has GRANTED, BARGAINED, SOLD, AND CONVEYED unto Assignee (1) an undivided twenty-five percent (25%) of Assignor's right, title, and interest in and to the assets described in paragraph (a) through (h) of this Section 1 and (2) all of Assignor's right, title and interest in and to the assets described in paragraph (i) of this Section 1 (the "Assets"):

(a) the oil and gas leases, oil, gas, and mineral leases and subleases, carried interests, operating rights, and record title interests described on Exhibit A-1, and, without

limiting the foregoing, all (i) rights, privileges, benefits and powers conferred upon the holder of such leases and interests with respect to the use and occupation of the lands covered thereby; (ii) royalties, overriding royalty interests, nonparticipating royalties, reversionary interests, carried interests, options, convertible interests, net profits interests, payments out of production, contractual rights to production, farmout rights, and other similar rights, properties and interests to crude oil, gas, casinghead gas, condensate, natural gas liquids, and other gaseous or liquid hydrocarbons (including ethane, propane, iso-butane, nor-butane, gasoline, and scrubber liquids) of any type and chemical composition (the "Hydrocarbons") produced or in place and any other interests in the lands described on Exhibit A-1; and (iii) tenements, hereditaments, and appurtenances belonging to such leases and such pooled areas or units and other rights (of whatever character, whether legal or equitable, vested or contingent, and whether or not the same are expired or terminated) in and to the Hydrocarbons in, on, under, and that may be produced from, the lands described on Exhibit A-1 (such undivided twenty-five percent (25%) interest, collectively, the "Leases");

(b) any and all Hydrocarbon, water, CO2, or injection or disposal wells located on the Leases or on lands pooled, communitized, or unitized therewith, including the interests in the wells shown on Exhibit A-2, in each case, whether producing, non-producing, permanently or temporarily plugged and abandoned, and whether or not fully described on any Exhibit A-2 (such undivided twenty-five percent (25%) interest, the "Wells");

(c) all pooled, communitized, or unitized acreage which includes all or part of any Leases, and all tenements, hereditaments, and appurtenances belonging thereto (such undivided twenty-five percent (25%) interest, the "Units" and, together with the Wells and Leases, the "Properties");

(d) all currently existing contracts, agreements, and instruments pertaining to the other Assets (to the extent applicable to the other Assets), including unitization, pooling, and communitization agreements; declarations and orders; area of mutual interest agreements; farmin and farmout agreements; operating agreements; exploration agreements; joint venture agreements; participation agreements; development agreements; exchange agreements; purchase and sale agreements and other contracts in which Assignor acquired interests in any other Asset; compressor agreements; gathering agreements; agreements for the sale and purchase of Hydrocarbons from the Assets; disposal agreements; transportation agreements; and processing agreements (the "Contracts"); provided, however, that the term "Contracts" shall not include this Assignment, any document executed pursuant to this Assignment, the Leases and other instruments constituting Assignor's chain of title thereto;

(e) all easements, surface permits, surface licenses, servitudes, rights-of-way, surface leases, and other rights to use the surface appurtenant to, and used or held for use solely in connection with, the Properties (such undivided twenty-five percent (25%) interest, the "Rights of Way");

(f) all equipment, machinery, fixtures, and other tangible personal property and improvements that are located on the Properties or are used or held for use primarily in connection with the ownership or operation of the Properties or any of the other Assets or the



production, treatment, storage, disposal, or transportation of Hydrocarbons or other substances thereon or therefrom (including all wellhead equipment, pumps, pumping units, Hydrocarbon measurement facilities, flowlines, gathering systems, piping, pipelines, compressors, tanks, treatment facilities, injection facilities, disposal facilities, compression facilities, and other materials, supplies, facilities and machinery) (such undivided twenty-five percent (25%) interest, the "Equipment");

(g) all Hydrocarbons produced from, or attributable to, the Properties from and after the Effective Date; all Hydrocarbon inventories from or attributable to the Properties that are in storage on the Effective Date; and, to the extent related or attributable to the Properties, all production, plant, and transportation imbalances attributable to the Properties as of the Effective Date;

(h) refunds relating to the overpayment of royalties by or on behalf of Assignee to any Governmental Authority, to the extent relating to royalties paid with respect to Hydrocarbon production from the Assets after the Effective Date, whether received before, on, or after the Effective Date; and

(i) copies of all lease files and land files (including title curative documents); division order files; abstracts; title opinions; contract files; tax records; operations, environmental and accounting records; reserve reports; and well, facility and production records of Assignor; to the extent relating to the Properties, but excluding, in each case:

(A) all originals of the aforementioned files and records;

(B) all corporate, financial, Tax, and legal data and records of Assignor that relate to Assignor's business generally (whether or not relating to the Assets) or to Assignor's business, operations, assets, and properties not expressly included in this Assignment;

(C) any data, software, and records to the extent disclosure or transfer is prohibited or subjected to payment of a fee or other consideration by any license agreement or other agreement, or by applicable Law, and for which no consent to transfer has been received and/or for which Assignee has not agreed in writing to pay the fee or other consideration, as applicable;

(D) all legal records and legal files of Assignor, including all work product of, and attorney-client communications with, Assignor's legal counsel (other than Leases, title opinions, environmental reports, Contracts and any instruments that relate to or cover any Assumed Obligation); and

(E) any data and records relating to the Excluded Assets or assets and properties not expressly included in this Assignment.

(Clauses (A) through (E) shall hereinafter be referred to as the "Excluded Records" and subject to such exclusions, the data, software and records described in this Section 1(i) are referred to herein as the "Records".).



EXCEPTING AND RESERVING to Assignor, however, the Excluded Assets (as defined below).

TO HAVE AND TO HOLD the Assets unto Assignee, its successors and assigns, forever, subject, however, to the terms and conditions of this Assignment.

Section 2. Excluded Assets. Notwithstanding anything to the contrary in Section 1 or anywhere else in this Assignment, the following rights and interests (collectively, the "Excluded Assets") are not included in the definition of Assets, and Assignor hereby expressly reserves, excepts and retains unto Assignor all of Assignor's right, title and interest in and to the following:

(a) Seventy-Five percent (75%) of Assignor's undivided right, title and interest in and to assets and properties described in Section 1(a) through Section 1(h);

(b) the Excluded Records;

(c) all of Assignor's seismic and micro-seismic data and information (and any interpretations thereof) as well as originals of geological or geophysical information constituting proprietary data, studies, core samples, maps, related technical data and any other geological or geophysical information (in each case including any interpretations of Assignor made with respect to such information) covering the Properties;

(d) all of Assignor's proprietary computer software, patents, trade secrets, copyrights, logos, trademarks, trade names, and other intellectual property;

(e) Assignor's interests in offices, office leases and buildings;

(f) to the extent not used or held for use primarily in connection with the ownership or operation of the Properties, any leased equipment and other leased personal property;

(g) all indemnity rights, rights under any Contracts and all other claims of Assignor or any Affiliate of Assignor against any third Person to the extent related or attributable to, periods on or prior to the Effective Date (including claims for adjustments or refunds) or for which Assignor is liable for payment or required to indemnify Assignee under this Assignment (whether or not such claims are pending or threatened as of the date hereof);

(h) refunds relating to the overpayment of royalties by or on behalf of Assignor to any national, state, county or municipal government and/or government of any political subdivision, and departments, courts, commissions, boards, bureaus, ministries, agencies, or other instrumentalities of any of them, (each a "Governmental Authority") to the extent relating to royalties paid with respect to Hydrocarbon production from the Assets prior to the Effective Date, whether received before, on, or after the Effective Date;



(i) all office equipment, computers, cell phones, pagers and other hardware, personal property, and equipment that relate primarily to Assignor's business generally, even if otherwise relating to the business conducted by Assignor with respect to the Assets;

(j) trade credits, accounts, accounts receivable, and other proceeds, income or revenue accruing before the Effective Date and attributable to the Assets prior to the Effective Date;

(k) whether or not relating to the Assets, any master service agreements, drilling contracts, or similar service contracts;

(l) Assignor's vehicles; and

(m) any other assets, contracts or rights which are (i) not specifically described in Section 1.

Section 3. Special Warranty; Disclaimer. Assignor, for a period of thirty-six (36) months after the execution of this Assignment, warrants title to the Properties set forth on Exhibit A unto Assignee, its successors and assigns, against all persons claiming or to claim the same or any part thereof by, through, or under Assignor and its Affiliates, but not otherwise. **EXCEPT AS PROVIDED IN THE PRECEDING SENTENCE, ASSIGNOR MAKES NO, AND EXPRESSLY DISCLAIMS AND NEGATES ANY, REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO TITLE TO ANY OF THE PROPERTIES.** Assignor hereby assigns to Assignee all rights, claims, and causes of action on title warranties given or made by Assignor's predecessors (other than Affiliates of Assignor), and Assignee is specifically subrogated to all rights which Assignor may have against its predecessors (other than Affiliates of Assignor), to the extent that Assignor may legally transfer such rights and grant such subrogation.

Section 4. Assumed and Retained Obligations. Assignee does not assume, and Assignor hereby retains, all claims, demands, costs, expenses, liabilities, and damages, associated with, related to, or attributable to (i) the Excluded Assets as to all times; (ii) any other interest reserved or not conveyed hereunder and (iii) the Assets to the extent, in the case of this subpart (iii), arising during or which are attributable to periods of time prior to the Effective Date (collectively, the "Retained Obligations"). Assignee assumes all claims, demands, costs, liabilities, and damages associated with the Assets conveyed to Assignee pursuant to this Assignment and which arise during or are attributable to periods of time from and after the Effective Date, including without limitation all obligations to make payments to the applicable lessors under the Leases (collectively, the "Assumed Obligations").

Section 5. Indemnities. ASSIGNEE SHALL FULLY PROTECT, INDEMNIFY, AND DEFEND ASSIGNOR, ITS AFFILIATES, OFFICERS, AGENTS AND/OR EMPLOYEES AND HOLD THEM HARMLESS FROM ANY AND ALL CLAIMS, LOSSES, DAMAGES, DEMANDS, SUITS, CAUSES OF ACTION, AND LIABILITIES (INCLUDING REASONABLE ATTORNEYS' FEES, COSTS OF LITIGATION AND/OR INVESTIGATION AND OTHER COSTS ASSOCIATED THEREWITH) OF EVERY KIND (COLLECTIVELY REFERRED TO HEREAFTER AS "CLAIMS") ARISING

Form of Assignment and Bill of Sale

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document on file at
Reeves County Texas,
Dianne O. Florez, County Clerk
Page 5 of 14

11416

OUT OF OR ATTRIBUTABLE TO THE ASSUMED OBLIGATIONS OR A BREACH OF ITS COVENANTS, AGREEMENTS, REPRESENTATIONS OR WARRANTIES CONTAINED IN THIS ASSIGNMENT, INCLUDING WITHOUT LIMITATION THOSE ASSUMED OBLIGATIONS RELATING TO INJURY OR DEATH OF ANY PERSON OR PERSONS WHOMSOEVER, AND/OR DAMAGE TO OR LOSS OF PROPERTY (REAL OR PERSONAL) OR RESOURCE, OF ANY KIND, INCLUDING ANY AND ALL CLAIMS FOR POLLUTION AND/OR ENVIRONMENTAL DAMAGE OF ANY KIND ARISING OUT OF OR CONNECTED DIRECTLY OR INDIRECTLY, WITH THE OWNERSHIP OR OPERATION OF THE PROPERTIES ON AND AFTER THE EFFECTIVE DATE.

ASSIGNOR SHALL FULLY PROTECT, INDEMNIFY, AND DEFEND ASSIGNEE, ITS AFFILIATES, OFFICERS, AGENTS AND/OR EMPLOYEES AND HOLD THEM HARMLESS FROM ANY AND ALL CLAIMS ARISING OUT OF OR ATTRIBUTABLE TO THE RETAINED OBLIGATIONS OR A BREACH OF ITS COVENANTS, AGREEMENTS, REPRESENTATIONS OR WARRANTIES CONTAINED IN THIS ASSIGNMENT, INCLUDING WITHOUT LIMITATION THOSE RETAINED OBLIGATIONS RELATING TO INJURY OR DEATH OF ANY PERSON OR PERSONS WHOMSOEVER, AND/OR DAMAGE TO OR LOSS OF PROPERTY (REAL OR PERSONAL) OR RESOURCE, OF ANY KIND, INCLUDING ANY AND ALL CLAIMS FOR POLLUTION AND/OR ENVIRONMENTAL DAMAGE OF ANY KIND ARISING OUT OF OR CONNECTED, DIRECTLY OR INDIRECTLY, WITH THE OWNERSHIP OR OPERATION OF THE PROPERTIES PRIOR TO THE EFFECTIVE DATE.

THE FOREGOING INDEMNITIES SHALL SURVIVE THE EXECUTION AND DELIVERY OF THIS ASSIGNMENT INDEFINITELY.

WITHOUT LIMITING OR ENLARGING THE SCOPE OF THE INDEMNIFICATION, DEFENSE AND ASSUMPTION PROVISIONS SET FORTH IN THIS ASSIGNMENT, TO THE FULLEST EXTENT PERMITTED BY LAW, AN INDEMNIFIED PERSON SHALL BE ENTITLED TO INDEMNIFICATION HEREUNDER IN ACCORDANCE WITH THE TERMS OF THIS ASSIGNMENT, REGARDLESS OF ANY PRE-EXISTING CONDITION OR WHETHER THE ACT, OCCURRENCE OR CIRCUMSTANCE GIVING RISE TO ANY SUCH INDEMNIFICATION OBLIGATION IS THE RESULT OF THE SOLE, ACTIVE, PASSIVE, CONCURRENT OR COMPARATIVE NEGLIGENCE, STRICT LIABILITY, BREACH OF DUTY (STATUTORY OR OTHERWISE), OR OTHER FAULT OR VIOLATION OF ANY LAW, RULE OR REGULATION OF OR BY ANY SUCH INDEMNIFIED PERSON, PROVIDED THAT NO SUCH INDEMNIFICATION SHALL BE APPLICABLE TO THE EXTENT OF ANY GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF SUCH INDEMNIFIED PERSON.

EACH OF THE PARTIES HEREBY KNOWINGLY, VOLUNTARILY, INTENTIONALLY AND IRREVOCABLY WAIVES, TO THE MAXIMUM EXTENT NOT PROHIBITED BY LAW, ANY RIGHT IT MAY HAVE TO CLAIM OR RECOVER IN ANY LITIGATION OR ARBITRATION ANY "SPECIAL DAMAGES," AS

Form of Assignment and Bill of Sale

-6-

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Reeves County Texas,
Dianne O. Florez, County Clerk
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DEFINED BELOW, AND ACKNOWLEDGES THAT IT HAS BEEN INDUCED TO ENTER INTO THIS ASSIGNMENT AND THE TRANSACTIONS CONTEMPLATED HEREBY BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS CONTAINED IN THIS PARAGRAPH, IN EACH CASE IT BEING THE EXPRESS INTENT, UNDERSTANDING, AND AGREEMENT OF THE PARTIES THAT SUCH WAIVERS ARE TO BE GIVEN THE FULLEST EFFECT, NOTWITHSTANDING THE NEGLIGENCE (WHETHER SOLE, JOINT OR CONCURRENT), STRICT LIABILITY OR OTHER LEGAL FAULT OF ANY PARTY. AS USED IN THIS ASSIGNMENT, "SPECIAL DAMAGES" MEANS ANY AND ALL SPECIAL, EXEMPLARY, PUNITIVE, CONSEQUENTIAL, INDIRECT, REMOTE AND SPECULATIVE DAMAGES (REGARDLESS OF HOW NAMED, AND INCLUDING LOSS OF PROFIT, LOSS OF REVENUE, LOSS OF PRODUCTION OR RESERVES OR ANY OTHER SPECIAL OR INCIDENTAL DAMAGES), BUT DOES NOT INCLUDE ANY PAYMENTS OR FUNDS WHICH ANY PARTY HERETO HAS EXPRESSLY PROMISED TO PAY OR DELIVER TO ANY OTHER PARTY HERETO OR ANY LIABILITIES SUFFERED OR INCURRED BY, OR AWARDED TO, A THIRD PERSON THAT IS NOT AN AFFILIATE OF A PARTY HERETO.

Section 6. Disclaimer of other Warranties. EXCEPT AS EXPRESSLY REPRESENTED OTHERWISE IN SECTION 3 OF THIS ASSIGNMENT ASSIGNOR MAKES NO, AND HEREBY EXPRESSLY DISCLAIMS, ANY REPRESENTATION OR WARRANTY, EXPRESS, IMPLIED, OR STATUTORY AS TO (I) TITLE TO ANY OF THE ASSETS, (II) THE CONTENTS, CHARACTER, OR NATURE OF ANY DESCRIPTIVE MEMORANDUM, OR ANY REPORT OF ANY PETROLEUM ENGINEERING CONSULTANT OF ASSIGNOR, OR ANY GEOLOGICAL OR SEISMIC DATA OR INTERPRETATION, RELATING TO THE ASSETS, (III) THE QUANTITY, QUALITY, OR RECOVERABILITY OF HYDROCARBONS IN OR FROM THE ASSETS, (IV) THE EXISTENCE OF ANY PROSPECT, RECOMPLETION, INFILL, OR STEP-OUT DRILLING OPPORTUNITIES, (V) ANY ESTIMATES OF THE VALUE OF THE ASSETS OR FUTURE REVENUES GENERATED BY THE ASSETS, (VI) THE PRODUCTION OF HYDROCARBONS FROM THE ASSETS, OR WHETHER PRODUCTION HAS BEEN CONTINUOUS, OR IN PAYING QUANTITIES, OR ANY PRODUCTION OR DECLINE RATES, (VII) THE MAINTENANCE, REPAIR, CONDITION, QUALITY, SUITABILITY, DESIGN OR MARKETABILITY OF THE ASSETS, (VIII) INFRINGEMENT OF ANY INTELLECTUAL PROPERTY RIGHT, (IX) ANY OTHER MATERIALS OR INFORMATION THAT MAY HAVE BEEN MADE AVAILABLE OR COMMUNICATED TO ASSIGNEE OR ITS AFFILIATES, OR ITS OR THEIR EMPLOYEES, AGENTS, CONSULTANTS, REPRESENTATIVES, OR ADVISORS IN CONNECTION WITH THE TRANSACTIONS CONTEMPLATED BY THIS ASSIGNMENT OR ANY DISCUSSION OR PRESENTATION RELATING THERETO AND (X) COMPLIANCE WITH ANY ENVIRONMENTAL LAW OR THE ENVIRONMENTAL CONDITION OF ANY OF THE ASSETS, AND FURTHER DISCLAIMS ANY REPRESENTATION OR WARRANTY, EXPRESS, IMPLIED, OR STATUTORY, OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, OR CONFORMITY TO MODELS OR SAMPLES OF MATERIALS OF ANY EQUIPMENT, IT BEING EXPRESSLY UNDERSTOOD AND AGREED BY THE

Form of Assignment and Bill of Sale

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PARTIES THAT THE ASSETS ARE BEING TRANSFERRED "AS IS, WHERE IS," WITH ALL FAULTS AND DEFECTS, AND THAT ASSIGNEE HAS MADE OR CAUSED TO BE MADE SUCH INSPECTIONS AS ASSIGNEE DEEMED APPROPRIATE TO ENTER INTO THIS ASSIGNMENT. ASSIGNOR AND ASSIGNEE AGREE THAT, TO THE EXTENT REQUIRED BY APPLICABLE LAW TO BE EFFECTIVE, THE DISCLAIMERS OF CERTAIN REPRESENTATIONS AND WARRANTIES CONTAINED IN THIS ASSIGNMENT ARE "CONSPICUOUS" DISCLAIMERS FOR PURPOSES OF ANY APPLICABLE LAW, RULE OR ORDER.

Section 7. Subject to Contracts. Except as set forth to the contrary in the JOA, Assignee is taking the Properties subject to the terms of the Contracts, and Assignee hereby assumes and agrees to fulfill, perform, pay, and discharge Assignor's obligations under such Contracts from and after the Effective Date.

Section 8. Further Assurances. Assignor and Assignee each agree to take such further actions and to execute, acknowledge, and deliver all such further documents as are reasonably requested by the other for carrying out the purposes of this Assignment without further consideration. Without limiting the foregoing, with respect to interests in federal or state real property interests that are included among the Assets and that require filings with Governmental Authorities before they may be assigned, each Party shall, without further consideration file the appropriate documents and take any other steps necessary to obtain official approval of the assignments.

Section 9. Assignment Subject to JOA. The Parties hereby acknowledge and agree that the Assets assigned hereunder are expressly made subject to the terms and conditions of the JOA. Capitalized terms used herein but not defined shall have the meanings assigned to such terms in the JOA.

Section 10. Successors and Assigns. This Assignment shall bind and inure to the benefit of the Parties hereto and their respective successors and assigns.

Section 11. Headings. The headings of the articles and sections of this Assignment and any listing of its contents are for guidance and convenience of reference only, and shall not limit or otherwise affect any of the terms or provisions of this Assignment.

Section 12. Governing Law. This Assignment, and all Claims arising in connection with or related hereto, or the negotiation, execution or performance hereof (whether in contract or tort) shall be governed by and construed in accordance with the Laws of the State of Texas, without regard to principles of conflicts of Laws that would direct the application of the Laws of another jurisdiction.

Section 13. Counterparts. This Assignment may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute but one and the same agreement.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

EXECUTED as of the dates set forth in the notary certifications below, but effective for all purposes as of the Effective Date.

ASSIGNOR:

ATLANTIC RESOURCES II INTERESTS
LLC

By:

Name: R.A. Jennings

Title: Chief Executive Officer



Assignor Signature Page to Assignment and Bill of Sale

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ASSIGNEE:

NORTH REEVES DEVELOPMENT LLC

By: Midtown Acquisitions GP LLC, its
Manager

By: Morgan Blackwell
Name: Morgan Blackwell
Title: Authorized Signatory

Assignee Signature Page to Assignment and Bill of Sale

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STATE OF TEXAS

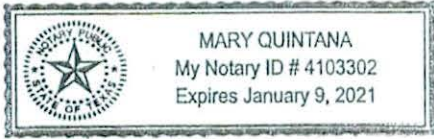
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§

COUNTY OF Midland

§

The foregoing instrument was acknowledged before me this 21st day of July, 2017, by R.A. Jennings, as Chief Executive Officer of Atlantic Resources II Interests LLC, a Delaware limited liability company, on behalf of the limited liability company.



Mary Quintana
Notary Public
My Commission Expires: 01-09-2021

(Notary Seal)

Assignor Notary Page to Assignment and Bill of Sale

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STATE OF NEW YORK

§

§

COUNTY OF NEW YORK

§

The foregoing instrument was acknowledged before me this 27th day of July, 2017, by Morgan Blackwell, as Authorized Signatory of Midtown Acquisitions GP LLC, Manager of North Reeves Development LLC, a Delaware limited liability company, on behalf of said limited liability company.



Notary Public

My Commission Expires: _____

(Notary Seal)

TRAVIS M. TROYER
Notary Public State of New York
No. 02TR6356925
Qualified in New York County
Commission Expires April 10, 2021

Assignee Notary Page to Form of Assignment and Bill of Sale



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Exhibit A

See Attached.

Exhibit A to Assignment and Bill of Sale

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Lease Name	Lessor	Effective Date	Recordation Date	Volume	Page	Entry	State	County	Expiration Date	Legal Description
State of Texas, acting by and through its agent, Blake Oil & Gas Corporation	Atlantic Resources II Interests LLC	6/30/2017	7/21/2017			17-12205	Texas	Reeves	6/30/2020	The East 100 acres of the SE/4 of Section 1, Block 59, Public School Land Survey, A-5542, Reeves County, Texas
State of Texas, acting by and through its agent, Blake Oil & Gas Corporation	Atlantic Resources II Interests LLC	6/30/2017	7/21/2017			17-12206	Texas	Reeves	6/30/2020	The E/2NE/4 of Section 12, Block 59, Public School Land Survey, Reeves County, Texas, containing 80 acres, more or less

M/117344E
M/117348E

Inst No. 17-13281
DIANNE O. FLOREZ
COUNTY CLERK
2017 Aug 08 at 12:10 PM
REEVES COUNTY, TEXAS
By: MS Abudana DEPUTY

2017 AUG 8 PM 12:10
RECEIVED
COUNTY CLERK
REEVES COUNTY, TEXAS

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THE STATE OF TEXAS
COUNTY OF REEVES

I, Dianne O. Florez, Clerk of the County Court in and
for said County and State do hereby certify that the foregoing is a true and correct copy of
Assmt & bill of sale dated July 27, 2017,
filed for record in my office this 8th day of August at
1202 M, under Clerk's File No. 17-13281, to be recorded in the

Official Public Records
Records of Reeves County, Texas.

TO CERTIFY WHICH, Witness my hand and official seal at Pecos, Texas
this 8th day of August, 20 17.

By U. Baldana, Deputy.

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS



00000004215

FILED FOR RECORD

AT 1:43 **O'CLOCK** P. M.

ON THE 16th **DAY OF** August

A.D., 2017.

STATE OF TEXAS

COUNTY OF CULBERSON

I hereby certify that this instrument
was FILED on the date and at the time
stamped hereon by me and was duly
RECORDED in the

Volume 31 and Page 526-540
of the OPR

Records of Culberson County, Texas.

Linda McDonald

COUNTY AND DISTRICT CLERK
CULBERSON COUNTY, TEXAS



COUNTY AND DISTRICT
CLERK CULBERSON
COUNTY, TEXAS

BY [Signature] **DEPUTY**

2017

12

File No. MF 217344

Assign H 10475
Atlantic to No Review

Date Filed: 12-6-77

George P. Bush, Commissioner

By [Signature]

