MF121078

Lease Type	Control	Basefile	County
RAL	07-110182	093423	REEVES

EXPIRED
DATE 7/13/2025
LEASING
MAPS
GIS MC

Survey	T & P Ry Co
Block	55
Block Name	
Township	5-S
Section/Tract	34
Land Part	
Acres	Net: 172.143750 Gross: 360.000000
Depth Below	Depth Above Depth Other

Leasing:
Maps:
GIS: MC
Scanlab:

Name	ESPUELA ENERGY, LLC
Lease Date	7/13/2022
Primary Term	3 years
Bonus	$640,185.94
Lease Royalty	0.12500000
Paid Up	Yes



CAUTION

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

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

Thank you for your assistance.

Archives and Records Staff

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18. Final ltr

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DocuSign Envelope ID: 36DAC9A6-25A5-4E62-A654-C4BFC17194B1

RAL REVIEW SHEET

Working File #: RAL220280 **MF:**

Lessor: KMF Land, LLC **Lease Date:** 07/20/2022 **UI:** Yes

Lessee: Espuela Energy, LLC **Gross Acres:** 640.00

Net Acres: 348.83

LEASE DESCRIPTION

County	Control #	Base File No	Part	Sec	Block	Twp	Survey	Abst No
Reeves	07-110173	153251		34	55	5-S	T & P Ry Co	5998
Reeves	07-110182	093423		34	55	5-S	T & P Ry Co	2443

TERMS OFFERED

		2nd Yr	3rd Yr	4th Yr	5th Yr
Primary Term:	3 Years				
Bonus / Acre:	$6,000.00				
Rental / Acre:		0.00	0.00		
Royalty	0.250000				

TERMS RECOMMENDED

		2nd Yr	3rd Yr	4th Yr	5th Yr
Primary Term:	3 Years				
Bonus / Acre:	$6,000.00				
Rental / Acre:		0.00	0.00		
Royalty	0.250000				

COMPARISONS

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

Comments: Paid up

Approved: DocuSigned by: [signature]

exas General Land Office George P. Bush, Commissioner

O: Mark Havens, Chief Clerk
Jeff Gordon, General Counsel

ROM: Robert Hatter, Energy

Applicant: Espuela Energy, LLC County: Reeves
Prim. Term: 3 Years Bonus/Acre: $6,000.00
Royalty: 0.25000000
Rental/Acre 2nd Yr: $0.00 3rd Yr: $0.00 4th Yr: $0.00 5th Yr: $0.00

erms & Consideration

ecommended: DocuSigned by: Date: 10/25/2022

lot Recommended:

omments: Paid up

eff Gordon, General Counsel

ecommended: DocuSigned by: Jeff Gordon Date: 10/25/2022

lot Recommended:

lark Havens, Chief Clerk

pproved: DocuSigned by: Date: 10/26/2022

lot Approved:

(1)

File No. MI 121078

County

RAL Review

Date Filed: 4/24/23

Commissioner Dawn Buckingham, M.D.

By:

MF 121078A

The State of Texas

Austin, Texas

General Land Office
Relinquishment Act Lease Form
Revised 9/21

OIL AND GAS LEASE

THIS OIL AND GAS LEASE is made and entered into to be effective July 25, 2022 (the "effective date"), by and between the State of Texas, acting by and through its agent, **CG Interests, LLC**

whose address is: **1011 Dragon Street Dallas, Texas 75207**

said agent herein referred to as the owner of the soil (whether one or more) ("owner of the soil"), and **Espuela Energy, LLC**

("Lessee"), whose address is: **P.O. Box 5988 Austin, Texas 78763**

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: **Four Thousand Fifty Dollars**

Dollars ($**4,050.00**)

To the owner of the soil: **Four Thousand Fifty Dollars**

Dollars ($**4,050.00**)

Total bonus consideration: **Eight Thousand One Hundred Dollars**

Dollars ($**8,100.00**)

The total bonus consideration paid represents a bonus of **Six Thousand** dollars ($ **6,000.00**) per acre, on **1.35** net acres.

2. TERM. This lease shall be for a term of **Three** (3) years and (0) months commencing on the effective date (the "primary term"), and as long thereafter as Oil or Gas is produced in paying quantities from the following "Leased Premises" (herein so called), to-wit:

Part/Section: **The South 360 acres of Section 34, T&P RR Co., Block 55, Township 5, Reeves County, Texas**

Block: **Block 55, Township 5**

Abstract: **2443**

Grantee / Survey: **T&P Ry Co Survey**

Acres: **360**

County: **Reeves**

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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 N/A Bank, at N/A 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: **Paid-Up**	Dollars ($_____)
To the State of Texas: **Paid-Up**	Dollars ($_____)
Total Delay Rental: **Paid-Up**	Dollars ($_____)

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

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

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

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

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

(B) the gross price paid or offered to the Lessee; provided that the maximum pressure base in measuring the Gas under this lease contract shall equal 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to a test made by chromatographic analysis or the Balance Method.

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

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

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

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

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

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

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

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

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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

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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

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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 x 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 x 4500 feet = 144 acres, which rounds up to 160 acres); (4) if more acreage is required than is provided for in (1), (2) or (3) above in order to obtain the maximum allowable under special field rules for the permitted or producing interval or intervals, upon written approval from the GLO, such number of acres that are required to obtain the maximum allowable as required by the special field rules as approved by the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction; or (5) the number of acres held in a pooled unit pursuant to Natural Resources Code Sections 52.151-52.154. After termination pursuant to this subsection, each tract retained shall be considered a separate lease and must be maintained independently. Lessee shall retain the right of ingress and egress on and across the terminated portion of the Leased Premises as may be reasonably necessary for the continued operation of the portions of the lease remaining in force and effect. Further, Lessee shall retain an easement for its pipelines, tank batteries or other surface equipment or installations on the terminated acreage for so long as they continue to be used for the development and operations on the retained acreage.

(b) **HORIZONTAL:** Two (2) years after the expiration date of the primary term this lease shall further terminate as to those depths stipulated as follows for each tract retained in section 7 (a) above: for vertical wells, 100 feet true vertical depth below the deepest then producing perforations; for horizontal wells, 300 feet true vertical depth below the deepest depth reached by the horizontal lateral between the first takepoint and the last takepoint, and for acreage retained that is pooled or unitized, all depths above and below the pooled or unitized interval. If a well has been spud and is being drilled over this termination date, the acreage retained by said well under section 7 (a) shall be held as to all depths for so long as such operations continue diligently in a workmanlike manner without interruptions totaling more than sixty (60) days in the aggregate (or such longer period of interruptions as may be approved by the Commissioner or his authorized designee) until completion of a well capable of producing in paying quantities or as a dry hole. Upon completion of a well as described in the preceding sentence (with "completion" defined as the earliest of (1) fourteen days after the release of a drilling rig capable of drilling to the target formation, (2) forty-eight hours after the release of a finishing rig, or (3) upon filing of a completion report at the Texas Railroad Commission), or if no such well capable of producing in paying quantities is completed within the stated period, 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

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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 the applicable statutory offset distance from 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 the applicable statutory offset distance 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

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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 the applicable statutory offset distance from 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 the applicable statutory offset distance from 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 the applicable statutory offset distance from 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.

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In Vol. 7 Pg. 14

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

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

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

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

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

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

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

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

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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 (safe 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. **"Produced in Paying Quantities"** means that the receipts from the sale or other authorized commercial use of the substances(s) covered exceed out of pocket operational expenses for the six months last past.

p. **"Raw Mix"** means a mixture of Natural Gas Liquids (NGLs) that has a true vapor pressure greater than fifteen (15) pounds per square inch gauge at 100 degrees Fahrenheit (°F) prior to separation down to its base components by fractionation, typically consisting of a mixture of liquefiable hydrocarbons, including but not limited to, the natural Gas liquids ethane, propane, iso-butane, normal butane, and natural Gasoline that include pentanes plus (iso-pentane, normal pentane and hydrocarbon components of higher molecular weight).

q. **"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

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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.

r. **"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.

s. **"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.

t. **"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.

THE STATE OF TEXAS REEVES COUNTY

11 14

LESSEE Espuela Energy, LLC

BY: Robert Canon

TITLE: Managing Member

DATE: 9/1/22

OWNER OF THE SOIL
Individually and as agent for the State of Texas
CG Interests, LLC

BY: Steven L. Green

TITLE: President

DATE: 8/3/22

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

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STATE OF TEXAS

COUNTY OF TRAVIS

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Robert Canon known to me to be the person whose name is subscribed to the foregoing instruments as Managing Member of Espuela Energy, 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 1st day of SEPTEMBER, 2022.

LARA KATHERINE BOLEY
Notary Public, State of Texas
Comm. Expires 05-08-2023
Notary ID 130219752

Lara Katherine Boley
Notary Public in and for State of Texas

STATE OF TEXAS

COUNTY OF DALLAS

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Steven L. Green known to me to be the person whose name is subscribed to the foregoing instruments as President of CG 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 corporation.

Given under my hand and seal of office this the 3 day of August, 2022.

Notary Public in and for

PAM[illegible] SUE REEVES
Notary Public, State of Texas
Comm. Expires 10-14-2024
Notary ID 4807052

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CERTIFIED A TRUE AND CORRECT COPY
OF THE RECORD ON FILE IN MY OFFICE

Dianne O. Florez
Reeves County Clerk

9-15-22 By: M. Salazar

Date Deputy Clerk

(2)

File No. MF121078

County

Lease A

Date Filed: 4/24/23

Commissioner Dawn Buckingham, M.D.

By:

The State of Texas

MF1210788

Austin, Texas

General Land Office
Relinquishment Act Lease Form
Revised 9/21

OIL AND GAS LEASE

THIS OIL AND GAS LEASE is made and entered into to be effective **July 25, 2022** (the "effective date"), by and between the State of Texas, acting by and through its agent, **Word B. Wilson Investments, LP** whose address is: **P.O. Box 51790 Midland, Texas 79710** said agent herein referred to as the owner of the soil (whether one or more) ("owner of the soil"), and **Espuela Energy, LLC**

("Lessee"), whose address is: **P.O. Box 5988 Austin, Texas 78763**

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: **Eight Thousand One Hundred Dollars**

Dollars ($**8,100.00**)

To the owner of the soil: **Eight Thousand One Hundred Dollars**

Dollars ($**8,100.00**)

Total bonus consideration: **Sixteen Thousand Two Hundred Dollars**

Dollars ($**16,200.00**)

The total bonus consideration paid represents a bonus of **Six Thousand** dollars ($**6,000.00**) per acre, on **2.7** net acres.

2. TERM. This lease shall be for a term of **Three** (**3**) years and (**0**) months commencing on the effective date (the "primary term"), and as long thereafter as Oil or Gas is produced in paying quantities from the following "Leased Premises" (herein so called), to-wit:

Part/Section: **The South 360 acres of Section 34, T&P RR Co., Block 55, Township 5, Reeves County, Texas**

Block: **Block 55, Township 5**

Abstract: **2443**

Grantee / Survey: **T&P Ry Co Survey**

Acres: **360**

County: **Reeves**

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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 N/A Bank, at N/A 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: **Paid-Up** Dollars ($_____)

To the State of Texas: **Paid-Up** Dollars ($_____)

Total Delay Rental: **Paid-Up** Dollars ($_____)

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

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

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

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

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

(B) the gross price paid or offered to the Lessee; provided that the maximum pressure base in measuring the Gas under this lease contract shall equal 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to a test made by chromatographic analysis or the Balance Method.

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

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

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

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

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

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

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

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

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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

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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 hereof 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

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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.

(c) **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 x 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 x 4500 feet = 144 acres, which rounds up to 160 acres); (4) if more acreage is required than is provided for in (1), (2) or (3) above in order to obtain the maximum allowable under special field rules for the permitted or producing interval or intervals, upon written approval from the GLO, such number of acres that are required to obtain the maximum allowable as required by the special field rules as approved by the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction; or (5) the number of acres held in a pooled unit pursuant to Natural Resources Code Sections 52.151-52.154. After termination pursuant to this subsection, each tract retained shall be considered a separate lease and must be maintained independently. Lessee shall retain the right of ingress and egress on and across the terminated portion of the Leased Premises as may be reasonably necessary for the continued operation of the portions of the lease remaining in force and effect. Further, Lessee shall retain an easement for its pipelines, tank batteries or other surface equipment or installations on the terminated acreage for so long as they continue to be used for the development and operations on the retained acreage.

(b) **HORIZONTAL:** Two (2) years after the expiration date of the primary term this lease shall further terminate as to those depths stipulated as follows for each tract retained in section 7 (a) above: for vertical wells, 100 feet true vertical depth below the deepest then producing perforations; for horizontal wells, 300 feet true vertical depth below the deepest depth reached by the horizontal lateral between the first takepoint and the last takepoint, and for acreage retained that is pooled or unitized, all depths above and below the pooled or unitized interval. If a well has been spud and is being drilled over this termination date, the acreage retained by said well under section 7 (a) shall be held as to all depths for so long as such operations continue diligently in a workmanlike manner without interruptions totaling more than sixty (60) days in the aggregate (or such longer period of interruptions as may be approved by the Commissioner or his authorized designee) until completion of a well capable of producing in paying quantities or as a dry hole. Upon completion of a well as described in the preceding sentence (with "completion" defined as the earliest of (1) fourteen days after the release of a drilling rig capable of drilling to the target formation, (2) forty-eight hours after the release of a finishing rig, or (3) upon filing of a completion report at the Texas Railroad Commission), or if no such well capable of producing in paying quantities is completed within the stated period, 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

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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 the applicable statutory offset distance from 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 the applicable statutory offset distance 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

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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 the applicable statutory offset distance from 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 the applicable statutory offset distance from 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 the applicable statutory offset distance from 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.

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

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

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

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

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

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

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

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

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

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

29. LAND PROTECTIONS:

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

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

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

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

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

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

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

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

30. DEFINITIONS:

a. **"BTU"** means British thermal unit, which is the quantity of heat required to raise the temperature of one-pound avoirdupois of pure water from 58.5 degrees Fahrenheit ("°F") to 59.5° F. An MMBtu is one million (1,000,000) British thermal units.

b. **"Dry Gas"** means a Gas that contains less than or equal to seven (7) lbs of water per million standard cubic feet. The volume of Gas, on a Dry Gas basis, shall be determined by mathematically removing the water vapor from Gas that is partially or fully saturated with water vapor at measurement conditions of flowing pressure and temperature. The total energy content of Gas shall be the product of multiplying the volume of Gas, on a Dry Gas basis, times the heating value per unit volume, in Btu/SCF, on a Dry Gas basis, at the same base temperature and base pressure.

c. **"Gas"** means methane and other Gaseous hydrocarbons, including Gaseous combustible, noncombustible, and inert elements, compounds, components or mixtures thereof, and liquefiable hydrocarbons in the vapor stream. Gas volumes shall be calculated and reported, at the option of the GLO, in standard cubic feet (SCF), one thousand (1,000) standard cubic feet of Gas (MSCF), or one million (1,000,000) standard cubic feet of Gas (MMSCF).

d. **"Gross Heating Value or BTU Content"** means the energy per unit volume represented by the number of BTUs produced by the complete combustion of one standard cubic foot of Gas (excluding hydrogen sulfide) at a temperature base of sixty degrees (60° F) Fahrenheit and pressure base of 14.65 pounds per square inch absolute.

e. **"Gross Production"** means all Gas and fluids brought from underground up to and through the well head, and includes: (i) all hydrocarbons produced in liquid form as Oil or condensate at the well head and also all condensate, distillate, and any other liquid hydrocarbons recovered from Oil, condensate, or Gas run through a separator or other equipment; (ii) all hydrocarbons and Gaseous substances not in liquid form produced from any well; and (iii) natural Gasoline or liquid hydrocarbons, carbon dioxide, carbon black, sulfur or any other products produced or manufactured from any Gas or liquid. The Gross Production volumes of Oil, condensate, and Gas includes all sales, custody transfer dispositions, and/or stored volumes and all non-sales disposition volumes, including but not limited to, lease use, fuel, vent, flare, spills, uncontrolled releases, theft, and any other loss. The Gross Production of Gaseous hydrocarbons shall be adjusted and reported in MMBTUs.

f. **"Market Value"** means the greatest of (i) the highest posted price, plus premium, if any, offered or paid for Oil, Gas, condensate, distillate, other hydrocarbons, or any Other Products produced or manufactured from the Oil or Gas, of similar characteristics and type in the general area, (ii) the prevailing market price thereof in the general area, (iii) the proceeds of the sale thereof, or (iv) the highest value reasonably available to Lessee. The proceeds of sale shall include the total value accruing to the Lessee from the sale or use of the production, including proceeds and any other thing of value received by Lessee or the operator.

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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. **"Produced in Paying Quantities"** means that the receipts from the sale or other authorized commercial use of the substances(s) covered exceed out of pocket operational expenses for the six months last past.

p. **"Raw Mix"** means a mixture of Natural Gas Liquids (NGLs) that has a true vapor pressure greater than fifteen (15) pounds per square inch gauge at 100 degrees Fahrenheit (°F) prior to separation down to its base components by fractionation, typically consisting of a mixture of liquefiable hydrocarbons, including but not limited to, the natural Gas liquids ethane, propane, iso-butane, normal butane, and natural Gasoline that include pentanes plus (iso-pentane, normal pentane and hydrocarbon components of higher molecular weight).

q. **"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

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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.

r. **"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.

s. **"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.

t. **"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.

THE STATE OF TEXAS REEVES COUNTY

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LESSEE Espuela Energy, LLC

BY: Robert Canon

TITLE: Managing Member

DATE: 9/27/22

OWNER OF THE SOIL
Individually and as agent for the State of Texas
Word B. Wilson Investments, LP

BY: Word B. Wilson Word B Wilson, President Word B Wilson, LLC General Partner

TITLE:

DATE: 8-8-2022

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

THE STATE OF TEXAS
REEVES COUNTY

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STATE OF TEXAS

COUNTY OF TRAVIS

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Robert Canon known to me to be the person whose name is subscribed to the foregoing instruments as Managing Member of Espuela Energy, 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 27th day of SEPTEMBER, 2022.

LARA KATHERINE BOLEY
Notary Public, State of Texas
Comm. Expires 05-08-2023
Notary ID 130219752

Lara Katherine Boley
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 Word B. Wilson known to me to be the person whose name is subscribed to the foregoing instruments as President of Word B. Wilson Investments, LP 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 8th day of August, 2022.

ERIN SLAPE
Notary ID #129331640
My Commission Expires
September 20, 2025

Erin Slape
Notary Public in and for Texas

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VG-2335-2022-2022006719

Instrument Number: 2022006719

Real Property Recordings

LEASE

Recorded On: September 29, 2022 04:25 PM

Number of Pages: 14

" Examined and Charged as Follows: "

Total Recording: $74.00

********** THIS PAGE IS PART OF THE INSTRUMENT **********
Any provision herein which restricts the Sale, Rental or use of the described REAL PROPERTY because of color or race is invalid and unenforceable under federal law.

File Information:

Document Number:	2022006719
Receipt Number:	20220929000028
Recorded Date/Time:	September 29, 2022 04:25 PM
User:	Rebecca G
Station:	CLERK07

Record and Return To:

ESPUELA ENERGY LLC/ ATTN ROBERT CANON
PO BOX 5988

AUSTIN TX 78763

STATE OF TEXAS
Reeves County
I hereby certify that this Instrument was filed in the File Number sequence on the date/time printed hereon, and was duly recorded in the Official Records of Reeves County, Texas

Dianne O. Florez
Reeves County Clerk
Reeves County, TX

Dianne O. Florez

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CERTIFIED A TRUE AND CORRECT COPY
OF THE RECORD ON FILE IN MY OFFICE

Dianne O. Florez
Reeves County Clerk

9-30-2022 By: M. Salazar

Date Deputy Clerk

3

File No. MF121078

County

Lease B

Date Filed: 4/24/23

Commissioner Dawn Buckingham, M.D.

By: [signature]

MF121078C

The State of Texas

Austin, Texas

General Land Office
Relinquishment Act Lease Form
Revised 9/21

OIL AND GAS LEASE

THIS OIL AND GAS LEASE is made and entered into to be effective August 1, 2022 (the "effective date"), by and between the State of Texas, acting by and through its agent, NPJ Mineral Holdings, LP whose address is: P.O. Box 470605 Fort Worth, Texas 76147 said agent herein referred to as the owner of the soil (whether one or more) ("owner of the soil"), and Espuela Energy, LLC

("Lessee"), whose address is: P.O. Box 5988 Austin, Texas 78763

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: Thirty Five Thousand One Hundred Fifty Six and 25/100 Dollars

Dollars ($35,156.25)

To the owner of the soil: Thirty Five Thousand One Hundred Fifty Six and 25/100 Dollars

Dollars ($35,156.25)

Total bonus consideration: Seventy Thousand Three Hundred Twelve and 50/100 Dollars

Dollars ($70,312.50)

The total bonus consideration paid represents a bonus of Seven Thousand Five Hundred dollars ($7,500.00) per acre, on 9.375 net acres.

2. TERM. This lease shall be for a term of Two (2) years and (0) months commencing on the effective date (the "primary term"), and as long thereafter as Oil or Gas is produced in paying quantities from the following "Leased Premises" (herein so called), to-wit:

Part/Section: **The South Three Hundred Sixty Acres (360 ac) of Section 34, Block 55, Township 5, T&P RR Co. Survey, Reeves County , Texas**

Block: Block 55, Township 5

Abstract: A-2443

Grantee / Survey: T&P Ry Co Survey

Acres: 360

County: Reeves

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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 N/A Bank, at N/A 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: Paid-Up	Dollars ($_____)
To the State of Texas: Paid-Up	Dollars ($_____)
Total Delay Rental: Paid-Up	Dollars ($_____)

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

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

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

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

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

(B) the gross price paid or offered to the Lessee; provided that the maximum pressure base in measuring the Gas under this lease contract shall equal 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to a test made by chromatographic analysis or the Balance Method.

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

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

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

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

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

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

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

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

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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(i). 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

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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

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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 x 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 x 4500 feet = 144 acres, which rounds up to 160 acres); (4) if more acreage is required than is provided for in (1), (2) or (3) above in order to obtain the maximum allowable under special field rules for the permitted or producing interval or intervals, upon written approval from the GLO, such number of acres that are required to obtain the maximum allowable as required by the special field rules as approved by the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction; or (5) the number of acres held in a pooled unit pursuant to Natural Resources Code Sections 52.151-52.154. After termination pursuant to this subsection, each tract retained shall be considered a separate lease and must be maintained independently. Lessee shall retain the right of ingress and egress on and across the terminated portion of the Leased Premises as may be reasonably necessary for the continued operation of the portions of the lease remaining in force and effect. Further, Lessee shall retain an easement for its pipelines, tank batteries or other surface equipment or installations on the terminated acreage for so long as they continue to be used for the development and operations on the retained acreage.

(b) **HORIZONTAL:** Two (2) years after the expiration date of the primary term this lease shall further terminate as to those depths stipulated as follows for each tract retained in section 7 (a) above: for vertical wells, 100 feet true vertical depth below the deepest 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 for so long as such operations continue diligently in a workmanlike manner without interruptions totaling more than sixty (60) days in the aggregate (or such longer period of interruptions as may be approved by the Commissioner or his authorized designee) until completion of a well capable of producing in paying quantities or as a dry hole. Upon completion of a well as described in the preceding sentence (with "completion" defined as the earliest of (1) fourteen days after the release of a drilling rig capable of drilling to the target formation, (2) forty-eight hours after the release of a finishing rig, or (3) upon filing of a completion report at the Texas Railroad Commission), or if no such well capable of producing in paying quantities is completed within the stated period, 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

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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 the applicable statutory offset distance from 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 the applicable statutory offset distance 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

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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 the applicable statutory offset distance from 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 the applicable statutory offset distance from 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 the applicable statutory offset distance from 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.

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

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

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

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

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

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

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

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

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

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

29. **LAND PROTECTIONS:**

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

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

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

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

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

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

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

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

30. **DEFINITIONS:**

a. **"BTU"** means British thermal unit, which is the quantity of heat required to raise the temperature of one-pound avoirdupois of pure water from 58.5 degrees Fahrenheit ("°F") to 59.5°F. An MMBtu is one million (1,000,000) British thermal units.

b. **"Dry Gas"** means a Gas that contains less than or equal to seven (7) lbs of water per million standard cubic feet. The volume of Gas, on a Dry Gas basis, shall be determined by mathematically removing the water vapor from Gas that is partially or fully saturated with water vapor at measurement conditions of flowing pressure and temperature. The total energy content of Gas shall be the product of multiplying the volume of Gas, on a Dry Gas basis, times the heating value per unit volume, in Btu/SCF, on a Dry Gas basis, at the same base temperature and base pressure.

c. **"Gas"** means methane and other Gaseous hydrocarbons, including Gaseous combustible, noncombustible, and inert elements, compounds, components or mixtures thereof, and liquefiable hydrocarbons in the vapor stream. Gas volumes shall be calculated and reported, at the option of the GLO, in standard cubic feet (SCF), one thousand (1,000) standard cubic feet of Gas (MSCF), or one million (1,000,000) standard cubic feet of Gas (MMSCF).

d. **"Gross Heating Value or BTU Content"** means the energy per unit volume represented by the number of BTUs produced by the complete combustion of one standard cubic foot of Gas (excluding hydrogen sulfide) at a temperature base of sixty degrees (60° F) Fahrenheit and pressure base of 14.65 pounds per square inch absolute.

e. **"Gross Production"** means all Gas and fluids brought from underground up to and through the well head, and includes: (i) all hydrocarbons produced in liquid form as Oil or condensate at the well head and also all condensate, distillate, and any other liquid hydrocarbons recovered from Oil, condensate, or Gas run through a separator or other equipment; (ii) all hydrocarbons and Gaseous substances not in liquid form produced from any well; and (iii) natural Gasoline or liquid hydrocarbons, carbon dioxide, carbon black, sulfur or any other products produced or manufactured from any Gas or liquid. The Gross Production volumes of Oil, condensate, and Gas includes all sales, custody transfer dispositions, and/or stored volumes and all non-sales disposition volumes, including but not limited to, lease use, fuel, vent, flare, spills, uncontrolled releases, theft, and any other loss. The Gross Production of Gaseous hydrocarbons shall be adjusted and reported in MMBTUs.

f. **"Market Value"** means the greatest of (i) the highest posted price, plus premium, if any, offered or paid for Oil, Gas, condensate, distillate, other hydrocarbons, or any Other Products produced or manufactured from the Oil or Gas, of similar characteristics and type in the general area, (ii) the prevailing market price thereof in the general area, (iii) the proceeds of the sale thereof, or (iv) the highest value reasonably available to Lessee. The proceeds of sale shall include the total value accruing to the Lessee from the sale or use of the production, including proceeds and any other thing of value received by Lessee or the operator.

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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. **"Produced in Paying Quantities"** means that the receipts from the sale or other authorized commercial use of the substances(s) covered exceed out of pocket operational expenses for the six months last past.

p. **"Raw Mix"** means a mixture of Natural Gas Liquids (NGLs) that has a true vapor pressure greater than fifteen (15) pounds per square inch gauge at 100 degrees Fahrenheit (°F) prior to separation down to its base components by fractionation, typically consisting of a mixture of liquefiable hydrocarbons, including but not limited to, the natural Gas liquids ethane, propane, iso-butane, normal butane, and natural Gasoline that include pentanes plus (iso-pentane, normal pentane and hydrocarbon components of higher molecular weight).

q. **"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

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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.

r. **"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.

s. **"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.

t. **"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.

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37. SEE ATTACHED ADDENDUM

LESSEE Espuela Energy, LLC

BY: Robert Canon

TITLE: Managing Member

DATE: 8/10/22

OWNER OF THE SOIL
Individually and as agent for the State of Texas
NPJ Mineral Holdings, LP

BY: Nancy Puff Jones

TITLE: MANAGER

DATE: 8-15-22

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

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STATE OF TEXAS

COUNTY OF TRAVIS

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Robert Cunon known to me to be the person whose name is subscribed to the foregoing instruments as Managing Member of Espuela Energy, 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 10th day of AUGUST, 2022.

Lara Katherine Boley

Notary Public in and for State of Texas

LARA KATHERINE BOLEY
Notary Public, State of Texas
Comm. Expires 05-08-2023
Notary ID 130219752

STATE OF TEXAS

COUNTY OF TARRANT

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Nancy Puff Jones known to me to be the person whose name is subscribed to the foregoing instruments as MANAGER of NPJ Mineral Holdings, LP 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, 2022.

MARY CUMMING
Notary ID #130983033
My Commission Expires
February 17, 2025

Mary Cumming

Notary Public in and for STATE OF TEXAS

THE STATE OF TEXAS
REEVES COUNTY

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EXHIBIT "A"

ADDENDUM TO LEASE

Attached and made a part of that certain Oil and Gas Lease dated August 1, 2022 by and between the STATE OF TEXAS, acting by and through its agent, NPJ Mineral Holdings, LP, Owner of the Soil, and Espuela Energy, LLC, Lessee.

Notwithstanding any provisions of this Lease to the contrary, it is expressly understood and agreed by and between the parties that:

1. Lessee shall not use any existing water, whether from wells, tanks, ponds or reservoirs, from Leased Premises without prior written consent of Lessor as owner of the surface estate. Lessee, its successors and assigns, may itself drill a water well and then use the potable water from that well for drilling operations that are conducted on the Leased Premises or lands pooled therewith. However, Lessee shall have no right to the use of potable water from the Leased Premises for water flooding or secondary recovery operations without the prior written consent of Lessor as the owner of the surface estate. In the event Lessee drills a new well and encounters non-potable water which is certified as not suitable for human, animal or agricultural use, Lessee may use same for its drilling, water flooding or secondary recovery operations. Lessee may not drill a new well within 500 feet of an existing water well located on the leased premises without Lessor's prior written consent. In the event Lessee drills a water well on the Leased Premises and completes its use of same, upon termination of Lessees use of said water well, Lessee will give Lessor a thirty (30) day written notice as to Lessee's intention to plug and abandon said water well. Lessor may during said thirty (30) day notice period, provide to Lessee a written request as to Lessor's election to take over the ownership of said water well and in such event, Lessee agrees upon receipt of written request by Lessor to transfer said water well to Lessor as Owners of the surface estate, upon Lessee's execution of a written transfer instrument that includes Lessor's agreement to accept the water well "AS IS" without any warranty and Lessor's agreement to assume all rights, responsibilities and liabilities, if any, for the operation and maintenance of said water well, including but not limited to plugging of the well in accordance with any regulations of applicable governmental agency or agencies.
2. Lessee is granted the right to use existing roads in the leased premises for ingress and egress, and to the extent such roads are used by Lessee, agrees to maintain, restore and keep roads in usable condition so ling as this lease is in force and effect.
3. Lessee shall notify Lessor a minimum of 24 hours before cutting any new road, if necessary, into or on the leased premises.
4. Lessee shall install and maintain cattle guards at every fence crossing, said cattle guards to remain upon premises as Lessor's property at the expiration of this lease.
5. Lessee will bury and maintain all pipelines and electrical transmission lines 24 inches below the surface only in the event that topographic or ground conditions allow for lines being buried to the set-out depth. Lessee may further use temporary poly flowlines on the surface with he written permission of the Lessor.
6. Lessee may use no more of the surface of the leased premises than is reasonably necessary to use for the purpose of which this lease is granted, and it shall exercise all rights granted to it herein with due regard for the rights of the Owner of the Soil.
7. Lessee, its successors and assigns, shall not erect any building or houses on the leased premises and that only those structures which are reasonably necessary for production facilities or tank batteries shall be erected on the surface of the leased premises.
8. Lessee will not pollute any water aquifers or fresh water in, upon or under the leased premises, and Lessee agrees to notify Owner of the Soil in writing if fresh water is encountered during drilling, or if a fresh water formation is penetrated.
9. Lessee shall maintain all drill sites and other portions of the surface used or occupied by lessee, its successors or assigns, free and clear of weed and noxious vegetation, and will maintain the same in a reasonable manner to prevent additional damage to Owner of the Soil, other land, and crops.

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10. Upon written demand by Owner of the Soil, Lessee shall build and maintain fences around its slush, sump, and drainage pits and tank batteries to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level off all slush pits and cellars ands completely clean up the drill site of all rubbish thereon.
11. In the event of dry hole or production from a well which production ceases and the abandonment of such well, or upon the abandonment of any well location, drill site, tank battery site or roadway, the premises will be restored by Lessee as nearly as reasonably possible to its former condition at the cost and expense of Lessee, it being the intention of the parties hereto that Lessee shall restore the surface to as nearly the state that it is in at the time of execution of this lease.
12. If all or any part of this lease is assigned, released, pooled or unitized, Lessee agrees to furnish the Owner of the Soil with a copy of any such document.
13. This lease grants no hunting or fishing rights whatsoever. Furthermore, Lessee, its agents, contractors, employees or assigns shall be prohibited from carrying or transporting firearms of any type upon or across the herein described premises.
14. Weather permitting, Lessee shall remove from the herein described premises any and all structures, equipment and property of every kind and character placed by Lessee on said premises within ninety (90) days after Lessee has finished with the use of the area where such structure, equipment and property are placed. After thirty (30) days written notice to Lessee by Owner of the Soil, any such structure, equipment or property left on the lease premises by Lessee after the ninety (90) day period, shall at Lessor's option, become the property of the Owner of the Soil. Lessee shall properly plug all wells drilled by Lessee on the leased premises in accordance with the requirement of the Railroad Commission of Texas, the Texas Natural Resources Conservation Commission or other governmental agencies having jurisdiction. In plugging the wells, Lessee shall cut off the casing at least thirty-six (36) inches below the surface.
15. If at the expiration of the primary term and/or the expiration of any extension of the primary term, Lessee has completed a well(s) or Lessee is then engaged in drilling, reworking, or other operations reasonably calculated to obtain or restore production, Lessee shall have the option to commence a continuous development program on said lease and this lease shall remain in full force and effect during such time as said continuous drilling program on the lands covered by this lease is conducted by Lessee. "Continuous Drilling Program" is defined herein to mean the continuous development of the leased premises by Lessee with no more than one hundred eighty (180) days elapsing between the completion of one (1) well and commencement of actual drilling operations of a succeeding well. For purposes of interpretation of this provision, a well should be determined to be completed on the day Lessee releases the drilling rig used to drill such well, or the date such rig is moved off the location, whichever date occurs first, and a well should be determined to be commenced when such well is spudded. The termination of rights hereunder shall be the sole liability or penalty for the failure to drill any well or wells acquired or permitted hereunder. Upon cessation of such continuous drilling program this lease shall terminate as to all lands covered hereby, except as to each well capable of producing oil or gas in paying quantities, together with the proration unit allocated thereto in accordance with the rules and regulation of the Texas Railroad Commission as of the date of termination from the surface down to the depth of one hundred feet (100') below the deepest producing formation. Thereafter, Lessee shall promptly execute and deliver to Owner of the Soil a recorded release of this lease as to all lands covered hereby, save and except to each such producing proration unit, and to all depths of such producing proration units except from the surface down to the depth of one hundred feet (100') below the deepest producing formation.
16. Lessee agrees to provide the Owner of the Soil with a chromatograph test for any gas well completed on the land covered by this lease, if possible.

Signed for Identification

Nancy Page Jones

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REEVES COUNTY

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VG-2335-2022-2022005723

Dianne O. Florez
Reeves County Clerk

Instrument Number: 2022005723

Real Property Recordings

LEASE

Recorded On: August 24, 2022 02:54 PM

Number of Pages: 16

" Examined and Charged as Follows: "

Total Recording: $82.00

********** THIS PAGE IS PART OF THE INSTRUMENT **********
Any provision herein which restricts the Sale, Rental or use of the described REAL PROPERTY because of color or race is invalid and unenforceable under federal law.

File Information:

Document Number:	2022005723
Receipt Number:	20220824000017
Recorded Date/Time:	August 24, 2022 02:54 PM
User:	Rebecca G
Station:	CLERK07

Record and Return To:

ESPUELA ENERGY LLC/ ATTN ROBERT CANON
PO BOX 5988

AUSTIN TX 78763

STATE OF TEXAS
Reeves County
I hereby certify that this Instrument was filed in the File Number sequence on the date/time printed hereon, and was duly recorded in the Official Records of Reeves County, Texas

Dianne O. Florez
Reeves County Clerk
Reeves County, TX

Dianne O. Florez

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CERTIFIED A TRUE AND CORRECT COPY
OF THE RECORD ON FILE IN MY OFFICE

Dianne O. Florez
Reeves County Clerk

August 24, 2022 By: Rebecca R. Granado
Date Deputy Clerk

(4)

File No. MF121078

County

Lease C

Date Filed: 4/24/23

Commissioner Dawn Buckingham, M.D.

By:

MF121078D

The State of Texas

Austin, Texas

General Land Office
Relinquishment Act Lease Form
Revised 9/21

OIL AND GAS LEASE

THIS OIL AND GAS LEASE is made and entered into to be effective **July 13, 2022** (the "effective date"), by and between the State of Texas, acting by and through its agent, **Hill Investments, Ltd.** whose address is: **P.O. Box 1568 Cedar Park, Texas 78630** said agent herein referred to as the owner of the soil (whether one or more) ("owner of the soil"), and **Espuela Energy, LLC** ("Lessee"), whose address is: **P.O. Box 5988 Austin, Texas 78763**

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: **Fifty Six Thousand Two Hundred Fifty Dollars**

Dollars ($**56,250.00**)

To the owner of the soil: **Fifty Six Thousand Two Hundred Fifty Dollars**

Dollars ($**56,250.00**)

Total bonus consideration: **One Hundred Twelve Thousand Five Hundred Dollars**

Dollars ($**112,500.00**)

The total bonus consideration paid represents a bonus of **Seven Thousand Five Hundred** dollars ($**7,500.00**) per acre, on **15.00** net acres.

2. TERM. This lease shall be for a term of **Two** (**2**) years and (**0**) months commencing on the effective date (the "primary term"), and as long thereafter as Oil or Gas is produced in paying quantities from the following "Leased Premises" (herein so called), to-wit:

Part/Section: **The South Three Hundred Sixty Acres (360 ac) of Section 34, Block 55, Township 5, T&P RR Co. Survey, Reeves County , Texas**

Block: **Block 55, Township 5**

Abstract: **A-2443**

Grantee / Survey: **T&P Ry Co Survey**

Acres: **360**

County: **Reeves**

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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 N/A Bank, at N/A 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: **Paid-Up**	Dollars ($_____)
To the State of Texas: **Paid-Up**	Dollars ($_____)
Total Delay Rental: **Paid-Up**	Dollars ($_____)

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

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

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

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

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

(B) the gross price paid or offered to the Lessee; provided that the maximum pressure base in measuring the Gas under this lease contract shall equal 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to a test made by chromatographic analysis or the Balance Method.

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

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

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

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

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

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

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

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

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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(e)(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(e) 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

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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

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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 x 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 x 4500 feet = 144 acres, which rounds up to 160 acres); (4) if more acreage is required than is provided for in (1), (2) or (3) above in order to obtain the maximum allowable under special field rules for the permitted or producing interval or intervals, upon written approval from the GLO, such number of acres that are required to obtain the maximum allowable as required by the special field rules as approved by the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction; or (5) the number of acres held in a pooled unit pursuant to Natural Resources Code Sections 52.151-52.154. After termination pursuant to this subsection, each tract retained shall be considered a separate lease and must be maintained independently. Lessee shall retain the right of ingress and egress on and across the terminated portion of the Leased Premises as may be reasonably necessary for the continued operation of the portions of the lease remaining in force and effect. Further, Lessee shall retain an easement for its pipelines, tank batteries or other surface equipment or installations on the terminated acreage for so long as they continue to be used for the development and operations on the retained acreage.

(b) **HORIZONTAL:** Two (2) years after the expiration date of the primary term this lease shall further terminate as to those depths stipulated as follows for each tract retained in section 7 (a) above: for vertical wells, 100 feet true vertical depth below the deepest then producing perforations; for horizontal wells, 300 feet true vertical depth below the deepest depth reached by the horizontal lateral between the first takepoint and the last takepoint, and for acreage retained that is pooled or unitized, all depths above and below the pooled or unitized interval. If a well has been spud and is being drilled over this termination date, the acreage retained by said well under section 7 (a) shall be held as to all depths for so long as such operations continue diligently in a workmanlike manner without interruptions totaling more than sixty (60) days in the aggregate (or such longer period of interruptions as may be approved by the Commissioner or his authorized designee) until completion of a well capable of producing in paying quantities or as a dry hole. Upon completion of a well as described in the preceding sentence (with "completion" defined as the earliest of (1) fourteen days after the release of a drilling rig capable of drilling to the target formation, (2) forty-eight hours after the release of a finishing rig, or (3) upon filing of a completion report at the Texas Railroad Commission), or if no such well capable of producing in paying quantities is completed within the stated period, 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

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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 the applicable statutory offset distance from 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 the applicable statutory offset distance 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

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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 the applicable statutory offset distance from 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 the applicable statutory offset distance from 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 the applicable statutory offset distance from 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.

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

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

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

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

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

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

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

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

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

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

29. LAND PROTECTIONS:

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

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

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

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

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

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

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

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

30. DEFINITIONS:

a. **"BTU"** means British thermal unit, which is the quantity of heat required to raise the temperature of one-pound avoirdupois of pure water from 58.5 degrees Fahrenheit ("° F") to 59.5° F. An MMBtu is one million (1,000,000) British thermal units.

b. **"Dry Gas"** means a Gas that contains less than or equal to seven (7) lbs of water per million standard cubic feet. The volume of Gas, on a Dry Gas basis, shall be determined by mathematically removing the water vapor from Gas that is partially or fully saturated with water vapor at measurement conditions of flowing pressure and temperature. The total energy content of Gas shall be the product of multiplying the volume of Gas, on a Dry Gas basis, times the heating value per unit volume, in Btu/SCF, on a Dry Gas basis, at the same base temperature and base pressure.

c. **"Gas"** means methane and other Gaseous hydrocarbons, including Gaseous combustible, noncombustible, and inert elements, compounds, components or mixtures thereof, and liquefiable hydrocarbons in the vapor stream. Gas volumes shall be calculated and reported, at the option of the GLO, in standard cubic feet (SCF), one thousand (1,000) standard cubic feet of Gas (MSCF), or one million (1,000,000) standard cubic feet of Gas (MMSCF).

d. **"Gross Heating Value or BTU Content"** means the energy per unit volume represented by the number of BTUs produced by the complete combustion of one standard cubic foot of Gas (excluding hydrogen sulfide) at a temperature base of sixty degrees (60° F) Fahrenheit and pressure base of 14.65 pounds per square inch absolute.

e. **"Gross Production"** means all Gas and fluids brought from underground up to and through the well head, and includes: (i) all hydrocarbons produced in liquid form as Oil or condensate at the well head and also all condensate, distillate, and any other liquid hydrocarbons recovered from Oil, condensate, or Gas run through a separator or other equipment; (ii) all hydrocarbons and Gaseous substances not in liquid form produced from any well; and (iii) natural Gasoline or liquid hydrocarbons, carbon dioxide, carbon black, sulfur or any other products produced or manufactured from any Gas or liquid. The Gross Production volumes of Oil, condensate, and Gas includes all sales, custody transfer dispositions, and/or stored volumes and all non-sales disposition volumes, including but not limited to, lease use, fuel, vent, flare, spills, uncontrolled releases, theft, and any other loss. The Gross Production of Gaseous hydrocarbons shall be adjusted and reported in MMBTUs.

f. **"Market Value"** means the greatest of (i) the highest posted price, plus premium, if any, offered or paid for Oil, Gas, condensate, distillate, other hydrocarbons, or any Other Products produced or manufactured from the Oil or Gas, of similar characteristics and type in the general area, (ii) the prevailing market price thereof in the general area, (iii) the proceeds of the sale thereof, or (iv) the highest value reasonably available to Lessee. The proceeds of sale shall include the total value accruing to the Lessee from the sale or use of the production, including proceeds and any other thing of value received by Lessee or the operator.

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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. **"Produced in Paying Quantities"** means that the receipts from the sale or other authorized commercial use of the substances(s) covered exceed out of pocket operational expenses for the six months last past.

p. **"Raw Mix"** means a mixture of Natural Gas Liquids (NGLs) that has a true vapor pressure greater than fifteen (15) pounds per square inch gauge at 100 degrees Fahrenheit (°F) prior to separation down to its base components by fractionation, typically consisting of a mixture of liquefiable hydrocarbons, including but not limited to, the natural Gas liquids ethane, propane, iso-butane, normal butane, and natural Gasoline that include pentanes plus (iso-pentane, normal pentane and hydrocarbon components of higher molecular weight).

q. **"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

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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.

r. **"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.

s. **"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.

t. **"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.

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37. SEE ATTACHED ADDENDUM

LESSEE Espuela Energy, LLC

BY: Robert Canou

TITLE: Managing Member

DATE: 8/1/22

OWNER OF THE SOIL
Individually and as agent for the State of Texas
Hill Investments, Ltd.
By: Casody Enterprises, LLC, its general partner

BY: Alan M. Hill

TITLE: Manager

DATE: July 26, 2022

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

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STATE OF TEXAS

COUNTY OF TRAVIS

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared **Robert Canon** known to me to be the person whose name is subscribed to the foregoing instruments as **Managing Member** of **Espuela Energy, 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 1st day of August, 2022.

LARA KATHERINE BOLEY
Notary Public, State of Texas
Comm. Expires 05-08-2023
Notary ID 130219752

Lara Katherine Boley
Notary Public in and for State of Texas

STATE OF TEXAS

COUNTY OF Williamson

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared **Alan M. Hill** known to me to be the person whose name is subscribed to the foregoing instruments as **Manager** of **Casody Enterprises, LLC, general partner for Hill Investments, Ltd.** 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 26th day of July, 2022.

LINO A. PUENTE
Notary Public, State of Texas
My Comm. Exp. 07-28-2025
ID No. 13323793-2

Lino Puente
Notary Public in and for Frost bank

THE STATE OF TEXAS
REEVES COUNTY

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EXHIBIT "A"

ADDENDUM TO LEASE

Attached and made a part of that certain Oil and Gas Lease dated July 13, 2022 by and between the STATE OF TEXAS, acting by and through, as set out on the signature page attached hereto, Owner of the Soil, and Espuela Energy, LLC, Lessee.

Notwithstanding any provisions of this Lease to the contrary, it is expressly understood and agreed by and between the parties that:

1. Lessee shall not use any existing water, whether from wells, tanks, ponds or reservoirs, from Leased Premises without prior written consent of Lessor as owner of the surface estate. Lessee, its successors and assigns, may itself drill a water well and then use the potable water from that well for drilling operations that are conducted on the Leased Premises or lands pooled therewith. However, Lessee shall have no right to the use of potable water from the Leased Premises for water flooding or secondary recovery operations without the prior written consent of Lessor as the owner of the surface estate. In the event Lessee drills a new well and encounters non-potable water which is certified as not suitable for human, animal or agricultural use, Lessee may use same for its drilling, water flooding or secondary recovery operations. Lessee may not drill a new well within 500 feet of an existing water well located on the leased premises without Lessor's prior written consent. In the event Lessee drills a water well on the Leased Premises and completes its use of same, upon termination of Lessees use of said water well, Lessee will give Lessor a thirty (30) day written notice as to Lessee's intention to plug and abandon said water well. Lessor may during said thirty (30) day notice period, provide to Lessee a written request as to Lessor's election to take over the ownership of said water well and in such event, Lessee agrees upon receipt of written request by Lessor to transfer said water well to Lessor as Owners of the surface estate, upon Lessee's execution of a written transfer instrument that includes Lessor's agreement to accept the water well "AS IS" without any warranty and Lessor's agreement to assume all rights, responsibilities and liabilities, if any, for the operation and maintenance of said water well, including but not limited to plugging of the well in accordance with any regulations of applicable governmental agency or agencies.
2. Lessee is granted the right to use existing roads in the leased premises for ingress and egress, and to the extent such roads are used by Lessee, agrees to maintain, restore and keep roads in usable condition so ling as this lease is in force and effect.
3. Lessee shall notify Lessor a minimum of 24 hours before cutting any new road, if necessary, into or on the leased premises.
4. Lessee shall install and maintain cattle guards at every fence crossing, said cattle guards to remain upon premises as Lessor's property at the expiration of this lease.
5. Lessee will bury and maintain all pipelines and electrical transmission lines 24 inches below the surface only in the event that topographic or ground conditions allow for lines being buried to the set-out depth. Lessee may further use temporary poly flowlines on the surface with he written permission of the Lessor.
6. Lessee may use no more of the surface of the leased premises than is reasonably necessary to use for the purpose of which this lease is granted, and it shall exercise all rights granted to it herein with due regard for the rights of the Owner of the Soil.
7. Lessee, its successors and assigns, shall not erect any building or houses on the leased premises and that only those structures which are reasonably necessary for production facilities or tank batteries shall be erected on the surface of the leased premises.
8. Lessee will not pollute any water aquifers or fresh water in, upon or under the leased premises, and Lessee agrees to notify Owner of the Soil in writing if fresh water is encountered during drilling, or if a fresh water formation is penetrated.
9. Lessee shall maintain all drill sites and other portions of the surface used or occupied by lessee, its successors or assigns, free and clear of weed and noxious vegetation, and will maintain the same in a reasonable manner to prevent additional damage to Owner of the Soil, other land, and crops.

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10. Upon written demand by Owner of the Soil, Lessee shall build and maintain fences around its slush, sump, and drainage pits and tank batteries to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level off all slush pits and cellars ands completely clean up the drill site of all rubbish thereon.
11. In the event of dry hole or production from a well which production ceases and the abandonment of such well, or upon the abandonment of any well location, drill site, tank battery site or roadway, the premises will be restored by Lessee as nearly as reasonably possible to its former condition at the cost and expense of Lessee, it being the intention of the parties hereto that Lessee shall restore the surface to as nearly the state that it is in at the time of execution of this lease.
12. If all or any part of this lease is assigned, released, pooled or unitized, Lessee agrees to furnish the Owner of the Soil with a copy of any such document.
13. This lease grants no hunting or fishing rights whatsoever. Furthermore, Lessee, its agents, contractors, employees or assigns shall be prohibited from carrying or transporting firearms of any type upon or across the herein described premises.
14. Weather permitting, Lessee shall remove from the herein described premises any and all structures, equipment and property of every kind and character placed by Lessee on said premises within ninety (90) days after Lessee has finished with the use of the area where such structure, equipment and property are placed. After thirty (30) days written notice to Lessee by Owner of the Soil, any such structure, equipment or property left on the lease premises by Lessee after the ninety (90) day period, shall at Lessor's option, become the property of the Owner of the Soil. Lessee shall properly plug all wells drilled by Lessee on the leased premises in accordance with the requirement of the Railroad Commission of Texas, the Texas Natural Resources Conservation Commission or other governmental agencies having jurisdiction. In plugging the wells, Lessee shall cut off the casing at least thirty-six (36) inches below the surface.
15. If at the expiration of the primary term and/or the expiration of any extension of the primary term, Lessee has completed a well(s) or Lessee is then engaged in drilling, reworking, or other operations reasonably calculated to obtain or restore production, Lessee shall have the option to commence a continuous development program on said lease and this lease shall remain in full force and effect during such time as said continuous drilling program on the lands covered by this lease is conducted by Lessee. "Continuous Drilling Program" is defined herein to mean the continuous development of the leased premises by Lessee with no more than one hundred eighty (180) days elapsing between the completion of one (1) well and commencement of actual drilling operations of a succeeding well. For purposes of interpretation of this provision, a well should be determined to be completed on the day Lessee releases the drilling rig used to drill such well, or the date such rig is moved off the location, whichever date occurs first, and a well should be determined to be commenced when such well is spudded. The termination of rights hereunder shall be the sole liability or penalty for the failure to drill any well or wells acquired or permitted hereunder. Upon cessation of such continuous drilling program this lease shall terminate as to all lands covered hereby, except as to each well capable of producing oil or gas in paying quantities, together with the proration unit allocated thereto in accordance with the rules and regulation of the Texas Railroad Commission as of the date of termination from the surface down to the depth of one hundred feet (100') below the deepest producing formation. Thereafter, Lessee shall promptly execute and deliver to Owner of the Soil a recorded release of this lease as to all lands covered hereby, save and except to each such producing proration unit, and to all depths of such producing proration units except from the surface down to the depth of one hundred feet (100') below the deepest producing formation.
16. Lessee agrees to provide the Owner of the Soil with a chromatograph test for any gas well completed on the land covered by this lease, if possible.

Signed for Identification

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Instrument Number: 2022006679

Real Property Recordings

LEASE

Recorded On: September 28, 2022 03:07 PM

Number of Pages: 16

" Examined and Charged as Follows: "

Total Recording: $82.00

********** THIS PAGE IS PART OF THE INSTRUMENT **********
Any provision herein which restricts the Sale, Rental or use of the described REAL PROPERTY because of color or race is invalid and unenforceable under federal law.

File Information:

Document Number:	2022006679
Receipt Number:	20220928000037
Recorded Date/Time:	September 28, 2022 03:07 PM
User:	Rebecca G
Station:	CLERK07

Record and Return To:

ESPUELA ENERGY LLC/ ATTN ROBERT CANON

STATE OF TEXAS
Reeves County
I hereby certify that this Instrument was filed in the File Number sequence on the date/time printed hereon, and was duly recorded in the Official Records of Reeves County, Texas

Dianne O. Florez
Reeves County Clerk
Reeves County, TX

Dianne O. Florez

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CERTIFIED A TRUE AND CORRECT COPY
OF THE RECORD ON FILE IN MY OFFICE

Dianne O. Florez
Reeves County Clerk

9-28-2022 By: R. Granado

Date Deputy Clerk

(5)

File No. MF121078

County

Lease D

Date Filed: 4/24/23

Commissioner Dawn Buckingham, M.D.

By:

MF121078E

The State of Texas

Austin, Texas

General Land Office
Relinquishment Act Lease Form
Revised 9/21

OIL AND GAS LEASE

THIS OIL AND GAS LEASE is made and entered into to be effective **August 3, 2022** (the "effective date"), by and between the State of Texas, acting by and through its agent, **Fred W. Shield and Company** whose address is: **P. O. Box 90627 San Antonio, Texas 78209** said agent herein referred to as the owner of the soil (whether one or more) ("owner of the soil"), and **Espuela Energy, LLC**

("Lessee"), whose address is: **P.O. Box 5988 Austin, Texas 78763**

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: **Five Hundred Sixty Two and 50/100 Dollars**

Dollars ($**562.50**)

To the owner of the soil: **Five Hundred Sixty Two and 50/100 Dollars**

Dollars ($**562.50**)

Total bonus consideration: **One Thousand One Hundred Twenty Five Dollars**

Dollars ($**1,125.00**)

The total bonus consideration paid represents a bonus of **Six Thousand** dollars ($**6,000.00**) per acre, on **.1875** net acres.

2. TERM. This lease shall be for a term of **Three** (**3**) years and (**0**) months commencing on the effective date (the "primary term"), and as long thereafter as Oil or Gas is produced in paying quantities from the following "Leased Premises" (herein so called), to-wit:

Part/Section: **360 acres, more or less, being the South 360 acres of Section 34, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas**

Block: **Block 55, Township 5**

Abstract: **2443**

Grantee / Survey: **T&P Ry Co Survey**

Acres: **360**

County: **Reeves**

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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 N/A Bank, at N/A 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: **Paid-Up**	Dollars ($_____)
To the State of Texas: **Paid-Up**	Dollars ($_____)
Total Delay Rental: **Paid-Up**	Dollars ($_____)

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

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

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

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

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

(B) the gross price paid or offered to the Lessee; provided that the maximum pressure base in measuring the Gas under this lease contract shall equal 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to a test made by chromatographic analysis or the Balance Method.

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

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

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

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

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

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

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

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

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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

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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

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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.

(c) **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 x 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 x 4500 feet = 144 acres, which rounds up to 160 acres); (4) if more acreage is required than is provided for in (1), (2) or (3) above in order to obtain the maximum allowable under special field rules for the permitted or producing interval or intervals, upon written approval from the GLO, such number of acres that are required to obtain the maximum allowable as required by the special field rules as approved by the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction; or (5) the number of acres held in a pooled unit pursuant to Natural Resources Code Sections 52.151-52.154. After termination pursuant to this subsection, each tract retained shall be considered a separate lease and must be maintained independently. Lessee shall retain the right of ingress and egress on and across the terminated portion of the Leased Premises as may be reasonably necessary for the continued operation of the portions of the lease remaining in force and effect. Further, Lessee shall retain an easement for its pipelines, tank batteries or other surface equipment or installations on the terminated acreage for so long as they continue to be used for the development and operations on the retained acreage.

(b) **HORIZONTAL:** Two (2) years after the expiration date of the primary term this lease shall further terminate as to those depths stipulated as follows for each tract retained in section 7 (a) above: for vertical wells, 100 feet true vertical depth below the deepest then producing perforations; for horizontal wells, 300 feet true vertical depth below the deepest depth reached by the horizontal lateral between the first takepoint and the last takepoint, and for acreage retained that is pooled or unitized, all depths above and below the pooled or unitized interval. If a well has been spud and is being drilled over this termination date, the acreage retained by said well under section 7 (a) shall be held as to all depths for so long as such operations continue diligently in a workmanlike manner without interruptions totaling more than sixty (60) days in the aggregate (or such longer period of interruptions as may be approved by the Commissioner or his authorized designee) until completion of a well capable of producing in paying quantities or as a dry hole. Upon completion of a well as described in the preceding sentence (with "completion" defined as the earliest of (1) fourteen days after the release of a drilling rig capable of drilling to the target formation, (2) forty-eight hours after the release of a finishing rig, or (3) upon filing of a completion report at the Texas Railroad Commission), or if no such well capable of producing in paying quantities is completed within the stated period, 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

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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 the applicable statutory offset distance from 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 the applicable statutory offset distance 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

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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 the applicable statutory offset distance from 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 the applicable statutory offset distance from 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 the applicable statutory offset distance from 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.

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

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

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

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

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

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

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

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

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

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

29. LAND PROTECTIONS:

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

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

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

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

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

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

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

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

30. DEFINITIONS:

a. **"BTU"** means British thermal unit, which is the quantity of heat required to raise the temperature of one-pound avoirdupois of pure water from 58.5 degrees Fahrenheit ("° F") to 59.5° F. An MMBtu is one million (1,000,000) British thermal units.

b. **"Dry Gas"** means a Gas that contains less than or equal to seven (7) lbs of water per million standard cubic feet. The volume of Gas, on a Dry Gas basis, shall be determined by mathematically removing the water vapor from Gas that is partially or fully saturated with water vapor at measurement conditions of flowing pressure and temperature. The total energy content of Gas shall be the product of multiplying the volume of Gas, on a Dry Gas basis, times the heating value per unit volume, in Btu/SCF, on a Dry Gas basis, at the same base temperature and base pressure.

c. **"Gas"** means methane and other Gaseous hydrocarbons, including Gaseous combustible, noncombustible, and inert elements, compounds, components or mixtures thereof, and liquefiable hydrocarbons in the vapor stream. Gas volumes shall be calculated and reported, at the option of the GLO, in standard cubic feet (SCF), one thousand (1,000) standard cubic feet of Gas (MSCF), or one million (1,000,000) standard cubic feet of Gas (MMSCF).

d. **"Gross Heating Value or BTU Content"** means the energy per unit volume represented by the number of BTUs produced by the complete combustion of one standard cubic foot of Gas (excluding hydrogen sulfide) at a temperature base of sixty degrees (60° F) Fahrenheit and pressure base of 14.65 pounds per square inch absolute.

e. **"Gross Production"** means all Gas and fluids brought from underground up to and through the well head, and includes: (i) all hydrocarbons produced in liquid form as Oil or condensate at the well head and also all condensate, distillate, and any other liquid hydrocarbons recovered from Oil, condensate, or Gas run through a separator or other equipment; (ii) all hydrocarbons and Gaseous substances not in liquid form produced from any well; and (iii) natural Gasoline or liquid hydrocarbons, carbon dioxide, carbon black, sulfur or any other products produced or manufactured from any Gas or liquid. The Gross Production volumes of Oil, condensate, and Gas includes all sales, custody transfer dispositions, and/or stored volumes and all non-sales disposition volumes, including but not limited to, lease use, fuel, vent, flare, spills, uncontrolled releases, theft, and any other loss. The Gross Production of Gaseous hydrocarbons shall be adjusted and reported in MMBTUs.

f. **"Market Value"** means the greatest of (i) the highest posted price, plus premium, if any, offered or paid for Oil, Gas, condensate, distillate, other hydrocarbons, or any Other Products produced or manufactured from the Oil or Gas, of similar characteristics and type in the general area, (ii) the prevailing market price thereof in the general area, (iii) the proceeds of the sale thereof, or (iv) the highest value reasonably available to Lessee. The proceeds of sale shall include the total value accruing to the Lessee from the sale or use of the production, including proceeds and any other thing of value received by Lessee or the operator.

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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. **"Produced in Paying Quantities"** means that the receipts from the sale or other authorized commercial use of the substances(s) covered exceed out of pocket operational expenses for the six months last past.

p. **"Raw Mix"** means a mixture of Natural Gas Liquids (NGLs) that has a true vapor pressure greater than fifteen (15) pounds per square inch gauge at 100 degrees Fahrenheit (°F) prior to separation down to its base components by fractionation, typically consisting of a mixture of liquefiable hydrocarbons, including but not limited to, the natural Gas liquids ethane, propane, iso-butane, normal butane, and natural Gasoline that include pentanes plus (iso-pentane, normal pentane and hydrocarbon components of higher molecular weight).

q. **"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

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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.

r. **"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.

s. **"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.

t. **"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.

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LESSEE Espuela Energy, LLC

BY: Robert Canon

TITLE: Managing Member

DATE: 10/1/22

OWNER OF THE SOIL
Individually and as agent for the State of Texas
Fred W. Shield and Company

BY: H. Joseph de Compiegne

TITLE: Managing Partner

DATE: August 23, 2022

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

10.18.22

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STATE OF TEXAS

COUNTY OF TRAVIS

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Robert Canon known to me to be the person whose name is subscribed to the foregoing instruments as Managing Member of Espuela Energy, 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 1st day of October, 2022.

LARA KATHERINE BOLEY
Notary Public, State of Texas
Comm. Expires 05-08-2023
Notary ID 130219752

Lara Katherine Boley
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 H. Joseph de Compiegne known to me to be the person whose name is subscribed to the foregoing instruments as Managing Partner of Fred W. Shield and Company and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the 23rd day of August, 2022.

JIMMIE JILL BALL
Notary Public, State of Texas
Comm. Expires 11-10-2023
Notary ID 126312122

Jill Ball
Notary Public in and for Texas

THE STATE OF TEXAS
REEVES COUNTY

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Instrument Number: 2022007018

Real Property Recordings

LEASE

Recorded On: October 12, 2022 10:08 AM

Number of Pages: 14

" Examined and Charged as Follows: "

Total Recording: $74.00

********** THIS PAGE IS PART OF THE INSTRUMENT **********
Any provision herein which restricts the Sale, Rental or use of the described REAL PROPERTY because of color or race is invalid and unenforceable under federal law.

File Information:

Document Number:	2022007018
Receipt Number:	20221012000012
Recorded Date/Time:	October 12, 2022 10:08 AM
User:	Rebecca G
Station:	CLERK07

Record and Return To:

ESPUELA ENERGY LLC/ ATTN ROBERT CANON
PO BOX 5988

AUSTIN TX 78763

STATE OF TEXAS
Reeves County
I hereby certify that this Instrument was filed in the File Number sequence on the date/time printed hereon, and was duly recorded in the Official Records of Reeves County, Texas

Dianne O. Florez
Reeves County Clerk
Reeves County, TX

Dianne O. Florez

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CERTIFIED A TRUE AND CORRECT COPY
OF THE RECORD ON FILE IN MY OFFICE

Dianne O. Florez
Reeves County Clerk

10-12-2022 By: R. Granado

Date Deputy Clerk

(6)

File No. MF121078

_____ County

Lease E

Date Filed: 4/24/23

Commissioner Dawn Buckingham, M.D.

By: [signature]

MF121078F

The State of Texas

Austin, Texas

General Land Office
Relinquishment Act Lease Form
Revised 9/21

OIL AND GAS LEASE

THIS OIL AND GAS LEASE is made and entered into to be effective **August 3, 2022** (the "effective date"), by and between the State of Texas, acting by and through its agent, **The de Compiegne Property Company No. 20, Ltd,** whose address is: **P. O. Box 1071 Midland, Texas 79702** said agent herein referred to as the owner of the soil (whether one or more) ("owner of the soil"), and **Espuela Energy, LLC**

("Lessee"), whose address is: **P.O. Box 5988 Austin, Texas 78763**

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: **Five Hundred Sixty Two and 50/100 Dollars**

Dollars ($**562.50**)

To the owner of the soil: **Five Hundred Sixty Two and 50/100 Dollars**

Dollars ($**562.50**)

Total bonus consideration: **One Thousand One Hundred Twenty Five Dollars**

Dollars ($**1,125.00**)

The total bonus consideration paid represents a bonus of **Six Thousand** dollars ($**6,000.00**) per acre, on **.1875** net acres.

2. TERM. This lease shall be for a term of **Three** (**3**) years and (**0**) months commencing on the effective date (the "primary term"), and as long thereafter as Oil or Gas is produced in paying quantities from the following "Leased Premises" (herein so called), to-wit:

Part/Section: **360 acres, more or less, being the South 360 acres of Section 34, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas**

Block: **Block 55, Township 5** Abstract: **2443**

Grantee / Survey: **T&P Ry Co Survey**

Acres: **360**

County: **Reeves**

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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 N/A Bank, at N/A 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: **Paid-Up** Dollars ($_____)

To the State of Texas: **Paid-Up** Dollars ($_____)

Total Delay Rental: **Paid-Up** Dollars ($_____)

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

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

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

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

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

(B) the gross price paid or offered to the Lessee; provided that the maximum pressure base in measuring the Gas under this lease contract shall equal 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to a test made by chromatographic analysis or the Balance Method,

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

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

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

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

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

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

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

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

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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

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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

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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.

(c) **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 x 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 x 4500 feet = 144 acres, which rounds up to 160 acres); (4) if more acreage is required than is provided for in (1), (2) or (3) above in order to obtain the maximum allowable under special field rules for the permitted or producing interval or intervals, upon written approval from the GLO, such number of acres that are required to obtain the maximum allowable as required by the special field rules as approved by the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction; or (5) the number of acres held in a pooled unit pursuant to Natural Resources Code Sections 52.151-52.154. After termination pursuant to this subsection, each tract retained shall be considered a separate lease and must be maintained independently. Lessee shall retain the right of ingress and egress on and across the terminated portion of the Leased Premises as may be reasonably necessary for the continued operation of the portions of the lease remaining in force and effect. Further, Lessee shall retain an easement for its pipelines, tank batteries or other surface equipment or installations on the terminated acreage for so long as they continue to be used for the development and operations on the retained acreage.

(b) **HORIZONTAL:** Two (2) years after the expiration date of the primary term this lease shall further terminate as to those depths stipulated as follows for each tract retained in section 7 (a) above: for vertical wells, 100 feet true vertical depth below the deepest then producing perforations; for horizontal wells, 300 feet true vertical depth below the deepest depth reached by the horizontal lateral between the first takepoint and the last takepoint, and for acreage retained that is pooled or unitized, all depths above and below the pooled or unitized interval. If a well has been spud and is being drilled over this termination date, the acreage retained by said well under section 7 (a) shall be held as to all depths for so long as such operations continue diligently in a workmanlike manner without interruptions totaling more than sixty (60) days in the aggregate (or such longer period of interruptions as may be approved by the Commissioner or his authorized designee) until completion of a well capable of producing in paying quantities or as a dry hole. Upon completion of a well as described in the preceding sentence (with "completion" defined as the earliest of (1) fourteen days after the release of a drilling rig capable of drilling to the target formation, (2) forty-eight hours after the release of a finishing rig, or (3) upon filing of a completion report at the Texas Railroad Commission), or if no such well capable of producing in paying quantities is completed within the stated period, 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

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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 Lensed 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 the applicable statutory offset distance from 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 the applicable statutory offset distance 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

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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 the applicable statutory offset distance from 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 the applicable statutory offset distance from 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 the applicable statutory offset distance from 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.

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

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

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

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

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

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

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

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

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

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

29. LAND PROTECTIONS:

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

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

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

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

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

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

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

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

30. DEFINITIONS:

a. **"BTU"** means British thermal unit, which is the quantity of heat required to raise the temperature of one-pound avoirdupois of pure water from 58.5 degrees Fahrenheit ("°F") to 59.5°F. An MMBtu is one million (1,000,000) British thermal units.

b. **"Dry Gas"** means a Gas that contains less than or equal to seven (7) lbs of water per million standard cubic feet. The volume of Gas, on a Dry Gas basis, shall be determined by mathematically removing the water vapor from Gas that is partially or fully saturated with water vapor at measurement conditions of flowing pressure and temperature. The total energy content of Gas shall be the product of multiplying the volume of Gas, on a Dry Gas basis, times the heating value per unit volume, in Btu/SCF, on a Dry Gas basis, at the same base temperature and base pressure.

c. **"Gas"** means methane and other Gaseous hydrocarbons, including Gaseous combustible, noncombustible, and inert elements, compounds, components or mixtures thereof, and liquefiable hydrocarbons in the vapor stream. Gas volumes shall be calculated and reported, at the option of the GLO, in standard cubic feet (SCF), one thousand (1,000) standard cubic feet of Gas (MSCF), or one million (1,000,000) standard cubic feet of Gas (MMSCF).

d. **"Gross Heating Value or BTU Content"** means the energy per unit volume represented by the number of BTUs produced by the complete combustion of one standard cubic foot of Gas (excluding hydrogen sulfide) at a temperature base of sixty degrees (60° F) Fahrenheit and pressure base of 14.65 pounds per square inch absolute.

e. **"Gross Production"** means all Gas and fluids brought from underground up to and through the well head, and includes: (i) all hydrocarbons produced in liquid form as Oil or condensate at the well head and also all condensate, distillate, and any other liquid hydrocarbons recovered from Oil, condensate, or Gas run through a separator or other equipment; (ii) all hydrocarbons and Gaseous substances not in liquid form produced from any well; and (iii) natural Gasoline or liquid hydrocarbons, carbon dioxide, carbon black, sulfur or any other products produced or manufactured from any Gas or liquid. The Gross Production volumes of Oil, condensate, and Gas includes all sales, custody transfer dispositions, and/or stored volumes and all non-sales disposition volumes, including but not limited to, lease use, fuel, vent, flare, spills, uncontrolled releases, theft, and any other loss. The Gross Production of Gaseous hydrocarbons shall be adjusted and reported in MMBTUs.

f. **"Market Value"** means the greatest of (i) the highest posted price, plus premium, if any, offered or paid for Oil, Gas, condensate, distillate, other hydrocarbons, or any Other Products produced or manufactured from the Oil or Gas, of similar characteristics and type in the general area, (ii) the prevailing market price thereof in the general area, (iii) the proceeds of the sale thereof, or (iv) the highest value reasonably available to Lessee. The proceeds of sale shall include the total value accruing to the Lessee from the sale or use of the production, including proceeds and any other thing of value received by Lessee or the operator.

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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. **"Produced in Paying Quantities"** means that the receipts from the sale or other authorized commercial use of the substances(s) covered exceed out of pocket operational expenses for the six months last past.

p. **"Raw Mix"** means a mixture of Natural Gas Liquids (NGLs) that has a true vapor pressure greater than fifteen (15) pounds per square inch gauge at 100 degrees Fahrenheit (°F) prior to separation down to its base components by fractionation, typically consisting of a mixture of liquefiable hydrocarbons, including but not limited to, the natural Gas liquids ethane, propane, iso-butane, normal butane, and natural Gasoline that include pentanes plus (iso-pentane, normal pentane and hydrocarbon components of higher molecular weight).

q. **"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

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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.

r. **"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.

s. **"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.

t. **"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.

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LESSEE Espuela Energy, LLC

BY: Robert Canon

TITLE: Managing Member

DATE: 10/6/22

OWNER OF THE SOIL
Individually and as agent for the State of Texas
The de Compiegne Property Company No. 20, Ltd.

BY: H. Joseph de Compiegne

TITLE: President of the General Partner

DATE: August 23, 2022

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

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STATE OF TEXAS

COUNTY OF TRAVIS

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Robert Canon known to me to be the person whose name is subscribed to the foregoing instruments as Managing Member of Espuela Energy, 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 1st day of October, 2022.

LARA KATHERINE BOLEY
Notary Public, State of Texas
Comm. Expires 05-08-2023
Notary ID 130219752

Lara Katherine Boley
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 H. Joseph de Compiegne known to me to be the person whose name is subscribed to the foregoing instruments as President of the General Partner of The de Compiegne Property Company No. 20, Ltd. 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 23rd day of August, 2022.

JIMMIE JILL BALL
Notary Public, State of Texas
Comm. Expires 11-10-2023
Notary ID 126312122

Jill Ball
Notary Public in and for Texas

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VG-2335-2022-2022007017

Dianne O. Florez
Reeves County Clerk

Instrument Number: 2022007017

Real Property Recordings

LEASE

Recorded On: October 12, 2022 10:08 AM

Number of Pages: 14

" Examined and Charged as Follows: "

Total Recording: $74.00

********** THIS PAGE IS PART OF THE INSTRUMENT **********
Any provision herein which restricts the Sale, Rental or use of the described REAL PROPERTY because of color or race is invalid and unenforceable under federal law.

File Information:

Document Number:	2022007017
Receipt Number:	20221012000012
Recorded Date/Time:	October 12, 2022 10:08 AM
User:	Rebecca G
Station:	CLERK07

Record and Return To:

ESPUELA ENERGY LLC/ ATTN ROBERT CANON
PO BOX 5988

AUSTIN TX 78763

STATE OF TEXAS
Reeves County
I hereby certify that this Instrument was filed in the File Number sequence on the date/time printed hereon, and was duly recorded in the Official Records of Reeves County, Texas

Dianne O. Florez
Reeves County Clerk
Reeves County, TX

Dianne O. Florez

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CERTIFIED A TRUE AND CORRECT COPY
OF THE RECORD ON FILE IN MY OFFICE

Dianne O. Florez
Reeves County Clerk

10-12-2022 By: R. Granado
Date Deputy Clerk

23-81-01

File No. MF121078

County

Leasc F

Date Filed: 4/24/23

Commissioner Dawn Buckingham, M.D.

By:

MF1210786

The State of Texas

Austin, Texas

General Land Office
Relinquishment Act Lease Form
Revised 9/21

OIL AND GAS LEASE

THIS OIL AND GAS LEASE is made and entered into to be effective **July 13, 2022** (the "effective date"), by and between the State of Texas, acting by and through its agent, **HHE I, LLC**

whose address is: **500 W. 7th Street, #1212 Fort Worth, Texas 76102**

said agent herein referred to as the owner of the soil (whether one or more) ("owner of the soil"), and **Espuela Energy, LLC**

("Lessee"), whose address is: **P.O. Box 5988 Austin, Texas 78763**

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: **Two Hundred Fifty Three Thousand One Hundred Twenty Five Dollars**

Dollars ($ **253,125.00**)

To the owner of the soil: **Two Hundred Fifty Three Thousand One Hundred Twenty Five Dollars**

Dollars ($ **253,125.00**)

Total bonus consideration: **Five Hundred Six Thousand Two Hundred Fifty Dollars**

Dollars ($ **506,250.00**)

The total bonus consideration paid represents a bonus of **Seven Thousand Five Hundred** dollars ($ **7,500.00**) per acre, on **67.50** net acres.

2. TERM. This lease shall be for a term of **Two** (**2**) years and (**0**) months commencing on the effective date (the "primary term"), and as long thereafter as Oil or Gas is produced in paying quantities from the following "Leased Premises" (herein so called), to-wit:

Part/Section: **The South Three Hundred Sixty Acres (360 ac) of Section 34, Block 55, Township 5, T&P RR Co. Survey, Reeves County , Texas**

Block: **Block 55, Township 5**

Abstract: **A-2443**

Grantee / Survey: **T&P Ry Co Survey**

Acres: **360**

County: **Reeves**

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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 N/A Bank, at N/A 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: **Paid-Up** Dollars ($_____)

To the State of Texas: **Paid-Up** Dollars ($_____)

Total Delay Rental: **Paid-Up** Dollars ($_____)

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

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

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

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

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

(B) the gross price paid or offered to the Lessee; provided that the maximum pressure base in measuring the Gas under this lease contract shall equal 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to a test made by chromatographic analysis or the Balance Method.

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

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

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

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

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

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

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

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

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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

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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

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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 x 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 x 4500 feet = 144 acres, which rounds up to 160 acres); (4) if more acreage is required than is provided for in (1), (2) or (3) above in order to obtain the maximum allowable under special field rules for the permitted or producing interval or intervals, upon written approval from the GLO, such number of acres that are required to obtain the maximum allowable as required by the special field rules as approved by the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction; or (5) the number of acres held in a pooled unit pursuant to Natural Resources Code Sections 52.151-52.154. After termination pursuant to this subsection, each tract retained shall be considered a separate lease and must be maintained independently. Lessee shall retain the right of ingress and egress on and across the terminated portion of the Leased Premises as may be reasonably necessary for the continued operation of the portions of the lease remaining in force and effect. Further, Lessee shall retain an easement for its pipelines, tank batteries or other surface equipment or installations on the terminated acreage for so long as they continue to be used for the development and operations on the retained acreage.

(b) **HORIZONTAL:** Two (2) years after the expiration date of the primary term this lease shall further terminate as to those depths stipulated as follows for each tract retained in section 7 (a) above: for vertical wells, 100 feet true vertical depth below the deepest then producing perforations; for horizontal wells, 300 feet true vertical depth below the deepest depth reached by the horizontal lateral between the first takepoint and the last takepoint, and for acreage retained that is pooled or unitized, all depths above and below the pooled or unitized interval. If a well has been spud and is being drilled over this termination date, the acreage retained by said well under section 7 (a) shall be held as to all depths for so long as such operations continue diligently in a workmanlike manner without interruptions totaling more than sixty (60) days in the aggregate (or such longer period of interruptions as may be approved by the Commissioner or his authorized designee) until completion of a well capable of producing in paying quantities or as a dry hole. Upon completion of a well as described in the preceding sentence (with "completion" defined as the earliest of (1) fourteen days after the release of a drilling rig capable of drilling to the target formation, (2) forty-eight hours after the release of a finishing rig, or (3) upon filing of a completion report at the Texas Railroad Commission), or if no such well capable of producing in paying quantities is completed within the stated period, 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

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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 the applicable statutory offset distance from 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 the applicable statutory offset distance 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

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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 the applicable statutory offset distance from 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 the applicable statutory offset distance from 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 the applicable statutory offset distance from 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.

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

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

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

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

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

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

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

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

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

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

29. LAND PROTECTIONS:

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

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

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

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

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

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

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

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

30. DEFINITIONS:

a. **"BTU"** means British thermal unit, which is the quantity of heat required to raise the temperature of one-pound avoirdupois of pure water from 58.5 degrees Fahrenheit ("° F") to 59.5° F. An MMBtu is one million (1,000,000) British thermal units.

b. **"Dry Gas"** means a Gas that contains less than or equal to seven (7) lbs of water per million standard cubic feet. The volume of Gas, on a Dry Gas basis, shall be determined by mathematically removing the water vapor from Gas that is partially or fully saturated with water vapor at measurement conditions of flowing pressure and temperature. The total energy content of Gas shall be the product of multiplying the volume of Gas, on a Dry Gas basis, times the heating value per unit volume, in Btu/SCF, on a Dry Gas basis, at the same base temperature and base pressure.

c. **"Gas"** means methane and other Gaseous hydrocarbons, including Gaseous combustible, noncombustible, and inert elements, compounds, components or mixtures thereof, and liquefiable hydrocarbons in the vapor stream. Gas volumes shall be calculated and reported, at the option of the GLO, in standard cubic feet (SCF), one thousand (1,000) standard cubic feet of Gas (MSCF), or one million (1,000,000) standard cubic feet of Gas (MMSCF).

d. **"Gross Heating Value or BTU Content"** means the energy per unit volume represented by the number of BTUs produced by the complete combustion of one standard cubic foot of Gas (excluding hydrogen sulfide) at a temperature base of sixty degrees (60° F) Fahrenheit and pressure base of 14.65 pounds per square inch absolute.

e. **"Gross Production"** means all Gas and fluids brought from underground up to and through the well head, and includes: (i) all hydrocarbons produced in liquid form as Oil or condensate at the well head and also all condensate, distillate, and any other liquid hydrocarbons recovered from Oil, condensate, or Gas run through a separator or other equipment; (ii) all hydrocarbons and Gaseous substances not in liquid form produced from any well; and (iii) natural Gasoline or liquid hydrocarbons, carbon dioxide, carbon black, sulfur or any other products produced or manufactured from any Gas or liquid. The Gross Production volumes of Oil, condensate, and Gas includes all sales, custody transfer dispositions, and/or stored volumes and all non-sales disposition volumes, including but not limited to, lease use, fuel, vent, flare, spills, uncontrolled releases, theft, and any other loss. The Gross Production of Gaseous hydrocarbons shall be adjusted and reported in MMBTUs.

f. **"Market Value"** means the greatest of (i) the highest posted price, plus premium, if any, offered or paid for Oil, Gas, condensate, distillate, other hydrocarbons, or any Other Products produced or manufactured from the Oil or Gas, of similar characteristics and type in the general area, (ii) the prevailing market price thereof in the general area, (iii) the proceeds of the sale thereof, or (iv) the highest value reasonably available to Lessee. The proceeds of sale shall include the total value accruing to the Lessee from the sale or use of the production, including proceeds and any other thing of value received by Lessee or the operator.

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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. **"Produced in Paying Quantities"** means that the receipts from the sale or other authorized commercial use of the substances(s) covered exceed out of pocket operational expenses for the six months last past.

p. **"Raw Mix"** means a mixture of Natural Gas Liquids (NGLs) that has a true vapor pressure greater than fifteen (15) pounds per square inch gauge at 100 degrees Fahrenheit (°F) prior to separation down to its base components by fractionation, typically consisting of a mixture of liquefiable hydrocarbons, including but not limited to, the natural Gas liquids ethane, propane, iso-butane, normal butane, and natural Gasoline that include pentanes plus (iso-pentane, normal pentane and hydrocarbon components of higher molecular weight).

q. **"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

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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.

r. **"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.

s. **"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.

t. **"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 emission 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.

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37. SEE ATTACHED ADDENDUM

LESSEE Espuela Energy, LLC

BY: Robert Canon

TITLE: Managing Member

DATE: 8/1/22

OWNER OF THE SOIL
Individually and as agent for the State of Texas
HHE I, LLC

BY: Houston Hill

TITLE: Co-Manager

DATE: 7/26/2022

OWNER OF THE SOIL
Individually and as agent for the State of Texas
HHE I, LLC

BY: Michael H. Lattimore

TITLE: Co-Manager

DATE: 7/26/2022

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

10.7.22

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STATE OF TEXAS

COUNTY OF TRAVIS

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared **Robert Canon** known to me to be the person whose name is subscribed to the foregoing instruments as **Managing Member** of **Espuela Energy, 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 1st day of August, 2022.

LARA KATHERINE BOLEY
Notary Public, State of Texas
Comm. Expires 05-08-2023
Notary ID 130219752

Lara Katherine Boley
Notary Public in and for State of Texas

STATE OF TEXAS

COUNTY OF TARRANT

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared **Houston Hill and Michael H. Lattimore** known to me to be the person whose name is subscribed to the foregoing instruments as **Co-Managers** of **HHE I, 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 26th day of July, 2022.

MELISSA A. APPLEBY
Notary Public, State of Texas
Comm. Expires 03-09-2023
Notary ID 528628

Melissa A Appleby
Notary Public in and for TEXAS

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EXHIBIT "A"

ADDENDUM TO LEASE

Attached and made a part of that certain Oil and Gas Lease dated July 13, 2022 by and between the STATE OF TEXAS, acting by and through its agent, HHE I, LLC, Owner of the Soil, and Espuela Energy, LLC, Lessee.

Notwithstanding any provisions of this Lease to the contrary, it is expressly understood and agreed by and between the parties that:

1. Lessee shall not use any existing water, whether from wells, tanks, ponds or reservoirs, from Leased Premises without prior written consent of Lessor as owner of the surface estate. Lessee, its successors and assigns, may itself drill a water well and then use the potable water from that well for drilling operations that are conducted on the Leased Premises or lands pooled therewith. However, Lessee shall have no right to the use of potable water from the Leased Premises for water flooding or secondary recovery operations without the prior written consent of Lessor as the owner of the surface estate. In the event Lessee drills a new well and encounters non-potable water which is certified as not suitable for human, animal or agricultural use, Lessee may use same for its drilling, water flooding or secondary recovery operations. Lessee may not drill a new well within 500 feet of an existing water well located on the leased premises without Lessor's prior written consent. In the event Lessee drills a water well on the Leased Premises and completes its use of same, upon termination of Lessees use of said water well, Lessee will give Lessor a thirty (30) day written notice as to Lessee's intention to plug and abandon said water well. Lessor may during said thirty (30) day notice period, provide to Lessee a written request as to Lessor's election to take over the ownership of said water well and in such event, Lessee agrees upon receipt of written request by Lessor to transfer said water well to Lessor as Owners of the surface estate, upon Lessee's execution of a written transfer instrument that includes Lessor's agreement to accept the water well "AS IS" without any warranty and Lessor's agreement to assume all rights, responsibilities and liabilities, if any, for the operation and maintenance of said water well, including but not limited to plugging of the well in accordance with any regulations of applicable governmental agency or agencies.
2. Lessee is granted the right to use existing roads in the leased premises for ingress and egress, and to the extent such roads are used by Lessee, agrees to maintain, restore and keep roads in usable condition so ling as this lease is in force and effect.
3. Lessee shall notify Lessor a minimum of 24 hours before cutting any new road, if necessary, into or on the leased premises.
4. Lessee shall install and maintain cattle guards at every fence crossing, said cattle guards to remain upon premises as Lessor's property at the expiration of this lease.
5. Lessee will bury and maintain all pipelines and electrical transmission lines 24 inches below the surface only in the event that topographic or ground conditions allow for lines being buried to the set-out depth. Lessee may further use temporary poly flowlines on the surface with he written permission of the Lessor.
6. Lessee may use no more of the surface of the leased premises than is reasonably necessary to use for the purpose of which this lease is granted, and it shall exercise all rights granted to it herein with due regard for the rights of the Owner of the Soil.
7. Lessee, its successors and assigns, shall not erect any building or houses on the leased premises and that only those structures which are reasonably necessary for production facilities or tank batteries shall be erected on the surface of the leased premises.
8. Lessee will not pollute any water aquifers or fresh water in, upon or under the leased premises, and Lessee agrees to notify Owner of the Soil in writing if fresh water is encountered during drilling, or if a fresh water formation is penetrated.
9. Lessee shall maintain all drill sites and other portions of the surface used or occupied by lessee, its successors or assigns, free and clear of weed and noxious vegetation, and will maintain the same in a reasonable manner to prevent additional damage to Owner of the Soil, other land, and crops.

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10. Upon written demand by Owner of the Soil, Lessee shall build and maintain fences around its slush, sump, and drainage pits and tank batteries to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level off all slush pits and cellars ands completely clean up the drill site of all rubbish thereon.
11. In the event of dry hole or production from a well which production ceases and the abandonment of such well, or upon the abandonment of any well location, drill site, tank battery site or roadway, the premises will be restored by Lessee as nearly as reasonably possible to its former condition at the cost and expense of Lessee, it being the intention of the parties hereto that Lessee shall restore the surface to as nearly the state that it is in at the time of execution of this lease.
12. If all or any part of this lease is assigned, released, pooled or unitized, Lessee agrees to furnish the Owner of the Soil with a copy of any such document.
13. This lease grants no hunting or fishing rights whatsoever. Furthermore, Lessee, its agents, contractors, employees or assigns shall be prohibited from carrying or transporting firearms of any type upon or across the herein described premises.
14. Weather permitting, Lessee shall remove from the herein described premises any and all structures, equipment and property of every kind and character placed by Lessee on said premises within ninety (90) days after Lessee has finished with the use of the area where such structure, equipment and property are placed. After thirty (30) days written notice to Lessee by Owner of the Soil, any such structure, equipment or property left on the lease premises by Lessee after the ninety (90) day period, shall at Lessor's option, become the property of the Owner of the Soil. Lessee shall properly plug all wells drilled by Lessee on the leased premises in accordance with the requirement of the Railroad Commission of Texas, the Texas Natural Resources Conservation Commission or other governmental agencies having jurisdiction. In plugging the wells, Lessee shall cut off the casing at least thirty-six (36) inches below the surface.
15. If at the expiration of the primary term and/or the expiration of any extension of the primary term, Lessee has completed a well(s) or Lessee is then engaged in drilling, reworking, or other operations reasonably calculated to obtain or restore production, Lessee shall have the option to commence a continuous development program on said lease and this lease shall remain in full force and effect during such time as said continuous drilling program on the lands covered by this lease is conducted by Lessee. "Continuous Drilling Program" is defined herein to mean the continuous development of the leased premises by Lessee with no more than one hundred eighty (180) days elapsing between the completion of one (1) well and commencement of actual drilling operations of a succeeding well. For purposes of interpretation of this provision, a well should be determined to be completed on the day Lessee releases the drilling rig used to drill such well, or the date such rig is moved off the location, whichever date occurs first, and a well should be determined to be commenced when such well is spudded. The termination of rights hereunder shall be the sole liability or penalty for the failure to drill any well or wells acquired or permitted hereunder. Upon cessation of such continuous drilling program this lease shall terminate as to all lands covered hereby, except as to each well capable of producing oil or gas in paying quantities, together with the proration unit allocated thereto in accordance with the rules and regulation of the Texas Railroad Commission as of the date of termination from the surface down to the depth of one hundred feet (100') below the deepest producing formation. Thereafter, Lessee shall promptly execute and deliver to Owner of the Soil a recorded release of this lease as to all lands covered hereby, save and except to each such producing proration unit, and to all depths of such producing proration units except from the surface down to the depth of one hundred feet (100') below the deepest producing formation.
16. Lessee agrees to provide the Owner of the Soil with a chromatograph test for any gas well completed on the land covered by this lease, if possible.

Signed for Identification:

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Instrument Number: 2022006680

Real Property Recordings

LEASE

Recorded On: September 28, 2022 03:07 PM

Number of Pages: 16

" Examined and Charged as Follows: "

Total Recording: $82.00

********** THIS PAGE IS PART OF THE INSTRUMENT **********
Any provision herein which restricts the Sale, Rental or use of the described REAL PROPERTY because of color or race is invalid and unenforceable under federal law.

File Information:

Document Number:	2022006680
Receipt Number:	20220928000037
Recorded Date/Time:	September 28, 2022 03:07 PM
User:	Rebecca G
Station:	CLERK07

Record and Return To:

ESPUELA ENERGY LLC/ ATTN ROBERT CANON

STATE OF TEXAS
Reeves County
I hereby certify that this Instrument was filed in the File Number sequence on the date/time printed hereon, and was duly recorded in the Official Records of Reeves County, Texas

Dianne O. Florez
Reeves County Clerk
Reeves County, TX

Dianne O. Florez

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CERTIFIED A TRUE AND CORRECT COPY
OF THE RECORD ON FILE IN MY OFFICE

Dianne O. Florez
Reeves County Clerk

9-28-2022 By: R. Granado
Date Deputy Clerk

(8)

23-01

File No. MF121078

County

Lease G

Date Filed: 4/24/23

Commissioner Dawn Buckingham, M.D.

By:

The State of Texas

MF121078H

Austin, Texas

General Land Office
Relinquishment Act Lease Form
Revised 9/21

OIL AND GAS LEASE

THIS OIL AND GAS LEASE is made and entered into to be effective **July 13, 2022** (the "effective date"), by and between the State of Texas, acting by and through its agent, **James Robert Hill Estate** whose address is: **500 W. 7th Street, #1212 Fort Worth, Texas 76102** said agent herein referred to as the owner of the soil (whether one or more) ("owner of the soil"), and **Espuela Energy, LLC**

("Lessee"), whose address is: **P.O. Box 5988 Austin, Texas 78763**

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: **One Hundred Sixty Eight Thousand Seven Hundred Fifty Dollars**

Dollars ($ **168,750.00**)

To the owner of the soil: **One Hundred Sixty Eight Thousand Seven Hundred Fifty Dollars**

Dollars ($ **168,750.00**)

Total bonus consideration: **Three Hundred Thirty Seven Thousand Five Hundred Dollars**

Dollars ($ **337,500.00**)

The total bonus consideration paid represents a bonus of **Seven Thousand Five Hundred** dollars ($ **7,500.00**) per acre, on **45.00** net acres.

2. TERM. This lease shall be for a term of **Two** (**2**) years and (**0**) months commencing on the effective date (the "primary term"), and as long thereafter as Oil or Gas is produced in paying quantities from the following "Leased Premises" (herein so called), to-wit:

Part/Section: **The South Three Hundred Sixty Acres (360 ac) of Section 34, Block 55, Township 5, T&P RR Co. Survey, Reeves County , Texas**

Block: **Block 55, Township 5**

Abstract: **A-2443**

Grantee / Survey: **T&P Ry Co Survey**

Acres: **360**

County: **Reeves**

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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 N/A Bank, at N/A 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: **Paid-Up**	Dollars ($_____)
To the State of Texas: **Paid-Up**	Dollars ($_____)
Total Delay Rental: **Paid-Up**	Dollars ($_____)

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

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

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

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

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

(B) the gross price paid or offered to the Lessee; provided that the maximum pressure base in measuring the Gas under this lease contract shall equal 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to a test made by chromatographic analysis or the Balance Method.

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

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

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

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

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

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

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

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

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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

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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

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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.

(c) **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 x 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 x 4500 feet = 144 acres, which rounds up to 160 acres); (4) if more acreage is required than is provided for in (1), (2) or (3) above in order to obtain the maximum allowable under special field rules for the permitted or producing interval or intervals, upon written approval from the GLO, such number of acres that are required to obtain the maximum allowable as required by the special field rules as approved by the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction; or (5) the number of acres held in a pooled unit pursuant to Natural Resources Code Sections 52.151-52.154. After termination pursuant to this subsection, each tract retained shall be considered a separate lease and must be maintained independently. Lessee shall retain the right of ingress and egress on and across the terminated portion of the Leased Premises as may be reasonably necessary for the continued operation of the portions of the lease remaining in force and effect. Further, Lessee shall retain an easement for its pipelines, tank batteries or other surface equipment or installations on the terminated acreage for so long as they continue to be used for the development and operations on the retained acreage.

(b) **HORIZONTAL:** Two (2) years after the expiration date of the primary term this lease shall further terminate as to those depths stipulated as follows for each tract retained in section 7 (a) above: for vertical wells, 100 feet true vertical depth below the deepest then producing perforations; for horizontal wells, 300 feet true vertical depth below the deepest depth reached by the horizontal lateral between the first takepoint and the last takepoint, and for acreage retained that is pooled or unitized, all depths above and below the pooled or unitized interval. If a well has been spud and is being drilled over this termination date, the acreage retained by said well under section 7 (a) shall be held as to all depths for so long as such operations continue diligently in a workmanlike manner without interruptions totaling more than sixty (60) days in the aggregate (or such longer period of interruptions as may be approved by the Commissioner or his authorized designee) until completion of a well capable of producing in paying quantities or as a dry hole. Upon completion of a well as described in the preceding sentence (with "completion" defined as the earliest of (1) fourteen days after the release of a drilling rig capable of drilling to the target formation, (2) forty-eight hours after the release of a finishing rig, or (3) upon filing of a completion report at the Texas Railroad Commission), or if no such well capable of producing in paying quantities is completed within the stated period, 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

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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 the applicable statutory offset distance from 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 the applicable statutory offset distance 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

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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 the applicable statutory offset distance from 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 the applicable statutory offset distance from 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 the applicable statutory offset distance from 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.

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

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

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

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

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

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

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

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

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

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

29. LAND PROTECTIONS:

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

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

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

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

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

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

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

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

30. DEFINITIONS:

a. **"BTU"** means British thermal unit, which is the quantity of heat required to raise the temperature of one-pound avoirdupois of pure water from 58.5 degrees Fahrenheit ("° F") to 59.5° F. An MMBtu is one million (1,000,000) British thermal units.

b. **"Dry Gas"** means a Gas that contains less than or equal to seven (7) lbs of water per million standard cubic feet. The volume of Gas, on a Dry Gas basis, shall be determined by mathematically removing the water vapor from Gas that is partially or fully saturated with water vapor at measurement conditions of flowing pressure and temperature. The total energy content of Gas shall be the product of multiplying the volume of Gas, on a Dry Gas basis, times the heating value per unit volume, in Btu/SCF, on a Dry Gas basis, at the same base temperature and base pressure.

c. **"Gas"** means methane and other Gaseous hydrocarbons, including Gaseous combustible, noncombustible, and inert elements, compounds, components or mixtures thereof, and liquefiable hydrocarbons in the vapor stream. Gas volumes shall be calculated and reported, at the option of the GLO, in standard cubic feet (SCF), one thousand (1,000) standard cubic feet of Gas (MSCF), or one million (1,000,000) standard cubic feet of Gas (MMSCF).

d. **"Gross Heating Value or BTU Content"** means the energy per unit volume represented by the number of BTUs produced by the complete combustion of one standard cubic foot of Gas (excluding hydrogen sulfide) at a temperature base of sixty degrees (60° F) Fahrenheit and pressure base of 14.65 pounds per square inch absolute.

e. **"Gross Production"** means all Gas and fluids brought from underground up to and through the well head, and includes: (i) all hydrocarbons produced in liquid form as Oil or condensate at the well head and also all condensate, distillate, and any other liquid hydrocarbons recovered from Oil, condensate, or Gas run through a separator or other equipment; (ii) all hydrocarbons and Gaseous substances not in liquid form produced from any well; and (iii) natural Gasoline or liquid hydrocarbons, carbon dioxide, carbon black, sulfur or any other products produced or manufactured from any Gas or liquid. The Gross Production volumes of Oil, condensate, and Gas includes all sales, custody transfer dispositions, and/or stored volumes and all non-sales disposition volumes, including but not limited to, lease use, fuel, vent, flare, spills, uncontrolled releases, theft, and any other loss. The Gross Production of Gaseous hydrocarbons shall be adjusted and reported in MMBTUs.

f. **"Market Value"** means the greatest of (i) the highest posted price, plus premium, if any, offered or paid for Oil, Gas, condensate, distillate, other hydrocarbons, or any Other Products produced or manufactured from the Oil or Gas, of similar characteristics and type in the general area, (ii) the prevailing market price thereof in the general area, (iii) the proceeds of the sale thereof, or (iv) the highest value reasonably available to Lessee. The proceeds of sale shall include the total value accruing to the Lessee from the sale or use of the production, including proceeds and any other thing of value received by Lessee or the operator.

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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. **"Produced in Paying Quantities"** means that the receipts from the sale or other authorized commercial use of the substances(s) covered exceed out of pocket operational expenses for the six months last past.

p. **"Raw Mix"** means a mixture of Natural Gas Liquids (NGLs) that has a true vapor pressure greater than fifteen (15) pounds per square inch gauge at 100 degrees Fahrenheit (°F) prior to separation down to its base components by fractionation, typically consisting of a mixture of liquefiable hydrocarbons, including but not limited to, the natural Gas liquids ethane, propane, iso-butane, normal butane, and natural Gasoline that include pentanes plus (iso-pentane, normal pentane and hydrocarbon components of higher molecular weight).

q. **"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

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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.

r. **"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.

s. **"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.

t. **"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.

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37. SEE ATTACHED ADDENDUM

LESSEE Espuela Energy, LLC

BY: Robert Canon

TITLE: Managing Member

DATE: 8/4/22

OWNER OF THE SOIL
Individually and as agent for the State of Texas
James Robert Hill Estate

BY: John A. Styrsky

TITLE: Independant Executor

DATE: 8/1/22

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

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STATE OF TEXAS

COUNTY OF TRAVIS

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Robert Canon known to me to be the person whose name is subscribed to the foregoing instruments as Managing Member of Espuela Energy, 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 4th day of August, 2022.

Lara Katherine Boley

Notary Public in and for State of Texas

LARA KATHERINE BOLEY
Notary Public, State of Texas
Comm. Expires 05-08-2023
Notary ID 130219752

STATE OF TEXAS

COUNTY OF TARRANT

(CORPORATION ACKNOWLEDGMENT)

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

Given under my hand and seal of office this the 1st day of August, 2022.

Melissa A Appleby

Notary Public in and for Texas

MELISSA A. APPLEBY
Notary Public, State of Texas
Comm. Expires 03-09-2023
Notary ID 528628

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EXHIBIT "A"

ADDENDUM TO LEASE

Attached and made a part of that certain Oil and Gas Lease dated July 13, 2022 by and between the STATE OF TEXAS, acting by and through its agent, the James Robert Hill Estate, Owner of the Soil, and Espuela Energy, LLC, Lessee.

Notwithstanding any provisions of this Lease to the contrary, it is expressly understood and agreed by and between the parties that:

1. Lessee shall not use any existing water, whether from wells, tanks, ponds or reservoirs, from Leased Premises without prior written consent of Lessor as owner of the surface estate. Lessee, its successors and assigns, may itself drill a water well and then use the potable water from that well for drilling operations that are conducted on the Leased Premises or lands pooled therewith. However, Lessee shall have no right to the use of potable water from the Leased Premises for water flooding or secondary recovery operations without the prior written consent of Lessor as the owner of the surface estate. In the event Lessee drills a new well and encounters non-potable water which is certified as not suitable for human, animal or agricultural use, Lessee may use same for its drilling, water flooding or secondary recovery operations. Lessee may not drill a new well within 500 feet of an existing water well located on the leased premises without Lessor's prior written consent. In the event Lessee drills a water well on the Leased Premises and completes its use of same, upon termination of Lessees use of said water well, Lessee will give Lessor a thirty (30) day written notice as to Lessee's intention to plug and abandon said water well. Lessor may during said thirty (30) day notice period, provide to Lessee a written request as to Lessor's election to take over the ownership of said water well and in such event, Lessee agrees upon receipt of written request by Lessor to transfer said water well to Lessor as Owners of the surface estate, upon Lessee's execution of a written transfer instrument that includes Lessor's agreement to accept the water well "AS IS" without any warranty and Lessor's agreement to assume all rights, responsibilities and liabilities, if any, for the operation and maintenance of said water well, including but not limited to plugging of the well in accordance with any regulations of applicable governmental agency or agencies.
2. Lessee is granted the right to use existing roads in the leased premises for ingress and egress, and to the extent such roads are used by Lessee, agrees to maintain, restore and keep roads in usable condition so ling as this lease is in force and effect.
3. Lessee shall notify Lessor a minimum of 24 hours before cutting any new road, if necessary, into or on the leased premises.
4. Lessee shall install and maintain cattle guards at every fence crossing, said cattle guards to remain upon premises as Lessor's property at the expiration of this lease.
5. Lessee will bury and maintain all pipelines and electrical transmission lines 24 inches below the surface only in the event that topographic or ground conditions allow for lines being buried to the set-out depth. Lessee may further use temporary poly flowlines on the surface with he written permission of the Lessor.
6. Lessee may use no more of the surface of the leased premises than is reasonably necessary to use for the purpose of which this lease is granted, and it shall exercise all rights granted to it herein with due regard for the rights of the Owner of the Soil.
7. Lessee, its successors and assigns, shall not erect any building or houses on the leased premises and that only those structures which are reasonably necessary for production facilities or tank batteries shall be erected on the surface of the leased premises.
8. Lessee will not pollute any water aquifers or fresh water in, upon or under the leased premises, and Lessee agrees to notify Owner of the Soil in writing if fresh water is encountered during drilling, or if a fresh water formation is penetrated.
9. Lessee shall maintain all drill sites and other portions of the surface used or occupied by lessee, its successors or assigns, free and clear of weed and noxious vegetation, and will maintain the same in a reasonable manner to prevent additional damage to Owner of the Soil, other land, and crops.

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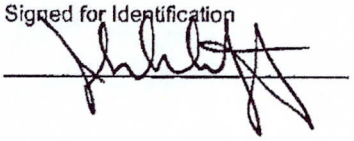
10. Upon written demand by Owner of the Soil, Lessee shall build and maintain fences around its slush, sump, and drainage pits and tank batteries to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level off all slush pits and cellars ands completely clean up the drill site of all rubbish thereon.
11. In the event of dry hole or production from a well which production ceases and the abandonment of such well, or upon the abandonment of any well location, drill site, tank battery site or roadway, the premises will be restored by Lessee as nearly as reasonably possible to its former condition at the cost and expense of Lessee, it being the intention of the parties hereto that Lessee shall restore the surface to as nearly the state that it is in at the time of execution of this lease.
12. If all or any part of this lease is assigned, released, pooled or unitized, Lessee agrees to furnish the Owner of the Soil with a copy of any such document.
13. This lease grants no hunting or fishing rights whatsoever. Furthermore, Lessee, its agents, contractors, employees or assigns shall be prohibited from carrying or transporting firearms of any type upon or across the herein described premises.
14. Weather permitting, Lessee shall remove from the herein described premises any and all structures, equipment and property of every kind and character placed by Lessee on said premises within ninety (90) days after Lessee has finished with the use of the area where such structure, equipment and property are placed. After thirty (30) days written notice to Lessee by Owner of the Soil, any such structure, equipment or property left on the lease premises by Lessee after the ninety (90) day period, shall at Lessor's option, become the property of the Owner of the Soil. Lessee shall properly plug all wells drilled by Lessee on the leased premises in accordance with the requirement of the Railroad Commission of Texas, the Texas Natural Resources Conservation Commission or other governmental agencies having jurisdiction. In plugging the wells, Lessee shall cut off the casing at least thirty-six (36) inches below the surface.
15. If at the expiration of the primary term and/or the expiration of any extension of the primary term, Lessee has completed a well(s) or Lessee is then engaged in drilling, reworking, or other operations reasonably calculated to obtain or restore production, Lessee shall have the option to commence a continuous development program on said lease and this lease shall remain in full force and effect during such time as said continuous drilling program on the lands covered by this lease is conducted by Lessee. "Continuous Drilling Program" is defined herein to mean the continuous development of the leased premises by Lessee with no more than one hundred eighty (180) days elapsing between the completion of one (1) well and commencement of actual drilling operations of a succeeding well. For purposes of interpretation of this provision, a well should be determined to be completed on the day Lessee releases the drilling rig used to drill such well, or the date such rig is moved off the location, whichever date occurs first, and a well should be determined to be commenced when such well is spudded. The termination of rights hereunder shall be the sole liability or penalty for the failure to drill any well or wells acquired or permitted hereunder. Upon cessation of such continuous drilling program this lease shall terminate as to all lands covered hereby, except as to each well capable of producing oil or gas in paying quantities, together with the proration unit allocated thereto in accordance with the rules and regulation of the Texas Railroad Commission as of the date of termination from the surface down to the depth of one hundred feet (100') below the deepest producing formation. Thereafter, Lessee shall promptly execute and deliver to Owner of the Soil a recorded release of this lease as to all lands covered hereby, save and except to each such producing proration unit, and to all depths of such producing proration units except from the surface down to the depth of one hundred feet (100') below the deepest producing formation.
16. Lessee agrees to provide the Owner of the Soil with a chromatograph test for any gas well completed on the land covered by this lease, if possible.

Signed for Identification



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VG-2335-2022-2022006678

Dianne O. Florez
Reeves County Clerk

Instrument Number: 2022006678

Real Property Recordings

LEASE

Recorded On: September 28, 2022 03:07 PM

Number of Pages: 16

" Examined and Charged as Follows: "

Total Recording: $82.00

********** THIS PAGE IS PART OF THE INSTRUMENT **********
Any provision herein which restricts the Sale, Rental or use of the described REAL PROPERTY because of color or race is invalid and unenforceable under federal law.

File Information:

Document Number:	2022006678
Receipt Number:	20220928000037
Recorded Date/Time:	September 28, 2022 03:07 PM
User:	Rebecca G
Station:	CLERK07

Record and Return To:

ESPUELA ENERGY LLC/ ATTN ROBERT CANON

STATE OF TEXAS
Reeves County
I hereby certify that this Instrument was filed in the File Number sequence on the date/time printed hereon, and was duly recorded in the Official Records of Reeves County, Texas

Dianne O. Florez
Reeves County Clerk
Reeves County, TX

Dianne O. Florez

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CERTIFIED A TRUE AND CORRECT COPY
OF THE RECORD ON FILE IN MY OFFICE

Dianne O. Florez
Reeves County Clerk

9-28-2022 By: R. Granado
Date Deputy Clerk

(9)

File No. MF121078

County

Lease H

Date Filed: 4/24/23

Commissioner Dawn Buckingham, M.D.

By:

MF1210781

The State of Texas

Austin, Texas

General Land Office
Relinquishment Act Lease Form
Revised 9/21

OIL AND GAS LEASE

THIS OIL AND GAS LEASE is made and entered into to be effective **July 20, 2022** (the "effective date"), by and between the State of Texas, acting by and through its agent, **Triangle Royalty, LP** whose address is: **P.O. Box 904, Midland, Texas 79702** said agent herein referred to as the owner of the soil (whether one or more) ("owner of the soil"), and **Espuela Energy, LLC**

("Lessee"), whose address is: **P.O. Box 5988 Austin, Texas 78763**

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: **Ninety Nine Thousand Four Hundred Ninety Two and 19/100 Dollars**

Dollars ($**99,492.19**)

To the owner of the soil: **Ninety Nine Thousand Four Hundred Ninety Two and 19/100 Dollars**

Dollars ($**99,492.19**)

Total bonus consideration: **One Hundred Ninety Eight Thousand Nine Hundred Eighty Four and 38/100 Dollars**

Dollars ($**198,984.38**)

The total bonus consideration paid represents a bonus of **Seven Thousand Five Hundred** dollars ($ **7,500.00**) per acre, on **26.53125** net acres.

2. TERM. This lease shall be for a term of **Three** (**3**) years and (**0**) months commencing on the effective date (the "primary term"), and as long thereafter as Oil or Gas is produced in paying quantities from the following "Leased Premises" (herein so called), to-wit:

Part/Section: **360 acres, more or less, being the South 360 acres of Section 34, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas**

Block: **Block 55, Township 5** Abstract: **2443**

Grantee / Survey: **T&P Ry Co Survey**

Acres: **360**

County: **Reeves**

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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 N/A Bank, at N/A 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: **Paid-Up**	Dollars ($_____)
To the State of Texas: **Paid-Up**	Dollars ($_____)
Total Delay Rental: **Paid-Up**	Dollars ($_____)

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

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

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

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

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

(B) the gross price paid or offered to the Lessee; provided that the maximum pressure base in measuring the Gas under this lease contract shall equal 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to a test made by chromatographic analysis or the Balance Method.

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

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

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

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

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

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

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

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

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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

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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

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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 x 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 x 4500 feet = 144 acres, which rounds up to 160 acres); (4) if more acreage is required than is provided for in (1), (2) or (3) above in order to obtain the maximum allowable under special field rules for the permitted or producing interval or intervals, upon written approval from the GLO, such number of acres that are required to obtain the maximum allowable as required by the special field rules as approved by the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction; or (5) the number of acres held in a pooled unit pursuant to Natural Resources Code Sections 52.151-52.154. After termination pursuant to this subsection, each tract retained shall be considered a separate lease and must be maintained independently. Lessee shall retain the right of ingress and egress on and across the terminated portion of the Leased Premises as may be reasonably necessary for the continued operation of the portions of the lease remaining in force and effect. Further, Lessee shall retain an easement for its pipelines, tank batteries or other surface equipment or installations on the terminated acreage for so long as they continue to be used for the development and operations on the retained acreage.

(b) **HORIZONTAL:** Two (2) years after the expiration date of the primary term this lease shall further terminate as to those depths stipulated as follows for each tract retained in section 7 (a) above: for vertical wells, 100 feet true vertical depth below the deepest then producing perforations; for horizontal wells, 300 feet true vertical depth below the deepest depth reached by the horizontal lateral between the first takepoint and the last takepoint, and for acreage retained that is pooled or unitized, all depths above and below the pooled or unitized interval. If a well has been spud and is being drilled over this termination date, the acreage retained by said well under section 7 (a) shall be held as to all depths for so long as such operations continue diligently in a workmanlike manner without interruptions totaling more than sixty (60) days in the aggregate (or such longer period of interruptions as may be approved by the Commissioner or his authorized designee) until completion of a well capable of producing in paying quantities or as a dry hole. Upon completion of a well as described in the preceding sentence (with "completion" defined as the earliest of (1) fourteen days after the release of a drilling rig capable of drilling to the target formation, (2) forty-eight hours after the release of a finishing rig, or (3) upon filing of a completion report at the Texas Railroad Commission), or if no such well capable of producing in paying quantities is completed within the stated period, 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

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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 the applicable statutory offset distance from 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 the applicable statutory offset distance 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

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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 the applicable statutory offset distance from 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 the applicable statutory offset distance from 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 the applicable statutory offset distance from 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.

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

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

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

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

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

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

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

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

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

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

29. LAND PROTECTIONS:

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

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

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

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

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

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

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

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

30. DEFINITIONS:

a. **"BTU"** means British thermal unit, which is the quantity of heat required to raise the temperature of one-pound avoirdupois of pure water from 58.5 degrees Fahrenheit ("° F") to 59.5° F. An MMBtu is one million (1,000,000) British thermal units.

b. **"Dry Gas"** means a Gas that contains less than or equal to seven (7) lbs of water per million standard cubic feet. The volume of Gas, on a Dry Gas basis, shall be determined by mathematically removing the water vapor from Gas that is partially or fully saturated with water vapor at measurement conditions of flowing pressure and temperature. The total energy content of Gas shall be the product of multiplying the volume of Gas, on a Dry Gas basis, times the heating value per unit volume, in Btu/SCF, on a Dry Gas basis, at the same base temperature and base pressure.

c. **"Gas"** means methane and other Gaseous hydrocarbons, including Gaseous combustible, noncombustible, and inert elements, compounds, components or mixtures thereof, and liquefiable hydrocarbons in the vapor stream. Gas volumes shall be calculated and reported, at the option of the GLO, in standard cubic feet (SCF), one thousand (1,000) standard cubic feet of Gas (MSCF), or one million (1,000,000) standard cubic feet of Gas (MMSCF).

d. **"Gross Heating Value or BTU Content"** means the energy per unit volume represented by the number of BTUs produced by the complete combustion of one standard cubic foot of Gas (excluding hydrogen sulfide) at a temperature base of sixty degrees (60° F) Fahrenheit and pressure base of 14.65 pounds per square inch absolute.

e. **"Gross Production"** means all Gas and fluids brought from underground up to and through the well head, and includes: (i) all hydrocarbons produced in liquid form as Oil or condensate at the well head and also all condensate, distillate, and any other liquid hydrocarbons recovered from Oil, condensate, or Gas run through a separator or other equipment; (ii) all hydrocarbons and Gaseous substances not in liquid form produced from any well; and (iii) natural Gasoline or liquid hydrocarbons, carbon dioxide, carbon black, sulfur or any other products produced or manufactured from any Gas or liquid. The Gross Production volumes of Oil, condensate, and Gas includes all sales, custody transfer dispositions, and/or stored volumes and all non-sales disposition volumes, including but not limited to, lease use, fuel, vent, flare, spills, uncontrolled releases, theft, and any other loss. The Gross Production of Gaseous hydrocarbons shall be adjusted and reported in MMBTUs.

f. **"Market Value"** means the greatest of (i) the highest posted price, plus premium, if any, offered or paid for Oil, Gas, condensate, distillate, other hydrocarbons, or any Other Products produced or manufactured from the Oil or Gas, of similar characteristics and type in the general area, (ii) the prevailing market price thereof in the general area, (iii) the proceeds of the sale thereof, or (iv) the highest value reasonably available to Lessee. The proceeds of sale shall include the total value accruing to the Lessee from the sale or use of the production, including proceeds and any other thing of value received by Lessee or the operator.

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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. **"Produced in Paying Quantities"** means that the receipts from the sale or other authorized commercial use of the substances(s) covered exceed out of pocket operational expenses for the six months last past.

p. **"Raw Mix"** means a mixture of Natural Gas Liquids (NGLs) that has a true vapor pressure greater than fifteen (15) pounds per square inch gauge at 100 degrees Fahrenheit (°F) prior to separation down to its base components by fractionation, typically consisting of a mixture of liquefiable hydrocarbons, including but not limited to, the natural Gas liquids ethane, propane, iso-butane, normal butane, and natural Gasoline that include pentanes plus (iso-pentane, normal pentane and hydrocarbon components of higher molecular weight).

q. **"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

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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.

r. **"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.

s. **"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.

t. **"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.

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LESSEE Espuela Energy, LLC

BY: Robert Canon

TITLE: Managing Member

DATE: 8/1/22

OWNER OF THE SOIL
Individually and as agent for the State of Texas
Triangle Royalty, LP
By: SJW Royalty, LLC, its general partner

BY: Andrew R. Webb

TITLE: Vice President-Operations

DATE: 7/20/22

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

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REEVES COUNTY

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STATE OF TEXAS

COUNTY OF TRAVIS

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared **Robert Canon** known to me to be the person whose name is subscribed to the foregoing instruments as **Managing Member** of **Espuela Energy, 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 1st day of August, 2022.

LARA KATHERINE BOLEY
Notary Public, State of Texas
Comm. Expires 05-08-2023
Notary ID 130219752

Lara Katherine Boley

Notary Public in and for State of Texas

STATE OF TEXAS

COUNTY OF TARRANT

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared **Andrew R. Webb** known to me to be the person whose name is subscribed to the foregoing instruments as **Vice President-Operations** of **Triangle Royalty, LP, by its general partner SJW Royalty, 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 22 day of July, 2022.

JOSEPH HAMMOND
Notary Public, State of Texas
Comm. Expires 10-14-2023
Notary ID 132208387

Notary Public in and for Texas

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Instrument Number: 2022006681

Real Property Recordings

LEASE

Recorded On: September 28, 2022 03:07 PM

Number of Pages: 14

" Examined and Charged as Follows: "

Total Recording: $74.00

********** THIS PAGE IS PART OF THE INSTRUMENT **********
Any provision herein which restricts the Sale, Rental or use of the described REAL PROPERTY because of color or race is invalid and unenforceable under federal law.

File Information:

Document Number:	2022006681
Receipt Number:	20220928000037
Recorded Date/Time:	September 28, 2022 03:07 PM
User:	Rebecca G
Station:	CLERK07

Record and Return To:

ESPUELA ENERGY LLC/ ATTN ROBERT CANON

STATE OF TEXAS
Reeves County
I hereby certify that this Instrument was filed in the File Number sequence on the date/time printed hereon, and was duly recorded in the Official Records of Reeves County, Texas

Dianne O. Florez
Reeves County Clerk
Reeves County, TX

Dianne O. Florez

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CERTIFIED A TRUE AND CORRECT COPY
OF THE RECORD ON FILE IN MY OFFICE

Dianne O. Florez
Reeves County Clerk

9-28-2022 By: R. Granado
Date Deputy Clerk

(10)

SS-01

File No. MF121078

County

Lease I

Date Filed: 4/24/23

Commissioner Dawn Buckingham, M.D.

By:

MF121078 J

The State of Texas

Austin, Texas

General Land Office
Relinquishment Act Lease Form
Revised 9/21

OIL AND GAS LEASE

THIS OIL AND GAS LEASE is made and entered into to be effective **July 20, 2022** (the "effective date"), by and between the State of Texas, acting by and through its agent, **JK Royalty, LP** whose address is: **P.O. Box 904, Midland, Texas 79702** said agent herein referred to as the owner of the soil (whether one or more) ("owner of the soil"), and **Espuela Energy, LLC**

("Lessee"), whose address is: **P.O. Box 5988 Austin, Texas 78763**

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: **Five Thousand Six Hundred Twenty Five Dollars**

Dollars ($**5,625.00**)

To the owner of the soil: **Five Thousand Six Hundred Twenty Five Dollars**

Dollars ($**5,625.00**)

Total bonus consideration: **Eleven Thousand Two Hundred Fifty Dollars**

Dollars ($**11,250.00**)

The total bonus consideration paid represents a bonus of **Seven Thousand Five Hundred** dollars ($**7,500.00**) per acre, on **1.5** net acres.

2. TERM. This lease shall be for a term of **Three** (**3**) years and (**0**) months commencing on the effective date (the "primary term"), and as long thereafter as Oil or Gas is produced in paying quantities from the following "Leased Premises" (herein so called), to-wit:

Part/Section: **360 acres, more or less, being the South 360 acres of Section 34, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas**

Block: **Block 55, Township 5** Abstract: **2443**

Grantee / Survey: **T&P Ry Co Survey**

Acres: **360**

County: **Reeves**

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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 N/A Bank, at N/A 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: **Paid-Up** Dollars ($_____)

To the State of Texas: **Paid-Up** Dollars ($_____)

Total Delay Rental: **Paid-Up** Dollars ($_____)

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

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

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

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

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

(B) the gross price paid or offered to the Lessee; provided that the maximum pressure base in measuring the Gas under this lease contract shall equal 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to a test made by chromatographic analysis or the Balance Method.

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

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

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

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

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

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

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

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

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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(f). 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

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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

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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.

(c) **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 x 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 x 4500 feet = 144 acres, which rounds up to 160 acres); (4) if more acreage is required than is provided for in (1), (2) or (3) above in order to obtain the maximum allowable under special field rules for the permitted or producing interval or intervals, upon written approval from the GLO, such number of acres that are required to obtain the maximum allowable as required by the special field rules as approved by the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction; or (5) the number of acres held in a pooled unit pursuant to Natural Resources Code Sections 52.151-52.154. After termination pursuant to this subsection, each tract retained shall be considered a separate lease and must be maintained independently. Lessee shall retain the right of ingress and egress on and across the terminated portion of the Leased Premises as may be reasonably necessary for the continued operation of the portions of the lease remaining in force and effect. Further, Lessee shall retain an easement for its pipelines, tank batteries or other surface equipment or installations on the terminated acreage for so long as they continue to be used for the development and operations on the retained acreage.

(b) **HORIZONTAL:** Two (2) years after the expiration date of the primary term this lease shall further terminate as to those depths stipulated as follows for each tract retained in section 7 (a) above: for vertical wells, 100 feet true vertical depth below the deepest then producing perforations; for horizontal wells, 300 feet true vertical depth below the deepest depth reached by the horizontal lateral between the first takepoint and the last takepoint, and for acreage retained that is pooled or unitized, all depths above and below the pooled or unitized interval. If a well has been spud and is being drilled over this termination date, the acreage retained by said well under section 7 (a) shall be held as to all depths for so long as such operations continue diligently in a workmanlike manner without interruptions totaling more than sixty (60) days in the aggregate (or such longer period of interruptions as may be approved by the Commissioner or his authorized designee) until completion of a well capable of producing in paying quantities or as a dry hole. Upon completion of a well as described in the preceding sentence (with "completion" defined as the earliest of (1) fourteen days after the release of a drilling rig capable of drilling to the target formation, (2) forty-eight hours after the release of a finishing rig, or (3) upon filing of a completion report at the Texas Railroad Commission), or if no such well capable of producing in paying quantities is completed within the stated period, 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

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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 the applicable statutory offset distance from 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 the applicable statutory offset distance 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

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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 the applicable statutory offset distance from 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 the applicable statutory offset distance from 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 the applicable statutory offset distance from 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.

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

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

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

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

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

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

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

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

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

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

29. LAND PROTECTIONS:

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

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

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

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

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

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

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

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

30. DEFINITIONS:

a. **"BTU"** means British thermal unit, which is the quantity of heat required to raise the temperature of one-pound avoirdupois of pure water from 58.5 degrees Fahrenheit (°F) to 59.5°F. An MMBtu is one million (1,000,000) British thermal units.

b. **"Dry Gas"** means a Gas that contains less than or equal to seven (7) lbs of water per million standard cubic feet. The volume of Gas, on a Dry Gas basis, shall be determined by mathematically removing the water vapor from Gas that is partially or fully saturated with water vapor at measurement conditions of flowing pressure and temperature. The total energy content of Gas shall be the product of multiplying the volume of Gas, on a Dry Gas basis, times the heating value per unit volume, in Btu/SCF, on a Dry Gas basis, at the same base temperature and base pressure.

c. **"Gas"** means methane and other Gaseous hydrocarbons, including Gaseous combustible, noncombustible, and inert elements, compounds, components or mixtures thereof, and liquefiable hydrocarbons in the vapor stream. Gas volumes shall be calculated and reported, at the option of the GLO, in standard cubic feet (SCF), one thousand (1,000) standard cubic feet of Gas (MSCF), or one million (1,000,000) standard cubic feet of Gas (MMSCF).

d. **"Gross Heating Value or BTU Content"** means the energy per unit volume represented by the number of BTUs produced by the complete combustion of one standard cubic foot of Gas (excluding hydrogen sulfide) at a temperature base of sixty degrees (60° F) Fahrenheit and pressure base of 14.65 pounds per square inch absolute.

e. **"Gross Production"** means all Gas and fluids brought from underground up to and through the well head, and includes: (i) all hydrocarbons produced in liquid form as Oil or condensate at the well head and also all condensate, distillate, and any other liquid hydrocarbons recovered from Oil, condensate, or Gas run through a separator or other equipment; (ii) all hydrocarbons and Gaseous substances not in liquid form produced from any well; and (iii) natural Gasoline or liquid hydrocarbons, carbon dioxide, carbon black, sulfur or any other products produced or manufactured from any Gas or liquid. The Gross Production volumes of Oil, condensate, and Gas includes all sales, custody transfer dispositions, and/or stored volumes and all non-sales disposition volumes, including but not limited to, lease use, fuel, vent, flare, spills, uncontrolled releases, theft, and any other loss. The Gross Production of Gaseous hydrocarbons shall be adjusted and reported in MMBTUs.

f. **"Market Value"** means the greatest of (i) the highest posted price, plus premium, if any, offered or paid for Oil, Gas, condensate, distillate, other hydrocarbons, or any Other Products produced or manufactured from the Oil or Gas, of similar characteristics and type in the general area, (ii) the prevailing market price thereof in the general area, (iii) the proceeds of the sale thereof, or (iv) the highest value reasonably available to Lessee. The proceeds of sale shall include the total value accruing to the Lessee from the sale or use of the production, including proceeds and any other thing of value received by Lessee or the operator.

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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. **"Produced in Paying Quantities"** means that the receipts from the sale or other authorized commercial use of the substances(s) covered exceed out of pocket operational expenses for the six months last past.

p. **"Raw Mix"** means a mixture of Natural Gas Liquids (NGLs) that has a true vapor pressure greater than fifteen (15) pounds per square inch gauge at 100 degrees Fahrenheit (°F) prior to separation down to its base components by fractionation, typically consisting of a mixture of liquefiable hydrocarbons, including but not limited to, the natural Gas liquids ethane, propane, iso-butane, normal butane, and natural Gasoline that include pentanes plus (iso-pentane, normal pentane and hydrocarbon components of higher molecular weight).

q. **"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

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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.

r. **"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.

s. **"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.

t. **"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.

THE STATE OF TEXAS REEVES COUNTY

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LESSEE Espuela Energy, LLC

BY: Robert Canon

TITLE: Managing Member

DATE: 8/1/22

OWNER OF THE SOIL
Individually and as agent for the State of Texas
JK Royalty, LP
By: JK Royalty & Holdings, Inc.its general partner

BY: John H. Webb

TITLE: Manager

DATE: 7-20-22

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

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Reeves County Texas,
Elmira C. Flores, County Clerk
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STATE OF TEXAS

COUNTY OF TRAVIS

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared **Robert Canon** known to me to be the person whose name is subscribed to the foregoing instruments as **Managing Member** of **Espuela Energy, 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 1st day of August, 2022.

LARA KATHERINE BOLEY
Notary Public, State of Texas
Comm. Expires 05-08-2023
Notary ID 130219752

Lara Katherine Boley

Notary Public in and for State of Texas

STATE OF TEXAS

COUNTY OF TARRANT

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared **John H. Webb** known to me to be the person whose name is subscribed to the foregoing instruments as **Manager** of **JK Royalty, LP, by its general partner JK Royalty & Holdings, Inc.** and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the 20 day of July, 2022.

JOSEPH HAMMOND
Notary Public, State of Texas
Comm. Expires 10-14-2023
Notary ID 132208387

Notary Public in and for Texas

THE STATE OF TEXAS
REEVES COUNTY

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Reeves County, Texas,
Melissa C. Flores, County Clerk

VG-2335-2022-2022006682

Dianne O. Florez
Reeves County Clerk

Instrument Number: 2022006682

Real Property Recordings

LEASE

Recorded On: September 28, 2022 03:07 PM

Number of Pages: 14

" Examined and Charged as Follows: "

Total Recording: $74.00

********** THIS PAGE IS PART OF THE INSTRUMENT **********
Any provision herein which restricts the Sale, Rental or use of the described REAL PROPERTY because of color or race is invalid and unenforceable under federal law.

File Information:

Document Number:	2022006682
Receipt Number:	20220928000037
Recorded Date/Time:	September 28, 2022 03:07 PM
User:	Rebecca G
Station:	CLERK07

Record and Return To:

ESPUELA ENERGY LLC/ ATTN ROBERT CANON

STATE OF TEXAS
Reeves County
I hereby certify that this Instrument was filed in the File Number sequence on the date/time printed hereon, and was duly recorded in the Official Records of Reeves County, Texas

Dianne O. Florez
Reeves County Clerk
Reeves County, TX

Dianne O. Florez

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CERTIFIED A TRUE AND CORRECT COPY
OF THE RECORD ON FILE IN MY OFFICE

Dianne O. Florez
Reeves County Clerk

9-28-2022 By: R. Granado
Date Deputy Clerk

(11)

File No. MF121078

County

Lease J

Date Filed: 4/24/23

Commissioner Dawn Buckingham, M.D.

By:

MF121078K

The State of Texas

Austin, Texas

General Land Office
Relinquishment Act Lease Form
Revised 9/21

OIL AND GAS LEASE

THIS OIL AND GAS LEASE is made and entered into to be effective **August 4, 2022** (the "effective date"), by and between the State of Texas, acting by and through its agent, **ALLDALE Minerals, LP** whose address is: **2100 Ross Ave., Suite 1870 Dallas, Texas 75201** said agent herein referred to as the owner of the soil (whether one or more) ("owner of the soil"), and **Espuela Energy, LLC**

("Lessee"), whose address is: **P.O. Box 5988 Austin, Texas 78763**

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: **Four Thousand Five Hundred Dollars**
Dollars ($**4,500.00**)

To the owner of the soil: **Four Thousand Five Hundred Dollars**
Dollars ($**4,500.00**)

Total bonus consideration: **Nine Thousand Dollars**
Dollars ($**9,000.00**)

The total bonus consideration paid represents a bonus of **Six Thousand** dollars ($ **6,000.00**) per acre, on **1.5** net acres.

2. TERM. This lease shall be for a term of **Two** (**2**) years and (**0**) months commencing on the effective date (the "primary term"), and as long thereafter as Oil or Gas is produced in paying quantities from the following "Leased Premises" (herein so called), to-wit:

Part/Section: **The South Three Hundred Sixty Acres (360 ac) of Section 34, Block 55, Township 5, T&P RR Co. Survey, Reeves County , Texas**

Block: **Block 55, Township 5**

Abstract: **A-2443**

Grantee / Survey: **T&P Ry Co Survey**

Acres: **360**

County: **Reeves**

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Dianne O. Florez, County Clerk
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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 N/A Bank, at N/A 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: **Paid-Up** Dollars ($_____)

To the State of Texas: **Paid-Up** Dollars ($_____)

Total Delay Rental: **Paid-Up** Dollars ($_____)

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

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

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

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

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

(B) the gross price paid or offered to the Lessee; provided that the maximum pressure base in measuring the Gas under this lease contract shall equal 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to a test made by chromatographic analysis or the Balance Method.

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

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

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

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

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

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

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

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

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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

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REEVES COUNTY

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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

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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.

(c) 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 x 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 x 4500 feet = 144 acres, which rounds up to 160 acres); (4) if more acreage is required than is provided for in (1), (2) or (3) above in order to obtain the maximum allowable under special field rules for the permitted or producing interval or intervals, upon written approval from the GLO, such number of acres that are required to obtain the maximum allowable as required by the special field rules as approved by the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction; or (5) the number of acres held in a pooled unit pursuant to Natural Resources Code Sections 52.151-52.154. After termination pursuant to this subsection, each tract retained shall be considered a separate lease and must be maintained independently. Lessee shall retain the right of ingress and egress on and across the terminated portion of the Leased Premises as may be reasonably necessary for the continued operation of the portions of the lease remaining in force and effect. Further, Lessee shall retain an easement for its pipelines, tank batteries or other surface equipment or installations on the terminated acreage for so long as they continue to be used for the development and operations on the retained acreage.

(b) HORIZONTAL: Two (2) years after the expiration date of the primary term this lease shall further terminate as to those depths stipulated as follows for each tract retained in section 7 (a) above: for vertical wells, 100 feet true vertical depth below the deepest then producing perforations; for horizontal wells, 300 feet true vertical depth below the deepest depth reached by the horizontal lateral between the first takepoint and the last takepoint, and for acreage retained that is pooled or unitized, all depths above and below the pooled or unitized interval. If a well has been spud and is being drilled over this termination date, the acreage retained by said well under section 7 (a) shall be held as to all depths for so long as such operations continue diligently in a workmanlike manner without interruptions totaling more than sixty (60) days in the aggregate (or such longer period of interruptions as may be approved by the Commissioner or his authorized designee) until completion of a well capable of producing in paying quantities or as a dry hole. Upon completion of a well as described in the preceding sentence (with "completion" defined as the earliest of (1) fourteen days after the release of a drilling rig capable of drilling to the target formation, (2) forty-eight hours after the release of a finishing rig, or (3) upon filing of a completion report at the Texas Railroad Commission), or if no such well capable of producing in paying quantities is completed within the stated period, 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

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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 the applicable statutory offset distance from 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 the applicable statutory offset distance 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

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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 the applicable statutory offset distance from 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 the applicable statutory offset distance from 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 the applicable statutory offset distance from 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.

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

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

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

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

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

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

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

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

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

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

29. LAND PROTECTIONS:

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

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

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

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

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

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

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

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

30. DEFINITIONS:

a. **"BTU"** means British thermal unit, which is the quantity of heat required to raise the temperature of one-pound avoirdupois of pure water from 58.5 degrees Fahrenheit ("° F") to 59.5° F. An MMBtu is one million (1,000,000) British thermal units.

b. **"Dry Gas"** means a Gas that contains less than or equal to seven (7) lbs of water per million standard cubic feet. The volume of Gas, on a Dry Gas basis, shall be determined by mathematically removing the water vapor from Gas that is partially or fully saturated with water vapor at measurement conditions of flowing pressure and temperature. The total energy content of Gas shall be the product of multiplying the volume of Gas, on a Dry Gas basis, times the heating value per unit volume, in Btu/SCF, on a Dry Gas basis, at the same base temperature and base pressure.

c. **"Gas"** means methane and other Gaseous hydrocarbons, including Gaseous combustible, noncombustible, and inert elements, compounds, components or mixtures thereof, and liquefiable hydrocarbons in the vapor stream. Gas volumes shall be calculated and reported, at the option of the GLO, in standard cubic feet (SCF), one thousand (1,000) standard cubic feet of Gas (MSCF), or one million (1,000,000) standard cubic feet of Gas (MMSCF).

d. **"Gross Heating Value or BTU Content"** means the energy per unit volume represented by the number of BTUs produced by the complete combustion of one standard cubic foot of Gas (excluding hydrogen sulfide) at a temperature base of sixty degrees (60° F) Fahrenheit and pressure base of 14.65 pounds per square inch absolute.

e. **"Gross Production"** means all Gas and fluids brought from underground up to and through the well head, and includes: (i) all hydrocarbons produced in liquid form as Oil or condensate at the well head and also all condensate, distillate, and any other liquid hydrocarbons recovered from Oil, condensate, or Gas run through a separator or other equipment; (ii) all hydrocarbons and Gaseous substances not in liquid form produced from any well; and (iii) natural Gasoline or liquid hydrocarbons, carbon dioxide, carbon black, sulfur or any other products produced or manufactured from any Gas or liquid. The Gross Production volumes of Oil, condensate, and Gas includes all sales, custody transfer dispositions, and/or stored volumes and all non-sales disposition volumes, including but not limited to, lease use, fuel, vent, flare, spills, uncontrolled releases, theft, and any other loss. The Gross Production of Gaseous hydrocarbons shall be adjusted and reported in MMBTUs.

f. **"Market Value"** means the greatest of (i) the highest posted price, plus premium, if any, offered or paid for Oil, Gas, condensate, distillate, other hydrocarbons, or any Other Products produced or manufactured from the Oil or Gas, of similar characteristics and type in the general area, (ii) the prevailing market price thereof in the general area, (iii) the proceeds of the sale thereof, or (iv) the highest value reasonably available to Lessee. The proceeds of sale shall include the total value accruing to the Lessee from the sale or use of the production, including proceeds and any other thing of value received by Lessee or the operator.

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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. **"Produced in Paying Quantities"** means that the receipts from the sale or other authorized commercial use of the substances(s) covered exceed out of pocket operational expenses for the six months last past.

p. **"Raw Mix"** means a mixture of Natural Gas Liquids (NGLs) that has a true vapor pressure greater than fifteen (15) pounds per square inch gauge at 100 degrees Fahrenheit (°F) prior to separation down to its base components by fractionation, typically consisting of a mixture of liquefiable hydrocarbons, including but not limited to, the natural Gas liquids ethane, propane, iso-butane, normal butane, and natural Gasoline that include pentanes plus (iso-pentane, normal pentane and hydrocarbon components of higher molecular weight).

q. **"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

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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.

r. **"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.

s. **"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.

t. **"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.

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37. SEE ATTACHED ADDENDUM

LESSEE Espuela Energy, LLC

BY: Robert Canon

TITLE: Managing Member

DATE: 9/12/22

OWNER OF THE SOIL
Individually and as agent for the State of Texas
ALLDALE Minerals, LP By: Dale Operating Company, Attorney-In-Fact

BY: CODY MILLER

TITLE: CO-CEO & GENERAL COUNSEL

DATE: 8.30.22

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

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STATE OF TEXAS

COUNTY OF TRAVIS

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared **Robert Canon** known to me to be the person whose name is subscribed to the foregoing instruments as **Managing Member** of **Espuela Energy, 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 12th day of SEPTEMBER, 2022.

LARA KATHERINE BOLEY
Notary Public, State of Texas
Comm. Expires 05-08-2023
Notary ID 130219752

Lara Katherine Boley

Notary Public in and for State of Texas

STATE OF TEXAS

COUNTY OF DALLAS

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared CODY MILLER known to me to be the person whose name is subscribed to the foregoing instruments as CO-CEO & GENERAL COUNSEL OF DALE OPERATING COMPANY, Attorney-in-Fact of ALLDALE Minerals, LP 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 August, 2022.

LAUREN FIELDS
Notary ID #126883336
My Commission Expires
April 8, 2023

Lauren Fields

Notary Public in and for the STATE of TEXAS

THE STATE OF TEXAS
REEVES COUNTY

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Dianne O. Florez, County Clerk

VG-2335-2022-2022006313

Dianne O. Florez
Reeves County Clerk

Instrument Number: 2022006313

Real Property Recordings

LEASE

Recorded On: September 15, 2022 10:15 AM

Number of Pages: 14

" Examined and Charged as Follows: "

Total Recording: $74.00

********** THIS PAGE IS PART OF THE INSTRUMENT **********
Any provision herein which restricts the Sale, Rental or use of the described REAL PROPERTY because of color or race is invalid and unenforceable under federal law.

File Information:

Document Number:	2022006313
Receipt Number:	20220915000010
Recorded Date/Time:	September 15, 2022 10:15 AM
User:	Rebecca G
Station:	CLERK07

Record and Return To:

ESPUELA ENERGY LLC/ ATTN ROBERT CANON
PO BOX 5988

AUSTIN TX 78763

STATE OF TEXAS
Reeves County
I hereby certify that this Instrument was filed in the File Number sequence on the date/time printed hereon, and was duly recorded in the Official Records of Reeves County, Texas

Dianne O. Florez
Reeves County Clerk
Reeves County, TX

Dianne O. Florez

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CERTIFIED A TRUE AND CORRECT COPY
OF THE RECORD ON FILE IN MY OFFICE

Dianne O. Florez
Reeves County Clerk

9-15-22 By: M. Salazar

Date Deputy Clerk

(12)

File No. MF121078

County

Lease K

Date Filed: 4/24/23

Commissioner Dawn Buckingham, M.D.

By:

MF121078L

The State of Texas

Austin, Texas

General Land Office
Relinquishment Act Lease Form
Revised 9/21

OIL AND GAS LEASE

THIS OIL AND GAS LEASE is made and entered into to be effective **August 18, 2022** (the "effective date"), by and between the State of Texas, acting by and through its agent, **Oak Valley Mineral and Land, LP** whose address is: **P.O. Box 50820 Midland, Texas 79710** said agent herein referred to as the owner of the soil (whether one or more) ("owner of the soil"), and **Espuela Energy, LLC** ("Lessee"), whose address is: **P.O. Box 5988 Austin, Texas 78763**

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: **Two Thousand Eight Hundred Twelve and 50/100 Dollars**

Dollars (**$2,812.50**)

To the owner of the soil: **Two Thousand Eight Hundred Twelve and 50/100 Dollars**

Dollars (**$2,812.50**)

Total bonus consideration: **Five Thousand Six Hundred Twenty Five Dollars**

Dollars (**$5,625.00**)

The total bonus consideration paid represents a bonus of **Six Thousand** dollars (**$ 6,000.00**) per acre, on **.9375** net acres.

2. TERM. This lease shall be for a term of **Three** (**3**) years and (**0**) months commencing on the effective date (the "primary term"), and as long thereafter as Oil or Gas is produced in paying quantities from the following "Leased Premises" (herein so called), to-wit:

Part/Section: **The South 360 acres of Section 34, T&P RR Co., Block 55, Township 5, Reeves County, Texas**

Block: **Block 55, Township 5**

Abstract: **2443**

Grantee / Survey: **T&P Ry Co Survey**

Acres: **360**

County: **Reeves**

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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 **N/A** Bank, at **N/A** 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: **Paid-Up**	Dollars ($_____)
To the State of Texas: **Paid-Up**	Dollars ($_____)
Total Delay Rental: **Paid-Up**	Dollars ($_____)

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

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

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

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

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

(B) the gross price paid or offered to the Lessee; provided that the maximum pressure base in measuring the Gas under this lease contract shall equal 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to a test made by chromatographic analysis or the Balance Method.

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

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

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

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

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

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

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

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

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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

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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

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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.

(c) **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 x 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 x 4500 feet = 144 acres, which rounds up to 160 acres); (4) if more acreage is required than is provided for in (1), (2) or (3) above in order to obtain the maximum allowable under special field rules for the permitted or producing interval or intervals, upon written approval from the GLO, such number of acres that are required to obtain the maximum allowable as required by the special field rules as approved by the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction; or (5) the number of acres held in a pooled unit pursuant to Natural Resources Code Sections 52.151-52.154. After termination pursuant to this subsection, each tract retained shall be considered a separate lease and must be maintained independently. Lessee shall retain the right of ingress and egress on and across the terminated portion of the Leased Premises as may be reasonably necessary for the continued operation of the portions of the lease remaining in force and effect. Further, Lessee shall retain an easement for its pipelines, tank batteries or other surface equipment or installations on the terminated acreage for so long as they continue to be used for the development and operations on the retained acreage.

(b) **HORIZONTAL:** Two (2) years after the expiration date of the primary term this lease shall further terminate as to those depths stipulated as follows for each tract retained in section 7 (a) above: for vertical wells, 100 feet true vertical depth below the deepest then producing perforations; for horizontal wells, 300 feet true vertical depth below the deepest depth reached by the horizontal lateral between the first takepoint and the last takepoint, and for acreage retained that is pooled or unitized, all depths above and below the pooled or unitized interval. If a well has been spud and is being drilled over this termination date, the acreage retained by said well under section 7 (a) shall be held as to all depths for so long as such operations continue diligently in a workmanlike manner without interruptions totaling more than sixty (60) days in the aggregate (or such longer period of interruptions as may be approved by the Commissioner or his authorized designee) until completion of a well capable of producing in paying quantities or as a dry hole. Upon completion of a well as described in the preceding sentence (with "completion" defined as the earliest of (1) fourteen days after the release of a drilling rig capable of drilling to the target formation, (2) forty-eight hours after the release of a finishing rig, or (3) upon filing of a completion report at the Texas Railroad Commission), or if no such well capable of producing in paying quantities is completed within the stated period, 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

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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 the applicable statutory offset distance from 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 the applicable statutory offset distance 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

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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 the applicable statutory offset distance from 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 the applicable statutory offset distance from 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 the applicable statutory offset distance from 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.

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

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

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

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

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

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

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

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

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

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

29. LAND PROTECTIONS:

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

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

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

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

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

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

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

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

30. DEFINITIONS:

a. **"BTU"** means British thermal unit, which is the quantity of heat required to raise the temperature of one-pound avoirdupois of pure water from 58.5 degrees Fahrenheit ("° F") to 59.5° F. An MMBtu is one million (1,000,000) British thermal units.

b. **"Dry Gas"** means a Gas that contains less than or equal to seven (7) lbs of water per million standard cubic feet. The volume of Gas, on a Dry Gas basis, shall be determined by mathematically removing the water vapor from Gas that is partially or fully saturated with water vapor at measurement conditions of flowing pressure and temperature. The total energy content of Gas shall be the product of multiplying the volume of Gas, on a Dry Gas basis, times the heating value per unit volume, in Btu/SCF, on a Dry Gas basis, at the same base temperature and base pressure.

c. **"Gas"** means methane and other Gaseous hydrocarbons, including Gaseous combustible, noncombustible, and inert elements, compounds, components or mixtures thereof, and liquefiable hydrocarbons in the vapor stream. Gas volumes shall be calculated and reported, at the option of the GLO, in standard cubic feet (SCF), one thousand (1,000) standard cubic feet of Gas (MSCF), or one million (1,000,000) standard cubic feet of Gas (MMSCF).

d. **"Gross Heating Value or BTU Content"** means the energy per unit volume represented by the number of BTUs produced by the complete combustion of one standard cubic foot of Gas (excluding hydrogen sulfide) at a temperature base of sixty degrees (60° F) Fahrenheit and pressure base of 14.65 pounds per square inch absolute.

e. **"Gross Production"** means all Gas and fluids brought from underground up to and through the well head, and includes: (i) all hydrocarbons produced in liquid form as Oil or condensate at the well head and also all condensate, distillate, and any other liquid hydrocarbons recovered from Oil, condensate, or Gas run through a separator or other equipment; (ii) all hydrocarbons and Gaseous substances not in liquid form produced from any well; and (iii) natural Gasoline or liquid hydrocarbons, carbon dioxide, carbon black, sulfur or any other products produced or manufactured from any Gas or liquid. The Gross Production volumes of Oil, condensate, and Gas includes all sales, custody transfer dispositions, and/or stored volumes and all non-sales disposition volumes, including but not limited to, lease use, fuel, vent, flare, spills, uncontrolled releases, theft, and any other loss. The Gross Production of Gaseous hydrocarbons shall be adjusted and reported in MMBTUs.

f. **"Market Value"** means the greatest of (i) the highest posted price, plus premium, if any, offered or paid for Oil, Gas, condensate, distillate, other hydrocarbons, or any Other Products produced or manufactured from the Oil or Gas, of similar characteristics and type in the general area, (ii) the prevailing market price thereof in the general area, (iii) the proceeds of the sale thereof, or (iv) the highest value reasonably available to Lessee. The proceeds of sale shall include the total value accruing to the Lessee from the sale or use of the production, including proceeds and any other thing of value received by Lessee or the operator.

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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. **"Produced in Paying Quantities"** means that the receipts from the sale or other authorized commercial use of the substances(s) covered exceed out of pocket operational expenses for the six months last past.

p. **"Raw Mix"** means a mixture of Natural Gas Liquids (NGLs) that has a true vapor pressure greater than fifteen (15) pounds per square inch gauge at 100 degrees Fahrenheit (°F) prior to separation down to its base components by fractionation, typically consisting of a mixture of liquefiable hydrocarbons, including but not limited to, the natural Gas liquids ethane, propane, iso-butane, normal butane, and natural Gasoline that include pentanes plus (iso-pentane, normal pentane and hydrocarbon components of higher molecular weight).

q. **"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

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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.

r. **"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.

s. **"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.

t. **"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.

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Reeves County County Clerk

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LESSEE Espuela Energy, LLC

BY: Robert Canon

TITLE: Managing Member

DATE: 9/1/22

OWNER OF THE SOIL
Individually and as agent for the State of Texas
Oak Valley Mineral and Land, LP

BY: Brandon Black

TITLE: Vice President

DATE: 8/18/2022

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

Copy of a
County Clerk

STATE OF TEXAS (CORPORATION ACKNOWLEDGMENT)

COUNTY OF TRAVIS

BEFORE ME, the undersigned authority, on this day personally appeared Robert Canon known to me to be the person whose name is subscribed to the foregoing instruments as Managing Member of Espuela Energy, 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 1st day of SEPTEMBER, 2022.

LARA KATHERINE BOLEY
Notary Public, State of Texas
Comm. Expires 05-08-2023
Notary ID 130219752

Lara Katherine Boley
Notary Public in and for State of Texas

STATE OF TEXAS (CORPORATION ACKNOWLEDGMENT)

COUNTY OF MIDLAND

BEFORE ME, the undersigned authority, on this day personally appeared Brandon Black known to me to be the person whose name is subscribed to the foregoing instruments as Vice President of Oak Valley Mineral and Land, LP 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 18th day of August, 2022.

Walker James Meadows
My Commission Expires
08/28/2023
ID No. 126717959

Notary Public in and for Texas

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Recorded in Texas,
Division of Reeves County Clerk

VG-2335-2022-2022006665

Dianne O. Florez
Reeves County Clerk

Instrument Number: 2022006665

Real Property Recordings

LEASE

Recorded On: September 28, 2022 11:26 AM

Number of Pages: 14

" Examined and Charged as Follows: "

Total Recording: $74.00

********** THIS PAGE IS PART OF THE INSTRUMENT **********
Any provision herein which restricts the Sale, Rental or use of the described REAL PROPERTY because of color or race is invalid and unenforceable under federal law.

File Information:

Document Number:	2022006665
Receipt Number:	20220928000008
Recorded Date/Time:	September 28, 2022 11:26 AM
User:	Rebecca G
Station:	CLERK07

Record and Return To:

ESPUELA ENERGY LLC/ ATTN ROBERT CANON
PO BOX 5988

AUSTIN TX 78763

STATE OF TEXAS
Reeves County
I hereby certify that this Instrument was filed in the File Number sequence on the date/time printed hereon, and was duly recorded in the Official Records of Reeves County, Texas

Dianne O. Florez
Reeves County Clerk
Reeves County, TX

Dianne O. Florez

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Dianne O. Florez, County Clerk
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CERTIFIED A TRUE AND CORRECT COPY
OF THE RECORD ON FILE IN MY OFFICE

Dianne O. Florez
Reeves County Clerk

9-28-2022 By: R. Granado

Date Deputy Clerk

MF121078M

The State of Texas

Austin, Texas

General Land Office
Relinquishment Act Lease Form
Revised 9/21

OIL AND GAS LEASE

THIS OIL AND GAS LEASE is made and entered into to be effective August 9, 2022 (the "effective date"), by and between the State of Texas, acting by and through its agent, Kennedy Minerals, Ltd.

whose address is: 500 W. Texas, Suite 655 Midland, Texas 79701

said agent herein referred to as the owner of the soil (whether one or more) ("owner of the soil"), and Espuela Energy, LLC

("Lessee"), whose address is: P.O. Box 5988 Austin, Texas 78763

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: One Thousand Two Hundred Dollars

Dollars ($1,200.00)

To the owner of the soil: One Thousand Two Hundred Dollars

Dollars ($1,200.00)

Total bonus consideration: Two Thousand Four Hundred Dollars

Dollars ($2,400.00)

The total bonus consideration paid represents a bonus of Six Thousand Four Hundred dollars ($6,400.00) per acre, on .375 net acres.

2. TERM. This lease shall be for a term of Three (3) years and (0) months commencing on the effective date (the "primary term"), and as long thereafter as Oil or Gas is produced in paying quantities from the following "Leased Premises" (herein so called), to-wit:

Part/Section: 360 acres, more or less, being the South 360 acres of Section 34, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas

Block: Block 55, Township 5

Abstract: 2443

Grantee / Survey: T&P Ry Co Survey

Acres: 360

County: Reeves

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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 N/A Bank, at N/A 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: Paid-Up Dollars ($_____)

To the State of Texas: Paid-Up Dollars ($_____)

Total Delay Rental: Paid-Up Dollars ($_____)

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

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

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

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

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

(B) the gross price paid or offered to the Lessee; provided that the maximum pressure base in measuring the Gas under this lease contract shall equal 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to a test made by chromatographic analysis or the Balance Method.

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

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

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

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

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

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

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

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

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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

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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

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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 x 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 x 4500 feet = 144 acres, which rounds up to 160 acres); (4) if more acreage is required than is provided for in (1), (2) or (3) above in order to obtain the maximum allowable under special field rules for the permitted or producing interval or intervals, upon written approval from the GLO, such number of acres that are required to obtain the maximum allowable as required by the special field rules as approved by the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction; or (5) the number of acres held in a pooled unit pursuant to Natural Resources Code Sections 52.151-52.154. After termination pursuant to this subsection, each tract retained shall be considered a separate lease and must be maintained independently. Lessee shall retain the right of ingress and egress on and across the terminated portion of the Leased Premises as may be reasonably necessary for the continued operation of the portions of the lease remaining in force and effect. Further, Lessee shall retain an easement for its pipelines, tank batteries or other surface equipment or installations on the terminated acreage for so long as they continue to be used for the development and operations on the retained acreage.

(b) HORIZONTAL: Two (2) years after the expiration date of the primary term this lease shall further terminate as to those depths stipulated as follows for each tract retained in section 7 (a) above: for vertical wells, 100 feet true vertical depth below the deepest then producing perforations; for horizontal wells, 300 feet true vertical depth below the deepest depth reached by the horizontal lateral between the first takepoint and the last takepoint, and for acreage retained that is pooled or unitized, all depths above and below the pooled or unitized interval. If a well has been spud and is being drilled over this termination date, the acreage retained by said well under section 7 (a) shall be held as to all depths for so long as such operations continue diligently in a workmanlike manner without interruptions totaling more than sixty (60) days in the aggregate (or such longer period of interruptions as may be approved by the Commissioner or his authorized designee) until completion of a well capable of producing in paying quantities or as a dry hole. Upon completion of a well as described in the preceding sentence (with "completion" defined as the earliest of (1) fourteen days after the release of a drilling rig capable of drilling to the target formation, (2) forty-eight hours after the release of a finishing rig, or (3) upon filing of a completion report at the Texas Railroad Commission), or if no such well capable of producing in paying quantities is completed within the stated period, 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

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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 the applicable statutory offset distance from 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 the applicable statutory offset distance 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

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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 the applicable statutory offset distance from 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 the applicable statutory offset distance from 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 the applicable statutory offset distance from 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.

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

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

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

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

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

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

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

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

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

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

29. LAND PROTECTIONS:

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

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

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

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

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

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

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

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

30. DEFINITIONS:

a. **"BTU"** means British thermal unit, which is the quantity of heat required to raise the temperature of one-pound avoirdupois of pure water from 58.5 degrees Fahrenheit ("° F") to 59.5° F. An MMBtu is one million (1,000,000) British thermal units.

b. **"Dry Gas"** means a Gas that contains less than or equal to seven (7) lbs of water per million standard cubic feet. The volume of Gas, on a Dry Gas basis, shall be determined by mathematically removing the water vapor from Gas that is partially or fully saturated with water vapor at measurement conditions of flowing pressure and temperature. The total energy content of Gas shall be the product of multiplying the volume of Gas, on a Dry Gas basis, times the heating value per unit volume, in Btu/SCF, on a Dry Gas basis, at the same base temperature and base pressure.

c. **"Gas"** means methane and other Gaseous hydrocarbons, including Gaseous combustible, noncombustible, and inert elements, compounds, components or mixtures thereof, and liquefiable hydrocarbons in the vapor stream. Gas volumes shall be calculated and reported, at the option of the GLO, in standard cubic feet (SCF), one thousand (1,000) standard cubic feet of Gas (MSCF), or one million (1,000,000) standard cubic feet of Gas (MMSCF).

d. **"Gross Heating Value or BTU Content"** means the energy per unit volume represented by the number of BTUs produced by the complete combustion of one standard cubic foot of Gas (excluding hydrogen sulfide) at a temperature base of sixty degrees (60° F) Fahrenheit and pressure base of 14.65 pounds per square inch absolute.

e. **"Gross Production"** means all Gas and fluids brought from underground up to and through the well head, and includes: (i) all hydrocarbons produced in liquid form as Oil or condensate at the well head and also all condensate, distillate, and any other liquid hydrocarbons recovered from Oil, condensate, or Gas run through a separator or other equipment; (ii) all hydrocarbons and Gaseous substances not in liquid form produced from any well; and (iii) natural Gasoline or liquid hydrocarbons, carbon dioxide, carbon black, sulfur or any other products produced or manufactured from any Gas or liquid. The Gross Production volumes of Oil, condensate, and Gas includes all sales, custody transfer dispositions, and/or stored volumes and all non-sales disposition volumes, including but not limited to, lease use, fuel, vent, flare, spills, uncontrolled releases, theft, and any other loss. The Gross Production of Gaseous hydrocarbons shall be adjusted and reported in MMBTUs.

f. **"Market Value"** means the greatest of (i) the highest posted price, plus premium, if any, offered or paid for Oil, Gas, condensate, distillate, other hydrocarbons, or any Other Products produced or manufactured from the Oil or Gas, of similar characteristics and type in the general area, (ii) the prevailing market price thereof in the general area, (iii) the proceeds of the sale thereof, or (iv) the highest value reasonably available to Lessee. The proceeds of sale shall include the total value accruing to the Lessee from the sale or use of the production, including proceeds and any other thing of value received by Lessee or the operator.

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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. **"Produced in Paying Quantities"** means that the receipts from the sale or other authorized commercial use of the substances(s) covered exceed out of pocket operational expenses for the six months last past.

p. "Raw Mix" means a mixture of Natural Gas Liquids (NGLs) that has a true vapor pressure greater than fifteen (15) pounds per square inch gauge at 100 degrees Fahrenheit (°F) prior to separation down to its base components by fractionation, typically consisting of a mixture of liquefiable hydrocarbons, including but not limited to, the natural Gas liquids ethane, propane, iso-butane, normal butane, and natural Gasoline that include pentanes plus (iso-pentane, normal pentane and hydrocarbon components of higher molecular weight).

q. **"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

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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.

r. **"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.

s. **"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.

t. **"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.

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LESSEE Espuela Energy, LLC

BY: Robert Canon

TITLE: Managing Member

DATE: 8/18/22

OWNER OF THE SOIL
Individually and as agent for the State of Texas
Kennedy Minerals, Ltd.
By: M&B Family Minerals, LLC, general partner

BY:

TITLE: Fred C. Kennedy, Vice President

DATE: 10 August 2022

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

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STATE OF TEXAS

COUNTY OF TRAVIS

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Robert Canon known to me to be the person whose name is subscribed to the foregoing instruments as Managing Member of Espuela Energy, 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 18th day of August, 2022.

LARA KATHERINE BOLEY
Notary Public, State of Texas
Comm. Expires 05-08-2023
Notary ID 130219752

Lara Katherine Boley
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 Fred C. Kennedy known to me to be the person whose name is subscribed to the foregoing instruments as Vice President of M&B Family Minerals, LLC, general partner of Kennedy Minerals, 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~~ partnership.

Given under my hand and seal of office this the 10th day of August, 2022.

LISA R EPPERSON
COMM. EXPIRES 10-21-2022
NOTARY ID 318528-9

Lisa R Epperson
Notary Public in and for The State of Texas

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VG-2335-2022-2022005673

Dianne O. Florez
Reeves County Clerk

Instrument Number: 2022005673

Real Property Recordings

LEASE

Recorded On: August 22, 2022 03:32 PM

Number of Pages: 14

" Examined and Charged as Follows: "

Total Recording: $74.00

********** THIS PAGE IS PART OF THE INSTRUMENT **********
Any provision herein which restricts the Sale, Rental or use of the described REAL PROPERTY because of color or race is invalid and unenforceable under federal law.

File Information:

Document Number:	2022005673
Receipt Number:	20220822000032
Recorded Date/Time:	August 22, 2022 03:32 PM
User:	Myra A
Station:	CLERK01.ReevesCC.local

Record and Return To:

ESPUELA ENERGY LLC /ATTN:ROBERT CANON
PO BOX 5988

AUSTIN TX 78763

STATE OF TEXAS
Reeves County
I hereby certify that this Instrument was filed in the File Number sequence on the date/time printed hereon, and was duly recorded in the Official Records of Reeves County, Texas

Dianne O. Florez
Reeves County Clerk
Reeves County, TX

Dianne O. Florez

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CERTIFIED A TRUE AND CORRECT COPY
OF THE RECORD ON FILE IN MY OFFICE

Dianne O. Florez
Reeves County Clerk

8-22-22 By: M. Salazar

Date Deputy Clerk

(14)

File No. MF121078

County

Lease M

Date Filed: 4/24/23

Commissioner Dawn Buckingham, M.D.

By:

The State of Texas

Austin, Texas

General Land Office
Relinquishment Act Lease Form
Revised 9/21

OIL AND GAS LEASE

THIS OIL AND GAS LEASE is made and entered into to be effective **October 27, 2022** (the "effective date"), by and between the State of Texas, acting by and through its agent, **Virgina Glenn Hill Lattimore Estate** whose address is: **500 W. 7th Street, #1212 Fort Worth, Texas 76102** said agent herein referred to as the owner of the soil (whether one or more) ("owner of the soil"), and **Espuela Energy, LLC**

("Lessee"), whose address is: **P.O. Box 5988 Austin, Texas 78763**

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: **Two Hundred Thirty Six Thousand Two Hundred Fifty Dollars**

Dollars ($**236,250**)

To the owner of the soil: **Two Hundred Thirty Six Thousand Two Hundred Fifty Dollars**

Dollars ($**236,250**)

Total bonus consideration: **Three Hundred Thirty Seven Thousand Five Hundred Dollars**

Dollars ($**472,500**)

The total bonus consideration paid represents a bonus of **Ten Thousand Five Hundred** dollars ($ **10,500.00**) per acre, on **45.00** net acres.

2. TERM. This lease shall be for a term of **Two** (**2**) years and (**0**) months commencing on the effective date (the "primary term"), and as long thereafter as Oil or Gas is produced in paying quantities from the following "Leased Premises" (herein so called), to-wit:

Part/Section: **The South Three Hundred Sixty Acres (360 ac) of Section 34, Block 55, Township 5, T&P RR Co. Survey, Reeves County , Texas**

Block: **Block 55, Township 5**

Abstract: **A-2443**

Grantee / Survey: **T&P Ry Co Survey**

Acres: **360**

County: **Reeves**

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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 N/A Bank, at N/A 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: **Paid-Up**	Dollars ($_____)
To the State of Texas: **Paid-Up**	Dollars ($_____)
Total Delay Rental: **Paid-Up**	Dollars ($_____)

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

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

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

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

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

(B) the gross price paid or offered to the Lessee; provided that the maximum pressure base in measuring the Gas under this lease contract shall equal 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to a test made by chromatographic analysis or the Balance Method.

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

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

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

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

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

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

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

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

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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

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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

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or

Texas General Land Office
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Austin, Texas 78701

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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 x 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 x 4500 feet = 144 acres, which rounds up to 160 acres); (4) if more acreage is required than is provided for in (1), (2) or (3) above in order to obtain the maximum allowable under special field rules for the permitted or producing interval or intervals, upon written approval from the GLO, such number of acres that are required to obtain the maximum allowable as required by the special field rules as approved by the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction; or (5) the number of acres held in a pooled unit pursuant to Natural Resources Code Sections 52.151-52.154. After termination pursuant to this subsection, each tract retained shall be considered a separate lease and must be maintained independently. Lessee shall retain the right of ingress and egress on and across the terminated portion of the Leased Premises as may be reasonably necessary for the continued operation of the portions of the lease remaining in force and effect. Further, Lessee shall retain an easement for its pipelines, tank batteries or other surface equipment or installations on the terminated acreage for so long as they continue to be used for the development and operations on the retained acreage.

(b) **HORIZONTAL**: Two (2) years after the expiration date of the primary term this lease shall further terminate as to those depths stipulated as follows for each tract retained in section 7 (a) above: for vertical wells, 100 feet true vertical depth below the deepest then producing perforations; for horizontal wells, 300 feet true vertical depth below the deepest depth reached by the horizontal lateral between the first takepoint and the last takepoint, and for acreage retained that is pooled or unitized, all depths above and below the pooled or unitized interval. If a well has been spud and is being drilled over this termination date, the acreage retained by said well under section 7 (a) shall be held as to all depths for so long as such operations continue diligently in a workmanlike manner without interruptions totaling more than sixty (60) days in the aggregate (or such longer period of interruptions as may be approved by the Commissioner or his authorized designee) until completion of a well capable of producing in paying quantities or as a dry hole. Upon completion of a well as described in the preceding sentence (with "completion" defined as the earliest of (1) fourteen days after the release of a drilling rig capable of drilling to the target formation, (2) forty-eight hours after the release of a finishing rig, or (3) upon filing of a completion report at the Texas Railroad Commission), or if no such well capable of producing in paying quantities is completed within the stated period, 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

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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 the applicable statutory offset distance from 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 the applicable statutory offset distance 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

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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 the applicable statutory offset distance from 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 the applicable statutory offset distance from 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 the applicable statutory offset distance from 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.

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

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

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

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

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

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

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

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

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

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

29. LAND PROTECTIONS:

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

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

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

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

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

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

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

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

30. DEFINITIONS:

a. **"BTU"** means British thermal unit, which is the quantity of heat required to raise the temperature of one-pound avoirdupois of pure water from 58.5 degrees Fahrenheit ("° F") to 59.5° F. An MMBtu is one million (1,000,000) British thermal units.

b. **"Dry Gas"** means a Gas that contains less than or equal to seven (7) lbs of water per million standard cubic feet. The volume of Gas, on a Dry Gas basis, shall be determined by mathematically removing the water vapor from Gas that is partially or fully saturated with water vapor at measurement conditions of flowing pressure and temperature. The total energy content of Gas shall be the product of multiplying the volume of Gas, on a Dry Gas basis, times the heating value per unit volume, in Btu/SCF, on a Dry Gas basis, at the same base temperature and base pressure.

c. **"Gas"** means methane and other Gaseous hydrocarbons, including Gaseous combustible, noncombustible, and inert elements, compounds, components or mixtures thereof, and liquefiable hydrocarbons in the vapor stream. Gas volumes shall be calculated and reported, at the option of the GLO, in standard cubic feet (SCF), one thousand (1,000) standard cubic feet of Gas (MSCF), or one million (1,000,000) standard cubic feet of Gas (MMSCF).

d. **"Gross Heating Value or BTU Content"** means the energy per unit volume represented by the number of BTUs produced by the complete combustion of one standard cubic foot of Gas (excluding hydrogen sulfide) at a temperature base of sixty degrees (60° F) Fahrenheit and pressure base of 14.65 pounds per square inch absolute.

e. **"Gross Production"** means all Gas and fluids brought from underground up to and through the well head, and includes: (i) all hydrocarbons produced in liquid form as Oil or condensate at the well head and also all condensate, distillate, and any other liquid hydrocarbons recovered from Oil, condensate, or Gas run through a separator or other equipment; (ii) all hydrocarbons and Gaseous substances not in liquid form produced from any well; and (iii) natural Gasoline or liquid hydrocarbons, carbon dioxide, carbon black, sulfur or any other products produced or manufactured from any Gas or liquid. The Gross Production volumes of Oil, condensate, and Gas includes all sales, custody transfer dispositions, and/or stored volumes and all non-sales disposition volumes, including but not limited to, lease use, fuel, vent, flare, spills, uncontrolled releases, theft, and any other loss. The Gross Production of Gaseous hydrocarbons shall be adjusted and reported in MMBTUs.

f. **"Market Value"** means the greatest of (i) the highest posted price, plus premium, if any, offered or paid for Oil, Gas, condensate, distillate, other hydrocarbons, or any Other Products produced or manufactured from the Oil or Gas, of similar characteristics and type in the general area, (ii) the prevailing market price thereof in the general area, (iii) the proceeds of the sale thereof, or (iv) the highest value reasonably available to Lessee. The proceeds of sale shall include the total value accruing to the Lessee from the sale or use of the production, including proceeds and any other thing of value received by Lessee or the operator.

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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. **"Produced in Paying Quantities"** means that the receipts from the sale or other authorized commercial use of the substances(s) covered exceed out of pocket operational expenses for the six months last past.

p. **"Raw Mix"** means a mixture of Natural Gas Liquids (NGLs) that has a true vapor pressure greater than fifteen (15) pounds per square inch gauge at 100 degrees Fahrenheit (°F) prior to separation down to its base components by fractionation, typically consisting of a mixture of liquefiable hydrocarbons, including but not limited to, the natural Gas liquids ethane, propane, iso-butane, normal butane, and natural Gasoline that include pentanes plus (iso-pentane, normal pentane and hydrocarbon components of higher molecular weight).

q. **"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

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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 acondition 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.

r. **"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.

s. **"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.

t. **"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.

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37. SEE ATTACHED ADDENDUM

2·27·23

LESSEE Espuela Energy, LLC

BY: Robert Canon

TITLE: Managing Member

DATE: 2/1/23

OWNER OF THE SOIL
Individually and as agent for the State of Texas
Virginia Glenn Hill Lattimore Estate

BY: Mary Lattimore

TITLE: Independant Executrix

DATE: 1/19/23

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

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2-27-23

STATE OF TEXAS

COUNTY OF TRAVIS

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Robert Canon known to me to be the person whose name is subscribed to the foregoing instruments as Managing Member of Espuela Energy, 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 1st day of February, 2023.

Lara Katherine Boley

Notary Public in and for State of Texas

LARA KATHERINE BOLEY
Notary Public, State of Texas
Comm. Expires 05-08-2023
Notary ID 130219752

STATE OF TEXAS

COUNTY OF TARRANT

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Mary Lattimore known to me to be the person whose name is subscribed to the foregoing instruments as Independant Executrix of the Virginia Glenn Hill Lattimore Estate 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 19 day of January, 2023.

Notary Public in and for Texas

CALEB SHUTTER
NOTARY PUBLIC
STATE OF TEXAS
ID # 13288803-5
My Comm. Expires 01-26-2025

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EXHIBIT "A"

ADDENDUM TO LEASE

Attached and made a part of that certain Oil and Gas Lease dated October 27, 2022 by and between the STATE OF TEXAS, acting by and through its agent, the Virginia Glenn Hill Lattimore Estate, Owner of the Soil, and Espuela Energy, LLC, Lessee.

Notwithstanding any provisions of this Lease to the contrary, it is expressly understood and agreed by and between the parties that:

38. Lessee shall not use any existing water, whether from wells, tanks, ponds or reservoirs, from Leased Premises without prior written consent of Lessor as owner of the surface estate. Lessee, its successors and assigns, may itself drill a water well and then use the potable water from that well for drilling operations that are conducted on the Leased Premises or lands pooled therewith. However, Lessee shall have no right to the use of potable water from the Leased Premises for water flooding or secondary recovery operations without the prior written consent of Lessor as the owner of the surface estate. In the event Lessee drills a new well and encounters non-potable water which is certified as not suitable for human, animal or agricultural use, Lessee may use same for its drilling, water flooding or secondary recovery operations. Lessee may not drill a new well within 500 feet of an existing water well located on the leased premises without Lessor's prior written consent. In the event Lessee drills a water well on the Leased Premises and completes its use of same, upon termination of Lessees use of said water well, Lessee will give Lessor a thirty (30) day written notice as to Lessee's intention to plug and abandon said water well. Lessor may during said thirty (30) day notice period, provide to Lessee a written request as to Lessor's election to take over the ownership of said water well and in such event, Lessee agrees upon receipt of written request by Lessor to transfer said water well to Lessor as Owners of the surface estate, upon Lessee's execution of a written transfer instrument that includes Lessor's agreement to accept the water well "AS IS" without any warranty and Lessor's agreement to assume all rights, responsibilities and liabilities, if any, for the operation and maintenance of said water well, including but not limited to plugging of the well in accordance with any regulations of applicable governmental agency or agencies.
39. Lessee is granted the right to use existing roads in the leased premises for ingress and egress, and to the extent such roads are used by Lessee, agrees to maintain, restore and keep roads in usable condition so ling as this lease is in force and effect.
40. Lessee shall notify Lessor a minimum of 24 hours before cutting any new road, if necessary, into or on the leased premises.
41. Lessee shall install and maintain cattle guards at every fence crossing, said cattle guards to remain upon premises as Lessor's property at the expiration of this lease.
42. Lessee will bury and maintain all pipelines and electrical transmission lines 24 inches below the surface only in the event that topographic or ground conditions allow for lines being buried to the set-out depth. Lessee may further use temporary poly flowlines on the surface with he written permission of the Lessor.
43. Lessee may use no more of the surface of the leased premises than is reasonably necessary to use for the purpose of which this lease is granted, and it shall exercise all rights granted to it herein with due regard for the rights of the Owner of the Soil.
44. Lessee, its successors and assigns, shall not erect any building or houses on the leased premises and that only those structures which are reasonably necessary for production facilities or tank batteries shall be erected on the surface of the leased premises.
45. Lessee will not pollute any water aquifers or fresh water in, upon or under the leased premises, and Lessee agrees to notify Owner of the Soil in writing if fresh water is encountered during drilling, or if a fresh water formation is penetrated.
46. Lessee shall maintain all drill sites and other portions of the surface used or occupied by lessee, its successors or assigns, free and clear of weed and noxious vegetation, and will maintain the same in a reasonable manner to prevent additional damage to Owner of the Soil, other land, and crops.

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47. Upon written demand by Owner of the Soil, Lessee shall build and maintain fences around its slush, sump, and drainage pits and tank batteries to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level off all slush pits and cellars ands completely clean up the drill site of all rubbish thereon.
48. In the event of dry hole or production from a well which production ceases and the abandonment of such well, or upon the abandonment of any well location, drill site, tank battery site or roadway, the premises will be restored by Lessee as nearly as reasonably possible to its former condition at the cost and expense of Lessee, it being the intention of the parties hereto that Lessee shall restore the surface to as nearly the state that it is in at the time of execution of this lease.
49. If all or any part of this lease is assigned, released, pooled or unitized, Lessee agrees to furnish the Owner of the Soil with a copy of any such document.
50. This lease grants no hunting or fishing rights whatsoever. Furthermore, Lessee, its agents, contractors, employees or assigns shall be prohibited from carrying or transporting firearms of any type upon or across the herein described premises.
51. Weather permitting, Lessee shall remove from the herein described premises any and all structures, equipment and property of every kind and character placed by Lessee on said premises within ninety (90) days after Lessee has finished with the use of the area where such structure, equipment and property are placed. After thirty (30) days written notice to Lessee by Owner of the Soil, any such structure, equipment or property left on the lease premises by Lessee after the ninety (90) day period, shall at Lessor's option, become the property of the Owner of the Soil. Lessee shall properly plug all wells drilled by Lessee on the leased premises in accordance with the requirement of the Railroad Commission of Texas, the Texas Natural Resources Conservation Commission or other governmental agencies having jurisdiction. In plugging the wells, Lessee shall cut off the casing at least thirty-six (36) inches below the surface.
52. If at the expiration of the primary term and/or the expiration of any extension of the primary term, Lessee has completed a well(s) or Lessee is then engaged in drilling, reworking, or other operations reasonably calculated to obtain or restore production, Lessee shall have the option to commence a continuous development program on said lease and this lease shall remain in full force and effect during such time as said continuous drilling program on the lands covered by this lease is conducted by Lessee. "Continuous Drilling Program" is defined herein to mean the continuous development of the leased premises by Lessee with no more than one hundred eighty (180) days elapsing between the completion of one (1) well and commencement of actual drilling operations of a succeeding well. For purposes of interpretation of this provision, a well should be determined to be completed on the day Lessee releases the drilling rig used to drill such well, or the date such rig is moved off the location, whichever date occurs first, and a well should be determined to be commenced when such well is spudded. The termination of rights hereunder shall be the sole liability or penalty for the failure to drill any well or wells acquired or permitted hereunder. Upon cessation of such continuous drilling program this lease shall terminate as to all lands covered hereby, except as to each well producing oil or gas in paying quantities, together with the retained acreage allocated thereto in accordance with Paragraph 7 as of the date of termination. .
53. Lessee agrees to provide the Owner of the Soil with a chromatograph test for any gas well completed on the land covered by this lease, if possible.
54. If at any time on the Leased Premises or lands pooled therewith there are actual drilling operations or reworking operations being conducted to which Lessee is not a party ("Third-Party Operations"), this Lease shall continue in force as though the Third-Party Operations were being conducted by Lessee on the Leased Premises. In the event production of oil, gas or other hydrocarbon is obtained from a well drilled on the Leased Premises or lands pooled therewith to which Lessee is not a party (each, a "Third-Party Well"), Lessee covenants to pay or tender to Lessor, by check of Lessee, as royalty, a sum consistent with the royalty percentage as provided in this Lease, equal to the amount which would be due Lessor as royalty from the production of the same quantity of oil, gas or other hydrocarbon produced by Lessee (based on the quantity of production from the Third-Party Well which is reported to the Railroad Commission). Lessor shall not incur liability for accepting royalties payable from a Third-Party Well, or by reason of Third-Party Operations, it being agreed that Lessee's rights

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shall be exercised only as against such third-party lessee(s). If Lessor agrees to accept payment of oil, gas or other hydrocarbons royalties from a Third-Party Well, Lessor's acceptance of such payments shall not relieve Lessee of its obligation to pay royalty hereunder except to the extent of full and proper payments actually received by Lessor from such Third-Party Well, and if such third-party lessee fails to pay any sums due as royalty under this Lease, Lessee shall remain fully liable therefor, whether or not Lessee has received payment for production from such purchaser or third-party lessee.

Signed for Identification

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VG-2335-2023-2023001211

Evangelina N. Abila
Reeves County Clerk

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Instrument Number: 2023001211

Real Property Recordings

LEASE

Recorded On: February 16, 2023 09:59 AM

Number of Pages: 17

" Examined and Charged as Follows: "

Total Recording: $86.00

********** THIS PAGE IS PART OF THE INSTRUMENT **********
Any provision herein which restricts the Sale, Rental or use of the described REAL PROPERTY because of color or race is invalid and unenforceable under federal law.

File Information:

Document Number:	2023001211
Receipt Number:	20230216000007
Recorded Date/Time:	February 16, 2023 09:59 AM
User:	Myra A
Station:	CLERK01

Record and Return To:

ESPUELA ENERGY LLC /ATTN:ROBERT CANON
PO BOX 5988

AUSTIN TX 78763

STATE OF TEXAS
Reeves County
I hereby certify that this Instrument was filed in the File Number sequence on the date/time printed hereon, and was duly recorded in the Official Records of Reeves County, Texas

Evangelina N. Abila
Reeves County Clerk
Reeves County, TX

Evangelina N. Abila

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CERTIFIED A TRUE AND CORRECT COPY
OF THE RECORD ON FILE IN MY OFFICE

EVANGELINA N. ABILA
Reeves County Clerk

2-16-23 By: M. Salazar
Date Deputy Clerk

File No. MF121078 (15)

County

Lease N

Date Filed: 4/24/23

Commissioner Dawn Buckingham, M.D.

By:

The State of Texas

Austin, Texas

General Land Office
Relinquishment Act Lease Form
Revised 9/21

OIL AND GAS LEASE

THIS OIL AND GAS LEASE is made and entered into to be effective **October 27, 2022** (the "effective date"), by and between the State of Texas, acting by and through its agent, **Tough Time, LLC** whose address is: **P.O. Box 100145 San Antonio, Texas 78201** said agent herein referred to as the owner of the soil (whether one or more) ("owner of the soil"), and **Espuela Energy, LLC** ("Lessee"), whose address is: **P.O. Box 5988 Austin, Texas 78763**

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: **One Hundred Eighteen Thousand One Hundred Twenty Five Dollars**

Dollars ($**118,125.00**)

To the owner of the soil: **One Hundred Eighteen Thousand One Hundred Twenty Five Dollars**

Dollars ($**118,125.00**)

Total bonus consideration: **Two Hundred Thirty Six Thousand Two Hundred Fifty Dollars**

Dollars ($**236,250.00**)

The total bonus consideration paid represents a bonus of **Ten Thousand Five Hundred** dollars ($ **10,500.00**) per acre, on **22.50** net acres.

2. TERM. This lease shall be for a term of **Two** (2) years and (0) months commencing on the effective date (the "primary term"), and as long thereafter as Oil or Gas is produced in paying quantities from the following "Leased Premises" (herein so called), to-wit:

Part/Section: **The South Three Hundred Sixty Acres (360 ac) of Section 34, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas**

Block: **Block 55, Township 5**

Abstract: **A-2443**

Grantee / Survey: **T&P Ry Co Survey**

Acres: **360**

County: **Reeves**

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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 N/A Bank, at N/A 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: **Paid-Up** Dollars ($_____)

To the State of Texas: **Paid-Up** Dollars ($_____)

Total Delay Rental: **Paid-Up** Dollars ($_____)

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

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

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

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

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

(B) the gross price paid or offered to the Lessee; provided that the maximum pressure base in measuring the Gas under this lease contract shall equal 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to a test made by chromatographic analysis or the Balance Method.

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

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

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

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

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

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

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

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

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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

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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

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or

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

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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.

(c) **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 x 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 x 4500 feet = 144 acres, which rounds up to 160 acres); (4) if more acreage is required than is provided for in (1), (2) or (3) above in order to obtain the maximum allowable under special field rules for the permitted or producing interval or intervals, upon written approval from the GLO, such number of acres that are required to obtain the maximum allowable as required by the special field rules as approved by the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction; or (5) the number of acres held in a pooled unit pursuant to Natural Resources Code Sections 52.151-52.154. After termination pursuant to this subsection, each tract retained shall be considered a separate lease and must be maintained independently. Lessee shall retain the right of ingress and egress on and across the terminated portion of the Leased Premises as may be reasonably necessary for the continued operation of the portions of the lease remaining in force and effect. Further, Lessee shall retain an easement for its pipelines, tank batteries or other surface equipment or installations on the terminated acreage for so long as they continue to be used for the development and operations on the retained acreage.

(b) **HORIZONTAL**: Two (2) years after the expiration date of the primary term this lease shall further terminate as to those depths stipulated as follows for each tract retained in section 7 (a) above: for vertical wells, 100 feet true vertical depth below the deepest then producing perforations; for horizontal wells, 300 feet true vertical depth below the deepest depth reached by the horizontal lateral between the first takepoint and the last takepoint, and for acreage retained that is pooled or unitized, all depths above and below the pooled or unitized interval. If a well has been spud and is being drilled over this termination date, the acreage retained by said well under section 7 (a) shall be held as to all depths for so long as such operations continue diligently in a workmanlike manner without interruptions totaling more than sixty (60) days in the aggregate (or such longer period of interruptions as may be approved by the Commissioner or his authorized designee) until completion of a well capable of producing in paying quantities or as a dry hole. Upon completion of a well as described in the preceding sentence (with "completion" defined as the earliest of (1) fourteen days after the release of a drilling rig capable of drilling to the target formation, (2) forty-eight hours after the release of a finishing rig, or (3) upon filing of a completion report at the Texas Railroad Commission), or if no such well capable of producing in paying quantities is completed within the stated period, 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

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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 the applicable statutory offset distance from 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 the applicable statutory offset distance 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

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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 the applicable statutory offset distance from 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 the applicable statutory offset distance from 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 the applicable statutory offset distance from 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.

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

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

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

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

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

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

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

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

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

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

29. LAND PROTECTIONS:

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

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

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

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

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

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

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

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

30. DEFINITIONS:

a. **"BTU"** means British thermal unit, which is the quantity of heat required to raise the temperature of one-pound avoirdupois of pure water from 58.5 degrees Fahrenheit ("° F") to 59.5° F. An MMBtu is one million (1,000,000) British thermal units.

b. **"Dry Gas"** means a Gas that contains less than or equal to seven (7) lbs of water per million standard cubic feet. The volume of Gas, on a Dry Gas basis, shall be determined by mathematically removing the water vapor from Gas that is partially or fully saturated with water vapor at measurement conditions of flowing pressure and temperature. The total energy content of Gas shall be the product of multiplying the volume of Gas, on a Dry Gas basis, times the heating value per unit volume, in Btu/SCF, on a Dry Gas basis, at the same base temperature and base pressure.

c. **"Gas"** means methane and other Gaseous hydrocarbons, including Gaseous combustible, noncombustible, and inert elements, compounds, components or mixtures thereof, and liquefiable hydrocarbons in the vapor stream. Gas volumes shall be calculated and reported, at the option of the GLO, in standard cubic feet (SCF), one thousand (1,000) standard cubic feet of Gas (MSCF), or one million (1,000,000) standard cubic feet of Gas (MMSCF).

d. **"Gross Heating Value or BTU Content"** means the energy per unit volume represented by the number of BTUs produced by the complete combustion of one standard cubic foot of Gas (excluding hydrogen sulfide) at a temperature base of sixty degrees (60° F) Fahrenheit and pressure base of 14.65 pounds per square inch absolute.

e. **"Gross Production"** means all Gas and fluids brought from underground up to and through the well head, and includes: (i) all hydrocarbons produced in liquid form as Oil or condensate at the well head and also all condensate, distillate, and any other liquid hydrocarbons recovered from Oil, condensate, or Gas run through a separator or other equipment; (ii) all hydrocarbons and Gaseous substances not in liquid form produced from any well; and (iii) natural Gasoline or liquid hydrocarbons, carbon dioxide, carbon black, sulfur or any other products produced or manufactured from any Gas or liquid. The Gross Production volumes of Oil, condensate, and Gas includes all sales, custody transfer dispositions, and/or stored volumes and all non-sales disposition volumes, including but not limited to, lease use, fuel, vent, flare, spills, uncontrolled releases, theft, and any other loss. The Gross Production of Gaseous hydrocarbons shall be adjusted and reported in MMBTUs.

f. **"Market Value"** means the greatest of (i) the highest posted price, plus premium, if any, offered or paid for Oil, Gas, condensate, distillate, other hydrocarbons, or any Other Products produced or manufactured from the Oil or Gas, of similar characteristics and type in the general area, (ii) the prevailing market price thereof in the general area, (iii) the proceeds of the sale thereof, or (iv) the highest value reasonably available to Lessee. The proceeds of sale shall include the total value accruing to the Lessee from the sale or use of the production, including proceeds and any other thing of value received by Lessee or the operator.

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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. **"Produced in Paying Quantities"** means that the receipts from the sale or other authorized commercial use of the substances(s) covered exceed out of pocket operational expenses for the six months last past.

p. **"Raw Mix"** means a mixture of Natural Gas Liquids (NGLs) that has a true vapor pressure greater than fifteen (15) pounds per square inch gauge at 100 degrees Fahrenheit (°F) prior to separation down to its base components by fractionation, typically consisting of a mixture of liquefiable hydrocarbons, including but not limited to, the natural Gas liquids ethane, propane, iso-butane, normal butane, and natural Gasoline that include pentanes plus (iso-pentane, normal pentane and hydrocarbon components of higher molecular weight).

q. **"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

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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.

r. **"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.

s. **"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.

t. **"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.

THE STATE OF TEXAS
REEVES COUNTY

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Reeves County Texas,
Evangelina N. Ávila County Clerk
Page 11 of 17

37. SEE ATTACHED ADDENDUM

2·27·23

LESSEE Espuela Energy, LLC

BY: Robert Canon

TITLE: Managing Member

DATE: 1/9/23

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

Tough Time, LLC

BY: E.O. Scott III

TITLE: Attorney-in-Fact for Mary E Lattimore as Manager of Tough Time LLC

DATE: 10/27/2022

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

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

BY:

TITLE:

DATE:

THE STATE OF TEXAS
REEVES COUNTY

True & Correct Copy of a
Instrument file at
Reeves County Texas,
Evangelina N. Abila, County Clerk
Page 12 of 17

2·27·23

STATE OF TEXAS

COUNTY OF TRAVIS

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Robert Canon known to me to be the person whose name is subscribed to the foregoing instruments as Managing Member of Espuela Energy, 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 9th day of January, 2023.

Lara Katherine Boley

Notary Public in and for State of Texas

LARA KATHERINE BOLEY
Notary Public, State of Texas
Comm. Expires 05-08-2023
Notary ID 130219752

STATE OF TEXAS

COUNTY OF BEXAR

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared E.O. Scott III known to me to be the person whose name is subscribed to the foregoing instruments as Attorney-in-Fact for Mary E. Lattimore as Manager of Tough Time, 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 27TH day of October, 2022.

Amber B. Reed

Notary Public in and for Texas

AMBER B. REED
Notary Public, State of Texas
Comm. Expires 12-04-2023
Notary ID 132272994

THE STATE OF TEXAS REEVES COUNTY

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Evangelina N. Abila County Clerk
Page 13 of 17

EXHIBIT "A"

ADDENDUM TO LEASE

Attached and made a part of that certain Oil and Gas Lease dated October 27, 2022 by and between the STATE OF TEXAS, acting by and through its agent, Tough Time, LLC, Owner of the Soil, and Espuela Energy, LLC, Lessee.

Notwithstanding any provisions of this Lease to the contrary, it is expressly understood and agreed by and between the parties that:

38. Lessee shall not use any existing water, whether from wells, tanks, ponds or reservoirs, from Leased Premises without prior written consent of Lessor as owner of the surface estate. Lessee, its successors and assigns, may itself drill a water well and then use the potable water from that well for drilling operations that are conducted on the Leased Premises or lands pooled therewith. However, Lessee shall have no right to the use of potable water from the Leased Premises for water flooding or secondary recovery operations without the prior written consent of Lessor as the owner of the surface estate. In the event Lessee drills a new well and encounters non-potable water which is certified as not suitable for human, animal or agricultural use, Lessee may use same for its drilling, water flooding or secondary recovery operations. Lessee may not drill a new well within 500 feet of an existing water well located on the leased premises without Lessor's prior written consent. In the event Lessee drills a water well on the Leased Premises and completes its use of same, upon termination of Lessees use of said water well, Lessee will give Lessor a thirty (30) day written notice as to Lessee's intention to plug and abandon said water well. Lessor may during said thirty (30) day notice period, provide to Lessee a written request as to Lessor's election to take over the ownership of said water well and in such event, Lessee agrees upon receipt of written request by Lessor to transfer said water well to Lessor as Owners of the surface estate, upon Lessee's execution of a written transfer instrument that includes Lessor's agreement to accept the water well "AS IS" without any warranty and Lessor's agreement to assume all rights, responsibilities and liabilities, if any, for the operation and maintenance of said water well, including but not limited to plugging of the well in accordance with any regulations of applicable governmental agency or agencies.
39. Lessee is granted the right to use existing roads in the leased premises for ingress and egress, and to the extent such roads are used by Lessee, agrees to maintain, restore and keep roads in usable condition so long as this lease is in force and effect.
40. Lessee shall notify Lessor a minimum of 24 hours before cutting any new road, if necessary, into or on the leased premises.
41. Lessee shall install and maintain cattle guards at every fence crossing, said cattle guards to remain upon premises as Lessor's property at the expiration of this lease.
42. Lessee will bury and maintain all pipelines and electrical transmission lines 24 inches below the surface only in the event that topographic or ground conditions allow for lines being buried to the set-out depth. Lessee may further use temporary poly flowlines on the surface with he written permission of the Lessor.
43. Lessee may use no more of the surface of the leased premises than is reasonably necessary to use for the purpose of which this lease is granted, and it shall exercise all rights granted to it herein with due regard for the rights of the Owner of the Soil.
44. Lessee, its successors and assigns, shall not erect any building or houses on the leased premises and that only those structures which are reasonably necessary for production facilities or tank batteries shall be erected on the surface of the leased premises.
45. Lessee will not pollute any water aquifers or fresh water in, upon or under the leased premises, and Lessee agrees to notify Owner of the Soil in writing if fresh water is encountered during drilling, or if a fresh water formation is penetrated.
46. Lessee shall maintain all drill sites and other portions of the surface used or occupied by lessee, its successors or assigns, free and clear of weed and noxious vegetation, and will maintain the same in a reasonable manner to prevent additional damage to Owner of the Soil, other land, and crops.

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Evangelina N. Abila, County Clerk
Page 14 of 17

47. Upon written demand by Owner of the Soil, Lessee shall build and maintain fences around its slush, sump, and drainage pits and tank batteries to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level off all slush pits and cellars and completely clean up the drill site of all rubbish thereon.
48. In the event of dry hole or production from a well which production ceases and the abandonment of such well, or upon the abandonment of any well location, drill site, tank battery site or roadway, the premises will be restored by Lessee as nearly as reasonably possible to its former condition at the cost and expense of Lessee, it being the intention of the parties hereto that Lessee shall restore the surface to as nearly the state that it is in at the time of execution of this lease.
49. If all or any part of this lease is assigned, released, pooled or unitized, Lessee agrees to furnish the Owner of the Soil with a copy of any such document.
50. This lease grants no hunting or fishing rights whatsoever. Furthermore, Lessee, its agents, contractors, employees or assigns shall be prohibited from carrying or transporting firearms of any type upon or across the herein described premises.
51. Weather permitting, Lessee shall remove from the herein described premises any and all structures, equipment and property of every kind and character placed by Lessee on said premises within ninety (90) days after Lessee has finished with the use of the area where such structure, equipment and property are placed. After thirty (30) days written notice to Lessee by Owner of the Soil, any such structure, equipment or property left on the lease premises by Lessee after the ninety (90) day period, shall at Lessor's option, become the property of the Owner of the Soil. Lessee shall properly plug all wells drilled by Lessee on the leased premises in accordance with the requirement of the Railroad Commission of Texas, the Texas Natural Resources Conservation Commission or other governmental agencies having jurisdiction. In plugging the wells, Lessee shall cut off the casing at least thirty-six (36) inches below the surface.
52. If at the expiration of the primary term and/or the expiration of any extension of the primary term, Lessee has completed a well(s) or Lessee is then engaged in drilling, reworking, or other operations reasonably calculated to obtain or restore production, Lessee shall have the option to commence a continuous development program on said lease and this lease shall remain in full force and effect during such time as said continuous drilling program on the lands covered by this lease is conducted by Lessee. "Continuous Drilling Program" is defined herein to mean the continuous development of the leased premises by Lessee with no more than one hundred eighty (180) days elapsing between the completion of one (1) well and commencement of actual drilling operations of a succeeding well. For purposes of interpretation of this provision, a well should be determined to be completed on the day Lessee releases the drilling rig used to drill such well, or the date such rig is moved off the location, whichever date occurs first, and a well should be determined to be commenced when such well is spudded. The termination of rights hereunder shall be the sole liability or penalty for the failure to drill any well or wells acquired or permitted hereunder. Upon cessation of such continuous drilling program this lease shall terminate as to all lands covered hereby, except as to each well producing oil or gas in paying quantities, together with the retained acreage allocated thereto in accordance with Paragraph 7 as of the date of termination. .
53. Lessee agrees to provide the Owner of the Soil with a chromatograph test for any gas well completed on the land covered by this lease, if possible.
54. If at any time on the Leased Premises or lands pooled therewith there are actual drilling operations or reworking operations being conducted to which Lessee is not a party ("Third-Party Operations"), this Lease shall continue in force as though the Third-Party Operations were being conducted by Lessee on the Leased Premises. In the event production of oil, gas or other hydrocarbon is obtained from a well drilled on the Leased Premises or lands pooled therewith to which Lessee is not a party (each, a "Third-Party Well"), Lessee covenants to pay or tender to Lessor, by check of Lessee, as royalty, a sum consistent with the royalty percentage as provided in this Lease, equal to the amount which would be due Lessor as royalty from the production of the same quantity of oil, gas or other hydrocarbon produced by Lessee (based on the quantity of production from the Third-Party Well which is reported to the Railroad Commission). Lessor shall not incur liability for accepting royalties payable from a Third-Party Well, or by reason of Third-Party Operations, it being agreed that Lessee's rights

THE STATE OF TEXAS
REEVES COUNTY

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Evangelina N. Abila County Clerk
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shall be exercised only as against such third-party lessee(s). If Lessor agrees to accept payment of oil, gas or other hydrocarbons royalties from a Third-Party Well, Lessor's acceptance of such payments shall not relieve Lessee of its obligation to pay royalty hereunder except to the extent of full and proper payments actually received by Lessor from such Third-Party Well, and if such third-party lessee fails to pay any sums due as royalty under this Lease, Lessee shall remain fully liable therefor, whether or not Lessee has received payment for production from such purchaser or third-party lessee.

Signed for Identification



THE STATE OF TEXAS
REEVES COUNTY

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Record on file at
Reeves County, Texas
Evangelina N. Abila County Clerk
By 16 of 17

VG-2335-2023-2023000706

Evangelina N. Abila
Reeves County Clerk

2:27:23

Instrument Number: 2023000706

Real Property Recordings

LEASE

Recorded On: January 26, 2023 01:55 PM

Number of Pages: 17

" Examined and Charged as Follows: "

Total Recording: $86.00

********** THIS PAGE IS PART OF THE INSTRUMENT **********
Any provision herein which restricts the Sale, Rental or use of the described REAL PROPERTY because of color or race is invalid and unenforceable under federal law.

File Information:

Document Number:	2023000706
Receipt Number:	20230126000016
Recorded Date/Time:	January 26, 2023 01:55 PM
User:	Rebecca G
Station:	CLERK07

Record and Return To:

ESPUELA ENERGY LLC/ ATTN ROBERT CANON
PO BOX 5988
AUSTIN TX 78763

STATE OF TEXAS
Reeves County
I hereby certify that this Instrument was filed in the File Number sequence on the date/time printed hereon, and was duly recorded in the Official Records of Reeves County, Texas

Evangelina N. Abila
Reeves County Clerk
Reeves County, TX

Evangelina N. Abila

True & Correct Copy of a
Evangelina N. Abila County Clerk
17 of 17

2·27·23

CERTIFIED A TRUE AND CORRECT COPY
OF THE RECORD ON FILE IN MY OFFICE

EVANGELINA N. ABILA
Reeves County Clerk

January 26, 2023 By: R. Granado
Date Deputy Clerk

(16)

File No. MF121078

County

Lease O

Date Filed: 4/24/23

Commissioner Dawn Buckingham, M.D.

By:

ESPUELA ENERGY LLC
PO BOX 5988
AUSTIN, TX 78763-5988

23700472 · 1262

DATE 9/19/22

CHECK ARMOR FRAUD PROTECTION

PAY TO THE ORDER OF TEXAS GENERAL LAND OFFICE $ 75.00

SEVENTY FIVE DOLLARS

Security Features Details on Back.

PNCBANK
PNC Bank, N.A. 071

FOR Filing Fees

Robert Lamm MP

⑈00126 2⑈ [redacted]

ESPUELA ENERGY LLC
PO BOX 5988
AUSTIN, TX 78763-5988

23700471 1261

DATE 9/19/22

CHECK ARMOR FRAUD PROTECTION

PAY TO THE ORDER OF TEXAS GENERAL LAND OFFICE $ 1,506,549.00

ONE MILLION FIVE HUNDRED SIX THOUSAND FIVE HUNDRED FORTY NINE DOLLARS

Security Features Details on Back.

PNCBANK
PNC Bank, N.A. 071

FOR LEASE BONUS PAYMENT

Robert Lamm MP

⑈00126 1⑈ [redacted]

ESPUELA ENERGY, LLC
P.O. Box 5988
Austin, Texas 78763

432.553.9968
robert.canon@espuelaenergy.com

September 19, 2022

Texas General Land Office
Attn: Deborah Cantu
P.O. Box 12873
Austin, Texas 78711-2873

23700471

23700472

RE: Filing Recorded OGLs
Section 34, 38 Block 55, Township 5
T&P Ry Co Survey
Reeves County, Texas

Dear Deborah,

Please find enclosed three (3) certified copies of recorded Relinquishment Act Leases. The Lessor, recording Instrument Number and State's portion of the bonus are as follows:

Lessor	**Instrument Number**	**State's Bonus**
KMF Land, LLC	2022006310	$456,000.00
KMF Land, LLC	2022006311	$1,046,499.00
CG Interests, LLC	2022006312	$4,050.00

Also enclosed is a check in the total amount of **$1,506,549.00**, representing the State's share of the bonus consideration for the leases referenced above, as well as a check in the amount of **$75.00** representing the filing fee for the certified copies.

If you have any questions or need additional information, please do not hesitate to call me or send me an email. Thank you for your attention in this matter.

Best regards,

Robert Canon
Managing Member
Espuela Energy, LLC
robert.canon@espuelaenergy.com
432.553.9968

2·27·23

ESPUELA ENERGY LLC
PO BOX 5988
AUSTIN, TX 78763-5988

1344

[redacted]

23704726

DATE 12/21/22

CHECK ARMOR FRAUD PROTECTION

PAY TO THE ORDER OF TEXAS GENERAL LAND OFFICE $ 354,375.00

THREE HUNDRED FIFTY/FOUR THOUSAND THREE HUNDRED SEVENTY FIVE — DOLLARS

Security Features Details on Back.

PNCBANK
PNC Bank, N.A. 071

FOR LEASE BONUS PAYMENT

Robert Lamm

MP

127 ⑈001344⑈ [redacted]

2.27.23

ESPUELA ENERGY LLC
PO BOX 5988
AUSTIN, TX 78763-5988

1372

[redacted]

~~23704727~~
23704727

DATE 2/24/23

CHECK ARMOR FRAUD PROTECTION

PAY TO THE ORDER OF TEXAS GENERAL LAND OFFICE $ 50.00

FIFTY AND 00/100 ——— DOLLARS

Security Features Details on Back.

PNCBANK
PNC Bank, N.A. 071

FOR Filing Fee —

Robert Lamm

MP

121 ⑈001372⑈ [redacted]

2·27·23

ESPUELA ENERGY, LLC
P.O. Box 5988
Austin, Texas 78763

432.553.9968
robert.canon@espuelaenergy.com

February 24, 2023

Texas General Land Office
Attn: Deborah Cantu
P.O. Box 12873
Austin, Texas 78711-2873

RE: Filing Recorded OGLs
South 360 acres-Section 34, Block 55, Township 5
T&P Ry Co Survey
Reeves County, Texas

Dear Deborah,

Please find enclosed two (2) certified copies of recorded Relinquishment Act Leases. The Lessor, recording Instrument Number and State's portion of the bonus are as follows:

Lessor	**Instrument Number**	**State's Bonus**
Tough Time, LLC	2023000706	$118,125.00
Virginia Glenn Hill Lattimore Estate	2023001211	$236,250.00

Also enclosed is a check in the total amount of **$354,375.00**, representing the State's share of the bonus consideration for the leases referenced above, as well as a check in the amount of **$50.00** representing the filing fee for the certified copies.

2·27·23

If you have any questions or need additional information, please do not hesitate to call me or send me an email. Thank you for your attention in this matter.

Best regards,

Robert Canon
Managing Member
Espuela Energy, LLC
robert.canon@espuelaenergy.com
432.553.9968

ESPUELA ENERGY LLC
PO BOX 5988
AUSTIN, TX 78763-5988

1281
[redacted]

DATE 10/7/22

CHECK ARMOR FRAUD PROTECTION

PAY TO THE ORDER OF TEXAS GENERAL LAND OFFICE $ 8,100.00

Eight Thousand One Hundred ——— DOLLARS

Security Features Details on Back.

PNCBANK
PNC Bank, N.A. 071

23701115

FOR Lease Bonus Payment

Robert Lan
MP

121 ⑈001281⑈ [redacted]

RECEIVED
OCT 12 2022
General Land Office

ESPUELA ENERGY LLC
PO BOX 5988
AUSTIN, TX 78763-5988

1279

[redacted]

DATE 10/3/22

CHECK ARMOR FRAUD PROTECTION

PAY TO THE ORDER OF TEXAS GENERAL LAND OFFICE $ 50.00

FIFTY AND 00/100 DOLLARS

Security Features Details on Back.

PNCBANK
PNC Bank, N.A. 071

23701013

FOR Filing Fees

Robert Lam

MP

12) ⑈001279⑈ [redacted]

RECEIVED
OCT 07 2022
General Land Offic

ESPUELA ENERGY LLC
PO BOX 5988
AUSTIN, TX 78763-5988

1276

[redacted]

DATE 10/3/22

CHECK ARMOR FRAUD PROTECTION

PAY TO THE ORDER OF TEXAS GENERAL LAND OFFICE $ 91,406.25

NINETY ONE THOUSAND FOUR HUNDRED SIX AND 25/100 — DOLLARS

Security Features Details on Back.

PNCBANK
PNC Bank, N.A. 071

FOR LEASE BONUS PAYMENT 23701014

[signature]

MP

121 ⑈001276⑈ [redacted]

RECEIVED
OCT 07 2022
General Land Office

ESPUELA ENERGY, LLC
P.O. Box 5988
Austin, Texas 78763

432.553.9968
robert.canon@espuelaenergy.com

October 5, 2022

Texas General Land Office
Attn: Deborah Cantu
P.O. Box 12873
Austin, Texas 78711-2873

RE: Filing Recorded OGLs
South 360 acres-Section 34, Block 55, Township 5
T&P Ry Co Survey
Reeves County, Texas

Dear Deborah,

Please find enclosed two (2) certified copies of recorded Relinquishment Act Leases. The Lessor, recording Instrument Number and State's portion of the bonus are as follows:

Lessor	**Instrument Number**	**State's Bonus**
NPJ Mineral Holdings, LP	2022005723	$35,156.25
Hill Investments, Ltd.	2022006679	$56,250.00

Also enclosed is a check in the total amount of **$91,406.25**, representing the State's share of the bonus consideration for the leases referenced above, as well as a check in the amount of **$50.00** representing the filing fee for the certified copies.

If you have any questions or need additional information, please do not hesitate to call me or send me an email. Thank you for your attention in this matter.

Best regards,

Robert Canon
Managing Member
Espuela Energy, LLC
robert.canon@espuelaenergy.com
432.553.9968

ESPUELA ENERGY LLC
PO BOX 5988
AUSTIN, TX 78763-5988

1282

[redacted]

DATE 10/7/22

CHECK ARMOR FRAUD PROTECTION

PAY TO THE ORDER OF Texas General Land Office $ 25.00

Twenty Five DOLLARS

Security Features Details on Back.

PNCBANK
PNC Bank, N.A. 071

23701116

FOR Filing Fees

Robert Lamm

MP

121 ⑈001282⑈ [redacted]

RECEIVED
OCT 12 2022
General Land Office

ESPUELA ENERGY, LLC
P.O. Box 5988
Austin, Texas 78763

432.553.9968
robert.canon@espuelaenergy.com

October 7, 2022

Texas General Land Office
Attn: Deborah Cantu
P.O. Box 12873
Austin, Texas 78711-2873

RE: Filing Recorded OGL
South 360 acres-Section 34, Block 55, Township 5
T&P Ry Co Survey
Reeves County, Texas

Dear Deborah,

Please find enclosed one (1) certified copy of recorded Relinquishment Act Lease. The Lessor, recording Instrument Number and State's portion of the bonus are as follows:

Lessor	**Instrument Number**	**State's Bonus**
Word B. Wilson Investments, LP	2022006719	$8,100.00

Also enclosed is a check in the total amount of **$8,100.00**, representing the State's share of the bonus consideration for the leases referenced above, as well as a check in the amount of **$25.00** representing the filing fee for the certified copies.

If you have any questions or need additional information, please do not hesitate to call me or send me an email. Thank you for your attention in this matter.

Best regards,

Robert Canon
Managing Member
Espuela Energy, LLC
robert.canon@espuelaenergy.com
432.553.9968

ESPUELA ENERGY LLC
PO BOX 5988
AUSTIN, TX 78763-5988

1277

[redacted]

DATE 10/5/22

CHECK ARMOR TRAUD PROTECTION

PAY TO THE ORDER OF Texas General Land Office $ 535,504.69

Five Hundred Thirty Five Thousand Five Hundred Four and 69/100 DOLLARS

Security Features Details on Back.

PNCBANK
PNC Bank, N.A. 071

23701015

FOR Lease Bonus Payment

[redacted]

121 ⑈001277⑈ [redacted]

RECEIVED
OCT 07 2022
General Land Office

ESPUELA ENERGY LLC
PO BOX 5988
AUSTIN, TX 78763-5988

1286

[redacted]

DATE 10/17/22

CHECK ARMOR FRAUD PROTECTION

PAY TO THE ORDER OF TEXAS GENERAL LAND OFFICE $ 1,125.00

ONE THOUSAND ONE HUNDRED TWENTY FIVE ——— DOLLARS

Security Features Details on Back.

PNCBANK
PNC Bank, N.A. 071

23701340

FOR LEASE BONUS 121

MP

⑈001287⑈ [redacted]

ESPUELA ENERGY LLC
PO BOX 5988
AUSTIN, TX 78763-5988

1287

[redacted]

DATE 10/17/22

CHECK ARMOR FRAUD PROTECTION

PAY TO THE ORDER OF TEXAS GENERAL LAND OFFICE $ 50.00

FIFTY ——— DOLLARS

Security Features Details on Back.

PNCBANK
PNC Bank, N.A. 071

23701341

FOR FILING FEE 121

MP

⑈001287⑈ [redacted]

RECEIVED
OCT 19 2022
General Land Office

ESPUELA ENERGY, LLC
P.O. Box 5988
Austin, Texas 78763

October 17, 2022

Texas General Land Office
Attn: Deborah Cantu
P.O. Box 12873
Austin, Texas 78711-2873

23701340

RE: Filing Recorded OGL
South 360 acres-Section 34, Block 55, Township 5
T&P Ry Co Survey
Reeves County, Texas

23701341

Dear Deborah,

Please find enclosed two (2) certified copies of recorded Relinquishment Act Leases. The Lessor, recording Instrument Number and State's portion of the bonus are as follows:

Lessor	Instrument Number	State's Bonus
The DeCompiegne Property Co. No 20, Ltd.	2022007017	$562.50
Fred W. Shield and Company	2022007018	$562.50

Also enclosed is a check in the total amount of **$1,125.00**, representing the State's share of the bonus consideration for the leases referenced above, as well as a check in the amount of **$50.00** representing the filing fee for the certified copies.

If you have any questions or need additional information, please do not hesitate to call me or send me an email. Thank you for your attention in this matter.

Best regards,

Robert Canon
Managing Member
Espuela Energy, LLC
robert.canon@espuelaenergy.com
432.553.9968

ESPUELA ENERGY LLC
PO BOX 5988
AUSTIN, TX 78763-5988

1280

[redacted]

DATE 10/5/22

CHECK ARMOR FRAUD PROTECTION

PAY TO THE ORDER OF TEXAS GENERAL LAND OFFICE $ 175.00

ONE HUNDRED SEVENTY FIVE DOLLARS

Security Features Details on Back.

PNCBANK
PNC Bank, N.A. 071

FOR Filing Fees 23701016

MP

124 ⑈001280⑈ ⑆[redacted]

RECEIVED
OCT 07 2022
General Land Office

ESPUELA ENERGY, LLC
P.O. Box 5988
Austin, Texas 78763

432.553.9968
robert.canon@espuelaenergy.com

October 5, 2022

Texas General Land Office
Attn: Deborah Cantu
P.O. Box 12873
Austin, Texas 78711-2873

RE: Filing Recorded OGLs
South 360 acres-Section 34, Block 55, Township 5
T&P Ry Co Survey
Reeves County, Texas

Dear Deborah,

Please find enclosed seven (7) certified copies of recorded Relinquishment Act Leases. The Lessor, recording Instrument Number and State's portion of the bonus are as follows:

Lessor	**Instrument Number**	**State's Bonus**
HHE I, LLC	2022006680	$253,125.00
James Robert Hill Estate	2022006678	$168,750.00
Triangle Royalty, LP	2022006681	$99,492.19
JK Royalty, LP	2022006682	$5,625.00
AllDale Minerals, LP	2022006313	$4,500.00
Oak Valley Mineral and Land, LP	2022006665	$2,812.50
Kennedy Minerals, Ltd.	2022005673	$1,200.00

Also enclosed is a check in the total amount of **$535,504.69**, representing the State's share of the bonus consideration for the leases referenced above, as well as a check in the amount of **$175.00** representing the filing fee for the certified copies.

If you have any questions or need additional information, please do not hesitate to call me or send me an email. Thank you for your attention in this matter.

Best regards,

Robert Canon
Managing Member
Espuela Energy, LLC
robert.canon@espuelaenergy.com
432.553.9968

(17)

File No. MF121078

County

Bonus, fee, ltr

Date Filed: 4/24/23

Commissioner Dawn Buckingham, M.D.

By:

TEXAS GENERAL LAND OFFICE
COMMISSIONER DAWN BUCKINGHAM, M.D.

4/20/2023

Robert Canon
Espuela Energy, LLC
PO Box 5988
Austin, Texas 78763

Re: **Multiple Mineral File #s** 27 RAL leases covering multiple tracts

Dear Mr. Canon:

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,

Todd Hilliard, RPL
Mineral Leasing, Energy Resources
(512) 475-1534
todd.hilliard@glo.texas.gov

State Lease No.	Lessor as agent for State of TX	Dated	Recording	Bonus
MF120859A	Trek Resources, Inc.	1/11/2022	2022005048	$15,000.00
MF120859B	Momentum Minerals Operating, LP	1/7/2022	2022001224	$90,000.00
MF120859C	The Nancy Breeden Vaughn Living Trust	4/0/2022	2022004504	$60,000.00
MF120859D	Carolyn B. McLellan Rev. Trust	4/20/2022	2022004503	$60,000.00
MF120859E	Trog Fund II, LP	1/10/2022	2022001222	$12,660.00
MF120859F	Tower Rock Royalties Two, LP	1/10/2022	2022001220	$2,340.00
MF121078A	CG Interests, LLC	7/25/2022	2022001221	$4,050.00
MF121078B	Word B. Wilson Investments, LP	7/25/2022	2022006719	$8,100.00
MF121078C	NPJ Mineral Holdins, LP	8/1/2022	2022005723	$35,156.25
MF121078A	CG Interests, LLC	7/25/2022	2022001221	$4,050.00
MF121078B	Word B. Wilson Investments, LP	7/25/2022	2022006719	$8,100.00
MF121078C	NPJ Mineral Holdings, LP	8/1/2022	2022005723	$35,156.25
MF121078A	CG Interests, LLC	7/25/2022	2022001221	$4,050.00
MF121078B	Word B. Wilson Investments, LP	7/25/2022	2022006719	$8,100.00
MF121078C	NPJ Mineral Holdins, LP	8/1/2022	2022005723	$35,156.25
MF121078D	Hill Investments, Ltd.	7/13/2022	2022006679	$56,250.00
MF121078E	Fred W. Shield and Company	8/3/2022	2022007018	$562.50
MF121078F	The de Compiegne Property Company	8/3/2022	2022007017	$562.50
MF121078G	HHE I, LLC	7/13/2022	2022006680	$253,125.00
MF121078H	James Robert Hill Estate	7/13/2022	2022006678	$168,750.00
MF121078I	Triangle Royalty, LP	7/20/2022	2022006681	$99,492.19
MF121078J	JK Royalty, LP	7/20/2022	2022006682	$5,625.00
MF121078K	ALLDALE Minerals, LP	8/4/2022	2022006313	$4,500.00
MF121078L	Oak Valley Mineral and Land, LP	8/18/2022	2022006665	$2,812.50
MF121078M	Kennedy Minerals, Ltd.	8/9/2022	2022005673	$1,200.00
MF121078N	Virgina Glenn Hill Lattimore Estate	10/27/2022	2023001211	$236,250.00
MF121078O	Tough Time, LLC	10/27/2022	2023000706	$118,125.00

(18)

File No. MF121078

County

Final ltr

Date Filed: 4/24/23

Commissioner Dawn Buckingham, M.D.

By:

TEXAS GENERAL LAND OFFICE
COMMISSIONER DAWN BUCKINGHAM, M.D.

August 21, 2025

Sent via USPS Tracking #7021 2720 0000 6468 9503
and email to: robert.canon@espuelaenergy.com

Robert Canon
Espuela Energy, LLC
PO Box 5988
Austin, TX 78763

Re: Expiration of State Lease No. MF 121078A-O
The South 360 acres of Section 34, A-2443, T&P RR Co., Block 55, Township 5, Reeves County, Texas.

Mr. Canon:

The Texas General Land Office (GLO) has completed a review of the above captioned State Leases of which Espuela Energy, LLC is the current listed lessee. The review indicated that the above referenced State Leases appear to have expired effective as of the end of the primary term for each lease (A-O).

Please provide the GLO with a Release of the above referenced State Leases. Additionally, Title 31, §9.92, of the Texas Administrative Code requires that a recorded original or certified copy of a Release of each State Lease, along with a filing fee of twenty-five dollars ($25.00) per lease, be filed with our office.

Should you disagree with this assessment and believe the above referenced State Leases have been maintained in force and effect after the expiration date of their respective primary terms, please provide evidence to the GLO at the address shown below within thirty (30) days of receipt of this letter. Failure to reply within the allotted timeframe will result in said State Leases being endorsed as expired based upon our assessment. If you have questions concerning this matter, please feel free to e-mail me at the address below my signature.

Thank you for your timely assistance with this matter.

Best,

Johnny Boatright
Landman / Energy Resources
512-305-9106
Johnny.Boatright@glo.texas.gov

(19)

File No. MF121078 (A→O)

Reeves County

Expiration letter

Date Filed: 8/21/25

Commissioner Dawn Buckingham, M.D.

By:

ESPUELA ENERGY, LLC
P.O. Box 5988
Austin, Texas 78763

August 26, 2025

Texas General Land Office
Attn: Johnny Boatright
1700 North Congress Avenue
Austin, Texas 78701

25709627

RE: Filing Fees
RAL Releases
Section 34
Block 55, Township 5
Reeves County, Texas

Dear Johnny,

Please find enclosed seventeen (17) recorded Release of Oil and Gas Leases covering Section 34, 55T5, Reeves County, Texas. Also enclosed is a check in the amount of $425.00 representing the $25.00 filing fee for each Release.

Best regards,

Robert Canon
Managing Member
Espuela Energy, LLC
robert.canon@espuelaenergy.com
432.553.9968

RECEIVED

AUG 29 2025

General Land Office

ESPUELA ENERGY, LLC
P O BOX 5988
AUSTIN, TX 78763-5988

2821

25709627

37-65/1119 1177

DATE 8/26/25

PAY TO THE ORDER OF TEXAS GENERAL LAND OFFICE $ 425.00

FOUR HUNDRED TWENTY FIVE DOLLARS

Security Features Details on Back

WELLS FARGO
Wells Fargo Bank, N.A.
Texas
wellsfargo.com

FOR Filing Fee - Release - 34,55 TS

IMP

⑈000000 28 21⑈ [redacted]

20.

File No. MF121078 (A→O)

Reeves County

Return Correspondence/Filing Agmt

Date Filed: 9/3/25

Commissioner Dawn Buckingham, M.D.

By: JB

RELEASE OF OIL AND GAS LEASE

STATE OF TEXAS §
§
COUNTY OF REEVES §

Reference is made to those certain Oil and Gas Lease dated July 25, 2022, by and between the State of Texas, acting by and through its agent, CG Interests, LLC and Espuela Energy, LLC, State Lease No. **MF121078-A** and recorded as **Instrument Number 2022006312** in the Official Public Records of Reeves County, Texas.

That, this Oil and Gas Lease expired effective 7/25/25 and **Espuela Energy, LLC**, does hereby release, relinquish and surrender all of its right, title and interest in and to said Prior Lease insofar and only insofar as said Lease covers the following lands described:

Released Lands: The South 360 Acres of Section 34, A-2443, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas. This release covers 360 gross acres

IN WITNESS WHEREOF, this instrument is executed effective the 25th day of July, 2025.

Espuela Energy, LLC

BY: _____

TITLE: Managing Member

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

The foregoing instrument was acknowledged before me this 25nd day of August, by Robert Canon, as Managing Member of Espuela Energy, LLC, a Texas limited liability company.

_____
Notary Public, State of Texas

KARLA L VALDEZ
Notary Public, State of Texas
Comm. Expires 05-13-2029
Notary ID 135514852

Reeves County
Evangelina N. Abila
Reeves County Clerk

Instrument Number: 2025004853

eRecording - Real Property

RELEASE

Recorded On: August 26, 2025 10:42 AM

Number of Pages: 2

" Examined and Charged as Follows: "

Total Recording: $25.00

********** **THIS PAGE IS PART OF THE INSTRUMENT** **********
Any provision herein which restricts the Sale, Rental or use of the described REAL PROPERTY because of color or race is invalid and unenforceable under federal law.

File Information:

Document Number:	2025004853
Receipt Number:	20250826000001
Recorded Date/Time:	August 26, 2025 10:42 AM
User:	Rebecca G
Station:	CLERK07

Record and Return To:

Simplifile

STATE OF TEXAS
COUNTY OF REEVES

I hereby certify that this Instrument was FILED **In the File Number sequence on the date/time printed hereon, and was duly** RECORDED **in the Official Records of County, Texas.**

Evangelina N. Abila
Reeves County Clerk
Reeves County, TX

Evangelina N. Abila

21

File No. MF121078(A)

Reeves County

Release of OGL (Lease 'A')

Date Filed: 9/3/25

Commissioner Dawn Buckingham, M.D.

By:

RELEASE OF OIL AND GAS LEASE

STATE OF TEXAS §
§
COUNTY OF REEVES §

Reference is made to those certain Oil and Gas Lease dated July 25, 2022, by and between the State of Texas, acting by and through its agent, Word B. Wilson Investments, LP and Espuela Energy, LLC, State Lease No. **MF121078-B** and recorded as **Instrument Number 2022006719** in the Official Public Records of Reeves County, Texas.

That, this Oil and Gas Lease expired effective 7/25/25 and **Espuela Energy, LLC**, does hereby release, relinquish and surrender all of its right, title and interest in and to said Prior Lease insofar and only insofar as said Lease covers the following lands described:

Released Lands: The South 360 Acres of Section 34, A-2443, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas. This release covers 360 gross acres

IN WITNESS WHEREOF, this instrument is executed effective the 25th day of July, 2025.

Espuela Energy, LLC

BY: _____

TITLE: Managing Member

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

The foregoing instrument was acknowledged before me this 25nd day of August, by Robert Canon, as Managing Member of Espuela Energy, LLC, a Texas limited liability company.

Karla L. Valdez
Notary Public, State of Texas

KARLA L VALDEZ
Notary Public, State of Texas
Comm. Expires 05-13-2029
Notary ID 135514852

Reeves County
Evangelina N. Abila
Reeves County Clerk

Instrument Number: 2025004855

eRecording - Real Property

RELEASE

Recorded On: August 26, 2025 10:56 AM

Number of Pages: 2

" Examined and Charged as Follows: "

Total Recording: $25.00

********** **THIS PAGE IS PART OF THE INSTRUMENT** **********
Any provision herein which restricts the Sale, Rental or use of the described REAL PROPERTY because of color or race is invalid and unenforceable under federal law.

File Information:

Document Number:	2025004855
Receipt Number:	20250826000002
Recorded Date/Time:	August 26, 2025 10:56 AM
User:	Rebecca G
Station:	CLERK07

Record and Return To:

Simplifile

STATE OF TEXAS
COUNTY OF REEVES

I hereby certify that this Instrument was FILED **In the File Number sequence on the date/time printed hereon, and was duly** RECORDED **in the Official Records of County, Texas.**

Evangelina N. Abila
Reeves County Clerk
Reeves County, TX

Evangelina N. Abila

22

File No. MF121078(B)

Reeves County

Release of OGL (Lease 'B')

Date Filed: 9/3/25

Commissioner Dawn Buckingham, M.D.

By:

RELEASE OF OIL AND GAS LEASE

STATE OF TEXAS §
§
COUNTY OF REEVES §

Reference is made to those certain Oil and Gas Lease dated August 1, 2022, by and between the State of Texas, acting by and through its agent, NPJ Mineral Holdings, LP and Espuela Energy, LLC, State Lease No. **MF121078-C** and recorded as **Instrument Number 2022005723** in the Official Public Records of Reeves County, Texas.

That, this Oil and Gas Lease expired effective 8/1/25 and **Espuela Energy, LLC**, does hereby release, relinquish and surrender all of its right, title and interest in and to said Prior Lease insofar and only insofar as said Lease covers the following lands described:

Released Lands: The South 360 Acres of Section 34, A-2443, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas. This release covers 360 gross acres

IN WITNESS WHEREOF, this instrument is executed effective the 1st day of August, 2025.

Espuela Energy, LLC

BY: _____

TITLE: Managing Member

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

The foregoing instrument was acknowledged before me this 25nd day of August, by Robert Canon, as Managing Member of Espuela Energy, LLC, a Texas limited liability company.

_____
Notary Public, State of Texas

KARLA L VALDEZ
Notary Public, State of Texas
Comm. Expires 05-13-2029
Notary ID 135514852

Reeves County
Evangelina N. Abila
Reeves County Clerk

Instrument Number: 2025004856

eRecording - Real Property

RELEASE

Recorded On: August 26, 2025 10:57 AM

Number of Pages: 2

" Examined and Charged as Follows: "

Total Recording: $25.00

********** **THIS PAGE IS PART OF THE INSTRUMENT** **********
Any provision herein which restricts the Sale, Rental or use of the described REAL PROPERTY because of color or race is invalid and unenforceable under federal law.

File Information:

Document Number:	2025004856
Receipt Number:	20250826000003
Recorded Date/Time:	August 26, 2025 10:57 AM
User:	Rebecca G
Station:	CLERK07

Record and Return To:

Simplifile

STATE OF TEXAS
COUNTY OF REEVES

I hereby certify that this Instrument was FILED **In the File Number sequence on the date/time printed hereon, and was duly** RECORDED **in the Official Records of County, Texas.**

Evangelina N. Abila
Reeves County Clerk
Reeves County, TX

Evangelina N. Abila

(23)

File No. MF121078(C)

Reeves County

Release of OGL (Lease 'C')

Date Filed: 9/3/25

Commissioner Dawn Buckingham, M.D.

By:

RELEASE OF OIL AND GAS LEASE

STATE OF TEXAS §
§
COUNTY OF REEVES §

Reference is made to those certain Oil and Gas Lease dated July 13, 2022, by and between the State of Texas, acting by and through its agent, Hill Investments, Ltd. and Espuela Energy, LLC, State Lease No. **MF121078-D** and recorded as **Instrument Number 2022006679** in the Official Public Records of Reeves County, Texas.

That, this Oil and Gas Lease expired effective 7/13/25 and **Espuela Energy, LLC**, does hereby release, relinquish and surrender all of its right, title and interest in and to said Prior Lease insofar and only insofar as said Lease covers the following lands described:

Released Lands: The South 360 Acres of Section 34, A-2443, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas. This release covers 360 gross acres

IN WITNESS WHEREOF, this instrument is executed effective the 13th day of July, 2025.

Espuela Energy, LLC

BY: _____

TITLE: Managing Member

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

The foregoing instrument was acknowledged before me this 25nd day of August, by Robert Canon, as Managing Member of Espuela Energy, LLC, a Texas limited liability company.

_____
Notary Public, State of Texas

KARLA L VALDEZ
Notary Public, State of Texas
Comm. Expires 05-13-2029
Notary ID 135514852

Reeves County
Evangelina N. Abila
Reeves County Clerk

Instrument Number: 2025004857

eRecording - Real Property

RELEASE

Recorded On: August 26, 2025 11:01 AM

Number of Pages: 2

" Examined and Charged as Follows: "

Total Recording: $25.00

********** **THIS PAGE IS PART OF THE INSTRUMENT** **********
Any provision herein which restricts the Sale, Rental or use of the described REAL PROPERTY because of color or race is invalid and unenforceable under federal law.

File Information:

Document Number:	2025004857
Receipt Number:	20250826000006
Recorded Date/Time:	August 26, 2025 11:01 AM
User:	Rebecca G
Station:	CLERK07

Record and Return To:

Simplifile

STATE OF TEXAS
COUNTY OF REEVES

I hereby certify that this Instrument was FILED **In the File Number sequence on the date/time printed hereon, and was duly** RECORDED **in the Official Records of County, Texas.**

Evangelina N. Abila
Reeves County Clerk
Reeves County, TX

Evangelina N. Abila

(24)

File No. MF121078(D)

Reeves County

Release of OGL (Lease 'D')

Date Filed: 9/3/25

Commissioner Dawn Buckingham, M.D.

By:

RELEASE OF OIL AND GAS LEASE

STATE OF TEXAS §
§
COUNTY OF REEVES §

Reference is made to those certain Oil and Gas Lease dated August 3, 2022, by and between the State of Texas, acting by and through its agent, Fred W. Shield and Company and Espuela Energy, LLC, State Lease No. **MF121078-E** and recorded as **Instrument Number 2022007018** in the Official Public Records of Reeves County, Texas.

That, this Oil and Gas Lease expired effective 8/3/25 and **Espuela Energy, LLC**, does hereby release, relinquish and surrender all of its right, title and interest in and to said Prior Lease insofar and only insofar as said Lease covers the following lands described:

Released Lands: The South 360 Acres of Section 34, A-2443, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas. This release covers 360 gross acres

IN WITNESS WHEREOF, this instrument is executed effective the 3rd day of August, 2025.

Espuela Energy, LLC

BY: _____

TITLE: Managing Member

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

The foregoing instrument was acknowledged before me this 25nd day of August, by Robert Canon, as Managing Member of Espuela Energy, LLC, a Texas limited liability company.

_____
Notary Public, State of Texas

KARLA L VALDEZ
Notary Public, State of Texas
Comm. Expires 05-13-2029
Notary ID 135514852

Reeves County
Evangelina N. Abila
Reeves County Clerk

Instrument Number: 2025004858

eRecording - Real Property

RELEASE

Recorded On: August 26, 2025 11:03 AM

Number of Pages: 2

" Examined and Charged as Follows: "

Total Recording: $25.00

********** **THIS PAGE IS PART OF THE INSTRUMENT** **********
Any provision herein which restricts the Sale, Rental or use of the described REAL PROPERTY because of color or race is invalid and unenforceable under federal law.

File Information:

Document Number:	2025004858
Receipt Number:	20250826000007
Recorded Date/Time:	August 26, 2025 11:03 AM
User:	Rebecca G
Station:	CLERK07

Record and Return To:

Simplifile

STATE OF TEXAS
COUNTY OF REEVES

I hereby certify that this Instrument was FILED **In the File Number sequence on the date/time printed hereon, and was duly** RECORDED **in the Official Records of County, Texas.**

Evangelina N. Abila
Reeves County Clerk
Reeves County, TX

Evangelina N. Abila

(25)

File No. MF121078(E)

Reeves County

Release of OGL (Lease 'E')

Date Filed: 9/3/25

Commissioner Dawn Buckingham, M.D.

By:

RELEASE OF OIL AND GAS LEASE

STATE OF TEXAS §
§
COUNTY OF REEVES §

Reference is made to those certain Oil and Gas Lease dated August 3, 2022, by and between the State of Texas, acting by and through its agent, The DeCompiegne Property Company No. 20, Ltd. and Espuela Energy, LLC, State Lease No. **MF121078-F** and recorded as **Instrument Number 2022007017** in the Official Public Records of Reeves County, Texas.

That, this Oil and Gas Lease expired effective 8/3/25 and **Espuela Energy, LLC**, does hereby release, relinquish and surrender all of its right, title and interest in and to said Prior Lease insofar and only insofar as said Lease covers the following lands described:

Released Lands: The South 360 Acres of Section 34, A-2443, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas. This release covers 360 gross acres

IN WITNESS WHEREOF, this instrument is executed effective the 3rd day of August, 2025.

Espuela Energy, LLC

BY: _____

TITLE: Managing Member

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

The foregoing instrument was acknowledged before me this 25nd day of August, by Robert Canon, as Managing Member of Espuela Energy, LLC, a Texas limited liability company.

_____
Notary Public, State of Texas

KARLA L VALDEZ
Notary Public, State of Texas
Comm. Expires 05-13-2029
Notary ID 135514852

Reeves County
Evangelina N. Abila
Reeves County Clerk

Instrument Number: 2025004859

eRecording - Real Property

RELEASE

Recorded On: August 26, 2025 11:03 AM

Number of Pages: 2

" Examined and Charged as Follows: "

Total Recording: $25.00

********** **THIS PAGE IS PART OF THE INSTRUMENT** **********
Any provision herein which restricts the Sale, Rental or use of the described REAL PROPERTY because of color or race is invalid and unenforceable under federal law.

File Information:

Document Number:	2025004859
Receipt Number:	20250826000009
Recorded Date/Time:	August 26, 2025 11:03 AM
User:	Rebecca G
Station:	CLERK07

Record and Return To:

Simplifile

STATE OF TEXAS
COUNTY OF REEVES

I hereby certify that this Instrument was FILED **In the File Number sequence on the date/time printed hereon, and was duly** RECORDED **in the Official Records of County, Texas.**

Evangelina N. Abila
Reeves County Clerk
Reeves County, TX

Evangelina N. Abila

(26)

File No. MF121078(F)

Reeves County

Release of OGL (Lease 'F')

Date Filed: 9/3/25

Commissioner Dawn Buckingham, M.D.

By:

RELEASE OF OIL AND GAS LEASE

STATE OF TEXAS §
§
COUNTY OF REEVES §

Reference is made to those certain Oil and Gas Lease dated July 13, 2022, by and between the State of Texas, acting by and through its agent, HHE I, LLC and Espuela Energy, LLC, State Lease No. **MF121078-G** and recorded as **Instrument Number 2022006680** in the Official Public Records of Reeves County, Texas.

That, this Oil and Gas Lease expired effective 7/13/25 and **Espuela Energy, LLC**, does hereby release, relinquish and surrender all of its right, title and interest in and to said Prior Lease insofar and only insofar as said Lease covers the following lands described:

Released Lands: The South 360 Acres of Section 34, A-2443, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas. This release covers 360 gross acres

IN WITNESS WHEREOF, this instrument is executed effective the 13th day of July, 2025.

Espuela Energy, LLC

BY: _____

TITLE: Managing Member

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

The foregoing instrument was acknowledged before me this 25nd day of August, by Robert Canon, as Managing Member of Espuela Energy, LLC, a Texas limited liability company.

_____
Notary Public, State of Texas

KARLA L VALDEZ
Notary Public, State of Texas
Comm. Expires 05-13-2029
Notary ID 135514852

Reeves County
Evangelina N. Abila
Reeves County Clerk

Instrument Number: 2025004860

eRecording - Real Property

RELEASE

Recorded On: August 26, 2025 11:04 AM

Number of Pages: 2

" Examined and Charged as Follows: "

Total Recording: $25.00

********** **THIS PAGE IS PART OF THE INSTRUMENT** **********
Any provision herein which restricts the Sale, Rental or use of the described REAL PROPERTY because of color or race is invalid and unenforceable under federal law.

File Information:

Document Number:	2025004860
Receipt Number:	20250826000010
Recorded Date/Time:	August 26, 2025 11:04 AM
User:	Rebecca G
Station:	CLERK07

Record and Return To:

Simplifile

STATE OF TEXAS
COUNTY OF REEVES

I hereby certify that this Instrument was FILED **In the File Number sequence on the date/time printed hereon, and was duly** RECORDED **in the Official Records of County, Texas.**

Evangelina N. Abila
Reeves County Clerk
Reeves County, TX

Evangelina N. Abila

(27)

File No. MF121078(G)

Reeves County

Release of OGL (Lease G)

Date Filed: 9/3/25

Commissioner Dawn Buckingham, M.D.

By: _____

RELEASE OF OIL AND GAS LEASE

STATE OF TEXAS §
§
COUNTY OF REEVES §

Reference is made to those certain Oil and Gas Lease dated July 13, 2022, by and between the State of Texas, acting by and through its agent, the James Robert Hill Estate and Espuela Energy, LLC, State Lease No. **MF121078-H** and recorded as **Instrument Number 2022006678** in the Official Public Records of Reeves County, Texas.

That, this Oil and Gas Lease expired effective 7/13/25 and **Espuela Energy, LLC**, does hereby release, relinquish and surrender all of its right, title and interest in and to said Prior Lease insofar and only insofar as said Lease covers the following lands described:

Released Lands: The South 360 Acres of Section 34, A-2443, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas. This release covers 360 gross acres

IN WITNESS WHEREOF, this instrument is executed effective the 13th day of July, 2025.

Espuela Energy, LLC

BY: _____

TITLE: Managing Member

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

The foregoing instrument was acknowledged before me this 25nd day of August, by Robert Canon, as Managing Member of Espuela Energy, LLC, a Texas limited liability company.

_____
Notary Public, State of Texas

KARLA L VALDEZ
Notary Public, State of Texas
Comm. Expires 05-13-2029
Notary ID 135514852

Reeves County
Evangelina N. Abila
Reeves County Clerk

Instrument Number: 2025004861

eRecording - Real Property

RELEASE

Recorded On: August 26, 2025 11:05 AM

Number of Pages: 2

" Examined and Charged as Follows: "

Total Recording: $25.00

********** **THIS PAGE IS PART OF THE INSTRUMENT** **********
Any provision herein which restricts the Sale, Rental or use of the described REAL PROPERTY because of color or race is invalid and unenforceable under federal law.

File Information:

Document Number:	2025004861
Receipt Number:	20250826000011
Recorded Date/Time:	August 26, 2025 11:05 AM
User:	Rebecca G
Station:	CLERK07

Record and Return To:

Simplifile

STATE OF TEXAS
COUNTY OF REEVES

I hereby certify that this Instrument was FILED **In the File Number sequence on the date/time printed hereon, and was duly** RECORDED **in the Official Records of County, Texas.**

Evangelina N. Abila
Reeves County Clerk
Reeves County, TX

Evangelina N. Abila

(18)

File No. MF121078(H)

Reeves County

Release of OGL (Lease H)

Date Filed: 9/3/25

Commissioner Dawn Buckingham, M.D.

By:

RELEASE OF OIL AND GAS LEASE

STATE OF TEXAS §
§
COUNTY OF REEVES §

Reference is made to those certain Oil and Gas Lease dated July 20, 2022, by and between the State of Texas, acting by and through its agent, Triangle Royalty, LP and Espuela Energy, LLC, State Lease No. **MF121078-I** and recorded as **Instrument Number 2022006681** in the Official Public Records of Reeves County, Texas.

That, this Oil and Gas Lease expired effective 7/20/25 and **Espuela Energy, LLC**, does hereby release, relinquish and surrender all of its right, title and interest in and to said Prior Lease insofar and only insofar as said Lease covers the following lands described:

Released Lands: The South 360 Acres of Section 34, A-2443, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas. This release covers 360 gross acres

IN WITNESS WHEREOF, this instrument is executed effective the 20th day of July, 2025.

Espuela Energy, LLC

BY: _____

TITLE: Managing Member

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

The foregoing instrument was acknowledged before me this 25nd day of August, by Robert Canon, as Managing Member of Espuela Energy, LLC, a Texas limited liability company.

_____
Notary Public, State of Texas

KARLA L VALDEZ
Notary Public, State of Texas
Comm. Expires 05-13-2029
Notary ID 135514852

Reeves County
Evangelina N. Abila
Reeves County Clerk

Instrument Number: 2025004862

eRecording - Real Property

RELEASE

Recorded On: August 26, 2025 11:06 AM

Number of Pages: 2

" Examined and Charged as Follows: "

Total Recording: $25.00

********** **THIS PAGE IS PART OF THE INSTRUMENT** **********
Any provision herein which restricts the Sale, Rental or use of the described REAL PROPERTY because of color or race is invalid and unenforceable under federal law.

File Information:

Document Number:	2025004862
Receipt Number:	20250826000012
Recorded Date/Time:	August 26, 2025 11:06 AM
User:	Rebecca G
Station:	CLERK07

Record and Return To:

Simplifile

STATE OF TEXAS
COUNTY OF REEVES

I hereby certify that this Instrument was FILED **In the File Number sequence on the date/time printed hereon, and was duly** RECORDED **in the Official Records of County, Texas.**

Evangelina N. Abila
Reeves County Clerk
Reeves County, TX

Evangelina N. Abila

(29)

File No. MF121078(I)

Reeves County

Release of OGL (Lease I)

Date Filed: 9/3/25

Commissioner Dawn Buckingham, M.D.

By:

RELEASE OF OIL AND GAS LEASE

STATE OF TEXAS §
§
COUNTY OF REEVES §

Reference is made to those certain Oil and Gas Lease dated July 20, 2022, by and between the State of Texas, acting by and through its agent, JK Royalty, LP and Espuela Energy, LLC, State Lease No. **MF121078-J** and recorded as **Instrument Number 2022006682** in the Official Public Records of Reeves County, Texas.

That, this Oil and Gas Lease expired effective 7/20/25 and **Espuela Energy, LLC**, does hereby release, relinquish and surrender all of its right, title and interest in and to said Prior Lease insofar and only insofar as said Lease covers the following lands described:

Released Lands: The South 360 Acres of Section 34, A-2443, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas. This release covers 360 gross acres

IN WITNESS WHEREOF, this instrument is executed effective the 20th day of July, 2025.

Espuela Energy, LLC

BY: _____

TITLE: Managing Member

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

The foregoing instrument was acknowledged before me this 25nd day of August, by Robert Canon, as Managing Member of Espuela Energy, LLC, a Texas limited liability company.

_____
Notary Public, State of Texas

KARLA L VALDEZ
Notary Public, State of Texas
Comm. Expires 05-13-2029
Notary ID 135514852

Reeves County
Evangelina N. Abila
Reeves County Clerk

Instrument Number: 2025004864

eRecording - Real Property

RELEASE

Recorded On: August 26, 2025 11:08 AM

Number of Pages: 2

" Examined and Charged as Follows: "

Total Recording: $25.00

********** **THIS PAGE IS PART OF THE INSTRUMENT** **********
Any provision herein which restricts the Sale, Rental or use of the described REAL PROPERTY because of color or race is invalid and unenforceable under federal law.

File Information:

Document Number:	2025004864
Receipt Number:	20250826000014
Recorded Date/Time:	August 26, 2025 11:08 AM
User:	Rebecca G
Station:	CLERK07

Record and Return To:

Simplifile

STATE OF TEXAS
COUNTY OF REEVES

I hereby certify that this Instrument was FILED **In the File Number sequence on the date/time printed hereon, and was duly** RECORDED **in the Official Records of County, Texas.**

Evangelina N. Abila
Reeves County Clerk
Reeves County, TX

Evangelina N. Abila

(30)

File No. MF121078(J)

Reeves County

Release of OGL (Lease J)

Date Filed: 9/3/25

Commissioner Dawn Buckingham, M.D.

By:

RELEASE OF OIL AND GAS LEASE

STATE OF TEXAS §
§
COUNTY OF REEVES §

Reference is made to those certain Oil and Gas Lease dated August 4, 2022, by and between the State of Texas, acting by and through its agent, ALLDALE Minerals, LP and Espuela Energy, LLC, State Lease No. **MF121078-K** and recorded as **Instrument Number 2022006313** in the Official Public Records of Reeves County, Texas.

That, this Oil and Gas Lease expired effective 8/4/25 and **Espuela Energy, LLC**, does hereby release, relinquish and surrender all of its right, title and interest in and to said Prior Lease insofar and only insofar as said Lease covers the following lands described:

Released Lands: The South 360 Acres of Section 34, A-2443, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas. This release covers 360 gross acres

IN WITNESS WHEREOF, this instrument is executed effective the 4th day of August, 2025.

Espuela Energy, LLC

BY: _____

TITLE: Managing Member

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

The foregoing instrument was acknowledged before me this 25nd day of August, by Robert Canon, as Managing Member of Espuela Energy, LLC, a Texas limited liability company.

_____
Notary Public, State of Texas

KARLA L VALDEZ
Notary Public, State of Texas
Comm. Expires 05-13-2029
Notary ID 135514852

Reeves County
Evangelina N. Abila
Reeves County Clerk

Instrument Number: 2025004865

eRecording - Real Property

RELEASE

Recorded On: August 26, 2025 11:09 AM

Number of Pages: 2

" Examined and Charged as Follows: "

Total Recording: $25.00

********** **THIS PAGE IS PART OF THE INSTRUMENT** **********
Any provision herein which restricts the Sale, Rental or use of the described REAL PROPERTY because of color or race is invalid and unenforceable under federal law.

File Information:

Document Number:	2025004865
Receipt Number:	20250826000015
Recorded Date/Time:	August 26, 2025 11:09 AM
User:	Rebecca G
Station:	CLERK07

Record and Return To:

Simplifile

STATE OF TEXAS
COUNTY OF REEVES

I hereby certify that this Instrument was FILED **In the File Number sequence on the date/time printed hereon, and was duly** RECORDED **in the Official Records of County, Texas.**

Evangelina N. Abila
Reeves County Clerk
Reeves County, TX

Evangelina N. Abila

(31)

File No. MF121078(K)

Reeves County

Release of OGL (Lease K)

Date Filed: 9/3/25

Commissioner Dawn Buckingham, M.D.

By:

RELEASE OF OIL AND GAS LEASE

STATE OF TEXAS §
§
COUNTY OF REEVES §

Reference is made to those certain Oil and Gas Lease dated August 18, 2022, by and between the State of Texas, acting by and through its agent, Oak Valley Mineral and Land, LP and Espuela Energy, LLC, State Lease No. **MF121078-L** and recorded as **Instrument Number 2022006665** in the Official Public Records of Reeves County, Texas.

That, this Oil and Gas Lease expired effective 8/18/25 and **Espuela Energy, LLC**, does hereby release, relinquish and surrender all of its right, title and interest in and to said Prior Lease insofar and only insofar as said Lease covers the following lands described:

Released Lands: The South 360 Acres of Section 34, A-2443, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas. This release covers 360 gross acres

IN WITNESS WHEREOF, this instrument is executed effective the 18th day of August, 2025.

Espuela Energy, LLC

BY: _____

TITLE: Managing Member

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

The foregoing instrument was acknowledged before me this 25nd day of August, by Robert Canon, as Managing Member of Espuela Energy, LLC, a Texas limited liability company.

_____
Notary Public, State of Texas

KARLA L VALDEZ
Notary Public, State of Texas
Comm. Expires 05-13-2029
Notary ID 135514852

Reeves County
Evangelina N. Abila
Reeves County Clerk

Instrument Number: 2025004866

eRecording - Real Property

RELEASE

Recorded On: August 26, 2025 11:10 AM

Number of Pages: 2

" Examined and Charged as Follows: "

Total Recording: $25.00

********** **THIS PAGE IS PART OF THE INSTRUMENT** **********
Any provision herein which restricts the Sale, Rental or use of the described REAL PROPERTY because of color or race is invalid and unenforceable under federal law.

File Information:

Document Number:	2025004866
Receipt Number:	20250826000016
Recorded Date/Time:	August 26, 2025 11:10 AM
User:	Rebecca G
Station:	CLERK07

Record and Return To:

Simplifile

STATE OF TEXAS
COUNTY OF REEVES

I hereby certify that this Instrument was FILED **In the File Number sequence on the date/time printed hereon, and was duly** RECORDED **in the Official Records of County, Texas.**

Evangelina N. Abila
Reeves County Clerk
Reeves County, TX

Evangelina N. Abila

(32)

File No. MF121078(L)

Reeves County

Release of OGL (Lease L)

Date Filed: 9/3/25

Commissioner Dawn Buckingham, M.D.

By:

RELEASE OF OIL AND GAS LEASE

STATE OF TEXAS §
§
COUNTY OF REEVES §

Reference is made to those certain Oil and Gas Lease dated August 9, 2022, by and between the State of Texas, acting by and through its agent, Kennedy Minerals, Ltd. and Espuela Energy, LLC, State Lease No. **MF121078-M** and recorded as **Instrument Number 2022005673** in the Official Public Records of Reeves County, Texas.

That, this Oil and Gas Lease expired effective 8/9/25 and **Espuela Energy, LLC**, does hereby release, relinquish and surrender all of its right, title and interest in and to said Prior Lease insofar and only insofar as said Lease covers the following lands described:

Released Lands: The South 360 Acres of Section 34, A-2443, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas. This release covers 360 gross acres

IN WITNESS WHEREOF, this instrument is executed effective the 9th day of August, 2025.

Espuela Energy, LLC

BY: _____

TITLE: Managing Member

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

The foregoing instrument was acknowledged before me this 25nd day of August, by Robert Canon, as Managing Member of Espuela Energy, LLC, a Texas limited liability company.

_____
Notary Public, State of Texas

KARLA L VALDEZ
Notary Public, State of Texas
Comm. Expires 05-13-2029
Notary ID 135514852

Reeves County
Evangelina N. Abila
Reeves County Clerk

Instrument Number: 2025004867

eRecording - Real Property

RELEASE

Recorded On: August 26, 2025 11:11 AM

Number of Pages: 2

" Examined and Charged as Follows: "

Total Recording: $25.00

********** **THIS PAGE IS PART OF THE INSTRUMENT** **********
Any provision herein which restricts the Sale, Rental or use of the described REAL PROPERTY because of color or race is invalid and unenforceable under federal law.

File Information:

Document Number:	2025004867
Receipt Number:	20250826000017
Recorded Date/Time:	August 26, 2025 11:11 AM
User:	Rebecca G
Station:	CLERK07

Record and Return To:

Simplifile

STATE OF TEXAS
COUNTY OF REEVES

I hereby certify that this Instrument was FILED **In the File Number sequence on the date/time printed hereon, and was duly** RECORDED **in the Official Records of County, Texas.**

Evangelina N. Abila
Reeves County Clerk
Reeves County, TX

Evangelina N. Abila

(33)

File No. MF121078(M)

Reeves County

Release of OGL (Lease M)

Date Filed: 9/3/25

Commissioner Dawn Buckingham, M.D.

By:

RELEASE OF OIL AND GAS LEASE

STATE OF TEXAS §
§
COUNTY OF REEVES §

Reference is made to those certain Oil and Gas Lease dated October 27, 2022, by and between the State of Texas, acting by and through its agent, Virginia Glenn Hill Latimore Estate and Espuela Energy, LLC, State Lease No. **MF121078-N** and recorded as **Instrument Number 2023001211** in the Official Public Records of Reeves County, Texas.

That, this Oil and Gas Lease expired effective 10/27/25 and **Espuela Energy, LLC**, does hereby release, relinquish and surrender all of its right, title and interest in and to said Prior Lease insofar and only insofar as said Lease covers the following lands described:

Released Lands: The South 360 Acres of Section 34, A-2443, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas. This release covers 360 gross acres

IN WITNESS WHEREOF, this instrument is executed effective the 27th day of October, 2025.

Espuela Energy, LLC

BY: _____

TITLE: Managing Member

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

The foregoing instrument was acknowledged before me this 27th day of October, 2025, by Robert Canon, as Managing Member of Espuela Energy, LLC, a Texas limited liability company.

_____
Notary Public, State of Texas

KARLA L VALDEZ
Notary Public, State of Texas
Comm. Expires 05-13-2029
Notary ID 135514852

Reeves County
Evangelina N. Abila
Reeves County Clerk

Instrument Number: 2025004868

eRecording - Real Property

RELEASE

Recorded On: August 26, 2025 11:13 AM

Number of Pages: 2

" Examined and Charged as Follows: "

Total Recording: $25.00

********** **THIS PAGE IS PART OF THE INSTRUMENT** **********
Any provision herein which restricts the Sale, Rental or use of the described REAL PROPERTY because of color or race is invalid and unenforceable under federal law.

File Information:

Document Number:	2025004868
Receipt Number:	20250826000018
Recorded Date/Time:	August 26, 2025 11:13 AM
User:	Rebecca G
Station:	CLERK07

Record and Return To:

Simplifile

STATE OF TEXAS
COUNTY OF REEVES

I hereby certify that this Instrument was FILED **In the File Number sequence on the date/time printed hereon, and was duly** RECORDED **in the Official Records of County, Texas.**

Evangelina N. Abila
Reeves County Clerk
Reeves County, TX

Evangelina N. Abila

(34)

File No. MF121078 (NS)

Reeves County

Release of OGL (Lease N)

Date Filed: 9/3/25

Commissioner Dawn Buckingham, M.D.

By:

RELEASE OF OIL AND GAS LEASE

STATE OF TEXAS §
§
COUNTY OF REEVES §

Reference is made to those certain Oil and Gas Lease dated October 27, 2022, by and between the State of Texas, acting by and through its agent, Tough Time, LLC and Espuela Energy, LLC, State Lease No. **MF121078-O** and recorded as **Instrument Number 2023000706** in the Official Public Records of Reeves County, Texas.

That, this Oil and Gas Lease expired effective 10/27/25 and **Espuela Energy, LLC**, does hereby release, relinquish and surrender all of its right, title and interest in and to said Prior Lease insofar and only insofar as said Lease covers the following lands described:

Released Lands: The South 360 Acres of Section 34, A-2443, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas. This release covers 360 gross acres

IN WITNESS WHEREOF, this instrument is executed effective the 27th day of October, 2025.

Espuela Energy, LLC

BY: _____

TITLE: Managing Member

STATE OF TEXAS §
§
COUNTY OF TRAVIS §

The foregoing instrument was acknowledged before me this 27th day of October, 2025, by Robert Canon, as Managing Member of Espuela Energy, LLC, a Texas limited liability company.

_____
Notary Public, State of Texas

KARLA L VALDEZ
Notary Public, State of Texas
Comm. Expires 05-13-2029
Notary ID 135514852

Reeves County
Evangelina N. Abila
Reeves County Clerk

Instrument Number: 2025004869

eRecording - Real Property

RELEASE

Recorded On: August 26, 2025 11:14 AM

Number of Pages: 2

" Examined and Charged as Follows: "

Total Recording: $25.00

********** **THIS PAGE IS PART OF THE INSTRUMENT** **********
Any provision herein which restricts the Sale, Rental or use of the described REAL PROPERTY because of color or race is invalid and unenforceable under federal law.

File Information:

Document Number:	2025004869
Receipt Number:	20250826000019
Recorded Date/Time:	August 26, 2025 11:14 AM
User:	Rebecca G
Station:	CLERK07

Record and Return To:

Simplifile

STATE OF TEXAS
COUNTY OF REEVES

I hereby certify that this Instrument was FILED **In the File Number sequence on the date/time printed hereon, and was duly** RECORDED **in the Official Records of County, Texas.**

Evangelina N. Abila
Reeves County Clerk
Reeves County, TX

Evangelina N. Abila

(35)

File No. MF121078 (0)

Reeves County

Release of OGL (Lease 0)

Date Filed: 9/3/25

Commissioner Dawn Buckingham, M.D.

By: