The State of Texas

Austin, Texas

PAID-UP
OIL AND GAS LEASE NO. «LeaseMF_Number»
GENERAL LAND OFFICE

THIS AGREEMENT made and entered into by and between the Commissioner of the General Land Office of the State of Texas, whose address is 1700 North Congress Ave., Austin, Texas, 78701 ("Lessor"), as authorized by the School Land Board pursuant to the provisions of Chapters 32 and 52 of the Texas Natural Resources Code (the "Code"), and amendments thereto, and all applicable rules promulgated by the School Land Board, and **«LesseeApplicant»**, whose address is **«Lessee_Address»** ("Lessee").

1. Lessor, in consideration of **«Bonus_Amount» Dollars («Bonus_Amount»)**, receipt of which is hereby acknowledged, and of the covenants and agreements of Lessee contained in this lease, hereby grants, leases, and lets to Lessee the land covered by this lease for the purposes and with the exclusive right of exploring, drilling, mining and operating for, producing and owning oil, gas, and all other hydrocarbons produced from the land covered by this lease (the "Premises"). The Premises are located in **«County»** County, Texas (the "County"), and are described as follows:

> **«Net_Acres» acres** of land, more or less, situated in **«County»** County, Texas, more particularly described in Exhibit "A" attached hereto and made a part hereof together with a plat, attached hereto as Exhibit "B", depicting said right-of-way and surrounding area for purposes of illustration only.

For the purpose of determining the amount of any bonus or other payment hereunder, the Premises shall be deemed to contain **«Net_Acres» acres**, whether actually containing more or less, and the above recital of acreage shall be deemed to be the true acreage thereof. Lessor accepts the bonus as lump sum consideration for this lease and all rights and options hereunder.

2. **Primary Term:** This lease, which is a "paid up" lease requiring no rentals, shall remain in force for a term of **«Primary_Term» years** from **«Effective_Date»** hereinafter called the "primary term", and as long thereafter as operations, as hereinafter defined, are conducted upon the Premises with no cessation for more than ninety (90) consecutive days.

3. **Royalties:** As royalty Lessee covenants and agrees:

(a) To deliver to the credit of Lessor, in the pipe line to which Lessee may connect its well, the equal **«Royalty_Rate»%** part of all oil produced and saved by Lessee from the Premises, or from time to time, at the option of Lessor, to pay Lessor the value of such **«Royalty_Rate»%** part of such oil, the value to be calculated as the greatest of: (1) 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, (2) the highest market price paid or offered for oil in the general area where produced and when run, or (3) the gross proceeds of the sale thereof, in any case to bear none of the cost of treating, transporting, or marketing oil to render it marketable pipe line oil.

(b) To deliver to the credit of Lessor, in the pipe line to which Lessee may connect its well, the equal **«Royalty_Rate»%** part of all gas and casing head gas produced and saved by Lessee from the Premises (as well as any residue gas if the gas is processed to extract natural gas liquids), or from time to time, at the option of Lessor, to pay Lessor the value of such **«Royalty_Rate»%** part of such gas, the value to be calculated as the greater of: (1) the highest market price paid or offered for gas of comparable quality in the general area where produced and when run, or (2) the gross proceeds of the sale thereof, in either case to bear none of the cost of treating, transporting, or marketing gas to render it marketable pipe line gas, plus the value at the **«Royalty_Rate»%** of all natural gas liquids extracted from the gas, such value being the higher of (i) the market price for such natural gas liquids in the general areas where extracted or processed, or (ii) the gross proceeds received by Lessee.

(c) To pay a royalty on carbon black, carbon dioxide, sulphur or any other products (including water) produced (excepting oil, gas, or natural gas liquids, addressed separately above), Lessee agrees to pay **«Royalty_Rate»%** of the gross production of such products, or the value thereof at the option of Lessor, such value to be calculated at the point the other products are ready for sale and use and without deduction for expenses, 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.

(d) Lessee covenants and agrees to use reasonable diligence to produce, utilize, or market the minerals capable of being produced from said wells, but in the exercise of such diligence, Lessee shall not be obligated to install or furnish facilities other than well facilities and ordinary lease facilities of flow lines, separator, and lease tank, and shall not be required to settle labor trouble or to market gas upon terms unacceptable to Lessee.

(e) If at any time or times after the expiration of the primary term, all such wells are shut-in for a period of ninety consecutive days, and during such time there are no operations on the Premises, then at or before the expiration of said ninety-day period, Lessee shall pay, as shut-in royalty, the sum of **«Shut_in_Royalty»**. The lease shall be considered to be a producing lease and the payment shall extend the term of the lease for a period of one year from the end of the primary term, or from the first day of the month following the month in which production ceased. Lessee shall make like payments at or before the end of each anniversary of the expiration of said shut-in period if upon such anniversary this lease is being continued in force solely by reason of the provisions of this paragraph. Each such payment shall be made to the parties who at the time of payment would be entitled to receive the royalties which would be paid under this lease if the wells were producing. Nothing herein shall impair Lessee's right to release as provided in paragraph 5 hereof. In the event of assignment of this lease in whole or in part, liability for payment hereunder shall rest exclusively on the then owner or owners of this lease, severally as to acreage owned by each.

(f) All royalties not taken in kind shall be paid to the Commissioner of the General Land Office at Austin, Texas. All oil royalties due hereunder must be received in the General Land Office on or before the 5th day of the second month succeeding the month of production, and royalty on gas is due and must be received in the General Land Office on or before the 15th day of the second month succeeding the month of production. Each royalty payment shall be accompanied by a check stub, schedule, summary or other remittance advice showing by the assigned General Land Office lease number the amount of royalty being paid on each lease. If Lessee pays its royalty on or before

thirty (30) days after the royalty payment was due, the Lessee owes a penalty of 5% on the royalty or $25.00, whichever is greater. A royalty payment which is over thirty (30) days late shall accrue a penalty of 10% of the royalty due or $25.00, whichever is greater. In addition to a penalty, royalties shall accrue interest at the rate set out for overdue royalty payments as set out in the Texas Administrative Code; such interest will begin accruing when the royalty is sixty (60) days overdue. 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. The State shall have first lien upon all oil and gas produced from the area covered by this lease to secure the payment of all unpaid royalty and other sums of money that may become due to the State hereunder.

(g) For all royalty payments made pursuant to this lease, Lessee must submit to the General Land Office (1) the affidavit of the owner, manager, or other authorized agent, completed in the form and manner prescribed by the General Land Office and showing the gross amount and disposition of all oil and gas produced and the market value of the oil and gas, together with a copy of all documents, records or reports confirming the gross production, disposition and market value including gas meter readings, pipeline receipts, gas line receipts and other checks or memoranda of amount produced and put into pipelines, tanks, or pools and gas lines or gas storage, and any other reports or records which the General Land Office may require to verify the gross production, disposition and market value, and (2) any other production/royalty reports required to be made pursuant to the Texas Administrative Code. In all cases the authority of a manager or agent to act for the Lessee herein must be filed in the General Land Office. Affidavits and supporting documents which are not filed when due shall incur a penalty in an amount set by the General Land Office administrative rule which is effective on the date when the affidavits or supporting documents were due.

(h) 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, gas, and other products hereunder ready for sale and use. 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 Premises to make such products ready for sale or use, 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. Lessor 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).

4. **Pooling:**

Lessee is hereby granted the right, at its option, to pool or unitize any land covered by this lease with any other land covered by this lease, and/or with any other land, lease, or leases, as to any or all minerals or horizons.

(a) Units pooled for oil hereunder shall not exceed 160 acres each in area, and units pooled for gas hereunder shall not exceed in area 640 acres each plus a tolerance of ten percent (10%) thereof, unless oil or gas units of a greater size are allowed under or prescribed by rules of the Railroad Commission of Texas. A unit established hereunder shall be valid and effective for all

purposes of this lease even though there may be mineral, royalty, or leasehold interests in lands within the unit, which are not effectively pooled or unitized. Any operations conducted on any part of such unitized land shall be considered, for all purposes, except the payment of royalty, as operations conducted upon the Premises under this lease. There shall be allocated to the land covered by this lease within each such unit (or to each separate tract within the unit if this lease covers separate tracts within the unit) the proportion of the total production of unitized minerals from the unit, after deducting any used in lease or unit operations, which the number of surface acres in such land (or in each such separate tract) covered by this lease within the unit bears to the total number of surface acres in the unit, and the production so allocated shall be considered for all purposes, including payment or delivery of royalty, overriding royalty and any other payments out of production, to be the entire production of unitized minerals from the land to which allocated in the same manner as though produced there from under the terms of this lease. The owner of the reversionary estate of any term royalty or mineral estate agrees that the accrual of royalties pursuant to this paragraph or of shut-in royalties from a well on the unit shall satisfy any limitation of term requiring production of oil or gas. The formation of any unit hereunder which includes land not covered by this lease shall not have the effect of exchanging or transferring any interest under this lease (including, without limitation, any shut-in royalty which may become payable under this lease) between parties owning interests in land covered by this lease and parties owning interests in land not covered by this lease. Neither shall it impair the right of Lessee to release as provided in paragraph 5 hereof, except that Lessee may not so release as to lands within a unit while there are operations thereon for unitized minerals unless all pooled leases are released as to lands within the unit. At any time while this lease is in force Lessee may dissolve any unit established hereunder by filing for record in the public office where this lease is recorded a declaration to that effect, if at that time no operations are being conducted thereon for unitized minerals. Subject to the provisions of this paragraph 4, a unit once established hereunder shall remain in force for so long as any lease subject thereto shall remain in force. If this lease now or hereafter covers separate tracts, no pooling or unitization of royalty interests as between any such separate tracts is intended or shall be implied or result merely from the inclusion of such separate tracts within this lease but Lessee shall nevertheless have the right to pool or unitize as provided in this paragraph 4 with consequent allocation of production as herein provided. As used in this paragraph 4, the words "separate tract" mean any tract with royalty ownership differing, now or hereafter, either as to parties or amounts, from that as to any other part of the leased premises.

(b) Neither unit production of oil or gas, nor unit operations, nor payment of shut-in royalties from a unit gas well, shall serve to hold the lease in force as to any area outside the unit, regardless of whether the production, maintenance of a shut-in gas well, or operations are actually located on the State tract or not.

(c) **Lessee agrees to file with the General Land Office a copy of any unit designation or amendment thereto in which this lease is included and a $500.00 processing fee with completed "Unit Designation Form" which is available on the General Land Office website. Lessee agrees to make such filing and payment within thirty (30) days of the designation or amendment thereto or being filed of record with the County.**

(d) **Production sharing agreements, allocation agreements, or similar type agreements covering the leased premises or lands pooled therewith may be submitted for execution by the State. Upon finding that such an agreement is in the best interest of the State and upon submission of the required $500.00 processing fee, the agreement will be submitted for execution by the Commissioner of the Texas General Land Office.**

5. **Release**: Lessee may relinquish the rights granted hereunder to the State at any time by recording the relinquishment in the County and filing the recorded relinquishment or certified copy of same in the General Land Office within ninety (90) days after its execution accompanied by the prescribed filing fee. Such relinquishment will not have the effect of releasing Lessee from any liability theretofore accrued in favor of the State.

6. **Rework:** If at any time or times during the primary term operations are conducted on the Premises and if all operations are discontinued, this lease shall thereafter terminate at the end of the primary term or on the ninetieth day after discontinuance of all operations, whichever is the later date, unless on such later date either (1) Lessee is conducting operations or (2) the shut-in well provisions of paragraph 3 or the provisions of paragraph 9 are applicable. Whenever used in this lease the word "operations" shall mean operations for and any of the following: drilling, testing, completing, reworking, recompleting, deepening, plugging back or repairing of a well in search for or in an endeavor to obtain production of oil or gas, or production of oil or gas in paying quantities.

7. **Notice:** In the event Lessor considers that Lessee has not complied with all its obligations hereunder, both express and implied, Lessor shall notify Lessee in writing, setting out specifically in what respects Lessee has breached this lease. Lessee shall then have sixty (60) days after receipt of said notice within which to meet or commence to meet all or any part of the breaches alleged by Lessor. The service of such notice shall be precedent to the bringing of any action by Lessor on this lease for any cause, and no such action shall be brought until the lapse of sixty (60) days after service of such notice on Lessee. Neither the service of the notice nor the doing of any acts by Lessee aimed to meet all or any of the alleged breaches shall be deemed an admission or presumption that Lessee has failed to perform all its obligations hereunder. If this lease is canceled for any cause, it shall nevertheless remain in force and effect as to (1) sufficient acreage around each well as to which there are operations to constitute a drilling or maximum allowable unit under applicable governmental regulations, (but in no event less than forty acres), such acreage to be designated by Lessee as nearly as practicable in the form of a square centered at the well, or in such shape as then existing spacing rules require; and (2) any part of the Premises included in a pooled unit on which there are operations.

8. **Force Majeure:** If, while this lease is in force, at, or after the expiration of the primary term hereof, it is not being continued in force by reason of the shut-in well provisions of paragraph 3 hereof, and Lessee is not conducting operations on the Premises by reason of (1) any law, order, rule or regulation, (whether or not subsequently determined to be invalid) or (2) any other cause, whether similar or dissimilar, (except financial) beyond the reasonable control of Lessee, the primary term shall be extended until the first anniversary date hereof occurring ninety (90) or more days following the removal of such delaying cause, and this lease may be extended thereafter by operations as if such delay had not occurred.

9. **Lesser Estate Clause:** If this lease covers an interest in the oil or gas in all or any part of the Premises that is less than the entire and undivided fee simple estate (whether Lessor's interest is herein specified or not), or no interest therein, then the royalties, and other monies accruing from any part as to which this lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease bears to the whole and undivided fee simple estate therein.

10. **Assignments:** This lease may be transferred at any time. All transfers must reference the lease by file number and must be recorded in the County, and the recorded transfer or a copy certified to by the County Clerk where the transfer is recorded must be filed in the General

Land Office within ninety (90) days of the execution date, as provided by Code Section 52.026, accompanied by the prescribed filing fee. 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.

11. **Well Information:** Lessee agrees to forthwith furnish Lessor, upon written request, with copies of all drilling logs, electrical logs, cores and core records and other information pertaining to all wells drilled by lessee either on the leased premises or acreage pooled therewith, when requested to do so. Any such information shall remain confidential as required by statute.

12. **Surface:** Notwithstanding anything herein to the contrary, it is agreed that Lessee will not conduct any exploration or drilling on the surface of the Premises or use the surface in the exercise of any rights herein granted. Any development of the Premises shall be by means of a directional well located off the leased premises, or by pooling of the Premises with other land, lease or leases as hereinabove provided.

13. **Compensatory Royalty:** Lessee shall pay a compensatory royalty if this lease is not being held by production on the Premises, by production from a pooled unit, or by payment of shut-in royalties in accordance with the terms of this lease, and if oil or gas is sold or delivered in paying quantities from a well located within 2,500 feet of the Premises and completed in a producible reservoir underlying the area leased hereunder or in any case in which drainage is occurring. Such compensatory royalty shall be paid at the royalty rate provided in this lease based on the value of production from the well as provided in the lease on which such well is located. The compensatory royalty shall be paid in the same proportion that the acreage of this lease has to the acreage of the proration unit surrounding the draining well plus the acreage of this lease. The compensatory royalty shall be paid monthly to the Commissioner of the General Land Office on or before the last day of the month after the month in which the oil or gas is sold and delivered from the well causing the drainage or from the well located within 2,500 feet of the leased premises and completed in a producible reservoir under this lease. Notwithstanding anything herein to the contrary, compensatory royalty payable hereunder shall be no less than an amount equal to double the shut-in and shall maintain this lease in effect for so long as such payments are made as provided herein.

14. **Forfeiture:** If Lessee shall fail or refuse to make 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 Commissioner of the General Land Office, or if Lessee should fail to file reports in the manner required by law or fail to comply with rules and regulations promulgated by the General Land Office, 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 General Land Office a correct log of any well, or if this lease is pooled or assigned and the unit designation or assignment is not filed in the General Land Office as required by law, the rights acquired under this lease shall be subject to forfeiture by the Commissioner, and the Commissioner 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 operations of law or by reason of any special limitation arising hereunder. Forfeitures may be set aside and this lease and all rights there under reinstated before the rights of another intervene upon satisfactory evidence to the Commissioner of the General Land Office of future compliance with the provisions of the law and of this lease and the rules and regulations that may be adopted relative hereto.

15. Lessee must comply in all regards with all applicable statutes and administrative rules pertaining to the lease of minerals from, and the payment of royalties and submittal of reports to, the General Land Office and/or the County, as the case may be, as those statutes and rules may be amended from time to time during the term of this lease.

IN TESTIMONY WHEREOF, witness the signature of the Commissioner of the General Land Office of the State of Texas under the seal of the General Land Office.

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DAWN BUCKINGHAM, M.D.
COMMISSIONER, GENERAL LAND OFFICE

Approved:

ML: _____

DD: _____

LS: _____

CC: _____