

**OIL AND GAS LEASE [UL Lease #####]**

This Oil and Gas Lease (this "Lease") is approved by the Board for Lease of University Lands for the lease of Permanent University Funds ("PUF") lands and is effective and entered into on [Month, Day, Year] (the "Effective Date") between the State of Texas, acting by and through University Lands or its authorized designees (collectively, "Lessor") whose address is 704 West Dengar Avenue, Midland, Texas 79702-0553 and [Insert Lessee Legal Name] ("Lessee"), whose address is [Insert Lessee Address]. Lessee submitted a bid for this Lease pursuant to the laws and rules governing PUF lands and University Lands Lease Sale Notice #[\_\_\_\_\_]. By executing this Lease, Lessee agrees to be bound by the terms and conditions of this Lease, the conditions set forth in University Lands Lease Sale Notice #128, and the Directives (a term specifically defined in Section 18 that broadly refers to certain laws and regulations, provisions of the Texas Education Code, Rules of the Board for Lease of University Lands, and policies and procedures of University Lands). Capitalized terms have the meanings ascribed to them in this Lease and are collectively listed in Section 18 below.

For good and valuable consideration, the receipt and sufficiency of which are mutually acknowledged, Lessor and Lessee agree as follows:

1. **GRANTING CLAUSE; RESERVATION.** Lessor demises, grants, and lets to Lessee (i) the exclusive right to produce and take Produced Substances from the Leased Premises (as defined in Section 2 below), and (ii) the non-exclusive right to conduct geophysical, geological, or seismic surveys on, over, under, through, and across the Leased Premises. Lessor expressly reserves the right to grant third parties the same non-exclusive rights listed in Subsection 1.(ii) as long as such third party activities do not unreasonably interfere with Lessee's activities on the Leased Premises. Lessee takes this Lease subject to all encumbrances and agreements of record, including but not limited to surface agreements, commercial leases, rights of way, easements, geophysical and geochemical exploration permits, existing as of the Effective Date.
2. **TERM.** This Lease commences on and will be effective for three (3) years from the Effective Date (the "Primary Term"), and, unless otherwise terminated under the provisions in this Lease, will remain in effect either (i) as long thereafter as Produced Substances are produced in Paying Quantities from the land described below (the "Leased Premises"), or (ii) this Lease is otherwise maintained in effect by the provisions herein:

Part/Section	Block	Grantee	Acres	County
		State of Texas		

3. **ROYALTY.** Lessee will pay or cause to be paid to Lessor a monetary royalty payment of [\_\_\_\_\_] of the Market Value of Gross Production of all Produced Substances. Monetary royalties are the default form of royalty payment due under this Lease. Lessor has the right, at Lessor's sole election, to take its royalty share in kind pursuant to Section 3.c. below. Royalties are due to Lessor free of any and all deductions and will never bear or be charged with any Costs or Expenses, either directly or indirectly, and whether such charges are characterized as production or post-production charges. If a contract for the sale or disposition of Produced Substances includes reductions or charges for any Costs or Expenses, including field deductions for lost product or line losses, then such deductions will be added back to the volume on which royalty payment calculations will be made to Lessor. Lessor and Lessee agree that the foregoing provision is given full effect, is not to be construed as "surplusage," and that the court's holding in *Heritage Resources, Inc. v. Nationsbank*, 939 S.W.2d 118 (Tex. 1996) will have no application to the terms and provisions of this Lease. For the further avoidance of doubt, Lessor and Lessee agree that the royalty payments due to Lessor under this Lease

will bear neither production costs nor post-production costs under any circumstances and regardless of whether the royalty is delivered as a monetary payment or delivered in-kind to Lessor.

- a. **KEEP WHOLE**. If Gas produced from the Leased Premises is processed for liquefiable hydrocarbons prior to sale, royalty payments will be calculated using the higher of the value of (i) Gross Production as though the Gas had not been processed, or (ii) the dollar amount equal to the total of the consideration received for the sale of such liquefiable hydrocarbons plus the total consideration received for the sale of all residue gas, with all Costs and Expenses other than depreciation added back to the sale prices for both liquefiable hydrocarbons and residue gas.
- b. **INJECTIONS; RECYCLED GAS**. Lessee may not inject any substance into the subsurface of the Leased Premises without Lessor's prior written consent, including injections related to gas lift operations or recycled gas. If Lessee is granted permission to inject gas into a subsurface formation, no royalty will be due on the injected gas until it is produced and sold.
- c. **ROYALTY IN KIND**. Lessor may elect to take all or any part of its royalty in kind at any time by giving Lessee sixty (60) days written notice of such election. Lessor will specify the point of delivery for Produced Substances, which may be at the wellhead, at the Oil and Gas separator, into a pipeline connected at the well, at the location Lessee sells its production, or at another location mutually acceptable to Lessor and Lessee. Lessee will bear to the point of delivery all Costs and Expenses related to the Produced Substances delivered to Lessor. Lessor's election to take its royalty in kind will not modify or limit Lessee's duty to pay monetary royalties as provided herein or to market Produced Substances. If Lessor elects to take its royalty in kind, Lessor and Lessee agree to effectuate any additional agreements necessary and useful including, but not limited to, a gas balancing agreement.
- d. **ROYALTY ON CONTRACT SETTLEMENTS**. Lessee will pay Lessor a percentage equal to the royalty rate set forth in this Section 3 of all monetary settlements received by Lessee relating to the marketing, pricing, or taking of Produced Substances.
- e. **COMMINGLING**: Lessee must obtain prior written permission from Lessor before commingling Produced Substances from the Leased Premises with production from any other lease or unit into (i) a common manifold or separator, (ii) common storage, or (iii) a common gathering system or pipeline or to use 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 entity.
- f. **METERING**: Lessee agrees that any hydrocarbons in liquid form and any gas produced from the Leased Premises will be measured separately before the liquid hydrocarbons or gas leave the Leased Premises. Lessee will 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.

4. **PRE-PAID DELAY RENTALS**. In accordance with the Directives, Lessee paid to Lessor a payment for delay rentals prior to execution of this Lease. For the avoidance of doubt, pre-paid delay rentals will not be refunded for any reason.

## 5. PAYMENTS, CORRESPONDENCE, AND NOTICES TO LESSOR.

- a. MONETARY PAYMENT TERMS. Monetary payments must be paid to the Lessor in accordance with the Rules in effect at the time payments are due. As of the Effective Date, the Rules specify that: (i) payments must be made to the Board of Regents of the University of Texas System; (ii) royalties due on oil are due on or before the 5<sup>th</sup> day of the second month following production (e.g., royalties on oil produced in January must be paid on or before March 5<sup>th</sup>); and (iii) royalties on gas are due on or before the 15<sup>th</sup> day of the second month following production (e.g., royalties due on gas produced in January must be paid on or before March 15<sup>th</sup>). All payments must be directed to the following address, or to any other address specified by Lessor in writing:

UT System Board of Regents  
c/o University Lands  
Attention: Accounting Manager  
P.O. Box 553  
Midland, Texas 79702-0553

Payments submitted electronically must be delivered by electronic funds transfer to the proper account with the Comptroller of the State of Texas, pursuant to written instructions and designation of the Lessor.

- b. FAILURE TO MAKE TIMELY PAYMENTS; PENALTIES AND INTEREST. Timely and proper payment of royalties is a material requirement of this Lease. Late payments are subject to penalties and interest as provided by the Rules in effect on the date such payments are due. Lessor's rights to collect penalties and interest are in addition to its rights to pursue other remedies at law or in equity.
- c. NOTICES AND CORRESPONDENCE TO LESSEE. Notices and correspondence to Lessee will be sent to the address shown on the lease bid submitted to Lessor, or such other U.S. mail or electronic mail address provided by Lessee to Lessor in writing. All changes of address must specifically reference this Lease and the University Lands Lease Number.

## 6. DATA REQUIREMENTS.

- a. DIRECTIVES AND REGULATORY INFORMATION. Lessee will provide records, information, applicable contracts, and all other materials to Lessor as provided in the Reporting Procedures, the Rules, and other Directives as applicable. Lessee will also provide to Lessor via electronic mail to [ogregulatory@utsystem.edu](mailto:ogregulatory@utsystem.edu) copies of all correspondence and other information from the Railroad Commission as required by the Rules.
- b. OTHER DATA OBLIGATIONS. Upon written notice from Lessor, Lessee will promptly and timely provide Lessor any data and information related to all of Lessee's operations and activities under this Lease, without limitation. Lessor's notice may be sent via electronic mail and will include a description of the (i) data required, (ii) the format, form, and method for delivery of the data to Lessor, and (iii) the date by which Lessee must comply with Lessor's data request.
- c. RIGHT TO AUDIT. Lessor and its Representatives have the right to examine, make copies of, and extract any information from Lessee's books, records, accounts, and agreements related to the Leased Premises, and all operations or production on or from the Leased Premises.
- d. ROYALTY PAYMENT REPORT. Not more than once every twelve (12) months, upon Lessor's written request, Lessee will promptly provide to Lessor a report detailing the amounts, dates, and calculations of all royalties paid under this Lease. Lessor may elect to have such report and its source information audited to determine the accuracy of the report. If Lessor identifies an error in royalties paid, Lessor will notify Lessee in writing of the error, and Lessee will have a period of fifteen (15) calendar days from receipt of the notice to (i) remit all previously unpaid royalties to Lessor, plus interest as specified in the Rules, and (ii) reimburse Lessor for all costs and expenses associated with the audit.
- e. MATERIALITY; CONFIDENTIALITY. Lessee's obligations to provide data and information under this Lease are material, and failure to comply these provisions may result in monetary or other penalties, including

default of this Lease after receipt of the notice detailed in Section 14.b. below. Lessor will protect and hold all information and data provided by Lessee pursuant to this Section 6 and this Lease in the strictest confidence as required by Texas and federal law.

**7. OPERATIONS, DRILLING OPERATIONS, AND REWORKING OPERATIONS.**

- a. OPERATIONS. The term "Operations" as used in this Lease means only (i) the production of oil, gas, or other hydrocarbons in Paying Quantities, (ii) Drilling Operations (as hereafter defined), or (iii) Reworking Operations (as hereafter defined).
- b. DRILLING OPERATIONS. The term "Drilling Operations" means the actual drilling of an oil or gas well, together with work in the hole necessary to properly complete or abandon the oil or gas well, conducted with due diligence and in a good and workmanlike manner. Drilling Operations will be deemed to have commenced when a derrick, a rig, and machinery capable of drilling an oil or gas well to a depth sufficient to test a permitted objective have been erected, and when such well has been spudded-in and the rotary bit is rotating under power. Sidetracking, re-entering, reworking, recompletion, plugging back, or repairing an existing oil or gas well will not constitute Drilling Operations. Drilling Operations will be deemed to have been completed (whether as a dry hole or as a producing oil or gas well) on the earliest of the following dates: (i) the date on which the initial potential test is run; (ii) the date on which a dry hole is plugged; (iii) the date thirty (30) days after the date on which the total depth has been reached in Drilling Operations; (iv) the date certified to the Railroad Commission of Texas as the date an oil or gas well has been completed as a producing oil or gas well; or (v) the date the completion rig moves off location.
- c. REWORKING OPERATIONS. The term "Reworking Operations" means actual work in the hole of an oil or gas well previously completed as a producer that is related to the cause of cessation of production or made in an attempt to recomplete or repair a well to return it to production or to enhance production, performed with reasonable diligence in a good and workmanlike manner. Reworking Operations does not include swabbing of an oil or gas well or applying soap sticks or other chemical treatment to increase or restore production.

**8. PARTIAL TERMINATION, CONTINUOUS DRILLING OPERATIONS, AND PRODUCTION ACREAGE.**

Upon expiration of the Primary Term, or upon cessation of Continuous Drilling Operations, whichever is later, this Lease will terminate as to all lands and depths except as to Production Acreage assigned to wells then producing in Paying Quantities located on the Leased Premises or lands properly pooled therewith, as set forth in this Section 8.

- a. CONTINUOUS DRILLING OPERATIONS. Unless otherwise agreed in writing by Lessor, Lessee will be considered to be engaged in "Continuous Drilling Operations" at the end of the Primary Term for purposes of this Section 8 if Lessee is engaged in Drilling Operations on the Leased Premises or lands pooled therewith at the end of the Primary Term, or if Lessee has completed or abandoned a well within ninety (90) days prior to the end of the Primary Term; and Lessee will be deemed to be engaged in Continuous Drilling Operations for as long thereafter as Lessee conducts Drilling Operations on the Leased Premises or lands pooled therewith with due diligence and with intervals of not more than ninety (90) days between the date of rig release of one well and the date of commencement of actual drilling of the next well. If Lessee is engaged in Continuous Drilling Operations at the end of the Primary Term, then such Continuous Drilling Operations will be deemed to have ceased when Lessee fails to commence Drilling Operations within ninety (90) days after the rig release of the preceding well, and this Lease will terminate, except as to Production Acreage assigned to wells then producing in Paying Quantities located on the Leased Premises or lands properly pooled therewith, as provided in this Section 8.
- b. PRODUCTION ACREAGE. "Production Acreage," for purposes of this Lease, is a designated area of land around an oil or gas well containing at least the minimum amount of acreage necessary to obtain from the Railroad Commission a drilling permit for a well under the rules applicable to the field from which such well is producing, and limited in depth to one hundred (100') feet below the deepest commercially producing perforations at which such oil or gas well is then completed as a well capable of producing Oil and/or Gas in

Paying Quantities from the Production Acreage, as demonstrated by documentation provided by Lessee at the time the Production Acreage is determined.

- c. MAXIMUM SIZE OF PRODUCTION ACREAGE. No Production Acreage assigned to any well may exceed the following sizes without Lessor's prior written consent:
- i. If the well is classified as a vertical oil well by the Railroad Commission, the maximum size of the Production Acreage will be forty (40) acres, limited to the depths set forth herein.
  - ii. If the well is classified as a vertical gas well by the Railroad Commission, the maximum size of the Production Acreage will be one hundred-sixty (160) acres, limited to the depths set forth herein.
  - iii. If the well is classified as a horizontal well (whether oil or gas) under the Rules and Regulations of the Railroad Commission then in effect, the maximum size of the Production Acreage will be the greater of forty (40) acres or the amount of acreage calculated using the following formula:  $[0.032 \times L = A]$ , where L = the length (in feet) of the horizontal lateral component of the well from the first take point to the last take point, and A = the area in acres contained in the Production Acreage, provided that, if A is not evenly divisible by the number 20, A will be rounded up to the next number divisible by 20.
- d. SHALLOW DEVELOPMENT IN PRODUCTION ACREAGE. Unless otherwise agreed in writing by Lessor, on or before the date that is three (3) years after the expiration of the Primary Term, Lessee will commence Drilling Operations on three (3) oil or gas wells on the Production Acreage targeting development of the "Shallow Rights," which means, for the purposes of this Lease, all zones from the surface down to one hundred feet (100') above the top of the stratigraphic equivalent of the deepest formation producing in Paying Quantities on the Leased Premises at the end of the Primary Term. Thereafter, Lessee must commence an additional three (3) oil or gas wells targeting the Shallow Rights during each successive twelve (12) month period until Lessee fully develops the Shallow Rights pursuant to Railroad Commission rules. If Lessee fails to fulfill the Shallow Rights development obligations set forth in this Section 8.d., the Lease will terminate as to those depths and acreage not included in the Production Acreage, Lessee will prepare and deliver to Lessor a Partial Release of Lease, and upon Lessor's approval of such document, Lessee will execute and file the Partial Release of Lease in the applicable county of record to effectuate the release of all acreage and depths not earned under this Lease at that time, pursuant to the terms set forth in this Section 8. Lessee must provide a copy of the recorded release documents within forty-five (45) days of receipt of Lessor's approval. For clarification, the size and boundaries of Production Acreage for each oil or gas well drilled in the Shallow Rights pursuant to this Section 8.d will be determined according to Sections 8.b and 8.c of this Lease.
- e. DESIGNATION AND CONFIGURATION OF PRODUCTION ACREAGE; RECORDABLE RELEASES. Upon termination of this Lease as to any portion of the Leased Premises, Lessee will present to Lessor for Lessor's approval a proposed designation of Production Acreage for each well, which must be delivered in writing (electronic mail is acceptable) to Lessor along with a preliminary diagram of the proposed Production Acreage and the designated depths to be released. Lessee must take into consideration the productive limits of the producing interval and the configuration of the Leased Premises, and in all circumstances, Lessee will ensure that the acreage assigned to the Production Acreage will be as close as possible to the form of a square or rectangle. Lessee will make every effort when designating Production Acreage to avoid small, irregularly shaped, irregularly stranded, or unusable portions of the Leased Premises, or portions not contiguous with other released portions. Production Acreage formed around wells producing from different zones may overlap, and will overlap when necessary to comply with the requirements of this Section 8.e. If all or a portion of the Leased Premises is included in a pooled unit, then for purposes of this Section 8.e., all the lands within the pooled unit will be considered a part of the Leased Premises, and the size and configuration of the pooled unit must conform to the requirements of this Section 8.e. for Production Acreage. Upon receipt of Lessor's approval of the configuration of a Production Acreage, Lessee will record in the appropriate county of record a "Partial Release of Lease" document and provide a copy of the recorded release document within forty-five (45) days of receipt of Lessor's approval.

- f. MAINTENANCE OF LEASE AFTER DESIGNATION OF PRODUCTION ACREAGE. This Lease may be held in force after the termination of the Primary Term or cessation of Continuous Drilling Operations as to acreage and depths included within the Production Acreage only by production in Paying Quantities, Operations, or Reworking Operations conducted on such Production Acreage, or lands pooled therewith, with no cessation of Operations or Reworking Operations of more than sixty (60) consecutive days. Production, Operations, and Reworking Operations on Production Acreage will maintain this Lease only as to the acreage and depths within the Production Acreage where the operation occurs.
- g. PARTIAL RELEASES. Lessee has the right to release lands subject to this Lease and will subsequently be relieved and released only from those obligations accruing after the effective date of the release, provided that (i) Lessee may not release any portion of this Lease included in a pooled unit as long as Operations or Reworking Operations are being conducted on such unit, and (ii) any such partial release must release all depths in lands released. Lessee must notify Lessor in writing of its intent to release lands pursuant to this Section 8.g. and must record appropriate releases and provide certified copies of such releases to Lessor within forty-five (45) days of Lessee's written notice under this Section 8.g.
- h. SHUT-IN ROYALTIES. If a well located on the Leased Premises is capable of producing gas, or gas and condensate, in Paying Quantities, but the well is not produced for lack of a satisfactory market, Lessee may maintain this Lease in full force and effect by paying to Lessor a payment in the amount set forth in the Rules for shut-in royalties at the time such payment is made, with the first such payment to be made within thirty (30) days after the date the well is shut in or the date this Lease ceases to be in force by any other provision, whichever is later. Subsequent shut-in royalty payments must be made annually on the anniversary date of the first payment. Payment of a shut-in royalty after the expiration or other termination of this Lease will not revive or extend this Lease. As long as shut-in royalty payments are made to Lessor, this Lease will be deemed to be producing in Paying Quantities. However, this Lease may not be maintained solely by the payment of shut-in royalties for more than two (2) years in the aggregate.
- i. POOLING; ALLOCATION. Without Lessor's prior written consent, which may be granted or withheld in Lessor's sole discretion, Lessee is expressly prohibited from pooling or unitizing any part of the Leased Premises with any other leasehold or mineral interest for the exploration, development and production of any Produced Substance. If a well is drilled across the Leased Premises and traverses leases or units off the Leased Premises, Lessee must obtain a written agreement with Lessor specifying the allocation of the production of Lessor's Produced Substances from that well. Further, no part of any well may traverse the Leased Premises except for the purpose of producing Produced Substances without Lessor's prior written consent, which may be granted or withheld in Lessor's sole discretion.

## **9. STANDARD OF CARE; DUTIES OF OPERATOR.**

- a. DIRECTIVES. Lessee will conduct all Operations on the Leased Premises in compliance with the Directives.
- b. STANDARD OF CARE. Lessee owes to Lessor the duties of a reasonably prudent operator in the (i) development, operation, production, and marketing of Oil and Gas from the Leased Premises, (ii) reduction of underground or above ground waste of Produced Substances, including all reasonable attempts to avoid and reduce physical waste, flaring, venting of Gas, or emissions produced from the Leased Premises, (iii) plugging and abandoning of Oil and Gas wells on the Leased Premises, and (iv) restoration of the Leased Premises to as close as possible to the condition it was in before any operations or activities were commenced under this Lease. Production of any one Produced Substance will not relieve Lessee of its obligation to develop and produce any other Produced Substance covered by this Lease which can be produced from the Leased Premises in Paying Quantities.
- c. DUTY TO PREVENT DRAINAGE. Lessee will obtain a Railroad Commission Rule 37 or Rule 38 exemption to prevent drainage of the Leased Premises, and has an affirmative duty to drill an offset well to protect the Leased Premises against drainage as would a reasonably prudent operator under the same or similar circumstances. Without limiting the distance within which a well will be considered as drainage from the

Leased Premises, Lessee expressly agrees that any well located within one thousand (1,000) feet of the Leased Premises will be presumed to be draining the Leased Premises. Lessee may rebut this presumption only with evidence acceptable to Lessor, and conclusions concerning will be made by Lessor in Lessor's sole and exclusive discretion.

**10. SURFACE USE PROVISIONS; CULTURAL RESOURCES; ENVIRONMENTAL OBLIGATIONS; USE OF WATER, CALICHE, SAND, AND GRAVEL.**

- a. DIRECTIVES; RATE AND DAMAGE SCHEDULE; DISTANCE FROM BUILDINGS; GROUNDWATER MANAGEMENT PLAN. Lessee must comply at all times with all Directives related to surface operations on the Leased Premises. All operations conducted on the surface of the Leased Premises will be subject to payments and rates as listed in the then-current Rate and Damage Schedule. Lessee will not drill a well or install any facilities within three hundred (300') feet of any residence, barn, or other facilities without Lessor's prior written consent. Lessee's use of water from PUF lands must specifically comply with the then-current Groundwater Management Plan.
- b. LESSEE'S SURFACE ACCESS. Except as otherwise expressly provided in this Lease and the Directives, Lessee may use only so much of the surface as reasonably necessary to exercise the rights and interests granted by this Lease. Lessee may lay and maintain gathering lines, erect and maintain telephone and utility lines, and install other appurtenances and equipment necessary for the operation of Oil and Gas wells on the Leased Premises only as designated or approved by Lessor, as set forth in the Surface Field Manual. Notwithstanding the termination of this Lease as to a portion of the Leased Premises, Lessee will retain the rights of ingress and egress from the Leased Premises still subject to this Lease (the "Retained Lands") for all purposes described and allowed hereunder, together with easements, rights-of-way, roads, pipelines, and other facilities on, over, and across all the Leased Premises covered by this Lease, for access to and from the Retained Lands, and for the gathering or transportation of Produced Substances, as approved by Lessor and in compliance with the Directives.
- c. LESSOR'S SURFACE ACCESS. Lessor and its Representatives will have the full right of ingress and egress and right of way over the Leased Premises for any and all purposes which Lessor may consider necessary or advisable at all times.
- d. SURFACE DAMAGES. Lessee must repair, restore, and pay for all damages resulting from Lessee's, its representatives', agents', subcontractors', designees', assigns', and successors' activities under this Lease, including without limitation damages to real and personal property, water wells, improvements, livestock, and crops on the Leased Premises or adjacent lands owned or controlled by Lessor, regardless of the cause of such damage, pursuant to the then-current Rate and Damage Schedule. Lessee acknowledges that the cost of such repairs or damages contemplated by this Section or any other provision of this Lease requiring restoration or repair may exceed the fair market value of the property damaged, and the cost of such damages and repairs will not be limited by fair market value. By executing this Lease, Lessee agrees to promptly complete all required repairs, and no release, forfeiture, or termination of this Lease will relieve Lessee from its obligations under this Lease or pursuant to applicable law, including the obligation to plug all wells and clean and restore the Leased Premises.
- e. MAINTENANCE OF WELL SITES AND IDENTIFICATION MARKERS.
  - i. Lessee will build and maintain necessary and appropriate fences capable of turning livestock around its facilities on the Leased Premises and will take all necessary precautions to protect livestock against loss, damage, or injury.
  - ii. Lessee will erect and maintain all signage, tags, plates, and other identification markers on the Leased Premises in accordance with the Directives and Railroad Commission requirements.
  - iii. Any lines, including but not limited to, electric, water, and oil and gas transportation lines, located on the Leased Premises must be buried to a sufficient depth to allow the use of deep plowing equipment

for agricultural purposes. As such, Lessee must cover the top of all lines by at least thirty-six (36) inches of soil. Any rock brought to the surface in connection with laying lines will be placed back in the ditch below deep plowing depth. Large amounts of rock that could interfere with the cultivation of the soil will be promptly removed from the Leased Premises by Lessee. Lessee will record in the county records where the Leased Premises are located a survey of all "as-built" electric, communications, water, and oil and gas lines located on the Leased Premises and will provide a recorded copy of each document to Lessor within thirty (30) days of recording.

- iv. Lessee agrees to maintain seals on all meters and tank batteries, require Oil transport vehicles to maintain trip tickets, and exercise the highest degree of care and all reasonable safeguards, as a reasonably prudent operator, to prevent the theft or loss of Oil and Gas produced from this Lease.
  - v. Unless otherwise agreed by Lessor, within ninety (90) days from completion of a well as a producer, or the conclusion of operations on a dry hole, weather permitting, (i) all pits will be emptied and filled in, (ii) all surface areas, including roads, will be filled and leveled, (iii) all caliche not needed for a base for a tank battery, pumping unit, roadway, or other equipment, will be removed and placed back in the pit from which it was initially excavated (if on the Leased Premises), unless specified otherwise by Lessor, (iv) all restored areas will be reseeded under the direction of Lessor, and (v) the surface of the applicable Leased Premises will be restored by Lessee to as close to the condition it was in before any operations were commenced as is reasonably practicable.
  - vi. Upon the expiration or termination of this Lease, Lessee will, unless otherwise instructed in writing by Lessor, (i) plug all wells on the Leased Premises, (ii) remove all equipment, including pipelines and utilities, (iii) drain, fill, and level all pits, and (iv) restore the surface of the Leased Premises to as close to the condition it was in before any operations were commenced. Failure by Lessee to fulfill these obligations within one hundred-twenty (120) days after expiration or termination of this Lease will result in monetary or other penalties as allowed under the Directives.
- f. CULTURAL RESOURCES. Lessee will comply with the Antiquities Code (Texas Natural Resources Code, Chapter 191 or its successor statute) and applicable rules promulgated thereunder by the Texas Historical Commission or its successor. Lessee will undertake its activities on the Leased Premises in a manner consistent with public policy relating to the location and preservation of archeological sites and other cultural resources in, on, or under public lands, including the Leased Premises. Lessee will not remove and must use the highest degree of care and all reasonable safeguards to prevent the taking, alteration, damage, destruction, salvage, or excavation of cultural resources and/or landmarks on the Leased Premises. Upon discovery of an archeological site, Lessee will immediately give written notice of such discovery to Lessor and to the Texas Antiquities Committee, as set out in the Texas Historical Commission's rules. Neither Lessee nor its Representatives will have any right, title, or interest in or to any archaeological articles, objects, or artifacts, or other cultural resources located or discovered on the Leased Premises.
- g. POLLUTION MANAGEMENT AND REDUCTION; HAZARDOUS MATERIALS. Lessee will use the highest degree of care and all necessary safeguards to prevent contamination or pollution of any environmental medium, including soil, surface water, 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. If contamination or pollution occurs, Lessee will notify Lessor immediately and provide all internal and external reports Lessee prepares related to such contamination and pollution. Lessee will not bring or permit to remain on the Leased Premises any explosives, toxic materials, or substances regulated as hazardous wastes, hazardous materials, hazardous substances, or toxic substances under any federal, state, or local law or regulation (collectively, "Hazardous Materials"), except products commonly used in connection with oil and gas exploration and development operations and stored in a lawful manner and in lawful quantities. To the satisfaction of Lessor, Lessee will 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 resulting from Lessee's operations on the Leased Premises. Burial of Hazardous



Materials is explicitly prohibited. Lessee's obligations in this Section 10.g. will survive the expiration or termination of this Lease. Lessee will install rig and other oilfield lighting in a manner that minimizes light pollution as much as reasonably possible and will use best industry practices to capture and minimize air pollution and emissions. Unless otherwise approved by Lessor, Lessee will comply with all environmental laws, rules, and regulations, regardless of any legal challenges, until the appropriate legal authority amends or changes the regulation or a court of competent jurisdiction has issued a final decision on the matter in question.

- h. SURFACE WATER. Lessor's express written consent is required for Lessee use surface water found on the Leased Premises or any property owned or controlled by the Lessor or any water from water wells or stock tanks controlled by the Lessor or its surface tenants.
- i. SUBSURFACE WATER, CALICHE, GRAVEL, AND SAND.
  - i. Lessee must promptly provide to Lessor a written estimate of Lessee's subsurface water, caliche, gravel, and sand needs upon Lessor's written request. Lessee will use such products from the Leased Premises or other lands owned by Lessor upon receipt of Lessor's written approval and if the products are available PUF lands, and Lessee will pay the prices for such substances as listed in the Rate and Damage Schedule at the time the substances are used or produced. Lessee may not acquire or use water, caliche, gravel, or sand from non-PUF lands without the prior written consent of Lessor, which may be granted or withheld in Lessor's sole discretion.
  - ii. Without Lessor's prior written consent, subsurface water found and produced or impounded by Lessee on the Leased Premises for drilling, completion, and construction operations may only be used in connection with primary production from the Leased Premises.

#### **11. RELEASE AND INDEMNITY.**

- a. Lessee assumes all risks and liabilities of any kind resulting in any manner, directly or indirectly, from Lessee's operations on the Leased Premises and agrees to keep the Leased Premises duly and fully protected from any violations thereto, and against liens of every character arising from its operations and hereby indemnifies, holds harmless, releases and discharges Lessor, the State of Texas, University Lands, the Board of Regents, the University of Texas System, the officers and board members of University Lands, and each of their respective Representatives, regents, heirs, devisees, successors and assigns (the "Indemnified Parties") from all actions and causes of action of every nature, or other harm, including environmental harm, for which recovery of damages is sought, including all losses and expenses which arise out of, are incidental to, or result from, the operations of or on behalf of Lessee on the Leased Premises, or that may arise out of Lessee's breach of any of the terms or provisions of this Lease, or by any other negligent act or omission of Lessee.
- b. Further, Lessee agrees to be liable for, exonerate, indemnify, defend, and hold harmless the Indemnified Parties 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, including attorneys' fees and other legal expenses, including those (i) 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, (ii) arising from or in any way related to Lessee's operations or any other of Lessee's activities on the Leased Premises, (iii) arising from Lessee's use of the surface of the Leased Premises, and (iv) 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 Representatives, guests, or invitees.
- c. Each assignee of this Lease, or an interest therein, agrees to be liable for, exonerate, indemnify, defend, and hold harmless the Indemnified Parties in the same manner as provided above.
- d. **THE COSTS FOR WHICH THE INDEMNIFIED PARTIES ARE INDEMNIFIED UNDER THIS LEASE WILL ALSO INCLUDE ANY COST OR EXPENSE ARISING OUT OF, INCIDENTAL TO, OR RESULTING FROM ANY THEORY OF STRICT LIABILITY OR FROM ANY SOLE, JOINT OR**

CONCURRENT NEGLIGENT ACT OR OMISSION OF THE INDEMNIFIED PARTIES, WHETHER SAID ACT OR OMISSION IS THE PROXIMATE CAUSE OF INJURY OR NOT (EXCEPT AGAINST LOSS OR LIABILITY FOR DAMAGE THAT IS CAUSED BY OR RESULTS FROM THE WILLFUL MISCONDUCT OF THE INDEMNIFIED PARTIES OR AN INDIVIDUAL CONTRACTOR DIRECTLY RESPONSIBLE TO THE INDEMNIFIED PARTIES).

## **12. INSURANCE.**

- a. In accordance with the Directives, Lessee will ensure that Lessee and any person acting on Lessee's behalf under this Lease will carry the required insurance with one or more insurance carriers licensed by the Texas Department of Insurance in the amounts required by Lessor.
- b. By January 1 of each calendar year, Lessee will deliver to University Lands Certificates of Insurance evidencing Lessee's insurance coverage. For those policies of (i) Commercial General Liability and Umbrella Liability Insurance and (ii) Business Auto and Umbrella Liability Insurance, the policies will name the Lessor as additional insureds with regard to the Leased Premises, will reflect that Lessor will receive twenty (20) days prior written notice of cancellation or material change Lessee's insurance coverage, and will reflect that the insurer has waived any right of subrogation against the Lessor.

**13. LIEN.** By acceptance of this Lease, Lessee grants to the Board of Regents an express contractual lien on and security interest in all Produced Substances in and extracted from the area covered by the Lease, all proceeds which may accrue to Lessee from the sale of the Produced Substances, whether the proceeds are held by Lessee or another person, and all fixtures on and improvements to the Leased Premises used in connection with the production or processing of the Produced Substances to secure the payment of royalties and other amounts due or to become due under this Lease or the TEC and to secure payment of damages or loss that the state may suffer by reason of Lessee's breach of a covenant or condition of this Lease, whether express or implied.

## **14. BREACH; DEFAULT; FORFEITURE.**

- a. Lessor's acceptance of any payments under this Lease will never constitute or be deemed to be (i) a ratification, renewal, or amendment of this Lease, (ii) a waiver of the rights granted to Lessor, or the obligations imposed upon Lessee, or (iii) an estoppel against Lessor preventing the enforcement of Lessor's rights or Lessee's obligations hereunder or from seeking damages for Lessee's breach of the Lease. Lessor's agreement to accept royalty payments directly from any purchaser will not affect Lessee's obligations to pay royalties to Lessor under this Lease. No instrument executed by Lessor will be effective to constitute a ratification, renewal, extension, or amendment of this Lease unless the instrument is clearly titled to indicate its purpose and intent.
- b. If Lessee violates, fails to perform, or breaches any term or covenant in this Lease, Lessor will notify Lessee in writing of the violation, failure, or breach. Lessee will have thirty (30) calendar days from receipt of Lessor's written notice, in which to remedy the violation, failure, or breach. If Lessee disputes any claim by Lessor of a breach or default, Lessee will notify Lessor of its dispute as soon as possible, but not later than fifteen (15) calendar days after receipt of Lessor's claim, and then Lessor may initiate any legal action available to Lessor. The receipt of such notice will be a condition precedent to Lessor's right to bring an action for any cause, and no such action will be brought until the expiration of the thirty (30) day notice period to Lessee. Lessor may remedy any type of breach or default if Lessee fails to do so within the thirty (30) day period without further notice to Lessee. In addition to any other remedies available to Lessor, Lessor may elect to remedy any breach or default with contemporaneous written notice to Lessee if immediate action by Lessor would mitigate or prevent further, avoidable damages or if Lessee's breach or default involves any environmental or regulatory issues. Under those circumstances, Lessee must pay all damages, costs, and expenses incurred by Lessor, including, but not limited to attorney's fees, within ten (10) calendar days of Lessor's presentation to Lessee of receipts related to such actions. If Lessor remedies a claimed breach or default to mitigate damages or to remedy environmental or regulatory issues, Lessee must pay all costs presented by Lessor, and Lessee's payment will only be refunded if Lessee prevails in its dispute of the underlying claim. If Lessor pursues

litigation and prevails in its claim of breach or default, Lessee must pay all costs and expenses incurred by Lessor in enforcing the terms of this Lease, including attorney's fees and interest on all money expended by Lessor to remedy such breach or default (if applicable) at the highest rate allowed by the Directives.

- c. Under the Directives, this lease is subject to forfeiture for Lessee's failure to comply with any term of the lease. Once all or any portion of the Leased Premises has been forfeited by Lessee, it will immediately be available for offer in public lease sales.
- d. Nothing herein will be construed as waiving or preventing the automatic termination of this Lease by operation of law or by reason of any special limitation arising under this Lease, and Lessor may exercise all remedies available to Lessor to enforce or terminate this Lease, collect monetary payments due, or take any other action related to the Lease.

#### **15. ASSIGNMENTS; RELEASE.**

- a. The assignment or relinquishment of rights acquired under this Lease is governed by the Directives, and the TEC currently provides for assignment of this Lease without Lessor's consent. However, Lessee must notify Lessor of the assignment of all or any part of the Leased Premises to another party and must promptly provide recorded copies of assignments to Lessor within thirty (30) days of the assignment from Lessee to another party. Failure to notify Lessor of the assignment and to provide a recorded copy of the assignment to the assignee will result in monetary penalties and will also constitute a breach of this Lease.
- b. The assignment or relinquishment of the Leased Premises, or any part of the Leased Premises, will not relieve the Lessee of any obligations accrued under this Lease prior to such assignment or relinquishment, including plugging and abandonment liabilities, or impair any liens provided by law or this Lease.

**16. VENUE.** The venue for any suit 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, will be selected by Lessor in its sole discretion in a court of competent jurisdiction located in either Harris County, Texas, Travis County, Texas, or the county in which the Leased Premises are located.

#### **17. MISCELLANEOUS.**

- a. SUCCESSORS AND ASSIGNS. The covenants, conditions, liabilities, and obligations contained in this Lease will be binding upon the heirs, executors, administrators, successors, or assigns of Lessee.
- b. CONFLICTS.
  - i. If a conflict arises between the terms of this Lease and the terms of the Directives, the provisions of the Directives will control.
  - ii. If this Lease becomes subject to a pooling or drilling and development agreement, the terms of such pooling or drilling and development agreement will control over the terms of this Lease and will alter or amend the provisions of this Lease while the pooling or drilling and development agreements are active.
- c. SEVERABILITY. If any clause or provision of this Lease is invalid or unenforceable at any time under then-current laws, the remainder of this Lease will not be affected, and this Lease will be modified so that there will be added as a part of this Lease a legal, valid, and enforceable clause or provision as similar in terms as possible to the invalid or unenforceable clause or provision.
- d. CAPTIONS. The captions of the Sections of this Lease are for reference purposes only and will not affect the meaning or interpretation of this Lease.
- e. TIME OF ESSENCE. Time is of the essence in this Lease.

## 18. DEFINITIONS.

- a. “Affiliate” means any entity in which Lessee, or any parent company, subsidiary or Affiliate of Lessee, owns any interest, or over which Lessee or any parent company or Affiliate of Lessee exercises any degree of control; and any entity that owns an interest in Lessee, or which exercises any degree of control, directly or indirectly, over Lessee.
- b. “Board for Lease” refers to the Board for Lease of University Lands.
- c. “Board of Regents” means the Board of Regents of the University of Texas System.
- d. “Continuous Drilling Operations” is defined in Section 8.a. of this Lease.
- e. “Costs and Expenses” means all costs, whether related to the costs of production or incurred post-production, associated with Produced Substances on this Lease, including but not limited to (i) producing, manufacturing, gathering, storing, separating, treating, dehydrating, conditioning, compressing, processing, marketing, or transporting the Produced Substances, and (ii) the depreciation of any plant or other facility or facilities or equipment for processing or treating Produced Substances, 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.
- f. “Director” refers to the Chief Executive Officer of University Lands or other person identified by the Board of Regents as primarily responsible for the management of University Lands; as of the Effective Date, Mark A. Houser is the Director.
- g. “Directives” means, collectively, the then-current (i) applicable federal, state, county, and city laws; (ii) all rules and regulations of any local, state, or federal regulatory authority having jurisdiction; (iii) the TEC; (iv) the Rules; (v) the Field Manual; (vi) the Rate and Damage Schedule; (vii) the Reporting Procedures; and (viii) the Groundwater Management Plan.
- h. “Drilling Operations” is defined in Section 7.b. of this Lease.
- i. “Effective Date” is defined in the introductory paragraph of this Lease.
- j. “Gross Production” means all Produced Substances brought from underground up to and through the well head, and includes, but is not limited to, (i) all hydrocarbons produced in liquid form as oil or condensate at the wellhead 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 gas 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. Gross Production volumes of gaseous hydrocarbons must be adjusted and reported in MMBTUs.
- k. “Groundwater Management Plan” refers to the University Lands Groundwater Management Plan, as amended from time to time, a copy of which may be obtained from University Lands.
- l. “Field Manual” refers to the University Lands Surface Field Manual of Required Operating Procedures for Oil & Gas Leases, as amended from time to time, a copy of which may be obtained from University Lands.
- m. “Market Value” means the highest of (i) the prevailing market price for substances similar in type and characteristics to the Produced Substances in the general area, (ii) the proceeds of Lessee’s sale to an unaffiliated third party of the applicable Produced Substances, or (iii) the highest price paid to Lessee or an Affiliate of Lessee for substances similar in type and characteristics to the Produced Substances in the general area.
- n. “Leased Premises” is defined in Section 2 of this Lease.

- o. "Lessee" is defined in the introductory paragraph of this Lease.
- p. "Lessor" is defined in the introductory paragraph of this Lease.
- q. "Operations" is defined in Section 7.a. of this Lease.
- r. "Paying Quantities" means for an individual well that such well will be considered to be producing in "Paying Quantities" only if during the preceding six (6) month period, the income from the well exceeds the operating and marketing costs specifically attributable to that well.
- s. "Primary Term" is defined in Section 2 of this Lease.
- t. "Produced Substances" means oil, gas, casinghead gas, and by-products thereof, other hydrocarbons, sulphur, distillate, condensate, and other products separated or extracted from gas by use of oil and gas separators or conventional type or other equipment at least as efficient, and all other minerals produced and saved from the Leased Premises.
- u. "Production Acreage" is defined in Section 8.b. of this Lease.
- v. "Railroad Commission" means the Railroad Commission of Texas (or any successor agency).
- w. "Rate and Damage Schedule" means the University Lands Rate and Damage Schedule, published by the University of Texas System, a copy of which may be obtained from University Lands.
- x. "Regulatory Reporting Procedures" means the University Lands Oil & Gas Leases Required Regulatory, Reporting, and Compliance Procedures prepared and published by University Lands.
- y. "Representatives" means representatives, owners, members, designees, directors, officers, employees, consultants, contractors, subcontractors, financial advisors, counsel, accountants, and other agents, as applicable.
- z. "Retained Lands" is defined in Section 10.b. of this Lease.
- aa. "Reworking Operations" is defined in Section 7.c. of this Lease.
- bb. "Rules" means the rules promulgated by the Board of Regents for Lease of University Lands, as amended from time to time. A copy of the Rules may be obtained from University Lands.
- cc. "Shallow Rights" is defined in Section 8.d of this Lease.
- dd. "TEC" means Subchapter D, Chapter 66, Texas Education Code. Each reference to the TEC will refer to such subchapter, as amended from time to time, or any successor statutory provisions.
- ee. "University Lands" refers to the organization delegated the authority by the Board of Regents and the BFL to manage PUF Lands.

IN TESTIMONY WHEREOF, witness the signature of the Commissioner of the General Land Office of Texas under the Seal thereof to be effective on the date first written above.

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Commissioner, General Land Office of Texas