

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

**PAID UP OIL AND GAS LEASE
BETWEEN
THE TEXAS A&M UNIVERSITY SYSTEM
AND**

_____, 2014

Table of Contents

1. AWARD OF LEASE..... 1

2. PRIMARY TERM 2

3. STATUTORY AUTHORITY 2

4. PAYMENTS AND RECORDS TO GENERAL LAND OFFICE..... 2

5. RECORDS 3

6. PRE-PAID ANNUAL DELAY RENTALS 3

7. ROYALTY 3

8. ROYALTY PAYMENTS AND DIVISION ORDERS..... 5

9. ROYALTY IN-KIND..... 6

10. PROPORTIONATE REDUCTION..... 7

11. FIRST LIEN..... 7

12. TERMINATION..... 7

13. REINSTATEMENT AFTER TERMINATION 8

14. REMEDIES AND ATTORNEYS’ FEES OF TAMUS 8

15. RELINQUISHMENTS 8

16. ASSIGNMENTS..... 9

17. INDEMNIFICATION AND INSURANCE 9

18. CONTINUOUS DRILLING AND OBLIGATION TO FULLY DEVELOP 10

19. REWORKING EXTENSION; CESSATION OF PRODUCTION..... 11

20. PUGH CLAUSE 11

21. DRILLING AND PRODUCTION OPERATIONS 12

22. SEISMIC SURVEYING..... 14

23. LIQUID HYDROCARBON RECOVERY 14

24. UNDERGROUND STORAGE 15

25. WATER WELLS AND WATER-BEARING STRATA 15

26. CASING, EQUIPMENT, AND TAMUS’ RIGHTS IN WELLS AFTER
TERMINATION OF LEASE 16

27. LOGS, PLATS, RECORDS, POOLED UNIT DECLARATIONS AND ACCESS..... 16

28. LEASE SECURITY..... 16

29. DESIGNATION OF PRORATION UNITS..... 17

30. POOLING..... 17

31. SURFACE OPERATIONS..... 19

32.	SITE APPROVAL	21
33.	SITE RESERVATION	22
34.	DRILLING OPERATIONS PLAN	22
35.	MITIGATION REQUIREMENTS.....	23
36.	FORCE MAJEURE	25
37.	BINDING EFFECT	25
38.	DESIGNATION OF AUTHORIZED REPRESENTATIVE OF TAMUS	25
39.	AUTHORITY OF AGENTS	25
40.	NOTICE.....	26
41.	AMENDMENTS	26
42.	CALENDAR DAYS.....	26
43.	COUNTERPARTS	27

DRAFT

**THE TEXAS A&M UNIVERSITY SYSTEM
PAID UP OIL AND GAS LEASE
(State)**

1. AWARD OF LEASE

THE BOARD OF REGENTS OF THE TEXAS A&M UNIVERSITY SYSTEM (“TAMUS”), in consideration of the payment of a cash bonus by _____ (hereinafter “COMPANY”), the receipt of which is acknowledged, and of the royalties, covenants, stipulations, and conditions in this Lease agreed to be paid, observed, and performed by COMPANY, GRANTS, LEASES, AND LETS unto COMPANY, to prospect, drill for, and produce oil, gas, casinghead gas, distillate, and associated hydrocarbons, and constituent elements (including sulphur) that may be produced through a well bore (generally referred to herein as “oil and/or gas”), but not including coal, lignite, gravel, iron ore, caliche, sand, fissionable minerals or any other minerals, the following described land in Brazos County, Texas (the “LEASED PREMISES”):

See attached Exhibit “A”

INSOFAR AND ONLY INSOFAR as the _____ acres described in Exhibit “A” cover depths not currently held by production.

The LEASED PREMISES is deemed to contain _____ mineral acres for the purpose of calculating bonus, royalty and rental payments. COMPANY acknowledges that it has made, or had an adequate opportunity to make, an independent title search and examination of the mineral ownership and availability in the County and State where the LEASED PREMISES are located, and that it is satisfied as to the ownership and availability of the LEASED PREMISES. **THIS LEASE IS MADE AND ENTERED INTO BY TAMUS WITHOUT RECOURSE, COVENANT, REPRESENTATION, OR WARRANTY, EXPRESS OR IMPLIED, OF ANY KIND OR NATURE.** If it is later determined that TAMUS owns a mineral interest greater than the interest stated above, COMPANY shall promptly pay TAMUS all bonus and royalty thereon for the difference based upon the new acreage. But it is expressly agreed and understood between the parties that under no circumstances shall TAMUS ever be required to refund to COMPANY any portion of the consideration paid for this Lease in the event it is ever determined that TAMUS’ actual mineral ownership interest, or the availability of same, is less than that stated above.

If, during the Primary Term of this Lease or if within the period of six (6) months before this Lease was delivered by TAMUS to COMPANY, COMPANY obtains or obtained a lease from another undivided mineral interest owner or owners in the LEASED PREMISES or in land pooled with this Lease, which are on terms more favorable regarding bonus, or royalty, to the other undivided mineral owner or owners than those contained in this Lease, then TAMUS may secure the more favorable benefits on the basis of each individual benefit. COMPANY shall promptly pay the additional amounts or execute and deliver a lease amendment to TAMUS with the more favorable term or terms.

TAMUS expressly retains and reserves the concurrent right to grant third parties seismic, geophysical and geological permits and to enter into other agreements with third parties, which permits or agreements may allow such third parties to conduct geophysical, geological or seismic surveys on, over, under, through and across the LEASED PREMISES during the term of this Lease. Such seismic, geophysical or geological surveys shall not unreasonably interfere with **COMPANY**'s drilling or production activities on the LEASED PREMISES and all other rights granted pursuant to this Lease.

2. PRIMARY TERM

Subject to each of the conditions in this Lease, the term is three (3) years ("Primary Term") from the Effective Date (as defined), and as long as oil and gas, or either of them, is producing in paying quantities from the LEASED PREMISES, or from land with which the LEASED PREMISES is pooled, with royalties being timely and properly paid and operations being properly conducted; provided, however, the term of this Lease may be extended under the following conditions:

If **TAMUS** finds **COMPANY** has proceeded with diligence to protect the interests of the State of Texas, and there is a likelihood that oil and/or gas will be discovered on the LEASED PREMISES, upon written request of **COMPANY**, **TAMUS** may, by unanimous vote of the Board of Regents of **TAMUS**, extend this Lease for a period not to exceed three (3) years, conditioned upon **COMPANY** paying annual delay rentals as set forth in Section 6 of this Lease during the extended term, and upon any additional terms and conditions **TAMUS** may see fit and proper to demand. No such extension may be granted until the last thirty (30) days of the Primary Term of this Lease.

The term "production" or "producing" in "paying quantities" shall mean production in paying quantities. The term "paying quantities" shall mean production during any 3-month period that results in net income to the **COMPANY** after deduction of costs relative to the well or wells from which production is obtained. In addition, the parties agree that a producing well that produces less than an average of one (1) barrel of oil equivalent per day in any 3-month period shall be deemed to not be capable of producing in paying quantities. A "barrel of oil equivalent" means one 42-gallon barrel of crude oil, or 6,000 cubic feet of natural gas or a volume of gas with a minimum heating value of 6,000,000 British thermal units (6,000 Mbtu), whichever is greater.

3. STATUTORY AUTHORITY

This Lease is subject to the provisions of Subchapter D of Chapter 85, Subtitle D, Title 3, Texas Education Code, as amended and subject to all valid rules, regulations, and orders of any duly constituted State or federal regulatory agency having jurisdiction over the subject matter of this Lease.

4. PAYMENTS AND RECORDS TO GENERAL LAND OFFICE

Unless otherwise specifically stated herein, all royalties and other payments provided for in this Lease shall be paid to the Commissioner of the General Land Office in Austin, Texas, on or before the last day of each month for the preceding month during the term of this Lease. Pursuant to Texas Education Code § 85.66(a), such payment must be accompanied by a sworn statement of **COMPANY**'s CEO, manager, or other authorized agent, showing the gross amount of oil, gas, sulphur, mineral ore, and other minerals produced and saved since the last report, the amount of oil, gas, sulphur, mineral ore, and other minerals produced and sold off the LEASED PREMISES, and the market value of the oil, gas, sulphur, mineral ore, and other minerals, together with a copy of all daily gauges, or vats, tanks, gas meter readings, pipeline receipts, gas line receipts and other checks and memoranda of the amounts produced and put into pipelines, tanks, vats, or pool and gas lines, gas storage, other places of storage, and other means of transportation. **COMPANY** must simultaneously provide **TAMUS**' Office of General Counsel, attention: System Real Estate Office (hereinafter "System Real Estate Office") with photocopies of all papers filed with the General Land Office.

5. RECORDS

(a) Pursuant to Texas Education Code § 85.66(b), **COMPANY**'s books and accounts, receipts and discharges of all wells, tanks, vats, pools, meters, pipelines, and all contracts and other records pertaining to the production, transportation, sale, and marketing of oil, gas, sulphur, mineral ore, and other minerals shall at all times be subject to inspection and examination by any duly authorized representative of **TAMUS** including, but not limited to, the System Real Estate Office.

(b) Pursuant to Texas Education Code § 85.68, all surveys, files, records, copies of sale and lease contracts, and all other records pertaining to the sales and leases authorized by Subchapter D of Chapter 85, Subtitle D, Title 3, Texas Education Code, shall be filed in the General Land Office and constitute archives thereof.

6. PRE-PAID ANNUAL DELAY RENTALS

Upon execution and delivery of this Lease, **COMPANY** will pay the bonus, all other precatory fees, and pre-paid annual delay rentals of Fifty and No/100 Dollars (\$50.00) per acre of this Lease. Thereafter no delay rentals shall be required to be paid by **COMPANY** during the Primary Term of this Lease; however, **COMPANY** will be required to pay such annual delay rentals during any extension of the Primary Term.

7. ROYALTY

COMPANY agrees to pay or cause to be paid during the term of this Lease:

(a) As a royalty on oil, which is defined as including hydrocarbons produced in liquid form at the mouth of the well, and also all condensate, distillate, and other liquid hydrocarbons from oil or gas run through a separator or other equipment, twenty-five percent (25%) of the

“Market Value,” as defined below in Section 7(g), of the gross production thereof from the LEASED PREMISES.

(b) As a royalty on all gas, which is defined as all hydrocarbons and gaseous substances not defined as oil in Section 7(g) above, produced from any well and sold by **COMPANY**, or used, lost, flared or vented by **COMPANY**, twenty-five percent (25%) of the “Market Value,” as defined below in Section 7(g), of the gross production thereof from the LEASED PREMISES.

(c) As a royalty on all sulphur, twenty-five percent (25%) of the “Market Value,” as defined below in Section 7(g), of the gross production thereof from the LEASED PREMISES.

(d) On all production sold by **COMPANY** for the benefit of **TAMUS** under its royalty interest, **COMPANY**, its agents and/or assigns, remain jointly and severally liable to **TAMUS** for all payments due from such sale to purchasers. Nonpayment by any such purchaser of production will not relieve **COMPANY** of its obligation to pay the royalty interest in production sold.

(e) If, at the expiration of the Primary Term there is on the LEASED PREMISES a gas proration unit or units (“proration unit” as described in Section 29), including a pooled unit or units, capable of producing gas in paying quantities and such gas is not otherwise produced for lack of a suitable market and this Lease, as to such proration or pooled unit, is not otherwise being maintained in force and effect, **COMPANY** must pay as shut-in gas royalty, One Hundred and No/100 Dollars (\$100.00) for each acre within each pooled or proration unit capable of producing gas in paying quantities within sixty (60) days after **COMPANY** shuts in such pooled or proration unit or ceases to produce gas therefrom or within sixty (60) days after this Lease ceases to be otherwise maintained in force and effect; and if such shut-in royalty payment is made, this Lease, as to such pooled or proration unit or units, will be deemed a lease producing in paying quantities and such shut-in gas well royalty payment shall extend the term of this Lease for a period of one (1) year from the end of the Primary Term or, if after the Primary Term, from the first day of the month next succeeding the month in which such proration unit was shut in; and, thereafter, if no suitable market for such gas exists, **COMPANY** may extend this Lease as to such pooled or proration unit or units for one (1) additional and successive period by the payment of the shut-in gas royalty as provided herein. Notwithstanding the foregoing, shut-in royalty payments will not continue this Lease in force and effect as to any pooled or proration unit or units shut in for over two (2) consecutive or cumulative years at the expiration of which, this Lease, as to such pooled or proration unit or units, shall become null and void.

(f) **TAMUS** is an agency of the State of Texas and, as such, is exempt from severance and other taxes. **TAMUS**’ royalty will never bear or be chargeable with, either directly or indirectly, any tax or any part of production and post-production costs and expenses, including but not limited to costs of producing, gathering, storing, separating, dehydrating, compressing, transporting, processing, treating, marketing, pipelining, delivering or any other costs or expenses incurred between the wellhead and **COMPANY**’s point of delivery or sale of such share to a third party. If **COMPANY** (or purchaser contracted by **COMPANY** to purchase the production) fails to comply with the terms of this Section 7(f) and does deduct taxes, costs or

expenses from the value of **TAMUS'** production, **COMPANY** shall reimburse **TAMUS**: (i) the amount of such deductions made from the date first deducted, (ii) interest on such amount at a rate per annum equal to the lesser of the Wall Street Journal prime interest rate plus two percent (2%) or the highest interest rate then permitted by law, and (iii) a penalty for the greater of Twenty-Five and No/100 Dollars (\$25.00) or five percent (5%) of the amount owed. All such payments are due immediately upon receipt of notice of the improper deductions.

(g) "Market Value" shall mean the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of similar gravity and type in the general area, or the prevailing market price thereof in the general area, the proceeds of the sale thereof, or the highest value reasonably available to **COMPANY**, whichever is greater during the term of production and disposition. The proceeds of sale shall include the total value accruing to the **COMPANY** from the sale or use of the production, including proceeds and any other thing of value received by **COMPANY** or the operator. The term "Market Value" as defined and utilized herein further contemplates gross proceeds received under a bona fide contract entered into at arm's length between nonaffiliated parties of adverse economic interests. If a contract was not negotiated at arm's length, or was between affiliated parties, the presumption that Market Value is equal to gross proceeds does not apply. In this situation, **COMPANY** must establish that amounts paid to **COMPANY** are based on Market Value. In no event shall royalty paid or due **TAMUS** ever be less than the proceeds received by **COMPANY** regardless of the method of valuation.

(h) **TAMUS** shall share in "take or pay" payments. If any gas purchase contract, agreement or any amendment thereto entered into by **COMPANY** for the sale or disposition of gas or other products under this Lease contains a "take or pay" clause requiring the purchaser of gas to take, or upon failing to take, to pay for the minimum annual contract volume of gas which a producer-seller has available for delivery, then any payments made by such purchaser of gas under such provision, whether or not gas is delivered, is subject to the payment of royalty to **TAMUS**. Upon written request from **TAMUS**, **COMPANY** must furnish **TAMUS** complete copies of all such gas purchase contracts or agreements and any amendments thereto entered into by **COMPANY** for the sale or disposition of gas or other products produced under this Lease.

(i) **TAMUS'** royalty shall never be subject to Gas Balancing under which the royalty of **TAMUS** is left in a reservoir or balanced in kind.

8. ROYALTY PAYMENTS AND DIVISION ORDERS

COMPANY must sell production and make royalty payments under this Lease within ninety (90) days following the production of oil and/or gas from the LEASED PREMISES. **TAMUS** may require **COMPANY** to require the purchaser of production to send accountings and royalty payments directly to the Commissioner of the General Land Office. If royalty payments are not commenced within the ninety (90) days, they will be delinquent. Unless the failure of **COMPANY** to timely commence royalty payments is due to a legitimate title problem as determined by **TAMUS** or such delay is solely attributable to **TAMUS**, **COMPANY** will pay interest on the delinquent royalty payments at a rate per annum equal to the lesser of the Wall Street Journal prime interest rate plus two percent (2%) or the highest interest rate then permitted

by law, calculated from the earlier of ninety (90) days following production or thirty (30) days following the sale of the oil and/or gas produced from the LEASED PREMISES by **COMPANY** and continuing until the date the payment of royalties is received by from **COMPANY**. After royalty payments commence, royalty payments shall be paid monthly, subject to previously described interest for delays of payment. If legitimate title problems as determined by **TAMUS** are shown to exist that require curative work, royalties payable may be suspended only to the extent they are adversely affected by such title problem or dispute. Division orders signed by the parties shall not be construed to amend this Lease nor modify **COMPANY**'s obligation to pay royalty and other amounts due unless agreed to by **TAMUS** in writing. Division orders that alter, add to, or amend any provisions or language in this Lease will not be a basis for suspending royalty payment, and any payments suspended for such reason will accrue interest. It shall not be necessary for **TAMUS** to execute any division or transfer order to be entitled to payment of royalties due under this Lease. **COMPANY** and any purchaser of oil and/or gas produced from the LEASED PREMISES waive Section 91.402(c)(1) of the Texas Natural Resources Code that entitles a payor of royalties to require a signed division order as a condition to payment.

COMPANY shall occupy the position of trustee for **TAMUS** in the disposition, sale, payment and accounting for **TAMUS**' royalty. **COMPANY**, and any subsidiary or affiliate of **COMPANY**, shall exercise due diligence as the fiduciary agent for **TAMUS** in marketing all products produced under this Lease. Except for royalty taken by **TAMUS** in kind, **COMPANY** is personally liable for all amounts payable as royalty under this Lease.

If **COMPANY** is delinquent with any royalty payment under the terms of this Lease for a period of over thirty (30) days, and such delinquency is due to or resulting from circumstances reasonably within the control of **COMPANY**, then **TAMUS** may declare this Lease terminated following thirty (30) days' written notice to **COMPANY** of such delinquency and default. **COMPANY** may maintain the Lease by payment of all delinquent sums and interest before the expiration of the thirtieth (30th) day following such notice. If such termination is declared by **TAMUS**, **COMPANY** will lose all its rights and estates under all producing acreage on all production sold after termination and **COMPANY**, its agents and/or assigns, remain jointly and severally liable to **TAMUS** for all payments due from such sale to purchasers. Nonpayment by any such purchaser of production will not relieve **COMPANY** of its obligation to pay royalties on production sold.

Acceptance of royalties past due does not act as a waiver or estoppel of **TAMUS**' right to receive or recover all interest due under this Lease unless the written acceptance or acknowledgment by **TAMUS** to **COMPANY** expressly so provides. Any tender or payment of a sum less than the total amount due shall not constitute an accord and satisfaction and shall not relieve **COMPANY** from liability for the total amount due. **TAMUS** shall never be subject to reduction, deduction, offset, or repayment of any royalty paid.

9. ROYALTY IN-KIND

Pursuant to Texas Education Code § 85.66(d), **TAMUS** may require that payment of royalty, as stipulated in this Lease, be in-kind. Such in-kind deliveries shall be for reasonable periods of time of at least thirty (30) days, and upon reasonable notice. **COMPANY** shall

provide to **TAMUS** on a continuing basis any information concerning wells or production needed by **TAMUS** to market its royalty taken in-kind.

10. PROPORTIONATE REDUCTION

If **TAMUS** owns an interest in the oil and/or gas on, in or under the LEASED PREMISES and/or a production or pooled unit less than the entire fee simple estate, whether or not this Lease purports to cover the whole or a fractional interest, then the royalties, but not the shut-in gas well royalties or delay rentals, to be paid shall be reduced to the proportion **TAMUS'** actual interest bears to the whole undivided fee and in accordance with the nature of the estate with which **TAMUS** is seized.

11. FIRST LIEN

In accordance with Texas Education Code § 85.67(e) and Texas Natural Resources Code Section 52.136, **TAMUS** has a first lien upon all oil and/or gas attributable to **TAMUS** produced from the LEASED PREMISES and upon all rigs, tanks, vats, pipelines, telephone lines, and machinery and appliances used in the production and handling of oil and/or gas produced from the LEASED PREMISES to secure payment of any and all amounts due under this Lease. By acceptance of this Lease, **COMPANY** grants **TAMUS**, besides the liens provided by law, a contractual lien on and security interest in all oil and/or gas in and extracted from the LEASED PREMISES, all proceeds which may accrue to **COMPANY** from the sale of such oil and/or gas, whether such proceeds are held by **COMPANY** or by a third party, and all fixtures on and improvements to the LEASED PREMISES made by **COMPANY** and used in the production or processing of such oil and/or gas 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 **TAMUS** may suffer by **COMPANY'**s breach of any covenant or condition of this Lease, whether express or implied. These liens and security interests may be foreclosed with or without court proceedings in the manner provided in Chapter 9 of the Texas Business and Commerce Code. **COMPANY** agrees **TAMUS** may require **COMPANY** to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. **COMPANY** represents there are no prior or superior liens arising from and relating to **COMPANY'**s activities upon the above-described property or from **COMPANY'**s acquisition of this Lease. Should **TAMUS** determine this representation is not true, then **TAMUS** may declare this Lease terminated as provided in this Lease.

12. TERMINATION

This Lease may be terminated by **TAMUS** if:

- (a) **COMPANY** fails or refuses to pay any sum due, either as rental, royalty on production, or other payment, within the time frames required by this Lease;
- (b) **COMPANY** or its authorized agent makes any false return or false report concerning production, royalty, drilling, or mining;

(c) **COMPANY** fails or refuses to drill any offset well or wells in good faith, as required by this Lease;

(d) **COMPANY** or its agent refuses the General Land Office, **TAMUS** or the proper authority access to the records and other data pertaining to operations under this Lease;

(e) **COMPANY** or its authorized agent fails or refuses to give correct information to the General Land Office, **TAMUS** or the proper authorities;

(f) **COMPANY** or its authorized agent fails or refuses to furnish the General Land Office, **TAMUS** or the proper authorities with the reports and information required by this Lease within the time frames set forth; or

(g) Any other material term of this Lease is violated.

Except as otherwise stated in Sections 16, 18, 19, 20, and 22, before declaring this Lease terminated by reason of **COMPANY**'s breach of its terms, **TAMUS** agrees it will provide **COMPANY** with notice stating the existence and nature of any breach of this Lease which may subject it to termination, and allow **COMPANY** thirty (30) days from receipt of such notice to cure the breach.

13. REINSTATEMENT AFTER TERMINATION

Upon request and proper showing by **COMPANY**, within thirty (30) days after the declaration of termination, in the sole discretion of **TAMUS**, this Lease may be reinstated on such terms and conditions as **TAMUS** may prescribe.

14. REMEDIES AND ATTORNEYS' FEES OF TAMUS

Besides the right to declare this Lease terminated, **TAMUS** may sue **COMPANY** for damages, specific performance, or any other remedy available to **TAMUS** at law or in equity. **COMPANY** must pay all reasonable attorneys' fees and court costs incurred by **TAMUS** for any lawsuit in which **TAMUS** obtains equitable relief, recovers any rent, royalties, interest, damages, or other amounts due under this Lease, or terminates this Lease due to **COMPANY**'s failure to perform its obligations under this Lease.

15. RELINQUISHMENTS

All rights to all or any part of the LEASED PREMISES may be relinquished by **COMPANY** to **TAMUS** by recording a release instrument previously approved in writing by the System Real Estate Office in the county or counties in which the LEASED PREMISES is located. A copy of recorded releases must be submitted to the System Real Estate Office. Pursuant to Texas Education Code § 85.65(c), recorded releases must also be filed with the General Land Office, accompanied by the filing fee prescribed by rule. A release will not relieve **COMPANY** of any obligations or liabilities incurred prior to the release.

16. ASSIGNMENTS

COMPANY may assign its rights under this Lease only upon the prior written consent of **TAMUS**; however, such an assignment shall not relieve **COMPANY** of any liabilities or obligations incurred prior to the assignment. Pursuant to Texas Education Code § 85.65(b), all assignments shall be filed in the General Land Office as prescribed by rule, accompanied by ten cents (\$.10) per acre for each acre assigned and the filing fee as prescribed by rule. A copy of all assignments must also be submitted to the System Real Estate Office. An assignment will not be effective unless filed as required by rule. **COMPANY** acknowledges the responsibility for (a) obtaining the prior written consent of **TAMUS**, and (b) filing assignments with the General Land Office in conformity with its rules is solely that of **COMPANY**. **TAMUS** may automatically terminate this Lease upon written notice to **COMPANY** if **COMPANY** purports to assign all or any part of its rights under this Lease without strict adherence to the terms herein.

17. INDEMNIFICATION AND INSURANCE

(a) **COMPANY** agrees to pay for all damages to agricultural or other research, crops, trees, buildings, streets, fixtures, utility lines (above and below ground), personal property, productivity of soil, livestock, and any and all other things damaged because of **COMPANY**'s or its agents' actions in carrying out any operations under this Lease. **COMPANY** further agrees to indemnify and hold **TAMUS** harmless from all damages to third persons and the property of third persons resulting from such operations.

(b) **COMPANY** and all operators must maintain or cause to be maintained public liability insurance and insurance coverage on their employees, agents and contractors (or require such insurance to be maintained) at levels acceptable to **TAMUS**, as **TAMUS** may determine from time to time, but in no event less than the following amounts:

Commercial General Liability (including Pollution Liability) Insurance: Insurance policy with limits of liability of not less than Five Million Dollars (\$5,000,000) per occurrence and Ten Million Dollars (\$10,000,000) in the aggregate per policy year.

Excess Liability (including Pollution Liability) Insurance: Excess Liability insurance policy with limits of liability of not less than Ten Million Dollars (\$10,000,000) over the above required general liability insurance policy.

Worker's Compensation Insurance:

Statutory Benefits (Coverage A)	Statutory
Employers Liability (Coverage B)	\$1,000,000 Each Accident
	\$1,000,000 Disease/Employee
	\$1,000,000 Disease/Policy Limit

Automobile Liability Insurance:

Owned Vehicles	\$1,000,000
Non-owned Vehicles	\$1,000,000
Hired Vehicles	\$1,000,000

(c) The following terms and conditions regarding standard insurance policies are required:

- (1) General liability and automobile insurance must be written by a carrier with a rating of “A” or better and a financial size category of at least XV or better rating under the current Best’s rating guide; only insurance carriers licensed to do business in Texas will be accepted; deductibles will be on the certificate of insurance and are acceptable on a per-occurrence basis for property damage only; claims made policies will not be accepted; and **TAMUS**, its officials, employees, and volunteers will be added as “additional insureds” to the liability policies. The coverage will not have special limitations on protection afforded to **TAMUS**, its officials, employees, or volunteers.
- (2) A waiver of subrogation in favor of **TAMUS** regarding Workers’ Compensation Insurance must be included.
- (3) Each insurance policy must be endorsed to state coverage may not be suspended, voided, canceled, or reduced in coverage or in limits except after thirty (30) days’ prior written notice by certified mail, postage prepaid, return receipt requested, has been given to the System Real Estate Office.
- (4) As proof of compliance with this section, a certificate of insurance must be filed with the System Real Estate Office setting out the insurance coverage required under this section. Such certificate must state that thirty (30) days’ prior written notice of cancellation or material change will be submitted to **TAMUS** by the insurance carrier. Such certificate will also show the coverage for property damage liability arising from blasting or explosion; collapse or structural damage; underground property damage; damage to underground resources and equipment; and blowout or cratering of any well. **COMPANY** shall provide **TAMUS** with full copies of the insurance policies required under this section within ten (10) days of such request by **TAMUS**.

18. CONTINUOUS DRILLING AND OBLIGATION TO FULLY DEVELOP

(a) In addition to any other well or wells commenced on or before the expiration of the Primary Term, **COMPANY** shall drill and complete a new well, either as a dry hole or a producing well, within one hundred eighty (180) days of the expiration of the Primary Term

unless on or before such date producing wells have been drilled on the LEASED PREMISES to the maximum density permitted under the field rules established by the Railroad Commission of Texas. Within one hundred eighty (180) days of the completion of such new well, **COMPANY** shall drill and complete a subsequent well, either as a dry hole or as a producing well, and, thereafter within the same timeframe, successive wells until the LEASED PREMISES is fully developed to allowable density. The “completion” of a well, as that term is used in this Lease, shall mean the completion date or the date of plugging, if applicable, appearing on the completion report filed with the Railroad Commission of Texas. The completion of a well must occur within one hundred eighty (180) days after the spudding of such well. Failure to so drill, complete, and continue drilling is a breach of a material condition of this Lease in which case **TAMUS** shall have the right to terminate this Lease as to acreage not contained in a producing proration unit upon notice to **COMPANY**. This continuous drilling requirement does not apply as to any acreage in this Lease of insufficient size to permit additional wells under the field rules established by the Railroad Commission of Texas. **COMPANY** agrees such insufficient size acreage must, to the extent possible, be pooled with proration units outside of the LEASED PREMISES.

(b) **COMPANY** must, notwithstanding any other provision of this Lease, fully develop the LEASED PREMISES and adequately protect the oil and/or gas under the LEASED PREMISES from drainage from adjacent lands or leases, including non-**TAMUS** lands or **TAMUS** lands leased at a lesser royalty. **COMPANY** must drill as many wells as the facts justify to fully develop the LEASED PREMISES and for the effective protection against drainage from such adjacent lands or leases. A well or wells drilled and completed within One Thousand (1,000) Feet of the LEASED PREMISES shall be deemed to be draining the LEASED PREMISES.

19. REWORKING EXTENSION; CESSATION OF PRODUCTION

If production of oil and/or gas on the LEASED PREMISES, after once having been obtained, ceases for any cause after the expiration of the Primary Term, this Lease will not terminate if **COMPANY** commences additional Drilling or Reworking Operations (as defined herein) within sixty (60) days after cessation of production, and the Lease will remain in full force and effect so long as such operations continue in good faith and in a workmanlike manner, without interruptions totaling over sixty (60) cumulative days. However, if production is not re-established within ninety (90) days of cessation of production, this Lease shall terminate.

20. PUGH CLAUSE

Notwithstanding any other Lease provision, this Lease automatically terminates at the expiration of the Primary Term or the conclusion of continuous drilling operations except for each producing well, and the acreage allotted to such well or wells for proration units, on the LEASED PREMISES or on land pooled therewith under this Lease. **AT THE EXPIRATION OF THE PRIMARY TERM OR THE CONCLUSION OF CONTINUOUS DRILLING OPERATIONS, THIS LEASE AUTOMATICALLY EXPIRES AS TO ALL RIGHTS BELOW THE DEEPEST PRODUCING WELL LOCATED ON THE LEASED PREMISES OR ON LAND POOLED THEREWITH. COMPANY MAY USE ONE**

HUNDRED (100) FEET BELOW THE DEEPEST PRODUCING DEPTH FOR MECHANICAL PURPOSES BUT NOT FOR COMPLETION OR PRODUCTION THEREFROM. Upon expiration of the Primary Term, if this Lease has been maintained in full force and effect and notwithstanding there may then be oil and/or gas production from the LEASED PREMISES or land pooled therewith, **TAMUS** shall be entitled to receive from **COMPANY** and **COMPANY** shall provide an appropriate release in recordable form of all of **COMPANY**'s rights and estates in the LEASED PREMISES below the depth of the deepest well drilled and produced in paying quantities on the LEASED PREMISES or on land pooled therewith. **COMPANY** shall execute and deliver to **TAMUS** for recording in the Real Property Records of the county or counties in which the LEASED PREMISES is located, all documents to effect a release of this Lease on such acreage, but if it fails to do so within thirty (30) days following written demand from **TAMUS**, then **TAMUS** may execute and record such necessary documents. **IF THIS LEASE HAS BEEN CONTINUOUSLY MAINTAINED IN FORCE AND EFFECT IN ACCORDANCE WITH ITS TERMS AND COMPANY HAS NOT OBTAINED PRODUCTION IN PAYING QUANTITIES FROM ANY FORMATION OR FORMATIONS ABOVE THE PRODUCING FORMATION OR FORMATIONS OF ANY WELL AS INDICATED BY COMPANY IN ITS DESIGNATION OF EACH PRORATION UNIT, THEN THIS LEASE AUTOMATICALLY EXPIRES AS TO ALL RIGHTS IN SUCH NON-PRODUCED FORMATION OR FORMATIONS ON THE FIFTH (5th) ANNIVERSARY DATE OF THIS LEASE.**

21. DRILLING AND PRODUCTION OPERATIONS

(a) Any violation of any valid law, rule, regulation or requirement of any federal, state or local agency or regulatory body having jurisdiction with reference to drilling, completing, equipping, operating, producing, maintaining, or abandoning oil and/or gas wells or related appurtenances, equipment or facilities, or referring to firewalls, fire protection, blowout protection or safety of persons or property violates this Lease and is a default hereunder.

(b) Within thirty (30) days after completion of any well, **COMPANY** must file with the General Land Office and the System Real Estate Office a final report which includes a copy of all documents and reports filed with the Railroad Commission of Texas.

(c) Whenever any well is permanently abandoned, it is the obligation of **COMPANY** to plug such well under the laws of Texas, the rules of the Railroad Commission of Texas, and/or any other agency having jurisdiction in connection with the plugging operation and provide **TAMUS** with written notice of intent to plug and abandon, which will include the abandonment program. Such plugging obligation is subject to the rights of **TAMUS** in Section 26.

(d) Any expense incurred by **TAMUS** due to a request for an exception under this section will be paid by the operator requesting such exception.

(e) The term "Drilling or Reworking Operations" as used in this Lease means the actual turning to the right of the drill-bit, with a rig and related equipment located on the LEASED PREMISES or on land pooled therewith, to drill the same to the permitted depth filed with the Railroad Commission of Texas, or the actual re-working of an existing well with a

drilling or re-working rig located on the LEASED PREMISES or on land pooled therewith and prosecution of such operation with due diligence with no cessation of operations for any period of more than thirty (30) days. "Drilling operations" or "commencement of drilling operations" shall not include securing permits, building a pad, building a road, or other steps preparatory or preliminary to the actual operations described in the prior sentence.

Provisions (f) to (j) in this Section apply only to the extent **TAMUS** owns or controls any interest in the surface estate of the LEASED PREMISES.

(f) If any leak, spill, or malfunction occurs, **COMPANY** must remove or cause to be removed to the satisfaction of **TAMUS**, all oil and waste materials from all property which may be affected by such, spill, leak, or malfunction. If losing control occurs of any well, or any other oil and/or gas operation, **COMPANY** will immediately take all reasonable steps necessary to regain control of such well or operation and notify **TAMUS** as soon as practicable. If **TAMUS** believes danger to persons or property exists because of such loss of well control, or **COMPANY** is not taking or cannot try to regain control of such well or equipment, **TAMUS** may employ any well expert or experts, or any other contractors or suppliers of special services, or may incur any other expenses for labor or material which **TAMUS** deems necessary to regain control of such oil and/or gas operation. **TAMUS** has a valid lien against the interest in the well of all working interest owners who have voluntarily joined in the drilling of such well to secure payment of any expenditure made by **TAMUS** under such action.

(g) **COMPANY** will make adequate provisions for the disposal of salt water or other impurities which may be produced from the LEASED PREMISES with the oil and/or gas in a manner that prevents the contamination of the surface or subsurface water supply or the destruction of vegetation. **COMPANY**, or any person engaged in the operation of any loading rack, storage or other facility or equipment used in the production, storage, transportation, sale or shipment of crude oil or other flammable petroleum product, will not allow such substances to spill over, overflow, leak, drain out, escape or accumulate in any sewer, in any open surface ditch, on any surface, or about the premises in any manner or amount.

COMPANY agrees to use all reasonable efforts to prevent any waste oil, salt water or other impurities from flowing on or over the surface of the LEASED PREMISES and to prevent same from draining into any draw, drain, creek or ravine on the LEASED PREMISES or into any tank or water hole thereon. **COMPANY** will construct such salt water disposal facilities off the LEASED PREMISES to confine and dispose of the salt water, waste oil and other impurities produced from the LEASED PREMISES under the rules and regulations of the Railroad Commission of Texas. **COMPANY** will not drill or operate any saltwater disposal well on the LEASED PREMISES without **TAMUS**' prior written consent. **COMPANY** agrees to use all reasonable efforts to prevent underground water on the LEASED PREMISES from becoming contaminated in any manner because of **COMPANY**'s operations, and **COMPANY** will pay any and all damages suffered by **TAMUS** resulting from the breach of these provisions.

(h) All surface area utilized by **COMPANY** will be kept clear of high grass, weeds and combustible trash or other rubbish or debris.

(i) **COMPANY** shall secure any regulatory, special use or other permit, waiver or consent required by any regulatory agency or other authority having jurisdiction over the LEASED PREMISES including without limitation, the Federal Aviation Administration, the Federal Emergency Management Agency, and The Army Corps of Engineers, and comply therewith.

(j) Printed permanent weather-proof signs with at least five (5) inch letters reading “DANGER, NO SMOKING OR OPEN FLAMES ALLOWED” must be posted at the entrance to or in a conspicuous place on each well, storage tank or battery of tanks. The signs must include the emergency notification telephone numbers of the nearest fire department and the operator. **COMPANY** will erect, at a distance not to exceed twenty-five (25) feet from each well on the LEASED PREMISES, a legible sign which will contain the name of the operator, the lease designation, well number and other information required by the Railroad Commission of Texas or other governmental authority having jurisdiction. Where two (2) or more wells on the same lease or where wells on two (2) or more leases are connected to the same tank battery, whether by individual flow line connections direct to the tank or tanks or by a multiple header system, each line between each well and such tank or header will be legibly identified, either by a firmly attached tag or plate or an identification properly painted on such line at a distance not to exceed three (3) feet from such tank or header connection. Such signs, tags, plates or other identification markers shall be in a legible condition throughout the term of this Lease.

22. SEISMIC SURVEYING

The provisions in this Section apply only to the extent **TAMUS** owns or controls any interest in the surface estate of the LEASED PREMISES.

All seismic activities must be approved in advance and in writing by **TAMUS**. **FAILURE TO OBTAIN TAMUS’ PRIOR WRITTEN APPROVAL BEFORE CONDUCTING ANY SEISMIC ACTIVITIES ON THE LEASED PREMISES WILL RESULT IN AUTOMATIC TERMINATION OF THIS LEASE.** **COMPANY** is responsible for all damages to real and personal property, including agricultural and research property, and for injuries to persons and livestock resulting from any operations or activities conducted on the LEASED PREMISES. **TAMUS** may, if **TAMUS** owns or controls any interest in the surface estate, designate routes to be utilized in all seismic surveying. **DEVIATION FROM SUCH ROUTES BY COMPANY WILL RESULT IN AUTOMATIC TERMINATION OF THIS LEASE.**

23. LIQUID HYDROCARBON RECOVERY

COMPANY agrees before any gas containing liquid hydrocarbons produced from the LEASED PREMISES is sold, used, or processed in a plant, it will be run through an adequate oil and gas separator of conventional type or other equipment so all liquid hydrocarbons recoverable from the gas by such means will be recovered.

24. UNDERGROUND STORAGE

COMPANY may not use the LEASED PREMISES for underground storage of natural gas, crude petroleum or other hydrocarbons or substances without the advance written consent of **TAMUS**.

25. WATER WELLS AND WATER-BEARING STRATA

The provisions in this Section apply only to the extent **TAMUS** owns or controls any interest in the surface estate or water rights of the LEASED PREMISES.

(a) **COMPANY** must obtain **TAMUS**' prior written consent before drilling water well(s) or using an existing water well on the LEASED PREMISES for any purpose. Consideration for water used for drilling and completion activities shall be determined and set forth in a written consent signed by **TAMUS**.

(b) Upon request by **TAMUS**, **COMPANY** will plug water wells on the LEASED PREMISES that **COMPANY** has utilized regardless of the origin of such well. Temporary pipelines used to transport water from the well shall be removed when no longer required for on-going operations. All drilling and plugging activity will be performed by a water well driller licensed by the Texas Department of Licensing and Regulation ("TDLR").

(c) The Driller's Log or Plugging Report shall be provided to **TAMUS** within fifteen (15) days of water well installation.

(d) No later than fifteen (15) days after installation of a water well, an identification plate constructed of a non-ferrous material shall be permanently posted on a component of the water well's surface infrastructure. The identification plate will be permanently marked, i.e. stamped or engraved, to show:

- (1) name of entity or individual that caused the water well to be installed;
- (2) name and TDLR license number of entity or individual that installed the water well;
- (3) installation date;
- (4) total depth;
- (5) well capacity (gallons per minute); and
- (6) latitude and longitude of the well.

(e) In drilling wells, all water-bearing strata shall be noted by **COMPANY** in the log, and **TAMUS** reserves the right to require all or any part of the casing be left in any non-productive well when **TAMUS** deems it necessary or desirable to preserve or maintain such well or wells for water.

26. CASING, EQUIPMENT, AND TAMUS' RIGHTS IN WELLS AFTER TERMINATION OF LEASE

Upon the expiration or termination of this Lease, or should **COMPANY** elect to abandon a well or wells, **COMPANY** shall remove its equipment, tubing, casing, and other machinery for any such well or wells located upon the LEASED PREMISES, properly plug such well or wells, and reclaim the LEASED PREMISES within sixty (60) days of **TAMUS'** written election for **COMPANY** to do so. In its sole and absolute discretion, **TAMUS** may elect to take over operations of one or more wells without compensation to **COMPANY** and the transfer of such equipment, tubing, casing, and other machinery shall be evidenced by a Bill of Sale to **TAMUS** or its designee at no cost, and thereafter, **TAMUS** or its designee shall assume operations of the well or wells and the proper plugging and abandoning thereof.

27. LOGS, PLATS, RECORDS, POOLED UNIT DECLARATIONS AND ACCESS

(a) **COMPANY** must file with the System Real Estate Office, all core and test reports, logs, seismic data, electrical, radioactive, sonic or other logs, and Pooled Unit Declarations of all wells drilled upon the LEASED PREMISES or land pooled therewith within thirty (30) days after completion of producing wells, and within thirty (30) days after abandonment of dry holes. At least ten (10) days prior to **COMPANY** commencing the drilling of any well or wells upon the LEASED PREMISES or land pooled therewith, **COMPANY** shall file written notice with the System Real Estate Office, accompanied by a plat of the LEASED PREMISES and any land pooled therewith, showing the location of such well or wells and the Drilling Operations Plan described in Section 34.

(b) **COMPANY** agrees to provide access to all wells drilled on the LEASED PREMISES or on land pooled therewith, at all reasonable hours, and upon request of **TAMUS**, to furnish **TAMUS** or its authorized representative with, or allow such representative to take from such wells, formation core samples and cuttings consecutively taken, and to furnish any records, memoranda, reports or other information relative to the operations on the LEASED PREMISES and on land pooled therewith. Copies of title opinions, abstracts, instruments relating to determining title, and executed copies of all oil and/or gas purchase contracts or agreements and other records pertaining to the production, transportation, sale, and marketing of oil and/or gas shall be provided to **TAMUS** upon request.

28. LEASE SECURITY

COMPANY will exercise the highest care and all proper safeguards to protect the LEASED PREMISES and to prevent theft of oil and/or gas produced from the LEASED PREMISES. 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 production, gathering and storage systems where theft of oil and/or gas can occur. **COMPANY** is liable for losing any oil and/or gas resulting from theft and will pay **TAMUS** royalties as provided in Section 7 above on all oil and/or gas lost by theft.

29. DESIGNATION OF PRORATION UNITS

Within thirty (30) days after completion of any well on the LEASED PREMISES which is not pooled under Section 30, **COMPANY** shall file of record with the County Clerk of the county or counties in which the LEASED PREMISES is located, and deliver to the System Real Estate Office, a written designation of proration unit which describes that part of the LEASED PREMISES to be allocated to such well for production. The description must specify and be limited to the producing formation as follows:

(a) For a vertical well classified as an oil well by the Railroad Commission of Texas, forty (40) acres plus ten percent (10%) tolerance, unless additional acreage is specifically authorized by field rules promulgated by the Railroad Commission of Texas or as a result of action by the Railroad Commission of Texas; and

(b) For a vertical well classified as a gas well by the Railroad Commission of Texas, six hundred forty (640) acres plus ten percent (10%) tolerance unless additional acreage is authorized by field rules promulgated by the Railroad Commission of Texas or because of action by the Railroad Commission of Texas.

(c) An oil or gas well classified as a horizontal drainhole well by the Railroad Commission of Texas shall be limited to the size set forth in Texas Statewide Rule 86 (Tex. Admin. Code Title 16, Chapter 3, Rule 3.86) or any subsequent or successor Statewide Rule promulgated or issued by the Railroad Commission of Texas and applicable to the LEASED PREMISES, considering the length of the horizontal drainhole or such other criteria as utilized by or in such Statewide Rule.

Upon such filing as set forth being made, the portion of the LEASED PREMISES described will be and remain a "proration unit" for all purposes. In each instance, where applicable, production units must be identical to proration units.

30. POOLING

(a) Pooling of all of the LEASED PREMISES with any other lands or mineral interests, whether or not owned by **TAMUS**, is permitted with prior written notice to **TAMUS**. Pooling of less than all of the LEASED PREMISES with any other lands or mineral interests, whether or not owned by **TAMUS**, is not permitted without the prior written consent of **TAMUS**.

(b) Production from or operations on a pooled unit or units embracing a portion, but not all, of the LEASED PREMISES will maintain this Lease in force only as to the acreage embraced in such proration units or pooled units.

(c) Unless **TAMUS** finds it to be in the best interest of **TAMUS** to permit pooling under other circumstances, **COMPANY**'s pooling of this Lease with other lands shall be limited to the following conditions:

- (1) There shall be no pooling with other lands and leases in which **TAMUS** does not have an interest, until the **LEASED PREMISES** has been fully developed such that there exists the maximum number of proration units on the **LEASED PREMISES** with producing wells on the **LEASED PREMISES** and there exists a portion of the **LEASED PREMISES** not in a proration unit and such portion is not of sufficient acreage to constitute a full proration unit under the field rules of the Railroad Commission of Texas.
- (2) Unless **TAMUS** gives prior written consent, none of the **LEASED PREMISES** will ever be included by **COMPANY**, its successors or assigns, within a unit for oil, a unit for gas, or a unit for oil and gas wherein, as to every producing horizon, zone, strata or formation in such unit, **TAMUS**, **TAMUS'** successors or assigns, do not share in production of oil and/or gas from first production to the date that production ceases to maintain this Lease, or such portion thereof, in force and effect.

If this Lease covers separate tracts of land the following pooling provisions apply:

(d) As used in this Lease, the words “separate tract” mean any tract or tracts with royalty ownership differing either as to parties or amounts, from any other tract or tracts of the **LEASED PREMISES**. No pooling, sharing, unitization, communitization, or apportionment of royalty interest between any such separate tracts is authorized, implied or shall result from including such separate tracts within this Lease without the written consent of **TAMUS**. If there are royalty interests in oil and/or gas in the **LEASED PREMISES** now owned by parties other than **TAMUS**, **TAMUS** makes no warranty or representation this Lease grants **COMPANY** the power or authority to pool such royalty interests, but if pooling occurs, **TAMUS'** royalty on production from the pooled unit shall be calculated and paid as if **COMPANY** had the power, and had exercised the power, to pool such royalty interests, whether or not **COMPANY** has such authority.

(e) The provisions of this Lease regarding acreage covered by this Lease which is held by drilling operations on or production from any pooled unit or units will not be altered or amended by any pooling, unitization or like agreement or instrument, or any amendment or ratification or acknowledgment, unless by written amendment of this Lease.

(f) No production sharing, allocation well or wells or other such arrangement or unit, whether or not approved by any administrative agency, including the Railroad Commission of Texas shall be made or drilled without the prior written consent of **TAMUS**.

31. SURFACE OPERATIONS

The provisions in this Section apply only to the extent **TAMUS** owns or controls any interest in the surface estate of the **LEASED PREMISES**.

(a) Drilling for oil and/or gas within three hundred (300) feet of any building, research area, or other designated area is prohibited, unless written consent from **TAMUS** is first obtained. Operations for oil and/or gas shall in no way interfere with the use of the **LEASED PREMISES** for the educational, recreational, experimental, or any other purposes for which the **LEASED PREMISES** was obtained by **TAMUS** or to which it has or may be put, and must not cause the abandonment of the **LEASED PREMISES** for experimental farm purposes, if applicable.

(b) All pipelines shall be buried not less than forty-eight (48) inches deep measured from the surface of the ground to the top of the pipe as laid. **COMPANY** shall “double-ditch” all such pipelines and flow lines. **COMPANY** shall not be permitted to install pipelines with diameters larger than ten (10) inches on the **LEASED PREMISES** without **TAMUS**’ prior written consent. **COMPANY** agrees to pay for damages caused by its operations to any surface structure or use of the **LEASED PREMISES**.

(c) **COMPANY**, at its own expense, will fence the drilling and production site with fencing suitable considering the surrounding environment. Further, **COMPANY** must remove all drilling equipment and temporary structures and place all permanent equipment in such a manner as will not interfere with or introduce hazard to any activity of **TAMUS**. Should drilling result in a dry hole or holes, **COMPANY** shall, at its own expense, immediately remove all drilling equipment and temporary structures from the land and restore the land to the condition that existed as of the date of this Lease, or to such state as is compatible with the use then being made of the **LEASED PREMISES**, at the option of **TAMUS**. This requirement is subject to the rights of **TAMUS** established in Section 26.

(d) **COMPANY**, for its operations, may use only roads on the **LEASED PREMISES** designated by **TAMUS**. **TAMUS** may prohibit using its streets/roads during designated hours on specified days. All roads used by **COMPANY** shall be maintained by **COMPANY** in good condition and repair to allow the reasonable passage of all passenger vehicles. **COMPANY** agrees to grade only one road to each location on the **LEASED PREMISES** and to confine all travel incident to the drilling and production of such well to such road.

All roads used by **COMPANY** and those entering the **LEASED PREMISES** for **COMPANY** or at its request will be used at **COMPANY**’s risk and all damages to the road or to any persons or equipment utilizing the same, is at the risk of **COMPANY**. Costs of additional road reinforcements and repairs made necessary by the activities of **COMPANY** shall be borne by **COMPANY**. All reinforcement or repairs of current roads and construction of access roads by **COMPANY** must be performed according to any standards established in writing by **TAMUS**.

(e) **COMPANY** agrees **COMPANY** will not cut or go over any fence or fences on the LEASED PREMISES without first obtaining the approval of the System Real Estate Office. **COMPANY** agrees, prior to cutting any fence, to brace the existing fence adequately on both sides of the proposed cut so there will be no slackening of the wires when the fence is cut. If an outside fence is being cut, **COMPANY** agrees, after making such cut, to promptly install and maintain a metal gate in such opening, and such gate will be kept locked. If **TAMUS** requires, **COMPANY** must also install and maintain a substantial iron cattle guard (a minimum of twelve (12) feet in width). If an inside fence is cut, **COMPANY** agrees, after making such cut, to promptly install and maintain a metal gate or cattle guard, whichever is designated by **TAMUS**. During the term of this Lease, such gates and cattle guards will be maintained by **COMPANY**. Upon termination of this Lease, such gates and cattle guards become the property of **TAMUS** at no expense to **TAMUS** or must be removed by **COMPANY** if **TAMUS** so requires, and in such case **COMPANY** shall restore the fences to their original condition. **COMPANY** agrees to promptly close all gates that **COMPANY**, its agents, servants and/or employees may use in **COMPANY**'s operations on the LEASED PREMISES.

(f) **COMPANY** may obtain rights from the owners of nearby lands whereon **COMPANY** could locate well(s) which will be directionally drilled to bottom hole location(s) beneath the LEASED PREMISES, and surface operations on nearby lands are not subject to restrictions imposed by **TAMUS**; however, such well(s) so directionally drilled to a bottom hole location(s) beneath or beyond the LEASED PREMISES will, for all other purposes, be treated as drilling or production operations conducted entirely upon the LEASED PREMISES.

(g) Before commencing operations and during the term of this Lease, **COMPANY** shall comply with and obtain any permits or licenses which may be required by federal, state or local laws, rules, regulations, or ordinances for the use of the LEASED PREMISES, including the Antiquities Code of Texas, Chapter 191 of the Texas Natural Resources Code (or its successor) and applicable rules promulgated by the Texas Historical Commission (or its successor). **COMPANY** shall 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 **TAMUS**' property. **COMPANY** shall use highest care and all reasonable safeguards to prevent the taking, alteration, damage, destruction, salvage, or excavation of cultural resources and/or landmarks on **TAMUS**' property. Upon discovery of an archeological site, **COMPANY** shall immediately give written notice of such discovery to **TAMUS** and to the Texas Antiquities Committee, as set out in the Texas Historical Commission's rules. **COMPANY**, its contractors and employees, shall have no right, title, or interest in or to any archaeological articles, objects, or artifacts, or other cultural resources located or discovered on **TAMUS**' lands, and **COMPANY** agrees that title to items discovered in or on **TAMUS**' lands shall remain with **TAMUS**.

(h) Oil and/or gas operations will be conducted in a careful and orderly manner and the LEASED PREMISES must be maintained in a neat, clean, and orderly manner. All discarded surplus materials, supplies, and refuse must be removed from the site no later than every thirty (30) days.

(i) No persons will place, deposit, discharge, cause, or permit to be placed, deposited or discharged, any oil or hydrocarbon substances or any refuse, including any wastewater, produced water, frac' water or fluid, or brine from any oil and/or gas operation or the contents of any container used with any oil and/or gas operation in or on the property of **TAMUS**.

(j) If any soil on the **LEASED PREMISES** is damaged or contaminated because of **COMPANY**'s operation from spills, leaks, dumping, pumping, or draining of salt water, oil or any other chemicals or substances, **COMPANY** shall clean up and restore and reseed the soil, and do everything reasonably necessary to restore the soil to as near its original condition as is possible. If **COMPANY** fails to comply with this obligation following ninety (90) days after written notice to **COMPANY** from **TAMUS**, **TAMUS** may undertake this cleanup and restoration and be entitled to recover from **COMPANY** an amount equal to two (2) times **TAMUS**' cost for the cleanup and restoration.

(k) No gases shall be vented into the atmosphere or burned by open flame, except as allowed by law or permitted by the Railroad Commission of Texas, and royalty shall be paid thereon.

(l) Drilling mud, cuttings, oil, or other liquid hydrocarbons and all other oil field waste derived, or resulting from, or connected with the drilling, reworking, or deepening of any well, must be discharged only into portable steel tanks. Unless otherwise directed by the Railroad Commission of Texas, such waste materials will be removed from the site no later than every thirty (30) days.

(m) No drilling equipment, reworking equipment, or other portable equipment or idle equipment, not essential to day-to-day operation, can be stored on the drilling or production locations. Equipment and/or vehicles will not be stored or parked to constitute a fire hazard or obstruction to, or interference with, fighting or controlling fires, except equipment for maintenance of the site or for gathering or trans-pressuring of hydrocarbons from the location.

32. SITE APPROVAL

The provisions in this Section apply only to the extent **TAMUS** owns or controls an interest in the surface estate of the **LEASED PREMISES**.

(a) Locations of all drilling pads, wells, structures, roads, tank batteries, pipelines, flowlines, telephone lines, and all other facilities erected or moved onto a site by **COMPANY** must be approved in advance by **TAMUS**. **COMPANY** will provide **TAMUS** with the precise location of any proposed well and a diagrammatic description of the location and the surrounding area, as well as any additional drawings or other data **TAMUS** requires to assess a proposed location. **COMPANY** and **TAMUS** shall enter into one or more written agreements setting forth the agreed upon location(s) and the surface damages to be paid by **COMPANY** directly to **TAMUS** for same.

(b) By execution of this Lease, **COMPANY** acknowledges certain surface acreage of the **LEASED PREMISES** may not be subject to drilling or production operations of any kind,

and any additional costs incurred by **COMPANY** because of such restrictions shall be borne solely by **COMPANY**.

33. SITE RESERVATION

The provisions in this Section apply only to the extent **TAMUS** owns or controls an interest in the surface estate of the **LEASED PREMISES**.

TAMUS reserves (besides all surface use and rights) the right to select drill site locations on the **LEASED PREMISES** for use by **TAMUS** or any third party selected by **TAMUS** in drilling for oil and/or gas lying under other strata, formations or tracts of land not subject to this Lease. Such sites may be selected by **TAMUS** during the term of this Lease (primary or extended), at such locations deemed appropriate by **TAMUS**, provided such locations are not in direct conflict with **COMPANY**'s own drill/production sites. **TAMUS** will provide **COMPANY** with a plat of selected surface acreage, not to exceed five (5) acres per location, prior to making use of such locations for drilling. **TAMUS** is entitled, under this reservation, to sell or lease to other drilling contractors or producers the right to utilize such location(s) as a drill site. Such activity will comply with all requirements of the Railroad Commission of Texas.

34. DRILLING OPERATIONS PLAN

At least ten (10) days prior to **COMPANY** commencing the drilling of any well or wells upon the **LEASED PREMISES** or land pooled therewith, **COMPANY** must submit a Drilling Operations Plan to the System Real Estate Office for approval by **TAMUS**. The Drilling Operations Plan shall include, at a minimum:

Provisions (a) to (e) apply only if **TAMUS** owns or controls any interest in the surface estate of the **LEASED PREMISES**.

- (a) Site plan of the proposed operation showing the location of the drilling pad and all equipment.
- (b) Map showing proposed transportation route and roads for equipment, chemicals, and waste products used or produced by the oil and/or gas operation.
- (c) Description of type, kind, size, and amount of major equipment used during drilling and reworking.
- (d) Location and description of all improvements and structures within one thousand (1000) feet of the well bore.
- (e) Description of surface equipment after drilling and completion.

Provisions (f) to (k) apply regardless of whether **TAMUS** owns or controls any interest in the surface estate of the **LEASED PREMISES**.

- (f) Well surface casing and cementing program.
- (g) Copies of required Railroad Commission of Texas forms and drilling permit.
- (h) Name of representative with supervisory authority over all oil and/or gas operation site activities and a phone number where such representative can be reached twenty-four (24) hours per day.
- (i) Legal description of the property to be used for the oil and/or gas operation, the parcel, the proration unit (plat description or metes and bounds bearings), and name of the geologic formation or formations, as designated by the Railroad Commission of Texas, from which production is contemplated.
- (j) Evidence of insurance as required by Section 17 of the Lease.
- (k) A survey of the proration unit at a scale of one-to-three hundred (1:300) or greater by a certified surveyor including:
 - (1) lengths and bearings of all boundary lines for production;
 - (2) exact acreage of proration unit; and
 - (3) exact location of the well within the proration unit with distances to adjacent boundary lines of the proration unit.

35. MITIGATION REQUIREMENTS

The provisions in this Section apply only to the extent **TAMUS** owns or controls any interest in the surface estate of the **LEASED PREMISES**.

At least ten (10) days prior to **COMPANY** commencing the drilling of any well or wells upon the **LEASED PREMISES** or land pooled therewith, **COMPANY** must submit a Mitigation Plan to the System Real Estate Office for approval by **TAMUS**. The Mitigation Plan shall include and/or address, at a minimum, the following:

- (a) Visual Impact Mitigation.
 - (1) **COMPANY** must submit professional renderings and a visual mitigation plan for the proposed well site and production facility. All site and production equipment and facilities, including pumping units, storage tanks, buildings and structures, regardless of construction date, which are

observable from any public roadway, private residence or place of business shall be well maintained and painted to the satisfaction of **TAMUS**.

- (2) To the maximum extent possible, oil and/or gas facilities shall be located away from prominent natural features such as distinctive rock and land forms, vegetative patterns, river crossings and other landmarks.
- (3) To the maximum extent possible, oil and/or gas facilities should be located to avoid crossing hills and ridges or silhouetting.
- (4) **COMPANY** shall use structures of minimal size to satisfy present and future functional requirements.
- (5) All lighting shall be directed away from residential areas or shielded from said areas to eliminate glare.
- (6) Construction of buildings or other enclosures may be required where facilities create noise and/or visual impacts incapable of sufficient mitigation because of proximity, density and/or intensity of adjacent land use.
- (7) Site border landscaping shall utilize shrubs and trees to the maximum extent possible, shaping cuts and fills to appear as natural forms, and incorporating natural screens into the overall final facility design to the maximum, reasonable extent possible, while maintaining the maximization of noise abatement as the priority.

(b) Odor and Fugitive Dust Mitigation.

- (1) **COMPANY** must submit an odor and fugitive dust mitigation plan for the proposed well site and production facility. Oil and/or gas facilities and equipment shall be operated in such a manner that odors and dust do not constitute a nuisance or hazard to public welfare and/or neighboring vegetation and livestock.
- (2) **COMPANY** shall employ practices for control of fugitive dust caused by operations. Such practices shall include, but are not limited to the use of speed restrictions, regular road maintenance, ensuring that roads remain moist while road operations occur, restriction of construction activity during high-wind days, and silica dust controls when handling sand used in hydraulic fracturing operations.
- (3) Additional management practices such as road surfacing, wind breaks and barriers, or automation of well to reduce truck traffic may also be required

if feasible and economically reasonable to minimize fugitive dust emissions.

36. FORCE MAJEURE

COMPANY shall not be liable for delays or defaults in performing any agreement or covenant in this Lease due to *force majeure*. The term "*force majeure*" shall mean: any act of God including storms, floods, washouts, landslides, and lightning; wars, blockades, insurrection or riots; or unforeseeable exhaustion or unavailability of any product, labor, service or material; but excluding any financial obligations of **COMPANY**. If **COMPANY** by *force majeure* is prevented from conducting drilling operations, reworking operations, or producing operations, then until such *force majeure* is terminated, the provisions of this Lease that might operate to terminate it or the estate conveyed by it shall be suspended and inoperative and this Lease shall continue in full force. The benefits and rights of this *force majeure* clause shall be available only when the cause claimed is outside of **COMPANY**'s control and is the proximate cause of a delay or failure to perform, and only if **COMPANY** is using its best efforts, exercised in good faith, to remedy or eliminate the *force majeure*. In no case will the existence of a condition of *force majeure* excuse performing any act or duty of **COMPANY** for a period of over one (1) year. As a condition of **COMPANY**'s utilizing the rights granted under this *force majeure* clause, **COMPANY** shall (a) within seven (7) days of the occurrence of such *force majeure* event, provide **TAMUS** written notice of the claim, outlining the full particulars of the basis of the *force majeure* claim; and (b) provide **TAMUS** with written notice that the *force majeure* event has ended no later than seven (7) days after the *force majeure* event ends.

Notwithstanding this *force majeure* clause, this provision shall not apply to or excuse any delay or failure to make any monetary payments required hereunder, nor shall it apply to or excuse any delay or discontinuation of operations resulting from exhaustion or unavailability of any product, labor, service or material for periods of time over ninety (90) days.

37. BINDING EFFECT

The covenants, conditions, and agreements in this Lease and references to **COMPANY** extend to and are binding upon the heirs, executors, administrators, trustees, successors, and assigns of **COMPANY**.

38. DESIGNATION OF AUTHORIZED REPRESENTATIVE OF TAMUS

For this Lease, **TAMUS** appoints the Chancellor or his/her designee as its authorized representative to act for **TAMUS**.

39. AUTHORITY OF AGENTS

In all cases the authority of a manager or agent to act for **COMPANY** must be filed at the General Land Office and with the System Real Estate Office.

40. NOTICE

Any notice required or permitted under this Lease must be in writing, and shall be deemed delivered (whether received or not) when deposited with the United States Postal Service, postage prepaid, certified mail, return receipt requested, and addressed to the intended recipient at the address set out below. Notice may also be given by regular mail, personal delivery, courier delivery, facsimile transmission, email or other commercially reasonable means and will be effective when received. **TAMUS** and **COMPANY** can change their respective notice address by sending to the other party a notice of the new address. Notices should be addressed as follows:

COMPANY:

Tel: _____
Fax: _____
Email: _____

TAMUS:

The Texas A&M University System
Office of General Counsel
Attn: System Real Estate Office
301 Tarrow Street, 6th Floor
College Station, Texas 77840-7896
Tel: 979-458-6350
Fax: 979-458-6359
Email: SREO@tamus.edu

41. AMENDMENTS

Neither this Lease nor its terms or provisions may be altered, amended, extended or ratified by any division order or transfer order executed by **TAMUS**. Any division orders or transfer orders are solely to confirm the extent of **TAMUS**' interest in production of oil and/or gas from the described premises, or any land pooled therewith. Any amendment, alteration, extension or ratification of this Lease or of any term or provision of this Lease must be made by an instrument in writing describing the terms or provisions of this Lease affected and the proposed change or modification, and executed by the party against whom any such amendment, alteration, extension or ratification is sought to be enforced, and any amendment, alteration, extension or ratification not so drafted and executed is of no force or effect.

42. CALENDAR DAYS

Unless otherwise stated in this Lease, using the word "day" shall mean "calendar day."

43. COUNTERPARTS

This Lease may be executed in several counterparts, each of which shall be fully effective as an original and all of which counterparts together shall constitute one lease between **TAMUS** and **COMPANY**.

EXECUTED effective this _____ day of _____, 20__ (“Effective Date”) by **TAMUS**.

**BOARD OF REGENTS OF
THE TEXAS A&M UNIVERSITY SYSTEM**

**DRAFT
DO NOT SIGN**

By: _____

JOHN SHARP
Chancellor

APPROVED AS TO FORM:

**DRAFT
DO NOT SIGN**

GINA M. JOSEPH
Assistant General Counsel
Office of General Counsel
The Texas A&M University System

ACKNOWLEDGEMENT

THE STATE OF TEXAS §
 §
COUNTY OF BRAZOS §

BEFORE ME, the undersigned authority, a Notary Public in and for the State of Texas, on this day personally appeared **JOHN SHARP**, Chancellor of The Texas A&M University System, known to me to be the person whose name is subscribed to the foregoing instrument and acknowledged to me that he executed it as the act and deed of the Board of Regents of The Texas A&M University System, for the purposes and consideration therein expressed, and in the capacity therein stated.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this _____ day of _____, 20__.

**DRAFT
DO NOT SIGN**

Notary Public

EXHIBIT "A"

[Legal Description of Leased Premises]

DRAFT