

Addendum REGULAR MEETING OF THE
LA SALLE COUNTY COMMISSIONERS COURT

DATE: Monday SEPT 8, 2014
TIME: 10:15 am
PLACE: Commissioners Courtroom
La Salle County Courthouse
101 Courthouse Square
Cotulla, Texas 78014

The La Salle County Commissioners court requires that testimony before the court be given under oath pursuant to Local Government Code 81.030. A person who makes a false statement under oath is subject to prosecution under Section 37.02, Penal Code

AGENDA

Deliberate and Consider action on the following items.

1. Discussion and/or possible action for change orders for Albert Martin, Carrol, Mud and Camerone Roads.
2. Discussion and/or possible action to authorization for bids for mineral interests, attached to this notice as Invitation to Bid
3. Adjourn

INVITATION FOR BIDS
FOR
OIL AND GAS LEASE

La Salle County, Texas

Bid Due Date: _____, 2014

INFORMATION REQUIRED FROM BIDDERS FOR
OIL AND GAS LEASE BID

Pursuant to chapter 71 of the Natural Resources Code, La Salle County, Texas (hereinafter "County") is accepting bids for the purpose of entering into an Oil and Gas Lease for county owned property. All bids must be received no later than __:00 p.m. on _____, _____, 2014, at the County Administration Office, 101 Courthouse Square, Cotulla, Texas 78014. All bids should be in an envelope clearly marked "**OIL AND GAS LEASE BID**". Any questions may be directed to _____
_____ at the County Administration office at (_____) _____ during normal business hours.

DESCRIPTION:

The County has several tracts of land available for gas and oil exploration. Paragraph ___ of the proposed lease attached as "Exhibit A" sets forth a legal description of the properties being considered in this Invitation For Bid. The County intends to proceed with one lease for all tracts.

Upon receipt of the bids, the County shall have the right to contact any firm that submits a bid to answer additional questions regarding the firm or its bid. County staff will evaluate the bids and then make a recommendation to the La Salle County Commissioners Court whether to proceed with negotiations on a written lease agreement with a recommended lessee. Pursuant to section 71.006 of the Texas Natural Resources Code, the Commissioners Court may award the lease to the highest and best bidder who submits a bid.

The written lease agreement to be submitted in connection with a bidder's bid shall be that appended hereto as "Exhibit A". Should a bidder desire to modify any of the terms and

conditions of the attached lease agreement in connection with the submission of its bid, it shall submit with its bid the lease agreement with redline changes clearly identifying the revisions, together with a written explanation for each such revision, unless the revision is self-explanatory. If the bidder's bid is accepted as being the highest and best bid, the final lease agreement will then be negotiated by the County Administrator and submitted to the La Salle County Commissioners Court for ultimate approval. Any revisions to the lease agreement proposed by a bidder will be considered by the Commissioners Court in determining the highest and best bid.

The County reserves the right to reject any and all bids, to waive any informalities or irregularities in the bid process and to award the lease the property to the bidder whose bid is determined by the Commissioners Court to be the highest and best bid.

BID SUBMISSION

When submitting your bid, please provide responses to the following along with the Lease Agreement attached hereto as "Exhibit A" with your redline changes clearly identifying your revisions, together with a written explanation for each such revision, unless the revision is self-explanatory:

1. Name, address, and contact information for your company.
2. Provide documentation to show your legal right to do business in the State of Texas (i.e., Articles of Incorporation or other legal formation documents).
3. Provide biographies of the principals of your organization, including experiences in the oil and gas business.
4. Provide examples of current operating wells in the State of Texas under the control of your organization.

5. Is your organization willing to provide a performance or security bond to cover costs of a contractual breach and for cleanup for closure of a site after all drilling and production activities cease?
6. Is your organization willing to provide a Certificate of Liability Insurance with the following minimum requirements?
 - i. \$1,000,000 General Liability
 - ii. \$1,000,000 Products/Completed Operations \$1,000,000 Auto
 - iii. \$500/500/500 Workers' Compensation
 - iv. \$1,000,000 Excess Liability
 - v. Insurance carrier must have A- or better AM Best rating
 - vi. 30-day notice of cancellation for other than non-payment premium
 - vii. La Salle County must be listed as additional insured
 - viii. Waiver of subrogation
7. Has your organization ever been cited for any violations of law, statute, or regulations by any government agency or the State of Texas? If so, please provide details and resolution of such violation or violations, including the dates and outcomes.
8. Provide a proposed lease payment which should be reflected as either a lump sum, per net mineral acre or other method.
9. Provide any "bonus" proposals or offers as part of the consideration for the lease in addition to lease payments or royalties proposed.
10. Do you have a separate proposed "surface use and damages" agreements for use of the surface of the properties adjacent to the tracts identified in the lease agreement attached hereto as "Exhibit A" , if so, please provide as part of bid documentation, but in a separate sealed envelope. These agreements shall be returned to you at the conclusion of the County's consideration of the bids submitted in response to this Invitation For Bids.

OTHER CONSIDERATIONS WHEN PREPARING BID:

1. The attached Lease is a non-surface use lease, is limited to only the depths located between the stratigraphic equivalent of the top of the formation commonly known as the Austin Chalk and the base of the formation commonly known as the Buda formation.
2. No drilling will occur within 500 feet of any County owned building.

3. County shall have the right to inspect all drilling reports and records upon request. County shall have the right inspect and duplicate all pumping and piping records.

Please include any and all additional items you would like for the County to consider when reviewing your bid.

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.

NON SURFACE USE OIL AND GAS LEASE

This **NON SURFACE USE OIL AND GAS LEASE** ("Lease") made as of the ____ day of _____, 2014, the ("Effective Date") by and between **La Salle County, Texas**, a political subdivision of the State of Texas, c/o Joel Rodriguez, La Salle County Judge, ("Lessor"), whose address is 101 Courthouse Square, Cotulla, Texas 78014 and _____ ("Lessee"), whose address is _____.
Lessor and Lessee are sometimes collectively referred to in this Lease as the "**Parties.**"

1.1 **Leased Premises.** Lessor, in consideration of a cash bonus in hand paid by Lessee, the royalties herein provided, and the covenants, agreements and obligations of Lessee herein contained, and subject to the conditions and limitations hereinafter set forth, hereby leases and lets, exclusively unto Lessee, for the purpose of exploring, drilling for, producing, and marketing oil and gas, the land described as follows:

Tract 1: 4.06 acres of land, more or less, being Lot Numbers Five (5) and Six (6), in Block Number Three (3), Las Palmas Subdivision, as per plat recorded in Volume A, Page 59, Plat Records of the Real Property Records of La Salle County, Texas, and being more particularly described in that certain Warranty Deed from Cotulla Partners, LTD., a Texas limited partnership, as Grantors to La Salle County c/o Hon. Joel Rodriguez, County Judge, as Grantee, dated July6, 2009 and recorded in Volume 483, on Page 55 of the Real Property Records of La Salle County, Texas.

Tract 2: 0.69 acres of land, more or less, situated in La Salle County, Texas and being a 0.69 acre tract of land out of the McMullen and Mc Gloin Survey No. 11 ½, Abstract No. 568, being more fully described in that certain Deed from Cotulla Partners, LTD., a Texas limited partnership, as Grantor to La Salle County, a political subdivision of the State of

Texas c/o Hon. Joel Rodriguez, County Judge, as Grantee, dated May 24, 2010, recorded in Volume 504, on Page 470, of the Real Property Records of La Salle County, Texas.

Tract 3: 7.00 acres of land, more or less, being out of the McMullen and McGloin Survey No. 11 ½, Abstract No. 568, and also being out of Tracts 1 and 2 of the Cotulla Ranch Subdivision in La Salle county, Texas, being more fully described in that certain Deed from Diversified Municipal services of Texas, Inc., as Grantor to County of La Salle, Texas, as Grantee, dated February 11, 2008, recorded in Volume 468, on Page 454, of the Real Property Records of La Salle County, Texas.

Tract 4: 5.37 acres of land, more or less, being more fully described in that certain Deed from Joseph Cotulla, as Grantor to C.C. Thomas, County Judge of La Salle County, Texas, as Grantee, dated July 18, 1907, recorded in Volume R, on Page 410, of the Real Property Records of La Salle County, Texas.

Tract 5: 1.09 acres of land, more or less, out of Survey 11 ½, Abstract No. 568, a portion of said 1.09 acres herein conveyed being out of the George D. Cook Gin Block, and a portion of said 1.09 acres herein conveyed being out of a 2.70 acre tract sold to George D. Cook by Louise Cotulla et al, by Deed recorded in Volume P-2, on Page 502, of the Real Property Records of La Salle County, Texas, more particularly described in that certain Deed from Mrs. Gertrude Cook, a Widow, Individually and as Independent Executrix of the Estate of George D. Cook Deceased; and George E. Cook, as Grantors to J. W. Martin, County Judge of La Salle County, Texas, and his successors in office as such County Judge, as Grantee, dated March 5, 1952, recorded in Volume W-4, on Page 429, of the Real Property Records of La Salle County, Texas

Tract 6: Being 1.09 acres of land, more or less, out of Survey 11 ½, Abstract No. 568, and being partially out of that certain Deed dated August 10, 1925 from Continental Gin Company, as Grantor to George D. Cook, as Grantee, recorded in Volume 19, on Page 496, of the Real Property Records of La Salle County, Texas, more fully described by metes and bounds as follows:

Beginning at a point designated as the S.W. corner of the said George D. Cook Gin Block; Thence N81°30'E 190 feet to a point; Thence N8° 30'W 250 feet to a point; Thence S81°

30'W 190 feet to a point; Thence S8°30'W 250 feet along the East line of Highway No. 81 to the point of beginning.

Tract 7: Being 11.25 acres of land, more or less, out of a 71.99 acre tract described in that certain Deed dated November 30, 1988, from General Corporativo, S.A., as Grantor to La Salle County, Texas, as Grantee, recorded in Volume 296, on Page 132, of the Real Property Records of La Salle County, Texas, Being situated in La Salle County, Texas, being 71.99 acres of land more or less, out of that certain 107.55 acre tract described by Deed recorded in Volume 202, on Page 145, of the Real Property Records of La Salle County, Texas, and also being out of a 28.923 acre tract described by Deed recorded in Volume 173, on Page 497, of the Real Property Records of La Salle County, Texas, said 71.99 acre tract being described as the First Tract in that certain Warranty Deed dated November 30, 1988, from General Corporativo, S.A., as Grantor to La Salle County, Texas, as Grantee, recorded in Volume 296, on Page 132 of the Real Property Records of La Salle County, Texas and being out of the McMullen and McGloin Survey No. 11 ½, Abstract No. 568;

SAVE AND EXCEPT: 46.69 acres of land more or less, out of that certain 64.99 acres described as the First Tract in that certain Warranty Deed dated November 30, 1988, from General Corporativo, S.A., as Grantor to La Salle County, Texas, as Grantee, recorded in Volume 296, on Page 132 of the Real Property Records of La Salle County, Texas and being out of the McMullen and McGloin Survey No. 11 ½, Abstract No. 568, said 49.69 acre tract being described in that certain Warranty Deed dated June 24, 2004, from La Salle County, Texas, as Grantor to Cotulla Partners, LTD., as Grantee, recorded in Volume 440, on Page 544, of the Real Property Records of La Salle County, Texas;

SAVE AND EXCEPT: 3.37 acres of land more or less, being situated in La Salle County, Texas, and being Lot Number One (1), in Block Number One (1), Las Palmas Subdivision, Phase 3, as per Plat recorded in Volume A, on Page 62, of the Plat Records of La Salle County, Texas;

SAVE AND EXCEPT: 0.69 acres of land, more or less, situated in La Salle County, Texas and being a 0.69 acre tract of land out of the McMullen and Mc Gloin Survey No. 11 ½, Abstract No. 568, being more fully described in that certain Deed from Cotulla Partners, LTD., a Texas limited partnership, as Grantor to La Salle County, a political subdivision of the State of Texas c/o Hon. Joel Rodriguez, County Judge, as Grantee, dated May 24,

2010, recorded in Volume 504, on Page 470, of the Real Property Records of La Salle County, Texas.

Tract 8: Being 6.05 acres of land, more or less, more fully described as the second tract in that certain Deed from General Corporativo, S.A., as Grantor to La Salle County, Texas, as Grantee, dated November 30, 1988, recorded in Volume 296, on Page 132 of the Real Property Records of La Salle County, Texas.

(and referred to herein as "**Said Land**," the "**Property**," or the "**Leased Premises**"). The Leased Premises shall include all strips and gores, streets, easements, highways and alleyways adjacent thereto. Lessor agrees to execute at Lessee's request any additional or supplemental instruments reasonably necessary for a more complete or accurate description of the leased premises. For the purpose of determining the amount of any shut-in royalties hereunder, the number of gross acres specified above shall be deemed correct, whether actually more or less.

1.2. **Limitation of Leased Premises.** This Lease is a non-surface use lease, is limited to only the depths located between the stratigraphic equivalent of the top of the formation commonly known as the Austin Chalk and the base of the formation commonly known as the Buda formation. Lessor however hereby grants Lessee a subsurface easement and right-of-way to drill horizontally under the surface of the Leased Premises. This Lease does not otherwise cover any depths from the surface of the ground to the top of the Austin Chalk ("Shallow Rights") and does not cover any depths below the bottom of the Buda ("Deep Rights"), and which Shallow Rights and Deep Rights are expressly excepted from this Lease and reserved by Lessor.

2. **Term.** Subject to the other provisions contained herein, this Lease shall be for a term of 3 years from the date hereof (the "primary term"), and for as long thereafter as oil or gas or other substances covered hereby are produced in paying quantities from the Leased Premises or from lands pooled therewith, or this Lease is otherwise maintained in effect pursuant to the provisions hereof.

3. **Minerals Covered.** For purposes of this Lease, "oil and gas" means oil, gas and other liquid and gaseous hydrocarbons and their constituent elements, including sulfur, produced through a well bore. "Oil" includes all condensate, distillate and other liquid and gaseous hydrocarbons produced through a well bore. "Gas" includes helium, carbon dioxide and other commercial gases, as well as hydrocarbon gases. Expressly excluded from this Lease are lignite, coal, and other like minerals. Lessee shall have no right to drill a water well or wells in, on, or under the Leased Premises.

4. **Royalty.** (a.) Royalties on oil, gas and other substances produced and saved hereunder shall be paid by Lessee to Lessor as follows: (a) for oil and other liquid hydrocarbons separated at Lessee's separator facilities, the royalty shall be twenty-five percent (25%) of such production, to be delivered at Lessee's option to Lessor at the wellhead or to Lessor's credit at the oil purchaser's transportation facilities, provided that Lessee shall have the continuing right to purchase such production at the wellhead market price then prevailing in the same field (or if there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price) for production of similar grade and gravity; and (b) for gas (including casinghead gas) and all other substances covered hereby, the royalty shall be Twenty-Five percent (25%) of the proceeds realized by Lessee from the sale thereof, computed at the point of sale, provided that Lessee shall have the continuing right to purchase such production at the prevailing wellhead market price paid for production of similar quality in the same field (or if there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price) pursuant to comparable purchase contracts entered into on the same or nearest preceding date as the date on which Lessee commences its purchases hereunder.

(b.) Royalties on oil, gas and other substances produced and saved hereunder which are processed in a processing plant in which Lessee, or an affiliate of Lessee, has a direct or indirect interest, shall be calculated based upon the higher of the proceeds received or the market value of the products so processed. Similarly, on oil, gas and other substance produced and saved hereunder which are sold to Lessee, or an affiliate of Lessee, royalties shall be paid based upon the higher of the market value of the products so sold and the proceeds received by Lessee for said products. Royalties on oil, gas and other substances produced and saved hereunder which are processed in a processing plant in which neither Lessee, nor an affiliate of Lessee, has any direct or indirect interest, shall be calculated based upon the total proceeds received for the sale of all production revenue under an arms length sales contract negotiated in good faith which includes price redeterminations at least annually. Notwithstanding anything to the contrary herein, in no event shall any of Lessor's royalty bear any part of the costs of production or any post-production costs, including costs of lifting, gathering dehydration, compression, separation, delivery, transportation, manufacture, processing, treating or marketing, or for construction, operation or depreciation of any plant or other facility or equipment for processing or treating oil or gas produced from the leased premises or lands pooled therewith. In no event shall Lessor receive a price less than Lessee in sales to non-affiliates.

(c.) It is the intent of the parties that the provisions of this section are to be fully effective and enforceable and are not to be construed as "surplusage" under the principles set forth in *Heritage Resources v. NationsBank*, 939 S.W.2d 118 (Tex. 1997).

(d.) As used herein, "affiliate" means (i) a corporation, joint venture, partnership or other entity that owns more than ten percent (10%) of the outstanding voting interest of Lessee or in which Lessee owns more than ten percent (10%) of the outstanding voting interest; or (ii) a corporation, joint venture, partnership or other entity in which, together with Lessee more than ten percent (10%) of the outstanding voting interest of both the Lessee and the other corporation, joint venture partnership or other entity is owned or controlled by the same person or group of persons. Lessee must disburse or cause to be disbursed to Lessor its royalty on production from a particular well not later than one hundred twenty (120) days after the end of the month following first delivery of oil or gas from the well into the pipeline. Thereafter, Lessee must disburse or cause to be disbursed to Lessor by the last day of each month its royalty on production for which Lessee received payment in the preceding month, but in no event shall royalty be paid more than sixty (60) days after the last day of the month of production. If not paid when due, Lessor's royalty shall bear interest at the maximum lawful rate set forth in the Texas Natural Resources Code for past due royalty payments from due date until paid, which amount Lessee agrees to pay. Acceptance by Lessor of royalties that are past due shall not act as a waiver or estoppel of its right to receive interest due thereon unless Lessor expressly so provides in writing signed by Lessor. The receipt by Lessee, or Lessee's operator, from a purchaser or a pipeline company of proceeds of production for distribution to Lessor will not result in Lessee, or Lessee's operator, acquiring legal or equitable title to those proceeds, but Lessee, or Lessee's operator, will at all times hold the proceeds in trust for the benefit of Lessor. Notwithstanding the insolvency, bankruptcy, or other business failure of a purchaser of production from Said Land or pipeline company transporting production from Said Land, Lessee will remain liable for payment to Lessor for, and agrees to pay Lessor all royalties due Lessor together with interest if not timely paid. Lessor retains the right to terminate the Lease as to any well where Lessee fails to pay royalties within 30 days after their due date as set forth in the Texas Natural Resources Code, but only in the event after such 30 day period, Lessor provides Lessee with a detailed written notice describing the unpaid royalty due and provides Lessee an opportunity to cure which shall not exceed sixty (60) days after such 30 day period. Oil or gas produced from Said Land or pooled unit that Said Land is included therewith shall not be commingled with oil or gas produced from any other lands not pooled with the Leased Premises prior to the point where the oil or gas produced from this Lease passes through the meter which will measure the oil or gas for calculating the payment made by the purchaser of oil or gas production.

5. **Shut-in Royalty.** If at the end of the primary term or any time thereafter one or more wells on the leased premises or lands pooled therewith are capable of producing oil or gas or other substances covered hereby in paying quantities, but such well or wells are either shut-in or production therefrom is not being sold by Lessee, such well or wells shall nevertheless be deemed to be producing in paying quantities for the purpose of maintaining this Lease. A well that has been drilled but not fraced shall be deemed incapable of producing in paying quantities. If for a period of ninety (90) consecutive days such well or wells are shut-in or production therefrom is not being sold by Lessee, then Lessee shall pay shut-in royalty of Fifty dollars (\$50.00) per acre then covered by this Lease on or before the end of said 90-day period and thereafter on or before each anniversary of the end of said 90-day

period while the well or wells are shut-in or production therefrom is not being sold by Lessee; provided, however, that if this Lease is otherwise being maintained by operations, or if production is being sold by Lessee from another well or wells on the leased premises or lands pooled therewith, no shut-in royalty shall be due until the end of the 90-day period next following cessation of such operations or production. Notwithstanding anything to the contrary herein, it is expressly understood and agreed that after the expiration of the primary term, Lessee shall not have the right to continue this Lease in force by payment of shut-in royalty for more than an aggregate combined period, during times all wells are actually and physically shut in, of more than two (2) years.

6. **Payments.** All shut-in or other royalty payments under this Lease shall be paid or tendered to each individual entity according to the percentages outlined in Section 4. All payments or tenders may be made by check or electronic transfer.

7. **Continuous Drilling Obligations.** If Lessee drills a well which is incapable of producing in paying quantities (a "dry hole") on the Leased Premises or lands pooled therewith, or if all production (whether or not in paying quantities) permanently ceases from any cause, including a revision of unit boundaries pursuant to the provisions of Section 9 or the action of any governmental authority, then in the event this Lease is not otherwise being maintained in force it shall nevertheless remain in force if Lessee commences operations for reworking an existing well or for drilling an additional well or for otherwise obtaining or restoring production on the Leased Premises or lands pooled therewith within one hundred twenty (120) days after completion of operations on such dry hole or within one hundred twenty (120) days after such cessation of all production. If at any time within 120 days on or before the expiration of the primary term, or at any time thereafter, this Lease is not otherwise being maintained in force but Lessee is then engaged in drilling, completing, perforating, fracing, reworking or any other operations reasonably calculated to obtain or restore production therefrom, this Lease shall remain in force so long as any one or more of such operations are prosecuted with no cessation of more than one hundred twenty (120) consecutive days, and if any such operations results in the production of oil or gas or other substances covered hereby, as long thereafter as there is production in paying quantities from the Leased Premises or lands pooled therewith. After completion of a well capable of producing in paying quantities hereunder, Lessee shall drill such additional wells on the Leased Premises or lands pooled therewith as a reasonably prudent operator would drill under the same or similar circumstances (a) to develop the Leased Premises as to formations then capable of producing in paying quantities on; the Leased Premises or lands pooled therewith, or (b) to protect the Leased Premises from uncompensated drainage by any well or wells located on other lands not pooled therewith which are located closer than permitted by Railroad Commission Rules without a Rule 37 exception and which well would be offset by a reasonable prudent operation under the same or similar circumstances. There shall be no covenant to drill exploratory wells or any additional wells except as expressly provided herein.

8. **Pooling.** Lessee shall have the right but not the obligation to pool all or any part of the Leased Premises or interests therein with any other lands or interests, and as to any or all substances covered by this lease, either before or after the commencement of production, whenever Lessee deems it necessary or proper to do so in order to prudently develop or operate the Leased Premises, whether or not similar pooling authority exists with respect to such other lands or interests; provided, however, that the entire Leased Premises covered by this Lease, shall be included in any unit created pursuant to the pooling authority granted herein. The unit formed by such pooling for an oil well which is not a horizontal completion shall not exceed eighty (80) acres plus a maximum acreage tolerance of ten percent (10%) and for a gas well or a horizontal completion shall not exceed six hundred forty (640) acres plus a maximum acreage tolerance of ten percent (10%). For the purpose of the foregoing, the terms "oil well" and "gas well" shall have the meanings prescribed by applicable law or the appropriate governmental authority, or if no definition is so prescribed, "oil well" means a well with an initial gas-oil ratio of less than 100,000 cubic feet per barrel and "gas well" means a well with an initial gas-oil ratio of 100,000 cubic feet or more per barrel, based on twenty-four (24) hour production test conducted under normal producing conditions using standard lease separator facilities or equivalent testing equipment and "horizontal completion" means a well in which the horizontal component of the gross interval in the reservoir exceeds the vertical component thereof. In exercising its pooling rights hereunder, on or before one hundred twenty (120) days after first production, Lessee shall file of record a written declaration describing the unit and stating the effective date of pooling which may be retroactive to first production. In the event Lessor's acreage is included in a well, all of Lessor's acreage covered by this lease shall be included. Production, drilling or reworking operations anywhere on a unit which includes the leased premises shall be treated as if it were production, drilling or reworking operations on the leased premises, except that the production on which Lessor's royalty is calculated shall be that proportion of the total unit production which the surface acres covered by this Lease and included in the unit bears to the total number of surface acres included in the unit. Pooling in one or more instances shall not exhaust Lessee's pooling rights hereunder, and Lessee shall have the recurring right but not the obligation to revise any unit formed hereunder by expansion or contraction or both, either before or after commencement of production, in order to conform to the well spacing or density pattern prescribed or permitted by the governmental authority having jurisdiction, or to conform to any productive acreage determination made by such governmental authority. In making such a revision, Lessee shall file of record a written declaration describing the revised unit and stating the effective date of revision. If the leased premises are included in or excluded from the unit by virtue of such revision, the proportion of unit production on which royalties are payable hereunder shall thereafter be adjusted accordingly. In the absence of production in paying quantities from a unit, or upon permanent cessation thereof, Lessee may terminate the unit by filing of record a written declaration describing the unit and stating the date of termination. Pooling hereunder shall not constitute a cross-conveyance of interests.

9. **Protection from Drainage and Offset Wells:** If after the date of this Lease, any well producing oil or gas in paying quantities is completed on lands adjacent to the Leased Premises or, lands pooled therewith (a "draining well") but (a) Lessor does not own an interest in such adjacent lands or (b)

Lessor owns an interest in such adjacent lands but such adjacent lands are being developed for oil or gas by a third party or by Lessee under a different lease not pooled with this Lease or the Leased Premises, and the closest perforations of the draining well are located closer to the Leased Premises than permitted by the relevant Field Rules promulgated by the Texas Railroad Commission without a Rule 37 exception and the oil or gas well is draining the Leased Premises and Lessee has not already drilled a well that would serve as an offset well, then Lessee agrees to drill an offset well to the draining well as a reasonably prudent operator would drill under the same or similar circumstances; provided, however, Lessee shall not be required to offset a well on such adjacent lands unless the production therefrom is being produced, marketed and sold. It is provided, however, that if an offset well is required, in lieu of drilling an offset to a draining well, Lessee shall have the option of either paying Lessor, as compensatory royalty, a sum equal to the royalties which would be payable under this Lease on the production from such draining well had same been drilled and produced under this Lease, and, as long as Lessee elects to pay such royalty in lieu of drilling an offset well, it will be considered that oil or gas is being produced from the Leased Premises as to the number of acres adjacent to the draining well as would be ascribed to a well on the Leased Premises within the meaning of Paragraph 2. hereof, or deliver to Lessee a release of this Lease as to the relevant draining formation as to the number of acres of the Leased Premises adjacent to the draining well as would be ascribed to a like well on the Leased Premises. If an offset well is required, to be in compliance with the provisions of this Paragraph 9, Lessee shall either commence the drilling of an offset well within one hundred eighty (180) days after the date of the primary term or one hundred eighty days (180) after the date of first production from the draining well whichever date is later or, within said one hundred eighty (180) day period, deliver to Lessee a release of acreage as herein provided. Lessee's failure to timely commence such offset well or deliver a release shall constitute an election by Lessee to pay compensatory royalty in lieu of drilling an offset well. Compensatory royalty shall be calculated and paid to Lessor based on production from the draining well commencing with production after 7:00 o'clock A.M. on the one hundred eightieth (180th) day as set forth above from such draining well and continue thereafter until production from such well ceases or the relevant depths and acreage is released or an offset well is completed on said lands by Lessee. Should Lessee drill an offset well pursuant to the provisions of this paragraph, whether completed as a dry hole or a producer of oil or gas, Lessee's obligations under the provisions of this paragraph shall be deemed fulfilled.

10. **Assignment.** The interest of either Lessor or Lessee hereunder may be assigned, devised or otherwise transferred in whole or in part, by area and/or by depth or zone, and the rights and obligations of the parties hereunder shall extend to their respective heirs, devisees, executors, administrators, successors and assigns; provided, however, if Lessee is to assign any operations under this Lease it shall give written notice and a copy of any assignment to the Lessor within sixty (60) days of assignment. No change in Lessor's ownership shall have the effect of reducing the rights or enlarging the obligations of Lessee hereunder, and no change in ownership shall be binding on Lessee until thirty (30) days after Lessee has been furnished the original or certified or duly authenticated copies of the

documents establishing such change of ownership to the reasonable satisfaction of Lessee or until Lessor has satisfied the notification requirements contained in Lessee's usual form of division order.

11. **Release and Vertical Pugh Clause.** Lessee may, at any time and from time to time, deliver to Lessor and file of record a written release of this Lease as to a full or undivided interest in all or any portion of the area covered by this Lease or any depths or zones thereunder, and shall thereupon be relieved of all obligations thereafter arising with respect to the interest so released. If Lessee releases all or an undivided interest in less than all of the area covered hereby, Lessee's obligation to pay or tender shut-in royalties shall be proportionately reduced in accordance with the net acreage interest retained hereunder. In any event, upon termination of this Lease, Lessee, its successors or assigns shall deliver to Lessor a recorded release within sixty (60) days as to such portion or portions of this Lease which have terminated under the terms of this Lease

11.1. **No Surface Use.** Notwithstanding anything to the contrary in this Lease, Lessee shall not enter upon the surface of, cross over, place any structure or building upon or conduct any operations (including but not limited to geophysical/seismic operations) on the surface of the Leased Premises. In addition, Lessee shall not locate production facilities upon the surface of lands pooled with the Leased Premises within fifty feet (50') of the boundary of the Leased Premises. Lessee shall only develop the leased premises by pooling, as provided herein, or by directional or horizontal drilling commenced from a surface location on other lands. Notwithstanding anything to the contrary in the Lease, Lessee has no right to drill horizontally, vertically, or at an angle under the Leased Premises at any depth that is less than three hundred (300) feet below the surface. Lessee has no right to pipe, transmit, or transport gas under the Leased Premises at any depth that is less than three hundred (300) feet below the surface. Lessee shall make reasonable efforts to minimize the use of residential or neighborhood streets or thoroughfares in developing the Leased Premises and the lands pooled therewith.

11.2. **Saltwater Disposal Wells.** The saltwater produced with any oil and gas from the Leased Premises (also referred to as produced water), as well as hydraulic fracturing flowback fluid, must be disposed of in a manner that will not cause or allow the potential for pollution of surface or subsurface waters or surrounding air quality. Lessee shall not use or dispose of any saltwater or hydraulic fracturing flowback fluids produced from the leased premises at any commercial salt water disposal well site that is located within the boundaries of any pooled unit which includes the Leased Premises. Upon Lessor's request, Lessee shall notify Lessor of the location of any commercial salt water disposal well site(s) Lessee intends to use or is using to dispose of any fluids produced from the lands pooled with the Leased Premises. Lessee shall indemnify and hold harmless Lessor for any liability or damages arising from the disposal of such fluids.

12. **Noise.** Noise levels associated with Lessee's operations related to the drilling, completion and reworking of wells shall be kept to a reasonable minimum, taking into consideration reasonably available equipment and technology in the oil and gas industry, the level and nature of development and surface use elsewhere in the vicinity of Lessee's drill sites and the fact Lessee's operations are being conducted in or near an urban residential area. If Lessee utilizes any nonelectric-powered equipment in its operations, Lessee shall take reasonable steps to muffle the sound therefrom by installing a noise suppression muffler or like equipment.

13. **Regulatory Requirements and Force Majeure.** Lessee's obligations under this Lease, whether express or implied, shall be subject to all applicable laws, rules, regulations and orders of any governmental authority having jurisdiction, including environmental regulations, setback requirements, restrictions on the drilling and production of wells, and the price of oil, gas and other substances covered hereby. To the extent any such laws, rules, regulations or orders are less restrictive than the terms of this Lease, this Lease shall control. The material breach of any such law, rule, regulation or order as set forth in this paragraph will be considered a material breach of the Lease. When drilling, reworking, production or other operations are prevented or delayed by such laws, rules, regulations or orders, or by inability to obtain necessary permits, equipment, services, material, water, electricity, fuel, access or easements, or by fire, flood, adverse weather conditions, war, sabotage, rebellion, insurrection, riot, strike or labor disputes, or by inability to obtain a satisfactory market for production or failure of purchasers or carriers to take or transport such production, or by any other cause not reasonably within Lessee's control, this Lease shall not terminate because of such prevention or delay. Lessee shall not be liable for breach of any express or implied covenants of this Lease when drilling, reworking, production or other operations are so prevented, delayed or interrupted. Lessee shall take all reasonable actions to remove or end any cause of force majeure as soon as reasonably possible. In no event shall this Lease be perpetuated by an event of force majeure for a period of more than one (1) consecutive year or three (3) years of cumulative time. No obligation of Lessee to pay money that has accrued and was due before the Force Majeure event occurred under this lease will be excused or delayed by reason of such Force Majeure event.

14. **Environmental Compliance.** Lessee shall conduct its operations as a reasonable prudent operator and shall use reasonable safeguards to prevent contamination or pollution of any environmental medium, including soil, surface waters, groundwater, sediments, and surface or subsurface strata, ambient air or any other environmental medium in, on, or under, Said Lands or lands pooled therewith, by any waste, pollutant, or contaminant. Since this is a non-surface use lease, Lessee shall not bring or permit to remain on Said Lands or lands pooled therewith any asbestos containing materials, explosives, toxic materials, or substances regulated as hazardous wastes, hazardous materials, hazardous substances (as the term "Hazardous Substance" is defined in the Comprehensive Environmental Response Compensation and Liability Act (CERCLA), 42 U.S.C. Sections 9601, et seq.) or toxic substances under any federal, state or local law or regulation ("Hazardous Materials"), except

products commonly used in connection with oil and gas exploration and development operations and stored in the usual manner and quantities. LESSEE'S MATERIAL VIOLATION OF THE FOREGOING PROHIBITION SHALL CONSTITUTE A MATERIAL BREACH AND DEFAULT HEREUNDER AND LESSEE SHALL INDEMNIFY, HOLD HARMLESS AND DEFEND LESSOR, ITS AGENTS, EMPLOYEES, TENANTS, GUESTS, INVITEES AND THEIR RESPECTIVE SUCCESSORS AND ASSIGNS FROM AND AGAINST ANY CLAIMS, DAMAGES, JUDGMENTS, PENALTIES, LIABILITIES, AND COSTS (INCLUDING REASONABLE ATTORNEYS FEES AND COURT COSTS) CAUSED BY OR ARISING OUT OF (1) A VIOLATION OF THE FOREGOING PROHIBITION OR (2) THE PRESENCE, RELEASE OR DISPOSAL OF ANY HAZARDOUS MATERIALS ON, UNDER OR ABOUT SAID LANDS OR LANDS POOLED THEREWITH DURING LESSEE'S OCCUPANCY OR CONTROL OF SAME. LESSEE SHALL CLEAN UP, REMOVE, REMEDY, AND REPAIR ANY SOIL OR GROUND WATER CONTAMINATION AND DAMAGE CAUSED BY THE PRESENCE OR RELEASE OF ANY HAZARDOUS MATERIALS IN, ON, UNDER OR ABOUT SAID LANDS OR LANDS POOLED THEREWITH WHICH ARE CAUSED BY LESSEE'S OPERATIONS DURING LESSEE'S OCCUPANCY OF SAME IN CONFORMANCE WITH THE REQUIREMENTS OF APPLICABLE LAW. THIS INDEMNIFICATION AND ASSUMPTION SHALL APPLY, BUT IS NOT LIMITED TO, LIABILITY FOR RESPONSE ACTIONS UNDERTAKEN PURSUANT TO CERCLA OR ANY OTHER ENVIRONMENTAL LAW OR REGULATION. LESSEE SHALL IMMEDIATELY GIVE LESSOR WRITTEN NOTICE OF ANY BREACH OF THIS PARAGRAPH, UPON LEARNING OF THE PRESENCE OF ANY HAZARDOUS MATERIALS, OR UPON RECEIVING A NOTICE PERTAINING TO HAZARDOUS MATERIALS WHICH MAY AFFECT SAID LANDS OR LANDS POOLED THEREWITH. THE OBLIGATIONS OF LESSEE HEREUNDER SHALL SURVIVE THE EXPIRATION OR EARLIER TERMINATION FOR ANY REASON, OF THIS LEASE.

15. **Indemnity.** LESSEE AGREES TO INDEMNIFY AND HOLD HARMLESS LESSOR, AND LESSOR'S REPRESENTATIVES, SUCCESSORS, AND ASSIGNS AGAINST ALL EXPENSES, CLAIMS, DEMANDS, LIABILITIES, AND CAUSES OF ACTION CAUSED BY LESSEE'S OPERATIONS FOR INJURY TO OR DEATH OF PERSONS AND LOSS OR DAMAGE TO PROPERTY, INCLUDING, WITHOUT LIMITATION, ATTORNEY'S FEES, EXPERT FEES, AND COURT COSTS, CAUSED BY LESSEE'S OPERATIONS ON SAID LAND OR LANDS POOLED THEREWITH OR LESSEE'S MARKETING OF PRODUCTION FROM THE LAND OR ANY VIOLATION OF ANY ENVIRONMENTAL REQUIREMENTS BY LESSEE. AS USED IN THIS PARAGRAPH, THE TERM "LESSEE" INCLUDES LESSEE, ITS AGENTS, EMPLOYEES, SERVANTS, CONTRACTORS, AND ANY OTHER PERSON ACTING UNDER ITS DIRECTION AND CONTROL, AND ITS INDEPENDENT CONTRACTORS.

16. **Notices.** All notices required or contemplated by this Lease shall be directed to the party being notified at the address identified in Section 1, unless notice of another address has been provided in writing. All such notices shall be made by either, personal delivery, registered or certified mail, return receipt requested, or by overnight delivery service, unless another means of delivery is expressly stated.

17. **No Warranty of Title.** Lessor makes no warranty of any kind with respect to title to the surface or mineral estate in the leased premises or any portion of or interest therein. All warranties that might arise by common law or by statute, including but not limited to Section 5.023 of the Texas Property Code (or its successor), are excluded. However, Lessor grants Lessee the right to employ any such warranties as a defense against any adverse third party title claims. If Lessor owns an interest in the oil and gas under any of the Leased Premises which is less than the entire fee simple estate therein (whether Lessor's interest is herein specified or not), or no interest, then as to such lands the rentals and royalty herein provided shall be reduced proportionately. By acceptance of this Lease, Lessee acknowledges that it has been given full opportunity to investigate and has conducted sufficient investigation to satisfy itself as to the title to the leased premises. Lessee assumes all risk of title failures.

18. **Curing Defaults.** Should Lessee at any time fail to comply with its obligations hereunder regarding construction, maintenance, or repair, Lessor shall have the right, after giving 30 days prior written notice to Lessee, to do or have done whatever is reasonably necessary to fulfill the obligations to its reasonable satisfaction, and Lessee shall be liable to Lessor for the reasonable and necessary expenses thus incurred by Lessor, to be paid within thirty (30) days after Lessor shall have furnished Lessee an itemized written statement of the expenses. However, this is a non-surface use lease and any such obligation or liability shall be limited to not more than \$2,500.

19. **Venue and Legal Fees.** Venue for any dispute arising under this Lease shall lie in La Salle County, Texas, where all obligations under this Lease are performable. At any time that any obligation of the Lessee to make a payment shall not be complied with in accordance with the terms of the Lease, it is agreed and understood that Lessee will pay to Lessor interest thereon at the highest lawful rate provided in the Natural Resources Code for unpaid royalties which are allowed to be charged to Lessee by Lessor under the then existing Statutes of the State of Texas. In addition, in the event of the breach of any provision of the Lease by Lessee, Lessee shall pay to Lessor all costs and expenses reasonably incurred including reasonable attorney's fees and costs of court incurred by Lessor for the enforcement of the provisions of this Lease. It is agreed and understood that time is of the essence in the performing of each responsibility under the terms of this Lease.

20. **Records.** Lessee shall keep complete and accurate records of all its operations relating to or affecting the Leased Premises, and the results thereof, including but not limited to: all geophysical, geological, geochemical and paleontological data and interpretations or analyses thereof; all land surveys, title opinions and title curative material; all drilling, coring, logging, testing and completion records; all production records showing the total gross production, the quantities saved, sold and used, the disposition thereof, and the sales prices or values thereof; all production sales contracts; and such other records and as may be proper for the settlement of accounts between Lessor and Lessee or to

determine the respective rights and obligations of said parties hereunder. During the primary term of this Lease and for as long as oil and gas is produced therefrom, and for a period of one (1) year thereafter, Lessee shall make all of such records and data available to Lessor or Lessor's designee for examination and copying of nonproprietary data in Lessee's offices at all reasonable times, as well as all other records, reports, notes, charts, graphs, maps, contracts, documents, papers, and other material in the possession of or under the control of the Lessee and pertaining to the Leased Premises.

21. **Division Orders.** It is agreed that neither the Lease nor any of its terms or provisions shall be altered, amended, extended, or ratified by any division order or transfer order executed by Lessor, Lessor's successors, agents, or assigns. If Lessee shall require the execution of a division order for payment of royalty payable under the Lease, then the only form of division order permitted for Lessee's use shall be such form promulgated by the State of Texas and set forth in Section 91.402(d) of the Texas Natural Resources Code as amended from time to time. Any amendment, alteration, extension or ratification of this lease, or of any term or provision of this lease, shall be made only by an instrument clearly denominating its purpose and effect, describing the specific terms or provisions affected and the proposed change or modification hereof, and executed by the party against whom any such amendment, alteration, extension or ratification is sought to be enforced. Any purported amendment, alteration, extension or ratification not so drafted shall be of no force or effect.

22. **Subordination Agreement Fees.** Notwithstanding anything contained herein to the contrary, unless Lessor is in default, neither Lessee nor Lessee's assigns shall ever require subordination, partial release of lien, release of lien, consent or other documentation from any lender of Lessor that has a lien on said land as a condition to Lessor receiving the agreed signing bonus or any subsequent royalty payment. However, Lessor will cooperate with any reasonable effort of Lessee to obtain same from Lessor's lender on behalf of Lessor.

23. **Miscellaneous.** This Lease is entered into in the State of Texas and shall be construed, interpreted and enforced in accordance with the laws of the State of Texas without reference to choice-of-law rules. Should any of the provisions herein be determined to be invalid by a court of competent jurisdiction, it is agreed that this shall not affect the enforceability of any other provision herein and that the parties shall attempt in good faith to renegotiate that provision so determined to be invalid to effectuate the purpose of and to conform to the law regarding such provision. The section titles appearing in this Lease are for convenience only and shall not by themselves determine the construction of this Lease. This Lease may be executed in one or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument. Singular and plural terms, as well as terms stated in the masculine feminine or neuter gender, shall be read to include the other(s) as the context requires to effectuate the full purposes of this Lease. "The rights of Lessor under this Lease shall be in addition to, and not in lieu of, all rights Lessor may have as to payment of royalty under Texas

law, including, without limitation, V.T.C.A. NATURAL RESOURCES CODE §§ 91.401 through 91.405.” A MEMORANDUM OF LEASE and not the actual Lease instrument with its addendum, if any, shall be filed of record in La Salle County, Texas, in order to give constructive notice of Lessee’s leasehold interest in the property.

IN WITNESS WHEREOF, this Lease is executed to be effective as of the date first written above, but upon execution shall be binding on each signatory and the signatory's heirs, devisees, executors, administrators, successors and assigns, whether or not this Lease has been executed by all parties hereinabove named as Lessor.

LESSOR:

By: _____

Joel Rodriguez, Jr.

County Judge, La Salle County, Texas

LESSEE:

By: _____

Name: _____

Title _____

ACKNOWLEDGMENT

THE STATE OF TEXAS

§

§

COUNTY OF LA SALLE §

BEFORE ME, a Notary Public, on this day personally appeared Joel Rodriguez, Jr., in his capacity as La Salle County Judge, acting on behalf of the County of La Salle, known to me to be the person whose name is subscribed to the foregoing instrument and that said instrument is executed in the stated capacity as the free and voluntary act and deed of such governmental unit for the purposes and consideration expressed therein.

GIVEN UNDER MY HAND AND SEAL OF OFFICE on this the ____ day of _____, 2014.

My Commission Expires:

Notary Public, State of Texas

ACKNOWLEDGMENT

THE STATE OF TEXAS §

§

COUNTY OF _____ §

BEFORE ME, a Notary Public, on this day personally appeared _____, as _____ of _____ known to me to be the person whose name is subscribed to the foregoing instrument, and that he executed the same in the stated capacity on behalf of the Company for the purposes and consideration herein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE on this the _____ day of _____, 2014.

My Commission Expires:

Notary Public, State of Texas