



## Travis County Commissioners Court Agenda Request

**Meeting Date:** August 12, 2014

**Prepared By/Phone Number:** Jason G. Walker/44562; Marvin Brice, CPPB, Assistant Purchasing Agent

**Elected/Appointed Official/Dept. Head:** Cyd Grimes

**Commissioners Court Sponsor:** Judge Biscoe

**Agenda Language:** Approve Contract Award for Travis County School Land Oil and Gas Lease, IFB B1406-003-JW, to the Highest Bidder S.B. Street Operating, Inc.

- **Purchasing Recommendation and Comments:** Purchasing concurs with department and recommends approval of requested action. This procurement action meets the compliance requirements as outlined by the statutes.
- On June 24, 2014 the Commissioners Court approved a resolution directing the Purchasing Agent to issue a bid for the lease of oil and gas in tract 53 of the Travis County School Land in Throckmorton County. IFB B1406-003-JW was issued June 27, 2014 and bids were due July 21, 2014.
- On July 22, 2014, the Commissioners Court authorized designated staff to review and evaluate two (2) received bids in order to bring a recommendation back to Commissioners Court for approval.
- Texas A&M AgriLife Extension Service is recommending approval of 4500000190. For the three (3) year lease, S.B Street Operating, Inc. has made a payment of \$625,203.20. At the beginning of the second and third years of the lease, annual rental of \$1.00 per acre shall be paid to County. In any year in which production is established, the annual rental shall be \$2.00 per acre, however, should the royalties paid to County during the preceding year equal or exceed such \$2.00 per acre, then no annual rental will be due. Should such royalties paid to County total less than such \$2.00 per acre, an annual rental equaling the difference between \$2.00 per acre and said royalties will be due. Said royalties for any and all oil shall be 1/4<sup>th</sup> part of the value of the gross

production, and for any and all gas shall be 1/4<sup>th</sup> part of the value of the gross production.

➤ **Contract Expenditures:** Within the last \_\_\_\_ months \$0.00 has been spent against this contract/requirement.

➤ **Contract-Related Information:**

Award Amount: N/A

Contract Type: Lease

Contract Period: 8/12/14 – 8/11/17

➤ **Contract Modification Information: N/A**

Modification Amount:

Modification Type:

Modification Period:

➤ **Solicitation-Related Information: N/A**

Solicitations Sent:

Responses Received:

HUB Information:

% HUB Subcontractor:

➤ **Special Contract Considerations:**

Award has been protested; interested parties have been notified.

Award is not to the lowest bidder; interested parties have been notified.

Comments:

➤ **Funding Information:**

SAP Shopping Cart #:

Funding Account(s):

Comments: Revenue generating contract



## 2. TERMINATION

If, at the expiration of the primary term, oil or gas in paying quantities is not being produced from the premises, this Lease shall immediately terminate; provided, however, the term or life of this Lease may be extended under one or more of the following conditions:

(a) **Drilling or Reworking Operations.** In the event production of oil or gas on the leased premises, after once obtained, shall cease for any cause within sixty (60) days before the expiration of the primary term of this Lease or at any time or times thereafter, this Lease shall not terminate if the Lessee commences additional drilling or reworking operations within sixty (60) days after such cessation and this Lease shall remain in full force and effect so long as such operations continue in good faith and in a workmanlike manner, without interruptions totaling more than sixty (60) days during any one such operation; and, if such drilling or reworking operations result in the production of oil or gas, this Lease shall remain in full force and effect so long as oil or gas is produced in paying quantities or payment of shut-in gas well royalties or compensatory royalties is made as herein provided, subject to other terms and provisions of this lease.

(b) **Shut-In Royalty and Compensatory Royalty.** If, at the expiration of the primary term or at anytime thereafter, there is located on the leased premises a well or wells capable of producing gas and/or condensate or distillate in paying quantities and such hydrocarbons are not produced for lack of a suitable market and this Lease is not being otherwise maintained in force and effect, Lessee may pay as royalty TWELVE HUNDRED AND NO/100 DOLLARS (\$1,200.00) per annum for each well on this Lease capable of producing gas and/or condensate or distillate in paying quantities, such payment to be made to Travis County, Texas, prior to the expiration of the primary term of the Lease or if the primary term has expired, within sixty (60) days after the Lessee ceases to produce gas from such well or wells, and, if such payment is made, this Lease shall be considered to be a producing lease 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 from the first day of the month next succeeding the month in which production ceased, and, thereafter, if no suitable market for such gas exists, the Lessee may extend this Lease for two (2) additional and successive periods of one (1) year each by payment of a like sum of money each year on or before the expiration of the extended term. Provided, however, that if, while this Lease is being maintained in full force and effect by payment of such shut-in gas well royalty, gas and/or condensate or distillate should be sold and delivered in paying quantities from a well situated within one thousand (1,000) feet of the leased premises and completed in the same producing reservoir or in any case where drainage is occurring in respect to the leased premises and any purchaser of gas is willing to purchase the gas from said shut-in gas well at the value of the gross production as defined herein and the Lessee declines to sell to said purchaser after a written request to do so from the Lessor, the right to further extend this Lease by such shut-in gas well royalty payments shall cease; provided, however, under such circumstances, this Lease shall remain in full force and effect for the remainder of the current one (1) year period for which the shut-in gas well royalty has been paid and shall remain in full force and effect for an additional period not to exceed a combined total of three (3) years from the expiration of the primary term or from the first day of the month next succeeding the month in which production ceased only by payment by the Lessee of compensatory royalties at the royalty rate provided for in this Lease as would be due on an equivalent amount of like quality gas produced and delivered from the well completed in the same producing reservoir from which gas is being sold and delivered and which is situated within one thousand (1,000) feet of or draining the leased premises on which a shut-in gas well is situated, such compensatory royalty to be paid monthly to Travis County, Texas, beginning on or before the twentieth (20th) day

of the month next succeeding the month in which such gas is sold and delivered from the well situated within one thousand (1,000) feet of or draining the leased premises and completed in the same producing reservoir; provided, further, that, in the event such compensatory royalties paid in any twelve (12) month period are in a sum less than the annual shut-in gas well royalties provided for in this section, the Lessee shall pay an additional sum of money equal to the difference within thirty (30) days from the end of such twelve (12) month period; provided, further, that nothing herein shall relieve the Lessee of the obligation to drill offset wells as required by Statute or other applicable law or as required by this Lease.

(c) **Current Operations.** If, at the expiration of the primary term, production of oil and gas has not been obtained in paying quantities on the leased premises, but drilling operations are being conducted thereon in good faith and in a good and workmanlike manner, the Lessee may, on or before the expiration of the primary term, file a written application to the Commissioners Court of Travis County, Texas, for a thirty (30) day extension of this Lease, such application to be accompanied by a payment of SEVEN AND 50/100 DOLLARS (\$7.50) per acre for each acre in the Lease, and the Commissioners Court of Travis County, Texas, shall in writing extend this Lease for a thirty (30) day period from and after the expiration of the primary term and so long thereafter as oil and gas is produced in paying quantities from the premises; provided that the Lessee may, so long as such drilling operations are being conducted in good faith and in a workmanlike manner, make like application and payment during any thirty (30) day extended period for an additional extension of thirty (30) days, such extensions not to exceed a combined total of one hundred and eighty (180) days; provided, however, that the Lessee may, so long as such drilling operations are being conducted in good faith and in a workmanlike manner, make written application to the Commissioners Court of Travis County, Texas, on or before the expiration of the initial extended period of one hundred and eighty (180) days and for so long thereafter as oil or gas is produced in paying quantities from the premises, for an additional extension of one hundred and eighty (180) days, such application to be accompanied by a payment of FIFTY AND NO/100 DOLLARS (\$50.00) per acre; provided further, that this Lease shall not be extended for more than a total of three hundred sixty (360) days from and after the expiration of the primary term, unless production in paying quantities has been obtained.

### 3. ROYALTY

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

(a) **Oil.** As a royalty on any and all oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well and also all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, one-fourth (1/4th) part of the value of the gross production. Said value shall be based on the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity in the general area, the prevailing market price thereof in the general area, or the proceeds of the sale thereof, whichever is greatest. The Lessee agrees that, before any gas produced from the land hereby leased containing liquid hydrocarbons recoverable in commercial quantities by separator on the lease 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 at least as efficient to the end that all liquid hydrocarbons recoverable from the gas by such means will be recovered. Upon written consent of the Lessor, the requirement that such gas be run through such a separator or other equipment may be waived upon such terms and conditions as prescribed by the Lessor.

(b) Gas. As royalty on any and all gas, which is defined as all hydrocarbons and gaseous substances not defined as oil in subparagraph (a) above, produced from any well and sold by the Lessee or used by the Lessee, one-fourth (1/4th) of the value of the gross production, such value to be determined on the basis of the highest contract price and escalations thereof which could reasonably be obtained by the Lessee in good faith from a non-affiliated third party at the time of contracting there for or the gross amount accruing to the producer from all hydrocarbons or other products produced from said gas, whichever is greater. A non-affiliated third party shall mean an entity which is neither owned nor managed, in whole or in part, directly or indirectly, by a person who participates in either the ownership or management, in whole or in part, directly or indirectly, of the Lessee. Where gas is run through a separator or other equipment as provided in subparagraph (a) above, its value after having been run through such separator or other equipment shall be determined as specified herein.

(c) No Deductions. Royalties payable under this Lease shall be made without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, transporting, or otherwise making the oil, gas, and other products produced hereunder ready for sale or use.

(d) Injection of Gas. Upon obtaining the consent in writing of the Commissioners Court of Travis County, Texas, the Lessee may inject gas into any oil or gas producing formation underlying the leased premises after the liquid hydrocarbons contained in the gas have been removed and no royalties shall be payable on the gas so injected until such time as the same may thereafter be produced and sold or used by the Lessee in such manner so as to entitle the Lessor to a royalty thereon under the royalty provisions of this Lease.

(e) Waste. The Lessee agrees to use reasonable diligence to prevent the underground or above ground waste of oil or gas and to avoid the physical waste of gas produced from the leased premises. The Lessee shall pay the Lessor a royalty of one-fourth (1/4th) of the market value on any gas so wasted, but in no event shall such value be less than Sixty Cents (\$.60) per M.C.F. for any gas so wasted, provided that no such royalty shall be due or payable upon gas vented or flared in accordance with the rules and regulations of the Railroad Commission of Texas.

(f) Payment in Kind. The Lessor shall have the option to require that payment of any royalty as stipulated in this Lease be made in kind, which option shall be exercisable at the discretion of the Commissioners Court of Travis County, Texas, from time to time, upon giving the Lessee six (6) months written notice. Any royalty interest taken in kind by Lessor shall be without deductions for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, transporting, or otherwise making the oil, gas, and other products produced hereunder ready for sale or use.

#### 4. ANNUAL RENTAL

One (1) year from the date of this Lease and on the same date of each of the following years during the life of this Lease, the Lessee shall pay to Travis County, Texas, an annual rental of ONE AND NO/100 DOLLAR (\$1.00) per acre, payable at the beginning of the second and third years of this Lease, payable each year in advance. The annual rental beginning at the end of any year in which production is established, whether during the primary term or later, shall be TWO AND NO/100 DOLLARS (\$2.00) per acre unless:

(a) The royalties paid to and received in the Commissioners Court of Travis County, Texas, from this Lease during the preceding year shall equal or exceed such TWO DOLLARS AND NO/100 (\$2.00) per acre annual rental, in which event, no annual rental will be due on the rental date immediately following such royalty payments; or,

(b) The royalties paid to and received in the Commissioners Court of Travis County, Texas, from this Lease during the preceding year are less than such TWO AND NO/100 DOLLARS (\$2.00) per acre annual rental, in which event, an annual rental equaling the difference between TWO AND NO/100 DOLLARS (\$2.00) per acre and said royalties paid will be due on the rental date immediately following said royalty payments.

## 5. PAYMENT OF ROYALTIES

All royalties not taken in kind shall be paid to Travis County, Texas, as follows: Royalty on oil shall be due and payable on or before the fifth (5th) day of the second (2nd) month succeeding the month Division Orders are executed and returned by Lessor; who shall be entitled to delete unacceptable or inapplicable provisions and make other appropriate corrections to such Division Orders; and royalty on gas shall be due and payable on or before the fifteenth (15th) day of the second (2nd) month succeeding the month Division Orders are executed and returned by Lessor; who shall be entitled to delete unacceptable or inapplicable provisions and make other appropriate corrections to such Division Orders; and, thereafter, all royalty payments shall be paid on or before the same day of each succeeding month; and provided, further, where such deletions or corrections are not acceptable to the Lessee or other person(s), Lessor shall be entitled to payment of all royalties in a timely manner, provided Lessor submits documentation verifying its royalty interest in oil or royalty interest in gas, as applicable, under this Lease. Royalty payments shall be accompanied by an affidavit of the owner, manager, or other authorized agent, completed in the form and manner prescribed in writing by the Commissioners Court of Travis County, Texas, and showing the gross amount and disposition of all oil and gas produced and the value of the gross production of oil and gas, together with a copy of any other reports or records which the Commissioners Court of Travis County, Texas, may reasonably require to verify the gross production, disposition of all oil and gas produced, and the value of the gross production of oil and gas. In all cases, the authority of a manager or agent to act for the Lessee herein must be filed at the Commissioners Court of Travis County, Texas, or with the Travis County Auditor's Office. Each royalty payment shall be accompanied by a check stub, schedule, summary, or other remittance information showing by the tract number the amount of royalty being paid on each tract. Any Division Orders not issued to Owner/Lessor within ninety (90) days after the date the well is completed as a commercially producing well or any royalty not paid or affidavits and supporting documents not filed when due shall become delinquent and shall, at the option of Commissioners Court, have added to the sum owing a delinquency penalty of one percent (1%) of such sum for each thirty (30) day period of delinquency or a fractional period thereof; provided, however, that each such penalty shall never be less than FIVE AND NO/100 DOLLARS (\$5.00). In the event that a royalty payment is not paid when due, Lessor shall give Lessee notice thereof upon discovery of such overdue payment and in the event such payment is not made for any reason within thirty (30) days from the date of such notice, Lessor may declare Lessee to be in default according to the terms of this Lease. Subject to the preceding sentence, a payment of the delinquency penalty shall in no way operate to prohibit Lessor's right of forfeiture as provided by law nor act to postpone the date on which royalties were originally due.

## 6. EXAMINATION OF RECORDS

The books and accounts, receipts, and discharges of all wells, tanks, pools, meters, pipelines, and all contracts and other records pertaining to the production, transportation, sale, and marketing of the oil and gas produced on said premises shall at all times be subject to inspection, examination and copying by the Commissioners Court of Travis County, Texas, or any representative of County, at no charge to County.

## 7. DEVELOPMENT OBLIGATIONS

(a) During the primary term of this Lease and any extension(s) thereof authorized by paragraph 2(c) of this Lease, Lessee shall drill and complete on the leased premises one (1) well producing or capable of producing oil or gas in paying quantities.

(b) The three (3) year primary term of this Lease shall commence on the \_\_\_ day of \_\_\_, \_\_\_\_\_, and shall expire on the \_\_\_ day of \_\_\_\_\_, \_\_\_\_\_. Any extension(s) authorized by paragraph 2(c) of this Lease shall begin and end only in accordance with the terms and conditions set out in paragraph 2(c) of this Lease.

(c) Drilling operations on the development well commenced, drilled and completed during the primary term and any extension(s) thereof authorized by paragraph 2(c) of this Lease shall be conducted in good faith and in a workmanlike manner without interruptions totaling more than sixty (60) days on the development well until completion of the well. If the Lessee should fail to drill and complete the development well during the primary term or during any extension(s) thereof authorized by paragraph 2(c) of this Lease, or have interruptions in the operations on the development well not permitted by this Lease, this Lease shall immediately terminate in its entirety.

(d) Provided this Lease is not terminated at the expiration of the primary term, within one (1) year from the end of the three year (3) primary term, notwithstanding any extension(s) thereof pursuant to paragraph 2(c) of this Lease, the Lessee shall continuously develop the land covered by this Lease by drilling and completing on the leased premises an additional well, (in addition to the development well drilled and completed pursuant to paragraph 7(a) hereof), producing or capable of producing oil or gas in paying quantities. During said one (1) year period, once Lessee drills and completes the additional well specified in this paragraph, the Lessee shall exercise due diligence of a reasonably prudent operator in drilling such additional well or wells as may be reasonably necessary for the proper development of the leased premises and in marketing the production therefrom.

(e) Drilling operations on the additional well drilled and completed during the one (1) year period, beginning at the end of the three year (3) primary term, shall be conducted in good faith and in a workmanlike manner without interruptions totaling more than sixty (60) days on the additional well until completion of said additional well. If Lessee should fail to drill and complete the additional well within the one (1) year period specified in paragraph 7(d), this Lease shall immediately terminate as to all lands covered hereby, save and except each well producing or capable of producing oil or gas in paying quantities together with forty (40) contiguous acres of land surrounding each said oil well or gas well, as applicable, or the proration unit allocated to the well by the Railroad Commission of Texas as of the date of such termination.

(f) A well shall be deemed to be drilled and completed as required by this Section 7

when the well has been drilled to a depth necessary to find oil or gas in paying quantities. A well shall not be deemed to be drilled and completed as required by this Section 7 if drilled to a depth too shallow for the production of oil or gas in paying quantities.

(g) In the case of partial termination as provided by paragraph 7(e) hereof, each of the producing oil or gas wells, as applicable, shall be surrounded by forty (40) contiguous acres of land or the proration unit allocated to the well by the Railroad Commission of Texas with said acres or allocated proration unit in the shape of a square with each said oil well or gas well, as applicable, placed in the center of its square as near as is practicable considering the land covered by this Lease.

(h) If Lessee fails to drill and complete one (1) additional well within the one (1) year period beginning at the end of the three (3) year primary term and there is partial termination of this Lease as provided for in paragraph 7(e) of this section, within thirty (30) days after said partial termination of this Lease as provided for in paragraph 7(e) of this section, Lessee shall execute and deliver to Lessor a recordable release containing a satisfactory legal description of all lands covered by this Lease, save and except the acreage retained pursuant to paragraphs 7(e) and 7(g) of this section. If Lessee fails or refuses to execute and record such release, within ninety (90) days after being requested to do so by Travis County, then the Commissioners Court may declare a forfeiture of this Lease pursuant to paragraph 14 hereof.

(i) In the event of partial termination of this Lease as provided for in paragraphs 7(e) and 7(g) of this section, the acreage retained and assigned to each producing oil well or gas well in accordance with paragraphs 7(e) and 7(g) of this section shall be considered as covered by a separate Lease containing the same terms and provisions of this Lease, and thereafter, each separate Lease shall be kept in force and effect only by actual or constructive production from or operations upon the particular tract retained by the particular well in question as authorized under this Lease, without regard to production from or drilling operations upon the other tracts retained by lessee under the terms of paragraphs 7(e) and 7(g) of this Lease or under the terms of other Leases.

(j) If this Lease continues beyond the three (3) year primary term, and if this Lease continues beyond the one (1) year period specified in paragraph 7(d) of this section, the Lessee shall exercise the due diligence of a reasonably prudent operator in drilling such additional well or wells as may be reasonably necessary for the proper development of the leased premises and in marketing the production therefrom.

(k) Notwithstanding the partial termination of this Lease as provided for in paragraphs 7(e) and 7(g) of this section, Lessee shall continue to have the right of ingress to and egress from the land still subject to this Lease only for the purpose of producing oil and gas under this Lease, together with easements and rights-of-way for roads, pipelines, and other facilities on, over and across the land covered by this Lease for access to and from the land still subject to this Lease for the gathering and transportation of oil and gas produced from the retained land still subject to this Lease; provided, however, the right of ingress and egress as described in this paragraph is subject to the provisions of Section 12 of this Lease regarding protection of the surface and continued maintenance of insurance coverage as required therein.

## 8. OFFSET WELLS

The Lessee shall adequately protect the oil and gas under the described land from drainage from adjacent lands or leases, including non-Travis County School Land or Travis County School

Land leased at a lesser royalty. The Lessee shall drill as many wells as the facts justify and to the depth or depths necessary for effective protection against drainage from such adjacent lands or leases. Neither the bonus, annual rentals, nor royalties paid or to be paid hereunder shall relieve the Lessee from the obligations herein expressed.

## 9. REMOVAL OF EQUIPMENT

If this Lease shall be forfeited or terminated for any cause, the Lessee shall not, in any event, be permitted to remove the casing or any part of the equipment from any producing, dry, or abandoned well or wells without the written consent of the Commissioners Court of Travis County, Texas; nor shall the Lessee, without the written consent of the Commissioners Court of Travis County, Texas, remove from the leased premises the casing or any other equipment, material, machinery, appliances, or property owned by the Lessee and used by the Lessee in the development and production of oil or gas therefrom, until all dry or abandoned wells have been plugged to the satisfaction of the Railroad Commission of Texas and until all slush or refuse pits have been properly filled and leveled and all broken or discarded lumber, machinery, or debris shall have been removed from the premises to the satisfaction of the Commissioners Court of Travis County, Texas. Lessor shall not unreasonably withhold consent from Lessee.

## 10. REPORTING REQUIREMENTS

Whenever the Lessee commences the drilling of any well or wells upon the described premises, upon request by any Lessor representative, and at no charge to Lessor, Lessee shall file written notice thereof at the Commissioners Court of Travis County, Texas, or to such other office as the Commissioners Court may designate, accompanied by a plat of said premises showing the location of such well or wells. Upon request by any Lessor representative, and at no charge to Lessor, the Lessee shall file at the Commissioners Court of Travis County, Texas, or with such other office as the Commissioners Court may designate, the logs of all wells drilled upon the described premises within thirty (30) days after their completion or after their abandonment in the case of dry holes. To the extent permitted by law, including but not limited to the Texas Public Information Act ("TPIA"), the Lessor shall protect the confidentiality of any information furnished pursuant to this paragraph.

### 10A. RAILROAD COMMISSION FORMS

(a) Upon request by any Lessor representative, and at no charge to Lessor, the Lessee shall file at the Commissioners Court of Travis County, Texas, or such other office as the Commissioners Court of Travis County, Texas, may designate, photocopies of all forms and other information filed with the Texas Railroad Commission which pertain to the operations of this Lease, within five (5) days after said filing with the Commission.

(b) At no charge to Lessor, the Lessee shall have an electric or radioactivity survey made of the bore-hole section, from the base of the surface casing to the total depth of the well, of all wells drilled on the described premises, and upon written request by any Lessor representative, and at no charge to Lessor, Lessee shall transmit a true copy of the log of each survey along with copies of logs of all other bore-hole surveys to the Commissioners Court of Travis County, Texas, or such other office as the Commissioners Court of Travis County, Texas, may designate, within fifteen (15) days after the making of said survey. At the option of the Lessor upon failure of the Lessee to furnish the Lessor a true copy of any log run on any well drilled on the described

premises, and at no cost to Lessor, the Lessee shall be required to re-enter any well and run the required logging survey and at no cost to Lessor, the Lessee shall furnish a true copy thereof to the Commissioners Court of Travis County, Texas or such other office as the Commissioners Court may designate; or, the Lessee shall be required to pay the Lessor a sum of FIVE THOUSAND AND NO/100 DOLLARS (\$5,000) which shall be considered liquidated damages for the Lessee's failure to furnish said log to the Lessor as required hereunder.

(c) The Lessee herein agrees, insofar as possible, and at no charge to Lessor, to supply the Commissioners Court of Travis County, Texas, or such other office as the Commissioners Court may designate, with any records, memoranda, accounts, reports, cuttings, and cores or other information relative to the operations on the described premises, that the Lessor may reasonably request in addition to those records herein expressly provided for.

## 11. WATER WELLS

In drilling wells, all water-bearing strata shall be noted by the Lessee in the log, and the Lessor reserves the right to require that all or any part of the casing shall be left in any non-productive well when the Lessor deems it necessary to preserve or maintain said well or wells for water. Lessor hereby agrees to pay Lessee reasonable salvage value for any casing left on the leased premises as provided in this paragraph.

## 12. USE OF SURFACE AND PROTECTION OF SURFACE AND INDEMNITY

It is expressly understood that: (1) the land described as the leased premises in Section 1 of this Lease and (2) all of the other 320 acre tracts of land located in the Travis County School Land Survey, Abstract 254, as recorded in the Plat Records of Throckmorton County, Texas, at volume 2, page 16, and Deed Records of Throckmorton County, Texas, at book 60, page 73, comprises land which is being leased for grazing purposes, and for hunting, fishing, and camping purposes, and which may be used for other purposes; and, it is essential to Lessor that no operations performed under this Lease or rights asserted by Lessee under this Lease unreasonably interfere with or jeopardize present or future grazing operations or present or future hunting, fishing, and camping operations, or other operations in the future. Consequently, the parties to this Lease agree as follows:

### *I. Indemnity for Lessor.*

(a) *Indemnity. The conduct of operations carried out pursuant to this Lease shall include, but shall not be limited to: any physical operations, exploration, development and production operations, whether such operations are characterized as primary recovery operations or secondary recovery operations. The Lessee shall compensate the Lessor for and indemnify and hold the Lessor harmless against any and all actual damage to the value of the surface estate for the purpose of grazing livestock and for other purposes associated with use of the surface or for any and all actual damage to structures and improvements on the property, including but not limited to, houses, buildings, outbuildings, fences and roads, or for any and all actual damage to the value of any and all personal property of any person or entity on the premises, where any of the actual damages referenced above arise directly or indirectly from the conduct of any and all operations carried out pursuant to this Lease; by the Lessee, by any Contractor or Subcontractor of the Lessee, or by any Independent Contractor doing business with the Lessee, whether the conduct of the Lessee, the Contractor, the Subcontractor, or the Independent Contractor constitutes negligence in whole or in part or whether the conduct of the Lessee, the Contractor, the*

*Subcontractor, or the Independent Contractor constitutes intentional acts or omissions in whole or in part. As used in the preceding sentence, the terms "Lessee," "Contractor," "Subcontractor," and "Independent Contractor" include the officers, agents, employees, representatives, parent subsidiaries and other affiliates, invitees, and licensees of the Lessee, Contractor, Subcontractor and Independent Contractor, respectively.*

*(b) Amounts. Lessee shall pay surface damages in an amount or amounts set forth in any existing and applicable General Land Office fee schedule which is in effect on the date the activity requiring the payment of surface damages occurs. If there is no existing and applicable General Land Office fee schedule, or if the General Land Office fee schedule does not contain an applicable figure, the County may consider other sources of information or may employ other methods to determine the amount or amounts of surface damages to be paid by the Lessee for the surface damage in question.*

## *II. Indemnification and Claims Notification.*

*(a) Indemnity for Third Party Claims. Lessee shall indemnify, hold harmless and defend the Lessor and its officers, employees, agents and representatives from and against any and all third party claims, causes of action, , suits, recoveries, judgments, and liability of every kind, whether meritorious or not, filed against County in any judicial or administrative proceeding, including, all expenses of litigation, court costs, attorneys' fees, and mediation fees, for injury, damage, or loss of any type or character arising directly or indirectly out of personal injury, bodily injury, death, or property damage or loss suffered by any person or legal entity while on the leased premises for any reason connected with this Lease or for any other reason, where injury, damage or loss arises out of or in connection with, directly or indirectly, operations or activities of Lessee, its officers, employees, agents, representatives, parent subsidiaries or other affiliates, invitees, licensees, contractors, subcontractors, or independent contractors.*

*(b) Claims Notification. If any claim, or other action, including proceedings before an administrative agency, is made or brought by any person, firm, corporation, or other entity against Lessee or Lessor in relation to operations or activities on the leased premises under this Lease, Lessee shall give written notice to Lessor of the claim or other action or proceeding within three (3) working days after being notified of it or the threat of it; and such notice shall include:*

- 1. the name and address of the person, firm, corporation or other entity that made or threatened to make the claim, or that instituted or threatened to institute any kind of action or proceeding;*
- 2. the alleged basis of the claim, action, or proceeding;*
- 3. the court or administrative tribunal, if any, where the claim, action, or proceeding was instituted; and*
- 4. the name or names of any person against whom this claim, action, or proceeding is being made or threatened. This written notice shall be given in accordance with the notice provisions of this Lease. Except as otherwise directed, Lessee shall furnish Lessor copies of all pertinent papers received by Lessee with respect to the claims, actions, or*

*proceedings.*

(c) *Written Notice.* Lessor shall give Lessee written notice of any claim, action, or proceeding for damages or alleging damages, within three (3) working days after the date the Lessor receives notice of such claim, action, or proceeding.

(d) *Reimbursement.* Lessee or its insurer shall reimburse the Lessor for any damage or loss described in Parts I and II of this Section 12, within thirty (30) days after a claim for reimbursement is submitted by Lessor.

(e) *No County Liability.* Travis County, Texas, shall not be liable for or responsible for any injury, damage, or loss of any type or character arising directly or indirectly out of personal injury, bodily injury, death, or property damage or loss suffered or sustained by any person or legal entity while on the leased premises for any reason in connection with this Lease or for any other reason.

(f) *Survival.* The indemnity provisions set forth in Parts I and II of this Section 12 shall survive the termination or expiration of this Lease.

(g) *Immunity.* This Section 12 shall not be construed as a waiver of Travis County's sovereign immunity; and, County hereby retains all of its affirmative defenses.

### III. Insurance Requirements.

To meet its obligations under this Lease, Lessee shall have standard insurance to protect the Lessee and the Lessor from the types of claims described in this Section 12, which may arise out of or result from, directly or indirectly, the Lessee's operations or activities under this Lease, whether such operations or activities are those of the Lessee, a contractor of the Lessee, a subcontractor of the Lessee, and independent contractor of the Lessee, or anyone for whose acts or omissions the Lessee, contractor, subcontractor, or independent contractor may be liable. The terms "Lessee," "Contractor," "Subcontractor," and "Independent Contractor" include the officers, agents, employees, representatives, parent subsidiaries and other affiliates, invitees, and licensees of the Lessee, contractor, subcontractor and independent contractor, respectively. The insurance coverage purchased pursuant to Paragraph (a) below shall be maintained by the Lessee throughout the entire term of this Lease Agreement, including both the primary term and the secondary term. It is the responsibility of the Lessee to determine the Lessee's actual insurance needs to meet the obligations and requirements set forth in this Lease Agreement.

(a) *Insurance Policies.* Lessee shall, at its own expense and at all times during the term of this Lease, whether the primary term or the secondary term, maintain in full force and effect the insurance policies required under this Paragraph (a) with the minimum policy limits prescribed in Paragraph (b) below. Lessee shall also require all of its contractor(s), subcontractor(s), and independent contractor(s) conducting any operations or performing any activities under this Lease to have standard insurance meeting the general requirements as set forth in this Paragraph (a) and Paragraph (b) below, consistent with the requirements of this Section 12.

1. The following requirements apply to the Lessee, its contractor(s), subcontractor(s) and independent contractor(s) conducting operations or performing

activities under this Lease. Lessee acknowledges and agrees to the following concerning insurance requirements applicable to Lessee, its contractor(s), subcontractor(s), and independent contractor(s) conducting operations or performing activities under this Lease:

A. Minimum insurance coverage and limits specified below shall be maintained throughout the primary term and the secondary term of this Lease.

B. Insurance shall be written by companies licensed in the State of Texas with an A.M. Best rating of B+ VIII or higher.

C. Prior to commencing operations or activities under this Lease, the insurance required in this Part III shall be in force as evidenced by Certificate(s) of Insurance issued by the writing agent or carrier. Each Certificate of Insurance shall include an original signature of an authorized signer and an affirmation that the signer has professional liability insurance limits of not less than One Million Dollars (\$1,000,000). In addition, each Certificate of Insurance shall be endorsed to acknowledge this Lease Agreement between Travis County, Texas, and the insured Lessee. Each Certificate of Insurance shall include the contract number for this Lease Agreement as indicated on the contract award form issued by the County. Certificate(s) of Insurance shall include the endorsements outlined below, including endorsements by number, and shall be submitted to the Travis County Purchasing Agent within ten (10) working days of execution of this Lease Agreement.

D. Insurance required under this Lease Agreement which names Travis County as an Additional Insured shall be considered primary for all claims.

E. Insurance limits shown below may be written as Combined Single Limits or structured using primary and excess or umbrella coverage that follows the form of the primary policy.

F. Lessor shall be entitled, upon its request and without charge, to receive certified copies of policies and endorsements.

G. Lessor reserves the right to review insurance requirements during the primary term and/or the secondary term of this Lease Agreement and to require that Lessee make reasonable adjustments when the scope of operations or activities under this Lease have changed or expanded.

H. Lessee shall not allow any insurance to be cancelled or lapse during either the primary term or the secondary term of this Lease. Lessee shall not permit the minimum limits of coverage to erode or otherwise be reduced. The Lessee may not amend or modify the insurance policies required in this Part III to contain insurance coverage less than that prescribed in Paragraph (b) below or to contain terms and conditions contrary to those specified in this Part III, except with the express written consent of the Travis County Commissioners Court. Lessee shall be responsible for all premiums, deductibles and self-insured retention. All deductibles and self-insured retention shall be shown on the Certificate(s) of Insurance.

1. The insurance coverage specified in Paragraph (b) below, and applicable to this Lease Agreement is not intended and shall not be interpreted to limit the responsibility or liability of the Lessee, its contractor(s), subcontractor(s), or independent contractor(s). Said insurance coverage shall not be the exclusive remedy of Lessor to recover for injuries, damages, or losses pursuant to Parts I and II of this Section 12. In the event the insurance policies purchased pursuant to this Part III do not cover the injury, damage, or loss in question, or, are not in effect for any reason at the time of said injury, damage, or loss, the Lessor shall be entitled to any and all rights and remedies allowed under Texas law (statutory law, case law, rules, regulations or ordinances), including, but not limited to, any and all rights and remedies provided by other insurance policies covering Lessee heretofore or hereafter in effect, as well as, any and all assets of Lessee.

2. Each and every assignee of this Lease shall comply with all the requirements of this Part III and shall purchase and maintain the insurance coverage required in Paragraph (b) below under the terms and conditions set forth in this Part III.

3. In the event the Lessee cancels or fails to renew the insurance policies containing the insurance coverage set forth in Paragraph (b) below, or in the event there is a material change in coverage, including impairment of the aggregate limits to less than those prescribed in Paragraph (b) below, the Lessee shall give the Lessor not less than thirty (30) days prior written notice of such cancellation, non-renewal, and/or material change in coverage. If Lessee cancels or fails to renew said insurance policies, the Lessee shall immediately obtain new, replacement policies of insurance, which comply with the requirements of this Part III, and which contain, at a minimum, the insurance coverages and limits required in Paragraph (b) below; and, Lessee shall submit certificate(s) thereof to Lessor.

4. Failure by the Lessee to provide the Certificate(s) of Insurance and/or insurance policies as required in this Paragraph (a), or failure by the Lessee to obtain and maintain the insurance coverages and limits required in Paragraph (b) below, or failure by the Lessee to comply with all the requirements of this Part III shall constitute a breach of this Lease Agreement; and, in the event of such breach, the Lessor, at its option, may terminate this Lease as provided in Section 14 of this Lease, by giving notice to the Lessee as prescribed in Section 17 of this Lease.

(b) Insurance Requirements.

The following requirements (A - E, inclusive) apply to the Lessee, its contractor(s), subcontractor(s), and independent contractor(s) conducting operations or performing activities under the Lease. Lessee acknowledges and agrees to the following concerning insurance requirements applicable to Lessee, its contractor(s), subcontractor(s), and independent contractor(s):

- A. Workers' Compensation and Employers' Liability Insurance
  - i. Coverage shall be consistent with statutory benefits outlined in the Texas Workers' Compensation Act.
  - ii. Employer's Liability limits are  
\$500,000 bodily injury each accident

\$500,000 bodily injury by disease  
\$500,000 policy limit

- iii. Policies under this Section shall apply to State of Texas and include in the following endorsements in favor of Travis County:
  - a. Waiver of Subrogation (Form 420304) (or comparable form reflecting industry changes and standards)
  - b. Thirty (30) day Notice of Cancellation (Form 420601) (or comparable form reflecting industry changes and standards).

**B. Commercial General Liability Insurance**

- i. Minimum limit:  
\$1,000,000 per person for coverage A and B with \$3,000,000 per occurrence
- ii. The Commercial General Liability policy shall also include lease liability insurance coverage with a minimum limit of \$1,000,000 per occurrence.
- iii. The Policy shall contain or be endorsed as follows:
  - a. Blanket contractual liability for this Lease (including coverage for the following: (contractual liability, independent contractor liability, fire legal liability, personal injury liability, pollution liability, completed operations liability, XCU liability, broad form property damage liability);
- iv. The Policy shall also include the following endorsements in favor of Travis County:
  - a. Waiver of Subrogation (Form CG 2404) (or comparable form reflecting industry changes and standards);
  - b. Thirty (30) day Notice of Cancellation (Form CG 0205) (or comparable form reflecting industry changes and standards);
  - c. Travis County named as additional insured (Form CG 2010) (or comparable form reflecting industry changes and standards).

**C. Employment Related Practices Insurance**

- i. This insurance coverage applies to all circumstances where Lessee has an employee or any employees.
- ii. Minimum limit: \$1,000,000 per occurrence
- iii. The policy shall also include the following endorsements in favor of Travis County:
  - a. Thirty day notice of cancellation (Form IL 02 75 05 03) (or comparable form reflecting industry changes and standards);
  - b. Travis County named as an additional insured (Form EP 20 01 09 04 (or comparable form reflecting industry changes and standards).

**D. Business Automobile Liability Insurance<sup>1</sup>**

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<sup>1</sup> Alternative Insurance Requirement: If no transportation services of any type are provided in connection with this Lease, and use of a motor vehicle is strictly limited to travel to and from the Leased Premises, evidence of personal automobile policy coverage with limits of

- i. If any form of transportation is used in connection with this Lease, coverage for all owned, non-owned, and hired vehicles shall be maintained with a combined single limit of \$1,000,000<sup>1</sup> per person and \$3,000,000 per occurrence.
- ii. The Policy shall also include the following endorsements in favor of Travis County
  - a. Waiver of Subrogation (Form TE 2046A) (or comparable form reflecting industry changes and standards);
  - b. Thirty (30) day Notice of Cancellation (Form TE 0202A) (or comparable form reflecting industry changes and standards);
  - c. Travis County named as an additional insured (Form TE 9901B) (or comparable form reflecting industry changes and standards).

#### IV. Use of Surface by Lessee.

Subject to the provisions contained in Parts I, II and III above, Lessor and Lessee agree as follows:

(a) **Use of Surface.** Subject to its obligations to pay surface damages as prescribed in Parts I and II of this Section 12 and subject to the insurance requirements set forth in Part III of this Section 12, the Lessee shall have the right to use as much of the surface of the land as shall be reasonably necessary for the full exercise and enjoyment of the oil and gas rights and interest hereby granted in said land, including the right to use free of cost water found and produced or impounded by the Lessee on said land for its own operations thereon, except water from wells or tanks of the Lessor or its surface Lessee. The Lessee shall not use or contaminate any water from wells or tanks of the Landowner/Lessor or the Surface Tenant/Grazing Lessee. Lessee shall also have the right to lay and maintain gathering lines, and erect and maintain on the Leased Premises telephone and telegraph lines, pull rods, and other appliances and equipment necessary for the operation of wells thereon. In addition, the Lessee shall have the right of ingress and egress and the right-of-way to any point of operations under conditions of least injury and inconvenience to the occupant(s) of the surface. The surface must not be damaged if there are usual, customary and reasonable methods available to develop the minerals which would cause less interference with the landowner's/Lessor's or Surface Tenant's/Grazing Lessee's use of the land.

(b) **Maintenance of Surface.** Lessee shall build and maintain fences around its slush, sump, and drainage pits and tank batteries so as to protect livestock against loss, damage, or injury; and, upon completion or abandonment of any well or wells, Lessee shall fill and level all slush pits and cellars and completely clean up the drilling site of all rubbish thereon. The Lessee shall erect, at a distance not to exceed twenty-five (25) feet from each well on the premises covered by this Lease, a legible sign on which shall be stated the name of the operator, the lease designation, and the well number. Where two or more wells are on the same lease or where wells on two or more leases are connected to the same tank battery, whether by individual flow line connections direct to the tank or tanks or by use of the multiple header system, each line between each well and such tank or header shall be legibly identified at all times, either by a firmly attached tag or plate or an identification properly painted on such line at a distance not to exceed three (3) feet from such tank

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\$100,000/\$300,000/\$50,000 may be provided in lieu of Business Automobile Liability Insurance.

or header connection. Said signs, tags, plates, or other identification markers shall be maintained in a legible condition throughout the term of this Lease.

(c) **Roads.** The Mineral Lessee shall at its expense repair and maintain each road used or constructed by it with such maintenance and repair made in accordance with the usual and customary practices of the oil and gas industry, as long as such road is used by the Mineral Lessee in its operations conducted on the leased premises pursuant to this Lease.

(d) **Notification.** The Mineral Lessee agrees to notify the Surface Tenant/Grazing Lessee or the Surface Owner/Lessor, as the case may be, so far in advance as reasonably feasible, of the Mineral Lessee's intention to conduct its various operations on the subject land and to work with the Surface Tenant/Grazing Lessee or the Landowner/Lessor, as the case may be, to minimize the damage to and interference with the Surface Tenant's/Grazing Lessee's activities or the Landowner's/Lessor's activities.

### 13. LIEN

Subject to Section 9.343 of the Texas Business and Commerce Code, and other applicable law, Travis County, Texas, shall have a first lien upon all oil and gas produced from the area covered by this Lease to secure payment of any and all unpaid royalties and other sums of money that become due to Travis County, Texas, hereunder. By acceptance of this Lease, Lessee grants Travis County, Texas, in addition to the lien referenced above, any other applicable statutory lien, and expressed contractual lien on and security interest in all oil and gas production from the Leased Premises, and, the identifiable proceeds of that production owned by, received by or due to Lessee in accordance with Title I, Chapter Nine, Texas Business and Commerce Code, in order to secure the payment of all royalties or other amounts due or to become due under this Lease, and to secure payment of any damages or loss that Lessor may suffer by reason of Lessee's breach of any covenant or condition of this Lease whether expressed or implied. This lien and security interest may be foreclosed with or without court proceedings in the manner provided in Title One, Chapter Nine, of the Texas Business and Commerce Code. Lessee agrees that Travis County may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien, in the event any such instrument is necessary. Lessee hereby represents that there are no prior or superior liens arising from or related to Lessee's operations or activities upon the above-described property or from Lessee's acquisition of this Lease. Should Travis County at any time determine that this representation is not true, then Travis County may declare this Lease forfeited as provided herein. This Section 13 shall not be construed as an exclusive remedy to Lessor for the non-payment of royalties and shall not preclude Lessor's exercise of other rights and remedies allowed by law.

### 14. DEFAULT/TERMINATION

(a) If the Lessee shall fail or refuse to make the payment of any sum due under the provisions of this Lease, within thirty (30) days after same shall become due, or if the Lessee or his authorized representative should knowingly or intentionally make any false report or false return concerning production, royalty, or drilling, if the Lessee shall fail or refuse to drill any offset well or wells in good faith, as required herein, if the Lessee shall fail or refuse to obtain the insurance coverage required under Section 12, Part III of this Lease or to comply with the other requirements of Part III, if the Lessee or his representative shall refuse the proper authority access to the records and other data pertaining to the operations under this Lease within thirty (30) days of request by any

County representative, if the Lessee or his representative shall intentionally fail or refuse to give correct information to the proper authorities or fail or refuse to furnish the cuttings or cores of any well within thirty (30) days of request by any County representative, or intentionally fail or refuse to furnish the log of any well within thirty (30) days of request by any County representative or within thirty (30) days after production is found in paying quantities therein, as applicable, or if Lessee or his representative shall fail or refuse to timely file with Lessor any other report required herein, and if such failures or refusals are not cured within thirty (30) days of demand to cure, or if any of the other terms of this Lease shall be violated, this Lease shall be subject to forfeiture by the Commissioners Court of Travis County, Texas, by an Order entered in the Minutes of the Commissioners Court of Travis County, Texas, and mailed to the Lessee in accordance with the provisions of Section 17 hereof, reciting the facts constituting the default and declaring the forfeiture. Upon proper showing by the Lessee, within thirty (30) days after the mailing to the Lessee of the Order declaring the forfeiture, this Lease shall, at the discretion of the Commissioners Court of Travis County, Texas, and upon such terms existing at the time the Lease was placed in default, be reinstated. In case of violations by the Lessee of the provisions of this Lease, the remedy of Travis County, Texas, by forfeiture shall not be the exclusive remedy, but, in addition, a suit for damages, specific performance, or both may be instituted.

(b) If this Lease terminates under the provisions of Sections 1, 2, 7, or 12, the Commissioners Court of Travis County, Texas, may immediately declare the termination of this Lease by an Order entered in the Minutes of the Commissioners Court of Travis County, Texas, and mailed to the Lessee in accordance with the provisions of Section 17 hereof, reciting the facts relevant to the termination, reciting the provisions under which this Lease terminated, and declaring the termination of this Lease. The Lessee may present to the Commissioners Court of Travis County, Texas, relevant facts showing why this Lease has not terminated. If, by the presentation of such facts, the Travis County Commissioners Court determines that this Lease has not terminated, then the Commissioners Court may rescind its Order of termination; in which case, this Lease shall continue in full force and effect under such terms and provisions existing at the time the Lease was declared terminated. In the case of noncompliance with the provisions of Sections 1, 2, 7, or 12 hereof, the remedy of Travis County, Texas, by terminating the Lease, shall not be the exclusive remedy but, in addition, a suit for damages, specific performance, or both may be instituted.

## 15. ASSIGNMENT

The rights acquired under this Lease may be sold, transferred, assigned or conveyed in whole or in part provided that all rights acquired may be assigned in quantities of not less than forty (40) acres, unless there be less than forty (40) acres remaining in any survey, in which case, such lesser area may be assigned. All assignments shall be filed for record in the County Clerk's office of Throckmorton County, Texas, and a certified copy of the assignment shall be filed in the Commissioners Court of Travis County, Texas, within one hundred (100) days after the date of the first acknowledgement thereof. If not so filed and payments so made, the assignment shall be void as against Travis County, Texas, at the sole discretion of the Travis County Commissioners Court. Every assignee shall succeed to all rights and be subject to all obligations, liabilities, and penalties owed to Travis County, Texas, by the original Lessee or any prior transferee of the Lease, including any liabilities to the county for unpaid royalties.

## 16. RELINQUISHMENT

All rights to any whole lease and to any assigned portion thereof may be relinquished to Travis County, Texas, at any time by having an instrument of relinquishment recorded in the County Clerk's Office of Throckmorton County, Texas, and a certified copy of the relinquishment filed in the Commissioners Court of Travis County, Texas, accompanied by a ONE DOLLAR (\$1.00) relinquishment fee for each Three Hundred Twenty (320) acre tract of land or assigned portion thereof relinquished. A relinquishment made pursuant to this section shall not relieve the Lease Owner of any past due obligations theretofore accrued thereon or impair the Lessor's lien herein provided for.

## 17. NOTICE

Any notice to be given hereunder by either party to the other shall be in writing, and may be effected by hand delivery, with notice deemed received immediately upon delivery, or by registered or certified mail, postage prepaid, return receipt requested, with notice deemed effective upon the third day following the date of its mailing in accordance with the terms of this Section. Notice to Lessor shall be made or addressed to Honorable Samuel T. Biscoe, Travis County Judge, 700 Lavaca Street, Suite 2.70, Austin, Texas, 78701. To be effective, notice to Lessor must also be mailed by registered or certified mail, postage prepaid, return receipt requested, to Cyd V. Grimes, CPM, Travis County Purchasing Agent, 700 Lavaca, Suite 800, Austin, Texas 78701. Notice to the Lessee shall be made or addressed to: J. B. STREET # CD, P.O. BOX 206, GRAHAM, TX 76450. Each party hereto may change the address to it by giving notice of such change in accordance with the provisions of this paragraph.

## 18. FORCE MAJEURE

(a) When drilling, reworking, or other operations are delayed or interrupted by storm, flood, or other act of God, fire, war, rebellion, insurrection, riot, strikes, or failure of carriers to transport or furnish facilities for transportation, or as a result of an order, requisition, or necessity of the government, or as a result of any situation beyond the control of the Lessee, the time of such delay or interruption shall not be counted against the Lessee, anything in this Lease to the contrary notwithstanding; provided, however, Lessee shall immediately notify Lessor of the delay or interruption, the cause of such delay or interruption, and an estimated time for recommencement of drilling, reworking, or other operations, if possible; and, provided, however, Lessee shall immediately recommence drilling, reworking, or other operations once the cause of -the delay or interruption ceases or no longer poses a problem; and, provided, however, if Lessor determines that the duration of such delay or interruption is indefinite, Lessor may terminate this Lease in accordance with Section 14 hereof.

(b) All express or implied covenants of this Lease shall be subject to all Federal and State laws, executive orders, rules, and regulations and this Lease shall not be terminated, in whole or in part, nor the Lessee held liable in damages for failure to comply herewith, if compliance is prevented by or if such failure is the result of any such law, order, rule, or regulation; and, if from such cause, the Lessee is prevented from conducting drilling or reworking operations on or producing oil or gas from the leased premises, the time while Lessee is so prevented shall not be counted against the Lessee, and this Lease shall be extended for a period of time equal to that during which the Lessee is so prevented from conducting drilling or reworking operations on or producing oil or gas from the leased premises, notwithstanding any other provision hereof;

provided Lessee immediately informs Lessor of any law, executive order, rule, or regulation preventing Lessee's compliance with this Lease, and provided Lessee continues to perform its obligations under this Lease, insofar as feasible, in a manner consistent with the applicable law, executive order, rule, or regulation. This Section shall not be construed to affect the amount of any payment(s) due under this Lease. However, the force majeure provisions set forth in this Paragraph (b) shall not apply to any order issued or action taken by the Texas Railroad Commission as a result of Lessee's failure to comply with applicable law or with the Commission's orders, rules, or regulations or the orders, rules, or regulations of another state agency where such compliance is within Lessee's reasonable control.

#### 19. BINDING CONTRACT

The covenants, terms, conditions, obligations, and agreements contained herein shall extend to and be binding upon the heirs, executors, administrators, successors, successors in office, or assigns of the Lessee herein.

#### 20. VENUE AND CHOICE OF LAW

(a) Venue and jurisdiction of any suit, right or cause of action arising out of or in connection with this Lease Agreement shall be subject to the venue statutes set forth in Sections 15.011 and 15.015 of the Texas Civil Practice and Remedies Code as currently enacted or as recodified or amended; provided, however, in the event of a conflict between Sections 15.011 and 15.015, Section 15.015 shall prevail and control.

(b) This Lease Agreement shall be governed, interpreted, construed, and enforced in accordance with the laws of the United States of America and the laws of the State of Texas.

#### 21. RIGHTS AND REMEDIES CUMULATIVE/NON-WAIVER

(a) Failure by either party to this Lease Agreement to perform its obligations under this Agreement shall constitute a breach of this Agreement; and, in the event of such breach, the other party is entitled to any and all rights and remedies allowed under United States law and/or Texas law, as applicable, (statutory law, case law, rules or regulations).

(b) The respective rights and remedies of the parties hereto are cumulative. Except as otherwise expressly provided in this Lease Agreement, the exercise of any right or remedy in this Agreement, in whole or in part, shall not preclude the exercise of any other right or remedy under this Agreement or under any law of the United States or the State of Texas.

(c) In the event a party hereto does not enforce any obligation of the other party to this Agreement, or does not pursue any rights or remedies to which the party may be entitled or pursues a right or remedy only in part, such failure(s) shall not be considered a waiver of the other party's breach of this Agreement or of any subsequent breach of this Agreement by that party; and, the party is entitled to pursue any right or remedy, in whole or in part, for such breach as provided in this Agreement or by applicable law.

#### 22. CONFLICT OF INTEREST QUESTIONNAIRE

(a) If required by Chapter 176, Texas Local Government Code, the Lessee shall complete and file the Conflict of Interest Questionnaire with the County Clerk, Elections Division, 5501 Airport Blvd., Austin, Texas 78751. The Lessee shall update this Questionnaire by September 1 of each year for the duration of the Agreement, as required by Chapter 176 of the Local Government Code. In addition, if any statement on a submitted Questionnaire becomes incomplete or inaccurate, the Lessee shall submit an updated Questionnaire. The Lessee should note that the law requires the County to provide access to a filed Questionnaire on the official Travis County Internet website.

### 23. CONSTRUCTION

(a) No rule of construction or interpretation shall apply against any particular party to this Lease based on a contention that this Lease Agreement was drafted by one of the parties. This Lease Agreement shall be construed and interpreted in a neutral manner and according to its terms.

(b) Words of any gender in this Lease Agreement shall be construed to include the other, and words in either number shall be construed to include the other, unless the context in this Agreement clearly requires otherwise.

(c) Headings and titles at the beginning of the provisions of this Lease Agreement have been included only to make it easier to locate the subject matter covered by that part, section or paragraph and shall not be used in construing this Agreement.

(d) When any period of time is stated in this Agreement, the time shall be computed to exclude the first day and include the last day of the period. If the last day of any period falls on a Saturday, Sunday or a day that Travis County has declared a holiday for its employees, these days shall be omitted from the computation. For each year of this Lease, the County's holiday schedule may be obtained from the Travis County Purchasing Agent, upon request. All hours stated in this Lease Agreement are stated in Central Standard Time or in Central Daylight Savings Time, as applicable. All references in this Lease Agreement to the word "days" mean calendar days, unless this Agreement specifically states otherwise.

(e) Provisions, words, phrases, and statutes, whether incorporated by actual use or reference, shall be applied to this Lease Agreement in accordance with Chapters 311 and 312 of the Texas Government Code.



THE STATE OF TEXAS )

COUNTY OF TRAVIS )

This instrument was acknowledged before me on \_\_\_\_\_, 201\_\_, by Samuel T. Biscoe, County Judge of Travis County, Texas, on behalf of said county.

\_\_\_\_\_  
Notary Public in and for  
The State of Texas

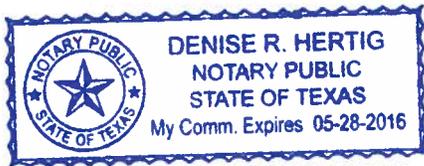
\_\_\_\_\_  
Name (typed or printed)

My Commission Expires: \_\_\_\_\_

THE STATE OF TEXAS )  
COUNTY OF TRAVIS YOUNG )  
DRH

BEFORE ME, the undersigned, a Notary Public, in and for said County, Texas, on this day personally appeared SPENCER B. STREET III, [Name] PRESIDENT [Title], S.B. STREET & CO. [Name of Company] known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same in his capacity as PRESIDENT [Title] of S.B. STREET & CO. [Name of Company], for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, THIS 17<sup>th</sup> day of JULY, 2014.



Notary Public in and for  
The State of Texas

Denise R. Hertig  
Name (typed or printed)

My Commission Expires: 05-28-2016

**TRAVIS COUNTY PURCHASING OFFICE  
CONSTRUCTION CONTRACTS: BID TABULATION FORM**

BID DATE:	July 21, 2014
OPEN TIME:	11:00 A.M.
BIDS EXPIRE:	N/A
BID NO.:	B1406-003-JW
DESCRIPTION:	Travis County School Land Oil and Gas Lease
DEPARTMENT:	A&M Agrilife Ext. Service
CONTACT/NO.:	Chris Gilmore/49455
BIDS RECEIVED:	2



BIDDER	Per acre bid	Primary Term			
S.B. Street Operating, Inc.	\$1,953.76	\$625,203.20			
Cooper Oil & Gas, Inc.	\$1,001.00	\$320,320.00			

Print Name	SIGNATURE	Date
Jason G. Walker	<i>Jason G. Walker</i>	7/21/2014