

**OIL, GAS, AND MINERAL LEASE**

THIS AGREEMENT is made and entered into this 1st day of October, 2013, between the Hannifin Family Trust, acting by and through Mark A Hannifin, Trustee, whose address is P.O. Box 218, Midland TX 79702 herein referred to as Lessor (whether one or more), and COG Operating LLC, whose address is 600 West Illinois AVE, Midland TX 79701 hereinafter called Lessee.

**1. GRANTING CLAUSE.** For and in consideration of the amounts stated below and of the covenants and agreements to be paid, kept and performed by Lessee under this lease, Lessor, hereby grants, leases and lets unto Lessee, for the sole and only purpose of prospecting and drilling for and producing oil and gas, laying pipe lines, building tanks, storing oil and building power stations, telephone lines and other structures thereon, to produce, save, take care of, treat and transport said products of the lease, the following lands situated in Eddy County, State of New Mexico, to-wit:

NW¼NE¼ Section 9-19S-26E, NMPM

containing 40 acres, more or less. The bonus consideration paid for this lease is as follows:

Ten dollars and other good and valuable consideration

**2. TERM.** Subject to the other provisions in this lease, this lease shall be for a term of One(1) year from this date (herein called "primary term") and as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land. As used in this lease, the term "produced in paying quantities" means that the receipts from the sale or other authorized commercial use of the substance(s) covered exceed out of pocket operational expenses for the six months last past.

**3. DELAY RENTALS.** If no well is commenced on the leased premises on or before One(1) year from this date, this lease shall terminate, unless on or before such anniversary date Lessee shall pay or tender to the Lessor or to its credit in the Western National Bank, at Midland Texas, or its successors (which shall continue as the depository regardless in the ownership of said land), the amount specified below; in addition, payments under this paragraph shall operate as a rental and shall cover the privilege of deferring the commencement of a well for one (1) year from said date. Payments under this paragraph shall be in the following amounts: Total Delay Rental: \$2 per acre.

Although there is no delay rental due on this lease, this paragraph remains as a reference for other payments contemplated in this lease.

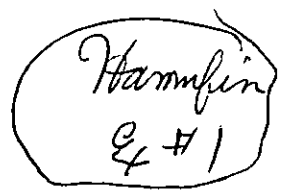
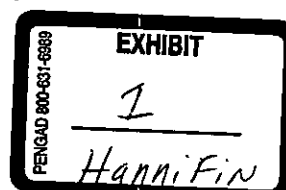
If the bank designated in this paragraph (or its successor bank) should cease to exist, suspend business, liquidate, fail or be succeeded by another bank, or for any reason fail or refuse to accept rental, Lessee shall not be held in default for failure to make such payments or tenders of rental until thirty (30) days after the Lessor shall deliver to Lessee a proper recordable instrument naming another bank as agent to receive such payments or tenders.

**4. PRODUCTION ROYALTIES.** Upon production of oil and/or gas, Lessee agrees to pay or cause to be paid:

**(A) OIL.** Royalty payable on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well and also as all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, shall be ¼ part of the gross production or the market value thereof, at the option of the Lessor, such value to be determined by 1) 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 where produced and when run, or 2) the highest price thereof offered or paid in the general area where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is the greater. Lessee agrees that before any gas produced from the leased premises is sold, used or processed in a plant, it will be run free of cost to the royalty owners through an adequate oil and gas separator of conventional type, or other equipment at least as efficient, so that all liquid hydrocarbons recoverable from the gas by such means will be recovered. The requirement that such gas be run through a separator or other equipment may be waived, in writing, by the royalty owners upon such terms and conditions as they prescribe.

**(B) NON PROCESSED GAS.** Royalty on any gas (including flared gas) which is defined as all hydrocarbons and gaseous substances not defined as oil in subparagraph (A) above, produced from any well on said land (except as provided herein with respect to gas processed in a plant for the extraction of gasoline, liquid hydrocarbons or other products) shall be ¼ part of the gross production or the market value thereof, at the option of the Lessor, such value to be based on the highest market price paid or offered for gas of comparable quality in the general area where produced and when run, or the gross price paid or offered to the producer, whichever is the greater; provided that the maximum pressure base in measuring the gas under this lease shall not at any time exceed 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to tests made by the Balance Method or by the most approved method of testing being used by the industry at the time of testing.

**(C) PROCESSED GAS.** Royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbons shall be ¼ part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the Lessor. All royalties due herein shall be based on one hundred percent (100%) of the total plant production of residue gas attributable to gas produced from this lease, and on fifty percent (50%), or that percent accruing to Lessee, whichever is the greater, of the total plant production of liquid hydrocarbons attributable to the gas produced from this lease; provided that if liquid hydrocarbons are recovered from gas processed in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the percentage applicable to liquid hydrocarbons shall be fifty percent (50%) of the highest percent accruing to a third party processing gas through such plant under a processing agreement negotiated at



arm's length (or if there is no such third party, the highest percent then being specified in processing agreements or contracts in the industry), whichever is the greater. The respective royalties on residue gas and on liquid hydrocarbons shall be determined by 1) the highest market price paid or offered for any gas (or liquid hydrocarbons) of comparable quality in the general area, or 2) the gross price paid or offered for such residue gas (or the weighted average gross selling price for the respective grades of liquid hydrocarbons), whichever is the greater. In no event, however, shall the royalties payable under this paragraph be less than the royalties which would have been due had the gas not been processed.

**(D) OTHER PRODUCTS.** Royalty on carbon black, sulphur, carbon dioxide, helium, or any other products produced or manufactured from gas (excepting liquid hydrocarbons) whether said gas be "casinghead", "dry", or any other gas, by fractionating, burning or any other processing shall be  $\frac{1}{4}$  part of the gross production of such products, or the market value thereof, at the option of the Lessor, such market value to be determined as follows: 1) on the basis of the highest market price of each product for the same month in which such product is produced, or 2) on the basis of the average gross sale price of each product for the same month in which such products are produced; whichever is the greater.

**5. MINIMUM ROYALTY.** During any year after the expiration of the primary term of this lease, if this lease is maintained by production, the royalties paid under this lease in no event shall be less than an amount equal to forty times (40 x) the total annual delay rental herein provided; otherwise, there shall be due and payable on or before the last day of the month succeeding the anniversary date of this lease a sum equal to the total annual rental less the amount of royalties paid during the preceding year. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this paragraph, the delay rental shall be two dollars (\$2.00) per acre.

**6. ROYALTY IN KIND.** Notwithstanding any other provision in this lease, at any time or from time to time, the Lessor may, at Lessor's option, upon not less than sixty (60) days notice to the holder of the lease, require that the payment of any royalties accruing to such royalty owner under this lease be made in kind. The Lessor's right to take its royalty in kind shall not diminish or negate the Lessor's rights or Lessee's obligations, whether express or implied, under this lease.

**7. NO DEDUCTIONS.** Lessee agrees that all royalties accruing under this lease, ~~including~~ <sup>EXCLUDING</sup> those paid in kind, shall be without deduction for the cost or producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting, and otherwise making the oil, gas and other products hereunder ready for sale or use. Lessee agrees to compute and pay royalties on the gross value received, including reimbursements for severance taxes and production related costs.

**8. PLANT FUEL AND RECYCLED GAS.** No royalty shall be payable on any gas as may represent this lease's proportionate share of any fuel used to process gas produced hereunder in any processing plant. Notwithstanding any other provision of this lease, and subject to the written consent of the Lessor, Lessee may recycle gas for gas lift purposes on the leased premises or for injection into any oil or gas producing formation underlying the leased premises after the liquid hydrocarbons contained in the gas have been removed; no royalties shall be payable on the recycled gas until it is produced and sold or used by Lessee in a manner which entitles the royalty owners to a royalty under this lease.

**9. ROYALTY PAYMENTS AND REPORTS.** All royalties not taken in kind shall be paid to the Lessor at Midland, Texas, in the following manner: The Hannifin Family Trust, P.O. Box 218, Midland, Texas 79702 By U.S.P.S. regular mail, or other method acceptable to Lessor. Payment of royalty on production or oil and gas shall be as follows: Royalty on oil is due and must be received in the Lessor's Office on or before the 5<sup>th</sup> day of the second month succeeding the month of production, and royalty on gas is due and must be received in the Lessor's Office on or before the 15<sup>th</sup> day of the second month succeeding the month of production, accompanied by the affidavit of the owner, manager or other authorized agent showing the gross amount and disposition of all oil and gas produced and the market value of the oil and gas, together with a copy of all documents, records or reports confirming the gross production, disposition and market value including gas meter readings, pipeline receipts, gas line receipts and other checks or memoranda of amount produced and put into pipelines, tanks, or pools and gas lines or gas storage, and any other reports or records which Lessor may require to verify the gross production, disposition and market value. Each royalty payment shall be accompanied by a check stub, schedule, summary or other remittance advice showing the amount of royalty being paid on each lease. If Lessee pays his royalty after the date set forth above but on or before ~~thirty (30)~~ <sup>60</sup> days after the royalty payment was due, then Lessee owes a penalty of 5% on the royalty or \$25.00, whichever is greater. A royalty payment which is over thirty (30) days late shall accrue a penalty of 10% of royalty due or \$25.00 whichever is greater. In addition to a penalty, royalties shall accrue interest at a rate of 12% per year; such interest will begin to accrue when the royalty is sixty (60) days overdue. Affidavits and supporting documents which are not filed when due shall incur a penalty in an amount of \$25.00. The Lessee shall bear all responsibility for paying or causing royalties to be paid as prescribed by the due date provided herein. Payment of the delinquency penalty shall in no way operate to prohibit the Lessor's right of forfeiture as provided by law nor act to postpone the date on which royalties were originally due. The above penalty provisions shall not apply in cases of title dispute as to the Lessor's portion of the royalty or to that portion of the royalty in dispute as to fair market value.

**10. (A) RESERVES, CONTRACTS AND OTHER RECORDS.** Lessee shall ~~annually furnish the Lessor with its best possible estimate of oil and gas reserves underlying this lease or allocable to this lease and shall furnish said Lessor with copies of all contracts under which gas is sold or processed and all subsequent agreements and amendments to such contracts within thirty (30) days after entering into or making such contracts, agreements or amendments.~~ <sup>UPON WRITTEN REQUEST</sup> Such contracts and agreements when received by the Lessor shall be held in confidence by the Lessor unless otherwise authorized by Lessee. All other contracts and records pertaining to the production, transportation, sale and marketing of the oil and gas produced on said premises, including the books and accounts, receipts and discharges of all wells, tanks, pools, meters, and pipelines shall at all times be subject to inspection and examination by the Lessor, or the representative of Lessor.

**(B) PERMITS, DRILLING RECORDS.** Written notice of all operations on this lease shall be submitted to the Lessor by Lessee or operator five (5) days before spud date, workover, re-entry, temporary abandonment or plug and abandonment of any well or wells. Such written notice to the Lessor shall include copies of New Mexico Oil Conservation Division forms for application to drill. Copies of well tests, completion reports and plugging reports shall be supplied to the Lessor at the time they are filed with the New Mexico Oil Conservation Division. Lessee shall supply the Lessor with any records, memoranda, accounts, reports, cuttings and cores, or other information relative to

4311.11  
TOTAL  
FOR 2000  
\$6,111.11

NO  
TITLE  
DISPUTE

60  
DAYS

RESERVE  
CALCULATIONS

lease. None of these provisions will relieve Lessee of the obligation of reasonable development or the obligation to drill offset wells; however, at the determination of the Lessor, and with the Lessor's written approval, the payment of compensatory royalties can satisfy the obligation to drill offset wells.

**16. RETAINED ACREAGE.** Notwithstanding any provision of this lease to the contrary, after a well producing or capable of producing oil or gas has been completed on the leased premises, Lessee shall exercise the 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 thereon.

*180*  
*POOL-  
WELLS*  
*100*  
*REL-  
COMMEN-  
RUB.*  
**(A) VERTICAL AND HORIZONTAL WELLS.** Notwithstanding anything contained herein to the contrary, it is understood and agreed that this lease will terminate at the end of the primary term as to all lands not included within the proration unit prescribed or permitted by the rules of the New Mexico Oil Conservation Division, or any successor agency, or other governmental authority having jurisdiction, upon which there is then located a well capable of producing oil and/or gas in commercial quantities, including those depths and horizons 100 feet above and 100 feet below the producing formation(s) within such proration unit, unless Lessee is producing oil, gas or other hydrocarbons from any well on the leased premises, or land pooled therewith, or is drilling upon said lands across the expiration of the primary term as provided for in the body of this lease and does not allow more than one hundred and twenty (120) days to elapse between the completion or abandonment of one well on such land and the commencement of another well thereon until the leased premises have been "fully developed", as hereinafter defined. Operations for drilling of the first such development well must be commenced (a) within 120 days after the expiration of the primary term if production is established under this lease prior to the expiration of the primary term, or (b) within 120 days of completion of the well which is being drilled, tested or completed across the expiration of the primary term. Should lessee fail to timely commence a well in accordance with aforesaid 120 days continuous drilling or development prior to the point in time the leased premises have been fully developed, then this lease shall terminate as to all lands not included or otherwise allocated to a proration unit, including depths and horizons 100 feet above and 100 feet below the producing formation(s) within any such proration unit. The term "fully developed" shall mean the point in time when the entirety of the leased premises has been included in a proration unit. The date of completion of a well shall be the date of a potential test if a producing well and the date of plugging if a dry hole or abandoned well. If at any time after the effective date of partial termination provisions hereof, the applicable field rules are changed or the well or wells located therein are reclassified so that less acreage is thereafter allocated to said well or wells located thereon are reclassified so that less acreage is thereafter allocated to said well or wells for production purposes, this lease shall thereupon terminate as to the lands covered thereby which are no longer allocated to said well or wells. Lessee shall nevertheless continue to have the right of ingress and egress from the lands still subject to this lease for all purposes described in Paragraph 1 hereof, together with easements and rights-of-way for existing roads, existing pipelines and other existing facilities on, over and across all the lands described in Paragraph 1 hereof ("the retained lands"), for access to and from the retained lands and for the gathering and transportation of oil, gas and other minerals produced from the retained lands.

**(B) IDENTIFICATION AND FILING.** The surface acreage retained hereunder as to each well shall, as nearly as practical, be in the form of a square with the well located in the center thereof, or such other shape as may be approved by the New Mexico Oil Conservation Division, or any successor agency or other governmental authority having jurisdiction. Within thirty (30) days after partial termination of this lease as provided herein, Lessee shall execute and record a release or releases containing a satisfactory legal description of the acreage and/or depths not retained hereunder. The recorded release, or a certified copy of same, shall be filed in the county records of the county in which the lands are situated, accompanied by the filing fee prescribed on the date the release is filed. If Lessee fails or refuses to execute and record such release or releases within ninety (90) days after being requested to do so by the Lessor, then the Lessor at his sole discretion may designate by written instrument the acreage and/or depths to be released hereunder and record such instrument at Lessee's expense in the county or counties where the lease is located and such designation shall be binding upon Lessee for all purposes.

**17. OFFSET WELLS.** Neither the bonus, delay rentals, nor royalties paid, under this lease shall relieve Lessee of his obligation to protect the oil and gas under the above-described land from being drained. Lessee, sublessee, receiver or other agent in control of the leased premises shall drill as many wells as the facts may justify and shall use appropriate means and drill to a depth necessary to prevent undue drainage of oil and gas from the leased premises. In addition, if any oil and/or gas should be produced in commercial quantities within 1,000 feet of the leased premises, or in any case where the leased premises is being drained by production of oil and gas, the Lessee, sublessee, receiver or other agent in control of the leased premises shall in good faith begin the drilling of a well or wells upon the leased premises within 100 days after the draining well or wells or the well or wells completed within 1,000 feet of the leased premises start producing in commercial quantities and shall prosecute such drilling with diligence. Failure to satisfy the statutory offset obligation may subject this lease to forfeiture. Only upon the determination of the Lessor and with its written approval may the payment of compensatory royalty under applicable statutory parameters satisfy the obligation to drill an offset well or wells required under this paragraph.

**18. FORCE MAJEURE.** If, after a good faith effort, Lessee is prevented from complying with any express or implied covenant of this lease, from conducting drilling operations in the leased premises, or from producing oil or gas from the leased premises by reason of war, rebellion, riots, strikes, acts of God, or any valid order, rule or regulation of government authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended and Lessee shall not be liable for damages for failure to comply with such covenants; additionally, this lease shall be extended while Lessee is prevented, by any such cause, from conducting drilling and reworking operations or from producing oil or gas from the leased premises. However, nothing in this paragraph shall suspend the payment of delay rentals in order to maintain this lease in effect during the primary term in the absence of such drilling or reworking operations or production of oil or gas.

**19. WARRANTY CLAUSE.** Any title defect that renders Lessor's title unmerchantable shall either be waived by Lessee or corrected at Lessee's sole cost.

**20. (A) PROPORTIONATE REDUCTION CLAUSE.** If the Lessor owns less than the entire undivided estate in the above described land, whether or not Lessee's interest is specified herein, then the royalties and rental herein provided to be paid to the Lessor shall be paid to him in proportion which his interest bears to the entire undivided estate. However, before Lessee adjusts the royalty or rental due to the

Lessor, Lessee or his authorized representative must submit to the Lessor a written statement which explains the discrepancy between the interest purportedly leased under this lease and the actual interest owned by the Lessor.

**(B) REDUCTION OF PAYMENTS.** If, during the primary term, a portion of the land covered by this lease is included within the boundaries of a pooled unit that has been approved by the New Mexico Oil Conservation Division or any successor agency, or other governmental authority having jurisdiction in accordance with New Mexico Oil and Gas Conservation Division Rules or other applicable statutes, or if, at any time after the expiration of the primary term or the extended term, this lease covers a lesser number of acres than the total amount described herein, payments that are made on a per acre basis hereunder shall be reduced according to the number of acres pooled, released, surrendered, or otherwise severed, so that payments determined on a per acre basis under the terms of this lease during the primary term shall be calculated based upon the number of acres outside the boundaries of a pooled unit, or, if after the expiration of the primary term, the number of acres actually retained and covered by this lease.

**21. USE OF WATER.** Lessee shall have the right to use water produced on said land necessary for operations under this lease except water from wells or tanks of the surface owner; provided, however, Lessee shall not use potable water suitable for livestock or irrigation purposes for waterflood operations without the prior consent of the surface owner.

**22. AUTHORIZED DAMAGES.** Lessee shall pay the surface owner for damages caused by its operations to all personal property, improvements, livestock and crops on said land.

**23. PIPELINE DEPTH.** When requested by the surface owner, Lessee shall bury its pipeline(s), below plow depth.

**24. WELL LOCATION LIMIT.** No well shall be drilled nearer than two hundred (200) feet to any house or barn now on said premises without the written consent of the surface owner.

**25. POLLUTION.** In developing this area, Lessee shall use the highest degree of care and all proper safeguards to prevent pollution. Without limiting the foregoing, pollution of coastal wetlands, natural waterways, rivers and impounded water shall be prevented by the use of containment facilities sufficient to prevent spillage, seepage or ground water contamination. In the event of pollution, Lessee shall use all means at its disposal to recapture all escaped hydrocarbons or other pollutant and shall be responsible for all damage to public and private properties. 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. Lessee shall, while conducting operations on leased premises, keep said premises free of all rubbish, cans, bottles, paper cups or garbage, and upon completion of operations shall restore the surface of the land to as near its original condition and contours as is practicable. Tanks and equipment will be kept painted and presentable.

**26. REMOVAL OF EQUIPMENT.** Subject to limitations in this paragraph, Lessee shall have the right to remove machinery and fixtures placed by Lessee on the leased premises, including the right to draw and remove casing, within one hundred twenty (120) days after the expiration or the termination of this lease unless the Lessor grants Lessee an extension of this 120-day period. However, Lessee may not remove casing from any well capable of producing oil and gas in paying quantities. Additionally, Lessee may not draw and remove casing until after thirty (30) days written notice to the Lessor and to the surface owner. The surface owner shall become the owner of any machinery, fixtures, or casing which are not timely removed by Lessee under the terms of this paragraph.

**27. ASSIGNMENTS.** Under the conditions contained in this paragraph and Paragraph 29 of this lease, the rights and estates of either party to this lease may be assigned, in whole or in part, and the provisions of this lease shall extend to and be binding upon their heirs, devisees, legal representatives, successors and assigns. However, a change or division in ownership of the land, rentals, or royalties will not enlarge the obligations of Lessee, diminish the rights, privileges and estates of Lessee, impair the effectiveness of any payment made by Lessee or impair the effectiveness of any act performed by Lessee. And no change or division in ownership of the land, rentals, royalties shall bind Lessee for any purpose until thirty (30) days after the Lessor (or his heirs, devisees, legal representatives or assigns) furnishes the Lessee with satisfactory written evidence of the change in ownership, including the original recorded muniments of title (or a certified copy of such original) when the ownership changed because of a conveyance. A total or partial assignment of this lease shall, to the extent of the interest assigned, relieve and discharge Lessee of all subsequent obligations under this lease. If this lease is assigned in its entirety as to only part of the acreage, the right and option to pay rentals shall be apportioned as between the several owners ratably, according to the area of each, and failure by one or more of them to pay his share of the rental shall not affect this lease on the part of the land upon which pro rata rentals are timely paid or tendered; however, if the assignor or assignee does not file such assignment in the county records before the next rental paying date, the entire lease shall terminate for failure to pay entire rental due under Paragraph 3. Every assignee shall succeed to all rights and be subject to all obligations, liabilities, and penalties owed to Lessor by the original lessee or any prior assignee of the lease, including any liabilities to Lessor for unpaid royalties.

**28. RELEASES.** Under the conditions contained in this paragraph and Paragraph 29, Lessee may at any time execute and deliver to the Lessor and place of record a release or releases covering any portion or portions of the leased premises, and thereby surrender this lease as to such portion or portions, and be relieved of all subsequent obligations as to acreage surrendered. If any part of this lease is properly surrendered, the delay rental due under this lease shall be reduced by the proportion that the surrendered acreage bears to the acreage which was covered by this lease immediately prior to such surrender; however, such release will not relieve Lessee of any liabilities which may have accrued under this lease prior to the surrender of such acreage.

**29. FILING OF ASSIGNMENTS AND RELEASES.** If all or any part of this lease is assigned or released, such assignment or release must be recorded in the county where the land is situated. If any such assignment is not so filed, the rights acquired under this lease shall be subject to forfeiture at the option of the Lessor.

**30. DISCLOSURE CLAUSE.** All provisions pertaining to the lease of the above-described land have been included in this instrument, as to the rights and duties of the parties.

31. **FORFEITURE.** If Lessee shall fail or refuse to make the payment of any sum within thirty days after it becomes due, or if Lessee or an authorized agent should knowingly make false return or false report concerning production or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith as required by law, or if Lessee should fail to file reports in the manner required by law or fail to comply with rules or regulations promulgated by the New Mexico Oil Conservation Division or any successor agency, or other governmental authority having jurisdiction, or if Lessee should refuse the proper authority access to the records pertaining to operations, or if Lessee or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or if Lessee shall knowingly violate any of the material provisions of this lease, or if this lease is assigned and the assignment is not filed in the county records as required by law, the rights acquired under this lease shall be subject to forfeiture by the Lessor, and he shall forfeit same when sufficiently informed of the facts which authorize a forfeiture. However, nothing herein shall be construed as waiving the automatic termination of this lease by operation of law or by reason of any special limitation arising hereunder.

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32. **LIEN.** Lessor shall have a first lien upon all oil and gas produced from the area covered by this lease to secure payment of all unpaid royalty and other sums of money that may become due under this lease. By acceptance of this lease, Lessee grants Lessor an express contractual lien on and security interest in all leased minerals in and extracted from the leased premises, all proceeds which may accrue to Lessee from the sale of such leased minerals, whether such proceeds are held by Lessee or by a third party, and all fixtures on improvements to the leased premises used in connection with the production or processing of such leased minerals 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 express or implied. This lien and security interest may be foreclosed with or without court proceedings. Lessee agrees that the Lessor may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease.

33. **POOLING.** Lessee is hereby granted the right to pool or unitize the royalty interest of the Lessor under this lease with any other leasehold or mineral interest for the exploration, development and production of oil or gas or either of them upon the same terms as shall be approved by the New Mexico Oil Conservation Division or any successor agency, or other governmental authority having jurisdiction.

34. **INDEMNITY.** Lessee hereby releases and discharges the Lessor, its agents, employees, partners, and their respective successors and assigns, of and from all and any actions and causes of action of every nature, or other harm, including environmental harm, for which recovery of damages is sought, including, but not limited to, all losses and expenses which are caused by the activities of Lessee, its officers, employees, and agents arising out of, incidental to, or resulting from, the operations of or for Lessee on the leased premises hereunder, or that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Agreement, or by any other negligent or strictly liable act or omission of Lessee. Further, Lessee hereby agrees to be liable for, exonerate, indemnify, defend and hold harmless the Lessor their employees and agents, their successors or assigns, against any and all claims, liabilities, losses, damages, actions, personal injury (including death), costs and expenses, or other harm for which recovery of damages is sought, under any theory including tort, contract, or strict liability, including attorneys' fees and other legal expenses, including those related to environmental hazards, on the leased premises or in any way related to Lessee's failure to comply with any and all environmental laws; those arising from or in any way related to Lessee's operations or any other of Lessee's activities on the leased premises; those arising from Lessee's use of the surface of the leased premises; and those that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Agreement or any other act or omission of the Lessee, its directors, officers, employees, partners, agents, contractors, subcontractors, guests, invitees, and their respective successors and assigns. Each assignee of this Agreement, or an interest therein, agrees to be liable for, exonerate, indemnify, defend and hold harmless the Lessor, their officers, employees, and agents in the same manner provided above in connection with the activities of Lessee, its officers, employees, and agents as described above. **EXCEPT AS OTHERWISE EXPRESSLY LIMITED HEREIN, ALL OF THE INDEMNITY OBLIGATIONS AND/OR LIABILITIES ASSUMED UNDER THE TERMS OF THIS AGREEMENT SHALL BE WITHOUT LIMITS AND WITHOUT REGARD TO THE CAUSE OR CAUSES THEREOF (EXCLUDING PRE-EXISTING CONDITIONS), STRICTLY LIABILITY, OR THE NEGLIGENCE OF ANY PARTY OR PARTIES (INCLUDING THE NEGLIGENCE OF THE INDEMNIFIED PARTY), WHETHER SUCH NEGLIGENCE BE SOLE, JOINT, CONCURRENT, ACTIVE, OR PASSIVE.**

35. **ENVIRONMENTAL HAZARDS.** Lessee shall use the highest degree of care and all 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, the leased premises, by any waste, pollutant, or contaminant. Lessee shall not bring or permit to remain on the leased premises any asbestos containing material, 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 ordinary products commonly used in connection with oil and gas exploration and development operations and stored in the usual manner and quantities. **LESSEE'S VIOLATION OF THE FOREGOING PROHIBITION SHALL CONSTITUTE A MATERIAL BREACH AND DEFAULT HEREUNDER AND LESSEE SHALL INDEMNIFY, HOLD HARMLESS AND DEFEND THE LESSOR 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 THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OR CONTROL OF THE LEASED PREMISES. 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 THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OF THE LEASED PREMISES 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 THE LESSOR AND THE SURFACE OWNER WRITTEN NOTICE OF ANY BREACH OR SUSPECTED BREACH OF THIS PARAGRAPH, UPON LEARNING OF THE PRESENCE OF ANY HAZARDOUS MATERIALS, OR UPON RECEIVING A NOTICE FROM ANY GOVERNMENTAL AGENCY PERTAINING TO HAZARDOUS MATERIALS WHICH MAY AFFECT THE LEASED**

**PREMISES. THE OBLIGATIONS OF LESSEE HEREUNDER SHALL SURVIVE THE EXPIRATION OR EARLIER TERMINATION, FOR ANY REASON, OF THIS AGREEMENT.**

**36. EXECUTION.** This oil and gas lease must be signed and acknowledged by the Lessee before it is filed of record in the county records. Once the filing requirements found in Paragraph 37 of this lease have been satisfied, the effective date of this lease shall be the date found on Page 1.

**37. LEASE FILING.** Pursuant to the applicable statutes of the state of New Mexico, this lease or a memorandum thereof, must be filed of record in the office of the County Clerk in any county or counties in which all or any part of the leased premises is located.

LESSOR

Hannifin Family Trust

BY: \_\_\_\_\_

Mark A Hannifin, Trustee

Date: \_\_\_\_\_

LESSEE

BY: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

STATE OF TEXAS

COUNTY OF MIDLAND

BEFORE ME. This undersigned authority, on this day personally appeared Mark A Hannifin, known to me to be the person whose name is subscribed to the foregoing instruments as Trustee, of The Hannifin Family Trust and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said Trust.

Given under my hand and seal of office this the \_\_\_\_\_ day of October 2013.

\_\_\_\_\_  
Notary Public in and for \_\_\_\_\_

STATE OF \_\_\_\_\_

(CORPORATION ACKNOWLEDGMENT)

COUNTY OF \_\_\_\_\_

BEFORE ME. This undersigned authority, on this day personally appeared \_\_\_\_\_ known to me to be the person whose name is subscribed to the foregoing instruments as \_\_\_\_\_ of \_\_\_\_\_ and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said \_\_\_\_\_.

Given under my hand and seal of office this the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

\_\_\_\_\_  
Notary Public in and for \_\_\_\_\_