

# OIL AND GAS LEASE

[CASE DOCUMENT — CDT Advanced Training, June 12, 2026]  
[FICTIONAL — For Training Purposes Only]

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**THE STATE OF TEXAS**  
**COUNTY OF MIDLAND**

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THIS AGREEMENT ("Lease") is made and entered into as of the **15th** day of **March, 2021**,  
between

**HARLAN D. CALLAHAN and PATRICIA A. CALLAHAN, husband and wife,**

Lessor (whether one or more), whose address is:

4200 County Road 1260  
Midland, Texas 79706

and

**NORRIS PERMIAN VENTURES, LLC**, a Texas limited liability company,

Lessee, whose address is:

2901 W. Wall Street, Suite 400  
Midland, Texas 79701

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## WITNESSETH:

### 1. Grant of Lease

Lessor, in consideration of **Four Hundred Eighty Thousand and No/100 Dollars (\$480,000.00)** and other good and valuable consideration, receipt of which is hereby acknowledged, and of the covenants and agreements of Lessee hereinafter contained, does hereby grant, lease and let unto Lessee the land covered hereby for the sole purpose and with the exclusive right of exploring, drilling, mining and operating for, producing and owning oil, gas, sulphur and other liquid or gaseous hydrocarbons produced in association with oil or gas, together with the right to make surveys on said land, lay pipe lines, construct roads and bridges, build tanks, and other structures on said land reasonably necessary for Lessee's operations in exploring, drilling for, producing, treating, and transporting said minerals produced from the land covered hereby, and the non-exclusive right to conduct seismic surveys thereon.

The land covered hereby, herein called the "Leased Premises," is located in the County of **Midland**, State of Texas, and is described as follows:

**All of Section 12, Block 40, Township 1 South, T&P Ry. Co. Survey, Midland County, Texas, containing 640 acres, more or less, according to the official plat of said Survey on file in the General Land Office of the State of Texas.**

For the purpose of determining the amount of any bonus or other payment hereunder, the Leased Premises shall be deemed to contain **640** acres, whether actually containing more or less, and the above recital of acreage in any tract shall be deemed to be the true acreage thereof.

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## 2. Term

Except as expressly provided below, and unless sooner terminated under other provisions hereof, this Lease shall remain in force for a term of **three (3)** years from the date hereof, hereinafter called "Primary Term," and as long thereafter as Operations, as defined in Paragraph 5, are conducted upon the Leased Premises with no cessation of more than sixty (60) consecutive days. This is a "paid-up" lease, and no delay rental payments are necessary to maintain this Lease in effect during the Primary Term.

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## 3. Royalty

**(a) Delivery and Payment.** As royalty, Lessee covenants and agrees:

(i) to deliver or cause to be delivered to the credit of Lessor, into the pipe line or other receptacle to which Lessee may connect its wells, **twenty-five percent (25%)** of all oil, condensate and liquid hydrocarbons produced and saved by Lessee from the Leased Premises, or from time to time, at the option of Lessor, Lessee shall sell Lessor's share of such oil, condensate or liquid hydrocarbons with Lessee's share and shall pay Lessor **twenty-five percent (25%)** of the Gross Proceeds (as hereafter defined) received by Lessee or any Affiliate of Lessee (as hereafter defined) from the sale of all oil, condensate and liquid hydrocarbons produced and saved from the Leased Premises;

(ii) to pay Lessor on gas and casinghead gas produced from the Leased Premises, payable on a well by well basis:

(1) when sold by Lessee in an arms-length sale to an unaffiliated third party, **twenty-five percent (25%)** of the Gross Proceeds received by Lessee from the sale of such gas and casinghead gas, or

(2) when sold to an Affiliate of Lessee, **twenty-five percent (25%)** of the Gross Proceeds, computed at the point of sale, from the sale of such gas by such Affiliate of Lessee; and

(3) when used by Lessee (other than for Operations on the Leased Premises as hereafter provided), **twenty-five percent (25%)** of the market value at the point of use.

**(b) Affiliate of Lessee.** For purposes of this Lease, an "Affiliate of Lessee" is any corporation, firm or other entity in which Lessee, or any parent company, subsidiary or affiliate of Lessee,

owns an interest of more than ten percent (10%), whether by stock ownership or otherwise, or over which Lessee or any parent company or Affiliate of Lessee exercises any degree of control, directly or indirectly, by ownership, interlocking directorate, or in any other manner.

**(c) Gross Proceeds.** For purposes of this Lease, "Gross Proceeds" means the total consideration paid by the first purchaser which is not an Affiliate of Lessee for oil and gas produced from the Leased Premises, except that (1) Lessor's royalty shall bear its proportionate part of severance taxes actually paid by Lessee attributable to production from the Leased Premises, and (2) no royalty shall be payable on gas used on the Leased Premises for production operations or compression or dehydration of gas produced from the Leased Premises.

**(d) Duty to Market.** Lessee shall place oil and gas produced from the Leased Premises in marketable condition and shall market same as agent for Lessor, at no cost to Lessor (except as provided in (c) above).

**(e) Post-Production Costs.** Lessor's royalty shall not be charged directly or indirectly with any of the following: expenses of production, gathering, dehydration, transportation, fractionation compression, manufacturing, processing, treating or marketing of gas, oil, or any liquefiable hydrocarbons extracted therefrom.

**(f) Due Dates of Royalty.** All royalties that may become due hereunder shall commence to be paid on the first well completed on the Leased Premises within ninety (90) days after the first day of the month following the month during which any well commences production. On each subsequent well, royalty payments must commence within sixty (60) days after the first day of the month following the month during which any well commences production. Thereafter, all royalties on oil shall be paid to Lessor on or before the last day of the month following the month of production, and all royalties on gas shall be paid to Lessor on or before the last day of the second month following the month of production. Royalties not paid when due shall bear interest at five percent (5%) above the prime rate quoted in the Wall Street Journal as the base rate on corporate loans at large U.S. Money Center Commercial Banks, commencing at the rate as quoted on the date such payment was due, and fluctuating thereafter as such rate fluctuates. Interest charges shall commence on the date payment is due and shall continue until payment is made in full.

**(g) Right to Terminate for Non-Payment of Royalty.** If royalty is not paid by the date due, Lessor may give Lessee written notice of nonpayment of royalty, by certified mail, return receipt requested, and if Lessor's royalty is not paid on or before expiration of thirty (30) days from Lessee's receipt of such notice, Lessor may terminate this Lease and evict Lessee forthwith.

**(h) Right to Audit.** Without limiting Lessor's rights or Lessee's obligations under any other provision of this Lease, commencing on the completion date of the first well drilled on the Leased Premises as a producing well, no more often than once in any three-year period during the term of this Lease, Lessor shall have the right to have an audit of the books, accounts, contracts, records, and data of Lessee pertaining to the development, production, saving, transportation, sale, and marketing of the oil, gas, and sulphur produced from or attributable to the Leased Premises conducted.

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#### 4. Shut-In Royalty

If there shall be a well on the Leased Premises capable of producing gas or gas and condensate in paying quantities, but from which neither gas nor condensate is sold or used off the Leased Premises for lack of a satisfactory market (which well is herein sometimes called a "shut-in" gas well), Lessee may pay or tender to Lessor, as shut-in gas well royalty, a yearly sum equal to **Fifty and No/100 Dollars (\$50.00)** multiplied by the number of acres subject to this Lease at the time such payment is made.

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#### 5. Operations, Drilling Operations, and Reworking Operations

(a) The term "**Operations**" as used in this Lease shall mean only (i) the production of oil, gas or other hydrocarbons in paying quantities, (ii) Drilling Operations (as hereafter defined) or (iii) Reworking Operations (as hereafter defined).

(b) The term "**Drilling Operations**" as used in this Lease shall mean the actual drilling of a well, together with such work in the hole as is necessary to properly complete or abandon the well, conducted with good faith and due diligence and in a good and workmanlike manner. Drilling Operations shall be deemed to have commenced when a derrick, a rig and machinery capable of drilling to a depth sufficient to test a prospective oil or gas horizon have been erected, and when such well has been spudded in and the rotary bit is rotating under power.

(c) The term "**Reworking Operations**" shall mean actual work in the hole of a well previously completed as a producer, in a good and workmanlike manner, prosecuted with reasonable diligence, in an attempt to recomplete or repair said well to return it to production or to enhance production.

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#### 6. Partial Termination

Upon expiration of the Primary Term, or upon cessation of "Continuous Drilling Operations" (as hereinafter defined), whichever is later, this Lease shall terminate as to all the lands and depths then covered thereby except lands and depths then designated by Lessee, in accordance with the requirements of this Paragraph, to be within a "Production Unit" (as hereinafter defined) assigned to each well then producing in paying quantities on the Leased Premises or lands properly pooled therewith.

(a) **Continuous Drilling Operations.** Lessee shall be considered to be engaged in "**Continuous Drilling Operations**" at the end of the Primary Term for purposes of this Paragraph if Lessee is engaged in Drilling Operations on the Leased Premises at the end of the Primary Term, or if Lessee has completed or abandoned a well within ninety (90) days prior to the end of the Primary Term; and Lessee shall be deemed to be engaged in Continuous Drilling Operations for as long thereafter as Lessee conducts Drilling Operations on the Leased Premises with due diligence and with intervals of not more than ninety (90) days between the date of completion or abandonment of one well and the date of commencement of actual drilling of the next well.

**(b) Production Unit.** A "Production Unit," for purposes of this Lease, is a designated area of land around a well having the minimum amount of acreage necessary to obtain a regular permit for the drilling of a well, as required by the field rules of the Railroad Commission of Texas applicable to the field from which such well is producing. Each Production Unit shall be limited in depth to one hundred (100) feet below the deepest perforation in any well on such Production Unit.

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## 7. Partial Releases

Lessee shall have the right at any time and from time to time during the term of this Lease to release from the lands covered hereby any lands subject to this Lease and thereby be relieved of all obligations thereafter accruing as to the acreage so released, provided that (1) Lessee may not release any portion of this Lease included in a pooled unit as long as Operations are being conducted on such unit, and (2) any such partial release must release all depths in and under the lands so released.

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## 8. Pooled Units

**(a) Right to Pool.** Lessee shall have no right to pool the Leased Premises with other lands without Lessor's prior written consent. If such consent is given, then pooling shall be subject to the following provisions:

**(b) Manner and Effect of Exercise of Right to Pool.** Lessee shall exercise said option as to each desired pooled unit by executing an instrument identifying such pooled unit and filing it for record in the public office in which this Lease is recorded, and furnishing a copy to Lessor.

**(c) Allocation of Pooled Minerals.** There shall be allocated to the land covered by this Lease within each such pooled unit (or to each separate tract within the pooled unit if this Lease covers separate tracts within the pooled unit) that proportion of the total production of unitized minerals from the pooled unit which the number of surface areas in such land (or in each such separate tract) covered by this Lease within the pooled unit bears to the total number of surface acres in the pooled unit.

**(d) Size of Pooled Units.** Pooled units created hereunder shall not exceed the size limitations set forth in Paragraph 6(b) for Production Units.

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## 9. Assignment

The terms "Assign" and "Assignment" as used in this Paragraph include any transfer of a legal or equitable interest in the operating rights in all or any part of the Leased Premises, whether by sale, sublease, farmout or otherwise, or through a participation agreement, pooling agreement, operating agreement, area-of-mutual-interest provision, or any other type of Assignment or agreement to Assign. A mortgage of Lessee's interest shall not constitute an Assignment requiring Lessor's consent, but any sale made pursuant to a power of sale granted in any

mortgage shall be subject to the terms of this provision and shall require Lessor's consent to the assignment to the purchaser at such sale.

**The rights and estate of Lessee (or any permitted Assignee of Lessee) hereunder may not be Assigned without the prior written consent of Lessor, which shall not be unreasonably withheld.** Lessor's consent shall be deemed to be 'reasonably withheld' if Lessor reasonably determines that the proposed assignee or transferee is not likely to have the ability to perform the obligations imposed on Lessee by this Lease, including, without limitation, obligations concerning payment for damages and injury, restoration of the Leased Premises and indemnification. Lessee shall provide Lessor reasonably sufficient information concerning the proposed assignee or transferee to allow Lessor to make such determination. **Any Assignment by Lessee without Lessor's prior written consent shall constitute a material breach of this Lease.**

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## 10. Proportionate Reduction

This Lease is made without warranty of title, express, implied or statutory. It shall be the responsibility of Lessee to make title examinations sufficient to satisfy itself as to Lessor's right, title and interest in the Leased Premises and the rights of Lessor to execute this Lease. If this Lease covers a less interest in the oil or gas in all or any part of the Leased Premises than the entire and undivided fee simple estate (whether Lessor's interest is herein specified or not), or no interest therein, then the royalties and other moneys accruing from any part as to which this Lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this Lease, bears to the whole and undivided fee simple estate therein.

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## 11. Force Majeure

Should Lessee be prevented from complying with any express or implied covenant of this Lease (except payment of money), from conducting drilling or reworking operations thereon or from producing oil or gas therefrom by reason of scarcity of or inability to obtain or to use equipment or material, or by operation of force majeure, any Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended, and Lessee shall not be liable in damages for failure to comply therewith; and this Lease shall be extended while and so long as Lessee is prevented by any such cause from conducting drilling or reworking operations on or from producing oil or gas from the Leased Premises.

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## 12. Indemnity

Lessee agrees to defend, indemnify, protect and hold harmless Lessor and Lessor's heirs, successors, representatives, agents and assigns ("Indemnitees"), from and against any and all claims, demands, causes of action, liability, loss, damage or expense of any and every kind and nature, including without limitation attorneys' fees (hereinafter "Claims and Losses") for injury

(including death) or damage to persons or property (including environmental damage to the surface or subsurface estates of any person, firm or corporation) arising out of, incidental to or resulting from (i) the operations of or for Lessee or Lessee's servants, agents, guests, invitees or independent contractors, (ii) the enjoyment of this Lease, (iii) the exercise of any right granted hereunder, and/or (iv) any obligation imposed thereby.

**LESSEE'S OBLIGATION TO DEFEND AND INDEMNIFY INDEMNITEES SHALL APPLY WHETHER OR NOT INDEMNITEES MAY BE GUILTY OF ANY NEGLIGENT ACT OR OMISSION WHICH RESULTED IN OR CONTRIBUTED TO THE COST, EXPENSE OR LIABILITY AGAINST WHICH LESSEE IS OBLIGATED TO INDEMNIFY INDEMNITEES HEREUNDER, AND WHETHER OR NOT INDEMNITEES MAY BE SUBJECT TO SUCH LIABILITY BY STATUTE OR BY APPLICATION OF PRINCIPLES OF STRICT LIABILITY.** The provisions of this Paragraph shall survive the termination of this Lease.

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### 13. Access to Information

Lessee shall provide written notice to Lessor of Lessee's entry upon the Leased Premises to drill. Lessee agrees to furnish Lessor, upon request, copies of all title opinions covering the Leased Premises, copies of all filings made by Lessee with the Railroad Commission of Texas pertinent to drilling and completing wells, copies of all daily drilling reports, full information as to the production and sales from wells on the Leased Premises, and a copy of all gas contracts or any other agreements pursuant to which Lessee shall sell, use, transfer or dispose of any hydrocarbon substance or product extracted therefrom which was produced from the Leased Premises. Lessor shall have the right to inspect, audit and copy all records of Lessee pertaining to the production and sale of oil and gas from the Leased Premises and the calculation and payment of Lessor's royalty hereunder.

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### 14. Reasonable Development

If oil or gas is discovered on the Leased Premises, Lessee shall develop the Leased Premises as a reasonable and prudent operator. Lessee shall protect the oil and gas in and under the Leased Premises from drainage by wells on adjoining or adjacent tracts or leases as a reasonable and prudent operator.

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### 15. Insurance

Lessee, at its own expense, shall maintain a general liability insurance policy (covering both bodily injury and property damage and covering its indemnity provisions of this Lease) in an amount of at least **\$1,000,000** combined single limit. Lessee shall also, at its own expense, carry worker's compensation insurance as required by law. Said policies shall (i) name Lessor as an additional insured (except for the worker's compensation policy, which instead shall include a waiver of subrogation endorsement in favor of Lessor), (ii) be issued by an insurance company

which is reasonably acceptable to Lessor, and (iii) provide that said insurance shall not be canceled unless thirty (30) days prior written notice shall have been given to Lessor.

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## 16. Surface Provision

Lessee agrees to perform and comply with all obligations pertaining to use and protection of the surface estate of the Leased Premises set forth in **Exhibit A — Surface Use Restrictions**, attached to and made a part of this Lease. Lessee agrees to cause all its employees, independent contractors and invitees who are present upon the Leased Premises under the authority of this Lease to comply with such provisions, and Lessee will be responsible for such compliance.

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## 17. Notice of Breach

In the event Lessor considers that Lessee has not complied with all its obligations hereunder, both express and implied, Lessor shall notify Lessee in writing, setting out specifically in what respects Lessee has breached this contract. Lessee shall then have sixty (60) days after receipt of said notice within which to meet or commence to meet all or any part of the breaches alleged by Lessor.

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## 18. Notices

All notices which are permitted or required hereunder shall be in writing and shall be deemed to have been duly given if delivered personally, sent by registered or certified mail, return receipt requested, or sent by special carrier (such as Federal Express or UPS), with signature required, to the Lessors and to Lessee at the addresses set forth at the beginning of this Lease or the last changed address of which parties hereto have received written notice in compliance with this Paragraph.

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## 19. Place of Performance

This Lease shall be governed by the laws of the State of Texas. All obligations of Lessee shall be performable in the county or counties in which the Leased Premises are situated.

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## 20. Severability

Should any one or more of the provisions in this Lease become, or be determined to be, void, invalid, or wholly or partially unenforceable, the remainder of this Lease shall remain in full force and effect despite such determination(s).

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## 21. Entire Agreement

This Lease, together with Exhibit A attached hereto, constitutes the entire agreement between Lessor and Lessee with respect to the subject matter hereof and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written. No amendment of or supplement to any provision of this Lease shall be binding upon either party unless it is in writing and signed by both parties.

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**EXECUTED** as of the date first above written.

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### LESSOR:

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**HARLAN D. CALLAHAN**

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**PATRICIA A. CALLAHAN**

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### LESSEE:

**NORRIS PERMIAN VENTURES, LLC**

By: \_\_\_\_\_

**Thomas L. Norris, Jr.**  
Manager and Sole Member

Date: March 15, 2021

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## ACKNOWLEDGMENTS

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**STATE OF TEXAS**  
**COUNTY OF MIDLAND**

BEFORE ME, the undersigned authority, on this day personally appeared **HARLAN D. CALLAHAN**, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this the **15th** day of **March**, 2021.

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Notary Public in and for the State of Texas

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**STATE OF TEXAS  
COUNTY OF MIDLAND**

BEFORE ME, the undersigned authority, on this day personally appeared **PATRICIA A. CALLAHAN**, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that she executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this the **15th** day of **March**, 2021.

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Notary Public in and for the State of Texas

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**STATE OF TEXAS  
COUNTY OF MIDLAND**

BEFORE ME, the undersigned authority, on this day personally appeared **THOMAS L. NORRIS, JR.**, known to me to be the person whose name is subscribed to the foregoing instruments as **Manager** of **Norris Permian Ventures, LLC**, 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 limited liability company.

Given under my hand and seal of office this the **15th** day of **March**, 2021.

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Notary Public in and for the State of Texas

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## **EXHIBIT A — SURFACE USE RESTRICTIONS**

The following Surface Use Restrictions are incorporated into and made a part of that certain Oil and Gas Lease dated March 15, 2021, between Harlan D. Callahan and Patricia A. Callahan, as Lessor, and Norris Permian Ventures, LLC, as Lessee, covering the Leased Premises described therein.

**1. Development Plan.** Prior to commencing any operations for the drilling of a well or for seismic operations on the Leased Premises, Lessee shall prepare for Surface Owner's review and approval a development plan (the "Development Plan") describing such proposed operations. The Development Plan shall fully describe the operations proposed to be conducted by Lessee, and shall contain at least the following:

- (a) a copy of the application to drill and drilling permit for each well to be drilled, and of the Water Board Letter showing the estimated depth of fresh water to be protected by surface casing;

(b) a schematic of the proposed well location for each well to be drilled, showing the proposed location of the well and of each pit (if pits are allowed) or tank to be used in connection with the drilling and completion of the well;

(c) a plat of the Leased Premises showing Lessee's proposed road or roads to be constructed to the well site, and a description of the materials and methods to be used in construction of such roads;

(d) a list of names, addresses and telephone numbers for all contractors and subcontractors to be used in the drilling and completion of the well, with names of personnel who can be contacted in the event of problems or emergencies.

**2. Location of Facilities.** Lessee agrees to contact Surface Owner prior to the commencement of each separate well and prior to the commencement of each separate geophysical operation or other operation. Except in emergencies, such notice to Surface Owner must be at least 72 hours in advance of such operation. In any event, no wells or other surface equipment or facilities may be located closer than one thousand feet (1,000') to any residence or closer than five hundred feet (500') to any existing barns, pens or other ranching operational facilities located on the Leased Premises without Surface Owner's written consent.

**3. Compliance with Laws.** Lessee shall comply with all federal, state and local laws and regulations in connection with Lessee's operations on, and production from, the Leased Premises, including without limitation, those governing land use, conservation, pollution control, pesticide and herbicide application, endangered or threatened species preservation and irrigation.

**4. Fences and Gates.** Lessee agrees that Lessee will not cut or go over any fence or fences on the Leased Premises at any time or in connection with any operations on the Leased Premises, without first obtaining Surface Owner's express consent thereto in writing. Lessee agrees to promptly close all gates and lock all outside gates which Lessee and Lessee's agents, servants, employees, guests, invitees or independent contractors may use in Lessee's operations on the Leased Premises, to prevent the escape of cattle or stock through any open gate.

**5. Care in Operations.** All operations by or for Lessee on the Leased Premises shall be conducted in such a way as not to unduly interfere with Surface Owner's operations on the premises, it being understood that the Leased Premises are owned and held by Surface Owner primarily for cattle and livestock ranching purposes. Lessee agrees to take all reasonable steps to prevent its operations from:

(i) Causing or contributing to soil erosion or to the injury of terraces or other soil conserving structures on the Leased Premises;

(ii) Polluting the soil of the premises or the waters of the reservoirs, springs, streams, or wells on the premises or adjacent thereto;

(iii) Damaging crops, grasses or other foliage or trees whether natural or improved, cultivated or not, of whatsoever nature; or

(iv) Harming or injuring in any way the animals or livestock owned by Surface Owner or Surface Owner's tenants and kept or pastured on the Leased Premises.

**6. Restoration of Surface.** Within a reasonable time after cessation of any Drilling or Reworking Operation, not to exceed three (3) months, Lessee shall level all disturbed areas and

remove all of Lessee's equipment and material, restore the surrounding land so that it will support the crops or natural range vegetation thereon, and generally shall restore the surface of the land to the same condition and quality as it was before the commencement of such operations.

**7. No Disposal or Storage Allowed.** Pit liners and other oil and gas waste shall not be buried or otherwise disposed of on the Leased Premises. All such waste shall be removed from the Leased Premises and properly disposed of in compliance with all Environmental Laws.

**8. Water Wells.** No water well may be drilled by Lessee on the Leased Premises except with Surface Owner's prior written consent.

**9. Salt Water Disposal.** No salt water disposal well may be drilled on the leased premises without a separate written agreement with the Lessor.

**10. No Hunting or Fishing or Recreational Use.** This agreement does not include any right or privilege of hunting with firearms or with dogs or otherwise on the Leased Premises, nor of fishing on the Leased Premises, nor of any recreational use of the Leased Premises, all such hunting and fishing and recreational rights being expressly reserved to Surface Owner.

**11. Wildlife and Livestock.** Absolutely no wildlife or animals (including, but not limited to, snakes) shall be intentionally killed, injured, harassed, chased or disturbed in any way during the operations or production from the leased premises.

**12. Insurance.** Lessee, at its own expense, shall maintain a general liability insurance policy in an amount of at least \$1,000,000 combined single limit. Said policies shall name Lessor as an additional insured.

**13. Remedies.** If Lessee fails to perform any obligation set forth in this Exhibit, Surface Owner may, after written notice of such breach and a 30 day period for Lessee to cure such breach, (i) perform such obligation on Lessee's behalf, in which event Lessee shall promptly pay to Surface Owner the cost incurred by Surface Owner in such operations, or (ii) sue Lessee for specific performance of such obligations, or (iii) obtain recovery of damages for such breach.

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## RECORDING INFORMATION

### [For Training Purposes]

Field	Value
Document Type	Oil & Gas Lease
Document Number	2021-4872
Instrument Date	03/15/2021
Recorded Date	03/22/2021
Number of Pages	14
County	Midland
Grantor	CALLAHAN, HARLAN D. and

Field	Value
Grantee	CALLAHAN, PATRICIA A. NORRIS PERMIAN VENTURES LLC
Survey	T&P RY CO Survey
Block	40
Township	T1S
Section	12
Acres	640
Consideration	\$480,000.00

## TEACHING NOTES

### [For CLE Presenters Only — Not Distributed to Participants]

#### Characterization Issues

This lease raises the following community vs. separate property questions for the collaborative team:

1. **Source of bonus payment:** The \$480,000 bonus was paid from Norris Permian Ventures, LLC. Where did the LLC's capital come from? If Tommy funded the LLC with community earnings during the marriage, the working interest is community property. If he can trace the capital to separate property (inheritance, pre-marital assets), he may have a separate property claim — but the burden of tracing is on him.
2. **Working interest income:** Monthly production revenue from the Wolfcamp A wells flows to Norris Permian Ventures, LLC. Tommy is the sole member and manager. Angela had no knowledge of this entity or its income. This revenue stream must be characterized and valued.
3. **Undeveloped acreage:** The 640-acre section has only two producing wells. The remaining undeveloped acreage has speculative value that requires expert appraisal — likely requiring a petroleum engineer's reserve report.
4. **Connection to Cooper:** Cooper Norris has performed contract work on the wellsite operations. Some of the "family subsidies" to Cooper may actually be disguised payments for Cooper's labor on Tommy's side investments, further complicating the financial picture.
5. **Assignment restrictions:** Paragraph 9 requires Lessor consent for assignment. Tommy cannot simply transfer his interest to avoid community property claims without the Callahans' consent — and any attempt to do so during the divorce would likely constitute waste or fraud on the community.

## Valuation Complexity

The financial neutral will need to address:

- **Proved producing reserves (PDP)** from existing wells — requires a petroleum engineer
- **Proved undeveloped reserves (PUD)** from undrilled locations — highly speculative, depends on oil price assumptions
- **Decline curve analysis** for existing production
- **Working interest vs. net revenue interest** — Tommy's working interest obligates him to pay operating costs; the net revenue interest (after the 25% royalty) is what he actually receives
- **Oil price sensitivity** — At \$70/bbl the interest may be worth \$2M+; at \$50/bbl it might barely break even. This ties directly to the case theme: the family's financial life rests on a volatile commodity price floor

## Timeline Significance

- **Lease date: March 2021** — firmly during the marriage
- **Primary term expires: March 2024** — the lease is now held by production (HBP), meaning it continues as long as wells produce
- **Divorce filing: 2025** — four years of production revenue may not have been disclosed to Angela