

16659

WATER LEASE

THIS AGREEMENT made this 30th day of December, 1997, between Edward Austin Blumberg, Lessor, whose address is P. O. Box 1018, Seguin, Guadalupe County, Texas 78156, and Carrizo Water Company, L.L.C., Lessee, WITNESSETH:

1. Lessor in consideration of ten and no/100 Dollars (\$10.00), in hand paid, of the royalties herein provided, and of the agreements of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing groundwater, conducting exploration, geologic and geophysical surveys by seismograph, core test, gravity and magnetic methods, injecting water and other fluids, and air into subsurface strata, laying pipe lines, building roads, tanks, power stations, telephone lines and other structures thereon and on, over and across lands owned or claimed by Lessor adjacent and contiguous thereto, to produce, save, take care of, treat, transport and own groundwater, and housing its employees, the following described land in Guadalupe and Wilson County, Texas, to-wit:

Tract No. Three: 1,429.70 acres, more or less, Guadalupe and Wilson Counties, Texas, limited to depths 10 feet below the ground's surface and deeper. The surface area of the property being more specifically described as follows:

SUBTRACT A: All that certain 1,269.7 acre tract, more or less, being all of the G. W. Martin Survey, situated partly in Guadalupe County and partly in Wilson County, Texas and being part of the same property conveyed by deed dated October 23, 1931, executed by F. C. Weinert to H. H. Weinert and Arthur Weinert and being recorded in Volume 139, Page 391 of the Deed Records of Guadalupe County, Texas, and containing approximately 1,280 acres.

LESS AND EXCEPT that certain 10.3 acre tract, more or less, located in the Southwest corner of the G. W. Martin Survey and being described by metes and bounds as follows:

BEGINNING at the Southwest corner of the G. W. Martin Survey;

THENCE north along the West line of the G. W. Martin Survey a distance of 900 feet to a point;

THENCE Southeast a distance of 1400 feet to a point in the South line of the G. W. Martin Survey;

THENCE West a distance of 1000 feet to the point of beginning.

SUBTRACT B: All the certain 160 acres of land located in the A. P. Browning Pre-emption, Guadalupe County, Texas, and being more particularly described by metes and bounds as follows:

BEGINNING on the west line of the G. W. Martin Survey 640 vrs. from the Northwest corner of said survey, a stake from which a BJ 10" in diameter brs. North 50 East 3 vrs., another 4" in diameter brs. South 51 West 5 vrs.;
THENCE South 950 vrs. a stake from which a PO 8" in diameter brs. North 60 East 5 vrs., another 10" in diameter brs. South 35 East 9 vrs;
THENCE West 950 vrs. a stake, from which a BJ 8" in diameter brs. North 9 East 66 vrs.;
THENCE North 950 vrs. a stake from which a PO 15" in diameter brs. S 60 East 9 vrs. another 16" in diameter brs. North 78 West 5 vrs.;
THENCE East 90 vrs. to the place of beginning, containing 160 acres of land.

and being the same tract of land conveyed by deed dated March 16, 1939, executed by W. G. Bundick et al to H. H. Weinert and being recorded in Volume 184, Page 291 of the Deed Records of Guadalupe County, Texas.

2. Subject to the other provisions herein contained, this lease shall be for a term of TEN (10) years from this date or for a period of TEN (10) years from the date of the last sale of groundwater in paying quantities produced from the lease premises.
3. The royalties to be paid by Lessee are on groundwater, ONE-TENTH of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipelines to which the wells may be connected; however, Lessee may from time to time purchase any royalty groundwater in its possession, paying the market price therefor on the date of purchase. Lessee shall have free use of water from said land, except groundwater from Lessor's wells, for all reasonable and necessary operations hereunder, and the royalty on groundwater shall be computed after deducting any so used.
4. The depository of record for Lessor shall be _____ Bank at _____, Texas (which bank and its successors are Lessor's agent and shall continue as the depository for all payments hereunder regardless of changes in ownership of said land or the royalties or other payments).
5. Lessee may at any time or times execute and deliver to Lessor or to the depository above named in Paragraph 4 or place of record a release or releases of this lease to all or any part of the above-described premises, or of any groundwater or horizon under all or any part thereof, and thereby be relieved of all obligations as to the

released land or interest. If this lease is released as to all groundwater and horizons under a portion of the land covered by this lease, the royalties computed in accordance therewith shall thereupon be reduced in the proportion that the number of surface acres within such released portion bears to the total number of surface acres which was covered by this lease immediately prior to such release.

6. If at the expiration of the ten year term, groundwater is not being produced on said land, but Lessee is then engaged in drilling or reworking operations thereon or shall have completed a dry hole thereon within sixty (60) days prior to the end of the term, the lease shall remain in force so long as operation on said well or for drilling or reworking of any additional well are prosecuted with no cessation of more than sixty (60) consecutive days, and if they result in the production and sale of groundwater in paying quantities, for a TEN (10) year term after the date of the last sale of ground water in paying quantities.
7. Lessee shall have the right at any time during or within six (6) months after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all pipe lines below ordinary plow depth, and no well shall be drilled within one hundred (100) feet of any residence or barn now on said land without Lessor's consent.
8. The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to their heirs, successors and assigns; but no change or division in ownership of the land or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee; and no change or division in such ownership shall be binding on Lessee until thirty (30) days after Lessee shall have been furnished by registered U.S. mail at Lessee's principal place of business with a certified copy of recorded instrument or instruments evidence same. In the event of assignment hereof in whole or in part, liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof who commits such breach. In the event of the death of any person entitled to royalties hereunder, Lessee may pay or tender such royalties to the credit of the deceased of the estate of the deceased until such time as Lessee is furnished with property evidence of the appointment and qualification of an executor or administrator of the estate, or if there be none, then until Lessee is furnished with evidence satisfactory to it as to the heirs or devisees of the deceased and that all debts of the estate have been paid. If at any time two or more persons be entitled to participate in the royalty payable hereunder, Lessee may pay or tender said royalty jointly to such persons or to their joint credit in the depository named herein; or, at Lessee's election, the

proportionate part of said royalties to which each participant is entitled may be paid or tendered to him separately or to his separate credit in said depository. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.

9. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or reversion of the estate created hereby nor be grounds for cancellation hereof in whole or in part. In the event Lessor considers that operations are not at any time being conducted in compliance with this lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereof, and Lessee, if in default, shall have sixty (60) days after receipt of such notice in which to commence the compliance with the obligations imposed by virtue of this instrument.
10. Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee at its option may discharge any tax, mortgage or other lien upon said land, either in whole or in part, by, through and under Lessor only, and in event Lessee does so, it shall be subrogated to such lien with right to enforce same and apply royalties accruing hereunder toward satisfying same. Without impairment of Lessee's rights under the warranty in event of failure of title, it is agreed that if this lease covers a less interest in groundwater in all or any part of said land 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 monies 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. All royalty interest covered by this lease (whether or not owned by Lessor) shall be paid out of the royalty herein provided. Should any one or more of the parties named above as Lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.
11. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing groundwater therefrom 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 groundwater from

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the lease premises; and the time while Lessee is so prevented shall not be counted against Lessee, anything in this lease to the contrary notwithstanding.

12. Lessee shall pay all damages caused by its operations hereunder to fences, water wells, animals and improvements on said land, whether caused by negligence or not, and shall also pay all damages caused to crops, as well as damages caused to surface owner and/or surface tenant from inability to raise crops by reason of the operations of Lessee. Lessee shall haul off from the leased premises, and manage in accordance with any and all applicable local, state, and federal laws, bore hole corings and chemicals within ten (10) days after completion of drilling operations as to each well on the leased premises. Lessee shall, as soon as operations will permit, level all dumps and fill all pits and ruts caused by its operations hereunder, and shall remove all debris and structures placed by Lessee upon the premises, and shall restore the contour of the ground to the level prevailing prior to operations by Lessee (not to exceed in any event sixty (60) days after the completion of drilling operations). It is agreed that, prior to any drilling operations upon the leased premises, a route for a road to the proposed drilling location shall be agreed upon between Lessor and Lessee, in order that a route shall be selected to do as little damage as possible to interfere with cultivation or to growing crops or other surface uses. In the event operations are conducted on the leased premises for groundwater exploration and production is obtained, then Lessee agrees to fence its production facilities with fencing capable of turning livestock and to paint such production facilities. In the event exploratory operations are conducted under this lease, Lessee agrees to promptly cover all shot holes and restore the surface of the land substantially to the same conditions as it was before the commencement of such operations.
13. Any operations upon the leased premises conducted by Lessee, its contractors or employees, shall at all times be open to the inspection and examination of Lessor or their duly accredited representatives. It is intended by this paragraph that Lessor will be entitled to full information in every respect pertaining to any well or wells drilled upon the leased premises. Lessor or his representative shall have the right at all reasonable times to examine any meters placed on any wells upon the leased premises.
14. Royalties on groundwater shall be free of all costs of production and treatment to make same marketable.
15. It is expressly agreed and understood that Lessee shall not permit hunting on the property or carry firearms thereon.

16. After the discovery of groundwater in paying quantities on said premises, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator without causing subsidence to the leased premises or neighboring property and without operating in a wasteful manner. Such obligations not to cause subsidence and not to operate wastefully shall be a condition of this lease and not merely a covenant. Should Lessor provide 60 days notice as per Paragraph 9 and should Lessee fail to comply with the operation standards above, then Lessor, at his option, shall terminate all of Lessee's rights hereunder and in such event this lease shall be null and void.
17. Lessee shall also protect all fresh water sands and shall properly plug all wells in accordance with the rules and regulations of the Texas Natural Resource Conservation Commission, the Texas Water Well Drillers Board, or other governmental agency having jurisdiction.
18. Except with permission granted by Lessor, Lessee shall place no permanent power stations or telephone lines on the leased premises without consent of Lessor, which consent shall not be unreasonably withheld, and for which Lessor reserves the right to receive additional consideration and compensation for damages occasioned thereby.
19. It is the intention of the parties that Lessor shall be entitled to full information as to all operations of Lessee hereunder. All operations on the premises shall be conducted with good and adequate machinery and equipment, and shall, at all times, be open to inspection and examination by Lessor, or his duly accredited representatives, all of whom shall have access to the well site at all times at their sole risk. Lessor, or his duly accredited representative, shall have the right, upon reasonable notice to Lessee and at his own expense and sole risk, to examine or test any meter, gauge, or measuring device used by Lessee or others, and Lessor may also, at his own expense and risk of loss or injury to such gauger, employ his own independent gauger to act with any gauger of Lessee.

Upon written request, Lessee shall furnish, within a reasonable length of time, one copy of each of the following to Lessor:

- (a) Any Schlumberger, Gamma Ray Survey, or other log or test, electric or otherwise, including perforating records, which may be run on any well drilled on the leased premises or on acreage pooled therewith;
- (b) Any core analysis which may be made;

- (c) The results of all drill stem or production tests;
- (d) All production reports made to the Texas Natural Resource Conservation Commission, the Texas Water Well Drillers Board, or other governmental body;
- (e) All ground surface surveys made on the leased premises, with field notes and plats, including well locations.

It is contemplated by the parties that the above copies shall be furnished to Lessor within a reasonable length of time from request by mail as soon as they are available to Lessee, except that production reports may be mailed to Lessor at the same time they are mailed to the governmental agency involved.

On request of Lessor in writing, Lessee will furnish copies of any other application or report filed with any governmental authority applicable to any operations hereunder, and copies of tank or line gauges.

All information furnished by Lessee shall be treated by Lessor in a confidential manner, and except for any logs, surveys or reports which Lessee may have "released" or made public such logs, surveys, or reports will not be shown by Lessor, nor made available by Lessor to others without Lessee's express permission; provided, however, that Lessor may show to a geologist or engineer of his choice for the purposes of evaluation and advice to Lessor, with the understanding that same are confidential and no information gained therefrom is to be used by said person for himself or any person or firm other than Lessor.

20. In the event of the termination of all or a portion of this lease from any cause, Lessee shall, within one-hundred twenty (120) days after written request by Lessor, which request shall be by certified mail, place of record a release of this lease as to the portion or all thereof as to which termination has occurred. In the event that Lessee shall fail to record such release required by this paragraph, then beginning upon the sixtieth (60th) day after such written request by Lessor, Lessee shall pay reasonable attorney's fees incurred by Lessor, as may be necessary to obtain and file such release.

21. Notwithstanding the termination of this lease as to a portion of the lands covered hereby, Lessee, subject to the terms and provisions of this lease, shall nevertheless continue to have the right of ingress to and egress from the lands still subject to the lease for all purposes described in Paragraph 1 hereof, together with easements and rights-of-way for roads, pipelines and other facilities on, over and across all the lands

described in Paragraph 1 hereof, for access to and from the lands still subject to this lease and for the gathering or transportation of groundwater produced from the retained lands.

22. Lessee shall promptly deliver to Lessor a copy of any title opinions covering all or any part of the leased premises obtained by Lessee or made available to Lessee during the continuation of this lease. Upon termination of this lease, Lessee shall deliver to lessor any abstracts of title acquired by lessee which cover all or any portion of the leased premises. Although it is anticipated that Lessee will obtain abstracts and title opinions covering all or a portion of the leased premises prior to drilling, this paragraph should not be construed as requiring Lessee to do so for the benefit of Lessor. Any such title opinions shall be used by Lessor at Lessor's sole risk, and Lessee shall not be liable for any errors, incompleteness or inaccuracy therein or thereof.
23. Should any operations conducted on the lease premises by Lessee or its contractors, employees or assigns require the removal of growing trees, Lessee shall dispose of the trees by cutting the portion thereof suitable for household firewood into twenty-four (24) inch lengths for the benefit of Lessor. When crossing any fence, now existing or hereafter constructed, Lessee shall install cattle guards, as determined by Lessor, which shall become the property of Lessor. Lessee agrees to install gates across any cattle guard(s).
24. All royalties that may become due hereunder on groundwater shall be paid to Lessor or to the depository named in Paragraph 4 on or before one-hundred twenty (120) days following the month in which such groundwater was produced. Any sums of money due Lessor hereunder not paid in accordance with this paragraph shall bear interest from and after the dates due at a rate of six percent (6.00%) per annum. Failure to pay royalty to Lessor with all interest due thereon for a period of one-hundred-eighty (180) days from the due date thereof shall be a breach of a condition of this lease and not merely a covenant and shall at Lessor's option, terminate all of Lessee's rights hereunder and in such event this lease shall be null and void.
25. Any saltwater from any well or wells drilled on the leased premises shall be disposed of by transporting same off the lease premises by truck or pipeline or by reinjection into some horizon other than a fresh water sand, subject to appropriate regulatory approval, and same shall never be permitted to flow on or over the leased premises, or to pollute any waters thereon or thereunder. Lessee shall have no right to dispose of saltwater by such reinjection into the leased premises as to land not otherwise held under this lease.

26. Lessee shall bury all pipelines to a depth of thirty inches (30") from the surface of the ground to the top of any such pipeline or flow line and shall remove same after the cessation of its operations on the lease premises.
27. Lessee shall, in the construction or digging of any pits or excavations, roads or pipelines or other similar matters permitted hereunder, always preserve the topsoil on the leased premises and in reconstructing, filling, grading and ditching shall always return the topsoil on the premises last so that it is preserved in the state in which it existed prior to Lessee's operations hereunder.
28. In the event legal proceedings are brought by Lessor or Lessee under or with relation to this lease, the prevailing party shall be additionally entitled to recover court costs and attorneys fees from the non-prevailing party.
29. Whenever in this lease the Lessee shall be required to be "engaged in operations" or to commence the drilling of a well, "drilling operations" or "commencement of operations" for the drilling of a well shall mean the actual drilling of a well, or the actual performance of operations. "Actual drilling" shall mean that point in time when there shall have been erected on the leased premises at the location for such well, machinery capable of drilling a well and when such rig shall be spudded in and rotating under power. "Performance of operations" shall mean that point in time when Lessee shall be physically engaged on the leased premises in reworking or other similar operations for the purpose of establishing or re-establishing the production of groundwater.
30. Prior to commencement of drilling operations, Lessee shall provide the name and address and phone number of a company representative of Lessee to serve as a contact between Lessor and Lessee.
31. No caliche or other base material of any kind or character whatsoever from the leased premises shall ever be used to construct roads, pads or other surface facilities by Lessee, except with permission from the Lessor. No excavation of the leased premises shall ever be permitted to provide base materials for such roads, pads or other surface facilities, except with permission from the Lessor. No borrow or bar ditches shall be allowed along roads, drill site, or production site, except with permission from the Lessor.
32. All cement or concrete from a well completion or a plugged and abandoned well is to be removed from the premises and managed in accordance with any and all

applicable local, state, and federal laws. No cement trucks are to be washed out on any part of the leased premises.

33. Lessee shall maintain all tank batteries and other locations upon the premises in such a manner as to assure that they are drained properly and that all weather surface is installed around and contiguous to such locations.
34. Any well drilled by Lessee shall contain surface casing as required by the Texas Natural Resource Conservation Commission, the Texas Water Well Drillers Board, or any other governmental authority with jurisdiction.
35. Lessee shall indemnify, save and hold Lessor harmless from all claims, demands and causes of action arising from activities undertaken by Lessee or Lessee's assignees, or their employees, agents, contractors and subcontractors including court costs and attorney's fees for the defense thereof.
36. Lessee shall notify Lessor not less than forty-eight hours prior to any entrance on the leased premises of the date of its entry and the purpose thereof and will also advise Lessor of the specific planned location of any well drilled on the leased premises prior to moving any equipment on the leased premises. If production is obtained on the leased premises, then Lessee shall keep and maintain a gravel or other all weather road to each well location situated on the leased premises. Upon cessation of the use thereof by Lessee, Lessee shall notify Lessor of such cessation and at the option of the Lessor, Lessee will leave on the premises as part of the property of Lessor all cattle guards, gates, bridges and roads placed thereon by Lessee. Any such equipment so remaining shall become the property of Lessor. Lessee shall maintain the lease in good condition so as not to cause erosion or to disturb the natural drainage of the lands covered by this lease.
37. At any time any money payment may be due Lessor hereunder, other than the payment of royalties under Paragraph 25 and Lessor shall have made written demand therefor, then any such sum shall bear interest at a rate of twelve percent per annum beginning with the 31st day after Lessee's receipt of such written demand.
38. If a well or wells producing groundwater in paying quantities is brought in on adjacent land and draining the leased premises, Lessee agrees to drill such offset wells as a reasonably prudent operator would drill under the same or similar circumstances.

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39. Lessor shall retain all rights with regard to oil, gas, and other minerals, other than water. The provisions of this lease govern exploration and production of groundwater only.
40. During the term of this lease, the Lessor shall maintain exclusive rights to pump water from the surface and below for reasonable ranch use, provided the casing of the well is 6 inches in diameter or smaller.

IN WITNESS WHEREOF, this instrument is executed on the date first above written.

Edward Austin Blumberg
Edward Austin Blumberg

Edward Austin Blumberg (V.P.)
Carrizo Water Company, L.L.C

STATE OF TEXAS

COUNTY OF Guadalupe

This instrument was acknowledged before me on the 30th day of December 1997.



Joyce Magin
Notary Public, State of Texas

THE STATE OF TEXAS
COUNTY OF GUADALUPE
I hereby certify that this instrument was
FILED on the date and at the time stamped
hereon by me and was duly RECORDED in the
Official Public Records of Guadalupe County,
Texas.

FILED FOR RECORD
97 DEC 30 PM 3:31

Lizette Florenz
COUNTY CLERK GUADALUPE COUNTY



Lizette M. Florenz
County Clerk,
Guadalupe County Texas