

FOUR SEVENS OPERATING CO., LTD.

*P.O. Box 1659
Aledo, Texas 76008
Phone: (682) 708-8196*

March 8, 2018

To: Mineral Interest Owners Located within Proposed Development Units
Within City Limits of Big Spring, Texas

Re: Offer to Voluntarily Pool and Participate in Proposed Drilling of Horizontal Wells or
Alternatively purchase Mineral Interest
BAUER MIPA 1H

Dear Mineral Owner:

Sinclair Oil & Gas Company ("Sinclair") has been working with Four Sevens Operating Co. Ltd. and FS Minerals, Ltd. (collectively "Four Sevens") for some time in an effort to lease acreage within the City of Big Spring for the drilling of horizontal oil wells. Sinclair/Four Sevens are preparing five (5) separate drilling units within the city. There are more than 10,000 separate tracts within the city, so this has been a slow, although steady, process. Four Sevens and other lessees have so far been able to lease about seventy per cent (70%) of the privately owned acreage in the five (5) drilling units. Sinclair/Four Sevens proposes to form a pooled Proration Unit of approximately 535.75 acres (the "Unit"), more particularly described on the enclosed plat marked Exhibit A, for purposes of drilling a horizontal well known as the BAUER MIPA 1H Well to produce from the Spraberry (Trend Area) R 40 EXC Field (Field ID Number 85280301) established by the Railroad Commission of Texas. The estimated total cost of the proposed operations to Sinclair (as the proposed operator for drilling and completion), Four Sevens and other working interest owners is \$5,767,250 as shown in an AFE (Authority for Expenditure) marked Exhibit B.

Our research indicates that you own an unleased mineral interest within the boundaries of the proposed unit. This mineral interest is referred to herein as "your Mineral Interest." Because your tract is unleased, your mineral interest would be unpooled, unless by action of the Railroad Commission after notice and hearing. This means that you would not participate in revenue attributable to production from a well located in the Unit. The purpose of this letter is to set out alternative voluntary pooling and leasing offers from Sinclair/Four Sevens to you regarding your interest, as well as an offer to purchase your mineral interest, in the alternative. Please note, all previous offers from Sinclair, Four Sevens or its leasing agents to lease your mineral interest are hereby withdrawn and replaced by the alternative offers set forth below.

Sinclair offers you the opportunity to (a) lease your mineral interest to Four Sevens as named lessee, (b) participate as an investor (i.e. as a working interest owner) in the drilling and completion of the well to be drilled in the Unit, (c) farmout your minerals to Four Sevens or (d) sell your mineral interest to Four Sevens. These business transactions would also bind the successors and assigns of Sinclair and Four Sevens, as well as your successors and assigns. We ask that you carefully review the alternatives that are described below and select which one you prefer. If you have questions concerning these

alternatives, or concerning any other matters related to the pooling of your interest, please feel free to call Cody Hix or Chad Loudermilk with Four Sevens at 682-708-8196.

Further, please note that we have established a website for this project, where you will find additional information. The website address is www.bigspringwells.com. It is possible that the pooling proposal set forth in this letter may change before the Railroad Commission hearing, which will be a part of this process. We ask you to refer to the "updates" section of the website prior to the hearing for any such changes. We will keep the website in service until at least 30 days after the Commission issues its orders in our dockets for the City of Big Spring wells. We encourage you to print for your files a copy of the information you will find on the website, so that you may have a permanent record.

In addition, please note that while best efforts have been made to correctly translate this letter to Spanish, it is possible that there may be some minor unintended change in context or meaning. For the avoidance of doubt, in the case of any conflict in meaning or intent, the version in English is that which is legally intended.

ALL CALCULATIONS HEREIN ARE APPROXIMATE AND SUBJECT TO CHANGE DUE TO MEASUREMENT ACCURACY.

Alternative No. 1: Lease your Mineral Interest at 25% Royalty, per net acre bonus

You may elect to lease your Mineral Interest to Four Sevens using the form shown in the attached Paid Up Oil and Gas Lease, with a primary term of 3 years plus 2 year extension, 25% royalty and a per net acre bonus. The bonus is payable upon your signing and delivering the executed lease to Four Sevens. This lease includes a provision authorizing Four Sevens or its successor/operator (Sinclair) to pool your mineral interest into a pooled unit. If you select this option then you will be provided the lease for your review, with a legal description of your acreage inserted, for your execution and return. You will then participate in production from the pooled unit as a Royalty Owner, based upon your tract's proportionate contribution of acreage to the entire unit multiplied by the lease's 25% royalty rate. This means that you will not have to pay or bear any of the costs of drilling, equipping, completing, or operating the well. If production is established from the pooled unit, you will receive monthly payments of royalties. This will be true irrespective of whether or not production from the well is sufficient to pay for the costs of drilling, completing and operating the well. Similarly, if Sinclair drills a dry hole, you, as a Royalty Owner, will not have to pay any portion of the costs of drilling such dry holes. Those costs will be borne exclusively by Sinclair, Four Sevens and the other Working Interest owners in the Unit.

Alternative No. 2: Participate as a Working Interest Owner

You may elect to participate as a Working Interest Owner in the Unit, meaning you would be responsible for your proportionate share of the costs of drilling and completing the well in the Unit, and you would share in the revenue from sale of production of oil and gas from the well.

If you decide to participate as a Working Interest Owner in the Unit, your proportionate share of the production and costs will be based upon your Mineral Interest in the surface acreage (for

a residential tract, this would be the size of your lot) included within the proposed Unit in the proportion that such acreage bears to the total surface acreage in the Unit. This is the same basis that other working interest owners within the Unit would share in production and costs. Under this formula, by way of example, if your home is on a 0.25 acre lot, your interest would be 0.25 net acres divided by the 535.75 acres within the Unit, resulting in a working interest percentage of 0.00046664 in the well. This number is called your *Net Revenue Interest*. If you own less than 100% of the mineral interest in your tract, your proportionate share will be reduced accordingly. For instance, if you inherited the lot or home and ownership is now shared among three siblings, each sibling would be entitled to 1/3 of the revenue.

Your proportionate share of the ESTIMATED costs of drilling and completing the proposed well is calculated by multiplying the estimated cost of the well (\$5,767,250) times the fraction expressed by a numerator equal to the size of your lot, in acres and a denominator of 535.75 acres, or 160 (plus ten percent tolerance) acres if the Railroad Commission will not approve the larger unit. This is an estimated cost, which could change due to numerous factors faced while drilling, stimulating and completion of the well, in addition to verifying title and the acreage amounts in each tract within the Unit.

Should you elect to participate as an investor in this way, you will be required to provide Sinclair with a notarized statement agreeing to pay your proportionate share of such costs on or before commencement of actual drilling operations (e.g. spudding the well).

Keep in mind that, as a Working Interest Owner you will be obligated to pay up-front your proportionate share of all well costs irrespective of whether or not the drilling of the well is economic. It is possible that one or more dry holes could be drilled on the Unit. Unlike a Royalty Owner, if you elect to participate as an investor, or Working Interest Owner, then you bear the risk that wells may not produce at all, or that the value of their production will not produce an economic return on your investment.

Execution of a Joint Operating Agreement ("JOA") is necessary to participate as a cost bearing investor in the well. Sinclair proposes a standard form JOA published by the American Association of Professional Landmen (AAPL). Notwithstanding anything contained herein, or in the AAPL Standard 610-1989 HZ Form JOA, to the contrary, the proposed JOA will not contain any provision that is prohibited by section 102.015 of the Texas Mineral Interest Pooling Act. Specifically, the proposed JOA will not contain any of the following provisions:

- (a) preferential right of the operator to purchase mineral interests in the Unit;
- (b) a call on or option to purchase production from the Unit;
- (c) operating charges that may include any part of district or central office expense other than reasonable overhead charges; or
- (d) prohibition against non-operators questioning the operation of the Unit.

Because the standard form AAPL JOA that Sinclair proposes is lengthy, we have not enclosed a copy at this time. You may review a copy of the proposed form at www.bigspringwells.com. Should you have any interest in participating as a Working Interest Owner as set forth above, please let me know and we will furnish you by mail a copy of the JOA for your review, if you do not have access to the internet. The JOA will govern the operations of the Unit. Please contact Four Sevens personnel identified below if you have questions about the JOA, or consult with an attorney of your choosing familiar with JOAs for advice and counsel.

If you elect to participate as a Working Interest Owner, please sign this letter where indicated below and return it to me at the address shown on the above letterhead. Sinclair will forward the proposed JOA for your execution. You will then need to execute the JOA in front of a notary public and return the executed JOA to Sinclair with your payment *in advance* of your proportionate share of the estimated drilling costs of the proposed well. Your proportionate share of the cost can be calculated by multiplication of your net revenue interest (which decimal you would calculate as explained above) times the estimated cost of drilling and completing the well, which is \$5,767,250.

This offer to participate in the Unit as a Working Interest Owner is conditioned upon Sinclair receiving the executed JOA from you and your payment of your proportionate share of the estimated drilling costs of the proposed well within 30 days of notification from Sinclair that it is ready to commence the drilling of the proposed well. In the event you provide Sinclair with a notarized statement agreeing to pay your proportionate share of the costs, but do not fully pay such costs within fifteen (15) days prior to commencement of actual drilling operations then you will be subject to the non-consent penalties set forth in the JOA. Additionally, Sinclair as Operator, shall have the right, if the well is a producer, to appropriate, retain, market and sell your share of production until the non-consent penalty in the JOA is satisfied.

Alternative No. 3: Farmout your Mineral Interest to Four Sevens

You may elect to Farmout your interest to Four Sevens, whereby you will convey to Four Sevens an 80% net revenue interest attributable to your Mineral Interest, and retain an overriding royalty interest equal to 20% of 8/8ths, proportionately reduced by the fraction that your Mineral Interest bears to all of the mineral interests in the Unit, until payout of all well costs (i.e., Four Sevens shall have recouped from the revenues attributable to production from the well all costs incurred by Four Sevens to drill, test, fracture stimulate, complete, equip and connect the well for production), with the option to convert the retained override to a 25% working interest, proportionately reduced.

If you elect to Farmout your mineral interest to Four Sevens, Four Sevens will provide for your review a proposed Farmout Agreement containing the terms set forth above. You may inspect a copy of the form of this agreement on the project website.

Alternative No. 4: Sell your Mineral Interest to Four Sevens

You may elect to sell your mineral interest to Four Sevens, for a one time cash payment at a price of \$7000.00 per net mineral acre. By way of example, if you own a city tract of 2.0 acres, and there has been no prior mineral reservation or sale, Four Sevens would purchase your interest for \$14,000. After this transaction you would not have any future interest in the revenue from unit production. If you elect this option, Four Sevens will require 30 days to research your mineral title and verify your ownership prior to closing the purchase. The choice of this option will allow you to avoid the risk of a dry hole, or failure to drill the proposed well. **SELLING YOUR MINERAL INTEREST WILL NOT AFFECT YOUR HOME OWNERSHIP OR THE SURFACE USE OF YOUR PROPERTY. Alternative No. 4 will remain open until March 31, 2018. This deadline may be later extended, by announcement on the project website.**

If you consider that any term in any of the voluntary pooling alternatives described above to be unfair or unreasonable, please respond in writing with your comments setting forth the reasons why you

believe the offers to be unfair or unreasonable. Please include in your response any revision to the terms that you would propose for Sinclair's consideration and reply. If you are receiving this letter for multiple tracts, or if we later find that you own multiple tracts within the project area, we will assume that any instructions we receive from you or acceptance decisions you communicate to us relate identically to all unit tracts in which you own an interest, unless you advise us otherwise in your response.

Please review this letter and indicate if you elect to lease, sell your Mineral Interest, participate as a working interest owners, or farmout, all such options allowing voluntary pooling of Mineral Interest into the unit by placing an "X" in the appropriate space below and sending a signed copy of this letter to Four Sevens using the enclosed postage prepaid envelope. Alternatively, you may advise us of your decision by telephone call or e-mail to info@bigspringwells.com. **We ask that you make such decision within twenty-one (21) days of your receipt of this letter.** If Four Sevens has not received from you a signed copy of this letter or your election by telephone or e-mail within **twenty-one (21) days**, we will consider that to be a decision by you to decline to voluntarily pool your Mineral Interest in the Unit.

Further, please be advised that if you take no action to voluntarily pool your Mineral Interest into the Unit within the twenty-one (21) day period set forth above, then the Railroad Commission of Texas, pursuant to its authority under the Mineral Interest Pooling Act (Chapter 102 of the Texas Natural Resources Code), may form a compulsory pooled unit that will include your Mineral Interest that is the subject of this offer. Sinclair will seek a hearing before the Commission to consider its application for such relief, and you will be sent a copy of the notice of hearing, which will also be published in the *Big Spring Herald*. Because we are dealing with more than 10,000 small tract owners, it is impossible to obtain timely consent (or any response at all, in some cases) from each one of them. For this reason, it will be necessary that we have the hearing before the Oil and Gas Division of the Railroad Commission seeking agency approval for the creation of the pooled units we are proposing. For such units, Sinclair will be proposing that a risk penalty of 100% be assessed against nonjoining mineral owners. Unleased owners will receive in the mail from the Railroad Commission a notice of this hearing, which will be set for some time in the second quarter of 2018, in Austin before staff hearing examiners. Also, subscribers to the *Big Spring Herald* will see a notice of such hearing by publication. We are not anticipating a protested hearing, but there will be technical evidence submitted in support of the application, in any event, and members of the public are welcome to attend. If the application is unopposed, it will be set for the agency's non-consent agenda. There will be a transcript of the hearing, and we will post it on the project website, together with copies of the hearing exhibits, such that you may understand the presentation without having to need to come to Austin.

Also, please take note that as a part of the application to the Railroad Commission for its approval of the proposed units, Sinclair will be seeking blanket authority for exception to Statewide Rules 37 and 38 within the Big Spring city limits and proposed unit boundaries, and entity-for-density authority. This means that for unleased, unpooled small city lots, exception will be sought from the Commission for spacing setbacks from such lots, and in the future for the drilling of wells to a greater density than allowed by the applicable special field rules.

Further, please note that some owners of lots or tracts within the City of Big Spring have leased to parties other than Four Sevens. Sinclair and Four Sevens are in discussion with those lessees and are inviting them to pool their acreage in the units for which Sinclair will be seeking Commission approval, so that no owner of acreage within the boundaries of the units proposed to the Railroad Commission will be left out. In other words, you are free to lease to any company you wish, or not to lease at all, but in any event, the applications which will be filed at the Commission will seek the inclusion of your acreage in a pooled unit for production, and you will be paid according to the Commission Order setting forth the size of the unit it approves.

Also, please note that the unit proposed in this offer includes a proposed wellbore path. This path may vary or drift slightly while drilling, due to forces of nature beyond human control, and especially in the case of technical difficulty while drilling, the wellbore may wind up shorter than you see proposed here. The drilling operator will be required to file an "as-drilled" plat with the Railroad Commission after the well is completed, showing its location by directional survey, but the proposed unit size will not be changed as a result of a wellbore path which differs from what you see now illustrated as a proposal. Further, please be aware that the applicant anticipates that other wells will later be drilled on the same pooled unit proposed by this letter, and any election you make in response to this letter will also govern the form of your participation in such future wells.

Further, we wish you to be aware that there is located in or adjacent to the City of Big Spring some acreage which is owned by the Federal Government, in particular for the VA Hospital and by the USDA. Our Railroad Commission counsel advises that there is some question whether the State of Texas has statutory power to pool Federally owned acreage. We are in the process of seeking leases on this acreage from the Federal Government, and we hope that we will have succeeded by the time the proposed wells are completed or a declaration of pooled unit is placed of record in Howard County. If so, the Federal acreage will be included where embraced by various units. The website we have established for this project has further information about these particulars, and we invite you to go to that source for additional information. If you do not have access to the internet, and desire a printed version of the posted information about Federal acreage, please let us hear from you and we will furnish it to you by United States mail. It appears to us from review that the inclusion of this Federal acreage will not materially affect your decimal interest, except in the case of one of the units we are proposing, which is the Bauer Unit. In that case, involving a USDA tract of about 91 acres, decimal interest ownership by the royalty interest owners would be somewhat diluted by increase of the unit size, but we would, as a result, be able to drill a longer lateral and recover more oil, such that owners would have a smaller decimal interest, but as a part of a larger expected ultimate recovery of oil from the unit.

Please be aware of the possibility that the Railroad Commission will restrict its approval for the first well on each unit to oil units not greater than 160 acres plus tolerance acreage of ten per cent. Other operators developing the field with horizontal drilling on all surrounding sides of Big Spring are forming 640 acre or larger units for their first wells, so the larger unit sizes being proposed by Sinclair match adjacent oilfield development practices. The application which Sinclair files will seek approval of these larger units, in the size illustrated by plat enclosed herewith because surrounding operators are permitting their wells as "oil or gas" since completions will sometimes result in unexpected results insofar as type of well. The State pooling statute allows gas well units of up to 640 acres plus ten per cent tolerance or oil units of up to 160 acres plus ten per cent tolerance. To cover all possible outcomes, and also avoid problems in case the producing characteristics of a well change during its lifetime in a way that would compel reclassification from an oil well to a gas well, Sinclair will be seeking approval of the larger unit size, from the beginning. Its resulting pooled unit declaration would be filed prior to drilling. Sinclair does not anticipate any significant later change in the unit size after it is declared by such filing, but there could be minor changes, for instance if there is a need to correct surveying errors or if City of Big Spring tract mapping or ownership records are found to be incorrect. In the event that the Railroad Commission determines that it cannot approve larger units, Sinclair intends to seek and hopefully obtain agency approval of 160 (plus ten percent tolerance) acre units, and if successful will subsequently pool such state-created units with the surrounding acreage to form the larger units desired, before the drilling of the first well on each unit, in order that no small tract owner is left out. As far as we are able to determine, the City of Big Spring application will be the first case in which the Railroad Commission is asked to approve drilling a lateral more than 10,000 feet long beneath a Texas city using the Mineral Interest Pooling Act. The pooling statute under which the Commission handles these cases was written more than 50 years ago, before horizontal drilling was invented, and the Texas Legislature has not yet modernized the statute, so

the Commission may be limited in its ability to fully address the merits of the application we contemplate, because such long wells are being proposed. Sinclair intends to address this situation, if it occurs, by “pooling the pool” as is done elsewhere in the State for the formation of allocation units, to add acreage to form the unit size proposed herein, or as revised to include Federal acreage later leased, starting from the basic 160 (plus ten percent tolerance) acre units, if the Commission will not by its first Order authorize the larger unit sizes we are seeking. In the event that 160 (plus ten percent tolerance) acre units are to be ordered by the Commission, Sinclair will propose that such units take the shape of long narrow rectangles, with the wellbore paths centered therein from first take point to last take point, and including an extra 100 feet along such line in both directions, with the rectangles bending in cases where there is a wellbore bend. For a diagram showing such proposed starting unit boundaries, as an alternative, please see the project website.

Finally, as would normally be expected when dealing with a great many very small tracts, we are finding instances of defects or gaps in mineral title, for instance in cases where there has been a death with no probate, or a transfer of an ownership interest which has not been recorded in the real property records of the County. Revenue attributable to such tracts may be held in escrow until any title questions are resolved.

Should you have any questions concerning the terms of the options set forth herein, please do not hesitate to contact Cody Hix or Chad Loudermilk directly at 682-708-8196. We also suggest you consider seeking separate legal counsel concerning your rights as a mineral owner, the options set forth herein respecting your mineral interest and the administration of the Mineral Interest Pooling Act by the Railroad Commission.

E-mail questions or elections may be directed to info@bigspringwells.com. Please refer to the project website at www.bigspringwells.com for potential updates or revisions to this offer letter.

Sincerely,

Sinclair Oil & Gas Company

David Donegan
Senior Vice President

Four Sevens Operating Co., Ltd.

FS Minerals, Ltd.

Brad Cunningham
Vice President

Enclosures: Exhibit A - Plat Depicting BAUER MIPA 1H Unit
 Exhibit B - Estimated Costs of Drilling and Completion
 Exhibit C - Oil, Gas & Mineral Lease

ACCEPTANCE OF OFFER

Please elect **ONLY ONE** of the following by placing an "X" in the appropriate space and signing in the space provided below and returning to us by mail or e-mail. If you choose not to accept any of these offers, we will ask the Railroad Commission to include your acreage on a working interest owner basis. You will not be billed for your share of operating expenses in this event, but instead we will deduct your share of those expenses from your revenue, and then send you any remaining balance due including the 100% risk penalty we are seeking from the Railroad Commission, subject to escrow of your estimated share of the well plugging cost.

_____ I/We accept the lease offer for a 3-year term, with a 25% royalty and a bonus amount of _____ per net mineral acre, as described in **Alternative No. 1** above. I/We understand that in this event, I/We will bear no cost for participation in the well, unless I/We fail to sign and return the lease agreement I receive for signature.

_____ I/We elect to participate as a Working Interest Owner in the Unit, voluntarily pooling my/our Mineral Interests and participate in the drilling and completion costs of the well(s) drilled on the Unit, as described in **Alternative No. 2** above

_____ I/We elect to enter into a Farmout Agreement with Four Sevens, as described in **Alternative No. 3** above.

_____ I/We elect to sell our mineral interest to Four Sevens for \$7,000.00 per net mineral acre, under the terms described in Alternative No. 4 above.

My Street Address is _____.

As an alternative to my street address, my tax parcel ID Number is _____.

My telephone number is _____.

My email address is _____.

AGREED TO AND ACCEPTED THIS _____ DAY OF _____, 2018.

SIGNATURE: _____

PRINTED NAME: _____