



June 15, 2026

Graham Sons Minerals, LLC
P. O. Box 75506
Seattle, WA 98175

Re: Non-Participating Royalty Interest — West Half of Section 192, A-64, Block 2, T&P RR Co., Reagan County, Texas

To Whom It May Concern:

Arete Creek Resources, LP currently owns an interest in the oil and gas leases covering the West Half of Section 192, A-64, Block 2, T&P RR Co., Reagan County, Texas (the "Subject Lands"). Arete Creek Operating, LLC will be the operator of certain well(s) drilled on the Subject Lands under the current leases. We are writing to you in your capacity as a royalty owner of record in the Subject Lands concerning an interpretive issue affecting the royalty interests of all parties.

The issue arises from a 1963 warranty deed from Gordon E. Roach and Leona Roach to Ruby Lee Graham (recorded in Book 37, Page 235, Deed Records, Reagan County, Texas), which reserves "an undivided one-half non-participating royalty interest in and to the usual one-eighth royalty on all oil, gas and/or minerals that may be produced or mined from the west one-half". This type of language — known as a "double fraction" — has been the subject of significant litigation in Texas and can be interpreted as either a **fixed** interest ($1/2 \times 1/8 = 1/16$ of production, locked regardless of the lease royalty) or a **floating** interest ($1/2$ of whatever royalty is negotiated in the current lease).

Under prior leases carrying a $1/8$ royalty, both interpretations produced identical results. Now that the current lease carries a 25% royalty, the interpretation affects the allocation of royalties among all royalty owners.

Based on our review of the deed language and current Texas Supreme Court authority — including *Van Dyke v. Navigator Group*, 668 S.W.3d 353 (Tex. 2023) — it is our position that the reservation creates a **floating** non-participating royalty interest. We have enclosed a memorandum that explains the issue, the applicable case law, and the interest calculations under both constructions for your review.

As the mineral owner (successor in interest to the original grantee, Ruby Lee Graham), your royalty interest in the Subject Lands is calculated as follows:

Under the floating construction (our position): $25\% (\text{lease royalty}) \times 1/2 = 0.12500000$

Under the fixed construction (alternative): $25\% (\text{lease royalty}) - 6.25\% (\text{fixed NPRI}) = 0.18750000$

In order to resolve this matter and provide certainty for all royalty owners going forward, we are requesting that all parties execute a Stipulation of Interest and Cross-Conveyance confirming the floating-construction interest allocations. The Stipulation should be a recordable instrument filed in the Reagan County real property records, binding on all parties, their heirs, successors, and assigns.

We respectfully request that you review the enclosed memorandum, consult with your own independent legal counsel if you so choose, and return an executed Stipulation promptly.

Please note that this letter and the enclosed memorandum are provided for **informational purposes only** and do not constitute legal advice. Arete Creek Resources, LP and Arete Creek, Operating, LLC are not acting as legal counsel to any royalty owner. Each party is strongly encouraged to seek independent legal advice before executing any documents. Nothing in this letter or the enclosed memorandum shall be construed as an admission regarding the legal rights of any party, and both Arete Creek Resources, LP and Arete Creek, Operating, LLC expressly reserves all rights and defenses available to it under applicable law.

Should you have any questions or wish to discuss this matter, please do not hesitate to contact the undersigned.

Sincerely,

Blake Pitcock
Senior Land Advisor
Arete Creek Operating, LLC
bpitcock@aretecreek.com

Enclosure: Fixed vs. Floating NPRI Analysis — West Half, Section 192, A-64, Block 2, T&P RR Co., Reagan County, Texas

FIXED VS. FLOATING NON-PARTICIPATING ROYALTY INTEREST

West Half of Section 192, A-64, Block 2, T&P RR Co.
Reagan County, Texas

Prepared by: Arete Creek Operating, LLC
Date: May 15, 2026

I. Purpose

This memorandum has been prepared by Arete Creek Operating, LLC ("Arete Creek") to provide all royalty owners of record on the West Half of Section 192, A-64, Block 2, T&P RR Co., Reagan County, Texas, with an analysis of a royalty interest interpretation issue arising from a 1963 warranty deed. The purpose of this memorandum is to present the issue transparently, explain the basis for our proposed treatment of the royalty interests, and invite the royalty owners to confirm the proposed allocation by executing a Stipulation of Interest.

II. Background

A. The Source Instrument

On January 5, 1963, Gordon E. Roach and wife, Leona Roach, conveyed 643.5 acres in Section 192, A-64, Block 2, T&P RR Co., Reagan County, Texas, to Ruby Lee Graham, a feme sole, by general warranty deed recorded in Book 37, Page 235, Deed Records, Reagan County, Texas (the "**Deed**").

The Deed contains a reservation on the West Half of the following interest:

"...an undivided one-half non-participating royalty interest in and to the usual one-eighth royalty on all oil, gas and/or minerals that may be produced or mined from the west one-half of the said 643.5 acres described herein."

The Deed also contains a provision requiring all future leases to provide "at least a royalty on oil of the usual one-eighth."

B. The Interpretive Issue

The reservation language uses what is known as a "double fraction" (incorporating a reference to the 1/8 royalty) -- "one-half . . . of the usual one-eighth royalty." This type of language has been the subject of extensive litigation in Texas because it can be read two ways:

Fixed Construction. The fractions are multiplied: $1/2 \times 1/8 = 1/16$ of gross production. Under this reading, the NPRI is locked at 1/16 regardless of the royalty rate in the current lease.

Floating Construction. The "1/8" is not a mathematical constant but a reference to the royalty estate as it existed in 1963, when the standard lease royalty was universally 1/8. Under this reading, the NPRI holder receives 1/2 of whatever royalty is negotiated in the current or future lease.

Under prior leases carrying a 1/8 royalty, both constructions produced identical results and the distinction was invisible. Now that the current lease carries a 25% (1/4) royalty, the construction matters.

III. Applicable Texas Supreme Court Authority

The Texas Supreme Court has addressed the fixed-vs.-floating issue in a series of decisions. The most significant are summarized below:

Hysaw v. Dawkins, 483 S.W.3d 1 (Tex. 2016). The Court rejected mechanical multiplication of double fractions and held that courts must determine the parties' intent from the entire instrument, considering the historical context of the 1/8 royalty standard. The Court recognized the "estate misconception" -- the widespread assumption that the 1/8 royalty was a permanent feature of the mineral estate.

U.S. Shale Energy II v. Laborde Properties, 551 S.W.3d 148 (Tex. 2018). A reservation of "1/2 interest in royalty . . . equal to 1/16 of production" was held to be a floating 1/2 of royalty. Even an express numerical equivalent did not convert the interest to fixed.

Van Dyke v. Navigator Group, 668 S.W.3d 353 (Tex. 2023). The current leading case. The Court established a rebuttable presumption that double fractions in antiquated deeds using "1/8" create floating interests, reasoning that grantors likely operated under the estate misconception.

ConocoPhillips v. Hahn, No. 23-0024 (Tex. 2024). The Court confirmed that a stipulation of interest signed by the parties is an effective mechanism to confirm or modify NPRI fractions.

Clifton v. Johnson, No. 23-0671 (Tex. 2026). The first case where the Van Dyke presumption was rebutted, based on consistent use of a fixed fraction throughout the deed. The Court held the deed at issue conveyed a fixed 1/128 interest.

Boren Descendants / Mabee Ranch v. Fasken Oil and Ranch, No. 25-0010 (Tex. 2026). The most recent decision. The Court remanded for reconsideration in light of Clifton and the presumed-grant doctrine. This case remains pending.

IV. Application to the Roach-to-Graham Deed

The 1963 Deed's reservation language -- "an undivided one-half non-participating royalty interest in and to *the usual one-eighth royalty*" -- is the type of double-fraction language addressed in *Van Dyke v. Navigator Group*. The following characteristics of the Deed support the floating construction:

Antiquity. The Deed was executed in 1963, during the era when the 1/8 royalty was the universal standard.

The phrase "the usual one-eighth." The qualifier "usual" indicates the grantor viewed 1/8 as a description of the prevailing royalty, not as a mathematical constant.

The minimum royalty clause. The Deed requires all future leases to provide at least a 1/8 royalty. This clause is consistent with the Roaches understanding their NPRI as a fraction of the lease royalty.

No harmonizing fixed fraction. Unlike deeds where the Van Dyke presumption has been rebutted (e.g., *Clifton v. Johnson*), this Deed contains no stand-alone fixed-fraction reference such as "1/16."

Based on the foregoing, it is our position that the reservation creates a **floating NPRI** -- that is, the NPRI holders are entitled to one-half of whatever royalty is reserved in the current or future oil and gas lease.

V. Interest Calculations Under Both Constructions

A. Floating Construction (Our Position)

Under the floating construction, the NPRI holders collectively receive one-half of the lease royalty, and the mineral owner receives the remaining one-half:

Interest Owner	Calculation	Decimal Interest
Graham Sons Minerals, LLC	$25\% \times 1/2$	0.12500000
T&R Holt Holdings, LTD	$25\% \times 1/2 \times 1/2$	0.06250000
Mary Jane Roach	$25\% \times 1/2 \times 1/2 \times 1/2$	0.03125000
Richard Gordon Roach	$25\% \times 1/2 \times 1/2 \times 1/2$	0.03125000
TOTAL		0.25000000

B. Fixed Construction (Alternative)

Under the fixed construction, the NPRI is locked at 1/16 of gross production regardless of the lease royalty:

Interest Owner	Calculation	Decimal Interest
Graham Sons Minerals, LLC	$25\% - 6.25\%$	0.18750000
T&R Holt Holdings, LTD	$1/16 \times 1/2$	0.03125000
Mary Jane Roach	$1/16 \times 1/4$	0.01562500
Richard Gordon Roach	$1/16 \times 1/4$	0.01562500
TOTAL		0.25000000

VI. Proposed Resolution

In order to resolve this issue and provide certainty for all parties going forward, we propose the following:

1. Arete Creek will treat the NPRI as floating under current Texas Supreme Court authority, paying royalties in accordance with the floating-construction decimals set forth in Section V.A above.
2. We are requesting that all royalty owners execute a Stipulation of Interest and Cross-Conveyance confirming the floating-construction decimals. The Stipulation should be a recordable instrument filed in the Reagan County real property records, binding on all parties, their heirs, successors, and assigns.
3. The Stipulation will resolve the ambiguity in the Deed without any party admitting which construction is legally "correct." It is a practical resolution that avoids the cost and uncertainty of litigation.

The Texas Supreme Court confirmed in *ConocoPhillips v. Hahn* (Tex. 2024) that stipulations of interest are an effective and enforceable mechanism for resolving NPRI fraction disputes.

We respectfully request that each royalty owner review the enclosed materials, consult with their own legal counsel if they so choose, and return an executed Stipulation promptly.

Important Disclaimer

This memorandum is provided by Arete Creek for **informational purposes only** and is intended solely to explain the basis for the proposed royalty interest allocation and to facilitate a voluntary resolution among the affected royalty owners.

This memorandum does not constitute legal advice. Arete Creek is not a law firm and is not acting as legal counsel to any royalty owner. Each royalty owner is strongly encouraged to consult with their own independent legal counsel before executing any Stipulation of Interest or taking any other action in response to this memorandum.

Arete Creek makes no representation or warranty, express or implied, regarding the legal accuracy or completeness of the analysis contained herein. The interpretation of deed language and the application of Texas case law to specific instruments are complex legal questions on which reasonable minds may differ. The analysis presented reflects Arete Creek's understanding of the current state of Texas law but should not be relied upon as a substitute for independent legal advice.

By providing this memorandum, Arete Creek does not assume any fiduciary duty, attorney-client relationship, or advisory obligation to any royalty owner. Arete Creek's interest in resolving this matter is as the operator responsible for the proper allocation and payment of royalties under the applicable lease.

Nothing in this memorandum shall be construed as an admission by Arete Creek regarding the legal rights of any party, and Arete Creek expressly reserves all rights and defenses available to it under applicable law.