

CRA # 4024

STATE LEASE

MF104158

CONTROL

BASEFILE

COUNTY

07-46207

103243 -

HIDALGO

/108

SURVEY : PARCHMAN W D

BLOCK :

TOWNSHIP : 00

SECTION/TRACT: 883

PART : ~~EASTERN~~

ACRES : 176.00

DEPTH LIMITS : NO

*N. Salinas (Private Land)
Unit 4024 HBP
Compensatory
Royalty Agr.*

Terminated eff 4-1-11 CFB

Rentals: *[Signature]*

Lease *[Signature]*

Admin: *[Signature]*

Mineral *[Signature]*

Maps: *[Signature]*
wk

LESSEE : LMP PETROLEUM INC

LEASE DATE : Apr 01 2004

PRIMARY TERM : 2 yrs

BONUS (\$) : 26400.00

RENTAL (\$) : 25.00

ROYALTY : 0.12500000

VAR ROYALTY :

Depth Depths Extended

(W)



CAUTION

Documents in this file have been placed in Table of Contents order and scanned.

Please help keep documents in content order and let the ScanLab know when new documents are added to this file.

Thank you for your assistance.

Archives and Records Staff



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| 7. BAH Review | 5/3/02 | 32. GLO letter to Kerr Mc Gee | 11/10/06 |
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50. 1/31/14 email to OPortune ¹⁻¹⁹⁻¹⁸

scanned *As* 1-22-2018

see MFD46382 #34 Division Order

Scanned sm 11/05/2019

MOFFITT & ASSOCIATES, INC.

PROFESSIONAL LAND CONSULTANTS

WILSON PLAZA EAST
Suite 707, 545 N. Upper Broadway
Corpus Christi, Texas 78476

WILLIAM P. MOFFITT, C.P.L.
MICHELLE MUELLER MOFFITT, C.P.L.

SEND MAIL TO:
P. O. BOX 2786
CORPUS CHRISTI, TEXAS 78403

OFFICE: (361) 884-9273
HOME: (361) 883-7415
FAX: (361) 888-5100
CELL: (361) 815-0551

February 12, 2001

Mr. Juan Lino Garza, Jr., Trustee
Ms. Elma Irene Garza, Trustee
Mr. Romulo Garza
Mr. Guadalupe Garza, Jr.
c/o George Leal Willingham
201 Donaldson Avenue
San Antonio, Texas 78201

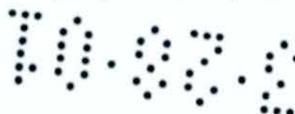
Re: Offer to Acquire an Oil and Gas Lease
176.00 Acres of Land
W. D. Parchman Survey No. 883
Abstract No. 926
Hidalgo County, Texas

Dear Ladies and Gentlemen:

This office has been retained by LMP Petroleum, Inc. of Corpus Christi, Texas, to locate the current mineral owners and attempt to acquire an Oil and Gas Lease covering 176.00 acres of land out of the W. D. Parchman Survey No. 883, Abstract No. 726, Hidalgo County, Texas, and Abstract No. 926, Starr County, Texas. This is the same 176.00 acres of land that was released by Coastal Oil & Gas USA, L.P., *et al*, in a Partial Release of Oil, Gas and Mineral Lease dated December 16, 1998, recorded as Document No. 860528 in the Official Records of Hidalgo County, Texas. A plat of this acreage is attached for your reference.

According to our research of the records in the Hidalgo County Clerks office, the subject 176.00 acres of land is out of the W. D. Parchman Survey No. 883, Abstract No. 926, Hidalgo County, Texas. This Survey was Patented under the Relinquishment Act and is therefor designated as Mineral Classified Lands. As you know, being the owners of the surface, you are vested by the General Land Office of Texas with 100.00% executive rights under the subject 176.00 acres of land with the right to receive 50% of the lease bonus consideration, annual delay rentals and royalty. It is required that the prescribed lease form under statute be utilized in any lease trade on Mineral Classified Lands. Certain additional addendums to that lease form are allowed by the State of Texas for protection to the surface estate as well as the leasehold estate.

As consideration for the execution of an Oil and Gas Lease covering the subject 176.00 acres of land, LMP Petroleum, Inc. is hereby offering a lease bonus consideration of Two Hundred and No/100 Dollars (\$200.00) per net mineral acre (\$35,200.00 net) for an Oil and Gas Lease which provides for a primary term of three (3) years, annual delay rentals of \$25.00 per net mineral acre and a royalty of twenty two percent (22.00%).



COPY

Mr. Juan Lino Garza, Jr., Trustee
Ms. Elma Irene Garza, Trustee
Mr. Romulo Garza
Mr. Guadalupe Garza, Jr.
c/o George Leal Willingham
February 12, 2001
Page 2

If you have any questions regarding this offer, please do not hesitate to call me at any of the above listed telephone numbers. Awaiting your reply, I remain...

Very truly yours,

William P. Moffitt

WPM:mee
Attachment

cc: Mr. Michael S. Pedrotti
LMP Petroleum, Inc.

11.07.01

26°13'N

98°33'W

Phillips Jensen
Continental et al
H.B.P. #A-4
Phillips 5003'
H.B.P.

Pt 6166-44 AC
RAM Mahon & Assoc.
8-27-72, 12-15-72
Continental et al H.B.P.
Phillips Pat. H.B.P.
Pt 6166-44 AC

Phillips Pat.
Bentzen
#6-A

Continental et al, H.B.P.
Phillips Pat. H.B.P.
Pt. 6166-44 AC
Coastal St. 2-4-77
D. Davenport

Gulf O
7-1-2014
Pt 4833 50 AC

Gulf
7-1-2014
Pt. 4833 50 AC.

640 AC.

Gulf O.
TA 50167(1)
12,870'

Shell O.
Boston Tex Ld & Co.

Coastal States
2-4-77

Coastal St
2-4-77
14,977 AC

4853'

6158'

885

883

Sunray Mid Continent
4837 E.H. G. Zamora

Sun
5-24-71

4931'

W. D. PARCHMAN

A-729
640 AC

Coastal States and
G. Zamora et al

Sunray
G. Zamora et al
Pauline I. J. Wells
D. Deck

6500' 6100'

F. H. KIRKBRIDE

Sun O.
12,819'

A-658
1280 AC.

19,075'

Coastal Sts. and
U.S. Jeffress
30,121'

Selby et al

3
1903'

Texas Co. 4810'
Yurria L. Co.

Texas Co. 6718'
H.B.P.
Greenfield TA Ltd.
11-1-78

Texas Co. 30035
Yurria L. Co. 9866'

G. C. Glasscock et al
4850'

45

Sun
10-12-70
12,600'

4860' E.H.
C. Glasscock
1-18-91

J. C. Storm
Coastal States &
H. J. Jeffress

G. C. Glasscock
4899'

12,925'

Texas Co. 4911'
Yurria L. & L. Co.

Texas Co. 4510'
Yurria L. Co.

4805'

Greenfield et al
11-21-72, 12-15-72
U-24-72, U-25-72
11-22-72, 11-23-72
Crawford et al

4850'

4540'

4540'

Hema O.G. Co.
Yurria L. & L. Co.
1-1-78
#5-A
4410'

Hema O.G. Co.
#3-A
4410'

Hema O.G. Co.
Yurria L. & L. Co.
#4-A
4400'

Hema O.G. Co.
Yurria L. & L. Co.
#4-A
4400'

Coastal States
J. Jeffress Est.

12,516' ST.

W. D. Jeffress
W. E. Jeffress
12,678'

Coastal States et al
#2-27-80
211-31

4 1/2 int
12,800'

Coastal States et al
J. D. Jeffress
#2-16-80
12,939'

30,168(4)
12,550'

Coastal States et al
#2-27-80
12,939'

Coastal States et al
#2-27-80
(31: AC)

496.99 AC

Edinburg State Bank & Co.

1.
File No. MF 104158
Jedlin
Jedlin
Date Filed: 3/28/07
Jerry E. Patterson, Commissioner
By [Signature]

RECEIVED
MAR 28 2001
GENERAL LAND OFFICE

Hidalgo County

Texas General Land Office



David Dewhurst
Commissioner

February 19, 2002

Mr. Juan Lino Garza
201 Donaldson
San Antonio, Texas 78201

RE: W. D. Parchman Survey No. 883, A-926
Hidalgo County, Texas

Dear Mr. Garza,

Juan Lino

It has been brought to the attention of the General Land Office that one or more wells are producing oil or gas in commercial quantities within 1,000 feet of or are draining the referenced land. As you are aware the land was sold with a reservation of all minerals to the State subject to Subchapter F of Chapter 52, Texas Natural Resources Code commonly known as the Relinquishment Act.

In accordance with §52.173 and 52.174 of the Act, this is to notify you as the surface owner of said land, that the oil and gas is subject to lease under the Relinquishment Act and that the drilling of an offset well is required. If a well is not commenced within 100 days of this notice, your agency rights as granted under the Relinquishment Act shall be subject to forfeiture by the Commissioner.

Please let me know if you have any questions.

Sincerely,

J. David Hall

J. David Hall
Deputy Commissioner
Energy Resources Division
(512) 305-9104

Mailing

Post Office Box 12873
Austin, Texas
78711-2873

Street

Stephen F. Austin Building
1700 North Congress Avenue
Austin, Texas 78701-1495

512.463.5001
1.800.998.4GLO
www.glo.state.tx.us

File No. MF104158 2.

SLD letter

Date Filed: 2/19/02

Jerry E. Patterson, Commissioner

By 

MOFFITT & ASSOCIATES, INC.

PROFESSIONAL LAND CONSULTANTS

WILSON PLAZA EAST
Suite 707, 545 N. Upper Broadway
Corpus Christi, Texas 78476

WILLIAM P. MOFFITT, C.P.L.
MICHELLE MUELLER MOFFITT, C.P.L.

SEND MAIL TO:
P. O. BOX 2788
CORPUS CHRISTI, TEXAS 78403

OFFICE: (361) 884-9273
HOME: (361) 883-7415
FAX: (361) 888-5100
PAGER: (361) 888-2526

FACSIMILE TRANSMISSION COVER LETTER

THE PAGES THAT FOLLOW THIS COVER LETTER ARE BEING SENT SPECIFICALLY FOR:

NAME: MR. DREW REID
COMPANY: TEXAS GENERAL LAND OFFICE
FAX TELEPHONE NO.: 512-475-1543
DATE: March 4, 2002

TOTAL NUMBER OF PAGES 3 (includes this cover letter)

NOTES OR INSTRUCTIONS ARE AS FOLLOWS:

Drew:

Re: Juan Lino Garza, Jr. Lease
176.00 acres
Hidalgo County, Texas

Attached for your reference is another letter sent to Juan Lino Garza, Jr., et al, setting our LMP's offer for the "sealed bid sale" he is conducting.

Bill Moffitt

IF YOU DO NOT RECEIVE ALL OF THE PAGES, PLEASE CALL 361-884-9273 AS SOON AS POSSIBLE

This message is intended for the use of the individual or entity to which it is addressed and may contain information that is privileged, confidential and exempt from disclosure under applicable law. If the reader of this message is not the intended recipient, or is an employee or agent of that person, you are hereby notified that any dissemination, distribution or copying of this communication is strictly prohibited. If you have received this communication in error, please notify us immediately by telephone and return the original to us by mail.

MOFFITT & ASSOCIATES, INC.
PROFESSIONAL LAND CONSULTANTS

WILSON PLAZA EAST
Suite 707, 545 N. Upper Broadway
Corpus Christi, Texas 78476

WILLIAM P. MOFFITT, C.P.L.
MICHELLE MUELLER MOFFITT, C.P.L.

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CORPUS CHRISTI, TEXAS 78403

OFFICE: (361) 884-9273
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FAX: (361) 888-5100
CELL: (361) 815-0551

February 28, 2002

Mr. Juan Lino Garza, Jr., Trustee
Ms. Elma Irene Garza, Trustee
Mr. Romulo Garza
Mr. Guadalupe Garza, Jr.
c/o George Leal Willingham
201 Donaldson Avenue
San Antonio, Texas 78201

Re: Offer to Acquire an Oil and Gas Lease
176.00 Acres of Land
W. D. Parchman Survey No. 883
Abstract No. 926
Hidalgo County, Texas

Dear Ladies and Gentlemen:

On February 22, 2002, I spoke with Mr. Juan Lino Garza, Jr. by telephone concerning the revised offer sent to you on February 11, 2002, for the acquisition of an Oil and Gas Lease by LMP Petroleum, Inc. covering 176.00 acres of land out of the W. D. Parchman Survey No. 883, Abstract No. 726, Hidalgo County, Texas, and Abstract No. 926, Starr County, Texas.

Mr. Garza inquired as to whether or not our revised offer was our best offer and that furthermore, he would be soliciting competitive offers from other companies for the acquisition of an Oil and Gas Lease covering the property.

Our client, LMP Petroleum, Inc. has informed us that the terms offered in our letter of February 11, 2002, is LMP Petroleum's best offer at this time.

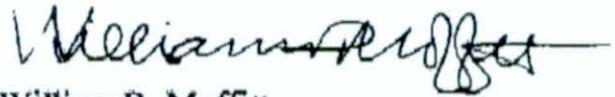
We hereby respectfully submit LMP Petroleum's offer of a lease bonus consideration of Three Hundred and No/100 Dollars (\$300.00) per net mineral acre (\$52,800.00 net) for an Oil and Gas Lease which provides for a primary term of two (2) years, annual delay rentals of \$50.00 per net mineral acre and a royalty of twenty five percent (25.00%) as our offer in the sealed bid lease sale that you have indicated that you are conducting.

Mr. Juan Lino Garza, Jr., Trustee
Ms. Elma Irene Garza, Trustee
Mr. Romulo Garza
Mr. Guadalupe Garza, Jr.
c/o George Leal Willingham
February 28, 2002
Page 2

This offer is subject to the use of a mutually acceptable form of Oil and Gas Lease using the prescribed form of lease from the General Land Office of Texas.

If you have any questions regarding this offer, please do not hesitate to call me at any of the above listed telephone numbers. Awaiting your reply, I remain...

Very truly yours,



William P. Moffitt

WPM:mcc
Attachment

cc: Mr. Michael S. Pedrotti
LMP Petroleum, Inc.

Mr. David Hall
Minerals Leasing Division
Texas General Land Office

Mr. Drew Reid
Minerals Leasing Division
Texas General Land Office

File No. MF 104158

For

Date Filed: 13/4/02

Jerry E. Patterson, Commissioner

By [Signature]



MOFFITT & ASSOCIATES, INC.

PROFESSIONAL LAND CONSULTANTS

WILSON PLAZA EAST
Suite 707, 545 N. Upper Broadway
Corpus Christi, Texas 78476

WILLIAM P. MOFFITT, C.P.L.
MICHELLE MUELLER MOFFITT, C.P.L.

SEND MAIL TO:

P. O. BOX 2786
CORPUS CHRISTI, TEXAS 78403

OFFICE: (361) 884-9273
HOME: (361) 883-7415
FAX: (361) 888-5100
CELL: (361) 815-0551

March 23, 2001

210-736-9000

>Mr. Juan Lino Garza, Jr., Trustee
Ms. Elma Irene Garza, Trustee
Mr. Romulo Garza
Mr. Guadalupe Garza, Jr.
c/o George Leal Willingham
201 Donaldson Avenue
San Antonio, Texas 78201

42-01
2:30
210-736-3800

Re: Revised Offer to Acquire an Oil and Gas Lease
176.00 Acres of Land
W. D. Parchman Survey No. 883
Abstract No. 926
Hidalgo County, Texas

*Surface owner wants one yr.

Dear Ladies and Gentlemen:

On February 12, 2001, this office forwarded an offer on behalf of LMP Petroleum, Inc. to acquire an Oil and Gas Lease covering 176.00 acres of land out of the W. D. Parchman Survey No. 883, Abstract No. 726, Hidalgo County, Texas, and Abstract No. 926, Starr County, Texas. A plat of this acreage is attached for your reference.

This Survey was Patented under the Relinquishment Act and is therefor designated as Mineral Classified Lands. As you know, being the owners of the surface, you are vested by the General Land Office of Texas with 100.00% executive rights under the subject 176.00 acres of land with the right to receive 50% of the lease bonus consideration, annual delay rentals and royalty.

In a subsequent telephone conference with your attorney, George Willingham, I was informed that the terms and consideration set out in my letter were insufficient to obtain your acceptance to LMP Petroleum's offer to lease. LMP Petroleum, Inc. has requested that I forward a revised offer to you on their behalf.

As consideration for the execution of an Oil and Gas Lease covering the subject 176.00 acres of land, LMP Petroleum, Inc. is hereby offering a lease bonus consideration of Three Hundred and No/100 Dollars (\$300.00) per net mineral acre (\$52,800.00 net) for an Oil and Gas Lease which provides for a primary term of two (2) years, annual delay rentals of \$50.00 per net mineral acre and a royalty of twenty five percent (25.00%). These proposed terms and consideration significantly exceed the current normal trading terms for an oil and gas lease in this geographical area.

18 months

COPY

Mr. Juan Lino Garza, Jr., Trustee
Ms. Elma Irene Garza, Trustee
Mr. Romulo Garza
Mr. Guadalupe Garza, Jr.
c/o George Leal Willingham
March 23, 2001
Page 2

If you have any questions regarding this offer, please do not hesitate to call me at any of the above listed telephone numbers. Awaiting your reply, I remain...

Very truly yours,



William P. Moffitt

WPM:mee
Attachment

cc: Mr. Michael S. Pedrotti
LMP Petroleum, Inc.

Mr. Drew Reid
Minerals Leasing Division
Texas General Land Office

4.

File No. MF10458

Letter

Date Filed: 3/28/01

Jerry E. Patterson, Commissioner

By [Signature]



MOFFITT & ASSOCIATES, INC.

PROFESSIONAL LAND CONSULTANTS

WILSON PLAZA EAST
Suite 707, 545 N. Upper Broadway
Corpus Christi, Texas 78476SEND MAIL TO:
P. O. BOX 2786
CORPUS CHRISTI, TEXAS 78403WILLIAM P. MOFFITT, C.P.L.
MICHELLE MUELLER MOFFITT, C.P.L.OFFICE: (361) 884-8273
HOME: (361) 883-7415
FAX: (361) 888-5100
PAGER: (361) 888-2526**FACSIMILE TRANSMISSION COVER LETTER**THE PAGES THAT FOLLOW THIS COVER LETTER ARE BEING SENT SPECIFICALLY FOR:

NAME: MR. DREW REID
COMPANY: TEXAS GENERAL LAND OFFICE
FAX TELEPHONE NO.: 512-475-1543
DATE: February 13, 2002
TOTAL NUMBER OF PAGES 3 (Includes this cover letter)

NOTES OR INSTRUCTIONS ARE AS FOLLOWS:

Drew:

Re: Juan Lino Garza, Jr. Lease
176.00 acres
Hidalgo County, Texas

As we discussed, attached is another offertory letter sent to Juan Lino Garza, Jr., et al, covering their agency rights on 176.00 acres of Mineral Classified land in Hidalgo County, Texas.

Subsequent to sending the letter but before it was received by Mr. Garza, I received a telephone call from Mr. Garza in response to my calls. We discussed the acreage and LMP's desire to acquire a lease on the acreage.

Mr. Garza indicated that it was going to take an escalating royalty of 25% increasing to 50% at payout to make a lease trade. I told him that those terms were going to be a "deal killer" for my client and he indicated "that they usually were". The conversation ended at that point.

Bill Moffitt

IF YOU DO NOT RECEIVE ALL OF THE PAGES, PLEASE CALL 361-884-8273 AS SOON AS POSSIBLE

This message is intended for the use of the individual or entity to which it is addressed and may contain information that is privileged, confidential and exempt from disclosure under applicable law. If the reader of this message is not the intended recipient, or is an employee or agent of that person, you are hereby notified that any dissemination, distribution or copying of this communication is strictly prohibited. If you have received this communication in error, please notify us immediately by telephone and return the original to us by mail.

MOFFITT & ASSOCIATES, INC.
PROFESSIONAL LAND CONSULTANTS

WILSON PLAZA EAST
Suite 707, 545 N. Upper Broadway
Corpus Christi, Texas 78476

SEND MAIL TO:
P. O. BOX 2788

CORPUS CHRISTI, TEXAS 78403

WILLIAM P. MOFFITT, C.P.L.
MICHELLE MUELLER MOFFITT, C.P.L.

OFFICE: (361) 884-9273
HOME: (361) 883-7415
FAX: (361) 888-5100
CELL: (361) 815-0561

February 11, 2002

Mr. Juan Lino Garza, Jr., Trustee
Ms. Elma Irene Garza, Trustee
Mr. Romulo Garza
Mr. Guadalupe Garza, Jr.
c/o George Leal Willingham
201 Donaldson Avenue
San Antonio, Texas 78201

Re: Revised Offer to Acquire an Oil and Gas Lease
176.00 Acres of Land
W. D. Parchman Survey No. 883
Abstract No. 926
Hidalgo County, Texas

Dear Ladies and Gentlemen:

On February 12, 2001, and again on March 23, 2002 this office forwarded offers on behalf of LMP Petroleum, Inc. to acquire an Oil and Gas Lease covering 176.00 acres of land out of the W. D. Parchman Survey No. 883, Abstract No. 726, Hidalgo County, Texas, and Abstract No. 926, Starr County, Texas.

This Survey was Patented under the Refiniquishment Act and is therefor designated as Mineral Classified Lands. As you know, being the owners of the surface, you are vested by the General Land Office of Texas with 100.00% executive rights under the subject 176.00 acres of land with the right to receive 50% of the lease bonus consideration, annual delay rentals and royalty.

A review of the records in Hidalgo County, Texas, as well as verifying the leasehold status of the property with the Texas General Land Office indicates that this acreage is still open and available for lease.

LMP Petroleum, Inc. is hereby renewing its offer to lease this acreage and as consideration for the execution of an Oil and Gas Lease covering the subject 176.00 acres of land, LMP Petroleum will pay a lease bonus consideration of Three Hundred and No/100 Dollars (\$300.00) per net mineral acre (\$52,800.00 net) for an Oil and Gas Lease which provides for a primary term of two (2) years, annual delay rentals of \$50.00 per net mineral acre and a royalty of twenty five percent (25.00%). These proposed terms and consideration significantly exceed the current normal trading terms for an oil and gas lease in this geographical area.

Mr. Juan Lino Garza, Jr., Trustee
Ms. Elma Irene Garza, Trustee
Mr. Romulo Garza
Mr. Guadalupe Garza, Jr.
c/o George Leal Willingham
February 11, 2002
Page 2

If you have any questions regarding this offer, please do not hesitate to call me at any of the above listed telephone numbers. Awaiting your reply, I remain...

Very truly yours,



William P. Moffitt

WPM:mcc
Attachment

- cc: Mr. Michael S. Pedrotti
LMP Petroleum, Inc.
- ✓ Mr. David Hall
Minerals Leasing Division
Texas General Land Office
 - ✓ Mr. Drew Reid
Minerals Leasing Division
Texas General Land Office

File No. MF70458 ⁵

JEP

Date Filed: 2/12/02

Jerry E. Patterson, Commissioner

By JEP

KILBURN, JONES, GILL & CAMPBELL, L.L.P.

ATTORNEYS AT LAW
6363 WOODWAY, SUITE 1100
HOUSTON, TEXAS 77057
TELEPHONE (713) 652-4068
FACSIMILE (713) 651-0716

RECEIVED
02 APR 18 AM 9:55
LITIGATION DEPARTMENT

Kerry A. Kilburn *
Michael D. Jones †‡
Lee S. Gill *‡
K. Ray Campbell ‡

* Also Licensed to Practice in Louisiana
† Board Certified - Civil Trial Law
‡ Board Certified - Oil, Gas and Mineral Law
Texas Board of Legal Specialization

MICHAEL D. JONES
E-MAIL: mjones@kjgc.com

April 15, 2002

William P. Moffitt
Moffitt & Associates, Inc.
P. O. Box 2786
Corpus Christi, Texas 78403

Fax: (361) 888-5100

Mr. Michael S. Pedrotti
LMP Petroleum, Inc.
615 N. Upper Broadway, Suite 1500
Corpus Christi, Texas 78477-0183

Fax: (361) 883-7102

Re: Acceptance of Offer to Acquire an Oil and Gas Lease
Garza Energy Trust, Agent for State of Texas
176.00 Acres of Land, W.D. Parchman Survey 883, A-926
Hidalgo County, Texas

Garza Energy Trust, as agent for the State of Texas, accepts your offer of February 28, 2002 to acquire an oil and gas lease covering the land described on the attached Exhibit "A." To recap, your offer included:

| | |
|--------------------|--|
| Lease Bonus: | \$300.00 per net mineral acre |
| Primary Term: | 2 years |
| Annual Delay Rent: | \$50.00 per net mineral acre |
| Royalty: | 25% |
| Lease Form: | Mutually acceptable and on prescribed General Land Office form |

Page 2 / Letter to LMP Petroleum, Inc. dated April 15, 2002

Acceptance of Offer to Acquire an Oil and Gas Lease

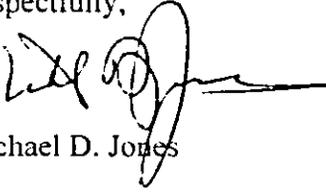
Garza Energy Trust, Agent for State of Texas

176.00 Acres of Land, W.D. Parchman Survey 883, A-926

Hidalgo County, Texas

I will prepare the oil and gas lease, then forward for your review. Please remit the bonus of \$52,800.00, covering an 8/8ths net mineral interest on the 176.00 gross acre tract at \$300.00 per acre. If you have any questions please call me at (713) 652-4068.

Respectfully,

A handwritten signature in black ink, appearing to read "Michael D. Jones", with a long horizontal flourish extending to the right.

Michael D. Jones

c: ✓ Juan Lino Garza Jr., Operations Manager
J. David Hall, Texas General Land Office

Exhibit "A"

Property Description

176 acres described in Release dated effective October 1, 1998, recorded in Hidalgo County File No. 751455 and being a part of the following base tract:

All of that certain 532.74 acre tract known as Survey No. 883, Cert. No. 997, A-726, Hidalgo County, Texas; A-926, Starr County, Texas, W. D. Parchman Original Grantee, described as follows:

BEGINNING at an iron rod in corner of fence line on the North line of Porcion No. 43, the Southeast corner of Survey No. 885, for the southwest corner hereof; THENCE, with the fence and East line of Survey No. 885, North 9° 29' East 1128.2 varas to a post in the South line of the Los Maguelles Grant, the Northeast corner of Survey No. 885, for the Northwest corner hereof;

THENCE, with the South line of the Los Maguelles Grant, South 81° 34' East at 1158.3 varas pass 9.4 varas North of a Mesquite MKD 1879 (very old marks), at 2145.9 varas pass a Mesquite MKD X (very old marks), at 2608.6 varas set pipe in fence for the Northwest corner of Survey No. 488 and the Northeast corner hereof; THENCE with fence and West line of Survey No. 488, South 9° 00' West 1162.3 varas to corner of fence, a corner of Survey No. 488 and the South east corner hereof; THENCE with fence and line of Survey No. 488, North 81° 21' West 1202.8 varas to a corner of fence, a corner of Survey No. 488 and the Northeast corner of Porcion No. 44,

THENCE, with fence and North line of Porcion No. 44, North 80° 22' West 1415.2 varas to the PLACE OF BEGINNING containing 532.74 acres of land more or less.

6.
File No. MF70458

Leller

Date Filed: 4/15/02

Jerry E. Patterson, Commissioner

By [Signature]

RAL REVIEW SHEET

Transaction # 3768
Lessor: Garza, Juan Lino and Guadalupe Garza, Jr., Trustees
Lessee: LMP Petroleum, Inc.

Geologist: L. Collier
Lease Date: 5/1/02 **UE**
Acres: 176

LEASE DESCRIPTION

| County | Base File No | Part | Sec. | Block | Twp | Survey | Abst# |
|---------|--------------|------------|------|-------|-----|--------------|-------|
| HIDALGO | 103243 | 465.80 Ac. | 883 | 00 | | PARCHMAN W D | 726 |
| STARR | 103243 | 66.94 AC | 883 | 00 | | PARCHMAN W D | 926 |
| | | 532.74 | | | | | |

TERMS OFFERED

Primary Term:
Bonus/Acre:
Rental/Acre:
Royalty:

TERMS RECOMMENDED

Primary Term:
Bonus/Acre:
Rental/Acre:
Royalty:

COMPARISONS

| MF # | Lessee | Date | Term | Bonus/Ac. | Rental/Ac. | Royalty | Distance | Last Lease |
|----------|-----------------------------------|---------|---------|-----------|------------|---------|----------|------------|
| MF101612 | Texas Independent Exploration, In | 4/20/01 | 3 years | \$150.00 | \$15.00 | 26% | 2 mi W | |
| MF101840 | Texas Independent Exploration, In | 8/1/01 | 3 years | \$150.00 | \$15.00 | 1/4 | 1 mi W | |
| MF100662 | Star of Texas Energy Services, In | 7/28/98 | 2 years | \$60.00 | \$20.00 | 1/4 | adj W | |
| | | | | | | | | |

Comments:

Approved: PAB 5.3.02

RELINQUISHMENT ACT LEASE APPLICATION

Texas General Land Office

David Dewhurst, Commissioner

TO: David Dewhurst, Commissioner
Larry Soward, Chief Clerk
David Hall, Deputy Commissioner

DATE: 03-May-02

FROM: Robert Hatter, Director of Mineral Leasing
Peter Boone, Chief Geologist

Applicant: LMP Petroleum, Inc.

County: HIDALGO

Prim. Term: 2 years

Bonus/Acre

\$300.00

Royalty: 1/4

Rental/Acre

\$25.00

Consideration

Recommended: PAB

Date: 5.3.02

Not Recommended: _____

Comments: Gross acres 532.74.

Lease Form

Recommended: PSA

Date: 5/28/02

Not Recommended: _____

Comments:

David Hall, Deputy Commissioner

Recommended: MA

Date: 6/5/02

Not Recommended: _____

Larry Soward, Chief Clerk

Approved: LS

Date: 6/10/02

Not Approved: _____

David Dewhurst, Commissioner

Approved: DD

Date: 6/11/2002

Not Approved: _____

7.

File No. MF704958

GA Review

Date Filed: 5/3/02

Jerry E. Patterson, Commissioner

By [Signature]

KILBURN, JONES, GILL & CAMPBELL, L.L.P.

ATTORNEYS AT LAW
6363 WOODWAY, SUITE 1100
HOUSTON, TEXAS 77057
TELEPHONE (713) 652-4068
FACSIMILE (713) 651-0716

Kerry A. Kilburn *
Michael D. Jones ††
Lee S. Gill **
K. Ray Campbell †

* Also Licensed to Practice in Louisiana
† Board Certified - Civil Trial Law
‡ Board Certified - Oil, Gas and Mineral Law
Texas Board of Legal Specialization

MICHAEL D. JONES
E-MAIL: mjones@kjgc.com

May 22, 2002

William P. Moffitt
Moffitt & Associates, Inc.
P. O. Box 2786
Corpus Christi, Texas 78403

Fax: (361) 888-5100

Mr. Michael S. Pedrotti
LMP Petroleum, Inc.
615 N. Upper Broadway, Suite 1500
Corpus Christi, Texas 78477-0183

Fax: (361) 883-7102

J. David Hall, Esq.
Drew Reed
Texas General Land Office
Stephen F. Austin Bldg.
1700 North Congress Ave.
Austin, TX 78701-1495

Fax (512) 463-6311

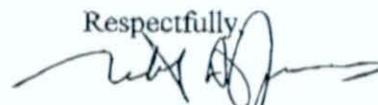
Juan Lino Garza, Jr., Operations Manager
Garza Energy Trust
201 Donaldson Ave.
San Antonio, TX 78201

Fax (210) 736-3902

Gentlemen:

At the recent request of Mr. Reed at the GLO, we have restored the GLO lease form to its original condition and have included all of the additional provisions requested by the Garza Energy Trust in the Addendum. I apologize for the inconvenience this may cause. Mr. Reed suggested that this alternative would speed approval by the GLO. In addition, this format may allow Mr. Ellis to more readily determine additions and changes to the standard GLO lease form. In this regard, my client appreciates the effort you are devoting to this matter. If anyone has any questions, please give me a call.

Respectfully



Michael D. Jones

2002 MAY 23 AM 9:21
GENERAL LAND OFFICE
LEGAL SERVICES

8.

File No. MF104158

Letter

Date Filed: 5/22/02

Jerry E. Patterson, Commissioner

By [Signature]

Steven W. Ellis, P.C.

BOARD CERTIFIED
OIL, GAS AND MINERAL LAW
TEXAS BOARD OF LEGAL SPECIALIZATION

ATTORNEYS AT LAW
615 NORTH UPPER BROADWAY SUITE 1616
CORPUS CHRISTI, TEXAS 78477

TELEPHONE: (361) 884-9550
FAX: (361) 881-9777

June 4, 2002

Mr. Michael D. Jones
Kilburn, Jones, Gill & Campbell, L.L.P.
6363 Woodway, Suite 1100
Houston, Texas 77057

RE: Oil and Gas Lease Form
Garza Energy Trust Mineral Classified Lease
176.0 Acres of land, W.D. Parchman Survey 883, A-926
Hidalgo County, Texas

Dear Michael:

At the request of LMP Petroleum, Inc. I am transmitting the lease form acceptable to LMP to cover the captioned acreage. You have informed Michael S. Pedrotti of LMP that the General Land Office has apparently notified the Garza Energy Trust the Trust's agency rights to lease the captioned acreage may be forfeited.

LMP had no notice of any such forfeiture when it made its offer to lease the acreage. LMP will not accept an oil and gas lease covering this acreage unless LMP is provided sufficient assurances from the State that forfeiture of your client's agency rights will not in any way reduce or diminish the estate or rights granted to LMP under the proposed lease. LMP must not be subject to any drilling deadlines or restrictions other than those contained in the oil and gas lease as proposed, but LMP must have the right to enjoy the full two year term of its lease.

Please provide a letter from the State addressed to LMP that contains the above assurances, and upon acceptance of the attached lease form by all parties, LMP will tender the bonus to the Garza Energy Trust and to the State in accordance with the terms of the lease.

Very truly yours,

STEVEN W. ELLIS, P.C.


Steven W. Ellis

9.

File No. MF704158

Letter

Date Filed: 6/9/02

Jerry E. Patterson, Commissioner

By [Signature]

Robert

Steven W. Ellis, P.C.

BOARD CERTIFIED
OIL, GAS AND MINERAL LAW
TEXAS BOARD OF LEGAL SPECIALIZATION

ATTORNEYS AT LAW
615 NORTH UPPER BROADWAY,
SUITE 1615
CORPUS CHRISTI, TEXAS 78477

TELEPHONE: (361) 884-9550
FAX: (361) 881-9777

Date: June 4, 2002

TELECOPY (FAX) COVER SHEET

CONFIDENTIALITY NOTICE

This facsimile transmission (and/or the documents accompanying it) may contain confidential information belonging to the sender which is protected by the attorney-client privilege. The information is intended only for the use of the individual or entity named below. If you are not the intended recipient, you are hereby notified that any disclosure, copying, distribution or the taking of any action in reliance on the contents of this information is strictly prohibited. If you have received this transmission in error, please immediately notify us by telephone to arrange for the return of the documents.

To: Mr. J. David Hall

Telecopier No.: 512-475-1543

From: Mr. Steven W. Ellis

This telecopy contains 2 pages including this one. If you do not receive all the pages or if there is a problem with this transmission, please call the Steven W. Ellis, P.C. Law Firm at (361) 884-9550. Our telecopier number is (361) 881-9777.

Sent By: Nora Rodriguez

Date: June 4, 2002

Client: Garza Mineral Trust Lease

Comments/Notes:

Steven W. Ellis, P.C.

BOARD CERTIFIED
OIL, GAS AND MINERAL LAW
TEXAS BOARD OF LEGAL SPECIALIZATION

ATTORNEYS AT LAW
615 NORTH UPPER BROADWAY SUITE 1616
CORPUS CHRISTI, TEXAS 78477

TELEPHONE: (361) 884-9550
FAX: (361) 881-9777

June 4, 2002

Texas General Land Office
Energy Resources Division
P.O. Box 12873
Austin, Texas 78711-2873

Attn: Mr. J. David Hall
Deputy Land Commissioner

Re: Garza Mineral Trust Lease
Hidalgo County, Texas

Dear J. D.:

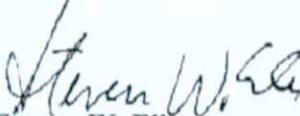
After our conversation in your office, a longstanding client of mine, LMP Petroleum Inc., requested me to assist in negotiating a lease covering a mineral classified tract in Hidalgo County, Texas. The prospective Lessor is the Garza Energy Trust. Apparently the GLO has notified the Garza Mineral Trust that its agency rights may be forfeited. LMP is seeking to obtain an acceptable lease form from the Trust, and assure that LMP will not be affected if the GLO should make demand on the Garza Energy Trust for the drilling of a well or forfeit the agency rights of the Garza Mineral Trust.

While I do not believe this represents a conflict with representation of the State on potential royalty underpayment claims under unrelated leases, I wanted to notify you of my LMP representation.

I look forward to working with you in the future.

Respectfully submitted,

STEVEN W. ELLIS, P.C.


Steven W. Ellis

10

File No. MF104158

Fax

Date Filed: 6/4/02

Jerry E. Patterson, Commissioner

By [Signature]

KILBURN, JONES, GILL & CAMPBELL, L.L.P.

ATTORNEYS AT LAW
6363 WOODWAY, SUITE 1100
HOUSTON, TEXAS 77057

FAX TRANSMISSION

DATE: June 26, 2002

PAGES: 21 TOTAL

TO: Robert Hatter
Juan Lino Garza, Jr.
George L. Willingham

FAX#: (512) 463-6311
(210) 736-3902

FROM: Michael D. Jones
Toni Sharretts

FAX#: (713) 651-0716
TEL#: (713) 652-4068

SUBJECT: Re: M-91211, 528 acres Survey 883, Cert. No. 997, A-726, Hidalgo County, TX; A-926, W. D. Parchman Original Grantee, Starr County, TX and 274 acres W. D. Parchman Survey No. 883, A-729, in Hidalgo and Starr Counties, Texas and a portion of the "Los Maguelles" Nicolasa Salinas Grant, Survey No. 893, A-411, Starr County, Texas, A-72, Hidalgo County, Texas

INCLUDED IN THIS TRANSMISSION:

June 26, 2002 letter; June 4, 2002 letter from Steve Ellis and GLO lease form approved by Garza Energy Trust and LMP

IF YOU HAVE ANY PROBLEMS IN RECEIVING THIS TRANSMISSION,
PLEASE CALL *Becky* AT (713) 652-4068

THIS MESSAGE IS INTENDED FOR THE USE OF THE INDIVIDUAL OR ENTITY TO WHICH IT IS ADDRESSED AND MAY CONTAIN INFORMATION THAT IS PRIVILEGED, CONFIDENTIAL AND EXEMPT FROM DISCLOSURE UNDER APPLICABLE LAW. IF THE READER OF THIS MESSAGE IS NOT THE INTENDED RECIPIENT, OR IS AN EMPLOYEE OR AGENT OF THAT PERSON, YOU ARE HEREBY NOTIFIED THAT ANY DISSEMINATION, DISTRIBUTION OR COPYING OF THIS COMMUNICATION IS STRICTLY PROHIBITED. IF YOU HAVE RECEIVED THIS COMMUNICATION IN ERROR, PLEASE NOTIFY US IMMEDIATELY BY TELEPHONE AND RETURN THE ORIGINAL MESSAGE TO US BY MAIL.

2002 JUN 26 PM 2:39
GENERAL LAND OFFICE
LEGAL WORK

KILBURN, JONES, GILL & CAMPBELL, L.L.P.

ATTORNEYS AT LAW
6363 WOODWAY, SUITE 1100
HOUSTON, TEXAS 77057
TELEPHONE (713) 652-4068
FACSIMILE (713) 651-0716

Kerry A. Kilburn *
Michael D. Jones †
Lee S. Gill **
K. Ray Campbell ‡

* Also Licensed to Practice in Louisiana
† Board Certified - Civil Trial Law
‡ Board Certified - Oil, Gas and Mineral Law
Texas Board of Legal Specialization

MICHAEL D. JONES
E-MAIL: mjones@kjgc.com

June 26, 2002

J. David Hall, Esq.
Drew Reed
Texas General Land Office
Stephen F. Austin Bldg.
1700 North Congress Ave.
Austin, TX 78701-1495

Fax (512) 463-6311

Re: Oil and Gas Lease
Garza Energy Trust, Agent for State of Texas
176.00 Acres of Land, W.D. Parchman Survey 883, A-926
Hidalgo County, Texas

Dear Mr. Hall and Mr. Reed:

On April 15, 2002, Garza Energy Trust ("Garza"), as agent for the State of Texas, accepted an offer made by LMP Petroleum, Inc. ("LMP") to acquire an oil and gas lease covering the land described on the attached Exhibit "A." LMP conditioned its acceptance of the lease upon the General Land Office ("GLO") assuring LMP in a letter that any forfeiture of Garza's agency rights will not reduce or diminish the estate or rights granted to LMP under the proposed lease. We hereby request the GLO provide that written assurance. We are enclosing a copy of the June 4, 2002 letter from Steve Ellis, LMP's counsel, requesting this assurance.

As you know, the GLO notified Garza on February 19, 2002 that if a well were not commenced by May 30, 2002 that Garza's agency rights would be subject to forfeiture by the GLO per sections 174 and 175 of Chapter 52 of the Relinquish Act. Garza immediately and diligently solicited offers from over thirty oil companies to lease and drill this land to prevent drainage and preserve its agency rights. On February 28, 2002, LMP made a lease offer to Garza with probable awareness of the GLO's discretion to cancel the Garza's agency rights. Garza accepted LMP's lease offer on April 15, 2002 after evaluating all other bids.

Page 2
June 26, 2002

On May 1, 2002, Garza prepared a GLO lease form for LMP's execution. On June 4, 2002, LMP's attorney, Steven W. Ellis, returned the GLO lease form to Garza with proposed additions and changes to the standard GLO lease form. Garza has perused all the GLO lease form changes. As a measure of good faith and to expedite the leasing process, Garza has agreed to all LMP's GLO lease modifications.

In accordance with LMP GLO lease provision 44, we ask that the GLO sign the spaces provided below to evidence that 1) the rights of Lessee (LMP) under the proposed lease are not affected by any forfeiture of the agency rights of the owners of the soil covering the leased premises, whether such forfeiture occurs prior to or after the date of the proposed lease, and 2) LMP will be entitled to the entire two (2) year primary term granted therein, subject to the other terms of the proposed lease.

By giving LMP these assurances, the GLO efficiently serves the State's best interest by allowing LMP to drill wells to prevent further drainage to State lands.

Respectfully,

Michael D. Jones

THE RIGHTS OF LESSEE UNDER THE LEASE REFERENCED HEREIN ARE NOT AFFECTED BY ANY FORFEITURE OF THE AGENCY RIGHTS OF THE OWNERS OF THE SOIL COVERING THE LEASED PREMISES, WHETHER SUCH FORFEITURE OCCURS PRIOR TO OR AFTER THE DATE OF THIS LEASE, AND LESSEE SHALL BE ENTITLED TO THE ENTIRE TWO (2) YEAR PRIMARY TERM GRANTED IN THE REFERENCED LEASE, SUBJECT TO THE OTHER TERMS OF THIS LEASE.

GENERAL LAND OFFICE

J. David Hall, Esq.

Date

Page 3
June 26, 2002

cc:

William P. Moffitt
Moffitt & Associates, Inc.
P. O. Box 2786
Corpus Christi, Texas 78403

Fax: (361) 888-5100

Mr. Michael S. Pedrotti
LMP Petroleum, Inc.
615 N. Upper Broadway, Suite 1500
Corpus Christi, Texas 78477-0183

Fax: (361) 883-7102

Juan Lino Garza, Jr., Operations Manager
Garza Energy Trust
201 Donaldson Ave.
San Antonio, TX 78201

Fax (210) 736-3902

Exhibit "A"

Property Description

176 acres described in Release dated effective October 1, 1998, recorded in Hidalgo County File No. 751455 and being a part of the following base tract:

All of that certain 532.74 acre tract known as Survey No. 883, Cert. No. 997, A-726, Hidalgo County, Texas; A-926, Starr County, Texas, W. D. Parchman Original Grantec, described as follows:

BEGINNING at an iron rod in corner of fence line on the North line of Porcion No. 43, the Southeast corner of Survey No. 885, for the southwest corner hereof; THENCE, with the fence and East line of Survey No. 885, North 9° 29' East 1128.2 varas to a post in the South line of the Los Maguelles Grant, the Northeast corner of Survey No. 885, for the Northwest corner hereof; THENCE, with the South line of the Los Maguelles Grant, South 81° 34' East at 1158.3 varas pass 9.4 varas North of a Mesquite MKD 1879 (very old marks), at 2145.9 varas pass a Mesquite MKD X (very old marks), at 2608.6 varas set pipe in fence for the Northwest corner of Survey No. 488 and the Northeast corner hereof; THENCE with fence and West line of Survey No. 488, South 9° 00' West 1162.3 varas to corner of fence, a corner of Survey No. 488 and the South east corner hereof; THENCE with fence and line of Survey No. 488, North 81° 21' West 1202.8 varas to a corner of fence, a corner of Survey No. 488 and the Northeast corner of Porcion No. 44, THENCE, with fence and North line of Porcion No. 44, North 80° 22' West 1415.2 varas to the PLACE OF BEGINNING containing 532.74 acres of land more or less.

Steven W. Ellis, P.C.

ATTORNEYS AT LAW

815 NORTH UPPER BROADWAY SUITE 1515
CORPUS CHRISTI, TEXAS 78477

TELEPHONE: (361) 884-9550
FAX: (361) 881-9777

BOARD CERTIFIED
OIL, GAS AND MINERAL LAW
TEXAS BOARD OF LEGAL SPECIALIZATION

June 4, 2002

Mr. Michael D. Jones
Killburn, Jones, Gill & Campbell, L.L.P.
6363 Woodway, Suite 1100
Houston, Texas 77057

RE: Oil and Gas Lease Form
Garza Energy Trust Mineral Classified Lease
176.0 Acres of land, W.D. Parchman Survey 883, A-926
Hidalgo County, Texas

Dear Michael:

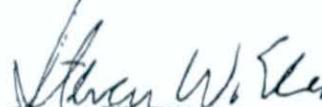
At the request of LMP Petroleum, Inc. I am transmitting the lease form acceptable to LMP to cover the captioned acreage. You have informed Michael S. Pedrotti of LMP that the General Land Office has apparently notified the Garza Energy Trust the Trust's agency rights to lease the captioned acreage may be forfeited.

LMP had no notice of any such forfeiture when it made its offer to lease the acreage. LMP will not accept an oil and gas lease covering this acreage unless LMP is provided sufficient assurances from the State that forfeiture of your client's agency rights will not in any way reduce or diminish the estate or rights granted to LMP under the proposed lease. LMP must not be subject to any drilling deadlines or restrictions other than those contained in the oil and gas lease as proposed, but LMP must have the right to enjoy the full two year term of its lease.

Please provide a letter from the State addressed to LMP that contains the above assurances, and upon acceptance of the attached lease form by all parties, LMP will tender the bonus to the Garza Energy Trust and to the State in accordance with the terms of the lease.

Very truly yours,

STEVEN W. ELLIS, P.C.


Steven W. Ellis

11.

File No. MF 104158

Fax
Date Filed: 16/26/02

Jerry E. Patterson, Commissioner

By [Signature]

KILBURN, JONES, GILL & CAMPBELL, L.L.P.

ATTORNEYS AT LAW
6363 WOODWAY, SUITE 1100
HOUSTON, TEXAS 77057
TELEPHONE (713) 652-4068
FACSIMILE (713) 651-0716

Kerry A. Kilburn
Michael D. Jones^{†‡}
Lee S. Gill[†]
K. Ray Campbell[‡]

* Also Licensed to Practice in Louisiana
† Board Certified - Civil Trial Law
‡ Board Certified - Oil, Gas and Mineral Law
Texas Board of Legal Specialization

MICHAEL D. JONES
E-MAIL: mjones@kjgc.com

July 12, 2002

361-881-9777 (facsimile)
Steven W. Ellis, Esq.
Steven W. Ellis, P.C.
615 North Upper Broadway, Suite 1616
Corpus Christi, TX 78477

Re: Oil and Gas Lease on 176 acres out of Survey 883, Cert. No. 997, A-726,
Hidalgo County, TX A-926, W. D. Parchman Original Grantee, Starr
County, TX

Dear Steve:

We received your June 4, 2002 letter with the enclosed form of GLO lease with the additional provisions acceptable to your client. I apologize for the delay in responding, but vacation plans and the July 4th holiday intervened. I am enclosing a copy of a letter from the General Land Office which should address your concerns as to the authority of the Garza Energy Trust to execute a valid lease to your client, LMP Petroleum, Inc. and the rights of your client under the GLO lease included with your June 4, 2002 letter.

In your June 4, 2002 letter you indicate that upon acceptance of the lease by all parties, LMP will pay the bonus to the GLO and GET. If possible, we would request your client's execution of three originals. We will secure execution by GET and the GLO and upon delivery of a fully executed copy to you, LMP will issue checks to the GLO and GET. Please let me know if this procedure is acceptable to you.

Respectfully,


Michael D. Jones

cc Robert Hatter, GLO
Juan Lino Garza, Jr, GET

RECEIVED
02 JUL 16 AM 10:53
LMP Petroleum, Inc.

Texas General
Land Office



David Dewhurst
Commissioner

July 8, 2002

Mr. Michael D. Jones
Kilburn, Jones, Gill & Campbell, L.L.P.
6363 Woodway, Suite 1100
Houston, Texas 77057

Re: Proposed Relinquishment Act Lease
LMP Petroleum, Inc., Lessee
Garza Energy Trust, W. D. Parchman Svy. #883
Hidalgo County, Texas

Dear Mr. Jones:

In response to your letter dated June 26, 2002, please be advised that in the event the General Land Office (GLO) should proceed with forfeiture of Garza Energy Trust's agency rights as the owner of the soil of the above referenced tract, it is agreed by the GLO that the rights of the Lessee under the referenced lease would not be affected by such forfeiture, should the forfeiture occur after the date the lease is executed. Further, Lessee shall be entitled to the entire primary term granted in the referenced lease, subject to the other terms contained therein.

Presently, no forfeiture action is contemplated based on the nature of the ongoing negotiations with potential lessees. Also, please be aware that the offset obligation continues to be an issue on this tract.

If you should have any questions concerning this matter, please call Robert Hatter in the Mineral Leasing Division at (512) 475-1542.

Sincerely,

A handwritten signature in black ink, appearing to read "J. David Hall".

J. David Hall
Deputy Commissioner
Energy Resources

Mailing

Post Office Box 12873
Austin, Texas
78711-2873

Street

Stephen F. Austin Building
1700 North Congress Avenue
Austin, Texas 78701-1495

512.463.5001
1.800.998.4GLO
www.glo.state.tx.us

12.

File No. MF10458

Seller

Date Filed: 7/16/02

Jerry E. Rafterson, Commissioner

By *[Signature]*

2002

KILBURN, JONES, GILL & CAMPBELL, L.L.P.

ATTORNEYS AT LAW
6363 WOODWAY, SUITE 1100
HOUSTON, TEXAS 77057

FAX TRANSMISSION

DATE: July 31, 2002 **PAGES:** 4 TOTAL

TO: Steven Ellis **FAX#:** (361) 881-9777
 Robert Hatter (512) 463-6311
 Juan Lino Garza, Jr. (210) 736-3902
 George L. Willingham

FROM: Michael D. Jones **FAX#:** (713) 651-0716
 Toni Sharretts **TEL#:** (713) 652-4068

SUBJECT: Re: M-91211, 528 acres Survey 883, Cert. No. 997, A-726, Hidalgo County, TX; A-926, W. D. Parchman Original Grantee, Starr County, TX and 274 acres W. D. Parchman Survey No. 883, A-729, in Hidalgo and Starr Counties, Texas and a portion of the "Los Maguelles" Nicolasa Salinas Grant, Survey No. 893, A-411, Starr County, Texas, A-72, Hidalgo County, Texas

INCLUDED IN THIS TRANSMISSION:

July 31, 2002 letter

2002 JUL 31 AM 9:48
 GENERAL COUNCIL OFFICE
 LEGAL SERVICES

IF YOU HAVE ANY PROBLEMS IN RECEIVING THIS TRANSMISSION,
 PLEASE CALL *Becky* AT (713) 652-4068

THIS MESSAGE IS INTENDED FOR THE USE OF THE INDIVIDUAL OR ENTITY TO WHICH IT IS ADDRESSED AND MAY CONTAIN INFORMATION THAT IS PRIVILEGED, CONFIDENTIAL AND EXEMPT FROM DISCLOSURE UNDER APPLICABLE LAW. IF THE READER OF THIS MESSAGE IS NOT THE INTENDED RECIPIENT, OR IS AN EMPLOYEE OR AGENT OF THAT PERSON, YOU ARE HEREBY NOTIFIED THAT ANY DISSEMINATION, DISTRIBUTION OR COPYING OF THIS COMMUNICATION IS STRICTLY PROHIBITED. IF YOU HAVE RECEIVED THIS COMMUNICATION IN ERROR, PLEASE NOTIFY US IMMEDIATELY BY TELEPHONE AND RETURN THE ORIGINAL MESSAGE TO US BY MAIL.

KILBURN, JONES, GILL & CAMPBELL, L.L.P.

ATTORNEYS AT LAW
6363 WOODWAY, SUITE 1100
HOUSTON, TEXAS 77057
TELEPHONE (713) 652-4068
FACSIMILE (713) 651-0716

Kerry A. Kilburn *
Michael D. Jones †
Lee S. Gill ‡
K. Ray Campbell ‡

* Also Licensed to Practice in Louisiana
† Board Certified - Civil Trial Law
‡ Board Certified - Oil, Gas and Mineral Law
Texas Board of Legal Specialization

MICHAEL D. JONES
E-MAIL: mjones@kjgc.com

July 31, 2002

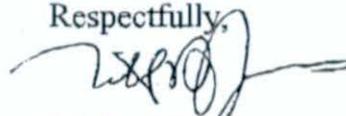
361-881-9777 (facsimile)
Steven W. Ellis, Esq.
Steven W. Ellis, P.C.
615 North Upper Broadway, Suite 1616
Corpus Christi, TX 78477

Re: Oil and Gas Lease on 176 acres out of Survey 883, Cert. No. 997, A-726,
Hidalgo County, TX A-926, W. D. Parchman Original Grantee, Starr
County, TX

Dear Steve:

I was surprised to receive your July 30, 2002 letter in light of my July 12, 2002 letter. LMP requested assurances from the GLO on this lease and Garza Energy Trust secured these assurances and Garza Energy Trust agreed to LMP's lease form. I am enclosing my July 12, 2002 letter with this facsimile transmission. I sent you the original letter from the GLO. Please re-evaluate LMP's position on this matter as GET accepted LMP's bid and GET accepted LMP's lease form and secured the assurances from the GLO required by LMP. Please give me a call.

Respectfully,



Michael D. Jones

cc Robert Hatter, GLO
Juan Lino Garza, Jr, GET

KILBURN, JONES, GILL & CAMPBELL, L.L.P.

ATTORNEYS AT LAW
6363 WOODWAY, SUITE 1100
HOUSTON, TEXAS 77057
TELEPHONE (713) 652-4068
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Kerry A. Kilburn *
Michael D. Jones **
Lee S. Gill ***
K. Ray Campbell †

* Also Licensed to Practice in Louisiana
† Board Certified - Civil Trial Law
‡ Board Certified - Oil, Gas and Mineral Law
Texas Board of Legal Specialization

MICHAEL D. JONES
E-MAIL: mjones@kjgc.com

July 12, 2002

361-881-9777 (facsimile)
Steven W. Ellis, Esq.
Steven W. Ellis, P.C.
615 North Upper Broadway, Suite 1616
Corpus Christi, TX 78477

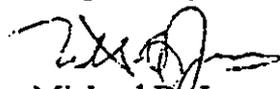
Re: Oil and Gas Lease on 176 acres out of Survey 883, Cert. No. 997, A-726,
Hidalgo County, TX A-926, W. D. Parchman Original Grantee, Starr
County, TX

Dear Steve:

We received your June 4, 2002 letter with the enclosed form of GLO lease with the additional provisions acceptable to your client. I apologize for the delay in responding, but vacation plans and the July 4th holiday intervened. I am enclosing a copy of a letter from the General Land Office which should address your concerns as to the authority of the Garza Energy Trust to execute a valid lease to your client, LMP Petroleum, Inc. and the rights of your client under the GLO lease included with your June 4, 2002 letter.

In your June 4, 2002 letter you indicate that upon acceptance of the lease by all parties, LMP will pay the bonus to the GLO and GET. If possible, we would request your client's execution of three originals. We will secure execution by GET and the GLO and upon delivery of a fully executed copy to you, LMP will issue checks to the GLO and GET. Please let me know if this procedure is acceptable to you.

Respectfully,


Michael D. Jones

cc Robert Hatter, GLO
Juan Lino Garza, Jr, GET

**Texas General
Land Office**



**David Dewhurst
Commissioner**

July 8, 2002

Mr. Michael D. Jones
Kilburn, Jones, Gill & Campbell, L.L.P.
6363 Woodway, Suite 1100
Houston, Texas 77057

Re: Proposed Relinquishment Act Lease
LMP Petroleum, Inc., Lessee
Garza Energy Trust, W. D. Parchman Svy. #883
Hidalgo County, Texas

Dear Mr. Jones:

In response to your letter dated June 26, 2002, please be advised that in the event the General Land Office (GLO) should proceed with forfeiture of Garza Energy Trust's agency rights as the owner of the soil of the above referenced tract, it is agreed by the GLO that the rights of the Lessee under the referenced lease would not be affected by such forfeiture, should the forfeiture occur after the date the lease is executed. Further, Lessee shall be entitled to the entire primary term granted in the referenced lease, subject to the other terms contained therein.

Presently, no forfeiture action is contemplated based on the nature of the ongoing negotiations with potential lessees. Also, please be aware that the offset obligation continues to be an issue on this tract.

If you should have any questions concerning this matter, please call Robert Hatter in the Mineral Leasing Division at (512) 475-1542.

Sincerely,

A handwritten signature in black ink, appearing to read "J. David Hall".

J. David Hall
Deputy Commissioner
Energy Resources

Post Office Box 12873
Austin, Texas
78711-2873

Stephen F. Austin Building
1700 North Congress Avenue
Austin, Texas 78701-1495

512.463.5001
1.800.998.4GLO
www.glo.state.tx.us

13.

File No. MF 104158

Fax

Date Filed: 7/31/02

Jerry E. Patterson, Commissioner

By [Signature]

From: Vendor Code Check Date Check Amount Check Number
 To: Comm. of the Gen. Land Office TEX005 06/09/03 \$100.00 201017

| Reference | Date | Description | Amount |
|-----------|----------|--|-----------------------------------|
| 110 | 06/09/03 | TEX 061003 S Jeffress Prospect <i>Attn: Drew Reid</i> 121 Lmp Explor Inc ✓ 20 219 | 100.00 03040866 |

Steven W. Ellis, P.C.

ATTORNEYS AT LAW

615 NORTH UPPER BROADWAY SUITE 1616
CORPUS CHRISTI, TEXAS 78477

TELEPHONE: (361) 884-9550
FAX: (361) 881-9777

BOARD CERTIFIED
OIL, GAS AND MINERAL LAW
TEXAS BOARD OF LEGAL SPECIALIZATION

June 9, 2003

Mineral Leasing Division
Texas General Land Office
Attn: Drew Reid
1700 North Congress Avenue, Room 600
Austin, Texas 78701-1495

RE: Garza Energy Trust
176.0 Acres of land, W.D. Parchman Survey 883, A-926
Hidalgo County, Texas

Dear Mr. Reid:

In accordance with the GLO's RAL Procedures, LMP Petroleum, Inc. submits for approval the attached Relinquishment Act Lease covering the above referenced acreage in Hidalgo County, Texas. The lease has been negotiated but not yet signed by the owner of the soil. As provided in the RAL Procedures:

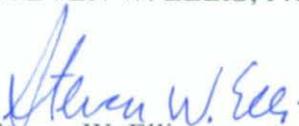
- | | |
|--------------------------------|-------------------------|
| 1. The interest being leased: | Garza Energy Trust-100% |
| 2. Bonus per acre being paid: | \$300 per acre |
| 3. Primary term of lease: | 2 years |
| 4. Rental per acre being paid: | \$25 per acre |
| 5. Gross royalty being paid: | 25% royalty |

Enclosed is the processing fee of \$100. Please review the attached lease form on behalf of the state and notify the undersigned or LMP Petroleum, Inc., 615 N. Upper Broadway, Suite 1500, Corpus Christi, Texas 78477, with the GLO's approval.

Thank you for your consideration in this matter, and please call if you have questions.

Very truly yours,

STEVEN W. ELLIS, P.C.


Steven W. Ellis

00219

KILBURN, JONES, GILL & CAMPBELL, L.L.P.

ATTORNEYS AT LAW
6363 Woodway, Suite 1100
Houston, Texas 77057
Telephone (713) 652-4068
Fax (713) 652-4078 or (713) 651-0716

Kerry A. Kilburn *
Michael D. Jones **
Lee S. Gill **
K. Ray Campbell *

* Also Licensed to Practice in Louisiana
† Board Certified - Civil Trial Law
‡ Board Certified - Oil, Gas and Mineral Law
Texas Board of Legal Specialization

April 22, 2003

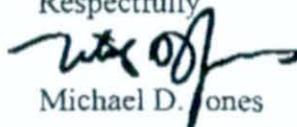
361-881-9777 (facsimile)
Steven W. Ellis, Esq.
Steven W. Ellis, P.C.
615 North Upper Broadway, Suite 1616
Corpus Christi, TX 78477

Re: Oil and Gas Lease on 176 acres out of Survey 883, Cert. No. 997, A-726, Hidalgo County, TX A-926, W. D. Parchman Original Grantee, Starr County, TX

Dear Steve:

In our recent telephone conversation concerning the above referenced lease, I was under the impression that you intended to send me the latest version which we had agreed to last year. I have not yet received it, but then I remembered that you may have wanted some information from me. In this regard, I have spoken to the Owners of the Soil and their initial position was to make their 3D seismic information available to your client in exchange for an increased royalty percentage after payout of any well to be drilled on the referenced property, which increase would be divided equally with the GLO. The Owners of the Soil have abandoned this position and want to proceed to the signing of a straight 25% royalty lease as previously proposed by LMP without any access to 3D seismic. Please send me the lease form for this transaction and I will secure the necessary signatures. Thank you for your attention to these matters.

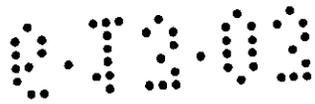
Respectfully



Michael D. Jones

cc Juan Lino Garza, Jr.
Juan Lino Garza, Sr.

0019



14.

File No. MF70458
Letter v Fee
Date Filed: 6/13/03
Jerry E. Patterson
Commissioner
By _____

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

June 25, 2003

Steve W. Ellis, P.C.
615 North Upper Broadway, Suite 1616
Corpus Christi, Texas 78477

RE: Proposed Relinquishment Act Lease

Being 176.0 ac. in Sec. 883, W.D. Parchman. Sur., A-726
in Hidalgo Co., Texas

Dear Mr. Ellis:

We hereby acknowledge receipt of your proposed Relinquishment Act Lease covering the referenced tract. The Commissioner of the General Land Office has approved this lease as to form and consideration. The terms recommended for approval of this lease are a \$300.00 per ac. bonus, 1/4 royalty and a 2 year primary term, with rentals of \$25.00 per acre

If the above recommended terms meet with your approval please furnish this office with a certified copy of the lease or leases for filing and a check for the State's cash bonus and the required filing fee of \$25.00 per lease.

If, prior to submittal of the requested material, this office receives evidence that the above terms constitute less than market value, then this approval may be withdrawn. Otherwise, this approval shall remain valid for sixty (60) days from the date hereof. Please call if you should have any questions.

Sincerely,

A handwritten signature in cursive script that reads "Drew Reid".

Drew Reid, Landman
Minerals Leasing
Energy Resources
(512) 475-1534

Stephen F. Austin Building • 1700 North Congress Avenue • Austin, Texas 78701-1495

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

www.glo.state.tx.us

15.

File No. MF70458

910 letter

Date Filed: 6/25/03

Jerry E. Patterson, Commissioner

By [Signature]

6.

BOARD CERTIFIED
OIL, GAS AND MINERAL LAW
TEXAS BOARD OF LEGAL SPECIALIZATION

Steven W. Ellis, P.C.
ATTORNEYS AT LAW
615 NORTH UPPER BROADWAY SUITE 1616
CORPUS CHRISTI, TEXAS 78477

TELEPHONE: (361) 884-9550
FAX: (361) 881-9777

RECEIVED
03 JUN 32 10:22
LAW OFFICE

June 25, 2003

Mr. Michael D. Jones
Kilburn, Jones, Gill & Campbell, L.L.P.
6363 Woodway, Suite 1100
Houston, Texas 77057

**BY FAX AND CERTIFIED MAIL
RETURN RECEIPT REQUESTED**

RE: Garza Energy Trust
176.0 Acres of land, W.D. Parchman Survey 883, A-926
Hidalgo County, Texas

Dear Michael:

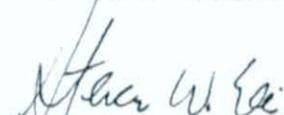
At the request of the State of Texas, I am writing this letter to notify you and the Garza Energy Trust that the State has approved LMP's Relinquishment Act Lease covering the above referenced acreage. Since Garza Energy Trust's share of the bonus consideration is in your possession, we request that you expedite getting the lease signed and returned to me.

The State has asked that the executed lease be filed for record and the State's share of bonus forwarded to them as expeditiously as possible. I look forward to receiving the executed lease at your earliest convenience.

Thank you for your kind assistance in this matter.

Very truly yours,

STEVEN W. ELLIS, P.C.


Steven W. Ellis

xc: Mr. Drew Reid
General Land Office

Mr. J. David Hall
General Land Office

16.

File No. MF 104958

Letter

Date Filed: 7/2/03

Jerry E. Patterson, Commissioner

By [Signature]

500



November 17, 2003

Mr. Juan Lino Garza
Garza Energy Trust
201 Donaldson Avenue
San Antonio, Texas 78201

Re: LMP Petroleum, Inc.
Survey 883 (A-726), W. D. Parchman (A-926)
Hidalgo County, Texas

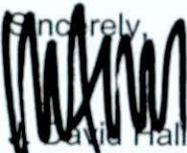
Dear Mr. Garza:

The General Land Office (GLO) has been informed that LMP Petroleum, Inc. has made an offer to lease 176 acres out of the above referenced property, which is subject to the Relinquishment Act. The GLO has also been informed that the terms of the offer have been agreed upon with the exception of a Paragraph 42, SEISMIC DATA, which was stricken from the lease.

While we understand that Garza Energy Trust has an agreement with Western Geophysical Company concerning the release of certain data obtained on land owned by Garza Energy Trust, it is the position of this office that such an agreement would not be binding on Relinquishment Act land. As owner of the minerals underlying the tract, the state would be a necessary party to the agreement.

Additionally, it would appear to be in the state's best interest to allow an oil and gas lessee access to available seismic data. Therefore, as agent for the state with a fiduciary duty to act in the state's best interest, the GLO respectfully requests that Garza Energy Trust execute the oil and gas lease in favor of LMP Petroleum, Inc. as originally drafted.

Your cooperation in this matter is appreciated. Please let me know if you have any questions.

Sincerely,


David Hall
Deputy Commissioner
Energy Resources

Stephen F. Austin Building • 1700 North Congress Avenue • Austin, Texas 78701-1495

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

www.glo.state.tx.us

17.
File No. MF 10458
Letter
Date Filed: 11/17/03
Jerry E. Patterson, Commissioner
By [Signature]

KILBURN, JONES, GILL & CAMPBELL, L.L.P.

ATTORNEYS AT LAW
6363 WOODWAY, SUITE 1100
HOUSTON, TEXAS 77057
TELEPHONE (713) 652-4068
FACSIMILE (713) 651-0716

Kerry A. Kilburn *
Michael D. Jones *†
Lee S. Gill *‡
K. Ray Campbell ‡

* Also Licensed to Practice in Louisiana
† Board Certified - Civil Trial Law
‡ Board Certified - Oil, Gas and Mineral Law
Texas Board of Legal Specialization

MICHAEL D. JONES
E-MAIL: mjones@kjgc.com

RECEIVED
03 DEC -2 PM 2:47
LAW OFFICE OF MICHAEL D. JONES

November 25, 2003

Charlie Yanez
Western Geophysical
10001 Richmond Drive
Houston, Texas 77042

C.M.R.R.R. 7003 1010 004 3693 1763

Re: Request to Disclose Seismic Data
Garza Energy Trust to Western Geophysical Permit dated September 8, 1994
807.71 Acres in W.D. Parchman Survey No. 883,
A-726 in Hidalgo County, Texas and A-926 in Starr County, Texas

Dear Mr. Yanez:

This firm represents Garza Energy Trust and this letter is in reference to the captioned Geophysical Permit. We last corresponded with you in April 2002 with regard to this permit.

Garza Energy Trust, as agent for the State of Texas General Land Office, has entered into an oil and gas lease concerning 176 acres of land out of a 532.74 acre tract known as Survey No. 883, Cert. No. 997, A-726, Hidalgo County, Texas; A-926, Starr County, Texas, W. D. Parchman Original Grantee with LMP Petroleum, Inc., 615 N. Upper Broadway, Suite 1500, Corpus Christi, Texas 78477-0183. Garza Energy Trust is enclosing as Exhibit A, a description and a plat showing the 176 acre, more or less, tract along with the two remaining tracts which comprise the 807.71 acres referenced above. The 176 acre tract is depicted with cross hatching and is depicted as blue in color on the attached plat.

In accordance with ¶ 9 of the September 8, 1994 Geophysical Permit, Garza Energy Trust authorizes Western Geophysical to disclose the 3D seismic data on the 176 acres only to LMP Petroleum, Inc. The 3D seismic data on the 274.97 acre fee tract is not to be disclosed. The 274.97 acre tract is depicted in yellow on the attached plat. The 3D seismic data on the 352 acre, more or less, tract to the west of the 176 acre tract is not to be disclosed. The 352 acre tract is depicted in green on the attached plat. Under the terms of ¶ 9, it is our understanding that you may also consent to the disclosure of this 3D seismic data to LMP Petroleum, Inc. now that GET has consented and provide the data to LMP.

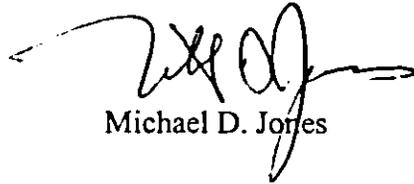


Page 2

November 25, 2003

A copy of this letter is being provided to counsel for LMP Petroleum, Inc. and the GLO. I am also enclosing a copy of a written authorization from Juan Lino Garza, Jr., Operations Manager of the Garza Energy Trust. You will receive this fully executed authorization separately in the mail. If you have any questions feel free to call me at (713) 652-4068.

Respectfully,

A handwritten signature in black ink, appearing to read "Michael D. Jones", with a long horizontal flourish extending to the right.

Michael D. Jones

cc: Juan Lino Garza, Jr.
Steven Ellis 7003 1010 0004 3693 1770
Robert Hatter 7003 1010 0004 3693 1787

000 01

GARZA ENERGY TRUST
200 Donaldson Avenue
San Antonio, TX 78201

November 25, 2003

Charlie Yanez
Western Geophysical
10001 Richmond Drive
Houston, Texas 77042

Re: Request to Disclose Seismic Data
Garza Energy Trust to Western Geophysical Permit dated September 8, 1994
807.71 Acres in W.D. Parchman Survey No. 883,
A-726 in Hidalgo County, Texas and A-926 in Starr County, Texas

Dear Mr. Yanez:

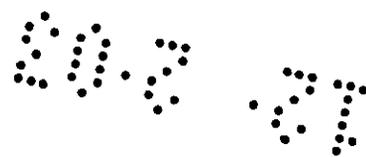
Garza Energy Trust, as agent for the State of Texas General Land Office, has entered into an oil and gas lease concerning 176 acres of land out of a 532.74 acre tract known as Survey No. 883, Cert. No. 997, A-726, Hidalgo County, Texas; A-926, Starr County, Texas, W. D. Parchman Original Grantee with LMP Petroleum, Inc., 615 N. Upper Broadway, Suite 1500, Corpus Christi, Texas 78477-0183.

In accordance with ¶ 9 of the September 8, 1994 Geophysical Permit, Garza Energy Trust authorizes Western Geophysical to disclose the 3D seismic data on the 176 acres only to LMP Petroleum, Inc. Under the terms of ¶ 9, it is our understanding that you may also consent to the disclosure of this 3D seismic data to LMP Petroleum, Inc. now that GET has consented and provide the data to LMP.

Respectfully,

15 |

Juan Lino Garza, Jr., Operations Manager
Garza Energy Trust



Description of Acreage

Tract 1A: Garza Energy Trust, Surface Owner and Agent for the State of Texas -
Drillsite Tract – All depths open

180.74 acres, more or less, being the 176 acres described in Release dated effective October 1, 1998, recorded in Hidalgo County File No. 751455; and the 4.74 acres released by Partial Release of Oil and Gas Lease dated March 9, 1989 from Greenbrier 74 Limited, et al. Both of these tracts are a part of the following base tract:

All of that certain 532.74 acre tract known as Survey No. 883, Cert. No. 997, A-726, Hidalgo County, Texas; A-926, Starr County, Texas, W. D. Parchman Original Grantee, described as follows:

BEGINNING at an iron rod in corner of fence line on the North line of Porcion No. 43, the Southeast corner of Survey No. 885, for the southwest corner hereof; THENCE, with the fence and East line of Survey No. 885, North 9° 29' East 1128.2 varas to a post in the South line of the Los Maguelles Grant, the Northeast corner of Survey No. 885, for the Northwest corner hereof;

THENCE, with the South line of the Los Maguelles Grant, South 81° 34' East at 1158.3 varas pass 9.4 varas North of a Mesquite MKD 1879 (very old marks), at 2145.9 varas pass a Mesquite MKD X (very old marks), at 2608.6 varas set pipe in fence for the Northwest corner of Survey No. 488 and the Northeast corner hereof; THENCE with fence and West line of Survey No. 488, South 9° 00' West 1162.3 varas to corner of fence, a corner of Survey No. 488 and the South east corner hereof; THENCE with fence and line of Survey No. 488, North 81° 21' West 1202.8 varas to a corner of fence, a corner of Survey No. 488 and the Northeast corner of Porcion No. 44,

THENCE, with fence and North line of Porcion No. 44, North 80° 22' West 1415.2 varas to the PLACE OF BEGINNING containing 532.74 acres of land more or less; AND

Tract 1B: Garza Energy Trust, Surface Owner and Agent for the State of Texas -
Deep rights below 100' below the stratigraphic equivalent of the base of the Vicksburg Formation found at 10,510' in the Zamora No. 2 located on this land.

352 acres limited to depths below 100' below the stratigraphic equivalent of the base of the Vicksburg Formation found at 10,510' in the Zamora No. 2 located on this land. The rights herein available under this tract were the deep rights released by Partial Release of Oil and Gas Lease dated March 9, 1989 by Greenbrier 74 Limited, et al. These deep rights are a part of the following base tract:

All of that certain 532.74 acre tract known as Survey No. 883, Cert. No. 997, A-726, Hidalgo County, Texas; A-926, Starr County, Texas, W. D. Parchman Original Grantee, described as follows:



BEGINNING at an iron rod in corner of fence line on the North line of Porcion No. 43, the Southeast corner of Survey No. 885, for the southwest corner hereof; THENCE, with the fence and East line of Survey No. 885, North 9 ° 29' East 1128.2 varas to a post in the South line of the Los Maguelles Grant, the Northeast corner of Survey No. 885, for the Northwest corner hereof;

THENCE, with the South line of the Los Maguelles Grant, South 81 34' East at 1158.3 varas pass 9.4 varas North of a Mesquite MKD 1879 (very old marks), at 2145.9 varas pass a Mesquite MKD X (very old marks), at 2608.6 varas set pipe in fence for the Northwest corner of Survey No. 488 and the Northeast corner hereof; THENCE with fence and West line of Survey No. 488, South 9° 00' West 1162.3 varas to corner of fence, a corner of Survey No. 488 and the South east corner hereof; THENCE with fence and line of Survey No. 488, North 81° 21' West 1202.8 varas to a corner of fence, a corner of Survey No. 488 and the Northeast corner of Porcion No. 44,

THENCE, with fence and North line of Porcion No. 44, North 80° 22' West 1415.2 varas to the PLACE OF BEGINNING containing 532.74 acres of land more or less; AND

Tract 2: Fee Land - Deep rights below 100' below the stratigraphic equivalent of the base of the lowest production zone found in the Zamora No. 1 located on this land.

274.97 acres, more or less, limited to depths below 100' below the stratigraphic equivalent of the base of the the lowest production zone found in the Zamora No. 1 located on this land, being described as a portion of the W. D. Parchman Survey No. 883, A-729, in Hidalgo and Starr Counties, Texas and a portion of the "Los Maguelles" Nicolasa Salinas Grant, Survey No. 893, A-411, Starr County, Texas, A-72, Hidalgo County, Texas, and more particularly by metes and bounds as follows:

BEGINNING at the Northwest corner of Porcion 42, Ancient Jurisdiction of Reynosa, Starr County, Texas;

THENCE S80° 22' E, 4632.5 feet to a point for corner;

THENCE N 9° 29' E, 3134.0 feet to a point for corner being the Southwest corner of said 274.97 acre tract;

THENCE S81° 34' E, 7246.0 feet to a point for corner being the Southeast corner of said 274.97 acre tract;

THENCE N 9° 00' E, 1642.0 feet to a point for corner being the Northeast corner of said 274.97 acre tract;

THENCE N81° 22' W, 7232.0 feet to a point for corner being the Northwest corner of said 274.97 acre tract;

THENCE S9° 29' W, 1667.5 feet to the point of BEGINNING containing 274.97 acres of land, more or less, being part of the land described in that certain Warranty Deed dated August 4, 1939, from Tom Vessels, Jr., et ux., as Grantor, to Guadalupe Garza Zamora, as Grantee, recorded in Volume 118, Page 178-79 of the deed Records of Starr County, Texas.



18.

File No. MF 104158

Letter

Date Filed: 12/2/03

Jerry E. Patterson, Commissioner

By [Signature]

4
2

Steven W. Ellis, P.C.

BOARD CERTIFIED
OIL, GAS AND MINERAL LAW
TEXAS BOARD OF LEGAL SPECIALIZATION

ATTORNEYS AT LAW
615 NORTH UPPER BROADWAY SUITE 1616
CORPUS CHRISTI, TEXAS 78477

TELEPHONE: (361) 884-9550
FAX: (361) 881-9777

June 14, 2004

Mr. Michael D. Jones
Kilburn, Jones, Gill & Campbell, L.L.P.
6363 Woodway, Suite 1100
Houston, Texas 77057

BY FAX

RE: Garza Energy Trust
176.0 Acres of land, W.D. Parchman Survey 883, A-926
Hidalgo County, Texas

Dear Michael:

I have not heard from you since my last correspondence. I have spoken to Drew Ried at the GLO and I know he has indicated the State's strong preference that your client release the seismic data so that the State's minerals can be developed in a diligent manner. My client stands ready to acquire the lease and perform its obligations if the Garza Mineral Trust will agree to a lease and release of the data without unreasonable conditions.

Further, your client is already in possession of LMP's funds which were released without authorization. If we are unable to acquire the lease and necessary data, LMP has instructed me to consider what remedies they may have to recover the funds and for breach of fiduciary duty in disbursing the funds without authorization from LMP.

To LMP, it would be by far preferable to avoid these issues, and instead acquire the oil and gas lease they seek on the captioned acreage. Please explain to your clients that it is in the best interest of all parties to consummate the lease, and proceed with possible development of this acreage, which will benefit all parties.

Please let me know your client's response soon.

Very truly yours,

STEVEN W. ELLIS, P.C.


Steven W. Ellis

Mr. Michael D. Jones

June 14, 2004

Page 2

xc: Mr. Jim Gresham
LMP Petroleum, Inc.

Mr. Drew Reid
General Land Office

Mr. Matt Edling
General Land Office

19.

File No. MF 10458

Letter

Date Filed: 6/14/04

Jerry E. Patterson, Commissioner

By [Signature]

KILBURN, JONES, GILL & CAMPBELL, L.L.P.

ATTORNEYS AT LAW
6363 WOODWAY, SUITE 1100
HOUSTON, TEXAS 77057
TELEPHONE (713) 652-4068
FACSIMILE (713) 651-0716

Kerry A. Kilburn *
Michael D. Jones **

* Also licensed to practice in Louisiana
† Board Certified - Civil Trial Law
‡ Board Certified - Oil, Gas and Mineral Law
§ Texas Board of Legal Specialization

Lee S. Gill **
K. Ray Campbell †

MICHAEL D. JONES
E-MAIL: mjones@kjgc.com

June 14, 2004

361-881-9777 (facsimile)
Steven W. Ellis, Esq.
Steven W. Ellis, P.C.
615 North Upper Broadway, Suite 1616
Corpus Christi, TX 78477

Re: Oil and Gas Lease on 176 acres out of Survey 883, Cert. No. 997, A-726, Hidalgo County, TX A-926, W. D. Parchman Original Grantee, Starr County, TX

Dear Steve:

On March 2, 2004, Garza Energy Trust ("GET") agreed to authorize Western Geophysical to provide LMP with the 3D seismic data from lands surrounding the 176 acres. This "halo" data is partially derived from GET fee lands, i.e. the 274.97 acre tract contiguous along the north boundary of the 176 acre tract.

Thus, part of the "halo" data is not GLO property. The GET mineral fee 3D data comes at a price. That price is the agreement to future lease terms on the 274.97 acre tract of land. Those terms, *inter alia*, included a \$300 per acre bonus payment and a 3/8ths royalty.

Since your clients had repeatedly indicated their non-interest in any lands outside of the 176 acres, the "price" for this "halo" information cost your client nothing. LMP replied to GET's March 2, 2004 letter on April 27, 2004. At that time, your clients realized the error of their strategy. LMP may prove the productivity of deeper formations in this part of Hidalgo County and then be unprotected because of their refusal to lease the 274.97 acre tract and the deep rights under the 532.74 acre tract at the same time with the 176 acres. Both the 274.97 acre tract and the deep rights under the 532.74 acre tract have, at all times relevant hereto, been offered for lease by GET. GET is the agent for the GLO as to the deep rights under the 532.74 acre tract of land.

Once again, in the spirit of compromise, GET is willing to remove conditions (1) and (2) from its March 2, 2004 letter, a copy of which is attached, as to the 532.74 acre tract of land, but will not remove these conditions as to the GET fee land. LMP's invocation of statutory duties to the GLO, while facially compelling, lacks substance. There is no authority or precedent which requires an Owner of the Soil to provide a prospective lessee of State lands with anything of value from fee lands adjacent to the State lands to facilitate development of the State lands. All of the authority and

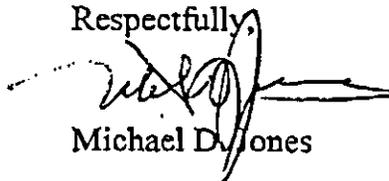
Page 2

June 14, 2004

precedent is to the effect of preventing the Owner of the Soil from exacting a benefit from leasing State lands which is not also shared with the GLO. GET has fastidiously protected the GLO in lease negotiations, has always obtained the best agreement within its powers, and has always shared equally with the GLO.

You have contacted the GLO and complained to the GLO concerning this matter. Mr. Reed has called me to intervene on LMP's behalf. However, Mr. Reed has also agreed with me that the 3D seismic data underlying the GET fee lands does not belong to the GLO nor must it be included by GET free of charge in any lease of the 176 acres. It is in GET's interest to get the well drilled which LMP has suggested. The condition which GET has placed upon release of the 3D data on the 274.97 GET fee acres to the north costs LMP nothing based upon LMP's prior position when GET offered the 274.97 acres for lease. It is time for LMP to get the 3D seismic data from Western Geophysical, make a decision, stake the well and drill the well.

Respectfully,



Michael D. Jones

cc Juan Lino Garza, Jr.
Juan Lino Garza, Sr.
Drew Reed
J. David Hall

KILBURN, JONES, GILL & CAMPBELL, L.L.P.

ATTORNEYS AT LAW
6363 Woodway, Suite 1100
Houston, Texas 77057
Telephone (713) 652-4068
Fax (713) 652-4078 or (713) 651-0716

Kerry A. Kilburn *
Michael D. Jones **
Lee S. Gill **
K. Ray Campbell *

* Also Licensed to Practice in Louisiana
† Board Certified - Civil Trial Law
‡ Board Certified - Oil, Gas and Mineral Law
Texas Board of Legal Specialization

March 2, 2004

361-881-9777 (facsimile)
Steven W. Ellis, Esq.
Steven W. Ellis, P.C.
615 North Upper Broadway, Suite 1616
Corpus Christi, TX 78477

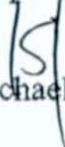
Re: Oil and Gas Lease on 176 acres out of Survey 883, Cert. No. 997, A-725, Hidalgo County, TX A-926, W. D. Parchman Original Grantee, Starr County, TX

Dear Steve:

As we discussed on the phone on February 20, 2004, Garza Energy Trust (GET) will grant permission to LMP to obtain the 3-D seismic data on the remaining GET controlled acreage to the north and west of the 176 acre tract on the following conditions: (1) if LMP elects, after seismic study and review, to drill a well on the 274.97 acre tract to the north of the 176 acre tract then LMP will enter into an oil and gas lease providing for a \$300 per acre bonus, 2 year primary term, 3/8ths (.375) royalty and delay rental of \$50 per acre per year; (2) if LMP elects, after seismic study and review, to drill a well on the 532.74 acre tract to the west of the 176 acre tract then LMP will enter into an approved GLO oil and gas lease providing for a \$300 per acre bonus, 2 year primary term, 3/8ths (.375) royalty and delay rental of \$50 per acre per year; and (3) LMP will hold the disclosed 3-D seismic information confidential and will not disclose the 3-D seismic information or LMP's interpretations to any third party except third parties necessary to get the well drilled who also agree to hold the 3-D information and interpretations confidential.

GET will agree to either substitute a new cover page for the Oil and Gas Lease already executed to reflect a new execution date of February 14, 2004 or execute a new Oil and Gas Lease identical to the existing Oil and Gas Lease as modified by this letter with an execution date of February 14, 2004. If you have any questions please write or call.

Respectfully,


Michael D. Jones

cc Juan Lino Garza, Jr.
Juan Lino Garza, Sr.

File No. MF 104158 20.
Letter
Date Filed: 6/14/04
Jerry E. Patterson, Commissioner
By [Signature]

Steven W. Ellis, P.C.

BOARD CERTIFIED
OIL, GAS AND MINERAL LAW
TEXAS BOARD OF LEGAL SPECIALIZATION

ATTORNEYS AT LAW
515 NORTH UPPER BROADWAY SUITE 1818
CORPUS CHRISTI, TEXAS 78477

TELEPHONE: (361) 884-9550
FAX: (361) 881-9777

June 18, 2004

Mr. Michael D. Jones
Kilburn, Jones, Gill & Campbell, L.L.P.
6363 Woodway, Suite 1100
Houston, Texas 77057

BY FAX

RE: Garza Energy Trust
176.0 Acres of land, W.D. Parchman Survey 883, A-926
Hidalgo County, Texas

Dear Michael:

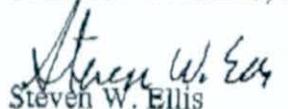
My client has considered your last letter of June 14, 2004, and in the interest of bringing this dialogue to a close, they will accept the terms you proposed in that letter. LMP will thus acquire the 176 acre lease as proposed, and will acquire the seismic data covering the 176 acre lease, and the adjoining 532.74 acre and 274.97 acre tracts.

As to the 274.97 acre tract only, LMP will agree to condition (1) of your March 3, 2004 letter stipulating the bonus and royalty amounts if LMP in the future desires to obtain a lease on that tract. LMP does not accept condition (2), which relates only to the 532.74 acre tract. Although the March 3, 2004 letter you sent to me is different from the March 2, 2004 letter attached to your latest fax, the differences do not appear to be substantive with respect to condition (1).

If this agreement is satisfactory, please indicate by signing below, and returning a signed copy of this letter to me by fax. I will prepare a revised oil and gas lease to reflect the new date, and request that you prepare and fax for my review, a revised letter to Charlie Yanez at Western Geophysical authorizing them to release the data on these tracts.

Very truly yours,

STEVEN W. ELLIS, P.C.


Steven W. Ellis

Mr. Michael D. Jones
June 18, 2004
Page 2

Agreed and Accepted

Michael D. Jones
Attorney for Garza Energy Trust

xc: Mr. Jim Gresham
LMP Petroleum, Inc.

Mr. Drew Reid
General Land Office

21.

File No. M F 104158

Letter

Date Filed: 6/18/04

Jerry E. Patterson, Commissioner

By [Signature]

Steven W. Ellis, P.C.

ATTORNEYS AT LAW
615 NORTH UPPER BROADWAY SUITE 1616
CORPUS CHRISTI, TEXAS 78477

BOARD CERTIFIED
OIL, GAS AND MINERAL LAW
TEXAS BOARD OF LEGAL SPECIALIZATION

RECEIVED

04 JUL 14 2004
TELEPHONE: (361) 884-9550
FAX: (361) 881-9777

ENERGY SERVICES

July 14, 2004

Mr. Michael D. Jones
Kilburn, Jones, Gill & Campbell, L.L.P.
6363 Woodway, Suite 1100
Houston, Texas 77057

BY FEDERAL EXPRESS

RE: Garza Energy Trust
176.0 Acres of land, W.D. Parchman Survey 883, A-926
Hidalgo County, Texas

Dear Michael:

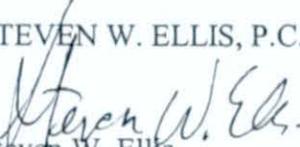
In response to your letter of June 18, 2004, enclosed is an updated form of Oil and Gas Lease covering the above referenced lands. As we discussed, my client will accept this lease from Garza Energy Trust provided GET sign and return to LMP a letter addressed to Western Geophysical in the form attached to your June 18, 2004 letter, consenting to the sale of seismic data as therein provided.

Once GET has signed the lease and the letter addressed to Western Geophysical, please return both executed originals to my office, and we will file the oil and gas lease for record in Hidalgo County, Texas, and forward it to the General Land Office.

Thank you for your assistance in this matter.

Very truly yours,

STEVEN W. ELLIS, P.C.


Steven W. Ellis

xc: Mr. Jim Gresham
LMP Petroleum, Inc.

40672

Mr. Michael D. Jones
July 14, 2004
Page 2

Mr. Drew Reid
General Land Office

40-072

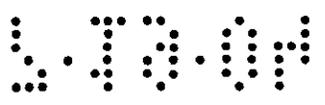
File No. MF 10458 22.

Patterson

Date Filed: 7/19/04

Jerry E. Patterson, Commissioner

By *[Signature]*



From: LMP Exploration Holdings, LP

Vendor Code

Check Date

Check Amount

Check Number

To: Texas General Land Office

TEX007

09/30/04

\$26,400.00

300003

| Reference | Date | Description | Amount |
|-----------|----------|---|---|
| 1389 | 09/27/04 | TEX092704 Lease bonus payment Garza Energy Trust 1994 Lease Jeffress Prospect, Hidalgo Co, TX <i>attn: Drew Reid</i> 404 01 | 26,400.00 26,400.00 35005100 RECEIVED OCT 12 12 19 PM 2:19 |

From: LMP Exploration Holdings, LP

Vendor Code

Check Date

Check Amount

Check Number

To: Texas General Land Office

TEX007

09/30/04

\$125.00

300002

| Reference | Date | Description | Amount |
|-----------|----------|--|--------|
| 1388 | 09/27/04 | TEX092704 Filing & processing fees Garza Energy Trust 1994 Lease Jeffress Prospect, Hidalgo Co, TX | 125.00 |

35005099

04 OCT -4 PM 2:19

RECEIVED

09.27.04



LMP

PETROLEUM, INC.

Wells Fargo Tower, Suite 1770
615 North Upper Broadway
Corpus Christi, Texas 78477
Phone: (361) 883-0923
Fax: (361) 883-7102

October 1, 2004

Texas General Land Office
1700 N. Congress Ave., Suite 600
Austin, TX 78701-1495

FedEx NO.7921-0343-8350

Attn: Drew Reid

RE: State of Texas Oil & Gas Lease - Garza Energy Trust of 1994
176.0 Acres, Survey No. 883 A-726 & A-926
Jeffress Prospect, Hidalgo and Starr Counties, TX

Gentlemen:

Attached herewith is a certified copy of Oil and Gas Lease dated April 1, 2004, between the State of Texas, acting by and through its agent, Juan Lino Garza and Guadalupe Garza, Jr., as Trustees of the Garza Energy Trust of 1994, as Lessor and LMP Petroleum, Inc., as Lessee, covering an undivided mineral interest in 176.00 acres of land in Hidalgo and Starr Counties, Texas. Also, enclosed is LMP Exploration Holdings, LP check No. 300003 in the amount of \$26,400 payable to the State of Texas for the lease bonus and LMP's check No. 300002 for \$125 for the State's filing and processing fees.

Please acknowledge receipt and acceptance of the attached checks in the space provided below and **return one (1) copy of this letter to the undersigned in the enclosed envelope.**

If you have any questions, please do not hesitate to call me at 361-883-0923.

Sincerely,

LMP PETROLEUM, INC.


Michael S. Pedrotti
President

RECEIVED AND ACCEPTED this _____ day of _____, 2004.

Drew Reid for the State of Texas



23.

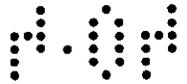
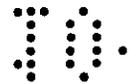
File No. MF 104158

Arthur Evans, Jr

Date Filed: 10/4/04

Jerry E. Patterson, Commissioner

By *[Signature]*



MF-104158

1381542

The State of Texas



Austin, Texas

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 1st day of April, 2004, between the State of Texas, acting by and through its agent, Juan Lino Garza and Guadalupe Garza, Jr., as Trustees (hereinafter "Trustees") of the Garza Energy Trust of 1994 of 201 Donaldson Avenue, San Antonio, Texas 78201, said agent herein referred to as the owner of the soil (whether one or more), and LMP Petroleum, Inc. of 615 North Upper Broadway, Suite 1500, Corpus Christi, Texas 78477-0183, hereinafter called Lessee.

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

176 acres of land out of a 532.74 acre tract known as Survey No. 883, Cert. No. 997, A-726, Hidalgo County, Texas; A-926, Starr County, Texas, W.D. Parchman Original Grantee, described as follows:

THENCE, with the fence and East line of Survey No. 885, North 9° 29' East 1128.2 varas to a post in the South line of the Los Maguelles Grant, the Northeast corner of Survey No. 885, for the Northwest corner hereof;

THENCE, with the South line of the Los Maguelles Grant, South 81° 34' East at 1158.3 varas pass 9.4 varas North of a Mesquite MKD 1879 (very old marks), at 2145.9 varas pass a Mesquite MKD X (ver old marks), at 2608.6 varas set pipe in fence for the Northwest corner of Survey No. 488 and the Northeast corner hereof;

THENCE with fence and West line of Survey No. 488, South 9° 00' West 1162.3 varas to corner of fence, a corner of Survey No. 488 and the South east corner hereof;



DATE 9-23-04
A true copy I certify
JUAN P. SALINAS, III
County Clerk, Hidalgo County, Texas
By [Signature] Deputy

404 07

THENCE with fence and line of Survey No. 488, North 81° 21' West 1202.8 varas to a corner of fence, a corner of Survey No. 488 and the Northeast corner of Porcion No. 44;

THENCE with fence and North line of Porcion No. 44, North 80° 22' West 1415.2 varas to the PLACE OF BEGINNING containing 532.74 acres of land more or less;

BUT INSOFAR AND ONLY INSOFAR as said tract covers the most easterly 176 acres of land, more or less. The North, East and South boundary of said 176 tract being the North, East and South boundary of said 532.74 acre tract, with the West boundary of said 176 acre being parallel and a sufficient distance West of the East boundary as to exactly enclose 176 acres of land, more or less.

The 176 acres described above is the same 176 acre tract described in Release of Oil and Gas Lease dated effective October 1, 1998, recorded in the Hidalgo County, Texas records at File No. 751455.

containing 176 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Twenty-six Thousand Four Hundred
Dollars (\$26,400.00)

To the State of Texas: Twenty-six Thousand Four Hundred
Dollars (\$26,400.00)

Total bonus consideration: Fifty-two Thousand and Eight Hundred
Dollars (\$52,800.00)

The total bonus consideration paid represents a bonus of Three hundred Dollars (\$300.00) per acre, on 176 net acres.

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

3. DELAY RENTALS. If no well is commenced on the leased premises on or before one (1) year from this date, this lease shall terminate, unless on or before such anniversary date Lessee shall pay or tender to the owner of the soil or to his credit in the Texas State Bank Bank, at P. O. Box 4794, McAllen, Texas 78502, or its successors (which shall continue as the depository regardless of changes in the ownership of said land), the amount specified below; in addition, Lessee shall pay or tender to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATE OF TEXAS, AT AUSTIN, TEXAS, a like sum on or before said date. Payments under this paragraph shall operate as a rental and shall cover the privilege of deferring the commencement of a well for one (1) year from said date. Payments under this paragraph shall be in the following amounts:

To the owner of the soil: Twenty-two hundred
Dollars (\$2,200.00)



DATE 9-23-04
A true copy I certify
JUAN D. SALINAS, III
County Clerk, Hidalgo County, Texas
By [Signature] Deputy



To the State of Texas: Twenty-two hundred
Dollars (\$2,200.00)

Total Delay Rental: Forty-four hundred
Dollars (\$4,400.00)

In a like manner and upon like payments or tenders annually, the commencement of a well may be further deferred for successive periods of one (1) year each during the primary term. All payments or tenders of rental to the owner of the soil may be made by check or sight draft of Lessee, or any assignee of this lease, and may be delivered on or before the rental paying date. If the bank designated in this paragraph (or its successor bank) should cease to exist, suspend business, liquidate, fail or be succeeded by another bank, or for any reason fail or refuse to accept rental, Lessee shall not be held in default for failure to make such payments or tenders of rental until thirty (30) days after the owner of the soil shall deliver to Lessee a proper recordable instrument naming another bank as agent to receive such payments or tenders.

4. PRODUCTION ROYALTIES. Upon production of oil and/or gas, Lessee agrees to pay or cause to be paid one-half (1/2) of the royalty provided for in this lease to the Commissioner of the General Land Office of the State of Texas, at Austin, Texas, and one-half (1/2) of such royalty to the owner of the soil:

(A) OIL. Royalty payable on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well and also as all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, shall be 1/4th part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be determined by 1) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity in the general area where produced and when run, or 2) the highest market price thereof offered or paid in the general area where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is the greater. Lessee agrees that before any gas produced from the leased premises is sold, used or processed in a plant, it will be run free of cost to the royalty owners through an adequate oil and gas separator of conventional type, or other equipment at least as efficient, so that all liquid hydrocarbons recoverable from the gas by such means will be recovered. The requirement that such gas be run through a separator or other equipment may be waived, in writing, by the royalty owners upon such terms and conditions as they prescribe.

(B) NON PROCESSED GAS. Royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substances not defined as oil in subparagraph (A) above, produced from any well on said land (except as provided herein with respect to gas processed in a plant for the extraction of gasoline, liquid hydrocarbons or other products) shall be 1/4th part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be based on the highest market price paid or offered for gas of comparable quality in the general area where produced and when run, or the gross price paid or offered to the producer, whichever is the greater; provided that the maximum pressure base in measuring the gas under this lease shall not at any time exceed 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to tests made by the Balance Method or by the most approved method of testing being used by the industry at the time of testing.

(C) PROCESSED GAS. Royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbons shall be 1/4th part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office. All royalties due herein shall be based on one hundred percent (100%) of the total plant production of residue gas attributable to gas produced from this lease, and on fifty percent (50%) , or that percent accruing to Lessee, whichever is the greater, of the total plant production of liquid hydrocarbons attributable to the gas produced from this lease; provided that if liquid hydrocarbons are recovered from gas processed in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the percentage applicable to liquid hydrocarbons shall be fifty percent (50%) or the highest percent accruing to a third party processing gas through such plant under a processing agreement negotiated at arm's length (or if there is no such third party, the highest percent then being specified in processing agreements or contracts in the industry), whichever is the greater. The respective royalties on residue gas and on liquid hydrocarbons shall be determined by 1) the highest market price paid or offered for any gas (or liquid hydrocarbons) of comparable quality in the general area, or 2) the gross price paid or offered for such residue gas (or the weighted average gross selling price for the respective grades of liquid hydrocarbons), whichever is the greater. In no event, however, shall the royalties payable under this paragraph be less than the royalties which would have been due had the gas not been processed.

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

5. MINIMUM ROYALTY. During any year after the expiration of the primary term of this lease, if this lease is maintained by production, the royalties paid under this lease in no event shall be less than an amount equal to the total annual delay rental herein



DATE 9-23-04
A true copy I certify
JUAN D. SALINAS, III
County Clerk, Hidalgo County, Texas
[Signature] Deputy



provided; otherwise, there shall be due and payable on or before the last day of the month succeeding the anniversary date of this lease a sum equal to the total annual rental less the amount of royalties paid during the preceding year. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre.

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

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

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

9. ROYALTY PAYMENTS AND REPORTS. All royalties not taken in kind shall be paid to the Commissioner of the General Land Office at Austin, Texas, in the following manner:

Payment of royalty on production of oil and gas shall be as provided in the rules set forth in the Texas Register. Rules currently provide that royalty on oil is due and must be received in the General Land Office on or before the 5th day of the second month succeeding the month of production, and royalty on gas is due and must be received in the General Land Office on or before the 15th day of the second month succeeding the month of production, accompanied by the affidavit of the owner, manager or other authorized agent, completed in the form and manner prescribed by the General Land Office and showing the gross amount and disposition of all oil and gas produced and the market value of the oil and gas, together with a copy of all documents, records or reports confirming the gross production, disposition and market value including gas meter readings, pipeline receipts, gas line receipts and other checks or memoranda of amount produced and put into pipelines, tanks, or pools and gas lines or gas storage, and any other reports or records which the General Land Office may require to verify the gross production, disposition and market value. In all cases the authority of a manager or agent to act for the Lessee herein must be filed in the General Land Office. Each royalty payment shall be accompanied by a check stub, schedule, summary or other remittance advice showing by the assigned General Land Office lease number the amount of royalty being paid on each lease. If Lessee pays his royalty on or before thirty (30) days after the royalty payment was due, then Lessee owes a penalty of 5% on the royalty or \$25.00, whichever is greater. A royalty payment which is over thirty (30) days late shall accrue a penalty of 10% of the royalty due or \$25.00 whichever is greater. In addition to a penalty, royalties shall accrue interest at a rate of 12% per year; such interest will begin to accrue when the royalty is sixty (60) days overdue. Affidavits and supporting documents which are not filed when due shall incur a penalty in an amount set by the General Land Office administrative rule which is effective on the date when the affidavits or supporting documents were due. The Lessee shall bear all responsibility for paying or causing royalties to be paid as prescribed by the due date provided herein. Payment of the delinquency penalty shall in no way operate to prohibit the State's right of forfeiture as provided by law nor act to postpone the date on which royalties were originally due. The above penalty provisions shall not apply in cases of title dispute as to the State's portion of the royalty or to that portion of the royalty in dispute as to fair market value.

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

(B) PERMITS, DRILLING RECORDS. Written notice of all operations on this lease shall be submitted to the Commissioner of the General Land Office by Lessee or operator five (5) days before spud date, workover, re-entry, temporary abandonment or plug and abandonment of any well or wells. Such written notice to the General Land Office shall include copies of Railroad Commission forms for application to drill. Copies of well tests, completion reports and plugging reports shall be supplied to the General Land Office at the time they are filed with the Texas Railroad Commission. All applications, permits, reports or other filings that reference this lease or any specific well on the leased premises and that are submitted to the Texas Railroad Commission or any other governmental agency shall include the word "State" in the title. Additionally, in accordance with Railroad Commission rules, any signage on the leased premises for the purpose of identifying wells, tank batteries or other associated improvements to the land must also include the word "State." Lessee shall supply the General Land Office with any records, memoranda, accounts, reports, cuttings and cores, or other information relative to the operation of the above-described premises, which may be requested by the General Land Office, in addition to those herein expressly provided for. Lessee shall have an electrical and/or radioactivity survey made on the bore-hole section, from the base



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of the surface casing to the total depth of well, of all wells drilled on the above described premises and shall transmit a true copy of the log of each survey on each well to the General Land Office within fifteen (15) days after the making of said survey.

(C) **PENALTIES.** Lessee shall incur a penalty whenever reports, documents or other materials are not filed in the General Land Office when due. The penalty for late filing shall be set by the General Land Office administrative rule which is effective on the date when the materials were due in the General Land Office.

11. DRY HOLE/CESSATION OF PRODUCTION DURING PRIMARY TERM. If, during the primary term hereof and prior to discovery and production of oil or gas on said land, Lessee should drill a dry hole or holes thereon, or if during the primary term hereof and after the discovery and actual production of oil or gas from the leased premises such production thereof should cease from any cause, this lease shall not terminate if on or before the expiration of sixty (60) days from date of completion of said dry hole or cessation of production Lessee commences additional drilling or reworking operations thereon, or pays or tenders the next annual delay rental in the same manner as provided in this lease. If, during the last year of the primary term or within sixty (60) days prior thereto, a dry hole be completed and abandoned, or the production of oil or gas should cease for any cause, Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term; and if Lessee has not resumed production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking operations pursuant to Paragraph 13, using the expiration of the primary term as the date of cessation of production under Paragraph 13. Should the first well or any subsequent well drilled on the above described land be completed as a shut-in oil or gas well within the primary term hereof, Lessee may resume payment of the annual rental in the same manner as provided herein on or before the rental paying date following the expiration of sixty (60) days from the date of completion of such shut-in oil or gas well and upon the failure to make such payment, this lease shall ipso facto terminate. If at the expiration of the primary term or any time thereafter a shut-in oil or gas well is located on the leased premises, payments may be made in accordance with the shut-in provisions hereof.

12. DRILLING AND REWORKING AT EXPIRATION OF PRIMARY TERM. If, at the expiration of the primary term, neither oil nor gas is being produced on said land, but Lessee is then engaged in drilling or reworking operations thereon, this lease shall remain in force so long as operations on said well or for drilling or reworking of any additional wells are prosecuted in good faith and in workmanlike manner without interruptions totaling more than sixty (60) days during any one such operation, and if they result in the production of oil and/or gas, so long thereafter as oil and/or gas is produced in paying quantities from said land, or payment of shut-in oil or gas well royalties or compensatory royalties is made as provided in this lease.

13. CESSATION, DRILLING, AND REWORKING. If, after the expiration of the primary term, production of oil or gas from the leased premises, after once obtained, should cease from any cause, this lease shall not terminate if Lessee commences additional drilling or reworking operations within sixty (60) days after such cessation, and this lease shall remain in full force and effect for so long as such operations continue in good faith and in workmanlike manner without interruptions totaling more than sixty (60) days. If such drilling or reworking operations result in the production of oil or gas, the lease shall remain in full force and effect for so long as oil or gas is produced from the leased premises in paying quantities or payment of shut-in oil or gas well royalties or payment of compensatory royalties is made as provided herein or as provided by law. If the drilling or reworking operations result in the completion of a well as a dry hole, the lease will not terminate if the Lessee commences additional drilling or reworking operations within sixty (60) days after the completion of the well as a dry hole, and this lease shall remain in effect so long as Lessee continues drilling or reworking operations in good-faith and in a workmanlike manner without interruptions totaling more than sixty (60) days. Lessee shall give written notice to the General Land Office within thirty (30) days of any cessation of production.

14. SHUT-IN ROYALTIES. For purposes of this paragraph, "well" means any well that has been assigned a well number by the state agency having jurisdiction over the production of oil and gas. If, at any time after the expiration of the primary term of a lease that, until being shut in, was being maintained in force and effect, a well capable of producing oil or gas in paying quantities is located on the leased premises, but oil or gas is not being produced for lack of suitable production facilities or lack of a suitable market, then Lessee may pay as a shut-in oil or gas royalty an amount equal to double the annual rental provided in the lease, but not less than \$1,200 a year for each well capable of producing oil or gas in paying quantities. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre. To be effective, each initial shut-in oil or gas royalty must be paid on or before: (1) the expiration of the primary term, (2) 60 days after the Lessee ceases to produce oil or gas from the leased premises, or (3) 60 days after Lessee completes a drilling or reworking operation in accordance with the lease provisions; whichever date is latest. Such payment shall be made one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil. If the shut-in oil or gas royalty is paid, the lease shall be considered to be a producing lease and the payment shall extend the term of the lease for a period of one year from the end of the primary term, or from the first day of the month following the month in which production ceased, and, after that, if no suitable production facilities or suitable market for the oil or gas exists, Lessee may extend the lease for four more successive periods of one (1) year by paying the same amount each year on or before the expiration of each shut-in year.

15. COMPENSATORY ROYALTIES. If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is sold and delivered in paying quantities from a well located within one thousand (1,000) feet of the leased premises and completed in the same producing reservoir, or in any case in which drainage is occurring, the right to continue to maintain the lease by paying the shut-in oil or gas royalty shall cease, but the lease shall remain effective for the remainder of the year for which the royalty has been paid. The Lessee may maintain the lease for four more successive years by Lessee paying compensatory royalty at the royalty rate provided in the lease of the market value of production from the well causing the drainage or which is completed in the same producing reservoir and within one thousand (1,000) feet of the leased premises. The compensatory royalty is to be paid monthly, one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil, beginning on or before the last day of the month following the month in which the oil or gas is produced from the well causing the drainage or that is completed in the



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same producing reservoir and located within one thousand (1,000) feet of the leased premises. If the compensatory royalty paid in any 12-month period is an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within thirty (30) days from the end of the 12-month period. Compensatory royalty payments which are not timely paid will accrue penalty and interest in accordance with Paragraph 9 of this lease. None of these provisions will relieve Lessee of the obligation of reasonable development nor the obligation to drill offset wells as provided in Texas Natural Resources Code 52.173; however, at the determination of the Commissioner, and with the Commissioner's written approval, the payment of compensatory royalties can satisfy the obligation to drill offset wells.

16. RETAINED ACREAGE. Notwithstanding any provision of this lease to the contrary, after a well producing or capable of producing oil or gas has been completed on the leased premises, Lessee shall exercise the diligence of a reasonably prudent operator in drilling such additional well or wells as may be reasonably necessary for the proper development of the leased premises and in marketing the production thereon.

(A) VERTICAL. In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall then terminate as to all of the leased premises, EXCEPT (1) 40 acres surrounding each oil well capable of producing in paying quantities and 320 acres surrounding each gas well capable of producing in paying quantities (including a shut-in oil or gas well as provided in Paragraph 14 hereof), or a well upon which Lessee is then engaged in continuous drilling or reworking operations, or (2) the number of acres included in a producing pooled unit pursuant to Texas Natural Resources Code 52.151-52.154, or (3) such greater or lesser number of acres as may then be allocated for production purposes to a proration unit for each such producing well under the rules and regulations of the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction. If at any time after the effective date of the partial termination provisions hereof, the applicable field rules are changed or the well or wells located thereon are reclassified so that less acreage is thereafter allocated to said well or wells for production purposes, this lease shall thereupon terminate as to all acreage not thereafter allocated to said well or wells for production purposes. Notwithstanding the termination of this lease as to a portion of the lands covered hereby, Lessee shall nevertheless continue to have the right of ingress to and egress from the lands still subject to this lease for all purposes described in Paragraph 1 hereof, together with easements and rights-of-way for existing roads, existing pipelines and other existing facilities on, over and across all the lands described in Paragraph 1 hereof ("the retained lands"), for access to and from the retained lands and for the gathering or transportation of oil, gas and other minerals produced from the retained lands.

(B) HORIZONTAL. In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall further terminate as to all depths below 100 feet below the total depth drilled (hereinafter "deeper depths") in each well located on acreage retained in Paragraph 16 (A) above, unless on or before two (2) years after the primary or extended term Lessee pays an amount equal to one-half (1/2) of the bonus originally paid as consideration for this lease (as specified on page 1 hereof). If such amount is paid, this lease shall be in force and effect as to such deeper depths, and said termination shall be delayed for an additional period of two (2) years and so long thereafter as oil or gas is produced in paying quantities from such deeper depths covered by this lease.

(C) IDENTIFICATION AND FILING. The surface acreage retained hereunder as to each well shall, as nearly as practical, be in the form of a square with the well located in the center thereof, or such other shape as may be approved by the Commissioner of the General Land Office. Within thirty (30) days after partial termination of this lease as provided herein, Lessee shall execute and record a release or releases containing a satisfactory legal description of the acreage and/or depths not retained hereunder. The recorded release, or a certified copy of same, shall be filed in the General Land Office, accompanied by the filing fee prescribed by the General Land Office rules in effect on the date the release is filed. If Lessee fails or refuses to execute and record such release or releases within ninety (90) days after being requested to do so by the General Land Office, then the Commissioner at his sole discretion may designate by written instrument the acreage and/or depths to be released hereunder and record such instrument at Lessee's expense in the county or counties where the lease is located and in the official records of the General Land Office and such designation shall be binding upon Lessee for all purposes.

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

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



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operations or production of oil or gas.

19. WARRANTY CLAUSE. The owner of the soil warrants and agrees to defend title to the leased premises. If the owner of the soil defaults in payments owed on the leased premises, then Lessee may redeem the rights of the owner of the soil in the leased premises by paying any mortgage, taxes or other liens on the leased premises. If Lessee makes payments on behalf of the owner of the soil under this paragraph, Lessee may recover the cost of these payments from the rental and royalties due the owner of the soil.

20. (A) PROPORTIONATE REDUCTION CLAUSE. If the owner of the soil owns less than the entire undivided surface estate in the above described land, whether or not Lessee's interest is specified herein, then the royalties and rental herein provided to be paid to the owner of the soil shall be paid to him in the proportion which his interest bears to the entire undivided surface estate and the royalties and rental herein provided to be paid to the Commissioner of the General Land Office of the State of Texas shall be likewise proportionately reduced. However, before Lessee adjusts the royalty or rental due to the Commissioner of the General Land Office, Lessee or his authorized representative must submit to the Commissioner of the General Land Office a written statement which explains the discrepancy between the interest purportedly leased under this lease and the actual interest owned by the owner of the soil. The Commissioner of the General Land Office shall be paid the value of the whole production allocable to any undivided interest not covered by a lease, less the proportionate development and production cost allocable to such undivided interest. However, in no event shall the Commissioner of the General Land Office receive as a royalty on the gross production allocable to the undivided interest not leased an amount less than the value of one-sixteenth (1/16) of such gross production.

(B) REDUCTION OF PAYMENTS. If, during the primary term, a portion of the land covered by this lease is included within the boundaries of a pooled unit that has been approved by the School Land Board and the owner of the soil in accordance with Natural Resources Code Sections 52.151-52.154, or if, at any time after the expiration of the primary term or the extended term, this lease covers a lesser number of acres than the total amount described herein, payments that are made on a per acre basis hereunder shall be reduced according to the number of acres pooled, released, surrendered, or otherwise severed, so that payments determined on a per acre basis under the terms of this lease during the primary term shall be calculated based upon the number of acres outside the boundaries of a pooled unit, or, if after the expiration of the primary term, the number of acres actually retained and covered by this lease.

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

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

23. PIPELINE DEPTH. When requested by the owner of the soil, Lessee shall bury its pipelines below plow depth.

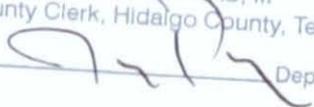
24. WELL LOCATION LIMIT. No well shall be drilled nearer than two hundred (200) feet to any house or barn now on said premises without the written consent of the owner of the soil.

25. POLLUTION. In developing this area, Lessee shall use the highest degree of care and all proper safeguards to prevent pollution. Without limiting the foregoing, pollution of coastal wetlands, natural waterways, rivers and impounded water shall be prevented by the use of containment facilities sufficient to prevent spillage, seepage or ground water contamination. In the event of pollution, Lessee shall use all means at its disposal to recapture all escaped hydrocarbons or other pollutant and shall be responsible for all damage to public and private properties. Lessee shall build and maintain fences around its slush, sump, and drainage pits and tank batteries so as to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level all slush pits and cellars and completely clean up the drilling site of all rubbish thereon. Lessee shall, while conducting operations on the leased premises, keep said premises free of all rubbish, cans, bottles, paper cups or garbage, and upon completion of operations shall restore the surface of the land to as near its original condition and contours as is practicable. Tanks and equipment will be kept painted and presentable.

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

27. (A) ASSIGNMENTS. Under the conditions contained in this paragraph and Paragraph 29 of this lease, the rights and estates of either party to this lease may be assigned, in whole or in part, and the provisions of this lease shall extend to and be binding upon their heirs, devisees, legal representatives, successors and assigns. However, a change or division in ownership of the land, rentals, or royalties will not enlarge the obligations of Lessee, diminish the rights, privileges and estates of Lessee, impair the effectiveness of any payment made by Lessee or impair the effectiveness of any act performed by Lessee. And no change or division in ownership of the land, rentals, or royalties shall bind Lessee for any purpose until thirty (30) days after the owner of the soil (or his heirs, devisees, legal representatives or assigns) furnishes the Lessee with satisfactory written evidence of the change in ownership, including the original recorded muniments of title (or a certified copy of such original) when the ownership changed because of a



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conveyance. A total or partial assignment of this lease shall, to the extent of the interest assigned, relieve and discharge Lessee of all subsequent obligations under this lease. If this lease is assigned in its entirety as to only part of the acreage, the right and option to pay rentals shall be apportioned as between the several owners ratably, according to the area of each, and failure by one or more of them to pay his share of the rental shall not affect this lease on the part of the land upon which pro rata rentals are timely paid or tendered; however, if the assignor or assignee does not file a certified copy of such assignment in the General Land Office before the next rental paying date, the entire lease shall terminate for failure to pay the entire rental due under Paragraph 3. Every assignee shall succeed to all rights and be subject to all obligations, liabilities, and penalties owed to the State by the original lessee or any prior assignee of the lease, including any liabilities to the State for unpaid royalties.

(B) ASSIGNMENT LIMITATION. Notwithstanding any provision in Paragraph 27(a), if the owner of the soil acquires this lease in whole or in part by assignment without the prior written approval of the Commissioner of the General Land Office, this lease is void as of the time of assignment and the agency power of the owner may be forfeited by the Commissioner. An assignment will be treated as if it were made to the owner of the soil if the assignee is:

- (1) a nominee of the owner of the soil;
- (2) a corporation or subsidiary in which the owner of the soil is a principal stockholder or is an employee of such a corporation or subsidiary;
- (3) a partnership in which the owner of the soil is a partner or is an employee of such a partnership;
- (4) a principal stockholder or employee of the corporation which is the owner of the soil;
- (5) a partner or employee in a partnership which is the owner of the soil;
- (6) a fiduciary for the owner of the soil; including but not limited to a guardian, trustee, executor, administrator, receiver, or conservator for the owner of the soil; or
- (7) a family member of the owner of the soil or related to the owner of the soil by marriage, blood, or adoption.

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

29. FILING OF ASSIGNMENTS AND RELEASES. If all or any part of this lease is assigned or released, such assignment or release must be recorded in the county where the land is situated, and the recorded instrument, or a copy of the recorded instrument certified by the County Clerk of the county in which the instrument is recorded, must be filed in the General Land Office within 90 days of the last execution date accompanied by the prescribed filing fee. If any such assignment is not so filed, the rights acquired under this lease shall be subject to forfeiture at the option of the Commissioner of the General Land Office.

30. DISCLOSURE CLAUSE. All provisions pertaining to the lease of the above-described land have been included in this instrument, including the statement of the true consideration to be paid for the execution of this lease and the rights and duties of the parties. Any collateral agreements concerning the development of oil and gas from the leased premises which are not contained in this lease render this lease invalid.

31. FIDUCIARY DUTY. The owner of the soil owes the State a fiduciary duty and must fully disclose any facts affecting the State's interest in the leased premises. When the interests of the owner of the soil conflict with those of the State, the owner of the soil is obligated to put the State's interests before his personal interests.

32. FORFEITURE. If Lessee shall fail or refuse to make the payment of any sum within thirty days after it becomes due, or if Lessee or an authorized agent should knowingly make any false return or false report concerning production or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith as required by law and the rules and regulations adopted by the Commissioner of the General Land Office, or if Lessee should fail to file reports in the manner required by law or fail to comply with rules and regulations promulgated by the General Land Office, the School Land Board, or the Railroad Commission, or if Lessee should refuse the proper authority access to the records pertaining to operations, or if Lessee or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or knowingly fail or refuse to furnish the General Land Office a correct log of any well, or if Lessee shall knowingly violate any of the material provisions of this lease, or if this lease is assigned and the assignment is not filed in the General Land Office as required by law, the rights acquired under this lease shall be subject to forfeiture by the Commissioner, and he shall forfeit same when sufficiently informed of the facts which authorize a forfeiture, and when forfeited the area shall again be subject to lease under the terms of the Relinquishment Act. However, nothing herein shall be construed as waiving the automatic termination of this lease by operation of law or by reason of any special limitation arising hereunder. Forfeitures may be set aside and this lease and all rights thereunder reinstated before the rights of another intervene upon satisfactory evidence to the Commissioner of the General Land Office of future compliance with the provisions of the law and of this lease and the rules and regulations that may be adopted relative hereto.

33. LIEN. In accordance with Texas Natural Resources Code 52.136, the State shall have a first lien upon all oil and gas produced from the area covered by this lease to secure payment of all unpaid royalty and other sums of money that may become due under this lease. By acceptance of this lease, Lessee grants the State, in addition to the lien provided by Texas Natural Resources Code 52.136 and any other applicable statutory lien, an express contractual lien on and security interest in all leased minerals in and extracted from the leased premises, all proceeds which may accrue to Lessee from the sale of such leased minerals, whether such proceeds are



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held by Lessee or by a third party, and all fixtures on and improvements to the leased premises used in connection with the production or processing of such leased minerals in order to secure the payment of all royalties or other amounts due or to become due under this lease and to secure payment of any damages or loss that Lessor may suffer by reason of Lessee's breach of any covenant or condition of this lease, whether express or implied. This lien and security interest may be foreclosed with or without court proceedings in the manner provided in the Title 1, Chap. 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this lease forfeited as provided herein.

34. POOLING. Lessee is hereby granted the right to pool or unitize the royalty interest of the owner of the soil under this lease with any other leasehold or mineral interest for the exploration, development and production of oil or gas or either of them upon the same terms as shall be approved by the School Land Board and the Commissioner of the General Land Office for the pooling or unitizing of the interest of the State under this lease pursuant to Texas Natural Resources Code 52.151-52.154. The owner of the soil agrees that the inclusion of this provision in this lease satisfies the execution requirements stated in Texas Natural Resources Code 52.152.

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

36. ENVIRONMENTAL HAZARDS. Lessee shall use the highest degree of care and all reasonable safeguards to prevent contamination or pollution of any environmental medium, including soil, surface waters, groundwater, sediments, and surface or subsurface strata, ambient air or any other environmental medium in, on, or under, the leased premises, by any waste, pollutant, or contaminant. Lessee shall not bring or permit to remain on the leased premises any asbestos containing materials, explosives, toxic materials, or substances regulated as hazardous wastes, hazardous materials, hazardous substances (as the term "Hazardous Substance" is defined in the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), 42 U.S.C. Sections 9601, et seq.), or toxic substances under any federal, state, or local law or regulation ("Hazardous Materials"), except ordinary products commonly used in connection with oil and gas exploration and development operations and stored in the usual manner and quantities. **LESSEE'S VIOLATION OF THE FOREGOING PROHIBITION SHALL CONSTITUTE A MATERIAL BREACH AND DEFAULT HEREUNDER AND LESSEE SHALL INDEMNIFY, HOLD HARMLESS AND DEFEND THE STATE OF TEXAS AND THE OWNER OF THE SOIL FROM AND AGAINST ANY CLAIMS, DAMAGES, JUDGMENTS, PENALTIES, LIABILITIES, AND COSTS (INCLUDING REASONABLE ATTORNEYS' FEES AND COURT COSTS) CAUSED BY OR ARISING OUT OF (1) A VIOLATION OF THE FOREGOING PROHIBITION OR (2) THE PRESENCE, RELEASE, OR DISPOSAL OF ANY HAZARDOUS MATERIALS ON, UNDER, OR ABOUT THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OR CONTROL OF THE LEASED PREMISES. LESSEE SHALL CLEAN UP, REMOVE, REMEDY AND REPAIR ANY SOIL OR GROUND WATER CONTAMINATION AND DAMAGE CAUSED BY THE PRESENCE OR RELEASE OF ANY HAZARDOUS MATERIALS IN, ON, UNDER, OR ABOUT THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OF THE LEASED PREMISES IN CONFORMANCE WITH THE REQUIREMENTS OF APPLICABLE LAW. THIS INDEMNIFICATION AND ASSUMPTION SHALL APPLY, BUT IS NOT LIMITED TO, LIABILITY FOR RESPONSE ACTIONS UNDERTAKEN PURSUANT TO CERCLA OR ANY OTHER ENVIRONMENTAL LAW OR REGULATION. LESSEE SHALL IMMEDIATELY GIVE THE STATE OF TEXAS AND THE OWNER OF THE SOIL WRITTEN NOTICE OF ANY BREACH OR SUSPECTED BREACH OF THIS PARAGRAPH, UPON LEARNING OF THE PRESENCE OF ANY HAZARDOUS MATERIALS, OR UPON RECEIVING A NOTICE FROM ANY GOVERNMENTAL AGENCY PERTAINING TO HAZARDOUS MATERIALS WHICH MAY AFFECT THE LEASED PREMISES. THE OBLIGATIONS OF LESSEE HEREUNDER SHALL SURVIVE THE EXPIRATION OR EARLIER TERMINATION, FOR ANY REASON, OF THIS AGREEMENT.**

37. APPLICABLE LAW. This lease is issued under the provisions of Texas Natural Resources Code 52.171 through 52.190, commonly known as the Relinquishment Act, and other applicable statutes and amendments thereto, and if any provision in this lease does not conform to these statutes, the statutes will prevail over any nonconforming lease provisions.

DATE 9-23-04
A true copy I certify
JUAN D. SALINAS, III
County Clerk, Hidalgo County, Texas
9277 Deputy



38. **EXECUTION.** This oil and gas lease must be signed and acknowledged by the Lessee before it is filed of record in the county records and in the General Land Office of the State of Texas. Once the filing requirements found in Paragraph 39 of this lease have been satisfied, the effective date of this lease shall be the date found on Page 1.

39. **LEASE FILING.** Pursuant to Chapter 9 of the Texas Business and Commerce Code, this lease must be filed of record in the office of the County Clerk in any county in which all or any part of the leased premises is located, and certified copies thereof must be filed in the General Land Office. This lease is not effective until a certified copy of this lease (which is made and certified by the County Clerk from his records) is filed in the General Land Office in accordance with Texas Natural Resources Code 52.183. Additionally, this lease shall not be binding upon the State unless it recites the actual and true consideration paid or promised for execution of this lease. The bonus due the State and the prescribed filing fee shall accompany such certified copy to the General Land Office.

ADDENDUM

Lessor and Lessee agree that the following provisions are incorporated into and shall be construed as a part of the foregoing oil and gas lease, and in the event of a conflict between the provisions of the foregoing General Land Office form and this addendum, the provisions of this addendum shall prevail.

40. **PRODUCTION ROYALTIES.** Upon production of oil and/or gas, Lessee agrees to pay or cause to be paid one-half (1/2) of the royalty provided for in this lease to the Commissioner of the General Land Office of the State of Texas, at Austin, Texas, and one-half (1/2) of such royalty to the owner of the soil:

(A) **OIL.** Royalty payable on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well and also as all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, shall be 1/4th part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be determined by the gross proceeds of the sale thereof. Lessee agrees that before any gas produced from the leased premises is sold, used or processed in a plant, it will be run free of cost to the royalty owners through an adequate oil and gas separator of conventional type, or other equipment at least as efficient, so that all liquid hydrocarbons recoverable from the gas by such means will be recovered. The



DATE 9-23-04
A true copy I certify
JUAN D. SALINAS, III
County Clerk, Hidalgo County, Texas
By [Signature] Deputy



requirement that such gas be run through a separator or other equipment may be waived, in writing, by the royalty owners upon such terms and conditions as they prescribe.

(B) NON PROCESSED GAS. Royalty on any gas, which is defined as all hydrocarbons and gaseous substances produced, saved and sold, not defined as oil in subparagraph (A) above, produced from any well on said land (except as provided herein with respect to gas processed in a plant for the extraction of gasoline, liquid hydrocarbons or other products) shall be 1/4th part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, provided that the term "market value" shall be deemed to have the meaning set forth in § 91.402(i) of the Texas Natural Resources Code, provided that the maximum pressure base in measuring the gas under this lease shall not at any time exceed 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to tests made by the Balance Method or by the most approved method of testing being used by the industry at the time of testing.

(C) PROCESSED GAS. Royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbons shall be 1/4th part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office. All royalties due herein shall be based on one hundred percent (100%) of the total plant production of residue gas attributable to gas produced from this lease, and on that percent accruing to Lessee of the total plant production of liquid hydrocarbons attributable to the gas produced from this lease; provided that if liquid hydrocarbons are recovered from gas processed in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the percentage applicable to liquid hydrocarbons shall be fifty percent (50%) or the highest

COUNTY CLERK
COUNTY OF HIDALGO, TEXAS
DATE 9-23-04
A true copy I certify
JUAN D. SALINAS, III
County Clerk, Hidalgo County, Texas
[Signature] Deputy



percent accruing to a third party processing gas through such plant under a processing agreement negotiated at arm's length (or if there is no such third party, the highest percent then being specified in processing agreements or contracts in the industry), whichever is the greater. The respective royalties on residue gas and on liquid hydrocarbons shall be based on market value as defined in § 91.402(i) of the Texas Natural Resource Code. In no event, however, shall the royalties payable under this paragraph be less than the royalties which would have been due had the gas not been processed.

41. OFFSET WELLS. Lessee shall protect the oil and gas under the above-described land from drainage as a reasonable and prudent operator. If oil and/or gas should be produced in commercial quantities upon lands adjoining or adjacent to the leased premises, and the leased premises is being drained by such production of oil or gas, the Lessee shall drill such offset wells as would a reasonable and prudent operator. Lessee at its option may, in lieu of drilling such offset well, release an amount of acreage sufficient to permit the drilling of an offset well under the applicable rules of the Texas Railroad Commission, such release to extend only to the subsurface stratum or formation from which oil or gas is being produced on the adjoining or adjacent tract. Such release shall be given within one hundred eighty (180) days after the commencement of production of oil or gas in paying quantities from such adjoining or adjacent tract. It is specifically agreed that Lessee shall have no obligation to offset any producing wells in existence on the date this lease is signed.

42. SEISMIC DATA. The parties have entered into a separate letter agreement regarding the Lessor's consent to LMP's acquisition of certain seismic data from Western Geophysical covering the leased premises and surrounding lands.

 DATE 9-23-09
A true copy I certify
JUAN D. SALINAS, III
County Clerk, Hidalgo County, Texas
By [Signature] Deputy



Executed the date of each respective acknowledgment certificate below, but effective as of the date first above written.

LESSEE

LMP PETROLEUM, INC.

By: [Signature]
Michael S. Pedrotti
Title: President

LESSOR

STATE OF TEXAS

STATE OF TEXAS

Approved: [Signature]
By: Juan Lino Garza
Juan Lino Garza Trustee for the Garza Energy Trust of 1994

Approved: [Signature]
By: Guadalupe Garza Jr.
Guadalupe Garza Jr., Trustee for the Garza Energy Trust of 1994

INDIVIDUALLY AND AS AGENT FOR THE STATE OF TEXAS

INDIVIDUALLY AND AS AGENT FOR THE STATE OF TEXAS

STATE OF TEXAS §

COUNTY OF NUECES §

BEFORE ME, the undersigned authority, on this day personally appeared Michael S. Pedrotti known to me to be the person whose name is subscribed to the foregoing instruments as President of LMP Petroleum, Inc. 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 corporation.

Given under my hand and seal of office this the 30th day of July, 2004.

mistake



[Signature]
Notary Public, State of Texas



DATE 9-23-04
A true copy I certify
JUAN D. SALINAS, III
County Clerk, Hidalgo County, Texas
[Signature] Deputy

404 07

~~Executed the date of each respective acknowledgment certificate below, but effective as of~~
the date first above written.

LESSEE

By: _____

Title: _____

STATE OF TEXAS

STATE OF TEXAS

By: _____
Juan Lino Garza Trustee for the Garza
Energy Trust of 1994

By: _____
Guadalupe Garza Jr., Trustee for the Garza
Energy Trust of 1994

INDIVIDUALLY AND AS AGENT
FOR THE STATE OF TEXAS

INDIVIDUALLY AND AS AGENT
FOR THE STATE OF TEXAS

STATE OF TEXAS §

COUNTY OF NUECES §

BEFORE ME, the undersigned authority, on this day personally appeared Michael S. Pedrotti known to me to be the person whose name is subscribed to the foregoing instruments as President of LMP Petroleum, Inc. 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 corporation.

Given under my hand and seal of office this the 13th day of Sept., 2004.



Delia M. McGrath
Notary Public, State of Texas



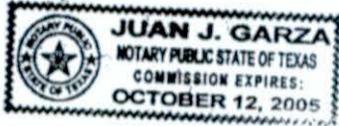
404 07

STATE OF TEXAS §

COUNTY OF Hidalgo §

BEFORE ME, the undersigned authority, on this day personally appeared Juan Lino Garza, Trustee for the Garza Energy Trust of 1994 known to me to be the person whose name is subscribed to the foregoing instruments Individually and as Agent for the State of Texas, 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 corporation.

Given under my hand and seal of office this the 30th day of July, 2004.



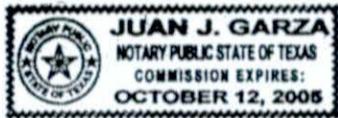
J. J. Garza
Notary Public, State of Texas

STATE OF TEXAS §

COUNTY OF Hidalgo §

BEFORE ME, the undersigned authority, on this day personally appeared Guadalupe Garza, Jr., Trustee for the Garza Energy Trust of 1994 known to me to be the person whose name is subscribed to the foregoing instruments Individually and as Agent for the State of Texas, 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 corporation.

Given under my hand and seal of office this the 30th day of July, 2004.



J. J. Garza
Notary Public, State of Texas

Filed for Record in:
Hidalgo County
by J. D. Salinas, III
County Clerk
On: Sep 14, 2004 at 02:52P
As a Recording
Document Number: 1391542
Total Fees: 42.00
Receipt Number - 616129
By: Adriana Solis, Deputy



DATE 9-23-04
A true copy I certify
JUAN D. SALINAS, III
County Clerk, Hidalgo County, Texas
9-21-04 Deputy

404 07

File No. MF 704958 34

Sease

Date Filed: 10/4/04

Jerry E. Patterson, Commissioner

By _____

70 4958

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

November 9, 2004

Att: Michael S. Pedrotti
LMP Petroleum, Inc.
615 North Upper Broadway
Wells Fargo Tower, Suite 1770
Corpus Christi, Texas 78477

Re: RELINQUISHMENT ACT LEASE No. M-104158
176.0 acres out of Survey No. 883, A-726 & A-926
Jeffress Prospect, Hidalgo & Starr Counties, Texas

Dear Mr. Pedrotti:

The certified copy of the Relinquishment Act lease covering the above referenced tracts has been approved and filed in our records under mineral file number M-104158. Please refer to this number in all future correspondence concerning the lease.

Your remittance of \$26,525.00, has been applied as the state's portion of the cash bonus \$26,400.00, along with a processing and filing fee in the amount of \$125.00. Please let me know if you should have any questions.

Sincerely,

Drew Reid
Drew Reid *by ms*
Minerals Leasing
Energy Resources
(512) 475-1534

MS/DR

Stephen F. Austin Building • 1700 North Congress Avenue • Austin, Texas 78701-1495

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

www.glo.state.tx.us

File No. MF 104958 25.

210 Kelly

Date Filed: 11/9/04

Jerry E. Patterson, Commissioner

By [Signature]

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

November 16, 2004

Michael Pedrotti
LMP Exploration, Inc.
615 North Upper Broadway, Suite 1770
Corpus Christi, TX 78477

RE: Assignment filing; GLO ID 4881

Dear Mr. Pedrotti,

The General Land Office received the following instrument(s) and has filed them in the appropriate files. Please see attached "Exhibit A" for reference.

Assignment of Oil and Gas Lease, executed September 17th, 2004
From LMP Petroleum, Inc., as Assignor, to LMP Exploration, Inc.,
As Assignee. MF104158.

Filing fees of \$25.00 were received in connection with the above lease. If you have any questions, please feel free to call me at (800) 998-4GLO, or at my direct number at (512) 463-6521.

Sincerely,

Beverly Boyd
Mineral Leasing
Energy Resources
512-463-6521

Stephen F. Austin Building • 1700 North Congress Avenue • Austin, Texas 78701-1495

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

www.glo.state.tx.us

Exhibit "A"

| <i>GLO ID</i> | <i>County</i> | <i>Lease</i> |
|---------------|---------------|--------------|
| 4881 | Hidalgo | MF104158 |



104158

615 North Upper Broadway
Suite 1770
Wells Fargo Tower-Box 248
Corpus Christi, Texas 78477
Phone: (361) 883-0923
Fax: (361) 883-7102

November 4, 2004

Texas General Land Office
1700 N. Congress Ave., Suite 600
Austin, TX 78701-1495

Attn: Drew Reid

RE: State of Texas Oil & Gas Lease - Garza Energy Trust of 1994
176.0 Acres, Survey No. 883 A-726 & A-926
Jeffress Prospect, Hidalgo and Starr Counties, TX

Gentlemen:

Attached herewith is a copy of a recorded Assignment of Oil and Gas Lease dated September 17, 2004, effective as of the lease date or April 1, 2004, covering the following lease:

State of Texas, acting by and through its agent, Juan Lino Garza and Guadalupe Garza, Jr., as Trustees of the Garza Energy Trust of 1994, as Lessor and LMP Petroleum, Inc., as Lessee, covering an undivided mineral interest in 176.00 acres of land in Hidalgo and Starr Counties, Texas.

Also, enclosed is LMP Exploration, Inc.'s check No. 400080 in the amount of \$25.00 payable to the State of Texas for the State's processing fee and a recorded copy of a Ratification of the subject lease from Elma Garza Cantu dated August 31, 2004.

If you have any questions, please do not hesitate to call me at 361-883-0923.

Sincerely,

LMP PETROLEUM, INC.

Michael S. Pedrotti
President

RECEIVED
OCTOBER 20 11:33
CORPUS CHRISTI, TEXAS



From: *LMP Exploration Operating* Vendor Code Check Date Check Amount Check Number
 To: Texas General Land Office *LLC* ✓ TEX007 11/03/04 \$25.00 400080

| Reference | Date | Description | Amount |
|-----------|----------|--|---|
| 1604 | 11/02/04 | TEX110204 Processing fee for assignment of oil & gas lease. Garza Energy Trust 1994 <i>Attn: Drew Reid</i> 400 11 | 25.00 <i>129</i> PREPAID 05010541 |

4881

1388976

ASSIGNMENT OF OIL AND GAS LEASE

MF104158

STATE OF TEXAS §
COUNTY OF HIDALGO §

KNOW ALL MEN BY THESE PRESENTS, THAT:

LMP PETROLEUM, INC., whose address is 615 N. Upper Broadway, Suite 1770, Corpus Christi, Texas 78477, hereinafter referred to as "Assignor", is the owner and holder of the leasehold estate and working interest created by that certain Oil and Gas Lease, hereinafter referred to as the "Lease", covering lands situated in Hidalgo County, Texas, which Lease is more particularly described as follows, to-wit:

Oil and Gas Lease dated the 1st day of April, 2004, recorded in Document No. 138542, of the Official Records of Hidalgo County, Texas, between the State of Texas, acting by and through its agent, Juan Lino Garza and Guadalupe Garza, Jr. as Trustees (hereinafter "Trustees") of the Garza Energy Trust of 1994, said agent herein referred to as the owner of the soil (whether one or more), and LMP Petroleum, Inc., as Lessee, covering 176 acres of land out of a 532.74 acre tract known as Survey No. 883, Cert. No. 997, A-726, Hidalgo County, Texas, A-926, Starr County, Texas, W. D. Parchman Original Grantee, said tract being more particularly described by metes and bounds in said Lease, and this same 176 acre tract being described in Release of Oil and Gas Lease dated effective October 1, 1998, recorded in Hidalgo County, Texas records at File No. 751455, reference made hereto for all purposes,

to which Lease and the recordation thereof, reference is for all purposes herein; and,

WHEREAS, Assignor desires to assign and convey all right, title and interest in and to the Lease to the Assignee named hereinbelow.

NOW THEREFORE, for and in consideration of the sum of One Hundred and No/100 Dollars (\$100.00) and other consideration paid by **LMP EXPLORATION, INC.**, whose address is 615 N. Upper Broadway, Suite 1770, Corpus Christi, Texas 78477, hereinafter referred to as "Assignee", the receipt and sufficiency of which are hereby acknowledged, Assignor has GRANTED, BARGAINED, SOLD, TRANSFERRED, ASSIGNED and CONVEYED and by these presents does hereby GRANT, BARGAIN, SELL, TRANSFER, ASSIGN and CONVEY, unto the said Assignee all of Assignor's right, title and interest in and to the Lease, the leasehold estate and working interest created by the Lease, and the attributable net revenue interest.

TO HAVE AND TO HOLD unto the said Assignee, its successors and assigns forever. For the same consideration, Assignor agrees to WARRANT AND DEFEND the interests herein assigned against the lawful claims and demands of all persons whomsoever claiming, or to claim the same, or any part thereof, by, through or under Assignor, but not otherwise.

IN WITNESS WHEREOF, this instrument is dated the 17th day of September, 2004, and made effective as of the date of the Lease.

ASSIGNOR

LMP PETROLEUM, INC.

MSR
Michael S. Pedrotti, President

ACKNOWLEDGEMENT

THE STATE OF TEXAS §
COUNTY OF NUECES §

This instrument was acknowledged before me on this 17th day of September, 2004, by Michael S. Pedrotti, President of LMP Petroleum, Inc., a Texas corporation, on behalf of said corporation.



Delia M McGrath
Notary Public, State of Texas
My Commission Expires: 8-31-05



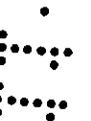
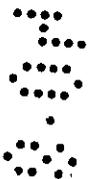
Filed for Record in:
Hidalgo County
by J. D. Salinas, III
County Clerk

On: Oct 05, 2004 at 04:35P

As a Recording

Document Number: 1388976
Total Fees : 14.00

Receipt Number - 621231
By,
Imelda Leal, Deputy



being here made for all purposes; and,

WHEREAS, SAID LEASE and all rights and privileges thereunder are now owned and held by LMP; and

WHEREAS, it is the desire of the undersigned party hereto to adopt, ratify and confirm SAID LEASE;

NOW ,THEREFORE, in consideration of the premises and ONE HUNDRED DOLLARS (\$100.00) and other good and valuable consideration all cash to me in had paid by and on behalf of LMP, the receipt of which is hereby acknowledged and confessed, the said, ELMA GARZA CANTU, of Edinburg, Texas, LESSOR, does hereby ADOPT, RATIFY AND CONFIRM SAID LEASE in all of its terms and provisions, and does hereby lease, demise and let said land and premises unto LMP, subject to and in accordance with all of the terms and provisions of SAID LEASE. And she does hereby agree and declare that SAID LEASE in all of its terms and provisions is binding on her and is a valid and subsisting Oil and Gas Lease.

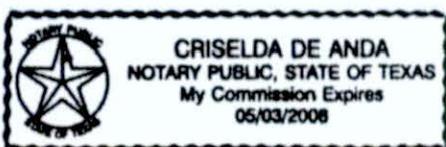
WITNESS my hand and seal in duplicate originals this the 31 day of August, 2004.

Elma Garza Cantu
ELMA GARZA CANTU

STATE OF TEXAS §
§ SS
COUNTY OF HIDALGO §

Before me, the undersigned Notary Public in and for the State of Texas, personally appeared ELMA GARZA CANTU 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 31 day of August, 2004.
Criselda De Anda



Notary Public
Filed for Record in:
Hidalgo County
by J. D. Salinas, III
County Clerk
On: Oct 05, 2004 at 04:35P
As a Recording
Document Number: 1388975
Total Fees: 16.00
Receipt Number - 621231
By Imelda Leal, Deputy

40 9 11

File No. MF 104958 26.
Assignment
Date Filed: 11/16/04
By [Signature] E. Patterson, Commissioner

11. 0. 04

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

March 16, 2005

Michael Pedrotti
LMP Exploration Operating, LLC
615 North Upper Broadway, Suite 1770
Wells Fargo Tower
Corpus Christi, TX 78477

RE: Assignment filing; GLO ID 5000

Dear Mr. Pedrotti,

The General Land Office received the following instrument(s) and has filed them in the appropriate files. Please see attached "Exhibit A" for reference.

Assignment of Properties, executed September 22nd, 2004, from LMP Exploration, Inc., as Assignor, to LMP Exploration Holdings L.P., as Assignee. MF104158.

Filing fees of \$25.00 were received in connection with the above lease. If you have any questions, please feel free to call me at (800) 998-4GLO, or at my direct number at (512) 463-6521.

Sincerely,

A handwritten signature in cursive script that reads "Beverly Boyd".

Beverly Boyd
Mineral Leasing
Energy Resources
512-463-6521

Stephen F. Austin Building • 1700 North Congress Avenue • Austin, Texas 78701-1495

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

www.glo.state.tx.us

Exhibit "A"

| <i>GLO ID</i> | <i>County</i> | <i>Lease</i> |
|---------------|---------------|--------------|
| 5000 | Hidalgo | MF104158 |

Wednesday, March 16, 2005

3-15-05



LMP EXPLORATION OPERATING, LLC

RECEIVED
05 MAR 15 PM 3:43

615 North Upper Broadway
Wells Fargo Tower, Suite 1770
Corpus Christi, Texas 78477
Phone: (361) 883-0923
Fax: (361) 883-7102

March 14, 2005

Texas General Land Office
1700 N. Congress Ave., Suite 600
Austin, TX 78701-1495

Attn: Drew Reid

RE: State of Texas Oil & Gas Lease - Garza Energy Trust of 1994 MF104158
176.0 Acres, Survey No. 883 A-726 & A-926
Jeffress Prospect, Hidalgo County, TX

Gentlemen:

Attached herewith is a copy of a *recorded* Assignment of Oil and Gas Lease dated effective September 22, 2004 between LMP Exploration, Inc, as Assignor and LMP Exploration Holdings, L.P., as Assignee, covering the following lease:

State of Texas, acting by and through its agent, Juan Lino Garza and Guadalupe Garza, Jr., as Trustees of the Garza Energy Trust of 1994, as Lessor and LMP Petroleum, Inc., as Lessee, covering an undivided mineral interest in 176.00 acres of land in Hidalgo County, Texas.

Also, enclosed is LMP Exploration's check No. 400485 in the amount of \$25.00 payable to the State of Texas for the State's processing fee.

If you have any questions, please do not hesitate to call me at 361-883-0923.

Sincerely,

LMP PETROLEUM, INC.

A handwritten signature in black ink that reads "Michael Pedrotti /s/m".

Michael S. Pedrotti
President

From: LMP EXPLORATION OPERATING, LLC
To: Texas General Land Office
Garza Energy Tr of 1994 #M104158
1700 N. Congress Ave., Ste. 600
Austin, TX 78701-1495

Vendor Code
TEX007

Check Date
03/11/2005

Check Amount
~~\$25.00~~

Chk#: 400485

| Invoice # | Invoice Amt |
|--|-------------|
| TEX03092005 | 25.00 |
| PROCESSING FEE FOR ASGN OF O&GL GARZA ENERGY TRUST OF 1994 JEFFRESS, HIDALDO CO, TX | |

RECEIVED

05 MAR 15 PM 3:43

121

RECORDED
05 MAR 15 11:51
05029727

90.972

3.15.05

RAL MF 104158
1385899

ID
5000

ASSIGNMENT OF PROPERTIES

THE STATE OF TEXAS §
 §
COUNTY OF HIDALGO § KNOW ALL MEN BY THESE PRESENTS:

THIS ASSIGNMENT OF PROPERTIES is made effective as of September 22, 2004, at 7:00 a.m., Central Standard Time (the "Effective Date"), and is from LMP Exploration, Inc., a Texas corporation, with address at 615 N. Upper Broadway, Suite 1770, Corpus Christi, Texas 78477 (hereinafter referred to as "Assignor"), to LMP EXPLORATION HOLDINGS, L.P., a Delaware limited partnership, with address at 615 N. Upper Broadway, Suite 1770, Corpus Christi, Texas 78477 (hereinafter referred to as "Assignee").

WITNESSETH:

Assignor, for Ten Dollars (\$10.00) and other good and valuable consideration in hand paid to Assignor by Assignee, the receipt and sufficiency of which is hereby acknowledged and confessed by Assignor, has GRANTED, BARGAINED, SOLD, CONVEYED, ASSIGNED, TRANSFERRED, SET OVER AND DELIVERED, and by these presents does GRANT, BARGAIN, SELL, CONVEY, ASSIGN, TRANSFER, SET OVER AND DELIVER unto Assignee, effective as of the Effective Date, subject to the terms and provisions hereof, the following:

- A. The oil, gas and other mineral leases described or referred to in Exhibit "A" attached hereto and made a part hereof, together with all amendments, modifications and ratifications thereof (all of such leases, and all amendments, modifications and ratifications thereof, together with all of the rights, titles, and interests described or referred to in subparagraph G below, being hereinafter collectively referred to as the "properties described" in subparagraphs B, C, D, E and F below);
- B. All of Assignor's right, title and interest in, to and under or derived from all oil, gas or mineral unitization, pooling and communitization agreements, declarations and orders, and the properties covered and the units created thereby (including,

without limitation, all units formed under orders, regulations, rules or other official acts of any federal, state or other governmental body or agency having jurisdiction), which relate to any of the properties described or to the production of oil, gas and other minerals from or attributable to the properties described;

- C. All of Assignor's right, title and interest in, to and under or derived from all oil and gas sales, purchase, exchange and processing contracts, operating agreements, joint venture agreements, geological agreements, exploration agreements, area of mutual interest agreements, farmout and farmin agreements, net profits agreements, carried interest agreements and all other contracts, agreements and instruments (including, without limitation, those pertaining to future interests, reversionary rights and deferred interests), which relate to any of the properties described, or to the production of oil, gas and other minerals from or attributable to the properties described;
- D. All of Assignor's right, title and interest in, to and under or derived from all permits, licenses, franchises, servitudes, surface leases, easements, and rights of way of every kind which relate to the properties described or which are useful or appropriate in exploring for, developing, operating, treating, storing or transporting oil, gas and other minerals in, on and under the same;
- E. All of Assignor's right, title and interest in, to and under or derived from all personal property, improvements, and lease and well equipment (including, without limitation, all wells, casing, tubing, tanks, boilers, separators, buildings, fixtures, machinery, injection facilities, salt water disposal facilities, compression facilities and other equipment, processing plants, gathering systems, pipelines, power lines, telephone and telegraph lines, roads and other appurtenances and easements) situated upon or used or useful or held for future use in connection with the exploration, development or operation or maintenance of the properties described, or in connection with the production, treating, storing, transportation or marketing of oil, gas and other minerals produced from or attributable to the properties described;
- F. All of Assignor's right, title and interest in, to and under or derived from all files, books, records and data in the actual or constructive possession of Assignor which relate to the properties described, including, without limitation, all title records, division order and lease files, geological data and information, production records, electric logs, core data, pressure data and decline curves and graphical production curves; and
- G. All of Assignor's right, title and interest in, to and under or derived from all other property, whether real, personal or mixed, of every nature and description in and to the leases described or referred to in subparagraph A above, and in and to any of the lands covered by such leases, whether such right, title and interest be under and by virtue of a lease, a mineral deed, a royalty deed, an overriding royalty assignment or reservation, a production payment, a net profits interest, a division



order, a transfer order or any other type of contract or instrument, and whether such right, title and interest be legal or equitable, recorded or unrecorded, and even though Assignor's interest in such leases and lands be incorrectly described in or a description of such interest be omitted from Exhibit "A" hereto.

All of the properties, rights, titles and interests described or referred to in subparagraphs A, B, C, D, E, F and G above are hereinafter collectively referred to as the "Subject Properties."

Assignor represents and warrants to Assignee that the Subject Properties (a) entitle Assignee to receive from each lease described or referred to in Exhibit "A" hereto, not less than the net revenue interests set forth in said Exhibit "A" with respect to such lease, in and to all oil, gas and other hydrocarbons produced and saved from such lease, without reduction, suspension or termination, throughout the duration of such lease, and (b) obligate Assignee to bear a share of the costs and expenses relating to the maintenance, development and operation of each lease described or referred to in Exhibit "A" hereto, not greater than the working interests set forth in said Exhibit "A" with respect to such lease, without increase throughout the duration of such lease.

TO HAVE AND TO HOLD the Subject Properties, together with all rights, titles, interests, estates, remedies, powers and privileges thereunto appertaining, unto Assignee, and its successors and assigns, forever, subject to the terms and provisions hereof; and Assignor does by these presents bind itself, and its successors and assigns, to WARRANT AND FOREVER DEFEND all and singular the Subject Properties, together with all rights, titles, interests, estates, remedies, powers and privileges thereunto appertaining, unto Assignee, and its successors and assigns, against every person whomsoever lawfully claiming or to claim the same or any part thereof, by, through and under Assignor, but not otherwise, subject to the terms and provisions hereof.

3.15.05

To the extent the Subject Properties granted, conveyed and assigned hereby constitute personal property or fixtures, Assignor EXPRESSLY DISCLAIMS AND NEGATES (a) ANY IMPLIED OR EXPRESS WARRANTY OF MERCHANTABILITY, (b) ANY IMPLIED OR EXPRESS WARRANTY OF FITNESS FOR A PARTICULAR PURPOSE, AND (c) ANY IMPLIED OR EXPRESS WARRANTY OF CONFORMITY TO MODELS OR SAMPLES OF MATERIALS.

Assignor hereby assigns to Assignee, with full right of substitution and subrogation, to the extent so transferable, the benefit of and the right to enforce the covenants and warranties, if any, which Assignor is entitled to enforce with respect to the Subject Properties.

So long as authorized by applicable law so to do, Assignor agrees to execute, acknowledge and deliver to Assignee all such other additional instruments, notices, division orders, transfer orders and other documents, and to do all such other and further acts and things, as may be necessary to more fully and effectively grant, convey and assign to Assignee the Subject Properties granted, conveyed and assigned hereby or intended so to be.

All of the terms, provisions, covenants and agreements herein contained shall extend to and be binding upon the parties hereto, and their respective heirs, legal representatives, successors and assigns.

EXECUTED this 22nd day of September, 2004.

LMP EXPLORATION, INC.

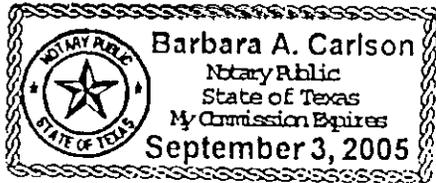
By: MSR
Michael S. Pedrotti, President

3.15.05

STATE OF TEXAS

COUNTY OF NUECES

This instrument was acknowledged before me on September 22 2004, by Michael S. Pedrotti, President of LMP Exploration, Inc., a Texas corporation, on behalf of said corporation.



Barbara A. Carlson
Notary Public in and for the
State of TEXAS

My Commission Expires:

9-3-2005

EXHIBIT "A"

JEFFRESS PROSPECT, HIDALGO COUNTY, TEXAS

ATTACHED TO AND MADE A PART OF THAT CERTAIN ASSIGNMENT OF PROPERTIES DATED SEPTEMBER 22, 2004 BY AND BETWEEN LMP EXPLORATION, INC. AND LMP EXPLORATION HOLDINGS, LP

As used hereinbelow, the following abbreviations have the following meaning:

"LMP" means LMP Exploration, Inc.

"WI BPPO" means working interest before payout, as payout is defined in that certain Letter Agreement dated June 28, 2004 between LMP Exploration, Inc. and Jeff Uecker.

"NRI BPPO" means net revenue interest before payout, as payout is defined in that certain Letter Agreement dated June 28, 2004 between LMP Exploration, Inc. and Jeff Uecker.

"WI APPO" means working interest after payout, as payout is defined in that certain Letter Agreement dated June 28, 2004 between LMP Exploration, Inc. and Jeff Uecker.

"NRI APPO" means net revenue interest after payout, as payout is defined in that certain Letter Agreement dated June 28, 2004 between LMP Exploration, Inc. and Jeff Uecker.

"RI" means royalty interest.

"ORRI" means overriding royalty interest.

"Third Party ORRI" means the total overriding royalty interests of parties other than the "Managing Partners" of LMP Exploration Holdings, LP.

"Managing Partners ORRI" means the total overriding royalty interests as provided for in that certain Limited Partnership Agreement between LMP Exploration, Inc., et al and LMP Exploration Holdings, LP dated September 22, 2004.

| LESSOR | LESSEE | RECORDING | LEASE | ACRES | ACRES | LMP | LMP | RI | THIRD | MANAGING | LMP | LMP |
|---|-------------------------------------|-----------|----------|----------|----------|---------|-----------|-----|-------|----------|--------|----------|
| | | DOC NO. | DATE | GROSS | NET | WI BPPO | * WI APPO | | PARTY | PARTNERS | | |
| THE STATE OF TEXAS, ACTING BY AND THROUGH ITS AGENT, JUAN LINO GARZA AND GUADALUPE, JR, AS TRUSTEES OF THE GARZA ENERGY TRUST OF 1994 | MF 104158 LMP PETROLEUM, INC. ** | 138542 | 04/01/04 | 176.0000 | 176.0000 | 100.00% | 99.50% | 25% | 0.00% | 2.00% | 73.00% | 72.6350% |
| RATIFICATION OF OIL AND GAS LEASE (NAMED HEREIN ABOVE) EXECUTED BY ELMA GARZA CANTU | LMP PETROLEUM, INC. ** | -- | 08/31/04 | 176.0000 | -- | -- | -- | -- | -- | -- | -- | -- |

* 0.50% of 8/8ths WORKING INTEREST AFTER PAYOUT PROPORTIONATELY REDUCED PURSUANT TO LETTER AGREEMENT DATED 6/28/04 BETWEEN LMP EXPLORATION, INC. AND JEFF UECKER.

** ASSIGNMENT OF OIL & GAS LEASE DATED 9/17/04, EFF AS OF DATE OF THE LEASE, LMP PETROLEUM, INC., AS ASSIGNOR AND LMP EXPLORATION, INC., AS ASSIGNEE, RECORDED IN VOLUME ____, PAGE ____, HIDALGO COUNTY, TEXAS.

Filed for Record in:
Hidalgo County
by J. D. Salinas, III
County Clerk

On: Sep 27, 2004 at 04:06P

As a Recording

Document Number: 1385899
Total Fees : 24.00

Receipt Number - 619211

By,
Imelda Leal, Deputy

50
50
50
50
50

78.

File No. MF-104158
Assigned
Date Filed: 3/16/05
By Jerry E. Patterson, Commissioner

0000

From: LMP EXPLORATION OPERATING, LLC
To: Texas General Land Office
Garza Energy Tr of 1994 #M104158
1700 N. Congress Ave., Ste. 600
Austin, TX 78701-1495

Vendor Code
TEX007

Check Date
03/11/2005

Check Amount
\$2,200.00

Chk#: 400484

| Invoice # | Invoice Amt |
|--------------------------|-------------|
| TEX03092005 | 2,200.00 |
| DELAY RENTAL | |
| JEFFRESS, HIDALGO CO, TX | |

RECEIVED

03 MAR 15 PM 3:43

ENERGY SERVICES

Att: Drew Reid

121

m-104158

05029728

90.57.2

27.

File No. MF 104158

~~Spinal Payment~~

Date Filed: 3/15/05

Jerry E. Patterson, Commissioner

By 

2.72.02

Daryl Morgan - Garza-State #1 Well

From: "Amanda Avila" <AmandaA@lmpexploration.com>
To: <ladell.collier@glo.state.tx.us>, <daryl.morgan@glo.state.tx.us>
Date: 9/20/2005 1:52 PM
Subject: Garza-State #1 Well

Please see attached.

Thanks

Amanda Avila-Parker
Production/Land Assistant

LMP Exploration Operating, LLC
615 N. Upper Broadway, Suite 1770
Corpus Christi, TX 78477
Telephone: 361.883.0923
Facsimile: 361.883.7102
Continuous Log Fax: 361.881-8608
Cell: 361.688.2615
email: aavila@lmpexploration.com

This electronic communication (including any attached document) may contain privileged and/or confidential information. This communication is intended only for the use of indicated e-mail addressees. If you are not an intended recipient of this communication, please be advised that any disclosure, dissemination, distribution, copying, or other use of this communication or any attached document is strictly prohibited. If you have received this communication in error, please notify the sender immediately by reply e-mail and promptly destroy all electronic and printed copies of this communication and any attached document.

September 20, 2005

Daryl Morgan
Texas General Land Office
1700 Congress Ave.
Corpus Christi, TX 77301

VIA E-MAIL

RE: LMP Garza-State No. 1 Well
State Lease M#-104158, Hidalgo County, Texas

Dear Mr. Morgan:

LMP Exploration Operating, LLC ("LMP") will be moving the rig onto location for the above-referenced well within the next two days and anticipate the well to spud on or before September 26, 2005.

Should you have any questions regarding this correspondence, please do not hesitate to contact our office at 361-883-0923

Sincerely,

LMP EXPLORATION OPERATING, LLC.



Amanda Avila-Parker
Production/Land Assistant

(29)

File No. M-104158
E-Mail + LETTER FROM LMP

Date Filed: 9-20-05

Jerry E. Patterson, Commissioner

By Daryl Morgan

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

October 10, 2005

James Gresham, Jr.
LMP Exploration Operatin, LLC
615 North Upper Broadway
Wells Fargo Tower, Suite 1770
Corpus Christi, TX 78477

MF 104158

RE: Assignment filing; GLO ID 5198

Dear Mr. Gresham,

The General Land Office received the following instrument(s) and has filed them in the appropriate files. Please see attached "Exhibit A" for reference.

Assignment of Oil and Gas Lease, executed September 13th, 2005, from LMP Exploration Operating, LLC, as Assignor, 49.499980% to Twenty-five (25) parties listed in "Exhibit A", collectively referred to as Assignees.

Filing fees of \$0.00 were received in connection with the above lease. If you have any questions, please feel free to call me at (800) 998-4GLO, or at my direct number at (512) 463-6521.

Sincerely,

Beverly Boyd
Mineral Leasing
Energy Resources
512-463-6521

Stephen F. Austin Building • 1700 North Congress Avenue • Austin, Texas 78701-1495

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

www.glo.state.tx.us

Exhibit "A"

| <i>GLO ID</i> | <i>County</i> | <i>Lease</i> |
|---------------|---------------|--------------|
| 5198 | Hidalgo | MF104158 |

Monday, October 10, 2005



LMP EXPLORATION OPERATING, LLC

615 North Upper Broadway
Wells Fargo Tower, Suite 1770
Corpus Christi, Texas 78477
Phone: (361) 883-0923
Fax (361) 883-7102

October 4, 2004

Texas General Land Office
1700 N. Congress Ave., Suite 600
Austin, TX 78701-1495

FedEx No. 792402001927

Attn: Drew Reid

RE: State of Texas Oil & Gas Lease - Garza Energy Trust of 1994
176.0 Acres, Survey No. 883 A-726 & A-926
Jeffress Prospect, Hidalgo County, TX

Gentlemen:

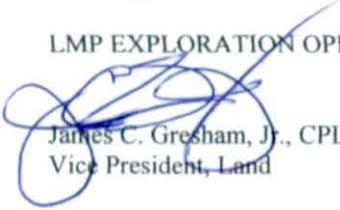
Attached herewith is a copy of Assignment of Oil and Gas Lease dated September 13, 2005, between LMP Exploration Holdings, LP, as Assignor, and Magnum Producing, LP et al, as Assignee, covering 176.00 acres of land in Hidalgo County, Texas. Also, enclosed is LMP Exploration Operating, LLC's check No. 401352 in the amount of \$25.00 payable to the State for the filing fee.

Please acknowledge receipt and acceptance of the attached check in the space provided below and *return one (1) copy of this letter to the undersigned in the enclosed self-addressed, stamped envelope.*

If you have any questions, please do not hesitate to call me at 361-883-0923.

Sincerely,

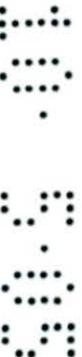
LMP EXPLORATION OPERATING, LLC


James C. Gresham, Jr., CPL
Vice President, Land

RECEIVED AND ACCEPTED this _____ day of October, 2005.

Drew Reid for the State of Texas

RECEIVED
05 OCT -5 PM 2:02
ENERGY RESOURCES



From: LMP EXPLORATION OPERATING, LLC ✓ Vendor Code
To: ST OF TX - COMMISSIONER STA006
GEN LAND OFC - ISREAL LOPEZ
1700 N. CONGRESS AVE, STE 600
AUSTIN, TX 78701-1495

Check Date
10/04/2005

Check Amount
\$25.00

Chk#: 401352

| Invoice # | Invoice Amt |
|-----------|------------------|
| 100405 | 25.00 |

0600615
ENERGY RESOURCES
05 OCT -5 PM 2:02

RECEIVED

129

Attn: Drew Reid

10.5.05

MF104158

1523264

ASSIGNMENT OF OIL AND GAS LEASE
(Jeffress Prospect)

STATE OF TEXAS §
 §
COUNTY OF HIDALGO §

This Assignment of Oil and Gas Lease is made this 13th day of September, 2005, but effective for all purposes as of the 7th day of April, 2005, by and between LMP Exploration Holdings, L.P., whose address is 615 N. Upper Broadway, Suite 1770, Corpus Christi, Texas 78477, hereinafter referred to as "Assignor", in favor of the parties set forth on Exhibit "A" attached hereto and made a part hereof for all purposes, such parties hereinafter collectively referred to as "Assignees".

For and in consideration of Ten Dollars (\$10.00) and other good and valuable consideration in hand paid, and subject to the reservations and exceptions below, Assignor does hereby TRANSFER, ASSIGN, and CONVEY to each Assignees, the interests set forth on Exhibit "A" in the Oil, Gas and Mineral Lease described on Exhibit "B" attached hereto and made a part hereof by reference (the "Lease"). It is provided, however, that the Before Payout (BPO) assignment of interest shall continue until Payout, as defined in the Prospect Participation Agreement (Jeffress Prospect), dated April 7, 2005, and upon occurrence of Payout, the applicable After Payout (APO) interest herein conveyed shall automatically revert to Assignor, and be divested out of Assignees. It is provided that upon occurrence of Payout, Assignor may place of record in Hidalgo County, Texas an instrument executed by Assignor giving notice of the occurrence of Payout, and that such instrument shall constitute constructive notice to all persons of the reversionary interest hereby reserved.



There is excepted from this assignment and reserved to Assignor, its successors and assigns, an overriding royalty interest in and to all of the oil, gas and other minerals produced and saved under the Lease set out in Exhibit "B" of 3% of 8/8ths payable to certain key employees as well as certain third parties.

It is provided that in the event said Lease covers less than the entire mineral estate, or in the event that Assignor is vested with less than the entire oil and gas leasehold estate under said Lease, then the overriding royalty interest herein reserved and the net revenue interest herein assigned shall be proportionately reduced.

The overriding royalty interest herein reserved shall be calculated without deduction for the cost of compression, dehydration, separating, gathering, treating, processing, or otherwise making said oil or gas ready for sale, but may be charged with transportation charges paid to a third party for transporting said oil and gas to the point of sale. Assignor is granted the right to pool or unitize the overriding royalty herein reserved, but only to the extent permitted in the Lease.

In the event that the Lease should for any reason terminate or be forfeited, and the Assignor or its successors shall obtain any renewal, extension, or new lease covering the same lands covered by the Lease, then in that event the overriding royalty interest herein reserved shall apply to any such renewal, extension or new lease taken prior to the termination of such Lease or within one (1) year after the termination of such Lease.

The rights assigned herein are expressly made subject to that certain Prospect Participation Agreement (Jeffress Prospect), dated April 7, 2005, entered into by and between Assignor and Assignees with respect to the Lease.



TO HAVE AND TO HOLD said undivided interest in the Lease to Assignees and Assignor does hereby bind itself to warrant and defend title to said interest against any claims asserted by persons by, through and under Assignor but not otherwise.

EXECUTED the date first above written.

LMP EXPLORATION HOLDINGS, LP
By its General Partner
LMP Exploration Holdings GP, LLC

By: *MSR*
Name: Michael S. Pedrotti
Title: President

STATE OF TEXAS §
 §
COUNTY OF NUECES §

This instrument was acknowledged before me on the 13th day of September, 2005, by Michael S. Pedrotti, President of LMP Exploration Holdings, GP, LLC, A Delaware limited liability company, as General Partner of LMP Exploration Holdings, L.P., a Delaware limited partnership.

Delia M. McGrath
Notary Public, State of Texas

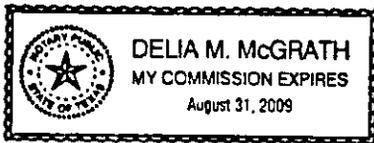
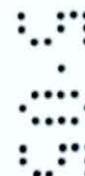


EXHIBIT "A"

Attached to and made a part of that certain Assignment of Oil and Gas Lease dated effective April 7, 2005
by and between LMP Exploration Holdings, L.P. and Magnum Producing, LP, et al
covering the Jeffress Prospect in Hidalgo County, Texas

| | BPO WI | APO WI |
|---|----------|-----------|
| Magnum Producing, LP 500 N. Shoreline, Ste. 322 Corpus Christi, TX 78471 | 4.95245% | 3.961960% |
| Felderhoff, LP 801 East California, Ste. 407 Gainesville, TX 76240 | 5.00000% | 4.000000% |
| William B. Miller Family Properties, Ltd. 800 N. Shoreline, Ste. 2400 Corpus Christi, TX 78401 | 4.76253% | 3.810024% |
| Daniel A. Pedrotti Oil & Gas Properties, Ltd. 800 N. Shoreline, Ste. 2400 Corpus Christi, TX 78401 | 2.50000% | 2.000000% |
| J. V. McCullough 615 N. Upper Broadway, Ste. 1013 Coprus Christi, TX 78477 | 0.50000% | 0.400000% |
| TriRock Energy, Texas General Partnership 600 Leopard, Ste. 1800 Corpus Christi, TX 78473 | 1.78500% | 1.428000% |
| Orion Drilling Company, LP 674 Flato Road Corpus Christi, TX 78405 | 2.00000% | 1.600000% |



| | | |
|--|-----------------|------------------|
| Jeffrey T. Uecker 31 Camden Place Corpus Christi, TX 78412 | 0.00000% | 0.500000% |
| LMP Petroleum, Inc. 615 N. Upper Broadway, Ste. 1770 Corpus Christi, TX 78477 | 1.00000% | 0.70000% |
| Ironwood Exploration, LLC 615 N. Upper Broadway, Suite 1770 Corpus Christi, TX 78477 | 1.00000% | 0.70000% |
| Barnette Properties c/o Coastcon Corporation 2728 Airline Rd. Corpus Christi, TX 78414 | 2.00000% | 1.40000% |
| Geogeld, L.P. P. O. Box 1062 Corpus Christi, TX 78403 | 1.00000% | 0.70000% |
| Momentum Energy Corporation P. O. Box 3398 Midland, TX 79702 | 7.00000% | 4.90000% |
| Verdado, LLC 20 East 5 th Street, Suite 1100 Tulsa, Oklahoma 74103-4439 | 5.00000% | 3.50000% |
| Trijon Exploration, Inc. 615 N. Upper Broadway, Suite 2040 Corpus Christi, TX 78477 | 1.00000% | 0.70000% |
| Anderson Oil, Ltd. 5005 Woodway, Suite 310 Houston, Texas 77056 | 5.00000% | 3.50000% |



| | | |
|--|-------------------|-------------------|
| Victoria Trading Company, LLC P. O. Box 1077 Edinburg, Texas 78540-1077 | 7.00000% | 4.90000% |
| Edinburg Investment Company, Inc. P. O. Box 1077 Edinburg, Texas 78540-1077 | 1.50000% | 1.05000% |
| Southwest Oil and Land, Inc. P. O. Box 1077 Edinburg, Texas 78540-1077 | 1.50000% | 1.05000% |
| MJR Investments, Ltd. P. O. Box 1434 Edinburg, Texas 78540-1434 | 1.00000% | 0.70000% |
| Mako Communications, LLC P. O. Box 1513 Corpus Christi, TX 78403 | 2.00000% | 1.40000% |
| Seisgen Exploration, Inc. 1221 Lamar, Suite 1177 Houston, Texas 77010 | 2.00000% | 1.40000% |
| Crow Partners, Ltd. P. O. Box 540988 Houston, Texas 77254-0988 | 2.00000% | 1.40000% |
| Wolfe Rudman 1700 Pacific Ave., Suite 4700 Dallas, Texas 75201-4670 | 2.00000% | 1.40000% |
| Raptor Energy, LLC 3050 Post Oak Blvd., Suite 460 Houston, Texas 77057 | 2.00000% | 1.40000% |
| TOTAL: | 65.499980% | 48.499984% |



EXHIBIT "B"

Attached to and made a part of that certain Assignment of Oil and Gas Lease
dated effective April 7, 2005 by and between
LMP Exploration Holdings, L.P. and Magnum Producing, LP, et al
covering the Jeffress Prospect, Hidalgo County, Texas

LEASE:

Oil and Gas Lease dated April 1, 2004 by and between Juan Lino Garza and
Guadalupe Garza, Jr., as Trustees (hereinafter "Trustees") of the Garza Energy
Trust of 1994 (MF#104158), as Lessor and LMP Petroleum, Inc., as Lessee and
recorded in Document No. 138542, covering 176 acres of land, more or less, in
Hidalgo County, Texas.

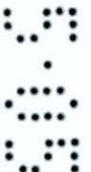
Filed for Record in:
Hidalgo County
by J. D. Salinas III
County Clerk

On: Sep 21, 2005 at 09:01A

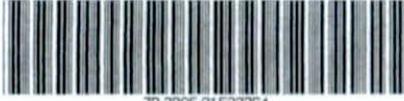
As a Recording

Document Number: 1523264
Total Fees : 26.00

Receipt Number - 707734
By:
MaryLou Cantu, Deputy



Hidalgo County
J. D. Salinas III
County Clerk
Edinburg, TX 78540



70 2005 01523264

Instrument Number: 2005-1523264

As

Recorded On: September 21, 2005

Recording

Parties:

Billable Pages: 7

To

Number of Pages: 8

Comment: ASSGN

**** Examined and Charged as Follows: ****

| | |
|------------------|-------|
| Recording | 26.00 |
| Total Recording: | 26.00 |

******* THIS PAGE IS PART OF THE INSTRUMENT *******

Any provision herein which restricts the Sale, Rental or use of the described REAL PROPERTY because of color or race is invalid and unenforceable under federal law.

File Information:

Document Number: 2005-1523264
Receipt Number: 707734
Recorded Date/Time: September 21, 2005 09:01A
Book-Vol/Pg: BK-SC VL-3 PG-34935
User / Station: M Cantu - Cash Station 4

Record and Return To:

LMP EXPLORATION LLC
615 N UPPER BROADWAY STE 1770
OPERATING ACCOUNT
CORPUS CHRISTI TX 78477



300 01

30.

File No. MF 104158
Claymen
Date Filed: 10/10/05
By Jerry E. Patterson, Commissioner

LMP EXPLORATION OPERATING, LLC

615 North Upper Broadway
Wells Fargo Tower, Suite 1770
Corpus Christi, Texas 78477
Phone: (361) 883-0923
Fax (361) 883-7102



LMP

July 27, 2005

Daryl Morgan
Texas General Land Office
1700 Congress Ave.
Corpus Christi, TX 77301

RE: LMP Garza-State No. 2 Well and No. 1 Well
State Lease M#-104158, Hidalgo County, Texas

Dear Mr. Morgan:

LMP Exploration Operating, LLC ("LMP") has received permits to drill the above-referenced wells and will spud the LMP Garza-State No. 2 Well on or before August 8, 2005. We expect this to be a 20 to 25 day well and LMP will thereafter move the rig to the location for the LMP-Garza-State #1 well. We expect this well to spud on or before September 8, 2005. Enclosed for your records, please find for each proposed well, the following:

1. Drilling (Turnkey) Procedure
2. Proposed Wellbore Diagram
3. Production Casing Design
4. Surface Casing Design
5. Railroad Commission Permit to Drill
6. State Water Board Letter

Should you have any questions regarding this correspondence, please do not hesitate to contact our office at 361-883-0923

Sincerely,

LMP EXPLORATION OPERATING, LLC.

Jeff Uecker
Jeff Uecker
Production Engineer

Enclosures (12)

DRILLING (Turnkey) PROCEDURE

Garza State #1
[10,750' Vicksburg Test]
Hidalgo County, Texas
7/8/2005

Orion "Eclipse"

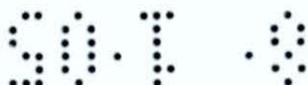
NEAREST OFFSET: Coastal G. G. Zamora #1 TD: 12216'

SURFACE INTERVAL – 14-3/4" hole to 2,000'. Set 10-3/4" 40.5# J-55 STC

1. MIRU. Ensure that 40' of 16" conductor pipe has been run and cemented to +/- 40' BGL prior to rig moving in. Install 16" riser on conductor pipe for returns to shakers.
2. Drill 14-3/4" hole to 2,000'. Take inclination surveys every 500'. Sweep the hole, make short trip to the collars. Circulate BU. Drop survey. POOH & LD bit and stabilizers.
3. RU to run casing. RU casing tools. Run 10-3/4" 40.5#, J-55 casing to TD.
4. Cir & Cond mud before cementing. Displace cement and bump plug with 500 psi above differential pressure. Release pressure and verify that plug and floats are holding.
5. Make cut on 10-3/4" casing. Install 11" 10M Split speed head. Test to 1,500 psi. NU 11" 10M psi BOP stack. Test blind rams and BOP's to 250 psi low and 10000 psi high. Test Hydril to 250 psi low and 3500 psi high.

INTERMEDIATE INTERVAL – 9-7/8" OH to 6,600', set 7-5/8" 33.7# P-110 LT&C

7. Pick up 9-7/8" bit and BHA. RIH with bit
8. Drill float equipment and 5 ft of new hole. Test formation to 14.0 # MWE. Record leak-off if it occurs.
9. Drill 9-7/8" hole to 6,600' taking inclination surveys every 500 ft. Estimated TD mud wt is 13.0 ppg.
10. After reaching casing point [6,600'], circulate and clean mud, sweep the hole with viscous pills, short trip to shoe, and circulate clean. Record any trip gas or tight hole. Strap out of hole to log interval.



11. RU Schlumberger and run requested logs from 2,000' to 6,600'. RD W/L.
12. RU Franks Casing Crew & run 7 5/8" 33.7#, P-110 LTC casing to TD as per casing plan.
13. Circ BU and reciprocate casing as long as the drag allows. Cement as per BJ Cementing Plan.
14. Land 7-5/8" casing. RU mudloggers.

PRODUCTION INTERVAL 6600' TO TD:

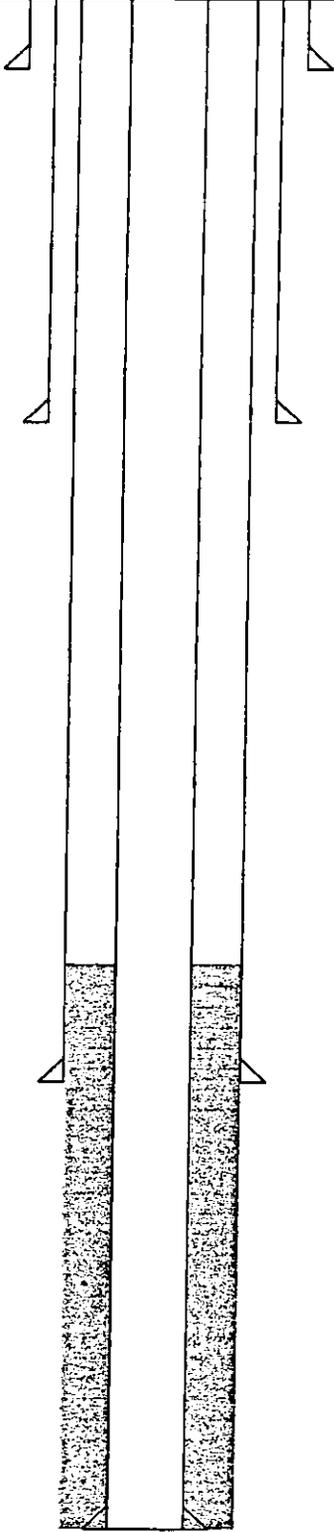
15. RIH with 6 1/2" bit and BHA. Drill 5' of open hole and test formation to 17.2 ppg EMW. Displace hole with OBM.
16. Drill 6-1/2" hole to 10,750' (TD). Circ and condition mud to log. Strap drill string out of hole. Expected TD mud weight is 16.2 ppg.
17. RU logging company and log well with triple combo. Once first log is on the bank, turnkey contract is complete and day rate begins. Complete formation evaluation. RD logging company.
18. RIH with drill string. Circ and condition mud to run casing. POH and LD drill pipe and BHA. RIH with FS, two float joints, FC, and 4-1/2" 13.5# P-110 LTC with two marker joints in the string. Centralization procedure to follow after looking at log. Cmt csg in hole as per cmtng rec.
19. Install 11" 10M x 4 - 1/16" 10M tubing head. Test head to 8M psi. Install 10M psi dry hole tree. Clean out mud pits and release rig.



Garza State #1
Proposed Wellbore Diagram

Completion Information

Drilling Information



Tbg Head: 11" 10M# X 4-1/16" 10M#

16" Conductor @ +/- 40'

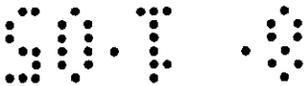
10-3/4" 40.5# K/J-55 LTC @ 2000' in 14-3/4" hole

TOC @ 5600'

7-5/8" 33.7# P-110 LTC @ 6600'

4-1/2" 13.5# P-110 LTC @ 10800' in 6.5" hole
w/ TOC @ 5600'

TD: 10800'



RAILROAD COMMISSION OF TEXAS OIL & GAS DIVISION

PERMIT TO DRILL, DEEPEN, PLUG BACK, OR RE-ENTER
ON REGULAR OR ADMINISTRATIVE EXCEPTION LOCATION

| | | |
|--|---|--|
| PERMIT NUMBER 553839 | DATE PERMIT ISSUED OR AMENDED 12/28/2004 | DISTRICT 04 |
| API NUMBER 42 215 33277 | FORM W-1 RECEIVED 11/18/2004 | COUNTY HIDALGO |
| TYPE OF OPERATION DRILL | | ACRES 176.00 |
| OPERATOR LMP EXPLORATION OPERATING, LLC 615 N UPPER BROADWAY STE 1770 CORPUS CHRSTI TX 78477 | | NOTICE This permit and any allowable assigned may be revoked if payment for fee(s) submitted to the Commission is not honored. District Office Telephone No.: 361 242-3113 |
| LEASE NAME GARZA STATE | | WELL NUMBER 1 |
| LOCATION 6.50 MILES SW FROM MC COOK | | TOTAL DEPTH 11,000 |
| SECTION, BLOCK and/or SURVEY SECTION ==> BLOCK ==> ABSTRACT ==> 726 SURVEY ==> J. MCMILLAN / W. D. PORCHMAN #883 | | |
| DISTANCE--LEASE LINES 288.00 F E - 659.00 F S | | DISTANCE--NEAREST WELL ON LEASE N/A |
| DISTANCE--SURVEY LINES 288.00 F E - 659.00 F S | | |

READ IMPORTANT CONDITIONS AND INSTRUCTIONS ON THE BACK OF THIS FORM

LOAD(S) AND LIMITATIONS

** THIS PERMIT IS GRANTED PURSUANT TO STATEWIDE RULE 37(H) (2) (A). **
** CASE NO. 0240992 **

- *WILDCAT
- *JEFFRESS (VICKSBURG O)
- *JEFFRESS (VICKSBURG P)
- *JEFFRESS (VICKSBURG Q)
- *JEFFRESS (VICKSBURG S)
- *JEFFRESS (VICKSBURG T)

*** PRECEDING FIELD NAME INDICATES RULE 37

** LIMITATIONS **

THIS WELL SHALL BE COMPLETED AND PRODUCED IN COMPLIANCE WITH
APPLICABLE SPECIAL FIELD OR STATEWIDE SPACING AND DENSITY RULES.



JAN 31 2005

PLEASE READ ALL INSTRUCTIONS

The information requested is essential in order for this agency to provide an appropriate response. Please allow for receipt of this form in our offices at least two weeks before your operation begins. Due to the volume of these requests, at times, it may be difficult for us to handle telephone inquiries. Complete, keep the bottom sheet (goldenrod) for your files, and mail the top 3 sheets of the 4-sheet set of carbon-backed forms with a map to the address below. One sheet bearing our response will be returned to you. Another will be sent to the appropriate district office of the Railroad Commission. Individuals are entitled to request and review their personal information that the agency gathers on its forms. They may also have any errors in their information corrected. To review such information, contact us at 512/239-3282. If you have questions on how to fill out this form or about the Surface Casing program, please contact us at 512/239-0515.

Surface Casing - MC 151
TCEQ
P.O. Box 13087
Austin, TX 78711-3087

Date January 19, 2005 TCEQ File No.: SC-

4990

Amanda Avila-Parker 361-883-0923
Name of person preparing this request & phone No. (with area code)

LMP Exploration Operating, LLC
Company (operator's name as on RRC form W-1)

615 N. Upper Broadway, Suite 1970
Mailing Address
Corpus Christi, TX 78477
City and State ZIP Code

FOR TCEQ USE ONLY

ALWAYS INCLUDE A MAP SHOWING YOUR WELL SITE AND ALL SURROUNDING SURVEYS

| | | | |
|---|----------------------------|---------------|---|
| COUNTY | <u>HIDALGO</u> | Survey Name | <u>J. McMILLAN / W.D. PORCHMAN #883</u> |
| Block No. | _____ | Township | _____ |
| Section or Survey No. | _____ | (or) Lot No. | _____ |
| Abstract No. A- | <u>726</u> | LEASE Name | <u>GARZA STATE</u> |
| Well No. | <u>1</u> | | |
| Distances, in feet, and directions measured at right angles from each of two intersecting <input type="checkbox"/> Section or <input type="checkbox"/> Survey lines | | | |
| (NOT LEASE LINES) <u>288</u> feet from <u>EAST</u> line and <u>659</u> feet from <u>SOUTH</u> line. | | | |
| Distance (in miles) and direction from a nearby town in this County (name the town) <u>6.5 MILES SOUTHWEST (SW) OF MCCOOK, TEXAS</u> | | | |
| THE ABOVE INFORMATION IN THIS BLOCK MUST BE COMPLETE AND CORRECT | | | |
| API # | _____ | RRC Lease No. | _____ |
| GPS Coord. (long/lat or X-Y state plane) | <u>X=2009172; Y=277985</u> | RRC Dist. No. | <u>04</u> |
| | | NAD | _____ |

Elevation 302.3' Total Depth 11,000 Geologic Fm. at T.D. VICKSBURG
Purpose of the Request: New Drill Re-entry Plug & Abandon Other (specify) _____
Is this an amended request? Yes No Previous File No. for this well: SC- _____
 Log included of same or nearby well (The applicable type of well log that shows the aquifers.) Please provide a location map or APM for attached log.

ALWAYS attach the electric log of any well that is to be reentered.

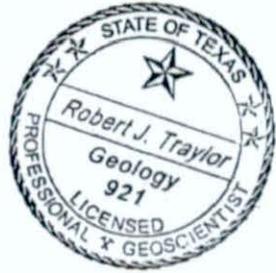
Additional remarks: _____

To protect usable-quality ground water at this location, the TEXAS COMMISSION ON ENVIRONMENTAL QUALITY recommends:

CO-HIDALG, SUR-MCMILLAN J., LSE-GARZA STATE, A-726, #1/650

The interval from the land surface to a depth of 650 feet must be protected.

Very truly yours,
Robert J. Traylor, P.G.



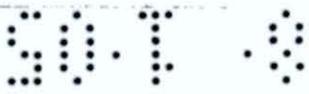
January 24, 2005

Date

Geologist, Surface Casing, TCEQ

typed by TCEQ

NOTE: Unless stated otherwise, this recommendation is intended to apply only to the subject well and not for area-wide use. Approval of the well-completion methods for protection of this ground water falls under the jurisdiction of the Railroad Commission of Texas. This recommendation is intended for normal drilling, production, and plugging operations only. It does not apply to saltwater disposal operations into a nonproductive zone (RRC Form W-14).



PLEASE DO NOT STAPLE

FOLD

TYPE OR PRINT IN INK

FOLD

DO NOT WRITE HERE FOR TCEQ USE ONLY

VICTOR G. CARRILLO, CHAIRMAN
MICHAEL L. WILLIAMS, COMMISSIONER
ELIZABETH A. JONES, COMMISSIONER



277
777
RICHARD A. VARELA
DIRECTOR, OIL & GAS DIVISION
FERMIN MUNOZ, JR.
DISTRICT DIRECTOR

RAILROAD COMMISSION OF TEXAS OIL AND GAS DIVISION

July 20, 2005

JUL 21 2005

LMP EXPLORATION OPERATING LLC
615 N UPPER BROADWAY SUITE 1770
CORPUS CHRISTI TX 78477

Re: Garza State Lease, Well No. 1, Hidalgo County, Texas

Pursuant to your request dated July 8, 2005, this letter will be your authority to set approximately **2250** feet of surface casing on the captioned well. Please note that a copy of this letter must be kept on location during all phases of drilling and/or plugging operations.

You must comply with all other provisions of Statewide Rule 13 (b)(2). If cement is not circulated to ground surface while cementing the surface casing, you must promptly contact the District Director or authorized representative and follow the procedures as set out in Statewide Rule 13 (b)(2)(G)(iii).

*Caution: If this well is being drilled for injection or disposal purposes, an application for an injection or disposal well permit may be denied unless surface casing is set and cemented through the entire zone of usable-quality groundwater.

It is requested that the Railroad Commission District Office be notified 8 hours prior to the time casing is cemented in this well. It is also requested that your representative provide the following information at notification; drilling permit number and Texas Commission on Environmental Quality usable quality water depth, and SC Number.

If further information is needed, please contact this office.

Yours very truly,

Handwritten signature of Arnold Ott, P.E.
Arnold Ott, P.E.
Engineer

AO/hs

DRILLING (Turnkey) PROCEDURE

Garza State #2
[10,750' Vicksburg Test]
Hidalgo County, Texas
7/8/2005

Orion "Eclipse"

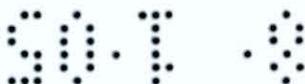
NEAREST OFFSET: Greenbriar Zamora-State #4 TD: 11,000'

SURFACE INTERVAL – 14-3/4" hole to 2,000'. Set 10-3/4" 40.5# J-55 STC

1. MIRU. Ensure that 40' of 16" conductor pipe has been run and cemented to +/- 40' BGL prior to rig moving in. Install 16" riser on conductor pipe for returns to shakers.
2. Drill 14-3/4" hole to 2,000'. Take inclination surveys every 500'. Sweep the hole, make short trip to the collars. Circulate BU. Drop survey. POOH & LD bit and stabilizers.
3. RU to run casing. RU casing tools. Run 10-3/4" 40.5#, J-55 casing to TD.
4. Cir & Cond mud before cementing. Displace cement and bump plug with 500 psi above differential pressure. Release pressure and verify that plug and floats are holding.
5. Make cut on 10-3/4" casing. Install 11" 10M Split speed head. Test to 1,500 psi. NU **11" 10M** psi BOP stack. Test blind rams and BOP's to 250 psi low and 10000 psi high. Test Hydril to 250 psi low and 3500 psi high.

INTERMEDIATE INTERVAL – 9-7/8" OH to 6,600', set 7-5/8" 33.7# P-110 LT&C

7. Pick up **9-7/8"** bit and BHA. RIH with bit
8. Drill float equipment and 5 ft of new hole. Test formation to **14.0 # MWE**. Record leak-off if it occurs.
9. Drill 9-7/8" hole to 6,600' taking inclination surveys every 500 ft. Estimated TD mud wt is **13.0 ppg**.
10. After reaching casing point [6,600'], circulate and clean mud, sweep the hole with viscous pills, short trip to shoe, and circulate clean. Record any trip gas or tight hole. Strap out of hole to log interval.



11. RU Schlumberger and run requested logs from 2,000' to 6,600'. RD W/L.
12. RU Franks Casing Crew & run 7 5/8" 33.7#, P-110 LTC casing to TD as per casing plan.
13. Circ BU and reciprocate casing as long as the drag allows. Cement as per BJ Cementing Plan.
14. Land 7-5/8" casing. RU mudloggers.

PRODUCTION INTERVAL 6600' TO TD:

15. RIH with 6 1/2" bit and BHA. Drill 5' of open hole and test formation to 17.2 ppg EMW. Displace hole with OBM.
16. Drill 6-1/2" hole to 10,750' (TD). Circ and condition mud to log. Strap drill string out of hole. Expected TD mud weight is 16.2 ppg.
17. RU logging company and log well with triple combo. Once first log is on the bank, turnkey contract is complete and day rate begins. Complete formation evaluation. RD logging company.
18. RIH with drill string. Circ and condition mud to run casing. POH and LD drill pipe and BHA. RIH with FS, two float joints, FC, and 4-1/2" 13.5# P-110 LTC with two marker joints in the string. Centralization procedure to follow after looking at log. Cmt csg in hole as per cmting rec.
19. Install 11" 10M x 4 - 1/16" 10M tubing head. Test head to 8M psi. Install 10M psi dry hole tree. Clean out mud pits and release rig.



Garza State #2
Logging Program
Hidalgo County, TX

Intermediate Hole:

1. Dual Induction Sonic

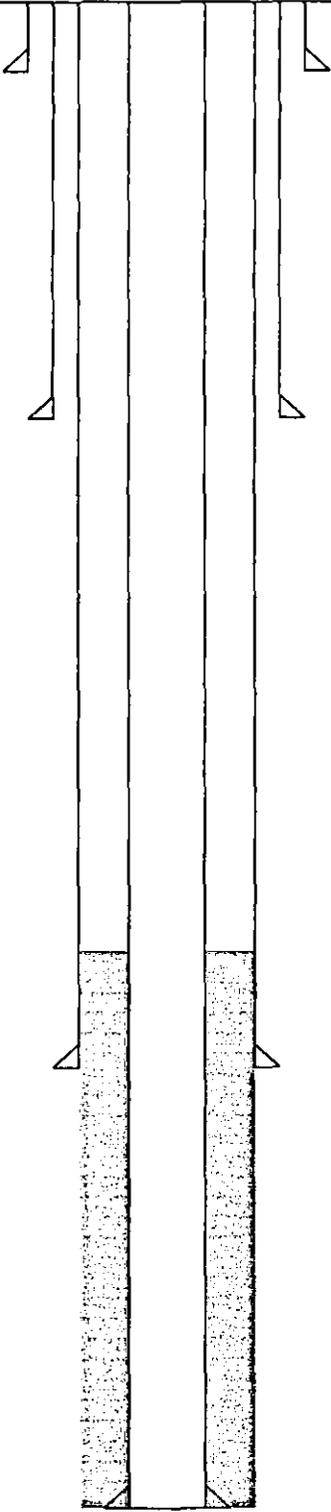
Production Hole:

1. Triple Combo
2. Dipmeter/Sonic (Dayrate)
3. RFT's or cores as necessary

Garza State #2
Proposed Wellbore Diagram

Completion Information

Drilling Information



Tbg Head: 11" 10M# X 4-1/16" 10M#

16" Conductor @ +/- 40'

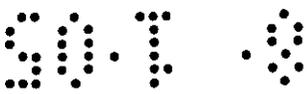
10-3/4" 40 5# K/J-55 LTC @ 2000' in 14-3/4" hole

TOC @ 5600'

7-5/8" 33.7# P-110 LTC @ 6600'

4-1/2" 13.5# P-110 LTC @ 10800' in 8.5" hole
w/ TOC @ 5600'

TD: 10800'



PLEASE
DO NOT STAPLE

DEPTH \ USABLE-QUALITY GROUND WATER \ BE PROTECTED

PLEASE READ ALL INSTRUCTIONS

The information requested is essential in order for this agency to provide an appropriate response. Please allow for receipt of this form in our offices at least two weeks before your operation begins. Due to the volume of these requests, at times, it may be difficult for us to handle telephone inquiries. Complete, keep the bottom sheet (goldenrod) for your files, and mail the top 3 sheets of the 4-sheet set of carbon-backed forms with a map to the address below. One sheet bearing our response will be returned to you. Another will be sent to the appropriate district office of the Railroad Commission. Individuals are entitled to request and review their personal information that the agency gathers on its forms. They may also have any errors in their information corrected. To review such information, contact us at 512/239-3282. If you have questions on how to fill out this form or about the Surface Casing program, please contact us at 512/239-0515.

Surface Casing - MC 151
TCEQ
P.O. Box 13087
Austin, TX 78711-3087

Date 11-23-04

TCEQ File No.: SC-

4957

Jeff Wecker 361-883-0923
Name of person preparing this request & phone No. (with area code)
LMP Exploration Operating, LLC
Company (operator's name as on RRC form W-1)
615 N. Upper Broadway, Suite 1770
Mailing Address
Corpus Christi, TX 78477
City and State ZIP Code

FOR TCEQ USE ONLY

ALWAYS INCLUDE A MAP SHOWING YOUR WELL SITE AND ALL SURROUNDING SURVEYS

| | |
|--|---|
| COUNTY <u>Hidalgo</u> | Survey Name <u>J. McMillan</u> |
| Block No. _____ Township _____ | Section or Survey No. _____ (or) Lot No. _____ |
| Abstract No. A- <u>726</u> | LEASE Name <u>Garza State</u> Well No. <u>2</u> |
| Distances, in feet, and directions measured at right angles from each of two intersecting <input type="checkbox"/> Section or <input checked="" type="checkbox"/> Survey lines | |
| (NOT LEASE LINES) <u>1000</u> feet from <u>N</u> line and <u>548</u> feet from <u>E</u> line. | |
| Distance (in miles) and direction from a nearby town in this County (name the town) <u>6.5 miles SW of Mc Cook</u> | |
| THE ABOVE INFORMATION IN THIS BLOCK MUST BE COMPLETE AND CORRECT | |
| API # _____ | RRC Lease No. _____ RRC Dist. No. _____ |
| GPS Coord. (long/lat or X-Y state plane) <u>X=2007165</u> | <u>Y=279572</u> NAD _____ |

Elevation 30A 6 Total Depth 11500 Geologic Fm. at T.D. Vicksburg

Purpose of the Request: New Drill Re-entry Plug & Abandon Other (specify) _____

Is this an amended request? Yes No Previous File No. for this well: SC- _____

Log included of same or nearby well (The applicable type of well log that shows the aquifers.) Please provide a location map or API# for attached log

ALWAYS attach the electric log of any well that is to be reentered.

Additional remarks: _____

To protect usable-quality ground water at this location, the TEXAS COMMISSION ON ENVIRONMENTAL QUALITY recommends:

~~MC-HIDALGO, SUB-MCMILLAN J., LSE-GARZA STATE, A-726, #1/650~~

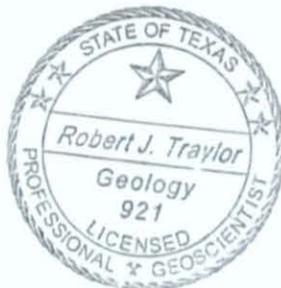
~~The interval from the land surface to a depth of 650 feet must be protected.~~

TYPE OR PRINT IN INK

DO NOT WRITE HERE FOR TCEQ USE ONLY

Very truly yours,

Robert J. Traylor, P.G.



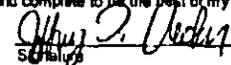
December 3, 2004

Date

typed by TCEQ

Geologist, Surface Casing, TCEQ

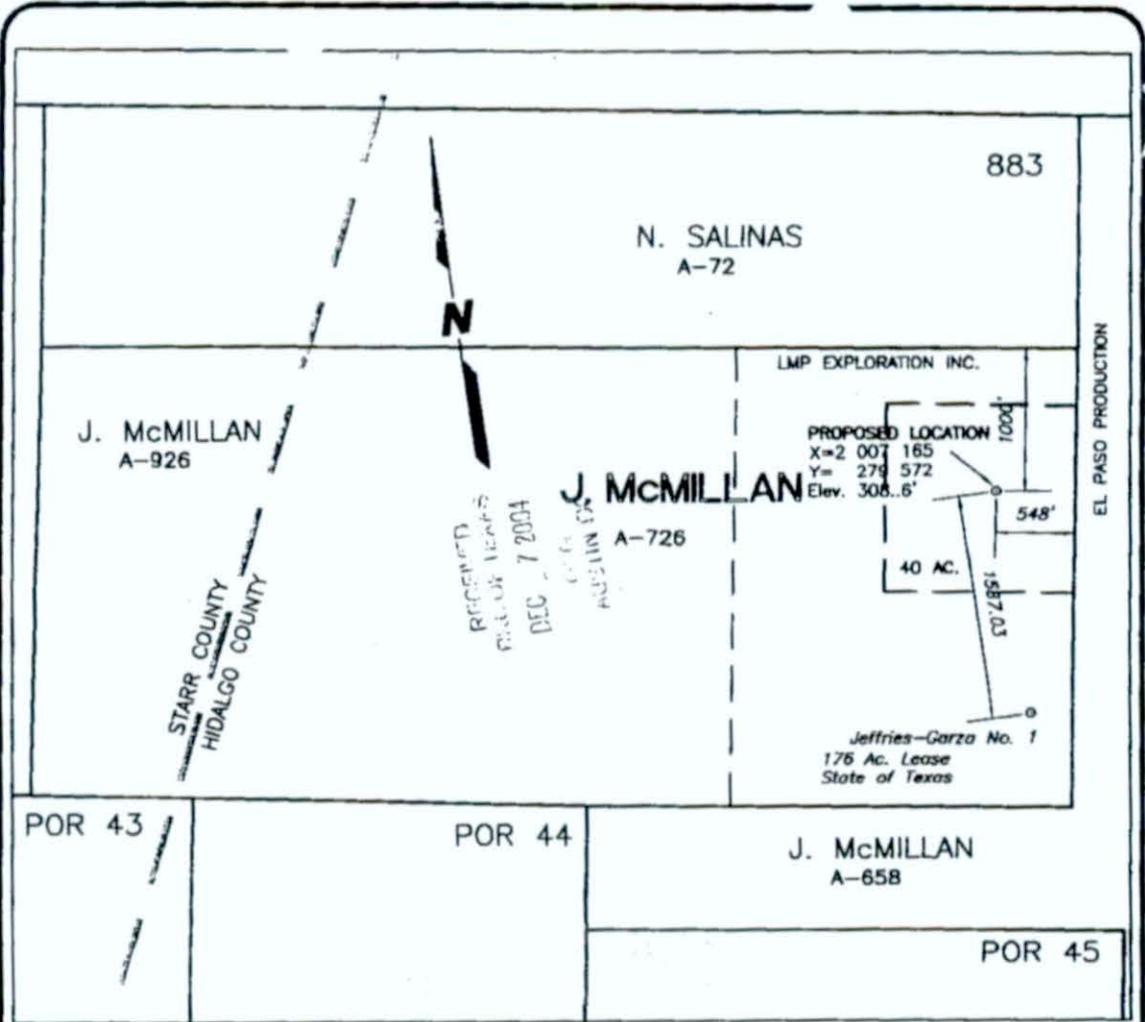
NOTE: Unless stated otherwise, this recommendation is intended to apply only to the subject well and not for area-wide use. Approval of the well-completion methods for protection of this ground water falls under the jurisdiction of the Railroad Commission of Texas. This recommendation is intended for normal drilling, production, and plugging operations only. It does not apply to saltwater disposal operations into a nonproductive zone (RRC Form W-14).

| | | | | | | |
|---|---|---|--|--|--|--|
| Enter if Assigned: AP# No.: 215-33283 Drilling Permit No.: 554497 Rule 37/38 Case No.: _____ RRC Operator No.: 804993 | RAILROAD COMMISSION OF TEXAS OIL AND GAS DIVISION APPLICATION FOR PERMIT TO DRILL, RECOMPLETE OR RE-ENTER | FORM W-1 EFF 10/04 Drilling Permit Fee Based on Depth: 0'-2000' \$200 2001'-4000' \$226 4001'-6000' \$250 >6000' \$300 Expedited Service Fee ADD \$150 Rule 37/38 Exception Fee ADD \$200 | | | | |
| 2. Operator Name (as shown on P-5 Organization Report): LMP EXPLORATION OPERATING, LLC | | 3. Operator Address (include street, city, state, zip): 818 N. Upper Broadway, Suite 1779 Corpus Christi, TX 78477 | | | | |
| 4. Lease Name: Garza State | | 5. Well No.: 2 | | | | |
| GENERAL INFORMATION | | | | | | |
| Purpose of Filing (Mark ALL appropriate boxes): <input checked="" type="checkbox"/> New Drill <input type="checkbox"/> Recompletion <input type="checkbox"/> Redrill <input type="checkbox"/> Field Transfer <input type="checkbox"/> Re-enter <input type="checkbox"/> Amended <input type="checkbox"/> Amended as Drilled (BHL) (Also File Form W-1D) | | | | | | |
| 7. Wellbore Profile (Mark ALL appropriate boxes): <input checked="" type="checkbox"/> Vertical <input type="checkbox"/> Horizontal (Also File Form W-1H) <input type="checkbox"/> Directional (Also File Form W-1D) <input type="checkbox"/> Sidetrack | | | | | | |
| 8. Total Vertical Depth: 11,800 | 9. Do you have the right to develop minerals under any right of way? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 10. Is this well subject to Statewide Rule 38 (hydrogen sulfide area)? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | | | | |
| SURFACE LOCATION AND ACREAGE INFORMATION | | | | | | |
| 11. RRC District No.: 4 | 12. County: Hidalgo | 13. Surface Location: <input checked="" type="checkbox"/> Land <input type="checkbox"/> Bay/estuary <input type="checkbox"/> Inland waterway <input type="checkbox"/> Offshore | | | | |
| 14. This well is to be located 8.5 miles in a Southwest direction from McCook, which is the nearest town in the county | | | | | | |
| 15. Section: 22 | 16. Block: | 17. Survey: J. McMillan Survey W. 1/4 Section 22, Block 1 | | | | |
| 18. Abstract No.: A-728 | 19. Distance to nearest lease line: 848' | 20. Number of contiguous acres in lease, pooled unit or unitized tract: 178 | | | | |
| 21. Lease Perpendiculars: 848' ft from the East line and 1000' ft from the North line. | | | | | | |
| 22. Survey Perpendiculars: 848' ft from the East line and 1000' ft from the North line. | | | | | | |
| 23. Is this a pooled unit? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | | 24. Utilization Docket No.: | | | | |
| 25. Are you applying for Substandard Acreage Field? <input type="checkbox"/> Yes (attach Form W-1A) <input checked="" type="checkbox"/> No | | | | | | |
| FIELD INFORMATION List all fields of anticipated completion including Wildcat. List one zone per line. Attach an additional Form W-1 if you require more space. | | | | | | |
| 26. RRC District No. | 27. Field No. | 28. Field Name (exactly as shown in RRC records) | 29. Well Type | 30. Completion Depth | 31. Distance to Nearest Well in this Lease & Reservoir | 32. No. of Wells on this Lease in this Reservoir |
| 4 | 00008001 | Wildcat 46711200 UOAC | Oil/Gas | Above 11800' | 1387' | 2 |
| 4 | 48088400 | Jeffress (Vicksburg T) 4671933 160/40 AC | Gas | 10000' | 1887' | 2 |
| 4 | 48090500 | Jeffress, N (Vicksburg LO) 4671933 160/40 AC | Gas | 11000' | NA | 1 |
| BOTTOMHOLE LOCATION INFORMATION is required for DIRECTIONAL, HORIZONTAL, AND AMENDED AS DRILLED PERMIT APPLICATIONS - Attach FORM W-1D/FORM W-1H as appropriate | | | | | | |
| Remarks:  208287 554497 | | | CERTIFICATE | | | |
| | | | I declare under penalties in Sec. 91.143, Texas Natural Resources Code, that I am authorized to file this application, that this application was prepared by me or under my supervision and direction, and that the data and facts stated therein are true, correct, and complete to the best of my knowledge. | | | |
| RRC Use only | | | Jeffrey T. Uecker Name of Representative (Print) |  Date (mm/dd/yyyy) | 11/23/04 | |
| | | | 361-843-0923 Telephone (AC and number) | Jeff@LMPexploration.com E-mail Address (OPTIONAL - If provided, e-mail address will become part of this public record.) | | |

253138 RECEIVED RRC OF TEXAS

DEC 7 2004
O/G
AUSTIN TX

11/23/04



PLAT SHOWING LOCATION OF
 LMP EXPLORATION OPERATING, LLC-JEFFRIES-GARZA STATE, WELL NO. 2,
 J. McMILLAN SURVEY, A-726, HIDALGO COUNTY
 RAILROAD COMMISSION DISTRICT NO. 4

NOTE: Coordinates are State of Texas, Lambert Grid, South Zone,
 NAD 1927, U.S. Feet
 (S) Indicates a scaled distance.

Prepared by:
Bass & Welsh Engineering
 3054 So. Alameda St.
 Corpus Christi, Tx. 78404
 (361) 882-5521 (phone)
 (361) 882-1265 (fax)



Job No: 04085
 Scale: 1"=1000'
 Date: 11-19-04
 Drawing No: 04085B
 Plotscale: 1=1
 Sheet 1 of 1



VICTOR G. CARRILLO, CHAIRMAN
MICHAEL L. WILLIAMS, COMMISSIONER
ELIZABETH A. JONES, COMMISSIONER



DRY
F.A.P.
RICHARD A. VARELA
DIRECTOR, OIL & GAS DIVISION
FERMIN MUNOZ, JR.
DISTRICT DIRECTOR

RAILROAD COMMISSION OF TEXAS

OIL AND GAS DIVISION

JUL 21 2005

July 20, 2005

LMP EXPLORATION OPERATING LLC
615 N UPPER BROADWAY SUITE 1770
CORPUS CHRISTI TX 78477

Re: Garza State Lease, Well No. 2, Hidalgo County, Texas

Pursuant to your request dated July 8, 2005, this letter will be your authority to set approximately 2250 feet of surface casing on the captioned well. Please note that a copy of this letter must be kept on location during all phases of drilling and/or plugging operations.

You must comply with all other provisions of Statewide Rule 13 (b)(2). If cement is not circulated to ground surface while cementing the surface casing, you must promptly contact the District Director or authorized representative and follow the procedures as set out in Statewide Rule 13 (b)(2)(G)(iii).

*Caution: If this well is being drilled for injection or disposal purposes, an application for an injection or disposal well permit may be denied unless surface casing is set and cemented through the entire zone of usable-quality groundwater.

It is requested that the Railroad Commission District Office be notified 8 hours prior to the time casing is cemented in this well. It is also requested that your representative provide the following information at notification; drilling permit number and Texas Commission on Environmental Quality usable quality water depth, and SC Number.

If further information is needed, please contact this office.

Yours very truly,

A handwritten signature in black ink that reads "Arnold Ott, P.E.".

Arnold Ott, P.E.
Engineer

AO/hs

3/.

File No. MF704158

Arthur F. Wood

Date Filed: 8/1/05

By *W. E. Patterson*
W. E. Patterson, Commissioner



November 16, 2006

Mr. Mark Galloway
Kerr-McGee Oil & Gas Corporation
16666 Northchase
Houston, TX 77060

RE: State Oil & Gas Lease (MF-104158), 176 Acres Garza-State Lease, Hidalgo & Starr Counties, TX.

Dear Mr. Galloway:

Thank you for visiting with General Land Office (GLO) staff yesterday and for the discussion of Kerr-McKee's prospective offset well obligation on the above referenced lease. Kerr-McGee's good-faith candor and prompt attention to this matter is acknowledged and appreciated.

As noted in our meeting, I reviewed the technical paper by Mary Lou Zoback and Mark D. Zoback entitled "Tectonic Stress Field of the Continental United States." It was published in 1989 by the Geological Society of America and may be found in Chapter 24 of Memoir 172. For your convenient reference, I have attached a copy to this letter. Figure 1 of the paper shows the direction of the maximum horizontal compressive stress in the tectonic plate in the Hidalgo and Starr Counties area. From Figure 1, I estimate the maximum compressive stress axis to be about 46° from true north placing it in a southwest to northeast direction.

GLO staff offers the following for your consideration. During hydraulic fracturing, the induced hoop stress generated by the excessive fluid pump-in rate causes the rock matrix to fail in tension in a vertical plane. The in-situ maximum compressive stress in the tectonic plate provides a counter-active force to the tensile force produced by the hoop stress. Thus as the hoop stress is increased by the higher pump-in rates, the maximum tensile force occurs along the minimum compressive stress axis (i.e. perpendicular to the maximum stress axis). When near well-bore failure occurs, the direction of rock matrix parting is perpendicular to the maximum tensile force or along the maximum compressive stress axis.

For this reason, GLO staff disagrees with the drainage radius polygon for the Garza Zamora Energy Trust No. 3 well as shown on the map you provided at the meeting. For your reference, I have attached a copy of the map on which I have sketched the most likely direction of the fracture system generated by El Paso Production Oil & Gas USA (El Paso) during the hydraulic treatment/completion operation in well No. 3. It was indicated that the design half-length of the treatment was 500 to 600 feet. From the map, the southwestern design tip of the propped fracture would be at or very near the shared boundary line with the referenced state lease. Further, we expect that because the propped fracture runs close to and nearly parallel to the red fault on your map, the drainage area will ultimately be a semi-elliptical shape with the major axis running southwest to northeast. It is recognized there is insufficient data available to more reasonably estimate ultimate recovery and better define the semi-elliptical drainage area.

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www.glo.state.tx.us

GLO staff recognizes that Kerr-McKee cannot be expected to secure a Railroad Commission of Texas permit and drill an offset well to produce the gas/condensate reserves under the 1.35 productive acres of the referenced mineral classified tract. However, it is for these situations that state oil and gas leases provide for compensatory royalty payment particularly when there are common lessees and the state minerals will ultimately be drained and produced by the lessees at the existing well (i.e. the Garza Zamora Energy Trust No. 3 well).

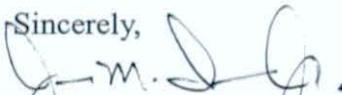
Absent evidence to the contrary, GLO staff believes the pressure transient generated by the initial production in the No. 3 well has already extended beyond the tips of the fracture system. For that reason, GLO staff believes that the referenced tract is currently affected by the No. 3 well's production. Based on the evidence of record, GLO staff will maintain a drainage claim even if Kerr-McGee opts to release the affected acreage in the referenced lease. Further, it is expected that the northeast portion of El Paso's 356.74 acres mineral classified lease (MF-091211) on Tract 883, A-726, Hidalgo County is also affected.

In order to reach a settlement, GLO staff would offer the following three options for resolution:

1. Kerr-McGee calculates a semi-elliptical drainage area for ultimately producing 5×10^9 SCF (7×10^9 SCF of original gas in place) using local porosity and in-situ water saturations for the "T" sand. Suggest determining a minor axis half-length that yields a semi-ellipse area with a major axis of 1100 feet (fracture length) plus the minor axis length to hold 7×10^9 SCF. Estimate average net feet of pay at 150 feet. Time rate the 5×10^9 SCF recovery over 10 years and calculate a pre-tax present worth at 5% value for the state's net revenue interest for cash settlement based on the referenced lease area's percentage of the total semi-elliptical area; or,
2. Wait until sufficient production history is available to better define original gas in place. Then repeat the process noted in the above item 1 to estimate the semi-elliptical area and damage value. GLO staff will recommend waiver of penalty due to Kerr-McGee's good faith efforts. However, interest accrues by statute at 12% annual rate on unpaid royalties from 100 days after date of first production of the No. 3 well; or,
3. Kerr-McGee and El Paso cause the timely filing of a GLO application to pool the 1.35 acres from the referenced lease with 38.65 acres of the MF-091211 lease with a commitment to begin the drilling and completion of a southwesterly offset to the Garza Zamora Energy Trust well No. 3 within 3 months of approval of the pooling application or Kerr McKee pays a compensatory royalty as noted above.

Please advise within 30 days of receipt of this letter what Kerr-McGee's preferred option is. I may be reached by phone at (512) 463-5326 or by e-mail at james.Irwin@glo.state.tx.us

Sincerely,



James M. Irwin, Jr., P.E.

Petroleum Engineer

Mineral Leasing/Energy Resources

cc: Peter Boone

Robert Hatter/Louis Renaud

Chapter 24

Tectonic stress field of the continental United States

Mary Lou Zoback

U.S. Geological Survey, 345 Middlefield Road, Menlo Park, California 94025

Mark D. Zoback

Department of Geophysics, Stanford University, Stanford, California 94305

ABSTRACT

The orientation and relative magnitudes of in situ tectonic stress in the continental United States have been inferred from a variety of indicators, including earthquake focal mechanisms, stress-induced elliptical borehole enlargement ("breakouts"), hydraulic fracturing stress measurements, and young fault slip and volcanic alignments. The data come from a wide range of depths (0.1 to 20 km) and have been assigned a quality ranking according to their reliability as tectonic stress indicators. The data show that regionally consistent orientations persist throughout the seismic "brittle" upper crust. Stress provinces are defined on the basis of uniform stress orientations and relative stress magnitudes (style of faulting).

Depth range
(328' to 65,620')
(0.1 to 20 km)

The sources of stress for all the major stress provinces are believed to be linked either directly or indirectly to plate-tectonic processes. Most of the central and eastern United States is part of a broad "midplate" stress province (which includes most of Canada and possibly the western Atlantic basin) characterized by NE- to ENE-oriented maximum horizontal compression. This orientation range coincides with both absolute plate motion and ridge push directions for North America. With the exception of the San Andreas region and most of the Pacific Northwest area, the remainder of the western United States (generally, the thermally elevated region from the high Great Plains to the west and including the Basin and Range province) is characterized by extensional tectonism. Within areas of "classic" basin-range structure, both those currently active and those largely quiescent, the least horizontal stress is oriented approximately E-W (between WNW and ENE). In the Colorado Plateau interior and the southern Great Plains, the least horizontal stress is NNE, roughly perpendicular to that in surrounding areas. The state of stress in these two regions may be related to pronounced lateral variations in lithosphere thickness beneath them.

New focal-mechanism data in western Washington and northern Oregon define a region of NE compression apparently associated with subduction of the Juan de Fuca plate. In the coastal region of central California there appears to be a zone approximately 100 to 125 km wide on both sides of the San Andreas fault in which the maximum horizontal stress is oriented NE, nearly perpendicular to the fault itself. While compression orthogonal to the San Andreas fault explains late Tertiary-Quaternary folding and reverse faulting subparallel to the San Andreas, this NE compression seems incompatible with right-lateral slip on the N40°W-trending San Andreas fault. The observed stress field, however, is consistent with current estimates of the direction of relative plate motions, provided that the shear strength of the San Andreas is appreciably lower than the level of far-field shear stress in the crust.

INTRODUCTION

In this chapter we present an update of our earlier compilation (Zoback and Zoback, 1980) of stress-orientation data for the continental (conterminous) United States. In the earlier work we showed that the modern state of stress has regional uniformity and is primarily tectonic in origin. The data we consider come from a wide range of depths and indicate consistent stress orientations throughout the upper crust (approximately the upper 20 km).

The data presented here are a subset of a new compilation of stress data for all of North America we are preparing for the Decade of North American Geology (DNAG) Neotectonics volume. Several changes have been made to our earlier compilation. The data base has been considerably enlarged, from 226 to more than 400 points, and we have slightly revised our criteria for reliable tectonic stress field indicators. In addition, all of the data points have been assigned a quality ranking, and a few points have been deleted from the original data set based on the revised criteria and quality-ranking procedure. This chapter focuses on a new, quality-ranked stress orientation map of the United States. A detailed listing of the individual data points in the new data base is not included here; it will be part of the DNAG Neotectonics volume.

As we pointed out in our previous study, the stress data permit definition of stress provinces, regions characterized by generally uniform stress orientations and relative stress magnitudes, or style of faulting. Our description and discussion of these stress provinces parallels the discussion in the seismicity chapter (Dewey and others, this volume), which divides the United States into four major plate-tectonic provinces. Correlations between the stress field and plate-tectonic interactions and other regional geophysical parameters are also addressed.

Principal stress orientation indicators

Data on principal stress orientations come from four main types of indicators: earthquake focal mechanisms, elliptical wellbore enlargements, or "breakouts," in situ stress measurements, and geological data on young volcanic vent alignments and fault offsets. The assumptions, difficulties, and uncertainties associated with each type of indicator have been discussed earlier in some detail (Zoback and Zoback, 1980). One of the primary factors accounting for the marked increase in data in this compilation compared to our previous one is the large number of new orientations from wellbore breakout analyses (e.g., Gough and Bell, 1981, 1982; Dart, 1985; Plumb and Cox, 1987; Dart and Zoback, 1987). The physical process leading to the occurrence of these breakouts is now fairly well understood (Gough and Bell, 1981; Plumb and Hickman, 1985; Zoback and others, 1985a), and the widespread availability of data from wells drilled for petroleum exploration makes this technique a valuable data source in the new compilation.

We have revised the age criteria for the geologic (fault-slip)

indicators. Previously, in the eastern United States we used fault offsets of Tertiary or Quaternary age as compiled by Prowell (1983). We have now restricted our consideration to faults in the eastern United States that show offsets of Miocene or younger strata. The age criteria for geological data from the western United States remains the same, < 5 Ma, although most data are younger than 3 Ma.

A new category of in situ stress measurements, petal centerline or core-induced fractures (IS-PC, Table 1), has been included. These planar, vertical or very steeply dipping fractures are observed in oriented cores and are believed to be extensional fractures formed in advance of a downcutting drill bit; their orientation is thus thought to record the maximum horizontal compressive stress direction (Kulander and others, 1977, 1979; Dean and Overbey, 1980; Ganga Rao and others, 1979). Evans (1979) has examined oriented cores from 13 gas wells in Pennsylvania, Ohio, West Virginia, Kentucky, and Virginia, and determined petal centerline fracture orientations for hundreds of meters of core for most well. The inferred maximum horizontal stress orientations are consistent within wells, between nearby wells, and with adjacent hydraulic fracturing results and focal mechanisms (Bollinger and Wheeler, 1982), and so these data have been included in our compilation.

In addition to enlarging the data set, an additional contribution of this study is a quality-ranking system that is intended to characterize how accurately a particular data point records the tectonic stress field. Four qualities have been assigned, A through D, with A the highest quality and D the lowest. Whenever possible, the quality ranking was based on a statistical analysis of the accuracy of the data. A brief discussion of the rationale for the ranking follows; a detailed description of the ranking for each type of indicator will be included in Zoback and Zoback (1989).

In general, the A determinations come from averages of closely spaced data or from multiple and/or very high-quality observations at a single locality. We believe these data record the horizontal principal stress orientations in the upper crust (to seismogenic depths) to an accuracy of 10° to 15° .

The B determinations are intermediate in quality. Typically they represent one or two determinations at a single site; they may be very high-quality determinations but lack the statistical strength of multiple measurements. Note in Table 1 that even a well-constrained single-event focal mechanism rates only a B quality, because of the uncertainty in inferring principal stress orientations from even well-determined P- and T-axes (cf. McKenzie, 1969). The estimated accuracy of these B category stress orientation determinations is between 15° and about 20° to 25° .

The C quality determinations are the lowest quality measurements considered to be reliable indicators of the orientation of the tectonic stress field (probably $\pm 25^\circ$). Either these data have some inherent uncertainty or inconsistency in the measurements themselves, or there is not enough information available to constrain stress orientations accurately from the data. Still, these data are included in the compilation because we believe they provide some reliable information about the stress field.

As indicated in Table 1, two general classes of information are included in the D quality ranking: (1) data that may be more indicative of local rather than tectonic stresses (e.g., G-FS, IS-OC, IS-HF), and (2) single observations of questionable quality (FM, IS-BO, G-VA) or multiple observations at a single site with a broad scatter or bimodal distribution of orientations (IS-BO, IS-OC). For some parts of the world these data may be the only type of information available; however, given the overall quality and density of the United States data set we see no reason to plot these questionable points. Thus, the stress map included in this chapter includes only A, B, and C quality data. Although the D-quality determinations are not plotted, they have been retained in the data base.

STRESS MAP OF THE CONTINENTAL UNITED STATES

Using the quality-ranked data set described above, we have prepared a map of maximum horizontal principal stress orientations (Fig. 1). In regions of known or inferred extensional stress regimes, the stress axes plotted in Figure 1 are actually the intermediate principal stress, S_2 . The length of the orientation arrow is scaled proportional to its quality, and the center symbol designates the type of stress indicator. To emphasize broad-scale orientation patterns we have consistently plotted the maximum horizontal compressive stress orientation regardless of the actual state of stress (compressional or extensional) suggested by the indicator. The type of faulting or stress regime is given for each point in the detailed data set included in Zoback and Zoback (1989). Figure 2 is an index map showing the names of physiographic provinces shown on the stress maps in Figures 1 and 3.

Figure 3 is a generalized stress map showing average principal stress orientations, stress regime, and stress province boundaries. The stress provinces are characterized by a relatively uniform stress field and stress regime. The boundaries between some provinces are sharp (<75 km; e.g., between the Rio Grande Rift and southern Great Plains); between others, they may be broad and transitional (e.g., about 300 km wide between the San Andreas and Cordilleran extensional stress provinces).

Nearly all of the central and eastern United States is characterized by a compressive stress regime (reverse and strike-slip faulting, with the vertical stress, S_v , less than one or both of the horizontal stresses); in these areas in Figure 3 the maximum horizontal stress is indicated by inward-pointing arrows. Large portions of the western United States, however, are currently undergoing extensional tectonism (S_v = maximum principal stress). For the known or inferred extensional areas on the generalized stress map (Fig. 3), the orientation of the minimum horizontal stress (S_3) is indicated by outward-pointing arrows. Regions dominated by strike-slip tectonism (S_v = intermediate stress), such as the San Andreas fault system, are obviously transitional in character and typically contain evidence of reverse and some normal faulting subsidiary to the main strike-slip deformation. There are a few examples of extensional (normal faulting)

points in the areas of compressional tectonics; however, we are aware of no data documenting major reverse faulting (other than a $M = 3.7$ reverse-faulting earthquake in northwestern Arizona: Brumbaugh, 1980) within the areas of extensional tectonics.

Discussion and description of the stress provinces shown in Figure 3 are divided into four sections covering the "plate-tectonic" provinces (San Andreas transform, Rocky Mountain/Intermountain intraplate, Cascade convergent, and midplate central and eastern United States) as defined and discussed in the chapter on seismicity elsewhere in this Memoir (Dewey and others, this volume). The reader is referred to Dewey and others (this volume) for a detailed summary of active deformation in these regions. The four major plate-tectonic provinces generally coincide with stress provinces; however, several of the plate-tectonic provinces include more than one stress province. It is not our attempt to describe each stress province exhaustively; the reader is referred to our previous paper (Zoback and Zoback, 1980) for further description and discussion of these provinces, which we still consider generally valid except where noted.

SAN ANDREAS TRANSFORM PROVINCE

This province accommodates most of the relative motion between the Pacific and North American plates. The dominant structural feature is the San Andreas fault system, with deformation primarily concentrated along NW-striking, right-lateral strike-slip faults. Surprisingly, the overall orientation of the maximum horizontal stress (S_{Hmax}) in central California is roughly northeasterly, particularly when stress indicators from right-lateral strike-slip focal mechanisms along the San Andreas fault system (with N-trending P-axes) are ignored (Zoback and others, 1987). The pattern of generally NE compression in central California has recently been confirmed by more than 100 stress-induced wellbore breakouts from the California Coast Ranges and eastern Great Valley area (Mount and Suppe, 1987; Mount, in press). These data are not shown in Figure 1. Focal mechanisms for moderate-size earthquakes in the central California Coast Ranges—i.e., events that occur on faults subsidiary to and west of the San Andreas system proper—show a combination of reverse and strike-slip faulting with NNE- to NE-trending P-axes (Eaton and Rymer, 1989). Inversion of all these "off-San Andreas" focal mechanisms in central California (including the 1983 $M = 6.7$ Coalinga earthquake that occurred east of the San Andreas) to find a mean best-fitting deviatoric stress tensor (using the technique described by Angelier, 1984) yielded a rather good fit with a maximum horizontal compressive stress direction of $N34^\circ E$. Similarly, focal mechanisms for events along the Coast Ranges-Great Valley boundary in north-central California show reverse and strike-slip faulting with NE- to E-trending P-axes (Wong and others, 1988). In southern California, the direction of maximum principal stress is more northerly. Jones (1988) analyzed groups of focal mechanisms within 10 km of the fault and found P-axes trending generally northerly, 60° to 70° oblique to the WNW strike of the San Andreas in this region.

TABLE 1. QUALITY RANKING SYSTEM FOR STRESS ORIENTATIONS

| | A | B | C | D |
|-----------------------------------|--|---|---|---|
| Focal Mechanism (FM) | Average P-axis or formal inversion of four or more single-event solutions in close geographic proximity (at least one event $M \geq 4.0$, other events $M \geq 3.0$) | Well-constrained single-event solution ($M \geq 4.5$) or average of two well-constrained single-event solutions ($M \geq 3.5$) determined from first motions and other methods (e.g., moment tensor wave-form modeling, or inversion) | Single-event solution (constrained by first motions only, often based on author's quality assignment) ($M \geq 2.5$) Average of several well-constrained composites ($M > 2.0$) | Single composite solution Poorly constrained single event solution Single event solution for $M < 2.5$ event |
| Wellbore Breakout (IS-BO) | Ten or more distinct breakout zones in a single well with S.D. $\leq 12^\circ$ and/or combined length > 300 m Average of breakouts in two or more wells in close geographic proximity with combined length > 300 m and S.D. $\leq 12^\circ$ | At least six distinct breakout zones in a single well with S.D. $\leq 20^\circ$ and/or combined length > 100 m | At least four distinct breakouts with S.D. $< 25^\circ$ and/or combined length > 30 m | Less than four consistently oriented breakouts or < 30 m combined length in a single well Breakouts in a single well with S.D. $\geq 25^\circ$ |
| Hydraulic Fracture (IS-HF) | Four or more hydrofrac orientations in single well with S.D. $\leq 12^\circ$, depth > 300 m Average of hydrofrac orientations for two or more wells in close geographic proximity, S.D. $\leq 12^\circ$ | Three or more hydrofrac orientations in a single well with S.D. $< 20^\circ$ Hydrofrac orientations in a single well with $20^\circ < \text{S.D.} < 25^\circ$ | Hydrofrac orientations in a single well with $20^\circ < \text{S.D.} < 25^\circ$. Distinct hydrofrac orientation change with depth, deepest measurements assumed valid One or two hydrofrac orientations in a single well | Single hydrofrac measurement at < 100 -m depth |
| Petal Centerline Fracture (IS-PO) | | | Mean orientation of fractures in a single well with S.D. $< 20^\circ$ | |
| Overcore (IS-OC) | Average of consistent (S.D. $\leq 12^\circ$) measurements in two or more boreholes extending more than two excavation radii from the excavation wall, and far from any known local disturbances, depth > 300 m | Multiple consistent (S.D. $< 20^\circ$) measurements in one or more boreholes extending more than two excavation radii from excavation well, depth > 100 m | Average of multiple measurements made near surface (depth > 5 - 10 m) at two or more localities in close proximity with S.D. $\leq 25^\circ$ Multiple measurements at depth > 100 m with $20^\circ < \text{S.D.} < 25^\circ$ | All near-surface measurements with S.D. $> 15^\circ$, depth < 5 m All single measurements at depth Multiple measurements at depth with S.D. $> 25^\circ$ |
| Fault Slip (G-FS) | Inversion of fault-slip data for best-fitting mean deviatoric stress tensor using Quaternary-age faults | Slip direction on fault plane, based on mean fault attitude and multiple observations of the slip vector. Inferred maximum stress at 30° to fault | Attitude of fault and primary sense of slip known, no actual slip vector | Offset coreholes Quarry pop-ups Postglacial surface fault offsets |

TABLE 1. QUALITY RANKING SYSTEM FOR STRESS ORIENTATIONS (continued)

| A | | B | C | D |
|--|--|---|--|---|
| Volcanic Vent Alignment* (G-VA) | Five or more Quaternary vent alignments or "parallel" dikes with S.D. <12° | Three or more Quaternary vent alignments or "parallel" dikes with S.D. <20° | Single well-exposed Quaternary dike Single alignment with at least five vents | Volcanic alignment inferred from less than five vents |

S.D. = standard deviation.

*Volcanic alignments must be based, in general, on five or more vents or cinder cones. Dikes must not be intruding a regional joint set.

Zoback and others (1987) explained the observed stress field adjacent to the San Andreas as a consequence of several superimposed effects: current relative plate motions (resulting in a component of convergence across the San Andreas), extension in the Basin and Range province to the east, and a shear strength for the San Andreas fault that is appreciably lower than the level of far-field shear stresses in the crust. The inferred low shear strength for the San Andreas fault is consistent with the implication of relatively low heat flow all along the fault zone (Lachenbruch and Sass, 1973, 1980).

The western boundary of the San Andreas province lies offshore somewhere within the Pacific plate. Available stress information extends only as far west as the zone of high seismicity associated with the fault zone itself; however, seismic reflection data indicate abundant late Neogene folds and faults striking subparallel to the San Andreas on the continental shelf (McCulloch, 1987). The boundary with the Basin and Range province to the east lies somewhere within the seismically quiescent Great Valley because both young fault offsets and focal mechanism data indicate a combination of normal and strike-slip faulting within the Sierra Nevada–Great Basin boundary zone. Focal mechanisms of the 1975 $M = 5.7$ Oroville earthquake, as well as smaller events in the western Sierra Nevada farther to the south, consistently show normal faulting on north-striking planes; B-axes (assumed to be approximately equal to the maximum horizontal stress direction) vary from N15°W to N11°E (Langston and Butler, 1976; Eaton and Simirenko, 1980; Eaton and others, 1981; J. P. Eaton, written communication, 1986). Within the central Sierra Nevada block, a single hydrofracture measurement and geological observations of conjugate small-displacement strike-slip fault sets (Lockwood and Moore, 1979) suggest a strike-slip stress regime with a NNE to NE S_{Hmax} orientation. However, recent focal mechanisms from the Durwood Meadows area of the southern Sierra Nevada (35.92°N; 118.317°W) indicate nearly pure normal faulting on N-S–striking nodal planes (Jones and Dollar, 1986). Similarly, Lake Tahoe is situated in a late Cenozoic N-S–striking graben within the northern Sierra Nevada block.

Deformation east of the Sierran front (the western physiographic boundary of the northern Basin and Range province) includes both strike-slip and normal faulting with a N to NNE S_{Hmax} orientation and is discussed in more detail in the next section. Because of the contrast between compressional (strike-slip and reverse faulting) deformation in the California Coast Ranges and the focal mechanisms indicating extensional (normal) faulting within the Sierra Nevada and the paucity of data in the intervening Great Valley, we have approximated the eastern boundary of the San Andreas stress province along the axis of the Great Valley in central California. In southern California, the Garlock fault and the western Mojave block contain strike-slip faults subparallel to the San Andreas system and are also included in the San Andreas stress province.

ROCKY MOUNTAIN/INTERMONTANE INTRAPLATE PROVINCE

As the title implies, the deformation in the region included in this broad province occurs within the North American plate; however, it is strongly influenced by interplate (specifically North American–Pacific plate) interaction. Geological data indicate that interaction between these two plates has been a major factor in deformation of the region since middle Tertiary time (Atwater, 1970; Atwater and Molnar, 1973; Stewart, 1978; Eaton, 1979; Zoback and others, 1981). Regionally high elevations (typically 1 to 2+ km above sea level) and a relatively thin crust characterize the entire region, from the Rocky Mountains west to the Sierra Nevada and Cascade Ranges. Various lines of geophysical data indicate that the source of this elevation is an anomalous warm upper mantle (or equivalently thin lithosphere) (Thompson and Burke, 1974; Eaton, 1980).

This plate-tectonic province includes three distinct stress provinces: Cordillera extensional, Colorado Plateau interior, and the southern Great Plains. In our earlier work we attempted further subdivision in the northern half of the region based on scanty and generally poor-quality data. The current synthesis is substantially simplified. Note that the Pacific Northwest region

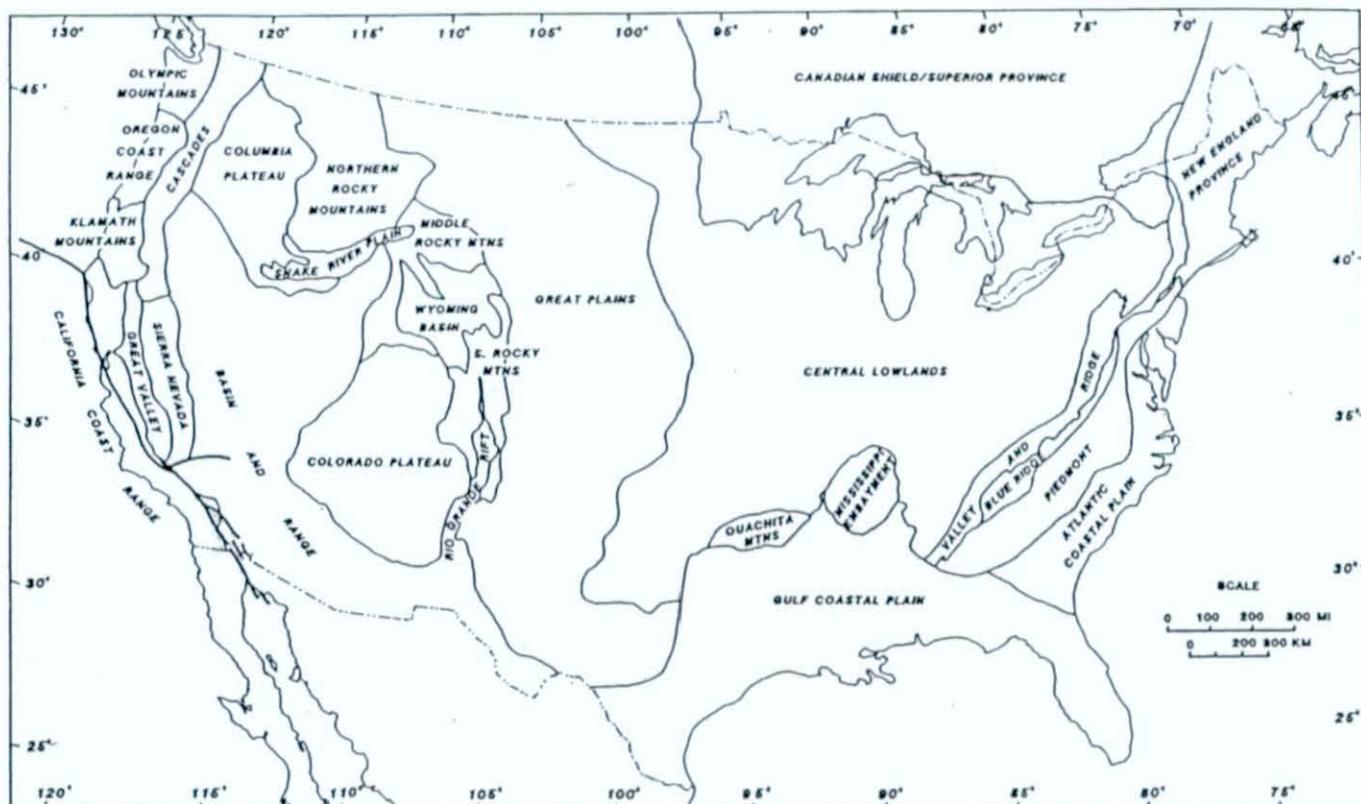


Figure 2. Index map showing physiographic provinces.

(including the Cascade convergent zone) is covered separately in the next section.

Cordilleran extensional province

On the basis of the current stress data set we have greatly increased the size of the "Basin and Range/Rio Grande Rift" stress province to the extent that the earlier name no longer seems appropriate. The new simplified "Cordilleran extensional" province characterized by WNW to ENE-trending S_{Hmin} orientations (Fig. 3) includes areas of classic "basin and range" structure (generally north-trending normal faults) in Nevada and parts of Utah, Oregon, Arizona, New Mexico, Colorado, Idaho, and Montana, but also includes adjacent parts of southwestern Wyoming and the Denver basin that do not exhibit characteristic basin-range structure and are considered physiographically to be part of the Rocky Mountains. These latter two areas are tentatively included in this Cordilleran extensional province because the data indicate horizontal stress orientations consistent with nearby regions of the Basin and Range and because available focal mechanisms (although limited) suggest normal faulting. In addition, these two areas (as well as most of the rest of the Cordilleran extensional stress province) coincide with a broad zone of high regional elevation (see the 1,100-m elevation contour, Fig. 1) and heat flow (Eaton, 1979).

The typically north-striking normal faults found within and

bounding the range blocks throughout much of this region indicate extensional tectonism that began locally as early as 38 Ma (Elston and Bornhorst, 1979; Reynolds, 1979; Zoback and others, 1981; Ruppel, 1982). Deformation responsible for the modern physiography and structure in both the northern Basin and Range ("Great Basin"—primarily Nevada and western Utah) and the Rio Grande Rift physiographic provinces is probably considerably younger, less than 10 Ma (Stewart, 1978; Zoback and others, 1981; Golombek and others, 1983). The southern Basin and Range province (Arizona and southwestern New Mexico) has been tectonically quiescent for about the past 10 m.y. (Eberly and Stanley, 1978), although moderate, low-level seismicity still persists in this region (Brumbaugh, 1987). Areas of basin and range structure north of the Snake River Plain in Idaho and Montana remain relatively active to the present time, as indicated by widespread evidence of latest Quaternary (last 15,000 yr) faulting (Scott and others, 1985) as well as the 1983 $M = 7.3$ Borah Peak normal fault earthquake.

As shown in Figure 1, the data indicate S_{Hmax} (intermediate principal stress) orientations ranging between about N and NE in the Rio Grande Rift and most of the Basin and Range province south of the Snake River Plain about $40^\circ N$. The data within and north of the Snake River Plain, southern Wyoming, and east-central Colorado indicate S_{Hmax} orientations between N and NW. The least horizontal stress (extension) directions shown in Figure 3 are orthogonal to the orientations plotted in Figure 1.

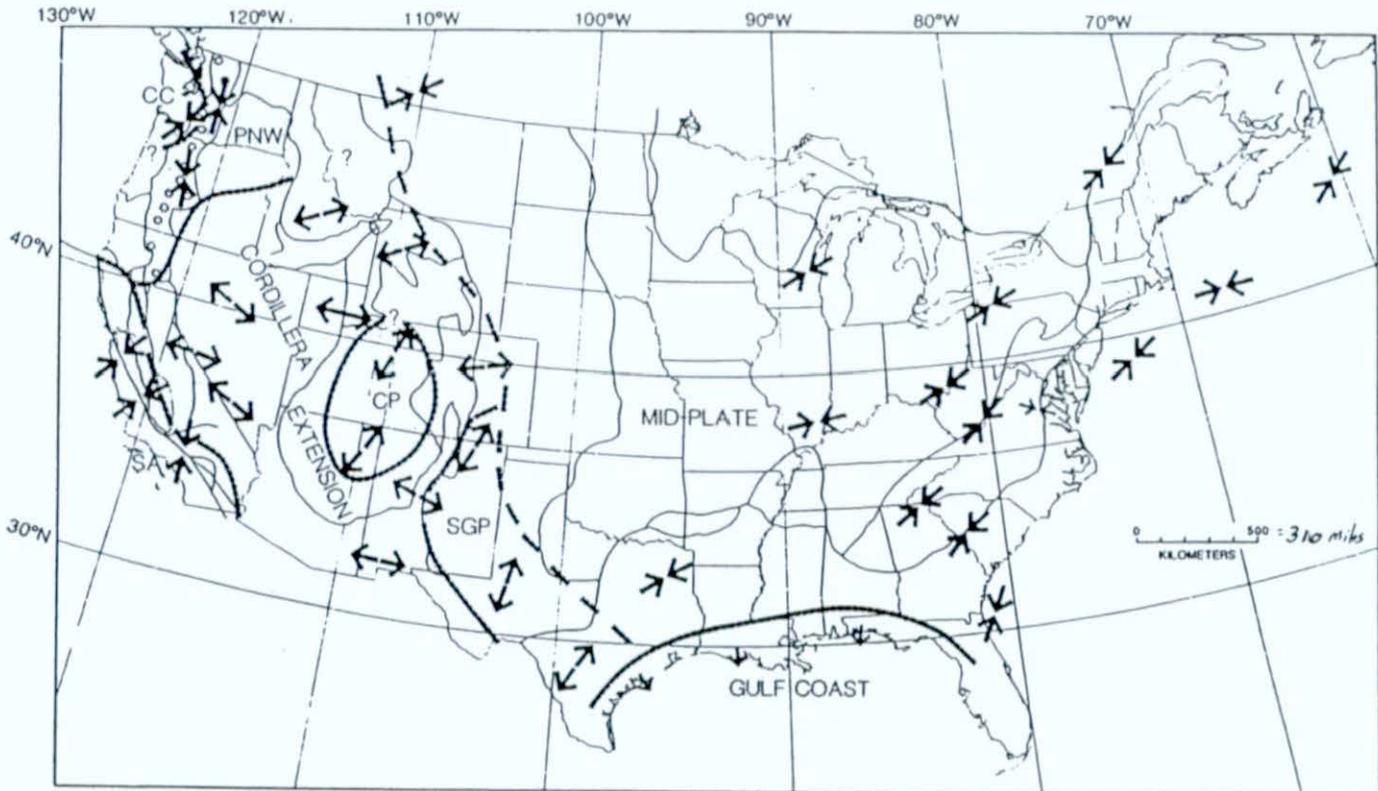


Figure 3. Generalized stress map for the continental United States. Outward-pointing arrows are given for areas characterized by extensional deformation. Inward-pointing areas are shown for regions dominated by compressional tectonism (thrust and strike-slip faulting). Stress provinces are delineated by the thick dashed lines: CC = Cascade convergent province; PNW = Pacific Northwest; SA = San Andreas province; CP = Colorado Plateau interior; SGP = Southern Great Plains.

There also appears to be a tendency for stress orientations near the physiographic boundary between the Basin and Range/Rio Grande Rift provinces and the Colorado Plateau and North Rocky Mountains province to be aligned parallel and perpendicular to the local trend of the boundary and often topography.

A small local anomaly in this regional stress pattern occurs in the area directly north of Yellowstone where earthquake focal-mechanism data suggest approximately N-S extension (E-W S_{Hmax} orientations). This area, as well as part of the adjacent Idaho batholith, was included in the Hegben Lake/Centennial Valley stress province of Zoback and Zoback (1980). Continuity of the regional S_{Hmax} orientations between N and NW around this local anomaly and a revision, based on surface-wave modeling (Patton, 1985), of the single focal mechanism in the Idaho batholith, resulted in elimination of the Hegben Lake/Centennial Valley stress province. Thus, in contrast to our previous interpretation, it now appears that a region of relatively uniform, approximately E-W extensional stresses surrounds the Colorado Plateau interior.

The regional variations in the pattern of stress in the northern Basin and Range province (Nevada and Utah) shown in Figure 1 are summarized in a recent paper (Zoback, 1989). The

abundance of data in this well-studied area permit the establishment of constraints on the relative magnitude of the principal stresses, as well as on their orientations. As noted previously (Wright, 1976; Zoback and Zoback, 1980), the presence of both strike-slip and normal surface faulting and focal mechanisms along the western margin of the northern Basin and Range province suggest a stress field of the form:

$$S_1 \sim S_2 \gg S_3$$

In such a stress field it is possible for normal, strike-slip, or oblique fault slip to occur, depending primarily on the orientation of the fault plane (cf. Angelier, 1979, Fig. 4). Thus, in many areas a variety of strike-slip and normal-faulting focal mechanisms are observed that are simply associated with slip on preexisting faults of varying orientations reactivated in response to the same regional stress field. This appears to be the present situation at the Nevada Test Site area in southern Nevada (Hamilton and Healy, 1969; Stock and others, 1985).

Detailed observations of faulting in the region of combined normal and strike-slip faulting along the western side of the province (including the Sierra Nevada-northern Basin and Range

boundary zone and the Walker Lane belt of western Nevada, see Stewart, 1988) can constrain both stress orientation and relative magnitudes. Limits on variations in the stress field are simply illustrated with field observations from a single site, the Owens Valley area of easternmost central California, the site of $M = 7.7$ earthquake in 1872. Although a prominent NNW-trending east-facing vertical scarp (typically 1 m high) was formed during the earthquake, a recent careful field investigation of the fault zone indicates that for most of the fault trace the dominant sense of offset was right-lateral strike-slip, with an estimated ratio of lateral to vertical offset during the 1872 event ranging between 4:1 and 10:1 and averaging 6:1 (Beanland and Clark, 1989; Lubetkin and Clark, 1988). For much of its length the fault trends NNW through Owens Valley, and is located 5 to 20 km east of the subparallel Independence fault, which is a part of the Sierran frontal normal fault zone. Late Pleistocene and Holocene slip on the Independence fault has been dominantly dip-slip; no evidence of lateral slip has been detected (Gillespie, 1982).

An analysis of stress and slip directions (Zoback, 1989) indicates that the two observed contrasting styles of offset on the subparallel faults can be explained with large fluctuations in the relative magnitude of S_{Hmax} . For a consistent S_{Hmin} orientation of $N80^{\circ}W$ (suggested from nearby data), the nearly pure normal dip-slip on the Independence fault requires that S_{Hmax} must be close in magnitude to S_{Hmin} ($S_v \gg S_{Hmax} \sim S_{Hmin}$), whereas the large component of strike-slip offset on the Owens Valley fault zone in 1872 requires a regime in which $S_{Hmax} \sim S_v \gg S_{Hmin}$. Thus, it appears that the approximately N-S-oriented principal stress (S_{Hmax}) has had large temporal fluctuations in relative magnitude, possibly accompanied by small horizontal rotations of the principal stresses. The time scale of these fluctuations may be tens of thousands of years.

Currently the Wasatch front region of north-central Utah appears to be one area within the Basin and Range province where the two horizontal stresses have approximately equal magnitudes ($S_{Hmax} \sim S_{Hmin}$). Evidence for this comes from conflicting hydrofracture orientations from nearby wells (Haimson, 1981, 1984; Zoback, 1984, 1989), stress magnitudes measured by hydraulic fracturing (Haimson, 1984, 1985), poorly defined and inconsistently oriented wellbore breakouts (Zoback, 1984), and nearly pure normal dip-slip on faults of a wide variety of trends (both surface-slip vectors and focal mechanisms) (Zoback, 1983, 1984, 1989). Superposed striae on a fault surface near Salt Lake City indicate temporal variations, suggesting that the modern stress regime characterized by approximately equal horizontal stresses ($S_{Hmax} \sim S_{Hmin}$) may not be the representative long-term pattern of stresses in this area (Zoback, 1989).

Colorado Plateau interior

The available data, though rather sparse, indicate that the interior portion of the Colorado Plateau is characterized by a distinct WNW S_{Hmax} orientation, orthogonal to that in the surrounding Cordilleran extensional province. New focal-mechan-

ism from the Plateau interior, however, suggest that the stress regime is extensional (Wong and Humphrey, 1989) and not compressional as previously reported (Thompson and Zoback, 1979; Zoback and Zoback, 1980). These new, small-magnitude events show primarily normal faulting with some shallow strike-slip faulting events (Wong and Humphrey, 1989). True tectonic compression (reverse faulting) is observed only in an area of relatively shallow (generally, <3 km), apparently mining-induced seismicity in east-central Utah, and P-axes within this region show a 50° variation in strike (Wong, 1985).

The previously proposed compressive Plateau interior stress regime (Thompson and Zoback, 1979; Zoback and Zoback, 1980), which was based primarily on the mining-induced events in east-central Utah and relatively shallow strike-slip stress indicators in the Rangely/Piceance basin area of northwestern Colorado, now seems best reinterpreted as an extensional stress regime characterized by a combination of normal and strike-slip faulting, albeit with local variations in relative stress magnitudes. The difficulty in interpreting the tectonic stress field in this region and understanding the apparent variations in the stress field may be related to generally low differential stresses suggested by the absence of major faulting or seismicity within the Plateau interior (Zoback and Zoback, 1980). All the data do, however, convincingly demonstrate that the maximum horizontal stress in this region is WNW, approximately orthogonal to that in the surrounding regions.

This stress province is distinctly smaller than the Colorado Plateau physiographic province, as Basin and Range-style extensional tectonism has encroached upon the margins of the Plateau proper (Best and Hamblin, 1978; Thompson and Zoback, 1979; Zoback and Zoback, 1980). The transition between the Cordilleran extensional province and the Plateau interior may be quite broad (100 to 150 km), particularly in Arizona where the nearly orthogonal S_{Hmax} orientations of the two provinces are observed in closed proximity in several areas (see Fig. 1). Aldrich and Laughlin (1984) have studied the plateau interior boundary in westernmost Arizona and New Mexico and have suggested that it is coincident with a 50-km-wide Precambrian province boundary.

Southern Great Plains

The southern Great Plains stress province appears to form a boundary zone between the active extensional tectonism of the western Cordillera and the relatively stable midplate region of the central and eastern United States. Contrasts in stress orientations and a consistent indication of extensional tectonism (basaltic volcanism and normal fault focal mechanisms) distinguish this area from the relatively stable midcontinent region adjacent to the east.

This province generally coincides with the major topographic gradient (about 100 m/225 km) separating the thermally elevated western Cordillera from the midcontinent area. A lack of data preclude delineation of the northern extent of this province;

however, on the basis of stress orientations, the Denver basin area of central Colorado does not appear to be part of this province. Changes in crustal thickness are not sufficient to explain this major topographic gradient in the southern Great Plains area (Braile, this volume); thus much of the decay in topography is probably due to eastward lithospheric thickening beneath the central United States (Zoback and Lachenbruch, 1984; Iyer, this volume).

PACIFIC NORTHWEST AND CASCADE CONVERGENCE ZONE

The active andesitic volcanoes of the Cascade Range are a manifestation of subduction of the Juan de Fuca or "Cascadia" plate. In early Tertiary time the Juan de Fuca plate was being subducted beneath most of the western Cordillera of Canada and the United States (Atwater, 1970; Engebretson and others, 1984). The convergence rate between the Juan de Fuca and North American plates, however, was greater than the spreading rate along the Juan de Fuca-Pacific ridge (East Pacific Rise); hence the Juan de Fuca plate was gradually consumed, bringing the North American and Pacific plates into contact. The relative motion between the Pacific and North American plates resulted in development of the San Andreas and Queen Charlotte (Canada) transform systems beginning about 30 Ma. At present these transform systems dominate the 2,600-km Pacific-North American plate boundary between Alaska and the Gulf of California. The Cascade volcano chain extends roughly 1,000 km from Mt. Lassen in California through Oregon and Washington to Gribaldi Peak in southern British Columbia. Thus, the current zone of subduction represents less than 40 percent of the length of the western North America plate boundary between Mexico and Alaska.

Whereas the volcanic belt appears to be a clear indication of subduction, supporting geophysical data are more ambiguous. The trench offshore is poorly developed bathymetrically and seismically, although refraction data clearly indicate its presence (Taber, 1983; Taber and Smith, 1985). Deep earthquakes (>30 km) do occur beneath northwestern Washington and southern British Columbia; these are primarily normal-faulting events believed related to the bending in the subducted slab (Taber and Smith, 1985). The subduction zone may be poorly defined geophysically because of the limited size of the subducted plate and its extremely young age (oldest magnetic anomalies in oceanic crust at the current "trench" location are only 9 to 10 m.y. old).

Evidence on the state of stress in the crust of this region is sparse and restricted to relatively few upper-crustal earthquake focal mechanisms and volcanic vent alignments, most of which indicate a roughly N-S S_{Hmax} orientation in central Oregon and a NNE orientation in southern Washington (Fig. 1). However, Riddihough (1977) has estimated the Juan de Fuca-North American convergence direction to be $N50^{\circ}E$; geodetic data from the Puget Sound region indicate a maximum compressive strain accumulation in a $N71^{\circ}E \pm 6^{\circ}$ direction (Savage and others, 1981).

The existing data, together with the lack of focal mechanisms from the coastal regions of Washington and Oregon, led previous workers to include that the entire Pacific Northwest region is a single stress province characterized by N-S compression (Smith, 1977; Zoback and Zoback, 1980; Sbar, 1982) and apparently unrelated to the NE-SW convergence with the Juan de Fuca plate. Recent data, however, suggest reinterpretation of this region.

Cascade convergent zone. Weaver and Smith (1983), Yelin and Crosson (1982), and Weaver and others (1987) have presented focal mechanisms in western Washington and Oregon with distinct northeast-trending (average about $N40^{\circ}E$) P-axes. These mechanisms are all strike-slip events; one is beneath Puget Sound (Yelin and Crosson, 1982) and several occur along the 90-km-long NNW-trending St. Helens seismic zone along the west side of the Cascades (Weaver and Smith, 1983; see Dewey and others, this volume). A common characteristic of all these southwestern Washington and northwestern Oregon strike-slip earthquakes is that one of the nodal planes strikes between N-S and $N20^{\circ}W$. Thus, it is unlikely that these events could be consistent with the general pattern of N-S compression inferred from events farther to the east and from volcanic vent alignments to the south. Several focal mechanisms in southern Vancouver Island, Canada also indicate NE to ENE compression, suggesting that the Cascade convergent zone may extend into southernmost Canada (see Fig. 3) (Adams, 1987).

Weaver and Michaelson (1985) and Weaver and Smith (1983) have suggested that the subducting Juan de Fuca plate beneath the Pacific Northwest may be divided into two segments separated by a broad NE-striking boundary between Mt. Hood (Oregon) and Mt. Rainier (Washington). Differences in earthquake distributions and late Cenozoic and Quaternary volcanism led Weaver and Michaelson (1985) to suggest relatively low-angle subduction and strong coupling in the northern segment (resulting in the observed NE compression) in contrast to the southern segment where the subducting slab may have broken off and coupling between the two plates is weak. Thus, the observed NE compression in western Washington may define a distinct stress province characterized by strike-slip faulting and a NE S_{Hmax} orientation related to Juan de Fuca-North American convergence.

Pacific Northwest. The balance of the Pacific Northwest is included in a stress province characterized by N-S compression but whose boundaries are poorly defined. As discussed in Zoback and Zoback (1980), deformation in this region consists of both strike-slip and reverse focal mechanisms and late Tertiary to Quaternary folding along E-W axes in the Columbia basin to the east.

The N-S orientation of the maximum horizontal stress indicates that the state of stress in this broader region, encompassing most of the Pacific Northwest, may be more controlled by the larger scale transform motion between the Pacific and North American plates than by the Juan de Fuca-North American convergence. Spence (1989) has suggested that collision of the northwestward-moving Pacific plate with the Gorda-Juan de

Fuca-Explorer plate system causes northward compression of this offshore plate system that is transferred to the overriding North American plate, creating the N-S compression in the Pacific Northwest.

MIDPLATE CENTRAL AND EASTERN UNITED STATES

Consideration of available focal mechanisms, in situ stress measurements, and geological observations led Sbar and Sykes (1973) to suggest that an area extending from west of the Appalachian Mountains to the middle of the continent from southern Illinois to southern Ontario was characterized by a relatively uniform NE- to E-trending maximum compressive stress. Additional hydraulic fracturing stress measurements in the Great Lakes area by Haimson (1977) further documented the consistent NE to ENE orientation of the maximum horizontal stress in the midcontinent. Expanding on this, in our 1980 paper we concluded that a large portion of the central U.S. (roughly from the Great Plains east to the Appalachians) was characterized by a relatively uniform compressive stress field with a S_{Hmax} oriented NE to ENE. Thus, in addition to the uniformity of stress orientation, there seems to be uniformity of relative stress magnitudes. New data have expanded this province to include much of Canada (Adams, in press) as well as the eastern seaboard of the United States (Zoback and others, 1986).

The data available for the eastern seaboard region as of 1980 consisted primarily of young fault offsets and some poorly constrained earthquake focal mechanisms and ambiguous hydraulic fracturing data. The largest and most consistent body of data was the young reverse faults on the Coastal Plain (Prowell, 1983; Wentworth and Mergner-Keefer, 1983). These faults typically strike N to NE, dip steeply, and offset sedimentary rocks of Late Cretaceous to Miocene age. Because of the poor exposure of these faults, only the vertical component of offset is generally detected. However, true offsets, when observed, are typically dip-slip (D. Prowell, oral communication, 1984), although minor lateral offsets of both right-lateral and left-lateral sense have been reported.

The general N to NE strike of the faults with Miocene and younger offset led Zoback and Zoback (1980) and Wentworth and Mergner-Keefer (1983) to suggest a NW S_{Hmax} direction for the Atlantic Seaboard. Further support for a distinct "Atlantic Coast" stress province came from a compilation of earthquake focal mechanisms near the New York-New Jersey area that consistently indicated reverse faulting on NE-striking nodal planes (Yang and Aggarwal, 1981).

A large body of new data are incompatible with a separate Atlantic Coast stress province characterized by NW compression. The new data include a large number of wellbore breakouts both onland and on the continental shelf (Plumb and Cox, 1986; Dart and Zoback, 1987); in situ stress (hydraulic fracturing) studies at several localities (Zoback and others, 1985b; M. D. Zoback and others, 1986); and better constrained earthquake focal mecha-

nisms, particularly for the New York-New Jersey area (Sebo-roski and others, 1982; Houlday and others, 1984; Quittmeyer and others, 1985; see also the discussion of the validity of some of the earlier focal mechanisms in M. L. Zoback and others, 1986, p. 307) and the Charleston area (Talwani, 1982). Analysis of rather variable focal mechanisms in the New England area indicates a mean best-fitting regional stress tensor with an S_{Hmax} orientation of about E-W (Gephart and Forsyth, 1985). Thus, the bulk of the data consistently indicate a S_{Hmax} orientation of NE to nearly E-W for the eastern seaboard and continental shelf (Fig. 1).

We have retained in the data set stress orientations inferred from the young reverse faults that offset Miocene and younger rocks. These data, a large number of which are in eastern Virginia (note the small area with NW compression indicated on Figs. 1, 3), appear incompatible with the new data on the regional stress field. Because most of these faults strike within 20° or less of the inferred S_{Hmax} direction (based on nearby wellbore breakouts in northwestern Virginia, and West Virginia), it is unlikely that this incompatibility can be explained by large amounts of undetected strike-slip movement on these faults.

Thus, stress orientation data from the Great Plains east to the Atlantic continental margin indicate a generally consistent S_{Hmax} orientation between NE and E and averaging about ENE; a similar pattern is noted throughout most of Canada (Gough and others, 1983; Hasegawa and others, 1985; M. L. Zoback and others, 1986). This compressive midplate stress province may also extend eastward throughout much of the western Atlantic basin, based on a few focal mechanisms from that area (M. L. Zoback and others, 1986), most notably the 1978 Bermuda rise event with a P-axis oriented $N60^\circ E$ (Stewart and Helmberger, 1981; Nishenko and Kafka, 1982).

SOURCES OF STRESS

We believe that the majority of the broad, regionally uniform in situ stress field, as mapped with the various types of indicators, is tectonic in origin. Discussion of the sources of stress can be neatly divided into two broad regions: a central and eastern United States midplate region and the western Cordillera region (western Great Plains and regions to the west).

Central and eastern United States

As mentioned above, the central and eastern United States appear part of a broad midplate compressive stress province that includes most of Canada and possibly also much of the western North Atlantic basin—to within about 250 km of the Mid-Atlantic ridge (M. L. Zoback and others, 1986). S_{Hmax} orientations within the province vary between NE and E and average about ENE. While localized stresses may be important in places, the overall uniformity in the midplate stress pattern suggests a far-field source. As the North American plate essentially lacks any attached subducting slab, the most likely plate-driving forces

are ridge push and basal drag. It is unlikely that the stress field in the central and eastern United States is influenced by any resistive shear forces on the San Andreas transform; shear stresses generated by Pacific-North American interaction are probably not transmitted through the thermally weakened, actively deforming western Cordillera.

Reding (1984) investigated the state of stress in the North American plate with a single-plate elastic finite-element analysis, using both ridge-push models (in which ridge-push forces were distributed over the oceanic lithosphere) and driving basal-drag models. Net torque on the plate was balanced by resistance provided by either pinning the western plate margin or by allowing resistive basal-drag forces (in the ridge-push case). The predicted maximum horizontal stress orientations were ENE, in good agreement with the observations, and were nearly identical for both the ridge-push and driving basal-drag models. Thus, the stress orientation data base for the North American plate does not allow discrimination between these two models.

Nevertheless, there are two general observations that lead us to prefer ridge push over basal drag as the primary source of stress in the midplate region. In a lower-mantle reference frame, cratonic North America is moving southwesterly (Minster and Jordan, 1978). Minster and others (1974) noted that the speed of a plate varies inversely with its continental area and suggested that deep roots beneath continents increase the basal drag and hence slow the lateral movement. Drag-related compression associated with thick cratonic lithosphere moving southwesterly through relatively passive asthenosphere presumably would be most pronounced along the leading southwestern margin of the craton (southern Great Plains area). However, the observed N-S extensional stress regime in the southern Great Plains stress province demonstrates that drag-related compression at the leading edge of the continent is not occurring. Furthermore, seismic activity generally increases from west to east within the craton (from Great Plains region east) rather than decrease from this "leading edge," which would appear to argue against anomalously high compressive stress associated with the motion of the North American lithosphere with respect to the asthenosphere.

Western United States

The state of stress in the western United States is believed to be closely linked to plate interactions along the western margin of the continent, presently the NW-directed relative motion of the Pacific plate with respect to the North American plate and the NE convergence between the Juan de Fuca and North American plates. Prior to the late Cenozoic development of the San Andreas transform fault (post-30 Ma), subduction occurred beneath much of the western United States (Atwater, 1970; Atwater and Molnar, 1973; Engebretson and others, 1985). Extensional tectonism in the Basin and Range and Rio Grande Rift provinces and regions north of the Snake River Plain was initiated during this period of subduction, primarily in an "intra-arc" setting, as inferred from contemporaneous calc-alkaline magmatism (Eaton,

1978, 1979; Elston and Bornhorst, 1979; Reynolds, 1979; Zoback and others, 1981). This earlier history of subduction and extensive invasion of the western United States lithosphere by magmatism profoundly influenced the lithosphere and upper-mantle structure of the region as inferred from the regional topographic high, which begins in the central Great Plains and extends westward to include the Sierra Nevada range (see 1,100 m contour in Fig. 1). This elevation anomaly is probably best developed in the northern Basin and Range, where broad regions of crust with a thickness of 30 to 33 km stand at an average elevation of about 1,700 m above sea level. In areas within this elevation anomaly where thermal equilibrium has probably been obtained (notably the Basin and Range and Rio Grande Rift province, and excluding the Sierra Nevada and Colorado Plateau), heat-flow values are high (averaging 80 to 100 m w/m²) (Lachenbruch and Sass, 1978).

It appears that the modern state of stress throughout the western United States is influenced not only by present-day plate motions, but also—in some complex manner—by lateral variations in upper-mantle structure that are probably related to earlier plate interactions. Two regions characterized by extensional tectonism oriented nearly orthogonal to surrounding regions, the Colorado Plateau interior and the southern Great Plains, are both areas of proposed relatively abrupt lithospheric thickening (Porath, 1971; Thompson and Zoback, 1978; Zoback and Lachenbruch, 1984; Iyer, this volume). The least horizontal stress orientation in both these regions is generally perpendicular to the extension direction in the surrounding actively extending areas.

Of course, the most obvious manifestation of the influence of modern plate interactions is the deformation along the San Andreas fault. The relative transform motion between the North American and Pacific plates results in a strike-slip stress regime. Based on global plate kinematics for the last 3 m.y., Minster and Jordan (1978) predicted a relative velocity in central California between the Pacific-North American plates of 56 ± 3 mm/yr, $N35^\circ \pm 2^\circ W$ (RM2); they estimated the actual slip vector from Holocene geological data in the same region to be 34 ± 3 mm/yr, $N41^\circ \pm 2^\circ W$ (Minster and Jordan, 1984). Including estimates of Basin and Range extension, Minster and Jordan (1984) concluded that deformation west of the San Andreas fault must include 4 to 13 mm/yr of crustal shortening orthogonal to the fault. As noted above, regional earthquake, geological, and well-bore breakout data in the Coast Ranges both east and west of the fault suggest a general NE-SW trend for S_{Hmax} , approximately perpendicular to the San Andreas. The compression across the San Andreas fault may be related to a change in relative motion between the North American and Pacific plates tied to recent changes in the absolute motion of the Pacific plate (Cox and Engebretson, 1985; Pollitz, 1986). Cox and Engebretson (1985) indicated that there has been a 17° clockwise rotation of the Pacific-North American relative motion vector in the past 5 m.y., which would result in a component of convergence across the San Andreas in central California.

DISCUSSION

The stress data base has been significantly improved as a result of several factors. First, the establishment of wellbore breakouts as reliable indicators of horizontal stress orientation (Bell and Gough, 1979; Gough and Bell, 1981, 1982; Hickman and others, 1985; Zoback and others, 1985a) has greatly increased the size of the data base, particularly for the eastern United States. These data are interpreted from high-resolution dipmeter logs, a log frequently run in petroleum exploration wells, or from acoustic borehole televiewer logs, a less widely used but more sensitive instrument (Zoback and others, 1985a). In each well, the statistical weight of multiple determinations of stress orientations, often made over a significant range of depths, makes this technique one of the best indicators of horizontal stress orientation. Thus, this stress indicator offers the opportunity to obtain, relatively inexpensively, high-quality new data on stress orientations wherever there are petroleum exploration wells.

A second factor that has greatly improved the data base is the introduction of the quality-ranking system (Table 1). The significance of single points in areas of sparse data coverage is now much clearer. In addition, interpretation of sometimes conflicting data in regions of dense coverage is also simplified.

The use of higher quality earthquake focal mechanisms has also improved the data base. Better constrained mechanisms are frequently reported now as a result of the use of wave-form modeling (both body and surface waves), P/SV ratios, and systematic grid searches seeking all possible solutions. While all these tools help to improve the focal mechanisms, the inherent ambiguity in inferring stress orientation from P- and T-axes remains a problem.

The pattern of stress provinces inferred from the new data base are somewhat simplified from our earlier study, both in the western and eastern United States. One of the most significant changes in our interpretation of the stress data is the elimination of an Atlantic Coast stress province characterized by NW compression. The new data indicate a remarkable uniform S_{Hmax} orientation (between NE and E) for all of the U.S. east of the Great Plains, including the continental margin. This uniform midplate stress province includes most of Canada east of the westernmost Cordillera.

Tertiary vertical offsets on generally NE-striking steep reverse faults in the Atlantic Coastal Plain reported by Prowell (1983) are inconsistent with this uniform midplate NE to ENE S_{Hmax} orientation. As noted previously, their strike precludes their activation as primarily strike-slip faults even if large lateral offsets on these faults have gone undetected. At present we can offer no good explanation for these NW-striking reverse faults other than to note that nowhere have these young faults been identified as being seismically active. It has been suggested that they may represent deformation in an earlier stress regime; however, we consider this highly unlikely as the inferred source of the broad midplate stress field is believed to be plate tectonic in origin, and there have not been major changes in plate geometry

in post-Miocene time. Most of these young fault offsets have been observed near the Fall Line, the boundary between the coastal-plain sediments and basement of the Piedmont, generally a major break in topography. Possibly these primarily vertical offsets on steep faults parallel to the Appalachian trend are a result of the same mechanism responsible for a hypothesized young uplift of parts of the Appalachian Mountains (Hack, 1979). In the central Virginia area where the faults are best documented, focal mechanisms of microearthquakes seem to indicate both NE- and NW-striking P-axes (Munsey and Bollinger, 1985), although there has been some dispute of the validity of the composite mechanisms with NW P-axes (Nelson and Talwani, 1985).

CONCLUSIONS

An almost two-fold increase in the number of data points substantiates earlier studies that indicate regionally uniform stress orientations throughout the upper crust. These data and adoption of a quality-ranking system have enabled us to modify and somewhat simplify previously defined stress provinces in the continental United States. The most important differences between this data compilation and interpreted stress provinces reported here and those of Zoback and Zoback (1980) are as follows:

1. General ENE compression associated with the midcontinent stress field now appears to extend all the way to the Atlantic continental margin and possibly well into the western Atlantic basin. A distinct Atlantic Coastal Plain stress province (characterized by northwest compression) is not supported or justified by the available data.

2. Data defining NE compression associated with subduction of the Juan de Fuca plate are observed in western Washington and Oregon, and these areas make up the Cascade convergence zone stress province.

3. The extensional stress field associated with the Basin and Range and Rio Grande Rift is now observed in central Colorado and western Wyoming. Thus, an approximately E-W-oriented extensional stress field is generally associated with the broad uplifted region of the western Cordillera and may completely surround the Colorado Plateau.

4. The previously reported WNW S_{Hmax} orientation within the Colorado Plateau interior has been further substantiated; however, the plateau interior now appears to be characterized by an extensional, not a compressive, stress regime (Wong and Humphrey, 1989).

Earthquake focal mechanisms, geological, and wellbore breakout data adjacent to the San Andreas fault suggest generally northeast (fault-normal) compression in central California, in contrast to a N-trending S_{Hmax} orientation that would be inferred from the right-lateral strike-slip faulting along the NW-striking fault itself. The fault-normal compression may be the result of very low shear strength on the San Andreas fault coupled with a clockwise change in Pacific-North American relative plate motion in the past 5 m.y., as well as extensional processes in the Basin and Range.

In many regions the substantially enlarged data set confirms the generally broad-scale, tectonic origins of the stress field in the various provinces defined. The expanded data set also defines numerous localized, relatively small-scale variations in the stress field within individual provinces. Improved resolution and future study of these variations will yield new insight into the forces that deform the crust.

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MANUSCRIPT ACCEPTED BY THE SOCIETY OCTOBER 31, 1988

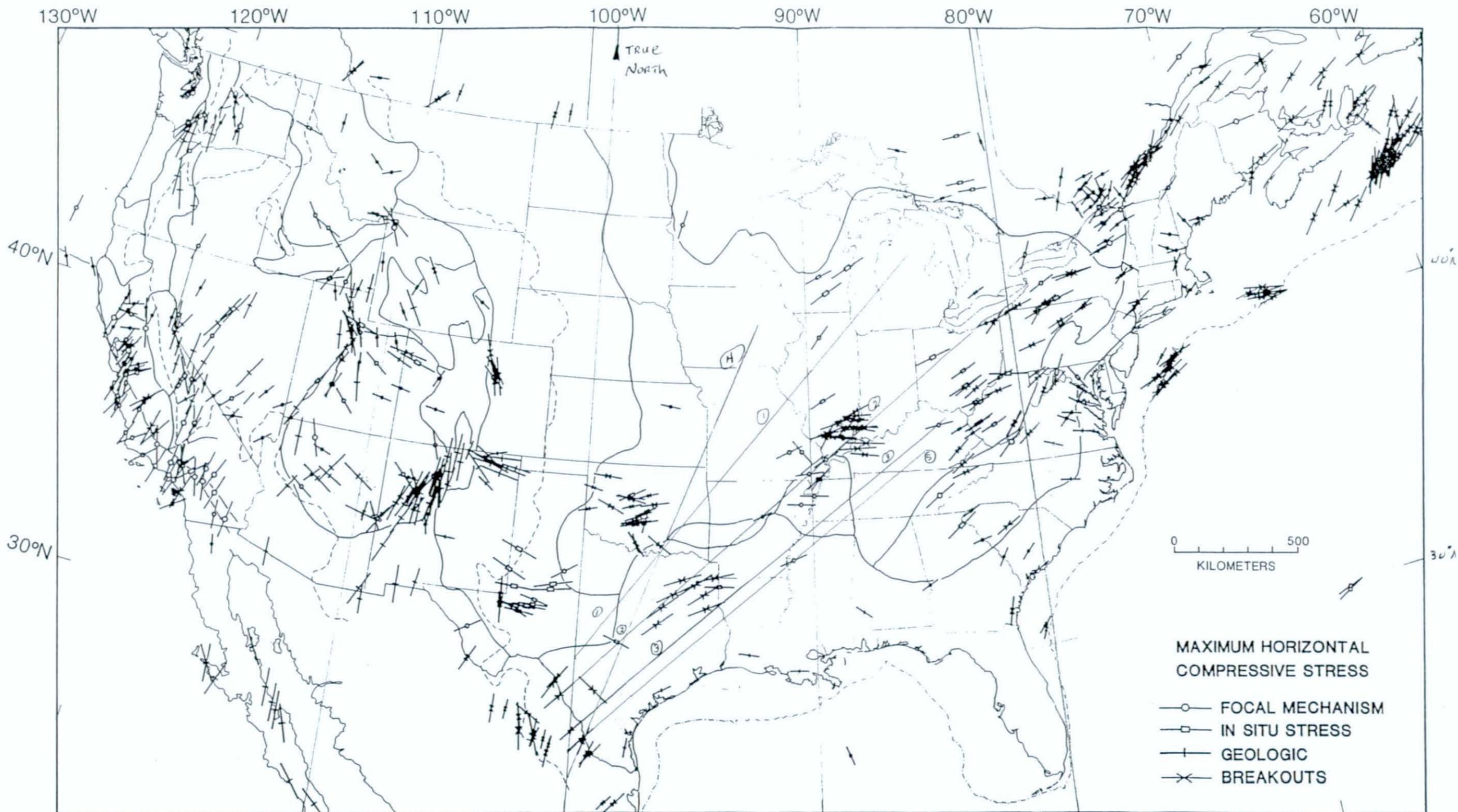


Figure 1. Map of maximum horizontal compressive stress orientations. Solid lines define physiographic province boundaries shown in Figure 2. Quality of data indicated by weight and length of line. As described in the text, three qualities (A, B, C) are plotted. Dashed line marks the 1,100-m elevation contour based on 1° average elevations. The dot-dash line offshore from the eastern United States is the 200-m bathymetric contour, approximating the shelf-slope break.

MAX Horiz stress - ZAPATA COUNTY AREA

- ① 35.75° NE
- ② 45° NE
- ③ 46.5° NE
- ④ 19° NE
- ⑤ 46.5° NE

Geometric mean = 36.6° NE

LL RAN 0002817
06/97

LL RAN 0002818
06/97

32.

File No. MF 704158

Walter Kerr-McGee

Date Filed: 11-16-06

Jerry E. Patterson, Commissioner

By [Signature]

PAT - Please File!

**Kerr-McGee Oil & Gas Onshore LP**16666 NORTHCHASE • HOUSTON, TEXAS 77060
281-673-6000OIL & GAS ONSHORE, LP
MARK GALLOWAYPHONE: 281/673-6653
FAX: 281/673-4653

December 12, 2006

Texas General Land Office
Attn: Mr. James M. Irwin, Jr., P. E.
Stephen F. Austin Building
1700 North Congress Avenue
Austin, TX 78701-1495Re: State Oil & Gas Lease (MF-104158), 176 Acres Garza-State Lease, Hidalgo & Starr
Counties, TX

Dear Mr. Irwin:

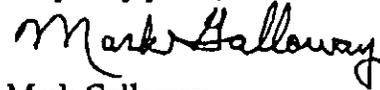
I am in receipt of your letter of November 16, 2006 with reference to our visit to your office on November 14, 2006.

One of the options that you had given us is to pool the 1.35 acres from our lease MF-104158 with 38.65 acres from the northeast portion of El Paso's Oil & Gas State Lease MF-091211 and drill a well to satisfy the offset obligations for both leases. I have spoken with El Paso, and they are in agreement to pool the acreage to which you referred which should satisfy the offset obligations from the Garza Zamora Energy Trust #3 for both of our leases.

I am in the process of getting the information together to file the application for pooling the two leases. El Paso as operator is working on the well proposal now, and we should have the information concerning the well that the application calls for in a short period of time. We will file the application for pooling with your office as soon as possible and ask that you give us sufficient time in order to file the application. It is my understanding from your letter that we would then have 3 months after the approval of the pooling application to begin the drilling and completion of the well.

Thank you for working with us and your consideration in this matter.

Very truly yours,



Mark Galloway
Landman

cc: George Self
El Paso Production

Ladell Collier
GLO

File No. MF 704158

Kettler

Date Filed: 12/12/06

By: [Signature]
Harry E. Patterson, Commissioner

MINERAL file



Kerr-McGee Oil & Gas Onshore LP

16666 NORTHCHASE • HOUSTON, TEXAS 77060

281-673-6000

OIL & GAS ONSHORE, LP
MARK GALLOWAY

PHONE: 281/673-6653
FAX: 281/673-4653

December 12, 2006

Texas General Land Office
Attn: Mr. James M. Irwin, Jr., P. E.
Stephen F. Austin Building
1700 North Congress Avenue
Austin, TX 78701-1495

Re: State Oil & Gas Lease (MF-104158), 176 Acres Garza-State Lease, Hidalgo & Starr Counties, TX

Dear Mr. Irwin:

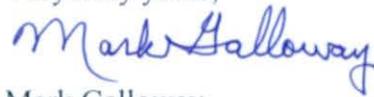
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One of the options that you had given us is to pool the 1.35 acres from our lease MF-104158 with 38.65 acres from the northeast portion of El Paso's Oil & Gas State Lease MF-091211 and drill a well to satisfy the offset obligations for both leases. I have spoken with El Paso, and they are in agreement to pool the acreage to which you referred which should satisfy the offset obligations from the Garza Zamora Energy Trust #3 for both of our leases.

I am in the process of getting the information together to file the application for pooling the two leases. El Paso as operator is working on the well proposal now, and we should have the information concerning the well that the application calls for in a short period of time. We will file the application for pooling with your office as soon as possible and ask that you give us sufficient time in order to file the application. It is my understanding from your letter that we would then have 3 months after the approval of the pooling application to begin the drilling and completion of the well

Thank you for working with us and your consideration in this matter.

Very truly yours,



Mark Galloway
Landman

cc: George Self
El Paso Production

Ladell Collier
GLO



34.

File No. MF 704158
Sutton
Date Filed: 12/19/06
Jerry E. Patterson, Commissioner
By [Signature]

2008

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

December 7, 2006

Mardelle Foley
Kerr-McGee Oil & Gas Onshore LP
16666 Northchase.
Houston, TX 77060

Re: GLO Assignment I D# 5754

Dear Ms. Foley,

The General Land Office received the following instrument(s) and has filed them in the appropriate files. Please see attached "Exhibit A" for reference.

Assignment and Bill of Sale, executed October 25th, 2006, from the following entities (see attached), to Kerr- McGee Oil & Gas Onshore, LP, as Assignee. MF104158, Hidalgo County.

Filing fees of \$25.00 were received in connection with the above lease. If you have any questions, please feel free to call me at (800) 998-4GLO, or at my direct number at (512) 463-6521.

Sincerely,

Beverly Boyd
Mineral Leasing
Energy Resources
512-463-6521

Stephen F. Austin Building • 1700 North Congress Avenue • Austin, Texas 78701-1495

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

www.glo.state.tx.us

ATTACHMENT

GLO Assignment ID #5754

LMP Exploration Holdings, L.P., ("LMP") whose address is 615 Upper North Broadway, Suite 1770, Corpus Christi, Texas 78477, **Seisgen Exploration, Inc.**, whose address is 1221 Lamar, Suite 1177, Houston, Texas 77010, **Crow Partners, Ltd.**, whose address is P. O. Box 540988, Houston, Texas 77254-0988, **Wolfe Rudman**, whose address is 1700 Pacific Avenue, Suite 4700, Dallas, Texas 75201-4670; **Raptor Energy, LLC**, 3050 Post Oak Blvd., Suite 460, Houston, Texas 77057; **Verdado, LLC**, whose address is 20 East 5th Street, Suite 1100, Tulsa, Oklahoma 74103-4439, **Trijon Exploration, Inc.**, whose address is 615 N. Upper Broadway, Suite 2040, Corpus Christi, Texas 78477, **Anderson Oil, Ltd.**, whose address is 5005 Woodway, Suite 310, Houston, Texas 77056, **Victoria Trading Company, LLC**, whose address is P. O. Box 1077, Edinburg, Texas 78540-1077, **Edinburg Investment Company, Inc.**, whose address is P. O. Box 1077, Edinburg, Texas 78540-1077, **Southwest Oil and Land, Inc.**, whose address is P. O. Box 1077, Edinburg, Texas 78540-1077, **MJR Investments, Ltd.**, whose address is P. O. Box 1434, Edinburg, Texas 78540-1434, **Mako Communications, LLC**, whose address is 4895 Ocean Drive, Corpus Christi, Texas 78412, **Magnum Producing, LP**, whose address is 500 N. Shoreline, Suite 322, Corpus Christi, Texas 78471; **Felderhoff, LP**, whose address is 801 East California, Suite 407, Gainesville, Texas 76240; **TriRock Energy, a Texas General Partnership** whose address is 600 Leopard, Suite 1800, Corpus Christi, Texas 78473; **William B. Miller Family Properties, Ltd.**, whose address is 800 N. Shoreline, Suite 2400, Corpus Christi, Texas 78401; **Daniel A. Pedrotti Oil & Gas Properties, Ltd.**, whose address is 800 N. Shoreline, Suite 2400, Corpus Christi, Texas 78401; **J. V. McCullough**, whose address is 615 N. Upper Broadway, Suite 1013, Corpus Christi, Texas 78477; **Orion Drilling Company, LP**, whose address is 674 Flato Road, Corpus Christi, Texas 78412, **Jeffrey T. Uecker (a/k/a Jeff Uecker)**, whose address is 31 Camden Place, Corpus Christi, Texas 78412; **LMP Petroleum, Inc.**, whose address is 615 North Upper Broadway, Suite 1770, Corpus Christi, Texas 78477, **Ironwood Exploration, LLC**, whose address is 615 North Upper Broadway, Suite 1770, Corpus Christi, Texas 78477, **Barnette Properties**, whose address is 2728 Airline Rd., Corpus Christi, Texas 78414, **Geogeld, L.P.**, whose address is P. O. Box 1062, Corpus Christi, Texas 78403, **Momentum Energy Corporation**, whose address is P. O. Box 3398, Midland, Texas 79702 hereinafter referred to as "Assignor,"

Exhibit "A"

GLO ID

County

Lease

5754 Hidalgo

MF104158

Thursday, December 07, 2006



Kerr-McGee Oil & Gas Onshore LP

16666 NORTHCHASE • HOUSTON, TEXAS 77060
281-673-6000

December 4, 2006

VIA CERTIFIED MAIL – RETURN RECEIPT REQUESTED

Ms. Beverly Boyd
Commissioner of the General Land Office
1700 North Congress Avenue
P.O. Box 12873
Austin, Texas 78711

Re: Assignment and Bill of Sale
LMP Exploration Holdings, L.P., et al, as Assignor
Kerr-McGee Oil & Gas Onshore LP, as Assignee
Hidalgo County, Texas

MF10458

Dear Ms. Boyd:

Pursuant to the terms of Oil and Gas Lease(s), enclosed is a certified recorded copy of the above referenced Assignment and Bill of Sale from LMP Exploration Holdings, L.P., et al, to Kerr-McGee Oil & Gas Onshore LP regarding the recently acquired State lease, which has been recorded under Document No. 1689187, Hidalgo County, Texas, for your files.

I have enclosed KMG Check No. 002519 in the amount of \$ 25.00 as the prescribed filing fee.

If you have any questions, please call me at 281/673-6851.

Thank you for your time and consideration.

Sincerely yours,

Mardelle Foley
Property Management

/mf

Enclosures

RECEIVED
DEC REC -7 PM 1:06



REMITTANCE ADVICE
DETACH BEFORE DEPOSITING

✓ KERR-McGEE OIL & GAS ONSHORE LP

THE ENDORSEMENT BY THE PAYEE OF THE DETACHED CHECK CONSTITUTES RECEIPT IN FULL FOR ITEMS LISTED BELOW.

| DATE | DESCRIPTION | AMOUNT | |
|---------|---|--|----------------------------------|
| 12/4/06 | Filing fees for the Texas General Land Office <i>Attn Beverly Boyd</i> | 25.00 <i>129</i> 07015664 | RECEIVED DEPOSIT - 7 PM 11/06 |

00151

5754

MF104158

10-25-06

ASSIGNMENT AND BILL OF SALE

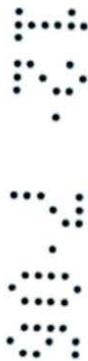
STATE OF TEXAS §

1689187

COUNTY OF HIDALGO §

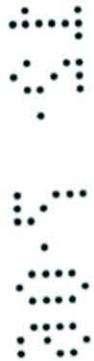
LMP Exploration Holdings, L.P., ("LMP") whose address is 615 Upper North Broadway, Suite 1770, Corpus Christi, Texas 78477, **Seisgen Exploration, Inc.**, whose address is 1221 Lamar, Suite 1177, Houston, Texas 77010, **Crow Partners, Ltd.**, whose address is P. O. Box 540988, Houston, Texas 77254-0988, **Wolfe Rudman**, whose address is 1700 Pacific Avenue, Suite 4700, Dallas, Texas 75201-4670; **Raptor Energy, LLC**, 3050 Post Oak Blvd., Suite 460, Houston, Texas 77057; **Verdado, LLC**, whose address is 20 East 5th Street, Suite 1100, Tulsa, Oklahoma 74103-4439, **Trijon Exploration, Inc.**, whose address is 615 N. Upper Broadway, Suite 2040, Corpus Christi, Texas 78477, **Anderson Oil, Ltd.**, whose address is 5005 Woodway, Suite 310, Houston, Texas 77056, **Victoria Trading Company, LLC**, whose address is P. O. Box 1077, Edinburg, Texas 78540-1077, **Edinburg Investment Company, Inc.**, whose address is P. O. Box 1077, Edinburg, Texas 78540-1077, **Southwest Oil and Land, Inc.**, whose address is P. O. Box 1077, Edinburg, Texas 78540-1077, **MJR Investments, Ltd.**, whose address is P. O. Box 1434, Edinburg, Texas 78540-1434, **Mako Communications, LLC**, whose address is 4895 Ocean Drive, Corpus Christi, Texas 78412, **Magnum Producing, LP**, whose address is 500 N. Shoreline, Suite 322, Corpus Christi, Texas 78471; **Felderhoff, LP**, whose address is 801 East California, Suite 407, Gainesville, Texas 76240; **TriRock Energy, a Texas General Partnership** whose address is 600 Leopard, Suite 1800, Corpus Christi, Texas 78473; **William B. Miller Family Properties, Ltd.**, whose address is 800 N. Shoreline, Suite 2400, Corpus Christi, Texas 78401; **Daniel A. Pedrotti Oil & Gas Properties, Ltd.**, whose address is 800 N. Shoreline, Suite 2400, Corpus Christi, Texas 78401; **J. V. McCullough**, whose address is 615 N. Upper Broadway, Suite 1013, Corpus Christi, Texas 78477; **Orion Drilling Company, LP**, whose address is 674 Flato Road, Corpus Christi, Texas 78412, **Jeffrey T. Uecker (a/k/a Jeff Uecker)**, whose address is 31 Camden Place, Corpus Christi, Texas 78412; **LMP Petroleum, Inc.**, whose address is 615 North Upper Broadway, Suite 1770, Corpus Christi, Texas 78477, **Ironwood Exploration, LLC**, whose address is 615 North Upper Broadway, Suite 1770, Corpus Christi, Texas 78477, **Barnette Properties**, whose address is 2728 Airline Rd., Corpus Christi, Texas 78414, **Geogeld, L.P.**, whose address is P. O. Box 1062, Corpus Christi, Texas 78403, **Momentum Energy Corporation**, whose address is P. O. Box 3398, Midland, Texas 79702 hereinafter referred to as "Assignor," for and in consideration of Ten Dollars (\$10.00) and other good and valuable consideration, the receipt and sufficiency of which is acknowledged, do hereby transfer, sell, bargain, assign and convey unto **Kerr-McGee Oil & Gas Onshore LP**, whose address is 16666 Northchase, Houston, Texas 77060, hereinafter referred to as "Assignee," all of Assignor's right, title and interest in and to properties described in Exhibit "A," attached hereto and made a part hereof, including, but not limited to all of Assignor's right, title and interest in, to and under the following (the "Assets"):

(a) The oil, gas and mineral leases (the "Leases"), royalty interests, overriding royalty interests, and other mineral interests, of whatsoever nature covering the properties described in Exhibit "A" attached hereto and made a part hereof, subject to any limitations and reservations



4887070

4887070



DATE NOV 20 2006

A true copy I certify
EDDY TREVINO

County Clerk, Hidalgo County, Texas
By *Eddy Trevino* Deputy

described in Exhibit "A", together with Assignor's interest in any pooled, communitized, or unitized acreage derived by virtue of Assignor's ownership of all of such interests (collectively referred to as "Properties");

(b) The wells, equipment, facilities and personal property located on the lands described in Exhibit "A" or used directly in the operation of the Properties, including, but not limited to, pumps, well equipment (surface and subsurface), gas plants, offshore platforms, saltwater disposal wells, lines and facilities, sulfur recovery facilities, compressors, compressor stations, dehydration facilities, treating facilities, pipeline gathering lines, flow lines, transportation lines (including long lines and laterals), valves, meters, separators, tanks, tank batteries, tools, safety equipment, welding equipment, office equipment and other fixtures (collectively referred to as "Equipment");

(c) Oil, gas, condensate, natural gas liquids produced after the Effective Time, inventory, including "line fill" and inventory below the pipeline connection in tanks, attributable to the Properties;

(d) Other personal property located on or used in connection with the development, operation, or maintenance of the Properties, including, but not limited to, cores, cuttings, geophysical and other geologic property (except where prohibited by applicable license agreements), supplies, and equipment;

(e) All contracts and agreements that govern or relate to the Properties and Equipment, including, but not limited to, all surface use agreements, easements, rights of way, licenses, authorizations, permits, and similar rights and interests applicable to, or used or useful in connection with the Properties and including unit agreements, pooling agreements, areas of mutual interest, farmout agreements, farmin agreements, saltwater disposal agreements, water injection agreements, line well injection agreements, road use agreements, drilling contracts, operating agreements, well service contracts, production sales contracts, gas contracts, gas balancing agreements, gas processing agreements, gas transportation agreements, storage or warehouse agreements, supplier contracts, service contracts, insurance contracts, construction agreements, division orders and transfer orders, only insofar as such relate to the Properties and Equipment (collectively the "Contracts");

(f) All lease, land, well, production, engineering, geological, geophysical, litigation, accounting, title, division order and tax files, copies of relevant tax (other than income tax) files, environmental compliance plans, environmental permits and audits, abstracts, title opinions, logs, data bases, information systems, formation tests and results, maps and all other books, files, records and data of Assignor insofar as they relate to the Assets (collectively the "Records");

(g) All of Assignor's right, title and interest in and to all revenues, proceeds, accounts, accounts receivables and claims for the operation, sale or destruction of Assignor's equipment attributable to the period on and after the Effective Time; and

(h) All other right, title or interest of Assignor in and to the interests and properties described in Exhibit "A".

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DATE NOV 20 2006
A true copy I certify
EDDY TREVINO
County Clerk, Hidalgo County, Texas
By *Eddy Trevino* Deputy

Assignor and its heirs, personal representatives, successors and assigns shall warrant and forever defend all and singular the Assets conveyed unto Assignee, its successors and assigns against every person whomsoever lawfully claiming the Assets or any part thereof, by, through or under Assignor, but not otherwise.

All equipment, wells and personal property are sold AS IS AND WHERE IS, AND WITHOUT WARRANTY OF MERCHANTABILITY, CONDITION OR FITNESS FOR A PARTICULAR PURPOSE, EITHER EXPRESS OR IMPLIED, AND ASSIGNOR HEREBY DISCLAIMS AND NEGATES ANY REPRESENTATIONS OR WARRANTY, EXPRESS OR IMPLIED RELATING TO THE CONDITION OF THE ASSETS, ANY INFRINGEMENT BY ASSIGNOR OF ANY THIRD PARTY'S PROPRIETARY RIGHTS, AND ANY INFORMATION FURNISHED TO ASSIGNEE REGARDING RESERVES ATTRIBUTABLE TO THE ASSETS.

Assignor agrees to protect, defend, indemnify and hold Assignee and its employees free and harmless from and against any and all costs, expenses, claims, losses, liabilities, demands and causes of action of every kind and character, including but not limited to pollution and environmental claims, arising out of, incident to, or in connection with Assignor's ownership of and the physical operations on the Assets prior to the Closing Date. Assignee agrees to protect, defend, indemnify and hold Assignor and its employees free and harmless from and against any and all costs, expenses, claims, losses, liabilities, demands and causes of action of every kind and character, including but not limited to pollution and environmental claims, arising out of, incident to, or in connection with Assignee's ownership of and the physical operations on the Assets on and after the Closing Date. As used herein the term "Closing Date" shall mean November 1, 2006, regardless of the date on which Closing actually occurs.

Assignor agrees to protect, defend, indemnify and hold Assignee and its employees free and harmless from and against any and all costs, expenses, claims, losses, liabilities, demands and causes of action of every kind and character, arising out of, incident to, or in connection with the collection of revenues, and the payment of royalties and expenses attributable to the Assets prior to the Effective Time. Assignee agrees to protect, defend, indemnify and hold Assignor and its employees free and harmless from and against any and all costs, expenses, claims, losses, liabilities, demands and causes of action of every kind and character, arising out of, incident to, or in connection with the collection of revenues, and the payment of royalties and expenses attributable to the Assets after the Effective Time.

Assignors have heretofore entered into a written agreement among themselves whereby LMP Exploration Holdings, LP ("LMP") has been given the authority to collect the entirety of the Purchase Price being paid for the Assets by Assignee for further distribution among all Assignors in such manner as they have or will determine. Assignee has paid the entirety of the Purchase Price (as the same may have been adjusted pursuant to the terms of the Letter Agreement defined below) to LMP with the express understanding that all parties Assignor (including LMP) have agreed, and by their execution of this Assignment do hereby agree, to authorize Assignee to make the payment of the entirety of the Purchase Price (as adjusted) to LMP and that Assignors have further agreed, and do hereby agree, to release, defend and indemnify Assignee of and from any and all claims, demands, causes of action, judgments, losses, liabilities, cost and expenses (including court costs and attorneys' fees) arising out of or

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DATE 11/20/00

A true copy I certify
EDDY TREVINO

County Clerk, Hidalgo County, Texas
By *[Signature]* Deputy

occurring in connection with the distribution, the incorrect distribution, or the non-distribution of the Purchase Price to all Assignors by LMP.

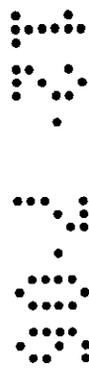
TO HAVE AND TO HOLD the same unto Assignee, its successors and assigns, forever.

The terms and conditions contained herein shall constitute covenants running with the land, and shall be binding upon, and for the benefit of, the respective successors and assigns of Assignor and Assignee.

This instrument may be executed in one or more counterparts or in multiple originals, either one of which is as valid as the other and when taken together shall constitute one agreement and for recording purposes the signature and notary acknowledgement pages may be disassembled and reassembled into one instrument.

This Assignment and Bill of Sale is made subject to all of the terms and conditions of that certain unrecorded Letter Agreement by and between Kerr-McGee Oil & Gas Onshore, LP, as Buyer and LMP Exploration Holdings, L.P., as Seller, dated September 25, 2006 ("Letter Agreement"), which has been ratified by the other parties Assignor, and which is hereby made a part hereof by this reference. Furthermore, this Assignment and Bill of Sale is expressly made subject to the following:

1. Joint Operating Agreement dated April 7, 2005, between LMP Exploration Operating, LLC, as Operator and Seisgen Exploration, Inc., et al, as Non-Operator covering the Jeffress Prospect Area in Hidalgo County, Texas.
2. Unrecorded Water Use Agreements dated July 20, 2005 and September 15, 2005 between LMP Exploration Operating, LLC and Aida Garza Lopez Trust, et al.
3. Unrecorded Letter Agreements dated July 28, 2005 and September 12, 2005 between Raptor Energy, LLC and LMP Exploration Operating, LLC.
4. Unrecorded Prospect Participation Agreement dated April 7, 2005 between LMP Exploration Holdings, L.P. and Magnum Producing, LP, Felderhoff Limited Partnership, TriRock Energy, William B. Miller Family Properties, Ltd., Daniel A. Pedrotti Oil & Gas Properties, Ltd., J. V. McCullough and Orion Drilling Company, LP.
5. Unrecorded Prospect Participation Agreement dated April 7, 2005 between LMP Exploration Holdings, L.P. and Seisgen Exploration, Inc., Crow Partners, Ltd., Wolfe Rudman, Verdado, LLC, Trijon Exploration, Inc., Anderson Oil, Ltd., Victoria Trading Company, LLC, Edinburg Investment Company, Inc., Southwest Oil and Land, Inc., MJR Investments, Ltd. and Mako Communications, LLC.
6. Unrecorded Prospect Participation Agreement dated August 1, 2005; however, effective as of April 7, 2005 between LMP Exploration Holdings, L.P. and LMP Petroleum, Inc., Ironwood Exploration, LLC, Barnette Properties, Geogeld, L.P., and Momentum Energy Corporation.





NOV 20 2006

DATE _____

A true copy I certify

EDDY TREVINO

County Clerk, Hidalgo County, Texas

By *Eddy Trevino* Deputy

7. Recorded Memorandum of Operating Agreement dated May 4, 2005, recorded in Document No. 2005-1497820 between LMP Exploration Operating, LLC, as Operator and Magnum Producing, LP, et al, as Non-Operator.
8. Recorded Correction of Memorandum of Operating Agreement dated September 13, 2005, recorded in Document No. 2005-1523265 between LMP Exploration Operating, LLC, as Operator and Magnum Producing, LP, et al, as Non-Operator.
9. Recorded Memorandum of Operating Agreement dated August 1, 2005, recorded in Document No. 2005-1520128 between LMP Exploration Operating, LLC, as Operator and LMP Exploration Holdings, L.P., et al, as Non-Operator.
10. Recorded Memorandum of Operating Agreement dated September 8, 2005, recorded in Document No. 2005-1534665 between LMP Exploration Operating, LLC, as Operator and Raptor Energy, LLC, as Non-Operator.
11. Oil Contract - Unrecorded Letter Agreement dated August 8, 2006 between GulfMark Energy, Inc. and LMP Exploration Operating, LLC, as amended.
12. Gas Contract - Unrecorded Letter Agreement dated August 31, 2005 between Gulf Coast Gas Corporation and LMP Exploration Operating, LLC, as amended.
13. Unrecorded Letter Agreement dated October 11, 2005 between GulfMark Energy, Inc. and LMP Exploration Operating, LLC.

This Assignment and Bill of Sale shall be effective as of October 1, 2006, at 7:00 a.m. local time where the Assets are located ("Effective Time").

EXECUTED THIS 9th day of October, 2006.



DATE NOV 20 2006

A true copy I certify
EDDY TREVINO

County Clerk, Hidalgo County, Texas
 By [Signature] Deputy



ASSIGNOR:

LMP EXPLORATION HOLDINGS, L.P.
By its General Partner
LMP Exploration Holdings, GP, LLC

By: 
Name: James C. Gresham, Jr.

Title: Vice President

STATE OF TEXAS

§
§
§

COUNTY OF NUECES

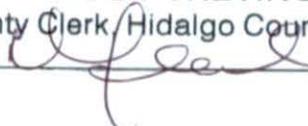
This instrument was acknowledged before me on the 9th day of October, 2006, by James C. Gresham, Jr., as Vice-President of LMP Exploration Holdings, GP, LLC, a Delaware limited liability company, as General Partner of LMP Exploration Holdings, L.P., a Delaware limited partnership.




Notary Public, State of Texas
My Commission Expires: 9-3-2009



DATE NOV 20 2006

A true copy I certify
EDDY TREVINO
County Clerk, Hidalgo County, Texas
By  Deputy

ASSIGNOR:

BARNETTE PROPERTIES

By: [Signature]

Name: James W Barnett

Title: Owner

STATE OF _____ §

COUNTY OF _____ §

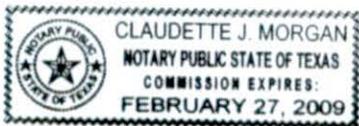
This instrument was acknowledged before me on the ____ day of _____, 2006, by _____ as _____ of _____ a _____ corporation, on behalf of said corporation.

Notary Public, State of Texas
My Commission Expires: _____

STATE OF Texas §

COUNTY OF Nueces §

This instrument was acknowledged before me on the 10th day of October, 2006, by James W Barnett.



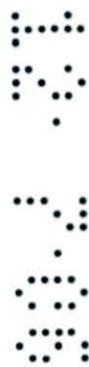
Claudette Morgan
Notary Public, State of Texas
My Commission Expires: 2/27/09



DATE NOV 20 2006

A true copy I certify
EDDY TREVINO

County Clerk, Hidalgo County, Texas
By [Signature] Deputy



ASSIGNOR:

CROW PARTNERS, LTD.

By: _____

Name: _____

Title: _____

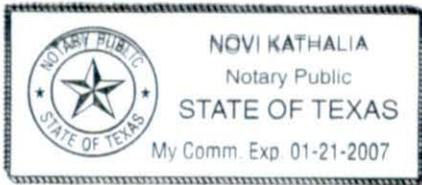
Joel R. Davis
JOEL R. DAVIS
PARTNER

STATE OF Texas

COUNTY OF Harris

§
§
§

This instrument was acknowledged before me on the 13th day of October, 2006, by Joel R. Davis as partner of Crow Partners, LTD a _____ corporation, on behalf of said corporation.



Novi Kathalia
Notary Public, State of Texas
My Commission Expires: 01/21/07

STATE OF _____

COUNTY OF _____

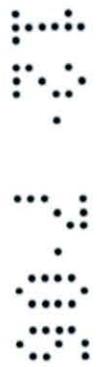
§
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This instrument was acknowledged before me on the ____ day of _____, 2006, by _____

Notary Public, State of Texas
My Commission Expires: _____



DATE NOV 20 2006
A true copy I certify
EDDY TREVINO
County Clerk, Hidalgo County, Texas
By Eddy Trevino Deputy



ASSIGNOR:

EDINBURG INVESTMENT COMPANY, INC.

By: [Signature]

Name: DAVID O ROGERS JR.

Title: PRESIDENT

STATE OF TEXAS

§

COUNTY OF HIDALGO

§

§

This instrument was acknowledged before me on the 10TH day of OCTOBER, 2006, by DAVID O ROGERS JR. as PRESIDENT of EDINBURG INVESTMENT CO. INC., a TEXAS corporation, on behalf of said corporation.



[Signature]

Notary Public, State of Texas

My Commission Expires: 3-26-2009

STATE OF _____

§

COUNTY OF _____

§

§

This instrument was acknowledged before me on the ____ day of _____, 2006, by _____.

Notary Public, State of Texas

My Commission Expires: _____

NOV 20 2006

DATE _____



A true copy I certify

EDDY TREVINO

County Clerk, Hidalgo County, Texas

By [Signature] Deputy

ASSIGNOR:

FELDERHOFF, LP

By: Mark P Metzler

Name: Mark P Metzler

Title: Pres

STATE OF Texas

COUNTY OF Cooke

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§

This instrument was acknowledged before me on the 16 day of Oct, 2006, by Mark P. Metzler as Pres of Felderhoff LP, a LLP corporation, on behalf of said corporation.

Robbin A. Rose



Notary Public, State of Texas
My Commission Expires: 5-28-08

STATE OF _____

COUNTY OF _____

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This instrument was acknowledged before me on the _____ day of _____, 2006, by _____

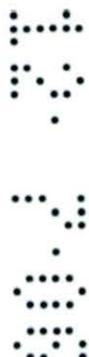
Notary Public, State of Texas
My Commission Expires: _____



DATE NOV 20 2006

A true copy I certify
EDDY TREVINO

County Clerk, Hidalgo County, Texas
By [Signature] Deputy



ASSIGNOR:

GEOGELD, L.P.
Geogeld Management, L.L.C., General Partner

By: David M. Hatridge

Name: David M. Hatridge

Title: President

STATE OF TEXAS §

COUNTY OF NUECES §

This instrument was acknowledged before me on the 25th day of October, 2006, by David M. Hatridge as President of Geogeld Management, L.L.C., a Texas, ~~a~~ limited liability company corporation, on behalf of said corporation. , General Partner of Geogeld, L.P., Texas limited partnership.



Delia M. McGrath
Notary Public, State of Texas
My Commission Expires: 08-31-09

STATE OF _____ §

COUNTY OF _____ §

This instrument was acknowledged before me on the _____ day of _____, 2006, by _____

Notary Public, State of Texas
My Commission Expires: _____



DATE NOV 20 2006

A true copy I certify
EDDY TREVINO
County Clerk, Hidalgo County, Texas
By Eddy Trevino Deputy

ASSIGNOR:

LMP PETROLEUM, INC.

By: MSR

Name: Michael S. Pedrotti

Title: President

STATE OF TEXAS

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§

COUNTY OF NUECES

This instrument was acknowledged before me on the 16th day of October, 2006, by MICHAEL S. PEDROTTI as President of Lmp Petroleum, Inc, a TEXAS corporation, on behalf of said corporation.

Delia M. McGrath

Notary Public, State of Texas

My Commission Expires: 8-31-09



STATE OF _____

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COUNTY OF _____

This instrument was acknowledged before me on the ____ day of _____, 2006, by _____

Notary Public, State of Texas

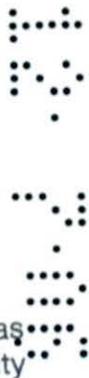
My Commission Expires: NOV 20 2006



DATE _____

A true copy I certify
EDDY TREVINO

County Clerk, Hidalgo County, Texas
By: [Signature] Deputy



ASSIGNOR:

MAGNUM PRODUCING, LP

By: *[Signature]*

Name: _____

Title: Avinash C. Ahuja
President of Magnum O & G, Inc.
General Partner of Magnum Producing, LP

STATE OF TEXAS §

COUNTY OF NUECES §

This instrument was acknowledged before me on the 10th day of October, 2006, by AVINASH C. AHUJA, PRESIDENT OF MAGNUM O & G, INC., SAID OF CORPORATION ACTING AS GENERAL PARTNER OF MAGNUM PRODUCING, LP, CORPORATION, ON BEHALF OF SAID CORPORATION. A TEXAS LIMITED PARTNERSHIP, ON BEHALF OF SAID PARTNERSHIP.

Valerie Benard Hanlon

Notary Public, State of Texas

My Commission Expires: 01-04-2008



STATE OF _____ §

COUNTY OF _____ §

This instrument was acknowledged before me on the _____ day of _____, 2006, by _____

Notary Public, State of Texas

My Commission Expires: _____



NOV 20 2006

DATE _____

A true copy I certify

EDDY TREVINO

County Clerk Hidalgo County, Texas

By *[Signature]* Deputy



ASSIGNOR:

MAKO COMMUNICATIONS, LLC

By: [Signature]

Name: Amanda Mintz

Title: Member

STATE OF Texas §

COUNTY OF Nueces §

This instrument was acknowledged before me on the 11th day of October, 2006, by Amanda Mintz as member of Mako Communications, LLC, a Limited Liability Company corporation, on behalf of said corporation.



Leslie Pizio
Notary Public, State of Texas
My Commission Expires: 1-20-10

STATE OF _____ §

COUNTY OF _____ §

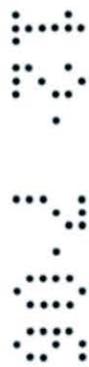
This instrument was acknowledged before me on the ___ day of _____, 2006, by _____

Notary Public, State of Texas
My Commission Expires: _____



DATE NOV 20 2006

A true copy I certify
EDDY TREVINO
County Clerk, Hidalgo County, Texas
By [Signature] Deputy



ASSIGNOR:

J. V. McCULLOUGH

By: [Signature]

Name: J. V. McCullough

Title: _____

STATE OF _____ §
COUNTY OF _____ §

This instrument was acknowledged before me on the ____ day of _____, 2006, by _____ as _____ of _____ a _____ corporation, on behalf of said corporation.

Notary Public, State of Texas
My Commission Expires: _____

STATE OF TEXAS §
COUNTY OF Nueces §

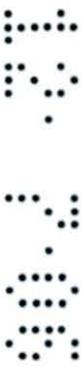
This instrument was acknowledged before me on the 10th day of October, 2006, by J. V. McCullough



[Signature]
Notary Public, State of Texas
My Commission Expires: 8-31-09



DATE NOV 20 2006
A true copy I certify
EDDY TREVINO
County Clerk, Hidalgo County, Texas
By [Signature] Deputy



ASSIGNOR:

WILLIAM B. MILLER FAMILY
PROPERTIES, LTD.

By: William B Miller

Name: William B Miller

Title: General ^{Partner} Manager

STATE OF Texas

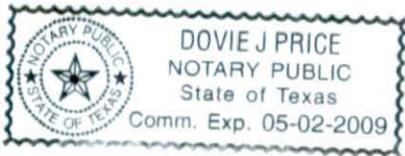
§

COUNTY OF Nueces

§

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This instrument was acknowledged before me on the 10 day of Oct., 2006, by William B. Miller as General ^{Partner} Manager of William B. Miller Family Properties Ltd, a _____ corporation, on behalf of said corporation.



Dovie J Price
Notary Public, State of Texas
My Commission Expires: _____

STATE OF _____

§

COUNTY OF _____

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This instrument was acknowledged before me on the ____ day of _____, 2006, by _____

Notary Public, State of Texas
My Commission Expires: _____

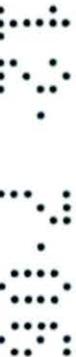


DATE

NOV 20 2006

A true copy I certify
EDDY TREVINO

County Clerk, Hidalgo County, Texas
By [Signature] Deputy



ASSIGNOR:

MJR INVESTMENTS, LTD.

By: [Signature]

Name: Michael J Rogers

Title: Member/Manager

STATE OF TEXAS

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COUNTY OF HIDALGO

This instrument was acknowledged before me on the 11th day of October, 2006, by Michael J Rogers as Member/Manager of MJR Investments Ltd, a partnership ~~corporation~~, on behalf of said ~~corporation~~ partnership.



[Signature]
Notary Public, State of Texas
My Commission Expires: 08-04-2009

STATE OF _____

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COUNTY OF _____

This instrument was acknowledged before me on the ____ day of _____, 2006, by _____

Notary Public, State of Texas

My Commission Expires: _____

DATE NOV 20 2006

A true copy I certify

EDDY TREVINO

County Clerk, Hidalgo County, Texas

By [Signature] Deputy



ASSIGNOR:

MOMENTUM ENERGY CORPORATION

By: [Signature]

Name: Martin Spadinger

Title: President

STATE OF TEXAS

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§

COUNTY OF MIDLAND

This instrument was acknowledged before me on the 10th day of October, 2006, by Martin Spadinger as President of Momentum Energy Corporation, a Delaware corporation, on behalf of said corporation.



Paula S. McMillan
Notary Public, State of Texas
My Commission Expires: 12/5/09

STATE OF _____

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COUNTY OF _____

This instrument was acknowledged before me on the ____ day of _____, 2006, by _____

Notary Public, State of Texas
My Commission Expires: _____



DATE NOV 20 2006

A true copy I certify
EDDY TREVINO

County Clerk, Hidalgo County, Texas
By [Signature] Deputy



ASSIGNOR:

ORION DRILLING COMPANY, LP

By: Wayne M. Squires 

Name: Wayne M. Squires

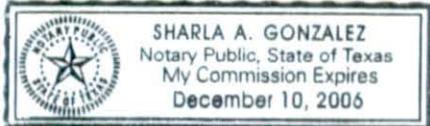
Title: CEO

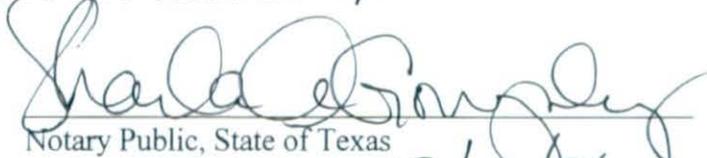
STATE OF Texas

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COUNTY OF Nueces

This instrument was acknowledged before me on the 10th day of October, 2006, by Wayne M. Squires as CEO of Orion Drilling Company, LP, a TX Limited Partnership ~~corporation~~, on behalf of said ~~corporation~~ limited Partnership




Notary Public, State of Texas
My Commission Expires: 12/10/06

STATE OF _____

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COUNTY OF _____

This instrument was acknowledged before me on the ___ day of _____, 2006, by _____

Notary Public, State of Texas
My Commission Expires: _____



DATE NOV 20 2006
A true copy I certify
EDDY TREVINO
County Clerk, Hidalgo County, Texas
By [Signature] Deputy



ASSIGNOR:

DANIEL A. PEDROTTI OIL & GAS
PROPERTIES, LTD.

By: *Daniel Pedrotti*

Name: Daniel A. Pedrotti

Title: General Partner

STATE OF Texas

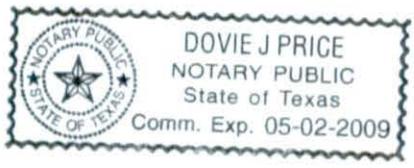
§

COUNTY OF Nueces

§

§

This instrument was acknowledged before me on the 10 day of October, 2006, by
Daniel A. Pedrotti as General Partner of
Daniel A. Pedrotti Oil & Gas Prop. Ltd, a _____
corporation, on behalf of said corporation.



Dovie J. Price
Notary Public, State of Texas
My Commission Expires: _____

STATE OF _____

§

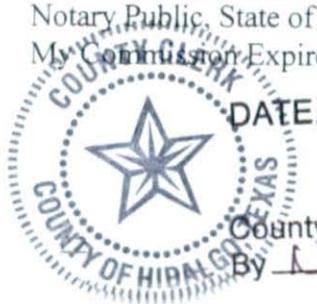
COUNTY OF _____

§

§

This instrument was acknowledged before me on the ____ day of _____, 2006, by

Notary Public, State of Texas
My Commission Expires: NOV 20 2006



A true copy I certify
EDDY TREVINO
County Clerk, Hidalgo County, Texas
By *Eddy Trevino* Deputy



ASSIGNOR:

RAPTOR ENERGY, LLC

By: [Signature]

Name: J. MICHAEL GREGORY

Title: PRESIDENT

STATE OF Texas §
COUNTY OF Harris §

This instrument was acknowledged before me on the 12 day of October, 2006, by J. Michael Gregory as President of Raptor Energy, LLC, a Texas Limited Liability Company corporation, on behalf of said company.



[Signature]
Notary Public, State of Texas
My Commission Expires: 4-24-2009

STATE OF _____ §
COUNTY OF _____ §

This instrument was acknowledged before me on the _____ day of _____, 2006, by _____

Notary Public, State of Texas
My Commission Expires: _____



DATE NOV 20 2006

A true copy I certify
EDDY TREVINO

County Clerk, Hidalgo County, Texas
By [Signature] Deputy

ASSIGNOR:

WOLFE RUDMAN

By: [Signature] 10-17-06

Name: _____

Title: _____

STATE OF _____ §

COUNTY OF _____ §

This instrument was acknowledged before me on the ____ day of _____, 2006, by _____ as _____ of _____ a _____ corporation, on behalf of said corporation.

Notary Public, State of Texas
My Commission Expires: _____

STATE OF Texas §
COUNTY OF DALLAS §

This instrument was acknowledged before me on the 16th day of October, 2006, by Wolfe Rudman, individually



Robert Hiram Lucius
Notary Public, State of Texas
My Commission Expires: 04/15/08



DATE NOV 20 2006
A true copy I certify
EDDY TREVINO
County Clerk, Hidalgo County, Texas
By: [Signature] Deputy



ASSIGNOR:

SEISGEN EXPLORATION, INC.

By: [Signature]

Name: John DiFilippo

Title: CFO

STATE OF Texas

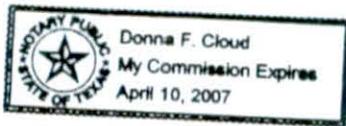
§

COUNTY OF Harris

§

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This instrument was acknowledged before me on the 13 day of October, 2006, by John DiFilippo as CFO of Seisgen Exploration, Inc., a Texas corporation, on behalf of said corporation.



[Signature]

Notary Public, State of Texas

My Commission Expires: 4-10-2007

STATE OF _____

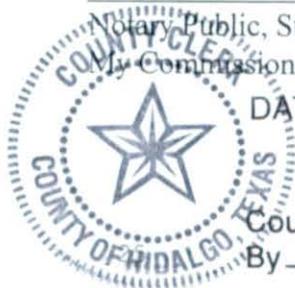
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COUNTY OF _____

§

§

This instrument was acknowledged before me on the ____ day of _____, 2006, by _____



Notary Public, State of Texas

My Commission Expires: _____

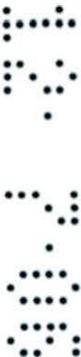
DATE NOV 20 2006

A true copy I certify

EDDY TREVINO

County Clerk Hidalgo County, Texas

By [Signature] Deputy



ASSIGNOR:

SOUTHWEST OIL AND LAND, INC.

By: _____



Name: DAVID O ROGERS JR.

Title: PRESIDENT

STATE OF TEXAS

§

COUNTY OF HIDALGO

§

§

This instrument was acknowledged before me on the 10TH day of OCTOBER, 2006, by DAVID O ROGERS JR. as PRESIDENT of SOUTHWEST OIL & LAND INC., a TEXAS corporation, on behalf of said corporation.



Sylvia Becho

Notary Public, State of Texas

My Commission Expires: 3-26-2009

STATE OF _____

§

COUNTY OF _____

§

§

This instrument was acknowledged before me on the ____ day of _____, 2006, by _____

Notary Public, State of Texas

My Commission Expires: _____

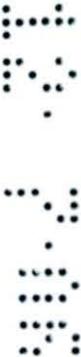


DATE NOV 20 2006

A true copy I certify

EDDY TREVINO

County Clerk, Hidalgo County, Texas
By: _____ Deputy



ASSIGNOR:

TRIJON EXPLORATION, INC.

By: [Signature]

Name: John T. Corcoran

Title: President

STATE OF Texas §

COUNTY OF Nueces §

This instrument was acknowledged before me on the 10th day of October, 2006, by John T. Corcoran as President of Trijon Exploration, Inc., a Texas corporation, on behalf of said corporation.



[Signature]
Notary Public, State of Texas
My Commission Expires: _____

STATE OF _____ §

COUNTY OF _____ §

This instrument was acknowledged before me on the _____ day of _____, 2006, by _____

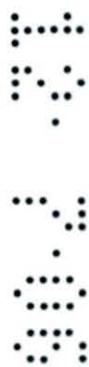
Notary Public, State of Texas

My Commission Expires: NOV 7 2006



A true copy I certify
EDDY TREVINO

County Clerk, Hidalgo County, Texas
By: [Signature] Deputy



ASSIGNOR:

TRIROCK ENERGY, A TEXAS GENERAL PARTNERSHIP

By: Timothy J. Ehrman

Name: Timothy J. Ehrman

Title: Partner

STATE OF Texas §

COUNTY OF Nueces §

This instrument was acknowledged before me on the 10TH day of October, 2006, by Timothy J. Ehrman as Partner of TriRock Energy, a Texas General Partnership ~~corporation~~, on behalf of said ~~corporation~~ Partnership.



Donna Ann Mesmer
Notary Public, State of Texas
My Commission Expires: 02/19/2010

STATE OF _____ §

COUNTY OF _____ §

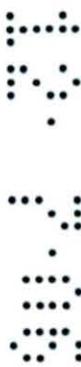
This instrument was acknowledged before me on the ____ day of _____, 2006, by _____.

Notary Public, State of Texas
My Commission Expires: _____



DATE NOV 20 2006

A true copy I certify
EDDY TREVINO
County Clerk, Hidalgo County, Texas
By [Signature] Deputy



ASSIGNOR:

JEFFREY T. UECKER (A/K/A JEFF UECKER)

By: Jeffrey T. Uecker

Name: Jeffrey T. Uecker

Title: Owner

STATE OF _____

§
§
§

COUNTY OF _____

This instrument was acknowledged before me on the _____ day of _____, 2006, by _____ as _____ of _____ a _____ corporation, on behalf of said corporation.

Notary Public, State of Texas
My Commission Expires: _____

STATE OF TEXAS

§
§
§

COUNTY OF NUECES

This instrument was acknowledged before me on the 12th day of October, 2006, by Jeffrey T. Uecker



Delia M. McGrath
Notary Public, State of Texas
My Commission Expires: 8-31-09



DATE NOV 20 2006
A true copy I certify
EDDY TREVINO
County Clerk, Hidalgo County, Texas
By: [Signature] Deputy



ASSIGNEE:

KERR-McGEE OIL & GAS ONSHORE LP

By: Scott McNamee

RMH

Name: Scott McNamee

Title: ATTORNEY-IN-FACT

STATE OF TEXAS

§

COUNTY OF HARRIS

§

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This instrument was acknowledged before me on the 15th day of November, 2006, by Scott McNamee as ATTORNEY-IN-FACT of Kerr-McGee Oil & Gas Onshore LP, a Limited partnership corporation, on behalf of said corporation.



Mardelle C. Foley
Notary Public, State of Texas
My Commission Expires: 10-16-2009

STATE OF _____

§

COUNTY OF _____

§

§

This instrument was acknowledged before me on the _____ day of _____, 2006, by _____

Notary Public, State of Texas
My Commission Expires: _____



NOV 20 2006

A true copy I certify
EDDY TREVINO

County Clerk, Hidalgo County, Texas
By: [Signature] Deputy



EXHIBIT "A"

Attached to and made a part of that certain ASSIGNMENT AND BILL OF SALE dated October 9, 2006 effective October 1, 2006 covering the Jeffress Prospect located in Hidalgo County, Texas

OIL AND GAS LEASE SUBJECT TO THIS AGREEMENT:

Oil and Gas Lease dated April 1, 2004 by and between Juan Lino Garza and Guadalupe Garza, Jr., as Trustees (hereinafter "Trustees") of the Garza Energy Trust of 1994 (MF#104158), as Lessor and LMP Petroleum, Inc., as Lessee and recorded in Document No. 1381542, covering 176 acres of land, more or less, in Hidalgo County, Texas.

WELLS:

- Garza-State Well No. 1 (API # 42-215-33277)
- Garza-State Well No. 2 (API # 42-215-33283)
- Garza-State Well No. 3 (API # 42-215-33391)

CONTRACTS:

As shown in this Agreement.

Document Number: 1489187
 Total Fees: 140.00
 Receipt Number - 813256
 by Imelda Leal, Deputy
 As a Recording
 On: Nov 20, 2006 at 10:33A



NOV 20 2006

A true copy I certify
EDDY TREVINO
 County Clerk, Hidalgo County, Texas
 By *[Signature]* Deputy



MF 44

35.

File No. MF704158
Assignment
 Date Filed: 127706
 By Jerry E. Patterson, Commissioner

• • • •

832-636-1000

FAX 281-673-4148

e-mail Thomas.Kendall@KerrMcGee.com



Kerr-McGee Oil & Gas Onshore LP

16666 NORTHCHASE • HOUSTON, TEXAS 77060
281-673-6000

Thomas W. Kendall
Senior Counsel

March 8, 2007

Texas General Land Office
Attn: Mr. James M. Irwin, Jr., P.E.
Stephen F. Austin Building
1700 North Congress Avenue
Austin, Texas 78701-1495

Re: State Oil & Gas Lease (MF-104158),
176 Acres, Garza State Lease, Hidalgo and Starr Counties, TX

Dear Mr. Irwin:

This letter is a follow-up to the letter dated November 16, 2006 from you to Mr. Mark Galloway of Kerr-McGee Oil & Gas Onshore LP ("Kerr-McGee"), and the various conversations and correspondence that have taken place between representatives of Kerr-McGee and the GLO since the date of that letter concerning the GLO's views on the offset well obligation on the referenced lease.

I believe the last written correspondence you have received is a letter from Mr. Galloway dated December 12, 2006, wherein he advised the GLO that Kerr-McGee had undertaken discussions with El Paso in connection with the pooling of 1.35 acres from the captioned lease with 38.65 acres out of El Paso's State Oil & Gas Lease (MF-091211), the lands under which adjoin the captioned lease. At that time, Mr. Galloway, relying on statements from El Paso, firmly believed that El Paso would agree to the pooling of the 1.35 acre tract with the acreage from State Lease MF-091211. However, after the New Year's break, representatives of El Paso advised Mr. Galloway that they had changed their minds and would not agree to any pooling of lands under these two leases.

Subsequent to that conversation, El Paso proposed the drilling of the Zamora State #13 well to Kerr-McGee, who also owns a leasehold interest in State Lease MF-091211. As of this date, this well is currently drilling approximately 645' from the north line of State Lease MF-091211 and approximately 477' from the east line of said lease. The drilling of this well would satisfy any

Mr. James M. Irwin, Jr.
Texas General Land Office
March 7, 2007
Page 2

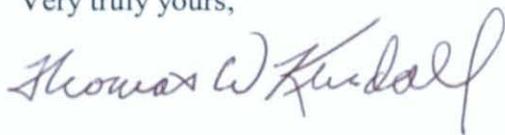
offset well obligation the lessees of State Lease MF-091211 would have in favor of the GLO related to the Garza Zamora Energy Trust #3 well, which lies immediately north of State Leases MF-104158 and MF-091211, and is the alleged draining well referred to in your letter of November 16 to Kerr-McGee. Kerr-McGee agreed to participate in the drilling of this well, which is being operated by El Paso. The target zone for this well is the same formation from which the Garza Zamora Energy Trust #3 well is producing.

Considering the foregoing circumstances, Kerr-McGee respectfully suggests a compromise to the three settlement options advanced by the GLO on page two of the November 16 letter, which is to permit Kerr-McGee to grant the State an overriding royalty interest in the Zamora State #13 well, to be carved out of Kerr-McGee's working interest in that well. Kerr-McGee has attached a proposed Compensatory Royalty Agreement for the GLO's review and approval.

As seen above, Kerr-McGee's preference was to embrace the GLO's settlement option number three, as set forth in the GLO's letter of November 16, 2006. But, our efforts to effectuate that manner of settlement were stymied by El Paso's refusal to pool its interest in State Lease MF-091211 with Kerr-McGee's interest the 1.35 acre tract out of State Lease MF-104158. While this scenario does not exactly fit option number three, it does provide the GLO with relief on the drainage issue and it is Kerr-McGee's belief that this compromise offers a very workable solution for all involved.

Accordingly, Kerr-McGee hereby seeks the GLO's approval that the attached Compensatory Royalty Agreement satisfies the drainage concerns of the GLO with respect to the 1.35 acre tract out of State Lease MF-104158, and that Kerr-McGee's obligation to protect such lease from drainage has likewise been satisfied. If you would like to discuss this matter in further detail, including the specific provisions of the Compensatory Royalty Agreement, representatives of Kerr-McGee would be willing to meet with you at your convenience. Thank you.

Very truly yours,



Thomas W. Kendall
Sr. Counsel

cc: Mr. Ladell Collier-GLO
w/ attachment

COMPENSATORY ROYALTY AGREEMENT

This Agreement was not signed. It was changed.

This Compensatory Royalty Agreement ("Agreement") is made and entered into as of the 8th day of March, 2007, by and between Kerr-McGee Oil & Gas Onshore LP ("Kerr-McGee") and the General Land Office of the State of Texas ("GLO"). Kerr-McGee and the GLO are sometimes hereinafter referred to, individually, as a "Party" and, collectively, as the "Parties".

WITNESSETH:

WHEREAS, Kerr-McGee is the record owner of one hundred percent (100%) of the working interest in and to State Lease MF-104158 located in Hidalgo and Starr Counties, Texas;

WHEREAS, Kerr-McGee is a working interest owner in the Garza Zamora Energy Trust No. 3 Well, which is located on a private oil and gas lease adjacent to and immediately north of State Lease MF-104158, Hidalgo and Starr Counties, Texas (the "Alleged Draining Well");

WHEREAS, Kerr-McGee is a working interest owner in State Lease MF- 091211, which is located adjacent to and immediately west of State Lease MF-104158 in Hidalgo and Starr Counties, Texas;

WHEREAS, the GLO has asserted that the production of oil and/or gas from the Alleged Draining Well has obligated the lessees of State Leases MF-104158 and MF-091211 to protect such leases from drainage by the drilling of offset wells on such leases or to make other agreements with the Commissioner of the GLO to protect the State's interest in such leases from drainage;

WHEREAS, the lessees of State Lease MF-091211 have commenced the drilling of the Zamora State No. 13 Well (the "Offset Well") on such lease and have fully complied with the offset well covenant contained in State Lease MF-091211 and/or in the pertinent statutes of the State of Texas;

WHEREAS, The GLO has determined that the area of drainage existing on State Lease MF-104158 consists of approximately 1.35 acres, as depicted on the plat attached hereto as Exhibit "A" (the "Drainage Area");

WHEREAS, in order to satisfy its offset well obligation to the GLO with respect to State Lease MF-104158 and/or the pertinent statutes of the State of Texas, Kerr-McGee has proposed to enter into this Agreement with the GLO;

WHEREAS, the Commissioner of the GLO ("Commissioner") has determined that the payment of a compensatory royalty out of production from the Offset Well, as herein provided, will fully satisfy Kerr-McGee's leasehold and statutory obligation to drill an offset well on State Lease MF-104158, including the Drainage Area; and

WHEREAS, Kerr-McGee, the GLO and the Commissioner have agreed to settle and compromise any disputes they may have concerning the Drainage Area by entering into this Agreement.

NOW, THEREFORE, in consideration of the premises, the Parties hereby agree, as follows:

- 1) In the event the Offset Well is completed as a producer of oil and/or gas in paying quantities, Kerr-McGee shall pay to the Commissioner a compensatory royalty, as described below, commencing with the first production from the Offset Well, and Kerr-McGee shall continue paying such compensatory royalty for so long as the Offset Well continues to produce oil and/or gas. Kerr-McGee shall make such payments to the Commissioner on a monthly basis and at the same time as it pays the Commissioner royalties from the Offset Well. The compensatory royalty shall be borne entirely out of Kerr-McGee's leasehold interest in the Offset Well. The compensatory royalty shall be



paid to the Commissioner, based upon production from the Offset Well, in the decimal interest set forth below, as follows:

State of Texas, Commissioner of the General Land Office: **0.00421875 of 8/8ths**

2) The Commissioner, as evidenced by his execution of this Agreement, has determined pursuant to the provisions of State Lease MF-104158 and/or the pertinent statutes of the State of Texas that the payment of the compensatory royalty out of production from the Offset Well, as herein provided, does satisfy, in whole, the lessee's obligation under such lease and/or under the pertinent statutes of the State of Texas to drill offset wells as a consequence of production of oil and/or gas from the Alleged Draining Well, but insofar and only insofar as the Alleged Draining Well is concerned.

3) Further, the GLO, acting by and through the Commissioner, does hereby release Kerr-McGee of and from any and all obligations to drill offset wells to protect the Drainage Area and State Lease MF-104158 from drainage as a consequence of the production of oil and/or gas from the Alleged Draining Well, as long as Kerr-McGee pays compensatory royalties from the Offset Well as herein provided.

4) In the event the Offset Well is completed as a dry hole, then this Agreement shall *ipso facto* terminate as of the date on which the Offset Well is completed as a dry hole. In such event, Kerr-McGee shall promptly notify the GLO, in writing, that the Offset Well has been completed as a dry hole.

5) This Agreement shall be binding on the successors and assigns of Kerr-McGee.

This Agreement is executed to be effective as of the date first written above, regardless of the date on which a Party has executed it.

KERR-McGEE OIL & GAS ONSHORE LP

By: _____
James Newcomb
Agent and Attorney-in-Fact

STATE OF TEXAS

By: _____
Jerry Patterson
Commissioner of the General Land Office

ACKNOWLEDGMENT

STATE OF TEXAS

COUNTY OF MONTGOMERY

This instrument was acknowledged before me on the ___ day of _____, 2007,
by James L. Newcomb, Agent and Attorney-In-Fact for KERR-MCGEE OIL & GAS
ONSHORE LP, on behalf of said limited partnership.

Notary Public in and for the State of Texas



TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

March 19, 2007

Mr. Thomas W. Kendall
Senior Counsel
Kerr-McGee Oil & Gas Onshore LP
16666 Northchase
Houston, TX 77060

Via U S Mail & Facsimile (281) 673-4148

RE: State Oil & Gas Lease (MF-104158), 176 Acres Garza-State Lease, Hidalgo & Starr Counties, TX.

Dear Mr. Kendall:

Thank you for your letter of March 8, 2007 proposing settlement for uncompensated drainage of the above referenced lease by production from the Garza Zamora Energy Trust Well No. 3 ("draining well"). The General Land Office (GLO) staff is in general agreement with Kerr McGee's proposed settlement save and except for one item.

GLO staff acknowledges that the drilling of the Zamora State No. 13 well ("offset well") is a reasonable effort to satisfy the offset obligation for State lease MF-091211. However, the drilling of the "offset well" may not satisfy the obligation to protect the 1.35 acres currently drained on State lease MF-104158. Due to the location of the Zamora State No. 13 well, if the productive correlative interval in the "draining well" is non-productive in the "offset well", then GLO staff expects Kerr-McGee to agree to pay (either in cash or via an over-riding royalty interest) a compensatory royalty equal to 0.421875% of 8/8's of the revenue generated from the Garza Zamora Energy Trust Well No. 3 from date of first production.

Mr. Daryl Morgan and I have each attempted to communicate this condition to you via voice mail. To date, we have had no response to our efforts. Therefore, it seemed appropriate to follow up with this letter. If Kerr-McGee finds this condition acceptable, please send your draft settlement agreement via e-mail to daryl.morgan@glo.state.tx.us. Mr. Morgan will make appropriate changes to your draft and return it for your review and comment. Once done, Mr. Morgan will present it to the Commissioner for his approval. Please advise within 10 business days of receipt of this letter what Kerr-McGee's decision is. I may be reached by phone at (512) 463-5326 or by e-mail at james.irwin@glo.state.tx.us

Sincerely,

James M. Irwin, Jr., P.E.
Petroleum Engineer
Mineral Leasing/Energy Resources

cc: Peter Boone Robert Hatter Daryl Morgan

Stephen F. Austin Building • 1700 North Congress Avenue • Austin, Texas 78701-1495

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

www.glo.state.tx.us

*** TX REPORT ***

TRANSMISSION OK

TX/RX NO 1771
RECIPIENT ADDRESS 92816734148
DESTINATION ID
ST. TIME 03/19 15:31
TIME USE 00'37
PAGES SENT 2
RESULT OK

1700 No. Congress Ave., Austin TX 78701 (512) 463-5042

**General Land Office
1700 N. Congress Ave
Austin, Tx. 78701**

Fax

To: Mr. Thomas Kendall **From:** Jim Irwin (512) 463-5326

Fax: (281) 673-4148 **Pages:** 2 (including cover sheet)

Phone: (832) 636-1000 **Date:** 3/19/2007

Re: RE: State Lease MF-104158, Garza State
Lease, Hidalgo & Starr Counties

Urgent **For Review** **Please Comment** **Please Reply** **Please Recycle**

PLEASE SEE ATTACHED LETTER.

36.

File No. MF 04158
for Group Kerr-McLee &
FD letter

Date Filed: 3/19/07

Jerry E. Patterson, Commissioner

By: [Signature]



Laurie McNamara
Project Land Advisor

Kerr-McGee Oil & Gas Onshore LP
16666 Northchase, Houston, TX 77060
(281) 673-6819 FAX (281) 673-4819

April 18, 2007

Via Overnight Delivery

Texas General Land Office
Attn: Mr. James M. Irwin, Jr. P.E.
Stephen F. Austin Building
1700 North Congress Avenue
Austin, TX 78701-1495

RE: State Oil & Gas Lease (MF-104158)
176 Acres, Garza State Lease, Hidalgo and Starr Counties, Texas

Dear Mr. Irwin:

Enclosed are three (3) originals of the Compensatory Royalty Agreement we have agreed to. The Agreement has been executed by Kerr-McGee Oil & Gas Onshore LP. Please execute all three originals and return two (2) originals to my attention at the address above. We will have the agreement recorded in the county records and provide you with a recorded copy when it is available.

We will also provide El Paso, the operator of the Zamora State No. 13 Well, with a copy of the fully executed agreement as soon it is available.

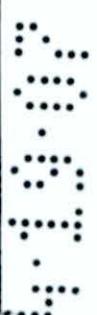
Should you have any questions, please call me. Thank you for your cooperation and patience in resolving this matter.

Sincerely,

Kerr-McGee Oil & Gas Onshore LP

Laurie McNamara
Project Team Lead

cc: Mr. Thomas Kendall with attachment



Vertical text on the right margin, possibly a stamp or tracking information, including the number 3.

37

File No. M-104158
Off. From Kerr-McBee

Date Filed: 4-19-07

Jerry E. Patterson, Commissioner

By: Gary Morgan

2006



May 4, 2007

Ms. Laurie McNamara
Kerr-McGee Oil & Gas Onshore LP
16666 Northchase
Houston, Texas 77060

Re: Compensatory Royalty Agreement
State Lease No. M-104158
176-acre, Garza State Lease
Hidalgo and Starr Counties, Texas

Dear Ms. McNamara:

We hereby acknowledge receipt of your letter of April 18, 2007, and the three (3) originals of the referenced Compensatory Royalty Agreement. Enclosed are two (2) originals of the Agreement that have been executed by Jerry E. Patterson, Commissioner of the Texas General Land Office. We have retained one original of the Agreement for our files. If the Agreement is recorded, please provide us with a copy of the recorded instrument.

Thank you for your assistance with this matter, if you have any questions or need anything else, please do not hesitate to call.

Sincerely,

A handwritten signature in cursive script that reads "J. Daryl Morgan".

J. Daryl Morgan, CPL
Energy Resources Division
(512) 305-9106

38

File No. M-104158
Ltr. to Kerr-Mcbee

Date Filed: 5-4-07

Jerry E. Patterson, Commissioner

By Nancy Morgan

DO NOT DESTROY



Texas General Land Office
UNIT AGREEMENT MEMO

PA07-100

Unit Number 4024
Operator Name KERR-MCGEE OIL & GAS ONSHORE LP Effective Date 4/3/2007
TaxID: [REDACTED] Unitized For Oil & Gas
Unit Name Unit Term 0 Months
County1 Hidalgo
County2 Starr
County3
RRC District: 04
Unit Type:
State Royalty Interest: 0.00421875
State Part in Unit: 0.03375
Unit Depth Well:
Below Depth 0 Formation:
Above Depth 0 Participation Basis:
[If Exclusions Apply: See Remarks]

| Old Unit Number | Inactive Status Date |
|-----------------|----------------------|
| 0 | |
| 0 | |
| 0 | |
| 0 | |
| 0 | |

MF Number MF104158 Tract Number 1
Lease Acres 1.35 / Total Unit Acres 40 =
Tract Participation: 0.0337500 X
Lease Royalty 0.125 = Manual Tract Participation: [] 0 | See Remark
Tract Royalty Participation 0.0042188 Manual Tract Royalty: [] 0 |

Tract Royalty Reduction No
Tract Royalty Rate 0
Tract On-Line Date:

07-046207

API Number

RRC Number

Remarks:

This is not a unit but is a compensatory royalty for the Garza Zamora Energy Trust No. 3 well. See M-104158 for settlement agreement.

Prepared By:

LC

Prepared Date:

5-9-07

GLO Base Updated By:

M. Silva

GLOBase Date:

5-24-07

RAM Approval By:

J King

RAM Approval Date:

5-8-07

GIS By: **UPDATED**

AS / B

GIS Date:

1-14-08 8-10-2010

Mineral Maps By:

Mineral Maps Date:

COMPENSATORY ROYALTY AGREEMENT

This Compensatory Royalty Agreement ("Agreement") is made and entered into as of the 3rd day of April, 2007, by and between Kerr-McGee Oil & Gas Onshore LP ("Kerr-McGee") and the General Land Office of the State of Texas ("GLO"). Kerr-McGee and the GLO are sometimes hereinafter referred to, individually, as a "Party" and, collectively, as the "Parties".

WITNESSETH:

WHEREAS, Kerr-McGee is the record owner of one hundred percent (100%) of the working interest in and to State Lease MF-104158 located in Hidalgo and Starr Counties, Texas;

WHEREAS, Kerr-McGee is a working interest owner in the Garza Zamora Energy Trust No. 3 Well, which is located on a private oil and gas lease adjacent to and immediately north of State Lease MF-104158, Hidalgo and Starr Counties, Texas (the "Alleged Draining Well");

WHEREAS, Kerr-McGee is a working interest owner in State Lease MF-091211, which is located adjacent to and immediately west of State Lease MF-104158 in Hidalgo and Starr Counties, Texas;

WHEREAS, the GLO has asserted that the production of oil and/or gas from the Alleged Draining Well has obligated the lessees of State Leases MF-104158 and MF-091211 to protect such leases from drainage by the drilling of offset wells on such leases or to make other agreements with the Commissioner of the GLO to protect the State's interest in such leases from drainage;

WHEREAS, the lessees of State Lease MF-091211 have commenced the drilling of the Zamora State No. 13 Well (the "Offset Well") on such lease and have fully complied with the offset well covenant contained in State Lease MF-091211 and/or in the pertinent statutes of the State of Texas;

WHEREAS, The GLO has determined that the area of drainage existing on State Lease MF-104158 consists of approximately 1.35 acres, as depicted on the plat attached hereto as Exhibit "A" (the "Drainage Area");

WHEREAS, in order to satisfy its offset well obligation to the GLO with respect to State Lease MF-104158 and/or the pertinent statutes of the State of Texas, Kerr-McGee has proposed to enter into this Agreement with the GLO;

WHEREAS, the Commissioner of the GLO ("Commissioner") has determined that the payment of a compensatory royalty out of production from the Offset Well or the Alleged Draining Well (as the case may be), as herein provided, will fully satisfy Kerr-McGee's leasehold and statutory obligation to drill an offset well on State Lease MF-104158, including the Drainage Area; and

WHEREAS, Kerr-McGee, the GLO and the Commissioner have agreed to settle and compromise any disputes they may have concerning the Drainage Area by entering into this Agreement.

NOW, THEREFORE, in consideration of the premises, the Parties hereby agree, as follows:

1) In the event the Offset Well is completed as a producer of oil and/or gas in paying quantities, Kerr-McGee shall pay to the Commissioner a compensatory royalty, as described below, commencing with the first production from the Offset Well, and Kerr-McGee shall continue paying such compensatory royalty for so long as the Offset Well continues to produce oil and/or gas. Kerr-McGee shall make such payments or cause such payments to be made to the Commissioner on a monthly basis and at the same time as the Commissioner is paid royalties from the Offset Well. The compensatory royalty

shall be borne entirely out of Kerr-McGee's leasehold interest in the Offset Well. The compensatory royalty shall be paid to the Commissioner, based upon production from the Offset Well, in the decimal interest set forth below, as follows:

State of Texas, Commissioner of the General Land Office: **0.00421875 of 8/8ths**

2) The Commissioner, as evidenced by his execution of this Agreement, has determined pursuant to the provisions of State Lease MF-104158 and/or the pertinent statutes of the State of Texas that the payment of the compensatory royalty out of production from the Offset Well or the Alleged Draining Well (as the case may be), as herein provided, does satisfy, in whole, the lessee's obligation under such lease and/or under the pertinent statutes of the State of Texas to drill offset wells as a consequence of production of oil and/or gas from the Alleged Draining Well, but insofar and only insofar as the Alleged Draining Well is concerned.

3) Further, the GLO, acting by and through the Commissioner, does hereby release Kerr-McGee of and from any and all obligations to drill offset wells to protect the Drainage Area and State Lease MF-104158 from drainage as a consequence of the production of oil and/or gas from the Alleged Draining Well, as long as Kerr-McGee pays compensatory royalties from the Offset Well or the Alleged Draining Well (as the case may be) as herein provided.

4) In the event the Offset Well is completed as a dry hole or, if it is completed as a well capable of producing in paying quantities, and thereafter ceases to produce in paying quantities within 12 months after the date of first production from such well, then Kerr-McGee shall commence making compensatory royalty payments to the GLO from its leasehold interest in the Alleged Draining Well at the same decimal interest set forth in 1) above. In addition, Kerr-McGee shall make a retroactive compensatory royalty payment from the Alleged Draining Well to the GLO, without interest, such payment to cover the period beginning 161 days after the date of first production of the Alleged Draining Well and ending on the day before the date on which compensatory royalty payments from the Alleged Draining Well begin.

5) This Agreement is for the sole benefit of the Parties and their respective successors and assigns and no other person or entity shall be entitled to enforce this Agreement or any of the provisions hereof, rely on any representation, warranty, covenant or agreement contained herein, receive any rights hereunder or be a third party beneficiary of this Agreement.

6) This Agreement shall be binding on the successors and assigns of Kerr-McGee.

This Agreement is executed to be effective as of the date first written above, regardless of the date on which a Party has executed it.

KERR-MCGEE OIL & GAS ONSHORE LP

By:



James Newcomb
Agent and Attorney-in-Fact

STATE OF TEXAS

By: Jerry E. Patterson
Jerry Patterson
Commissioner of the General Land Office

approved: [Signature]
legal [Signature]
content [Signature]
deputy [Signature]
executive [Signature]

ACKNOWLEDGMENT

STATE OF TEXAS

COUNTY OF MONTGOMERY

This instrument was acknowledged before me on the 10 day of April, 2007,
by James L. Newcomb, Agent and Attorney-In-Fact for KERR-MCGEE OIL & GAS
ONSHORE LP, on behalf of said limited partnership.

[Signature]
Notary Public in and for the State of Texas



Exhibit A



A-726
SECT-883
Survey: WD PARCHMAN

Legend

-  1.35 acres more or less
-  KMG Lease 785035

39

File No. M-104158
Compensatory Royalty Agreement
Date Filed: 6/6/07
Jerry E. Patterson, Commissioner
By Daryl Morgan

2007

Daryl - FYI - I guess
this goes to the



MF
NEXT!
Right??
Jim

October 9, 2007



Texas General Land Office
Attn: Mr. James M. Irwin, Jr., P.E.
Stephen F. Austin Building
1700 North Congress Ave.
Austin, TX 78701-1495

RE: State Oil & Gas Lease (MF-104158)
176 acres, Garza State Lease
Hidalgo & Starr Counties, Texas

Dear Mr. Irwin:

Enclosed is a recorded copy of the Compensatory Royalty Agreement which was filed under Document 1762669, Hidalgo County, Texas, for your files.

Thank you for your time and consideration.

Sincerely,

Mardelle Foley
Sr. Staff Land Analyst

/mf

Enclosure

60-114-11071
OCT 11 AM 1:29
2007

Hidalgo County
Arturo Guajardo Jr.
County Clerk
Edinburg, TX 78540



70 2007 01762669

Instrument Number: 2007-1762669

Recorded On: May 25, 2007

As
Recording

Parties:

To

Billable Pages: 4

Number of Pages: 5

Comment: COMPN ROY AGREE

**** Examined and Charged as Follows: ****

| | |
|------------------|-------|
| Recording | 28.00 |
| Total Recording: | 28.00 |

***** THIS PAGE IS PART OF THE INSTRUMENT *****

Any provision herein which restricts the Sale, Rental or use of the described REAL PROPERTY because of color or race is invalid and unenforceable under federal law.

File Information:

Document Number: 2007-1762669
Receipt Number: 862296
Recorded Date/Time: May 25, 2007 10:11A

Record and Return To:

KERR-MCGEE OIL & GAS ONSHORE LP
PO BOX 1330
HOUSTON TX 78540

User / Station: E Castillo - Cash Station 04



STATE OF TEXAS
COUNTY OF HIDALGO

I hereby certify that this instrument was FILED in the File Number sequence on the date/time printed hereon, and was duly RECORDED in the Official Records of Hidalgo County, Texas

Arturo Guajardo Jr.
County Clerk
Hidalgo County, TX

COMPENSATORY ROYALTY AGREEMENT

This **Compensatory Royalty Agreement** ("Agreement") is made and entered into as of the 3rd day of April, 2007, by and between Kerr-McGee Oil & Gas Onshore LP ("Kerr-McGee") and the General Land Office of the State of Texas ("GLO"). Kerr-McGee and the GLO are sometimes hereinafter referred to, individually, as a "Party" and, collectively, as the "Parties".

WITNESSETH:

WHEREAS, Kerr-McGee is the record owner of one hundred percent (100%) of the working interest in and to State Lease MF-104158 located in Hidalgo and Starr Counties, Texas;

WHEREAS, Kerr-McGee is a working interest owner in the Garza Zamora Energy Trust No. 3 Well, which is located on a private oil and gas lease adjacent to and immediately north of State Lease MF-104158, Hidalgo and Starr Counties, Texas (the "Alleged Draining Well");

WHEREAS, Kerr-McGee is a working interest owner in State Lease MF- 091211, which is located adjacent to and immediately west of State Lease MF-104158 in Hidalgo and Starr Counties, Texas;

WHEREAS, the GLO has asserted that the production of oil and/or gas from the Alleged Draining Well has obligated the lessees of State Leases MF-104158 and MF-091211 to protect such leases from drainage by the drilling of offset wells on such leases or to make other agreements with the Commissioner of the GLO to protect the State's interest in such leases from drainage;

WHEREAS, the lessees of State Lease MF-091211 have commenced the drilling of the Zamora State No. 13 Well (the "Offset Well") on such lease and have fully complied with the offset well covenant contained in State Lease MF-091211 and/or in the pertinent statutes of the State of Texas;

WHEREAS, The GLO has determined that the area of drainage existing on State Lease MF-104158 consists of approximately 1.35 acres, as depicted on the plat attached hereto as Exhibit "A" (the "Drainage Area");

WHEREAS, in order to satisfy its offset well obligation to the GLO with respect to State Lease MF-104158 and/or the pertinent statutes of the State of Texas, Kerr-McGee has proposed to enter into this Agreement with the GLO;

WHEREAS, the Commissioner of the GLO ("Commissioner") has determined that the payment of a compensatory royalty out of production from the Offset Well or the Alleged Draining Well (as the case may be), as herein provided, will fully satisfy Kerr-McGee's leasehold and statutory obligation to drill an offset well on State Lease MF-104158, including the Drainage Area; and

WHEREAS, Kerr-McGee, the GLO and the Commissioner have agreed to settle and compromise any disputes they may have concerning the Drainage Area by entering into this Agreement.

NOW, THEREFORE, in consideration of the premises, the Parties hereby agree, as follows:

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shall be borne entirely out of Kerr-McGee's leasehold interest in the Offset Well. The compensatory royalty shall be paid to the Commissioner, based upon production from the Offset Well, in the decimal interest set forth below, as follows:

State of Texas, Commissioner of the General Land Office: **0.00421875 of 8/8ths**

2) The Commissioner, as evidenced by his execution of this Agreement, has determined pursuant to the provisions of State Lease MF-104158 and/or the pertinent statutes of the State of Texas that the payment of the compensatory royalty out of production from the Offset Well or the Alleged Draining Well (as the case may be), as herein provided, does satisfy, in whole, the lessee's obligation under such lease and/or under the pertinent statutes of the State of Texas to drill offset wells as a consequence of production of oil and/or gas from the Alleged Draining Well, but insofar and only insofar as the Alleged Draining Well is concerned.

3) Further, the GLO, acting by and through the Commissioner, does hereby release Kerr-McGee of and from any and all obligations to drill offset wells to protect the Drainage Area and State Lease MF-104158 from drainage as a consequence of the production of oil and/or gas from the Alleged Draining Well, as long as Kerr-McGee pays compensatory royalties from the Offset Well or the Alleged Draining Well (as the case may be) as herein provided.

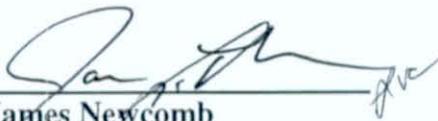
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5) This Agreement is for the sole benefit of the Parties and their respective successors and assigns and no other person or entity shall be entitled to enforce this Agreement or any of the provisions hereof, rely on any representation, warranty, covenant or agreement contained herein, receive any rights hereunder or be a third party beneficiary of this Agreement.

6) This Agreement shall be binding on the successors and assigns of Kerr-McGee.

This Agreement is executed to be effective as of the date first written above, regardless of the date on which a Party has executed it.

KERR-MCGEE OIL & GAS ONSHORE LP

By: 
James Newcomb
Agent and Attorney-in-Fact

STATE OF TEXAS

By:

Jerry E. Patterson
Jerry Patterson
Commissioner of the General Land Office

approved:
legal
content
deputy
executive

[Handwritten signatures]

ACKNOWLEDGMENT

STATE OF TEXAS

COUNTY OF MONTGOMERY

This instrument was acknowledged before me on the 10 day of April, 2007,
by James L. Newcomb, Agent and Attorney-In-Fact for KERR-MCGEE OIL & GAS
ONSHORE LP, on behalf of said limited partnership.

A Seifert

Notary Public in and for the State of Texas

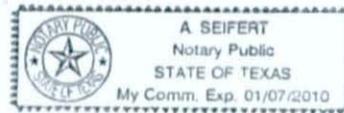


Exhibit A



SECT-883

A-726
SECT-883
Survey: WD PARCHMAN

Legend



1.35 acres more or less



KMG Lease 785035

40

File No. M-104158

Ltr. From Anckerks with
Recorded CRA

Date Filed: 10/12/07

Jerry E. Patterson, Commissioner

By Daryl Morgan

2011

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

October 29, 2007

El Paso Exploration & Production
1001 Louisiana Street
Houston, TX 77002

Re: State Lease MF104158 - Compensatory Royalty - **Please refer to this lease number with all correspondence**
Garza Zamora Energy Trust #3
10004676

The General Land Office has received and filed the division order submitted for the above-referenced state lease. Please be advised that the payment of royalties attributable to state-owned mineral interests is set by statute. As the execution of division orders may, in some cases, affect the manner in which such payments are paid or calculated, it is the policy of this office not to execute them.

Subject to applicable state law and the state's right to take its production in-kind, the General Land Office acquiesces to the sale of oil and gas under the terms and conditions set out in the oil and gas lease. If you should have questions concerning this matter, please feel free to call me at (512) 463-6521.

Sincerely,

A handwritten signature in cursive script that reads "Beverly Boyd".

Beverly Boyd, Lease Analyst
Mineral Leasing Division

Stephen F. Austin Building • 1700 North Congress Avenue • Austin, Texas 78701-1495

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

www.glo.state.tx.us

RECEIVED

OCT 25 PM 2:

October 24, 2007

Beverly Boyd
Texas General Land Office
PO Box 12873
Austin TX 78711

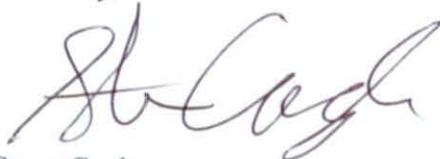
Re: 10004676, Garza Zamora Energy Trust #3
Owner No. 002396 01

Dear Ms. Boyd:

Enclosed is the Division Order for the subject property along with a certain Compensatory Royalty Agreement. You had returned the above Order requesting the state lease number and legal description. I believe per the above agreement the state lease number is MF-104158 and the legal is A-726, Section 883, WD Parchman Survey.

If you have any further questions please let me know.

Sincerely,



Steve Cagle
Sr. Division Order Analyst
El Paso Production Company
713-420-4023

**AMENDED
OIL AND GAS DIVISION ORDER**

TO:
El Paso E&P Company, L.P.
P. O. Box 2511
Houston, TX 77252-2511

PROPERTY NO: See Attached Exhibit
DO TYPE: See Attached Exhibit
MAJOR PROD CODE: See Attached Exhibit
TIER: See Attached Exhibit
EFFECTIVE: Date of last settlement
DATED: 10/15/2007

MF 104158

OWNER:
002396-01
STATE OF TEXAS,
THE GENERAL LAND OFFICE
ENERGY RESOURCES DEPARTMENT
1700 CONGRESS AVE, RM 64
AUSTIN, TX 78701-1436

PROPERTY:
Unit/Well Name: See Attached Exhibit
County/Parish: See Attached Exhibit
State: See Attached Exhibit

The undersigned severally and not jointly certifies it is the legal owner of the interest set out below of all the oil, gas, and related liquid hydrocarbons produced from the property described below:

LEGAL DESCRIPTION IS ON EXHIBIT A WHICH IS HEREBY INCORPORATED HEREIN.

THIS DIVISION ORDER DOES NOT AMEND ANY LEASE OR OPERATING AGREEMENT BETWEEN THE INTEREST OWNERS AND THE LESSEE OR OPERATOR OR ANY OTHER CONTRACTS FOR THE PURCHASE OF OIL OR GAS, TO THE EXTENT THE TERMS OF THIS DIVISION ORDER CONFLICT WITH THE UNDERLYING AGREEMENTS, THE TERMS OF THE UNDERLYING AGREEMENTS SHALL CONTROL.

The following provisions apply to each interest owner ("owner") who executes this agreement:

TERMS OF SALE: The undersigned will be paid in accordance with the division of interests set out above. The payor shall pay all parties at the price agreed to by the operator for oil and/or gas to be sold pursuant to this division order. Purchaser shall compute quantity and make corrections for gravity and temperature and make deductions for impurities.

PAYMENT: From the effective date, payment is to be made monthly by payor's check, based on this division of interest, for oil and/or gas sales within 60 days after the end of the calendar month in which oil and/or gas is sold for the property listed above, less taxes required by law to be deducted and remitted by payor as purchaser. Payments of less than \$100 may be accrued before disbursement until the total amount equals \$100 or more, or on an annual basis, whichever occurs first. Payee agrees to refund to payor any amounts attributable to an interest or part of an interest that payee does not own.

INDEMNITY: The owner agrees to indemnify and hold payor harmless from all liability resulting from payments made to the owner in accordance with such division of interest, including but not limited to attorney fees or judgments in connection with any suit that affects the owner's interest to which payor is made a party.

DISPUTE; WITHHOLDING OF FUNDS: If a suit is filed that affects the interest of the owner, written notice shall be given to payor by the owner together with a copy of the complaint or petition filed. In the event of a claim or dispute that affects title to the division of interest credited herein, payor is authorized to withhold payments accruing to such interest, without interest unless otherwise required by applicable statute, until the claim or dispute is settled.

TERMINATION: Termination of this agreement is effective on the first day of the month that begins after the 30th day after the date written notice of termination is received by either party.

NOTICES: The owner agrees to notify payor in writing of any change in the division of interest, including changes of interest contingent on payment of money or expiration of time. No change of interest is binding on payor until the recorded copy of the instrument of change or documents satisfactorily evidencing such change are furnished to payor at the time the change occurs. Any change of interest shall be made effective on the first day of the month following receipt of such notice by payor. Any correspondence regarding this agreement shall be furnished to the address listed unless otherwise advised by either party.

In addition to the legal rights provided by the terms and provisions of this division order, an owner may have certain statutory rights under the laws of this state.

WITNESSES TO SIGNATURES

OWNERS SIGN BELOW

OWNER'S SOCIAL SECURITY OR
TAXPAYER NUMBER

**This Copy
For Your Records**

FAILURE TO FURNISH YOUR SOCIAL SECURITY/TAX I.D. NUMBER WILL RESULT IN WITHHOLDING TAX IN ACCORDANCE WITH
FEDERAL LAW. ANY TAX WITHHELD WILL NOT BE REFUNDABLE BY PAYOR.



THIS EXHIBIT IS PART OF THE AMENDED DIVISION ORDER. PLEASE RETURN WITH THE SIGNATURE PAGE.

DATE: 10/11/2007

TIME: 10:57:35AM
ANALYST: SFC6237

EFFECTIVE DATE OF LAST SETTLEMENT

- FROM -

BA #: 193423-01

KERR MCGEE OIL & GAS
ONSHORE LLC
ATTN NON OP JIB
PO BOX 1330
HOUSTON, TX 77251

- TO -

BA #: 002396-01

STATE OF TEXAS,
THE GENERAL LAND OFFICE
ENERGY RESOURCES DEPARTMENT
1700 CONGRESS AVE, RM 64
AUSTIN, TX 78701-1436

PROP #: 10004676

GARZA ZAMORA ENERGY TR #3

0.0042187500 RI 1

DO TYPE: REV

DO MAJOR PROD CODE: ALL

TIER: 1

OPERATOR: EL PASO E&P COMPANY L.P.

COUNTY: HIDALGO

STATE TEXAS

SECT

TOWNSHIP

RANGE

20107

COMPENSATORY ROYALTY AGREEMENT

This Compensatory Royalty Agreement ("Agreement") is made and entered into as of the 3rd day of April, 2007, by and between Kerr-McGee Oil & Gas Onshore LP ("Kerr-McGee") and the General Land Office of the State of Texas ("GLO"). Kerr-McGee and the GLO are sometimes hereinafter referred to, individually, as a "Party" and, collectively, as the "Parties".

WITNESSETH:

WHEREAS, Kerr-McGee is the record owner of one hundred percent (100%) of the working interest in and to State Lease MF-104158 located in Hidalgo and Starr Counties, Texas;

WHEREAS, Kerr-McGee is a working interest owner in the Garza Zamora Energy Trust No. 3 Well, which is located on a private oil and gas lease adjacent to and immediately north of State Lease MF-104158, Hidalgo and Starr Counties, Texas (the "Alleged Draining Well");

WHEREAS, Kerr-McGee is a working interest owner in State Lease MF-091211, which is located adjacent to and immediately west of State Lease MF-104158 in Hidalgo and Starr Counties, Texas;

WHEREAS, the GLO has asserted that the production of oil and/or gas from the Alleged Draining Well has obligated the lessees of State Leases MF-104158 and MF-091211 to protect such leases from drainage by the drilling of offset wells on such leases or to make other agreements with the Commissioner of the GLO to protect the State's interest in such leases from drainage;

WHEREAS, the lessees of State Lease MF-091211 have commenced the drilling of the Zamora State No. 13 Well (the "Offset Well") on such lease and have fully complied with the offset well covenant contained in State Lease MF-091211 and/or in the pertinent statutes of the State of Texas;

WHEREAS, The GLO has determined that the area of drainage existing on State Lease MF-104158 consists of approximately 1.35 acres, as depicted on the plat attached hereto as Exhibit "A" (the "Drainage Area");

WHEREAS, in order to satisfy its offset well obligation to the GLO with respect to State Lease MF-104158 and/or the pertinent statutes of the State of Texas, Kerr-McGee has proposed to enter into this Agreement with the GLO;

WHEREAS, the Commissioner of the GLO ("Commissioner") has determined that the payment of a compensatory royalty out of production from the Offset Well or the Alleged Draining Well (as the case may be), as herein provided, will fully satisfy Kerr-McGee's leasehold and statutory obligation to drill an offset well on State Lease MF-104158, including the Drainage Area; and

WHEREAS, Kerr-McGee, the GLO and the Commissioner have agreed to settle and compromise any disputes they may have concerning the Drainage Area by entering into this Agreement.

shall be borne entirely out of Kerr-McGee's leasehold interest in the Offset Well. The compensatory royalty shall be paid to the Commissioner, based upon production from the Offset Well, in the decimal interest set forth below, as follows:

State of Texas, Commissioner of the General Land Office: **0.00421875 of 8/8ths**

2) The Commissioner, as evidenced by his execution of this Agreement, has determined pursuant to the provisions of State Lease MF-104158 and/or the pertinent statutes of the State of Texas that the payment of the compensatory royalty out of production from the Offset Well or the Alleged Draining Well (as the case may be), as herein provided, does satisfy, in whole, the lessee's obligation under such lease and/or under the pertinent statutes of the State of Texas to drill offset wells as a consequence of production of oil and/or gas from the Alleged Draining Well, but insofar and only insofar as the Alleged Draining Well is concerned.

3) Further, the GLO, acting by and through the Commissioner, does hereby release Kerr-McGee of and from any and all obligations to drill offset wells to protect the Drainage Area and State Lease MF-104158 from drainage as a consequence of the production of oil and/or gas from the Alleged Draining Well, as long as Kerr-McGee pays compensatory royalties from the Offset Well or the Alleged Draining Well (as the case may be) as herein provided.

4) In the event the Offset Well is completed as a dry hole or, if it is completed as a well capable of producing in paying quantities, and thereafter ceases to produce in paying quantities within 12 months after the date of first production from such well, then Kerr-McGee shall commence making compensatory royalty payments to the GLO from its leasehold interest in the Alleged Draining Well at the same decimal interest set forth in 1) above. In addition, Kerr-McGee shall make a retroactive compensatory royalty payment from the Alleged Draining Well to the GLO, without interest, such payment to cover the period beginning 161 days after the date of first production of the Alleged Draining Well and ending on the day before the date on which compensatory royalty payments from the Alleged Draining Well begin.

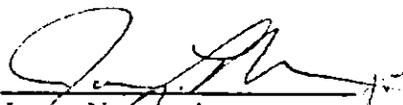
5) This Agreement is for the sole benefit of the Parties and their respective successors and assigns and no other person or entity shall be entitled to enforce this Agreement or any of the provisions hereof, rely on any representation, warranty, covenant or agreement contained herein, receive any rights hereunder or be a third party beneficiary of this Agreement.

6) This Agreement shall be binding on the successors and assigns of Kerr-McGee.

This Agreement is executed to be effective as of the date first written above, regardless of the date on which a Party has executed it.

KERR-McGEE OIL & GAS ONSHORE LP

By:


James Newcomb

STATE OF TEXAS

By: Jerry E. Patterson
Jerry Patterson
Commissioner of the General Land Office

approved _____
legal _____
content _____
deputy _____
executive Ellyssa

ACKNOWLEDGMENT

STATE OF TEXAS

COUNTY OF MONTGOMERY

This instrument was acknowledged before me on the 10 day of April, 2007,
by James L. Newcomb, Agent and Attorney-In-Fact for KERR-MCGEE OIL & GAS
ONSHORE LP, on behalf of said limited partnership.

[Signature]
Notary Public in and for the State of Texas

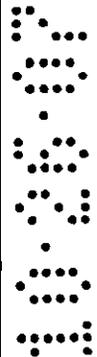
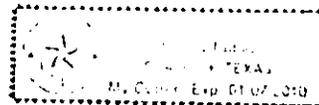


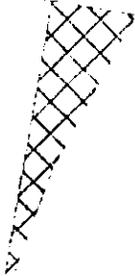
Exhibit A



A-726
SECT-883
Survey: WD PARCHMAN

Legend

 1.35 acres more or less
KMG Lease 785035



41.

File No. MF 104158
DIVISION ORDER
DD
Date Filed: 10/29/07
By Jerry E. Patterson, Commissioner

10.29.07

November 13, 2007

Daniel Kong of El Paso Gas called today with a question on whether lease use was due on State Lease 104158. After much discussion with Wendall Smith, Daryl Morgan and Mike Nicklaus the decision arrived at was YES to lease use and vented and flared.

The original lease agreement showed YES to lease use and vented gas. The addendum to the lease agreement states that "in the event of a conflict between the provisions of the foregoing General Land Office form and this addendum, the provisions of this addendum shall prevail". This statement changed the answer to NO for lease use and vented gas.

Reviewing one step further, Paragraph 37 of the lease agreement and the Attorney Generals Opinion No 0-6398 over ride the addendum.

Bottom Line – Lease Use and Vented gas are due.

From: Metha Kester
To: daniel.kong@elpaso.com
Date: 11/13/2007 1:34 PM
Subject: Fwd: scanned document
Attachments: scanned_.pdf

Daniel

Attached is the lease agreement. As I told you earlier, after much discussion with out attorney and landman, they agree that lease use and vented gas are a due product.

Metha

Metha Kester
General Land Office
512/ 475-2317
512/ 475-1543 FAX

>>> <mkester> 11/13/2007 7:22 AM >>>

Please open the attached document.
This document was sent to you using an HP Digital Sender.

Sent by: <mkester>
Number of pages: 15
Document type: Color-B/W Photo
Attachment File Format: Adobe PDF
To view this document you need to use the Adobe Acrobat Reader. For more assistance:
Please contact the Technical
Support Center @ 3-8877



THE ATTORNEY GENERAL
OF TEXAS

Grover Sellers

ATTORNEY GENERAL

Honorable Bascom Giles
Commissioner, General Land Office
Austin, Texas

Dear Sir: Opinion No. O-6398
Re: Requirements of Article 5368,
V. A. C. S., relative to roy-
alty payments to State on lands
sold subject to the terms of the
Relinquishment Act.

Reference is made to your request for an
opinion, which is as follows:

"Article 5368, Revised Civil
Statutes, defines the royalties reserved
to the State on lands sold under the Re-
linquishment Act.

"I would like to have your opinion
on the following question. Does the reser-
vation in Article 5368 contemplate the pay-
ment of royalty on all the oil and/or gas
produced, saved, sold, or used on a 100%
basis, or can the agent of the State execute
a lease, binding on the State, that provides
for the free use of oil or gas that is used
by the operator on the lease for development
of the lease or lease operations?"

Article 5368, Vernon's Annotated Civil
Statutes, governs the terms of a lease on land sold
subject to the terms of the Relinquishment Act. It is
provided in Article 5368, in part, as follows:

"No oil or gas rights shall be sold
or leased hereunder for less than ten cents
per acre per year plus royalty. . . and in case of
production shall pay the State the undivided one-
sixteenth of the value of the oil and gas reserved
herein, and like amounts to the owner of the soil."

The Relinquishment Act was interpreted by the
Supreme Court in the case of Greene v. Robison, 8 S.W. (2)
655. Section 2 of the Act, which relates to your question
and codified as Article 5368, is interpreted in the court's
opinion on page 660 in this manner:

"We interpret the Act to fix a mini-
mum price of 10 cents per acre per annum and
the value of one-sixteenth of the gross pro-

duction free of cost to the State, for which the State is willing to sell the oil and gas. . ."

The use of the term "the value of one-sixteenth of the gross production free of cost. . ." as is used in the case of Greene v. Robison, must be given the same meaning as the term "free royalty" as is used in the 1931 Sales Act. Article 5421C, V. A. C. S.

In the case of Winterman v. McDonald, 102 S. W. (2) 167, Justice Sharp defines the term "free royalty" as follows:

"The term 'free royalty' introduced into this Act must mean that the interest reserved to the state and minerals produced on school lands sold under the terms of the Act must not bear any expense of the production, sale or delivery thereof."

It is our opinion that your question has been answered by the Supreme Court of this State. We, therefore, advise you that the statutes relating to this question require that the State receive its share of the value of production on a 100% basis, free from deductions of any kind or use of any character. This is true whether the mineral reservation in the lease be the minimum of 1/16th required by law or for a larger amount reserved by the surface owner as agent of the State. It follows that the surface owner as agent of the State may not enter into a lease contract providing for the payment of the State's interest in production on any other basis.

Yours very truly

ATTORNEY GENERAL OF TEXAS

By /s/ Jack W. Rowland
Jack W. Rowland
Assistant

JWR:BT:jrb

APPROVED APR. 11, 1945
/s/ Carlos C. Ashley
FIRST ASSISTANT
ATTORNEY GENERAL

APPROVED OPINION COMMITTEE
BY EWB, Chairman

1381542

The State of Texas



Austin, Texas

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 1st day of April, 2004

between the State of Texas, acting by and through its agent, Juan Lino Garza and Guadalupe Garza, Jr., as Trustees (hereinafter "Trustees") of the Garza Energy Trust of 1994 of 201 Donaldson Avenue, San Antonio, Texas 78201, said agent herein referred to as the owner of the soil (whether one or more), and LMP Petroleum, Inc. of 615 North Upper Broadway, Suite 1500, Corpus Christi, Texas 78477-0183, hereinafter called Lessee.

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

176 acres of land out of a 532.74 acre tract known as Survey No. 883, Cert. No. 997, A-726, Hidalgo County, Texas; A-926, Starr County, Texas, W.D. Parchman Original Grantee, described as follows:

THENCE, with the fence and East line of Survey No. 885, North 9° 29' East 1128.2 varas to a post in the South line of the Los Maguelles Grant, the Northeast corner of Survey No. 885, for the Northwest corner hereof;

THENCE, with the South line of the Los Maguelles Grant, South 81° 34' East at 1158.3 varas pass 9.4 varas North of a Mesquite MKD 1879 (very old marks), at 2145.9 varas pass a Mesquite MKD X (ver old marks), at 2608.6 varas set pipe in fence for the Northwest corner of Survey No. 488 and the Northeast corner hereof;

THENCE with fence and West line of Survey No. 488, South 9° 00' West 1162.3 varas to corner of fence, a corner of Survey No. 488 and the South east corner hereof;



DATE 9-23-04
A true copy I certify
JUAN P. SALINAS, III
County Clerk, Hidalgo County, Texas
By [Signature] Deputy

THENCE with fence and line of Survey No. 488, North 81° 21' West 1202.8 varas to a corner of fence, a corner of Survey No. 488 and the Northeast corner of Porcion No. 44;

THENCE with fence and North line of Porcion No. 44, North 80° 22' West 1415.2 varas to the PLACE OF BEGINNING containing 532.74 acres of land more or less;

BUT INSOFAR AND ONLY INSOFAR as said tract covers the most easterly 176 acres of land, more or less. The North, East and South boundary of said 176 tract being the North, East and South boundary of said 532.74 acre tract, with the West boundary of said 176 acre being parallel and a sufficient distance West of the East boundary as to exactly enclose 176 acres of land, more or less.

The 176 acres described above is the same 176 acre tract described in Release of Oil and Gas Lease dated effective October 1, 1998, recorded in the Hidalgo County, Texas records at File No. 751455.

containing 176 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Twenty-six Thousand Four Hundred
Dollars (\$26,400.00)

To the State of Texas: Twenty-six Thousand Four Hundred
Dollars (\$26,400.00)

Total bonus consideration: Fifty-two Thousand and Eight Hundred
Dollars (\$52,800.00)

The total bonus consideration paid represents a bonus of Three hundred Dollars (\$300.00) per acre, on 176 net acres.

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

3. DELAY RENTALS. If no well is commenced on the leased premises on or before one (1) year from this date, this lease shall terminate, unless on or before such anniversary date Lessee shall pay or tender to the owner of the soil or to his credit in the Texas State Bank Bank, at P. O. Box 4794, McAllen, Texas 78502, or its successors (which shall continue as the depository regardless of changes in the ownership of said land), the amount specified below; in addition, Lessee shall pay or tender to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATE OF TEXAS, AT AUSTIN, TEXAS, a like sum on or before said date. Payments under this paragraph shall operate as a rental and shall cover the privilege of deferring the commencement of a well for one (1) year from said date. Payments under this paragraph shall be in the following amounts:

To the owner of the soil: Twenty-two hundred
Dollars (\$2,200.00)



DATE 9-23-04
A true copy I certify
JUAN D. SALINAS, III
County Clerk, Hidalgo County, Texas
By [Signature] Deputy

To the State of Texas: Twenty-two hundred
Dollars (\$2,200.00)

Total Delay Rental: Forty-four hundred
Dollars (\$4,400.00)

In a like manner and upon like payments or tenders annually, the commencement of a well may be further deferred for successive periods of one (1) year each during the primary term. All payments or tenders of rental to the owner of the soil may be made by check or sight draft of Lessee, or any assignee of this lease, and may be delivered on or before the rental paying date. If the bank designated in this paragraph (or its successor bank) should cease to exist, suspend business, liquidate, fail or be succeeded by another bank, or for any reason fail or refuse to accept rental, Lessee shall not be held in default for failure to make such payments or tenders of rental until thirty (30) days after the owner of the soil shall deliver to Lessee a proper recordable instrument naming another bank as agent to receive such payments or tenders.

4. PRODUCTION ROYALTIES. Upon production of oil and/or gas, Lessee agrees to pay or cause to be paid one-half (1/2) of the royalty provided for in this lease to the Commissioner of the General Land Office of the State of Texas, at Austin, Texas, and one-half (1/2) of such royalty to the owner of the soil:

(A) OIL. Royalty payable on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well and also as all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, shall be 1/4 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be determined by 1) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity in the general area where produced and when run, or 2) the highest market price thereof offered or paid in the general area where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is the greater. Lessee agrees that before any gas produced from the leased premises is sold, used or processed in a plant, it will be run free of cost to the royalty owners through an adequate oil and gas separator of conventional type, or other equipment at least as efficient, so that all liquid hydrocarbons recoverable from the gas by such means will be recovered. The requirement that such gas be run through a separator or other equipment may be waived, in writing, by the royalty owners upon such terms and conditions as they prescribe.

(B) NON PROCESSED GAS. Royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substances not defined as oil in subparagraph (A) above, produced from any well on said land (except as provided herein with respect to gas processed in a plant for the extraction of gasoline, liquid hydrocarbons or other products) shall be 1/4 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be based on the highest market price paid or offered for gas of comparable quality in the general area where produced and when run, or the gross price paid or offered to the producer, whichever is the greater; provided that the maximum pressure base in measuring the gas under this lease shall not at any time exceed 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to tests made by the Balance Method or by the most approved method of testing being used by the industry at the time of testing.

(C) PROCESSED GAS. Royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbons shall be 1/4 part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office. All royalties due herein shall be based on one hundred percent (100%) of the total plant production of residue gas attributable to gas produced from this lease, and on fifty percent (50%) , or that percent accruing to Lessee, whichever is the greater, of the total plant production of liquid hydrocarbons attributable to the gas produced from this lease; provided that if liquid hydrocarbons are recovered from gas processed in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the percentage applicable to liquid hydrocarbons shall be fifty percent (50%) or the highest percent accruing to a third party processing gas through such plant under a processing agreement negotiated at arm's length (or if there is no such third party, the highest percent then being specified in processing agreements or contracts in the industry), whichever is the greater. The respective royalties on residue gas and on liquid hydrocarbons shall be determined by 1) the highest market price paid or offered for any gas (or liquid hydrocarbons) of comparable quality in the general area, or 2) the gross price paid or offered for such residue gas (or the weighted average gross selling price for the respective grades of liquid hydrocarbons), whichever is the greater. In no event, however, shall the royalties payable under this paragraph be less than the royalties which would have been due had the gas not been processed.

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

5. MINIMUM ROYALTY. During any year after the expiration of the primary term of this lease, if this lease is maintained by production, the royalties paid under this lease in no event shall be less than an amount equal to the total annual delay rental herein

CLERK OF COUNTY CLERK
HIDALGO COUNTY TEXAS
DATE 9-23-04
A true copy I certify
JUAN D. SALINAS, III
County Clerk, Hidalgo County, Texas
Clerk

provided; otherwise, there shall be due and payable on or before the last day of the month succeeding the anniversary date of this lease a sum equal to the total annual rental less the amount of royalties paid during the preceding year. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre.

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

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

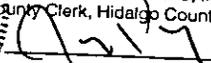
8. **PLANT FUEL AND RECYCLED GAS.** No royalty shall be payable on any gas as may represent this lease's proportionate share of any fuel used to process gas produced hereunder in any processing plant. Notwithstanding any other provision of this lease, and subject to the written consent of the owner of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

9. **ROYALTY PAYMENTS AND REPORTS.** All royalties not taken in kind shall be paid to the Commissioner of the General Land Office at Austin, Texas, in the following manner:

Payment of royalty on production of oil and gas shall be as provided in the rules set forth in the Texas Register. Rules currently provide that royalty on oil is due and must be received in the General Land Office on or before the 5th day of the second month succeeding the month of production, and royalty on gas is due and must be received in the General Land Office on or before the 15th day of the second month succeeding the month of production, accompanied by the affidavit of the owner, manager or other authorized agent, completed in the form and manner prescribed by the General Land Office and showing the gross amount and disposition of all oil and gas produced and the market value of the oil and gas, together with a copy of all documents, records or reports confirming the gross production, disposition and market value including gas meter readings, pipeline receipts, gas line receipts and other checks or memoranda of amount produced and put into pipelines, tanks, or pools and gas lines or gas storage, and any other reports or records which the General Land Office may require to verify the gross production, disposition and market value. In all cases the authority of a manager or agent to act for the Lessee herein must be filed in the General Land Office. Each royalty payment shall be accompanied by a check stub, schedule, summary or other remittance advice showing by the assigned General Land Office lease number the amount of royalty being paid on each lease. If Lessee pays his royalty on or before thirty (30) days after the royalty payment was due, then Lessee owes a penalty of 5% on the royalty or \$25.00, whichever is greater. A royalty payment which is over thirty (30) days late shall accrue a penalty of 10% of the royalty due or \$25.00 whichever is greater. In addition to a penalty, royalties shall accrue interest at a rate of 12% per year; such interest will begin to accrue when the royalty is sixty (60) days overdue. Affidavits and supporting documents which are not filed when due shall incur a penalty in an amount set by the General Land Office administrative rule which is effective on the date when the affidavits or supporting documents were due. The Lessee shall bear all responsibility for paying or causing royalties to be paid as prescribed by the due date provided herein. Payment of the delinquency penalty shall in no way operate to prohibit the State's right of forfeiture as provided by law nor act to postpone the date on which royalties were originally due. The above penalty provisions shall not apply in cases of title dispute as to the State's portion of the royalty or to that portion of the royalty in dispute as to fair market value.

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

(B) **PERMITS, DRILLING RECORDS.** Written notice of all operations on this lease shall be submitted to the Commissioner of the General Land Office by Lessee or operator five (5) days before spud date, workover, re-entry, temporary abandonment or plug and abandonment of any well or wells. Such written notice to the General Land Office shall include copies of Railroad Commission forms for application to drill. Copies of well tests, completion reports and plugging reports shall be supplied to the General Land Office at the time they are filed with the Texas Railroad Commission. All applications, permits, reports or other filings that reference this lease or any specific well on the leased premises and that are submitted to the Texas Railroad Commission or any other governmental agency shall include the word "State" in the title. Additionally, in accordance with Railroad Commission rules, any signage on the leased premises for the purpose of identifying wells, tank batteries or other associated improvements to the land must also include the word "State." Lessee shall supply the General Land Office with any records, memoranda, accounts, reports, cuttings and cores, or other information relative to the operation of the above-described premises, which may be requested by the General Land Office, in addition to those herein expressly provided for. Lessee shall have an electrical and/or radioactivity survey made on the bore-hole section, from the base

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of the surface casing to the total depth of well, of all wells drilled on the above described premises and shall transmit a true copy of the log of each survey on each well to the General Land Office within fifteen (15) days after the making of said survey.

(C) PENALTIES. Lessee shall incur a penalty whenever reports, documents or other materials are not filed in the General Land Office when due. The penalty for late filing shall be set by the General Land Office administrative rule which is effective on the date when the materials were due in the General Land Office.

11. DRY HOLE/CESSATION OF PRODUCTION DURING PRIMARY TERM. If, during the primary term hereof and prior to discovery and production of oil or gas on said land, Lessee should drill a dry hole or holes thereon, or if during the primary term hereof and after the discovery and actual production of oil or gas from the leased premises such production thereof should cease from any cause, this lease shall not terminate if on or before the expiration of sixty (60) days from date of completion of said dry hole or cessation of production Lessee commences additional drilling or reworking operations thereon, or pays or tenders the next annual delay rental in the same manner as provided in this lease. If, during the last year of the primary term or within sixty (60) days prior thereto, a dry hole be completed and abandoned, or the production of oil or gas should cease for any cause, Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term; and if Lessee has not resumed production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking operations pursuant to Paragraph 13, using the expiration of the primary term as the date of cessation of production under Paragraph 13. Should the first well or any subsequent well drilled on the above described land be completed as a shut-in oil or gas well within the primary term hereof, Lessee may resume payment of the annual rental in the same manner as provided herein on or before the rental paying date following the expiration of sixty (60) days from the date of completion of such shut-in oil or gas well and upon the failure to make such payment, this lease shall ipso facto terminate. If at the expiration of the primary term or any time thereafter a shut-in oil or gas well is located on the leased premises, payments may be made in accordance with the shut-in provisions hereof.

12. DRILLING AND REWORKING AT EXPIRATION OF PRIMARY TERM. If, at the expiration of the primary term, neither oil nor gas is being produced on said land, but Lessee is then engaged in drilling or reworking operations thereon, this lease shall remain in force so long as operations on said well or for drilling or reworking of any additional wells are prosecuted in good faith and in workmanlike manner without interruptions totaling more than sixty (60) days during any one such operation, and if they result in the production of oil and/or gas, so long thereafter as oil and/or gas is produced in paying quantities from said land, or payment of shut-in oil or gas well royalties or compensatory royalties is made as provided in this lease.

13. CESSATION, DRILLING, AND REWORKING. If, after the expiration of the primary term, production of oil or gas from the leased premises, after once obtained, should cease from any cause, this lease shall not terminate if Lessee commences additional drilling or reworking operations within sixty (60) days after such cessation, and this lease shall remain in full force and effect for so long as such operations continue in good faith and in workmanlike manner without interruptions totaling more than sixty (60) days. If such drilling or reworking operations result in the production of oil or gas, the lease shall remain in full force and effect for so long as oil or gas is produced from the leased premises in paying quantities or payment of shut-in oil or gas well royalties or payment of compensatory royalties is made as provided herein or as provided by law. If the drilling or reworking operations result in the completion of a well as a dry hole, the lease will not terminate if the Lessee commences additional drilling or reworking operations within sixty (60) days after the completion of the well as a dry hole, and this lease shall remain in effect so long as Lessee continues drilling or reworking operations in good faith and in a workmanlike manner without interruptions totaling more than sixty (60) days. Lessee shall give written notice to the General Land Office within thirty (30) days of any cessation of production.

14. SHUT-IN ROYALTIES. For purposes of this paragraph, "well" means any well that has been assigned a well number by the state agency having jurisdiction over the production of oil and gas. If, at any time after the expiration of the primary term of a lease that, until being shut in, was being maintained in force and effect, a well capable of producing oil or gas in paying quantities is located on the leased premises, but oil or gas is not being produced for lack of suitable production facilities or lack of a suitable market, then Lessee may pay as a shut-in oil or gas royalty an amount equal to double the annual rental provided in the lease, but not less than \$1,200 a year for each well capable of producing oil or gas in paying quantities. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre. To be effective, each initial shut-in oil or gas royalty must be paid on or before: (1) the expiration of the primary term, (2) 60 days after the Lessee ceases to produce oil or gas from the leased premises, or (3) 60 days after Lessee completes a drilling or reworking operation in accordance with the lease provisions; whichever date is latest. Such payment shall be made one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil. If the shut-in oil or gas royalty is paid, the lease shall be considered to be a producing lease and the payment shall extend the term of the lease for a period of one year from the end of the primary term, or from the first day of the month following the month in which production ceased, and, after that, if no suitable production facilities or suitable market for the oil or gas exists, Lessee may extend the lease for four more successive periods of one (1) year by paying the same amount each year on or before the expiration of each shut-in year.

15. COMPENSATORY ROYALTIES. If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is sold and delivered in paying quantities from a well located within one thousand (1,000) feet of the leased premises and completed in the same producing reservoir, or in any case in which drainage is occurring, the right to continue to maintain the lease by paying the shut-in oil or gas royalty shall cease, but the lease shall remain effective for the remainder of the year for which the royalty has been paid. The Lessee may maintain the lease for four more successive years by Lessee paying compensatory royalty at the royalty rate provided in the lease of the market value of production from the well causing the drainage or which is completed in the same producing reservoir and within one thousand (1,000) feet of the leased premises. The compensatory royalty is to be paid monthly, one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil, beginning on or before the last day of the month following the month in which the oil or gas is produced from the well causing the drainage or that is completed in the



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same producing reservoir and located within one thousand (1,000) feet of the leased premises. If the compensatory royalty paid in any 12-month period is an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within thirty (30) days from the end of the 12-month period. Compensatory royalty payments which are not timely paid will accrue penalty and interest in accordance with Paragraph 9 of this lease. None of these provisions will relieve Lessee of the obligation of reasonable development nor the obligation to drill offset wells as provided in Texas Natural Resources Code 52.173; however, at the determination of the Commissioner, and with the Commissioner's written approval, the payment of compensatory royalties can satisfy the obligation to drill offset wells.

16. RETAINED ACREAGE. Notwithstanding any provision of this lease to the contrary, after a well producing or capable of producing oil or gas has been completed on the leased premises, Lessee shall exercise the diligence of a reasonably prudent operator in drilling such additional well or wells as may be reasonably necessary for the proper development of the leased premises and in marketing the production thereon.

(A) VERTICAL. In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall then terminate as to all of the leased premises, EXCEPT (1) 40 acres surrounding each oil well capable of producing in paying quantities and 320 acres surrounding each gas well capable of producing in paying quantities (including a shut-in oil or gas well as provided in Paragraph 14 hereof), or a well upon which Lessee is then engaged in continuous drilling or reworking operations, or (2) the number of acres included in a producing pooled unit pursuant to Texas Natural Resources Code 52.151-52.154, or (3) such greater or lesser number of acres as may then be allocated for production purposes to a proration unit for each such producing well under the rules and regulations of the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction. If at any time after the effective date of the partial termination provisions hereof, the applicable field rules are changed or the well or wells located thereon are reclassified so that less acreage is thereafter allocated to said well or wells for production purposes, this lease shall thereupon terminate as to all acreage not thereafter allocated to said well or wells for production purposes. Notwithstanding the termination of this lease as to a portion of the lands covered hereby, Lessee shall nevertheless continue to have the right of ingress to and egress from the lands still subject to this lease for all purposes described in Paragraph 1 hereof, together with easements and rights-of-way for existing roads, existing pipelines and other existing facilities on, over and across all the lands described in Paragraph 1 hereof ("the retained lands"), for access to and from the retained lands and for the gathering or transportation of oil, gas and other minerals produced from the retained lands.

(B) HORIZONTAL. In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall further terminate as to all depths below 100 feet below the total depth drilled (hereinafter "deeper depths") in each well located on acreage retained in Paragraph 16 (A) above, unless on or before two (2) years after the primary or extended term Lessee pays an amount equal to one-half (1/2) of the bonus originally paid as consideration for this lease (as specified on page 1 hereof). If such amount is paid, this lease shall be in force and effect as to such deeper depths, and said termination shall be delayed for an additional period of two (2) years and so long thereafter as oil or gas is produced in paying quantities from such deeper depths covered by this lease.

(C) IDENTIFICATION AND FILING. The surface acreage retained hereunder as to each well shall, as nearly as practical, be in the form of a square with the well located in the center thereof, or such other shape as may be approved by the Commissioner of the General Land Office. Within thirty (30) days after partial termination of this lease as provided herein, Lessee shall execute and record a release or releases containing a satisfactory legal description of the acreage and/or depths not retained hereunder. The recorded release, or a certified copy of same, shall be filed in the General Land Office, accompanied by the filing fee prescribed by the General Land Office rules in effect on the date the release is filed. If Lessee fails or refuses to execute and record such release or releases within ninety (90) days after being requested to do so by the General Land Office, then the Commissioner at his sole discretion may designate by written instrument the acreage and/or depths to be released hereunder and record such instrument at Lessee's expense in the county or counties where the lease is located and in the official records of the General Land Office and such designation shall be binding upon Lessee for all purposes.

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

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



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operations or production of oil or gas.

19. **WARRANTY CLAUSE.** The owner of the soil warrants and agrees to defend title to the leased premises. If the owner of the soil defaults in payments owed on the leased premises, then Lessee may redeem the rights of the owner of the soil in the leased premises by paying any mortgage, taxes or other liens on the leased premises. If Lessee makes payments on behalf of the owner of the soil under this paragraph, Lessee may recover the cost of these payments from the rental and royalties due the owner of the soil.

20. **(A) PROPORTIONATE REDUCTION CLAUSE.** If the owner of the soil owns less than the entire undivided surface estate in the above described land, whether or not Lessee's interest is specified herein, then the royalties and rental herein provided to be paid to the owner of the soil shall be paid to him in the proportion which his interest bears to the entire undivided surface estate and the royalties and rental herein provided to be paid to the Commissioner of the General Land Office of the State of Texas shall be likewise proportionately reduced. However, before Lessee adjusts the royalty or rental due to the Commissioner of the General Land Office, Lessee or his authorized representative must submit to the Commissioner of the General Land Office a written statement which explains the discrepancy between the interest purportedly leased under this lease and the actual interest owned by the owner of the soil. The Commissioner of the General Land Office shall be paid the value of the whole production allocable to any undivided interest not covered by a lease, less the proportionate development and production cost allocable to such undivided interest. However, in no event shall the Commissioner of the General Land Office receive as a royalty on the gross production allocable to the undivided interest not leased an amount less than the value of one-sixteenth (1/16) of such gross production.

(B) REDUCTION OF PAYMENTS. If, during the primary term, a portion of the land covered by this lease is included within the boundaries of a pooled unit that has been approved by the School Land Board and the owner of the soil in accordance with Natural Resources Code Sections 52.151-52.154, or if, at any time after the expiration of the primary term or the extended term, this lease covers a lesser number of acres than the total amount described herein, payments that are made on a per acre basis hereunder shall be reduced according to the number of acres pooled, released, surrendered, or otherwise severed, so that payments determined on a per acre basis under the terms of this lease during the primary term shall be calculated based upon the number of acres outside the boundaries of a pooled unit, or, if after the expiration of the primary term, the number of acres actually retained and covered by this lease.

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

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

23. **PIPELINE DEPTH.** When requested by the owner of the soil, Lessee shall bury its pipelines below plow depth.

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

25. **POLLUTION.** In developing this area, Lessee shall use the highest degree of care and all proper safeguards to prevent pollution. Without limiting the foregoing, pollution of coastal wetlands, natural waterways, rivers and impounded water shall be prevented by the use of containment facilities sufficient to prevent spillage, seepage or ground water contamination. In the event of pollution, Lessee shall use all means at its disposal to recapture all escaped hydrocarbons or other pollutant and shall be responsible for all damage to public and private properties. Lessee shall build and maintain fences around its slush, sump, and drainage pits and tank batteries so as to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level all slush pits and cellars and completely clean up the drilling site of all rubbish thereon. Lessee shall, while conducting operations on the leased premises, keep said premises free of all rubbish, cans, bottles, paper cups or garbage, and upon completion of operations shall restore the surface of the land to as near its original condition and contours as is practicable. Tanks and equipment will be kept painted and presentable.

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

27. **(A) ASSIGNMENTS.** Under the conditions contained in this paragraph and Paragraph 29 of this lease, the rights and estates of either party to this lease may be assigned, in whole or in part, and the provisions of this lease shall extend to and be binding upon their heirs, devisees, legal representatives, successors and assigns. However, a change or division in ownership of the land, rentals, or royalties will not enlarge the obligations of Lessee, diminish the rights, privileges and estates of Lessee, impair the effectiveness of any payment made by Lessee or impair the effectiveness of any act performed by Lessee. And no change or division in ownership of the land, rentals, or royalties shall bind Lessee for any purpose until thirty (30) days after the owner of the soil (or his heirs, devisees, legal representatives or assigns) furnishes the Lessee with satisfactory written evidence of the change in ownership, including the original recorded muniments of title (or a certified copy of such original) when the ownership changed because of a



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conveyance. A total or partial assignment of this lease shall, to the extent of the interest assigned, relieve and discharge Lessee of all subsequent obligations under this lease. If this lease is assigned in its entirety as to only part of the acreage, the right and option to pay rentals shall be apportioned as between the several owners ratably, according to the area of each, and failure by one or more of them to pay his share of the rental shall not affect this lease on the part of the land upon which pro rata rentals are timely paid or tendered; however, if the assignor or assignee does not file a certified copy of such assignment in the General Land Office before the next rental paying date, the entire lease shall terminate for failure to pay the entire rental due under Paragraph 3. Every assignee shall succeed to all rights and be subject to all obligations, liabilities, and penalties owed to the State by the original lessee or any prior assignee of the lease, including any liabilities to the State for unpaid royalties.

(B) **ASSIGNMENT LIMITATION.** Notwithstanding any provision in Paragraph 27(a), if the owner of the soil acquires this lease in whole or in part by assignment without the prior written approval of the Commissioner of the General Land Office, this lease is void as of the time of assignment and the agency power of the owner may be forfeited by the Commissioner. An assignment will be treated as if it were made to the owner of the soil if the assignee is:

- (1) a nominee of the owner of the soil;
- (2) a corporation or subsidiary in which the owner of the soil is a principal stockholder or is an employee of such a corporation or subsidiary;
- (3) a partnership in which the owner of the soil is a partner or is an employee of such a partnership;
- (4) a principal stockholder or employee of the corporation which is the owner of the soil;
- (5) a partner or employee in a partnership which is the owner of the soil;
- (6) a fiduciary for the owner of the soil; including but not limited to a guardian, trustee, executor, administrator, receiver, or conservator for the owner of the soil; or
- (7) a family member of the owner of the soil or related to the owner of the soil by marriage, blood, or adoption.

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

29. **FILING OF ASSIGNMENTS AND RELEASES.** If all or any part of this lease is assigned or released, such assignment or release must be recorded in the county where the land is situated, and the recorded instrument, or a copy of the recorded instrument certified by the County Clerk of the county in which the instrument is recorded, must be filed in the General Land Office within 90 days of the last execution date accompanied by the prescribed filing fee. If any such assignment is not so filed, the rights acquired under this lease shall be subject to forfeiture at the option of the Commissioner of the General Land Office.

30. **DISCLOSURE CLAUSE.** All provisions pertaining to the lease of the above-described land have been included in this instrument, including the statement of the true consideration to be paid for the execution of this lease and the rights and duties of the parties. Any collateral agreements concerning the development of oil and gas from the leased premises which are not contained in this lease render this lease invalid.

31. **FIDUCIARY DUTY.** The owner of the soil owes the State a fiduciary duty and must fully disclose any facts affecting the State's interest in the leased premises. When the interests of the owner of the soil conflict with those of the State, the owner of the soil is obligated to put the State's interests before his personal interests.

32. **FORFEITURE.** If Lessee shall fail or refuse to make the payment of any sum within thirty days after it becomes due, or if Lessee or an authorized agent should knowingly make any false return or false report concerning production or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith as required by law and the rules and regulations adopted by the Commissioner of the General Land Office, or if Lessee should fail to file reports in the manner required by law or fail to comply with rules and regulations promulgated by the General Land Office, the School Land Board, or the Railroad Commission, or if Lessee should refuse the proper authority access to the records pertaining to operations, or if Lessee or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or knowingly fail or refuse to furnish the General Land Office a correct log of any well, or if Lessee shall knowingly violate any of the material provisions of this lease, or if this lease is assigned and the assignment is not filed in the General Land Office as required by law, the rights acquired under this lease shall be subject to forfeiture by the Commissioner, and he shall forfeit same when sufficiently informed of the facts which authorize a forfeiture, and when forfeited the area shall again be subject to lease under the terms of the Relinquishment Act. However, nothing herein shall be construed as waiving the automatic termination of this lease by operation of law or by reason of any special limitation arising hereunder. Forfeitures may be set aside and this lease and all rights thereunder reinstated before the rights of another intervene upon satisfactory evidence to the Commissioner of the General Land Office of future compliance with the provisions of the law and of this lease and the rules and regulations that may be adopted relative hereto.

33. **LIEN.** In accordance with Texas Natural Resources Code 52.136, the State shall have a first lien upon all oil and gas produced from the area covered by this lease to secure payment of all unpaid royalty and other sums of money that may become due under this lease. By acceptance of this lease, Lessee grants the State, in addition to the lien provided by Texas Natural Resources Code 52.136 and any other applicable statutory lien, an express contractual lien on and security interest in all leased minerals in and extracted from the leased premises, all proceeds which may accrue to Lessee from the sale of such leased minerals, whether such proceeds are



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[Signature] Deputy

held by Lessee or by a third party, and all fixtures on and improvements to the leased premises used in connection with the production or processing of such leased minerals in order to secure the payment of all royalties or other amounts due or to become due under this lease and to secure payment of any damages or loss that Lessor may suffer by reason of Lessee's breach of any covenant or condition of this lease, whether express or implied. This lien and security interest may be foreclosed with or without court proceedings in the manner provided in the Title 1, Chap. 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this lease forfeited as provided herein.

34. POOLING. Lessee is hereby granted the right to pool or utilize the royalty interest of the owner of the soil under this lease with any other leasehold or mineral interest for the exploration, development and production of oil or gas or either of them upon the same terms as shall be approved by the School Land Board and the Commissioner of the General Land Office for the pooling or unitizing of the interest of the State under this lease pursuant to Texas Natural Resources Code 52.151-52.154. The owner of the soil agrees that the inclusion of this provision in this lease satisfies the execution requirements stated in Texas Natural Resources Code 52.152.

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

36. ENVIRONMENTAL HAZARDS. Lessee shall use the highest degree of care and all reasonable safeguards to prevent contamination or pollution of any environmental medium, including soil, surface waters, groundwater, sediments, and surface or subsurface strata, ambient air or any other environmental medium in, on, or under, the leased premises, by any waste, pollutant, or contaminant. Lessee shall not bring or permit to remain on the leased premises any asbestos containing materials, explosives, toxic materials, or substances regulated as hazardous wastes, hazardous materials, hazardous substances (as the term "Hazardous Substance" is defined in the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), 42 U.S.C. Sections 9601, et seq.), or toxic substances under any federal, state, or local law or regulation ("Hazardous Materials"), except ordinary products commonly used in connection with oil and gas exploration and development operations and stored in the usual manner and quantities. LESSEE'S VIOLATION OF THE FOREGOING PROHIBITION SHALL CONSTITUTE A MATERIAL BREACH AND DEFAULT HEREUNDER AND LESSEE SHALL INDEMNIFY, HOLD HARMLESS AND DEFEND THE STATE OF TEXAS AND THE OWNER OF THE SOIL FROM AND AGAINST ANY CLAIMS, DAMAGES, JUDGMENTS, PENALTIES, LIABILITIES, AND COSTS (INCLUDING REASONABLE ATTORNEYS' FEES AND COURT COSTS) CAUSED BY OR ARISING OUT OF (1) A VIOLATION OF THE FOREGOING PROHIBITION OR (2) THE PRESENCE, RELEASE, OR DISPOSAL OF ANY HAZARDOUS MATERIALS ON, UNDER, OR ABOUT THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OR CONTROL OF THE LEASED PREMISES. LESSEE SHALL CLEAN UP, REMOVE, REMEDY AND REPAIR ANY SOIL OR GROUND WATER CONTAMINATION AND DAMAGE CAUSED BY THE PRESENCE OR RELEASE OF ANY HAZARDOUS MATERIALS IN, ON, UNDER, OR ABOUT THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OF THE LEASED PREMISES IN CONFORMANCE WITH THE REQUIREMENTS OF APPLICABLE LAW. THIS INDEMNIFICATION AND ASSUMPTION SHALL APPLY, BUT IS NOT LIMITED TO, LIABILITY FOR RESPONSE ACTIONS UNDERTAKEN PURSUANT TO CERCLA OR ANY OTHER ENVIRONMENTAL LAW OR REGULATION. LESSEE SHALL IMMEDIATELY GIVE THE STATE OF TEXAS AND THE OWNER OF THE SOIL WRITTEN NOTICE OF ANY BREACH OR SUSPECTED BREACH OF THIS PARAGRAPH, UPON LEARNING OF THE PRESENCE OF ANY HAZARDOUS MATERIALS, OR UPON RECEIVING A NOTICE FROM ANY GOVERNMENTAL AGENCY PERTAINING TO HAZARDOUS MATERIALS WHICH MAY AFFECT THE LEASED PREMISES. THE OBLIGATIONS OF LESSEE HEREUNDER SHALL SURVIVE THE EXPIRATION OR EARLIER TERMINATION, FOR ANY REASON, OF THIS AGREEMENT.

37. APPLICABLE LAW. This lease is issued under the provisions of Texas Natural Resources Code 52.171 through 52.190, commonly known as the Relinquishment Act, and other applicable statutes and amendments thereto, and if any provision in this lease does not conform to these statutes, the statutes will prevail over any nonconforming lease provisions.



DATE 9-23-04
A true copy I certify
JUAN D. SALINAS, III
County Clerk, Hidalgo County, Texas
9217 Deputy

38. EXECUTION. This oil and gas lease must be signed and acknowledged by the Lessee before it is filed of record in the county records and in the General Land Office of the State of Texas. Once the filing requirements found in Paragraph 39 of this lease have been satisfied, the effective date of this lease shall be the date found on Page 1.

39. LEASE FILING. Pursuant to Chapter 9 of the Texas Business and Commerce Code, this lease must be filed of record in the office of the County Clerk in any county in which all or any part of the leased premises is located, and certified copies thereof must be filed in the General Land Office. This lease is not effective until a certified copy of this lease (which is made and certified by the County Clerk from his records) is filed in the General Land Office in accordance with Texas Natural Resources Code 52.163. Additionally, this lease shall not be binding upon the State unless it recites the actual and true consideration paid or promised for execution of this lease. The bonus due the State and the prescribed filing fee shall accompany such certified copy to the General Land Office.

ADDENDUM

Lessor and Lessee agree that the following provisions are incorporated into and shall be construed as a part of the foregoing oil and gas lease, and in the event of a conflict between the provisions of the foregoing General Land Office form and this addendum, the provisions of this addendum shall prevail.

40. PRODUCTION ROYALTIES. Upon production of oil and/or gas, Lessee agrees to pay or cause to be paid one-half (1/2) of the royalty provided for in this lease to the Commissioner of the General Land Office of the State of Texas, at Austin, Texas, and one-half (1/2) of such royalty to the owner of the soil:

(A) OIL. Royalty payable on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well and also as all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, shall be 1/4th part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be determined by the gross proceeds of the sale thereof. Lessee agrees that before any gas produced from the leased premises is sold, used or processed in a plant, it will be run free of cost to the royalty owners through an adequate oil and gas separator of conventional type, or other equipment at least as efficient, so that all liquid hydrocarbons recoverable from the gas by such means will be recovered. The



DATE 9-23-04
A true copy I certify
JUAN D. SALINAS, III
County Clerk, Hidalgo County, Texas
By [Signature] Deputy

requirement that such gas be run through a separator or other equipment may be waived, in writing, by the royalty owners upon such terms and conditions as they prescribe.

(B) **NON PROCESSED GAS.** Royalty on any gas, which is defined as all hydrocarbons and gaseous substances produced, saved and sold, not defined as oil in subparagraph (A) above, produced from any well on said land (except as provided herein with respect to gas processed in a plant for the extraction of gasoline, liquid hydrocarbons or other products) shall be 1/4th part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, provided that the term "market value" shall be deemed to have the meaning set forth in § 91.402(i) of the Texas Natural Resources Code, provided that the maximum pressure base in measuring the gas under this lease shall not at any time exceed 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to tests made by the Balance Method or by the most approved method of testing being used by the industry at the time of testing.

(C) **PROCESSED GAS.** Royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbons shall be 1/4th part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office. All royalties due herein shall be based on one hundred percent (100%) of the total plant production of residue gas attributable to gas produced from this lease, and on that percent accruing to Lessee of the total plant production of liquid hydrocarbons attributable to the gas produced from this lease; provided that if liquid hydrocarbons are recovered from gas processed in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the percentage applicable to liquid hydrocarbons shall be fifty percent (50%) or the highest

COUNTY CLERK
COUNTY OF HIDALGO, TEXAS
DATE 9-23-04
A true copy I certify
JUAN D. SANCHEZ, III
County Clerk, Hidalgo County, Texas
[Signature] Deputy

percent accruing to a third party processing gas through such plant under a processing agreement negotiated at arm's length (or if there is no such third party, the highest percent then being specified in processing agreements or contracts in the industry), whichever is the greater. The respective royalties on residue gas and on liquid hydrocarbons shall be based on market value as defined in § 91.402(i) of the Texas Natural Resource Code. In no event, however, shall the royalties payable under this paragraph be less than the royalties which would have been due had the gas not been processed.

41. **OFFSET WELLS.** Lessee shall protect the oil and gas under the above-described land from drainage as a reasonable and prudent operator. If oil and/or gas should be produced in commercial quantities upon lands adjoining or adjacent to the leased premises, and the leased premises is being drained by such production of oil or gas, the Lessee shall drill such offset wells as would a reasonable and prudent operator. Lessee at its option may, in lieu of drilling such offset well, release an amount of acreage sufficient to permit the drilling of an offset well under the applicable rules of the Texas Railroad Commission, such release to extend only to the subsurface stratum or formation from which oil or gas is being produced on the adjoining or adjacent tract. Such release shall be given within one hundred eighty (180) days after the commencement of production of oil or gas in paying quantities from such adjoining or adjacent tract. It is specifically agreed that Lessee shall have no obligation to offset any producing wells in existence on the date this lease is signed.

42. **SEISMIC DATA.** The parties have entered into a separate letter agreement regarding the Lessor's consent to LMP's acquisition of certain seismic data from Western Geophysical covering the leased premises and surrounding lands.

 DATE 9-23-09
A true copy I certify
JUAN D. SALINAS, III
County Clerk, Hidalgo County, Texas
By [Signature] Deputy

Executed the date of each respective acknowledgment certificate below, but effective as of

the date first above written.

LESSEE

LMP PETROLEUM, INC.

By: [Signature]
Michael S. Pedrotti
Title: President

LESSOR

STATE OF TEXAS

STATE OF TEXAS

By: [Signature]
Juan Lino Garza Trustee for the Garza
Energy Trust of 1994

By: [Signature]
Guadalupe Garza Jr., Trustee for the Garza
Energy Trust of 1994

Approved: [Signature]

INDIVIDUALLY AND AS AGENT
FOR THE STATE OF TEXAS

INDIVIDUALLY AND AS AGENT
FOR THE STATE OF TEXAS

~~STATE OF TEXAS §~~

~~COUNTY OF NUECES §~~

BEFORE ME, the undersigned authority, on this day personally appeared Michael S. Pedrotti known to me to be the person whose name is subscribed to the foregoing instruments as President of LMP Petroleum, Inc. 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 corporation.

Given under my hand and seal of office this the 31st day of July, 2004.

Mistake



[Signature]
Notary Public, State of Texas



DATE 9-23-04
A true copy I certify
JUAN D. SALINAS, III
Deputy Clerk, Hidalgo County, Texas
[Signature] Deputy

~~Executed the date of each respective acknowledgment certificate below, but effective as of the date first above written.~~

LESSEE

By: _____

Title: _____

STATE OF TEXAS

STATE OF TEXAS

By: _____
Juan Lino Garza Trustee for the Garza
Energy Trust of 1994

By: _____
Guadalupe Garza Jr., Trustee for the Garza
Energy Trust of 1994

~~INDIVIDUALLY AND AS AGENT
FOR THE STATE OF TEXAS~~

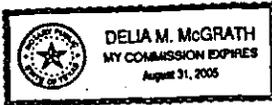
~~INDIVIDUALLY AND AS AGENT
FOR THE STATE OF TEXAS~~

STATE OF TEXAS §

COUNTY OF NUECES §

BEFORE ME, the undersigned authority, on this day personally appeared Michael S. Pedrotti known to me to be the person whose name is subscribed to the foregoing instruments as President of LMP Petroleum, Inc. 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 corporation.

Given under my hand and seal of office this the 13th day of Sept., 2004.



Delia M. McGrath
Notary Public, State of Texas



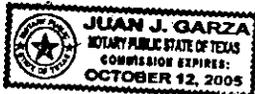
DATE 9-23-04
A true copy I certify
JUAN D. SALINAS, III
County Clerk, Hidalgo County, Texas
[Signature] Deputy

STATE OF TEXAS §

COUNTY OF Hidalgo §

BEFORE ME, the undersigned authority, on this day personally appeared Juan Lino Garza, Trustee for the Garza Energy Trust of 1994 known to me to be the person whose name is subscribed to the foregoing instruments Individually and as Agent for the State of Texas, 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 corporation.

Given under my hand and seal of office this the 30th day of July, 2004



Juan J. Garza
Notary Public, State of Texas

STATE OF TEXAS §

COUNTY OF Hidalgo §

BEFORE ME, the undersigned authority, on this day personally appeared Guadalupe Garza, Jr., Trustee for the Garza Energy Trust of 1994 known to me to be the person whose name is subscribed to the foregoing instruments Individually and as Agent for the State of Texas, 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 corporation.

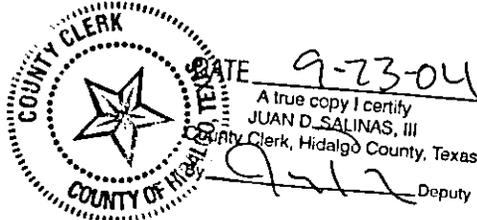
Given under my hand and seal of office this the 30th day of July, 2004



Juan J. Garza
Notary Public, State of Texas

Filed for Record In:
Hidalgo County, III
by
J. D. Salinas, III
County Clerk

On: Sep 14, 2004 at 02:52P
As a Recording
Document Number: 1391542
Total Fees: 42.00\$
Receipt Number - 616129
By:
Adriana Solis, Deputy



42

File No. 104158

Date Filed: 11/15/07

Jerry E. Patterson, Commissioner

By JK

KERR-MCGEE OIL AND GAS ONSHORE LP

08014451

Lease Number: TX-000122116

| DEPOSIT TO THE CREDIT OF | BA NUMBER | CHECK DATE | CHECK NUMBER | AMOUNT |
|--|------------|-------------|--------------|-----------------|
| COMMISSOINER OF THE TEXAS GENERAL LANDS | LA33385403 | Mar-28-2008 | 30036751 | ***\$13,200.00* |

M-104158

121

EXTENSION OF DEEPER DEPTHS
1/2 BONUS

INSTRUCTIONS TO PAYEE:

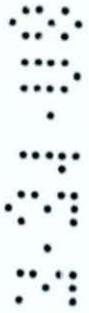
In as much as the canceled check serves as our rental receipt, please cash the check immediately upon receipt.

INSTRUCTIONS TO DEPOSITORY:

In case of any difficulty, promptly communicate with the rental section of Land Administration of this company 832-636-7086, explaining the circumstances and further instructions will be given.

43

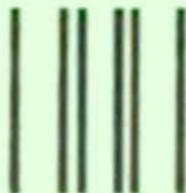
File No. MF-104168
~~VOID~~
Date Filed
Jerry Patterson
By



43,

File No. 11-104158
Deputy Deputy Attorney
Date Filed: 3/31/08
Jerry E. Patterson
Commissioner
By

UNITED STATES POSTAL SERVICE



First-Class Mail
Postage & Fees Paid
USPS
Permit No. G-10

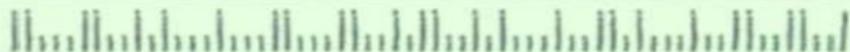
- Sender: Please print your name, address, and ZIP+4 in this box •

Texas General Land Office
PO Box 12873
Austin, TX 78711-2873
Attn: Carl Bonn, Energy Resources
03111
MF 104158

RECEIVED

NOV 17 2011

GENERAL LAND OFFICE



SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Kerr-McGee O & G Onshore LP
 Po Box 1330

Hou Tx 77251

Attn Frank Davis

2. Article Number

(Transfer from service label)

COMPLETE THIS SECTION ON DELIVERY

A. Signature

X

[Handwritten Signature] **NOV 14 2011** *[Handwritten Signature]*

 Agent Addressee

B. Received by (Printed Name)

JAMES FELDER

C. Date of Delivery

D. Is delivery address different from item 1? Yes

If YES, enter delivery address below:

 No

3. Service Type

 Certified Mail Express Mail Registered Return Receipt for Merchandise Insured Mail C.O.D.

4. Restricted Delivery? (Extra Fee)

7007 0710 0000 5380 1250

U.S. Postal Service™

CERTIFIED MAIL™ RECEIPT

(Domestic Mail Only; No Insurance Coverage Provided)

For delivery information visit our website at www.usps.com®

OFFICIAL USE

| | |
|---|----|
| Postage | \$ |
| Certified Fee | |
| Return Receipt Fee (Endorsement Required) | |
| Restricted Delivery Fee (Endorsement Required) | |
| Total Postage & Fees | \$ |

Postmark
Here

Sent To

.....
*Street, Apt. No.;
or PO Box No.*

.....
City, State, ZIP+4

7007 0710 0000 5380 1250

Certified Mail Provides:

- A mailing receipt
- A unique identifier for your mailpiece
- A record of delivery kept by the Postal Service for two years

Important Reminders:

- Certified Mail may ONLY be combined with First-Class Mail® or Priority Mail®.
- Certified Mail is *not* available for any class of international mail.
- NO INSURANCE COVERAGE IS PROVIDED with Certified Mail. For valuables, please consider Insured or Registered Mail.
- For an additional fee, a *Return Receipt* may be requested to provide proof of delivery. To obtain Return Receipt service, please complete and attach a Return Receipt (PS Form 3811) to the article and add applicable postage to cover the fee. Endorse mailpiece "Return Receipt Requested". To receive a fee waiver for a duplicate return receipt, a USPS® postmark on your Certified Mail receipt is required.
- For an additional fee, delivery may be restricted to the addressee or addressee's authorized agent. Advise the clerk or mark the mailpiece with the endorsement "*Restricted Delivery*".
- If a postmark on the Certified Mail receipt is desired, please present the article at the post office for postmarking. If a postmark on the Certified Mail receipt is not needed, detach and affix label with postage and mail.

IMPORTANT: Save this receipt and present it when making an inquiry.

PS Form 3800, August 2006 (Reverse) PSN 7530-02-000-9047

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

November 10, 2011

VIA CRRR #7007 0710 0000 5380 1250

Frank Davis
Kerr-McGee Oil & Gas Onshore LP
PO Box 1330
Houston, Texas 77251

RE: Termination of State Lease MF104158; Except for CRA on Private land under MF104158
Lease: (04-216119; API 215-32377 & 04-212919; API 215-33283) Garza St #1 & 2
Hidalgo County

Dear Mr. Davis:

Based on the information reviewed, it appears that the above-referenced lease may have terminated April 1, 2011 due to non-production. The lease has not been held by timely paid shut-in payments and there is no documentation in this office of any reworking operations. As a result, this lease may have terminated under the terms and conditions of the lease and laws of the state as further defined in Title 31 of the Texas Administrative Code ("TAC"). Pursuant to the TAC, a recorded original or certified copy of a Release of the State Oil and Gas Lease and filing fee of \$25 must be filed with our office.

If the wells are plugged, copies of Railroad Commission Form W-3 must be filed with our office. Our Audit Division will notify you shortly if delinquent royalties are due.

In accordance with the provisions of the TAC, if you disagree with this assessment please provide evidence to this office at the address shown below within 30 days of receipt of this letter. Failure to reply or failure to present sufficient evidence of the continuation of the lease will result in the mineral file being endorsed as terminated. You will receive no further communication from this office prior to endorsement.

Sincerely,

Carl F. Bonn, CPL
Mineral Leasing
Direct Number (512) 463-5407
Fax Number (512) 475-1543

carl.bonn@glo.texas.gov

Stephen F. Austin Building • 1700 North Congress Avenue • Austin, Texas 78701-1495

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

www.glo.state.tx.us

44

File No. MF-104158
Partial Termination of Lse
Comp Roy Agr's HBP
Date Filed: 11-10-11
Jerry Patterson, Commissioner
By Carl Bonn

Carl Bonn - Termination of State Lease MF104158

From: "Baker, Rodney" <Rodney.Baker@anadarko.com>
To: "carl.bonn@glo.texas.gov" <carl.bonn@glo.texas.gov>
Date: 12/9/2011 11:07 AM
Subject: Termination of State Lease MF104158
Attachments: GLO Letter for Termination of MF104158.pdf

Carl,

Please accept this email with attached letter as Kerr-McGee's response to your letter dated November 10, 2011. In short, we are in agreement with the GLO that the lease has expired.

Thanks,
Rod Baker

Rod W. Baker

Anadarko Petroleum Corporation

1201 Lake Robbins Drive
The Woodlands, Texas 77380
(832) 636-8435 Bus
(713) 818-2491 Cell
(832) 636-8037 FAX
(281)397-0824 Home

Rodney.Baker@Anadarko.com

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File No. MF104158 (4)
email from Kerr-McGee

Date Filed: 12-9-11
Jerry Patterson, Commissioner

By Carl Bonh

KERR-MCGEE OIL & GAS ONSHORE LP

December 9, 2011

Via Email

Texas General Land Office
Stephen F. Austin Building
1700 North Congress Avenue
Austin, Texas 78701-1495
Email: carl.bonn@glo.texas.gov
Telephone: 512-463-5407
Attn: Carl F. Bonn, Mineral Leasing

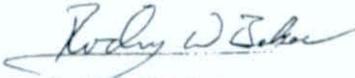
Re: GLO Letter dated November 1, 2011 concerning
Termination of State Lease MF104158 ⁴
Except for CRA on Private Land under MF104158
Lease: (04-216119; API 214-32377 & API 215-33283)
Garza St #1 & 2, Hidalgo County, Texas

Dear Mr. Bonn:

Please be advised that Kerr-McGee agree that the above lease has expired. We have been contacted by the surface owner and Strata Operating to allow Strata to take over the wells for additional rework/recompletion efforts by Strata to bring the wells back on production. I expect they will or have come to the GLO for the purpose of acquiring another lease for the mentioned purposes.

If you have any questions concerning the above, please feel free to contact me at 832-636-8435 or one of the other methods of contacting set for below my name.

Sincerely,



Rodney W. Baker
Rodney.baker@anadarko.com
Telephone - 832-636-8435
Cell - 713-818-2491

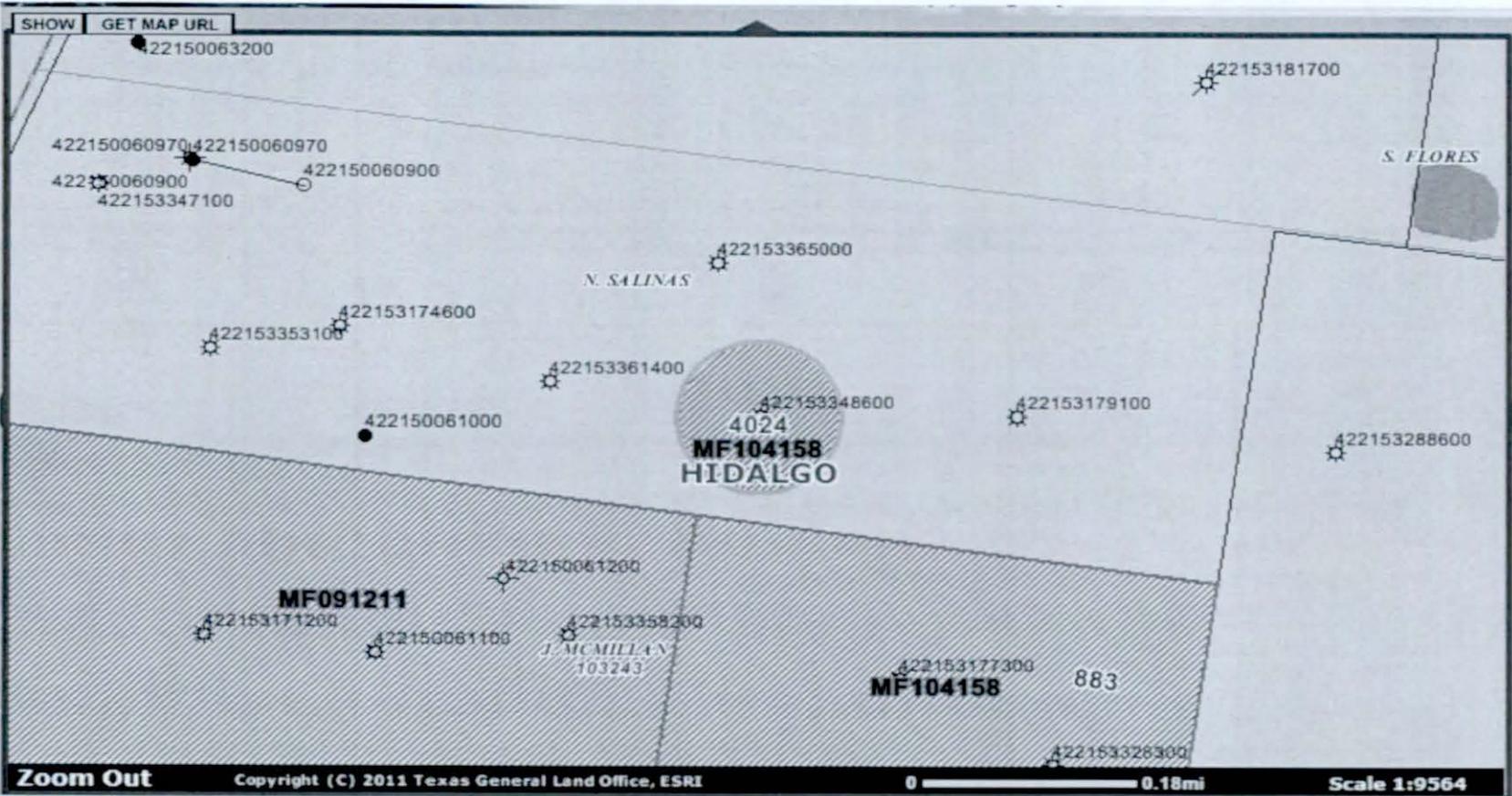
xc: Drew Reid

46

File No. MF 104158
Ltr from Kerr-McGee

Date Filed: 12-9-41
Jerry Patterson, Commissioner

By Carl Bonn



- Oil & Gas Leases
 - Permitted Wells
 - Completed Wells
 - Hist. Pool Agrmnts
 - Hist. Oil & Gas Lease
 - All Oil & Gas Layers
- [Update Map](#) [Show Legend](#)

NONE

GLOBASE INFORMATION LINKS
[ENERGY PAPER DETAILS](#)

DOCUSHARE RECORDS
[ORIGINAL UNIT DOCUMENT](#)

INCLUDED TRACTS
 N. SALINAS(private land)

OIL & GAS WELL DATA
 To view individual well data, click on the link.
 There are 1 wells within this lease.
[CLICK HERE FOR CSV FILE](#)
 422153348600

47

File No. MF 10458
Plat of Camp Bay Agr

Date Filed: 12-13-11
Jerry Patterson, Commissioner

By Carl Bahn

From: Carl Bonn
To: Arellano, Jesse
CC: Reid, Drew
Date: 12/15/2011 8:04 AM
Subject: MF104158- terminated; Unit 4024 producing Comp Roy Agr on Private Land
Attachments: 20111215074715523_1.pdf; Bonn, Carl.vcf

Jesse,

Please be advised that the referenced lease terminated eff 4/1/11 due to non-production, but the Unit 4024 is a CRA and is still producing.

Should I mark MF104158 terminated?

Please see attached letter et al from Kerr-McGee.

Thanks,
Carl

Carl Bonn, CPL
Landman
New = carl.bonn@glo.texas.gov
Energy Resources
Texas General Land Office
PO Box 12873 Austin, TX 78711
(512) 463-5407 - Office (512) 475-1543 - Fax

File No. MF 104158 (48)
credit to Ten

Date Filed: 12-15-41

Jerry E. Patterson, Commissioner

By [Signature]

ANADARKO PETROLEUM CORPORATION
PO BOX 1330
HOUSTON, TX 77251-1330

PAGE: 1 of 1

DATE: February 8, 2012

TRACE NUMBER: 0110585641

CHECK NUMBER: 0110585641

AMOUNT PAID: \$25.00

12707245

ACCOUNTS PAYABLE INQUIRIES: (800) 370-9867



00019 CKS 4A 12039 - 0110585641 NNNNNNNNNN 0395100004503 X392D1 C
COMMISSOINER OF THE TEXAS GENERAL L
1700 N CONGRESS AVE
463600001
AUSTIN TX 78701-1495

Release



VENDOR NO: 0003229233

| DOCUMENT # | VENDOR INV #/ REMARKS | INVOICE DATE | TOTAL AMOUNT | PRIOR PMTS & DISCOUNTS | NET AMOUNT |
|--|--------------------------|--------------|-----------------|---------------------------|---------------|
| 000008010 | CKRQ020712 | 02/07/12 | \$25.00 | \$0.00 | \$25.00 |
| FILING FEE FOR RELEASE OF STATE OF TEXAS LEASE M104158 | | | | | |
| TOTALS | | | \$25.00 | \$0.00 | \$25.00 |

+
126



February 14, 2012

Carl F. Bonn, CPL
Texas General Land Office
Stephen F. Austin Building
1700 North Congress Avenue
Austin, Texas 78701-1495

RE: Full Release of Oil and Gas Lease of Juan Lino Garza and Guadalupe Garza, Jr., as Trustees of the Garza Energy Trust of 1994; Hildago County; **VIA CRRR #7007 0710 0000 5380 1250**

Dear Mr. Bonn:

In response to your letter dated November 10, 2011 to Kerr-McGee Oil and Gas Onshore LP, please find the recorded original Full Release of Oil and Gas lease for the above mentioned lease along with the \$25 filing fee.

Sincerely,

A handwritten signature in black ink that reads "Tiffany Vogel".

Tiffany Vogel, CPLTA

Anadarko Petroleum Corporation
Land Administration- Title Analyst
Direct Number: (832) 636-7927
Fax Number: (832) 636-5581
tiffany.vogel@anadarko.com

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

November 10, 2011

VIA CRRR #7007 0710 0000 5380 1250



COPY

Frank Davis
Kerr-McGee Oil & Gas Onshore LP
PO Box 1330
Houston, Texas 77251

RE: Termination of State Lease MF104158; Except for CRA on Private land under MF104158
Lease: (04-216119; API 215-32377 & 04-212919; API 215-33283) Garza St #1 & 2
Hidalgo County

Dear Mr. Davis:

Based on the information reviewed, it appears that the above-referenced lease may have terminated April 1, 2011 due to non-production. The lease has not been held by timely paid shut-in payments and there is no documentation in this office of any reworking operations. As a result, this lease may have terminated under the terms and conditions of the lease and laws of the state as further defined in Title 31 of the Texas Administrative Code ("TAC"). Pursuant to the TAC, a recorded original or certified copy of a Release of the State Oil and Gas Lease and filing fee of \$25 must be filed with our office.

If the wells are plugged, copies of Railroad Commission Form W-3 must be filed with our office. Our Audit Division will notify you shortly if delinquent royalties are due.

In accordance with the provisions of the TAC, if you disagree with this assessment please provide evidence to this office at the address shown below within 30 days of receipt of this letter. Failure to reply or failure to present sufficient evidence of the continuation of the lease will result in the mineral file being endorsed as terminated. You will receive no further communication from this office prior to endorsement.

Sincerely,

Carl F. Bonn, CPL
Mineral Leasing
Direct Number (512) 463-5407
Fax Number (512) 475-1543

carl.bonn@glo.texas.gov

Stephen F. Austin Building • 1700 North Congress Avenue • Austin, Texas 78701-1495

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

www.glo.state.tx.us

RELEASE OF OIL AND GAS LEASE

STATE OF TEXAS §
 §
COUNTY OF HIDALGO §

MF 104158

KNOW ALL MEN BY THESE PRESENTS: That **KERR-MCGEE OIL & GAS ONSHORE L.P.** as successor in interest to **LMP PETROLEUM, INC.**, 1201 Lake Robbins Drive, The Woodlands, Texas 77380, does hereby release, relinquish, quit-claim and surrender to **JUAN LINO GARZA AND GUADLUPE GARZA, JR., AS TRUSTEES OF THE GARZA ENERGY TRUST OF 1994**, as Lessor, all right, title and interest, in and to that certain Oil and Gas Lease entered into with **LMP PETROLEUM, INC.**, as Lessee, and listed below:

LEASE NO.: TX-000122116
LESSOR: Juan Lino Garza and Guadalupe Garza, Jr., as Trustees of the Garza Energy Trust of 1994
LESSEE: LMP Petroleum, Inc.
INSTRUMENT: Oil and Gas Lease
LEASE DATE: April 1, 2004
RECORDED: Document No. 1381542

This Release of Oil and Gas Lease is hereby executed this 28 day of November, 2011.

KERR MC-GEE OIL & GAS ONSHORE L.P.

[Signature]
By: Rob G. Reasoner
Agent and Attorney-In-Fact *[Initials]*

THE STATE OF TEXAS §
 §
COUNTY OF MONTGOMERY §

The foregoing instrument was acknowledged before me this 28th day of November, 2011 by Rob G. Reasoner as Agent and Attorney-in-Fact of **KERR MC-GEE OIL & GAS ONSHORE L.P.**, on behalf of said limited partnership.



[Signature]
Notary Public in and for
The State of T E X A S

79.

MF-104158

File No.

Refeate

Date Filed:

11-28-11

Jerry Patterson, Commissioner

By:

Carlson

2011

Harriet Dunne - Re: Cantera Set up for GLO 01 & 02

From: Susan Wauer
To: Sharon Norris
Date: 1/31/2014 3:09 PM
Subject: Re: Cantera Set up for GLO 01 & 02
CC: Harriet Dunne; Mike May

MF104158 ✓
091211

Sharon,

I just got through speaking with Harriet about the leases in pending status you had added to your Reporting Control records under MF104158. This lease has expired and I have rejected the Pending Adds. I also need you to delete the GLO1 and GLO2 Reporting Controls for MF104158/4024/04-223276 as these are no longer valid.

Please add a new Reporting Control for MF091211 / 04-255688 and start reporting on this lease back to 201311. This one well in lease MF091211 will have a Royalty Decimal of .11421875. *ONLY* this well in the lease will have this Royalty Decimal. All other wells still have the .110000 Royalty Decimal.

Please let me know if you have any questions.

Susan

Susan Wauer
 Texas General Land Office
 512-463-3889
susan.wauer@glo.texas.gov

>>> Susan Wauer 1/6/2014 3:18 PM >>>

Hi Sharon,

I've approved most of the setups. MF102134 and MF100815 are having issues that my Energy Department and your land department are working on. I can't approve these until the issues have been resolved.

I've sent MF102536 / Unit 3312 to be added to our well inventory. I'll let you know when I approve it.

Susan

Susan Wauer
 Texas General Land Office
 512-463-3889
susan.wauer@glo.texas.gov

>>> Sharon Norris <snorris@opportune.com> 1/6/2014 1:44 PM >>>

Hi Susan,

I have completed setting up the Reporting Controls for the GLO=01 Oil side.

Sharon Norris
 Regulatory Accountant
 Opportune LP
 Outsourcing
 8323 Southwest Freeway 9th floor
 Houston, TX 77074
 Office: (713) 772-0664 EXT 168

Fax: (713) 772-0752

snorris@Opportune.com

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From: Sharon Norris
Sent: Friday, January 03, 2014 5:02 PM
To: 'susan.wauer@glo.texas.gov'
Subject: GLO-01 Question Help Cantera
Importance: High

Hi Susan,

I am trying to set up GLO-01 Oil Reporting Controls for Cantera. My problem is all of Cantera's well leases are Gas. I only have Texas RRC gas numbers. Can you please tell me what I need to do. To get these set up for Cantera's Oil reporting.

Sharon Norris
Regulatory Accountant
Opportune LP
Outsourcing
8323 Southwest Freeway 9th floor
Houston, TX 77074
Office: (713) 772-0664 EXT 168
Fax: (713) 772-0752

snorris@Opportune.com

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50

File No. MF104158

Date Filed: _____

George P. Bush, Commissioner

By: _____