STATE LEASE MF104544

#	LeaseDate	Acres	Status	CONTROL	BASEFILE	COUNTY
~~A~~	~~Oct 25 2004~~	~~0.00~~	~~ACTIVE~~	07-30884	134169 -	CULBERSON /055
~~B~~	~~Oct 25 2004~~	~~0.00~~	~~ACTIVE~~	07-30893	134170 -	CULBERSON /055
~~C~~	~~Oct 25 2004~~	~~0.00~~	~~ACTIVE~~	07-30900	134171 -	CULBERSON /055
~~D~~	~~Oct 25 2004~~	~~0.00~~	~~ACTIVE~~	07-30919	134172 -	CULBERSON /055
~~E~~	~~Oct 25 2004~~	~~0.00~~	~~ACTIVE~~	...		
~~G~~	~~Oct 25 2004~~	~~0.00~~	~~ACTIVE~~			
~~H~~	~~Oct 25 2004~~	~~0.00~~	~~ACTIVE~~			
~~I~~	~~Oct 25 2004~~	~~0.00~~	~~ACTIVE~~			
~~K~~	~~Oct 25 2004~~	~~0.00~~	~~ACTIVE~~			

✓EXPIRED
DATE 10/25/09
LEASING
MAPS
GIS

Rentals: MS

Lease Admin: DR

Mineral Maps: JP

SURVEY : PUBLIC SCHOOL LAND
BLOCK : 100
TOWNSHIP : 00
SECTION/TRACT: 16,17,18,19,20 & 21
PART :
ACRES : 3840.00
DEPTH LIMITS : NO

LESSEE : JOHNSON, CLAY
LEASE DATE : Oct 25 2004
PRIMARY TERM : 5 yrs
BONUS ($) : 0.00
RENTAL ($) : 1.00
ROYALTY : 0.10000000
VAR ROYALTY :

(E)

F1022422

-M-
F
1
0
4
5
4
4

CONTENTS OF FILE NO. MF104544

1. Letter + fees	11/16/04	22. RENTAL PAYMENT	09/30/08
2. BLM Review	11/23/04	23. RENTAL PAYMENT	09/30/08
3. Letter	12/20/04	scanned SM 7/3/15	
4. (11) Leases	12/20/04		
5. (11) Bonus Payments	2/20/04		
6. GLO letter	4/20/05		
See MF 104095 #8-22			
assignment.	9/15/05		
7. Rental Payments	9/21/05		
8. RENTIAL PAYMENTS	9/22/06		
9. Rental Payment	9/25/07		
10. Rental Payment	9/25/07		
11. Rental Payment	9/25/2007		
12. Rental Payment	9/25/07		
13. Rental Payment	9/25/07		
14. Rental Payment	9/25/07		
15. Rental Payment	9/25/07		
16. Rental Payment	9/25/07		
17. Rental Payment	9/25/07		
18. Rental Payment	9/25/07		
19. Rental Payment	9/25/07		
20. Letter + Amendment	11/9/07		
See MF 104542 #20 for			
letters + Amendment	11/9/07		
21 Rental Amendment.	2/7/08		

GLO-S-08-(1-82)

Clay Johnson Oil & Gas Properties

203 WEST WALL, SUITE 202*MIDLAND, TEXAS 79701*(432) 684-4110*FAX (432) 684-5166

AAPL-CPL

Lease #1

November 11, 2004

General Land Office
Attn: Mr. Drew Reid
Stephen F. Austin Building
1700 North Congress
Austin, TX 78701

Re: Approval Request, Oil and Gas Leases
Culberson County, Texas

Dear Drew,

The Deed Records of Culberson County, Texas indicate that the following collectively own an undivided 8/8th surface interest under all the land described below:

contact - 312
trans. - 4406
Bus - see 1st. list

Owner	Interest
Pacific Holding, L.P.	5/16ths
Wayne Moore	1/4th
Pear Moore Carter	1/32nd
Montgomery-Walker Trust	1/4th
Charlotte Furman	1/32nd
Jo Grace Flood Johnson	1/24th
Daniel Laird	1/24th
Paula Richardson O'Malley	1/96th
Donald Richardson	1/96th
Eugene Richardson	1/96th
Ann Richardson Peters	1/96th

The lands are as follows from lease one:

Block 100, Public School Land Survey
Section 04: All
Section 05: All
Section 06: All
Section 07: All

Section 08: All
Section 09: All

The lands are as follows from lease two:

Block 99, Public School Land Survey
Section 04: S/2
Section 10: W/2
Section 15: W/2
Section 22: N/2
Section 23: All
Section 24: All

Block 104, Public School Land Survey
Section 21: All

The lands are as follows from lease three:

Block 100, Public School Land Survey
Section 16 All
Section 17: All
Section 18: All
Section 19: All
Section 20: All
Section 21: All

A trade has recently been made for Oil and Gas Leases covering the above interest based on the following terms: $50.00 per net mineral acre for bonus consideration, and 1/5th royalty for five (5) year lease, with rentals at $1.00 per aces, with third year rentals at $50.00 per acre. As you are aware the Sate General Land Office in entitle to like amounts of bonus and rentals.

I have enclosed a copies of thirty (30) original executed leases for the approval of the General Land Office, as well as personal Check No. 6577 in the amount of $300.00 for the State's processing fee.

If you have any questions please advise. Your prompt and favorable response will be greatly appreciated. Thank you for your time and consideration on this matter.

Sincerely,

M. K. Brasuel

Mary Kay Brasuel

Enclosures:

CLAY JOHNSON

6577

General Land Office - State of Texas

11/11/'04

X 300.00

121

Attn: Drew Reid

05011518

10.91.11

FIRST NATIONAL CHEC Aproval Fees - Tom E. Moore

300.00

CLAY JOHNSON
203 W. WALL, SUITE 202
MIDLAND, TX 79701
PH. (915) 684-4110

FIRST NATIONAL BANK
OF MIDLAND
MIDLAND, TX 79701
[redacted]

6577

11/11/04

PAY TO THE ORDER OF General Land Office - State of Texas $ **300.00

Three Hundred and 00/100********** DOLLARS

General Land Office - State of Texas
Mr. Drew Reid
Stephen F. Austin Bldg.
1700 N. Congress Ave.
Austin, TX 78701

MEMO Aproval Fees - Tom E. Moore

Clay Johnson

⑈006577⑈ [redacted]

CLAY JOHNSON

6577

General Land Office - State of Texas 11/11/04 300.00

FIRST NATIONAL CHEC Aproval Fees - Tom E. Moore 300.00

05011518

40-91-11

2011218

Date Filed: 11/16/10

Jerry E. Patterson, Commissioner

2011218

2011218

10-31-11

RAL REVIEW SHEET

M-10454

Transaction # 4406 **Geologist:** R. Widmayer

Lessor: O'Malley, Paula Camille Richardson **Lease Date:** 10/25/2004 **Ut:** ☐

Lessee: Clay Johnson **Acres:** 3840

LEASE DESCRIPTION

County	Base File No	Part	Sec.	Block	Twp	Survey	Abst#
CULBERSON [redacted]	134169	ALL 640	16	100	00	PUBLIC SCHOOL LAND	5757
CULBERSON [redacted]	134170	ALL 640	17	100	00	PUBLIC SCHOOL LAND	5758
CULBERSON [redacted]	134171	ALL 640	18	100	00	PUBLIC SCHOOL LAND	5759
CULBERSON [redacted]	134172	ALL 640	19	100	00	PUBLIC SCHOOL LAND	5760
CULBERSON [redacted]	134173	ALL 640	20	100	00	PUBLIC SCHOOL LAND	5761
		640	21	100			

TERMS OFFERED		TERMS RECOMMENDED	
Primary Term:	5 years	**Primary Term**	5 years
Bonus/Acre:	$50.00	**Bonus/Acre**	$50.00
Rental/Acre:	$1.00	**Rental/Acre**	$1.00
Royalty:	1/5	**Royalty**	1/5

COMPARISONS

MF #	Lessee	Date	Term	Bonus/Ac.	Rental/Ac.	Royalty	Distance Last Lease
MF100186	Clay Johnson	7/17/1998	5 years	$50.00	$1.00	3/16	
Pending	Craig Clark	8/16/04	5 Yrs	$23.50	$1.00	3/16	2.5 Miles SE

Comments: Total of ten undivided leases. 4th year rentals will be $50.00.

Approved: PACS 11.23.04

Tuesday, November 23, 2004

[redacted]LINQUISHMENT ACT LEASE APPLICATION

Texas General Land Office — Jerry Patterson, Commissioner

TO: Jerry Patterson, Commissioner
Larry Laine, Chief Clerk
Bill Warnick, General Counsel
Matt Edling, Deputy Commissioner

DATE: 23-Nov-04

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

Applicant:	Clay Johnson			County:	CULBERSON
Prim. Term:	5 years		Bonus/Acre		$50.00
Royalty:	1/5		Rental/Acre		$1.00

Consideration
Recommended: PAB Date: 11.23.04
Not Recommended: _____
Comments: Total of ten undivided leases. 4th year rentals will be $50.00.

Lease Form
Recommended: RJH Date: 12/14/04
Not Recommended: _____
Comments:

Matt Edling, Deputy Commissioner Date: 12-16-04
Recommended: ME
Not Recommended: _____

Bill Warnick, General Counsel Date: _____
Recommended: WTW
Not Recommended: _____

Larry Laine, Chief Clerk Date: 12/5/04
Approved: LLL
Not Approved: _____

Jerry Patterson, Commissioner Date: 6 JAN 05
Approved: JP
Not Approved: _____

File No. MF104544 2.

BTA Review

Date Filed: 11/23/04

Jerry E. Patterson, Commissioner

By

Clay Johnson Oil & Gas Properties

203 WEST WALL, SUITE 202*MIDLAND, TEXAS 79701*(432) 684-4110*FAX (432) 684-5166

AAPL-CPL

December 15, 2004

General Land Office
Attn: Mr. Drew Reid
Stephen F. Austin Building
1700 North Congress
Austin, TX 78701

Re: Relinquishment Act Oil & Gas Lease
Culberson County, Texas

Dear Mr. Reid,

Find enclosed for your files and further handling a certified copy of the original recorded of the following descried Oil & Gas Lease:

1) Relinquishment Act Oil & Gas Lease dated October 25, 2004 by and between The State of Texas by Donald Richardson, Lessor and Clay Johnson, Lessee, covering the S/2 of Section 4, the W/2 of Sections 10 & 15, the N/2 of Section 22, & all of Sections 23 & 24, in Block 99, Public School Land Survey, & all of Section 21, in Block 104, Public School Land Survey, Culberson County, Texas;

2) Relinquishment Act Oil & Gas Lease dated October 25, 2004 by and between The State of Texas by Donald Richardson, Lessor and Clay Johnson, Lessee, covering all of Sections 4, 5, 6, 7, 8, & 9, all in Block 100, Public School Land Survey, Culberson County, Texas;

3) Relinquishment Act Oil & Gas Lease dated October 25, 2004 by and between The State of Texas by Donald Richardson, Lessor and Clay Johnson, Lessee, covering all of Sections 16, 17, 18, 19, 20, & 21, all in Block 100, Public School Land Survey, Culberson County, Texas;

Please find Tom Brown, Inc. Check No. 460916 in the amount of $2,833.34 made payable to Texas General Land Office Commissioner representing payment in full of lease bonus consideration (1/2 due the State of Texas) for the above mentioned Oil & Gas Lease.

10-06-21

4) Relinquishment Act Oil & Gas Lease dated October 25, 2004 by and between The State of Texas by Paula Camille Richardson O'Malley, Lessor and Clay Johnson, Lessee, covering the S/2 of Section 4, the W/2 of Sections 10 & 15, the N/2 of Section 22, & all of Sections 23 & 24, in Block 99, Public School Land Survey, & all of Section 21, in Block 104, Public School Land Survey, Culberson County, Texas;

5) Relinquishment Act Oil & Gas Lease dated October 25, 2004 by and between The State of Texas by Paula Camille Richardson O'Malley, Lessor and Clay Johnson, Lessee, covering all of Sections 4, 5, 6, 7, 8, & 9, all in Block 100, Public School Land Survey, Culberson County, Texas;

6) Relinquishment Act Oil & Gas Lease dated October 25, 2004 by and between The State of Texas by Paula Camille Richardson O'Malley, Lessor and Clay Johnson, Lessee, covering all of Sections 16, 17, 18, 19, 20, & 21, all in Block 100, Public School Land Survey, Culberson County, Texas;

Please find Tom Brown, Inc. Check No. 460917 in the amount of $2,833.34 made payable to Texas General Land Office Commissioner representing payment in full of lease bonus consideration (1/2 due the State of Texas) for the above mentioned Oil & Gas Lease.

7) Relinquishment Act Oil & Gas Lease dated October 25, 2004 by and between The State of Texas by Eugene Richardson, Lessor and Clay Johnson, Lessee, covering the S/2 of Section 4, the W/2 of Sections 10 & 15, the N/2 of Section 22, & all of Sections 23 & 24, in Block 99, Public School Land Survey, & all of Section 21, in Block 104, Public School Land Survey, Culberson County, Texas;

8) Relinquishment Act Oil & Gas Lease dated October 25, 2004 by and between The State of Texas by Eugene Richardson, Lessor and Clay Johnson, Lessee, covering all of Sections 4, 5, 6, 7, 8, & 9, all in Block 100, Public School Land Survey, Culberson County, Texas;

9) Relinquishment Act Oil & Gas Lease dated October 25, 2004 by and between The State of Texas by Eugene Richardson, Lessor and Clay Johnson, Lessee, covering all of Sections 16, 17, 18, 19, 20, & 21, all in Block 100, Public School Land Survey, Culberson County, Texas;

Please find Tom Brown, Inc. Check No. 460918 in the amount of $2,833.34 made payable to Texas General Land Office Commissioner representing payment in full of lease bonus consideration (1/2 due the State of Texas) for the above mentioned Oil & Gas Lease.

10-12-21

10) Relinquishment Act Oil & Gas Lease dated October 25, 2004 by and between The State of Texas by Jo Grace Laird Flood, Lessor and Clay Johnson, Lessee, covering the S/2 of Section 4, the W/2 of Sections 10 & 15, the N/2 of Section 22, & all of Sections 23 & 24, in Block 99, Public School Land Survey, & all of Section 21, in Block 104, Public School Land Survey, Culberson County, Texas;

11) Relinquishment Act Oil & Gas Lease dated October 25, 2004 by and between The State of Texas by Jo Grace Laird Flood, Lessor and Clay Johnson, Lessee, covering all of Sections 4, 5, 6, 7, 8, & 9, all in Block 100, Public School Land Survey, Culberson County, Texas;

12) Relinquishment Act Oil & Gas Lease dated October 25, 2004 by and between The State of Texas by Jo Grace Laird Flood, Lessor and Clay Johnson, Lessee, covering all of Sections 16, 17, 18, 19, 20, & 21, all in Block 100, Public School Land Survey, Culberson County, Texas;

Please find Tom Brown, Inc. Check No. 460919 in the amount of $2,833.34 made payable to Texas General Land Office Commissioner representing payment in full of lease bonus consideration (1/2 due the State of Texas) for the above mentioned Oil & Gas Lease.

13) Relinquishment Act Oil & Gas Lease dated October 25, 2004 by and between The State of Texas by Ann Richardson Peters, Lessor and Clay Johnson, Lessee, covering the S/2 of Section 4, the W/2 of Sections 10 & 15, the N/2 of Section 22, & all of Sections 23 & 24, in Block 99, Public School Land Survey, & all of Section 21, in Block 104, Public School Land Survey, Culberson County, Texas;

14) Relinquishment Act Oil & Gas Lease dated October 25, 2004 by and between The State of Texas by Ann Richardson Peters, Lessor and Clay Johnson, Lessee, covering all of Sections 4, 5, 6, 7, 8, & 9, all in Block 100, Public School Land Survey, Culberson County, Texas;

15) Relinquishment Act Oil & Gas Lease dated October 25, 2004 by and between The State of Texas by Ann Richardson Peters, Lessor and Clay Johnson, Lessee, covering all of Sections 16, 17, 18, 19, 20, & 21, all in Block 100, Public School Land Survey, Culberson County, Texas;

Please find Tom Brown, Inc. Check No. 460920 in the amount of $2,833.34 made payable to Texas General Land Office Commissioner representing payment in full of lease bonus consideration (1/2 due the State of Texas) for the above mentioned Oil & Gas Lease.

22) Relinquishment Act Oil & Gas Lease dated October 25, 2004 by and between The State of Texas by Charlotte Walker Furman, Lessor and Clay Johnson, Lessee, covering the S/2 of Section 4, the W/2 of Sections 10 & 15, the N/2 of Section 22, & all of Sections 23 & 24, in Block 99, Public School Land Survey, & all of Section 21, in Block 104, Public School Land Survey, Culberson County, Texas;

23) Relinquishment Act Oil & Gas Lease dated October 25, 2004 by and between The State of Texas by Charlotte Walker Furman, Lessor and Clay Johnson, Lessee, covering all of Sections 4, 5, 6, 7, 8, & 9, all in Block 100, Public School Land Survey, Culberson County, Texas;

24) Relinquishment Act Oil & Gas Lease dated October 25, 2004 by and between The State of Texas by Charlotte Walker Furman, Lessor and Clay Johnson, Lessee, covering all of Sections 16, 17, 18, 19, 20, & 21, all in Block 100, Public School Land Survey, Culberson County, Texas;

Please find Tom Brown, Inc. Check No. 460923 in the amount of $8,500.00 made payable to Texas General Land Office Commissioner representing payment in full of lease bonus consideration (1/2 due the State of Texas) for the above mentioned Oil & Gas Lease.

25) Relinquishment Act Oil & Gas Lease dated October 25, 2004 by and between The State of Texas by Wayne Moore, Independent Executor of the Eastate of Pearl Moore Carter, Lessor and Clay Johnson, Lessee, covering the S/2 of Section 4, the W/2 of Sections 10 & 15, the N/2 of Section 22, & all of Sections 23 & 24, in Block 99, Public School Land Survey, & all of Section 21, in Block 104, Public School Land Survey, Culberson County, Texas;

26) Relinquishment Act Oil & Gas Lease dated October 25, 2004 by and between The State of Texas by Wayne Moore, Independent Executor of the Eastate of Pearl Moore Carter, Lessor and Clay Johnson, Lessee, covering all of Sections 4, 5, 6, 7, 8, & 9, all in Block 100, Public School Land Survey, Culberson County, Texas;

27) Relinquishment Act Oil & Gas Lease dated October 25, 2004 by and between The State of Texas by Wayne Moore, Independent Executor of the Eastate of Pearl Moore Carter, Lessor and Clay Johnson, Lessee, covering all of Sections 16, 17, 18, 19, 20, & 21, all in Block 100, Public School Land Survey, Culberson County, Texas;

Please find Tom Brown, Inc. Check No. 460924 in the amount of $8,500.00 made payable to Texas General Land Office Commissioner representing payment in full of lease bonus consideration (1/2 due the State of Texas) for the above mentioned Oil & Gas Lease.

To cover required filing fees for handling this matter find enclosed Clay Johnson Check No. 6705 in the amount of $75.00 made payable to General Land Office – State of Texas.

Please acknowledge receipt of this letter and enclosures by signing, dating and returning one (1) copy of this letter in the enclosed self addressed-stamped envelope. If additional information is required, please do not hesitate to contact the undersigned. Thank you for your continued cooperation and courtesy in this matter.

Respectfully,

M. K. Brasuel

Mary Kay Brasuel

RECEIVED THIS _____ DAY OF _____, 2004

COMMISSIONER OF THE GENERAL LAND OFFICE STATE OF TEXAS

_____

Drew Reid

10-02-21

File No. MF10454C

Letter

Date Filed: 12/20/04

Jerry D. Patterson, Commissioner

By

57727

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 25th day of October, 2004, between the State of Texas, acting by and through its agent, Pacific Holdings, L.P. of 2741 Goose Landing, Pacific, Missouri 63069 said agent
(Give Permanent Address)

herein referred to as the owner of the soil (whether one or more), and CLAY JOHNSON of 203 W. Wall, Suite 202 Midland, Texas 79701
(Give Permanent Address)

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 Culberson County, State of Texas, to-wit:

Block 100, Public School Land Survey
Section 16: All
Section 17: All
Section 18: All
Section 19: All
Section 20: All
Section 21: All

Containing 3,840.00 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Thirty Thousand and No/100---------- Dollars ($ 30,000.00)

To the owner of the soil: Thirty Thousand and No/100---------- Dollars ($ 30,000.00)

Total bonus consideration: Sixty Thousand and No/100--------- Dollars ($ 60,000.00)

The total bonus consideration paid represents a bonus of Fifty and No/100---------- Dollars ($ 50.00) per acre, on 1,200.00 net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of Five (5) 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 Pay direct to Lessor at the above address Bank, at _____, 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: Six Hundred and No/100-------- Dollars ($ 600.00 *)
To the State of Texas: Six Hundred and No/100-------- Dollars ($ 6000.00 *)
Total Rental: One Thousand Two Hundred and No/100-------- Dollars ($ 1,200.00 **)

(*, ** See attached Exhibit "A" for Amended Delay Rental Provision)

A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK
ATTEST: November 2, 2004
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS
BY _____ DEPUTY

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 1/5th 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 1/5th 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 1/5th 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 1/5th 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 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.

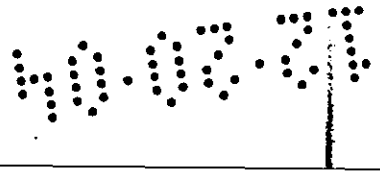
9. ROYALTY PAYMENTS AND REPORTS. All royalties not taken in kind shall be paid to the Commissioner of the General Land Office at Austin, Texas, in the following manner:

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 accruing 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 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 well 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 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 in 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 52.151-52.153, 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 right-of-ways 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 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 watertlood 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 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 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, Chapter 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 52.151-52.153. 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 INDENINIFIED 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 (I) A VIOLATION OF THE FOREGOING PROHIBITION OR (II) 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.

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.

40. See attached Exhibit "A" for additional provisions.

CLAY JOHNSON

Clay Johnson

DATE: 11-9-04

STATE OF TEXAS

PACIFIC HOLDINGS, L.P.

BY: _____
Individually and as agent for the State of Texas
Thomas E. Howard, Jr., member of general partner

TAX ID NO: [redacted]

DATE: 11/2/04

STATE OF TEXAS

BY: _____
Individually and as agent for the State of Texas

TAX ID NO: _____

DATE: _____

STATE OF TEXAS **(INDIVIDUAL ACKNOWLEDGMENT)**

COUNTY OF MIDLAND

Before me, the undersigned authority, on this day personally appeared **Clay Johnson** known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this the 9 day of November, 2004

M. K. Brasuel
Notary Public in and for the State of TEXAS

M K Brasuel
Notary Public, State of Texas
My Commission Expires:
October 19, 2008

STATE OF MISSOURI **(INDIVIDUAL ACKNOWLEDGMENT)**

COUNTY OF Franklin

Before me, the undersigned authority, on this 2 day of November, 2004, Personally appeared **Thomas E. Howard**, member of general partner of **Pacific Holdings, L.P.**, a Texas limited partnership, on behalf of said partnership, known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said partnership.

WITNESS my hand and official seal the day and year last above written.

Barbara L Sullivan
Notary Public in and for the State of MISSOURI

BARBARA L SULLIVAN
Notary Public - Notary Seal
STATE OF MISSOURI
FRANKLIN COUNTY
MY COMMISSION EXP. AUG. 30,2006

40.021

EXHIBIT "A"

ATTACHED TO AND MADE PART OF THAT CERTAIN OIL AND GAS LEASE
DATED OCTOBER 25, 2004, BY AND BETWEEN THE STATE OF TEXAS, ACTING BY AND
THROUGH ITS AGENT, PACIFIC HOLDINGS, L.P., AS LESSOR, AND CLAY JOHNSON, AS LESSEE

1. If, at the expiration of the primary term, this lease is being maintained in force under any provision of the lease, or within 180 days prior to the expiration of the primary term Lessee has completed a well as a dry hole or commenced a well on the leased premises or lands pooled therewith, or Lessee is then engaged in operations on the leased premises or lands pooled therewith, Lessee agrees to begin a continuous drilling program within 180 days after the end of the primary term or within 180 days after completion of such well or the cessation of such operations, whichever is the later date; and thereafter to carry on the continuous drilling program on the leased premises or lands pooled therewith until all proration units have been drilled, allowing not more than 180 days to elapse between the completion of one well and the commencement of the succeeding well. Should Lessee fail to begin the continuous drilling program or subsequently default in the performance thereof, then in either event, this lease shall terminate as to all lands covered hereby, save and except for the proration unit surrounding each well then producing, capable of producing or upon which operations are being conducted, limited, respectively, to those depths from the surface down to the stratigraphic equivalent of the depth 100 feet below the total depth drilled in any such proration unit. As used in this paragraph: i) the term "commission" means the Railroad Commission of the State of Texas or any successor agency, ii) the term "proration unit" means any acreage designated as a drilling unit or production unit in accordance with the rules of the commission (or any other governmental authority having jurisdiction) or any unit formed by pooling as provided in this lease or otherwise, iii) the terms "commenced" and "commencement" mean the date when a well is spudded, and iv) the terms "completed" and "completion" mean the date the initial potential test report is filed with the commission, if a productive well, or the date the plugging report is filed with the commission, if a dry hole. Notwithstanding the partial termination of this lease, Lessee shall continue to have the rights of ingress and egress across all of the leased premises to and from lands that remain subject to this lease, or lands pooled therewith, for the purposes described in paragraph 1 hereof, together with easements and rights of way for roads, pipelines, flowlines and other facilities on or across all of the leased premises for the exploration, development, production, gathering or transportation of oil, gas and other products from the lands still subject to this lease or lands pooled therewith. The sole liability or penalty for the failure of Lessee to drill any well or wells required or permitted by this lease shall be the termination or partial termination of Lessee's rights under the lease as provided above.

In conducting such continuous drilling program, Lessee shall be entitled to accumulate and later use time, if any, saved between wells, beginning with the second well under the continuous drilling program. If one well is commenced sooner than 180 days after the completion of the last preceding well, the portion of the prescribed 180 day period not used may be carried forward and added to the period between subsequent wells.

2. Amended Delay Rental Provision:

*As to any rentals that may be paid on or before the 1st, 2nd and 4th anniversary date.
In the event that delay rentals are paid on or before the 2nd anniversary date (and after the 3rd anniversary date), they shall be payable in the amount of $80.00.

**Except that if delay rentals are paid on or before the 3rd anniversary date (and after the 2nd anniversary date), the total rental paid shall be $8,000.00.

Notwithstanding anything herein to the contrary, Paragraph 5 (minimum royalty) and Paragraph 14 (shut-in royalty) refer to their computation to the delay rentals provided in Paragraph 3 herein. The undersigned do hereby recognize and acknowledge that minimum royalty and shut-in royalties due herein are payable in the amount of $160.00. Of such amount, $80.00 is payable to the owner of the soil as provided herein and $80.00 is payable to the State of Texas as provided herein.

File No. MF-104514

Lease A

Date Filed: 12/20/04

Jerry E. Patterson, Commissioner

By _____

4.

THE STATE OF TEXAS I
COUNTY OF CULBERSON I I, Linda McDonald, Clerk of the County Court in and for said County and State, do hereby certify that the foregoing is a true and correct copy of Oil & Gas Lease dated November 25, 2004 filed for record in my office this 24 day of Dec., 2004 at 8:00 A.M., under Clerk's File No. 57727, to be recorded in the Oil & Gas Records of Culberson County, Texas.

TO CERTIFY WHICH, Witness my hand and official seal at Van Horn, this 24 day of December, 2004

By Linda McDonald, Deputy. LINDA McDONALD, COUNTY CLERK CULBERSON COUNTY, TEXAS.

57727

FILED FOR RECORD
AT 8:00 O'CLOCK A M
ON THE 2 DAY OF Dec
A.D., 20 04

Linda McDonald
COUNTY CLERK, CULBERSON COUNTY, TEXAS
BY Linda Gonzales DEPUTY

STATE OF TEXAS
COUNTY OF CULBERSON
I hereby certify that this instrument was FILED on the date and at the time stamped hereon by me and was duly RECORDED in the Volume and Page of the _____ Records of Culberson County, Texas.

Linda McDonald
COUNTY CLERK, CULBERSON COUNTY, TEXAS

VOL. _____ PAGE _____

RECORDED _____

15.50.04

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

57739

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 25th day of October, 2004, between the State of Texas, acting by and through its agent, **Montgomery-Walker 1974 Trust** of C/O Charlotte Furman, 2909 E. 17th Street, Odessa, Texas 79761 said agent
(Give Permanent Address)

herein referred to as the owner of the soil (whether one or more), and **CLAY JOHNSON** of 203 W. Wall, Suite 202 Midland, Texas 79701
(Give Permanent Address)

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 Culberson County, State of Texas, to-wit:

Block 100, Public School Land Survey
Section 16: All
Section 17: All
Section 18: All
Section 19: All
Section 20: All
Section 21: All

Containing 3,840.00 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Twenty-four Thousand and No/100----------
Dollars ($ 24,000.00)

To the owner of the soil: Twenty-four Thousand and No/100----------
Dollars ($ 24,000.00)

Total bonus consideration: Forty-eight Thousand and No/100---------
Dollars ($ 48,000.00)

The total bonus consideration paid represents a bonus of Fifty and No/100----------
Dollars ($ 50.00) per acre, on 960.00 net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of Five (5) 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 Pay direct to Lessor at the above address Bank, at _____, 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: Four Hundred Eighty and No/100--------
Dollars ($ 480.00 *)
To the State of Texas: Four Hundred Eighty and No/100--------
Dollars ($ 480.00 *)
Total Rental: Nine Hundred Sixty and No/100--------
Dollars ($ 960.00 **)

(*, ** See attached Exhibit "A" for Amended Delay Rental Provision)

IF IT BEARS THE SEAL OF THE COUNTY CLERK A CERTIFIED COPY
ATTEST: December 8, 2004
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS
BY _____ DEPUTY

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 **1/5th** 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 **1/5th** 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 **1/5th** 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 **1/5th** 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 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.

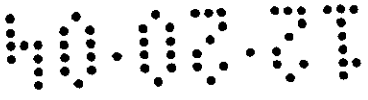
9. ROYALTY PAYMENTS AND REPORTS. All royalties not taken in kind shall be paid to the Commissioner of the General Land Office at Austin, Texas, in the following manner:

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 accruing 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 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 well 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 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 in 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 52.151-52.153, 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 right-of-ways 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 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 watertlood 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 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 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 I, Chapter 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 lease. 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 52.151-52.153. 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 INDENINIFIED 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 (I) A VIOLATION OF THE FOREGOING PROHIBITION OR (II) 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.

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.

40. See attached Exhibit "A" for additional provisions.

CLAY JOHNSON

Clay Johnson

DATE: 11-9-04

STATE OF TEXAS

MONTGOMERY-WALKER 1974 TRUST

BY: Charlotte Walker Furman, Trustee
Individually and as agent for the State of Texas
Charlotte Walker Furman, Trustee

TAX ID NO: [redacted]

DATE: 10-29-2004

STATE OF TEXAS

BY: _____
Individually and as agent for the State of Texas

TAX ID NO: _____

DATE: _____

STATE OF TEXAS **(INDIVIDUAL ACKNOWLEDGMENT)**

COUNTY OF MIDLAND

Before me, the undersigned authority, on this day personally appeared **Clay Johnson** known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this the 9 day of November, 2004.

M. K Brasuel
Notary Public in and for the State of TEXAS

M K Brasuel
Notary Public, State of Texas
My Commission Expires:
October 19, 2008

STATE OF TEXAS **(INDIVIDUAL ACKNOWLEDGMENT)**

COUNTY OF Ector

Before me, the undersigned authority, on this day personally appeared **Charlotte Walker Furman, Trustee of the Montgomery-Walker 1974 Trust**.

Given under my hand and seal of office this the 29th day of October, 2004.

Kristan Easter
Notary Public in and for the State of TEXAS

KRISTAN EASTER
Notary Public, State of Texas
My Commission Expires
APRIL 19, 2005

41-02-21

EXHIBIT "A"

ATTACHED TO AND MADE PART OF THAT CERTAIN OIL AND GAS LEASE DATED OCTOBER 25, 2004, BY AND BETWEEN THE STATE OF TEXAS, ACTING BY AND THROUGH ITS AGENT, MONTGOMERY-WALKER 1974 TRUST, AS LESSOR, AND CLAY JOHNSON, AS LESSEE

1. If, at the expiration of the primary term, this lease is being maintained in force under any provision of the lease, or within 180 days prior to the expiration of the primary term Lessee has completed a well as a dry hole or commenced a well on the leased premises or lands pooled therewith, or Lessee is then engaged in operations on the leased premises or lands pooled therewith, Lessee agrees to begin a continuous drilling program within 180 days after the end of the primary term or within 180 days after completion of such well or the cessation of such operations, whichever is the later date; and thereafter to carry on the continuous drilling program on the leased premises or lands pooled therewith until all proration units have been drilled, allowing not more than 180 days to elapse between the completion of one well and the commencement of the succeeding well. Should Lessee fail to begin the continuous drilling program or subsequently default in the performance thereof, then in either event, this lease shall terminate as to all lands covered hereby, save and except for the proration unit surrounding each well then producing, capable of producing or upon which operations are being conducted, limited, respectively, to those depths from the surface down to the stratigraphic equivalent of the depth 100 feet below the total depth drilled in any such proration unit. As used in this paragraph: i) the term "commission" means the Railroad Commission of the State of Texas or any successor agency, ii) the term "proration unit" means any acreage designated as a drilling unit or production unit in accordance with the rules of the commission (or any other governmental authority having jurisdiction) or any unit formed by pooling as provided in this lease or otherwise, iii) the terms "commenced" and "commencement" mean the date when a well is spudded, and iv) the terms "completed" and "completion" mean the date the initial potential test report is filed with the commission, if a productive well, or the date the plugging report is filed with the commission, if a dry hole. Notwithstanding the partial termination of this lease, Lessee shall continue to have the rights of ingress and egress across all of the leased premises to and from lands that remain subject to this lease, or lands pooled therewith, for the purposes described in paragraph 1 hereof, together with easements and rights of way for roads, pipelines, flowlines and other facilities on or across all of the leased premises for the exploration, development, production, gathering or transportation of oil, gas and other products from the lands still subject to this lease or lands pooled therewith. The sole liability or penalty for the failure of Lessee to drill any well or wells required or permitted by this lease shall be the termination or partial termination of Lessee's rights under the lease as provided above.

In conducting such continuous drilling program, Lessee shall be entitled to accumulate and later use time, if any, saved between wells, beginning with the second well under the continuous drilling program. If one well is commenced sooner than 180 days after the completion of the last preceding well, the portion of the prescribed 180 day period not used may be carried forward and added to the period between subsequent wells.

2. Amended Delay Rental Provision:

*As to any rentals that may be paid on or before the 1st, 2nd and 4th anniversary date.
In the event that delay rentals are paid on or before the 2nd anniversary date (and after the 3rd anniversary date), they shall be payable in the amount of $480.00.

**Except that if delay rentals are paid on or before the 3rd anniversary date (and after the 2nd anniversary date), the total rental paid shall be $48,000.00.

Notwithstanding anything herein to the contrary, Paragraph 5 (minimum royalty) and Paragraph 14 (shut-in royalty) refer to their computation to the delay rentals provided in Paragraph 3 herein. The undersigned do hereby recognize and acknowledge that minimum royalty and shut-in royalties due herein are payable in the amount of $960.00. Of such amount, $480.00 is payable to the owner of the soil as provided herein and $480.00 is payable to the State of Texas as provided herein.

40.02.21

File No. MF. 101544

4.

Lease B

Date Filed: 12/30/04

Jerry E. Patterson, Commissioner

By _____

THE STATE OF TEXAS I

COUNTY OF CULBERSON I I, Linda McDonald, Clerk of the County Court in and for said County and State, do hereby certify that the foregoing is a true and correct copy of Oil & Gas Lease dated October 25 2004

filed for record in my office this 2nd day of Dec. 2004 at 8:00 A M., under Clerk's File No. 57739, to be recorded in the Oil & Gas Records of Culberson County, Texas.

TO CERTIFY WHICH, Witness my hand and official seal at Van Horn, this 2nd day of December, A.D. 2004

By _____ Deputy.

LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS.

57739

FILED FOR RECORD
AT 8:00 O'CLOCK A M
ON THE 2 DAY OF Dec
A.D., 20 04

Linda McDonald
COUNTY CLERK, CULBERSON COUNTY, TEXAS
BY _____ DEPUTY

STATE OF TEXAS
COUNTY OF CULBERSON
I hereby certify that this instrument was FILED on the date and at the time stamped hereon by me and was duly RECORDED in the Volume and Page of the _____ Records of Culberson County, Texas.

Linda McDonald
COUNTY CLERK,
CULBERSON COUNTY, TEXAS

VOL. _____ PAGE _____

RECORDED _____

15.50.00

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

57735

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 25th day of October, 2004, between the State of Texas, acting by and through its agent, Wayne Moore, dealing in his sole and separate property of 403 N. Marienfeld, Midland, Texas 79701 said agent
(Give Permanent Address)

herein referred to as the owner of the soil (whether one or more), and CLAY JOHNSON of 203 W. Wall, Suite 202 Midland, Texas 79701
(Give Permanent Address)
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 Culberson County, State of Texas, to-wit:

Block 100, Public School Land Survey
Section 16: All
Section 17: All
Section 18: All
Section 19: All
Section 20: All
Section 21: All

Containing 3,840.00 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Twenty-four Thousand and No/100----------
Dollars ($ 24,000.00)

To the owner of the soil: Twenty-four Thousand and No/100----------
Dollars ($ 24,000.00)

Total bonus consideration: Forty-eight Thousand and No/100---------
Dollars ($ 48,000.00)

The total bonus consideration paid represents a bonus of Fifty and No/100----------
Dollars ($ 50.00) per acre, on 960.00 net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of Five (5) 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 Pay direct to Lessor at the above address Bank, at _____, 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: Four Hundred Eighty and No/100--------
Dollars ($ 480.00 *)
To the State of Texas: Four Hundred Eighty and No/100--------
Dollars ($ 480.00 *)
Total Rental: Nine Hundred Sixty and No/100--------
Dollars ($ 960.00 **)

(*, ** See attached Exhibit "A" for Amended Delay Rental Provision)

A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK
ATTEST: _____ 2004
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS
BY _____ DEPUTY

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 **1/5th** 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 **1/5th** 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 **1/5th** 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 **1/5th** 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 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 accruing 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 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 well 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 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 in 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 52.151-52.153, 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 right-of-ways 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 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 watertlood 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 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 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 I, Chapter 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 52.151-52.153. 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 INDENINIFIED 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 (I) A VIOLATION OF THE FOREGOING PROHIBITION OR (II) 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.

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.

10.02.21

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.

40. See attached Exhibit "A" for additional provisions.

CLAY JOHNSON

Clay Johnson

DATE: 11-9-04

STATE OF TEXAS

BY: _____
Individually and as agent for the State of Texas
Wayne Moore, dealing in his sole and separate property

TAX ID NO: [redacted]

DATE: 10-27-04

STATE OF TEXAS

BY: _____
Individually and as agent for the State of Texas

TAX ID NO: _____

DATE: _____

STATE OF TEXAS **(INDIVIDUAL ACKNOWLEDGMENT)**

COUNTY OF MIDLAND

Before me, the undersigned authority, on this day personally appeared **Clay Johnson** known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this the 9 day of November, 2004.

M. K Brasuel
Notary Public in and for the State of TEXAS

M K Brasuel
Notary Public, State of Texas
My Commission Expires:
October 19, 2008

STATE OF TEXAS **(INDIVIDUAL ACKNOWLEDGMENT)**

COUNTY OF MIDLAND

Before me, the undersigned authority, on this day personally appeared **Wayne Moore**, dealing in his sole and separate property known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this the 27th day of October, 2004.

Patricia L. Bane
Notary Public in and for the State of TEXAS

PATRICIA L. BANE
Notary Public, State of Texas
My Commission Expires
May 29, 2008

04.02.21

EXHIBIT "A"

ATTACHED TO AND MADE PART OF THAT CERTAIN OIL AND GAS LEASE
DATED OCTOBER 25, 2004, BY AND BETWEEN THE STATE OF TEXAS, ACTING BY AND
THROUGH ITS AGENT, WAYNE MOORE, AS LESSOR, AND
CLAY JOHNSON, AS LESSEE

1. If, at the expiration of the primary term, this lease is being maintained in force under any provision of the lease, or within 180 days prior to the expiration of the primary term Lessee has completed a well as a dry hole or commenced a well on the leased premises or lands pooled therewith, or Lessee is then engaged in operations on the leased premises or lands pooled therewith, Lessee agrees to begin a continuous drilling program within 180 days after the end of the primary term or within 180 days after completion of such well or the cessation of such operations, whichever is the later date; and thereafter to carry on the continuous drilling program on the leased premises or lands pooled therewith until all proration units have been drilled, allowing not more than 180 days to elapse between the completion of one well and the commencement of the succeeding well. Should Lessee fail to begin the continuous drilling program or subsequently default in the performance thereof, then in either event, this lease shall terminate as to all lands covered hereby, save and except for the proration unit surrounding each well then producing, capable of producing or upon which operations are being conducted, limited, respectively, to those depths from the surface down to the stratigraphic equivalent of the depth 100 feet below the total depth drilled in any such proration unit. As used in this paragraph: i) the term "commission" means the Railroad Commission of the State of Texas or any successor agency, ii) the term "proration unit" means any acreage designated as a drilling unit or production unit in accordance with the rules of the commission (or any other governmental authority having jurisdiction) or any unit formed by pooling as provided in this lease or otherwise, iii) the terms "commenced" and "commencement" mean the date when a well is spudded, and iv) the terms "completed" and "completion" mean the date the initial potential test report is filed with the commission, if a productive well, or the date the plugging report is filed with the commission, if a dry hole. Notwithstanding the partial termination of this lease, Lessee shall continue to have the rights of ingress and egress across all of the leased premises to and from lands that remain subject to this lease, or lands pooled therewith, for the purposes described in paragraph 1 hereof, together with easements and rights of way for roads, pipelines, flowlines and other facilities on or across all of the leased premises for the exploration, development, production, gathering or transportation of oil, gas and other products from the lands still subject to this lease or lands pooled therewith. The sole liability or penalty for the failure of Lessee to drill any well or wells required or permitted by this lease shall be the termination or partial termination of Lessee's rights under the lease as provided above.

In conducting such continuous drilling program, Lessee shall be entitled to accumulate and later use time, if any, saved between wells, beginning with the second well under the continuous drilling program. If one well is commenced sooner than 180 days after the completion of the last preceding well, the portion of the prescribed 180 day period not used may be carried forward and added to the period between subsequent wells.

2. Amended Delay Rental Provision:

*As to any rentals that may be paid on or before the 1st, 2nd and 4th anniversary date.
In the event that delay rentals are paid on or before the 2nd anniversary date (and after the 3rd anniversary date), they shall be payable in the amount of $480.00.

**Except that if delay rentals are paid on or before the 3rd anniversary date (and after the 2nd anniversary date), the total rental paid shall be $48,000.00.

Notwithstanding anything herein to the contrary, Paragraph 5 (minimum royalty) and Paragraph 14 (shut-in royalty) refer to their computation to the delay rentals provided in Paragraph 3 herein. The undersigned do hereby recognize and acknowledge that minimum royalty and shut-in royalties due herein are payable in the amount of $960.00. Of such amount, $480.00 is payable to the owner of the soil as provided herein and $480.00 is payable to the State of Texas as provided herein.

File No. MF. 104544

Lease

Date Filed: 12/20/04

Jerry E. Patterson, Commissioner

By _____

4

THE STATE OF TEXAS §
COUNTY OF CULBERSON § I, Linda McDonald, Clerk of the County Court in and for said County and State, do hereby certify that the foregoing is true and correct copy of Oil & Gas Lease dated October 25 2004 filed for record in my office this 2nd day of December, 2004 at 8:00 A.M., under Clerk's File No. 57735, to be recorded in the Oil & Gas Records of Culberson County, Texas.

TO CERTIFY WHICH, Witness my hand and official seal at Van Horn, this 2nd day of December, 2004

By Linda McDonald, Deputy.

LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS.

57735

FILED FOR RECORD
AT 8:00 O'CLOCK A M
ON THE 2 DAY OF Dec
A.D., 20 04

Linda McDonald
COUNTY CLERK, CULBERSON COUNTY, TEXAS

BY _____ DEPUTY

STATE OF TEXAS
COUNTY OF CULBERSON
I hereby certify that this instrument was FILED on the date and at the time stamped hereon by me and was duly RECORDED in the Volume and Page of the _____ Records of Culberson County, Texas.

Linda McDonald
COUNTY CLERK,
CULBERSON COUNTY, TEXAS

VOL. _____ PAGE _____

RECORDED _____

15.50.00

(A) General Land Office
Relinquishment Act Lease Form
Revised, September 1997

57720

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 25th day of October, 2004, between the State of Texas, acting by and through its agent, **Jo Grace Laird Flood**, dealing in her sole and separate property of 4731 Bonita Bay Blvd., Bonita Springs, Florida 34134 said agent
(Give Permanent Address)

herein referred to as the owner of the soil (whether one or more), and **CLAY JOHNSON** of 203 W. Wall, Suite 202 Midland, Texas 79701
(Give Permanent Address)

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 Culberson County, State of Texas, to-wit:

Block 100, Public School Land Survey
Section 16: All
Section 17: All
Section 18: All
Section 19: All
Section 20: All
Section 21: All

Containing 3,840.00 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Four Thousand and No/100---------- Dollars ($ 4,000.00)

To the owner of the soil: Four Thousand and No/100---------- Dollars ($ 4,000.00)

Total bonus consideration: Eight Thousand and No/100--------- Dollars ($ 8,000.00)

The total bonus consideration paid represents a bonus of Fifty and No/100---------- Dollars ($ 50.00) per acre, on 160.00 net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of Five (5) 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 Pay direct to Lessor at the above address Bank, at _____, 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: Eighty and No/100-------- Dollars ($ 80.00 *)
To the State of Texas: Eighty and No/100-------- Dollars ($ 80.00 *)
Total Rental: One Hundred Sixty and No/100-------- Dollars ($ 160.00 **)

(*, ** See attached Exhibit "A" for Amended Delay Rental Provision)

A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK
ATTEST: _____
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS
BY _____ DEPUTY

40.02.21

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 1/5th 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 1/5th 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 1/5th 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 1/5th 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 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 accruing 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 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 well 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 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 in 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 52.151-52.153, 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 right-of-ways 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 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 watertlood 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 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 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 I, Chapter 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 lease. 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.

40.02.21

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 52.151-52.153. 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 INDENINIFIED 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 (I) A VIOLATION OF THE FOREGOING PROHIBITION OR (II) 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.

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.

40. See attached Exhibit "A" for additional provisions.

CLAY JOHNSON

CLAY JOHNSON

DATE: 11-9-04

STATE OF TEXAS

BY: Jo Grace Laird Flood
Individually and as agent for the State of Texas
Jo Grace Laird Flood, dealing in her sole and separate property

TAX ID NO: [redacted]

DATE: October 28, 2004

STATE OF TEXAS

BY: _____
Individually and as agent for the State of Texas

TAX ID NO: _____

DATE: _____

STATE OF TEXAS **(INDIVIDUAL ACKNOWLEDGMENT)**

COUNTY OF MIDLAND

Before me, the undersigned authority, on this day personally appeared **Clay Johnson** known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this the 9 day of November, 2004.

M K Brasuel
Notary Public in and for the State of TEXAS

M K Brasuel
Notary Public, State of Texas
My Commission Expires:
October 19, 2008

STATE OF FLORIDA **(INDIVIDUAL ACKNOWLEDGMENT)**

COUNTY OF Lee

Before me, the undersigned authority, on this day personally appeared **Jo Grace Laird Flood**, dealing in her sole and separate property.

Given under my hand and seal of office this the 28 day of October, 2004.

Ralph H Kendall
Notary Public in and for the State of FLORIDA

RALPH H. KENDALL
MY COMMISSION EXPIRES
December 13, 2004
#CC 988852
Bonded thru
Notary Public Underwriters
NOTARY PUBLIC, STATE OF FLORIDA

40-02-21

EXHIBIT "A"

ATTACHED TO AND MADE PART OF THAT CERTAIN OIL AND GAS LEASE DATED OCTOBER 25, 2004, BY AND BETWEEN THE STATE OF TEXAS, ACTING BY AND THROUGH ITS AGENT, JO GRACE LAIRD FLOOD, AS LESSOR, AND CLAY JOHNSON, AS LESSEE

1. If, at the expiration of the primary term, this lease is being maintained in force under any provision of the lease, or within 180 days prior to the expiration of the primary term Lessee has completed a well as a dry hole or commenced a well on the leased premises or lands pooled therewith, or Lessee is then engaged in operations on the leased premises or lands pooled therewith, Lessee agrees to begin a continuous drilling program within 180 days after the end of the primary term or within 180 days after completion of such well or the cessation of such operations, whichever is the later date; and thereafter to carry on the continuous drilling program on the leased premises or lands pooled therewith until all proration units have been drilled, allowing not more than 180 days to elapse between the completion of one well and the commencement of the succeeding well. Should Lessee fail to begin the continuous drilling program or subsequently default in the performance thereof, then in either event, this lease shall terminate as to all lands covered hereby, save and except for the proration unit surrounding each well then producing, capable of producing or upon which operations are being conducted, limited, respectively, to those depths from the surface down to the stratigraphic equivalent of the depth 100 feet below the total depth drilled in any such proration unit. As used in this paragraph: i) the term "commission" means the Railroad Commission of the State of Texas or any successor agency, ii) the term "proration unit" means any acreage designated as a drilling unit or production unit in accordance with the rules of the commission (or any other governmental authority having jurisdiction) or any unit formed by pooling as provided in this lease or otherwise, iii) the terms "commenced" and "commencement" mean the date when a well is spudded, and iv) the terms "completed" and "completion" mean the date the initial potential test report is filed with the commission, if a productive well, or the date the plugging report is filed with the commission, if a dry hole. Notwithstanding the partial termination of this lease, Lessee shall continue to have the rights of ingress and egress across all of the leased premises to and from lands that remain subject to this lease, or lands pooled therewith, for the purposes described in paragraph 1 hereof, together with easements and rights of way for roads, pipelines, flowlines and other facilities on or across all of the leased premises for the exploration, development, production, gathering or transportation of oil, gas and other products from the lands still subject to this lease or lands pooled therewith. The sole liability or penalty for the failure of Lessee to drill any well or wells required or permitted by this lease shall be the termination or partial termination of Lessee's rights under the lease as provided above.

In conducting such continuous drilling program, Lessee shall be entitled to accumulate and later use time, if any, saved between wells, beginning with the second well under the continuous drilling program. If one well is commenced sooner than 180 days after the completion of the last preceding well, the portion of the prescribed 180 day period not used may be carried forward and added to the period between subsequent wells.

2. Amended Delay Rental Provision:

*As to any rentals that may be paid on or before the 1st, 2nd and 4th anniversary date.
In the event that delay rentals are paid on or before the 2nd anniversary date (and after the 3rd anniversary date), they shall be payable in the amount of $80.00.

**Except that if delay rentals are paid on or before the 3rd anniversary date (and after the 2nd anniversary date), the total rental paid shall be $8,000.00.

Notwithstanding anything herein to the contrary, Paragraph 5 (minimum royalty) and Paragraph 14 (shut-in royalty) refer to their computation to the delay rentals provided in Paragraph 3 herein. The undersigned do hereby recognize and acknowledge that minimum royalty and shut-in royalties due herein are payable in the amount of $160.00. Of such amount, $80.00 is payable to the owner of the soil as provided herein and $80.00 is payable to the State of Texas as provided herein.

File No. MF-104504

Lease D

Date Filed: 12/20/04

Jerry E. Patterson, Commissioner

By _____

C.

THE STATE OF TEXAS I

COUNTY OF CULBERSON I I, Linda McDonald, Clerk of the County Court in and for said County and State, do hereby certify that the foregoing is a true and correct copy of Oil & Gas Lease dated October 25 A.D. 2004

filed for record in my office this 2nd day of Dec. A.D. 2004 at 8:00 o'clock A M. under Clerk's File No. 57720, to be recorded in the Oil & Gas Records of Culberson County, Texas.

TO CERTIFY WHICH, Witness my hand and official seal at Van Horn, this 2nd day of December, A.D. 2004

LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS

By Linda McDonald, Deputy

57720

FILED FOR RECORD
AT 8:00 O'CLOCK A M
ON THE 2 DAY OF Dec
A.D., 20 04

Linda McDonald
COUNTY CLERK, CULBERSON COUNTY, TEXAS

BY _____ DEPUTY

STATE OF TEXAS
COUNTY OF CULBERSON
I hereby certify that this instrument was FILED on the date and at the time stamped hereon by me and was duly RECORDED in the Volume and Page of the _____ Records of Culberson County, Texas.

Linda McDonald
COUNTY CLERK
CULBERSON COUNTY, TEXAS

VOL. _____ PAGE _____

RECORDED _____

A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK

ATTEST: _____

LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS

BY _____ DEPUTY

15:50:04

(4)

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

57724

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 25th day of October, 2004, between the State of Texas, acting by and through its agent, Daniel Laird, dealing in his sole and separate property of 725 Canterbury Hill, San Antonio, Texas 78209 said agent

(Give Permanent Address)

herein referred to as the owner of the soil (whether one or more), and CLAY JOHNSON of 203 W. Wall, Suite 202 Midland, Texas 79701

(Give Permanent Address)

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 Culberson County, State of Texas, to-wit:

Block 100, Public School Land Survey
Section 16: All
Section 17: All
Section 18: All
Section 19: All
Section 20: All
Section 21: All

Containing 3,840.00 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Four Thousand and No/100---------- Dollars ($ 4,000.00)

To the owner of the soil: Four Thousand and No/100---------- Dollars ($ 4,000.00)

Total bonus consideration: Eight Thousand and No/100--------- Dollars ($ 8,000.00)

The total bonus consideration paid represents a bonus of Fifty and No/100---------- Dollars ($ 50.00) per acre, on 160.00 net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of Five (5) 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 Pay direct to Lessor at the above address Bank, at _____, 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: Eighty and No/100------- Dollars ($ 80.00 *)
To the State of Texas: Eighty and No/100-------- Dollars ($ 80.00 *)
Total Rental: One Hundred Sixty and No/100------- Dollars ($ 160.00 **)

(*, ** See attached Exhibit "A" for Amended Delay Rental Provision)

A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK
ATTEST: December 2, 2004
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS
BY _____ DEPUTY

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 1/5th 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 1/5th 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 1/5th 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 1/5th 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 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 accruing 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 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 well 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 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 in 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 52.151-52.153, 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 right-of-ways 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 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 watertlood 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 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 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 I, Chapter 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 52.151-52.153. 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 INDENINIFIED 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 (I) A VIOLATION OF THE FOREGOING PROHIBITION OR (II) 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.

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.

10-02-21

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.

40. See attached Exhibit "A" for additional provisions.

CLAY JOHNSON

Clay Johnson

DATE: 11-9-04

STATE OF TEXAS

BY: Daniel Laird
Individually and as agent for the State of Texas
Daniel Laird, dealing in his sole and separate property

TAX ID NO: [redacted]

DATE: 10-29-04

STATE OF TEXAS

BY: _____
Individually and as agent for the State of Texas

TAX ID NO: _____

DATE: _____

STATE OF TEXAS **(INDIVIDUAL ACKNOWLEDGMENT)**

COUNTY OF MIDLAND

Before me, the undersigned authority, on this day personally appeared **Clay Johnson** known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this the 29th day of October, 2004.

Karen Y. Gonzales
Notary Public in and for the State of TEXAS

KAREN Y. GONZALES
Notary Public
STATE OF TEXAS
My Comm. Exp. 06-22-2005

STATE OF TEXAS **(INDIVIDUAL ACKNOWLEDGMENT)**

COUNTY OF Bexar

Before me, the undersigned authority, on this day personally appeared **Daniel Laird**, dealing in his sole and separate property.

Given under my hand and seal of office this the 29th day of October, 2004.

Karen Y. Gonzales
Notary Public in and for the State of TEXAS

KAREN Y. GONZALES
Notary Public
STATE OF TEXAS
My Comm. Exp. 06-22-2005

41.021

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.

40. See attached Exhibit "A" for additional provisions.

CLAY JOHNSON

_____

DATE:_____

STATE OF TEXAS

BY:_____
Individually and as agent for the State of Texas
Daniel Laird, dealing in his sole and separate property

TAX ID NO: _____

DATE:_____

STATE OF TEXAS

BY:_____
Individually and as agent for the State of Texas

TAX ID NO: _____

DATE:_____

STATE OF TEXAS **(INDIVIDUAL ACKNOWLEDGMENT)**

COUNTY OF MIDLAND

Before me, the undersigned authority, on this day personally appeared **Clay Johnson** known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this the 9 day of November, 2004.

M. K. Brasuel
Notary Public in and for the State of TEXAS

M K Brasuel
Notary Public, State of Texas
My Commission Expires:
October 19, 2008

STATE OF TEXAS **(INDIVIDUAL ACKNOWLEDGMENT)**

COUNTY OF

Before me, the undersigned authority, on this day personally appeared **Daniel Laird**, dealing in his sole and separate property.

Given under my hand and seal of office this the _____ day of _____, 2004.

_____
Notary Public in and for the State of TEXAS

10.02.21

EXHIBIT "A"

ATTACHED TO AND MADE PART OF THAT CERTAIN OIL AND GAS LEASE DATED OCTOBER 25, 2004, BY AND BETWEEN THE STATE OF TEXAS, ACTING BY AND THROUGH ITS AGENT, DANIEL LAIRD, AS LESSOR, AND CLAY JOHNSON, AS LESSEE

1. If, at the expiration of the primary term, this lease is being maintained in force under any provision of the lease, or within 180 days prior to the expiration of the primary term Lessee has completed a well as a dry hole or commenced a well on the leased premises or lands pooled therewith, or Lessee is then engaged in operations on the leased premises or lands pooled therewith, Lessee agrees to begin a continuous drilling program within 180 days after the end of the primary term or within 180 days after completion of such well or the cessation of such operations, whichever is the later date; and thereafter to carry on the continuous drilling program on the leased premises or lands pooled therewith until all proration units have been drilled, allowing not more than 180 days to elapse between the completion of one well and the commencement of the succeeding well. Should Lessee fail to begin the continuous drilling program or subsequently default in the performance thereof, then in either event, this lease shall terminate as to all lands covered hereby, save and except for the proration unit surrounding each well then producing, capable of producing or upon which operations are being conducted, limited, respectively, to those depths from the surface down to the stratigraphic equivalent of the depth 100 feet below the total depth drilled in any such proration unit. As used in this paragraph: i) the term "commission" means the Railroad Commission of the State of Texas or any successor agency, ii) the term "proration unit" means any acreage designated as a drilling unit or production unit in accordance with the rules of the commission (or any other governmental authority having jurisdiction) or any unit formed by pooling as provided in this lease or otherwise, iii) the terms "commenced" and "commencement" mean the date when a well is spudded, and iv) the terms "completed" and "completion" mean the date the initial potential test report is filed with the commission, if a productive well, or the date the plugging report is filed with the commission, if a dry hole. Notwithstanding the partial termination of this lease, Lessee shall continue to have the rights of ingress and egress across all of the leased premises to and from lands that remain subject to this lease, or lands pooled therewith, for the purposes described in paragraph 1 hereof, together with easements and rights of way for roads, pipelines, flowlines and other facilities on or across all of the leased premises for the exploration, development, production, gathering or transportation of oil, gas and other products from the lands still subject to this lease or lands pooled therewith. The sole liability or penalty for the failure of Lessee to drill any well or wells required or permitted by this lease shall be the termination or partial termination of Lessee's rights under the lease as provided above.

In conducting such continuous drilling program, Lessee shall be entitled to accumulate and later use time, if any, saved between wells, beginning with the second well under the continuous drilling program. If one well is commenced sooner than 180 days after the completion of the last preceding well, the portion of the prescribed 180 day period not used may be carried forward and added to the period between subsequent wells.

2. Amended Delay Rental Provision:

*As to any rentals that may be paid on or before the 1st, 2nd and 4th anniversary date.
In the event that delay rentals are paid on or before the 2nd anniversary date (and after the 3rd anniversary date), they shall be payable in the amount of $80.00.

**Except that if delay rentals are paid on or before the 3rd anniversary date (and after the 2nd anniversary date), the total rental paid shall be $8,000.00.

Notwithstanding anything herein to the contrary, Paragraph 5 (minimum royalty) and Paragraph 14 (shut-in royalty) refer to their computation to the delay rentals provided in Paragraph 3 herein. The undersigned do hereby recognize and acknowledge that minimum royalty and shut-in royalties due herein are payable in the amount of $160.00. Of such amount, $80.00 is payable to the owner of the soil as provided herein and $80.00 is payable to the State of Texas as provided herein.

40.02.21

File No. ME- 104544

Lease E

Date Filed: 12/20/04

Jerry E. Patterson, Commissioner

By _____

4.

THE STATE OF TEXAS I

COUNTY OF CULBERSON I I, Linda ~~Orlas~~, Clerk of the County Court in and for said County and State, do hereby certify that the foregoing is a true and correct copy of Oil & Gas Lease dated October 25 19 2004, filed for record in my office this 2nd day of Dec. 19 2004 at 8:00 A.M., under Clerk's File No. 57724, as the same is recorded in the Oil & Gas Records of Culberson County, Texas.

TO CERTIFY WHICH, Witness my hand and official seal at Van Horn, this 2nd day of December, 19 2004

By Linda McDonald Deputy

LINDA ~~ORLAS~~ McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS.

57724

FILED FOR RECORD
AT 8:00 O'CLOCK A M
ON THE 2 DAY OF Dec
A.D., 20 04

Linda McDonald
COUNTY CLERK, CULBERSON COUNTY, TEXAS
BY Laurie Young DEPUTY

STATE OF TEXAS
COUNTY OF CULBERSON
I hereby certify that this instrument was FILED on the date and at the time stamped hereon by me and was duly RECORDED in the Volume and Page of the _____ Records of Culberson County, Texas.

Linda McDonald
COUNTY CLERK,
CULBERSON COUNTY, TEXAS

VOL. _____ PAGE _____

RECORDED _____

A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK
ATTEST: _____
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS
BY _____ DEPUTY

15.50.00

(1)

57731

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 25th day of October, 2004, between the State of Texas, acting by and through its agent, **Wayne Moore, Independent Executor of the Estate of Pearl Moore Carter** of 403 N. Marienfeld, Midland, Texas 79701 said agent

(Give Permanent Address)

herein referred to as the owner of the soil (whether one or more), and **CLAY JOHNSON** of 203 W. Wall, Suite 202 Midland, Texas 79701

(Give Permanent Address)

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 Culberson County, State of Texas, to-wit:

Block 100, Public School Land Survey
Section 16: All
Section 17: All
Section 18: All
Section 19: All
Section 20: All
Section 21: All

Containing 3,840.00 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Three Thousand and No/100---------- Dollars ($ 3,000.00)

To the owner of the soil: Three Thousand and No/100---------- Dollars ($ 3,000.00)

Total bonus consideration: Six Thousand and No/100-------- Dollars ($ 6,000.00)

The total bonus consideration paid represents a bonus of Fifty and No/100---------- Dollars ($ 50.00) per acre, on 120.00 net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of Five (5) 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 Pay direct to Lessor at the above address Bank, at _____, 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: Sixty and No/100-------- Dollars ($ 60.00 *)
To the State of Texas: Sixty and No/100-------- Dollars ($ 60.00 *)
Total Rental: One Hundred Twenty and No/100-------- Dollars ($ 120.00 **)

(*, ** See attached Exhibit "A" for Amended Delay Rental Provision)

A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK
ATTEST: December 2, 2004
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS
BY _____ DEPUTY

40.0.21

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 **1/5th** 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 **1/5th** 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 **1/5th** 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 **1/5th** 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 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 accruing 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 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 well 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 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 in 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 52.151-52.153, 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 right-of-ways 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 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 watertlood 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 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 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 I, Chapter 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 52.151-52.153. 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 INDENINIFIED 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 (I) A VIOLATION OF THE FOREGOING PROHIBITION OR (II) 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.

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.

40. See attached Exhibit "A" for additional provisions.

CLAY JOHNSON

Clay Johnson

DATE: 11-9-04

STATE OF TEXAS

BY: _____
Individually and as agent for the State of Texas
Wayne Moore, Independent Executor of the Estate of Pearl Moore Carter

TAX ID NO: [redacted]

DATE: 10-27-04

STATE OF TEXAS

BY: _____
Individually and as agent for the State of Texas

TAX ID NO: _____

DATE: _____

STATE OF TEXAS **(INDIVIDUAL ACKNOWLEDGMENT)**

COUNTY OF MIDLAND

Before me, the undersigned authority, on this day personally appeared **Clay Johnson** known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this the 9 day of November, 2004.

M. K. Brasuel
Notary Public in and for the State of TEXAS

M K Brasuel
Notary Public, State of Texas
My Commission Expires:
October 19, 2008

STATE OF TEXAS **(INDIVIDUAL ACKNOWLEDGMENT)**

COUNTY OF Midland

Before me, the undersigned authority, on this day personally appeared **Wayne Moore, Independent Executor of the Estate of Pearl Moore Carter**.

Given under my hand and seal of office this the 27th day of October, 2004.

Patricia L. Bane
Notary Public in and for the State of TEXAS

PATRICIA L. BANE
Notary Public, State of Texas
My Commission Expires
May 29, 2008

04-02-21

EXHIBIT "A"

ATTACHED TO AND MADE PART OF THAT CERTAIN OIL AND GAS LEASE DATED OCTOBER 25, 2004, BY AND BETWEEN THE STATE OF TEXAS, ACTING BY AND THROUGH ITS AGENT, WAYNE MOORE, INDEPENDENT EXECUTOR OF THE ESTATE OF PEARL MOORE CARTER, AS LESSOR, AND CLAY JOHNSON, AS LESSEE

1. If, at the expiration of the primary term, this lease is being maintained in force under any provision of the lease, or within 180 days prior to the expiration of the primary term Lessee has completed a well as a dry hole or commenced a well on the leased premises or lands pooled therewith, or Lessee is then engaged in operations on the leased premises or lands pooled therewith, Lessee agrees to begin a continuous drilling program within 180 days after the end of the primary term or within 180 days after completion of such well or the cessation of such operations, whichever is the later date; and thereafter to carry on the continuous drilling program on the leased premises or lands pooled therewith until all proration units have been drilled, allowing not more than 180 days to elapse between the completion of one well and the commencement of the succeeding well. Should Lessee fail to begin the continuous drilling program or subsequently default in the performance thereof, then in either event, this lease shall terminate as to all lands covered hereby, save and except for the proration unit surrounding each well then producing, capable of producing or upon which operations are being conducted, limited, respectively, to those depths from the surface down to the stratigraphic equivalent of the depth 100 feet below the total depth drilled in any such proration unit. As used in this paragraph: i) the term "commission" means the Railroad Commission of the State of Texas or any successor agency, ii) the term "proration unit" means any acreage designated as a drilling unit or production unit in accordance with the rules of the commission (or any other governmental authority having jurisdiction) or any unit formed by pooling as provided in this lease or otherwise, iii) the terms "commenced" and "commencement" mean the date when a well is spudded, and iv) the terms "completed" and "completion" mean the date the initial potential test report is filed with the commission, if a productive well, or the date the plugging report is filed with the commission, if a dry hole. Notwithstanding the partial termination of this lease, Lessee shall continue to have the rights of ingress and egress across all of the leased premises to and from lands that remain subject to this lease, or lands pooled therewith, for the purposes described in paragraph 1 hereof, together with easements and rights of way for roads, pipelines, flowlines and other facilities on or across all of the leased premises for the exploration, development, production, gathering or transportation of oil, gas and other products from the lands still subject to this lease or lands pooled therewith. The sole liability or penalty for the failure of Lessee to drill any well or wells required or permitted by this lease shall be the termination or partial termination of Lessee's rights under the lease as provided above.

In conducting such continuous drilling program, Lessee shall be entitled to accumulate and later use time, if any, saved between wells, beginning with the second well under the continuous drilling program. If one well is commenced sooner than 180 days after the completion of the last preceding well, the portion of the prescribed 180 day period not used may be carried forward and added to the period between subsequent wells.

2. Amended Delay Rental Provision:

*As to any rentals that may be paid on or before the 1st, 2nd and 4th anniversary date.
In the event that delay rentals are paid on or before the 2nd anniversary date (and after the 3rd anniversary date), they shall be payable in the amount of $60.00.

**Except that if delay rentals are paid on or before the 3rd anniversary date (and after the 2nd anniversary date), the total rental paid shall be $6,000.00.

Notwithstanding anything herein to the contrary, Paragraph 5 (minimum royalty) and Paragraph 14 (shut-in royalty) refer to their computation to the delay rentals provided in Paragraph 3 herein. The undersigned do hereby recognize and acknowledge that minimum royalty and shut-in royalties due herein are payable in the amount of $120.00. Of such amount, $60.00 is payable to the owner of the soil as provided herein and $60.00 is payable to the State of Texas as provided herein.

File No. MF-104544

Lease F

Date Filed: 12/2/04

Jerry E. Patterson, Commissioner

By _____

4.

THE STATE OF TEXAS I

COUNTY OF CULBERSON I I, Linda McDonald, Clerk of the County Court in and for said County and State, do hereby certify that the foregoing has ~~is~~ attached correct copy of Oil & Gas Lease dated October 25 2004

2004 at 8:00 A.M. under Clerk's File No. 57731, to be recorded in the Oil & Gas Records of Culberson County, Texas.

TO CERTIFY WHICH, Witness my hand and official seal at Van Horn, this 2nd day of December, 2004

Linda McDonald, Deputy

LINDA ~~SHEAR~~ McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS.

57731

FILED FOR RECORD
AT 8:00 O'CLOCK A M
ON THE 2 DAY OF Dec
A.D., 20 04

Linda McDonald
COUNTY CLERK, CULBERSON COUNTY, TEXAS
BY Lourine Arroyo DEPUTY

STATE OF TEXAS
COUNTY OF CULBERSON
I hereby certify that this instrument was FILED on the date and at the time stamped hereon by me and was duly RECORDED in the Volume and Page of the _____ Records of Culberson County, Texas.

Linda McDonald
COUNTY CLERK,
CULBERSON COUNTY, TEXAS

VOL _____ PAGE _____

RECORDED _____

13:50:04

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

57734

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 25th day of October, 2004, between the State of Texas, acting by and through its agent, **Charlotte Walker Furman**, dealing in her sole and separate proeprty of 2909 E. 17th Street, Odessa, Texas 79761 said agent

(Give Permanent Address)

herein referred to as the owner of the soil (whether one or more), and **CLAY JOHNSON** of 203 W. Wall, Suite 202 Midland, Texas 79701

(Give Permanent Address)

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 Culberson County, State of Texas, to-wit:

Block 100, Public School Land Survey
Section 16: All
Section 17: All
Section 18: All
Section 19: All
Section 20: All
Section 21: All

Containing 3,840.00 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Three Thousand and No/100---------- Dollars ($ 3,000.00)

To the owner of the soil: Three Thousand and No/100---------- Dollars ($ 3,000.00)

Total bonus consideration: Six Thousand and No/100-------- Dollars ($ 6,000.00)

The total bonus consideration paid represents a bonus of Fifty and No/100---------- Dollars ($ 50.00) per acre, on 120.00 net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of Five (5) 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 Pay direct to Lessor at the above address Bank, at _____, 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: Sixty and No/100-------- Dollars ($ 60.00 *)
To the State of Texas: Sixty and No/100-------- Dollars ($ 60.00 *)
Total Rental: One Hundred Twenty and No/100------- Dollars ($ 120.00 **)

(*, ** See attached Exhibit "A" for Amended Delay Rental Provision)

A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK
ATTEST: December 2, 2004
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS
BY _____ DEPUTY

10-02-21

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 **1/5th** 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 **1/5th** 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 **1/5th** 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 **1/5th** 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 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

40-02-71

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 accruing 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 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.

10-02-21

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 well 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 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 in 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.

40-02-21

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 52.151-52.153, 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 right-of-ways 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 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.

40.02.21

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 watertlood 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 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.

40002-21

(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 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 I, Chapter 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.

40-02-21

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 52.151-52.153. 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 INDENINIFIED 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 (I) A VIOLATION OF THE FOREGOING PROHIBITION OR (II) 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.

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.

40.02.21

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.

40. See attached Exhibit "A" for additional provisions.

CLAY JOHNSON

Clay Johnson

DATE: 11-9-04

STATE OF TEXAS

BY: Charlotte Walker Furman
Individually and as agent for the State of Texas
Charlotte Walker Furman, dealing in her sole and separate proeprty

TAX ID NO: [redacted]

DATE: 3-29-2004

STATE OF TEXAS

BY: _____
Individually and as agent for the State of Texas

TAX ID NO: _____

DATE: _____

STATE OF TEXAS **(INDIVIDUAL ACKNOWLEDGMENT)**

COUNTY OF MIDLAND

Before me, the undersigned authority, on this day personally appeared **Clay Johnson** known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this the 9 day of November, 2004.

M. K. Brasuel
Notary Public in and for the State of TEXAS

M K Brasuel
Notary Public, State of Texas
My Commission Expires:
October 19, 2008

STATE OF TEXAS **(INDIVIDUAL ACKNOWLEDGMENT)**

COUNTY OF Ector

Before me, the undersigned authority, on this day personally appeared **Charlotte Walker Furman,** dealing in her sole and separate property.

Given under my hand and seal of office this the 29th day of October, 2004.

Kristan Easter
Notary Public in and for the State of TEXAS

KRISTAN EASTER
Notary Public, State of Texas
My Commission Expires
APRIL 19, 2005

40-02-21

EXHIBIT "A"

ATTACHED TO AND MADE PART OF THAT CERTAIN OIL AND GAS LEASE DATED OCTOBER 25, 2004, BY AND BETWEEN THE STATE OF TEXAS, ACTING BY AND THROUGH ITS AGENT, CHARLOTTE WALKER FURMAN, AS LESSOR, AND CLAY JOHNSON, AS LESSEE

1. If, at the expiration of the primary term, this lease is being maintained in force under any provision of the lease, or within 180 days prior to the expiration of the primary term Lessee has completed a well as a dry hole or commenced a well on the leased premises or lands pooled therewith, or Lessee is then engaged in operations on the leased premises or lands pooled therewith, Lessee agrees to begin a continuous drilling program within 180 days after the end of the primary term or within 180 days after completion of such well or the cessation of such operations, whichever is the later date; and thereafter to carry on the continuous drilling program on the leased premises or lands pooled therewith until all proration units have been drilled, allowing not more than 180 days to elapse between the completion of one well and the commencement of the succeeding well. Should Lessee fail to begin the continuous drilling program or subsequently default in the performance thereof, then in either event, this lease shall terminate as to all lands covered hereby, save and except for the proration unit surrounding each well then producing, capable of producing or upon which operations are being conducted, limited, respectively, to those depths from the surface down to the stratigraphic equivalent of the depth 100 feet below the total depth drilled in any such proration unit. As used in this paragraph: i) the term "commission" means the Railroad Commission of the State of Texas or any successor agency, ii) the term "proration unit" means any acreage designated as a drilling unit or production unit in accordance with the rules of the commission (or any other governmental authority having jurisdiction) or any unit formed by pooling as provided in this lease or otherwise, iii) the terms "commenced" and "commencement" mean the date when a well is spudded, and iv) the terms "completed" and "completion" mean the date the initial potential test report is filed with the commission, if a productive well, or the date the plugging report is filed with the commission, if a dry hole. Notwithstanding the partial termination of this lease, Lessee shall continue to have the rights of ingress and egress across all of the leased premises to and from lands that remain subject to this lease, or lands pooled therewith, for the purposes described in paragraph 1 hereof, together with easements and rights of way for roads, pipelines, flowlines and other facilities on or across all of the leased premises for the exploration, development, production, gathering or transportation of oil, gas and other products from the lands still subject to this lease or lands pooled therewith. The sole liability or penalty for the failure of Lessee to drill any well or wells required or permitted by this lease shall be the termination or partial termination of Lessee's rights under the lease as provided above.

In conducting such continuous drilling program, Lessee shall be entitled to accumulate and later use time, if any, saved between wells, beginning with the second well under the continuous drilling program. If one well is commenced sooner than 180 days after the completion of the last preceding well, the portion of the prescribed 180 day period not used may be carried forward and added to the period between subsequent wells.

2. Amended Delay Rental Provision:

*As to any rentals that may be paid on or before the 1st, 2nd and 4th anniversary date.
In the event that delay rentals are paid on or before the 2nd anniversary date (and after the 3rd anniversary date), they shall be payable in the amount of $60.00.

**Except that if delay rentals are paid on or before the 3rd anniversary date (and after the 2nd anniversary date), the total rental paid shall be $6,000.00.

Notwithstanding anything herein to the contrary, Paragraph 6 (minimum royalty) and Paragraph 14 (shut-in royalty) refer to their computation to the delay rentals provided in Paragraph 3 herein. The undersigned do hereby recognize and acknowledge that minimum royalty and shut-in royalties due herein are payable in the amount of $120.00. Of such amount, $60.00 is payable to the owner of the soil as provided herein and $60.00 is payable to the State of Texas as provided herein.

40.02.21

File No. MF-10454

Lease G

Date Filed: 12/20/04

Jerry E. Patterson, Commissioner

By _____

4.

THE STATE OF TEXAS I
COUNTY OF CULBERSON I I, Linda ~~Colon~~ McDonald Clerk of the County Court in and for said County and State, do hereby certify that the foregoing is a true and correct copy of Oil & Gas Lease dated October 25 2004

filed for record in my office this 2nd day of Dec. 2004 at 8:00 A.M., under Clerk's File No 57734, to be recorded in the Oil & Gas Records of Culberson County, Texas.

TO CERTIFY WHICH, Witness my hand and official seal at Van Horn, this 2nd day of December, 2004

By Linda McDonald, ~~Deputy.~~

LINDA ~~COLON~~ McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS.

57734

FILED FOR RECORD
AT 8:00 O'CLOCK A M
ON THE 2 DAY OF Dec
A.D., 20 04

Linda McDonald
COUNTY CLERK, CULBERSON COUNTY, TEXAS
BY Linda McDonald DEPUTY

STATE OF TEXAS
COUNTY OF CULBERSON
I hereby certify that this instrument was FILED on the date and at the time stamped hereon by me and was duly RECORDED in the Volume and Page of the _____ Records of Culberson County, Texas.

Linda McDonald
COUNTY CLERK,
CULBERSON COUNTY, TEXAS

VOL. _____ PAGE _____
RECORDED _____

15-30-W

(X)

5712

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 25th day of October, 2004, between the State of Texas, acting by and through its agent, Donald Richardson, dealing in his sole and separate property of 1040 Walton Place, Shreveport, Louisiana 71106 said agent
(Give Permanent Address)

herein referred to as the owner of the soil (whether one or more), and CLAY JOHNSON of 203 W. Wall, Suite 202 Midland, Texas 79701
(Give Permanent Address)

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 Culberson County, State of Texas, to-wit:

Block 100, Public School Land Survey
Section 16: All
Section 17: All
Section 18: All
Section 19: All
Section 20: All
Section 21: All

Containing 3,840.00 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: One Thousand and No/100---------- Dollars ($ 1,000.00)

To the owner of the soil: One Thousand and No/100---------- Dollars ($ 1,000.00)

Total bonus consideration: Two Thousand and No/100-------- Dollars ($ 2,000.00)

The total bonus consideration paid represents a bonus of Fifty and No/100---------- Dollars ($ 50.00) per acre, on 40.00 net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of Five (5) 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 Pay direct to Lessor at the above address Bank, at _____, 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 and No/100-------- Dollars ($ 20.00 *)

To the State of Texas: Twenty and No/100-------- Dollars ($ 20.00 *)

Total Rental: Forty and No/100-------- Dollars ($ 40.00 **)

(*, ** See attached Exhibit "A" for Amended Delay Rental Provision)

A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK
ATTEST: _____, 20__
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS
BY _____ DEPUTY

10-02-21

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 1/5th 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 1/5th 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 1/5th 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 1/5th 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 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 accruing 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 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 well 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 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 in 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 52.151-52.153, 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 right-of-ways 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 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 watertlood 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 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 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 I, Chapter 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 lease. 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.

10-12-21

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 52.151-52.153. 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 INDENINIFIED 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 (I) A VIOLATION OF THE FOREGOING PROHIBITION OR (II) 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.

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.

40. See attached Exhibit "A" for additional provisions.

CLAY JOHNSON

Clay Johnson

DATE: 11.12.04

STATE OF TEXAS

BY: _____
Individually and as agent for the State of Texas
Donald Richardson, dealing in his sole and separate property

TAX ID NO: _____

DATE: _____

STATE OF TEXAS

BY: _____
Individually and as agent for the State of Texas

TAX ID NO: _____

DATE: _____

STATE OF TEXAS **(INDIVIDUAL ACKNOWLEDGMENT)**

COUNTY OF MIDLAND

Before me, the undersigned authority, on this day personally appeared **Clay Johnson** known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this the 12 day of November, 2004.

M K Brasuel
Notary Public in and for the State of TEXAS

M K Brasuel
Notary Public, State of Texas
My Commission Expires:
October 19, 2008

STATE OF LOUISIANA **(INDIVIDUAL ACKNOWLEDGMENT)**

~~COUNTY~~ PARISH OF Caddo

Before me, the undersigned authority, on this day personally appeared **Donald Richardson**, dealing in his sole and separate property.

Given under my hand and seal of office this the 5 day of November, 2004.

Notary Public in and for the State of LOUISIANA

[illegible] NOTARY PUBLIC
[illegible] PARISHES, LA.
MY COMMISSION IS FOR LIFE

EXHIBIT "A"

ATTACHED TO AND MADE PART OF THAT CERTAIN OIL AND GAS LEASE
DATED OCTOBER 25, 2004, BY AND BETWEEN THE STATE OF TEXAS, ACTING BY AND
THROUGH ITS AGENT, DONALD RICHARDSON, AS LESSOR, AND
CLAY JOHNSON, AS LESSEE

1. If, at the expiration of the primary term, this lease is being maintained in force under any provision of the lease, or within 180 days prior to the expiration of the primary term Lessee has completed a well as a dry hole or commenced a well on the leased premises or lands pooled therewith, or Lessee is then engaged in operations on the leased premises or lands pooled therewith, Lessee agrees to begin a continuous drilling program within 180 days after the end of the primary term or within 180 days after completion of such well or the cessation of such operations, whichever is the later date; and thereafter to carry on the continuous drilling program on the leased premises or lands pooled therewith until all proration units have been drilled, allowing not more than 180 days to elapse between the completion of one well and the commencement of the succeeding well. Should Lessee fail to begin the continuous drilling program or subsequently default in the performance thereof, then in either event, this lease shall terminate as to all lands covered hereby, save and except for the proration unit surrounding each well then producing, capable of producing or upon which operations are being conducted, limited, respectively, to those depths from the surface down to the stratigraphic equivalent of the depth 100 feet below the total depth drilled in any such proration unit. As used in this paragraph: i) the term "commission" means the Railroad Commission of the State of Texas or any successor agency, ii) the term "proration unit" means any acreage designated as a drilling unit or production unit in accordance with the rules of the commission (or any other governmental authority having jurisdiction) or any unit formed by pooling as provided in this lease or otherwise, iii) the terms "commenced" and "commencement" mean the date when a well is spudded, and iv) the terms "completed" and "completion" mean the date the initial potential test report is filed with the commission, if a productive well, or the date the plugging report is filed with the commission, if a dry hole. Notwithstanding the partial termination of this lease, Lessee shall continue to have the rights of ingress and egress across all of the leased premises to and from lands that remain subject to this lease, or lands pooled therewith, for the purposes described in paragraph 1 hereof, together with easements and rights of way for roads, pipelines, flowlines and other facilities on or across all of the leased premises for the exploration, development, production, gathering or transportation of oil, gas and other products from the lands still subject to this lease or lands pooled therewith. The sole liability or penalty for the failure of Lessee to drill any well or wells required or permitted by this lease shall be the termination or partial termination of Lessee's rights under the lease as provided above.

In conducting such continuous drilling program, Lessee shall be entitled to accumulate and later use time, if any, saved between wells, beginning with the second well under the continuous drilling program. If one well is commenced sooner than 180 days after the completion of the last preceding well, the portion of the prescribed 180 day period not used may be carried forward and added to the period between subsequent wells.

2. Amended Delay Rental Provision:

*As to any rentals that may be paid on or before the 1st, 2nd and 4th anniversary date.
In the event that delay rentals are paid on or before the 2nd anniversary date (and after the 3rd anniversary date), they shall be payable in the amount of $20.00.

**Except that if delay rentals are paid on or before the 3rd anniversary date (and after the 2nd anniversary date), the total rental paid shall be $2,000.00.

Notwithstanding anything herein to the contrary, Paragraph 5 (minimum royalty) and Paragraph 14 (shut-in royalty) refer to their computation to the delay rentals provided in Paragraph 3 herein. The undersigned do hereby recognize and acknowledge that minimum royalty and shut-in royalties due herein are payable in the amount of $40.00. Of such amount, $20.00 is payable to the owner of the soil as provided herein and $20.00 is payable to the State of Texas as provided herein.

40,062.21

File No. MF-104544

Lease #

Date Filed: 12/20/04

Jerry E. Patterson, Commissioner

By _____

4.

THE STATE OF TEXAS §
COUNTY OF CULBERSON §

I, Linda McDonald, Clerk of the County Court in and for said County and State, do hereby certify that the foregoing is a true and correct copy of O&G Lease dated October 25 2004 as same appears of record in my office.

Filed for record in my office this 2nd day of Dec 2004 at 8:00 A.M. under Clerk's File No. 57712, to be recorded in the O&G Records of Culberson County, Texas.

TO CERTIFY WHICH, Witness my hand and official seal at Van Horn, this 2nd day of December, 2004

LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS.

By _____, Deputy

57712

FILED FOR RECORD
AT 8:00 O'CLOCK A M
ON THE 2 DAY OF Dec
A.D., 20 04

Linda McDonald
COUNTY CLERK, CULBERSON COUNTY, TEXAS

BY _____ DEPUTY

STATE OF TEXAS
COUNTY OF CULBERSON
I hereby certify that this instrument was FILED on the date and at the time stamped hereon by me and was duly RECORDED in the Volume and Page of the _____ Records of Culberson County, Texas.

Linda McDonald
COUNTY CLERK
CULBERSON COUNTY, TEXAS

VOL. _____ PAGE _____

RECORDED _____

A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK
ATTEST: _____
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS
BY _____ DEPUTY

15.50.04

(4)

57715

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 25th day of October, 2004, between the State of Texas, acting by and through its agent, **Paula Camille Richardson O'Malley**, dealing in her sole and separate property of C/O Ann Peters, 2641 Kelliwood Cr., Shreveport, Louisiana 71106 said agent
(Give Permanent Address)

herein referred to as the owner of the soil (whether one or more), and **CLAY JOHNSON** of 203 W. Wall, Suite 202 Midland, Texas 79701
(Give Permanent Address)

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 Culberson County, State of Texas, to-wit:

Block 100, Public School Land Survey
Section 16: All
Section 17: All
Section 18: All
Section 19: All
Section 20: All
Section 21: All

Containing 3,840.00 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: One Thousand and No/100---------- Dollars ($ 1,000.00)

To the owner of the soil: One Thousand and No/100---------- Dollars ($ 1,000.00)

Total bonus consideration: Two Thousand and No/100-------- Dollars ($ 2,000.00)

The total bonus consideration paid represents a bonus of Fifty and No/100---------- Dollars ($ 50.00) per acre, on 40.00 net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of Five (5) 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 Pay direct to Lessor at the above address Bank, at _____, 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 and No/100-------- Dollars ($ 20.00 *)
To the State of Texas: Twenty and No/100-------- Dollars ($ 20.00 *)
Total Rental: Forty and No/100-------- Dollars ($ 40.00 **)

(*, ** See attached Exhibit "A" for Amended Delay Rental Provision)

A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK
ATTEST: DEC 02 2004
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS
BY _____ DEPUTY

H-02-21

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 **1/5th** 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 **1/5th** 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 **1/5th** 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 **1/5th** 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 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 accruing 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 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.

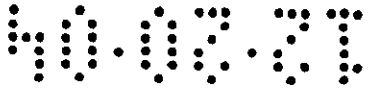
11. DRY HOLE/CESSATION OF PRODUCTION DURING PRIMARY TERM. If, during the primary term hereof and prior to discovery and production of oil or gas on said land, Lessee should drill a dry hole or holes thereon, or if during the primary term hereof and after the discovery and actual production of oil or 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 well 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 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 in 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 52.151-52.153, 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 right-of-ways 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 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 watertlood 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 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 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 I, Chapter 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 52.151-52.153. 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 INDENINIFIED 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 (I) A VIOLATION OF THE FOREGOING PROHIBITION OR (II) 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.

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.

40. See attached Exhibit "A" for additional provisions.

CLAY JOHNSON

Clay Johnson

DATE: 11-9-04

STATE OF TEXAS

BY: Paula Camille Richardson O'Malley
Individually and as agent for the State of Texas
Paula Camille Richardson O'Malley, dealing in her sole and separate property

TAX ID NO: [redacted]

DATE: 11-5-04

STATE OF TEXAS

BY: _____
Individually and as agent for the State of Texas

TAX ID NO: _____

DATE: _____

STATE OF TEXAS **(INDIVIDUAL ACKNOWLEDGMENT)**

COUNTY OF MIDLAND

Before me, the undersigned authority, on this day personally appeared **Clay Johnson** known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this the 12 day of November, 2004.

M K Brasuel
Notary Public in and for the State of TEXAS

M K Brasuel
Notary Public, State of Texas
My Commission Expires:
October 19, 2008

STATE OF LOUISIANA **(INDIVIDUAL ACKNOWLEDGMENT)**

Parish ~~COUNTY~~ OF Caddo

Before me, the undersigned authority, on this day personally appeared **Paula Camille Richardson O'Malley**, dealing in her sole and separate property.

Given under my hand and seal of office this the 5th day of November, 2004.

Tamie L Sibley
Notary Public in and for the State of LOUISIANA

TAMIE L. SIBLEY, NOTARY PUBLIC
BOSSIER PARISH, LOUISIANA
MY COMMISSION IS FOR LIFE
NOTARY ID # 55188

40.02.21

EXHIBIT "A"

ATTACHED TO AND MADE PART OF THAT CERTAIN OIL AND GAS LEASE DATED OCTOBER 25, 2004, BY AND BETWEEN THE STATE OF TEXAS, ACTING BY AND THROUGH ITS AGENT, PAULA CAMILLE RICHARDSON O'MALLEY, AS LESSOR, AND CLAY JOHNSON, AS LESSEE

1. If, at the expiration of the primary term, this lease is being maintained in force under any provision of the lease, or within 180 days prior to the expiration of the primary term Lessee has completed a well as a dry hole or commenced a well on the leased premises or lands pooled therewith, or Lessee is then engaged in operations on the leased premises or lands pooled therewith, Lessee agrees to begin a continuous drilling program within 180 days after the end of the primary term or within 180 days after completion of such well or the cessation of such operations, whichever is the later date; and thereafter to carry on the continuous drilling program on the leased premises or lands pooled therewith until all proration units have been drilled, allowing not more than 180 days to elapse between the completion of one well and the commencement of the succeeding well. Should Lessee fail to begin the continuous drilling program or subsequently default in the performance thereof, then in either event, this lease shall terminate as to all lands covered hereby, save and except for the proration unit surrounding each well then producing, capable of producing or upon which operations are being conducted, limited, respectively, to those depths from the surface down to the stratigraphic equivalent of the depth 100 feet below the total depth drilled in any such proration unit. As used in this paragraph: i) the term "commission" means the Railroad Commission of the State of Texas or any successor agency, ii) the term "proration unit" means any acreage designated as a drilling unit or production unit in accordance with the rules of the commission (or any other governmental authority having jurisdiction) or any unit formed by pooling as provided in this lease or otherwise, iii) the terms "commenced" and "commencement" mean the date when a well is spudded, and iv) the terms "completed" and "completion" mean the date the initial potential test report is filed with the commission, if a productive well, or the date the plugging report is filed with the commission, if a dry hole. Notwithstanding the partial termination of this lease, Lessee shall continue to have the rights of ingress and egress across all of the leased premises to and from lands that remain subject to this lease, or lands pooled therewith, for the purposes described in paragraph 1 hereof, together with easements and rights of way for roads, pipelines, flowlines and other facilities on or across all of the leased premises for the exploration, development, production, gathering or transportation of oil, gas and other products from the lands still subject to this lease or lands pooled therewith. The sole liability or penalty for the failure of Lessee to drill any well or wells required or permitted by this lease shall be the termination or partial termination of Lessee's rights under the lease as provided above.

In conducting such continuous drilling program, Lessee shall be entitled to accumulate and later use time, if any, saved between wells, beginning with the second well under the continuous drilling program. If one well is commenced sooner than 180 days after the completion of the last preceding well, the portion of the prescribed 180 day period not used may be carried forward and added to the period between subsequent wells.

2. Amended Delay Rental Provision:

*As to any rentals that may be paid on or before the 1st, 2nd and 4th anniversary date.
In the event that delay rentals are paid on or before the 2nd anniversary date (and after the 3rd anniversary date), they shall be payable in the amount of $20.00.

**Except that if delay rentals are paid on or before the 3rd anniversary date (and after the 2nd anniversary date), the total rental paid shall be $2,000.00.

Notwithstanding anything herein to the contrary, Paragraph 5 (minimum royalty) and Paragraph 14 (shut-in royalty) refer to their computation to the delay rentals provided in Paragraph 3 herein. The undersigned do hereby recognize and acknowledge that minimum royalty and shut-in royalties due herein are payable in the amount of $40.00. Of such amount, $20.00 is payable to the owner of the soil as provided herein and $20.00 is payable to the State of Texas as provided herein.

File No. MF. 14544

Lease I

Date Filed: 12/20/04

Jerry E. Patterson, Commissioner

By _____

4.

THE STATE OF TEXAS I

COUNTY OF CULBERSON I I, Linda McDonald, Clerk of the County Court in and for said County and State, do hereby certify that the foregoing is a true and correct copy of Oil & Gas Lease dated October 25 th 2004

filed for record in my office this 2nd day of Dec. 2004 at 8:00 o'clock A M., under Clerk's File No. 57715, as the same is recorded in the Oil & Gas Records of Culberson County, Texas.

TO CERTIFY WHICH, Witness my hand and official seal at Van Horn, this 2nd day of December, 2004

LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS.

By _____, Deputy.

57715

FILED FOR RECORD
AT 8:00 O'CLOCK A M
ON THE 2 DAY OF Dec
A.D., 20 04

Linda McDonald
COUNTY CLERK, CULBERSON COUNTY, TEXAS

BY _____ DEPUTY

STATE OF TEXAS
COUNTY OF CULBERSON
I hereby certify that this instrument was FILED on the date and at the time stamped hereon by me and was duly RECORDED in the Volume and Page of the _____ Records of Culberson County, Texas.

Linda McDonald
COUNTY CLERK
CULBERSON COUNTY, TEXAS

VOL. _____ PAGE _____

RECORDED _____

A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK
ATTEST: _____
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS
BY _____ DEPUTY

15.50 M

(6)

57718

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 25th day of October, 2004, between the State of Texas, acting by and through its agent, Eugene Richardson, dealing in his sole and separate property of 1925 Ochsey, Shreveport, Louisiana 71106 said agent

(Give Permanent Address)

herein referred to as the owner of the soil (whether one or more), and CLAY JOHNSON of 203 W. Wall, Suite 202 Midland, Texas 79701

(Give Permanent Address)

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 Culberson County, State of Texas, to-wit:

Block 100, Public School Land Survey
Section 16: All
Section 17: All
Section 18: All
Section 19: All
Section 20: All
Section 21: All

Containing 3,840.00 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: One Thousand and No/100---------- Dollars ($ 1,000.00)

To the owner of the soil: One Thousand and No/100---------- Dollars ($ 1,000.00)

Total bonus consideration: Two Thousand and No/100--------- Dollars ($ 2,000.00)

The total bonus consideration paid represents a bonus of Fifty and No/100---------- Dollars ($ 50.00) per acre, on 40.00 net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of Five (5) 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 Pay direct to Lessor at the above address Bank, at _____, 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 and No/100-------- Dollars ($ 20.00 *)
To the State of Texas: Twenty and No/100-------- Dollars ($ 20.00 *)
Total Rental: Forty and No/100-------- Dollars ($ 40.00 **)

(*, ** See attached Exhibit "A" for Amended Delay Rental Provision)

A CERTIFIED COPY IF IT BEARS THE SEAL OF THE COUNTY CLERK
ATTEST: 12-20-2004
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS
BY _____ DEPUTY

In a like manner and upon like payments or tende annually, the commencement of a well may be further deferred for successive periods of one (1) year each during the primary ter 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 lea nd may be delivered on or before the rental paying date. If the bank designated in this paragraph (or its successor bank) should ce o exist, suspend business, liquidate, fail or be succeeded by another bank, or for any reason fail or refuse to accept rental, Lessee sh ot 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 er to Lessee a proper recordable instrument naming another bank as agent to receive such payments or tenders.

4. PRODUCTION ROYALTIES on 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 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 ow of the soil:

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

(B) NON PROCESSED GAS. Roy on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substances not defined as oil in subparagrap (A) above, produced from any well on said land (except as provided herein with respect to gas processed in a plant for the extracti of gasoline, liquid hydrocarbons or other products) shall be 1/5th part of the gross production or the market value thereof, at the tion of the owner of the soil or the Commissioner of the General Land Office, such value to be based on the highest market price id or offered for gas of comparable quality in the general area where produced and when run, or the gross price paid or offered to th producer, whichever is the greater; provided that the maximum pressure base in measuring the gas under this lease shall not at an time exceed 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit orrection to be made for pressure according to Boyle's Law, and for specific gravity according to tests made by the Balance Me d or by the most approved method of testing being used by the industry at the time of testing.

(C) PROCESSED GAS. Royalty on y gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbons shall be 1/5th part of the sidue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the owner of the soil or the Commiss er of the General Land Office. All royalties due herein shall be based on one hundred percent (100%) of the total plant productio of residue gas attributable to gas produced from this lease, and on fifty percent (50%), or that percent accruing to Lessee, whichever the greater, of the total plant production of liquid hydrocarbons attributable to the gas produced from this lease; provided that if liqu hydrocarbons are recovered from gas processed in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, th n the percentage applicable to liquid hydrocarbons shall be fifty percent (50%) or the highest percent accruing to a third party pro sing gas through such plant under a processing agreement negotiated at arm's length (or if there is no such third party, the highest p rcent then being specified in processing agreements or contracts in the industry), whichever is the greater. The respective royalties o residue gas and on liquid hydrocarbons shall be determined by 1) the highest market price paid or offered for any gas (or liquid h drocarbons) of comparable quality in the general area, or 2) the gross price paid or offered for such residue gas (or the weighted verage gross selling price for the respective grades of liquid hydrocarbons), whichever is the greater. In no event, however, shall he 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 arbon black, sulphur or any other products produced or manufactured from gas (excepting liquid hydrocarbons) whether said gas casinghead, "dry," or any other gas, by fractionating, burning or any other processing shall be 1/5th 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 hich 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 p ucts are produced; whichever is the greater.

5. MINIMUM ROYALTY. During ny 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 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, th 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 the General Land Office's right to take its royalty in kind shall not diminish or

negate the owner of th[redacted] Commissioner of th[redacted] hts or Lessee's obligations, whether express or implied, under this leas[redacted]

7. NO [redacted]S. Lessee agrees that [redacted] this lease (including those paid in kind) shall be without deduction fo[redacted]f producing, gatherin[redacted] eating, dehydrating, compressing, processing, transporting, and other[redacted] he oil, gas and other p[redacted] r sale or use. Lessee agrees to compute and pay royalties on the gross v[redacted], including any reimbu[redacted]s and production related costs.

8. PLA[redacted]ND RECYCLED GAS[redacted] yable on any gas as may represent this lease's proportionate share of [redacted] to process gas produc[redacted] sing plant. Notwithstanding any other provision of this lease, and subje[redacted]n consent of the owne[redacted] issioner of the General Land Office, Lessee may recycle gas for gas lift [redacted] he leased premises or [redacted] r gas producing formation underlying the leased premises after the liqui[redacted]ns contained in the gas [redacted] yalties shall be payable on the recycled gas until it is produced and sold[redacted]ssee in a manner whic[redacted] s to a royalty under this lease.

9. ROY[redacted]MENTS AND REPOR[redacted] in kind shall be paid to the Commissioner of the General Land Office at[redacted]s, in the following man[redacted]

Payment of royalty o[redacted] of oil and gas shall b[redacted] et forth in the Texas Register. Rules currently provide that royalty on[redacted]nd must be received i[redacted] on or before the 5th day of the second month succeeding the month [redacted] and royalty on gas is [redacted] n the General Land Office on or before the 15th day of the second mont[redacted] the month of productio[redacted] idavit of the owner, manager or other authorized agent, completed in the[redacted]anner prescribed by the[redacted] showing the gross amount and disposition of all oil and gas produced a[redacted] value of the oil and ga[redacted] ll documents, records or reports confirming the gross production, dispo[redacted]arket value including g[redacted] e receipts, gas line receipts and other checks or memoranda of amount[redacted] put into pipelines, tan[redacted] or gas storage, and any other reports or records which the General Land[redacted] require to verify the gr[redacted] and market value. In all cases the authority of a manager or agent to ac[redacted]ee herein must be filed[redacted] e. Each royalty payment shall be accompanied by a check stub, schedu[redacted]or other remittance adv[redacted] d General Land Office lease number the amount of royalty being paid o[redacted] If Lessee pays his roy[redacted] 0) days after the royalty payment was due, then Lessee owes a penalty[redacted] royalty or $25.00, wh[redacted] lty payment which is over thirty (30) days late shall accrue a penalty o[redacted]royalty due or $25.00 w[redacted] dition to a penalty, royalties shall accrue interest at a rate of 12% per ye[redacted]est will begin accruing[redacted] (60) days overdue. Affidavits and supporting documents which are n[redacted] due shall incur a penal[redacted] General Land Office administrative rule which is effective on the date[redacted]idavits or supporting do[redacted] Lessee shall bear all responsibility for paying or causing royalties to be [redacted]ibed by the due date pr[redacted] the delinquency penalty shall in no way operate to prohibit the State's r[redacted]ure as provided by law[redacted] te on which royalties were originally due. The above penalty provisio[redacted]pply in cases of title dis[redacted] n of the royalty or to that portion of the royalty in dispute as to fair ma[redacted]

10. (A) [redacted]CONTRACTS AND O[redacted] shall annually furnish the Commissioner of the General Land Office w[redacted]ossible estimate of oil [redacted] g this lease or allocable to this lease and shall furnish said Commissi[redacted]pies of all contracts u[redacted] processed and all subsequent agreements and amendments to such co[redacted] thirty (30) days after [redacted] ch contracts, agreements or amendments. Such contracts and agreemen[redacted]ived by the General L[redacted] confidence by the General Land Office unless otherwise authorized b[redacted] other contracts and rec[redacted] uction, transportation, sale and marketing of the oil and gas produced o[redacted]s, including the books [redacted] discharges of all wells, tanks, pools, meters, and pipelines shall at all ti[redacted]ct to inspection and exa[redacted] ioner of the General Land Office, the Attorney General, the Governor,[redacted]entative of any of them.

(B) [redacted]RILLING RECORDS[redacted] erations on this lease shall be submitted to the Commissioner of the [redacted] Office by Lessee or [redacted] fore spud date, workover, re-entry, temporary abandonment or plug a[redacted]ent of any well or well[redacted] the General Land Office shall include copies of Railroad Commission f[redacted]lication to drill. Copies[redacted] reports and plugging reports shall be supplied to the General Land Offic[redacted] they are filed with the[redacted] ion. All applications, permits, reports or other filings that reference th[redacted]y specific well on the le[redacted] submitted to the Texas Railroad Commission or any other governmenta[redacted]ll include the word "St[redacted] ially, in accordance with Railroad Commission rules, any signage on t[redacted]mises for the purpose o[redacted] atteries or other associated improvements to the land must also include [redacted]te." Lessee shall supply[redacted] with any records, memoranda, accounts, reports, cuttings and cores, or [redacted]tion relative to the op[redacted] ibed premises, which may be requested by the General Land Office, i[redacted] those herein expressly[redacted] ll have an electrical and/or radioactivity survey made on the bore-hole [redacted]the base of the surface [redacted] well, of all wells drilled on the above described premises and shall trans[redacted]py of the log of each su[redacted] eneral Land Office within fifteen (15) days after the making of said surv[redacted]

(C) P[redacted] Lessee shall incur a p[redacted] ocuments or other materials are not filed in the General Land Office w[redacted]e penalty for late filin[redacted] neral Land Office administrative rule which is effective on the date wh[redacted]als were due in the Ge[redacted]

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 well 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 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 in 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 52.151-52.153, 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 right-of-ways 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 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 watertlood 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 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 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, Chapter 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 52.151-52.153. 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 INDENINIFIED 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 (I) A VIOLATION OF THE FOREGOING PROHIBITION OR (II) 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.

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.

40. See attached Exhibit "A" for additional provisions.

CLAY JOHNSON

Clay Johnson

DATE: 11-9-04

STATE OF ~~TEXAS~~ Louisiana

BY: Eugene Richardson
Individually and as agent for the State of ~~Texas~~ Louisiana
Eugene Richardson, dealing in his sole and separate property

TAX ID NO: [redacted]

DATE: November 5, 2004

STATE OF TEXAS

BY: _____
Individually and as agent for the State of Texas

TAX ID NO: _____

DATE: _____

STATE OF TEXAS **(INDIVIDUAL ACKNOWLEDGMENT)**

COUNTY OF MIDLAND

Before me, the undersigned authority, on this day personally appeared **Clay Johnson** known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this the 9 day of November, 2004.

M.K. Brasuel
Notary Public in and for the State of TEXAS

M K Brasuel
Notary Public, State of Texas
My Commission Expires:
October 19, 2008

STATE OF LOUISIANA **(INDIVIDUAL ACKNOWLEDGMENT)**

Parish ~~COUNTY~~ OF Caddo

Before me, the undersigned authority, on this day personally appeared **Eugene Richardson**, dealing in his sole and separate property.

Given under my hand and seal of office this the 5 day of November, 2004.

Donnell P. Wooten 04-2105
Notary Public in and for the State of LOUISIANA

DONNELL P. WOOTEN, NOTARY PUBLIC
CADDO/BOSSIER PARISH, LOUISIANA
MY COMMISSION IS FOR LIFE

40-02-21

EXHIBIT "A"

ATTACHED TO AND MADE PART OF THAT CERTAIN OIL AND GAS LEASE
DATED OCTOBER 25, 2004, BY AND BETWEEN THE STATE OF TEXAS, ACTING BY AND
THROUGH ITS AGENT, EUGENE RICHARDSON, AS LESSOR, AND
CLAY JOHNSON, AS LESSEE

1. If, at the expiration of the primary term, this lease is being maintained in force under any provision of the lease, or within 180 days prior to the expiration of the primary term Lessee has completed a well as a dry hole or commenced a well on the leased premises or lands pooled therewith, or Lessee is then engaged in operations on the leased premises or lands pooled therewith, Lessee agrees to begin a continuous drilling program within 180 days after the end of the primary term or within 180 days after completion of such well or the cessation of such operations, whichever is the later date; and thereafter to carry on the continuous drilling program on the leased premises or lands pooled therewith until all proration units have been drilled, allowing not more than 180 days to elapse between the completion of one well and the commencement of the succeeding well. Should Lessee fail to begin the continuous drilling program or subsequently default in the performance thereof, then in either event, this lease shall terminate as to all lands covered hereby, save and except for the proration unit surrounding each well then producing, capable of producing or upon which operations are being conducted, limited, respectively, to those depths from the surface down to the stratigraphic equivalent of the depth 100 feet below the total depth drilled in any such proration unit. As used in this paragraph: i) the term "commission" means the Railroad Commission of the State of Texas or any successor agency, ii) the term "proration unit" means any acreage designated as a drilling unit or production unit in accordance with the rules of the commission (or any other governmental authority having jurisdiction) or any unit formed by pooling as provided in this lease or otherwise, iii) the terms "commenced" and "commencement" mean the date when a well is spudded, and iv) the terms "completed" and "completion" mean the date the initial potential test report is filed with the commission, if a productive well, or the date the plugging report is filed with the commission, if a dry hole. Notwithstanding the partial termination of this lease, Lessee shall continue to have the rights of ingress and egress across all of the leased premises to and from lands that remain subject to this lease, or lands pooled therewith, for the purposes described in paragraph 1 hereof, together with easements and rights of way for roads, pipelines, flowlines and other facilities on or across all of the leased premises for the exploration, development, production, gathering or transportation of oil, gas and other products from the lands still subject to this lease or lands pooled therewith. The sole liability or penalty for the failure of Lessee to drill any well or wells required or permitted by this lease shall be the termination or partial termination of Lessee's rights under the lease as provided above.

In conducting such continuous drilling program, Lessee shall be entitled to accumulate and later use time, if any, saved between wells, beginning with the second well under the continuous drilling program. If one well is commenced sooner than 180 days after the completion of the last preceding well, the portion of the prescribed 180 day period not used may be carried forward and added to the period between subsequent wells.

2. Amended Delay Rental Provision:

*As to any rentals that may be paid on or before the 1st, 2nd and 4th anniversary date.
In the event that delay rentals are paid on or before the 2nd anniversary date (and after the 3rd anniversary date), they shall be payable in the amount of $20.00.

**Except that if delay rentals are paid on or before the 3rd anniversary date (and after the 2nd anniversary date), the total rental paid shall be $2,000.00.

Notwithstanding anything herein to the contrary, Paragraph 5 (minimum royalty) and Paragraph 14 (shut-in royalty) refer to their computation to the delay rentals provided in Paragraph 3 herein. The undersigned do hereby recognize and acknowledge that minimum royalty and shut-in royalties due herein are payable in the amount of $40.00. Of such amount, $20.00 is payable to the owner of the soil as provided herein and $20.00 is payable to the State of Texas as provided herein.

A CERTIFIED COPY
OF RECORDS THE SEAL OF THE COUNTY CLERK

File No. MF-104544

4.

Page 3

Date Filed: 12/20/04

Jerry E. Patterson, Commissioner

By _____

THE STATE OF TEXAS §

COUNTY OF CULBERSON § I, Linda McDonald, Clerk of the County Court in and for said County and State, do hereby certify that the foregoing is a true and correct copy of Oil & Gas Lease dated October 25 20 2004

filed for record in my office this 2nd day of Dec. A.D. 2004 at 8:00 A.M., under Clerk's File No. 57718, is duly recorded in the Oil & Gas Records of Culberson County, Texas.

TO CERTIFY WHICH, Witness my hand and official seal at Van Horn, this 2nd day of December, 2004

By _____, Deputy.

LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS

57718

FILED FOR RECORD
AT 8:00 O'CLOCK A M
ON THE 2 DAY OF Dec
A.D., 20 04

Linda McDonald
COUNTY CLERK, CULBERSON COUNTY, TEXAS

BY _____ DEPUTY

STATE OF TEXAS
COUNTY OF CULBERSON
I hereby certify that this instrument was FILED on the date and at the time stamped hereon by me and was duly RECORDED in the Volume and Page of the _____ Records of Culberson County, Texas.

Linda McDonald
COUNTY CLERK,
CULBERSON COUNTY, TEXAS

VOL. _____ PAGE _____

RECORDED _____

A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK
ATTEST: _____
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS
BY _____ DEPUTY

(Y)

577743

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 25th day of October, 2004, between the State of Texas, acting by and through its agent, Ann Richardson Peters, dealing in her sole and separate property of 2641 Kelliwood Cr., Shreveport, Louisiana 71106 ~~2917 Longlake Dr. 71107~~ said agent

(Give Permanent Address)

herein referred to as the owner of the soil (whether one or more), and CLAY JOHNSON of 203 W. Wall, Suite 202 Midland, Texas 79701

(Give Permanent Address)

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 Culberson County, State of Texas, to-wit:

Block 100, Public School Land Survey
Section 16: All
Section 17: All
Section 18: All
Section 19: All
Section 20: All
Section 21: All

Containing 3,840.00 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: One Thousand and No/100---------- Dollars ($ 1,000.00)

To the owner of the soil: One Thousand and No/100---------- Dollars ($ 1,000.00)

Total bonus consideration: Two Thousand and No/100--------- Dollars ($ 2,000.00)

The total bonus consideration paid represents a bonus of Fifty and No/100---------- Dollars ($ 50.00) per acre, on 40.00 net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of Five (5) 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 Pay direct to Lessor at the above address Bank, at _____, 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 and No/100-------- Dollars ($ 20.00 *)

To the State of Texas: Twenty and No/100-------- Dollars ($ 20.00 *)

Total Rental: Forty and No/100-------- Dollars ($ 40.00 **)

(*, ** See attached Exhibit "A" for Amended Delay Rental Provision)

A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK
ATTEST: 12-2-04
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS
BY _____ DEPUTY

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 **1/5th** 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 **1/5th** 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 **1/5th** 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 **1/5th** 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 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 accruing 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 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 well 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 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 in 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 52.151-52.153, 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 right-of-ways 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 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 watertlood 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 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 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 I, Chapter 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 52.151-52.153. 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 INDENINIFIED 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 (I) A VIOLATION OF THE FOREGOING PROHIBITION OR (II) 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.

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.

10-02-21

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.

40. See attached Exhibit "A" for additional provisions.

CLAY JOHNSON

DATE: 11-9-04

STATE OF TEXAS

BY: _____
Individually and as agent for the State of Texas
Ann Richardson Peters, dealing in her sole and separate property

TAX ID NO: [redacted]

DATE: 11-04-04

STATE OF TEXAS

BY: _____
Individually and as agent for the State of Texas

TAX ID NO: _____

DATE: _____

STATE OF TEXAS **(INDIVIDUAL ACKNOWLEDGMENT)**

COUNTY OF MIDLAND

Before me, the undersigned authority, on this day personally appeared **Clay Johnson** known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this the 9 day of November, 2004.

M K Brasuel
Notary Public, State of Texas
My Commission Expires:
October 19, 2008

M.K. Brasuel
Notary Public in and for the State of TEXAS

STATE OF LOUISIANA **(INDIVIDUAL ACKNOWLEDGMENT)**

COUNTY OF

Before me, the undersigned authority, on this day personally appeared **Ann Richardson Peters**, dealing in her sole and separate property.

Given under my hand and seal of office this the 4th day of November, 2004.

Tamie L. Sibley
Notary Public in and for the State of LOUISIANA

TAMIE L. SIBLEY, NOTARY PUBLIC
BOSSIER PARISH, LOUISIANA
MY COMMISSION IS FOR LIFE
NOTARY ID # 55188

40-02-21

EXHIBIT "A"

ATTACHED TO AND MADE PART OF THAT CERTAIN OIL AND GAS LEASE DATED OCTOBER 25, 2004, BY AND BETWEEN THE STATE OF TEXAS, ACTING BY AND THROUGH ITS AGENT, ANN RICHARDSON PETERS, AS LESSOR, AND CLAY JOHNSON, AS LESSEE

1. If, at the expiration of the primary term, this lease is being maintained in force under any provision of the lease, or within 180 days prior to the expiration of the primary term Lessee has completed a well as a dry hole or commenced a well on the leased premises or lands pooled therewith, or Lessee is then engaged in operations on the leased premises or lands pooled therewith, Lessee agrees to begin a continuous drilling program within 180 days after the end of the primary term or within 180 days after completion of such well or the cessation of such operations, whichever is the later date; and thereafter to carry on the continuous drilling program on the leased premises or lands pooled therewith until all proration units have been drilled, allowing not more than 180 days to elapse between the completion of one well and the commencement of the succeeding well. Should Lessee fail to begin the continuous drilling program or subsequently default in the performance thereof, then in either event, this lease shall terminate as to all lands covered hereby, save and except for the proration unit surrounding each well then producing, capable of producing or upon which operations are being conducted, limited, respectively, to those depths from the surface down to the stratigraphic equivalent of the depth 100 feet below the total depth drilled in any such proration unit. As used in this paragraph: i) the term "commission" means the Railroad Commission of the State of Texas or any successor agency, ii) the term "proration unit" means any acreage designated as a drilling unit or production unit in accordance with the rules of the commission (or any other governmental authority having jurisdiction) or any unit formed by pooling as provided in this lease or otherwise, iii) the terms "commenced" and "commencement" mean the date when a well is spudded, and iv) the terms "completed" and "completion" mean the date the initial potential test report is filed with the commission, if a productive well, or the date the plugging report is filed with the commission, if a dry hole. Notwithstanding the partial termination of this lease, Lessee shall continue to have the rights of ingress and egress across all of the leased premises to and from lands that remain subject to this lease, or lands pooled therewith, for the purposes described in paragraph 1 hereof, together with easements and rights of way for roads, pipelines, flowlines and other facilities on or across all of the leased premises for the exploration, development, production, gathering or transportation of oil, gas and other products from the lands still subject to this lease or lands pooled therewith. The sole liability or penalty for the failure of Lessee to drill any well or wells required or permitted by this lease shall be the termination or partial termination of Lessee's rights under the lease as provided above.

In conducting such continuous drilling program, Lessee shall be entitled to accumulate and later use time, if any, saved between wells, beginning with the second well under the continuous drilling program. If one well is commenced sooner than 180 days after the completion of the last preceding well, the portion of the prescribed 180 day period not used may be carried forward and added to the period between subsequent wells.

2. Amended Delay Rental Provision:

*As to any rentals that may be paid on or before the 1st, 2nd and 4th anniversary date.
In the event that delay rentals are paid on or before the 2nd anniversary date (and after the 3rd anniversary date), they shall be payable in the amount of $20.00.

**Except that if delay rentals are paid on or before the 3rd anniversary date (and after the 2nd anniversary date), the total rental paid shall be $2,000.00.

Notwithstanding anything herein to the contrary, Paragraph 5 (minimum royalty) and Paragraph 14 (shut-in royalty) refer to their computation to the delay rentals provided in Paragraph 3 herein. The undersigned do hereby recognize and acknowledge that minimum royalty and shut-in royalties due herein are payable in the amount of $40.00. Of such amount, $20.00 is payable to the owner of the soil as provided herein and $20.00 is payable to the State of Texas as provided herein.

10-02-21

File No. MF 104544

Date Filed: 12/30/04

Jerry E. Patterson, Commissioner

By

57743

FILED FOR RECORD

AT 8:00 O'CLOCK A M

ON THE 2 DAY OF Dec

A.D., 20 04

Linda McDonald

COUNTY CLERK, CULBERSON COUNTY, TEXAS

BY Laura Gonzales DEPUTY

STATE OF TEXAS

COUNTY OF CULBERSON

I hereby certify that this instrument was FILED on the date and at the time stamped hereon by me and was duly RECORDED in the Volume and Page of the Records of Culberson County, Texas.

Linda McDonald

COUNTY CLERK,

CULBERSON COUNTY, TEXAS

VOL. PAGE

RECORDED

STATE OF TEXAS I

COUNTY OF CULBERSON I, Linda McDonald Clerk of the County Court in and for said County and State, do hereby certify that the foregoing is a true and correct copy of Oil + Gas Lease dated 11-9-04

filed for record in my office this 2 day of Dec, 2004 8:00 A M., under Clerk's File No. 57743, to be recorded in the Oil + Gas Records of Culberson County.

WITNESS MY HAND AND OFFICIAL SEAL, Witness my hand and official seal at Van Horn, this the 2 day of Dec 2004

L. Gonzales, Deputy.

Linda McDonald

LINDA McDONALD, COUNTY CLERK

CULBERSON COUNTY, TEXAS.

15.50.04

TOM BROWN, INC. ✓
555 17th Street, Suite 1850
Denver, CO 80202-3918

000013

12/13/04 53881 NO. 460923

VOUCHER	INVOICE #	INVOICE DATE	TOTAL AMOUNT	PRIOR PAYMENTS	NET AMOUNT
12-AP-4537	120804H	12/08/04	8,500.00	0.00	8,500.00
BONUS CONSIDERATION					
TOTAL INVOICES PAID					8,500.00

121

05016021

TOM BROWN, INC.
555 17th Street, Suite 1850
Denver, CO 80202-3918

12/13/04 53881 NO. 460924

VOUCHER	INVOICE #	INVOICE DATE	TOTAL AMOUNT	PRIOR PAYMENTS	NET AMOUNT
12-AP-4538	120804J	12/08/04	8,500.00	0.00	8,500.00
TOTAL INVOICES PAID					8,500.00

121

RECEIVED
DEC 23 2004

05016020

TOM BROWN, INC.
555 17th Street, Suite 185
Denver, CO 80202-3918

000016

12/13/04 53881 NO. 460926

VOUCHER	INVOICE #	INVOICE DATE	TOTAL AMOUNT	PRIOR PAYMENTS	NET AMOUNT
12-AP-4541	120804L	12/08/04	68,000.00	0.00	68,000.00
BONUS CONSIDERATION					
TOTAL INVOICES PAID					68,000.00

121

05016018

000015

TOM BROWN, INC. ✓
555 17th Street, Suite 1850
Denver, CO 80202-3918

12/13/04 53881 **NO.** 460925

VOUCHER	INVOICE #	INVOICE DATE	TOTAL AMOUNT	PRIOR PAYMENTS	NET AMOUNT
12-AP-4540	120804K	12/08/04	68,000.00	0.00	68,000.00
BONUS CONSIDERATION					
TOTAL INVOICES PAID					68,000.00

X

121

05016019

TOM BROWN, INC.
555 17th Street, Suite 1850
Denver, CO 80202-3918

000006

12/13/04 53881 **NO.** 460916

VOUCHER	INVOICE #	INVOICE DATE	TOTAL AMOUNT	PRIOR PAYMENTS	NET AMOUNT
12-AP-4522	120804A	12/08/04	2,833.34	0.00	2,833.34
BONUS CONSIDERATION					
TOTAL INVOICES PAID					2,833.34

12/20/04

121

05016028

05016

TOM BROWN, INC.
555 17th Street, Suite 1850
Denver, CO 80202-3918

12/13/04 53881 NO. 460917

VOUCHER	INVOICE #	INVOICE DATE	TOTAL AMOUNT	PRIOR PAYMENTS	NET AMOUNT
12-AP-4525	120804B	12/08/04	2,833.34	0.00	2,833.34
BONUS CONSIDERATION					
TOTAL INVOICES PAID					2,833.34

121

05016027

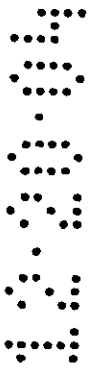
TOM BROWN, INC. ✓
555 17th Street, Suite 1850
Denver, CO 80202-3918

000008

12/13/04 53881 **NO.** 460918

VOUCHER	INVOICE #	INVOICE DATE	TOTAL AMOUNT	PRIOR PAYMENTS	NET AMOUNT
12-AP-4527	120804C	12/08/04	2,833.34	0.00	2,833.34
BONUS CONSIDERATION					
TOTAL INVOICES PAID					2,833.34

121



05016026

000009

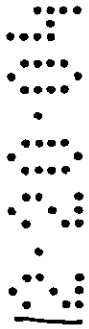
TOM BROWN, INC.
555 17th Street, Suite 1850
Denver, CO 80202-3918

12/13/04 53881 **NO.** 460919

VOUCHER	INVOICE #	INVOICE DATE	TOTAL AMOUNT	PRIOR PAYMENTS	NET AMOUNT
12-AP-4529	120804D	12/08/04	2,833.34	0.00	2,833.34
BONUS CONSIDERATION					
TOTAL INVOICES PAID					2,833.34

05016025

121



TOM BROWN, INC.
555 17th Street, Suite 1850
Denver, CO 80202-3918

000010

12/13/04 53881 NO. 460920

VOUCHER	INVOICE #	INVOICE DATE	TOTAL AMOUNT	PRIOR PAYMENTS	NET AMOUNT
12-AP-4630	120804E	12/08/04	11,333.34	0.00	11,333.34
BONUS CONSIDERATION					
TOTAL INVOICES PAID					11,333.34

121

05016024

TOM BROWN, INC.
555 17th Street, Suite 1850
Denver, CO 80202-3918

000011

12/13/04 53881 NO. 460921

VOUCHER	INVOICE #	INVOICE DATE	TOTAL AMOUNT	PRIOR PAYMENTS	NET AMOUNT
12-AP-4533	120804F	12/08/04	11,333.34	0.00	11,333.34
BONUS CONSIDERATION					
TOTAL INVOICES PAID					11,333.34

121

05016023

TOM BROWN, INC.
555 17th Street, Suite 1850
Denver, CO 80202-3918

12/13/04 53881 **NO.** 460922

VOUCHER	INVOICE #	INVOICE DATE	TOTAL AMOUNT	PRIOR PAYMENTS	NET AMOUNT
12-AP-4535	120804G	12/08/04	85,000.00	0.00	85,000.00
BONUS CONSIDERATION					
TOTAL INVOICES PAID					85,000.00

121

12/20/04

05016022

5.

File No. MF104544

Bonus Segments

Date Filed: 7/20/04

Jerry E. Patterson, Commissioner

By

TEXAS GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

April 20, 2005

Clay Johnson Oil & Gas Properties
203 West Wall, Suite 202
Midland, Texas 79701

Re: RELINQUISHMENT ACT LEASE No. M-104544
3,840.00 acres out of Sec. 16, 17, 18, 19, 20 & 21, Blk. 100
PSL Survey, Culberson County, Texas

Dear Mr. Johnson:

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-104544. Please refer to this number in all future correspondence concerning the lease.

Your remittance of $90,125.00, has been applied as the state's portion of the cash bonus $90,000.00, 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 by MS-

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

MS/DR

6.

File No. MF104544

~~GLO letter~~

Date Filed: 4/20/05

Jerry E. Patterson, Commissioner

By

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA.

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-12-2005** NO. **684217**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-41	10/25/04	12	10/25/05	10/25/06

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.001	EUGENE RICHARDSON, AGENT	**$20.00**

PAY TO THE ORDER OF **Texas General Land Office**
Stephen F. Austin Bldg
1700 N Congress Ave
Austin, TX, 787011495, United States

RECEIVED ON _____ 20
THE AMOUNT SHOWN ABOVE

YOUR COPY

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE

M-101544

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** Texas General Land Office Stephen F. Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495	$20.00	121

TRACT
44189
BLOCK 100, PUBLIC SCHOOL LAND SURVEY
SECTION 16: ALL SECTION 17: ALL
SECTION 18: ALL SECTION 19: ALL
SECTION 20: ALL SECTION 21: ALL

$0.12.6

0600394

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-12-2005** NO. **684216**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	84-891	10/25/04	12	10/25/05	10/25/06

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.002	DONALD RICHARDSON, AGENT	**$20.00**

PAY TO THE ORDER OF **Texas General Land Office**
Stephen F. Austin Bldg
1700 N Congress Ave
Austin, TX, 787011495, United States

M-104544

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE
YOUR COPY
NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** Texas General Land Office Stephen F. Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495	$20.00	

TRACT
44189
BLOCK 100, PUBLIC SCHOOL LAND SURVEY
SECTION 16: ALL SECTION 17: ALL
SECTION 18: ALL SECTION 19: ALL
SECTION 20: ALL SECTION 21: ALL

121

06003395

50·12·6

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-12-2005** NO. **684215**

LEASE RECORDS ACCOUNT

COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	RENTAL PERIOD MONTHS	FROM	TO
CULBERSON	TEXAS	85-11	10/25/04	12	10/25/05	10/25/06

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.003	PAULA CAMILLE R OMALLEY	**$20.00**

PAY TO THE ORDER OF **Texas General Land Office**
Stephen F. Austin Bldg
1700 N Congress Ave
Austin, TX, 787011495, United States

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE

YOUR COPY

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

M-D4544

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** Texas General Land Office Stephen F. Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44189 BLOCK 100, PUBLIC SCHOOL LAND SURVEY SECTION 16: ALL SECTION 17: ALL SECTION 18: ALL SECTION 19: ALL SECTION 20: ALL SECTION 21: ALL	$20.00	

121

90-12-6

06003397

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA.

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-12-2005** NO. **684200**

LEASE RECORDS ACCOUNT

COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	RENTAL PERIOD MONTHS	FROM	TO
CULBERSON	TEXAS	85-171	10/25/04	12	10/25/05	10/25/06

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.008	PEARL MOORE CARTER ESTAT	X $60.00

PAY TO THE ORDER OF **Texas General Land Office**
Stephen F. Austin Bldg
1700 N Congress Ave
Austin, TX, 787011495, United States

M-104544

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE

YOUR COPY
NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** Texas General Land Office Stephen F. Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495	$60.00	

TRACT
44189
BLOCK 100, PUBLIC SCHOOL LAND SURVEY
SECTION 16: ALL SECTION 17: ALL
SECTION 18: ALL SECTION 19: ALL
SECTION 20: ALL SECTION 21: ALL

121

06003430

90-12-6

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA.

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-12-2005** NO. **684199**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-201	10/25/04	12	10/25/05	10/25/06

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.009	CHARLOTTE WALKER FURMAN	**$60.00**

X

PAY TO THE ORDER OF **Texas General Land Office**
Stephen F. Austin Bldg
1700 N Congress Ave
Austin, TX, 787011495, United States

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE

YOUR COPY

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

M-104544

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** Texas General Land Office Stephen F. Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495	$60.00	

12

TRACT
44189
BLOCK 100, PUBLIC SCHOOL LAND SURVEY
SECTION 16: ALL SECTION 17: ALL
SECTION 18: ALL SECTION 19: ALL
SECTION 20: ALL SECTION 21: ALL

06003429

90.12.6

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA.

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-12-2005** NO. **684198**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-251	10/25/04	12	10/25/05	10/25/06

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.010	MONTGOMERY WALKER 74 TRU	**$480.00**

PAY TO THE ORDER OF **Texas General Land Office**
Stephen F. Austin Bldg
1700 N Congress Ave
Austin, TX, 787011495, United States

M-104544

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE
YOUR COPY

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** Texas General Land Office Stephen F. Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495	$480.00	

121

TRACT
44189
BLOCK 100, PUBLIC SCHOOL LAND SURVEY
SECTION 16: ALL SECTION 17: ALL
SECTION 18: ALL SECTION 19: ALL
SECTION 20: ALL SECTION 21: ALL

06003428

90.12.6

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/ SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-12-2005** NO. **684197**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-211	10/25/04	12	10/25/05	10/25/06

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.011	WAYNE MOORE, AGENT	X $480.00

PAY TO THE ORDER OF **Texas General Land Office**
Stephen F. Austin Bldg
1700 N Congress Ave
Austin, TX, 787011495, United States

RECEIVED ON _____ 20___
THE AMOUNT SHOWN ABOVE

YOUR COPY

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

M-104544

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** Texas General Land Office Stephen F. Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495	$480.00	

121

TRACT
44189
BLOCK 100, PUBLIC SCHOOL LAND SURVEY
SECTION 16: ALL SECTION 17: ALL
SECTION 18: ALL SECTION 19: ALL
SECTION 20: ALL SECTION 21: ALL

06003427

90.12.6

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA.

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/ SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE Sep-12-2005 NO. 684203

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-61	10/25/04	12	10/25/05	10/25/06

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.005	JO GRACE LAIRD FLOOD	$80.00

X

PAY TO THE ORDER OF **Texas General Land Office**
Stephen F. Austin Bldg
1700 N Congress Ave
Austin, TX, 787011495, United States

M-104541

RECEIVED ON _____ 20
THE AMOUNT SHOWN ABOVE

YOUR COPY

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** Texas General Land Office Stephen F. Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495	$80.00	

TRACT
44189
BLOCK 100, PUBLIC SCHOOL LAND SURVEY
SECTION 16: ALL SECTION 17: ALL
SECTION 18: ALL SECTION 19: ALL
SECTION 20: ALL SECTION 21: ALL

12

SO-12-6

06003421

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW, PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA.

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-12-2005** NO. **684204**

LEASE RECORDS ACCOUNT

COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	RENTAL PERIOD MONTHS	FROM	TO
CULBERSON	TEXAS	85-291	10/25/04	12	10/25/05	10/25/06

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.004	ANN RICHARDSON PETERS	**$20.00**

PAY TO THE ORDER OF **Texas General Land Office**
Stephen F. Austin Bldg
1700 N Congress Ave
Austin, TX, 787011495, United States

M-104544

RECEIVED ON _____ 20 _____
THE AMOUNT SHOWN ABOVE

YOUR COPY

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** Texas General Land Office Stephen F. Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44189 BLOCK 100, PUBLIC SCHOOL LAND SURVEY SECTION 16: ALL SECTION 17: ALL SECTION 18: ALL SECTION 19: ALL SECTION 20: ALL SECTION 21: ALL	$20.00	

121 06003422

SD-12-6

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA.

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-12-2005** NO. **684191**

LEASE RECORDS ACCOUNT

COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	RENTAL PERIOD MONTHS	FROM	TO
CULBERSON	TEXAS	84-901	10/25/04	12	10/25/05	10/25/06

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871956.002	DONALD RICHARDSON, AGENT	**$20.00**

PAY TO THE ORDER OF **Texas General Land Office**
Stephen F. Austin Bldg
1700 N Congress Ave
Austin, TX, 787011495, United States

M-104540

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE

YOURCE /

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** Texas General Land Office Stephen F. Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495	$20.00	

121

TRACT
44094
BLOCK 100, PUBLIC SCHOOL LAND SURVEY
SECTION 4: ALL SECTION 5: ALL SECTION
6: ALL SECTION 7: ALL SECTION 8: ALL
SECTION 9: ALL

06003358

50.12.6

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW, PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-12-2005** NO. **684192**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-51	10/25/04	12	10/25/05	10/25/06

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871956.001	EUGENE RICHARDSON, AGENT	**$20.00**

PAY TO THE ORDER OF **Texas General Land Office**
Stephen F. Austin Bldg
1700 N Congress Ave
Austin, TX, 787011495, United States

M-104544

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE

YOUR COPY

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** Texas General Land Office Stephen F. Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495	$20.00	

TRACT
44094
BLOCK 100, PUBLIC SCHOOL LAND SURVEY
SECTION 4: ALL SECTION 5: ALL SECTION
6: ALL SECTION 7: ALL SECTION 8: ALL
SECTION 9: ALL

12

SD-12-G

06003359

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-12-2005** NO. **684202**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-101	10/25/04	12	10/25/05	10/25/06

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.006	DANIEL LAIRD, AGENT	**$80.00**

PAY TO THE ORDER OF **Texas General Land Office**
Stephen F. Austin Bldg
1700 N Congress Ave
Austin, TX, 787011495, United States

RECEIVED ON _____ 20___
THE AMOUNT SHOWN ABOVE

YOUR COPY

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

M-104544

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** Texas General Land Office Stephen F. Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495	$80.00	

TRACT
44189
BLOCK 100, PUBLIC SCHOOL LAND SURVEY
SECTION 16: ALL SECTION 17: ALL
SECTION 18: ALL SECTION 19: ALL
SECTION 20: ALL SECTION 21: ALL

12

RECEIVED
SEP 13 PM 1:55

06003357

90.12.6

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-12-2005** NO. **684201**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-131	10/25/04	12	10/25/05	10/25/06

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.007	PACIFIC HOLDINGS LP	**$80.00**

PAY TO THE ORDER OF **Texas General Land Office**
Stephen F. Austin Bldg
1700 N Congress Ave
Austin, TX, 787011495, United States

RECEIVED ON _____ 20
THE AMOUNT SHOWN ABOVE

YOUR COPY

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** M-104544 Texas General Land Office Stephen F. Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44189 BLOCK 100, PUBLIC SCHOOL LAND SURVEY SECTION 16: ALL SECTION 17: ALL SECTION 18: ALL SECTION 19: ALL SECTION 20: ALL SECTION 21: ALL	$80.00	

121

06003431

50·12·6

File No. MF 104544

Rental Payments

Date Filed: 9/21/05

Jerry E. Patterson, Commissioner

By

2-51-02

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-11-2006** NO. **174397**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-211	10/25/04	12	10/25/06	10/25/07

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.011	WAYNE MOORE, AGENT	**$480.00**

PAY TO THE ORDER OF **TEXAS GENERAL LAND OFFICE**
Stephen F Austin Bldg
1700 N Congress Ave
Austin TX 787011495
United States

YOUR COPY

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** M-104544 Texas General Land Office Stephen F Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44189 BLOCK 100, PUBLIC SCHOOL LAND SURVEY SECTION 16: ALL SECTION 17: ALL SECTION 18: ALL SECTION 19: ALL SECTION 20: ALL SECTION 21: ALL	X $480.00 121	07003641

90.22.6

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA.

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/ SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-11-2006** NO. **174398**

LEASE RECORDS ACCOUNT

COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	RENTAL PERIOD MONTHS	FROM	TO
CULBERSON	TEXAS	85-251	10/25/04	12	10/25/06	10/25/07

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.010	MONTGOMERY WALKER 74 TRU	**$480.00**

PAY TO THE ORDER OF **TEXAS GENERAL LAND OFFICE**
Stephen F Austin Bldg
1700 N Congress Ave
Austin TX 787011495
United States

YOUR COPY

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** M-104544 Texas General Land Office Stephen F Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44189 BLOCK 100, PUBLIC SCHOOL LAND SURVEY SECTION 16: ALL SECTION 17: ALL SECTION 18: ALL SECTION 19: ALL SECTION 20: ALL SECTION 21: ALL	$480.00	

X

121

07003640

90-22-6

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/ SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-11-2006** NO. **174400**

LEASE RECORDS ACCOUNT

COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	RENTAL PERIOD MONTHS	FROM	TO
CULBERSON	TEXAS	85-171	10/25/04	12	10/25/06	10/25/07

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.008	PEARL MOORE CARTER ESTAT	**$60.00**

PAY TO THE ORDER OF **TEXAS GENERAL LAND OFFICE**
Stephen F Austin Bldg
1700 N Congress Ave
Austin TX 787011495
United States

YOUR COPY

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE

_____
NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** M-104544 Texas General Land Office Stephen F Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44189 BLOCK 100, PUBLIC SCHOOL LAND SURVEY SECTION 16: ALL SECTION 17: ALL SECTION 18: ALL SECTION 19: ALL SECTION 20: ALL SECTION 21: ALL	$60.00	

X

121

07003638

90-23-6

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-11-2006** NO. **174399**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-201	10/25/04	12	10/25/06	10/25/07

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.009	CHARLOTTE WALKER FURMAN	**$60.00**

PAY TO THE ORDER OF **TEXAS GENERAL LAND OFFICE**
Stephen F Austin Bldg
1700 N Congress Ave
Austin TX 787011495
United States

YOUR COPY

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** M-104544 Texas General Land Office Stephen F Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44189 BLOCK 100, PUBLIC SCHOOL LAND SURVEY SECTION 16: ALL SECTION 17: ALL SECTION 18: ALL SECTION 19: ALL SECTION 20: ALL SECTION 21: ALL	$60.00	

X

121

07003639

90.22.6

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA.

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-11-2006** NO. **174404**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-291	10/25/04	12	10/25/06	10/25/07

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.004	ANN RICHARDSON PETERS	**$20.00**

PAY TO THE ORDER OF **TEXAS GENERAL LAND OFFICE**
Stephen F Austin Bldg
1700 N Congress Ave
Austin TX 787011495
United States

YOUR COPY

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** M-104544 Texas General Land Office Stephen F Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44189 BLOCK 100, PUBLIC SCHOOL LAND SURVEY SECTION 16: ALL SECTION 17: ALL SECTION 18: ALL SECTION 19: ALL SECTION 20: ALL SECTION 21: ALL	X $20.00 (2)	07003634

90-22-6

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW, PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/ SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-11-2006** NO. **174405**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-11	10/25/04	12	10/25/06	10/25/07

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.003	PAULA CAMILLE R OMALLEY	**$20.00**

PAY TO THE ORDER OF **TEXAS GENERAL LAND OFFICE**
Stephen F Austin Bldg
1700 N Congress Ave
Austin TX 787011495
United States

YOUR COPY

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** M-104544 Texas General Land Office Stephen F Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44189 BLOCK 100, PUBLIC SCHOOL LAND SURVEY SECTION 16: ALL SECTION 17: ALL SECTION 18: ALL SECTION 19: ALL SECTION 20: ALL SECTION 21: ALL	$20.00	

X

121

07003633

90-22-6

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-11-2006** NO. **174406**

LEASE RECORDS ACCOUNT

COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	RENTAL PERIOD MONTHS	FROM	TO
CULBERSON	TEXAS	84-891	10/25/04	12	10/25/06	10/25/07

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.002	DONALD RICHARDSON, AGENT	**$20.00**

PAY TO THE ORDER OF **TEXAS GENERAL LAND OFFICE**
Stephen F Austin Bldg
1700 N Congress Ave
Austin TX 787011495
United States

YOUR COPY

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** M-104544 Texas General Land Office Stephen F Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44189 BLOCK 100, PUBLIC SCHOOL LAND SURVEY SECTION 16: ALL SECTION 17: ALL SECTION 18: ALL SECTION 19: ALL SECTION 20: ALL SECTION 21: ALL	X $20.00	121

07003632

90-22-6

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-11-2006** NO. **174407**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-41	10/25/04	12	10/25/06	10/25/07

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.001	EUGENE RICHARDSON, AGENT	**$20.00**

PAY TO THE ORDER OF **TEXAS GENERAL LAND OFFICE**
Stephen F Austin Bldg
1700 N Congress Ave
Austin TX 787011495
United States

YOUR COPY

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE

_____
NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** M-104544 Texas General Land Office Stephen F Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44189 BLOCK 100, PUBLIC SCHOOL LAND SURVEY SECTION 16: ALL SECTION 17: ALL SECTION 18: ALL SECTION 19: ALL SECTION 20: ALL SECTION 21: ALL	$20.00	

X

121

07003631

91-22-6

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-11-2006** NO. **174403**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-61	10/25/04	12	10/25/06	10/25/07

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.005	JO GRACE LAIRD FLOOD	**$80.00**

PAY TO THE ORDER OF **TEXAS GENERAL LAND OFFICE**
Stephen F Austin Bldg
1700 N Congress Ave
Austin TX 787011495
United States

YOUR COPY

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** M-104544 Texas General Land Office Stephen F Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44189 BLOCK 100, PUBLIC SCHOOL LAND SURVEY SECTION 16: ALL SECTION 17: ALL SECTION 18: ALL SECTION 19: ALL SECTION 20: ALL SECTION 21: ALL	$80.00	

121

07003635

90-22-6

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA.

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-11-2006** NO. **174402**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-101	10/25/04	12	10/25/06	10/25/07

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.006	DANIEL LAIRD, AGENT	**$80.00**

PAY TO THE ORDER OF **TEXAS GENERAL LAND OFFICE**
Stephen F Austin Bldg
1700 N Congress Ave
Austin TX 787011495
United States

YOUR COPY

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** M-104544 Texas General Land Office Stephen F Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44189 BLOCK 100, PUBLIC SCHOOL LAND SURVEY SECTION 16: ALL SECTION 17: ALL SECTION 18: ALL SECTION 19: ALL SECTION 20: ALL SECTION 21: ALL	$80.00 121	

07003636

90-22-6

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-11-2006** NO. **174401**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-131	10/25/04	12	10/25/06	10/25/07

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.007	PACIFIC HOLDINGS LP	**$80.00**

PAY TO THE ORDER OF **TEXAS GENERAL LAND OFFICE**
Stephen F Austin Bldg
1700 N Congress Ave
Austin TX 787011495
United States

YOUR COPY

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** M-104544 Texas General Land Office Stephen F Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44189 BLOCK 100, PUBLIC SCHOOL LAND SURVEY SECTION 16: ALL SECTION 17: ALL SECTION 18: ALL SECTION 19: ALL SECTION 20: ALL SECTION 21: ALL	X $80.00 121	07003637

90.22.6

8.

File No. MF104544

RENTIAL PAYMENTS

Date Filed: 9/22/06

Jerry E. Patterson, Commissioner

By

3-53-02

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA.

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-10-2007** NO. **294537**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-211	10/25/04	24	10/25/07	10/25/09

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.011	WAYNE MOORE, AGENT	**$24,000.00**

PAY TO THE ORDER OF **TEXAS GENERAL LAND OFFICE**
Stephen F Austin Bldg
1700 N Congress Ave
Austin TX 787011495
United States

121

YOUR COPY

RECEIVED ON _____ 20
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** M-104544 3RD YR PYMT Texas General Land Office Stephen F Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495	$24,000.00	

TRACT
44189
BLOCK 100, PUBLIC SCHOOL LAND SURVEY
SECTION 16: ALL SECTION 17: ALL
SECTION 18: ALL SECTION 19: ALL
SECTION 20: ALL SECTION 21: ALL

08001760

40.526

(9)

File No. MF-104544

Delay Rental

Date Filed: 9/25/2007

Jerry E. Patterson, Commissioner

By J. Buerm

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA.

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-10-2007** NO. **294530**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-291	10/25/04	24	10/25/07	10/25/09

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.004	ANN RICHARDSON PETERS	**$1,000.00**

PAY TO THE ORDER OF **TEXAS GENERAL LAND OFFICE**
Stephen F Austin Bldg
1700 N Congress Ave
Austin TX 787011495
United States

121

YOUR COPY

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** M-104544 3RD YR PYMT Texas General Land Office Stephen F Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44189 BLOCK 100, PUBLIC SCHOOL LAND SURVEY SECTION 16: ALL SECTION 17: ALL SECTION 18: ALL SECTION 19: ALL SECTION 20: ALL SECTION 21: ALL	$1,000.00	

08001765

10.52.6

10.

File No. MF-104544

Delay Rental

Date Filed: 9/25/2007

Jerry E. Patterson, Commissioner

By J. E. Bueno

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA.

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-10-2007** NO. **294529**

LEASE RECORDS ACCOUNT

COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	RENTAL PERIOD MONTHS	FROM	TO
CULBERSON	TEXAS	85-11	10/25/04	24	10/25/07	10/25/09

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.003	PAULA CAMILLE R OMALLEY	**$1,000.00**

PAY TO THE ORDER OF **TEXAS GENERAL LAND OFFICE**
Stephen F Austin Bldg
1700 N Congress Ave
Austin TX 787011495
United States

121

YOUR COPY

RECEIVED ON _____ 20
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** M-104544 3RD YR PYMT Texas General Land Office Stephen F Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44189 BLOCK 100, PUBLIC SCHOOL LAND SURVEY SECTION 16: ALL SECTION 17: ALL SECTION 18: ALL SECTION 19: ALL SECTION 20: ALL SECTION 21: ALL	$1,000.00	

08001766

21-32-5

(11.)

File No. MF-104544

Delay Rental

Date Filed: 9/25/2007

Jerry E. Patterson, Commissioner

By J. E. Bueno

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW, PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA.

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-10-2007** NO. **294528**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	84-891	10/25/04	24	10/25/07	10/25/09

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.002	DONALD RICHARDSON, AGENT	**$1,000.00**

PAY TO THE ORDER OF **TEXAS GENERAL LAND OFFICE**
Stephen F Austin Bldg
1700 N Congress Ave
Austin TX 787011495
United States

121
YOUR COPY

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** M-104544 3RD YR PYMT Texas General Land Office Stephen F Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495	$1,000.00	

TRACT
44189
BLOCK 100, PUBLIC SCHOOL LAND SURVEY
SECTION 16: ALL SECTION 17: ALL
SECTION 18: ALL SECTION 19: ALL
SECTION 20: ALL SECTION 21: ALL

08001767

20-52-6

(12.)

File No. MF - 104544

Delay Rental

Date Filed: 9/25/2007

Jerry E. Patterson, Commissioner

By J E Bueno

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/ SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-10-2007** NO. **294527**

LEASE RECORDS ACCOUNT

COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	RENTAL PERIOD MONTHS	FROM	TO
CULBERSON	TEXAS	85-41	10/25/04	24	10/25/07	10/25/09

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.001	EUGENE RICHARDSON, AGENT	**$1,000.00**

PAY TO THE ORDER OF **TEXAS GENERAL LAND OFFICE**
Stephen F Austin Bldg
1700 N Congress Ave
Austin TX 787011495
United States

YOUR COPY

RECEIVED ON _____ 20
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** M-104544 3RD YR PYMT Texas General Land Office Stephen F Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44189 BLOCK 100, PUBLIC SCHOOL LAND SURVEY SECTION 16: ALL SECTION 17: ALL SECTION 18: ALL SECTION 19: ALL SECTION 20: ALL SECTION 21: ALL	$1,000.00	

121 08001768

20-32-6

(13)

File No. MF-104544

Delay Rental

Date Filed: 9/25/2007

Jerry E. Patterson, Commissioner

By J. E. Guerra

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-10-2007** NO. **294535**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-201	10/25/04	24	10/25/07	10/25/09

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.009	CHARLOTTE WALKER FURMAN	$3,000.00

PAY TO THE ORDER OF **TEXAS GENERAL LAND OFFICE**
Stephen F Austin Bldg
1700 N Congress Ave
Austin TX 787011495
United States

121
YOUR COPY

RECEIVED ON _____ 20
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** M-104544 3RD YR PYMT Texas General Land Office Stephen F Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44189 BLOCK 100, PUBLIC SCHOOL LAND SURVEY SECTION 16: ALL SECTION 17: ALL SECTION 18: ALL SECTION 19: ALL SECTION 20: ALL SECTION 21: ALL	$3,000.00	

08001771

20.526

(14.)

File No. MF-104544

Delay Rental

Date Filed: 9/25/2007

Jerry E. Patterson, Commissioner

By J. E. Guerra

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA.

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-10-2007** NO. **294534**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-171	10/25/04	24	10/25/07	10/25/09

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.008	PEARL MOORE CARTER ESTAT	**$3,000.00**

PAY TO THE ORDER OF **TEXAS GENERAL LAND OFFICE**
Stephen F Austin Bldg
1700 N Congress Ave
Austin TX 787011495
United States

YOUR COPY

RECEIVED ON _____ 20
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** M-104544 3RD YR PYMT Texas General Land Office Stephen F Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44189 BLOCK 100, PUBLIC SCHOOL LAND SURVEY SECTION 16: ALL SECTION 17: ALL SECTION 18: ALL SECTION 19: ALL SECTION 20: ALL SECTION 21: ALL	$3,000.00	

08001772

20.526

15.

File No. MF-104544

Delay Rental

Date Filed: 9/25/2007

Jerry E. Patterson, Commissioner

By J E. Brown

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-10-2007** NO. **294533**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-131	10/25/04	24	10/25/07	10/25/09

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.007	PACIFIC HOLDINGS LP	**$4,000.00**

PAY TO THE ORDER OF **TEXAS GENERAL LAND OFFICE**
Stephen F Austin Bldg
1700 N Congress Ave
Austin TX 787011495
United States

121

YOUR COPY

RECEIVED ON _____ 20
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** M-104544 3RD YR PYMT Texas General Land Office Stephen F Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44189 BLOCK 100, PUBLIC SCHOOL LAND SURVEY SECTION 16: ALL SECTION 17: ALL SECTION 18: ALL SECTION 19: ALL SECTION 20: ALL SECTION 21: ALL	$4,000.00	

08001779

20.52.6

(16)

File No. MF-104544

Delay Rental

Date Filed: 9/25/2007

Jerry E. Patterson, Commissioner

By J. E. Bueno

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

√

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-10-2007** NO. **294532**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-101	10/25/04	24	10/25/07	10/25/09

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.006	DANIEL LAIRD, AGENT	$4,000.00

X

PAY TO THE ORDER OF **TEXAS GENERAL LAND OFFICE**
Stephen F Austin Bldg
1700 N Congress Ave
Austin TX 787011495
United States

121

YOUR COPY

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** M-104544 3RD YR PYMT Texas General Land Office Stephen F Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44189 BLOCK 100, PUBLIC SCHOOL LAND SURVEY SECTION 16: ALL SECTION 17: ALL SECTION 18: ALL SECTION 19: ALL SECTION 20: ALL SECTION 21: ALL	$4,000.00	

08001780

20·52·6

File No. MF - 104544

17.

Delay Rental

Date Filed: 9/25/2007

Jerry E. Patterson, Commissioner

By J E Burns

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA.

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-10-2007** NO. **294531**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-61	10/25/04	24	10/25/07	10/25/09

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.005	JO GRACE LAIRD FLOOD	**$4,000.00**

PAY TO THE ORDER OF **TEXAS GENERAL LAND OFFICE**
Stephen F Austin Bldg
1700 N Congress Ave
Austin TX 787011495
United States

121

YOUR COPY

RECEIVED ON _____ 20
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK

** DELAY RENTALS **
M-104544
3RD YR PYMT
Texas General Land Office
Stephen F Austin Bldg
1700 N Congress Ave
Austin, TEXAS 787011495

$4,000.00

TRACT
44189
BLOCK 100, PUBLIC SCHOOL LAND SURVEY
SECTION 16: ALL SECTION 17: ALL
SECTION 18: ALL SECTION 19: ALL
SECTION 20: ALL SECTION 21: ALL

08001781

20.52.6

(18)

File No. MF - 104544

Delay Rental

Date Filed: 9/25/2007

Jerry E. Patterson, Commissioner

By J. E. Bueno

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA.

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/ SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-10-2007** NO. **294536**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-251	10/25/04	24	10/25/07	10/25/09

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.010	MONTGOMERY WALKER 74 TRU	**$24,000.00**

PAY TO THE ORDER OF **TEXAS GENERAL LAND OFFICE**
Stephen F Austin Bldg
1700 N Congress Ave
Austin TX 787011495
United States

121

YOUR COPY

RECEIVED ON _____ 20
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK

** DELAY RENTALS **
M-104544
3RD YR PYMT
Texas General Land Office
Stephen F Austin Bldg
1700 N Congress Ave
Austin, TEXAS 787011495

$24,000.00

TRACT
44189
BLOCK 100, PUBLIC SCHOOL LAND SURVEY
SECTION 16: ALL SECTION 17: ALL
SECTION 18: ALL SECTION 19: ALL
SECTION 20: ALL SECTION 21: ALL

08001784

20.56.6

(19.)

File No. MF-104544

Delta Rental

Date Filed: 9/25/2007

Jerry E. Patterson, Commissioner

By J E Burns

YOUR COPY

COUNTY OF CULBERSON }
}
STATE OF TEXAS }

TM-104544 38

AGREEMENT TO AMEND DELAY RENTAL PROVISION OF OIL AND GAS LEASE

KNOW ALL MEN BY THESE PRESENTS:

WHEREAS, On October 25, 2004, the State of Texas, acting by and through its agent, Pacific Holdings, L. P., referred to as the owner of the soil, executed an Oil and Gas Lease (Texas GLO Mineral File Number 104543) in favor of Clay Johnson, as Lessee, recorded in Volume 85, Page 141 in the Deed Records of Culberson County, Texas and covering the following described tracts of land:

Block 100, Public School Land Survey
Section 4: All
Section 5: All
Section 6: All
Section 7: All
Section 8: All
Section 9: All

WHEREAS, Frijole Ranch Partners LP whose address is P. O. Box 10184, Midland, TX 79702 is the successor to Pacific Holdings, L. P., as Lessor and EnCana Oil & Gas (USA) Inc., whose address is 14001 N. Dallas Parkway, Suite 1000, Dallas, TX 75240 is the successor to Clay Johnson, as Lessee;

WHEREAS, it is the desire of the parties hereto that the delay rental amount of said lease be changed;

NOW, THEREFORE, We the undersigned, the present owners of the oil and gas in, on and under said land, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged do hereby agree as follows:

That the following paragraph of Exhibit "A" of said lease reads:

2. Amended Delay Rental Provision:
*As to any rentals that may be paid on or before the 1st, 2nd and 4th anniversary date. In the event that delay rentals are paid on or before the 2nd anniversary date (and after the 3rd anniversary date), they shall be payable in the amount of $ 80.00.
**Except that if delay rentals are paid on or before the 3rd anniversary date (and after the 2nd anniversary date), the total rental paid shall be $ 8,000.00.

Said paragraph shall be amended to read:

2. Amended Delay Rental Provision:
*As to any rentals that may be paid on or before the 1st, 2nd and 4th anniversary date. In the event that delay rentals are paid on or before the 2nd anniversary date (and after the 3rd anniversary date), they shall be payable in the amount of $1,200.00. Payments under this paragraph shall be in the following amounts:

To the owner of the soil:	$ 600.00
To the State of Texas:	$ 600.00
Total Rental:	$ 1,200.00

**Except that if delay rentals are paid on or before the 3rd anniversary date (and after the 2nd anniversary date), the total rental paid shall be $60,000.00. Payments under this paragraph shall be in the following amounts:

To the owner of the soil:	$ 30,000.00
To the State of Texas:	$ 30,000.00
Total Rental:	$ 60,000.00

To effectuate the purposes and intent of the parties hereto, there is hereby leased by the State of Texas, acting by and through its agent, Frijole Ranch Partners LP unto EnCana Oil & Gas (USA)

Inc. all the oil and gas in, on or under the above described property for and during the term of said lease as herein amended, and subject to the provisions thereof. Except as herein changed, the provisions of said lease and any recorded amendment thereto shall remain in full force and effect, and are hereby ratified, adopted and confirmed the same as if incorporated herein. The terms, provisions and obligations of this Amendment shall be binding upon and shall inure to the benefit of the parties hereto, their heirs, their legal representatives, administrators, successors and assigns.

THIS AMENDMENT is hereby accepted by Lessor and Lessee upon duly recording the Amendment in the Official Public Records of Culberson County, Texas.

IN WITNESS WHEREOF this instrument is executed this _____ day of _____, 2007.

State of Texas
Frijole Ranch Partners LP

By: _____
Individually and as agent for the State of Texas
Jack E. Blake, Jr., President of the General Partner

EnCana Oil & Gas (USA) Inc.

By: _____ Walter Britt
Mark A. Virant, Attorney-In-Fact

ACKNOWLEDGMENTS

THE STATE OF TEXAS }
}
COUNTY OF Midland }

The foregoing instrument was acknowledged before me this 7th day of November 2007, by Jack E. Blake, Jr., President of the General Partner of Frijole Ranch Partners LP and as agent for the State of Texas.

JAN R. DAVIS
MY COMMISSION EXPIRES
September 16, 2008

Jan R. Davis
Notary Public in and for the State of Texas

THE STATE OF TEXAS }
}
COUNTY OF DALLAS }

The foregoing instrument was acknowledged before me this 1st day of November 2007, by Mark A. Virant, Attorney-in-Fact for EnCana Oil & Gas (USA) Inc., a Delaware corporation, on behalf of said corporation.

DEBRA A. MITCHELL
MY COMMISSION EXPIRES
October 7, 2009

Debra A. Mitchell
Notary Public in and for the State of Texas

ENCANA™

EnCana Oil & Gas (USA) Inc.

EnCana Oil & Gas (USA) Inc.
14001 N. Dallas Parkway
Suite 1100
Dallas, Texas 75240

tel: 214-723-7444
fax: 214-242-7386

www.encana.com

November 12, 2007

Texas General Land Office
1700 N. Congress Avenue
Austin, TX 78701-1495

Attn: Mr. Drew Reid

Re: Amendments to Oil and Gas Leases
Culberson County, TX

Dear Mr. Reid:

Please find enclosed copies of three Agreements to Amend Oil and Gas Leases that were executed on November 7, 2007 by Frijole Ranch Partners, acting as agent for the State of Texas, and EnCana Oil & Gas (USA) Inc. These agreements amend the original Oil and Gas Leases dated October 25, 2004 by correcting the delay rental provision. The leases affected are as follows: MCL 104542, MCL 104543 and MCL 104544. Upon receipt of the recorded originals from Culberson County, TX, I will send you a set of the recorded documents. I have also enclosed a check made payable to the Texas General Land Office in the amount of $73,666.66 as payment for the correction in the delay rental payment for 2007 for the three leases. If you have any questions, please call me at the above listed number.

Sincerely yours,

Jayne W. Bass

Jayne W. Bass
Land Coordinator–West Texas

Enc

ENCANA

EnCana Oil & Gas (USA) Inc.

EnCana Oil & Gas (USA) Inc.
14001 N. Dallas Parkway
Suite 1100
Dallas, Texas 75240

tel: 214-723-7444
fax: 214-242-7386
www.encana.com

November 1, 2007

Frijole Ranch Partners LP
P. O. Box 10184
Midland, TX 79702

Attn: Mr. Jack E. Blake, Jr.

Re: Amendment to Oil & Gas Leases
Delay Rental Provision
Culberson County, TX

Dear Mr. Blake:

Please find enclosed three Agreements to amend the delay rental provision for leases dated October 25, 2004. The leases affected by this provision are Mineral Classified Leases #104542, 104543 and 104544. Upon your execution, please return the Agreements to my attention and we will send you a check for the difference that is due you for the 2007 delay rental payment ($73,666.66) and we will forward a check to the State of Texas for the same amount. Once the agreements have been recorded in Culberson County and filed with the State of Texas I will send you a copy. Thank you for your patience in this matter and if you have any questions, please call me at the above listed number.

Sincerely yours,

Jayne W. Bass

Jayne W. Bass
Land Coordinator – West Texas

Enc

FRIJOLE RANCH PARTNERS LP
P.O. BOX 10184
MIDLAND, TEXAS 79702
TEL. 432-682-9585
FAX 432-684-4621

November 7, 2007

Ms. Jayne W. Bass
EnCana Oil & Gas (USA)
14001 N. Dallas Parkway, Suite 1100
Dallas, Texas 75240

Re: Amendment to Oil & Gas Leases
GLO #'s 104542, 104543, 104544
Delay Rental Provision
Culberson County, Texas

Dear Jayne,

Executed originals of the captioned (3) amendments are transmitted herewith. Please forward checks in the amounts of $73,666.66 each to Frijole Ranch Partners LP and The State of Texas. Thank you kindly for your efforts in this matter.

Yours truly,

Frijole Ranch Partners LP

By: Jack E. Blake, Jr., President
Frijole Ranch Management LLC,
its General Partner

xc w/ Enclosures: Mr. Drew Reid
General Land Office of Texas
P.O. Box 12873
Austin, Texas 78711-2873

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

VENDOR NAME	VENDOR NO.	CHECK DATE	CHECK NUMBER	AMOUNT
TEXAS GENERAL LAND OFFICE	2053910	Nov-13-2007	316145	$73,666.66

VOUCHER	VENDOR INV. #	INV. DATE	TOTAL AMOUNT	PRIOR PMTS & DISCOUNTS	NET AMOUNT
7943731	2053910-111207A	11/12/07	73666.66	.00	73666.66
Delay Rental Provision for 3 L					
TOTAL INVOICES PAID			73666.66	.00	73666.66

X

121

08005710

20.

File No. MT104544
Letter of Amendment
Date Filed: 11/9/07
Jerry E. Patterson, Commissioner
By:

COUNTY OF CULBERSON }
}
STATE OF TEXAS }

#62930

AGREEMENT TO AMEND DELAY RENTAL PROVISION OF OIL AND GAS LEASE

KNOW ALL MEN BY THESE PRESENTS:

WHEREAS, On October 25, 2004, the State of Texas, acting by and through its agent, Pacific Holdings, L. P., referred to as the owner of the soil, executed an Oil and Gas Lease (Texas GLO Mineral File Number 104544) in favor of Clay Johnson, as Lessee, recorded in Volume 85, Page 131 in the Deed Records of Culberson County, Texas and covering the following described tracts of land:

Block 100, Public School Land Survey
Section 16: All
Section 17: All
Section 18: All
Section 19: All
Section 20: All
Section 21: All

WHEREAS, Frijole Ranch Partners LP whose address is P. O. Box 10184, Midland, TX 79702 is the successor to Pacific Holdings, L. P., as Lessor and EnCana Oil & Gas (USA) Inc., whose address is 14001 N. Dallas Parkway, Suite 1000, Dallas, TX 75240 is the successor to Clay Johnson, as Lessee;

WHEREAS, it is the desire of the parties hereto that the delay rental amount of said lease be changed;

NOW, THEREFORE, We the undersigned, the present owners of the oil and gas in, on and under said land, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged do hereby agree as follows:

That the following paragraph of Exhibit "A" of said lease reads:

2. Amended Delay Rental Provision:
*As to any rentals that may be paid on or before the 1st, 2nd and 4th anniversary date. In the event that delay rentals are paid on or before the 2nd anniversary date (and after the 3rd anniversary date), they shall be payable in the amount of $ 80.00.
**Except that if delay rentals are paid on or before the 3rd anniversary date (and after the 2nd anniversary date), the total rental paid shall be $ 8,000.00.

Said paragraph shall be amended to read:

2. Amended Delay Rental Provision:
*As to any rentals that may be paid on or before the 1st, 2nd and 4th anniversary date. In the event that delay rentals are paid on or before the 2nd anniversary date (and after the 3rd anniversary date), they shall be payable in the amount of $1,200.00. Payments under this paragraph shall be in the following amounts:

To the owner of the soil:	$ 600.00
To the State of Texas:	$ 600.00
Total Rental:	$ 1,200.00

**Except that if delay rentals are paid on or before the 3rd anniversary date (and after the 2nd anniversary date), the total rental paid shall be $60,000.00. Payments under this paragraph shall be in the following amounts:

To the owner of the soil:	$ 30,000.00
To the State of Texas:	$ 30,000.00
Total Rental:	$ 60,000.00

To effectuate the purposes and intent of the parties hereto, there is hereby leased by the State of Texas, acting by and through its agent, Frijole Ranch Partners LP unto EnCana Oil & Gas (USA)

Inc. all the oil and gas in, on or under the above described property for and during the term of said lease as herein amended, and subject to the provisions thereof. Except as herein changed, the provisions of said lease and any recorded amendment thereto shall remain in full force and effect, and are hereby ratified, adopted and confirmed the same as if incorporated herein. The terms, provisions and obligations of this Amendment shall be binding upon and shall inure to the benefit of the parties hereto, their heirs, their legal representatives, administrators, successors and assigns.

THIS AMENDMENT is hereby accepted by Lessor and Lessee upon duly recording the Amendment in the Official Public Records of Culberson County, Texas.

IN WITNESS WHEREOF this instrument is executed this 7th day of November, 2007.

State of Texas
Frijole Ranch Partners LP

By: _____
Individually and as agent for the State of Texas
Jack E. Blake, Jr., President of the General Partner

EnCana Oil & Gas (USA) Inc.

By: _____ Work Prior
Mark A. Virant, Attorney-In-Fact

ACKNOWLEDGMENTS

THE STATE OF TEXAS }
}
COUNTY OF Midland }

The foregoing instrument was acknowledged before me this 7th day of November 2007, by Jack E. Blake, Jr., President of the General Partner of Frijole Ranch Partners LP and as agent for the State of Texas.

JAN R. DAVIS
MY COMMISSION EXPIRES
September 16, 2008

_____
Notary Public in and for the State of Texas

THE STATE OF TEXAS }
}
COUNTY OF DALLAS }

The foregoing instrument was acknowledged before me this 1st day of November 2007, by Mark A. Virant, Attorney-in-Fact for EnCana Oil & Gas (USA) Inc., a Delaware corporation, on behalf of said corporation.

DEBRA A. MITCHELL
MY COMMISSION EXPIRES
October 7, 2009

_____
Notary Public in and for the State of Texas

62930

FILED FOR RECORD
AT 11:10 O'CLOCK A M
ON THE 16 DAY OF November
A.D., 20 07

Linda McDonald
COUNTY CLERK, CULBERSON COUNTY, TEXAS
BY Veronica D Bayer
DEPUTY

STATE OF TEXAS
COUNTY OF CULBERSON
I hereby certify that this instrument was FILED on the date and at the time stamped hereon by me and was duly RECORDED in the Volume and Page of the OIL & GAS Records of Culberson County, Texas.

Linda McDonald
COUNTY CLERK,
CULBERSON COUNTY, TEXAS
Nina C. Urias
VOL. 95 PAGE 451-462
RECORDED DEC 12, 2007

21.

File No. MF 104544

Revised Amendment

Date Filed: 2/7/08

Jerry E. Patterson, Commissioner

By

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW, PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/ SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-08-2008** NO. **415686**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-131	10/25/04	12	10/25/08	10/25/09

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.007	PACIFIC HOLDINGS LP	**$600.00**

PAY TO THE ORDER OF **TEXAS GENERAL LAND OFFICE**
Stephen F Austin Bldg
1700 N Congress Ave
Austin TX 787011495
United States

YOUR COPY

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** M-104544 A Texas General Land Office Stephen F Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44189 BLOCK 100, PUBLIC SCHOOL LAND SURVEY SECTION 16: ALL SECTION 17: ALL SECTION 18: ALL SECTION 19: ALL SECTION 20: ALL SECTION 21: ALL	$600.00	

121

09001833

08.05.6

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

[redacted]IEN SIGNED, PLEASE MAIL TO:

ENCANA.

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/ SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE Sep-08-2008 NO. 415689

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-251	10/25/04	12	10/25/08	10/25/09

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.010	MONTGOMERY WALKER 74 TRU	$480.00

PAY TO THE ORDER OF **TEXAS GENERAL LAND OFFICE**
Stephen F Austin Bldg
1700 N Congress Ave
Austin TX 787011495
United States

YOUR COPY

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** M-104544 D Texas General Land Office Stephen F Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44189 BLOCK 100, PUBLIC SCHOOL LAND SURVEY SECTION 16: ALL SECTION 17: ALL SECTION 18: ALL SECTION 19: ALL SECTION 20: ALL SECTION 21: ALL	$480.00	121 0900836

$0.00.6

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW, PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

EnCana

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-08-2008** NO. **415690**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-211	10/25/04	12	10/25/08	10/25/09

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.011	WAYNE MOORE, AGENT	**$480.00**

PAY TO THE ORDER OF **TEXAS GENERAL LAND OFFICE**
Stephen F Austin Bldg
1700 N Congress Ave
Austin TX 787011495
United States

YOUR COPY

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** M-104544 C Texas General Land Office Stephen F Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44189 BLOCK 100, PUBLIC SCHOOL LAND SURVEY SECTION 16: ALL SECTION 17: ALL SECTION 18: ALL SECTION 19: ALL SECTION 20: ALL SECTION 21: ALL	$480.00	

121

09001837

90.05.5

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-08-2008** NO. **415684**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-61	10/25/04	12	10/25/08	10/25/09

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.005	JO GRACE LAIRD FLOOD	**$80.00**

PAY TO THE ORDER OF **TEXAS GENERAL LAND OFFICE**
Stephen F Austin Bldg
1700 N Congress Ave
Austin TX 787011495
United States

YOUR COPY

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** M-104544 Texas General Land Office Stephen F Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44189 BLOCK 100, PUBLIC SCHOOL LAND SURVEY SECTION 16: ALL SECTION 17: ALL SECTION 18: ALL SECTION 19: ALL SECTION 20: ALL SECTION 21: ALL	$80.00	

09001831

$0.0.6

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

[redacted] SIGNED, PLEASE MAIL TO:

ENCANA.

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE Sep-08-2008 NO. 415685

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-101	10/25/04	12	10/25/08	10/25/09

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.006	DANIEL LAIRD, AGENT	$80.00

PAY TO THE ORDER OF **TEXAS GENERAL LAND OFFICE**
Stephen F Austin Bldg
1700 N Congress Ave
Austin TX 787011495
United States

YOUR COPY

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** M-104544 Texas General Land Office Stephen F Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44189 BLOCK 100, PUBLIC SCHOOL LAND SURVEY SECTION 16: ALL SECTION 17: ALL SECTION 18: ALL SECTION 19: ALL SECTION 20: ALL SECTION 21: ALL	$80.00	

09001832

08.06.6

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA.

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-08-2008** NO. **415687**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-171	10/25/04	12	10/25/08	10/25/09

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.008	PEARL MOORE CARTER ESTAT	**$60.00**

PAY TO THE ORDER OF **TEXAS GENERAL LAND OFFICE**
Stephen F Austin Bldg
1700 N Congress Ave
Austin TX 787011495
United States

YOUR COPY

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE

_____
NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** M-104544 F Texas General Land Office Stephen F Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44189 BLOCK 100, PUBLIC SCHOOL LAND SURVEY SECTION 16: ALL SECTION 17: ALL SECTION 18: ALL SECTION 19: ALL SECTION 20: ALL SECTION 21: ALL	$60.00	

09001834

121

08.06.6

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW, PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA.

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-08-2008** NO. **415688**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-201	10/25/04	12	10/25/08	10/25/09

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.009	CHARLOTTE WALKER FURMAN	**$60.00**

PAY TO THE ORDER OF **TEXAS GENERAL LAND OFFICE**
Stephen F Austin Bldg
1700 N Congress Ave
Austin TX 787011495
United States

YOUR COPY

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE

_____
NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** M-104544 G Texas General Land Office Stephen F Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44189 BLOCK 100, PUBLIC SCHOOL LAND SURVEY SECTION 16: ALL SECTION 17: ALL SECTION 18: ALL SECTION 19: ALL SECTION 20: ALL SECTION 21: ALL	$60.00	

09001835

121

09.06.5

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW, PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA.

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-08-2008** NO. **415681**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	84-891	10/25/04	12	10/25/08	10/25/09

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.002	DONALD RICHARDSON, AGENT	**$20.00**

PAY TO THE ORDER OF **TEXAS GENERAL LAND OFFICE**
Stephen F Austin Bldg
1700 N Congress Ave
Austin TX 787011495
United States

YOUR COPY

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** M-104544 H Texas General Land Office Stephen F Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44189 BLOCK 100, PUBLIC SCHOOL LAND SURVEY SECTION 16: ALL SECTION 17: ALL SECTION 18: ALL SECTION 19: ALL SECTION 20: ALL SECTION 21: ALL	$20.00	

121

09001828

$0.02.6

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-08-2008** NO. **415682**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-11	10/25/04	12	10/25/08	10/25/09

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.003	PAULA CAMILLE R OMALLEY	**$20.00**

PAY TO THE ORDER OF **TEXAS GENERAL LAND OFFICE**
Stephen F Austin Bldg
1700 N Congress Ave
Austin TX 787011495
United States

YOUR COPY

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** M-104544 I Texas General Land Office Stephen F Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44189 BLOCK 100, PUBLIC SCHOOL LAND SURVEY SECTION 16: ALL SECTION 17: ALL SECTION 18: ALL SECTION 19: ALL SECTION 20: ALL SECTION 21: ALL	$20.00	

121

09001829

09.05.6

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENCANA.

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/
SHUT IN RECEIPT

CITIBANK, DELAWARE
One Penn's Way
New Castle, DE 19720

DATE **Sep-08-2008** NO. **415683**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	85-291	10/25/04	12	10/25/08	10/25/09

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
871957.004	ANN RICHARDSON PETERS	**$20.00**

PAY TO THE ORDER OF **TEXAS GENERAL LAND OFFICE**
Stephen F Austin Bldg
1700 N Congress Ave
Austin TX 787011495
United States

YOUR COPY

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY NAMED COVERING OUR INTEREST IN OIL AND GAS LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** M-104544 Texas General Land Office Stephen F Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44189 BLOCK 100, PUBLIC SCHOOL LAND SURVEY SECTION 16: ALL SECTION 17: ALL SECTION 18: ALL SECTION 19: ALL SECTION 20: ALL SECTION 21: ALL	$20.00	

121

09001830

90-06-5

File No. MF108544

RENTAL PAYMENT

Date Filed: 09/30/08

Jerry E. Patterson, Commissioner

By _____

8-30-09

ENCANA.

EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

VENDOR NAME	VENDOR NO.	CHECK DATE	CHECK NUMBER	AMOUNT
TEXAS GENERAL LAND OFFICE	2053910	Sep-22-2008	423373	$20.00

VOUCHER	VENDOR INV. #	INV. DATE	TOTAL AMOUNT	PRIOR PMTS & DISCOUNTS	NET AMOUNT
9343121	2053910-091708	09/17/08	20.00	.00	20.00
Rent Payment-871957.001					
TOTAL INVOICES PAID			20.00	.00	20.00

M-104544
per Encana

YOUR COPY

121

09001881

00.06.6

Receiver Add/Change/Delete/Transfer or Duplicate Register Number Request Form

Texas General Land Office

Requestor Carol Belvin	Date 10/01/2008	ORIGINAL DISTRIBUTION SLIP INFORMATION:		
Division I S INCOMING MAIL	Phone No. 512463-7774	Remitter Encana O&G Usa Inc	Date 09/30/2008	Mail Code 122
CHECK ONE:		Amount $ 20.00	FY 2009	Register # 09001881

- [x] Original distribution slip attached
- [ ] Duplicate slip required (original lost)
- [ ] Item previously cleared

REQUESTOR COMMENTS:

DELETE MAIL CODE 122 ADD MAIL CODE 121

If information is known, please complete. If not, Receiver will complete.

Deposit or clearance #	Cleared to GLO account (5 digits)	Original FY deposited or cleared

REASON FOR UPDATE (check one):

- [x] Change mail code from 122R to 121N
- [ ] Draft transfer to _____
- [ ] Transfer from Royalty to 900 "G"
- [ ] Transfer from Rental to 900 "N"
- [ ] Original slip lost
- [ ] Add to fund 900 for refund (complete #7)
- [ ] Transfer to 156
- [ ] Transfer to 571 code
- [ ] Add to 156 for refund
- [ ] Add to 571 for refund
- [ ] Other (explain _____

REFUND:

Reason	File number (required for Royalty and Rental)

Remitter Address (optional)

ACTION REQUIRED BY ASSET OR VLB:

- [ ] Delete from lockbox 571
- [ ] Delete from asset susp 156
- [ ] Date completed & initials (Return to Receiver)

OFFICE USE ONLY

ACTION REQUIRED BY RECEIVER:	DATE COMPLETED & INITIALS
[ ] Change mail code _____ to _____	[ ] Duplicate distribution slip
[ ] Add to 900 suspense with coc _____	[ ] Delete from 900
[ ] Add to Royalty suspense 122 (32520)	[ ] Delete from Royalty
[ ] Add to Rental suspense 121 (31620)	[ ] Delete from Rental
[ ] Add to vet lockbox with code _____	[ ] Delete hot check from 900
[ ] Add to asset lockbox 156 (79030)	[ ] N or "G" distribution slip
[ ] Add cancel warrant to code _____	[ ] Other _____

Comments:

Record Copy: Receiver

Rev. 12/99

File No. MF 104544 (J)

RENTAL PAYMENT

Date Filed: 09/30/08

Jerry E. Patterson, Commissioner

By _____