

Deep Rights Retained on J lease until 04/06/2014

STATE LEASE

MF104778

#	LeaseDate	Acres	Status	CONTROL	BASEFILE	COUNTY
A	Feb 18 2005	0.00	ACTIVE T	07-105250	112297 -	REEVES /195 615.07
B	Feb 18 2005	0.00	ACTIVE E	07-105170	137096 -	REEVES /195 320.0
C	Oct 20 2004	0.00	ACTIVE E	07-105214	137097 -	REEVES /195 160.0
D	Feb 18 2005	0.00	ACTIVE E			
E	Oct 20 2004	0.00	ACTIVE E	SURVEY	: PUBLIC SCHOOL LAND	
F	Terminated 12/01/2012			BLOCK	: 58	
G	Terminated 12/01/2012			TOWNSHIP	: 00	
H	Terminated 12/01/2012			SECTION/TRACT:	42, E/2 of 39, SE/4 of 40	
I	Terminated 12/01/2012			PART	:	
J	Terminated 12/01/2012			ACRES	: 938.01 1095.22 gross	
				DEPTH LIMITS	: NO	
Rentals:				LESSEE	: PETRO-HUNT LLC	
Lease				LEASE DATE	: Feb 18 2005	
Admin:				PRIMARY TERM	: 3 yrs	
				BONUS (\$)	: 0.00	
Mineral				RENTAL (\$)	: 1.00	
Maps:				ROYALTY	: 0.12500000	
				VAR ROYALTY	:	

TERMINATION
DATE 12/01/2012
LEASING ROP
MAPS JH
GIS MC

©

CONTENTS OF FILE NO. M-

F104778

1. Letter & fee	11/29/04	ASSIGNMENT FILED IN MF-090897#35, 3/1/09
2. RAA Review	12/6/04	See MF/104548#14 for
3. Letter, bonus, & fee	11/18/05	Pooling Committee Report &
4. Letter	6/9/05	First Amendment & Term
5. Leases (10)	6/9/05	Pooling Agreement 3/19/09
6. Letter	6/16/05	(15) (3) RENTAL PAYMENT'S 9/25/09
7. GLO Letter	9/8/05	See MF/104580#18 for Unit
8. Rental Payments	9/19/05	Agreement ⁴⁵⁵⁴ Memo & emails. Doesn't
9. RENTAL PAYMENT	1/23/06	to GTS. File only. Per Daryl
10. CF Dicta #2007-42	3/19/07	Unit for dealing purposes only. 3/18/10
11. RENTAL PAYMENTS	9/18/06	16. 2010 Delay rental payments G.H.I.
12. Rental Bml.	1/29/07	17. Lease/rental status spreadsheet 9-28-10
See MF-104548#11	1/29/07	See item #16 in MF104548 for info
Pooling Committee Report &	11/16/07	on Block 58 State 40-14 well
Term Pooling Agreement	11/16/07	18. 1/2 bonus to extend deep
See MF104580#10 for Pooling		Rights Lease J 2-21-12
Committee Report & Term		19. Unit 5206 for Roy rev only
Pooling Agreement	2/7/08	for Bk 58 State 40-14
13. Well Reports	4/24/08	20. Copy of Unit 4554
14. (3) RENTAL PAYMENTS	10/7/08	back slip Bk 58-State 42 4-20-12
See MF104580#14 for Pooling		21. Memo to file - as drilled plat -
Committee Report & First		emails re: Roy rev 9-28-10
Amendment of Term Pooling		22. Production Report: 42-389-32449 A lease 08/09/2013
Agreement	2/6/09	23. Termination letter - A Lease 08/29/2013
See DIVISION ORDER MF104580#16.	3/11/09	24. Shell's Letter - A Lease 10/14/2013

CONTENTS OF FILE NO. M- 104778

25. Response To Shell's letter - A Lease	10/25/2013	48 Delay Rental G	10/22/15
26. Accounting Unit 5206 Plat - A Lease	10/25/2013	49. Delay Rental I	10/22/15
27. Shell's Option - A Lease	11/21/2013	50. Delay Rental H.	7-20-16
28. Option Retraction Letter - A Lease	02/18/2014	51. Delay Rental H.	7-20-16
29. Email To/From Shell - A Lease	03/07/2014	52. Delay Rental G.	7-20-16
30. Email To/From Shell - A Lease	03/19/2014	53. Delay Rental I.	7-20-16
31. Email To/From Shell - A Lease	04/17/2014	See MF052863 #83 7/14 Demand Letter	8/4/16
32. Email To/From Shell - A Lease	05/29/2014	scanned PJ	8-25-16
33. New Lease MF116494 - A Lease	05/29/2014	See MF104580 for plugging report	
34. Termination Notice To Fin Man - A Lease	05/30/2014	42-389-32497, item # 33	
35. NUML Notification To Shell - A Lease	06/06/2014	scanned PJ	9-20-16
36. Well Inventory Changes - A Lease	06/06/2014	54. Ltrs. From Concho	2/26/18
37. Fin Man email to Shell re NUML - A Lease	06/06/2014	scanned PJ	2-28-2018
38. Memo To File - A Lease	06/06/2014	55 Well Timeline	3/28/19
39. Shell's Email re NUML/Div. Orders - A Lease	06/06/2014	scanned PJ	4-9-2019
40. Well Records: 42-389-32497	06/10/2014		
41. Production Report: 42-389-32497	06/10/2014		
42. Termination Letter	06/10/2014		
43. Well Timeline	06/10/2014		
44. Email To Shell	06/10/2014		
45. Termination Notice To Fin Man	06/10/2014		
See MF 104580 #29 for Release.			
46-Limited Review Billing 6/5/15.			
Scanned LW		10-7-2015	
47. Ltr From Chesapeake	10/22/15		

310 W. WALL • SUITE 1200
MIDLAND, TEXAS 79701

DOUG FERGUSON
OIL & GAS LANDMAN
P.O. BOX 432, MIDLAND, TEXAS 79702

TEL. 432 684-4542
FAX 432 683-8450
dwf@oilproperties.com

November 24, 2004

Mr. Drew Reid
General Land Office of the State of Texas
1700 N. Congress Avenue
Austin, TX 78701

Re: All of Section 42, Block 58
PSL Survey
Reeves County, Texas

Dear Mr. Reid:

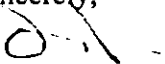
I have reached an agreement with the owners of the soil to purchase an Oil and Gas Lease on the captioned land.

Terms are as follows:

Bonus: \$150.00 per net mineral acre
Term: 3 years
Royalty: 1/5

My check in the sum of \$100.00 is enclosed to cover your fee for determining if this lease is approved as to form and consideration.

Sincerely,


Doug Ferguson

DWF:som
Enclosure

406211

Attn: Drew Reed

05012827

121

DOUG FERGUSON
~~LAND ACCOUNT~~
P.O. BOX 432
MIDLAND, TX 79702
(432) 684-4542

FIRST NATIONAL BANK OF MIDLAND
MIDLAND, TX 79701
88-2420/1163

25034

11/24/2004

PAY TO THE ORDER OF GENERAL LAND OFFICE STATE OF TEXAS

~~\$~~ **100.00

One Hundred Only***** DOLLARS

GENERAL LAND OFFICE STATE OF TEXAS
1700 NORTH CONGRESS AVENUE
AUSTIN, TX 78701-1495

MEMO APPROVAL FEE

025034 [REDACTED]

40.00.11

1.
File No. MF104778
Seller v. Sec
Date Filed: 11/29/04
Jerry E. Patterson, Commissioner
By [Signature]

11-29-04

RAL REVIEW SHEET

Transaction # 4440

Geologist: R. Widmayer

Lessor: Covington, Ted Michael

Lease Date: 10/20/2004

UE ☐

Lessee: Petro-Hunt LLC

Acres: 615

LEASE DESCRIPTION

County	Base File No	Part	Sec.	Block	Twp	Survey	Abst#	
REEVES	07-105250	112297	ALL	42	58	00	PUBLIC SCHOOL LAND	3155
	615.07 Ac.	458.01						

TERMS OFFERED

Primary Term:

Bonus/Acre:

Rental/Acre:

Royalty:

TERMS RECOMMENDED

Primary Term:

Bonus/Acre:

Rental/Acre:

Royalty:

COMPARISONS

MF #	Lessee	Date	Term	Bonus/Ac.	Rental/Ac.	Royalty	Distance
							Last Lease
Pending	Petro-Hunt	9/22/04	37-6	\$150.00	\$1.00	3/16	Adjacent West

Comments:

Approved: SAB 12.7.04

RELINQUISHMENT 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: 06-Dec-04

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

Applicant: Petro-Hunt LLC

County: REEVES

Prim. Term: 3 years

Bonus/Acre

\$150.00

Royalty: 1/5

Rental/Acre

\$1.00

Consideration

Recommended: PAC

Date: 12.7.04

Not Recommended: _____

Comments:

Lease Form

Recommended: RJH

Date: 1/3/05

Not Recommended: _____

Comments:

Matt Edling, Deputy Commissioner

Date: 1/21/05

Recommended: me

Not Recommended: _____

Bill Warnick, General Counsel

Date: 2/8/05

Recommended: WW

Not Recommended: _____

Larry Laine, Chief Clerk

Date: 2/9/05

Approved: JH

Not Approved: _____

Jerry Patterson, Commissioner

Date: 9 Feb 05

Approved: JP

Not Approved: _____

2.
File No. MF104778
BAL Repay
Date Filed: 12/6/04
Jerry E. Patterson, Commissioner
By SR

January 14, 2005

Mr. Drew Reid
General Land Office of the State of Texas
1700 N. Congress
Austin TX 78701

Re: Ann Covington Henderson, as Agent for the State
Section 42: All
Block 58, PSL Survey,
Reeves County, Texas

3rd of 615 ac

Dear Drew:

Enclosed please find certified copies of the above captioned oil and gas lease.

Petro-Hunt, L.L.C. check in the sum of \$5,637.50 is enclosed representing The State's ½ of the bonus consideration. Also enclosed is my check for \$25.00 per lease filing fee.

Please provide a mineral lease number when it is available.

If any questions should arise please phone me at the number above.

Sincerely,



Doug Ferguson

DWF:bc
Enclosure

50.01.1

PETRO-HUNT, L.L.C.

1601 Elm Street, Suite 3400
 Dallas, Texas 75201
 (214) 880-8400

Bank One, N.A.

Jefferson County
 8200 Hwy 69
 Port Arthur, Texas 77640

Page 1 of 1

OWNER NAME	OWNER NO.	DATE	CHECK NUMBER	AMOUNT
KAS GENERAL LAND OFFICE	58207	Jan-11-2005	4075091	\$5,637.50

01AP56	010605H	01/06/05	5,637.50	0.00	5,637.50
NW TOYAH PROPSECT					
TOTAL INVOICES PAID					X 5,637.50

121

05019835

90.97.7

05019834

121

DOUG FERGUSON
LAND ACCOUNT
P.O. BOX 432
MIDLAND, TX 79702
(432) 684-4542

FIRST NATIONAL BANK OF MIDLAND
MIDLAND, TX 79701
88-2420/1163

25300

1/14/2005

PAY TO THE ORDER OF GENERAL LAND OFFICE STATE OF TEXAS

~~\$~~ **25.00

Twenty-Five Only***** DOLLARS

GENERAL LAND OFFICE STATE OF TEXAS
1700 NORTH CONGRESS AVENUE
AUSTIN, TX 78701-1495

MEMO FILING FEE/ANN COVINGTON HENDERSON

⑈025300⑈

90.07.7

File No. MF104778

Letter bonus & fee

Date Filed: 1/18/05

Jerry E. Patterson, Commissioner

By [Signature]

1
4
0
0
0

1601 ELM STREET, STE 3400
THANKSGIVING TOWER
DALLAS, TEXAS 75201-7201



TEL: 214-880-8400
FAX: 214-880-7101

June 2, 2005

State of Texas General Land Office
1700 N. Congress Avenue, Room 600
Austin, Texas. 78701.
Attn: Mr. Drew Reid

Gentlemen:

Enclosed please find Petro-Hunt, L.L.C.'s check in the amount of \$88,646.25 as payment for one-half of the bonus consideration due for thirteen Relinquishment Act leases taken in Reeves County, Texas and as payment for appropriate filing fees. A breakdown of payment for each lease is as follows:

<u>Elmore Family Partnership, L.L.C.</u> PSL Block 71 Section 3: S ½ Section 26: S ½ Section 33: NW ¼, W ½ NE ¼, N ½ SW.	09/22/04	\$11,915.00- Lease Bonus \$25.00- Filing Fee	107527
<u>Jane Covington Drake</u> PSL Block 58 Section 42	10/20/04	\$2,818.75- Lease Bonus \$25.00- Filing Fee	104778
<u>Ted Michael Covington</u> PSL Block 58 Section 42	10/20/04	\$2,818.75- Lease Bonus \$25.00- Filing Fee	104778
<u>Ann Covington Henderson</u> PSL Block 58 Section 42	10/20/04	\$2,818.75- Lease Bonus \$25.00- Filing Fee	104778
<u>Fred P. Armstrong et ux Ingrid U. Armstrong</u> PSL Block 58 Section 21: SW	02/08/05	\$9,750.00- Lease Bonus \$25.00- Filing Fee	
<u>Fred P. Armstrong et ux Ingrid U. Armstrong</u> PSL Block 58 Section 29: SW NW	02/08/05	\$1,500.00- Lease Bonus \$25.00- Filing Fee	
<u>Fred P. Armstrong et ux Ingrid U. Armstrong</u> PSL Block 58 Section 30: S ½ SW	02/08/05	\$4,000.00- Lease Bonus \$25.00- Filing Fee	
<u>Fred P. Armstrong et ux Ingrid U. Armstrong</u> PSL Block 58 Section 36: S 80 acres	02/08/05	\$3,000.00- Lease Bonus \$25.00- Filing Fee	105286

P.

File No. MF704778

Letter

Date Filed: 6/9/05

Jerry E. Patterson, Commissioner

By 

FILE# 2211

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OF THE FOLLOWING INFORMATION FROM THIS INSTRUMENT BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.

The State of Texas



Austin, Texas

Paid up
OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 18th day of February, 2005, between the State of Texas, acting by and through its agent, Dela Minerals, Inc., of P.O. Box 2539, Midland, TX 79702

(Give Permanent Address)

said agent herein referred to as the owner of the soil (whether one or more), and Petro-Hunt LLC

of 1601 Elm Street, Suite 3400, Dallas, TX 75201-7201

hereinafter called Lessee.

(Give Permanent Address)

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 Reeves County, State of Texas, to-wit:

East-Half (E/2) of Section 39, Southeast Quarter (SE/4) of Section 40 & All of Section 42, Block 58, Public School Land Survey

containing 1,095.22 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Fifty nine thousand seventy six and no/100

Dollars (\$ 59,076.00)

To the owner of the soil: Fifty nine thousand seventy six and no/100

Dollars (\$ 59,076.00)

Total bonus consideration: One hundred eighteen thousand one hundred fifty two and no/100

Dollars (\$ 118,152.00)

The total bonus consideration paid represents a bonus of One hundred fifty and no/100

Dollars (\$ 150.00) per acre, on 787.68 net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of Three (3) 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 _____



True and Correct
copy of
Original filed in
Reeves County
Clerks Office

90479

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: Three hundred ninety three and 84/100

Dollars (\$ 393.84)

To the State of Texas: Three hundred ninety three and 84/100

Dollars (\$ 393.84)

Total Delay Rental: Seven hundred eighty seven and 68/100

Dollars (\$ 787.68)

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

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

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

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

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

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

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



True and Correct
 copy of
 Original filed in
 Reeves County
 Clerks Office

50429

Land Office's right to take its royalty in kind shall not diminish or negate the owner of the soil's or the Commissioner of the General Land Office's rights or Lessee's obligations, whether express or implied, under this lease.

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

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

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

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

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

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



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days from the date of completion of such shut-in oil or gas well and upon the failure to make such payment, this lease shall ipso facto terminate. If at the expiration of the primary term or any time thereafter a shut-in oil or gas well is located on the leased premises, payments may be made in accordance with the shut-in provisions hereof.

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

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

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

15. COMPENSATORY ROYALTIES. If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is sold and delivered in paying quantities from a well located within one thousand (1,000) feet of the leased premises and completed in the same producing reservoir, or in any case in which drainage is occurring, the right to continue to maintain the lease by paying the shut-in oil or gas royalty shall cease, but the lease shall remain effective for the remainder of the year for which the royalty has been paid. The Lessee may maintain the lease for four more successive years by Lessee paying compensatory royalty at the royalty rate provided in the lease of the market value of production from the well causing the drainage or which is completed in the same producing reservoir and within one thousand (1,000) feet of the leased premises. The compensatory royalty is to be paid monthly, one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil, beginning on or before the last day of the month following the month in which the oil or gas is produced from the well causing the drainage or that is completed in the same producing reservoir and located within one thousand (1,000) feet of the leased premises. If the compensatory royalty paid in any 12-month period is an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within thirty (30) days from the end of the 12-month period. Compensatory royalty payments which are not timely paid will accrue penalty and interest in accordance with Paragraph 9 of this lease. None of these provisions will relieve Lessee of the obligation of reasonable development nor the obligation to drill offset wells as provided in Texas Natural Resources Code 52.173; however, at the determination of the Commissioner, and with the Commissioner's written approval, the payment of compensatory royalties can satisfy the obligation to drill offset wells.

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

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

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



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(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 waterflood operations without the prior consent of the owner of the soil.

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

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

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

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



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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



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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, Chap. 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this lease forfeited as provided herein.

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

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

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

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

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



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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. PAID-UP RENTALS. NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, this Lease is a Paid-Up Lease. Delay rentals for the second and third years have been prepaid. The receipt of the rentals is hereby acknowledged by the State of Texas and by Fred P. Armstrong & Ingrid U. Armstrong each party having received \$130.00 for the prepaid rentals.

LESSEE

PETRO-HUNT, LLC

BY: BW Hunt

BRUCE W. HUNT

Title: President

Date: 05/16/05

STATE OF TEXAS

BY: Gary N. Covington

Gary N. Covington, President of Dela Minerals, Inc.
Individually and as agent for the State of Texas

Date: March 22, 2005

STATE OF TEXAS

BY: _____

Individually and as agent for the State of Texas

Date: _____

STATE OF TEXAS

BY: _____

Individually and as agent for the State of Texas

Date: _____

STATE OF TEXAS

BY: _____

Individually and as agent for the State of Texas

Date: _____



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STATE OF Texas
COUNTY OF Dallas

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Bruce W. Hunt
known to me to be the person whose name is subscribed to the foregoing instruments as President
of Petro-Hunt, LLC and acknowledged to me that he
executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said ~~corporation~~ Company.

Given under my hand and seal of office this the 16th day of May, 2005.



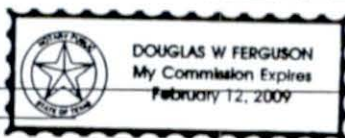
Susan M. Lecroy
Notary Public in and for State of Texas

(CORPORATION ACKNOWLEDGMENT)

STATE OF Texas
COUNTY OF Midland

BEFORE ME, the undersigned authority, on this day personally appeared Gary N. Covington
known to me to be the person whose name is subscribed to the foregoing instruments as President
of Dela Minerals, Inc. and acknowledged to me that he
executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the 22nd day of March, 2005.



Notary Public in and for
STATE OF

COUNTY OF

(INDIVIDUAL ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared _____

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.

Given under my hand and seal of office this the _____ day of _____, 20____.

Notary Public in and for _____

STATE OF _____
COUNTY OF _____

(INDIVIDUAL ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared _____

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.

Given under my hand and seal of office this the _____ day of _____, 20____.

Notary Public in and for _____

FILE NO. 2211FILED FOR RECORD ON THE 9TH DAY OF JUNE A.D. 2005 3:06 P M.DULY RECORDED ON THE 10TH DAY OF JUNE A.D. 2005 9:00 A M.BY: Anne Jones, DEPUTY

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

ANY PROVISION HEREIN IS VOID, UNLESS IT IS MADE IN FULL PAYMENT OF THE FULL SALE, RENTAL,
OR USE OF THE PROPERTY AND NOT BECAUSE OF COLOR
OR RACE IS INVALID AND UNENFORCEABLE UNDER FEDERAL
LAW

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File No. MF104778

Lease A

Date Filed: 6-9-2005

Jerry E. Patterson, Commissioner

By

CERTIFIED TRUE AND CORRECT COPY CERTIFICATE
STATE OF TEXAS
COUNTY OF REEVES

The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL. 702

PAGE 686 THRU 694 OFFICIAL PUBLIC RECORDS

I hereby certified on 06/10/2005



DIANNE O. FLORES, COUNTY CLERK
REEVES COUNTY, TEXAS

BY *Dianne Flores* DEPUTY

05402

FILE# 3107

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OF THE FOLLOWING INFORMATION FROM THIS INSTRUMENT BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.

The State of Texas



Austin, Texas

expired

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 20th day of October, 2004, between the State of Texas, acting by and through its agent, Ann Covington Henderson
of 2708 University Ave., San Angelo, Texas 76904-5322
(Give Permanent Address)
said agent herein referred to as the owner of the soil (whether one or more), and Petro-Hunt, LLC
of 1601 Elm Street, Suite 3400, Dallas, TX 75201-7201 hereinafter called Lessee.
(Give Permanent Address)

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 Reeves County, State of Texas, to-wit:

All of Section 42, Block 58, Public School Land Survey;

containing 615 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Five Thousand Six Hundred thirty-Seven and 50/100
Dollars (\$5,637.50)

To the owner of the soil: Five Thousand Six Hundred thirty-Seven and 50/100
Dollars (\$5,637.50)

Total bonus consideration: Eleven Thousand Two Hundred Seventy-Five and No/100
Dollars (\$11,275.00)

The total bonus consideration paid represents a bonus of One Hundred Fifty and No/100
Dollars (\$150.00) per acre, on 37.5833 net acres.

2. **TERM.** Subject to the other provisions in this lease, this lease shall be for a term of Three (3) 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.



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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 _____

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: Eighteen and 80/100
Dollars (\$18.80 _____)

To the State of Texas: Eighteen and 80/100
Dollars (\$18.80 _____)

Total Delay Rental: Thirty-Seven and 60/100
Dollars (\$37.80 _____)

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



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

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

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

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

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

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

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

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production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking operations pursuant to Paragraph 13, using the expiration of the primary term as the date of cessation of production under Paragraph 13. Should the first well or any subsequent well drilled on the above described land be completed as a shut-in oil or gas well within the primary term hereof, Lessee may resume payment of the annual rental in the same manner as provided herein on or before the rental paying date following the expiration of sixty (60) days from the date of completion of such shut-in oil or gas well and upon the failure to make such payment, this lease shall ipso facto terminate. If at the expiration of the primary term or any time thereafter a shut-in oil or gas well is located on the leased premises, payments may be made in accordance with the shut-in provisions hereof.

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

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

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

15. COMPENSATORY ROYALTIES. If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is sold and delivered in paying quantities from a well located within one thousand (1,000) feet of the leased premises and completed in the same producing reservoir, or in any case in which drainage is occurring, the right to continue to maintain the lease by paying the shut-in oil or gas royalty shall cease, but the lease shall remain effective for the remainder of the year for which the royalty has been paid. The Lessee may maintain the lease for four more successive years by Lessee paying compensatory royalty at the royalty rate provided in the lease of the market value of production from the well causing the drainage or which is completed in the same producing reservoir and within one thousand (1,000) feet of the leased premises. The compensatory royalty is to be paid monthly, one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil, beginning on or before the last day of the month following the month in which the oil or gas is produced from the well causing the drainage or that is completed in the same producing reservoir and located within one thousand (1,000) feet of the leased premises. If the compensatory royalty paid in any 12-month period is an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within thirty (30) days from the end of the 12-month period. Compensatory royalty payments which are not timely paid will accrue penalty and interest in accordance with Paragraph 9 of this lease. None of these provisions will relieve Lessee of the obligation of reasonable development nor the obligation to drill offset wells as provided in Texas Natural Resources Code 52.173; however, at the determination of the Commissioner, and with the Commissioner's written approval, the payment of compensatory royalties can satisfy the obligation to drill offset wells.

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

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

(B) **HORIZONTAL.** In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall further terminate as to all depths below 100 feet below the total depth drilled (hereinafter "deeper depths") in each well located on acreage retained in Paragraph 16 (A) above, unless on or before two (2) years after the primary or extended term Lessee pays an amount equal to one-half (1/2) of the



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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 waterflood operations without the prior consent of the owner of the soil.

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

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

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



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23. **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.

24. **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.

25. **(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 25(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.

26. **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.

27. **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.

28. **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.

29. **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.

30. **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



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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, Chap. 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this lease forfeited as provided herein.

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

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

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

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

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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.

LESSEE

PETRO-HUNT, LLC

BY: *[Signature]*Title: PresidentDate: 11.29.04*[Signature]*

STATE OF TEXAS

BY: *Ann Covington Henderson*

Ann Covington Henderson

Individually and as agent for the State of Texas

Date: 10-26-04

STATE OF TEXAS

BY: _____

Individually and as agent for the State of Texas

Date: _____

STATE OF TEXAS

BY: _____

Individually and as agent for the State of Texas

Date: _____

STATE OF TEXAS

BY: _____

Individually and as agent for the State of Texas

Date: _____



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STATE OF Texas
COUNTY OF Dallas

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Bruce W. Hunt
known to me to be the person whose name is subscribed to the foregoing instruments as President
of Petro-Hunt, L.L.C. and acknowledged to me that he
executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

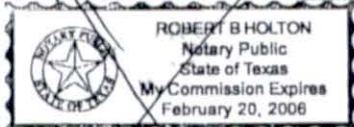
Given under my hand and seal of office this 29th day of November, 2004.

Susan M. McCoy
Notary Public in and for State of Texas

STATE OF Texas
COUNTY OF Tom Green

(INDIVIDUAL ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Ann Covington Henderson
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.

Given under my hand and seal of office this the 26 day of October, 2004.

Notary Public in and for _____

STATE OF _____
COUNTY OF _____

(INDIVIDUAL ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared _____
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.

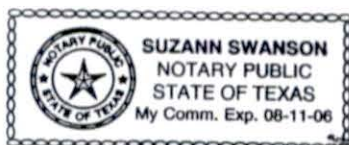
Given under my hand and seal of office this the 27 day of OCTOBER, 2004.

Suzann Swanson
Notary Public in and for TEXAS

STATE OF TEXAS
COUNTY OF TOM GREEN

(INDIVIDUAL ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared ANN COVINGTON HENDERSON
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.

Given under my hand and seal of office this the 26 day of OCTOBER, 2004.

Suzann Swanson
Notary Public in and for TEXAS

ANY PROVISION HEREIN WHICH RESTRICTS THE SALE, RENTAL,
OR USE OF THE DESCRIBED REAL PROPERTY BECAUSE OF COLOR
OR RACE IS INVALID AND UNENFORCEABLE UNDER FEDERAL
LAW

FILE NO. 3107FILED FOR RECORD ON THE 15TH DAY OF DECEMBER A.D. 2004 AT 2:43 P M.DULY RECORDED ON THE 22ND DAY OF DECEMBER A.D. 2004 AT 11:00 A M.BY: Dianne O. Florez, DEPUTYDIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

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Reeves County
Clerks Office



90.07.1

File No. MF104778

Lease B

③

Date Filed: 6-9-2005

Jerry E. Patterson, Commissioner

By

RECEIVED

RECEIVED

RECEIVED

RECEIVED

CERTIFIED TRUE AND CORRECT COPY CERTIFICATE
STATE OF TEXAS
COUNTY OF REEVES

The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL. 689 PAGE 22, THRU 30.

I hereby certified on 12/27/2004



DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

BY Estelle Amaya DEPUTY

11002

FILE# 1754

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

CORRECTION OIL & GAS LEASE
CORRECTS OGL DATED OCTOBER 20,
2004, RECORDED IN VOL. 691, PAGE
281, REEVES COUNTY, TEXAS

NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OF THE FOLLOWING INFORMATION FROM THIS INSTRUMENT BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.

The State of Texas



Austin, Texas

Expired 10/20/2007
Replaced by "I" Lease

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 20th day of October, 2004, between the State of Texas, acting by and through its agent, Jane Covington Drake of 2707 Harvard Ave., San Angelo, Texas 76904-5313 (Give Permanent Address) said agent herein referred to as the owner of the soil (whether one or more), and Petro-Hunt, LLC of 1601 Elm Street, Suite 3400, Dallas, TX 75201-7201 hereinafter called Lessee. (Give Permanent Address)

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 Reeves County, State of Texas, to-wit:

All of Section 42, Block 58, Public School Land Survey;

containing 615 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Two Thousand Eight Hundred Eighteen and 75/100

Dollars (\$2,818.75)

To the owner of the soil: Two Thousand Eight Hundred Eighteen and 75/100

Dollars (\$2,818.75)

Total bonus consideration: Five Thousand Six Hundred Thirty Seven and 50/100

Dollars (\$5,637.50)

The total bonus consideration paid represents a bonus of One Hundred Fifty and No/100

Dollars (\$150.00) per acre, on 37.5833 net acres.

2. **TERM.** Subject to the other provisions in this lease, this lease shall be for a term of Three (3) 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.

506 4



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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 _____

_____ 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: Eighteen and 80/100

Dollars (\$18.80 _____)

To the State of Texas: Eighteen and 80/100

Dollars (\$18.80 _____)

Total Delay Rental: Thirty-Seven and 60/100

Dollars (\$37.60 _____)

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 1/5 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 1/5 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.

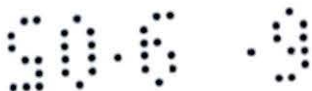
(C) **PROCESSED GAS.** Royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbons shall be 1/5 part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the owner of the soil or the Commissioner 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 1/5 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.



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

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

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

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

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

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

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



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506 4

production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking operations pursuant to Paragraph 13, using the expiration of the primary term as the date of cessation of production under Paragraph 13. Should the first well or any subsequent well drilled on the above described land be completed as a shut-in oil or gas well within the primary term hereof, Lessee may resume payment of the annual rental in the same manner as provided herein on or before the rental paying date following the expiration of sixty (60) days from the date of completion of such shut-in oil or gas well and upon the failure to make such payment, this lease shall ipso facto terminate. If at the expiration of the primary term or any time thereafter a shut-in oil or gas well is located on the leased premises, payments may be made in accordance with the shut-in provisions hereof.

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

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

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

15. COMPENSATORY ROYALTIES. If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is sold and delivered in paying quantities from a well located within one thousand (1,000) feet of the leased premises and completed in the same producing reservoir, or in any case in which drainage is occurring, the right to continue to maintain the lease by paying the shut-in oil or gas royalty shall cease, but the lease shall remain effective for the remainder of the year for which the royalty has been paid. The Lessee may maintain the lease for four more successive years by Lessee paying compensatory royalty at the royalty rate provided in the lease of the market value of production from the well causing the drainage or which is completed in the same producing reservoir and within one thousand (1,000) feet of the leased premises. The compensatory royalty is to be paid monthly, one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil, beginning on or before the last day of the month following the month in which the oil or gas is produced from the well causing the drainage or that is completed in the same producing reservoir and located within one thousand (1,000) feet of the leased premises. If the compensatory royalty paid in any 12-month period is an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within thirty (30) days from the end of the 12-month period. Compensatory royalty payments which are not timely paid will accrue penalty and interest in accordance with Paragraph 9 of this lease. None of these provisions will relieve Lessee of the obligation of reasonable development nor the obligation to drill offset wells as provided in Texas Natural Resources Code 52.173; however, at the determination of the Commissioner, and with the Commissioner's written approval, the payment of compensatory royalties can satisfy the obligation to drill offset wells.

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

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

(B) HORIZONTAL. In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall further terminate as to all depths below 100 feet below the total depth drilled (hereinafter "deeper depths") in each well located on acreage retained in Paragraph 16 (A) above, unless on or before two (2) years after the primary or extended term Lessee pays an amount equal to one-half (1/2) of the

506



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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 waterflood operations without the prior consent of the owner of the soil.

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

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

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



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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

506 . 9



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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.

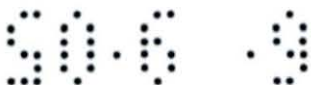
33. LIEN. In accordance with Texas Natural Resources Code 52.136, the State shall have a first lien upon all oil and gas produced from the area covered by this lease to secure payment of all unpaid royalty and other sums of money that may become due under this lease. By acceptance of this lease, Lessee 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, Chap. 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this lease forfeited as provided herein.

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

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

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

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



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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.

LESSEE
PETRO-HUNT, LLC
BY: [Signature]
Title: President
Date: 3/24/05

WPH
P.L.L.C.

STATE OF TEXAS
BY: [Signature]
Jane Covington Drake
Individually and as agent for the State of Texas
Date: _____

STATE OF TEXAS
BY: _____
Individually and as agent for the State of Texas
Date: _____

STATE OF TEXAS
BY: _____
Individually and as agent for the State of Texas
Date: _____

STATE OF TEXAS
BY: _____
Individually and as agent for the State of Texas
Date: _____

506 9



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STATE OF Texas
COUNTY OF Tom Green

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Jane Covington Drake
known to me to be the person whose name is subscribed to the foregoing instruments as _____
of _____ and acknowledged to me that he
executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.



Robert B. Holton
Notary Public in and for _____

STATE OF _____
COUNTY OF _____

(INDIVIDUAL ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Jane Covington Drake
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.

Given under my hand and seal of office this the _____ day of _____, 20____.

Notary Public in and for _____

STATE OF _____
COUNTY OF _____

(INDIVIDUAL ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared _____
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.

Given under my hand and seal of office this the _____ day of _____, 20____.

Notary Public in and for _____

STATE OF _____
COUNTY OF _____

(INDIVIDUAL ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared _____
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.

Given under my hand and seal of office this the _____ day of _____, 20____.

Notary Public in and for _____

906 9



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STATE OF TEXAS
COUNTY OF DALLAS

(Corporation Acknowledgment)

BEFORE ME, the undersigned authority, on this day personally appeared Bruce W. Hunt
known to me to be the person whose name is subscribed to the foregoing instruments as President
of Petro Hunt, L.L.C. and acknowledged to me that he executed the same for the
purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said Company.

Given under my hand and seal of office this the 24th day of March, 20 05.



Susan M. Lecroy
Notary Public in and for State of Texas

ANY PROVISION HEREIN TO THE EFFECT OF THE SALE, RENTAL,
OR USE OF THE INSTRUMENT OR PROPERTY BECAUSE OF COLOR
OR RACE IS UNLAWFUL AND VOID UNDER FEDERAL
LAW

FILE NO. 1754

FILED FOR RECORD ON THE 12TH DAY OF MAY A.D. 2005 3:56 P. M.

DULY RECORDED ON THE 17TH DAY OF MAY A.D. 2005 3:00 P. M.

BY: Dianne O. Florez, DEPUTY

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

906 9



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Reeves County
Clerks Office

File No. MF104778 5
Lease C
Date Filed: 6-9-2005
Jerry E. Patterson, Commissioner
By _____

**CERTIFIED TRUE AND CORRECT COPY CERTIFICATE
STATE OF TEXAS
COUNTY OF REEVES**

The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL 700
PAGE 83 THRU 92 **OFFICIAL PUBLIC RECORDS**

I hereby certified on MAY 19, 2005



DIANNE O. FLORES, COUNTY CLERK
REEVES COUNTY, TEXAS

BY [Signature] DEPUTY

0. 0.02

FILE #1755

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OF THE FOLLOWING INFORMATION FROM THIS INSTRUMENT BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.

The State of Texas



Austin, Texas

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 20th day of October, 2004, between the State of Texas, acting by and through its agent, Ted Michael Covington of 1417 W. Twohig Ave, San Angelo, Texas 76901-4044 (Give Permanent Address) said agent herein referred to as the owner of the soil (whether one or more), and Petro-Hunt, LLC of 1601 Elm Street, Suite 3400, Dallas, TX 75201-7201 hereinafter called Lessee. (Give Permanent Address)

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 Reeves County, State of Texas, to-wit:

All of Section 42, Block 58, Public School Land Survey;

containing 615 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Two Thousand Eight Hundred Eighteen and 75/100

Dollars (\$2,818.75)

To the owner of the soil: Two Thousand Eight Hundred Eighteen and 75/100

Dollars (\$2,818.75)

Total bonus consideration: Five Thousand Six Hundred Thirty Seven and 50/100

Dollars (\$5,637.50)

The total bonus consideration paid represents a bonus of One Hundred Fifty and No/100

Dollars (\$150.00) per acre, on 37.5833 net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of Three (3) 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.



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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 _____

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: Eighteen and 80/100

Dollars (\$18.80)

To the State of Texas: Eighteen and 80/100

Dollars (\$18.80)

Total Delay Rental: Thirty-Seven and 60/100

Dollars (\$37.60)

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

506



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

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

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

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

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

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

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

506 4



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production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking operations pursuant to Paragraph 13, using the expiration of the primary term as the date of cessation of production under Paragraph 13. Should the first well or any subsequent well drilled on the above described land be completed as a shut-in oil or gas well within the primary term hereof, Lessee may resume payment of the annual rental in the same manner as provided herein on or before the rental paying date following the expiration of sixty (60) days from the date of completion of such shut-in oil or gas well and upon the failure to make such payment, this lease shall ipso facto terminate. If at the expiration of the primary term or any time thereafter a shut-in oil or gas well is located on the leased premises, payments may be made in accordance with the shut-in provisions hereof.

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

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

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

15. COMPENSATORY ROYALTIES. If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is sold and delivered in paying quantities from a well located within one thousand (1,000) feet of the leased premises and completed in the same producing reservoir, or in any case in which drainage is occurring, the right to continue to maintain the lease by paying the shut-in oil or gas royalty shall cease, but the lease shall remain effective for the remainder of the year for which the royalty has been paid. The Lessee may maintain the lease for four more successive years by Lessee paying compensatory royalty at the royalty rate provided in the lease of the market value of production from the well causing the drainage or which is completed in the same producing reservoir and within one thousand (1,000) feet of the leased premises. The compensatory royalty is to be paid monthly, one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil, beginning on or before the last day of the month following the month in which the oil or gas is produced from the well causing the drainage or that is completed in the same producing reservoir and located within one thousand (1,000) feet of the leased premises. If the compensatory royalty paid in any 12-month period is an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within thirty (30) days from the end of the 12-month period. Compensatory royalty payments which are not timely paid will accrue penalty and interest in accordance with Paragraph 9 of this lease. None of these provisions will relieve Lessee of the obligation of reasonable development nor the obligation to drill offset wells as provided in Texas Natural Resources Code 52.173; however, at the determination of the Commissioner, and with the Commissioner's written approval, the payment of compensatory royalties can satisfy the obligation to drill offset wells.

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

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

(B) HORIZONTAL. In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall further terminate as to all depths below 100 feet below the total depth drilled (hereinafter "deeper depths") in each well located on acreage retained in Paragraph 16 (A) above, unless on or before two (2) years after the primary or extended term Lessee pays an amount equal to one-half (1/2) of the

506



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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 waterflood operations without the prior consent of the owner of the soil.

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

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

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

506 9



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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

505



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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, Chap. 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this lease forfeited as provided herein.

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

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

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

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

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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.

LESSEE

PETRO-HUNT, LLC

BY: [Signature]

Title: President

Date: 03/24/05

[Signature]

STATE OF TEXAS

BY: [Signature]

Ted Michael Covington
Individually and as agent for the State of Texas

Date: _____

STATE OF TEXAS

BY: _____

Individually and as agent for the State of Texas

Date: _____

STATE OF TEXAS

BY: _____

Individually and as agent for the State of Texas

Date: _____

STATE OF TEXAS

BY: _____

Individually and as agent for the State of Texas

Date: _____

506 9

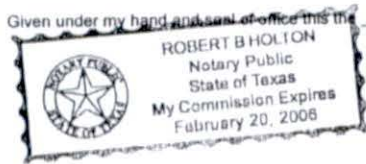


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Clerks Office

STATE OF Texas
 COUNTY OF Tom Green

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Ted Michael Covington
 known to me to be the person whose name is subscribed to the foregoing instruments as _____
 of _____ and acknowledged to me that he
 executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.



Robert B. Holton
 Notary Public in and for _____

STATE OF _____
 COUNTY OF _____

(INDIVIDUAL ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Ted Michael Covington
 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.

Given under my hand and seal of office this the _____ day of _____, 20____.

 Notary Public in and for _____

STATE OF _____
 COUNTY OF _____

(INDIVIDUAL ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared _____
 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.

Given under my hand and seal of office this the _____ day of _____, 20____.

 Notary Public in and for _____

STATE OF _____
 COUNTY OF _____

(INDIVIDUAL ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared _____
 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.

Given under my hand and seal of office this the _____ day of _____, 20____.

 Notary Public in and for _____

506 4



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STATE OF TEXAS
COUNTY OF DALLAS

(Corporation Acknowledgment)

BEFORE ME, the undersigned authority, on this day personally appeared Bruce W. Hunt
known to me to be the person whose name is subscribed to the foregoing instruments as President
of Petro Hunt, L.L.C. and acknowledged to me that he executed the same for the
purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said company.

Given under my hand and seal of office this the 24th day of March, 20 05.



Susan M. Lecroy
Notary Public in and for State of Texas

FILE NO. 1755

FILED FOR RECORD ON THE 12TH DAY OF MAY A.D. 2005 3:56 P. M.

DULY RECORDED ON THE 17TH DAY OF MAY A.D. 2005 3:00 P. M.

BY: [Signature], DEPUTY

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

ANY PROVISION HEREIN TO THE EFFECT THAT THIS INSTRUMENT SHALL BE VALID, RENTAL,
OR USE THEREOF, OR ANY OTHER PROVISION, SHALL BE VOID AND OF NO EFFECT.
OR FILED FOR RECORD IN THE PUBLIC RECORDS OF THE STATE OF TEXAS.
1/24

506 9



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Reeves County
Clerks Office

⑤
File No. MF104778
Lease D
Date Filed: 6-9-2005
Jerry E. Patterson, Commissioner
By _____

CERTIFIED TRUE AND CORRECT COPY CERTIFICATE
STATE OF TEXAS
COUNTY OF REEVES

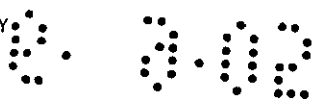
The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL. 700
PAGE 93, THRU 102 **OFFICIAL PUBLIC RECORDS**



I hereby certified on MAY 19, 2005

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

Dianne O. Florez
DEPUTY



FILE# 1756

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

MF104778

NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OF THE FOLLOWING INFORMATION FROM THIS INSTRUMENT BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.

The State of Texas



Austin, Texas

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 20th day of October, 2004, between the State of Texas, acting by and through its agent, Ann Covington Henderson of 2708 University Ave., San Angelo, Texas 76904 (Give Permanent Address) said agent herein referred to as the owner of the soil (whether one or more), and Petro-Hunt, LLC of 1601 Elm Street, Suite 3400, Dallas, TX 75201-7201 hereinafter called Lessee. (Give Permanent Address)

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 Reeves County, State of Texas, to-wit:

All of Section 42, Block 58, Public School Land Survey;

containing 615 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Two Thousand Eight Hundred Eighteen and 75/100

Dollars (\$2,818.75)

To the owner of the soil: Two Thousand Eight Hundred Eighteen and 75/100

Dollars (\$2,818.75)

Total bonus consideration: Five Thousand Six Hundred thirty Seven and 50/100

Dollars (\$5,637.50)

The total bonus consideration paid represents a bonus of One Hundred Fifty and No/100

Dollars (\$150.00) per acre, on 37.5833 net acres.

2. **TERM.** Subject to the other provisions in this lease, this lease shall be for a term of Three (3) 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.

506 9



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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 _____

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: Eighteen and 80/100

Dollars (\$18.80)

To the State of Texas: Eighteen and 80/100

Dollars (\$18.80)

Total Delay Rental: Thirty-Seven and 60/100

Dollars (\$37.60)

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

506



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

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

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

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

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

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

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

506 9



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production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking operations pursuant to Paragraph 13, using the expiration of the primary term as the date of cessation of production under Paragraph 13. Should the first well or any subsequent well drilled on the above described land be completed as a shut-in oil or gas well within the primary term hereof, Lessee may resume payment of the annual rental in the same manner as provided herein on or before the rental paying date following the expiration of sixty (60) days from the date of completion of such shut-in oil or gas well and upon the failure to make such payment, this lease shall ipso facto terminate. If at the expiration of the primary term or any time thereafter a shut-in oil or gas well is located on the leased premises, payments may be made in accordance with the shut-in provisions hereof.

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

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

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

15. COMPENSATORY ROYALTIES. If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is sold and delivered in paying quantities from a well located within one thousand (1,000) feet of the leased premises and completed in the same producing reservoir, or in any case in which drainage is occurring, the right to continue to maintain the lease by paying the shut-in oil or gas royalty shall cease, but the lease shall remain effective for the remainder of the year for which the royalty has been paid. The Lessee may maintain the lease for four more successive years by Lessee paying compensatory royalty at the royalty rate provided in the lease of the market value of production from the well causing the drainage or which is completed in the same producing reservoir and within one thousand (1,000) feet of the leased premises. The compensatory royalty is to be paid monthly, one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil, beginning on or before the last day of the month following the month in which the oil or gas is produced from the well causing the drainage or that is completed in the same producing reservoir and located within one thousand (1,000) feet of the leased premises. If the compensatory royalty paid in any 12-month period is an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within thirty (30) days from the end of the 12-month period. Compensatory royalty payments which are not timely paid will accrue penalty and interest in accordance with Paragraph 9 of this lease. None of these provisions will relieve Lessee of the obligation of reasonable development nor the obligation to drill offset wells as provided in Texas Natural Resources Code 52.173; however, at the determination of the Commissioner, and with the Commissioner's written approval, the payment of compensatory royalties can satisfy the obligation to drill offset wells.

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

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

(B) HORIZONTAL. In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall further terminate as to all depths below 100 feet below the total depth drilled (hereinafter "deeper depths") in each well located on acreage retained in Paragraph 16 (A) above, unless on or before two (2) years after the primary or extended term Lessee pays an amount equal to one-half (1/2) of the



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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 waterflood operations without the prior consent of the owner of the soil.

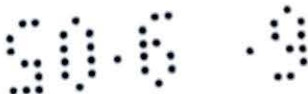
22. AUTHORIZED DAMAGES. Lessee shall pay the owner of the soil for damages caused by its operations to all personal property, improvements, livestock and crops on said land.

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

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



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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



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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, Chap. 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this lease forfeited as provided herein.

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

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

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

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

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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.

LESSEE

PETRO-HUNT, LLC

BY: [Signature]Title: PresidentDate: 03/24/05Wah
[Signature]

STATE OF TEXAS

BY: [Signature]

Ann Covington Henderson

Individually and as agent for the State of Texas

Date: 3/7/05

STATE OF TEXAS

BY: _____

Individually and as agent for the State of Texas

Date: _____

STATE OF TEXAS

BY: _____

Individually and as agent for the State of Texas

Date: _____

STATE OF TEXAS

BY: _____

Individually and as agent for the State of Texas

Date: _____

906 9



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Clerk's Office

STATE OF TEXAS
COUNTY OF DALLAS

(Corporation Acknowledgment)

BEFORE ME, the undersigned authority, on this day personally appeared Bruce W. Hunt
known to me to be the person whose name is subscribed to the foregoing instruments as President
of Petro Hunt, L.L.C. and acknowledged to me that he executed the same for the
purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the 24th day of March, 20 05.



Susan M. Lecroy
Notary Public in and for State of Texas

906 9



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Reeves County
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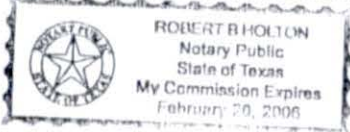
STATE OF Texas

(CORPORATION ACKNOWLEDGMENT)

COUNTY OF San Angelo

BEFORE ME, the undersigned authority, on this day personally appeared Ann Covington Henderson
 known to me to be the person whose name is subscribed to the foregoing instruments as _____
 of _____ and acknowledged to me that he
 executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the 7 day of March, 2005



Robert B. Holton
 Notary Public in and for _____

STATE OF _____

(INDIVIDUAL ACKNOWLEDGMENT)

COUNTY OF _____

BEFORE ME, the undersigned authority, on this day personally appeared Ann Covington Henderson
 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.

Given under my hand and seal of office this the _____ day of _____, 20____

 Notary Public in and for _____

STATE OF _____

(INDIVIDUAL ACKNOWLEDGMENT)

COUNTY OF _____

BEFORE ME, the undersigned authority, on this day personally appeared _____
 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.

Given under my hand and seal of office this the _____ day of _____, 20____

 Notary Public in and for _____

STATE OF _____

(INDIVIDUAL ACKNOWLEDGMENT)

COUNTY OF _____

BEFORE ME, the undersigned authority, on this day personally appeared _____
 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.

Given under my hand and seal of office this the _____ day of _____, 20____

 Notary Public in and for _____

FILE NO. 1756FILED FOR RECORD ON THE 12TH DAY OF MAY A.D. 2005 3:56 P. M.DULY RECORDED ON THE 17TH DAY OF MAY A.D. 2005 3:00 P. M.BY: Dianne O. Florez DEPUTY

DIANNE O. FLOREZ, COUNTY CLERK
 REEVES COUNTY, TEXAS

ANY PROVISION HEREIN VOID IF NOT FILED WITHIN 90 DAYS OF SALE, RENTAL,
 OR USE OF THE PROPERTY. VOID IF NOT FILED WITHIN 90 DAYS OF SALE, RENTAL,
 OR USE OF THE PROPERTY. VOID IF NOT FILED WITHIN 90 DAYS OF SALE, RENTAL,
 OR USE OF THE PROPERTY. VOID IF NOT FILED WITHIN 90 DAYS OF SALE, RENTAL,
 OR USE OF THE PROPERTY.

006 9



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 Original filed in
 Reeves County
 Clerks Office

5.

File No. MT-704778
Lease E
Date Filed: 6/9/05
Jerry E. Patterson, Commissioner
By [Signature]

CERTIFIED TRUE AND CORRECT COPY CERTIFICATE
STATE OF TEXAS
COUNTY OF REEVES
The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL. 700
PAGE 103, THRU 112 **OFFICIAL PUBLIC RECORDS**
I hereby certified on MAY 19, 2005
 DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS
Diane Flores DEPUTY

0. 2.02

(F)

MF 104778 F

FILE# 4561

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OF THE FOLLOWING INFORMATION FROM THIS INSTRUMENT BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.

The State of Texas



Austin, Texas

Paid up
OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 6th day of April, 2007, between the State of Texas, acting by and through its agent, Nellie May Gohlke Trust of 1400 11th Street, Wichita Falls, Texas 76301 (Give Permanent Address) said agent herein referred to as the owner of the soil (whether one or more), and Petro-Hunt, LLC of 1601 Elm Street, Suite 3400, Dallas, Texas 75201-7201 hereinafter called Lessee. (Give Permanent Address)

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 Reeves County, State of Texas, to-wit:

SECTION 42, BLOCK 58, PSL SURVEY

containing 615.1 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Four Thousand Six Hundred Fourteen and No/100
Dollars (\$4,614.00)

To the owner of the soil: Four Thousand Six Hundred Fourteen and No/100
Dollars (\$4,614.00)

Total bonus consideration: Nine Thousand Two Hundred Twenty Eight and No/100
Dollars (\$9,228.00)

The total bonus consideration paid represents a bonus of Three Hundred and No/100
Dollars (\$300.00) per acre, on 30.76 net acres.

2. **TERM.** Subject to the other provisions in this lease, this lease shall be for a term of Three (3) 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)



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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 This is a Paid Up Lease.

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: Fifteen Dollars and 38/100
Dollars (\$ 15.38)
To the State of Texas: Fifteen Dollars and 38/100
Dollars (\$ 15.38)
Total Delay Rental: Thirty Dollars and 76/100
Dollars (\$ 30.76)

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

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

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

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

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

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

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



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paragraph, the delay rental amount shall be one dollar (\$1.00) per acre.

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

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

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

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

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

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

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



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Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term; and if Lessee has not resumed production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking operations pursuant to Paragraph 13, using the expiration of the primary term as the date of cessation of production under Paragraph 13. Should the first well or any subsequent well drilled on the above described land be completed as a shut-in oil or gas well within the primary term hereof, Lessee may resume payment of the annual rental in the same manner as provided herein on or before the rental paying date following the expiration of sixty (60) days from the date of completion of such shut-in oil or gas well and upon the failure to make such payment, this lease shall ipso facto terminate. If at the expiration of the primary term or any time thereafter a shut-in oil or gas well is located on the leased premises, payments may be made in accordance with the shut-in provisions hereof.

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

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

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

15. COMPENSATORY ROYALTIES. If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is sold and delivered in paying quantities from a well located within one thousand (1,000) feet of the leased premises and completed in the same producing reservoir, or in any case in which drainage is occurring, the right to continue to maintain the lease by paying the shut-in oil or gas royalty shall cease, but the lease shall remain effective for the remainder of the year for which the royalty has been paid. The Lessee may maintain the lease for four more successive years by Lessee paying compensatory royalty at the royalty rate provided in the lease of the market value of production from the well causing the drainage or which is completed in the same producing reservoir and within one thousand (1,000) feet of the leased premises. The compensatory royalty is to be paid monthly, one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil, beginning on or before the last day of the month following the month in which the oil or gas is produced from the well causing the drainage or that is completed in the same producing reservoir and located within one thousand (1,000) feet of the leased premises. If the compensatory royalty paid in any 12-month period is an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within thirty (30) days from the end of the 12-month period. Compensatory royalty payments which are not timely paid will accrue penalty and interest in accordance with Paragraph 9 of this lease. None of these provisions will relieve Lessee of the obligation of reasonable development nor the obligation to drill offset wells as provided in Texas Natural Resources Code 52.173; however, at the determination of the Commissioner, and with the Commissioner's written approval, the payment of compensatory royalties can satisfy the obligation to drill offset wells.

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

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

(B) HORIZONTAL. In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall further terminate as to all depths below 100 feet below the total depth drilled (hereinafter "deeper depths") in each well located on acreage retained



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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 waterflood operations without the prior consent of the owner of the soil.

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

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

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



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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



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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, Chap. 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this lease forfeited as provided herein.

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

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

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

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



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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.

LESSEE

Bruce W. Hunt
By: Bruce W. Hunt, President
Date: Oct 22, 2007 *Wahl 10/13/07*

STATE OF TEXAS

BY: Randy D. Camp Trustee
Nellie May Gobyke Trust,
Randy D. Camp, Trustee

Individually and as agent for the State of Texas

Date: 9/28/07

STATE OF TEXAS

BY: _____

Individually and as agent for the State of Texas

Date: _____

STATE OF TEXAS

BY: _____

Individually and as agent for the State of Texas

Date: _____

STATE OF TEXAS

BY: _____

Individually and as agent for the State of Texas

Date: _____



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STATE OF Texas
 COUNTY OF Dallas

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Bruce W. Hunt
 known to me to be the person whose name is subscribed to the foregoing instruments as President
 of Petro-Hunt, L.L.C. and acknowledged to me that he
 executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation company.

Given under my hand and seal of office this the 22nd day of October, 2007.



Susan M. Gray
 Notary Public in and for State of Texas

STATE OF Texas
 COUNTY OF Whitman

(INDIVIDUAL ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Randy D. Camp, Trustee of the Nellie May Gohlke Trust

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.

Given under my hand and seal of office this the 28th day of September, 2007.



Mary Jo Kee
 Notary Public in and for State of Texas

STATE OF _____
 COUNTY OF _____

(INDIVIDUAL ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared _____

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.

Given under my hand and seal of office this the _____ day of _____, 20____.

Notary Public in and for _____

STATE OF _____
 COUNTY OF _____

(INDIVIDUAL ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared _____

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.

Given under my hand and seal of office this the _____ day of _____, 20____.

Notary Public in and for _____

FILE# 4561

NOT VALID FOR RECORD WHICH RESTRICTS THE SALE, RENTAL,
 OR USE OF THE DESCRIBED REAL PROPERTY BECAUSE OF COLOR
 OR RACE IS UNLAWFUL AND UNENFORCEABLE UNDER FEDERAL
 LAW

FILED FOR RECORD ON THE 6TH DAY OF NOVEMBER A.D. 2007 10:50 A.M.

DULY RECORDED ON THE 13TH DAY OF NOVEMBER A.D. 2007 10:00 A.M.

BY: Joan Grew DEPUTY

DIANNE O. FLOREZ, COUNTY CLERK
 REEVES COUNTY, TEXAS



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 copy of
 Original filed in
 Reeves County
 Clerks Office

5

File No. MF104778

Lease F

Date Filed: 6-9-2005

Jerry E. Patterson, Commissioner

By

CERTIFIED TRUE AND CORRECT COPY CERTIFICATE
STATE OF TEXAS
COUNTY OF REEVES

The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL. 777
PAGE 197 THRU 205

OFFICIAL PUBLIC
RECORDS

I hereby certified on 11/15/2007



DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

BY Jane Snow DEPUTY

FILE #4762

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

Notice of Confidentiality Rights: If you are a natural person, you may remove or strike any of the following information from this instrument before it is filed for record in the public records: your social security number or your driver's license number.

The State of Texas



Austin, Texas

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 21st day of October, 2007, between the State of Texas, acting by and through its agent, Ann Covington Henderson of 2708 University Ave., San Angelo, Texas 76904

(Give Permanent Address)

said agent herein referred to as the owner of the soil (whether one or more), and Petro-Hunt L.L.C. of 1601 Elm, Suite 3400, Dallas, TX 75201 hereinafter called Lessee.

(Give Permanent Address)

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 Reeves County, State of Texas, to-wit:

All of Section 42, Block 58, PSL Survey

(LEASE SUBJECT TO ATTACHED ADDENDUM)

containing 615.0 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Six Thousand, One Hundred Seven and 40/100

Dollars (\$6,107.40)

To the owner of the soil: Six Thousand, One Hundred Seven and 40/100

Dollars (\$6,107.40)

Total bonus consideration: Twelve Thousand, Two Hundred Fourteen and 80/100

Dollars (\$12,214.80)

The total bonus consideration paid represents a bonus of Three Hundred Twenty Five and no/100's

Dollars (\$325.00) per acre, on 37.584 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.



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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 Address Shown For Lessor Above, 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: Eighteen and 80/100
Dollars (\$18.80)
To the State of Texas: Eighteen and 80/100
Dollars (\$18.80)
Total Delay Rental: Thirty Seven and 60/100
Dollars (\$37.60)

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

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

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

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

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

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

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



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

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

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

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

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

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

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



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production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking operations pursuant to Paragraph 13, using the expiration of the primary term as the date of cessation of production under Paragraph 13. Should the first well or any subsequent well drilled on the above described land be completed as a shut-in oil or gas well within the primary term hereof, Lessee may resume payment of the annual rental in the same manner as provided herein on or before the rental paying date following the expiration of sixty (60) days from the date of completion of such shut-in oil or gas well and upon the failure to make such payment, this lease shall ipso facto terminate. If at the expiration of the primary term or any time thereafter a shut-in oil or gas well is located on the leased premises, payments may be made in accordance with the shut-in provisions hereof.

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

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

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

15. COMPENSATORY ROYALTIES. If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is sold and delivered in paying quantities from a well located within one thousand (1,000) feet of the leased premises and completed in the same producing reservoir, or in any case in which drainage is occurring, the right to continue to maintain the lease by paying the shut-in oil or gas royalty shall cease, but the lease shall remain effective for the remainder of the year for which the royalty has been paid. The Lessee may maintain the lease for four more successive years by Lessee paying compensatory royalty at the royalty rate provided in the lease of the market value of production from the well causing the drainage or which is completed in the same producing reservoir and within one thousand (1,000) feet of the leased premises. The compensatory royalty is to be paid monthly, one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil, beginning on or before the last day of the month following the month in which the oil or gas is produced from the well causing the drainage or that is completed in the same producing reservoir and located within one thousand (1,000) feet of the leased premises. If the compensatory royalty paid in any 12-month period is an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within thirty (30) days from the end of the 12-month period. Compensatory royalty payments which are not timely paid will accrue penalty and interest in accordance with Paragraph 9 of this lease. None of these provisions will relieve Lessee of the obligation of reasonable development nor the obligation to drill offset wells as provided in Texas Natural Resources Code 52.173; however, at the determination of the Commissioner, and with the Commissioner's written approval, the payment of compensatory royalties can satisfy the obligation to drill offset wells.

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

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

(B) HORIZONTAL. In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall further terminate as to all depths below 100 feet below the total depth drilled (hereinafter "deeper depths") in each well located on acreage retained in



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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 waterflood operations without the prior consent of the owner of the soil.

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

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

24. WELL LOCATION LIMIT. No well shall be drilled nearer than five hundred (500) 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



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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



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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, Chap. 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this lease forfeited as provided herein.

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

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

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

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



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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.

PETRO-HUNT L.L.C.

BW Hunt

By: Bruce W. Hunt, President

Date: 11-12-07

WCH
11/9/07

STATE OF TEXAS

By: Ann Covington Henderson

Individually and as agent for the State of Texas
Ann Covington Henderson

DATE: 10/23/07

STATE OF TEXAS
COUNTY OF DALLAS

(CORPORATE ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Bruce W. Hunt known to me to be the person whose name is subscribed to the foregoing instruments as President of Petro-Hunt L.L.C. and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation company.

Given under my hand and seal of office this 12th day of November, 2007.



Susan M. Lecroy
Notary Public in and for STATE of TEXAS

STATE OF TEXAS

(INDIVIDUAL ACKNOWLEDGMENT)

COUNTY OF Don Green

BEFORE ME, the undersigned authority, on this day personally appeared Ann Covington Henderson known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that she executed the same for the purposes and consideration therein expressed. Given under my hand and seal of office this the 23rd day of October, 2007.



Sarah Elkins
Notary Public in and for STATE of TEXAS



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ADDENDUM

TO OIL AND GAS LEASE DATED August 20th, 2007 FROM THE STATE OF TEXAS, ACTING BY AND THROUGH ITS AGENT, Ann Covington Henderson, AS LESSOR, and Petro-Hunt L.L.C., AS LESSEE;

ADDITIONAL PROVISIONS OF LEASE

Notwithstanding anything to the contrary in the foregoing Oil & Gas Lease, it is agreed and understood as follows, to wit:

A. Amended Delay Rental Provision:

*As to any rentals that may be paid on or before the 1st, 2nd and 4th anniversary date, the total rental shall be payable in the amount of \$37.60, being \$1.00 per net mineral acre.

**Except that if delay rentals are paid on or before the 3rd anniversary date, the total rental shall be payable in the amount of \$12,214.80, being \$325.00 per net mineral acre.

ANY PROVISION HEREIN WHICH VIOLATES THE SALE, RENTAL,
OR USE OF THE DESCRIBED REAL PROPERTY BECAUSE OF COLOR
OR RACE IS INVALID AND UNENFORCEABLE UNDER FEDERAL
LAW

FILE# 4762FILED FOR RECORD ON THE 21ST DAY OF NOVEMBER A.D. 2007 10:07 A.M.DULY RECORDED ON THE 28TH DAY OF NOVEMBER A.D. 2007 8:00 A.M.BY: Dianne O. Florez DEPUTYDIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

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Clerks Office

303.1

File No. MF104778 5
Lease 6
Date Filed: 6-9-2005
Jerry E. Patterson, Commissioner
By _____

CERTIFIED TRUE AND CORRECT COPY CERTIFICATE
STATE OF TEXAS
COUNTY OF REEVES

The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL. 778
PAGE 542, THRU 550 **OFFICIAL PUBLIC RECORDS**



I hereby certified on 11/30/2007
DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS
BY Dianne O. Florez DEPUTY

(X)

MF 104778 H

FILE #4760

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

Notice of Confidentiality Rights: If you are a natural person, you may remove or strike any of the following information from this instrument before it is filed for record in the public records: your social security number or your driver's license number.

The State of Texas



Austin, Texas

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 21st day of October, 2007, between the State of Texas, acting by and through its agent, Ted Michael Covington of 1417 W. Twohig Ave., San Angelo, Texas 76901

(Give Permanent Address)

said agent herein referred to as the owner of the soil (whether one or more), and Petro-Hunt L.L.C. of 1601 Elm, Suite 3400, Dallas, TX 75201 hereinafter called Lessee.

(Give Permanent Address)

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 Reeves County, State of Texas, to-wit:

All of Section 42, Block 58, PSL Survey

(LEASE SUBJECT TO ATTACHED ADDENDUM)

containing 615.0 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Six Thousand, One Hundred Seven and 40/100
Dollars (\$6,107.40)

To the owner of the soil: Six Thousand, One Hundred Seven and 40/100
Dollars (\$6,107.40)

Total bonus consideration: Twelve Thousand, Two Hundred Fourteen and 80/100
Dollars (\$12,214.80)

The total bonus consideration paid represents a bonus of Three Hundred Twenty Five and no/100's
Dollars (\$325.00) per acre, on 37.584 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.



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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 Address Shown For Lessor Above, 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: Eighteen and 80/100
Dollars (\$18.80)
To the State of Texas: Eighteen and 80/100
Dollars (\$18.80)
Total Delay Rental: Thirty Seven and 60/100
Dollars (\$37.60)

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

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

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

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

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

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

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



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

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

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

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

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

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

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



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production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking operations pursuant to Paragraph 13, using the expiration of the primary term as the date of cessation of production under Paragraph 13. Should the first well or any subsequent well drilled on the above described land be completed as a shut-in oil or gas well within the primary term hereof, Lessee may resume payment of the annual rental in the same manner as provided herein on or before the rental paying date following the expiration of sixty (60) days from the date of completion of such shut-in oil or gas well and upon the failure to make such payment, this lease shall ipso facto terminate. If at the expiration of the primary term or any time thereafter a shut-in oil or gas well is located on the leased premises, payments may be made in accordance with the shut-in provisions hereof.

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

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

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

15. COMPENSATORY ROYALTIES. If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is sold and delivered in paying quantities from a well located within one thousand (1,000) feet of the leased premises and completed in the same producing reservoir, or in any case in which drainage is occurring, the right to continue to maintain the lease by paying the shut-in oil or gas royalty shall cease, but the lease shall remain effective for the remainder of the year for which the royalty has been paid. The Lessee may maintain the lease for four more successive years by Lessee paying compensatory royalty at the royalty rate provided in the lease of the market value of production from the well causing the drainage or which is completed in the same producing reservoir and within one thousand (1,000) feet of the leased premises. The compensatory royalty is to be paid monthly, one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil, beginning on or before the last day of the month following the month in which the oil or gas is produced from the well causing the drainage or that is completed in the same producing reservoir and located within one thousand (1,000) feet of the leased premises. If the compensatory royalty paid in any 12-month period is an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within thirty (30) days from the end of the 12-month period. Compensatory royalty payments which are not timely paid will accrue penalty and interest in accordance with Paragraph 9 of this lease. None of these provisions will relieve Lessee of the obligation of reasonable development nor the obligation to drill offset wells as provided in Texas Natural Resources Code 52.173; however, at the determination of the Commissioner, and with the Commissioner's written approval, the payment of compensatory royalties can satisfy the obligation to drill offset wells.

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

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

(B) HORIZONTAL. In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall further terminate as to all depths below 100 feet below the total depth drilled (hereinafter "deeper depths") in each well located on acreage retained in



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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 waterflood operations without the prior consent of the owner of the soil.

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

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

24. WELL LOCATION LIMIT. No well shall be drilled nearer than five hundred (500) 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



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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



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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, Chap. 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this lease forfeited as provided herein.

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

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

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

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



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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.

PETRO-HUNT L.L.C.

BW Hunt

By: Bruce W. Hunt, President

Date: 11.12.07

Wah 11/4/07

STATE OF TEXAS

By: Ted Michael Covington

Individually and as agent for the State of Texas
Ted Michael Covington

DATE: 10-23-07

STATE OF TEXAS
COUNTY OF DALLAS

(CORPORATE ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Bruce W. Hunt known to me to be the person whose name is subscribed to the foregoing instruments as President of Petro-Hunt L.L.C. and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation company.

Given under my hand and seal of office this 12th day of November, 2007.



Susan M. Lecroy
Notary Public in and for STATE OF TEXAS

STATE OF TEXAS

(INDIVIDUAL ACKNOWLEDGMENT)

COUNTY OF Tom Green

BEFORE ME, the undersigned authority, on this day personally appeared Ted Michael Covington known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that she executed the same for the purposes and consideration therein expressed. Given under my hand and seal of office this 23 day of October, 2007.



Beverly Baity
Notary Public in and for STATE OF TEXAS



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ADDENDUM

TO OIL AND GAS LEASE DATED August 20th, 2007 FROM THE STATE OF TEXAS, ACTING BY AND THROUGH ITS AGENT, Ted Michael Covington, AS LESSOR, and Petro-Hunt L.L.C., AS LESSEE;

ADDITIONAL PROVISIONS OF LEASE

Notwithstanding anything to the contrary in the foregoing Oil & Gas Lease, it is agreed and understood as follows, to wit:

A. Amended Delay Rental Provision:

*As to any rentals that may be paid on or before the 1st, 2nd and 4th anniversary date, the total rental shall be payable in the amount of \$37.60, being \$1.00 per net mineral acre.

**Except that if delay rentals are paid on or before the 3rd anniversary date, the total rental shall be payable in the amount of \$12,214.80, being \$325.00 per net mineral acre.

ANY PROVISION HEREIN WHICH RESTRICTS THE SALE, RENTAL, OR USE OF THE DESCRIBED REAL PROPERTY BECAUSE OF COLOR OR RACE IS INVALID AND UNENFORCEABLE UNDER FEDERAL LAW

FILE# 4760FILED FOR RECORD ON THE 21ST DAY OF NOVEMBER A.D. 2007 10:07 A.M.DULY RECORDED ON THE 28TH DAY OF NOVEMBER A.D. 2007 8:00 A.M.BY: [Signature]

DEPUTY

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS



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003.1

File No. MF104778
Lease H

Date Filed: 6-9-2005
Jerry E. Patterson, Commissioner
By

CERTIFIED TRUE AND CORRECT COPY CERTIFICATE
STATE OF TEXAS
COUNTY OF REEVES

The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL. 778, PAGE 524, THRU 532.

OFFICIAL PUBLIC RECORDS

I hereby certified on 11/30/2007



DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

BY *[Signature]* DEPUTY

(4)

MF104778I

FILE #4761

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

Notice of Confidentiality Rights: If you are a natural person, you may remove or strike any of the following information from this instrument before it is filed for record in the public records: your social security number or your driver's license number.

The State of Texas



Austin, Texas

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 21st day of October, 2007, 2007 between the State of Texas, acting by and through its agent, Jane Covington Drake of 2707 Harvard Ave., San Angelo, Texas 76904

(Give Permanent Address)

said agent herein referred to as the owner of the soil (whether one or more), and Petro-Hunt L.L.C. of 1601 Elm, Suite 3400, Dallas, TX 75201 hereinafter called Lessee.

(Give Permanent Address)

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 Reeves County, State of Texas, to-wit:

All of Section 42, Block 58, PSL Survey

(LEASE SUBJECT TO ATTACHED ADDENDUM)

containing 615.0 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Six Thousand, One Hundred Seven and 40/100

Dollars (\$6,107.40)

To the owner of the soil: Six Thousand, One Hundred Seven and 40/100

Dollars (\$6,107.40)

Total bonus consideration: Twelve Thousand, Two Hundred Fourteen and 80/100

Dollars (\$12,214.80)

The total bonus consideration paid represents a bonus of Three Hundred Twenty Five and no/100's

Dollars (\$325.00) per acre, on 37.584 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.



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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 Address Shown For Lessor Above, 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: Eighteen and 80/100
Dollars (\$18.80 _____)
To the State of Texas: Eighteen and 80/100
Dollars (\$18.80 _____)
Total Delay Rental: Thirty Seven and 60/100
Dollars (\$37.60 _____)

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

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

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

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

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

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

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



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

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

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

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

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

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

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



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production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking operations pursuant to Paragraph 13, using the expiration of the primary term as the date of cessation of production under Paragraph 13. Should the first well or any subsequent well drilled on the above described land be completed as a shut-in oil or gas well within the primary term hereof, Lessee may resume payment of the annual rental in the same manner as provided herein on or before the rental paying date following the expiration of sixty (60) days from the date of completion of such shut-in oil or gas well and upon the failure to make such payment, this lease shall ipso facto terminate. If at the expiration of the primary term or any time thereafter a shut-in oil or gas well is located on the leased premises, payments may be made in accordance with the shut-in provisions hereof.

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

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

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

15. COMPENSATORY ROYALTIES. If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is sold and delivered in paying quantities from a well located within one thousand (1,000) feet of the leased premises and completed in the same producing reservoir, or in any case in which drainage is occurring, the right to continue to maintain the lease by paying the shut-in oil or gas royalty shall cease, but the lease shall remain effective for the remainder of the year for which the royalty has been paid. The Lessee may maintain the lease for four more successive years by Lessee paying compensatory royalty at the royalty rate provided in the lease of the market value of production from the well causing the drainage or which is completed in the same producing reservoir and within one thousand (1,000) feet of the leased premises. The compensatory royalty is to be paid monthly, one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil, beginning on or before the last day of the month following the month in which the oil or gas is produced from the well causing the drainage or that is completed in the same producing reservoir and located within one thousand (1,000) feet of the leased premises. If the compensatory royalty paid in any 12-month period is an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within thirty (30) days from the end of the 12-month period. Compensatory royalty payments which are not timely paid will accrue penalty and interest in accordance with Paragraph 9 of this lease. None of these provisions will relieve Lessee of the obligation of reasonable development nor the obligation to drill offset wells as provided in Texas Natural Resources Code 52.173; however, at the determination of the Commissioner, and with the Commissioner's written approval, the payment of compensatory royalties can satisfy the obligation to drill offset wells.

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

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

(B) HORIZONTAL. In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall further terminate as to all depths below 100 feet below the total depth drilled (hereinafter "deeper depths") in each well located on acreage retained in



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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 waterflood operations without the prior consent of the owner of the soil.

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

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

24. WELL LOCATION LIMIT. No well shall be drilled nearer than five hundred (500) 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



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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



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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, Chap. 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this lease forfeited as provided herein.

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

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

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

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



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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.

PETRO-HUNT L.L.C.

Bruce W. Hunt

By: Bruce W. Hunt, President

Date: 11-12-07

Watt
11/1/07

STATE OF TEXAS

By: Jane Covington Drake

Individually and as agent for the State of Texas
Jane Covington Drake

DATE: 10-23-07

STATE OF TEXAS
COUNTY OF DALLAS

(CORPORATE ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Bruce W. Hunt known to me to be the person whose name is subscribed to the foregoing instruments as President of Petro-Hunt L.L.C. and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation company.

Given under my hand and seal of office this 12th day of November, 2007.



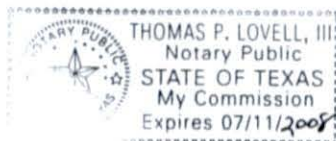
Susan M. McCoy
Notary Public in and for STATE of TEXAS

STATE OF TEXAS

(INDIVIDUAL ACKNOWLEDGMENT)

COUNTY OF Ton GREEN

BEFORE ME, the undersigned authority, on this day personally appeared Jane Covington Drake known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that she executed the same for the purposes and consideration therein expressed. Given under my hand and seal of office this the 23 day of October, 2007.



Thomas P. Lovell, III
Notary Public in and for STATE of TEXAS



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ADDENDUM

TO OIL AND GAS LEASE DATED August 20th, 2007 FROM THE STATE OF TEXAS, ACTING BY AND THROUGH ITS AGENT, Jane Covington Drake, AS LESSOR, and Petro-Hunt L.L.C., AS LESSEE;

ADDITIONAL PROVISIONS OF LEASE

Notwithstanding anything to the contrary in the foregoing Oil & Gas Lease, it is agreed and understood as follows, to wit:

A. Amended Delay Rental Provision:

*As to any rentals that may be paid on or before the 1st, 2nd and 4th anniversary date, the total rental shall be payable in the amount of \$37.60, being \$1.00 per net mineral acre.

**Except that if delay rentals are paid on or before the 3rd anniversary date, the total rental shall be payable in the amount of \$12,214.80, being \$325.00 per net mineral acre.

ANY PROVISION HEREIN WHICH RESTRICTS THE SALE, RENTAL, OR USE OF THE DESCRIBED REAL PROPERTY BECAUSE OF COLOR OR RACE IS INVALID AND UNENFORCEABLE UNDER FEDERAL LAW

FILE# 4761FILED FOR RECORD ON THE 21ST DAY OF NOVEMBER A.D. 2007 10:07 A.M.DULY RECORDED ON THE 28TH DAY OF NOVEMBER A.D. 2007 8:00 A.M.BY: Jane Drake DEPUTYDIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

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Clerks Office

003 1

File No. MF104778 5
Lease 7

Date Filed: 6.9.2005

Jerry E. Patterson, Commissioner

By _____

CERTIFIED TRUE AND CORRECT COPY CERTIFICATE
STATE OF TEXAS
COUNTY OF REEVES

The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL. 778
PAGE 533 THRU 541 OFFICIAL PUBLIC RECORDS



I hereby certified on 11/30/2007
DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS
BY [Signature] DEPUTY

FILE#153

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

PAID-UP

NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OF THE FOLLOWING INFORMATION FROM THIS INSTRUMENT BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.

The State of Texas



Austin, Texas

paid-up-
OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 6th day of April, 2007, between the State of Texas, acting by and through its agent, The Estate of Nellie May Gohike of 1400 11th Street, Wichita Falls, Texas 76301 (Give Permanent Address) said agent herein referred to as the owner of the soil (whether one or more), and Petro-Hunt, LLC of 1601 Elm Street, Suite 3400, Dallas, Texas 75201-7201 hereinafter called Lessee. (Give Permanent Address)

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 Reeves County, State of Texas, to-wit:

SECTION 42, BLOCK 58, PSL SURVEY

containing 615.1 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Four Thousand Six Hundred Fourteen and No/100
Dollars (\$4,614.00)

To the owner of the soil: Four Thousand Six Hundred Fourteen and No/100
Dollars (\$4,614.00)

Total bonus consideration: Nine Thousand Two Hundred Twenty Eight and No/100
Dollars (\$9,228.00)

The total bonus consideration paid represents a bonus of Three Hundred and No/100
Dollars (\$300.00) per acre, on 30.76 net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of Three (3) 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)



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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 This is a Paid Up Lease

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: Fifteen Dollars and 38/100
Dollars (\$ 15.38)
To the State of Texas: Fifteen Dollars and 38/100
Dollars (\$ 15.38)
Total Delay Rental: Thirty Dollars and 76/100
Dollars (\$ 30.76)

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

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

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

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

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

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

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



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paragraph, the delay rental amount shall be one dollar (\$1.00) per acre.

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

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

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

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

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

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

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



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Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term; and if Lessee has not resumed production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking operations pursuant to Paragraph 13, using the expiration of the primary term as the date of cessation of production under Paragraph 13. Should the first well or any subsequent well drilled on the above described land be completed as a shut-in oil or gas well within the primary term hereof, Lessee may resume payment of the annual rental in the same manner as provided herein on or before the rental paying date following the expiration of sixty (60) days from the date of completion of such shut-in oil or gas well and upon the failure to make such payment, this lease shall ipso facto terminate. If at the expiration of the primary term or any time thereafter a shut-in oil or gas well is located on the leased premises, payments may be made in accordance with the shut-in provisions hereof.

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

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

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

15. COMPENSATORY ROYALTIES. If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is sold and delivered in paying quantities from a well located within one thousand (1,000) feet of the leased premises and completed in the same producing reservoir, or in any case in which drainage is occurring, the right to continue to maintain the lease by paying the shut-in oil or gas royalty shall cease, but the lease shall remain effective for the remainder of the year for which the royalty has been paid. The Lessee may maintain the lease for four more successive years by Lessee paying compensatory royalty at the royalty rate provided in the lease of the market value of production from the well causing the drainage or which is completed in the same producing reservoir and within one thousand (1,000) feet of the leased premises. The compensatory royalty is to be paid monthly, one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil, beginning on or before the last day of the month following the month in which the oil or gas is produced from the well causing the drainage or that is completed in the same producing reservoir and located within one thousand (1,000) feet of the leased premises. If the compensatory royalty paid in any 12-month period is an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within thirty (30) days from the end of the 12-month period. Compensatory royalty payments which are not timely paid will accrue penalty and interest in accordance with Paragraph 9 of this lease. None of these provisions will relieve Lessee of the obligation of reasonable development nor the obligation to drill offset wells as provided in Texas Natural Resources Code 52.173; however, at the determination of the Commissioner, and with the Commissioner's written approval, the payment of compensatory royalties can satisfy the obligation to drill offset wells.

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

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

(B) **HORIZONTAL.** In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall further terminate as to all depths below 100 feet below the total depth drilled (hereinafter "deeper depths") in each well located on acreage retained



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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 waterflood operations without the prior consent of the owner of the soil.

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

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

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



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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



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Clerks Office

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, Chap. 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this lease forfeited as provided herein.

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

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

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

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



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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.

LESSEE

BY: Bruce W. HuntTitle: PresidentDate: 01/09/08

STATE OF TEXAS

BY: Randy D. Camp

The Estate of Nellie May Gohike
Randy D. Camp, Individual Executor

Individually and as agent for the State of Texas

Date: 12/12/07

STATE OF TEXAS

BY: _____

Individually and as agent for the State of Texas

Date: _____

STATE OF TEXAS

BY: _____

Individually and as agent for the State of Texas

Date: _____

STATE OF TEXAS

BY: _____

Individually and as agent for the State of Texas

Date: _____



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Reeves County
Clerks Office

STATE OF Texas

(CORPORATION ACKNOWLEDGMENT)

COUNTY OF Dallas

BEFORE ME, the undersigned authority, on this day personally appeared Bruce W. Hunt
 known to me to be the person whose name is subscribed to the foregoing instruments as President
 of Petro-Hunt, L.L.C. and acknowledged to me that he
 executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation company

Given under my hand and seal of office this the 9th day of January, 2008



Susan M. Giersey
 Notary Public in and for State of Texas

STATE OF Texas

(INDIVIDUAL ACKNOWLEDGMENT)

COUNTY OF Wichita

BEFORE ME, the undersigned authority, on this day personally appeared Randy D. Camp, Individual Executor Estate of Nellie May Gohlke

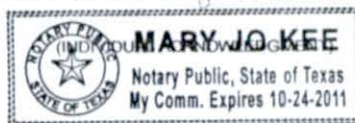
known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the
 purposes and consideration therein expressed.

Given under my hand and seal of office this the 12 day of December, 2007

Mary Jo Kee
 Notary Public in and for State of Texas

STATE OF _____

COUNTY OF _____



BEFORE ME, the undersigned authority, on this day personally appeared _____

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.

Given under my hand and seal of office this the _____ day of _____, 20____

 Notary Public in and for _____

STATE OF _____

(INDIVIDUAL ACKNOWLEDGMENT)

COUNTY OF _____

BEFORE ME, the undersigned authority, on this day personally appeared _____

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.

Given under my hand and seal of office this the _____ day of _____, 20____

 Notary Public in and for _____

FILE# 153FILED FOR RECORD ON THE 11TH DAY OF JANUARY A.D. 2008 3:05 P.M.DULY RECORDED ON THE 14TH DAY OF JANUARY A.D. 2008 2:00 P.M.BY: [Signature], DEPUTY

DIANNE O. FLOREZ, COUNTY CLERK
 REEVES COUNTY, TEXAS

NOTICE: This document is a true and correct copy of the original filed in the public records of the State of Texas. The use of this document for any purpose other than as a true and correct copy of the original is invalid and unenforceable under federal law.



True and Correct
 copy of
 Original filed in
 Reeves County
 Clerks Office

File No. MF 104778 5
Lease J (19)
Date Filed: 7-2-08 6-9-2005
Jerry E. Patterson, Commissioner
By [Signature]

1038

CERTIFIED TRUE AND CORRECT COPY CERTIFICATE
STATE OF TEXAS
COUNTY OF REEVES

The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL. 781, PAGE 462, THRU 470

OFFICIAL PUBLIC RECORDS

I hereby certified on 01/15/2008



DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

BY [Signature] DEPUTY

1601 ELM STREET, STE 3400
THANKSGIVING TOWER
DALLAS, TEXAS 75201-7201



TEL: 214-880-8400
FAX: 214-880-7101

June 16, 2005

State of Texas General Land Office
1700 N. Congress Avenue, Room 600
Austin, Texas. 78701.
Attn: Mr. Drew Reid

Gentlemen:

Enclosed please find Petro-Hunt, L.L.C.'s check in the amount of \$107,333.50 as payment for one-half of the bonus consideration due for two Relinquishment Act leases taken in Reeves County, Texas along with appropriate application and filing fees. A breakdown of payment for each lease is as follows:

<u>Dela Minerals, Inc.</u>	02/18/05	\$59,076.00- Lease Bonus	393.84
PSL Survey Block 58		\$100.00- Application Fee	
Section 39: The E/2; Section 40: SE/4; and all of Section 42.		\$25.00- Filing Fee	

<u>Dela Minerals, Inc.</u>	02/18/05	\$48,007.50- Lease Bonus	320.05
PSL Survey Block 58		\$100.00- Application Fee	
Sections 31 & 32.		\$25.00- Filing Fee	

Also enclosed are certified copies of each of the leases. If you should have any questions, my phone number is 214-880-8493.

Yours very truly,

William A. Hearne
Senior Landman

6.
File No. MF104778
Letter
Date Filed: 6/16/05
Jerry E. Patterson, Commissioner
By JP

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

September 8, 2005

Doug Ferguson
P.O. Box 432
Midland, Texas 79702

Re: RELINQUISHMENT ACT LEASE No. M-104778

Dr 938.01
938.01 acres out of the E/2 of Sec. 39, SE/4 of Sec. 40, all of Sec. 42,
Blk. 58, PSL, Reeves County, Texas

Dear Mr. Ferguson:

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-104778. Please refer to this number in all future correspondence concerning the lease.

Your remittance of \$73,294.75, has been applied as the state's portion of the cash bonus \$73,169.75, 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

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

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

www.glo.state.tx.us

7.

File No. MF104778

JEO Little
Date Filed: 9/8/05

Jerry E. Patterson, Commissioner
By _____

PETRO-HUNT, L.L.C.
 1601 Elm Street, Suite 3400
 Dallas, Texas 75201
 (214) 880-8400

Bank One, N.A.
 Jefferson County
 8200 Hwy 69
 Port Arthur, Texas 77640

Page 1 of 1

OWNER NAME	OWNER NO.	DATE	CHECK NUMBER	AMOUNT
TEXAS GENERAL LAND OFFICE		Sep-09-2005	7003605	\$18.80

LEASE NUMBER
 118*1018682

ORIGINAL LESSOR/LEASE NAME
DRAKE JANE COVINGTON
 RENTAL PERIOD

DATE

09/09/05

CHECK NO 7003605

LEASE DATE MONTHS FROM TO FILE ID
 10/20/04 12 10/20/05 10/20/06 68350-0012-003

**** PAYMENT TYPE **** DELAY RENTAL ****

PAYMENT AMOUNT 18.80

TO BE CREDITED TO

ADDITIONAL TEXT

BANK SERVICE CHG

TOTAL AMOUNT X 18.80

OWNER # 58207
 TEXAS GENERAL LAND OFFICE
 1700 N CONGRESS AVE RM 600
 AUSTIN, TEXAS 78701
 SSN/TAX ID
 RECORDED BOOK 700 PAGE 83
 PROSPECT N W TOYAH PROSPECT
 COUNTY/PARISH REEVES
 TRACT NO 18740

ENTRY

STATE TX

LEGAL DESCRIPTION
 REEVES COUNTY TEXAS BLOCK 58, PUBLIC
 SCHOOL LAND SURVEY SEC. 42: ALL BEING
 615.00 ACRES MORE OR LESS

M-104778 C

06002863

50.87.6

File No. MF 104778
Opntal Segment
Date Filed: 9/19/05
Jerry E. Patterson, Commissioner
By [Signature]

00005803

3.13.02

704667

PETRO-HUNT, L.L.C.
1601 Elm Street, Suite 3400
Dallas, Texas 75201
(214) 880-8400

Bank One, N.A.
Jefferson County
8200 Hwy 69
Port Arthur, Texas 77640

Page 1 of 1

OWNER NAME	OWNER NO.	DATE	CHECK NUMBER	AMOUNT
TEXAS GENERAL LAND OFFICE		Sep-09-2005	7003601	\$18.80

LEASE NUMBER
118*1018680

ORIGINAL LESSOR/LEASE NAME
COVINGTON TED MICHEAL

DATE

09/09/05

CHECK NO 7003601

LEASE DATE MONTHS
10/02/04 12

RENTAL PERIOD
FROM TO FILE ID
10/02/05 10/02/06 68350-0012-001

**** PAYMENT TYPE **** DELAY RENTAL ****

PAYMENT AMOUNT 18.80

BANK SERVICE CHG

TOTAL AMOUNT 18.80

TO BE CREDITED TO

ADDITIONAL TEXT

OWNER # 58207
TEXAS GENERAL LAND OFFICE
1700 N CONGRESS AVE RM 600
AUSTIN, TEXAS 78701
SSN/TAX ID
RECORDED BOOK 700 PAGE 93
PROSPECT N W TOYAH PROSPECT
COUNTY/PARISH REEVES
TRACT NO 18740

ENTRY

STATE TX

LEGAL DESCRIPTION
REEVES COUNTY TEXAS BLOCK 58, PUBLIC
SCHOOL LAND SURVEY SEC. 42; ALL BEING
615.00 ACRES MORE OR LESS

M-104778D

06002865

50.67.6

02005822

2.13.02

704663

PETRO-HUNT, L.L.C.

1601 Elm Street, Suite 3400

Dallas, Texas 75201

(214) 880-8400

Bank One, N.A.

Jefferson County

8200 Hwy 69

Port Arthur, Texas 77640

Page 1 of 1

OWNER NAME	OWNER NO.	DATE	CHECK NUMBER	AMOUNT
TEXAS GENERAL LAND OFFICE		Sep-09-2005	7003603	\$18.80

LEASE NUMBER

118*1018681

ORIGINAL LESSOR/LEASE NAME

HENDERSON ANN COVINGTON

DATE

09/09/05

CHECK NO 7003603

RENTAL PERIOD

LEASE DATE

MONTHS

FROM

TO

FILE ID

10/20/04

12

10/20/05

10/20/06

68350-0012-002

**** PAYMENT TYPE **** DELAY RENTAL ****

PAYMENT AMOUNT

18.80

BANK SERVICE CHG

TOTAL AMOUNT

18.80

TO BE CREDITED TO

ADDITIONAL TEXT

OWNER # 58207

TEXAS GENERAL LAND OFFICE

1700 N CONGRESS AVE RM 600

AUSTIN, TEXAS 78701

SSN/TAX ID

RECORDED BOOK 700

PAGE 103

ENTRY

PROSPECT N W TOYAH PROSPECT

COUNTY/PARISH REEVES

STATE TX

TRACT NO 18740

LEGAL DESCRIPTION

REEVES COUNTY TEXAS BLOCK 58, PUBLIC

SCHOOL LAND SURVEY SEC. 42: ALL BEING

615.00 ACRES MORE OR LESS

MF104778E

06002864

50.61.8

8c.
File No. DF 108778
Spinal Payments
Date Filed: 9/19/65
Jerry E. Patterson, Commissioner
By [Signature]

42850020

3.73.02

704665

PETRO-HUNT, L.L.C.

1601 Elm Street, Suite 3400
Dallas, Texas 75201
(214) 880-8400

Bank One, N.A.

Jefferson County
8200 Hwy 69
Port Arthur, Texas 77640

Page 1 of 1

OWNER NAME	OWNER NO.	DATE	CHECK NUMBER	AMOUNT
TEXAS GENERAL LAND OFFICE		Jan-18-2006	7003964	\$393.84

LEASE NUMBER
118*1021624

ORIGINAL LESSOR/LEASE NAME

DELA MINERALS LLC

DATE

01/18/06

CHECK NO 7003964

RENTAL PERIOD

LEASE DATE MONTHS FROM TO FILE ID
02/18/05 12 02/18/06 02/18/07 68350-0050-001

**** PAYMENT TYPE **** DELAY RENTAL ****

PAYMENT AMOUNT 393.84

BANK SERVICE CHG

TOTAL AMOUNT

TO BE CREDITED TO

ADDITIONAL TEXT

OWNER # 58207
TEXAS GENERAL LAND OFFICE
1700 N CONGRESS AVENUE ROOM 60
AUSTIN, TEXAS 78701
SSN/TAX ID

RECORDED BOOK 707 PAGE 241
PROSPECT N W TOYAH PROSPECT
COUNTY/PARISH REEVES

ENTRY

STATE TX

TRACT NO 23070
LEGAL DESCRIPTION
REEVES COUNTY TEXAS BLOCK 58, PUBLIC
SCHOOL LAND SURVEY SEC. 39: E/2 SEC.
40: SE/4 SEC. 42: ALL BEING 1,025.22
ACRES MORE OR LESS

MF104778A

RECEIVED
05 JAN 23 PM 2:59
ENERGY RESOURCES
121
06022137

90.03.7

9.

File No. MF 104778

RENTIAL PAYMENT

Date Filed: 1/23/06

Jerry E. Patterson, Commissioner

By [Signature]

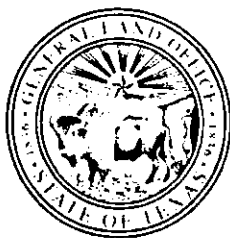
00055131

00055131

7.52.00

744206

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

March 16, 2007

I, Jerry E. Patterson, Commissioner of the General Land Office of the State of Texas, do hereby certify that the papers, records, and documents of said office show;

That on March 24, 1906, E/2 of Section 40, Block 58, Public School Land Survey, 320.00 acres in Reeves County was awarded to J.M. JOHNSON on his application filed in the Texas General Land Office on February 26, 1906, in SCHOOL FILE 86104, and which application was filed to purchase said land under the provisions of Title LXXXVII, Chapter 12A, Revised Civil Statutes of 1895, and the amendments thereto by the Act of May 19, 1897, and the Acts relating to the sale and lease of Public Free School and Asylum lands, approved April 19, 1901, and April 15, 1905, with settlement, said tract applied for having been classified as MINERAL & DRY GRAZING;

That the "old" File Wrapper for SCHOOL FILE 86104 is endorsed: "Abst. 1721," "320 160," "E-1/2 SE 1/4," "Sold in File 137097 SE/4," "Classed Min & Graz 2-8-06," "For NE/4 130267," "Transfer in 85555," "Land Forfeited 7/23/25," J.T. Robison, Comr.;"

That the "new" File Wrapper for SCHOOL FILE 86104 is endorsed: "M & DG," "Sold in File 137097," "For NE/4 - 130267," "Forfeited 7-23-25;"

That on November 22, 1907, W/2 of Section 40, Block 58, Public School Land Survey, 320.00 acres in Reeves County was awarded to J. IKE JOHNSON on his application filed in the Texas General Land Office on November 4, 1907, in SCHOOL FILE 100258, and which application was filed to purchase said land under the provisions of Chapter 47, Act of 1895, and Chapter 129, Act of May 19, 1897, and the Acts approved April 19, 1901, April 15, 1905, and May 16, 1907, without settlement, said tract applied for having been classified as DRY GRAZING;

That on May 16, 1911, MABEE JOHNSON conveyed "All of the West Half (W 1/2) of Section Number Forty (40) in Block Number Fifty-Eight (58) of the Public School Land in Reeves County Texas containing 320 acres," to JAMES E. BOWEN, and a certified copy of said deed was filed in the Texas General Land Office on June 11, 1911, in SCHOOL FILE 100258;

That on October 5, 1953, R.E. Booker, License State Land Surveyor, surveyed 320.00 acres in Reeves County for MRS. TINA BROOKER FITE, and compiled field notes thereon, designating it as Section 40, Block 58, which field notes were recorded in Volume 5, Page 298, Surveyor's Records, Reeves County, and were filed in the Texas General Land Office on October 24, 1953,

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

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

www.glo.state.tx.us

in SCHOOL FILE 100258, marked correct on map for 320 acres on October 27, 1953, and are endorsed as patented on October 29, 1953;

That on November 2, 1950, payment in full for 320.00 acres, W/2 of Section 40, Block 58, PSL Survey, Reeves County, was received in the Texas General Land Office, and said land, having been classified MINERAL & DRY GRAZING, with minerals reserved to the State, was patented on October 29, 1953, to MRS. M.H. SCHARF, her heirs, and assigns, by Patent Number 133, Volume 23-B, under Abstract 2664 and SCHOOL FILE 100258;

That the File Wrapper for SCHOOL FILE 100258 is endorsed: "A-2664," "M & DG," "Classed Min & Gra, 2-8-06," "Transfer 100257," "See Min. Plat Book Abs 2664," "Correct on Map For 320 Acres, 10-27-53," "Patent to Mrs. M. H. Scharf, assn with M/R," "Final Pay 11-2-50," "(Stamped) Patented October 29, 1953, No. 133, Vol. 23-B;"

That on May 12, 1921, J.M. JOHNSON conveyed NE/4 of Section 40, Block 58, Public School Land Survey, 160.00 acres in Reeves County, to JESSIE L.L. FRANKLIN, and a certified copy of said School Land Deed was filed in the Texas General Land Office on September 22, 1922, in SCHOOL FILE 130267;

That on April 30, 1954, FRED P. ARMSTRONG, License Surveyor of Reeves County, surveyed 160.00 acres in Reeves County for HENRY ALLEN, and compiled field notes thereon, designating it as NE/4 of Section 40, Block 58, PSL, which field notes were recorded in Book 5, Page 336, Surveyor's Records, Reeves County, and were filed in the Texas General Land Office on November 1, 1954, in SCHOOL FILE 130267, marked correct on map for 160.00 acres on November 5, 1954, and are endorsed as patented on November 8, 1954;

That on November 5, 1954, payment in full for 160.00 acres, NE/4 of Section 40, Block 58, PSL Survey, Reeves County, was received in the Texas General Land Office, and said land, having been classified MINERAL & GRAZING, with minerals reserved to the State, was patented on November 5, 1954, to Jessie L.L. Franklin, his heirs, and assigns, by Patent Number 246, Volume 24B, under Abstract 4167 and SCHOOL FILE 130267;

That the "old" File Wrapper for School File 130267 is endorsed: "abst 4167," "Sold as M & G," "Orig in 86104," "Correct on Map for 160 Acres, 11/5/54," "Land Forfeited 1-6, 1943," "Reinstated 3-3-1943," "Paid-In-Full for 160 Acres, Date 11-5-54," "Pat to Jessie L.L. Franklin, asgne. with Minerals Reserved," "Patented November 8, 1954, No. 246, Vol. 24-B;"

That the "new" File Wrapper for School File 130267 is endorsed: "abst 4167," "M & DG," "Orig in 86104," "See Min. Plat Book Abs. 2664," "See fieldnotes in MF 60977," "Pat'd Nov-8-1954, No-246, Vol-24B;"

That on March 12, 1926, SE/4 of Section 40, Block 58, PSL Survey, 160.00 acres in Reeves County was awarded to A.B. Burchard on his Application To Re-Purchase Forfeited School Land filed in the Texas General Land Office on February 6, 1926, in SCHOOL FILE 137097, and which

application was filed to purchase said land under Chapter 94, Act approved March 19, 1925, said tract applied for having been classified as MINERAL & DRY GRAZING;

That the File Wrapper for SCHOOL FILE 137097 is endorsed: "A-4389," "M & DG," "Sold as M & G," "Transfer 137096," "See Min. Plat Book Abs 2664," "Paid-In-Full For 160 Acres, 10-18-71,"

That on March 30 1926, A.B. BURCHARD, individually, and as agent for the State of Texas, executed and delivered a State Relinquishment Act Oil & Gas Lease M-19312, covering "The southeast ¼ of section 40, Block 58, 320 acres," with additional tracts in Reeves County, to V.A. THOMPSON, for a primary term of Ten (10) years, with a cash bonus of \$10.00, and an annual delay rental of \$650.00, with like amounts payable each to landowner and State, and a royalty of One-Sixteenth (1/16), one-half payable each to landowner and State, and a certified copy of said lease was filed in the Texas General Land Office on July 12, 1935, in MINERAL FILE M-19312;

That the File Wrapper for MINERAL FILE M-19312 is endorsed: "(Signed) Expired 3/30/36;"

That on August 20, 1930, W.H. Slay, U.M. Simon and Mike E. Smith, individually, and as agent for the State of Texas, executed and delivered a State Relinquishment Act Oil & Gas Lease M-17826, covering "West half of Section 40, Block 58, Public School Land," with additional tracts, 1120.00 acres in Reeves County, to GULF PRODUCTION COMPANY, for a primary term of Twelve (12) years, with a cash bonus of \$2,800.00, and an annual delay rental of \$560.00, with like amounts payable each to landowner and State, and a royalty of One-Eighth (1/8), one-half payable each to landowner and State, and a certified copy of said lease was filed in the Texas General Land Office on September 19, 1930, in MINERAL FILE M-17826;

That the File Wrapper for MINERAL FILE M-17826 is endorsed: "(Marked) Expired;"

That on January 14, 1943, TINA BROOKER FITE, Joined by her Husband, THOS. W. FITE, individually, and as agent for the State of Texas, executed and delivered a State Relinquishment Act Oil & Gas Lease M-27671, covering "The W ½ of Section 40," with additional tracts, 1120.00 acres in Reeves County, to P.N. WIGGINS, JR., for a primary term of Ten (10) years, with a cash bonus of \$560.00, and an annual delay rental of \$280.00, with like amounts payable each to landowner and State, and a royalty of One-Sixteenth (1/16), one-half payable each to landowner and State, and a certified copy of said lease was filed in the Texas General Land Office on May 24, 1943, in MINERAL FILE M-27671;

That the File Wrapper for MINERAL FILE M-27671 is endorsed: "(Stamped) Terminated for failure to pay rental on or before the date specified in lease in accordance with the "unless clause contained therein." (Signed) "Bascom Giles, Commissioner, 2/28/49;"

That on February 8, 1943, A.B. BURCHARD and KATE BURCHARD, His Wife, individually, and as agent for the State of Texas, executed and delivered a State Relinquishment Act Oil & Gas Lease M-27698, covering "the SE1/4 of Section 40," with additional tracts, 1360.00 acres in Reeves County, to P.N. WIGGINS, JR., for a primary term of Ten (10) years, with a cash bonus of \$690.00, and an annual delay rental of \$340.00, with like amounts payable each to landowner and State, and a royalty of One-Sixteenth (1/16), one-half payable each to landowner and State, and a certified copy of said lease was filed in the Texas General Land Office on May 24, 1943, in MINERAL FILE M-27698;

That the File Wrapper for MINERAL FILE M-27698 is endorsed: "(Stamped) Terminated for failure to pay rental on or before the date specified in lease in accordance with the "unless clause contained therein." (Signed) "Bascom Giles, Commissioner;"

That on July 24, 1950, MRS. TINA BROOKER FITE and Husband, THOMAS W. FITE, individually, and as agent for the State of Texas, executed and delivered a State Relinquishment Act Oil & Gas Lease M-35741, covering "West Half (W/2) of Section 40, All in Block fifty-eight (58), Public School Land," with additional tracts, 1120.00 acres in Reeves County, to E.M. WAHLENMAIER, for a primary term of Ten (10) years, with a cash bonus of \$2240.00, and an annual delay rental of \$280.00, with like amounts payable each to landowner and State, and a royalty of One-Sixteenth (1/16), one-half payable each to landowner and State, and a certified copy of said lease was filed in the Texas General Land Office on September 5, 1950, in MINERAL FILE M-35741;

That the File Wrapper for MINERAL FILE M-35741 is endorsed: "(Stamped) EXPIRED;

That on July 26, 1950, W.B. BURCHARD and Wife, MAMIE BURCHARD, individually, and as agent for the State of Texas, executed and delivered a State Relinquishment Act Oil & Gas Lease M-36396, covering "Southeast one-quarter (SE/4) of Section 40, Block 58, Public School Land, with additional tracts, 1,600.00 acres in Reeves County, to L.C. WAHLENMAIER, for a primary term of Ten (10) years, with a cash bonus of \$3,200.00, and an annual delay rental of \$0.25 per acre, with like amounts payable each to landowner and State, and a royalty of One-Sixteenth (1/16), one-half payable each to landowner and State, and a certified copy of said lease was filed in the Texas General Land Office on January 12, 1951, in Mineral File M-36396;

That the File Wrapper for MINERAL FILE M-36396 is endorsed: "(Stamped) EXPIRED;

That on January 30, 1951, HENRY ALLEN, and Wife, JESSIE ALLEN; J. ROBERT CREECH and Wife, FAY S. CREECH, individually, and as agent for the State of Texas, executed and delivered a State Relinquishment Act Oil & Gas Lease M-36557, covering "Northeast one-quarter of Section 40, Block 58, Public School Land," 160.00 acres in Reeves County, to L.C.

WAHLENMAIER, for a primary term of Ten (10) years, with a cash bonus of \$400.00, and an annual delay rental of \$0.25 per acre, with like amounts payable each to landowner and State, and a royalty of One-Sixteenth (1/16), one-half payable each to landowner and State, and a certified copy of said lease was filed in the Texas General Land Office on April 24, 1951, in MINERAL FILE M-36557;

That the File Wrapper for MINERAL FILE M-36557 is endorsed: "(Stamped) EXPIRED;

That on September 3, 1965, LESTER C. WEATHERBY, individually, and as agent for the State of Texas, executed and delivered a State Relinquishment Act Oil & Gas Lease M-58756, covering "West One-half (W/2) of Section 40, Block 58, Public School Land," with additional tracts, 800.00 acres in Reeves County, to GULF OIL CORPORATION, for a primary term of Ten (10) years, with a cash bonus of \$8,00.00, and an annual delay rental of \$400.00, with like amounts payable each to landowner and State, and a royalty of One-Sixteenth (1/16), one-half payable each to landowner and State, and a certified copy of said lease was filed in the Texas General Land Office on November 18, 1965, in MINERAL FILE M-58756;

That the File Wrapper for MINERAL FILE M-58756 is endorsed: "(Stamped) EXPIRED;

That on September 7, 1965, JERRY COVINGTON and his Wife DORIS ELOISE COVINGTON, individually, and as agent for the State of Texas, executed and delivered a State Relinquishment Act Oil & Gas Lease M-58725, covering "The Southeast one-quarter (SE/4) of Section 40, Block 58, Public School Land Survey," 160.00 acres in Reeves County, to GULF OIL CORPORATION, for a primary term of Ten (10) years, with a cash bonus of \$2,000.00, and an annual delay rental of \$0.50 per acre, with like amounts payable each to landowner and State, and a royalty of One-Sixteenth (1/16), one-half payable each to landowner and State, and a certified copy of said lease was filed in the Texas General Land Office on September 7, 1965, in Mineral File M-58725;

That the File Wrapper for MINERAL FILE M-58725 is endorsed: "(Signed) Released;

That on June 13, 1967, Jerry Sadler, Commissioner of the Texas General Land Office, awarded the minerals in Section 40, Block 40, PSL Survey, 399.99 acres, more or less, in Reeves County, known as FITE CLAIMS No. 1 through FITE CLAIMS No. 23, except oil, gas, and those minerals covered by Article 5421c-7, V.C.S., to BEAR CREEK MINING COMPANY, in accordance with Articles 5388 to 5403 inclusive, Revised Statutes of 1925, and amendments thereto, and said awards were filed in the Texas General Land Office on June 13, 1967, in MINERAL AWARD FILE M-60977;

That the file wrapper for Mineral File M-60977 is endorsed: "See Min Plat Book Abs. 2664", "23 Awards 399.99 acres \$200.00 Rental", "Plat Mkd Ptd.", "(Stamped) FORFEITED FOR FAILURE TO MAKE ANNUAL RENTAL PAYMENT AND DO ASSESSMENT WORK AS PRESCRIBED BY LAW";

That on January 19, 1968, pursuant to House Bill No. 196, Acts of the 60th Legislature, 1967, Regular Session, Jerry Sadler, Commissioner of the Texas General Land Office, executed and delivered State Sulphur Lease M-61106, covering "Southeast one-quarter (SE/4) of Section 40, Block 58, PSL Survey, Reeves County, Texas," to BEAR CREEK MINING COMPANY, for a cash bonus of \$4,800.00, with a primary term of Five (5) years, an annual rental of 800.00, and a royalty to the State of One-Sixth (1/6) of the gross production of sulphur from the tract, and a certified copy of said lease was filed in the Texas General Land Office on January 19, 1968, in MINERAL FILE M-61106;

That the File Wrapper for MINERAL FILE M-61106 is endorsed: "(Stamped) TERMINATED;

That on May 27, 1975, JERRY COVINGTON, TRUSTEE, individually, and as agent for the State of Texas, executed and delivered a State Relinquishment Act Oil & Gas Lease M-71997, covering "the Southeast quarter (SE/4) of Section 40, Block 58, Public School Land," 160.05 acres in Reeves County, to GULF OIL CORPORATION, for a primary term of Five (5) years, with a cash bonus of \$4,001.25, and an annual delay rental of \$80.03, with like amounts payable each to landowner and State, and a royalty of Three-Thirty second (3/32), one-half payable each to landowner and State, and a certified copy of said lease was filed in the Texas General Land Office on June 13, 1975, in MINERAL FILE M-71997;

That the File Wrapper for MINERAL FILE M-71997 is endorsed: "(Stamped) EXPIRED;

That on August 13, 1975, LESTER C. WEATHERBY, individually, and as agent for the State of Texas, executed and delivered a State Relinquishment Act Oil & Gas Lease M-72164, covering West One-half (W/2) of Section 40, Block 58, Public School Land," with additional tracts, 800.00 acres in Reeves County, to GULF OIL CORPORATION, for a primary term of Five (5) years, with a cash bonus of \$20,000.00, and an annual delay rental of \$400.00, with like amounts payable each to landowner and State, and a royalty of Three-Thirty second (3/32), one-half payable each to landowner and State, and a certified copy of said lease was filed in the Texas General Land Office on September 13, 1975, in MINERAL FILE M-72164;

That the File Wrapper for MINERAL FILE M-72164 is endorsed: "(Stamped) EXPIRED;

That on May 12, 1980, JESSIE B. ALLEN, a widow, individually, and as agent for the State of Texas, executed and delivered a State Relinquishment Act Oil & Gas Lease M-82269, covering "All of the East Half of the Northeast Quarter (E/2 NE/4) of Section 40, Block 58, PSL Survey, and more particularly described in that certain Patent recorded in Volume 6, Page 428 of the Patent Records of Reeves County," containing 80.00 acres, to BORDER EXPLORATION COMPANY, for a primary term of Three (3) years, with a cash bonus of \$4,000.00, and an annual delay rental of \$40.00, with like amounts payable each to landowner and State, and a

royalty of One-Fourth (1/4), one-half payable each to landowner and State, and a certified copy of said lease was filed in the Texas General Land Office on July 12, 1980, in MINERAL FILE M-82269;

That the File Wrapper for MINERAL FILE M-82269 is endorsed: "(Stamped) EXPIRED;"

That on May 12, 1980, J. ROBERT CREECH and wife FAY S. CREECH, individually, and as agent for the State of Texas, executed and delivered a State Relinquishment Act Oil & Gas Lease M-82270, covering "All of the West Half of the Northeast Quarter (W/2 NE/4) of Section 40, Block 58, PSL Survey, and more particularly described in that certain Patent recorded in Volume 6, Page 428 of the Patent Records of Reeves County," containing 80.00 acres, to BORDER EXPLORATION COMPANY, for a primary term of Three (3) years, with a cash bonus of \$4,000.00, and an annual delay rental of \$40.00, with like amounts payable each to landowner and State, and a royalty of One-Fourth (1/4), one-half payable each to landowner and State, and a certified copy of said lease was filed in the Texas General Land Office on July 12, 1980, in MINERAL FILE M-82270;

That the File Wrapper for MINERAL FILE M-82270 is endorsed: "(Stamped) EXPIRED;"

That on October 13, 2004, LESTER CHARLES WEATHERBY, JR., individually, and as agent for the State of Texas, executed and delivered a State Relinquishment Act Oil & Gas Lease M-104548, covering "Southwest Quarter (SW/4) of Section 40, Public School Land Survey," included other tracts, 1120.00 acres in Reeves County, to PETRO-HUNT, L.L.C., for a primary term of Five (5) years, with a cash bonus of \$84,000.00, and an annual delay rental of \$560.00, with like amounts payable each to landowner and State, and a royalty of One-Fifth (1/5), one-half payable each to landowner and State, and a certified copy of said lease was filed in the Texas General Land Office on April 4, 2005, in MINERAL FILE M-104548;

That the latest rental payment for State Oil & Gas Lease M-104548, for the period October 13, 2006, to October 13, 2007, was received in the Texas General Land Office on September 18, 2006;

That on February 18, 2005, DELA MINERALS, INC., individually, and as agent for the State of Texas, executed and delivered a State Relinquishment Act Oil & Gas Lease M-104778, covering "Southeast Quarter (SE/4) of Section 40, Block 58, Public School Land Survey," with additional tracts, 1,095.22 acres in Reeves County, to PETRO-HUNT, L.L.C., for a primary term of Three (3) years, with a cash bonus of \$118,152.00, and an annual delay rental of \$787.68, with like amounts payable each to landowner and State, and a royalty of One-Fourth (1/4), one-half payable each to landowner and State, and a certified copy of said lease was filed in the Texas General Land Office on June 9, 2005, in Mineral File M-104778;

That the latest rental payment for State Oil & Gas Lease M-104778, for the period February 18, 2006, to February 18, 2007, was received in the Texas General Land Office on January 23, 2006;

IN TESTIMONY WHEREOF, I hereto set my hand and seal of said office the first date above written.

JERRY E. PATTERSON
COMMISSIONER OF THE GENERAL LAND OFFICE

JEP/wt

Name	John R. Collins / COTTON BLEDSOE TIGHE & DAWSON
Street Address	PO Box 2776
City and State	Midland, TX 79702-2776
Fee:	\$2100.00
Account No.	N/A
Dicta No.	2007-42
Files:	SCHOOL FILE 86104, 100258, 137097, 130267, MINERAL FILES M-19312, M-17826, M-27671, M-27698, M-35741, M-36396, M-36557, M-58725, M-58751, M-60977, M-61106, M-71997, M-72161, M-82269, M-82270, M-104548, M-104778

10.

File No. M-104778

Date Filed: 3/19/07

Jerry E. Patterson, Commissioner
By [Signature]

PETRO-HUNT, L.L.C. ✓
 1601 Elm Street, Suite 3400
 Dallas, Texas 75201
 (214) 880-8400

JPMorgan Chase Bank, N.A.
 Jefferson County
 8200 Hwy 69
 Port Arthur, Texas 77640

Page 1 of 1

OWNER NAME	OWNER NO.	DATE	CHECK NUMBER	AMOUNT
TEXAS GENERAL LAND OFFICE		Sep-11-2006	7005104	\$18.80

LEASE NUMBER
 118*1018682

ORIGINAL LESSOR/LEASE NAME
DRAKE JANE COVINGTON
 RENTAL PERIOD

DATE

09/11/06

CHECK NO 7005104

LEASE DATE MONTHS FROM TO FILE ID
 10/20/04 12 10/20/06 10/20/07 68350-0012-003

**** PAYMENT TYPE **** DELAY RENTAL ****

PAYMENT AMOUNT 18.80

BANK SERVICE CHG

TOTAL AMOUNT 18.80

TO BE CREDITED TO

ADDITIONAL TEXT

OWNER # 58207
 TEXAS GENERAL LAND OFFICE
 1700 N CONGRESS AVENUE ROOM 60
 AUSTIN, TEXAS 78701

RECORDED BOOK 700 PAGE 83

ENTRY

PROSPECT N W TOYAH PROSPECT

COUNTY/PARISH REEVES

STATE TX

TRACT NO 18740

LEGAL DESCRIPTION

REEVES COUNTY TEXAS BLOCK 58, PUBLIC
 SCHOOL LAND SURVEY SEC. 42; ALL BEING
 615.00 ACRES MORE OR LESS

M-104778c

07002765

00010

File No. MF 104778

Rental

Date Filed: 9.18.00

Jerry E. Patterson, Commissioner

By EPK

20050050

779056

PETRO-HUNT, L.L.C.
 1601 Elm Street, Suite 3400
 Dallas, Texas 75201
 (214) 880-8400

JPMorgan Chase Bank, N.A.
 Jefferson County
 8200 Hwy 69
 Port Arthur, Texas 77640

Page 1 of 1

OWNER NAME	OWNER NO.	DATE	CHECK NUMBER	AMOUNT
TEXAS GENERAL LAND OFFICE		Sep-11-2006	7005102	\$18.80

LEASE NUMBER
 118*1018681

ORIGINAL LESSOR/LEASE NAME
HENDERSON ANN COVINGTON

DATE

09/11/06

CHECK NO 7005102

LEASE DATE MONTHS FROM TO FILE ID
 10/20/04 12 10/20/06 10/20/07 68350-0012-002

RENTAL PERIOD

**** PAYMENT TYPE **** DELAY RENTAL ****

PAYMENT AMOUNT 18.80

TO BE CREDITED TO

ADDITIONAL TEXT

BANK SERVICE CHG

TOTAL AMOUNT 18.80

OWNER # 58207

TEXAS GENERAL LAND OFFICE
 1700 N CONGRESS AVENUE ROOM 60
 AUSTIN, TEXAS 78701

RECORDED BOOK 700 PAGE 103

ENTRY

PROSPECT N W TOYAH PROSPECT

COUNTY/PARISH REEVES

STATE TX

TRACT NO 18740

LEGAL DESCRIPTION

**REEVES COUNTY TEXAS BLOCK 58, PUBLIC
 SCHOOL LAND SURVEY SEC. 42; ALL BEING
 615.00 ACRES MORE OR LESS**

121

07002764

M-104778E

00010

A2TS0050

File No. MF 104778

Rental

Date Filed: 9.18.04

Jerry E. Patterson, Commissioner

By EPB

779058

PETRO-HUNT, L.L.C.
 1601 Elm Street, Suite 3400
 Dallas, Texas 75201
 (214) 880-8400

JPMorgan Chase Bank, N.A.
 Jefferson County
 8200 Hwy 69
 Port Arthur, Texas 77640

Page 1 of 1

OWNER NAME	OWNER NO.	DATE	CHECK NUMBER	AMOUNT
TEXAS GENERAL LAND OFFICE		Sep-11-2006	7005100	\$18.80

LEASE NUMBER
 118*1018680

ORIGINAL LESSOR/LEASE NAME
COVINGTON TED MICHEAL
 RENTAL PERIOD

DATE

09/11/06

CHECK NO 7005100

LEASE DATE MONTHS FROM TO FILE ID
 10/02/04 12 10/02/06 10/02/07 68350-0012-001

**** PAYMENT TYPE **** DELAY RENTAL ****

PAYMENT AMOUNT 18.80

TO BE CREDITED TO

ADDITIONAL TEXT

BANK SERVICE CHG

TOTAL AMOUNT 18.80

OWNER # 58207

TEXAS GENERAL LAND OFFICE
 1700 N CONGRESS AVENUE ROOM 60
 AUSTIN, TEXAS 78701

RECORDED BOOK 700 PAGE 93

ENTRY

PROSPECT N W TOYAH PROSPECT

COUNTY/PARISH REEVES

STATE TX

TRACT NO 18740

LEGAL DESCRIPTION

REEVES COUNTY TEXAS BLOCK 58, PUBLIC
 SCHOOL LAND SURVEY SEC. 42: ALL BEING
 615.00 ACRES MORE OR LESS

121

07002763

M-104778D

00010

11

20150050

File No. MF 104778
Rental
Date Filed: 9.18.00
Jerry E. Patterson, Commissioner
By gbsk

779060

PETRO-HUNT, L.L.C.1601 Elm Street, Suite 3400
Dallas, Texas 75201
(214) 880-8400**JPMorgan Chase Bank, N.A.**Jefferson County
8200 Hwy 69
Port Arthur, Texas 77640

07023366

Page 1 of 1

OWNER NAME	OWNER NO.	DATE	CHECK NUMBER	AMOUNT
TEXAS GENERAL LAND OFFICE		Jan-12-2007	7005454	\$393.84

LEASE NUMBER
118*1021624ORIGINAL LESSOR/LEASE NAME
DELA MINERALS INC
RENTAL PERIOD

DATE

01/12/07

CHECK NO 7005454

LEASE DATE MONTHS FROM TO FILE ID
02/18/05 12 02/18/07 02/18/08 68350-0050-001

**** PAYMENT TYPE **** DELAY RENTAL ****

PAYMENT AMOUNT 393.84

TO BE CREDITED TO

ADDITIONAL TEXT

BANK SERVICE CHG

TOTAL AMOUNT 393.84

OWNER # 58207

TEXAS GENERAL LAND OFFICE
1700 N CONGRESS AVENUE ROOM 60
AUSTIN, TEXAS 78701

RECORDED BOOK 707 PAGE 241

ENTRY

PROSPECT N W TOYAH PROSPECT

COUNTY/PARISH REEVES

STATE TX

TRACT NO 23070

LEGAL DESCRIPTION

REEVES COUNTY TEXAS BLOCK 58, PUBLIC
SCHOOL LAND SURVEY SEC. 39: E/2 SEC.
40: SE/4 SEC. 42: ALL BEING 1,095.22
ACRES MORE OR LESS

M-104778

20.02.1

File No. MF-104778 12.

Rental

Date Filed: 01.29.07

Jerry E. Patterson, Commissioner

By JEPK

1-30-07

763162

PETRO-HUNT, L.L.C.
1601 Elm Street, Suite 3400
Dallas, Texas 75201
(214) 880-8400

JPMorgan Chase Bank, N.A.
Jefferson County
8200 Hwy 69
Port Arthur, Texas 77640

Page 1 of 1

OWNER NAME	OWNER NO.	DATE	CHECK NUMBER	AMOUNT
TEXAS GENERAL LAND OFFICE	58207	Nov-30-2007	4124026	\$4,639.00

VOUCHER	VENDOR INV #	INV DATE	TOTAL AMOUNT	PRIOR PMTS & DISCOUNTS	NET AMOUNT
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11AP4083	112707-AA	11/27/07	4,639.00	0.00	4,639.00
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"MINERAL #M-104778"

TOTAL INVOICES PAID

X
4,639.00

121

08006753

08000123



850551

1601 ELM STREET, STE 3400
THANKSGIVING TOWER
DALLAS, TEXAS 75201-7201



TEL: 214-880-8400
FAX: 214-880-7101

December 28, 2007

State of Texas General Land Office
1700 N. Congress Avenue, Room 600
Austin, Texas. 78701
Attn: Mr. Drew Reid

Gentlemen:

Enclosed please find payment for one-half of the bonus consideration due for six (6) Oil and Gas leases taken in Reeves County, Texas and the appropriate application and/or filing fees. A breakdown of payment for each lease is as follows:

<u>Jud O. Roberts Living Trust</u> <u>Bank of America, Agent</u> #M-104525 The S/2 of Sec. 4, & all of Sec. 10 and 11 Blk. 59, PSL Survey.	10/09/07	\$260,000.00 - Lease Bonus \$100.00 - Application Fee \$25.00 - Filing Fee Total: \$260,125.00 - check #4125234
<u>Sharon N. Edmonson</u> #M-107682 The N/2 & the SE/4 of Sec. 158, Blk. 13, H&GN Ry. Co. Survey.	09/05/07	\$5,962.20 - Lease Bonus No Application Fee Necessary \$25.00 - Filing Fee Total: \$8,987.20 - check #4125235
<u>Ann Covington Henderson</u> #M-104778 Sec. 42, Blk. 58, PSL Survey.	10/21/07	\$6,107.40 - Lease Bonus No Application Fee Necessary \$25.00 - Filing Fee Total: \$6,132.40 - check #4125238
<u>Jane Covington Drake</u> #M-104778 Sec. 42, Blk. 58, PSL Survey.	10/21/07	\$1,875.00 - Lease Bonus No Application Fee Necessary \$25.00 - Filing Fee Total: \$6,132.40 - check #4125236
<u>Don O. Bomar</u> #M-104956 NW/4 of Sec. 20, Save and Except 15 acres in The NW/4 of the NW/4, Blk. 58, PSL Survey	10/20/07	\$23,562.50 - Lease Bonus \$100.00- Application Fee \$25.00 - Filing Fee Total: \$23,687.50 - check #4125237

1601 ELM STREET, STE 3400
THANKSGIVING TOWER
DALLAS, TEXAS 75201-7201



TEL: 214-880-8400
FAX: 214-880-7101

15 Lines
Ted Michael Covington
#M-104778
Sec. 42, Blk. 58, PSL Survey

10/21/07

\$6,107.40 - Lease Bonus
\$100.00 - Application Fee
\$25.00 - Filing Fee
Total: \$6,232.40 - check #4125239

Also enclosed, please certified copies of each of the aforementioned leases for your files. If you should have any questions, my phone number is 214-880-8491.

Warm regards,

Elena White
Land Department

PETRO-HUNT, L.L.C.
 1601 Elm Street, Suite 3400
 Dallas, Texas 75201
 (214) 880-8400

JPMorgan Chase Bank, N.A.
 Jefferson County
 8200 Hwy 69
 Port Arthur, Texas 77640

OWNER NAME	OWNER NO.	DATE	CHECK NUMBER	AMOUNT
TEXAS GENERAL LAND OFFICE	58207	Dec-26-2007	4125239	\$6,232.40

VOUCHER	VENDOR INV #	INV DATE	TOTAL AMOUNT	PRIOR PMTS & DISCOUNTS	NET AMOUNT
12AP3459	121907-E	12/19/07	6,232.40	0.00	6,232.40
"MINERAL #M-104778"					
TOTAL INVOICES PAID					6,232.40

X
 121

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004 7

2-20-1977

T. 5-00

853801

PETRO-HUNT, L.L.C.1601 Elm Street, Suite 3400
Dallas, Texas 75201
(214) 880-8400**JPMorgan Chase Bank, N.A.**Jefferson County
8200 Hwy 69
Port Arthur, Texas 77640

Page 1 of 1

OWNER NAME	OWNER NO.	DATE	CHECK NUMBER	AMOUNT
TEXAS GENERAL LAND OFFICE	58207	Dec-26-2007	4125236	\$6,132.40

VOUCHER	VENDOR INV #	INV DATE	TOTAL AMOUNT	PRIOR PMTS & DISCOUNTS	NET AMOUNT
12AP3462	121907-B	12/19/07	6,132.40	0.00	6,132.40
"MINERAL #M-104778"					
TOTAL INVOICES PAID					6,132.40

08008611

003 1

7. 3.00

853803

PETRO-HUNT, L.L.C.1601 Elm Street, Suite 3400
Dallas, Texas 75201
(214) 880-8400**JPMorgan Chase Bank, N.A.**Jefferson County
8200 Hwy 69
Port Arthur, Texas 77640

Page 1 of 1

OWNER NAME	OWNER NO.	DATE	CHECK NUMBER	AMOUNT
TEXAS GENERAL LAND OFFICE	58207	Dec-26-2007	4125238	\$6,132.40

VOUCHER	VENDOR INV #	INV DATE	TOTAL AMOUNT	PRIOR PMTS & DISCOUNTS	NET AMOUNT
12AP3471	121907-D	12/19/07	6,132.40	0.00	6,132.40
"MINERAL #M-104778"					
TOTAL INVOICES PAID					6,132.40

X

121

08008612

003 1

7. 5.00

853802

1601 ELM STREET, STE 3400
THANKSGIVING TOWER
DALLAS, TEXAS 75201-7201



TEL: 214-880-8400
FAX: 214-880-7101

January 21, 2008

State of Texas General Land Office
1700 N. Congress Avenue, Room 600
Austin, Texas. 78701.
Attn: Mr. Drew Reid

Mr. Reid:

Enclosed please find Petro-Hunt, LLC's payment for one-half of the bonus consideration due for two Oil and Gas Leases taken in Reeves County, Texas as well as payment for the appropriate Filing and application fees. A breakdown of payment for each lease is as follows:

<u>The Estate of Nellie May Gohlke:</u> Section 42, Block 58 PSL Survey	4/06/2007	\$4,614.00- Lease Bonus \$25.00- Filing Fee 4,639.00- Total
<u>Kelly H. Baxter:</u> The Northerly 110 Varas of the SE/4 of Sec. 41, Block 58 PSL Survey	11/15/2007	\$393.60- Lease Bonus \$25.00- Filing Fee \$100.00- Application Fee \$518.60- Total

A Certified copy of the above state lease is also enclosed. If you have any questions please give me a call at 214-880-8493.

Yours Very Truly,

William A. Hearne

DOUG FERGUSON

OIL & GAS LANDMAN

606 WEST TENNESSEE, SUITE 100
MIDLAND, TEXAS 79701

P.O. BOX 432, MIDLAND, TEXAS 79702

TEL. 432 684-4542
FAX 432 683-8450
dwf@oilproperties.com

January 11, 2008

Via LoneStar Overnight

Mr. Drew Reid
General Land Office of the State of Texas
1700 N. Congress Avenue
Austin, TX 78701

Re: Section 42, Block 58, PSL Survey;
N110 Varas of the SE/4 of Section 41, Block 58, PSL Survey;

Dear Mr. Reid;

Enclosed please find two copies of original Mineral Classified OGL's, the originals are being recorded. Please provide M# for these leases. These leases are included in our application for a pooling hearing at the end of the month.

Section 42 has been assigned M#'s. The Baxter OGL covers the N110 Varas of the SE/4 of Section 41, for which I have enclosed my check in the sum of \$100.00 to cover your fee.

Sincerely,



Doug Ferguson

DWF:rjc
Enclosure

105289-41 ✓
107732
104728-42 no sale ✓

PETRO-HUNT, L.L.C.

1601 Elm Street, Suite 3400
Dallas, Texas 75201
(214) 880-8400

JPMorgan Chase Bank, N.A.

Jefferson County
8200 Hwy 69
Port Arthur, Texas 77640

Page 1 of 1

OWNER NAME	OWNER NO.	DATE	CHECK NUMBER	AMOUNT
TEXAS GENERAL LAND OFFICE	58207	Jan-21-2008	4126570	\$4,639.00

VOUCHER	VENDOR INV #	INV DATE	TOTAL AMOUNT	PRIOR PMTS & DISCOUNTS	NET AMOUNT
01AP539	012108	01/21/08	4,639.00	0.00	4,639.00
"MINERAL OWNER THE ESTATE OF NELLIE MAY GOHLKE PYMT.FOR 1/2 BONUS CONSIDERATI					
TOTAL INVOICES PAID					4,639.00

08010026

835545

835545

DOUG FERGUSON / LAND ACCOUNT ✓

35907

General Land Office - State of Texas
6600 · GLO

1/11/2008

General Land Office - Texas

X 100.00

attn:
Drew Reid

121

08009485

DWF-Land Account Filing Fee

100.00

DOUG FERGUSON / LAND ACCOUNT

34707

General Land Office - State of Texas
6600 · GLO

1/11/2008

General Land Office - Texas

100.00

PAYMENT
RECORD

W DWF-Land Account Filing Fee

100.00

File No. MF104778 129.
Cover ltr + bonuses

Date Filed: 1-14-08

Jerry E. Patterson, Commissioner

By JA



PA
08-30

MF 104778

Matt Thompson
Associate Landman - Permian South

April 23, 2008

VIA OVERNIGHT COURIER
AND FACSIMILE (512) 475-1543

Mr. Robert Hatter
Texas General Land Office
1700 N. Congress Ave.
Suite 935
Austin, Texas 78701-1495

Re: Notification of Operations
Block 58 State 42 #1H
Section 42, Block 58, Public School Land Survey
Reeves County, Texas

Dear Mr. Hatter:

This letter shall serve as Chesapeake Operating, Inc.'s ("Chesapeake") notice prior to operations on the referenced well as required in Paragraph 10 (B) of the Relinquishment Act Lease Form.

It is anticipated that the above referenced well should commence operations sometime in the near future. Enclosed you shall find a copy of the survey plat, the Application for Permit to Drill, the Certificate of Pooling Authority, and the pooling plat all filed with the Texas Railroad Commission by Chesapeake. Additional information will be provided later as it becomes available.

Should you have any questions, please do not hesitate to call me at (405) 879-3141.

Sincerely,

Chesapeake Operating, Inc.

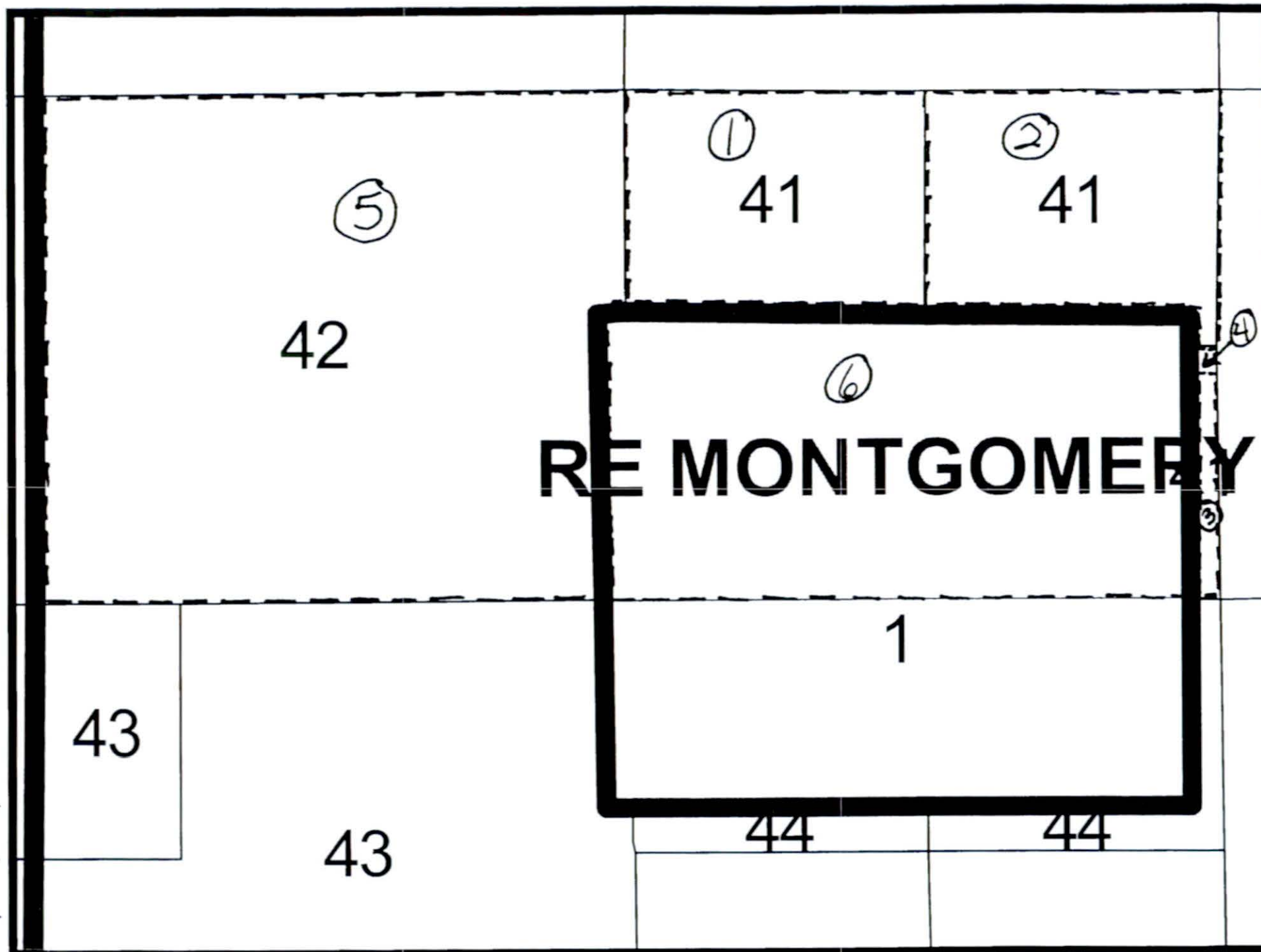

Matt Thompson

Enclosures

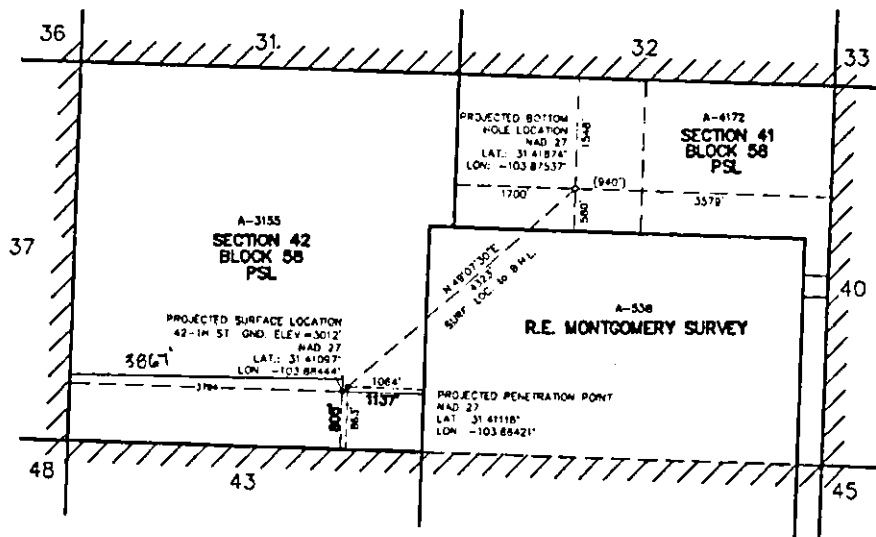
**RAILROAD COMMISSION OF TEXAS
OIL & GAS DIVISION**

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

PERMIT NUMBER 649786	DATE PERMIT ISSUED OR AMENDED (AMENDED) May 13, 2008	DISTRICT * 08
API NUMBER 42-389-32497	FORM W-1 RECEIVED Apr 23, 2008	COUNTY REEVES
TYPE OF OPERATION NEW DRILL	WELLBORE PROFILE(S) Horizontal	ACRES 1280
OPERATOR CHESAPEAKE OPERATING, INC.		147715
		NOTICE This permit and any allowable assigned may be revoked if payment for fee(s) submitted to the Commission is not honored. District Office Telephone No: (432) 684-5581
LEASE NAME BLOCK 58 STATE 42		WELL NUMBER 1H
LOCATION 7.9 miles NW direction from TOYAH		TOTAL DEPTH 13000
Section, Block and/or Survey SECTION 42 BLOCK 58 ABSTRACT 3155 SURVEY PSL/ASPIN, F		
DISTANCE TO SURVEY LINES 805 ft. S'LY SOUTH 1137 ft. S'LY E		DISTANCE TO NEAREST LEASE LINE 863 ft.
DISTANCE TO LEASE LINES 805 ft. SOUTH 3794 ft. WEST		DISTANCE TO NEAREST WELL ON LEASE See FIELD(s) Below
FIELD(s) and LIMITATIONS: * SEE FIELD DISTRICT FOR REPORTING PURPOSES *		
FIELD NAME LEASE NAME	ACRES NEAREST LEASE	DEPTH NEAREST WE
WILDCAT	1280.00	13,000
BLOCK 58 STATE 42	863	0
WELLBORE PROFILE(s) FOR FIELD: Horizontal		
RESTRICTIONS: This is a hydrogen sulfide field. This well shall be drilled in accordance with SWR 36. Lateral: TH1 Penetration Point Location Lease Lines: 863.0 F S L 3867.0 F W L Terminus Location BH County: REEVES Section: 41 Block: 58 Abstract: Survey: PSL Lease Lines: 1548.0 F N L 3579.0 F E L Survey Lines: 1700.0 F W L 580.0 F S L		
TOYAH, NW (SHALE)	1280.00	13,000
BLOCK 58 STATE 42	863	0
WELLBORE PROFILE(s) FOR FIELD: Horizontal		
RESTRICTIONS: Lateral: TH1 Penetration Point Location		



00424



● PROJECTED SURFACE LOCATION OF THE 42-1H ST
1137' FEL AND 805' FSL GND. ELEV.=3012'
SECTION 42, BLOCK 58, P.S.L.
NAD 27 LAT.: 31.41097' LON: -103.88444'

⊕ PROJECTED PENETRATION POINT
1064' FEL AND 853' FSL
SECTION 42, BLOCK 58, P.S.L.
NAD 27 LAT: 31.41116' LON: -103.88421'

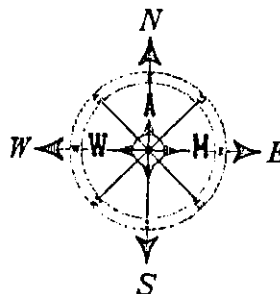
○ PROJECTED BOTTOM HOLE LOCATION
1700' FWL & 580' FSL
SECTION 41, BLOCK 58, P.S.L.
NAD 27 LAT: 31.41097' LON: -103.88444'

(NAD 27 COORDS. PROVIDED BY CHESAPEAKE)

NAD 83, TEXAS CENTRAL ZONE COORDINATES (HERE POSITION)
SURFACE LOCATION: N=10494662.6', E=1189024.7',
LATITUDE=31°24'40.3", LONGITUDE=-103°53'03.7".

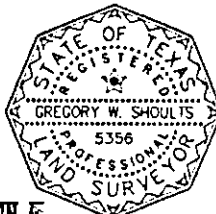
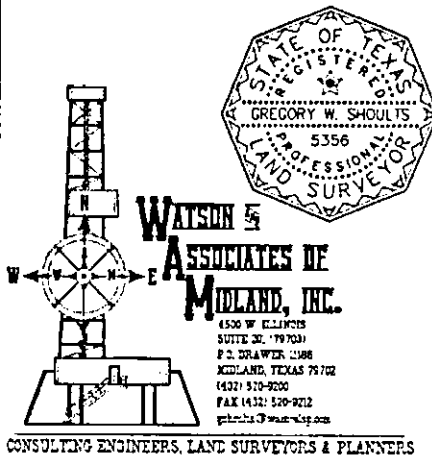
NOTE: THIS PERMIT PLAT HAS BEEN PREPARED FROM A CERTIFIED SURVEY PLAT
ON FILE IN THE OFFICE OF WATSON & ASSOCIATES, MIDLAND, TEXAS.

APPROXIMATELY 7.9 MILES NORTHWEST OF TOYAH, TEXAS.



2000' 0 2000' 4000' FEET
MEASUREMENTS AND DISTANCES ARE GIVEN IN FEET

CHESAPEAKE OPERATING INC.
BLOCK 58 STATE 42-1H ST, DRILLING UNIT
SECTIONS 41 & 42, BLOCK 58, PSL SURVEY
AND PORTIONS OF
R.E. MONTGOMERY SURVEY
REEVES COUNTY, TEXAS



I, THE UNDERSIGNED, DO HEREBY CERTIFY THAT THE SURVEY INFORMATION FOUND ON THIS PLAT WAS DERIVED FROM ACTUAL FIELD NOTES OF ON-THE-GROUND SURVEYS MADE BY ME OR UNDER MY SUPERVISION AND IS TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE AND BELIEF. NO WARRANTY IS MADE OR INTENDED FOR THE LOCATION OF ANY OR ALL EASEMENTS THAT MAY EXIST WITHIN THE BOUNDS OF THIS SURVEY. THE INFORMATION PRESENTED HEREON IS FOR THE PRIVATE USE OF THE PARTY NAMED IN THE "REFERENCE PORTION" OF THE TITLE BLOCK AND DOES NOT CONSTITUTE A COMPLETE BOUNDARY SURVEY AS DEFINED BY THE "PROFESSIONAL LAND SURVEYING PRACTICES ACT"

Gregory W. Shoultz 04/22/2008
GREGORY W. SHOULTZ RPLS 5356 DATE
FILE: M:\BLOCK 58 PSL\dwg\BLOCK 58 PSL 6 30 07 carlson.dwg

CHESAPEAKE OPERATING, INC.,
BLOCK 58 STATE 42-1H ST
SURF. LOC. 805' FSL & 1137' FEL, SEC. 42,
B.H.L. 580' FSL & 1700' FWL, SEC. 41,
BLOCK 58, P.S.L., REEVES COUNTY, TEXAS.

JOB NO.: W-8125-08 FIELD BOOK DRAFT GWS REV. 1

11978
11003

API No. <u>42-389-32497</u> Application Status # <u>649786</u> SWR Exception Case/Docket No. _____		RAILROAD COMMISSION OF TEXAS OIL & GAS DIVISION APPLICATION FOR PERMIT TO DRILL, RECOMPLETE, OR RE-ENTER <i>This facsimile W-1 was generated electronically from data submitted to the RRC.</i> <i>A certification of the automated data is available in the RRC's Austin office.</i>				FORM W-1 07/2004 Permit Status: Pending Approval <i>The RRC has not approved this application. Duplication or distribution of information is at the user's own risk.</i>	
1. RRC Operator No. 147715		2. Operator's Name (as shown on form P-5, Organization Report) CHESAPEAKE OPERATING, INC.			3. Operator Address (include street, city, state, zip)		
4. Lease Name BLOCK 58 STATE 42		5. Well No. 1H					
GENERAL INFORMATION							
6. Purpose of filing (mark ALL appropriate boxes) ☒ New Drill ☐ Recompletion ☐ Reclass ☐ Field Transfer ☐ Re-Enter ☒ Amended ☐ Amended as Drilled (BHL) (Also File Form W-1D)							
7. Wellbore Profile (mark ALL appropriate boxes) ☐ Vertical ☒ Horizontal (Also File Form W-1H) ☐ Directional (Also File Form W-1D) ☐ Sidetrack							
8. Total Depth 13000		9. Do you have the right to develop the minerals under any right-of-way? ☒ Yes ☐ No		10. Is this well subject to Statewide Rule 36 (hydrogen sulfide area)? ☒ Yes ☐ No			
SURFACE LOCATION AND ACREAGE INFORMATION							
11. RRC District No. 08		12. County REEVES		13. Surface Location ☒ Land ☐ Bay/Estuary ☐ Inland Waterway ☐ Offshore			
14. This well is to be located <u>7.9</u> miles in a <u>NW</u> direction from <u>Toyah</u> which is the nearest town in the county of the well site.							
15. Section 42		16. Block 58		17. Survey PSL/ASPIN, F		18. Abstract No. A-3155	
				19. Distance to nearest lease line 863 ft		20. Number of contiguous acres in lease, pooled unit, or unitized tract 1280	
21. Lease Perpendiculars: <u>805</u> ft from the <u>SOUTH</u> line and <u>3794</u> ft from the <u>WEST</u> line							
22. Survey Perpendiculars: <u>805</u> ft from the <u>S'LY SOUTH</u> line and <u>1137</u> ft from the <u>S'LY E</u> line.							
23. Is this a pooled unit? ☒ Yes ☐ No			24. Unitization Docket No.		25. Are you applying for Substandard Acreage Field? ☐ Yes (attach Form W-1A) ☒ No		
FIELD INFORMATION List all fields of anticipated completion including Wildcat. List one zone per line.							
26. RRC District No.	27. Field No.	28. Field Name (exactly as shown in RRC records)		29. Well Type	30. Completion Depth	31. Distance to Nearest Well in this Reservoir	
08	00018001	WILDCAT		Oil or Gas Well	13000	0.00	
		< see Page 2 for additional Fields >					
BOTTOMHOLE LOCATION INFORMATION is required for DIRECTIONAL, HORIZONTAL, AND AMENDED AS DRILLED PERMIT APPLICATIONS (see W-1H attachment)							
Remarks [FILER Apr 23, 2008 3:54 PM]: Amend operator and lateral				Certificate: I certify that information stated in this application is true and complete, to the best of my knowledge. <u>Bill Spencer</u> Name of filer <u>Apr 23, 2008</u> Date submitted <u>(512)9181062</u> Phone <u>bgsaustin@sbcglobal.net</u> E-mail Address (OPTIONAL)			
RRC Use Only				Data Validation Time Stamp: Apr 23, 2008 3:55 PM(Current Version)			



Permit Status: Pending Approval

*The RRC has not approved this application.
Duplication or distribution of information is at
the user's own risk.*

**RAILROAD COMMISSION OF TEXAS
OIL & GAS DIVISION**

APPLICATION FOR PERMIT TO DRILL, RECOMPLETE, OR RE-ENTER

*This facsimile W-1 was generated electronically from data submitted to the RRC.
A certification of the automated data is available in the RRC's Austin office.*

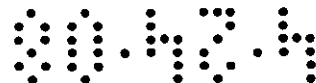
W-1 Supplemental Field Data

07/2004

Status # 649786

Approved Date:

1. RRC Operator No. 147715	2. Operator's Name (exactly as shown on form P-5, Organization Report) CHESAPEAKE OPERATING, INC.	3. Lease Name BLOCK 58 STATE 42	4. County REEVES				
ADDITIONAL FIELD INFORMATION (continued from Page 1)							
26. RRC District No	27. Field No.	28. Field Name (exactly as shown in RRC records)	29. Well Type	30. Completion Depth	31. Distance to Nearest Well in this Reservoir	32. Number of Wells on this lease in this Reservoir	33. Total Acres
08	90890700	TOYAH, NW (SHALE)	Gas Well	13000	0.00	1	1280
Lease Name & Well Number BLOCK 58 STATE 42, Well No. 1			Surface Lease/Unit Perpendiculars 805 ft from SOUTH line; 3794 ft from WEST line			Wellbore Profiles Horizontal	



Permit Status: Pending Approval

The RRC has not approved this application.
Duplication or distribution of information is
at the user's own risk.

RAILROAD COMMISSION OF TEXAS
OIL & GAS DIVISION

Form W-1H 07/2004
Supplemental Horizontal Well Information

APPLICATION FOR PERMIT TO DRILL, RECOMPLETE, OR RE-ENTER

This facsimile W-1 was generated electronically from data submitted to the RRC.
A certification of the automated data is available in the RRC's Austin office.

Status # 649786

Approved Date:

1. RRC Operator No. 147715	2. Operator's Name (exactly as shown on form P-5, Organization Report) CHESAPEAKE OPERATING, INC.	3. Lease Name BLOCK 58 STATE 42	4. Well No. 1H
-------------------------------	--	------------------------------------	-------------------

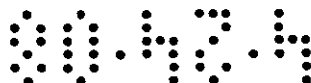
Lateral Drainhole Location Information

5. Field as shown on Form W-1 WILDCAT (Field # 00018001, RRC District 08)

6. Section 41	7. Block 58	8. Survey PSL	9. Abstract	10. County of BHL REEVES
11. Terminus Lease Line Perpendiculars 1548 ft. from the N line. and 3579 ft. from the E line				
12. Terminus Survey Line Perpendiculars 1700 ft. from the W line. and 580 ft. from the S line				
13. Penetration Point Lease Line Perpendiculars 863 ft. from the S line. and 3867 ft. from the W line				

5. Field as shown on Form W-1 TOYAH, NW (SHALE) (Field # 90890700, RRC District 08)

6. Section 41	7. Block 58	8. Survey PSL	9. Abstract	10. County of BHL REEVES
11. Terminus Lease Line Perpendiculars 1130 ft. from the N line. and 4567 ft. from the E line				
12. Terminus Survey Line Perpendiculars 998 ft. from the S line. and 712 ft. from the W line				
13. Penetration Point Lease Line Perpendiculars 1224 ft. from the S line. and 4069 ft. from the W line				



CERTIFICATE OF
POOLING AUTHORITY

Revised 05/2001

P-12

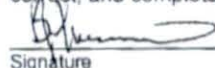
1. Field Name(s) All Fields	2. Lease/ID Number (if assigned)	3. RRC District Number 08
4. Operator Name Chesapeake Operating, Inc.	5. Operator P-5 Number 147715	6. Well Number 1H
7. Pooled Unit Name Block 58 State 42	8. API Number	9. Purpose of Filing ☒ Drilling Permit (W-1) ☐ Completion Report
10. County Andrews	11. Total acres in pooled unit 1280	

DESCRIPTION OF INDIVIDUAL TRACTS CONTAINED WITHIN THE POOLED UNIT

TRACT/PLAT IDENTIFIER	TRACT NAME	ACRES IN TRACT (See inst. #7 below)	INDICATE UNDIVIDED INTERESTS	
			UNLEASED	NON-POOLED
1	GLO	129.00	☐	☐
2	Moranetz	133.0	☐	☐
3	Armstrong	18.6	☐	☐
4	Kelly Baxter	2.4	☐	☐
5	Catherine F. Wall Trust A	615.00	☐	☐
6	Fasken Foundation	382.00	☐	☐
			☐	☐
			☐	☐
			☐	☐
			☐	☐

CERTIFICATION:

I declare under penalties prescribed pursuant to the Sec. 91.143, Texas Natural Resources Code, that I am authorized to make the foregoing statements and that the information provided by me or under my direction on this Certificate of Pooling Authority is true, correct, and complete to the best of my knowledge.



Bill G. Spencer

Signature

Print Name

Consultant

bgsaustin@sbcglobal.net

04/21/2008

(512) 918-1062

Title

E-mail (if available)

Date

Phone

INSTRUCTIONS — Reference: Statewide Rules 31, 38 and 40

- When two or more tracts are pooled to form a unit to obtain a drilling permit, file completion paperwork, or reform a pooled unit pursuant to Rule 38(d)(3) the operator must file an original Certificate of Pooling Authority and certified plat.
- The certified plat shall designate each tract with an outline and a tract identifier. The tract identifier on the plat shall correspond to the tract identifier and associated information listed on the Certificate.
- If within an individual tract, a non-pooled and/or unleased interest exists, indicate by checking the appropriate box.
- If the Purpose of Filing is to obtain a drilling permit, in box #1 list all applicable fields separately or enter "All Fields" if the Certificate pertains to all fields requested on Form W-1.
- If the Purpose of Filing is to file completion paperwork, enter the applicable field name in box #1 for the completion.
- Identify the drill site tract with an * to the left of the tract identifier.
- The total number of acres in the pooled unit in #11 should equal the total of all acres in the individual tracts listed.

B.

File No. MF 104778

Wall Depos

Date Filed: 4/29/08
Jerry Patterson, Commissioner

By JP

4.54.00

LEASE OBLIGATION DEPOSIT RECEIPT

WE HAVE THIS DAY SEPTEMBER 29, 2008

TENDERED TO

COMMISSIONER OF THE GENERAL LAND

THE SUM OF **\$18.80** DOLLARS FOR THE CREDIT OF PARTY OR PARTIES NAMED BELOW
 IN AMOUNT STATED PURSUANT TO THE TERMS OF THE LEASE IDENTIFIED HEREIN, FOR THE PERIOD FROM
 10/21/2008 TO 10/21/2009 COVERING LESSOR'S INTEREST IN LAND DESCRIBED AS:

Survey: PUBLIC SCHOOL LAND Block/Suffix: 58 Section: 42 Short Desc: ALL OF SEC 42, BLK 58, PSLS

PAYMENT RENTAL

LEASE NUMBER TX3231337-003

LEASE DATE: 10/21/2007

PROSPECT: BALMORHEA

RECORDED: BOOK 778 PAGE 524

ENTRY NUMBER: 4760

COUNTY/PARISH REEVES

STATE TX

FOR CREDIT OF:

AMOUNT

017397

COMMISSIONER OF THE GENERAL LAND
 OFFICE OF THE STATE OF TEXAS
 STEPHEN F. AUSTIN BUILDING
 1700 NORTH CONGRESS, SUITE 600
 AUSTIN, TX 78701

Acct:
 \$1/AC DELAY RENTAL

18.80

mf104770A

COPY FOR
YOUR RECORDS

IMPORTANT

The attached check is for the person(s) named above. Please date, sign and return the attached receipts on the day you receive it. If directed to bank, please deposit the amount to the credit of the person(s) named above and date, sign and return the receipt on the day you receive it. If correspondence required, please make reference to lease number.

Date Received

Sign Here

By

Title

Subtotal	18.80
BANK SERVICE CHARGE \$	0.00
Grand Total	18.80
Check No.	37549

CHESAPEAKE OPERATING, INC.

DELAY RENTAL ACCOUNT
 P.O. BOX 18496
 OKLAHOMA CITY, OK 73154
 405/848-8000

BANK OF OKLAHOMA, N.A.
OKLAHOMA CITY, OK

39-13/1030

37549

*****18 * DOLLARS * 80 * CENTS

DATE

09/29/2008

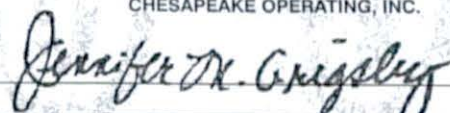
AMOUNT

\$18.80

PAY
 TO
 THE
 ORDER
 OF

COMMISSIONER OF THE GENERAL LAND
 OFFICE OF THE STATE OF TEXAS
 STEPHEN F. AUSTIN BUILDING
 1700 NORTH CONGRESS, SUITE 600
 AUSTIN, TX 78701

CHESAPEAKE OPERATING, INC.



⑈037549⑈

LEASE OBLIGATION DEPOSIT RECEIPT

WE HAVE THIS DAY SEPTEMBER 29, 2008.

TENDERED TO

COMMISSIONER OF THE GENERAL LAND

THE SUM OF **\$18.80** DOLLARS FOR THE CREDIT OF PARTY OR PARTIES NAMED BELOW
 IN AMOUNT STATED PURSUANT TO THE TERMS OF THE LEASE IDENTIFIED HEREIN, FOR THE PERIOD FROM
 10/21/2008 TO 10/21/2009 COVERING LESSOR'S INTEREST IN LAND DESCRIBED AS:

Survey: PUBLIC SCHOOL LAND Block/Suffix: 58 Section: 42 Short Desc: ALL OF SEC 42, BLK 58, PSLs

PAYMENT RENTAL

LEASE NUMBER

TX3231337-002

LEASE DATE: 10/21/2007

PROSPECT: BALMORHEA

RECORDED: BOOK

778

PAGE

533

ENTRY NUMBER: 4761

COUNTY/PARISH REEVES

STATE TX

OR CREDIT OF:

AMOUNT

017397

COMMISSIONER OF THE GENERAL LAND
 OFFICE OF THE STATE OF TEXAS
 STEPHEN F. AUSTIN BUILDING
 1700 NORTH CONGRESS, SUITE 600
 AUSTIN, TX 78701

Acct:
 \$1/AC DELAY RENTAL

18.80

mf104778 I

COPY FOR
YOUR RECORDS

IMPORTANT

The attached check is for the person(s) named above. Please date, sign and return the attached receipts on the day you receive it. If directed to bank, please deposit the amount to the credit of the person(s) named above and date, sign and return the receipt on the day you receive it. If correspondence required, please make reference to lease number.

Date Received

Sign Here

By

Title

Subtotal

18.80

BANK SERVICE CHARGE \$

0.00

Grand Total

18.80

Check No.

37547

CHESAPEAKE OPERATING, INC.

DELAY RENTAL ACCOUNT

P.O. BOX 18496

OKLAHOMA CITY, OK 73154

405/848-8000

BANK OF OKLAHOMA, N.A.
OKLAHOMA CITY, OK

39-13/1030

37547

DATE

09/29/2008

AMOUNT

\$18.80

*****18 * DOLLARS * 80 * CENTS

PAY
TO
THE
ORDER
OF

COMMISSIONER OF THE GENERAL LAND
 OFFICE OF THE STATE OF TEXAS
 STEPHEN F. AUSTIN BUILDING
 1700 NORTH CONGRESS, SUITE 600
 AUSTIN, TX 78701

CHESAPEAKE OPERATING, INC.

Jennifer D. Grigsby

⑈037547⑈

LEASE OBLIGATION DEPOSIT RECEIPT

WE HAVE THIS DAY SEPTEMBER 29, 2008

TENDERED TO

COMMISSIONER OF THE GENERAL LAND

THE SUM OF **\$18.80** DOLLARS FOR THE CREDIT OF PARTY OR PARTIES NAMED BELOW
 IN AMOUNT STATED PURSUANT TO THE TERMS OF THE LEASE IDENTIFIED HEREIN, FOR THE PERIOD FROM
 10/21/2008 TO 10/21/2009 COVERING LESSOR'S INTEREST IN LAND DESCRIBED AS:

Survey: PUBLIC SCHOOL LAND Block/Suffix: 58 Section: 42 Short Desc: ALL OF SEC 42, BLK 58, PSLs

PAYMENT RENTAL

LEASE NUMBER TX3231337-001

LEASE DATE: 10/21/2007

PROSPECT: BALMORHEA

RECORDED: BOOK 778

PAGE 542

ENTRY NUMBER: 4762

COUNTY/PARISH REEVES

FOR CREDIT OF:

STATE TX

AMOUNT

017397

COMMISSIONER OF THE GENERAL LAND
 OFFICE OF THE STATE OF TEXAS
 STEPHEN F. AUSTIN BUILDING
 1700 NORTH CONGRESS, SUITE 600
 AUSTIN, TX 78701

Acct:
 \$1/AC DELAY RENTAL

18.80

mf104770G

COPY FOR
YOUR RECORDS

IMPORTANT

The attached check is for the person(s) named above. Please date, sign and return the attached receipts on the day you receive it. If directed to a bank, please deposit the amount to the credit of the person(s) named above and date, sign and return the receipt on the day you receive it. If correspondence required, please make reference to lease number.

Date Received

Sign Here

By

Title

COPY FOR
YOUR RECORDS

Subtotal	18.80
BANK SERVICE CHARGE \$	0.00
Grand Total	18.80
Check No.	37545

CHESAPEAKE OPERATING, INC.

DELAY RENTAL ACCOUNT

P.O. BOX 18496

OKLAHOMA CITY, OK 73154

405/848-8000

BANK OF OKLAHOMA, N.A.
OKLAHOMA CITY, OK

39-13/1030

37545

DATE

09/29/2008

AMOUNT

\$18.80

*****18 * DOLLARS * 80 * CENTS

PAY
TO
THE
ORDER
OF

COMMISSIONER OF THE GENERAL LAND
 OFFICE OF THE STATE OF TEXAS
 STEPHEN F. AUSTIN BUILDING
 1700 NORTH CONGRESS, SUITE 600
 AUSTIN, TX 78701

CHESAPEAKE OPERATING, INC.

Jennifer D. Grigsby

807 01

14.

File No. MF104778

(3) RENTAL PAYMENT

Date Filed: 10/7/08

Jerry E. Patterson, Commissioner

By JE

CHESAPEAKE OPERATING, INC. P.O. BOX 18496 OKLAHOMA CITY, OK 73154

LEASE OBLIGATION DEPOSIT RECEIPT

WE HAVE THIS DAY **SEPTEMBER 23, 2009** TENDERED TO **COMMISSIONER OF THE GENERAL LAND**
THE SUM OF **\$18.80** DOLLARS FOR THE CREDIT OF PARTY OR PARTIES NAMED BELOW IN AMOUNT STATED
PURSUANT TO THE TERMS OF THE LEASE IDENTIFIED HEREIN, FOR THE PERIOD FROM **10/21/2009** TO **10/21/2010**
COVERING LESSOR'S INTEREST IN LAND DESCRIBED AS:

Township: Range: Section: 42 Block: 58/ Survey: PUBLIC SCHOOL LAND County: REEVES Short Desc: ALL OF SEC 42, BL

MF 104778G

10700758

PAYMENT: RENTAL

LEASE NUMBER: TX3231337-001	LEASE DATE: 10/21/2007	PROSPECT: BALMORHEA	
RECORDED BOOK: 778	PAGE: 542	ENTRY NUMBER: 4762	COUNTY/PARISH: REEVES
FOR CREDIT OF:	ACCT:		STATE: TX
017397	COMMISSIONER OF THE GENERAL LAND		AMOUNT
	OF THE STATE OF TEXAS		
	1700 N CONGRESS, STE 600	\$1/AC DELAY RENTAL	\$18.80
	STEPHEN F AUSTIN BUILDING		
	AUSTIN TX 78701		

PLEASE SIGN
AND RETURN

IMPORTANT

The attached check is for the person(s) named above. Please date, sign and return the attached receipts on the day you receive it. If directed to a bank, please deposit the amount to the credit of the person(s) named above and date, sign and return the receipt on the day you receive it. If correspondence required, please make reference to lease number.

Date Received

Sign Here

By

General Land Office

Stephen F. Austin Bldg.

1700 North Congress Avenue

Austin, Texas 78701-1495

Title

Subtotal	\$18.80
BANK SERVICE CHARGE \$	\$.00
Grand Total	\$18.80
Check No.	131708

CHESAPEAKE OPERATING, INC. P.O. BOX 18496 OKLAHOMA CITY, OK 73154

LEASE OBLIGATION DEPOSIT RECEIPT

WE HAVE THIS DAY **SEPTEMBER 23, 2009** TENDERED TO **COMMISSIONER OF THE GENERAL LAND**
THE SUM OF **\$18.80** DOLLARS FOR THE CREDIT OF PARTY OR PARTIES NAMED BELOW IN AMOUNT STATED
PURSUANT TO THE TERMS OF THE LEASE IDENTIFIED HEREIN, FOR THE PERIOD FROM **10/21/2009** TO **10/21/2010**
COVERING LESSOR'S INTEREST IN LAND DESCRIBED AS:

Township: Range: Section: 42 Block: 58/ Survey: PUBLIC SCHOOL LAND County: REEVES Short Desc: ALL OF SEC 42, BL

MF 104778 #1

10700759

PAYMENT: RENTAL

LEASE NUMBER: TX3231337-002

LEASE DATE: 10/21/2007

PROSPECT: BALMORHEA

RECORDED BOOK: 778

PAGE: 533

ENTRY NUMBER: 4761

COUNTY/PARISH: REEVES

STATE: TX

FOR CREDIT OF:

ACCT:

AMOUNT

017397

COMMISSIONER OF THE GENERAL LAND
OF THE STATE OF TEXAS
1700 N CONGRESS, STE 600
STEPHEN F AUSTIN BUILDING
AUSTIN TX 78701

\$1/AC DELAY RENTAL

\$18.80

PLEASE SIGN
AND RETURN

IMPORTANT

The attached check is for the person(s) named above. Please date, sign and return the attached receipts on the day you receive it. If directed to a bank, please deposit the amount to the credit of the person(s) named above and date, sign and return the receipt on the day you receive it. If correspondence required, please make reference to lease number.

Date Received

General Land Office

Sign Here

Stephen F Austin Building

By

200 North Congress Street

Austin, Texas 78701

Subtotal \$18.80

BANK SERVICE CHARGE \$.00

Grand Total \$18.80

Check No. 131710

CHESAPEAKE OPERATING, INC. P.O. BOX 18496 OKLAHOMA CITY, OK 73154

LEASE OBLIGATION DEPOSIT RECEIPT

WE HAVE THIS DAY **SEPTEMBER 23, 2009** TENDERED TO **COMMISSIONER OF THE GENERAL LAND**
THE SUM OF **\$18.80** DOLLARS FOR THE CREDIT OF PARTY OR PARTIES NAMED BELOW IN AMOUNT STATED
PURSUANT TO THE TERMS OF THE LEASE IDENTIFIED HEREIN, FOR THE PERIOD FROM **10/21/2009** TO **10/21/2010**
COVERING LESSOR'S INTEREST IN LAND DESCRIBED AS:

Township: Range: Section: 42 Block: 58/ Survey: PUBLIC SCHOOL LAND County: REEVES Short Desc: ALL OF SEC 42, BL

MF 104778 GH

10700760

PAYMENT: RENTAL

LEASE NUMBER: TX3231337-003

LEASE DATE: 10/21/2007

PROSPECT: BALMORHEA

RECORDED BOOK: 778

PAGE: 524

ENTRY NUMBER: 4760

COUNTY/PARISH: REEVES

STATE: TX

FOR CREDIT OF:

ACCT:

AMOUNT

017397

COMMISSIONER OF THE GENERAL LAND

OF THE STATE OF TEXAS

1700 N CONGRESS, STE 600

\$1/AC DELAY RENTAL

\$18.80

STEPHEN F AUSTIN BUILDING

AUSTIN

TX 78701

PLEASE SIGN
AND RETURN

IMPORTANT

The attached check is for the person(s) named above. Please date, sign and return the attached receipts on the day you receive it. If directed to a bank, please deposit the amount to the credit of the person(s) named above and date, sign and return the receipt on the day you receive it. If correspondence required, please make reference to lease number.

General Land Office

Date Received: September 23, 2009

1700 North Congress Avenue
Austin, Texas 78701-1495

By

Title

Subtotal	\$18.80
BANK SERVICE CHARGE \$	\$0.00
Grand Total	\$18.80
Check No.	131712

File No. MF-104778
(3) RENTAL PAYMENT

Date Filed: 9/25/09

Jerry E. Patterson, Commissioner

By mw

15



CHESAPEAKE OPERATING, INC. P.O. BOX 18496 OKLAHOMA CITY, OK 73154

LEASE OBLIGATION DEPOSIT RECEIPT

WE HAVE THIS DAY **SEPTEMBER 16, 2010** TENDERED TO COMMISSIONER OF THE GENERAL LAND
THE SUM OF **\$6,107.40** DOLLARS FOR THE CREDIT OF PARTY OR PARTIES NAMED BELOW IN AMOUNT STATED
PURSUANT TO THE TERMS OF THE LEASE IDENTIFIED HEREIN, FOR THE PERIOD FROM **10/21/2010** TO **10/21/2011**
COVERING LESSOR'S INTEREST IN LAND DESCRIBED AS:

TOWNSHIP: RANGE: SECTION: 42 BLOCK: 58/ SURVEY: PUBLIC SCHOOL LAND COUNTY: REEVES SHORT DESC: ALL OF SEC 42, BLK 58,

MF
104718 G

11700653

PAYMENT: RENTAL

LEASE NUMBER: TX3231337-001

LEASE DATE: 10/21/2007

PROSPECT: BALMORHEA

RECORDED BOOK: 778

PAGE: 542

ENTRY NUMBER: 4762

COUNTY/PARISH: REEVES

STATE: TX

FOR CREDIT OF:

ACCT:

AMOUNT

017397

COMMISSIONER OF THE GENERAL LAND

OF THE STATE OF TEXAS

\$325/AC DELAY RENTAL

\$6,107.40

1700 N CONGRESS, STE 600

STEPHEN F AUSTIN BUILDING

AUSTIN

TX 78701

PLEASE SIGN
AND RETURN

IMPORTANT

The attached check is for the person(s) named above. Please date, sign and return the attached receipts on the day you receive it. If directed to a bank, please deposit the amount to the credit of the person(s) named above and date, sign and return the receipt on the day you receive it. If correspondence required, please make reference to lease number.

Date Received _____

Sign Here _____

By _____

Title

Subtotal \$6,107.40

BANK SERVICE CHARGE \$.00

Grand Total \$6,107.40

Check No. 187967

CHESAPEAKE OPERATING, INC. P.O. BOX 18496 OKLAHOMA CITY, OK 73154

LEASE OBLIGATION DEPOSIT RECEIPT

WE HAVE THIS DAY **SEPTEMBER 16, 2010** TENDERED TO COMMISSIONER OF THE GENERAL LAND
THE SUM OF **\$6,107.40** DOLLARS FOR THE CREDIT OF PARTY OR PARTIES NAMED BELOW IN AMOUNT STATED
PURSUANT TO THE TERMS OF THE LEASE IDENTIFIED HEREIN, FOR THE PERIOD FROM **10/21/2010** TO **10/21/2011**
COVERING LESSOR'S INTEREST IN LAND DESCRIBED AS:

TOWNSHIP: RANGE: SECTION: 42 BLOCK: 58/ SURVEY: PUBLIC SCHOOL LAND COUNTY: REEVES SHORT DESC: ALL OF SEC 42, BLK 58,

MF
104778H

11700651

PAYMENT: RENTAL

LEASE NUMBER: TX3231337-003

LEASE DATE: 10/21/2007

PROSPECT: BALMORHEA

RECORDED BOOK: 778

PAGE: 524

ENTRY NUMBER: 4760

COUNTY/PARISH: REEVES

STATE: TX

FOR CREDIT OF:

ACCT:

AMOUNT

017397

COMMISSIONER OF THE GENERAL LAND

OF THE STATE OF TEXAS

\$325/AC DELAY RENTAL

+\$6,107.40

1700 N CONGRESS, STE 600

STEPHEN F AUSTIN BUILDING

AUSTIN

TX 78701

PLEASE SIGN
AND RETURN

IMPORTANT

The attached check is for the person(s) named above. Please date, sign and return the attached receipts on the day you receive it. If directed to a bank, please deposit the amount to the credit of the person(s) named above and date, sign and return the receipt on the day you receive it. If correspondence required, please make reference to lease number.

Date Received _____

Sign Here _____

By _____

Title

Subtotal \$6,107.40

BANK SERVICE CHARGE \$0.00

Grand Total \$6,107.40

Check No. 187971

CHESAPEAKE OPERATING, INC. P.O. BOX 18496 OKLAHOMA CITY, OK 73154

LEASE OBLIGATION DEPOSIT RECEIPT

WE HAVE THIS DAY **SEPTEMBER 16, 2010** TENDERED TO COMMISSIONER OF THE GENERAL LAND
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PURSUANT TO THE TERMS OF THE LEASE IDENTIFIED HEREIN, FOR THE PERIOD FROM **10/21/2010** TO **10/21/2011**
COVERING LESSOR'S INTEREST IN LAND DESCRIBED AS:

TOWNSHIP: RANGE: SECTION: 42 BLOCK: 58/ SURVEY: PUBLIC SCHOOL LAND COUNTY: REEVES SHORT DESC: ALL OF SEC 42, BLK 58,

MF
10477801

11700652

PAYMENT: RENTAL

LEASE NUMBER: TX3231337-002

LEASE DATE: 10/21/2007

PROSPECT: BALMORHEA

RECORDED BOOK: 778

PAGE: 533

ENTRY NUMBER: 4761

COUNTY/PARISH: REEVES

STATE: TX

FOR CREDIT OF:

ACCT:

AMOUNT

017397

COMMISSIONER OF THE GENERAL LAND

OF THE STATE OF TEXAS

\$325/AC DELAY RENTAL

\$6,107.40

1700 N CONGRESS, STE 600

STEPHEN F AUSTIN BUILDING

AUSTIN

TX 78701

PLEASE SIGN
AND RETURN

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Date Received _____

Sign Here _____

By _____

Title

Subtotal \$6,107.40

BANK SERVICE CHARGE \$0.00

Grand Total \$6,107.40

Check No. 187969

File No. MF 104178
2010 Alley Rental
payments for G.H.I
Date Filed: 9-20-10
Jerry E. Patterson, Commissioner
By Ad

16.

8.30.70

MF 104778
County Reeves
Gross Ac _____

Rental/Lease Status
RAL Undivided
Interest Leases

PSL
Description: E/2 Sec. 39, SE/4 Sec 40, Sec 42, Bk 58

Leases	A	B	C	D	E	F	G	H	I	J
Lessee/Assignees	<u>Petro Hunt</u>									
Recorded Book/page	<u>702/686</u>	<u>689/22</u>	<u>700/83</u>	<u>700/93</u>	<u>700/103</u>	<u>777/197</u>	<u>778/542</u>	<u>778/524</u>	<u>778/533</u>	<u>781/462</u>
Lessor Name (short)	<u>Ada Minerals</u>	<u>A Henderson</u>	<u>J. Drake</u>	<u>T Covington</u>	<u>A Henderson</u>	<u>Bohike Trust</u>	<u>A Henderson</u>	<u>T Covington</u>	<u>J. Drake</u>	<u>Bohike Cat.</u>
Date of lease	<u>2-18-05</u>	<u>10-20-04</u>	<u>10-20-04</u>	<u>10-20-04</u>	<u>10-20-04</u>	<u>4-6-07</u>	<u>10-21-07</u>	<u>10-21-07</u>	<u>10-21-07</u>	<u>4-6-07</u>
Net Ac	<u>787.68</u>	<u>37.5833</u>	<u>37.5833</u>	<u>37.5833</u>	<u>37.5833</u>	<u>30.76</u>	<u>37.584</u>	<u>37.584</u>	<u>37.584</u>	<u>30.76</u>
Term	<u>3 yrs</u>	<u>3 yrs</u>	<u>3 yrs</u>	<u>3 yrs</u>	<u>3 yrs</u>	<u>3 yrs</u>	<u>5 yrs</u>	<u>5 yrs</u>	<u>5 yrs</u>	<u>3 yrs</u>
Yr 2 & 3 rentals prepaid (y/n)	<u>no</u>	<u>no</u>	<u>no</u>	<u>no</u>	<u>no</u>	<u>yes</u>	<u>no</u>	<u>no</u>	<u>no</u>	<u>yes</u>
2nd yr rental	<u>393.84</u>	<u>18.80</u>	<u>18.80</u>	<u>18.80</u>	<u>18.80</u>		<u>18.80</u>	<u>18.80</u>	<u>18.80</u>	
3rd yr rental	<u>393.84</u>	<u>18.80</u>	<u>18.80</u>	<u>18.80</u>	<u>18.80</u>		<u>18.80</u>	<u>18.80</u>	<u>18.80</u>	
4th yr rental (w/o 5th yr)							<u>6107.40</u>	<u>6107.40</u>	<u>6107.40</u>	
5th yr rental							<u>18.80</u>	<u>18.80</u>	<u>18.80</u>	
4th yr rental (includes 5th yr)										
Rentals paid - date/amount										
2nd yr	<u>393.84</u> <u>1-23-06</u>		<u>18.80</u> <u>9-19-05</u>	<u>18.80</u> <u>9-19-05</u>	<u>18.80</u> <u>9-19-05</u>		<u>18.80</u> <u>10-7-08</u>	<u>18.80</u> <u>10-7-08</u>	<u>18.80</u> <u>10-7-08</u>	
3rd yr	<u>393.84</u> <u>1-29-07</u>		<u>18.80</u> <u>9-18-06</u>	<u>18.80</u> <u>9-18-06</u>	<u>18.80</u> <u>9-18-06</u>		<u>18.80</u> <u>9-25-09</u>	<u>18.80</u> <u>9-25-09</u>	<u>18.80</u> <u>9-25-09</u>	
4th yr							<u>6107.40</u> <u>9-20-10</u>	<u>6107.40</u> <u>9-20-10</u>	<u>6107.40</u> <u>9-20-10</u>	
5th yr										
Comments:		<u>Same as B except for recording data</u>			<u>Same as B lease except recording data</u>		<u>Renewal of B+E</u>	<u>Renewal of D</u>	<u>Renewal of C</u>	

Date Prepared: 9/28/10
By: SEA

Revised 8/23/10

expired
2-yr
extension
deep
rights

MF 104778 17.
Lease / rental
status spreadsheet
ate Filed: 9-28-10
Jerry E. Patterson, Commissioner
By JP

CHESAPEAKE OPERATING, INC. P.O. BOX 18496 OKLAHOMA CITY, OK 73154

LEASE OBLIGATION DEPOSIT RECEIPT

12707412

DD 20120224LM02

WE HAVE THIS DAY **FEBRUARY 15, 2012** TENDERED TO COMMISSIONER OF THE GENERAL LAND
THE SUM OF **\$2,307.00** DOLLARS FOR THE CREDIT OF PARTY OR PARTIES NAMED BELOW IN AMOUNT STATED
PURSUANT TO THE TERMS OF THE LEASE IDENTIFIED HEREIN, FOR THE PERIOD FROM **4/06/2012** TO **4/06/2014**
COVERING LESSOR'S INTEREST IN LAND DESCRIBED AS:

TOWNSHIP: RANGE: SECTION: 42 BLOCK: 58/ SURVEY: PUBLIC SCHOOL LAND ABSTRACT: 3155 COUNTY: REEVES SHORT DESC: 258 AC
TOWNSHIP: RANGE: SECTION: 42 BLOCK: 58/ SURVEY: PUBLIC SCHOOL LAND ABSTRACT: 3155 COUNTY: REEVES SHORT DESC: 357.1

MF104778J

PAYMENT: PUGH RENTAL

LEASE NUMBER: TX3231337-004

LEASE DATE: 4/06/2007

PROSPECT: TOYAH

RECORDED BOOK: 781

PAGE: 462

ENTRY NUMBER: 153

COUNTY/PARISH: REEVES

STATE: TX

FOR CREDIT OF:

ACCT:

AMOUNT

017397 COMMISSIONER OF THE GENERAL LAND
OF THE STATE OF TEXAS
1700 N CONGRESS, STE 600
STEPHEN F AUSTIN BUILDING
AUSTIN TX 78701

1/2 ORIGINAL BONUS TO EXT
END DEEP RIGHTS

\$2,307.00

PLEASE SIGN
AND RETURN

121 RECEIVED
FEB 21 2012

IMPORTANT

The attached check is for the person(s) named above. Please date, sign and return the attached receipts on the day you receive it. If directed to a bank, please deposit the amount to the credit of the person(s) named above and date, sign and return the receipt on the day you receive it. If correspondence required, please make reference to lease number.

Date Received _____

Sign Here _____

By _____
Title

Subtotal \$2,307.00

BANK SERVICE CHARGE \$0.00

Grand Total \$2,307.00

Check No. 459709

CHESAPEAKE OPERATING, INC.
DELAY RENTAL ACCOUNT
P.O. Box 18496
Oklahoma City, OK 73154

Comerica Bank
74-478/724

12707412

459709

FEBRUARY 15, 2012

TWO THOUSAND THREE HUNDRED SEVEN AND 00/100 Dollars *****

\$2,307.00

PAY TO THE
ORDER OF

COMMISSIONER OF THE GENERAL LAND
OF THE STATE OF TEXAS
1700 N CONGRESS, STE 600
STEPHEN F AUSTIN BUILDING
AUSTIN TX 78701

VOID AFTER 120 DAYS
NO THIRD PARTY ENDORSEMENTS

Jennifer M. Gungor

0000459709

File No. MF #04778 18.
1/2 bonus to extend
deep rights
Date Filed: 2-21-12
Jerry E. Patterson, Commissioner
By JEP

Chesapeake did not apply for this unit.
It is only for royalty revenue reporting only.
Each lease in this unit is "Producing" as
opposed to
"No Non Unit Acres."

DO NOT DESTROY

MF104778



Texas General Land Office

UNIT AGREEMENT MEMO

PA09-125

Unit Number *iNuT4554*
Operator Name CHESAPEAKE OPERATING INC Effective Date 8/5/2009
Customer ID C000025243 Unitized For Oil & Gas
Unit Name Block 58 State 42 I-H Unit Term 0 Months
County1 Reeves
County2
County3
RRC District: 08
Unit Type: Permanent
State Royalty Interest: 0.102356631
State Part in Unit: 0.662607
Unit Depth All Well: Other
Below Depth 0 Formation: Penn. Barnett and Woodford Shales
Above Depth 0 Participation Basis: See Remarks
[If Exclusions Apply: See Remarks]

MF Number MF104580 Tract Number 1
Lease Acres 99.8 / Total Unit Acres 513 =
Tract Participation: 0.16268767 X
Lease Royalty 0.25 = Manual Tract Participation:
Tract Royalty Participation 0.040671917 Manual Tract Royalty:

0.16268767	See Remarks
0.040671917	

Tract Royalty Reduction	No
Tract Royalty Rate	0
Tract On-Line Date:	

MF Number MF104778 Tract Number 2
Lease Acres 190.887 / Total Unit Acres 513 =

Tract Participation: 0.36188399 X

Lease Royalty 0.125 =

Tract Royalty Participation 0.045235498

Manual Tract Participation:

0.36188399 See Remarks

Manual Tract Royalty:

0.045235498

Tract Royalty Reduction No

Tract Royalty Rate 0

Tract On-Line Date:

MF Number MF105285 - CB Tract Number 3
Lease Acres 69.413 / Total Unit Acres 513 =

Tract Participation: 0.13803534 X

Lease Royalty 0.1191667 =

Tract Royalty Participation 0.016449216

Manual Tract Participation:

0.13803534 See Remarks

Manual Tract Royalty:

0.016449216

Tract Royalty Reduction No

Tract Royalty Rate 0

Tract On-Line Date:

API Number

RRC Number

4238932497

244453

Remarks:

Applicant did not approve the unit. Unit # for accounting purposes only. Royalty payments will be based on length of horizontal borehole under each lease on well 42-389-32497/RRC ID # 244453.

Prepared By:

REW

GLO Base Updated By:

TH

RAM Approval By:

2Kij

GIS By:

Prepared Date:

03/11/2010

GLOBase Date:

3-11-10

RAM Approval Date:

3-17-2010

GIS Date:

Pooling Committee Report

To: School Land Board
Date of Board Meeting: July 14, 2009
Effective Date: 8/5/2009
Unit Expiration Date: Permanent
Applicant: CHESAPEAKE EXPLORATION LLC
Attorney Rep: Clark Jobe
Operator: CHESAPEAKE OPERATING INC
County 1: Reeves
County 2:
County 3:
Unit Name: Block 58 State 42 1-H
Field Name: Toyah N.W. (Shale)

PA09-125
Unit Number: 4554

<u>Lease Type</u>	<u>MF Number</u>	<u>Lease Royalty</u>	<u>Expiration Date</u>	<u>Lease Term</u>	<u>Lease Acres</u>	<u>Lease Acres in Unit</u>	<u>Royalty Participation</u>
SF	MF104580	0.25	1/18/2010	5 years	129	99.8	0.040671917
RAL	MF104778	0.125	2/18/2008	3 years	615	190.887	0.045235498
RAL	MF105285	0.1192	9/1/2008	3 years	615	69.413	0.016449216

SF = State Fee RAL = Relinquishment Act FR = Free Royalty UR = Unleased River

Private Acres:	152.9
State Acres:	360.1
Total Unit Acres:	513

Participation Basis:	
Surface Acreage	
State Acreage:	70.19%
State Unit Royalty:	10.24%

Unit Type:	Unitized for:
Permanent	Oil & Gas
Term:	0 Months

Well Location:
State Land

RRC Rules:	Spacing Acres:
Special Field Rule	640 Acres

File No. MF 104778 20.
Unit 4554 Truck slip
Belk 58-State 42
Date Filed: 4-20-12
Jerry E. Patterson, Commissioner
By JED

MEMO TO FILE MF 104778, 105285 & 104580

Date: September 28, 2010

From: Harriet Dunne

Re: Status of leases - Unit 4554

MF104778:

MF 104778A lease covers lands in Sec 39, 40, & 42, Blk 58, PSL in Reeves Co TX.

MF 104778B-J cover only lands in Sec 42, Blk 58, PSL.

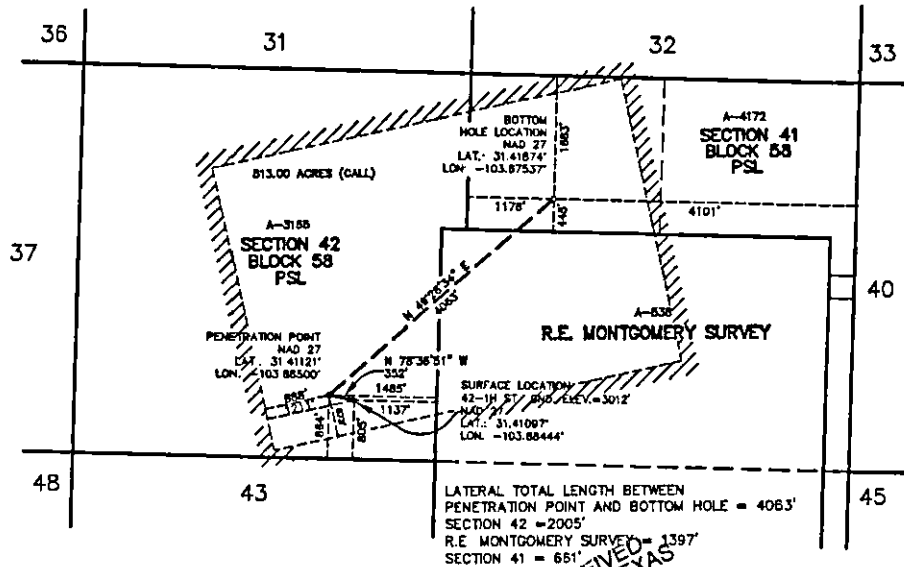
The A lease participates in the Block 58 State 42 1-H Well, API 389+32497, RRC #244453, Dist 08.

MF 104778 B & E leases are exactly the same lease recorded twice in Reeves Co. The rentals were paid under the E lease. Both those leases have expired. B – D leases are also expired.

Leases F & J expired in April 2010. It is possible those leases covered the same interest. The file is not clear about that.

Leases G-H-I are renewals of leases C-D-E and rentals are paid through 10-21-11. Primary term expires 10-21-12.

Lease 104778A lease plus **MF105285** and **MF104580** are included in Unit 4554 for accounting purposes only. Chesapeake, operator of the well on this property, did not agree to extend the unit agreement 4390. Therefore, the Unit 4554 is in existence solely for the purposes of accounting for the royalty among the three subject leases. The three leases share in the revenue from the above mentioned well based on the length of the horizontal borehole under each lease.



- SURFACE LOCATION OF THE 42-1H ST
1137' FEL AND 805' FSL, GND. ELEV.=3012'
SECTION 42, BLOCK 58, P.S.L.
NAD 27 LAT.: 31.41097° LON.: -103.88444°

- ⊕ PENETRATION POINT
1485' FEL AND 864' FSL
SECTION 42, BLOCK 58, P.S.L.
NAD 27 LAT.: 31.41121° LON.: -103.88500°

- BOTTOM HOLE LOCATION
1178' FWL & 445' FSL
SECTION 41, BLOCK 58, P.S.L.
NAD 27 LAT.: 31.41874° LON.: -103.87537°

(SURFACE LOCATION COORDINATES AS STAKED.
PENETRATION POINT AND BOTTOM HOLE COORDINATES
PROVIDED BY CHESAPEAKE)

NAD 83, TEXAS CENTRAL ZONE COORDINATES (HERE POSITION)
SURFACE LOCATION: N=10494662.6', E=1189024.7',
LATITUDE=31°24'40.3", LONGITUDE=-103°53'03.7".

NOTE: THIS AS-DRILLED PLAT HAS BEEN PREPARED FROM A CERTIFIED SURVEY
PLAT ON FILE IN THE OFFICE OF WATSON PROFESSIONAL GROUP INC.,
MIDLAND, TEXAS.

APPROXIMATELY 7.9 MILES NORTHWEST OF TOYAH, TEXAS.

AS-DRILLED PLAT

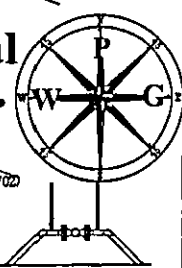
CHESAPEAKE OPERATING INC.
BLOCK 58 STATE 42-1H ST, DRILLING UNIT
SECTIONS 41 & 42, BLOCK 58, PSL SURVEY
AND PORTIONS OF
R.E. MONTGOMERY SURVEY
REEVES COUNTY, TEXAS



Watson
Professional
Group Inc.



4500 W. ILLENOIS
SUITE 201 (79703)
P.O. DRAWER 1186 (79702)
MIDLAND, TEXAS
PHN (432) 520-9200
FAX (432) 520-9212
gsb@wpi.com



CONSULTING ENGINEERS, LAND SURVEYORS & PLANNERS

I, THE UNDERSIGNED, DO HEREBY CERTIFY THAT THE SURVEY INFORMATION
FOUND ON THIS PLAT WAS DERIVED FROM ACTUAL FIELD NOTES OF
ON-THE-GROUND SURVEYS MADE BY ME OR UNDER MY SUPERVISION AND
IS TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE AND BELIEF. NO
WARRANTY IS MADE OR INTENDED FOR THE LOCATION OF ANY OR ALL
EASEMENTS THAT MAY EXIST WITHIN THE BOUNDS OF THIS SURVEY. THE
INFORMATION PRESENTED HEREON IS FOR THE PRIVATE USE OF THE PARTY
NAMED IN THE "REFERENCE PORTION" OF THE TITLE BLOCK AND DOES NOT
CONSTITUTE A COMPLETE BOUNDARY SURVEY AS DEFINED BY THE
"PROFESSIONAL LAND SURVEYING PRACTICES ACT."

[Signature]
W.D. WATSON, JR. RPLS 1989
DATE 10/26/09
FILE: M:\BLOCK 59 PSL\dwg\BLOCK 59 PSL 6 30 07.dwg
CHESAPEAKE OPERATING, INC.,
BLOCK 58 STATE 42-1H ST
SURF. LOC. 805' FSL & 1137' FEL, SEC. 42,
P.P. 864' FSL & 1485' FEL, SEC. 42,
B.H.L. 445' FSL & 1778' FWL, SEC. 41,
BLOCK 58, P.S.L., REEVES COUNTY, TEXAS.
JOB NO.: 09-1572-01 FIELD BOOK DRAFT TA REV. 1

387-32497-Judy

Form P-15
(5-5-71)
DBC0697

dist 08
9/24/08
244453

STATEMENT OF PRODUCTIVITY OF ACREAGE
ASSIGNED TO PRORATION UNITS

The undersigned states that he is authorized to make this statement; that he has knowledge of the facts concerning the CHESAPEAKE OPERATING INC OPERATOR, BLOCK 58 STATE 42 LEASE, No. 1H WELL; that such well is completed in the TOYAH, NW (SHALE) Field, REEVES County, Texas and that the acreage claimed, and assigned to such well for proration purposes as authorized by special rule and as shown on the attached certified plat embraces 513 acres which can reasonably be considered to be productive of hydrocarbons.

- CERTIFICATE -

I declare under penalties prescribed in Sec. 91.143, Texas Natural Resources Code, that I am authorized to make this report, that this report was prepared by me or under my supervision and direction, and that data and facts stated therein are true, correct, and complete, to the best of my knowledge.

Date 11/13/09 Signature Lindsay Melott
Telephone (405) 935-8323 Title REG. COMP. SPECIALIST
 AREA CODE

RECEIVED
RRC OF TEXAS

NOV 16 2009

O&G
AUSTIN TX

352 + 200 = 552 AC
11/18/09

STATEMENT OF PRODUCTIVITY OF ACREAGE
ASSIGNED TO PRORATION UNITS

Form P-15
(5-5-71)
DBC0697

The undersigned states that he is authorized to make this statement; that he has knowledge

of the facts concerning the CHESAPEAKE OPERATING INC ,
OPERATOR

BLOCK 58 STATE 42 , No. 1H ; that such well is
LEASE WELL
completed in the TOYAH, NW (SHALE) Field, REEVES County,

Texas and that the acreage claimed, and assigned to such well for proration purposes as

authorized by special rule and as shown on the attached certified plat embraces _____

513 acres which can reasonably be considered to be productive of hydrocarbons.

- CERTIFICATE -

I declare under penalties prescribed in Sec. 91.143, Texas Natural Resources Code, that I am authorized to make this report, that this report was prepared by me or under my supervision and direction, and that data and facts stated therein are true, correct, and complete, to the best of my knowledge.

Date 11/13/09 Signature Lindsay Melott

Telephone _____ (405) 935-8323 Title REG. COMP. SPECIALIST
AREA CODE

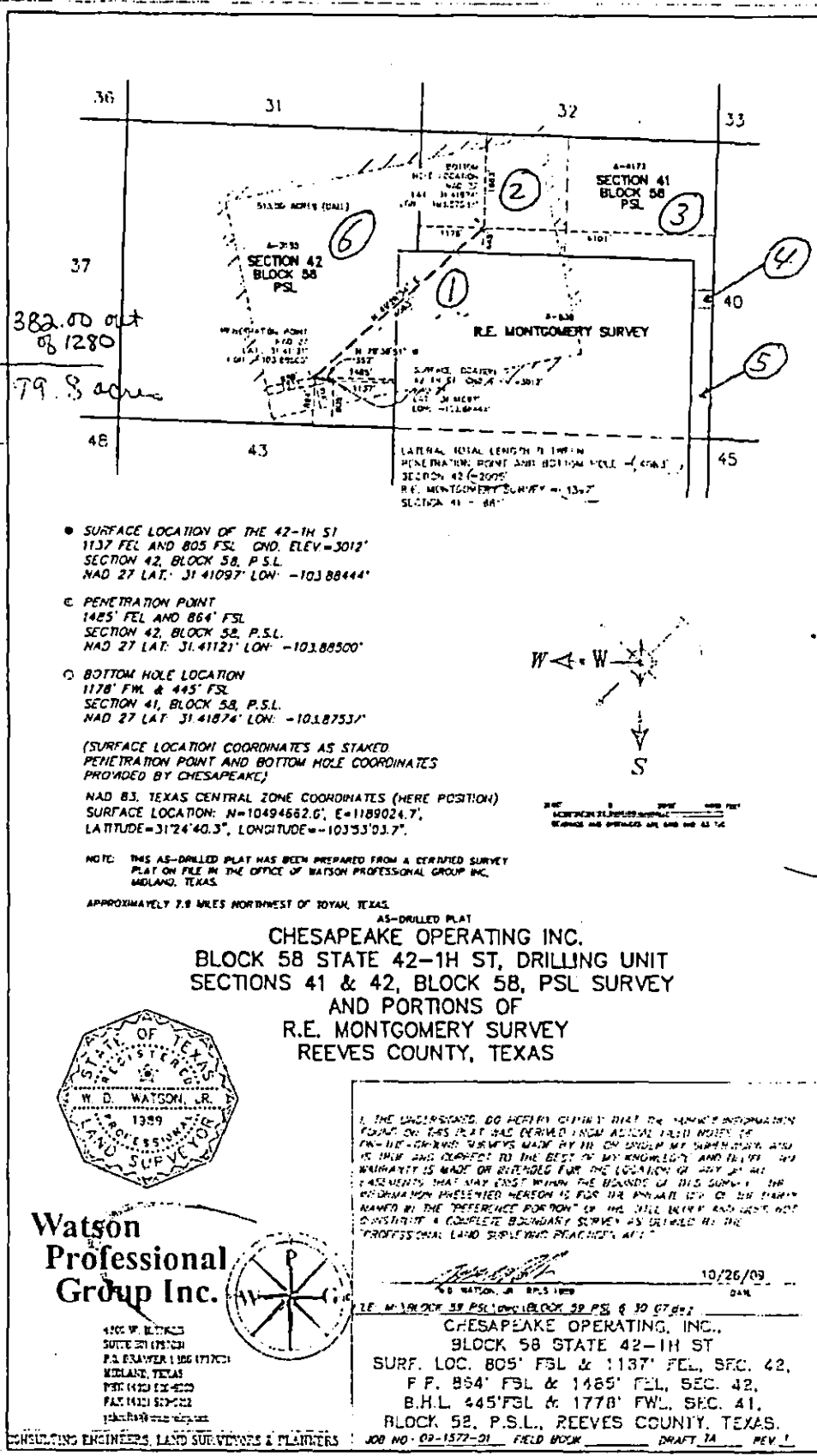
Updated Plot

Tract

① Fee Acreage: 34.383460%

② Block 58, TX- 79.8 acres
16.268767%

③ 260.3 acres
49.347775%



Wellbore 44063

PA 09-125

From: Kim Haley <kim.haley@chk.com>
To: 'Beverly-Boyd' <Beverly.Boyd@GLO.STATE.TX.US>
Date: 2/11/2010 12:47 PM
Subject: Block 58 State 42 1-H- Unit 4554
Attachments: Block 58 State 42 1H ST breakdown.xls; 619121- Block58State42#1-Hextended2nd- Unit 4554 Eff 08-09.xls

Beverly,

I received a revised unit set-up effective 08/09 for the above referenced well that does not match what our DO dept. is showing it should be. Please see the comments and attachment I received. The second excel sheet is the set-up I received from Lannie. Can you please check into this and see if you agree.

Thanks,
Kim

As for the Block 58 State 42 1H..they have the wrong unit acres. The acreage is 513 and they do not own and interest in Tract 1 which represents the Fee Acreage. Please see my breakdown on the revised unit. Tract 2 is based on a revised wellbore percent of 16.268767(661'/4063' per survey plat) and the wellbore percent covering Tract 6 is 49.347773%(2005'/4063' per survey plat).

Anita Robinson
 Sr. Division Order Analyst
 Chesapeake Energy Exploration LLC
 telephone 405.935-4052
 fax 405.849-4052

start 9/09

This email (and attachments if any) is intended only for the use of the individual or entity to which it is addressed, and may contain information that is privileged, confidential and exempt from disclosure under applicable law. If the reader of this email is not the intended recipient, or the employee or agent responsible for delivering this message to the intended recipient, you are hereby notified that any dissemination, distribution or copying of this communication is strictly prohibited. If you have received this communication in error, please notify the sender immediately by return email and destroy all copies of the email (and attachments if any).

Unit Tract #			State Royalty	Participation Factor	State Unit Royalty
2	MF 104580	State Fee	25%	16.268767%	4.0671917 %
6	MF 104778	RAC	12.5%	36.188399 %	4.5235498 %
6	MF 105285	RAC	12.5%	13.159373 %	1.6449216 %
Total				65.616539 %	10.235663 %

(Tract 6 Allocation MF 104778 = 73.3334 %
 MF 105285 = 26.6666 %)

Revised
unit

BLOCK 58 STATE 42 1H ST PN 619121

		Wellbore	Net Acres	Revised Unit Acres	Unit Acres	Royalty Rate	Revised decimal in the unit	Original decimal in the unit	Grade	Original
(SPLIT OUT TO THE OWNERS BELOW)			382	0.000000	1280		0	0.000000%	152.9	0.40026178
0.12500000	BELINDA HARRINGTON	Fee Owner	RI	47.750000	1280	0.20000000	0.00746094	0.02984375		
0.25000000	ARWILDA B HARRINGTON	Fee Owner	RI	95.500000	1280	0.20000000	0.01492188	0.0596875		
0.13125000	P D SAMS	Fee Owner	RI	50.137500	1280	0.25000000	0.00979248	0.029377441		
0.03125000	WHITE LIVING TRUST DATED 7/1/96	Fee Owner	RI	11.937500	1280	0.25000000	0.00233154	0.006994629		
0.00204544	ANN LOUISE LEEDS	Fee Owner	RI	0.781357	1280	0.25000000	0.00015261	0.000457826		
0.00409088	ISADORE J KAHN	Fee Owner	RI	1.562714	1280	0.25000000	0.00030522	0.00091565		
0.00409088	HELEN ROCHFORD BAUMGAERTNER	Fee Owner	RI	1.562714	1280	0.25000000	0.00030522	0.00091565		
0.00250000	Merle Burleson Taylor	Fee Owner	RI	0.955000	1280	0.25000000	0.00018652	0.00055957		
0.31250000	THE FASKEN FOUNDATION	Fee Owner	RI	119.375000	1280	0.25000000	0.02331543	0.069946289		
0.12500000	DIANE LEINWEBER	Fee Owner	RI	47.750000	1280	0.20000000	0.00746094	0.02984375		
0.98772719	subtotal(leased)			377.311786			0.06623277	0.22854206		
0.00204544	MARGUERITE G STEVENS	Fee Owner	unleased	0.781357	1280	1.00000000	0.00061044			
0.00409088	Morton L and VIVIAN BLAUGRUND	Fee Owner	unleased	1.562714	1280	1.00000000	0.00122087			
0.00409088	MARY Y TIPPENS TEST TRST	Fee Owner	unleased	1.562714	1280	1.00000000	0.00122087			
0.00102281	J M EVENSEN	Fee Owner	unleased	0.390714	1280	1.00000000	0.00030525			
0.00102281	D. G EVENSEN	Fee Owner	unleased	0.390714	1280	1.00000000	0.00030525			
0.01227281	subtotal (unleased)			4.688214			0.00366267			
1.00000000				382.000000						
	CHK		WI	367.878991	1280	0.77531063	0.55598537			
	CI		WI	9.432795	1280	0.77531063	0.01425604			
				377.311786			0.57024140	0.64013684		
							0.29477483	0.22854206		
								0.775310633		
MINERALS SECTION 41 TOWNSHIP 27S RANGE 10E		Wellbore	Net Acres	Revised Unit Acres	Unit Acres	Royalty Rate	Revised decimal in the unit	Original decimal in the unit	Grade	Original
STATE OF TEXAS TOWNSHIP 27S RANGE 10E			0.16268767	613	83.4587743	513	0.25	0.04067192	99.8	0.19454191
	SUBTOTAL			83.4587743	513	0.25	0.04067192	0.122015752		
	CHK		WI	81.372305	513	0.75	0.11896536			
	CI		WI	2.086469	513	0.75	0.00305039			
				83.458774			0.12201575	0.16268767		
MINERALS SECTION 41 TOWNSHIP 27S RANGE 10E		Wellbore	Net Acres	Revised Unit Acres	Unit Acres	Royalty Rate	Revised decimal in the unit	Original decimal in the unit	Grade	Original
(SPLIT OUT TO THE OWNERS BELOW)			0.49347773	513	253.154073	513	0.25	0.12336943	49.347773%	260.3
0.50000000	DELA MINERALS, INC			126.577037	513	0.125	0.03084236	0.215896505		
0.00833333	TEXAS SCOTTISH RITE HOSPITAL FOR CRIPPLED CHILDREN			2.109617	513	0.125	0.00051404	0.003598275		
0.01666667	MARY Y TIPPENS TEST TRST			4.219235	513	0.125	0.00102808	0.00719655		
0.00833333	ESTHER SHUMAN TEST TRST			2.109617	513	0.125	0.00051404	0.003598275		
0.03333333	MARY B HARWITT UNITRUST			8.438469	513	0.125	0.00205616	0.0143931		
0.05000000	D D WALL ESTATE TRUST A			12.657704	513	0.125	0.00308424	0.021589651		
0.05000000	DD WALL ESTATE TRUST B			12.657704	513	0.125	0.00308424	0.021589651		
0.05000000	CATHERINE FUNK WALL ESTATE TRUST A			12.657704	513	0.125	0.00308424	0.021589651		
0.05000000	CATHERINE FUNK WALL ESTATE TRUST B			12.657704	513	0.125	0.00308424	0.021589651		
0.06111111	ANN COVINGTON HENDERSON			15.470527	513	0.125	0.00376962	0.026387351		
0.06111111	JANE COVINGTON DRAKE			15.470527	513	0.125	0.00376962	0.026387351		
0.06111111	TED MICHAEL COVINGTON			15.470527	513	0.125	0.00376962	0.026387351		
0.05000000	ESTATE OF NELLIE MAY GOHLE			12.657704	513	0.125	0.00308424	0.021589651		
1.00000000	STATE OF TEXAS			0.000000	513	0.125	0.00000000	0.00000000		
	SUBTOTAL			253.154073	513		0.12336943			
	CHK		WI	246.825221	513	0.75	0.36085559			
	CI		WI	6.328852	513	0.75	0.00925271			
							0.37010829	0.49347773		
	Grand Totals			718.612848			1.29630223	65.616540%	513	1.10221110

0.066233
0.003663
0.570241

713.924633

PA 09-125

From: Kim Haley <kim.haley@chk.com>
To: 'Beverly-Boyd' <Beverly.Boyd@GLO.STATE.TX.US>
Date: 2/11/2010 12:47 PM
Subject: Block 58 State 42 1-H- Unit 4554
Attachments: Block 58 State 42 1H ST breakdown.xls; 619121- Block58State42#1-Hextended2n
d- Unit 4554 Eff 08-09.xls

Beverly,

I received a revised unit set-up effective 08/09 for the above referenced well that does not match what our DO dept. is showing it should be. Please see the comments and attachment I received. The second excel sheet is the set-up I received from Lannie. Can you please check into this and see if you agree.

Thanks,
Kim

As for the Block 58 State 42 1H..they have the wrong unit acres. The acreage is 513 and they do not own and interest in Tract 1 which represents the Fee Acreage. Please see my breakdown on the revised unit. Tract 2 is based on a revised wellbore percent of 16.268767(661'/4063' per survey plat) and the wellbore percent covering Tract 6 is 49.347773%(2005'/4063' per survey plat).

Anita Robinson
Sr. Division Order Analyst
Chesapeake Energy Exploration LLC
telephone 405.935-4052
fax 405.849-4052

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Dayl will
contact ~~Chesapeake~~
attys for Chesapeake
3-8-10.
Hold on Kim

From: Anita Robinson <anita.robinson@chk.com>
To: "ronald.widmayer@glo.state.tx.us" <ronald.widmayer@glo.state.tx.us>
Date: 3/3/2010 4:38 PM
Subject: Block 58 State 42 1H ST
Attachments: Block 58 State 42 1H ST breakdown.xls; eCopy.pdf

Per your request, here is the calculations regarding the State of Texas. We are paying based on the percentage of the wellbore in the pay zone covering Tracts 2 and 6 only. Tract 1 covers the fee owners and the are not affected by the reduction in the unit size. For example State of Texas is covered under Tracts 2 and Tract 6. The percent of the wellbore for Tr 2 is 16.268767% (661'/4063') and Tract 6 is 49.347773% (2005'/4063'). Tracts 2 & 6 are calculated on unit size of 513 while tract 1 is calculated on the original 1280 unit acres. In addition, I have attached the revised plat for your records.

Anita Robinson
Sr. Division Order Analyst
Chesapeake Energy Exploration LLC
telephone 405.935-4052
fax 405.849-4052

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129 AC

MINERALS Section 41 W/2 Tract 1

STATE OF TEXAS (owns 100%)

129

1280

0.25

0.02519531

#08 ~~#28~~
1280 AC expired 8/09
went to Unit 4554

File No. MF 104778 21.
Memo to file - as
drilled plat - emails re. pay
Date Filed: 9-28-10 rel
Jerry E. Patterson, Commissioner
By [Signature]

5206

DrillingInfo One-Page Production Summary

drillinginfo

Tag This
Element

API# 42-389-32449
 Well# 1H
 Lease BLOCK 58 ST 40-14
 Field TOYAH, NW (SHALE)
 Lease SHELL WESTERN E&P
 Operator Well Op History
 County Reeves
 State Texas
 Location 701.0 S / 2596.0 W, PSL/JOHNSON, J I A-
 2664 Block:58 Section:40
 Elevation 2980 GR
 Date Spud --
 Date TD --
 Logs Run MWD,WITH,GAMMA,RAY,

RRC# 243000

Prod.	First Production	Most Recent Production	Cumulative (MCF & BBL)	Gravity (SG & API)	Gatherer
Oil	1/1/08	5/1/13	6	0.00	
Gas	1/1/08	5/1/13	693,315	0.60	ENTPO

Most Recently Reported Monthly Production (12 Months)

Mo/Yr	Gas (MCF)					Oil (BBL)				Water (BW)	# Wells Flowing	# Wells Other	Avg Gas (MCF/D)	Avg Oil (BBL/D)	Avg Wtr (BW/D)
	Produced	Sold	Used	Vented/Flared	Other	Produced	Sold	Other	Closing						
6/2012	5,443	5,443	0	0	0	0	0	0	0	0	---	---	181.43	0.00	0.00
7/2012	0	0	0	0	0	0	0	0	0	0	---	---	0.00	0.00	0.00
8/2012	0	0	0	0	0	0	0	0	0	0	---	---	0.00	0.00	0.00
9/2012	0	0	0	0	0	0	0	0	0	0	---	---	0.00	0.00	0.00
10/2012	0	0	0	0	0	0	0	0	0	0	---	---	0.00	0.00	0.00
11/2012	8,079	8,079	0	0	0	0	0	0	0	0	---	---	269.30	0.00	0.00
12/2012	13,944	13,944	0	0	0	0	0	0	0	0	---	---	449.81	0.00	0.00
1/2013	6,090	6,090	0	0	0	0	0	0	0	0	---	---	196.45	0.00	0.00
2/2013	10,641	10,641	0	0	0	0	0	0	0	0	---	---	380.04	0.00	0.00
3/2013	10,713	10,713	0	0	0	0	0	0	0	0	---	---	345.58	0.00	0.00
4/2013	10,713	10,713	0	0	0	0	0	0	0	0	---	---	357.10	0.00	0.00
5/2013	20,237	20,237	0	0	0	0	0	0	0	0	---	---	652.81	0.00	0.00
Totals	85,860	85,860	0	0	0	0	0	0	0	0	---	---	---	---	---

Annual Production

Year	Gas (MCF)	Oil (BBL)	Water (BW)	# Wells Flowing	# Wells Other	Avg Gas (MCF/D)	Avg Oil (BBL/D)	Avg Wtr (BW/D)	Annual Dec. Gas	Annual Dec. Oil
2008	194,872	0	---	---	---	582.75	0.00	0.00	---	---
2009	195,010	6	---	---	---	534.57	0.02	0.00	---	---
2010	104,743	0	---	---	---	287.12	0.00	0.00	46.3%	100.0%
2011	75,746	0	---	---	---	207.64	0.00	0.00	27.7%	---
2012	64,550	0	---	---	---	176.95	0.00	0.00	14.8%	---
2013	58,394	0	---	---	---	384.17	0.00	0.00	9.5%	---
Totals	693,315	6	---	---	---	---	---	---	---	---

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File No.: MF104778

22

Production Report: 42-389-32449
(Pertains only to A Lease)

Date Filed: 08/09/2013

Jerry E. Patterson, Commissioner

By JEP

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

August 29, 2013

Brian Chaffee
Staff Contracts Representative
Shell Exploration & Production Company
150 N. Dairy Ashford St., Suite C
Houston, Texas 77079-1116
(Via CMRRR#: 7011 1150 0001 2416 2994)

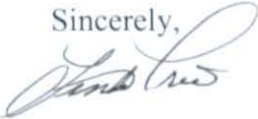
RE: **State Lease MF107619** 2 RAL Leases, described on **Page 2**
 State Lease MF107769 RAL Lease, described on **Page 2**
 State Lease MF104778 6 RAL Leases, described on **Page 2**
 State Lease MF104548 RAL Lease, described on **Page 2**
 Well: Block 58 ST 40-14 #1H (API # 42-389-32449)

Dear Mr. Chaffee:

Our research indicates that there was a four-month lapse in production for the referenced well from July 1 through October 31, 2012.

You have 40 days from the receipt of this letter in which to present evidence and convince the General Land Office that operations were conducted adequate to perpetuate the leases without a cessation of more than sixty (60) cumulative days. If such evidence has not been presented at the expiration of the 40-day period, we will have to assume that there were no operations during the lapse period and the mineral files shall be endorsed "terminated" due to cessation of production.

Upon termination, and pursuant to the Texas Administrative Code, we request that you file with this office a recorded original or certified copy of a Release of these State Oil and Gas Leases along with a filing fee of \$25.00 per state lease to be sent to my attention.

Sincerely,


Linda Price, RL
Energy Resources, Mineral Leasing
512-463-5118
512-475-1543 (fax)
linda.price@glo.texas.gov

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

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

www.glo.state.tx.us

Brian Chaffee
Shell Exploration & Production Company
August 29, 2013
Page 2

MF107619 80 acres, covering the W/2 of NE/4 of Section 40, Block 58, PSL Survey, Reeves County, TX

<u>State Lease No.</u>	<u>Agent for State of TX</u>	<u>Lease Date</u>	<u>Recorded Bk/Page</u>
MF107619A	Kelly H. Baxter	01/20/2006	726/598
MF107619B	Mark A. Chapman	08/26/2005	725/331

MF107769 80 acres, covering the E/2 of the NE/4 of Section 40, Block 58, PSL Survey, Reeves County, TX
Lease dated November 13, 2006
Recorded as File No. 428, Reeves County, Texas
Helen Carolyn Allen, et al, agents for State of Texas, Lessor

MF104778A 1,095.22 acres, covering the E/2 of Section 39, SE/4 of Section 40 & all of Section 42, Block 58, PSL Survey, Reeves County, Texas

<u>State Lease No.</u>	<u>Agent for State of TX</u>	<u>Lease Date</u>	<u>Recorded Bk/Page</u>
MF104778A	Dela Minerals, Inc.	02/18/2005	702/686

MF104548 1,120 acres, covering the SW/4 of Section 39, W/2 of Section 40, W/2 of Section 45, N/2 of Section 46, Block 58, PSL Survey, Reeves County, Texas
Lease dated October 13, 2004
Recorded in Volume 694, Page 350, Reeves County, Texas
Lester Charles Weatherby Jr., agent for State of Texas, Lessor

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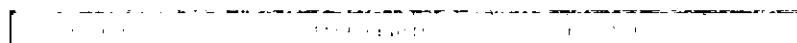
Product & Tracking Information

Available Actions

Postal Product:

Features:

Certified Mail™

**September 3, 2013, 1:25
pm****Delivered****HOUSTON, TX 77079**

Your item was delivered at 1:25 pm on September 3, 2013 in HOUSTON, TX 77079.

August 31, 2013, 5:10 am**Depart USPS Sort Facility****HOUSTON, TX 77201****August 30, 2013, 11:15 pm****Processed through USPS
Sort Facility****HOUSTON, TX 77201****August 30, 2013, 6:00 am****Depart USPS Sort Facility****AUSTIN, TX 78710****August 29, 2013, 10:14 pm****Processed through USPS
Sort Facility****AUSTIN, TX 78710**

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File No. ME104778

(23)

Termination letter

(Pertains only to A Lease)

Date Filed: 08/29/2013

Jerry E. Patterson, Commissioner

By JEP



Shell Exploration & Production

Shell Upstream Americas
Land & Contracts
P. O. Box 576
Houston, TX 77001-0576
(83) 337-0146 phone
(281) 544-4006 fax
Lindsay.Sheffield@shell.com

October 14, 2013

Texas General Land Office
Attn: Linda Price, RL
1700 North Congress Avenue
Austin, Texas 78701-1495

Subject: Block 58 ST 40-14 #1H (API #42-389-32449) & Block 58 State 42 #1H
(API #42-389- 32497)

Ms. Price:

This letter is in response to the letters received September 5, 2013, by SWEPI LP with regards to the production lapses on the above entitled wells. According to the GLO's findings, Block 58 ST 40-14 #1H (API #42-389-32449) had a four-month lapse in production from July 1 through October 31, 2012, and Block 58 State 42 #1H (API #42-389-32497) had a three-month lapse in production from September 1 through November 30, 2012. SWEPI LP has examined the records kept by Chesapeake Exploration, L.L.C. ("Chesapeake") during this time and concurs with the GLO's findings that there was a production lapse.

During the production lapses, SWEPI LP could not find evidence that Chesapeake conducted drilling operations adequate to perpetuate the leases without a cessation of more than sixty (60) cumulative days. However, since these production lapses, and since SWEPI LP has taken over operations of the wells in April 2013, the wells have continuously produced and/or not had a cessation of production for more than sixty (60) cumulative days. Additionally, since production has returned to the wells, the GLO has been paid (through July 2013) approximately \$21,069.27 & \$12,043.89, respectively, in royalty payments and has cashed such payments.

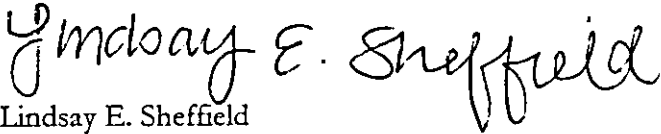
SWEPI LP is requesting the GLO ratify the leases as to Block 58 ST 40-14 #1H & Block 58 State 42 #1H proration units, as SWEPI LP has made its best efforts to produce the wells since taking over operatorship in April 2013. Both wells are still producing in paying quantities, and a onetime ratification would allow SWEPI LP to continue to produce the wells for both the benefit of the operator and the GLO. SWEPI LP will release all other acreage not currently held within a producing unit.

If the GLO is unwilling to ratify the leases as to the Block 58 ST 40-14 #1H & Block 58 State 42 #1H proration units, SWEPI LP is seeking a reimbursement of the improperly paid royalties from the time the leases expired. In such a case, the leases were no longer active, thus, the GLO was not entitled to royalty payments on the production.

Attached please find Exhibit "A," a lease schedule for each well detailing each GLO lease, the acreage associated, and which acreage is inactive, in a proration unit for a producing well, or a lease not attached to either Block 58 ST 40-14 #1H or Block 58 State 42 #1H and erroneously included in the GLO letter.

Please let me know if you have any questions.

Regards,

Handwritten signature of Lindsay E. Sheffield in cursive script.

Lindsay E. Sheffield
Land Representative

Enclosure

Exhibit "A"

Block 58 ST 40-14 #1H (API #42-389-32449): 552 acre unit in E/2 & 231.84 acre in W/2 of Section 40

MF107619: 80 acres, covering the W/2 of NE/4 of Section 40, Block 58

MF107619A/TX00351.001: Kelly H. Baxter

MF107619B/TX00350.001: Mark Chapman

Entire lease included in pooled unit

MF107769: 80 acres, covering the E/2 of NE/4 of Section 40, Block 58

TX02415.001: Helen Carolyn Allen, et al, agents for the State of Texas

Entire lease included in pooled unit

MF104778: 1,095.22 acres, covering the E/2 of Section 39, SE/4 of Section 40, & all Section 42, Block 58

MF104778A/TX00349.001: Dela Minerals, Inc.

Section 39: Inactive

SE/4 Section 40: Included in Block 58 ST 40-14 #1H pooled unit

Section 42: 357.47 acres inactive, 258 acres included in pooled unit for Block 58 State 42 #1H pooled unit

All of Section 42, Block 58

MF104778F: Nellie Gohlke Trust

MF104778G/TX02494.001: Anne Covington Henderson

MF104778H/TX02494.003: Ted Michael Covington

MF104778I/TX02494.002: Jane Covington Drake

MF104778F: Nellie Gohlke Trust

MF104778J/TX02495.001: The Estate of Nellie May Gohlke

Section 42: 357.47 acres inactive, 258 acres included in pooled unit for Block 58 State 42 #1H pooled unit

MF104548: 1,120 acres, covering the SW/4 of Section 39, W/2 of Section 40, W/2 of Section 45, N/2 of Section 46, Block 58

TX00268.001: Lester Charles Weatherby, Jr., agent for the State of Texas

Section 39, 45 & 46: Inactive

W/2 of Section 40: 231.84 acres included in the Block 58 ST 40-14 #1H pooled unit, 88 acres inactive

Unit 4554

Block 58 State 42 #1H (API #42-389-32497): 513 acre unit including 258 acres in Section 42, 113 acres in Section 41 & 142 acres in Section 1

MF104580: 129 acres, covering W/2 of Section 41, Block 58

TX0270.001: State of Texas, Lessor

113 acres included in the Block 58 State 42 #1H unit, 16 acres inactive

MF104778: 1,095.22 acres, covering the E/2 of Section 39, SE/4 of Section 40, & all of Section 42, Block 58 (same as Block 58 ST 40-14 1H GLO Letter)

MF104778A/TX00349.001: Dela Minerals, Inc.

Section 39: Inactive

SE/4 Section 40: Included in Block 58 ST 40-14 #1H pooled unit

Section 42: 357.47 acres inactive, 258 acres included in pooled unit for Block 58 State 42 #1H pooled unit

All of Section 42, Block 58 (same as Block 58 ST 40-14 1H GLO Letter)

MF104778F: Nellie Gohlke Trust

MF104778G/TX02494.001: Anne Covington Henderson

MF104778H/TX02494.003: Ted Michael Covington

MF104778I/TX02494.002: Jane Covington Drake

MF104778J/TX02495.001: The Estate of Nellie May Gohlke

Section 42: 357.47 acres inactive, 258 acres included in pooled unit for Block 58 State 42 #1H pooled unit

MF105285: 1,895.47 acres, covering all of Section 31, 32 and 42, Block 58

MF105285A/TX00347.001: Catherine Funk Wall Trust A

MF105285B/TX00345.004: D.D. Wall Estate Trust A

MF105285H/TX00345.002: D.D. Wall Estate Trust B

MF105285I/TX00345.003: Catherine Funk Wall Trust B

MF105285J/TX00345.001: Mary B. Harwit Unitrust

MF105285K/TX00346.002: Mary Y. Tippens Testamentary Trust

MF105285M/TX00348.001: Texas Scottish Rite Hospital

MF105285L/TX00346.001: Esther Shuman Testamentary Trust

Section 31 & 32: Acreage included in the Block 58 State 31-3 (API #42-389-32452) & Block 58 State 32 1(API #42-389-32398) units.

Section 42: 357.47 acres inactive, 258 acres included in pooled unit for Block 58 State 42 #1H pooled unit

Leases Mistakenly Included in GLO Letter:

MF105285D/TX00342.001: Dela Minerals, Inc.

Lease covers only Section 31 & 32, Block 58

Section 31 & 32: Acreage included in the Block 58 State 31-3 (API #42-389-32452) & Block 58 State 32 1(API #42-389-32398) units.

MF105285E/TX00342.004: Ted Michael Covington

MF105285F/TX00342.002: Ann Covington Henderson

MF105285G/TX00342.003: Jane Covington Drake

MF105285C/TX00342.005: Estate of Nellie May Gohlke

These leases cover only Sections 31 and 32

Linda Price - Block 58 State 42 #1H & Block 58 ST 40-14 #1H

From: Linda Price
To: Lindsay.Sheffield@shell.com
Date: 10/25/2013 9:55 AM
Subject: Block 58 State 42 #1H & Block 58 ST 40-14 #1H
CC: Drew Reid
Attachments: 5206 SWEPI 10-25-2013.pdf

Lindsay:

Attached please find my letter with the GLO's response to your letter dated October 14, 2013.

Please be advised that no hard copy will be mailed unless so requested.

Thank you.
Linda

Linda Price, RL
Texas General Land Office
Energy Resources, Mineral Leasing
Phone: (512) 463-5118
Fax: (512) 475-1543
Linda.Price@glo.texas.gov

Subject: Block 58 State 42 #1H & Block 58 ST 40-14 #1H
Created By: Linda.Price@GLO.TEXAS.GOV
Scheduled Date:
Creation Date: 10/25/2013 9:55 AM
From: Linda Price

Recipient	Action	Date & Time	Comment
CC: Drew Reid (Drew.Reid@GLO.TEXAS.GOV)	Delivered	10/25/2013 9:55 AM	
To: Lindsay.Sheffield@shell.com (Lindsay.Sheffield@shell.com)	Transferred	10/25/2013 9:55 AM	

Nov. 19

File No. ME104778

(24)

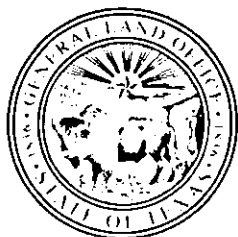
Shell's Letter

(Pertains only to A Lease)

Date Filed: 10/14/2013

Jerry E. Patterson, Commissioner

By JEP



October 25, 2013

Lindsay Sheffield
Land Representative
Shell Upstream Americas
P. O. Box 576
Houston, Texas 77001-0576
(Via email to Lindsay.Sheffield@shell.com)

RE: **State Lease MF107619** 2 RAL Leases, described on **Page 3**
 State Lease MF107769 RAL Lease, described on **Page 3**
 State Lease MF104778A RAL Lease, described on **Page 3**
 State Lease MF104548 RAL Lease, described on **Page 3**
 Well: Block 58 ST 40-14 #1H (API # 42-389-32449)

Dear Ms. Sheffield:

The GLO is in receipt of your letter dated October 14, 2013 in response to our termination letter dated August 29, 2013.

Based upon our research and the information contained in your response, the referenced leases have terminated. With regard to SWEPI's request of the GLO to ratify the leases, please be advised that, pursuant to the TAC (Texas Administrative Code), the GLO cannot ratify leases. Please refer to the TAC provision below:

Texas Administrative Code, Title 31, Part 1, Chapter 9, Subchapter C, Rule §9.34

(e) No ratification or revivor. If a lessee fails to conduct drilling and reworking operations or to obtain an extension in accordance with this section and the lease terms and lessee has not otherwise maintained the lease, no action by the state or an owner of the soil on Relinquishment Act property, may ratify, re-grant or revive the terminated lease or may estop the state from asserting lease termination.

On page 2 of your letter, you stated that "If the GLO is unwilling to ratify the leases as to Block 58 ST 40-14 #1H & Block 58 State 42 #1H proration units, SWEPI LP is seeking a reimbursement of the improperly paid royalties from the time the leases expired. In such a case, the leases were no longer active, thus, the GLO was not entitled to royalty payments on the production."

Please be advised that, retroactive to the termination date of August 30, 2012, the GLO owns 100% of the mineral interest and all revenue generated by the producing well. The GLO may be willing to negotiate a monthly operating expense fee to be deducted from the revenue.

Lindsay Sheffield
Shell Upstream Americas
October 25, 2013
Page 2

Although the GLO cannot ratify the terminated leases, we would approve one of the two following options:

Option 1

SWEPI can negotiate with the surface owners, as agents for the State of Texas, one-year leases backdated to August 30, 2012, for the 200 acres covering the SE/4 SW/4, W/2 SE/4 and S/2 NE/4 of Section 40, Block 58, PSL Survey, Reeves County, from the surface to 12,378', with a bonus to be shared equally between the State and the surface owners.

Option 2

SWEPI may negotiate new, long term leases with the surface owners at the market rate.

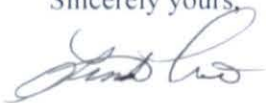
Please notify me within 30 days of the date of this letter whether or not SWEPI would like to exercise one of the two GLO-approved options. SWEPI will contact Drew Reid of this office for approval of any new leases that you take. If I do not receive notification of your election within said 30 day period, these leases will be endorsed "terminated" and our Financial Management division will contact SWEPI regarding revenues due the State after August 30, 2012.

Then, submit to me, for the GLO's approval, a draft of either the partial releases or full releases of the leases, depending upon SWEPI's decision. Please be specific in the description of the land and depths being released, describing the lease tracts by actual number of acres and depths and the section, block, township, survey, abstract, county, state, etc., where located. List each lessor who acted as agent for the state by name, State Lease Number (MF followed by six digits and an alpha character for undivided interest) and list the recording information of the leases by volume and page and county(ies) where recorded.

Upon approval and after the release(s) are executed and recorded, please file with this office a certified, recorded copy of the partial release or full release of the leases, along with a filing fee of \$25.00 per state lease, and send it to my attention at the General Land Office.

If you have any questions, please contact me.

Sincerely yours,



Linda Price, RL
Energy Resources, Mineral Leasing
512-463-5118
512-475-1543 (fax)
linda.price@glo.texas.gov

cc: Drew Reid via email to Drew.Reid@glo.texas.gov

Lindsay Sheffield
Shell Upstream Americas
October 25, 2013
Page 3

MF107619

80 acres, covering the W/2 of NE/4 of Section 40, Block 58, PSL Survey, Reeves County, TX

State Lease No.	Agent for State of TX	Lease Date	Recorded Bk/Page
MF107619A	Kelly H. Baxter	01/20/2006	726/598
MF107619B	Mark A. Chapman	08/26/2005	725/331

*If SWEPI exercises Option 1, the GLO requests a release of the NW/4 NE/4 of Section 40.

**If SWEPI does not exercise Option 1, the GLO requests a full release of this lease.

MF107769

80 acres, covering the E/2 of the NE/4 of Section 40, Block 58, PSL Survey, Reeves County, TX

Lease dated November 13, 2006

Recorded as File No. 428, Reeves County, Texas

Helen Carolyn Allen, et al, agents for State of Texas, Lessor

*If SWEPI exercises Option 1, the GLO requests a release of the NE/4 NE/4 of Section 40.

**If SWEPI does not exercise Option 1, the GLO requests a full release of this lease.

MF104778A

1,095.22 acres, covering the E/2 of Section 39, SE/4 of Section 40 & all of Section 42, Block 58, PSL Survey, Reeves, County, Texas

Lease dated February 18, 2005

Recorded in Volume 702, Page 686, Reeves County, Texas

Dela Minerals, Inc., agent for State of Texas, Lessor

*If SWEPI exercises Option 1, the GLO requests a release of the E/2 of Section 39, the E/2 SE/4 of Section 40 and all of Section 42.

**If SWEPI does not exercise Option 1, the GLO requests a full release of this lease.

MF104548

1,120 acres, covering the SW/4 of Section 39, W/2 of Section 40, W/2 of Section 45, N/2 of Section 46, Block 58, PSL Survey, Reeves County, Texas

Lease dated October 13, 2004

Recorded in Volume 694, Page 350, Reeves County, Texas

Lester Charles Weatherby Jr., agent for State of Texas, Lessor

*If SWEPI exercises Option 1, the GLO requests a release of the SW/4 of Section 39, NW/4, N/2 SW/4 and SW/4 SW/4 of Section 40, W/2 of Section 45 and N/2 of Section 46.

**If SWEPI does not exercise Option 1, the GLO requests a full release of this lease.

File No. ME104778

(25)

Response To Shell's Letter

(Pertains only to A Lease)

Date Filed: 10/25/2013

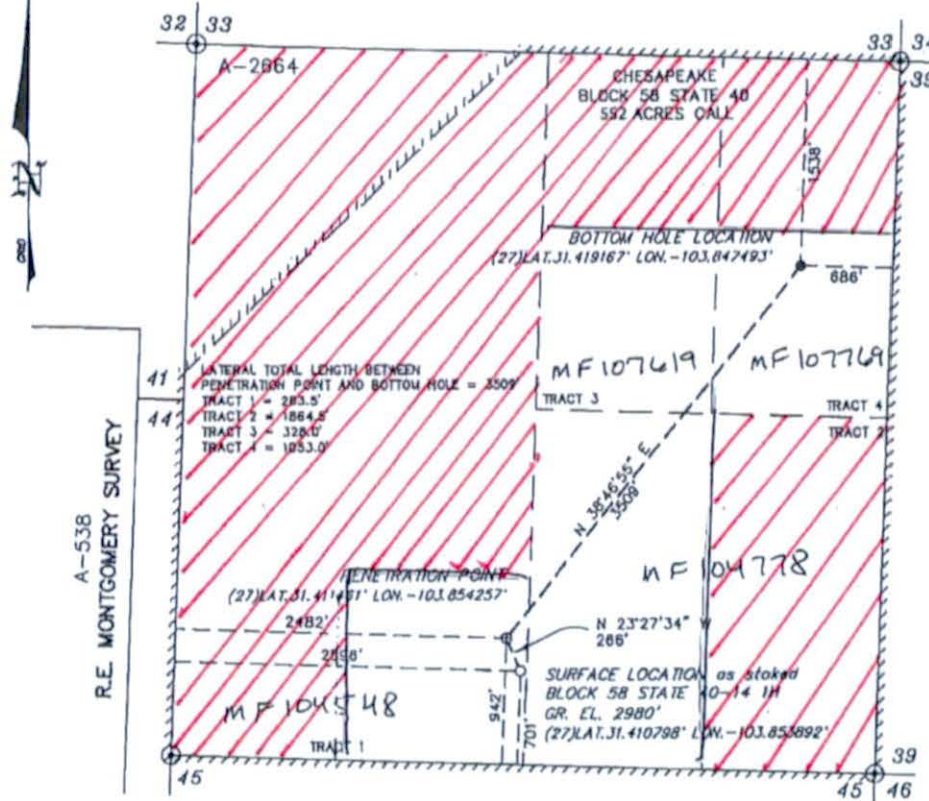
Jerry E. Patterson, Commissioner

By JEP

Unit 5206

AS-DRILLED PLAT

SECTION 40, BLOCK 58, P.S.L., REEVES COUNTY, TEXAS



SURFACE LOCATION;
NAD 83, TEXAS CENTRAL ZONE
COORD'S: N=10494272.6, E=1198372.9
LAT=31°24'39.4"N, LONG=-103°51'15.7"W.

- SURFACE LOCATION
- ⊙ PENETRATION POINT
- BOTTOM HOLE LOCATION
- ⊙ FOUND 1" IRON PIPE

UNITS: FEET = PROPORTION UNIT

NOTES:

- THIS AS-DRILLED PLAT HAS BEEN PREPARED FROM A CERTIFIED SURVEY PLAT ON FILE IN THE OFFICE OF WATSON PROFESSIONAL GROUP INC IN MIDLAND, TEXAS.
- SURFACE LOCATION IS AS STAKED 12/2006, ANY UNIT DIMENSIONS, PENETRATION POINT AND BOTTOM HOLE ARE AS PROVIDED BY CHESAPEAKE.
- SEE DOCUMENTS ON FILE IN THIS SURVEYORS OFFICE FOR COMPLETE RECONSTRUCTION OF THESE BLOCKS, SECTIONS OR SURVEYS.
- COORDINATES AND BEARINGS ARE BASED ON A LAMBERT CONICAL PROJECTION OF THE TEXAS STATE PLANE COORDINATE SYSTEM (NAD 83), TEXAS CENTRAL ZONE (4203) SINCE HAD 27 IS ANTIQUATED AND UNACCOMPLISHABLE WITH MODERN SURVEY EQUIPMENT ALL COORDINATES ARE AN ADJUSTMENT FROM NAD 83 USING THE SOFTWARE "CORPSCON".
- APPROXIMATELY 7.9 MILES NORTHEAST OF TOYAH, TEXAS.

I, THE UNDERSIGNED, DO HEREBY CERTIFY THAT THE SURVEY INFORMATION FOUND ON THIS PLAT WAS DERIVED FROM ACTUAL FIELD NOTES OR ELECTRONIC DATA OF ON-THE-GROUND SURVEYS MADE BY ME OR UNDER MY SUPERVISION AND IS TRUE AND CORRECT TO THE BEST OF MY KNOWLEDGE AND BELIEF. NO WARRANTY IS MADE OR INTENDED FOR THE LOCATION OF ANY OR ALL EASEMENTS THAT MAY EXIST WITHIN THE BOUNDS OF THIS SURVEY. THE INFORMATION PRESENTED HEREON IS FOR THE PRIVATE USE OF THE PARTY NAMED IN THE "REFERENCE PORTION" OF THE TITLE BLOCK AND DOES NOT CONSTITUTE A COMPLETE BOUNDARY SURVEY AS DEFINED BY THE "PROFESSIONAL LAND SURVEYING PRACTICES ACT."



W.D. WATSON, JR. TEXAS R.P.L.S. No. 1989
FILE: M:BLOCK58PSL/DWG/BLOCK58PSL 6 JO 07.dwg

10/30/09
DATE

1000 0 1000 2000 FEET

**Watson
Professional
Group Inc.**



1500 W. BILLYE
SUITE 101 (11700)
P.O. BOX 1000
MIDLAND, TEXAS 79702
(432) 520-9200
FAX (432) 520-9201
w@watsonpro.com

AS-DRILLED PLAT
CHESAPEAKE OPERATING
BLOCK 58 STATE 40-14 1H
701' FSL & 2596' FWL
SECTION 40, BLOCK 58, P.S.L.,
REEVES COUNTY, TEXAS

JOB NO.: 09-1587-07 FIELD BOOK SKETCH DRAFT TA REV. 1

SE 1/4 SW 1/4 40
W 1/2 SE 1/4 80
S 1/2 NE 1/4 80
200 ac

To Be
Released

File No. ME104778

(26)

Accounting Unit 5206

(Pertains only to A Lease)

Date Filed: 10/25/2013

Jerry E. Patterson, Commissioner

By See

Linda Price - RE: Block 58 State 42 #1H & Block 58 ST 40-14 #1H

From: <Lindsay.Sheffield@shell.com>
To: Linda.Price@GLO.TEXAS.GOV
Date: 11/21/2013 8:32 AM
Subject: RE: Block 58 State 42 #1H & Block 58 ST 40-14 #1H
CC: Meredith.MacAllister@shell.com; brian.chaffee@shell.com; Drew.Reid@GLO.T...

Linda,

SWEPI will be pursuing Option 1 for the Block State 58 40-14 #1H well. We will have our brokers coordinate with Drew for the new one-year backdated leases. Once we have the new leases, with their specific land descriptions, Meredith will coordinate with you on the releases for the expired leases laid out on the last page of your letter dated October 25, 2013.

Thanks,

Lindsay E. Sheffield

Land Representative
Contracts & Joint Ventures
Shell Exploration & Production - Americas
P. O. Box 576, Houston, TX 77001-0576
United States of America

Tel: +1 832 337 0146 Fax: +1 281 544 5022
Email: Lindsay.Sheffield@shell.com
Internet: <http://www.shell.com/eandp-en>

From: Linda Price [Linda.Price@GLO.TEXAS.GOV]
Sent: Friday, October 25, 2013 9:55 AM
To: Sheffield, Lindsay E SEPCO-UAU/L/UP
Cc: Drew Reid
Subject: Block 58 State 42 #1H & Block 58 ST 40-14 #1H

Lindsay:

Attached please find my letter with the GLO's response to your letter dated October 14, 2013.

Please be advised that no hard copy will be mailed unless so requested.

Thank you.
Linda

Linda Price, RL

Texas General Land Office
Energy Resources, Mineral Leasing
Phone: (512) 463-5118
Fax: (512) 475-1543
Linda.Price@glo.texas.gov

File No. ME104778

(27)

Shell's Option

(Pertains only to A Lease)

Date Filed: 11/21/2013

Jerry E. Patterson, Commissioner

By for

February 18, 2014

Meredith McAllister, CPLTA
Senior Lease Analyst
Shell Exploration & Production Company
200 N. Dairy Ashford
Houston, Texas 77079
(Via email to meredith.macallister@shell.com)

RE: **State Lease MF107619** 2 RAL Leases, described on **Page 3**
 State Lease MF107769 RAL Lease, described on **Page 3**
 State Lease MF104778 6 RAL Leases, described on **Page 3**
 State Lease MF104548 RAL Lease, described on **Page 3**
 Well: Block 58 ST 40-14 #1H (API # 42-389-32449)

Dear Ms. MacAllister:

On August 29, 2013, the GLO sent Brian Chaffee of Shell a letter notifying him that our research indicated that there was a four month lapse in production of the referenced well and that, without evidence of operations adequate to perpetuate the leases without a cessation of more than 60 cumulative days, the related leases were subject to termination.

Shell replied with a letter dated October 14, 2013 requesting that the GLO ratify the leases. On October 25, 2013, we replied that the GLO could not ratify the leases and offered Shell the following two options: Option 1) negotiate with the surface owners, as agents for the State of Texas, one-year leases backdated to August 30, 2012, for the 200 acres covering the SE/4 SW/4, W/2 SE/4 and S/2 NE/4 of Section 40, Block 58, PSL Survey, Reeves County, from the surface to 12,378', with a bonus to be shared equally between the State and the surface owners or Option 2) negotiate new, long term leases with the surface owners at the market rate. We gave Shell 30 days from the date of our letter to notify us as to which option they elected, if either.

On November 21, 2013, Shell informed the GLO that they were planning to pursue Option 1. Subsequently, Drew Reid, of the GLO, was contacted by one of Shell's brokers and informed that he had acquired all but one of the new, short-term leases. However, although almost three months have passed, none of the new leases have been filed with the GLO. Therefore, this letter is to request that all of the new leases, payments and fees be filed with the GLO within 30 days of the date of this letter or we will have to assume that Shell did not acquire the new leases and we will retract our offer of the election of Option 1.

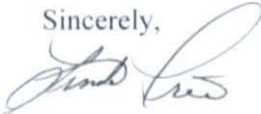
Meredith MacAllister
Shell Exploration & Production Company
February 18, 2014
Page 2

If Shell files the new leases within the 30 days allowed, please submit to me, for the GLO's approval, a draft of partial releases of all but the 200 acres from the surface down to 12,378', as previously described. If Shell does not file the new leases within the 30 days, please submit full releases of all of the leases, except for Section 42 of MF104778A (see note regarding Section 42 in the lease description on the following page).

In the partial releases or full releases of the leases, please be specific in the description of the land and depths being released, describing the lease tracts by actual number of acres and depths and the section, block, township, survey, abstract, county, state, etc., where located. List each lessor who acted as agent for the state by name, State Lease Number (MF followed by six digits and an alpha character for undivided interest) and list the recording information of the leases by volume and page and county(ies) where recorded.

Please contact me if you have any questions.

Sincerely,

A handwritten signature in cursive script, appearing to read "Linda Price".

Linda Price, RL
Energy Resources, Mineral Leasing
512-463-5118
512-475-1543 (fax)
linda.price@glo.texas.gov

cc: Drew Reid via email to Drew.Reid@glo.texas.gov

Meredith MacAllister
Shell Exploration & Production Company
February 18, 2014
Page 3

MF107619 80 acres, covering the W/2 of NE/4 of Section 40, Block 58, PSL Survey, Reeves County, TX

State Lease No.	Agent for State of TX	Lease Date	Recorded Bk/Page
MF107619A	Kelly H. Baxter	01/20/2006	726/598
MF107619B	Mark A. Chapman	08/26/2005	725/331

*If SWEPI exercises Option 1, the GLO requests a release of the NW/4 NE/4 of Section 40 and all depths below 12,378' in the SW/4 of NE/4 of Section 40.

**If SWEPI does not exercise Option 1, the GLO requests a full release of these leases.

MF107769 80 acres, covering the E/2 of the NE/4 of Section 40, Block 58, PSL Survey, Reeves County, TX

State Lease No.	Agent for State of TX	Lease Date	Recorded Bk/Page
MF107769	Helen Carolyn Allen, et al	11/13/2006	File No. 428

*If SWEPI exercises Option 1, the GLO requests a release of the NE/4 NE/4 of Section 40 and all depths below 12,378' in the SE/4 NE/4 of Section 40.

**If SWEPI does not exercise Option 1, the GLO requests a full release of this lease.

MF104778A 1,095.22 acres, covering the E/2 of Section 39, SE/4 of Section 40 & all of Section 42*, Block 58, PSL Survey, Reeves County, Texas

State Lease No.	Agent for State of TX	Lease Date	Recorded Bk/Page
MF104778A	Dela Minerals, Inc.	02/18/2005	702/686

If SWEPI exercises Option 1, the GLO requests a release of the E/2 of Section 39 and the E/2 SE/4 of Section 40 and all depths below 12,378' in the W/2 SE/4 of Section 40.

*Section 42 is part of Unit Block 58 State 42 #1H (API#42-389-32497) which is line for review because of a similar situation. Shell may release it or hold it with the knowledge that, if held, the State may request a release of it later based upon the review of Unit Block 58 State 42.

MF104548 1,120 acres, covering the SW/4 of Section 39, W/2 of Section 40, W/2 of Section 45, N/2 of Section 46, Block 58, PSL Survey, Reeves County, Texas

State Lease No.	Agent for State of TX	Lease Date	Recorded Bk/Page
MF104548	Lester Charles Weatherby Jr.	10/13/2004	694/350

If SWEPI exercises Option 1, the GLO requests a release of the SW/4 of Section 39, NW/4, N/2 SW/4 and SW/4 SW/4 of Section 40, W/2 of Section 45 and N/2 of Section 46 and all depths below 12,378' in the SE/4 SW/4 of Section 40.

File No. ME104778

(28)

Option Retraction letter

Certain only to A Lease

Date Filed: 02/18/2014

Jerry E. Patterson, Commissioner

By JEP

Linda Price - RE: Section 40, Block 58

March 20 = Deadline

From: <Lindsay.Sheffield@shell.com>
To: <Linda.Price@GLO.TEXAS.GOV>, <Drew.Reid@GLO.TEXAS.GOV>
Date: 3/7/2014 10:44 AM
Subject: RE: Section 40, Block 58
CC: <bhebert@acadianland.com>

Linda/Drew:

Just an update, we have finally gotten some discussion with Helen Allen with regards to her lease. We are also finally getting some response from Mr. Weatherby. Our primary concern right now is the Dela Minerals tract. We have not been able to get consistent response from Mr. Covington, as he was ill and now hasn't been responding to our calls. We are still actively pursuing these leases, but as the 30 days required in your letter are ticking, I just wanted to continue to update you on our status. Bucky Hebert is diligently pursuing this on our behalf.

I will let you know once we get more signed leases. As an FYI, I will be out of the office for my wedding and honeymoon from March 20th back April 7th, so if anything arises, please contact Brian Chaffee as he will be able to immediately respond.

Thanks,

Lindsay E. Sheffield

Land Representative
 Contracts & Joint Ventures
 Shell Exploration & Production - Americas
 P. O. Box 576, Houston, TX 77001-0576
 United States of America

Tel: +1 832 337 0146 **Fax:** +1 281 544 5022

Email: Lindsay.Sheffield@shell.com

Internet: <http://www.shell.com/eandp-en>

From: Linda Price [Linda.Price@GLO.TEXAS.GOV]

Sent: Thursday, February 20, 2014 1:03 PM

To: Sheffield, Lindsay E SEPCO-UAU/L/UP

Subject: Re: Section 40, Block 58

Hi Lindsay:

Thank you for the update. I'll let Drew Reid know to expect the leases.

Thanks.

Linda

Linda Price, RL
 Texas General Land Office
 Energy Resources, Mineral Leasing
 Phone: (512) 463-5118

Fax: (512) 475-1543
Linda.Price@glo.texas.gov

>>> <Lindsay.Sheffield@shell.com> 2/20/2014 10:33 AM >>>
Linda,

Meredith passed along the GLO's letter from 2/18, so I just wanted to give you a status update. Attached are 2 of the leases we have received signed. We are in contact with Mr. Weatherby and Ms. Allen regarding terms, and I believe we have reached an agreement, but are waiting for the leases to be executed. Our brokers have also been in contact with Mr. Covington at Dela Minerals, but he has been ill so progress has been slow. We should have everything hopefully tied up in the next 20 days, but just wanted to give you a status update.

Thanks,

Lindsay E. Sheffield
Land Representative
Contracts & Joint Ventures
Shell Exploration & Production - Americas
P. O. Box 576, Houston, TX 77001-0576
United States of America

Tel: +1 832 337 0146 **Fax:** +1 281 544 5022
Email: Lindsay.Sheffield@shell.com
Internet: <http://www.shell.com/eandp-en>

File No. MF104778

(29)

Email To/ From Shell- A Lease

Date Filed: 03/07/2014

Jerry E. Patterson, Commissioner

By JEP

Linda Price - Re: Section 40, Block 58 Update

From: <brian.chaffee@shell.com>
To: Lindsay.Sheffield@shell.com; Linda.Price@GLO.TEXAS.GOV
Date: 3/19/2014 7:43 AM
Subject: Re: Section 40, Block 58 Update
CC: Drew.Reid@GLO.TEXAS.GOV

Thanks Linda. We certainly appreciate this.

Brian

Brian Chaffee
Staff Contracts Representative
Permian Basin
Shell Exploration & Production Company

Office 832.337.2781
Cell 713.366.1284
Fax 832.932.7438

From: Linda Price [Linda.Price@GLO.TEXAS.GOV]
Sent: Wednesday, March 19, 2014 06:40 AM Central Standard Time
To: Sheffield, Lindsay E SEPCO-UAU/L/UP
Cc: Drew Reid <Drew.Reid@GLO.TEXAS.GOV>; Chaffee, Brian D SEPCO-UAU/L/UP
Subject: Re: Section 40, Block 58 Update

Brian:

As requested by Lindsay in her email below, the GLO agrees to grant a 30-day extension of the date that the executed leases are filed with the GLO. By my calculation, thirty days from March 20, the original deadline, is April 19, which is a Saturday. Therefore, the leases are due Monday, April 21.

If you have any questions, please let me know.

Thank you.
Linda

Linda Price, RL
Texas General Land Office
Energy Resources, Mineral Leasing
Phone: (512) 463-5118
Fax: (512) 475-1543
Linda.Price@glo.texas.gov

>>> <Lindsay.Sheffield@shell.com> 3/18/2014 9:02 AM >>>
Linda,

I just spoke with our broker, and since the 30 day window is closing, I wanted to update you on our negotiations.

Mr. Weatherby has accepted our bonus offer, but his attorney is not returning calls to proceed with the lease form. Bucky spoke with Mr. Weatherby, and he said he would call his attorney to fast-track negotiations on the lease form which shouldn't be an issue for us.

Mrs. Helen Allen is still working on her finalized version of the lease for us to review, but we are aware of most of her anticipated changes and should not have an issue with what we know of. She will try and have her proposed changes to us by Thursday.

Mr. Covington at Dela Minerals still has not reviewed our numerous proposals to him, but had thought our bonus offer was fair. We have let him know it is time sensitive, but he has been hard to keep continuous contact with. Bucky will follow up with him again today.

As you can see, we are continue to work the situation, but I am not sure we will have signed leases by March 20th. Would it be possible to get a 30 day extension to having the signed leases in your hands? The process of signing the lessors has taken more time than usual, but we have come to what we believe are agreements with everyone, just not signed the documents. If not, we will have to shut the well in until the leases are signed to prevent any sort of legal risks. We'd prefer to continue operating the well until all of this is completed (the leasing and releases) to continue paying royalties to the State.

Please let me know if you would grant us a 30 day extension.

Thanks,

Lindsay E. Sheffield

Land Representative
Contracts & Joint Ventures
Shell Exploration & Production - Americas
P. O. Box 576, Houston, TX 77001-0576
United States of America

Tel: +1 832 337 0146 **Fax:** +1 281 544 5022

Email: Lindsay.Sheffield@shell.com

Internet: <http://www.shell.com/eandp-en>

File No. ME104778

(30)

Email To/From Shell - A Lease

Date Filed: 03/19/2014

Jerry E. Patterson, Commissioner

By JEP

Linda Price - RE: Block 40, Section 58

From: <Lindsay.Sheffield@shell.com>
To: <Linda.Price@GLO.TEXAS.GOV>
Date: 4/17/2014 10:50 AM
Subject: RE: Block 40, Section 58

Excellent! Thank you. Once I get them in the mail I will send you the tracking number to ensure they are properly delivered.

Lindsay Sheffield Turner

Land Representative
Contracts & Joint Ventures
Shell Exploration & Production - Americas
P. O. Box 576, Houston, TX 77001-0576
United States of America

Tel: +1 832 337 0146 **Fax:** +1 281 544 5022
Email: Lindsay.Sheffield@shell.com
Internet: <http://www.shell.com/eandp-en>

From: Linda Price [Linda.Price@GLO.TEXAS.GOV]
Sent: Thursday, April 17, 2014 10:45 AM
To: Turner, Lindsay S SEPCO-UAU/L/UP
Subject: RE: Block 40, Section 58

Lindsay:

Monday is a Skeleton Crew day for the GLO. Drew and I were just discussing the deadline and he said that because of the Skeleton Day, we can give you an extra day. That way, you can FedEx them, rather than driving them up here and neither one of us being here to receive them.

Thanks.
Linda

>>> <Lindsay.Sheffield@shell.com> 4/17/2014 10:11 AM >>>
Linda,

We are going to receive the leases for execution today, and then I will drive them up to y'all on Monday. There is some concern with trying to overnight them over the holiday, so I can make a quick trip. Should I ask for you or Drew when I arrive?

Lindsay Sheffield Turner

Land Representative
Contracts & Joint Ventures
Shell Exploration & Production - Americas
P. O. Box 576, Houston, TX 77001-0576
United States of America

Tel: +1 832 337 0146 **Fax:** +1 281 544 5022
Email: Lindsay.Sheffield@shell.com
Internet: <http://www.shell.com/eandp-en>

From: Linda Price [<mailto:Linda.Price@GLO.TEXAS.GOV>]
Sent: Thursday, April 17, 2014 8:51 AM
To: Turner, Lindsay S SEPCO-UAU/L/UP
Cc: Drew Reid
Subject: Re: Block 40, Section 58

Lindsay:

Thanks for the update and for emailing working copies of the leases.

Please have Bucky make sure the leases are received into the GLO on or before Monday, April 21 in order to be in compliance with the extension deadline; however, please also note that the GLO will be closed tomorrow, Friday 18, 2014 for Good Friday.

Thank you.
Linda

Linda Price, RL
Texas General Land Office
Energy Resources, Mineral Leasing
Phone: (512) 463-5118
Fax: (512) 475-1543
Linda.Price@glo.texas.gov

>>> <Lindsay.Sheffield@shell.com> 4/16/2014 1:37 PM >>>
Linda,

Just wanted to give you a heads up that we have received all the back-dated lease for the above section (attached). Bucky will be forwarding them to Drew Reid. Meredith Macallister will bring processing the release as per your letter from February, to be executed and routed to the GLO.

Thanks,

Lindsay Sheffield Turner

Land Representative
Contracts & Joint Ventures
Shell Exploration & Production - Americas
P. O. Box 576, Houston, TX 77001-0576
United States of America

Tel: +1 832 337 0146 **Fax:** +1 281 544 5022
Email: Lindsay.Sheffield@shell.com
Internet: <http://www.shell.com/eandp-en>

File No. MF104778 (31)

Email To/From Shell - A Lease

Date Filed: 04/17/2014

Jerry E. Patterson, Commissioner

By JEP

Linda Price - RE: Unit Block 58 State 40-14

From: <Meredith.MacAllister@shell.com>
To: <Linda.Price@GLO.TEXAS.GOV>
Date: 5/29/2014 2:03 PM
Subject: RE: Unit Block 58 State 40-14
CC: <brian.chaffee@shell.com>

Linda,

I am confirming receipt of your email and will start working on the releases.

Meredith

From: Linda Price [Linda.Price@GLO.TEXAS.GOV]
Sent: Thursday, May 29, 2014 1:38 PM
To: MacAllister, Meredith R SEPCO-UAU/L/A
Cc: Chaffee, Brian D SEPCO-UAU/L/UP
Subject: Unit Block 58 State 40-14
Importance: High

Meredith:

Because of administrative maintenance reasons, the GLO has decided to issue new mineral file numbers for the one-year backdated leases of Unit Block 58 State 40-14 rather than making the new leases part of the original lease number files.

Therefore, we will need full requests of the original leases rather than partial releases, with the exception of MF104778A. The releases will need to be effective August 29, 2012, the day before the new lease dates.

MF104778A covers 1,095.22 acres including the E/2 of Section 39, SE/4 of Section 40 and all of Section 42, Block 58, PSL Survey. It is included in a review of Unit Block 58 State 42 #1-H which has not yet been concluded. Therefore, you may either release the SE/4 of Section 40 now and possibly have to do an additional release of the other acreage covered by the lease, or you may wait until our review of Unit Block 58 State 42 #1-H has been concluded and release whatever additional acreage of that lease is determined to be terminated.

You will be receiving the GLO letter approving the new leases and listing the new lease numbers soon. Please refer to the new lease numbers when making any payments towards, or in correspondence regarding, the new leases.

Please confirm your receipt of this email and if you have any questions, please let me know.

Thank you.

Linda

Linda Price, RL
Texas General Land Office
Energy Resources, Mineral Leasing
Phone: (512) 463-5118
Fax: (512) 475-1543
Linda.Price@glo.texas.gov

File No. MF104778

(32)

Email To/From Shell - A Lease

Date Filed: 05/29/2014

Jerry E. Patterson, Commissioner

By JEP

The State of Texas



Austin, Texas

MF 104778A =
MF 116494

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 30th day of August, 2012, between the State of Texas, acting by and through its agent, DELA MINERALS INC. of P.O. Box 1989, Goodlettsville, Tennessee 37070

(Give Permanent Address)

said agent herein referred to as the owner of the soil (whether one or more), and SWEPLP

of P.O. Box 576, Houston, Texas 77001

hereinafter called Lessee.

(Give Permanent Address)

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 Reeves County, State of Texas, to-wit:

✓ The West Half of the Southeast Quarter (W/2 of the SE/4) of Section 40, Block 58, PSL Survey, Reeves County, Texas, insofar as to only cover from the surface down to 12,375'

containing 80.00 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Forty Thousand Dollars & 00/100

Dollars (\$120,000.00)

To the owner of the soil: Forty Thousand Dollars & 00/100

Dollars (\$120,000.00)

Total bonus consideration: Eighty Thousand Dollars & 00/100

Dollars (\$240,000.00)

The total bonus consideration paid represents a bonus of Three Thousand Dollars & 00/100

Dollars (\$3,000.00) per acre, on 80.00 net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of One (1) 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 DIRECTLY TO THE OWNERS OF THE SOIL 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: Forty and 00/100

Dollars (\$40.00)

To the State of Texas: Forty and 00/100

Dollars (\$40.00)

Total Delay Rental: Eighty and 00/100

Dollars (\$80.00)

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

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

owner of the soil:

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

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

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

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

5. MINIMUM ROYALTY. During any year after the expiration of the primary term of this lease, if this lease is maintained by production, the royalties paid under this lease in no event shall be less than an amount equal to the total annual delay rental herein provided; otherwise, there shall be due and payable on or before the last day of the month succeeding the anniversary date of this lease a sum equal to the total annual rental less the amount of royalties paid during the preceding year. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre.

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

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

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

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

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

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

(B) PERMITS, DRILLING RECORDS. Written notice of all operations on this lease shall be submitted to the Commissioner of the General

Land Office by Lessee or operator five (5) days before spud date, workover, re-entry, temporary abandonment or plug and abandonment of any well or wells. Such written notice to the General Land Office shall include copies of Railroad Commission forms for application to drill. Copies of well tests, completion reports and plugging reports shall be supplied to the General Land Office at the time they are filed with the Texas Railroad Commission. All applications, permits, reports or other filings that reference this lease or any specific well on the leased premises and that are submitted to the Texas Railroad Commission or any other governmental agency shall include the word "State" in the title. Additionally, in accordance with Railroad Commission rules, any signage on the leased premises for the purpose of identifying wells, tank batteries or other associated improvements to the land must also include the word "State." Lessee shall supply the General Land Office with any records, memoranda, accounts, reports, cuttings and cores, or other information relative to the operation of the above-described premises, which may be requested by the General Land Office, in addition to those herein expressly provided for. Lessee shall have an electrical and/or radioactivity survey made on the bore-hole section, from the base of the surface casing to the total depth of well, of all wells drilled on the above described premises and shall transmit a true copy of the log of each survey on each well to the General Land Office within fifteen (15) days after the making of said survey.

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

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

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

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

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

15. COMPENSATORY ROYALTIES. If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is sold and delivered in paying quantities from a well located within one thousand (1,000) feet of the leased premises and completed in the same producing reservoir, or in any case in which drainage is occurring, the right to continue to maintain the lease by paying the shut-in oil or gas royalty shall cease, but the lease shall remain effective for the remainder of the year for which the royalty has been paid. The Lessee may maintain the lease for four more successive years by Lessee paying compensatory royalty at the royalty rate provided in the lease of the market value of production from the well causing the drainage or which is completed in the same producing reservoir and within one thousand (1,000) feet of the leased premises. The compensatory royalty is to be paid monthly, one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil, beginning on or before the last day of the month following the month in which the oil or gas is produced from the well causing the drainage or that is completed in the same producing reservoir and located within one thousand (1,000) feet of the leased premises. If the compensatory royalty paid in any 12-month period is an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within thirty (30) days from the end of the 12-month period. Compensatory royalty payments which are not timely paid will accrue penalty and interest in accordance with Paragraph 9 of this lease. None of these provisions will relieve Lessee of the obligation of reasonable development nor the obligation to drill offset wells as provided in Texas Natural Resources Code 52.173; however, at the determination of the Commissioner, and with the Commissioner's written approval, the payment of compensatory royalties can satisfy the obligation to drill offset wells.

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

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

(B) **HORIZONTAL.** In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall further terminate as to all depths below 100 feet below the total depth drilled (hereinafter "deeper depths") in each well located on acreage retained in

Paragraph 16 (A) above, unless on or before two (2) years after the primary or extended term Lessee pays an amount equal to one-half (1/2) of the bonus originally paid as consideration for this lease (as specified on page 1 hereof). If such amount is paid, this lease shall be in force and effect as to such deeper depths, and said termination shall be delayed for an additional period of two (2) years and so long thereafter as oil or gas is produced in paying quantities from such deeper depths covered by this lease.

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

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

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

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

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

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

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

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

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

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

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

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

27. (A) ASSIGNMENTS. Under the conditions contained in this paragraph and Paragraph 29 of this lease, the rights and estates of either party to this lease may be assigned, in whole or in part, and the provisions of this lease shall extend to and be binding upon their heirs, devisees, legal representatives, successors and assigns. However, a change or division in ownership of the land, rentals, or royalties will not enlarge the obligations of Lessee, diminish the rights, privileges and estates of Lessee, impair the effectiveness of any payment made by Lessee or impair the effectiveness of any act performed by Lessee. And no change or division in ownership of the land, rentals, or royalties shall bind Lessee for any purpose until thirty (30) days after the owner of the soil (or his heirs, devisees, legal representatives or assigns) furnishes the Lessee with satisfactory written evidence of the change in ownership, including the original recorded muniments of title (or a certified copy of such original) when the ownership changed because of a 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, Chap. 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this lease forfeited as provided herein.

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

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

36. ENVIRONMENTAL HAZARDS. Lessee shall use the highest degree of care and all reasonable safeguards to prevent contamination or pollution of any environmental medium, including soil, surface waters, groundwater, sediments, and surface or subsurface strata, ambient air or any

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

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

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.

LESSEE

BY: _____

Title: SWEP LP

Date: _____

STATE OF TEXAS

BY: _____

Gary N. Covington
BY: Gary N. Covington, President of Dela Minerals, Inc.,
Individually and as Agent for the State of Texas.

Date: 21 March, 2014

STATE OF TEXAS

(CORPORATION ACKNOWLEDGMENT)

COUNTY OF MIDLAND

BEFORE ME, the undersigned authority, on this day personally appeared Gary N. Covington
known to me to be the person whose name is subscribed to the foregoing instruments as President
of Dela Minerals, Inc. and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated,
and as the act and deed of said corporation.

Given under my hand and seal of office this the 21st day of March, 2014.



Cindy J. Cannon
Notary Public in and for Midland County, Texas

STATE OF _____

(INDIVIDUAL ACKNOWLEDGMENT)

COUNTY OF _____

BEFORE ME, the undersigned authority, on this day personally appeared _____

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.

Given under my hand and seal of office this the _____ day of _____, 2014.

Notary Public in and for _____

File No. MF104778

(33)

New Lease MF116494 - A Lease

Date Filed: 05/29/2014

Jerry E. Patterson, Commissioner

By JEP

Linda Price - Terminations Notice

From: Linda Price
To: Amanda Allen; Mike May
Date: 5/30/2014 10:45 AM
Subject: Terminations Notice

Mike & Amanda:

The following leases and accounting unit 5206 are terminated as of August 29,2012:

MF107619A & B

MF104548

MF107769

MF104778A is terminated with regard to Section 40; however, we cannot terminate the lease in ALAMO just yet because of other acreage that is still active.

If you have any questions, please let me know.

Thank you.
Linda

Linda Price, RL
Texas General Land Office
Energy Resources, Mineral Leasing
Phone: (512) 463-5118
Fax: (512) 475-1543
Linda.Price@glo.texas.gov

File No. MF104778

(34)

Termination Notice To Fin Man

- A Lease Partial

Date Filed: 05/30/2014

Jerry E. Patterson, Commissioner

By JEP

Linda Price - Unit 5206, Block 58 State 40-14 1H (API #: 42-389-32449)

From: Linda Price
To: Meredith.MacAllister@shell.com
Date: 6/6/2014 9:17 AM
Subject: Unit 5206, Block 58 State 40-14 1H (API #: 42-389-32449)
CC: Susan Wauer
Attachments: Old to New Lease Numbers, Unit 5206 to NUML8008.pdf

Meredith:

Unit 5206 was a GLO internal "accounting unit", not a pooled leases unit. These old accounting units are no longer used by the GLO and have been replaced with an accounting vehicle called NUMLs (non-unitized, multiple leases).

As part of the process of setting up the new leases taken by Shell under Option 1, we have set up NUML8008 for royalty reporting and payment purposes. Attached is a list of the old Unit 5206 lease numbers and the corresponding NUML8008 new lease numbers.

The GLO has decided that all reporting and payments for production from the Block 58 State 40-14 1H will continue to be paid to Unit 5206 through April 30, 2014. As of May 1, 2014, all reporting and payments for the well's production must be made to the NUML8008 leases.

Please have this set up in SWEPI's accounting system. Susan Wauer (Email: Susan.Wauer@glo.texas.gov Phone: (512) 463-3889) can help with any issues setting up the reporting. However, please cc me on emails or other correspondence for our files.

If you have any questions other than about the process of setting up the reporting and payment, please let me know.

Thank you.
Linda

Linda Price, RL
Texas General Land Office
Energy Resources, Mineral Leasing
Phone: (512) 463-5118
Fax: (512) 475-1543
Linda.Price@glo.texas.gov

UNIT 5206 OLD LEASES AND NUML8008 NEW LEASES

Unit 5206 Original Lease No.	NUML8008 MF No.	New Lease Agent for State	New Lease Acres	New Lease Tract Descrip.
MF104778A	MF116494	Dela Minerals Inc.	80	W/2 of SE/4
MF104548	MF116495	Lester Charles Weatherby, Jr.	40	SE/4 SW/4
MF107619B	MF116496A	Mark A. Chapman	35	SW/4 NE/4
MF107619A	MF116496B	Estate of Kelly H. Baxter	5	SW/4 NE/4
MF107769**	MF116497A	Helen Carolyn Allen	20	SE/4 NE/4
	MF116497B	Laura Allen Quisenberry	20	SE/4 NE/4

**MF107769 was originally one lease of two undivided interests. When SWEPI took new leases, it put the two undivided interests of MF107769 into two separate, A and B, leases of MF116797.

File No. ME104778

(35)

NUML Notification To Shell - A lease

Date Filed: 06/06/2014

Jerry E. Patterson, Commissioner

By JEP

Linda Price - Block 58 State 40-14 1H (API#: 42-389-32449)

From: Linda Price
To: Mary Barnstone
Date: 6/6/2014 10:37 AM
Subject: Block 58 State 40-14 1H (API#: 42-389-32449)

Mary Beth:

Unit 5206 has been terminated as well as the leases that were in it. New leases for a part of the acreage have been taken and NUML8008 created for royalty revenue payment.

08-32449

Block 58 ST 40-14 1H (API#: 42-389-32449), needs to be removed from the following:

Unit 5206
MF104548
Mf104778
MF107619
MF107769

The well needs to be added to the following:

NUML8008
MF116494
MF116495
MF116496
MF116497

If you have any questions, please let me know.

Thank you.
Linda

File No. MF104778 (36)

Well Inventory Changes - A Lease

Date Filed: 06/06/2014

Jerry E. Patterson, Commissioner

By JEP

Linda Price - Re: Unit 5206, Block 58 State 40-14 1H (API #: 42-389-32449)

From: Susan Wauer
To: Linda Price; Meredith.MacAllister@shell.com
Date: 6/6/2014 10:59 AM
Subject: Re: Unit 5206, Block 58 State 40-14 1H (API #: 42-389-32449)
Attachments: SWEPIBlock58State40-14ReIssued_NUML8008.xls; Modified copy of SWEPIBlock58State40-14ReIssued_NUML8008.xls

Meredith,

I have attached a revised royalty setup for the Block 58 ST 40-14 #1H. Please verify that the royalty calculation information on the set-up agrees with your records . Please let Linda (512-know if you have a discrepancy. Please set the new Reporting Controls up in time for your May production reporting and make sure to delete the old Reporting Controls when you are done with them.

Thanks,
 Susan

Susan Wauer
 Texas General Land Office
 512-463-3889
susan.wauer@glo.texas.gov

>>> Linda Price 6/6/2014 9:17 AM >>>
 Meredith:

Unit 5206 was a GLO internal "accounting unit", not a pooled leases unit. These old accounting units are no longer used by the GLO and have been replaced with an accounting vehicle called NUMLs (non-unitized, multiple leases).

As part of the process of setting up the new leases taken by Shell under Option 1, we have set up NUML8008 for royalty reporting and payment purposes. Attached is a list of the old Unit 5206 lease numbers and the corresponding NUML8008 new lease numbers.

The GLO has decided that all reporting and payments for production from the Block 58 State 40-14 1H will continue to be paid to Unit 5206 through April 30, 2014. As of May 1, 2014, all reporting and payments for the well's production must be made to the NUML8008 leases.

Please have this set up in SWEPI's accounting system. Susan Wauer (Email: Susan.Wauer@glo.texas.gov Phone: (512) 463-3889) can help with any issues setting up the reporting. However, please cc me on emails or other correspondence for our files.

If you have any questions other than about the process of setting up the reporting and payment, please let me know.

Thank you.
 Linda

Linda Price, RL
 Texas General Land Office

Energy Resources, Mineral Leasing
Phone: (512) 463-5118
Fax: (512) 475-1543
Linda.Price@glo.texas.gov

ROYALTY SET-UP FOR GLO

Unit Name Block 58 State 40-14 #1H County: Reeves

Permenent

Unit # 8008 Effective Date: 8/30/2012 Operator: SWEPI

Roy. Reduction N Online Production/Sales by: _____

Unit Acres: 200 Type (O/G): _____ RRC#: _____

Tract Acres:	80	40	40	40			
Tract #	1	2	3	4			
Tract %	0.4	0.2	0.2	0.2	0	0	0
State Lease #	M-116494	M-116495	M-116496	M-116497			
Royalty %	0.125	0.125	0.125	0.125			
NRI	0.05	0.025	0.025	0.025	0	0	0

First Sales: _____

NOTES: This unit replaces Unit #5206

These are renewal leases effective August 30, 2012 of MF104548, MF104778A, MF107619A & B and MF107769.

Royalty was paid to original leases for production from August 30, 2012 through and including April 2014. This NUML is effective as of May 1, 2014 for royalty payment purposes.

File No. MF104778

(37)

FinMan email to Shell re NUML

A Lease

Date Filed: 06/06/2014

Jerry E. Patterson, Commissioner

By JP

MEMO TO FILES MF104548, MF104778, MF107619 & MF107769

(Copy To MF116494, MF116495, MF116496 & MF116497)

Date: 06/06/2014

From: Linda Price 

RE: Lease Terminations

MF104548, MF104778, MF107619 and MF107769 were originally all part of Accounting Unit 5206.

During the period July 2012 through October 2012, there was no production reported for the Block 58 State 40 – 14 #1H (API#: 42-389-32449). Production resumed in November 2012 and continued for the duration of the review of the accounting unit.

The non-production time period coincided with the assignment by Chesapeake to SWEPI of its interest in the leases. The GLO sent SWEPI a termination letter on August 29, 2013 stating that, absent evidence that operations were conducted adequate to perpetuate the leases without a cessation of more than sixty (60) days during the period in question, the leases were terminated. In a letter dated October 14, 2013, SWEPI responded that they could find no evidence that Chesapeake conducted drilling operations adequate to perpetuate the leases without a cessation of more than sixty (60) days during the time period in question and requested that the GLO ratify the leases and stated that if the State did not ratify the leases, it would not receive royalty payments on the production.

By letter dated October 25, 2013, the GLO advised SWEPI that, based upon the TAC §9.34(e), the GLO cannot ratify leases and that, with the termination of the leases, the GLO owned 100% of the royalty. The GLO informed SWEPI that it would approve either Option 1) SWEPI could negotiate with the surface owners one-year leases back-dated to August 30, 2012, for the 200 acres covering the SE/4 SW/4, W/2 SE/4 and S/2 NE/4 of Section 40 across which the well was located, from the surface to 12,378' and with the bonus to be shared equally between the State and the surface owners or Option 2) SWEPI could negotiate new, long term leases with the surface owners at the market rate. The GLO gave SWEPI 30 days from the receipt of the options offer to respond.

By email dated November 21, 2013, SWEPI elected to pursue Option 1.

The new leases were subsequently executed and filed with the GLO. Upon receipt of the new leases, the GLO decided that the administration of the new leases would most efficiently be managed by giving them new lease numbers instead of adding the new leases to the original lease number files. The old leases were terminated* as of August 29, 2012 and new files were set up as follows:

<u>Original Lease No.</u>	<u>New Lease MF No.</u>	<u>Agent for State</u>	<u>New Lease Acres</u>	<u>New Lease Tract Descrip.</u>
MF104778A*	MF116494	Dela Minerals Inc.	80	W/2 of SE/4
MF104548	MF116495	Lester Charles Weatherby, Jr.	40	SE/4 SW/4
MF107619B	MF116496A	Mark A. Chapman	35	SW/4 NE/4
MF107619A	MF116496B	Estate of Kelly H. Baxter	5	SW/4 NE/4
MF107769**	MF116497A	Helen Carolyn Allen	20	SE/4 NE/4
	MF116497B	Laura Allen Quisenberry	20	SE/4 NE/4

The new leases upon which the well crosses are not unitized and, since the GLO does not use the designation of "accounting units" any longer for such situations, the GLO setup NUML 8008 (non-unitized multiple leases) for the accounting of the revenue.

In order to give SWEPI adequate time to adjust their reporting and payment procedures, it was decided that royalty revenue would continue to be credited under the old Accounting Unit 5206 until April 30, 2014 and payments to NUML8008 would begin as of May 1, 2014. SWEPI was notified of the necessary payment and reporting changes by email dated June 6, 2014.

*MF104778A was not terminated at this time because it was part of an additional old accounting unit under review. The lease net acreage was reduced by the 160 acres of the SE/4 of Section 40. SWEPI was notified that it could immediately execute and file a certified, recorded partial release of the SE/4 of Section 40 knowing that an additional release might later be required when the review of Accounting Unit 4554 was completed, or that it could wait until the review of Accounting Unit 4554 was completed so that, if additional acreage needed to be released, only one release of all terminated acreage would have to be filed.

**MF107769 was originally one lease of two undivided interests. When SWEPI took new leases, it put the two undivided interests of MF107769 into two separate, A and B, leases of MF116797.

File No. MF104778

(38)

Memo To File - A lease

Date Filed: 06/06/2014

Jerry E. Patterson, Commissioner

By JEP

Linda Price - RE: Unit 5206, Block 58 State 40-14 1H (API #: 42-389-32449)

From: <Meredith.MacAllister@shell.com>
To: <Susan.Wauer@GLO.TEXAS.GOV>, <Linda.Price@GLO.TEXAS.GOV>, <L.Martinez@sh...>
Date: 6/6/2014 11:02 AM
Subject: RE: Unit 5206, Block 58 State 40-14 1H (API #: 42-389-32449)

Luis – Please see below.

Susan – I am forwarding this to Luis Martinez in our Division Order department to help you with the request below.

Thanks!

Meredith MacAllister, CPLTA

Senior Lease Analyst
Shell Exploration & Production Company
200 N. Dairy Ashford, Room WCK 4356, Houston, TX 77079
United States of America

Tel: +1 281-544-3566
Email: meredith.macallister@shell.com

From: Susan Wauer [Susan.Wauer@GLO.TEXAS.GOV]
Sent: Friday, June 06, 2014 10:59 AM
To: Linda Price; MacAllister, Meredith R SEPCO-UAU/L/A
Subject: Re: Unit 5206, Block 58 State 40-14 1H (API #: 42-389-32449)

Meredith,

I have attached a revised royalty setup for the Block 58 ST 40-14 #1H. Please verify that the royalty calculation information on the set-up agrees with your records . Please let Linda (512-know if you have a discrepancy. Please set the new Reporting Controls up in time for your May production reporting and make sure to delete the old Reporting Controls when you are done with them.

Thanks,
Susan

Susan Wauer
Texas General Land Office
512-463-3889
susan.wauer@glo.texas.gov

>>> Linda Price 6/6/2014 9:17 AM >>>
Meredith:

Unit 5206 was a GLO internal "accounting unit", not a pooled leases unit. These old accounting units are no longer used by the GLO and have been replaced with an accounting vehicle called NUMLs (non-unitized, multiple leases).

As part of the process of setting up the new leases taken by Shell under Option 1, we have set up NUML8008 for royalty reporting and payment purposes. Attached is a list of the old Unit 5206 lease numbers and the corresponding NUML8008 new lease numbers.

The GLO has decided that all reporting and payments for production from the Block 58 State 40-14 1H will continue to be paid to Unit 5206 through April 30, 2014. As of May 1, 2014, all reporting and payments for the well's production must be made to the NUML8008 leases.

Please have this set up in SWEPI's accounting system. Susan Wauer (Email: Susan.Wauer@glo.texas.gov Phone: (512) 463-3889) can help with any issues setting up the reporting. However, please cc me on emails or other correspondence for our files.

If you have any questions other than about the process of setting up the reporting and payment, please let me know.

Thank you.
Linda

Linda Price, RL
Texas General Land Office
Energy Resources, Mineral Leasing
Phone: (512) 463-5118
Fax: (512) 475-1543
Linda.Price@glo.texas.gov

File No. ME104778 (39)

Shell's Email re NUML/Div. Orders

A Lease

Date Filed: 06/06/2014

Jerry E. Patterson, Commissioner

By JEP

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

August 29, 2013

Brian Chaffee
Staff Contracts Representative
Shell Exploration & Production Company
150 N. Dairy Ashford St., Suite C
Houston, Texas 77079-1116
(Via CMRRR#: 7011 1150 0001 2416 2987)

RE: **State Lease MF104580** Surveyed School Land lease, described on **Page 2**
 State Lease MF104778 6 Surveyed School Land leases, described on **Page 2**
 State Lease MF105285 13 Surveyed School Land leases, described on **Page 2**
 Well: Block 58 State 42 #1H (API # 42-389-32497)

Dear Mr. Chaffee:

Our research indicates that there was a three-month lapse in production for the referenced well from September 1 through November 30, 2012.

You have 40 days from the receipt of this letter in which to present evidence and convince the General Land Office that operations were conducted adequate to perpetuate the leases without a cessation of more than sixty (60) cumulative days. If such evidence has not been presented at the expiration of the 40-day period, we will have to assume that there were no operations during the lapse period and the mineral files shall be endorsed "terminated" due to cessation of production.

Upon termination, and pursuant to the Texas Administrative Code, we request that you file with this office a recorded original or certified copy of a Release of these State Oil and Gas Leases along with a filing fee of \$25.00 per state lease to be sent to my attention.

Sincerely,

Linda Price, RL
Energy Resources, Mineral Leasing
512-463-5118
512-475-1543 (fax)
linda.price@glo.texas.gov

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

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

www.glo.state.tx.us

Brian Chaffee
 Shell Exploration & Production Company
 August 29, 2013
 Page 2

MF104580 129 acres, covering the W/2 of Section 41, Block 58, PSL Survey, Reeves County, TX
 Recorded in Book 703, Page 289
 State of Texas, Lessor

MF104778A 1,095.22 acres, covering the E/2 of Section 39, SE/4 of Section 40 & all of Section 42,
 Block 58, PSL Survey, Reeves, County, Texas

<u>State Lease No.</u>	<u>Agent for State of TX</u>	<u>Lease Date</u>	<u>Recorded Bk/Page</u>
MF104778A	Dela Minerals, Inc.	02/18/2005	702/686

MF104778 615 acres, covering all of Section 42, Block 58, PSL Survey, Reeves, County, Texas

<u>State Lease No.</u>	<u>Agent for State of TX</u>	<u>Lease Date</u>	<u>Recorded Bk/Page</u>
MF104778F	Nellie May Gohlke Trust	04/06/2007	777/197
MF104778G	Ann Covington Henderson	10/21/2007	778/542
MF104778H	Ted Michael Covington	10/21/2007	778/524
MF104778I	Jane Covington Drake	10/21/2007	778/533
MF104778J	The Estate of Nellie May Gohlke	04/06/2007	781/462

MF105285 1,895.47 acres, covering all of Sections 31, 32 and 42, Block 58, PSL, Reeves
 County, Texas

<u>State Lease No.</u>	<u>Agent for State of TX</u>	<u>Lease Date</u>	<u>Recorded Bk/Page</u>
MF105285A	Catherine Funk Wall Trust A	12/01/2005	726/625
MF105285B	D.D. Wall Estate Trust A	12/01/2005	726/639
MF105285C	Estate of Nellie May Gohlke	11/03/2004	689/606
MF105285D	Dela Minerals, Inc.	02/18/2005	702/695
MF105285E	Ted Michael Covington	10/06/2004	687/702
MF105285F	Ann Covington Henderson	10/06/2004	687/684
MF105285G	Jane Covington Drake	10/06/2004	687/693
MF105285H	D. D. Wall Trust B	12/01/2005	724/97
MF105285I	Catherine Funk Wall Trust B.	12/01/2005	724/82
MF105285J	Mary B. Harwit Unitrust	09/01/2005	724/31
MF105285K	Mary Y. Tippens Testamentary Trust	09/01/2005	724/16
MF105285L	Esther Shuman Testamentary Trust	09/01/2005	724/1
MF105285M	Texas Scottish Rite Hospital	12/01/2005	724/249

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September 3, 2013, 1:25 pm	Delivered	HOUSTON, TX 77079
Your item was delivered at 1:25 pm on September 3, 2013 in HOUSTON, TX 77079		
August 31, 2013, 7:53 am	Arrival at Unit	HOUSTON, TX 77079
August 31, 2013, 5:10 am	Depart USPS Sort Facility	HOUSTON, TX 77201
August 30, 2013, 11:15 pm	Processed through USPS Sort Facility	HOUSTON, TX 77201
August 30, 2013, 6:00 am	Depart USPS Sort Facility	AUSTIN, TX 78710
August 29, 2013, 10:14 pm	Processed through USPS Sort Facility	AUSTIN, TX 78710

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File No. ME104778

(42)

Termination Letter

Date Filed: 06/10/2014

Jerry E. Patterson, Commissioner

By JEP

WELL TIMELINE

	Block 58 State 32 #1		Block 58 State 31-3 #1H		Block 58 State 42 #1H
API #	42-389-32398		42-389-32452		42-389-32497
RRC ID #	08-224464		08-245061		08-244453
	MF105285 Lease Well		Unit 4484 MF105285, MF105490** & MF104782**		Unit 4554 MF104580, MF104778* & MF105285
Permit Issued	1/3/2006		1/24/2007		1/24/2007
Date Commenced	5/11/2007		6/15/2007		12/21/2007
Date Completed	6/3/2007		11/4/2007		6/9/2008
1st Production	12/1/2006		2/1/2008		8/1/2008
Shut-In Payment Received			11/1/2011		NA
Shut-In Affidavit Requested			11/19/2011		NA
Shut-In Affidavit Due			12/22/2011		NA
2nd Shut-In Payment Rec.			2/22/2012		NA
3rd Shut-In Payment Rec.			2/15/2013		NA
Gaps	05/2010 - 06/2010 12/2010 02/2011 - 05/2011 09/2011 12/2011 - 01/2012 04/2012 - 06/2012 11/2012 - 04/2013 06/2013 08/2013 11/2013 - 12/2013 04/2014		08/2011 10/2011 - 04/2013 06/2013 - 04/2014		09/2012 - 11/2012 04/2014
Termination Date	07/01/2012		01/01/2012***		12/01/2012
Last Production	03/2014		05/2013		03/2014

*MF104778 is also part of Unit 5206, with producing well 42-389-32449, which terminated 08/2012 after a 61-day gap and for which the GLO gave Shell two options.

**No second or third shut-in payment received.

*** Shut in Affidavit never received so shut in was rejected.

Revised 06/09/2014

File No. MF104778

43

Well Timeline

Date Filed: 06/10/2014

Jerry E. Patterson, Commissioner

By JP

Linda Price - MF104580 & MF104778, Block 58 State 42 #1H

From: Linda Price
To: Meredith.MacAllister@shell.com
Date: 6/9/2014 9:37 AM
Subject: MF104580 & MF104778, Block 58 State 42 #1H
Attachments: 4554 SWEPI 08-29-2013.pdf

Reply Requested: By 6/11/2014

Meredith:

The email thread below regarded Block 58 State 40-14 1H. In it, I said that Shell could delay executing, recording and filing a release of MF104778A until our review of Block 58 State 42 #1H was concluded.

Attached is our termination letter dated August 29, 2014 which was delivered to Shell on September 3, 2013 regarding Block 58 State 42 #1H Accounting Unit 4554. We have concluded our review of the unit and now request a full release of MF104580 and all of the undivided interests of MF104778. MF105285 was also part of the Block 58 State 42 #1H Accounting Unit 4554 but Harriet will address that lease with you by separate correspondence.

Please submit certified, recorded copies of releases of MF104580 and all of the undivided of MF104778, along with the filing fee of \$25.00 per state lease, and mail them my attention.

If you have any questions, please let me know.

Thank you.
Linda

Linda Price, RL
Texas General Land Office
Energy Resources, Mineral Leasing
Phone: (512) 463-5118
Fax: (512) 475-1543
Linda.Price@glo.texas.gov

>>> <Meredith.MacAllister@shell.com> 5/29/2014 1:56 PM >>>

Linda,

I am confirming receipt of your email and will start working on the releases.

Meredith

From: Linda Price [Linda.Price@GLO.TEXAS.GOV]
Sent: Thursday, May 29, 2014 1:38 PM

To: MacAllister, Meredith R SEPCO-UAU/L/A
Cc: Chaffee, Brian D SEPCO-UAU/L/UP
Subject: Unit Block 58 State 40-14
Importance: High

Meredith:

Because of administrative maintenance reasons, the GLO has decided to issue new mineral file numbers for the one-year backdated leases of Unit Block 58 State 40-14 rather than making the new leases part of the original lease number files.

Therefore, we will need full requests of the original leases rather than partial releases, with the exception of MF104778A. The releases will need to be effective August 29, 2012, the day before the new lease dates.

MF104778A covers 1,095.22 acres including the E/2 of Section 39, SE/4 of Section 40 and all of Section 42, Block 58, PSL Survey. It is included in a review of Unit Block 58 State 42 #1-H which has not yet been concluded. Therefore, you may either release the SE/4 of Section 40 now and possibly have to do an additional release of the other acreage covered by the lease, or you may wait until our review of Unit Block 58 State 42 #1-H has been concluded and release whatever additional acreage of that lease is determined to be terminated.

You will be receiving the GLO letter approving the new leases and listing the new lease numbers soon. Please refer to the new lease numbers when making any payments towards, or in correspondence regarding, the new leases.

Please confirm your receipt of this email and if you have any questions, please let me know.

Thank you.
Linda

Linda Price, RL
Texas General Land Office
Energy Resources, Mineral Leasing
Phone: (512) 463-5118
Fax: (512) 475-1543
Linda.Price@glo.texas.gov

File No. ME104778

(44)

Email To Shell

Date Filed: 06/10/2014

Jerry E. Patterson, Commissioner

By JEP

Linda Price - Termination Notice

From: Linda Price
To: Amanda Allen; Mike May
Date: 6/10/2014 9:55 AM
Subject: Termination Notice
Attachments: 42-389-32497 Well History 01-2010 to 04-2014.pdf

Mike & Amanda:

The following are terminated effective 12/01/2012:

Unit 4554
MF104580
MF104778

Attached for your convenience are production reports which show production from the termination date forward.

If you have any questions, please let me know.

Thank you.
Linda

Linda Price, RL
Texas General Land Office
Energy Resources, Mineral Leasing
Phone: (512) 463-5118
Fax: (512) 475-1543
Linda.Price@glo.texas.gov

File No. ME104778

(45)

Termination Notice To En Man

Date Filed: 06/10/2014

Jerry E. Patterson, Commissioner

By JEP



Texas General Land Office

Limited Review Billing

George P. Bush, Commissioner

PO Box 12873
Austin, TX 78711-2873
(800) 998-4456
8:00 - 5:00 M-F

COPY

SWEPI LP
PO Box 576
Houston, TX 77001-0576

Billing Date: 4/30/2015
Billing Due Date: 5/30/2015
Customer Number: C000044963

Invoice	Mineral File	Gas Royalty	Oil Royalty	Penalty	Interest	Total Due
15I00446	MF104580	\$49,656.42	\$0.00	\$0.00	\$0.00	\$49,656.42
15I00447	MF104778	\$122,434.65	\$0.00	\$0.00	\$0.00	\$122,434.65
15I00449	MF105285	\$46,878.23	\$0.00	\$0.00	\$0.00	\$46,878.23
Total Due		\$218,969.30	\$0.00	\$0.00	\$0.00	\$218,969.30

Penalty and interest have been calculated thru 4/30/2015. Payment remitted after 4/30/2015 will result in additional penalty and interest charges.

Contact Info: Amanda Allen (512) 475-1544 or amanda.allen@glo.texas.gov

NOTICE

- Please update GLO1 and GLO2 production reports to correct volumes.
- Please do not update GLO3 report to include billed royalty, penalty or interest. This receivable has already been recorded.
- For other royalty reporting questions, visit <http://www.glo.texas.gov>, call (512) 463-6850 or email us at glo123@glo.texas.gov.

This notice does not constitute an Audit Billing Notice as defined in Section 52.135 of the Texas Natural Resources Code and, consequently, does not preclude the TGLO from conducting further examinations of these leases, time periods or issues.

Detach and return with payment

Limited Review Billing

SWEPI LP

Billing Date: 4/30/2015

Billing Due Date: 5/30/2015

Customer Number: C000044963

Remit Payment To:

Texas General Land Office

PO Box 12873

Austin, TX 78711-2873

Invoice	Mineral File	Gas Royalty	Oil Royalty	Penalty	Interest	Total Due
15I00446	MF104580	\$49,656.42	\$0.00	\$0.00	\$0.00	\$49,656.42
15I00447	MF104778	\$122,434.65	\$0.00	\$0.00	\$0.00	\$122,434.65
15I00449	MF105285	\$46,878.23	\$0.00	\$0.00	\$0.00	\$46,878.23
Total Due		\$218,969.30	\$0.00	\$0.00	\$0.00	\$218,969.30
Amt. Paid						

Energy Financial Management
SMAR Activity / Invoicing Approval

Auditor/Account Examiner: Amanda Allen
Company Name: Shell Western E & P
Customer Number: C000044963
Mineral File #: MF104580
Transaction Type: Limited Review
Other / Invoice #:

Previous Amount	Current Amount	Date	AE / Reviewer's Notes	Reviewer's Signature	AR Notes
	\$49,656.42	04/09/15	Terminated lease billed 12/12 through 02/15	MM 4/29/2015 	

All original invoices must be approved.

All reductions in billing of more than \$1000 must be approved.

Customer ID: C000044963

Invoice Number:

GLO Lease: MF104580

GLO Review: SHELL WESTERN E & P

Review Period: JANUARY 2012 THROUGH FEBRUARY 2015

Auditor/AE: aallen

Billing Date: 4/9/2015

P&I Calculation Date: 4/30/2015

Royalty Rate: 100.000000%

Month / Year	RRC Number	(1) Gas Volume	(2) Tract Participation Rate	(3) Price	(4) BTU	(5) Gross Value (1)x(2)x(3)x(4)	(6) Royalty Due (5) * Royalty Rate	(7) Royalty Paid	(8) Additional Royalty Due	(9) Number of Days Late	(10) Interest Rate For Additional Royalty	(11) Penalty From Additional Royalty	(12) Interest From Additional Royalty	(13) Revenue Due (8)+(11)+(12)
Dec-12	08-244453	2,719	0.16268767	\$2.974971	0.947000	\$1,246.23	\$1,246.23	\$469.07	\$777.16	804	0.00%	\$0.00	\$0.00	\$777.16
Jan-13	08-244453	4,600	0.16268767	\$2.350301	0.952000	\$1,674.45	\$1,674.45	\$418.41	\$1,256.04	776	0.00%	\$0.00	\$0.00	\$1,256.04
Feb-13	08-244453	4,801	0.16268767	\$2.404396	0.960000	\$1,802.87	\$1,802.87	\$450.68	\$1,352.19	745	0.00%	\$0.00	\$0.00	\$1,352.19
Mar-13	08-244453	6,599	0.16268767	\$2.521749	0.980000	\$2,653.14	\$2,653.14	\$662.93	\$1,990.21	715	0.00%	\$0.00	\$0.00	\$1,990.21
Apr-13	08-244453	6,599	0.16268767	\$4.359700	0.975191	\$4,564.35	\$4,564.35	\$518.69	\$4,045.66	684	0.00%	\$0.00	\$0.00	\$4,045.66
May-13	08-244453	13,295	0.16268767	\$4.375000	0.975191	\$9,228.07	\$9,228.07	\$455.45	\$8,772.62	654	0.00%	\$0.00	\$0.00	\$8,772.62
Jun-13	08-244453	516	0.16268767	\$4.257428	0.975316	\$348.58	\$348.58	\$488.94	-\$140.36	623	0.00%	\$0.00	\$0.00	-\$140.36
Jul-13	08-244453	8,955	0.16268767	\$3.623877	0.984367	\$5,196.98	\$5,196.98	\$26.76	\$5,170.22	592	0.00%	\$0.00	\$0.00	\$5,170.22
Aug-13	08-244453	15,254	0.16268767	\$3.623877	0.984367	\$8,852.56	\$8,852.56	\$26.76	\$8,825.80	562	0.00%	\$0.00	\$0.00	\$8,825.80
Sep-13	08-244453	968	0.16268767	\$3.770000	0.978469	\$580.92	\$580.92	\$102.37	\$478.55	531	0.00%	\$0.00	\$0.00	\$478.55
Oct-13	08-244453	587	0.16268767	\$3.785000	0.983670	\$355.56	\$355.56	\$55.85	\$299.71	501	0.00%	\$0.00	\$0.00	\$299.71
Nov-13	08-244453	5,839	0.16268767	\$3.985000	0.978566	\$3,704.35	\$3,704.35	\$697.05	\$3,007.30	470	0.00%	\$0.00	\$0.00	\$3,007.30
Dec-13	08-244453	1,946	0.16268767	\$3.985000	0.978566	\$1,234.57	\$1,234.57	\$697.05	\$537.52	439	0.00%	\$0.00	\$0.00	\$537.52
Jan-14	08-244453	9,060	0.16268767	\$3.985000	0.978566	\$5,747.80	\$5,747.80	\$697.05	\$5,050.75	411	0.00%	\$0.00	\$0.00	\$5,050.75
Feb-14	08-244453	2,780	0.16268767	\$4.520806	0.400000	\$817.85	\$817.85	\$129.91	\$687.94	380	0.00%	\$0.00	\$0.00	\$687.94
Mar-14	08-244453	5,905	0.16268767	\$4.698548	0.976060	\$4,405.70	\$4,405.70	\$335.93	\$4,069.77	350	0.00%	\$0.00	\$0.00	\$4,069.77
Apr-14	08-244453	4,553	0.16268767	\$4.698548	0.970911	\$3,379.06	\$3,379.06	\$752.71	\$2,626.35	319	0.00%	\$0.00	\$0.00	\$2,626.35
May-14	08-244453	21	0.16268767	\$4.464000	0.970911	\$14.81	\$14.81	\$536.35	-\$521.54	289	0.00%	\$0.00	\$0.00	-\$521.54
Jun-14	08-244453	233	0.16268767	\$4.464000	3.970911	\$671.93	\$671.93	\$536.35	\$135.58	258	0.00%	\$0.00	\$0.00	\$135.58
Jul-14	08-244453	35	0.16268767	\$4.464000	0.970911	\$24.68	\$24.68	\$536.35	-\$511.67	227	0.00%	\$0.00	\$0.00	-\$511.67
Aug-14	08-244453	1,539	0.16268767	\$4.464000	0.970911	\$1,085.17	\$1,085.17	\$536.35	\$548.82	197	0.00%	\$0.00	\$0.00	\$548.82
Sep-14	08-244453	1,332	0.16268767	\$4.464000	0.970911	\$939.21	\$939.21	\$536.35	\$402.86	166	0.00%	\$0.00	\$0.00	\$402.86
Oct-14	08-244453	967	0.16268767	\$3.712400	0.987020	\$576.45	\$576.45	\$1,004.91	-\$428.46	136	0.00%	\$0.00	\$0.00	-\$428.46
Nov-14	08-244453	1,016	0.16268767	\$3.640000	0.987030	\$593.85	\$593.85	\$83.53	\$510.32	105	0.00%	\$0.00	\$0.00	\$510.32
Dec-14	08-244453	777	0.16268767	\$3.860000	0.978450	\$477.42	\$477.42	\$39.66	\$437.76	74	0.00%	\$0.00	\$0.00	\$437.76
Jan-15	08-244453	20	0.16268767	\$4.215000	0.984370	\$13.50	\$13.50	\$136.82	-\$123.32	46	0.00%	\$0.00	\$0.00	-\$123.32
Feb-15	08-244453	872	0.16268767	\$2.810000	1.000000	\$398.64	\$398.64	\$0.00	\$398.64	15	0.00%	\$0.00	\$0.00	\$398.64
TOTALS		101,788				\$60,588.67	\$60,588.70	\$10,932.28	\$49,656.42			\$0.00	\$0.00	\$49,656.42

COMMENTS:

ACCORDING TO OUR RECORDS, THIS STATE LEASE TERMINATED EFFECTIVE 12/01/2012 DUE TO LACK OF PRODUCTION FOR PRODUCTION MONTHS SEPTEMBER 2012 THROUGH NOVEMBER 2012. THE PRODUCING OF RRC WELL LEASE ID 08-244453 IS A TRESPASS. ROYALTY DUE AMOUNT BASED ON 100% OF PRODUCTION.

Comments: Column (1) —Volumes were taken from RRC records for the above referenced rrc well ID.

Column (2)—Tract participation rate for GLO Unit #4554.

Column (3) & (4) —Prices & Btu's shown were taken from the production royalty reports (GLO-2) submitted to the Texas General Land Office.
Price for production month taken from Houston Ship Channel Pricing.

NOTE 1 : PLEASE REMIT PAYMENT OF THIS INVOICE SEPARATELY FROM YOUR MONTHLY ROYALTY PAYMENTS. THE PREFERRED METHOD OF PAYMENT IS BY CHECK ACCOMPANIED WITH THE BOTTOM HALF OF THE ATTACHED INVOICE. IF PAYMENT IS MADE THROUGH ACH DEBIT, NOTIFY THE AUDITOR AS TO THE REMITTANCE DATE SO THE INVOICE CAN BE PROPERLY CREDITED.

NOTE 2: GLO-2 REPORTS NEED TO BE FILED FOR THE ABOVE PRODUCTION MONTHS REFLECTING THE ACTUAL PRICES, BTU's AND ROYALTY DUE AMOUNTS.

ATTENTION: THIYAGARAJAN BALASUBRAMANIAN

CERTIFIED MAIL NUMBER: 7011 1150 0001 2418 7157

COPY

46

File No. ME 104778
Reeves County
Limited Review Billing
Date Filed: 6/5/15
By Nayda Ramirez
George P. Bush, Commissioner



Land Department

Notice to Lessor:

The well drilled on your leased lands or lands pooled therewith is temporarily "shut-in", which means it is not producing at this time. The enclosed payment is made in compliance with the shut-in provisions of your oil and gas lease for the amount stipulated in your lease.

This is not a payment of royalties for the production of minerals. Instead it is a "shut-in" payment to maintain the oil and gas lease for the period of time stipulated in the lease for a well that is prevented from producing due to lack of market or other circumstances. Please refer to your oil and gas lease for specific shut-in provisions.

When the production commences or resumes, royalty payments will be made to you.

If you have any questions or need additional information regarding this shut-in payment, please feel free to contact us at 877-245-1427 or email to AskChesapeake@chk.com.

47

File No. MF 104778

Delay Rental G

Ltr. From Chesapeake

Date Filed: 10/22/15

Jerry E. Patterson, Commissioner

By EA

25577

CHESAPEAKE OPERATING, INC. P.O. BOX 18496 OKLAHOMA CITY, OK 73154

LEASE OBLIGATION DEPOSIT RECEIPT

WE HAVE THIS DAY SEPTEMBER 14, 2011 TENDERED TO COMMISSIONER OF THE GENERAL LAND
THE SUM OF \$18.80 DOLLARS FOR THE CREDIT OF PARTY OR PARTIES NAMED BELOW IN AMOUNT STATED
PURSUANT TO THE TERMS OF THE LEASE IDENTIFIED HEREIN, FOR THE PERIOD FROM 10/21/2011 TO 10/21/2012
COVERING LESSOR'S INTEREST IN LAND DESCRIBED AS:

TOWNSHIP: RANGE: SECTION: 42 BLOCK: 58/ SURVEY: PUBLIC SCHOOL LAND ABSTRACT: 3155 COUNTY: REEVES SHORT DESC: ALL OF

12700940

MF 104778G

PAYMENT: RENTAL

LEASE NUMBER: TX3231337-001

LEASE DATE: 10/21/2007

PROSPECT: TOYAH

RECORDED BOOK: 778

PAGE: 542

ENTRY NUMBER: 4762

COUNTY/PARISH: REEVES

STATE: TX

FOR CREDIT OF:

ACCT:

AMOUNT

017397

COMMISSIONER OF THE GENERAL LAND

OF THE STATE OF TEXAS

1700 N CONGRESS, STE 600

STEPHEN F AUSTIN BUILDING

AUSTIN

TX 78701

\$1/AC DELAY RENTAL/MF 104

778G

\$18.80

RECEIVED
SEP 22 2011

COPY

PLEASE SIGN
AND RETURN

IMPORTANT

The attached check is for the person(s) named above. Please date, sign and return the attached receipts on the day you receive it. If directed to a bank, please deposit the amount to the credit of the person(s) named above and date, sign and return the receipt on the day you receive it. If correspondence required, please make reference to lease number.

Date Received _____

Sign Here _____

By _____

Title

Subtotal	\$18.80
BANK SERVICE CHARGE	\$.00
Grand Total	\$18.80
Check No.	402952

CHESAPEAKE OPERATING, INC.
DELAY RENTAL ACCOUNT
P.O. Box 18496
Oklahoma City, OK 73154

Commerce Bank
74478724

12700940

402952

SEPTEMBER 16 2011

EIGHTEEN AND 80/100 Dollars

\$18.80

PAY TO THE
ORDER OF

COMMISSIONER OF THE GENERAL LAND
OF THE STATE OF TEXAS
1700 N CONGRESS, STE 600
STEPHEN F AUSTIN BUILDING
AUSTIN TX 78701

VOID AFTER 120 DAYS
NO THIRD PARTY ENDORSEMENTS



Signature

0000402952

48

File No. MF 104778
Delay Rental G

Date Filed: 10/22/15
Jerry E. Patterson, Commissioner
By EA

CHESAPEAKE OPERATING, INC. P.O. BOX 18496 OKLAHOMA CITY, OK 73154

LEASE OBLIGATION DEPOSIT RECEIPT

WE HAVE THIS DAY **SEPTEMBER 14, 2011** TENDERED TO COMMISSIONER OF THE GENERAL LAND
THE SUM OF **\$18.80** DOLLARS FOR THE CREDIT OF PARTY OR PARTIES NAMED BELOW IN AMOUNT STATED
PURSUANT TO THE TERMS OF THE LEASE IDENTIFIED HEREIN, FOR THE PERIOD FROM **10/21/2011** TO **10/21/2012**
COVERING LESSOR'S INTEREST IN LAND DESCRIBED AS:

TOWNSHIP: RANGE: SECTION: 42 BLOCK: 58/ SURVEY: PUBLIC SCHOOL LAND ABSTRACT: 3155 COUNTY: REEVES SHORT DESC: ALL OF

12700938

MF104778I

PAYMENT: RENTAL

LEASE NUMBER: TX3231337-003

LEASE DATE: 10/21/2007

PROSPECT: TOYAH

RECORDED BOOK: 778

PAGE: 524

ENTRY NUMBER: 4760

COUNTY/PARISH: REEVES

STATE: TX

FOR CREDIT OF:

ACCT:

AMOUNT

017397

COMMISSIONER OF THE GENERAL LAND
OF THE STATE OF TEXAS
1700 N CONGRESS, STE 600
STEPHEN F AUSTIN BUILDING
AUSTIN TX 78701

\$1/AC DELAY RENTAL/MF 104
778I

\$18.80

RECEIVED
SEP 22 2011

210P
COPY

PLEASE SIGN
AND RETURN

IMPORTANT

The attached check is for the person(s) named above. Please date, sign and return the attached receipts on the day you receive it. If directed to a bank, please deposit the amount to the credit of the person(s) named above and date, sign and return the receipt on the day you receive it. If correspondence required, please make reference to lease number.

Date Received _____

Sign Here _____

By _____ Title _____

Subtotal	\$18.80
BANK SERVICE CHARGE	\$0.00
Grand Total	\$18.80
Check No.	402956

CHESAPEAKE OPERATING, INC.
DELAY RENTAL ACCOUNT
P.O. Box 18496
Oklahoma City, OK 73154

Commerce Bank
74-4787224

12700938

402956

SEPTEMBER 14, 2011

EIGHTEEN AND 80/100 Dollars

\$18.80

PAY TO THE
ORDER OF

COMMISSIONER OF THE GENERAL LAND
OF THE STATE OF TEXAS
1700 N CONGRESS, STE 600
STEPHEN F AUSTIN BUILDING
AUSTIN TX 78701

VOID AFTER 120 DAYS
NO THIRD PARTY ENDORSEMENTS



Signature

0000402956

File No. MF 104778
Delay Rental I

Date Filed: 10/22/15
Jerry E. Patterson, Comissioner
By [Signature]

CHESAPEAKE OPERATING, INC. P.O. BOX 18496 OKLAHOMA CITY, OK 73154

LEASE OBLIGATION DEPOSIT RECEIPT

WE HAVE THIS DAY **SEPTEMBER 14, 2011** TENDERED TO **COMMISSIONER OF THE GENERAL LAND**
THE SUM OF **\$18.80** DOLLARS FOR THE CREDIT OF PARTY OR PARTIES NAMED BELOW IN AMOUNT STATED
PURSUANT TO THE TERMS OF THE LEASE IDENTIFIED HEREIN, FOR THE PERIOD FROM **10/21/2011** TO **10/21/2012**
COVERING LESSOR'S INTEREST IN LAND DESCRIBED AS:

TOWNSHIP: RANGE: SECTION: 42 BLOCK: 58/ SURVEY: PUBLIC SCHOOL LAND ABSTRACT: 3155 COUNTY: REEVES SHORT DESC: ALL OF

12700939

PAYMENT: RENTAL

LEASE NUMBER: TX3231337-002

LEASE DATE: 10/21/2007

PROSPECT: TOYAH

RECORDED BOOK: 778

PAGE: 533

ENTRY NUMBER: 4761

COUNTY/PARISH: REEVES

STATE: TX

FOR CREDIT OF:

ACCT:

AMOUNT

017397

COMMISSIONER OF THE GENERAL LAND

OF THE STATE OF TEXAS

1700 N CONGRESS, STE 600

STEPHEN F AUSTIN BUILDING

AUSTIN

TX 78701

\$1/AC DELAY RENTAL/MR 104

778H

\$18.80

PLEASE SIGN
AND RETURN

COPY

IMPORTANT

The attached check is for the person(s) named above. Please date, sign and return the attached receipts on the day you receive it. If directed to a bank, please deposit the amount to the credit of the person(s) named above and date, sign and return the receipt on the day you receive it. If correspondence required, please make reference to lease number.

Date Received

SEP 22 2011

Sign Here

RENTAL PAYMENT

By



Title

Subtotal \$18.80

BANK SERVICE CHARGE \$.00

Grand Total \$18.80

Check No. 402954



CHESAPEAKE OPERATING, INC. P.O. BOX 18496 OKLAHOMA CITY, OK 73154

LEASE OBLIGATION DEPOSIT RECEIPT

WE HAVE THIS DAY **SEPTEMBER 14, 2011** TENDERED TO **COMMISSIONER OF THE GENERAL LAND**
THE SUM OF **\$18.80** DOLLARS FOR THE CREDIT OF PARTY OR PARTIES NAMED BELOW IN AMOUNT STATED
PURSUANT TO THE TERMS OF THE LEASE IDENTIFIED HEREIN, FOR THE PERIOD FROM **10/21/2011** TO **10/21/2012**
COVERING LESSOR'S INTEREST IN LAND DESCRIBED AS:

TOWNSHIP: RANGE: SECTION: 42 BLOCK: 58/ SURVEY: PUBLIC SCHOOL LAND ABSTRACT: 3155 COUNTY: REEVES SHORT DESC: ALL OF

PAYMENT: RENTAL

LEASE NUMBER: TX3231337-002	LEASE DATE: 10/21/2007	PROSPECT: TOYAH
RECORDED BOOK: 778	PAGE: 533	ENTRY NUMBER: 4761
COUNTY/PARISH: REEVES	STATE: TX	

FOR CREDIT OF: ACCT: AMOUNT

017397	COMMISSIONER OF THE GENERAL LAND OF THE STATE OF TEXAS 1700 N CONGRESS, STE 600 STEPHEN F AUSTIN BUILDING AUSTIN TX 78701	\$1/AC DELAY RENTAL/MR 104 778H	\$18.80
--------	---	------------------------------------	---------

COPY FOR
YOUR RECORDS

IMPORTANT

The attached check is for the person(s) named above. Please date, sign and return the attached receipts on the day you receive it. If directed to a bank, please deposit the amount to the credit of the person(s) named above and date, sign and return the receipt on the day you receive it. If correspondence required, please make reference to lease number.

Date Received _____

Sign Here _____

By _____
Title

Subtotal	\$18.80
BANK SERVICE CHARGE	\$.00
Grand Total	\$18.80
Check No.	402954

CHESAPEAKE OPERATING, INC.
DELAY RENTAL ACCOUNT
P.O. Box 18496
Oklahoma City, OK 73154

Comerica Bank
74-478/724

402954

SEPTEMBER 14, 2011

EIGHTEEN AND 80 /100 Dollars *****

\$18.80

PAY TO THE
ORDER OF

COMMISSIONER OF THE GENERAL LAND
OF THE STATE OF TEXAS
1700 N CONGRESS, STE 600
STEPHEN F AUSTIN BUILDING
AUSTIN TX 78701

VOID AFTER 120 DAYS
NO THIRD PARTY ENDORSEMENTS

Non-Negotiable

0000402954



Land Department

Notice to Lessor:

The well drilled on your leased lands or lands pooled therewith is temporarily "shut-in", which means it is not producing at this time. The enclosed payment is made in compliance with the shut-in provisions of your oil and gas lease for the amount stipulated in your lease.

This is not a payment of royalties for the production of minerals. Instead it is a "shut-in" payment to maintain the oil and gas lease for the period of time stipulated in the lease for a well that is prevented from producing due to lack of market or other circumstances. Please refer to your oil and gas lease for specific shut-in provisions.

When the production commences or resumes, royalty payments will be made to you.

If you have any questions or need additional information regarding this shut-in payment, please feel free to contact us at 877-245-1427 or email to AskChesapeake@chk.com.

File No. MF 104778Delay Rental HDate Filed: 9/22/11

Jerry E. Patterson, Commissioner

By [Signature]

13, 16, 23, 30

0.35.17

CHESAPEAKE OPERATING, INC. P.O. BOX 18496 OKLAHOMA CITY, OK 73154

LEASE OBLIGATION DEPOSIT RECEIPT

WE HAVE THIS DAY SEPTEMBER 14, 2011 TENDERED TO COMMISSIONER OF THE GENERAL LAND
THE SUM OF \$18.80 DOLLARS FOR THE CREDIT OF PARTY OR PARTIES NAMED BELOW IN AMOUNT STATED
PURSUANT TO THE TERMS OF THE LEASE IDENTIFIED HEREIN, FOR THE PERIOD FROM 10/21/2011 TO 10/21/2012
COVERING LESSOR'S INTEREST IN LAND DESCRIBED AS:

TOWNSHIP: RANGE: SECTION: 42 BLOCK: 58/ SURVEY: PUBLIC SCHOOL LAND ABSTRACT: 3155 COUNTY: REEVES SHORT DESC: ALL OF

12700939

MF 104778H

PAYMENT: RENTAL

LEASE NUMBER: TX3231337-002

LEASE DATE: 10/21/2007

PROSPECT: TOYAH

RECORDED BOOK: 778

PAGE: 533

ENTRY NUMBER: 4761

COUNTY/PARISH: REEVES

STATE: TX

FOR CREDIT OF:

ACCT:

AMOUNT

017397

COMMISSIONER OF THE GENERAL LAND

OF THE STATE OF TEXAS

1700 N CONGRESS, STE 600

STEPHEN F AUSTIN BUILDING

AUSTIN

TX 78701

\$1/AC DELAY RENTAL/MR 104

778H

\$18.80

RECEIVED
SEP 22 2011

COPY

PLEASE SIGN
AND RETURN

IMPORTANT

The attached check is for the person(s) named above. Please date, sign and return the attached receipts on the day you receive it. If directed to a bank, please deposit the amount to the credit of the person(s) named above and date, sign and return the receipt on the day you receive it. If correspondence required, please make reference to lease number.

Date Received _____

Sign Here _____

By _____ Title _____

Subtotal	\$18.80
BANK SERVICE CHARGE	\$.00
Grand Total	\$18.80
Check No.	402954

②

CHESAPEAKE OPERATING, INC.
DELAY RENTAL ACCOUNT
P.O. Box 18496
Oklahoma City, OK 73154

Comptroller Bank
74-478729

12700939

402954

SEPTEMBER 14, 2011

EIGHTEEN AND 80/100 Dollars

\$18.80

PAY TO THE ORDER OF
COMMISSIONER OF THE GENERAL LAND
OF THE STATE OF TEXAS
1700 N CONGRESS, STE 600
STEPHEN F AUSTIN BUILDING
AUSTIN TX 78701

VOID AFTER 120 DAYS
NO THIRD PARTY ENDORSEMENTS

Jennifer M. [Signature]

⑈0000402954⑈

File No. MF 104778
Delay Rental

Date Filed: 9/22/11
Jerry E. Patterson, Commissioner
By EA

CHESAPEAKE OPERATING, INC. P.O. BOX 18496 OKLAHOMA CITY, OK 73154

LEASE OBLIGATION DEPOSIT RECEIPT

WE HAVE THIS DAY **SEPTEMBER 14, 2011** TENDERED TO **COMMISSIONER OF THE GENERAL LAND**
THE SUM OF **\$18.80** DOLLARS FOR THE CREDIT OF PARTY OR PARTIES NAMED BELOW IN AMOUNT STATED
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COVERING LESSOR'S INTEREST IN LAND DESCRIBED AS:

TOWNSHIP: RANGE: SECTION: 42 BLOCK: 58/ SURVEY: PUBLIC SCHOOL LAND ABSTRACT: 3155 COUNTY: REEVES SHORT DESC: ALL OF

12700940

COPY

PAYMENT: RENTAL

LEASE NUMBER: TX3231337-001

LEASE DATE: 10/21/2007

PROSPECT: TOYAH

RECORDED BOOK: 778

PAGE: 542

ENTRY NUMBER: 4762

COUNTY/PARISH: REEVES

STATE: TX

FOR CREDIT OF:

ACCT:

AMOUNT

017397

COMMISSIONER OF THE GENERAL LAND

OF THE STATE OF TEXAS

1700 N CONGRESS, STE 600

STEPHEN F AUSTIN BUILDING

AUSTIN

TX 78701

\$1/AC DELAY RENTAL/MF 104

778G

\$18.80

PLEASE SIGN
AND RETURN

IMPORTANT

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Date Received

SEP 22 2011

Sign Here

By

[Signature]

RENTAL PAYMENT

Title

Subtotal \$18.80

BANK SERVICE CHARGE \$.00

Grand Total \$18.80

Check No. 402952

[Handwritten mark]

CHESAPEAKE OPERATING, INC. P.O. BOX 18496 OKLAHOMA CITY, OK 73154

LEASE OBLIGATION DEPOSIT RECEIPT

WE HAVE THIS DAY **SEPTEMBER 14, 2011** TENDERED TO COMMISSIONER OF THE GENERAL LAND
THE SUM OF **\$18.80** DOLLARS FOR THE CREDIT OF PARTY OR PARTIES NAMED BELOW IN AMOUNT STATED
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COVERING LESSOR'S INTEREST IN LAND DESCRIBED AS:

TOWNSHIP: RANGE: SECTION: 42 BLOCK: 58/ SURVEY: PUBLIC SCHOOL LAND ABSTRACT: 3155 COUNTY: REEVES SHORT-DESC: ALL OF

PAYMENT: RENTAL

LEASE NUMBER: TX3231337-001

LEASE DATE: 10/21/2007

PROSPECT: TOYAH

RECORDED BOOK: 778

PAGE: 542

ENTRY NUMBER: 4762

COUNTY/PARISH: REEVES

STATE: TX

FOR CREDIT OF:

ACCT:

AMOUNT

017397

COMMISSIONER OF THE GENERAL LAND

OF THE STATE OF TEXAS

\$1/AC DELAY RENTAL/MF 104

\$18.80

1700 N CONGRESS, STE 600

778G

STEPHEN F AUSTIN BUILDING

AUSTIN

TX 78701

**COPY FOR
YOUR RECORDS**

IMPORTANT

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Date Received _____

Sign Here _____

By _____
Title

Subtotal	\$18.80
BANK SERVICE CHARGE	\$.00
Grand Total	\$18.80
Check No.	402952

CHESAPEAKE OPERATING, INC.
DELAY RENTAL ACCOUNT
P.O. Box 18496
Oklahoma City, OK 73154

Comerica Bank
74-478/724

402952

SEPTEMBER 14, 2011

EIGHTEEN AND 80 /100 Dollars *****

\$18.80

PAY TO THE
ORDER OF

COMMISSIONER OF THE GENERAL LAND
OF THE STATE OF TEXAS
1700 N CONGRESS, STE 600
STEPHEN F AUSTIN BUILDING
AUSTIN TX 78701

VOID AFTER 120 DAYS
NO THIRD PARTY ENDORSEMENTS

Non-Negotiable

⑈0000402952⑈

File No. MF-104778
Delay Rental County
Date Filed: 7-20-16
George P. Bush, Commissioner
By: [Signature]

2016

CHESAPEAKE OPERATING, INC. P.O. BOX 18496 OKLAHOMA CITY, OK 73154

LEASE OBLIGATION DEPOSIT RECEIPT

WE HAVE THIS DAY **SEPTEMBER 14, 2011** TENDERED TO **COMMISSIONER OF THE GENERAL LAND**
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COVERING LESSOR'S INTEREST IN LAND DESCRIBED AS:

TOWNSHIP: RANGE: SECTION: 42 BLOCK: 58/ SURVEY: PUBLIC SCHOOL LAND ABSTRACT: 3155 COUNTY: REEVES SHORT DESC: ALL OF

12700938

PAYMENT: RENTAL

LEASE NUMBER: TX3231337-003	LEASE DATE: 10/21/2007	PROSPECT: TOYAH	
RECORDED BOOK: 778	PAGE: 524	ENTRY NUMBER: 4760	COUNTY/PARISH: REEVES
FOR CREDIT OF:		ACCT:	STATE: TX
017397	COMMISSIONER OF THE GENERAL LAND		AMOUNT
	OF THE STATE OF TEXAS	\$1/AC DELAY RENTAL/MF 104	X \$18.80
	1700 N CONGRESS, STE 600	778I	121
	STEPHEN F AUSTIN BUILDING		
	AUSTIN TX 78701		

PLEASE SIGN
AND RETURN

COPY

IMPORTANT

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Date Received

SEP 22 2011

Sign Here

RENTAL PAYMENT

By

Title

Subtotal	\$18.80
BANK SERVICE CHARGE	\$.00
Grand Total	\$18.80
Check No.	402956

(P)

CHESAPEAKE OPERATING, INC. P.O. BOX 18496 OKLAHOMA CITY, OK 73154

LEASE OBLIGATION DEPOSIT RECEIPT

WE HAVE THIS DAY **SEPTEMBER 14, 2011** TENDERED TO COMMISSIONER OF THE GENERAL LAND
THE SUM OF **\$18.80** DOLLARS FOR THE CREDIT OF PARTY OR PARTIES NAMED BELOW IN AMOUNT STATED
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COVERING LESSOR'S INTEREST IN LAND DESCRIBED AS:

TOWNSHIP: RANGE: SECTION: 42 BLOCK: 58/ SURVEY: PUBLIC SCHOOL LAND ABSTRACT: 3155 COUNTY: REEVES SHORT DESC: ALL OF

PAYMENT: RENTAL

LEASE NUMBER: TX3231337-003	LEASE DATE: 10/21/2007	PROSPECT: TOYAH	
RECORDED BOOK: 778	PAGE: 524	ENTRY NUMBER: 4760	COUNTY/PARISH: REEVES
FOR CREDIT OF:	ACCT:		STATE: TX
017397	COMMISSIONER OF THE GENERAL LAND		AMOUNT
	OF THE STATE OF TEXAS	\$1/AC DELAY RENTAL/MF 104	\$18.80
	1700 N CONGRESS, STE 600	778I	
	STEPHEN F AUSTIN BUILDING		
	AUSTIN TX 78701		

COPY FOR
YOUR RECORDS

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Date Received _____

Sign Here _____

By _____ Title

Subtotal	\$18.80
BANK SERVICE CHARGE	\$.00
Grand Total	\$18.80
Check No.	402956

CHESAPEAKE OPERATING, INC.
DELAY RENTAL ACCOUNT
P.O. Box 18496
Oklahoma City, OK 73154

Comerica Bank
74-478/724

402956

SEPTEMBER 14, 2011

EIGHTEEN AND 80 /100 Dollars *****

\$18.80

PAY TO THE
ORDER OF

COMMISSIONER OF THE GENERAL LAND
OF THE STATE OF TEXAS
1700 N CONGRESS, STE 600
STEPHEN F AUSTIN BUILDING
AUSTIN TX 78701

VOID AFTER 120 DAYS
NO THIRD PARTY ENDORSEMENTS

Non-Negotiable

0000402956



Land Department

Notice to Lessor:

The well drilled on your leased lands or lands pooled therewith is temporarily "shut-in", which means it is not producing at this time. The enclosed payment is made in compliance with the shut-in provisions of your oil and gas lease for the amount stipulated in your lease.

This is not a payment of royalties for the production of minerals. Instead it is a "shut-in" payment to maintain the oil and gas lease for the period of time stipulated in the lease for a well that is prevented from producing due to lack of market or other circumstances. Please refer to your oil and gas lease for specific shut-in provisions.

When the production commences or resumes, royalty payments will be made to you.

If you have any questions or need additional information regarding this shut-in payment, please feel free to contact us at 877-245-1427 or email to AskChesapeake@chk.com.

File No. MF 104778
Delay Rental I

Date Filed: 9/22/11
Jerry E. Patterson, Commissioner
By EA

1530038

2025



MF 104778

JEROLD JENKINS
STAFF LANDMAN

February 19, 2018

Dela Minerals, Inc.
Attn: Mr. Gary Covington, President
P. O. Box 535
Midland, TX 79702

Re: Relinquishment Act Lands Oil and Gas Lease Dated February 18, 2005 ("**Lease**"); Reeves
County, Texas

Dear Mr. Covington:

COG Operating LLC ("**COG**") is the Lessee under the captioned Oil and Gas Lease, under which you are acting as the agent for the State of Texas, covering the following described lands:

All of Section 40, Block 58, Public School Land Survey,
Reeves County, Texas

COG is planning on entering the lands covered by the Lease on or about March 26, 2018, for the purpose of plugging and abandoning the Block 58 State 40-14 #1H Well ("**Well**"), which is operated by COG, and thereafter conducting surface remediation operations. Paragraph 26 of the Lease, entitled **Removal of Equipment**, grants COG the right to remove machinery and fixtures placed by it on the leased premises, including the right to draw and remove casing, within 120 days after the termination of the Lease, unless the owner of the soil grants an extension of this period. It has been more than 120 days since the Lease terminated.

Accordingly, COG is hereby asking your permission to extend the period of time under the Lease until September 1, 2018, in order that COG is permitted to remove the machinery and fixtures from the location, including the drawing and removal of the casing from this Well, in connection with its plugging and abandonment activities, and that COG shall have the right to retain the ownership of the machinery and fixtures, including removed casing, from this Well and the lands.

Please indicate in the space provided below whether you agree or disagree with the terms of this letter, and then sign and return an original of this letter to COG in the self-addressed, stamped envelope provided for this purpose. We are sending two originals of this letter and you may retain one original for your files.



Dela Minerals, Inc.
Attn: Gary Covington, President
February 19, 2018
Page 2

Thank you for your cooperation and we look forward to hearing from you soon. If you have any questions, please give Mr. Jerold Jenkins of COG a call at 432.234.1508.

Very truly yours,

COG OPERATING LLC



Jerold Jenkins
Staff Landman

_____, I, _____, the agent for the State of Texas under the Lease and the owner of the soil of the above-described land, **hereby consent** to the forgoing provisions of this letter.

_____, I, _____, the agent for the State of Texas under the Lease and the owner of the soil of the above-described land, **hereby DO NOT consent** to the forgoing provisions of this letter.

cc: Mr. J. Daryl Morgan, CPL
Landman, Mineral Leasing
Texas General Land Office
P.O. Box 12873
Austin, Texas 78711-2873



01.98.3

February 19, 2018

Mr. Kirk Covington
921 Lauder Drive
Spicewood, TX 78669

Re: Relinquishment Act Lands Oil and Gas Lease Dated February 18, 2005 (Successor interests from Dela Minerals ("**Lease**"); Reeves County, Texas

Dear Mr. Covington:

COG Operating LLC ("**COG**") is the Lessee under the captioned Oil and Gas Lease, under which you are acting as the agent for the State of Texas, covering the following described lands:

All of Section 40, Block 58, Public School Land Survey,
Reeves County, Texas

COG is planning on entering the lands covered by the Lease on or about March 26, 2018, for the purpose of plugging and abandoning the Block 58 State 40-14 #1H Well ("**Well**"), which is operated by COG, and thereafter conducting surface remediation operations. Paragraph 26 of the Lease, entitled **Removal of Equipment**, grants COG the right to remove machinery and fixtures placed by it on the leased premises, including the right to draw and remove casing, within 120 days after the termination of the Lease, unless the owner of the soil grants an extension of this period. It has been more than 120 days since the Lease terminated.

Accordingly, COG is hereby asking your permission to extend the period of time under the Lease until September 1, 2018, in order that COG is permitted to remove the machinery and fixtures from the location, including the drawing and removal of the casing from this Well, in connection with its plugging and abandonment activities, and that COG shall have the right to retain the ownership of the machinery and fixtures, including removed casing, from this Well and the lands.

Please indicate in the space provided below whether you agree or disagree with the terms of this letter, and then sign and return an original of this letter to COG in the self-addressed, stamped envelope provided for this purpose. We are sending two originals of this letter and you may retain one original for your files.



Mr. Kirk Covington
February 19, 2018
Page 2

Thank you for your cooperation and we look forward to hearing from you soon. If you have any questions, please give Mr. Jerold Jenkins of COG a call at 432.234.1508.

Very truly yours,

COG OPERATING LLC



Jerold Jenkins
Staff Landman

_____, I, _____, the agent for the State of Texas under the Lease and the owner of the soil of the above-described land, **hereby consent** to the forgoing provisions of this letter.

_____, I, _____, the agent for the State of Texas under the Lease and the owner of the soil of the above-described land, **hereby DO NOT consent** to the forgoing provisions of this letter.

cc: Mr. J. Daryl Morgan, CPL
Landman, Mineral Leasing
Texas General Land Office
P.O. Box 12873
Austin, Texas 78711-2873



01.02.18

February 19, 2018

The Catalpa Trust
c/o Kyle Bruce & Shelia D. Covington
P. O. Box 1987
Goodlettsville, TN 37070

Re: Relinquishment Act Lands Oil and Gas Lease Dated February 18, 2005 (Successor interests from Dela Minerals) ("**Lease**"); Reeves County, Texas

Dear Mr. Bruce & Mrs. Covington:

COG Operating LLC ("**COG**") is the Lessee under the captioned Oil and Gas Lease, under which you are acting as the agent for the State of Texas, covering the following described lands:

All of Section 40, Block 58, Public School Land Survey,
Reeves County, Texas

COG is planning on entering the lands covered by the Lease on or about March 26, 2018, for the purpose of plugging and abandoning the Block 58 State 40-14 #1H Well ("**Well**"), which is operated by COG, and thereafter conducting surface remediation operations. Paragraph 26 of the Lease, entitled **Removal of Equipment**, grants COG the right to remove machinery and fixtures placed by it on the leased premises, including the right to draw and remove casing, within 120 days after the termination of the Lease, unless the owner of the soil grants an extension of this period. It has been more than 120 days since the Lease terminated.

Accordingly, COG is hereby asking your permission to extend the period of time under the Lease until September 1, 2018, in order that COG is permitted to remove the machinery and fixtures from the location, including the drawing and removal of the casing from this Well, in connection with its plugging and abandonment activities, and that COG shall have the right to retain the ownership of the machinery and fixtures, including removed casing, from this Well and the lands.

Please indicate in the space provided below whether you agree or disagree with the terms of this letter, and then sign and return an original of this letter to COG in the self-addressed, stamped envelope provided for this purpose. We are sending two originals of this letter and you may retain one original for your files.



The Catalpa Trust
February 19, 2018
Page 2

Thank you for your cooperation and we look forward to hearing from you soon. If you have any questions, please give Mr. Jerold Jenkins of COG a call at 432.234.1508.

Very truly yours,

COG OPERATING LLC



Jerold Jenkins
Staff Landman

_____, I, _____, the agent for the State of Texas under the Lease and the owner of the soil of the above-described land, **hereby consent** to the forgoing provisions of this letter.

_____, I, _____, the agent for the State of Texas under the Lease and the owner of the soil of the above-described land, **hereby DO NOT consent** to the forgoing provisions of this letter.

cc: Mr. J. Daryl Morgan, CPL
Landman, Mineral Leasing
Texas General Land Office
P.O. Box 12873
Austin, Texas 78711-2873

01.03.7

February 19, 2018

Earmark Enterprises, LLC
c/o Lisa Graham
P. O. Box 53343
Midland, TX 79710

Re: Relinquishment Act Lands Oil and Gas Lease Dated February 18, 2005 (Successor interests from Dela Minerals) ("**Lease**"); Reeves County, Texas

Dear Ms. Graham:

COG Operating LLC ("**COG**") is the Lessee under the captioned Oil and Gas Lease, under which you are acting as the agent for the State of Texas, covering the following described lands:

All of Section 40, Block 58, Public School Land Survey,
Reeves County, Texas

COG is planning on entering the lands covered by the Lease on or about March 26, 2018, for the purpose of plugging and abandoning the Block 58 State 40-14 #1H Well ("**Well**"), which is operated by COG, and thereafter conducting surface remediation operations. Paragraph 26 of the Lease, entitled **Removal of Equipment**, grants COG the right to remove machinery and fixtures placed by it on the leased premises, including the right to draw and remove casing, within 120 days after the termination of the Lease, unless the owner of the soil grants an extension of this period. It has been more than 120 days since the Lease terminated.

Accordingly, COG is hereby asking your permission to extend the period of time under the Lease until September 1, 2018, in order that COG is permitted to remove the machinery and fixtures from the location, including the drawing and removal of the casing from this Well, in connection with its plugging and abandonment activities, and that COG shall have the right to retain the ownership of the machinery and fixtures, including removed casing, from this Well and the lands.

Please indicate in the space provided below whether you agree or disagree with the terms of this letter, and then sign and return an original of this letter to COG in the self-addressed, stamped envelope provided for this purpose. We are sending two originals of this letter and you may retain one original for your files.



Earmark Enterprises, LLC
c/o Lisa Graham
February 19, 2018
Page 2

Thank you for your cooperation and we look forward to hearing from you soon. If you have any questions, please give Mr. Jerold Jenkins of COG a call at 432.234.1508.

Very truly yours,

COG OPERATING LLC



Jerold Jenkins
Staff Landman

_____, I, _____, the agent for the State of Texas under the Lease and the owner of the soil of the above-described land, **hereby consent** to the forgoing provisions of this letter.

_____, I, _____, the agent for the State of Texas under the Lease and the owner of the soil of the above-described land, **hereby DO NOT consent** to the forgoing provisions of this letter.

cc: Mr. J. Daryl Morgan, CPL
Landman, Mineral Leasing
Texas General Land Office
P.O. Box 12873
Austin, Texas 78711-2873

01.02.2

February 19, 2018

Ms. Renee J. Brunson
P. O. Box 2041
Midland, TX 79702

Re: Relinquishment Act Lands Oil and Gas Lease Dated February 18, 2005 (Successor interests from Dela Minerals) ("**Lease**"); Reeves County, Texas

Dear Ms. Brunson:

COG Operating LLC ("**COG**") is the Lessee under the captioned Oil and Gas Lease, under which you are acting as the agent for the State of Texas, covering the following described lands:

All of Section 40, Block 58, Public School Land Survey,
Reeves County, Texas

COG is planning on entering the lands covered by the Lease on or about March 26, 2018, for the purpose of plugging and abandoning the Block 58 State 40-14 #1H Well ("**Well**"), which is operated by COG, and thereafter conducting surface remediation operations. Paragraph 26 of the Lease, entitled **Removal of Equipment**, grants COG the right to remove machinery and fixtures placed by it on the leased premises, including the right to draw and remove casing, within 120 days after the termination of the Lease, unless the owner of the soil grants an extension of this period. It has been more than 120 days since the Lease terminated.

Accordingly, COG is hereby asking your permission to extend the period of time under the Lease until September 1, 2018, in order that COG is permitted to remove the machinery and fixtures from the location, including the drawing and removal of the casing from this Well, in connection with its plugging and abandonment activities, and that COG shall have the right to retain the ownership of the machinery and fixtures, including removed casing, from this Well and the lands.

Please indicate in the space provided below whether you agree or disagree with the terms of this letter, and then sign and return an original of this letter to COG in the self-addressed, stamped envelope provided for this purpose. We are sending two originals of this letter and you may retain one original for your files.



Ms. Renee J. Brunson
February 19, 2018
Page 2

Thank you for your cooperation and we look forward to hearing from you soon. If you have any questions, please give Mr. Jerold Jenkins of COG a call at 432.234.1508.

Very truly yours,

COG OPERATING LLC



Jerold Jenkins
Staff Landman

_____, I, _____, the agent for the State of Texas under the Lease and the owner of the soil of the above-described land, **hereby consent** to the forgoing provisions of this letter.

_____, I, _____, the agent for the State of Texas under the Lease and the owner of the soil of the above-described land, **hereby DO NOT consent** to the forgoing provisions of this letter.

cc: Mr. J. Daryl Morgan, CPL
Landman, Mineral Leasing
Texas General Land Office ✓
P.O. Box 12873
Austin, Texas 78711-2873

01.02.17

(54)

File No. M-104778

County

Mrs. From Concho

Date Filed: 2/26/18

George P. Bush, Commissioner

By _____

WELL TIMELINE

	Block 58 State 32 #1		Block 58 State 31-3 #1H		Block 58 State 42 #1H
API #	42-389-32398		42-389-32452		42-389-32497
RRC ID #	08-224464		08-245061		08-244453
	MF105285 Lease Well		Unit 4484 MF105285, MF105490** & MF104782**		Unit 4554 MF104580, MF104778* & MF105285
Permit Issued	1/3/2006		1/24/2007		1/24/2007
Date Commenced	5/11/2007		6/15/2007		12/21/2007
Date Completed	6/3/2007		11/4/2007		6/9/2008
1st Production	12/1/2006		2/1/2008		8/1/2008
Shut-In Payment Received			11/1/2011		NA
Shut-In Affidavit Requested			11/19/2011		NA
Shut-In Affidavit Due			12/22/2011		NA
2nd Shut-In Payment Rec.			2/22/2012		NA
3rd Shut-In Payment Rec.			2/15/2013		NA
Gaps	11/2012 - 04/2013 06/2013 08/2013 - No Report		08/2011 10/2011 - 04/2013 06/2013 - 07/31/2013 08/2013 - No Report		09/2012 - 11/2012 08/2013 - No Report
Termination Date	1/1/2013		12/1/2011		11/1/2012
Last Production	7/31/2013		5/31/2013		7/31/2013

*MF104778 is also part of Unit 5206, with producing well 42-389-32449, which terminated 08/2012 after a 61-day gap and for which the GLO gave Shell two options.

**No second or third shut-in payment received.

Status of STATE LEASES MF105285-MF105490-MF104782
Chesapeake shut-in royalty and half bonus to extend deep rights

Covering Sections 31 & 32, Blk 58, PSL, Reeves Co TX											
API 389-32452 (Blk 58 State 31-3 #1H), API 389-32398 (Blk 58 State 32 #1)											
MF105285						Date	Date 2nd	Date 3rd		Net	
<u>State Lease No.</u>	<u>CHK Lease No.</u>	<u>Lease Date</u>	<u>Term</u>	<u>Roy</u>	<u>Rec data</u>	<u>shut-in pd</u>	<u>shut-in pd</u>	<u>shut-in pd</u>	<u>Date 1/2 bonus pd</u>	<u>Ac</u>	
MF105285C	TX0016622-012	11/3/2004	5 years	0.20	689/606	11/3/2011	2/21/2012	2/15/2013	* 11/4/2011	64.02	
MF105285D	TX0011621-001	2/18/2005	3 years	0.25	702/695; 707/232	11/1/2011	2/21/2012	2/15/2013		640.1	
MF105285E	TX0016622-011	10/6/2004	5 years	0.20	687/702	12/5/2011	2/22/2012	2/15/2013	9/22/2012	78.2466667	
MF105285F	TX0016622-009	10/6/2004	5 years	0.20	687/684	12/5/2011	2/22/2012	2/15/2013	9/23/2012	78.24666667	
MF105285G	TX0016622-010	10/6/2004	5 years	0.20	687/693	12/5/2011	2/22/2012	2/15/2013	9/22/2012	78.24666667	
										938.86	
API 389-32497 (Blk 58 State 42 #1H), API 389-32452 (Blk 58 State 31-3 #1H), & API 389-32398 (Blk 58 State 32 #1)											
Covering Sections 31,32 & 42, Blk 58, PSL, Reeves Co TX						Date	Date 2nd	Date 3rd			
<u>State Lease No.</u>	<u>CHK Lease No.</u>	<u>Lease Date</u>	<u>Term</u>	<u>Roy</u>	<u>Rec data</u>	<u>shut-in pd</u>	<u>shut-in pd</u>	<u>shut-in pd</u>	<u>Date 1/2 bonus pd</u>		
MF105285A		12/1/2005	3 years	0.25	726/625					94.7735	
MF105285B	TX0011622-008	12/1/2005	3 years	0.25	726/639	11/1/2011	2/22/2012	2/15/2013		94.7735	
MF105285H	TX0011622-006	12/1/2005	3 years	0.25	724/97	11/1/2011	2/21/2012	2/15/2013		94.7735	
MF105285I	TX0011622-005 & -007	12/1/2005	3 years	0.25	724/82	twice on 11/1/11	twice on 2/22/12	twice on 5/15/13		94.7735	
MF105285J	TX0011622-004	9/1/2005	3 years	0.25	724/31	11/1/2011	2/22/2012	2/15/2013		63.18	
MF105285K	TX0011622-003	9/1/2005	3 years	0.25	724/16	11/1/2011	2/21/2012	2/15/2013		31.59	
MF105285L	TX0011622-002	9/1/2005	3 years	0.25	724/1	11/1/2011	2/22/2012	2/15/2013		15.8	
MF105285M	TX0011622-001	12/1/2005	3 years	0.25	721/249					15.7955	
										505.4595	
API 389-32452 (Blk 58 State 31-3 #1H)											
MF104782	TX0011467-000	10/20/2004	5 years	0.2	689/31	11/1/2011			9/22/2011	160/160	
API 389-32452 (Blk 58 State 31-3 #1H)											
MF105490	TX0011479-000	3/1/2005	3 years	0.25	701/22	11/1/2011					
* Refunded 11/28/11; lease had no severance provision; didn't require 1/2 bonus to maintain deep rights.											
Shut-in affidavit requested on 11/19/2011.											x

	X
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55.

File No. MF 104778

_____ County

Well Timeline

Date Filed: 3/28/19

George P. Bush, Commissioner

By AT