

	CONTENTS OF FILE NO. N	1F/0418/
	1. BAL Review 12/6/04	
	2. Letter + bonus 2/24/05	
	3. Lease (11)(A-K) 2/34/05	
	5. 910 bother 9/0/05	*
	6. Bental Rayments 10/19/05	
	7. Rentato Pintos 10/16/06	2
	Sitter beruses, + Roes 5/10/0	7
1	Deem 104180 34 8 Bor Youling	
	Porting Observer 1/23/08	
	9, (39) RENTAL PAYMENTS 10/18/07	
	70, ASSIGNMENT FILED IN MF- 10/9/08	
1	SeeMF 10 4780 # 10, Rooling Committee	
	Rooling Revenued 9,8109	
	scanned sm 7/17/15	
	11. Ltrs. From Concho 2/26/18 scanned pt 2-28-2018	
	scanned 1+ 2-28-2018	
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RAL REVIEW SHEET

	•										
Transaction	#	4901				Geol	ogist:		R. Widmayer		
Lessor:	Fergus	on, Vance				Leas	e Date:	1	1/1/2004	UŁ 🗆]
Lessee:	Petro-l	Hunt, LLC				Acr	es :		80		
LEASE DESC	RIPTION										
County			PIN#	Base File No	Part	Sec.	Block	Twp	Survey		Abst#
REEVES				121971	E/2 O	F 30	58	00	PUBLIC SO	CHOOL LA	ND 3762
TERMS OFFE	RED			TERM	IS RECOM	IMENDED					
Primary Ter	m:	4 years		Prima	ary Term	4	years				
Bonus/Acre	:	\$	150.00	Bonus	s/Acre		\$1	50.00			
Rental/Acre	t		\$1.00	Renta	al/Acre		H	\$1.00			
Royalty:		1/5		Royal	ity	1/3	5				
COMPARISO	8										
MF#	Le	98899		Date		Term	Bonus/	Ac.	Rental/Ac.	Royalty	Distance
MF100264	-	lay Johnson		1/1	5/1999	5 years	¢ E	0.00	\$1.00	3/16	Last Lease
WIF 100204		lay Johnson	k:	1/1	13/1999	5 years	\$5	0.00	\$1.00	3/10	
	= -										
Comments:											

Monday, September 12, 2005

Approved:

RAL REVIEW SHEET

Transaction # R. Widmayer Geologist: UŁ 🗆 McCord, B.J. Lessor: 11/2/2004 Lease Date-Petro-Hunt, LLC 80 Lessee: Acres: LEASE DESCRIPTION County Base File No Part Sec. Block Twp Survey Abst# **REEVES** 121971 N/2 SW/4 3762 30 58 00 PUBLIC SCHOOL LAND 80 Ac TERMS OFFERED TERMS RECOMMENDED Primary Term: 4 years 4 years **Primary Term** Bonus/Acre \$150.00 \$150.00 Bonus/Acre Rental/Acre: \$1.00 Rental/Acre \$1.00 1/5 1/5 Royalty: Royalty COMPARISONS MF# Lessee Date Bonus/Ac. Distance Term Rental/Ac. Royalty MF100264 Last Lease Clay Johnson 1/15/1999 5 years \$50.00 3/16 \$1.00

Rentals will be \$75.00 for the 4th year.

Approved PAG 12.7.04

LINQUISHMENT ACT LEASE APPLICATION

Texaș General Land Office		Jerry Pa	tterson, Comm	issioner
TO: Jerry Patterson, Commiss Larry Laine, Chief Clerk Bill Warnick, General Co Matt Edling, Deputy Com	unsel	DATE:	06-Dec-04	
FROM: Robert Hatter, Director of Peter Boone, Chief Geolog				
Applicant: Petro-Hunt, LLC Prim. Term: 4 years Royalty: 1/5	Bonus/Acre Rental/Acre	County: \$150.00 \$1.00	REEVES	
Consideration Recommended: Not Recommended: Comments: Rentals will be \$75.00 for	Date: 12.7. the 4th year.	04		
Lease Form Recommended: 274 Not Recommended:	Date: 1	3/04		
Matt Edling, Deputy Commissioner Recommended: Not Recommended:	Date: //	21/05		
Bill Warnick, General Counsel Recommended:	Date: 2/8	105		
Not Recommended: Larry Laine, Chief Clerk Approved:	Date: 2	sle r		
Not Approved: Jerry Patterson, Commissioner Approved:	Date: 5	ES 05		
Not Approved:				

File NoMF	70478/
BALACE	view
Date Filed: 16	76/04
Јетту Е. Ра	terson, Commissioner

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



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

February 22, 2005

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

Dear Mr. Reid:

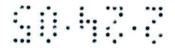
Enclosed please find a certified copy and check for the following lease:

Vance Ferguson

Thank you,

Jacqueline Avery

OSFEB 24 PM 1: 12



PAYEE: DETACH THIS PORTION BEFORE CASHING CHECK

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	58207	Feb-21-2005	4076757	\$775.00

.02AP356 118-021505 NW TOYAH PROSPECT TOTAL INVOICES PAID 02/15/05

775.00

0.00

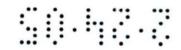
775.00

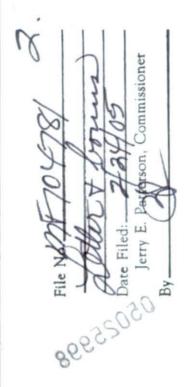
775.00

121

Aller Drew deid









FILE# 127

General Land Office Relinquishment Act Lease Form Revised, September 1997

The State of Texas



Austin, Texas

OIL AND GAS LEASE

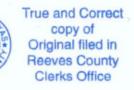
THIS AGREEMENT is made and entered into this <u>1st</u> day of <u>November</u>	,2004 , between the State of Texas, acting
by and through its agent,Vance Ferguson	
of 3701 Peak Lookout Drive, Austin, TX 78738	
(Give Permanent Address)	
said agent herein referred to as the owner of the soil (whether one or more), and Petro-Hunt L.L.	C
of 1601 Elm St, Suite 3400, Thanksgiving Tower, Dallas, TX 75201-7201	hereinafter called Lessee.
(Give Permanent Address)	
GRANTING CLAUSE. For and in consideration of the amounts stated below and of the performed by Lessee under this lease, the State of Texas acting by and through the owner of the so the sole and only purpose of prospecting and drilling for and producing oil and gas, laying pipe in stations, telephone lines and other structures thereon, to produce, save, take care of, treat and transpituated in Reeves County, State of Texas, to-wit:	il, hereby grants, leases and lets unto Lessee, for es, building tanks, storing oil and building power
E/2 of NW/4 of Section 30, Block 58, Public School Lands Su	rvey
containing 80 acres, more or less. The bonus consideration paid for this lease is as	follows:
To the State of Texas: Seven hundred fifty dollars and 00/100	
Dollars (\$750.00	
To the owner of the soil: Seven hundred fifty dollars and 00/100	
Dollars (\$750.00	
Total bonus consideration: One thousand, five hundred dollars and 00/100	
Dollars (\$1,500.00	
The total bonus consideration paid represents a bonus of One hundred fifty	
The total bonus consideration paid represents a bonus of One hundred fifty Dollars (\$150,00) per acre, on	10 net acres.
	10 net acres. Four (4) years from





is successors (which shall conflue as the depository regardless of changes in the ownership of said land), the amount specified below, in addition, see shall pay or fetnet to the COMMISSIONER OF THE CREINERAL AND OFFICE OF THE STATE OF TEXAS, AT AUSTIN, TEXAS, a lies burn on seldere said date. Payments under this paragraph shall operate as a rental and shall cover the privilege of deferring the commencement of a well for the owner of the soil. Fire deflars and 00/100. Dollars (\$5,00) To the Owner of the soil: Fire deflars and 00/100. To the Owner of the soil: Fire deflars and 00/100. To the Delay Rental: Ear deflars and 00/100. Dollars (\$5,00) Total Delay Rental: Ear deflars and 00/100. Dollars (\$10,00) Total Delay Rental: Ear deflars and 00/100. Dollars (\$10,00) Total Delay Rental: Ear deflars and 00/100. Dollars (\$10,00) Total Delay Rental: Ear deflars and 00/100. Dollars (\$10,00) Total Delay Rental: Ear deflars and 00/100. Dollars (\$10,00) Total Delay Rental: Ear deflars and 00/100. Dollars (\$10,00) Total Delay Rental: Ear deflars and 00/100. Dollars (\$10,00) Total Delay Rental: Ear deflars and to the owner of the soil may be made by check or sight draft of Lessee, or any signee of this lesse, and may be delivered on or before the rental paying date. If the the owner of the soil may be made by check or sight draft of Lessee, or any signee of this lesse, and may be delivered on or before the rental paying date. If the owner of the soil may be made by check or sight draft of Lessee, or any signee of this lesse, and may be delivered on or before the rental paying date. If the owner of the soil may be made by check or sight draft of Lessee, or any signee of this lesse, and may be delivered to new section of the soil may be delivered to new section of the soil of the section of the soil of the section of the soil of the section of	ess on or before such anniversary date		me owner of the	on or to mis credit in the	
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rovided 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 royally to the winer 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 allso as it condensate, distillate, and other liquid hydrocarbons recovered from of or gas run through a separator or other equipment, as hereinafter provided, hall be 1/5 part of the gross production or the market value thereof, at the option of the owner poid 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 2) the highest market price thereof offered or adia in the general area where produced and when run, or 2) the highest market price thereof offered or adia in the general area where produced and when run, or 2) the highest produced of the soil of the gross proceeds of the sale thereof, whichever the greater. Lesses agrees that before my gas produced from the leased premises is soid, used or processed in a plant, it will be run free of coals to the royalty owners through an adequate oil in dga separator or conventional to the conversable from the gas by such means will be recovered. The requirement that such gas be run through a separator or other equipment and by the gas and the separator or other equipment and such terms and conditions as they prescribe. (B) NON PROCESSED GAS, Royalty on any gas (excluding flared gas), which is defined as all hydrocarbons and gaseous substances not lefined 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 he extraction of gasoline, liquid hydrocarbons or other products and plant to the service of gasoline fiquid hydrocarbons or other products are plant to the soil or t	n a like manner and upon like payments ear each during the primary term. All pa ssignee of this lease, and may be delive ease to exist, suspend business, liquidat eld in default for failure to make such p	or tenders annually, the com- syments or tenders of rental to red on or before the rental pay te, fail or be succeeded by an ayments or tenders of rental	o the owner of the ying date. If the boother bank, or fountil thirty (30) d	e soil may be made by check or ink designated in this paragraph any reason fail or refuse to acce ys after the owner of the soil sh	sight draft of Lessee, or any (or its successor bank) should extrental, Lessee shall not be
(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 of or gas run through a separator or other equipment, as hereinanter 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 the run free or 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 injudy and the provided from the lease of premises in sold, used or processed in a plant for the sold conditions as they prescribe. (a) 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 production or the market value thereof, at the option of the owner of the soil or the Comm	provided for in this lease to the Commission	i. Upon production of oil and oner of the General Land Office	or gas, Lessee are of the State of	grees to pay or cause to be pai exas, at Austin, Texas, and one-	d one-half (1/2) of the royalty half (1/2) of such royalty to the
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	(A) OIL. Royalty payable on oil condensate, distillate, and other liquid shall be	hydrocarbons recovered from roduction or the market value i by 1) the highest posted price and gravity in the general area and when run, or 3) the gross es is sold, used or processed or other equipment at least as- uch gas be run through a sep uch gas be run through a sep	n oil or gas run the thereof, at the op , plus premium, if a where produced proceeds of the in a plant, it will if efficient, so that	ough a separator or other equip- ion of the owner of the soil or the any, offered or paid for oil, conde- and when run, or 2) the highest ale thereof, whichever is the greate e run free of cost to the royalty on il liquid hydrocarbons recoverable.	ment, as hereinafter provided, Commissioner of the General insate, distillate, or other liquid market price thereof offered or ter. Lessee agrees that before whers through an adequate oil e from the gas by such means
hydrocarbons shall be	defined as oil in subparagraph (A) above the extraction of gasoline, liquid hydrocart option of the owner of the soil or the Cor gas of comparable quality in the general a provided that the maximum pressure base and the standard base temperature shall	, produced from any well on a bons or other products) shall b nmissioner of the General Lar area where produced and whe ie in measuring the gas under be sixty (60) degrees Fahrent	said land (except be 1/5 nd Office, such vo en run, or the groot this lease shall neit, correction to	as provided herein with respect to art of the gross production or the flue to be based on the highest not a price paid or offered to the product to at any time exceed 14.65 pour be made for pressure according to	o gas processed in a plant for e market value thereof, at the narket price paid or offered for lucer, whichever is the greater; unds per square inch absolute, o Boyle's Law, and for specific
hydrocarbons) whether said gas be "casinghead," "dry," or any other gas, by fractionating, burning or any other processing shall be	hydrocarbons shall be 1/5 part of the soil or the Commissioner of the G production of residue gas attributable to greater, of the total plant production of I recovered from gas processed in a plant hydrocarbons shall be fifty percent (50 agreement negotiated at arm's length (or the industry), whichever is the greater. The price paid or offered for any gas (or liquic gas (or the weighted average gross selling the production of the	of the residue gas and the liquideneral Land Office. All royaltil gas produced from this lease, ilquid hydrocarbons attributable in which Lessee (or its parent %) or the highest percent ac if there is no such third party, he respective royalties on reside thydrocarbons) of comparable grainers.	uid hydrocarbons ies due herein si and on fifty perc ie to the gas pro i, subsidiary or al cruing to a third the highest perc due gas and on I e quality in the ga des of liquid hydi	extracted or the market value the all be based on one hundred per ent (50%), or that percent accruin fuced from this lease; provided (litate) owns an interest, then the party processing gas through s at then being specified in process quid hydrocarbons shall be determined area, or 2) the gross price pocarbons), whichever is the great	reof, at the option of the owner recent (100%) of the total plant ing to Lessee, whichever is the that if liquid hydrocarbons are percentage applicable to liquid such plant under a processing sing agreements or contracts in mined by 1) the highest market baid or offered for such residue ter. In no event, however, shall
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	hydrocarbons) whether said gas be "casi the gross production of such products, or such market value to be determined as for produced, or 2) on the basis of the avera	nghead," "dry," or any other ga the market value thereof, at the follows: 1) on the basis of the h	s, by fractionation he option of the o highest market pr	, burning or any other processing wher of the soil or the Commission ce of each product for the same of	shall be 1/5 part of ner of the General Land Office, month in which such product is
	royalties paid under this lease in no ever due and payable on or before the last d amount of royalties paid during the prec	nt shall be less than an amount ay of the month succeeding t leding year. If Paragraph 3 of	nt equal to the to the anniversary of this lease does	al annual delay rental herein prov ste of this lease a sum equal to	vided; otherwise, there shall be the total annual rental less the
	0				





- 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 15th 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 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. 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. A flidavits 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 aff respo

- 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 tible. 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 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 royalty sea 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, Lesses 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.



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



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- (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 sulface 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 filled 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 proportionalely 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. 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 soit; 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 consent o



- 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 celliars 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
- (B) ASSIGNMENT LIMITATION. Notwithstanding any provision in Paragraph 27(a), if the owner of the soil acquires this lease in whole or in 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 ancy 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

 - a nominee of the owner of the soil;
 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;
 a partnership in which the owner of the soil is a partner or is an employee of such a partnership;
 a principal stockholder or employee of the corporation which is the owner of the soil;
 a partner or employee in a partnership which is the owner of the soil;
 a fiduciary for the owner of the soil; including but not limited to a guardian, trustee, executor, administrator, receiver, or conservator for the er 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
- 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 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 should refuse the proper authority access to the records pertaining to operations, or if Lessee 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 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 operations or any other of Lessee's cativities 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, indemnity, defend and hold harmless the State of Texas and the own

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, LIABRITIES, 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 DURING LESSEE'S OCCUPANCY 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 REGUINING A NOTICE FROM ANY GOVERNMENTAL LESSEE SHALL IMMEDIAT

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.

PETRO-HUNT, DAC

PETRO-HUNT, D.C. BY: President Date: /Z-21-0	want 12/21/04
STATE OF TEXAS BY: Vance Ferguson Individually and as agent for the State of Texas Date: 2 - 7 - 0 4	STATE OF TEXAS BY: Individually and as agent for the State of Texas Date:
STATE OF TEXAS BY:	STATE OF TEXAS BY:
Individually and as agent for the State of Texas	Individually and as agent for the State of Texas Date:
Date:	Date



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

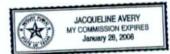


STATE OF TEXAS COUNTY OF DALLAS

(Corporation Acknowledgment)

BEFORE ME, the undersigned authority, on this day personally appeared <u>Bruce W. Hunt</u> known to me to be the person whose name is subscribed to the foregoing instruments as <u>PRESIDERT</u> of <u>PETRO-HUNT</u>, <u>L.L.C.</u> 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.

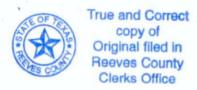
Given under my hand and seal of office this the <u>ADP</u> day of <u>DICEMBER</u> 20 <u>O4</u>.



Gacqueline avery Notary Public in and for State of Texas



10.00	
STATE OF JULY O	(CORPORATION ACKNOWLEDGMENT)
COUNTY OF	
BEFORE ME, the undersigned authority, on this day personally a known to me to be the person whose name is subscribed to the foregoing in	
known to me to be the person whose name is subscribed to the tollegoing in	and acknowledged to me that h
executed the same for the purposes and consideration therein expressed, in	
Given under my hand and seal of office this the 7th day of	Λ
JENNIFER FOWLER Novary Public, State of Trans My Commission Expires AUGUST 9, 2008	Notary Public in and for State of Decas.
STATE OF	(INDIVIDUAL ACKNOWLEDGMENT)
COUNTY OF	
BEFORE ME, the undersigned authority, on this day personally a	ppeared Robert E, Wilcox
known to me to be the persons whose names are subscribed to the forego	ing 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
Given under my hand and seal of office this the day of	
	Notace Dublic in and for
	Notary Public in and for
STATE OF	(INDIVIDUAL ACKNOWLEDGMENT)
COUNTY OF	
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known to me to be the persons whose names are subscribed to the forego	oing instrument, and acknowledged to me that they executed the same for the
purposes and consideration therein expressed.	
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STATE OF	Notary Public in and for
STATE OF	
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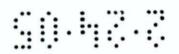


EXHIBIT "A"

ATTACHED TO AND MADE PART OF THAT CERTAIN OIL AND GAS LEASE DATED November 1, 2004 BY AND BETWEEN THE STATE OF TEXAS, ACTING BY AND THROUGH ITS AGENT, Vance Ferguson, AS LESSOR AND Petro-Hunt L.L.C., AS LESSEE

Rentals Payable on the third anniversary date of the lease for that period from November 1st, 2007 through November 1st, 2008 shall be as follows:

To the Owner of the Soil: Three hundred seventy-five and 00/100 Dollars

To the State of Texas: Three hundred seventy-five and 00/100 Dollars (\$375.00)

Total Rental: Seven hundred fifty and 00/100 Dollars (\$750.00)

On all other anniversary dates of the lease the Delay Rental shall be payable as set-out in paragraph 3 above.

ANY PROVISION HEREIN WHICH RESIDIETS THE SALE, RENTAL, OR USE OF THE DESCRIBED SEAL PROPERTY BECAUSE OF COLOR OR RACE IS INVALID AND UNERFORCEABLE UNDER FEDERAL.

FILE NO. 127

FILED FOR RECORD ON THE

13TH

DAY OF

JANUARY

JANUARY

A.D. 2005 1:44 P. M.

DULY RECORDED ON THE

18TH

DAY OF

DEPUTY

A.D. 2005 9:15 A. M.

DIANNE O. FLOREZ, COUNTY CLERK REEVES COUNTY, TEXAS





File No. Mf. 104781

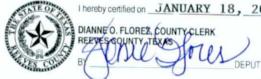
erry E. Pattersoh, Commissioner

3

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. 691
PAGE 298, THRU 308

I hereby certified on JANUARY 18, 2005



 $5\cdot 5\cdot 1\cdot 0\cdot 2$

. . . .



FILE#534

General Land Office Relinquishment Act Lease Form Paylord September 1997

The State of Texas



Austin, Texas

OIL AND GAS LEASE

by and through its agent, Peggy F. Mauch of 658 County Road 326, Kennedy, TX 78119 (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 St. Suite 3400, Thanksgiving Tower, Dalitas, TX 75201-7201 hereinafter (Give Permanent Address) 1. GRANTING CLAUSE. For and in consideration of the amounts stated below and of the covenants and agree performed by Lessee under this lease, the State of Texas acting by and through the owner of the soil, hereby grants, lease the sole and only purpose of prospecting and drilling for and producing oil and gas, laying pipe lines, building tanks, stations, telephone lines and other structures thereon, to produce, save, take care of, treat and transport said products of the situated in Reeves County, State of Texas, to-wit: E/2 of NW/4 of Section 30, Block 58, Public School Lands Survey containing 80 acres, more or less. The bonus consideration paid for this lease is as follows: To the State of Texas: Seven hundred fifty dollars and 00/100 Dollars (\$750.00 To the owner of the soil: Seven hundred fifty dollars and 00/100 Dollars (\$750.00	
(Give Permanent Address) said agent herein referred to as the owner of the soil (whether one or more), and	
said agent herein referred to as the owner of the soil (whether one or more), and	
for 1601 Elm St. Suite 3400, Thanksgiving Tower, Dallas, TX 75201-7201 hereinafter (Give Permanent Address) 1. GRANTING CLAUSE. For and in consideration of the amounts stated below and of the covenants and agree performed by Lessee under this lease, the State of Texas acting by and through the owner of the soil, hereby grants, lease the sole and only purpose of prospecting and drilling for and producing oil and gas, laying pipe lines, building tanks, sto stations, telephone lines and other structures thereon, to produce, save, take care of, treat and transport said products of the Station of the State of Texas, to-wit: E/2 of NW/4 of Section 30, Block 58, Public School Lands Survey Containing 80 acres, more or less. The bonus consideration paid for this lease is as follows: To the State of Texas: Seven hundred fifty dollars and 00/100 Dollars (\$750.00 To the owner of the soil: Seven hundred fifty dollars and 00/100	
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performed by Lessee under this lease, the State of Texas acting by and through the owner of the soil, hereby grants, lease the sole and only purpose of prospecting and drilling for and producing oil and gas, laying pipe lines, building tanks, sto stations, telephone lines and other structures thereon, to produce, save, take care of, treat and transport said products of the situated in	
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To the State of Texas: Seven hundred fifty dollars and 00/100 Dollars (\$750.00 To the owner of the soil: Seven hundred fifty dollars and 00/100	
To the owner of the soil: Seven hundred fifty dollars and 00/100	
To the owner of the soil: Seven hundred fifty dollars and 00/100	
Dottars (\$/50.00	
Total bonus consideration: One thousand, five hundred dollars and 00/100	
Dollars (\$1,500.00	
The total bonus consideration paid represents a bonus of One hundred fifty	
	4
	-
 TERM. Subject to the other provisions in this lease, this lease shall be for a term of Four (4) this date (herein called "primary term") and as long thereafter as oil and gas, or either of them, is produced in paying quantit 	

Lease ammended to Increase Royalty to



Lessee shall or before sa	perfore such anniversary date Lessee shall pay or tender to the owner of the soil or to his credit in the PECCY F. MAUCH D. R. 326 Bunk, at YEACY T. MAUCH TO THE GENERAL LAND OFFICE OF THE STATE OF TEXAS, AT AUSTIN, TEXAS, a like sum on id date. Payments under this paragraph shall operate as a rental and shall cover the privilege of deferring the commencement of a well for nor said date. Payments under this paragraph shall be in the following amounts:
one (1) year	To the owner of the soil: Five dollars and 00/100
	Dollars (\$5.00 '
y.	To the State of Texas: Five dollars and 00/100 **See Exhibit "A" for escalating rentals**
	Dollars (\$5.00
	Total Delay Rental: Ten dollars and 00/100
	Dollars (\$10.00
year each d assignee of cease to exi held in defa recordable in	ner and upon like payments or tenders annually, the commencement of a well may be further deferred for successive periods of one (1) ring 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 iss lease, and may be delivered on or before the rental paying date. If the bank designated in this paragraph (or its successor bank) should t, suspend business, liquidate, fail or be succeeded by another bank, or for any reason fail or refuse to accept rental, Lessee shall not be to 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 strument naming another bank as agent to receive such payments or tenders. 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 owner of the (A	n 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 soil: 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
hydrocarbon paid in the g any gas pro and gas sep will be recov	e, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, by 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 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, 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 neral area where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is the greater. Lessee agrees that before uced 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 rator of conventional type, or other equipment at least as efficient, so that all liquid hydrocarbons recoverable from the gas by such means used. The requirement that such gas be run through a separator or other equipment may be waived, in writing, by the royalty owners upon ad conditions as they prescribe.
defined as of the extraction option of the gas of comp provided that and the stan	NON PROCESSED GAS. Royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substances not in subparagraph (A) above, produced from any well on said land (except as provided herein with respect to gas processed in a plant for of gasoline, liquid hydrocarbons or other products) shall be
hydrocarbor of the soil o production of greater, of t recovered fr hydrocarbor agreement r the industry price paid of gas (or the v	PROCESSED GAS. Royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid shall be
the gross pro such market	OTHER PRODUCTS. Royalty on carbon black, sulphur or any other products produced or manufactured from gas (excepting liquid b) whether said gas be "casinghead," "dry," or any other gas, by fractionating, burning or any other processing shall be
5.	MINIMUM ROYALTY. During any year after the expiration of the primary term of this lease, if this lease is maintained by production, the 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



- 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 royatties 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 royatties 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 entities the royalty owners to a royalty under this lease.
- ROYALTY PAYMENTS AND REPORTS. All royalties not taken in kind shall be paid to the Commissioner of the General Land Office ustin, 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 produced and gas produced agent, completed in the form and manner prescribed by the General Land Office and storage, and any other reports or reports confirming the gross produced and put into pipelines, tanks, or pools and gas lines or gas storage, and any other reports or other remittance advice showing by the gross produced and put into pipelines, tanks, or pools and gas lines or gas storage, and any other reports or other remittance advice showing by the assigned 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. Each royalty payment shall be accompanied by a check stub, schedule, summary or other remittance advice showing by the assigned General Land Office. Each royalty payment shall be accompanied by a check stub, schedule, summary or other remittance advice shall accrue the royalty payment shall be accompanied by a check stub, schedule, summary or a great or before thirty (30) days after the royalty payment was due, then Lessee owes a penalty being paid on each lease. If Lessee pays his royalty on or before thirty (30) days late shall accrue a penalty of 15% on the royalty or \$25.00, whichever is greater, a royalty payment which are not field when the royalty payment which are not field when the delicate provided herein. Payment of the delinquency penalty shall in no way opera

vith 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 had in confidence by the General Land Office unless oftenwise authorized by Lessee. All other contracts and recovers 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 and 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, the properties of the 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," the seased premises and that are submitted to the the Texas or the leased premises for the purpose of identifying wells, tank batteries or other associated improvements to the land must also notate the word "State," Lessee shall supply the General Land Office with any records, memoranda, accounts, reports, cuttings and cores, or other notation relative to the operation of the above described premises, which may be requested by the General Land Office, in addition to the second of the above described premises, which may be requested by the General Land Office, in addition to those herein operation of the above described premises, which may be requested by the General Land Office, in addition to the second of the land on the above described premises and shall transmit a true copy of the log of each survey on each well to the feet 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

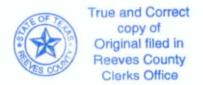
3.18.05

(C) PENALTIES, Lessee shall incur a penalty whenever reports, documents or other materials are not filed in the General Land Office when tue. 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. It, during the primary term hereof and prior to discovery and roduction 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 clusi 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 effore the expiration of stody (80) days from date of completion of said dry hole or cossation of production Lessee commences additional drilling or working operations thereon, or pays or tenders the next annual delay rental in the same manner as provided in this lease. If, during the tast year of the firmary term or within sixty (80) days prior thereto, a dry hole be completed and abandoned, or the production of oil or gas should cease for any cause, essee'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 roduction 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 revalties 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 tack 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 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 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 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 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, this lease shall thereupon terminate as to all acreage not 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, this lease shall thereupon terminate as to all acreage not thereafter allocated to said well or wells for production purposes, 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 ('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 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 owned 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.

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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.

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 smally 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, impair the effectiveness of any payment made by Lessee or 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, includ
- (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

 - (1) a normnee of the owner of the soi;
 (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 er 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 28. RELEASES. Under the conditions contained in this paragraph and Paragraph 29, Lessee may as any time execute and contained in this paragraph and Paragraph 29, Lessee may as any time execute and contained this lease as owner of the soil and place of record a release or releases covering any 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 rele 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 Commissioner of the Ge is not so filed, the rights acquired under this lease shall be subject to forfeiture at the option of the
- 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 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 royatties 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 come any other act or omission of 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 int
- 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 equalited as hazardous wastes, hazardous materials, hazardous substances (as the term "Hazardous Substances' 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'S VIOLATION OF THE FOREGOING PROHIBITION SHALL CONSTITUTE A MATERIAL BREACH AND DEFAULT HEREUNDER AND LESSEE'S VIOLATION OF THE FOREGOING PROHIBITION SHALL CONSTITUTE A MATERIAL BREACH AND DEFAULT HEREUNDER AND LESSEE'S UNIOLATION AND ARRIVED AND REPAIR ANY SOIL OR GROUND WATER COSTS) CAUSED BY OR ARISING OUT OF (1) A VIOLATION OF THE FOREGOING PROHIBITION OR (2) THE PRESENCE, RELEASE, OR CONTROL OF THE LEASED PREMISES JURING LESSEE'S OCCUPANCY OR CONTROL OF THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OR CONTROL OF THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OR 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, BU
- 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.

ā	PETRO-HUNG LLC BY: President Date: /2//4/0 \	walt is	
STATE OF TEXAS J Mauch Peggy F Mauch Individually and as agent for the State of Date: 12/06/04	Texas	STATE OF TEXAS BY: Individually and as agent for the State of Texas Date:	
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STATE OF Texas	(CORPORATION ACKNOWLEDGMENT)
COUNTY OF Karnes	0 122 1
BEFORE ME, the undersigned authority, on this day personally approximate to be the person whose name is subscribed to the foregoing inst	peared Peggy Mauch
nown to me to be the person whose name is subscribed to the foregoing inst	truments as 1 Eggy F. Mauch
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executed the same for the purposes and consideration therein expressed, in t	
Given under my hand and seal of office this the 6 day of _	December 2004.
communication	Irma R. Leal
IRMA R. LEAL	Notary Public in and for 04 - 22 - 2003
Notary Public, State of Texas	Notary Public in and for U / 22
My Commission Exp. 04-22-2008	(NON-IOLIAL ACVAICAM EDCAMENT)
STATE OF	(INDIVIDUAL ACKNOWLEDGMENT)
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BEFORE ME, the undersigned authority, on this day personally ap	peared Robert E. Wilcox
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purposes and consideration therein expressed.	
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EXHIBIT "A"

ATTACHED TO AND MADE PART OF THAT CERTAIN OIL AND GAS LEASE DATED November 1, 2004 BY AND BETWEEN THE STATE OF TEXAS, ACTING BY AND THROUGH ITS AGENT, Peggy F. Mauch, AS LESSOR AND Petro-Hunt L.L.C., AS LESSEE

Rentals Payable on the third anniversary date of the lease for that period from November 1st, 2007 through November 1st, 2008 shall be as follows:

To the Owner of the Soil: Three hundred seventy-five and 00/100 Dollars (\$375.00)

To the State of Texas: Three hundred seventy-five and 00/100 Dollars (\$375.00)

Total Rental: Seven hundred fifty and 00/100 Dollars (\$750.00)

On all other anniversary dates of the lease the Delay Rental shall be payable as set-out in paragraph 3 above.



EXHIBIT "B"

Attached and made a part of that certain Oil & Gas Lease dated November 1, 2004, by and between Peggy F. Mauch, as Lessor and Petro-Hunt L.L.C., as Lessee, and covering E/2 of NW/4 of Section 30, Block 58, Public School Lands Survey, Reeves County, TX.

The last sentence of Paragraph 26 has been struck, and shall be amended to read as follows:

Lessee agrees to remove any and all machinery, fixtures, or casings and return land as close to original condition as possible.

ANY PROVISION HERE IN ITS AICH STUDIETS THE SALE, RENTAL OR USE OF THE DESCRIPCION ALL PHOPERTY BECAUSE OF COLOR OR RACE IS INVALID AND UNERFORCEABLE UNDER FEDERAL LAW

FILE NO. 534

FILED FOR RECORD ON THE 11TH DAY OF FEBRUARY

A.D. 2005 2:42 P.M.

TLY RECORDED ON THE 21ST DAY OF FEBRUARY

, DEPUTY

A.D. 2005 1:00 P.M.

DIANNE O. FLOREZ, COUNTY CLERK REEVES COUNTY, TEXAS



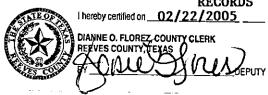
ile No. MF 10078/
Jate Filed: ZAW05
Jerry E-Paterson, Commissioner

...

Part Barrell

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 693 PAGE 581, THRU 591 OFFICIAL PRESIDENT I hereby certified on 02/22/2005



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.

AMENDMENT TO CHANGE ROYALTY OF OIL, GAS & MINERAL LEASE

STATE OF TEXAS

KNOW ALL MEN BY THESE PRESENTS: §

COUNTY OF REEVES

THAT WHEREAS, heretofore, under date of November 1, 2004, recorded in Volume 693 Page 581, in the Official Records of Reeves County, Texas. Peggy F. Mauch, Acting as Agent for the State of Texas, 658 County Road 326, Kenedy, TX 78119 as Lessor, did execute and deliver to Petro-Hunt, LLC., 1601 Elm Street, Suite 3400, Dallas, Texas 75201 as Lessee, an Oil, Gas & Mineral Lease, covering the following described land in Reeves County Texas, to-wit:

East-Half of the Northwest Quarter (E/2 NW/4) of Section 30, Block 58, PSL Survey.

WHEREAS, it is the desire of all of the undersigned hereinafter referred to as "Lessor" to correct the royalty paid to "Lessor" of said Oil, Gas & Mineral Lease.

NOW THEREFORE, in consideration of the premises and Ten Dollars (\$10.00) cash in hand paid by Lessee to Lessor, the receipt and sufficiency of which are hereby acknowledged and confessed, we, the undersigned, as Lessor, do hereby agree with Lessee that the royalty as set out in said Oil, Gas & Mineral Lease shall read ¼ instead of 1/5th royalty is hereby reformed and amended.

Lessor hereby in all things adopts, ratifies and confirms said Oil, Gas & Mineral Lease, as amended, and does hereby lease, demise and let all of the above described land unto Owner, subject to and under the terms and provisions of said Oil, Gas & Mineral Lease,

The provisions hereof shall extend to and be binding upon the heirs, legal representatives and assigns of the parties hereto.

Signed this the 8th day of Jebruares, 2007, but effective November 1, 2004.

BY: Walter P. Roach

Title: Vice President

Ammendment Lease

Net 10 Acres

STATE OF TEXAS

(CORPORATION ACKNOWLEDGMENT)

COUNTY OF DALLAS

walter P. Roach

BEFORE ME, the undersigned authority, on this day personally appeared Bruce A Hull known to me to be the person whose name is subscribed to the foregoing instruments as President V Scale State 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.

Given under my hand and seal of office this the 21 day of £121222. 2007.

CARLA SYRUM
Notary Public, State of Texas
My Commission Expires
September 22, 2008

Carla Buyum

(INDIVIDUAL ACKNOWLEDGMENT)

STATE OF _TI	EXAS	•
00111 FFV 0F	WADWVC	

BEFORE ME, the undersigned authority, on this day personally appeared Peggy F. Mauch

known to me to be the person whose name is subscribed to the foregoing instruments, and acknowledged to the that she executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this the 8th day of February 2007

Soma R. Led

Notary Public in and for_

IRMA R. LEAL
Notary Public, State of Texas
My Commission Exp. 04-22-2008

Recording Fee

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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.

THE STATE OF TEXAS, COUNTY OF REEVES.

I, hereby certify that this instrument with its certificates of authenticity was FILED on the date and at the time stamped hereon and was duly RECORDED in the OFFICIAL PUBLIC RECORDS of Real Property of Reeves County, Texas, as indicated.

OPR VOL. 757 PAGE 251 DATE RECORDED 02/28/2007



DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS
By: Deputy Deputy

BEAR GRAPHICS, AC.

3.	File No.MF-101781	
	LeaseB	
	Date Filed: 2/24/05	
	Jerry E. Patterson, Commissioner	
	By	

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General Land Office Relinquishment Act Lesse 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

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 27th day of Decer	nber ,2005 , between the State of Texas, acting
by and through its agent, R. Vance Sheffer, dealing in his sole and separate property	
of 17 Highland, Ave., Hanover, Pennsylvania 17331 (Give Permanent Address)	
aid agent herein referred to as the owner of the soil (whether one or more), and Pet	ro-Hunt, LLC
of 1601 Elm Street, Suite 3400, Dallas, Texas 75201-7201 (Give Permanent Address)	hereinafter called Lessee.
GRANTING CLAUSE. For and in consideration of the amounts stated performed by Lessee under this lease, the State of Texas acting by and through the sole and only purpose of prospecting and drilling for and producing oil and gratations, telephone lines and other structures thereon, to produce, save, take care districted in Reeves County, State of Texas, to-wit:	e owner of the soil, hereby grants, leases and lets unto Lessee, fo as, laying pipe lines, building tanks, storing oil and building powe
EAST-HALF OF THE NORTHWEST QUARTER (E/2 NW/4) OF SECTION	
EAST-HALF OF THE NORTHWEST QUARTER (EZ NWA) OF SECTION	N 30, BLOCK 58, PSL SURVEY

	for this lease is as follows:
containing 80 acres, more or less. The bonus consideration paid	for this lease is as follows:
To the State of Texas: Three Thousand and No/100 Dollars (\$3,000.00)	for this lease is as follows:
To the State of Texas: Three Thousand and No/100 Dollars (\$3,000.00)	for this lease is as follows:
To the State of Texas: Three Thousand and No/100 Dollars (\$3,000.00) To the owner of the soil: Three Thousand and No/100 Dollars (\$3,000.00)	for this lease is as follows:
To the State of Texas: Three Thousand and No/100 Dollars (\$3,000.00) To the owner of the soil: Three Thousand and No/100 Dollars (\$3,000.00)	for this lease is as follows:
To the State of Texas: Three Thousand and No/100 Dollars (\$3,000.00) To the owner of the soil: Three Thousand and No/100 Dollars (\$3,000.00) Total bonus consideration: Six Thousand and No/100 Dollars (\$6,000.00)	for this lease is as follows:
To the State of Texas: Three Thousand and No/100 Dollars (\$3,000.00) To the owner of the soil: Three Thousand and No/100 Dollars (\$3,000.00) Total bonus consideration: Six Thousand and No/100 Dollars (\$6,000.00) The total bonus consideration paid represents a bonus of Three Hundred and No/100	for this lease is as follows:
To the State of Texas: Three Thousand and No/100 Dollars (\$3,000.00) To the owner of the soil: Three Thousand and No/100 Dollars (\$3,000.00) Total bonus consideration: Six Thousand and No/100 Dollars (\$6,000.00) The total bonus consideration paid represents a bonus of Three Hundred and No/100	for this lease is as follows: 100 per acre, on 20 net acres.

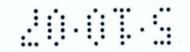




covered exceed out of pocket operational expenses for the six months last past

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.
unloss 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, Lesses shall pay or tender to the COMMIGGIONER OF THE GENERAL LAND OFFICE OF THE STATE OF TEXAS, AT AUSTIN, TEXAS, a like sunrour 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 soid date. Payments under this paragraph shall be in the following amounts:
To the owner of the soil: Ten and NO/100
Dollars (\$ 10,00
To the State of Texas: Ten and No/100
Dollars (\$10.00
Total Delay Rental: Twenty and No/100
Dollars (\$20.00
In a like manner and upon like payments or tenders annually, the commencement of a well may be further deferred for successive periods of one (1) year each during the primary term. All payments or tenders of rental to the owner of the soil may be made by check or sight draft of Lessee, or any assignee of this lease, and may be delivered on or before the rental paying date. If the bank designated in this paragraph (or its successor bank) should cease to exist, suspend business, liquidate, fail or be succeeded by another bank, or for any reason fail or refuse to accept rental, Lessee shall not be held in default for failure to make such payments or tenders of rental until thirty (30) days after the owner of the soil shall deliver to Lessee a proper recordable instrument naming another bank as agent to receive such payments or tenders.
4. PRODUCTION ROYALTIES. Upon production of oil and/or gas, Lessee agrees to pay or cause to be paid one-half (1/2) of the royalty provided for in this lease to the Commissioner of the General Land Office of the State of Texas, at Austin, Texas, and one-half (1/2) of such royalty to the owner of the soil:
(A) OIL. Royalty payable on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well and also as all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, shall be 1/4 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be determined by 1) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity in the general area where produced and when run, or 2) the highest market price thereof offered or paid in the general area where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is the greater. Lessee agrees that before any gas produced from the leased premises is sold, used or processed in a plant, it will be run free of cost to the royalty owners through an adequate oil and gas separator of conventional type, or other equipment at least as efficient, so that all liquid hydrocarbons recoverable from the gas by such means will be recovered. The requirement that such gas be run through a separator or other equipment may be waived, in writing, by the royalty owners upon such terms and conditions as they prescribe.
(B) NON PROCESSED GAS. Royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substances not defined as oil in subparagraph (A) above, produced from any well on said land (except as provided herein with respect to gas processed in a plant for the extraction of gasoline, liquid hydrocarbons or other products) shall be 1/4 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be based on the highest market price paid or offered for gas of comparable quality in the general area where produced and when run, or the gross price paid or offered to the producer, whichever is the greater, provided that the maximum pressure base in measuring the gas under this lease shall not at any time exceed 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to tests made by the Balance Method or by the most approved method of testing being used by the industry at the time of testing.
(C) PROCESSED GAS. Royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbons shall be 1/4 part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office. All royalties due herein shall be based on one hundred percent (100%) of the total plant production of residue gas attributable to gas produced from this lease, and on fifty percent (50%), or that percent accruing to Lessee, whichever is the greater, of the total plant production of liquid hydrocarbons attributable to the gas produced from this lease; provided that if liquid hydrocarbons are recovered from gas processed in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the percentage applicable to liquid hydrocarbons shall be fifty percent (50%) or the highest percent accruing to a third party processing gas through such plant under a processing agreement negotiated at arm's length (or if there is no such third party, the highest percent then being specified in processing agreements or contracts in the industry), whichever is the greater. The respective royalties on residue gas and on liquid hydrocarbons shall be determined by 1) the highest market price paid or offered for any gas (or liquid hydrocarbons) of comparable quality in the general area, or 2) the gross price paid or offered for such residue gas (or the weighted average gross selling price for the respective grades of liquid hydrocarbons), whichever is the greater. In no event, however, shall the royalties payable under this paragraph be less than the royalties which would have been due had the gas not been processed.
(D) OTHER PRODUCTS. Royalty on carbon black, sulphur or any other products produced or manufactured from gas (excepting liquid hydrocarbons) whether said gas be "casinghead," "dry," or any other gas, by fractionating, burning or any other processing shall be 1/4 part of the gross production of such products, or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such market value to be determined as follows: 1) on the basis of the highest market price of each product for the same month in which such product is produced, or 2) on the basis of the average gross sale price of each product for the same month in which such products are produced; whichever is the greater.
5. MINIMUM ROYALTY. During any year after the expiration of the primary term of this lease, if this lease is maintained by production, the royalties paid under this lease in no event shall be less than an amount equal to the total annual delay rental herein provided; otherwise, there shall be due and payable on or before the last day of the month succeeding the anniversary date of this lease a sum equal to the total annual rental less the amount of royalties paid during the preceding year. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this





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

- 6. ROYALTY IN KIND. Notwithstanding any other provision in this lease, at any time or from time to time, the owner of the soil or the Commissioner of the General Land Office may, at the option of either, upon not less than sixty (60) days notice to the holder of the lease, require that the payment of any royalties accruing to such royalty owner under this lease be made in kind. The owner of the soil's or the Commissioner of the General Land Office's right to take its royalty in kind shall not diminish or negate the owner of the soil's or the Commissioner of the General Land Office's rights or Lessee's obligations, whether express or implied, under this lease.
- 7. NO DEDUCTIONS. Lessee agrees that all royalties accruing under this lease (including those paid in kind) shall be without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting, and otherwise making the oil, gas and other products hereunder ready for sale or use. Lessee agrees to compute and pay royalties on the gross value received, including any reimbursements for severance taxes and production related costs.
- 8. PLANT FUEL AND RECYCLED GAS. No royalty shall be payable on any gas as may represent this lease's proportionate share of any fuel used to process gas produced hereunder in any processing plant. Notwithstanding any other provision of this lease, and subject to the written consent of the owner of the soil and the Commissioner of the General Land Office, Lessee may recycle gas for gas lift purposes on the leased premises or for injection into any oil or gas producing formation underlying the leased premises after the liquid hydrocarbons contained in the gas have been removed; no royalties shall be payable on the recycled gas until it is produced and sold or used by Lessee in a manner which entitles the royalty owners to a royalty under this lease.
- 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 skyl (60) days overdue. Afficially and supporting documents which are not filed when due shall incur a penalty i

- 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 reworking operations 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 shuf-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 shuf-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 shuf-in oil or gas well is located on the leased premises, payments may be made in accordance with the shuf-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 lease 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 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, this lease shall thereupon terminate as to all acreage not thereafter allocated to said well or wells for production purposes, this lease shall the same as to a portion of the lands covered hereby, Lessee shall nevertheless continue to have the right of lingress 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.

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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 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 cone of the soil.

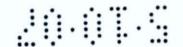




- 25. POLLUTION. In developing this area, Lessee shall use the highest degree of care and all proper safeguards to prevent pollution. Without limiting the foregoing, pollution of coastal wetlands, natural waterways, rivers and impounded water shall be prevented by the use of containment facilities sufficient 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 payment made by Lessee or 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 obligation
- (B) ASSIGNMENT LIMITATION. Notwithstanding any provision in Paragraph 27(a), if the owner of the soil acquires this lease in whole or assignment without the prior written approval of the Commissioner of the General Land Office, this lease is void as of the time of assignment pency 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 and the a

 - a nominee of the owner of the soil;
 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;
 a partnership in which the owner of the soil is a partner or is an employee of such a partnership;
 a partnership in which the owner of the corporation which is the owner of the soil;
 a partner or employee in a partnership which is the owner of the soil;
 a fiduciary for the owner of the soil; including but not limited to a guardian, trustee, executor, administrator, receiver, or conservator for the er 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 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 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 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 th
- 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 waiste, 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 Substances" 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, JUDIGMENTS, 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 DURING LESSEE'S OCCUPANCY OR RELEASE OF ANY HAZARDOUS MATERIALS IN, ON, UNDER, OR ABOUT THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OF 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 ACTION
- 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.





p. 1. 1.

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.

BY: Walter P. Roach Wo / Jenn

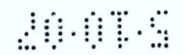
LESSEE

Title: Vice President Date: 2/2/07	3/20/07
STATE OF TEXAS BY: Shuffer R. Vance Sheffer	STATE OF TEXAS BY:
Individually and as agent for the State of Texas Date: //25/07	Individually and as agent for the State of Texas Date:
STATE OF TEXAS BY:	STATE OF TEXAS BY:
Individually and as agent for the State of Texas	Individually and as agent for the State of Texas



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File No.ME - |\alpha(18|\)

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Date Filed: \alpha \alpha(\los\)

Jerry E. Patterson, Commissioner

By

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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_757.

PAGE 177, THRU 185 OFFICIAL PUBLIC Interest of the public records of my office, found in VOL_757.

I hereby certified on 4/25/2007.

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY: TELAS
BY TOYOUT STEELED
BY TOYOUT STEE

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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

OIL AND GAS LEASE

of 13518 Camino De Plata, Corpus Christi, Texas 78418	
(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 (Give Permanent Address)	hereinafter called Lessee.
GRANTING CLAUSE. For and in consideration of the amounts significant performed by Lessee under this lease, the State of Texas acting by and throughthe sole and only purpose of prospecting and drilling for and producing oil at stations, telephone lines and other structures thereon, to produce, save, take continuated in Reeves County, State of Texas, to-wit:	nd gas, laving pipe lines, building tanks, storing oil and building power
EAST-HALF OF THE NORTHWEST QUARTER (E/2 NW/4) OF SEC	TION 30, BLOCK 58, PSL SURVEY
containing 80 acres, more or less. The bonus consideration p	
containing 80 acres, more or less. The bonus consideration p	aid for this lease is as follows:
containing 80 acres, more or less. The bonus consideration p	aid for this lease is as follows:
To the State of Texas: Fifteen Hundred and No/100 Dollars (\$1,500.00)	aid for this lease is as follows:
To the State of Texas: Fifteen Hundred and No/100 Dollars (\$1,500.00) To the owner of the soil: Fifteen Hundred and No/100	aid for this lease is as follows:
To the State of Texas: Fifteen Hundred and No/100 Dollars (\$1,500.00) To the owner of the soil: Fifteen Hundred and No/100 Dollars (\$1,500.00)	aid for this lease is as follows:
To the State of Texas: Fifteen Hundred and No/100 Dollars (\$1,500.00) To the owner of the soil: Fifteen Hundred and No/100 Dollars (\$1,500.00) Total bonus consideration: Three Thousand and No/100	aid for this lease is as follows:





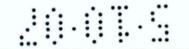
covered exceed out of pocket operational expenses for the six months last past.

unless on or before such anniversary date Lessee shall pay or ter	nder to the owner of the soil or to his credit in the This is a paid up lease.
Bank, at	
Lesses shall pay or tender to the COMMISSIONER OF THE GEN	ess of changes in the ownership of said land), the amount specified below; in addition IERAL LAND OFFICE OF THE STATE OF TEXAS, AT AUSTIN, TEXAS, a like sum a e as a rental and shall sever the privilege of deferring the semmencement of a well for I be in the following amounts:
To the owner of the soil: Five and No/100	
To the owner of the soil: <u>Five and No/100</u> Dollars (\$.5.00	
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Dollars (\$.5.00 To the State of Texas: Five and No/100	

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 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 produced; whichever is the greater.
- 5. MINIMUM ROYALTY. During any year after the expiration of the primary term of this lease, if this lease is maintained by production, the royalties paid under this lease in no event shall be less than an amount equal to the total annual delay rental herein provided; otherwise, there shall be due and payable on or before the last day of the month succeeding the anniversary date of this lease a sum equal to the total annual rental less the amount of royalties paid during the preceding year. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this





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

- 6. ROYALTY IN KIND. Notwithstanding any other provision in this lease, at any time or from time to time, the owner of the soil or the Commissioner of the General Land Office may, at the option of either, upon not less than sixty (60) days notice to the holder of the lease, require that the payment of any royalties accruing to such royalty owner under this lease be made in kind. The owner of the soil's or the Commissioner of the General Land Office's right to take its royalty in kind shall not diminish or negate the owner of the soil's or the Commissioner of the General Land Office's rights or Lessee's obligations, whether express or implied, under this lease.
- 7. NO DEDUCTIONS. Lessee agrees that all royalties accruing under this lease (including those paid in kind) shall be without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting, and otherwise making the oil, gas and other products hereunder ready for sale or use. Lessee agrees to compute and pay royalties on the gross value received, including any reimbursements for severance taxes and production related costs.
- 8. PLANT FUEL AND RECYCLED GAS. No royalty shall be payable on any gas as may represent this lease's proportionate share of any fuel used to process gas produced hereunder in any processing plant. Notwithstanding any other provision of this lease, and subject to the written consent of the owner of the soil and the Commissioner of the General Land Office, Lessee may recycle gas for gas lift purposes on the leased premises or for injection into any oil or gas producing formation underlying the leased premises after the liquid hydrocarbons contained in the gas have been removed; no royalties shall be payable on the recycled gas until it is produced and sold or used by Lessee in a manner which entitles the royalty owners to a
- 9, ROYALTY PAYMENTS AND REPORTS. All royalties not taken in kind shall be paid to the Commissioner of the General Land Office at Austin, Texa

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

- 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 sput 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. neral 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,

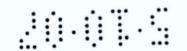




Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term; and if Lessee has not resumed production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking 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 lose 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 workmanilike 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 workmanilike 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. of compensatory royalties can satisfy the obligation to drill offset w
- 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, this lease shall thereupon terminate as to all acreage not 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, 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 ('the retained lands'), for existing roads, existing pipelines and ot

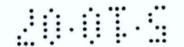




in Paragraph 16 (A) above, unless on or before two (2) years after the primary or extended term Lessee pays an amount equal to one-half (1/2) of the bonus originally paid as consideration for this lease (as specified on page 1 hereof). If such amount is paid, this lease shall be in force and effect as 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 filled 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 peeing 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 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 tark 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 payment made by Lessee or impair the effectiveness of any payment made by Lessee or impair the effectiveness of any payment made by Lessee or impair the effectiveness of any payment made by Lessee or impair the effectiveness of 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 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 assignment without the prior written approval of the Commissioner of the General Land Office, this lease is void as of the time of assignment pency 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 in part by assign and the ag

 - a nominee or the owner or the soil;
 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;
 a partnership in which the owner of the soil is a partner or is an employee of such a partnership;
 a partnership in which the owner of the corporation which is the owner of the soil;
 a partner or employee in a partnership which is the owner of the soil;
 a fluciary for the owner of the soil; including but not limited to a guardian, trustee, executor, administrator, receiver, or conservator for the er 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
- 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 d 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
- 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 fotures 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 the
- 36. ENVIRONMENTAL HAZARDS. Lessee shall use the highest degree of care and all reasonable safeguards to prevent contamination or poliution 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 renain on the leased premises any asbestos containing materials, explosives, toxic maierials, 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 DURING LESSEE'S OCCUPANCY OR RELEASE OF ANY HAZARDOUS MATERIALS IN, ON, UNDER, OR ABOUT THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OR CONTROL OF 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
- 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: Walter P. Roach // Title: Vice President Date: 2/2//07	
STATE OF TEXAS a Vance- nase BY: Donna Fay Vance Nase	STATE OF TEXAS BY:
Individually and as agent for the State of Texas Date: 12/29 0	Individually and as agent for the State of Texas Date:
STATE OF TEXAS	STATE OF TEXAS
BY:	ВУ:
Individually and as agent for the State of Texas	Individually and as agent for the State of Texas





BEFORE ME, the undersigned authority, on this day personally apper	(CORPORATION ACKNOWLEDGMENT)
BEFORE ME, the undersigned authority, on this day personally appearnown to me to be the person whose name is subscribed to the foregoing instruction.	
nown to me to be the person whose name is subscribed to the foregoing instru	
1	
	and acknowledged to me that he
xecuted the same for the purposes and consideration therein expressed, in the	e capacity stated, and as the act and deed of said corporation.
Given under my hand and seal of office this the day of	, 20
	Notary Public in and for
TATE OF TEXAS	(INDIVIDUAL ACKNOWLEDGMENT)
TATE OF LEXIPS	,
	ared Donna Fay Vance Nase
	STATE OF THE PARTY
nown to me to be the persons whose names are subscribed to the foregoing in	nstrument, and acknowledged to me that they executed the same for the
urposes and consideration therein expressed.	1
Given under my hand and seal of office this the day of	reember 20 04 DI
R PRINT	477
Notary Public STATE OF TEXAS	Notary Public in and for TYAS
My Comm. Exp. 06-27-2007	,
TATE OF DENOS	(INDIVIDUAL ACKNOWLEDGMENT)
DUNTY OF Sallas	1200 500
BEFORE ME, the undersigned authority, on this day personally appear	now woller t. Karel
own to me to be the persons whose names are subscribed to the foregoing in	estrument, and acknowledged to me that they executed the same for the
rposes and consideration therein expressed.	
Given under my hand and seal of office this the day of	Toos mound
Carry of Carry and Soul of Cities the Carry of Carry of Carry	Carla Byrum
Notary Public, State of Texas	Carla Byrum
My Commission Expires September 22, 2008	Notary Public in and for
TATE OF	(INDIVIDUAL ACKNOWLEDGMENT)
DUNTY OF	(HIDTELOAL ACCOUNTS)
2500.14 m	and .
BEFORE ME, the undersigned authority, on this day personally appear	100
own to me to be the persons whose names are subscribed to the foregoing in	strument, and acknowledged to me that they executed the same for the
rposes and consideration therein expressed.	
Given under my hand and seal of office this the day of	
	Notes Dable Is and for
-	Notary Public in and for





Jerry E. Patterson, Commissioner Date Filed: 3 By

 \mathcal{N}

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. 757
PAGE 215, THRU 223 OFFICIAL PUBLIC RECORDS

1 hereby certified on 4/25/2007



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

OIL AND GAS LEASE

of 2414 Twin Grove, King	gwood, Texas 77339		
(Give Permanent Addres			
said agent herein referred	d to as the owner of the soil (whether one or more), and Petro-Hunt, LLC	
of 1601 Elm Street, Suite (Give Permanent Address	e 3400, Dallas, Texas 75201-7201		hereinafter called Lessee.
the sole and only purpos stations, telephone lines situated in Reeves	G CLAUSE. For and in consideration of the amounder this lease, the State of Texas acting by and to use of prospecting and drilling for and producing and other structures thereon, to produce, save, to County, State of Texas, to-wi	through the owner of the soil, here oil and gas, laying pipe lines, bu ake care of, treat and transport sa it:	by grants, leases and lets unto Lessee, fo ilkling tanks, storing oil and building powe kid products of the lease, the following land
EAST-HALF O	OF THE NORTHWEST QUARTER (E/2 NW/4) OF	SECTION 30, BLOCK 58, PSL S	URVEY
containing 80	acres, more or less. The bonus considera	ition paid for this lease is as follows	k:
To th	he State of Texas: Fifteen Hundred and No/100		
	Dollars (\$1,500.00)		
To th	he owner of the soil: Fifteen Hundred and No/100_		
	Dollars (\$1,500,00)		
Total	bonus consideration: Three Thousand and No/10	00	
	Dollars (\$3,000,00)		
The total bonus considera	ation paid represents a bonus of <u>Three Hundred</u>	and No/100	
	Dollars (\$300.00	per acre, on 10	net acres.
2 7504 0.44	ject to the other provisions in this lease, this lease	shall be for a term of Three (3)	years from said land. As used





covered exceed out of pocket operational expenses for the six months last past.

3. DELAY RENTALS. If no well is commenced on the leased premis

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, because shall pay or tender to the COMMISSIONER OF THE CENERAL 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 defening the semmensement 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: Five and No/100
Dollars (\$ 5,00
To the State of Texas: Five and No/100
Dollars (\$5,00
Total Delay Rental: Ten and No/100
Dollars (\$10.00
In a like manner and upon like payments or tenders annually, the commencement of a well may be further deferred for successive periods of one (1) year each during the primary term. All payments or tenders of rental to the owner of the soil may be made by check or sight draft of Lessee, or any assignee of this lease, and may be delivered on or before the rental paying date. If the bank designated in this paragraph (or its successor bank) should cease to exist, suspend business, liquidate, fail or be succeeded by another bank, or for any reason fail or refuse to accept rental, Lessee shall not be held in default for failure to make such payments or tenders of rental until thirty (30) days after the owner of the soil shall deliver to Lessee a proper recordable instrument naming another bank as agent to receive such payments or tenders.
4. PRODUCTION ROYALTIES. Upon production of oil and/or gas, Lessee agrees to pay or cause to be paid one-half (1/2) of the royalty provided for in this lease to the Commissioner of the General Land Office of the State of Texas, at Austin, Texas, and one-half (1/2) of such royalty to the owner of the soil:
(A) OIL. Royalty payable on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well and also as all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, shall be 1/4 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be determined by 1) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravily 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 fiquid 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.

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.

(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 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



20.01.5

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

20-01-5

- 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.
- 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 memorands 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 skyl (60) days overdue.

Affidavits and supporting documents which are not filed when due shall incur a penalty

- 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 filled with the Texas Railroad Commission. All applications, permits, reports or other fillings 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 commust 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 reworking operations 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.



20.01.5

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 tellipared in region quantities from a well located within one thousand (1.000) feet of the leased premises and completed in the same producing 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, 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



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 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 royalty lessed 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
- (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

20.01.5

- 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
- 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 adoptic
- 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 terministion 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 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 ornission 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 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, indemnity, defend and hold harmless the State of Texas and the owner of the soil, their officers, employees, and agents in t
- 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 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 DURING LESSEE'S OCCUPANCY OR THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OF 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 PARAGRAPH, UPON LEARNING OF THE PRESENCE OF ANY HAZARDOUS MATERIALS, OR UPON RECEIVING A NOTICE FROM ANY GOVERNMENTAL AGENCY PERTAINING TO HAZARDOUS
- 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.

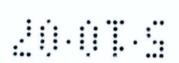
LESSEE

	LESSEE	2. 5.	
	BY: Walter P. Roach	Na. Sluc	
	Title: Vice President		
	Date: 0/21/07		
STATE OF TEXAL! BY: George Finger Varice, Jr.	u Ja	STATE OF TEXAS BY:	_
Individually and as agent for the State of	f Texas	Individually and as agent for the State of Texas	
Date: 1/2/2067	_	Date:	
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File No.ME (COM CE Date Filed: 2)24(05

Jerry E. Patterson, Commissioner

By

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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 tawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL 757 PAGE 233. THRU 241. OFFICIAL PUBLIC RECORDS

Thereby certified on 4/25/2007

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

BY TOSIE FLORES

TOSIE FLORES

FILE# 823

General Land Öffice 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

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 7th day of Fe	bruary 2007 , between the State of Texas, acting
by and through its agent, Patti Haugen, Sherri Jones and Judy Pape, as Attorney property	in-Fact for Betty Lou Williams dealing in her sole and separate
of <u>3 Cobham Way</u> , San Antonio, Texas 78218-6061 (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 (Give Permanent Address)	hereinafter called Lessee.
GRANTING CLAUSE. For and in consideration of the amounts state performed by Lessee under this lease, the State of Texas acting by and through the sole and only purpose of prospecting and drilling for and producing oil and stations, telephone lines and other structures thereon, to produce, save, take car situated in Reeves	n the owner of the soil, hereby grants, leases and lets unto Lessee, for d gas, laying pipe lines, building tanks, storing oil and building power
EAST-HALF OF THE NORTHWEST QUARTER (E/2 NW/4) OF SECT	ION 30, BLOCK 58, PSL SURVEY
containing 80 acres, more or less. The bonus consideration pa	aid for this lease is as follows:
containing 80 acres, more or less. The bonus consideration pa To the State of Texas: Seven Hundred Fifty and No/100	aid for this lease is as follows:
	aid for this lease is as follows:
To the State of Texas: Seven Hundred Fifty and No/100	aid for this lease is as follows:
To the State of Texas: <u>Seven Hundred Fifty and No/100</u> <u>Dollars</u> (\$750.00)	aid for this lease is as follows:
To the State of Texas: <u>Seven Hundred Fifty and No/100</u> <u>Dollars (\$750.00)</u> To the owner of the soil: <u>Seven Hundred Fifty and No/100</u> <u>Dollars (\$750.00)</u>	aid for this lease is as follows:
To the State of Texas: <u>Seven Hundred Fifty and No/100</u> <u>Dollars (\$750.00)</u> To the owner of the soil: <u>Seven Hundred Fifty and No/100</u> <u>Dollars (\$750.00)</u>	
To the State of Texas: Seven Hundred Fifty and No/100 Dollars (\$750.00) To the owner of the soil: Seven Hundred Fifty and No/100 Dollars (\$750.00) Total bonus consideration: Fifteen Hundred and No/100	



20.01.5

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.

unless on or before such annive	rsary date Lessee shall pay or tender to the owner of the soll or to his credit in the This is a Paid Up Lease. Bank, at
essee shall pay or tender to the before said date. Payments	ontinue as the depository regardless of changes in the ownership of said land), the amount specified below; in addition of the depository regardless of changes in the ownership of said land), the amount specified below; in addition of the commence of the sum-under this paragraph shall operate as a rental and shall cover the privilege of deferring the commencement of a well-yments under this paragraph shall be in the following amounts:
To the own	er of the soil: Two Dollars and 50/100
	Dollars (\$2.50
To the Stat	e of Texas: Two Dollars and 50/100
	Dollars (\$2.50)
Total Delay	Pental: Five and No/100 Dollars (\$5,00)
year each during the primary to assignee of this lease, and may be see to exist, suspend busine held in default for failure to ma	payments or tenders annually, the commencement of a well may be further deferred for successive periods of one or term. All payments or tenders of rental to the owner of the soil may be made by check or sight draft of Lessee, or a be delivered on or before the rental paying date. If the bank designated in this paragraph (or its successor bank) shot say, liquidate, fail or be succeeded by another bank, or for any reason fail or refuse to accept rental, Lessee shall not ke such payments or tenders of rental until thirty (30) days after the owner of the soil shall deliver to Lessee a propnother bank as agent to receive such payments or tenders.
	DYALTIES. Upon production of oil and/or gas, Lessee agrees to pay or cause to be paid one-half (1/2) of the royal Commissioner of the General Land Office of the State of Texas, at Austin, Texas, and one-half (1/2) of such royalty 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 commissioner of the General Land Office of the State of Texas, at Austin, Texas, and one-half (1/2) of such royalty 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 commissioner of the General Land Office of the State of Texas, at Austin, Texas, and one-half (1/2) of such royalty 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 commissioner of the General Land Office of the State of Texas, at Austin, Texas, and one-half (1/2) of such royalty 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 Commissioner of the General Land Office of the Commissioner of the
as all condensate, distillate, and shall be 1/4 part of the gross Office, such value to be determ hydrocarbons, respectively, of a paid in the general area where pany gas produced from the leas and gas separator of convention	payable on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well and all other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provide production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Latined by 1) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid like type and gravity in the general area where produced and when run, or 2) the highest market price thereof offered produced and when run, or 3) the gross proceeds of the sale thereof, whichever is the greater. Lessee agrees that before the premises is sold, used or processed in a plant, it will be run free of cost to the royalty owners through an adequate that type, or other equipment at least as efficient, so that all liquid hydrocarbons recoverable from the gas by such mean that such gas be run through a separator or other equipment may be waived, in writing, by the royalty owners up they prescribe.
not defined as oil in subparagra for the extraction of gasoline, liq option of the owner of the soil of gas of comparable quality in the provided that the maximum pre- and the standard base temperal	ESSED GAS. Royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substance the produced from any well on said land (except as provided herein with respect to gas processed in a plaud hydrocarbons or other products) shall be 1/4 part of the gross production or the market value thereof, at the trip the Commissioner of the General Land Office, such value to be based on the highest market price paid or offered to general area where produced and when run, or the gross price paid or offered to the producer, whichever is the great sure base in measuring the gas under this lease shall not at any time exceed 14.65 pounds per square inch absoluture shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specibly the Balance Method or by the most approved method of testing being used by the industry at the time of testing.
hydrocarbons shall be 1/4 of the soil or the Commissione production of residue gas attribing greater, of the total plant production of the total plant plant production of the total plant plant production of the total plant production of the total plant plant production of the total plant plant production of the total plant	D GAS. Royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liques part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the own or of the General Land Office. All royalties due herein shall be based on one hundred percent (100%) of the total plautable to gas produced from this lease, and on fifty percent (50%), or that percent accruing to Lessee, whichever is the part in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the percentage applicable to lique cent (50%) or the highest percent accruing to a third party processing gas through such plant under a processing ength (or if there is no such third party, the highest percent then being specified in processing agreements or contracts realer. The respective royalties on residue gas and on liquid hydrocarbons shall be determined by 1) the highest mark of contracts in the processing part of the respective grades of liquid hydrocarbons), whichever is the greater. In no event, however, shipparagraph be less than the royalties which would have been due had the gas not been processed.
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royalties paid under this lease i	.TY. During any year after the expiration of the primary term of this lease, if this lease is maintained by production, to no event shall be less than an amount equal to the total annual delay rental herein provided; otherwise, there shall be last day of the month succeeding the anniversary date of this lease a sum equal to the total annual rental less to the last day of the month succeeding the anniversary date of this lease a sum equal to the total annual rental less to the last day of the month succeeding the anniversary date of this lease a sum equal to the total annual rental less to the last day of the month succeeding the anniversary date of this lease as the last day of the month succeeding the anniversary date of this lease.





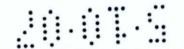
amount of royalties paid during the preceding year. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre.

- 6. ROYALTY IN KIND. Notwithstanding any other provision in this lease, at any time or from time to time, the owner of the soil or the Commissioner of the General Land Office may, at the option of either, upon not less than sixty (60) days notice to the holder of the lease, require that the payment of any royalties accruing to such royalty owner under this lease be made in kind. The owner of the soil's or the Commissioner of the General Land Office's right to take its royalty in kind shall not diminish or negate the owner of the soil's or the Commissioner of the General Land Office's rights or Lessee's obligations, whether express or implied, under this lease.
- 7. NO DEDUCTIONS, Lessee agrees that all royalties accruing under this lease (including those paid in kind) shall be without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting, and otherwise making the oil, gas and other products hereunder ready for sale or use. Lessee agrees to compute and pay royalties on the gross value received, including any reimbursements for severance taxes and production related costs.
- 8. PLANT FUEL AND RECYCLED GAS. No royalty shall be payable on any gas as may represent this lease's proportionate share of any fuel used to process gas produced hereunder in any processing plant. Notwithstanding any other provision of this lease, and subject to the written consent of the owner of the soil and the Commissioner of the General Land Office, Lessee may recycle gas for gas lift purposes on the leased premises or for injection into any oil or gas producing formation underlying the leased premises after the liquid hydrocarbons contained in the gas have been removed; no royalties shall be payable on the recycled gas until it is produced and sold or used by Lessee in a manner which entitles the royalty owners to a royalty under this lease.
- 9. ROYALTY PAYMENTS AND REPORTS. All royalties not taken in kind shall be paid to the Commissioner of the General Land Office at Austin, Texas, in the following manner:

Payment of royalty on production of oil and gas shall be as provided in the rules set forth in the Texas Register. Rules currently provide that royalty on oil is due and must be received in the General Land Office on or before the 5th day of the second month succeeding the month of production, and royalty on gas is due and must be received in the General Land Office on or before the 15th day of the second month succeeding the month of production, accompanied by the affidavit of the owner, manager or other authorized agent, completed in the form and manner prescribed by the General Land Office and showing the gross amount and disposition of all oil and gas produced and the market value of the oil and gas, together with a copy of all documents, records or reports confirming the gross production, disposition and market value including gas meter readings, pipeline receipts, gas line receipts and other checks or memoranda of amount produced and put into pipelines, tanks, or pools and gas lines or gas storage, and any other reports or records which the General Land Office may require to verify the gross production, disposition and market value. In all cases the authority of a manager or agent to act for the Lessee herein must be filled 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 is over thirty (30) days overdue and the roy

- 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 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 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. 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 ises, after once obtained, should cease from any cause, this lease shall not terminate if Lessee commences additional drilling or reworking tions 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 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 commissioner of the general Land Office and one-half (1/2) to the commissioner of the general Land Office and one-half (1/2) to the commissioner of the general Land Office and one-half (1/2) to the commissioner of the general Land Office and one-half (1/2) to the commissioner of the general Land Office and one-half (1/2) to the commissioner of the general Land Office and one-half (1/2) to the comment of the producing lease and the comment shall be made one-half (1/2) to the comment of the primary term, (2) are comment shall the payment shall be made one-half (1/2) to the comment of the primary term, (2) are comment and the primary term of the primary te 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 (172) to the Commissioner of the General Land Office and one-half (172) 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 seen completed on the leased premises, Lessee shall exercise the diligence of a reasonably prudent operator in drilling such additional well or 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 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 covenants 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.

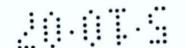




- 25. POLLUTION. In developing this area, Lessee shall use the highest degree of care and all proper safeguards to prevent pollution. Without limiting the foregoing, pollution of coastal wetlands, natural waterways, rivers and impounded water shall be prevented by the use of containment facilities sufficient 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 keet painted and presentable. 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 a
- (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
 - ber of the owner of the soil or related to the owner of the soil by marriage, blood, or adoptic
- 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 idiately 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 d 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 the leased premises. When the interestinterests 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 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; 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 ha

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 Substances" 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 CONTROL OF 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 CONTROL OF TEXAS AND THE PRESENCE OF THE ENVIRONMENTAL LAW OR REGULATION. LESSEE SHALL IMMEDIATELY GIVE THE STATE OF TEXAS AND THE OWN

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.

Title: Vice President
Date: 3/1/07

STATE OF JEXAS
BY Sherri Johes, A-I-F for Betty Low Williams
and as agent for the State of Texas

Date: 2////

STATE OF JEXAS
BY Sherri Johes, A-I-F for Betty Low Williams
Individually and as agent for the State of Texas

Date: 2////

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

BY:





STATE OF JEYAS	(CORPORATION ACKNOWLEDGMENT)
COUNTY OF DEXAV	0.44
BEFORE ME, the undersigned authority, on this day personally appe	
known to me to be the person whose name is subscribed to the foregoing instruor Of Dety 1000 William S	· · · · · · · · · · · · · · · · · · ·
executed the same for the purposes and consideration therein expressed, in the	and acknowledged to me that he e capacity stated, and as the act and deed of said corporation.
Given under my hand and seal of office this the 13th day of	Notary Public In and for TEXAS
STATE OF	MAGDALENE M. BUSTER & L ACKNOWLEDGMENT) Notary Public, State of Taxon My Commission septres November 15, 2008
BEFORE ME, the undersigned authority, on this day personally appe	ared Patti Hatigeri
known to me to be the persons whose names are subscribed to the foregoing is purposes and consideration therein expressed. Given under my hand and seal of office this the day of	
STATE OF Taxas	Notary Public in and for
COUNTY OF Midland	(INDIVIDUAL ACKNOWLEDGMENT)
BEFORE ME, the undersigned authority, on this day personally appear	ared <u>SherriJones</u> , in the capacities therein stated
known to me to be the persons whose names are subscribed to the foregoing is purposes and consideration therein expressed.	nstrument, and acknowledged to me that they executed the same for the
Given under my hand and seal of office this the 13 th day of 7	ebruary 20 07.
KATHRYN L. LOCKE Notary Public, State of Texas	Kathryn J. Locke
My Commission Expires September 30, 2009	Notary Public in and for Toxocs
STATE OF Texas	(INDIVIDUAL ACKNOWLEDGMENT)
COUNTY OF Midland	(Marriagne Notito Weeds and Marriagne)
BEFORE ME, the undersigned authority, on this day personally appear	ared Judy Pape, in the capacities therein stated
known to me to be the persons whose names are subscribed to the foregoing in purposes and consideration therein expressed.	strument, and acknowledged to me that they executed the same for the
Given under my hand and seal of office this the 13th day of 2	elruary 2007.
Notary Public, State of Texas My Commission Expires September 30, 2009	Kathryn Z Locke Notary Public in and for TEXAS





· · · · · · · · · · · · · · · · · · ·	
STATE OF Services	(CORPORATION ACKNOWLEDGMENT)
COUNTY OF Qullas	
BEFORE ME, the undersigned authority, on this day person	onally appeared Bruce A. Hunt
known to me to be the person whose name is subscribed to the forego	
of Petro-Hunt, LLC	and acknowledged to me that he
executed the same for the purposes and consideration therein expres	ssed in the capacity stated, and as the act and deed of said corporation.
Given under my hand and seal of office this the	Cala Byum
CARLA BYRUM	7 Carl Burn
Notary Public, State of Texas My Commission Expires	
September 22, 2008	Notary Public in and for
STATE OF	(INDIVIDUAL ACKNOWLEDGMENT)
COUNTY OF	,
BEFORE ME, the undersigned authority, on this day person	nally appeared
	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 d	day of 20
	Notary Public in and for
STATE OF	(INDIVIDUAL ACKNOWLEDGMENT)
COUNTY OF	
BEFORE ME, the undersigned authority, on this day person	nally appeared
	foregoing instrument, and acknowledged to me that they executed the same for the
	Notary Public in and for
STATE OF	(INDIVIDUAL ACKNOWLEDGMENT)
COUNTY OF	
BEFORE ME, the undersigned authority, on this day person	nally appeared
known to me to be the persons whose names are subscribed to the fe	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 d	day of 20
	Notary Public in and for
water and the same	
i .	
	MY PROVISION HEREIN WHICH RESTRIETS THE SALE, RENTAL
TIE NO. 823	OR USE OF THE DESCRIBED REAL PROPERTY BECAUSE OF COLOR OR RACE IS INVALIO AND UNENFORCEABLE UNDER FEDERAL
ILE NO. 823	
ILED FOR RECORD ON THE 23RD DAY OF	FEBRUARY A.D. 2007 2:59 P. M.
ULY RECORDED ON THE 28TH DAY OF	FEBRUARY A.D. 2007 2:00 P. M.
- DOLL DOTLL BEPUTY	DIANNE O. FLOREZ, COUNTY CLERK
Y: DEFUTE	REEVES COUNTY, TEXAS
(}-	all the state of t





File No. MF- 104781

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Date Filed:

By

Lease

Patterson, Commissioner

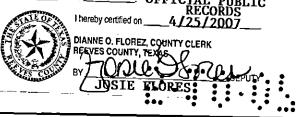
CERTIFIED TRUE AND CORRECT COPY CERTIFICATE STATE OF TEXAS COUNTY OF REEVES

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 757.

PAGE 186, THRU 195 OFFICIAL PUBLIC RECORDS

I hereby certified on 4/25/2007





FILE# 827

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

OIL AND GAS LEASE

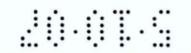
AND THE PROPERTY OF THE PROPER	
(Give Permanent Address)	and the second
aid agent herein referred to as the owner of the soil (whether one or more), and Petro-	Hunt, LLC
f 1601 Elm Street, Suite 3400, Dallas, Texas 75201-7201 (Give Permanent Address)	hereinafter called Lessee.
GRANTING CLAUSE. For and in consideration of the amounts stated be erformed by Lessee under this lease, the State of Texas acting by and through the one sole and only purpose of prospecting and drilling for and producing oil and gas, tations, telephone lines and other structures thereon, to produce, save, take care of, to ituated in Reeves	wher of the soil, hereby grants, leases and lets unto Lessee, for
	DI OCK ER DEL CUIDATE
EAST-HALF OF THE NORTHWEST QUARTER (E/2 NW/4) OF SECTION 3	BLOCK 66, PSL SURVEY
containing 80 acres, more or less. The bonus consideration paid for the second	
containing 80 acres, more or less. The bonus consideration paid for t	
containing 80 acres, more or less. The bonus consideration paid for t	his lease is as follows:
ontaining _80 acres, more or less. The bonus consideration paid for to the State of Texas: _Seven Hundred Fifty and No/100	his lease is as follows:
To the State of Texas: Seven Hundred Fifty and No/100 Dollars (\$750.00)	his lease is as follows:
To the State of Texas: Seven Hundred Fifty and No/100 Dollars (\$750.00) To the owner of the soil: Seven Hundred Fifty and No/100	his lease is as follows:
To the State of Texas: Seven Hundred Fifty and No/100 Dollars (\$750.00) To the owner of the soil: Seven Hundred Fifty and No/100 Dollars (\$750.00)	his lease is as follows:
To the State of Texas: Seven Hundred Fifty and No/100 Dollars (\$750.00) To the owner of the soil: Seven Hundred Fifty and No/100 Dollars (\$750.00) Total bonus consideration: One Thousand Five Hundred and No/10	his lease is as follows:





Bank at successors (which shall continue as the depository regardless of changes in the ownership of said land), the amount specified below, it middless to the continue as the depository regardless of changes in the ownership of said land), the amount specified below, it middless to the Continue as the depository regardless of changes in the ownership of said land), the amount specified below, it middless that the continue of the present property is an account of the property is an account of the said. Two owners of the soil: Two owner of the soil: Two owner of the soil and the property is an account of the soil and the present property of the said of the soil and the soil of the soil of the said of the soil of the soil of the soil of the said of the soil of the soi	nices on or before such anniversary data Lea	commenced on the leased premises on or before one (1) year from this date, this lease shall terminate,
its successors (which shall continue as the depository regardless of changes in the ownership of said land), the amount specified below," restricted the control of the Con		sees shall pay or tender to the owner of the soil or to his credit in the This is a Paid Up Lease.
teritor said date. Payments under this paragraph shall be in the following amounts: To the owner of the soil: Two. and 50/100 Dollars (3,250 To the State of Texas: Two and 50/100 Dollars (3,500 Total Delay Rental; Twenth and Nor100 Tot	its successors (which shall continue as the	depository regardless of changes in the ownership of said land), the amount specified below: in addition.
To the owner of the soil: Two and 50/100 Dollans (\$2.50 To the State of Texas: Two and 50/100 Dollans (\$2.50 Total Delay Rental; Twenthy and No/100 The Rental Land Delay Rental; Twenthy and No/100 The Rental Land Delay Rental; Twenthy and No/100 The Rental Land Office of the State of Texas; and one-half (1/2) of the royally yorked for in this issues to the Commissioner of the State of Texas; and Asiathy, Texas; and one-half (1/2) of the royally yorked for in this issues to the Commissioner of the General Land Office of the State of Texas; and Asiathy, Texas; and one-half (1/2) of the royally yorked for in this issue to the Commissioner of the General Land Office of the State of Texas; and Asiathy, Texas; and one-half (1/2) of the royally yorked for in this issue thereof, the twe protect of the State Personal Commissioner of the General Land Office of the Stat	before said date. Payments under this para	WER OF THE GENERAL LAND OFFICE OF THE STATE OF TEXAS, AT AUSTIN, TEXAS, a like sum on-
Dollars (\$ 2.50 To the State of Texas: Two and 50/100 Dollars (\$ 5.00 Total Delay Rental: Texnity and No/100 Dollars (\$ 5.00 Total Delay Rental: Texnity and No/100 Dollars (\$ 5.00 Total Delay Rental: Texnity and No/100 Dollars (\$ 5.00 Total Delay Rental: Texnity and No/100 Dollars (\$ 5.00 Total Delay Rental: Texnity and No/100 Dollars (\$ 5.00 Total Delay Rental: Texnity and No/100 Dollars (\$ 5.00 Total Delay Rental: Texnity and No/100 Dollars (\$ 5.00 Total Delay Rental: Texnity and No/100 Total Delay Re		
To the State of Texas: Texa and 50/100 Dollars (\$2,50 Total Delay Rental: Twentr and No100 Dollars (\$5,50) John State of Texas: Texa and No100 Dollars (\$5,50) as like manner and upon like payments or tenders annually, the commencement of a well may be further deferred for successive periods of one (1) are 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 signee of this lesse, and may be delivered on or before the rental paying date. If the bank designated in this paragraph (or its successor bank) should asso to exist, suspend business, liquidate, fail or be succeeded by another bank, or for any reason fail or refuse to accept rental season that the designated in this paragraph (or its successor bank) should also to design the paragraph of the successor bank as agent to receive such payments or tenders. A PRODUCTION ROYALTES. Upon production of oll and/or gas, Lessee agrees to pay or cause to be paid one-half (1/2) of the royalty-violed for in this lesse 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 more 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 all condensate, destiliate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, at hereinstate provided, and the payment of the soil or the Commissioner of the well and also all condensate, destiliate, and other liquid hydrocarbons recoverable provided in the gold of the owner of the soil or the Commissioner of the Well and also all condensates, destiliate, and other liquid hydrocarbons recoverable provided provided in the gold of the soil or the Commissioner of the liquid hydrocarbons and the condensate of the soil or the Commissioner of the liquid hydrocarbons and the soil or the Commissioner of the liquid hydrocarbons and the pa	To the owner of the soil: T	Two and 50/100
Total Delay Rentat; Twenty and No/100 Dollars (\$5,00 a like manner and upon like payments or tenders annually, the commencement of a well may be further deferred for successaive periods of one (1) are each during the primary term. All payments or tenders of rental to the owner of the soil image be made by check or sight during of the sease, or any be delivered on or before the ental paying date. If the bank designated in this payragnia for its successor bank) should see to exist, asspend business, liquidate, fail or be successed by another bank, or for any reason fail or refuse to accept rental; classes exist and the sease of the soil of the sease of the soil of the sease of the soil of the sease and the sease and the payments of the others or metal until this; (2d) digs after the owner of the soil stallate in make such payments or tenders. 4. PRODUCTION ROYALTES. Upon production of oil and/or gas, Lesses agrees to pay or cause to be paid one-half (1/2) of the royalty-vided 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 mer 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 all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinather provided, all be 1/2 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 discondings, respectively, of a like type and gravely payable provided	Dollars (\$2	.50
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) are each during the primary term. All payments or tenders of rental to the owner of the sail may be made by check or sight draft of Lessee, or any signes of this keeke, and may be delivered on or before the rental paying date, if the bank designated in this paragraph (or its successor bank) should be a consistent of the sales, and may be delivered on or before the rental paying date, if the bank designated in this paragraph (or its successor bank) should be a consistent of the sales, and may be delivered on or before the rental paying date, if the bank designated in this paragraph (or its successor bank) should be a consistent of rental unit this; (20) days after the owner of the soil shall deliver to Lessee a proper or dable instrument haming another bank as again to receive such payments or tenders. 4. PRODUCTION ROYALTES. Upon production of oil and/or gast, tessee agrees to pay or cause to be paid one-half (1/2) of such royally oxided for in this taxes to the Commissioner of the General Land Office of the State of Texas, at Austin, Texas, and one-half (1/2) of such royally to the more 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 all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinather provided, all 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 of the payers and the sea where produced and when run, or 3) the pays premium, if any, offered or pad for oil, condensate designations, or other liquid forcarbons, respectively, of a late type and gravity in the general area where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is the predactor of conventiona	To the State of Texas: Tw	no and 50/100
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) are 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 signee of this lessee, and may be delivered on or before the rental paying date, if the bank designated in this paragraph (or its successor bank) should be a solid to 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 contable instrument naming another bank as agent to rescribe when the 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 such royalty to the rent of the soil. 4. PRODUCTION ROYALTIES. Upon production of oil and/or gas, Lessee agrees to pay or cause to be paid one-half (1/2) of such royalty to the rent of the soil. (A) OIL. Royalty payable on oil, which is defined as including all hystrocarbons produced in a liquid form at the mouth of the well and also all condensate, distillate, and other igually hydrocarbons recovered from oil or gas nut through a separation or other equipment, and the mouth of the well and also all condensate, distillate, and other igual different path of the gross production or the market value thereof, at the coltion of the owner of the soil or the Commissioner of the required for cause of the commissioner of the required for oil, condensate distillate, or other liquid forcarbons, respectively, of a like type and gravity in the general area where produced and when run, or 3) the pross produced from the lesseed premines is soil, used or processed in a plant, it will be run free of cost to the royalty owners through an adequate oil in the general area where produced and when run, or 3) the gross proceeds of the sale threeof, whichever is the greater, or a second of the rent of the produced of the rent of the	Dollars (\$2.5	50
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) ar 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 signee 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 ase to exist, suspend business, iguidate, fall or be succeeded by another bank, or for any reason fail or refuse to accept rental, Lessee shall not be did in default for failure to make succh payments to 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 such royalty to the ner 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 all condensate, distillate, and other liquid hydrocarbons encovered from oil or gas run through a separator or other equipment, as hereinsther provided, all be 1/4part of the gross production of the market value thermor, at the option of the owner of the soil or the Connensate, distillate, or other liquid forcarbons, respectively, of a like type and gravity in the general area where produced and when run, or 2) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid forcarbons, respectively, of a like type and gravity in the general area where produced and when run, or 2) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid forcarbons, respectively, of a like type and gravity in the general area where produced and when run, or 2) the highest posted for the liquid hydrocarbons recoverable from the gas of the price of the gross processed of a plant, it will be run free of cost to the royalty enters through an adequate oil of gas posted processors. In a success of	Total Delay Rental: Twent	ty and No/100
ar 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 signee of this lessee, and may be delivered on or before the rental paying date. If the bank designated in this paragraph (or its successor bank) should ase to exist, suspend business, iguidate, fail or be succeeded by another bank, or for any reason fail or refuse to accept rental, Lessee shall not be in default for failure to make succh 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 such royalty provided for in this lesse 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 mer 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 all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinather provided, all 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 (1/2) and the payable to be determined by 1) the highest posted price, plus premium, if any, offered or paid for oil, condens, distillate, on other liquid forcarbons, respectively, of a like type and gravity in the general area where produced and when run, or 3) the gross produced from the lessed premises is soid, used or processed in a plant, it will be not recovered. The requirement that such gas be run through a separator or other equipment may be walved, in writing, by the royalty owners through a gas separator of conventional type, or other equipment at least a efficient, so that all liquid hydrocarbons recoverable from the gas by the mans at processed in a plant the extraction of subgravity and the solution of the coverage of the solution of the coverage of the solution of	Dollars (\$5.0	00)
(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 all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, all 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 fice, 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 direcarbons, respectively, of a like type and gravity in the general areas where produced and when run, or 2) the highest market price thereof effered or id in the general area where produced and when run, or 3) the general areas where produced and when run, or 3) the general areas where produced and when run, or 3) the general areas where produced and when run, or 3) the general areas where produced and when run, or 3) the general areas where produced and when run, or 3) the general areas where produced and when run, or 3) the general areas where produced and when run, or 3) the general areas where produced and sold as a separator of conventional type, or other equipment at least as efficient, so that all liquid hydrocarbons recoverable from the gas by such means the extension of gasoline, liquid hydrocarbons or other produceds) and and (except as provided herein with respect to gas processed in a plant the extraction of gasoline, liquid hydrocarbons or other produceds) and the gross produced from the soil or the Commissioner of the General Land Office, such value to be based on the highest market price paid or offered to the solar paid paid produced from a price paid o	ear each during the primary term. All payme ssignee of this lease, and may be delivered o ease to exist, suspend business, liquidate, fa eld in default for failure to make such payme	ents or tenders of rental to the owner of the soil may be made by check or sight draft of Lessee, or any on or before the rental paying date. If the bank designated in this paragraph (or its successor bank) should all or be succeeded by another bank, or for any reason fail or refuse to accept rental, Lessee shall not be ents or tenders of rental until thirty (30) days after the owner of the soil shall deliver to Lessee a proper
all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, all 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 fice, 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 drocarbons, respectively, of a like type and gravity in the general area where produced and when run, or 2) the highest market price thereof defined or id in the general area where produced and when run, or 2) the plant market price thereof defined or id in the general area where produced and when run, or 2) the highest market price thereof defined as the produced from the leased premises is soid, used or processed of the sale thereof, whichever is the greater. Lease agrees that before years produced from the leased premises is soid, used or processed of the sale thereof, whichever is the greater. Lease agrees that before years produced from the gas by such means the recovered. The requirement that such gas be run through a separator or other equipment may be waived, in writing, by the royalty owners upon charms 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 to 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 the extraction of gasoline, liquid hydrocarbons or orther products shall be 1/4	 PRODUCTION ROYALTIES. Up rovided for in this lease to the Commissioner where of the soil: 	on production of oil and/or gas, Lessee agrees to pay or cause to be paid one-half (1/2) of the royalty of the General Land Office of the State of Texas, at Austin, Texas, and one-half (1/2) of such royalty to the
to 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 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 tion of the owner of the soil or the Commissioner of the General Land Office, such value to be based on the highest market price paid or offered for so formparable quality in the general area where produced and when run, or the gross price paid or offered to the producer, whichever is the greater; oxided 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, dithe standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific avity 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 direcarbons 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 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 liquid hydrocarbons attributable to the gas produced from this lease; provided that if liquid hydrocarbons are sovered from gas processed in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the percentage applicable to liquid drocarbons shall be fifty percent (50%) or the highest percent accruing to a third party processing gas through such plant under a processing revenuent negotiated at arm's length (or if there is no such third party, the highest percent then being specified in processing begincable to liquid drocarbons shall be fif	is all condensate, distillate, and other liquid hy hall be 1/4 part of the gross production or office, such value to be determined by 1) the ydrocarbons, respectively, of a like type and gaid in the general area where produced and with my gas produced from the leased premises is not gas separator of conventional type, or other	ydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land e highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid gravity in the general area where produced and when run, or 2) the highest market price thereof offered or when run, or 3) the gross proceeds of the sale thereof, whichever is the greater. Lessee agrees that before a sold, used or processed in a plant, it will be run free of cost to the royalty owners through an adequate oil her equipment at least as efficient, so that all liquid hydrocarbons recoverable from the gas by such means
part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the owner the soil or the Commissioner of the General Land Office. All royalities due herein shall be based on one hundred percent (100%) of the total plant oduction of residue gas attributable to gas produced from this lease, and on fifty percent (50%), or that percent accruing to Lessee, whichever is the pater, of the total plant production of liquid hydrocarbons attributable to the gas produced from this lease; provided that if liquid hydrocarbons are covered from gas processed in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the percentage applicable to liquid direcarbons shall be fifty percent (50%) or the highest percent accruing to a third party processing gas through such plant under a processing recement 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 a industry), whichever is the greater. The respective royalties on residue gas and on liquid hydrocarbons shall be determined by 1) the highest market ce 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 is 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 drocarbons) whether said gas be "casinghead," "dry," or any other gas, by fractionating, burning or any other processing shall be 1/4 part of a 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, chi 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 products, whichever is the pater.	not defined as oil in subparagraph (A) above, or the extraction of gasoline, liquid hydrocarbo ption of the owner of the soil or the Commiss as of comparable quality in the general area was provided that the maximum pressure base in a ind the standard base temperature shall be so pravity according to tests made by the Balance	produced from any well on said land (except as provided herein with respect to gas processed in a plant ons or other products) shall be 1/4 part of the gross production or the market value thereof, at the sioner of the General Land Office, such value to be based on the highest market price paid or offered for where produced and when run, or the gross price paid or offered to the producer, whichever is the greater; measuring the gas under this lease shall not at any time exceed 14.65 pounds per square inch absolute, kty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific e Method or by the most approved method of testing being used by the industry at the time of testing.
drocarbons) whether said gas be "casinghead," "dry," or any other gas, by fractionating, burning or any other processing shall be 1/4 part of s 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, of 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 be duced, 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 easter. 5. MINIMUM ROYALTY. During any year after the expiration of the primary term of this lease, if this lease is maintained by production, the yalties 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 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	ydrocarbons shall be 1/4 part of the fithe soil or the Commissioner of the General roduction of residue gas attributable to gas preater, of the total plant production of liquid ecovered from gas processed in a plant in whydrocarbons shall be fifty percent (50%) or greement negotiated at arm's length (or if the re industry), whichever is the greater. The residue paid or offered for any gas (or liquid hydras (or the weighted average gross selling prices).	e residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the owner ral Land Office. All royalties due herein shall be based on one hundred percent (100%) of the total plant produced from this lease, and on fifty percent (50%), or that percent accruing to Lessee, whichever is the hydrocarbons attributable to the gas produced from this lease; provided that if liquid hydrocarbons are nich Lessee (or its parent, subsidiary or affiliate) owns an interest, then the percentage applicable to liquid rethe highest percent accruing to a third party processing gas through such plant under a processing ree is no such third party, the highest percent then being specified in processing agreements or contracts in spective royalties on residue gas and on liquid hydrocarbons shall be determined by 1) the highest market rocarbons) of comparable quality in the general area, or 2) the gross price paid or offered for such residue ice for the respective grades of liquid hydrocarbons), whichever is the greater. In no event, however, shall
valties 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 e 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	ydrocarbons) whether said gas be "casinghes ne gross production of such products, or the n uch market value to be determined as follows	ad," "dry," or any other gas, by fractionating, burning or any other processing shall be 1/4 part of market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, s: 1) on the basis of the highest market price of each product for the same month in which such product is
· · · · · ·	oyalties paid under this lease in no event sha due and payable on or before the last day of	all be less than an amount equal to the total annual delay rental herein provided; otherwise, there shall be the month succeeding the anniversary date of this lease a sum equal to the total annual rental less the
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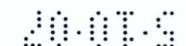
paragraph, the delay rental amount shall be one dollar (\$1.00) per acre.

- 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 Leasee'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.
- 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 15th 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 which is over thirty (30) days late shall accrue a penalty of 10% of the royalty due 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 whe

- 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 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 Raliroad 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 Raliroad 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 Raliroad Commission or any other governmental agency shall include the word "State" in the title. Additionally, in accordance with Raliroad Commission rules, any signage on the leased premises for the purpose of identifying wells, tank batteries or other associated improvements to the land commission rules, any signage on the leased premises for the purpose of identifying wells, tank batteries or other associated improvements to the land commission rules, any signage on the leased premises for the purpose of identifying wells, tank batteries or other associated improvements to the land commission rules, any signage on the leased 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 skty (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 as well is located on the leased premises, payments may be made in accordan

- 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) 80 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, this lease shall thereupon terminate as to all acreage not 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, this lease shall thereupon terminate as to all acreage not thereafter allocated to said well or wells for production purposes, this lease shall thereupon terminate 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 ("the retained lands"), for access to and from the retained lands and for the





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, rlots, 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 owner 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 at 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-sideenth (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 payment made by Lessee or impair the effectiveness of any payment made by Lessee or impair the effectiveness of any payment made by Lessee or 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
- (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:

- (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 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 diately prior to such surrender, however, such re
- 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 instrume the statement of the true consideration to be paid for the execution of this lease and the rights and duties of the parties. Any collate ents concerning the development of oil and gas from the leased premises which are not contained in this lease render this lease invalid. including the s
- 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 faise 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 on an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or 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 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 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 th

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 evelopment 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, JUDIGMENTS, PENAL TIES, 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 DURING LESSEE'S OCCUPANCY OR CONTROL OF THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OR 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 ENVI

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.

BY: Walter P. Roach Wo

Title: Vice President





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File No. M.F- 104(181

Patterson, Commissioner

Dare Filed:

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

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY (TEXAS

BY OSIE FLORES



FILE# 821

General Land Office Relinquishment Act Lease Form

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

OIL AND GAS LEASE

of 28 Pillow Road, Austin, Texas 78745	
(Give Permanent Address)	
said agent herein referred to as the owner of the soil (whether one or more), a	and Petro-Hunt, LLC
of 1601 Elm Street, Suite 3400, Dallas, Texas 75201-7201	hereinafter called Lessee.
(Give Permanent Address)	
performed by Lessee under this lease, the State of Texas acting by and through the sole and only purpose of prospecting and drilling for and producing oil stations, telephone lines and other structures thereon, to produce, save, take situated in Reeves County, State of Texas, to-wit:	and gas, laying pipe lines, building tanks, storing oil and building power
EAST-HALF OF THE NORTHWEST QUARTER (E/2 NW/4) OF S	ECTION 30, BLOCK 58, PSL SURVEY
containing 80 acres, more or less. The bonus consideration	n paid for this lease is as follows:
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To the State of Texas: <u>Seven Hundred Fifty and No/10X</u> <u>Dollars (\$750.00)</u> To the owner of the soil: <u>Seven Hundred Fifty and No/10X</u> <u>Dollars (\$750.00)</u>	xo
To the State of Texas: <u>Seven Hundred Fifty and No/100 Dollars (\$750.00)</u> To the owner of the soil: <u>Seven Hundred Fifty and No/10 Dollars (\$750.00)</u> Total bonus consideration: <u>One Thousand Five Hundred Fifty and No/10 Dollars (\$750.00)</u>	and No/100



70.01.S

covered exceed out of pocket operational expenses for the six months last past. 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; its successors (which shall continue as the depository regardless of changes in the ownership of said land), the amount specified below; its successors (which shall continue as the depository regardless of changes in the ownership of said land), the amount specified below; its successors (which shall continue as the depository regardless of changes in the ownership of said land), the amount specified below; its successors (which shall continue as the depository regardless of changes in the ownership of said land), the amount specified below; its successors (which shall continue as the depository regardless of changes in the ownership of said land), the amount specified below; its successor (which is a successor of the ownership of said land). ents under this paragraph shall operate as a rental a • Payments under this paragraph shall be in the follo To the owner of the soil: Two and 50/100 Dollars (\$2.50 To the State of Texas: Two and 50/100 Dollars (\$2.50 Total Delay Rental: Five and No/100 Dollars (\$5.00 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 ent 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 or and as separator of conventional type, or other equipment at least as efficient, so that all liquid bydrocarbons recoverable from the gas by such means gas separator of conventional type, or other equipment at least as efficient, so that all liquid hydrocarbons recoverable from the gas by such mean 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 14.55 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 products are produced; whichever is the 5. MINIMUM ROYALTY. During any year after the expiration of the primary term of this lease is maintained by production, the royalties paid under this lease in no event shall be less than an amount equal to the total annual delay rental herein provided; otherwise, there shall be due and payable on or before the last day of the month succeeding the anniversary date of this lease a sum equal to the total annual rental less the amount of royalties paid during the preceding year. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this



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

- 6. ROYALTY IN KIND. Notwithstanding any other provision in this lease, at any time or from time to time, the owner of the soil or the Commissioner of the General Land Office may, at the option of either, upon not less than sixty (60) days notice to the holder of the lease, require that the payment of any royalties accruing to such royalty owner under this lease be made in kind. The owner of the soil's or the Commissioner of the General Land Office's right to take its royalty in kind shall not diminish or negate the owner of the soil's or the Commissioner of the General Land Office's rights or Lessee's obligations, whether express or implied, under this lease.
- 7. NO DEDUCTIONS. Lessee agrees that all royalties accruing under this lease (including those paid in kind) shall be without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting, and otherwise making the oil, gas and other products hereunder ready for sale or use. Lessee agrees to compute and pay royalties on the gross value received, including any reimbursements for severance taxes and production related costs.
- 8. PLANT FUEL AND RECYCLED GAS. No royalty shall be payable on any gas as may represent this lease's proportionate share of any fuel used to process gas produced hereunder in any processing plant. Notwithstanding any other provision of this lease, and subject to the written consent of the owner of the soil and the Commissioner of the General Land Office, Lessee may recycle gas for gas lift purposes on the leased premises or for injection into any oil or gas producing formation underlying the leased premises after the liquid hydrocarbons contained in the gas have been removed; no royalties shall be payable on the recycled gas until it is produced and sold or used by Lessee in a manner which entitles the royalty owners to a royalty under this lease.
- 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 filled 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

- 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 filled 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 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,



20.01.5

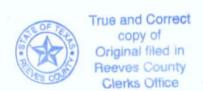
Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term; and if Lessee has not resumed production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking 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. 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 workmanilike 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 workmanilike 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 Cream 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. 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 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, 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

20.01.5

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 falls 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. 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

(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

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 fluciary 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: ner 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



20.01.5

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 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 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 th
- 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 evelopment 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 CONTROL OF THE LEASED PREMISES. 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
- 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 Was Olur

BY: Walter P. Roach Title: Vice President Date: 2/2//07	2 with 100
STATE OF TRAS Benuth Van Richard Bennett Vance Individually and as agent for the State of Texas	STATE OF TEXAS BY: Individually and as agent for the State of Texas
Date: 1-3-07	Date:
STATE OF TEXAS	STATE OF TEXAS
BY:	BY:
Individually and as agent for the State of Texas	Individually and as agent for the State of Texas
Date:	Date:

STATE OF Servas	(CORPORATION ACKNOWLEDGMENT)
COUNTY OF QUILLAS	
BEFORE ME, the undersigned authority, on this day personally as	1.209 Pastos 1
known to me to be the person whose name is subscribed to the foregoing in:	
of Petro-Aunt. L. L. C	and acknowledged to me that he
executed the same for the purposes and consideration therein expressed, in	
31	F
Given under my hand and seal of office this the 2 day of	telemany 2007
CARLA BYRUM	Carla Byrum
Notary Public, State of Tex My Commission Expires	
September 22, 2008	otaly Public III and tol
STATE OF TEXAS	(INDIVIDUAL ACKNOWLEDGMENT)
COUNTY OF TRAVIS	(in the state of
BEFORE ME, the undersigned authority, on this day personally ap	opeared Richard Bennett Vance
known to me to be the persons whose names are subscribed to the forecoin	ng instrument, and acknowledged to me that they executed the same for the
purposes and consideration therein expressed.	The state of the s
200	January 2007.
Given under my hand and seal of office this the day of day of	2007
Notary Public, State of Texas	Chilling
My Commission Expires JUNE 30, 2010	Notary Publiclin and for Travis County, Texas
30112 30, 2010	rectally Publican and for 11-800.5
STATE OF	(INDIVIDUAL ACKNOWLEDGMENT)
COUNTY OF	,
BEFORE ME, the undersigned authority, on this day personally ap	
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	Notary Public in and for
STATE OF	(INDIVIDUAL ACKNOWLEDGMENT)
COUNTY OF	
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known to me to be the persons whose names are subscribed to the foregoin	ig instrument, and acknowledged to me that they executed the same for the
purposes and consideration therein expressed.	•
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Given under my hand and seal of office this the day of _	
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	True and Correct
	copy of
	Original filed in
	Reeves County
	Clerks Office
	Gigitio Gillio
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	ANY PROVISION HEREIN WHICH RESTRIETS THE SALE, RENTAL, OR USE OF THE DESCRIBED REAL PROPERTY BECAUSE OF COLDI
ILE NO821	OR RACE IS INVALID AND UNEMFORCEARLE UNDER FEDERAL LAW
TLED FOR RECORD ON THE 23RD DAY OF	FEBRUARY A.D. 2007 2:58 P. W.
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ULY RECORDED ON THE 28TH DAY OF	FEBRUARY A.D. 2007 2:00 P. M.
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	REEVES COUNTY, TEXAS
/	105x 7.0



File No. Mt. 104781

(Pase H

Date Filed: 2 Dut 05

Jerry E. Patterson, Commissioner
B.,

3

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. 757, PAGE 168 THRU 176 OFFICIAL PUBLIC RECORDS

Thereby certified on 4/25/2007



FILE# 824

General Land Office Relinquishment Act Lesse Form Bodged, Sectomber 1997

20.01.5

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

OIL AND GAS LEASE

	NT is made and entered into this <u>8th</u> day of <u>January</u>	
by and through its agent, Ka	athy Grander, dealing in her sole and separate property	
of 1319 Lost Creek Blvd., At (Give Permanent Address)	ustin, Texas 76746	
said agent herein referred to	o as the owner of the soil (whether one or more), and Petro-Hu	nt. LLC
of 1601 Elm Street, Suite 3- (Give Permanent Address)	400, Dalles, Texas 75201-7201	hereinafter called Lessee.
performed by Lessee under the sole and only purpose stations, telephone lines and situated in Reeves	LAUSE. For and in consideration of the amounts stated below this lease, the State of Texas acting by and through the own of prospecting and drilling for and producing oil and gas, lay dother structures thereon, to produce, save, take care of, tree County, State of Texas, to-wit: THE NORTHWEST QUARTER (E/2 NW/4) OF SECTION 30,	ner of the soil, hereby grants, leases and lets unto Lessee, fo ying pipe lines, building tanks, storing oil and building power at and transport said products of the lease, the following lands
	acres, more or less. The bonus consideration paid for this	
	State of Texas: Two Hundred Fifty and No/100	s lease is as follows:
		s lease is as follows:
To the 8	State of Texas: Two Hundred Fifty and No/100	s lease is as follows:
	State of Texas: Two Hundred Fifty and No/100 Dollars (\$250.00)	s lease is as follows:
To the S	State of Texas: <u>Two Hundred Fifty and No/100</u> Dollars (\$250.00) owner of the soil: <u>Two Hundred Fifty and No/100</u>	s lease is as follows:
To the S	State of Texas: _Two Hundred Fifty and No/100 Dollars_(\$250.00) owner of the soil: _Two Hundred Fifty and No/100 Dollars_(\$250.00)	s lease is as follows:
To the S	State of Texas: _Two Hundred Fifty and No/100 Dollars (\$250.00) owner of the soil: _Two Hundred Fifty and No/100 Dollars (\$250.00) onus consideration: Five Hundred and No/100	s lease is as follows:



3. DELAY RENTALS. If no well is commenced on the leased premises on or before one (1) year from this date, anices on or before such anniversary date Leases shell pay or tender to the owner of the soil or to his credit in the This is a Pi Bank, at	pecified below; in addition, TTK, TEXAS, at like sum on an interest periods of one (1) that draft of Lessee, or any its successor bank) should rental, Lessee shall not be deliver to Lessee a proper ne-half (1/2) of the royalty (1/2) of such royalty to the mouth of the well and also nt, as hereinafter provided, lioner of the General Land e, distillate, or other liquid ket price thereof offered or Lessee agrees that before is through an adequate oil or the organic provided and also the organic provided and adequate oil or the organic provided and provid
It is successors (which shall continue as the depository regardless of changes in the ownership of said land), the amount is responsible to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATE OF TEXAS, AT AUST-before said date. Payments under this paragraph shall be in the following amounts: To the owner of the soil: 83/100 Dollars (\$,83 To the State of Texas: 83/100 Dollars (\$,83 Total Delay Rental: One and 66/100 Dollars (\$,166 a like manner and upon like payments or tenders annually, the commencement of a well may be further deferred for sucar each during the primary term. All payments or tenders of rental to the owner of the soil may be made by check or sisginger of this lease, and may be delivered on or before the rental paying date. If the bank designed in this paragraph (or asse to exist, suspend business, liquidate, fail or be succeeded by another bank, or for any reason fail or refuse to accept id in default for failure to make such payments or tenders of rental until thirty (30) days after the owner of the soil instrument naming another bank as agent to receive such payments or benders. 4. PRODUCTION ROYALTIES. Upon production of oil and/or gas, Lessee agrees to pay or cause to be paid o ovided for in this lease to the Commissioner of the General Land Office of the State of Texas, at Austin, Texas, and one-half was a superior of the soil: (A) OIL. Royalty payable on oil, which is defined as including all hydrocarbons produced in a liquid form at the all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment of the general area where produced in when run, or 2) the highest posted price, plus premium, if any, offered or paid for oil, condensate distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment id in the general area where produced and when run, or 2) the highest posted price, plus premium, if any, offered or paid for oil, condensate did not the commissions is sol	pecified below; in addition, TTN, TEXAS, a like surrorramment of a well for a well and a well for a well
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d the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Bo avity according to tests made by the Balance Method or by the most approved method of testing being used by the industry a	o gas processed in a plant arket value thereof, at the et price paid or offered for , whichever is the greater; per square inch absolute, per square inch absolute.
(C) PROCESSED GAS. Royalty on any gas processed in a gasoline plant or other plant for the recovery of drocarbons shall be 1/4 part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, the soil or the Commissioner of the General Land Office. All royalties due herein shall be based on one hundred percent oduction of residue gas attributable to gas produced from this lease, and on fifty percent (50%), or that percent accruing to eater, of the total plant production of liquid hydrocarbons attributable to the gas produced from this lease; provided that covered from gas processed in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the percent drocarbons shall be fifty percent (50%) or the highest percent accruing to a third party processing gas through such reement negotiated at arm's length (or if there is no such third party, the highest percent then being specified in processing as industry), whichever is the greater. The respective royalties on residue gas and on liquid hydrocarbons shall be determine ce paid or offered for any gas (or liquid hydrocarbons) of comparable quality in the general area, or 2) the gross price paid as (or the weighted average gross selling price for the respective grades of liquid hydrocarbons), whichever is the greater. If	at the option of the owner (100%) of the total plant Lessee, whichever is the filipud hydrocarbons are entage applicable to liquid plant under a processing agreements or contracts in d by 1) the highest market or offered for such residue in no event, however, shall
(D) OTHER PRODUCTS. Royalty on carbon black, sulphur or any other products produced or manufactured drocarbons) whether said gas be "casinghead," "dry," or any other gas, by fractionating, burning or any other processing shat a gross production of such products, or the market value thereof, at the option of the owner of the soil or the Commissioner of the market value to be determined as follows: 1) on the basis of the highest market price of each product for the same month oduced, or 2) on the basis of the average gross sale price of each product for the same month in which such products are paster.	If be 1/4 part of f the General Land Office, h in which such product is
5. MINIMUM ROYALTY. During any year after the expiration of the primary term of this lease, if this lease is main yaitles paid under this lease in no event shall be less than an amount equal to the total annual delay rental herein provided a e 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 delay rental amount, the nount of royalties paid during the preceding year. If Paragraph 3 of this lease does not specify a delay rental amount, the	otherwise, there shall be otal annual rental less the



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

20.01.5

- 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:

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 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 Genera

- 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 application to drill. Copies of 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 filled 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 coases 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, 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



20.01.5

20.01.5

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 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 owned 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. 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, 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
- 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 payment made by Lessee or impair the effectiveness of any payment made by Lessee or impair the effectiveness of any payment made by Lessee or impair the effectiveness of any payment made by Lessee or 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

(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:

20.01.5

- 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 property 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 eased 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 ests 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 faise return or faise 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 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 fort, 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 the
- 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 Substances" 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, LJABILITIES, 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 DURING LESSEE'S OCCUPANCY OR CONTROL OF 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
- 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

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BY: Walter P. Roach	5 Clus
Title: Vice President	
Date: 9/21/07	- walt 107
STATE OF TEXAS BY: Kathy Grander	STATE OF TEXAS: BY: OHITEKAS:
Individually and as agent for the State of Texas Date: 7 200 7	Date: CHRISTOPHER J WARD Notary Public STATE OF TEXAS My Comm 200, 10-30-10
STATE OF TEXAS	STATE OF TEXAS
BY:	BY:
Individually and as agent for the State of Texas	Individually and as agent for the State of Texas
Date:	Date:

2.1.2.1	
STATE OF	(CORPORATION ACKNOWLEDGMENT)
COUNTY OF	21
BEFORE ME, the undersigned authority, on this day personally app	oard Catherne Grandle
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executed the same for the purposes and consideration therein expressed, in the Given under my hand and seal of office this the day of	+-
	Cato ARCL, W
	NOTION Public In and for Texas, Track Lounty
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purposes and consideration therein expressed. Given under my hand and seal of office this the day of	, 20,
	Notary Public in and for
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COUNTY OF	
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known to me to be the persons whose names are subscribed to the foregoing purposes and consideration therein expressed.	instrument, and acknowledged to me that they executed the same for the
Given under my hand and seal of office this the day of _	20
	Notary Public in and for
STATE OF	(INDIVIDUAL ACKNOWLEDGMENT)
	(INDIVIDUAL NORTOTTLEBORILITY)
COUNTY OF	(Morrisone North-Ebonie 11)
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of Petro-Hunt, LLC	and acknowledged to me that he
executed the same for the purposes and consideration therein expressed, in	
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	- And the state of
Notary Public, State of Texas	Cala Byum
My Commission Expires September 22, 2008	Notary Public in and for
The state of the s	
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purposes and consideration therein expressed.	
Given under my hand and seal of office this the day of	
-	Notary Public in and for
*	
	ANY PROJUSION HEREIN WHICH RESTRICTS THE SALE, NEWTAL
FILE NO. 824	OR USE OF THE DESCRIBED REAL PROPERTY BECAUSE OF COLOR
	OR RACE IS INVALID AND UNEMFORCEABLE UNDER FEDERAL
FILED FOR RECORD ON THE 23RD DAY OF	FEBRUARY A.D. 2007 2:59 P. N.
DULY RECORDED ON THE 28TH DAY OF	FEBRUARY A.D. 2007 2:00 P. H.
DONIA CONTRA	
BY: DEPUTY	REEVES COUNTY, TEXAS
.()-	MD5. 1.0





File No. ME- (OLTS)

COUSE I

Date Filed: 2124 (OS

Jerry E. Patterson, Commissioner

By

 \sim

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 tawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL. 757 PAGE 196. THRU 205 OFFICIAL PUBLIC RECORDS

[hereby certified on 4/25/2007

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS
DEPUTY
DOSTE FLORES



FILE# 829

General Land Office Relinquishment Act Lesse 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

OIL AND GAS LEASE

by and through its agent, M	dichelle James, dealing in her sole and separate property	
of 2604 Garnerfield Road, U		
(Give Permanent Address)		
said agent herein referred t	to as the owner of the soil (whether one or more), and <u>Petro-H</u>	funt. LLC
of 1601 Elm Street, Suite 3 (Give Permanent Address)	3400. Dallas, Texas 75201-7201	hereinafter called Lessee.
performed by Lessee unde the sole and only purpose stations, telephone lines ar	er this lease, the State of Texas acting by and through the ow e of prospecting and drilling for and producing oil and gas, I	low and of the covenants and agreements to be paid, kept and wher of the soil, hereby grants, leases and lets unto Lessee, fo laying pipe lines, building tanks, storing oil and building powe reat and transport said products of the lease, the following lands
EAST-HALF OF	THE NORTHWEST QUARTER (E/2 NW/4) OF SECTION 30), BLOCK 58, PSL SURVEY
	THE NORTHWEST QUARTER (E/2 NW/4) OF SECTION 30 acres, more or less. The bonus consideration paid for the	
containing 80	acres, more or less. The bonus consideration paid for the	
containing 80	acres, more or less. The bonus consideration paid for the	his lease is as follows:
containing _80 To the	acres, more or less. The bonus consideration paid for the State of Texas: Two Hundred Fifty and No/100 Dollars (\$250.00)	his lease is as follows:
containing _80 To the	acres, more or less. The bonus consideration paid for the State of Texas: Two Hundred Fifty and No/100 Dollars (\$250.00)	his lease is as follows:
To the	acres, more or less. The bonus consideration paid for the State of Texas: Two Hundred Fifty and No/100 Dollars (\$250.00) cowner of the soil: Two Hundred Fifty and No/100	his lease is as follows:
To the	acres, more or less. The bonus consideration paid for the State of Texas: Two Hundred Fifty and No/100 Dollars (\$250.00) owner of the soil: Two Hundred Fifty and No/100 Dollars (\$250.00)	his lease is as follows:
To the	acres, more or less. The bonus consideration paid for the State of Texas: Two Hundred Fifty and No/100 Dollars (\$250.00) cowner of the soil: Two Hundred Fifty and No/100 Dollars (\$250.00)	his lease is as follows:
To the	acres, more or less. The bonus consideration paid for the State of Texas: Two Hundred Fifty and No/100 Dollars (\$250.00) cowner of the soil: Two Hundred Fifty and No/100 Dollars (\$250.00) bonus consideration: Five Hundred and No/100 Dollars (\$500.00)	his lease is as follows:





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 Lesses shall pay or tender to the owner of the sell 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 additional tessee shall pay or tender to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATE OF TEXAS, AT AUGTIN, TEXAS, a like sum or 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:

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 144—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 produced is produced, or 2) on the basis of the average gross sale price of each product for the same month in which such products are produced; whichever is the greater.

5. MINIMUM ROYALTY. During any year after the expiration of the primary term of this lease, if this lease is maintained by production, the royalties paid under this lease in no event shall be less than an amount equal to the total annual delay rental herein provided; otherwise, there shall be due and payable on or before the last day of the month succeeding the anniversary date of this lease a sum equal to the total annual rental less the amount of royalties paid during the preceding year. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this





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

- 6. ROYALTY IN KIND. Notwithstanding any other provision in this lease, at any time or from time to time, the owner of the soil or the Commissioner of the General Land Office may, at the option of either, upon not less than sixty (60) days notice to the holder of the lease, require that the payment of any royalties accruing to such royalty owner under this lease be made in kind. The owner of the soil's or the Commissioner of the General Land Office's right to take its royalty in kind shall not diminish or negate the owner of the soil's or the Commissioner of the General Land Office's rights or Lessee's obligations, whether express or implied, under this lease.
- 7. NO DEDUCTIONS. Lessee agrees that all royalties accruing under this lease (including those paid in kind) shall be without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting, and otherwise making the oil, gas and other products hereunder ready for sale or use. Lessee agrees to compute and pay royalties on the gross value received, including any reimbursements for severance taxes and production related costs.
- 8. PLANT FUEL AND RECYCLED GAS. No royalty shall be payable on any gas as may represent this lease's proportionate share of any fuel used to process gas produced hereunder in any processing plant. Notwithstanding any other provision of this lease, and subject to the written consent of the owner of the soil and the Commissioner of the General Land Office, Lessee may recycle gas for gas lift purposes on the leased premises or for injection into any oil or gas producing formation underlying the leased premises after the liquid hydrocarbons contained in the gas have been removed; no royalties shall be payable on the recycled gas until it is produced and sold or used by Lessee in a manner which entities 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 15th 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

- 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 lesse or allocable to this lease and shall furnish said Commissioner with copies of all contracts under which gas is soid 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 Raliroad Commission forms for application to drill. Copies of well tests, completion reports and pluggling reports shall be supplied to the General Land Office at the time they are filed with the Texas Raliroad 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 Raliroad Commission or any other governmental agency shall include the word "State" in the title. Additionally, in accordance with Raliroad 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 lease 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,

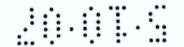
20.01.5



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 coases 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 commissioner of the gas and the payment shall be appropried. 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 shuf-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. 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, this lease shall thereupon terminate as to all acreage not 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, this lease shall thereupon terminate as to all acreage not thereafter allocated to said well or wells for production purposes, this lease shall thereupon terminate as to 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 land





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 filled in the General Land Office, accompanied by the filling 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 royalities 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 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.

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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, e terms of this parag
- 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 royalities 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 payment made by Lessee or impair the effectiveness of any payment made by Lessee or impair the effectiveness of any payment made by Lessee or impair the effectiveness of any payment made by Lessee or impair the effectiveness of any payment made by Lessee or impair the effectiveness of any payment made by Lessee or impair the effectiveness of any payment made by Lessee or impair the effectiveness of any payment made by Lessee for any purpose until thirty (30) days after the owner of the soil (or his heirs, devisees, legal representatives or assigns) turnishes 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
- (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

 - 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;
 - (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 nediately prior to such surrender; how render 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 d 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
- 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 faise return or faise 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 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

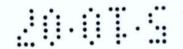




Commissioner, and he shall forfeit same when sufficiently informed of the facts which authorize a forfeiture, and when forfeited the area shall again be subject to lease under the terms of the Relinquishment Act. However, nothing herein shall be construed as waiving the automatic termination of this 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 royaties 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 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,
- 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 edvelopment 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 CERCL
- 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 filled 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: Walter P. Roach

Title: Vice President

Date: 2/2/07

	0
BY: James Michelle Jarnes	STATE OF TEXAS BY:
individually and as agent for the State of Texas	Individually and as agent for the State of Texas
Date:	Date:
STATE OF TEXAS	STATE OF TEXAS
BY:	BY:
individually and as agent for the State of Texas	Individually and as agent for the State of Texas



STATE OF Servers	
	(CORPORATION ACKNOWLEDGMENT)
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BEFORE ME, the undersigned authority, on this day personally appe	
tnown to me to be the person whose name is subscribed to the foregoing instru	uments advice Assistant
executed the same for the purposes and consideration therein expressed, in the	
Given under my hand and seal of office this the day or	abruary 2007
The state of the s	7
Notary Public, State of Texas	Carla Byrum
My Commission Expires September 22, 2008	Notary Public in and for
STATE OF	(INDIVIDUAL ACKNOWLEDGMENT)
COUNTY OF	
BEFORE ME, the undersigned authority, on this day personally app	eared Michelle James
to the feet of the	instrument, and acknowledged to me that they executed the same for the
known to me to be the persons whose names are subscribed to the foregoing purposes and consideration therein expressed.	missionism, and acknowledged to me that they executed the same for the
Given under my hand and seal of office this the Lath day of _	February 2002
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known to me to be the persons whose names are subscribed to the foregoing purposes and consideration therein expressed.	g instrument, and acknowledged to me that they executed the same for the
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File No. ME- (OL(78)

LCQSC 5

Date Filed: 2(24/05)

Jerry E. Patterson, Commissioner
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CERTIFIED TRUE AND CORRECT COPY CERTIFICATE STATE OF TEXAS COUNTY OF REEVES

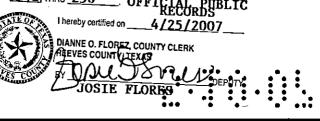
COUNTY OF REEVES

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. 757

PAGE 242, THRU 250

OFFICIAL PUBLIC

Thereby certified on 4/25/2007





FILE# 825

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

OIL AND GAS LEASE

(Give Permanent Address) aid agent herein referred to as the owner of the soil (whether one or more), and Petro-Hu	1110
of 1601 Elm Street, Suite 3400, Dallas, Texas 75201-7201	hereinafter called Lessee.
(Give Permanent Address)	
situated in Reeves County, State of Texas, to-wit:	•
EAST-HALF OF THE NORTHWEST QUARTER (E/2 NW/4) OF SECTION 30,	BLOCK 58, PSL SURVEY
EAST-HALF OF THE NORTHWEST QUARTER (E/2 NW/4) OF SECTION 30, containing 80 acres, more or less. The bonus consideration paid for this	
	s lease is as follows:
containing 80 acres, more or less. The bonus consideration paid for this	s lease is as follows:
containing 80 acres, more or less. The bonus consideration paid for this To the State of Texas: Two Hundred Fifty and No/100	s lease is as follows:
To the State of Texas: Two Hundred Fifty and No/100 Dollars (\$250.00)	s lease is as follows:
To the State of Texas: Two Hundred Fifty and No/100 Dollars (\$250.00) To the owner of the soil: Two Hundred Fifty and No/100 Dollars (\$250.00)	s lease is as follows:
To the State of Texas: Two Hundred Fifty and No/100 Dollars (\$250.00) To the owner of the soil: Two Hundred Fifty and No/100	s lease is as follows:
acres, more or less. The bonus consideration paid for this To the State of Texas: Two Hundred Fifty and No/100 Dollars (\$250.00) To the owner of the soil: Two Hundred Fifty and No/100 Dollars (\$250.00) Total bonus consideration: Five Hundred and No/100	s lease is as follows:





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covered exceed out of pocket operational expenses for the six months last past. 3. DELAY RENTALS. If no well is conry date Lesses shall pay or lander to the owner of the sell or to his ore dit in the This is a paid up lease ments under this paragraph shall operate as a rental o etc. Payments under this paragraph shall be in the follo To the owner of the soil: 83/100 Dollars (\$_83 To the State of Texas: 83/100 Dollars (\$,83 Total Delay Rental: One and 66/100 Dollars (\$1.66 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 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 (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 gravily 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 soid, 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. 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 greater, or 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 products are produced; whichever is the 5. MINIMUM ROYALTY. During any year after the expiration of the primary term of this lease, if this lease is maintained by production, the royalties paid under this lease in no event shall be less than an amount equal to the total annual delay rental herein provided; otherwise, there shall be due and payable on or before the last day of the month succeeding the anniversary date of this lease a sum equal to the total annual rental less the amount of royalties paid during the preceding year. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this





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

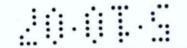
- 6. ROYALTY IN KIND. Notwithstanding any other provision in this lease, at any time or from time to time, the owner of the soil or the Commissioner of the General Land Office may, at the option of either, upon not less than sixty (60) days notice to the holder of the lease, require that the payment of any royalties accruing to such royalty owner under this lease be made in kind. The owner of the soil's or the Commissioner of the General Land Office's right to take its royalty in kind shall not diminish or negate the owner of the soil's or the Commissioner of the General Land Office's rights or Lessee's obligations, whether express or implied, under this lease.
- 7. NO DEDUCTIONS. Lessee agrees that all royalties accruing under this lease (including those paid in kind) shall be without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting, and otherwise making the oil, gas and other products hereunder ready for sale or use. Lessee agrees to compute and pay royalties on the gross value received, including any reimbursements for severance taxes and production related costs.
- 8. PLANT FUEL AND RECYCLED GAS. No royalty shall be payable on any gas as may represent this lease's proportionate share of any fuel used to process gas produced hereunder in any processing plant. Notwithstanding any other provision of this lease, and subject to the written consent of the owner of the soil and the Commissioner of the General Land Office, Lessee may recycle gas for gas lift purposes on the leased premises or for injection into any oil or gas producing formation underlying the leased premises after the liquid hydrocarbons contained in the gas have been removed; no royalties shall be payable on the recycled gas until it is produced and sold or used by Lessee in a manner which entitles the royalty owners to a royalty under this lease.
- 9. ROYALTY PAYMENTS AND REPORTS. All royalties not taken in kind shall be paid to the Commissioner of the General Land Office at Austin, Texas, in the following manner:

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 filled 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 when the royalty is sixty (60) days overdue. Affidavits and supporting documents which are not filled when due shall incur a penalty in an amount set by the Gene

- 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,



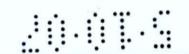


Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term; and if Lessee has not resumed production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling for reworking 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 skut-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 coases 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 da





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 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 owned 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. 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 bontainment 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 payment made 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

(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;

a nominee of the owner of the soil;
 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;
 a partnership in which the owner of the soil is a partner or is an employee of such a partnership;
 a partnership in which the owner of the corporation which is the owner of the soil;
 a partner or employee in a partnership which is the owner of the soil;
 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

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, 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 nts concerning the development of oil and gas from the leased premises which are not contained in this lease render this lease invalid. including the stateme

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 d 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

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 futures 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 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 shall ure 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 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 li

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 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 INDEMNIFICATI

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 filled 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.

BY: J Walter P. Roach Title: Vice President STATE OF TEXAS ally and as agent for the State of Texas Individually and as agent for the State of Texas Date: 3/ VAN 2007 STATE OF TEXAS STATE OF TEXAS Individually and as agent for the State of Texas Individually and as agent for the State of Texas





* 18	
STATE OF TEXES	(CORPORATION ACKNOWLEDGMENT)
COUNTY OF NUCCES	(CONFORMION ACKNOWLEDGMENT)
BEFORE ME, the undersigned authority, on this day personally app	DOBTON D VANCE
known to me to be the person whose name is subscribed to the foregoing inst of	ruments as and acknowledged to me that he
executed the same for the purposes and consideration therein expressed, in t	and acknowledged to me that he he capacity stated, and as the act and deed of said corporation.
Given under my hand and seal of office this the	JANUARY 2007
AND THE PUBLICATION OF THE PROPERTY OF THE PRO	Avin S. Posty
	Notary Public in and for State 2 1
STATE OF COUNTY OF NEED BEFORE ME, the undersigned authority, on this day personally appropriate the state of	(INDIVIDUAL ACKNOWLEDGMENT)
BEFORE ME, the undersigned authority, on this day personally app	eared Clayton D. Vance
known to me to be the persons whose names are subscribed to the foregoing	
purposes and consideration therein expressed.	a mendanism, and accritionad god to the that they executed the same for the
Given under my hand and seal of office this the day of _	, 20
	Notary Public in and for
STATE OF SUYOR	(INDIVIDUAL ACKNOWLEDGMENT)
COUNTY OF Dellas	(HUMIDAL ADAROVLEDOMENT)
BEFORE ME, the undersigned authority, on this day personally app	South P. Rauch
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 upon the home one coul or unice the the	telephone 2007
CARLA BYRUM Notary Public, State of Texas My Commission Expires	Carla Bypun
September 22, 2008	Notary Public in and for
STATE OF	
COUNTY OF	(INDIVIDUAL ACKNOWLEDGMENT)
BEFORE ME, the undersigned authority, on this day personally app	bared
known to me to be the persons whose names are subscribed to the foregoing purposes and consideration therein expressed.	instrument, and acknowledged to me that they executed the same for the
Given under my hand and seal of office this the day of	. 20
	Notary Public in and for
	reduity Public in and for
	True and Correct
	copy of
	Original filed in
	Reeves County Clerks Office
	Cierks Office
	ANY PROVISION HEREIN WHICH RESTRIBTS THE SALE, RENTAL
FILE NO. 825	OR USE OF THE DESCRIBED REAL PROPERTY BECAUSE OF COLOR OR RACE IS INVALID AND UNEMFORCEABLE UNDER FEDERAL
FILED FOR RECORD ON THE 23RD DAY OF	FEBRUARY A.D. 2007 2:59 P. N.
	EBRUARY A.D. 2007 2:00 P. M.
BY: TOPILL OF DEPUTY	
The state of the s	DIANNE O. FLOREZ, COUNTY CLERK

20.01.5

S

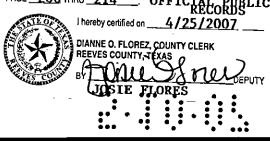
2000

Date Filed: 2124 (o S 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. 757 PAGE 206 THRU 214 OFFICIAL RECORDS



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



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

March 17, 2005

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

Dear Mr. Reid:

Enclosed please find a certified copy and check for the following leases:

B.J. McCord Peggy Mauch

Thank you,

Jacqueline Avery

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	58207	Mar-16-2005	4077655	\$775.00

03/14/05 03AP363 031405B NW TOYAH PROSPECT TOTAL INVOICES PAID

775.00

0.00

775.00

775.00

atta: Drew Roid



File Not M 70 478/ Date Filed: 3/805 Jerry E. Parlerson, Commissioner



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

September 8, 2005

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

Re:

RELINQUISHMENT ACT LEASE No. M-104781

20 acres out of the E/2 of the NW/4 of Sec. 30,

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-104781. Please refer to this number in all future correspondence concerning the lease.

Your remittance of \$1,625.00, has been applied as the state's portion of the cash bonus \$1,500.00, along with a processing and filing fee in the amount of \$125.00. Please let me know if you should have any questions.

Sincerely,

Drew Reid

Minerals Leasing

Energy Resources

(512) 475-1534

MS/DR

. 5.
File No MF 70 478/
9x60 biller
Date Filed: 78/05 Jerry Patterson, Commissioner
Ву

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	TAUOMA
TEXAS GENERAL LAND OFFICE		Oct-10-2005	7003670	\$5.00

LEASE NUMBER 118*1017936

11/01/04

ORIGINAL LESSOR/LEASE NAME

DATE

10/10/05

CHECK NO 7003670

LEASE DATE MONTHS

FERGUSON VANCE RENTAL PERIOD

FILE ID 11/01/06 68350-0028-001

PAYMENT AMOUNT

5.00

12

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

BANK SERVICE CHG

TOTAL AMOUNT

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 691

PAGE 298

FROM

11/01/05

ENTRY

PROSPECT N W TOYAH PROSPECT COUNTY/PARISH REEVES

STATE TX

TRACT NO 18899 LEGAL DESCRIPTION

REEVES COUNTY TEXAS BLOCK 58, PUBLIC SCHOOL LAND SURVEY SEC. 30: E/2 NW/4 BEING 80.00 ACRES MORE OR LESS

06008234

M-104781



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		Oct-10-2005	7003672	\$5.00

LEASE NUMBER 118*1018097

ORIGINAL LESSOR/LEASE NAME MAUCH PEGGY F

DATE

10/10/05

CHECK NO 7003672

LEASE DATE MONTHS

RENTAL PERIOD

11/01/05

PAGE 581

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

FILE ID 11/01/06 68350-0028-002

PAYMENT AMOUNT

5.00

BANK SERVICE CHG

TOTAL AMOUNT

TO BE CREDITED TO

ADDITIONAL TEXT

OWNER # 58207

11/01/04

TEXAS GENERAL LAND OFFICE 1700 N CONGRESS AVE RM 600 AUSTIN, TEXAS 78701 SSN/TAX ID RECORDED BOOK 693

PROSPECT N W TOYAH PROSPECT

12

ENTRY

STATE TX

COUNTY/PARISH REEVES TRACT NO 18899

LEGAL DESCRIPTION

REEVES COUNTY TEXAS BLOCK 58, PUBLIC SCHOOL LAND SURVEY SEC. 30: E/2 NW/4 BEING 80.00 ACRES MORE OR LESS

06008235

M-104781



Lerry E. Patterson, Commissioner

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		Oct-10-2006	7005181	\$5.00

LEASE NUMBER

ORIGINAL LESSOR/LEASE NAME

DATE

10/10/06

CHECK NO 7005181

118*1018097

11/01/04

MAUCH PEGGY F RENTAL PERIOD

FROM

11/01/06

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

TO

FILE ID 11/01/07 68350-0028-002

5.00

TO BE CREDITED TO

LEASE DATE MONTHS

ADDITIONAL TEXT

PAYMENT AMOUNT BANK SERVICE CHG

TOTAL AMOUNT

OWNER # 58207

TEXAS GENERAL LAND OFFICE 1700 N CONGRESS AVENUE ROOM 60

12

AUSTIN, TEXAS 78701 RECORDED BOOK 693

PAGE 581

ENTRY

PROSPECT N W TOYAH PROSPECT COUNTY/PARISH REEVES

STATE TX

TRACT NO 18899

LEGAL DESCRIPTION

REEVES COUNTY TEXAS BLOCK 58, PUBLIC SCHOOL LAND SURVEY SEC. 30: E/2 NW/4 BEING 80 00 ACRES MORE OR LESS

M-104781





PAYEE: DETACH THIS PORTION BEFORE CASHING CHECK

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		Oct-10-2006	7005179	\$5.00

LEASE NUMBER 118*1017936

ORIGINAL LESSOR/LEASE NAME FERGUSON VANCE

DATE

10/10/06

CHECK NO 7005179

5.00

11/01/04

LEASE DATE MONTHS 12

FROM 11/01/06 **** PAYMENT TYPE **** DELAY RENTAL ****

PAGE 298

TO

FILE ID 11/01/07 68350-0028-001

PAYMENT AMOUNT

BANK SERVICE CHG

TO BE CREDITED TO

ADDITIONAL TEXT

RENTAL PERIOD

TOTAL AMOUNT

OWNER # 58207

TEXAS GENERAL LAND OFFICE 1700 N CONGRESS AVENUE ROOM 60

AUSTIN, TEXAS 78701 RECORDED BOOK 691 PROSPECT N W TOYAH PROSPECT

ENTRY

COUNTY/PARISH REEVES

STATE TX

TRACT NO 18899 LEGAL DESCRIPTION

REEVES COUNTY TEXAS BLOCK 58, PUBLIC SCHOOL LAND SURVEY SEC. 30: E/2 NW/4

BEING 80 00 ACRES MORE OF LESS

M-104781



File No. Mt 104781

Purfall
Date Filed: 10.110.070

JeryEnerson, Commissioner

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



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

May 8, 2007

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

Mr. Reid:

Jonnie Vance Brock:

Block 58, PSL Survey

Section 30:E/2 of the NW/4

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

	Dan	
Donna Fay Vance Nase: Section 30:E/2 of the NW/4 Block 58, PSL Survey	12-27-2006	\$1,500.00 - Lease Bonus \$25.00 - Filing Fee
R. Vance Sheffer: Section 30:E/2 of the NW/4 Block 58, PSL Survey	12-27-2006	\$3,000.00 – Lease Bonus \$25.00 – Filing Fee
Kathy Grander: Section 30:E/2 of the NW/4 Block 58, PSL Survey	1-8-2007	\$250.00 - Lease Bonus \$25.00 - Filing Fee
Clayton D. Vance: Section 30:E/2 of the NW/4 Block 58, PSL Survey	12-27-2006	\$250.0 0- Lease Bonus \$25.00 – Filing Fee
Michelle James: Section 30:E/2 of the NW/4 Block 58, PSL Survey	1-8-2007	\$250.00 - Lease Bonus \$25.00 - Filing Fee
Pattie Haugen, Sherri Jones and Judy Pape, As Attorney-in-Fact for Betty Lou Williams: Section 30:E/2 of the NW/4 Block 58, PSL Survey	2-7-2007	750.00 - Lease Bonus \$25.00 – Filing Fee

1-3-2007

\$750.00 - Lease Bonus

\$25.00 - Filing Fee

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



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

Richard Bennet Vance: Section 30:E/2 of the NW/4 Block 58, PSL Survey

4 LEW

12-27-2006

\$750.00 - Lease Bonus \$25.00 - Filing Fee

George Finger Vance Jr.: Section 30:E/2 of the NW/4 Block 58, PSL Survey 12-27-2006

\$1,500.00 - Lease Bonus \$25.00 - Filing Fee

Certified copies of both leases are also enclosed. If you have any questions please give me a call at 214-880-8493.

Yours Very Truly,

William A. Hearne Senior Landman PAYEE: DETACH THIS PORTION BEFORE CASHING CHECK

PETRO-HUNT, L.L.C.

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

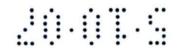
JPMorgan Chase Bank, N.A.
Jefferson County
8200 Hwy 69
Port Arthur, Texas 77640

Page 1 of 1

OWNER NAME	OWNER NO.	DATE	CHECK NUMBER	AMOUNT
TEXAS GENERAL LAND OFFICE	58207	May-07-2007	4113664	\$3,025.00

					40,020.00
VOUCHER	VENDOR INV #	INV DATE	TOTAL AMOUNT	R PMTS SCOUNTS	NET AMOUNT
05AP746 "SOUTH D	050207J ELAWARE BASIN"	05/02/07	3,025.00	0.00	3,025.00
TOTAL INV	OICES PAID				3.025.00





PAYEE: DETACH THIS PORTION BEFORE CASHING CHECK

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

TEXAS GENERAL LAND OFFICE	58207	May-07-2007	4113663	\$1,525.00
OWNER NAME	OWNER NO.	DATE	CHECK NUMBER	AMOUNT

TEXAS GENERAL LAND OFFICE		58207	May-07-2007	4113663	\$1,525.00		
VOUCHER	VENDOR INV #	INV DATE	TOTAL AMOUNT			NET AMOUNT	
05AP747 "SOUTH D	050207I ELAWARE BASIN"	05/02/07	1,525.00		0.00	1,525.00	
	OICES PAID					1,525.00	

PETRO-HUNT, L.L.C. 1601 Elm Street, Suite 3400

JPMorgan Chase Bank, N.A.

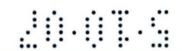
Jefferson County 8200 Hwy 69 Port Arthur, Texas 77640 Page 1 of 1

Dallas, Texas 75201 (214) 880-8400

OWNER NAME OWNER NO. DATE CHECK NUMBER AMOUNT

TEXAS GENERAL LAND OFFICE		58207	58207 May-07-2007 4113670			
VOUCHER	VENDOR INV	# INV DATE	TOTAL AMOUNT		R PMTS	NET AMOUNT
05AP739 "SOUTH DI	050207Q ELAWARE BASIN (05/02/07 OIL & GAS LEASE"	1,525.00		0.00	1,525.00
TOTAL INVO	DICES PAID					1,525.00

Over Reid



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

TEXAS GENERAL LAND OFFICE	58207	May-07-2007	4113662	\$775.00
OWNE PNAME	OWNER NO.	DATE	CHECK NUMBER	AMOUNT

VOUCHER	VENDOR INV #	INV DATE	TOTAL AMOUNT	PRIOR PMTS & DISCOUNTS	NET AMOUNT
05AP741	050207	05/02/07	775.00	0.00	775.00
	ELAWARE BASIN" OICES PAID				775.00







PAYEE: DETACH THIS PORTION BEFORE CASHING CHECK

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

TEXAS GENERAL LAND OFFICE	58207	May-07-2007	4113668	\$775.00
OWNER NAME	OWNER NO.	DATE	CHECK NUMBER	AMOUNT

TEXAS GENERA	L LAND OFFICE		58207	May-07-2007	4113668	\$775.00
VOUCHER	VENDOR INV #	INV DATE	TOTAL		R PMTS SCOUNTS	NET AMOUNT
05AP742 "SOUTH DI	050207N ELAWARE BASIN"	05/02/07	775.00		0.00	775.00
TOTAL INVO	DICES PAID		/ ~			775.00







PETRO-HUNT, L.L.C. V 1601 Elm Street, Suite 3400

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

HOHOURD HIMMON THE !!		- "		
TEXAS GENERAL LAND OFFICE	58207	May-07-2007	4113669	\$775.00
OWNER NAME	OWNER NO.	DATE	CHECK NUMBER	AMOUNT

TEXAS GENERA	AL LAND OFFICE		58207	May-07-2007	4113669	\$775.00
VOUCHER	VENDOR INV #	INV DATE	TOTAL		R PMTS SCOUNTS	NET AMOUNT
05AP740 "SOUTH DI	050207P ELAWARE BASIN SU	05/02/07 JRVEY"	775.00		0.00	775.00
TOTAL INVO	OICES PAID					775.00

121

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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 GENERA	AL LAND OFFICE		58207	May-07-2007	4113665	\$275.00
VOUCHER	VENDOR INV #	INV DATE	TOTAL	PRIC	R PMTS	NET

TEXAS GENERA	AL LAND OFFICE		58207	May-07-2007	4113665	\$275.00
VOUCHER	VENDOR INV #	INV DATE	TOTAL AMOUNT		R PMTS SCOUNTS	NET AMOUNT
05AP745	050207K ELAWARE BASIN"	05/02/07	275.00		0.00	275.00
DOWNERS OF THE REAL PROPERTY.	DICES PAID					275.00







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	May-07-2007	4113666	\$275.00

			and the second second second		
VOUCHER	VENDOR INV #	INV DATE	TOTAL	PRIOR PMTS & DISCOUNTS	NET AMOUNT
05AP744	050207L	05/02/07	275.00	0.00	275.00
	ELAWARE BASIN"				275 00





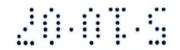


1601 Elm Street, Suite 3400 Dallas, Texas 75201 (214) 880-8400

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	May-07-2007	4113667	\$275.00

VOUCHER	VENDOR INV #	INV DATE	TOTAL	PRIOR PMTS & DISCOUNTS	NET AMOUNT
05AP743	050207M	05/02/07	275.00	0.00	275.00
	ELAWARE BASIN" OICES PAID				275.00



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2.10.05

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
ST OF TX GENERAL LAND OFFICE			Oct-05-2007	7006766	\$375.00
LEASE NUMBER	ORIGINAL LESSOR/LEASE NAME	DATE	10/05/07	CHECK NO	7006766

118*1017936

FERGUSON VANCE

*LEASE DATE MONTHS * 11/01/04 12

RENTAL PERIOD FROM TO 11/01/07

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

FILE ID 11/01/08 68350-0028-001

PAYMENT AMOUNT

375.00

TO BE CREDITED TO

ADDITIONAL TEXT

BANK SERVICE CHG

TOTAL AMOUNT

0.00 375.00

.. OWNER # 74384

ST WX MF104781

PAGE 298

ENTRY

COUNTY/PARISH REEVES TRACT NO 18899

LEGAL DESCRIPTION

REEVES COUNTY TEXAS BLOCK 58, PUBLIC SCHOOL LAND SURVEY SEC. 30: E/2 NW/4

N W TOYAH PROSPECT

BEING 80.00 ACRES MORE OR LESS

STATE TX

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
•••	ST OF TX GENERAL LAND OFFICE		Oct-05-2007	7006768	\$375.00

LEASE NUMBER 118*1018097

ORIGINAL LESSOR/LEASE NAME MAUCH PEGGY F

DATE

10/05/07

CHECK NO 7006768

11/01/04

LEASE DATE MONTHS 12

RENTAL PERIOD FROM 11/01/07

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

TO FILE ID 11/01/08 68350-0028-002

PAYMENT AMOUNT

375.00

ADDITIONAL TEXT

BANK SERVICE CHG

0.00

TO BE CREDITED TO

OWNER # 74384 ST XX MF104781

TRACT NO 18899 LEGAL DESCRIPTION

PROSPECT N W TOYAH PROSPECT COUNTY/PARISH REEVES

REEVES COUNTY TEXAS BLOCK 58, PUBLIC SCHOOL LAND SURVEY SEC. 30: E/2 NW/4 BEING 80.00 ACRES MORE OR LESS

ENTRY

STATE TX

TOTAL AMOUNT

375.00

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

Jefferson County 8200 Hwy 69

Page 1 of 1

OWNER NAME ST OF TX GENERAL LAND OFFICE		OWNER NO.	DATE	CHECK NUMBER	AMOUNT
			Jan-08-2008	7007012	\$1,312.47
LEASE NUMBER	ORIGINAL LESSOR/LEASE NAME	DATE	01/08/08	CHECK	NO 7007012

118*1017671 BENNY GAIL P HUNNICUT ET A RENTAL PERIOD

LEASE DATE MONTHS FROM TO FILE 02/20/04 12 02/20/08 02/20/09 68351-0013

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

TO BE CREDITED TO

LEASE DATE MONTHS

ADDITIONAL TEXT

OWNER # 73190

ST TX MF 104081

RECORDED BOOK 82 PAGE 551 ENTRY

PROSPECT DELAWARE BASIN 3 COUNTY/PARISH CULBERSON

TRACT NO 18774

LEGAL DESCRIPTION

CULBERSON COUNTY TEXAS BLOCK 42, PUBLIC SCHOOL LAND SURVEY SEC. 5: ALL SEC. 6: ALL BEING 1,338.44 ACRES MORE OR LESS

STATE TX

JPMorgan Chase Bank, N.A.

Port Arthur, Texas 77640

PAYMENT AMOUNT 1,312.47

BANK SERVICE CHG

0.00

TOTAL AMOUNT

1,312.47

File No. MF-10478/
RENTAL PAYMENT

Date Filed: 10-13-07
Jerry E. Patterson, Commissioner

By LINDA ANDERSON

A A SOON A SOON



GENERAL LAND OFFICE

m 10 2 8 8 8 8

JERRY PATTERSON, COMMISSIONER

October 9, 2008

Rebecca Young Chesapeake Energy Corp. PO Box 18496. Oklahoma City, OK 73154

RE: GLO Assignment ID # 6578

Dear Ms. Young,

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

Partial Assignment of Oil and Gas Leases Without Warranty, executed March 27, 2008, from Chesapeake Exploration, LLC as Assignor, to Chesapeake Investments, as Assignee. Filed in Reeves Co. Vol. 788, P. 170.

Filing fees of \$2,400.00 were received in connection with the above lease. If you have any questions, please feel free to call me at (800) 998-4GLO, or at my direct number at (512) 463-6521.

Sincerely,

Beverly Boyd
Mineral Leasing
Energy Resources
512-463-6521

Stephen F. Austin Building • 1700 North Congress Avenue • Austin, Texas 78701-1495
Post Office Box 12873 • Austin, Texas 78711-2873

		Exhibit "A"		
GLO ID		County	Lease	
6578	Reeves		MF104781	
6578	Reeves		MF105285	
6578	Reeves		MF108251	

FILE# 1290

105285

PARTIAL ASSIGNMENT OF OIL AND GAS LEASES WITHOUT WARRANTY

STATE OF TEXAS)) §
COUNTY OF REEVES)

KNOW ALL MEN BY THESE PRESENTS:

For and in consideration of Ten Dollars and no/100 (\$10.00) and Other Valuable Consideration, the receipt and sufficiency of which are hereby acknowledged, Chesapeake Exploration, L.L.C., an Oklahoma limited liability company, whose mailing address is P.O. Box 18496, Oklahoma City, Oklahoma 73154-0496, hereinafter referred to as "Assignor", does hereby grant, bargain, sell, convey, assign and deliver unto Chesapeake Investments, an Oklahoma limited partnership, whose mailing address is P.O. Box 18496, Oklahoma City, Oklahoma 73154-0496, hereinafter referred to as "Assignee", an undivided portion of Assignor's interest in and to the oil and gas leases described in Exhibit "A" attached hereto ("the Leases"), in an amount sufficient to vest Assignee with the working interest set forth below in the Block 58 State 31 3 1H ("the Well") and the lands comprising of All of Sections 30 and 31, Block 58, PSL Survey, PSL Survey, Reeves County, Texas containing 1,280.20 unit acres ("the Unit"), including all oil and gas produced therefrom and all downhole and surface equipment associated therewith:

Assignees Working Interest

Chesapeake Investments, 2.5000%

an Oklahama limited partnership

an Oklahoma limited partnership P. O. Box 18496 Oklahoma City, OK 73154-0496

PROVIDED HOWEVER, if Assignor's ownership in the Leases is not uniform as to all depths, zones or formations and the foregoing partial assignment would cause Assignor's remaining working interest in any depths, zones or formations covered by the Leases (determined after consideration of any carried or reversionary interest) to be less than twelve and one half percent (12.5%) on an eight-eighths basis, then the interest assigned hereunder to Assignee as to such depths, zones or formations shall not be the full two and one half percent (2.5%) working interest in the Well and Unit as stated above, but instead shall be limited to two and one half percent (2.5%) of Assignor's working interest as of the date of spud of the Well with respect to such depths, zones or formations.

The interests assigned hereunder shall derive proportionately from all working interest owned or claimed by Assignor in the Leases, or any other source of ownership in the Unit, contractual or otherwise, as of the effective date of this assignment, including any interests acquired via farmout, non-consent elections, force poolings, etc. To the extent any portion of Assignor's title or ownership interest is reduced after payout or after the assessment of non-consent penalties, or is limited to the wellbore of the Well, Assignee's title or ownership conveyed hereunder shall be proportionately reduced thereby in the same manner as Assignor's title.

Assignor delivers to Assignee the above-described interest at the same net revenue interest owned by Assignor, proportionately reduced to the interest assigned. The interest assigned shall bear a proportionate share of all delay rentals, royalties and other obligations burdening the Leases and shall bear a proportionate share of all costs associated with the drilling, completing, operating and/or plugging and abandonment of any well hereafter drilled on the Leases or lands pooled or unitized therewith.

This assignment is made subject to all the terms and the express and implied covenants and conditions of the Leases and any intervening assignments and agreements affecting same, which terms, covenants and conditions the Assignees hereby assume and agree to perform with respect to the interest assigned. The terms, covenants and conditions

ASN 323-0062



Page Two Partial Assignment of Oil and Gas Leases CELLC/CI

of said leases, assignments and agreements shall be binding upon Assignee, not only in favor of the lessor(s) and any prior assignors and their respective successors and assigns, but also in favor of the Assignor herein and its successors and assigns.

This assignment is made and accepted without any representation or warranty of title of any kind, either express or implied. In the event that title to all or any portion of the interest assigned should fail, then and in such event, the percentages of the interest assigned herein shall be reduced in the proportion to which the failed portion of the interest bears to the entire interest.

In witness whereof, this instrument is dated the 10th day of March, 2008, but effective as of the date of spud, May 29, 2007, of the Block 58 State 31 3 1H Well.

	SAPEAKE EXPLORATION, LL.C. klahoma limited liability company
By:	Henry J. Hood, Senior Vice President Land and Legal & General Counsel

STATE OF OKLAHOMA) (STATE OF OKLAHOMA)

My Commission Expires:

1/24/2012



EXHIBIT "A"

Attached to and made a part of that certain Partial Assignment of Oil and Gas Leases dated March 10, 2008, effective May 29, 2007, by and between Chesapeake Exploration, L.L.C., as Assignor, to Chesapeake Investments, as Assignee, covering lands located in Reeves County, Texas.

TX0011467-000

Lessor:

Shawn Shannon and the State of Texas

104782

105490

NW14

SE14

5/2-SE14

1 w13/4 SE/4-

Lessee:

Petro-Hunt, L.L.C. Lease Date: 10/20/04

Recorded:

Book 689, Page 31

Legal Desc: Insofar and only insofar as it covers the following:

Block 58, PSL Survey, Reeves County, Texas

Section 30: NE/4

TX0011477-000

Lessor:

B. J. McCord and the State of Texas 104780

Lessee: Lease Date: 11/02/2004

Petro-Hunt, L.L.C.

Recorded:

Book 694, Page 362

Legal Desc: Insofar and only insofar as it covers the following:

Block 58, PSL Survey, Reeves County, Texas

Section 30: N/2 SW/4

TX0011479-000

Lessor:

Estate of PN Wiggins, Jr. and the State of Texas

Lessee:

Petro-Hunt, L.L.C.

Recorded:

Lease Date: 3/01/2005 Book 701, Page 22

Legal Desc: Insofar and only insofar as it covers the following:

Block 58, PSL Survey, Reeves County, Texas

Section 30: W/3 SE/4

TX0011486-000

Lessor:

Jimmy Hiram Smith

Lessee:

Petro-Hunt, L.L.C.

Lease Date: 3/14/2005

Recorded:

Book 725, Page 329

Legal Desc: Insofar and only insofar as it covers the following:

108251

Block 58, PSL Survey, Reeves County, Texas

Section 30: E/4 SE/4

TX0011619-001

Lessor:

Vance Ferguson and the State of Texas 104781

Lessee:

Petro-Hunt, L.L.C. Lease Date: 11/01/2004

Recorded:

Book 691, Page 298

Legal Desc: Insofar and only insofar as it covers the following:

Block 58, PSL Survey, Reeves County, Texas

Section 30: E/2 NW/4

TX0011619-002

Lessor:

Peggy F. Mauch and the State of Texas 104781

Lessee:

Petro-Hunt, L.L.C.

Lease Date: 11/01/2004 Recorded:

Book 693, Page 581

Legal Desc:

Insofar and only insofar as it covers the following:

Block 58, PSL Survey, Reeves County, Texas

Section 30: E/2 NW/4



TX0011620-001

Lessor:

Fred P. Armstrong and wife, Ingrid U. Armstrong and the State of Texas

Lessee: Lease Date: 2/08/2005

Petro-Hunt, L.L.C.

Recorded:

Book 700, Page 131

Legal Desc: Insofar and only insofar as it covers the following:

Block 58, PSL Survey, Reeves County, Texas

Section 30: S/2 SW/4

Change GLOPSOSE

E/4 of SE/4

104781

TX3230513-001

Lessor:

R. Vance Sheffer, dealing in his sole and separate property and the State of

Texas

Lessee:

Petro-Hunt, L.L.C.

Lease Date: 12/27/2006

Recorded: Legal Desc: Book 757, Page 177 Insofar and only insofar as it covers the following:

Block 58, PSL Survey, Reeves County, Texas

Section 30: E/2 NW/4

TX3230513-002

Lessor:

Donna Fay Vance Nase, dealing in her sole and separate property and the

104781

State of Texas

Lessee:

Petro-Hunt, L.L.C.

Lease Date: 12/27/2006

Book 757, Page 215

Recorded:

Legal Desc: Insofar and only insofar as it covers the following:

Block 58, PSL Survey, Reeves County, Texas

Section 30: E/2 NW/4

TX3230513-003

Lessor:

George Finger Vance, dealing in his sole and separate property and the State

of Texas

Lessee:

Petro-Hunt, L.L.C. 12/27/2006

Lease Date: Recorded:

Book 757, Page 233

Legal Desc:

Insofar and only insofar as it covers the following:

104781

Block 58, PSL Survey, Reeves County, Texas

Section 30: E/2 NW/4

TX3230513-004

Lessor:

Richard Bennett Vance, dealing in his sole and separate property and the State

104781

of Texas

Lessee

Petro-Hunt, L.L.C.

Lease Date: 12/27/2006

Recorded: Legal Desc:

Book 757, Page 168 Insofar and only insofar as it covers the following:

Block 58, PSL Survey, Reeves County, Texas

Section 30: E/2 NW/4

TX3230513-005

Lessor:

Jonnie Vance Brock, dealing in her sole and separate property and the State of

104781

Texas

Lessee:

Petro-Hunt, L.L.C.

Lease Date: 1/3/2007

Recorded: Legal Desc:

Book 757, Page 224 Insofar and only insofar as it covers the following:

Block 58, PSL Survey, Reeves County, Texas

Section 30: E/2 NW/4



TX3230513-006

Patti Haugen, Sherri Jones and Judy Pape, as Attorney-in-Fact for Betty Lou

Williams, dealing in her sole and separate property and the State of Texas

Lessee:

Petro-Hunt, L.L.C.

Lease Date: 2/7/2007

Recorded:

Book 757, Page 186

Legal Desc:

Insofar and only insofar as it covers the following: Block 58, PSL Survey, Reeves County, Texas

Section 30: E/2 NW/4

TX3230513-007

Lessor:

Michelle James, dealing in her sole and separate property and the State of

104781

Texas

Lessee:

Petro-Hunt, L.L.C.

Lease Date:

1/8/2007

Recorded:

Book 757, Page 242

Legal Desc:

Insofar and only insofar as it covers the following:

Block 58, PSL Survey, Reeves County, Texas

Section 30: E/2 NW/4

TX3230513-008

Lessor:

Clayton D. Vance, dealing in his sole and separate property and the State of

104781

Texas

Lessee:

Petro-Hunt, L.L.C.

Lease Date: 12/27/2006

Book 757, Page 206

Recorded: Legal Desc:

Insofar and only insofar as it covers the following:

Block 58, PSL Survey, Reeves County, Texas

Section 30: E/2 NW/4

TX3230513-009

Lessor:

Kathy Grander, dealing in her sole and separate property and the State of

104781

105285

105285

Texas

Lessee:

Petro-Hunt, L.L.C.

Lease Date: 1/8/2007

Recorded:

Book 757, Page 196

Legal Desc:

Insofar and only insofar as it covers the following:

Block 58, PSL Survey, Reeves County, Texas

Section 30: E/2 NW/4

TX0011621-001

Lessor:

Dela Minerals, Inc. and the State of Texas

Lessee:

Petro-Hunt, L.L.C.

Lease Date: 2/16/2005

Recorded:

Book 707, Page 232

Legal Desc: Insofar and only insofar as it covers the following:

Block 58, PSL Survey, Reeves County, Texas

Section 31: All

TX0011622-001

Lessor:

Texas Scottish Rite Hospital and the State of Texas

Lessee:

Petro-Hunt, L.L.C.

Lease Date:

12/1/2005

Recorded: Legal Desc:

Book 721, Page 249 Insofar and only insofar as it covers the following:

Block 58, PSL Survey, Reeves County, Texas

Section 31: All

TX0011622-002

Wells Fargo Bank, N.A., Trustee of the Esther Shuman Testamentary Trust and Lessor

the State of Texas

Lessee:

Petro-Hunt, L.L.C.

Lease Date: 9/1/2005

Recorded: Book 724, Page 01

Legal Desc: 640.20 acres of land, more or less, being All of Section 31, Block 58, PSL

Survey, Reeves County, Texas

TX0011622-003

Lessor:

Wells Fargo Bank, N.A., Trustee of the Mary Y. Tippens Testamentary Trust

105285

105285

and the State of Texas

Lessee:

Petro-Hunt, L.L.C.

Lease Date: 9/1/2005

Recorded:

Book 724, Page 16

Legal Desc: 640.20 acres of land, more or less, being All of Section 31, Block 58, PSL

Survey, Reeves County, Texas

TX0011622-004

Lessor:

Wells Fargo Bank, N.A., Trustee of the Mary B. Harwit Unitrust and the State of

105285

Petro-Hunt, L.L.C. Lessee:

Lease Date: 9/1/2005

Recorded:

Book 724, Page 31

Legal Desc: 640.20 acres of land, more or less, being All of Section 31, Block 58, PSL

Survey, Reeves County, Texas

TX0011622-005

Lessor

Cathenne Funk Wall Trust B and the State of Texas

Lessee:

Petro-Hunt, L.L.C.

Lease Date: 12/1/2005

Recorded: Book 724, Page 82

Legal Desc: 640.20 acres of land, more or less, being All of Section 31, Block 58, PSL

105285

Survey, Reeves County, Texas

TX0011622-006

D. D. Wall Trust B and the State of Texas 105285

Lessee:

Petro-Hunt, L.L.C.

Lease Date: 12/1/2005

Recorded: Book 724, Page 97

Legal Desc: 640.20 acres of land, more or less, being All of Section 31, Block 58, PSL

Survey, Reeves County, Texas

TX0011622-007

Lessor:

Catherine Funk Wall Trust B and the State of Texas

Lessee:

Petro-Hunt, L.L.C.

Lease Date: 12/1/2005

Recorded: Book 724, Page 96

Legal Desc: 640.20 acres of land, more or less, being All of Section 31, Block 58, PSL

Survey, Reeves County, Texas

TX0011622-008

Lessor:

Wells Fargo Bank, N.A., Wells Fargo Bank, N.A., as Trustee for the D. D. Wall

105285

Trust A and the State of Texas 105 285

Lessee:

Petro-Hunt, L.L.C.

Lease Date: 12/1/2005

Recorded:

Book 726, Page 652

Legal Desc: 640.20 acres of land, more or less, being All of Section 31, Block 58, PSL

Survey, Reeves County, Texas



TX0011622-009

Ann Covington Henderson and the State of Texas

105285

Lessee:

Petro-Hunt, L.L.C.

Lease Date: 10/6/2004

Recorded:

Book 687, Page 692

Legal Desc: Insofar and only insofar as it covers the following: Block 58, PSL Survey, Reeves County, Texas

Section 31: All

TX0011622-010

essor

Jane Covington Drake and the State of Texas

Lessee: Lease Date: 10/6/2004

Petro-Hunt, L.L.C.

Recorded:

Book 687, Page 701

Legal Desc:

Insofar and only insofar as it covers the following:

Block 58, PSL Survey, Reeves County, Texas

Section 31: All

TX0011622-011

Lessor: Lessee

Ted Michael Covington and the State of Texas

Petro-Hunt, L.L.C.

Lease Date: 10/6/2004

Recorded:

Book 687, Page 710

Legal Desc: Insofar and only insofar as it covers the following:

Block 58, PSL Survey, Reeves County, Texas

Section 31: All

TX0011622-012

Lessor:

Randy Camp as Independent Executor of the Estate of Nellie May Gohlke,

105285

deceased and the State of Texas

Lessee:

Petro-Hunt, L.L.C.

Lease Date: 11/3/2004 Recorded:

Book 689, Page 614

Legal Desc: Insofar and only insofar as it covers the following:

Block 58, PSL Survey, Reeves County, Texas

Section 31: All

Agreements Affecting the Leases:

- That certain Purchase and Sale Agreement dated June 22, 2006 by and between Chesapeake Exploration Limited Partnership and Petro-Hunt, L.L.C.
- That certain Joint Operating Agreement dated June 28, 2006 between Petro-Hunt, L.L.C., as Operator, and Chesapeake Exploration Limited Partnership, as Non-Operator.
- That certain Term Pooling Agreement by and between the State of Texas and Petro-Hunt, L.L.C. and Chesapeake Exploration, L.L.C., effective date October 16, 2007.

It is Assignor's intent to convey to Assignee a proportionate share of all of Assignor's right, title and interest, as limited above, in and to the subject lands and well, regardless of the omission of any particular lease or leases, errors in description, incorrect or misspelled names or incorrect recording references.

END OF EXHIBIT "A"

W:\Permian_South\Non-Operated Wells\Block 58 State 31-3 #1H (616169)\ASSIGNMENT CI20080130.doc

OR USE OF THE DESCRIBED REAL PROPERTY BECAUSE OF COLOR OR RACE IS INVALID AND UNENFORCEARLE UNDER FEDERAL

FILE# 1290

4TH

DAY OF APRIL

A.D. 2008 11:10 A-M.

DULY RECORDED ON THE

FILED FOR RECORD ON THE

9TH

DAY OF APRIL

, DEPUTY

A.D. 2008 1:00 P.

DIANNE O. FLOREZ, COUNTY CLERK REEVES COUNTY, TEXAS



lefty E. Patterson, Commissioner

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. 788 PAGE 170 THRU 176 OFFICIAL PRECORDS

[I hereby certified on 08/20/2008]

DIANNE O. FLOREZ, COUNTY SLERK
REEVES COUNTY, TEXAS
BY DEPUTY



Grace F. Vance Estate c/o Peggy Mauch 658 County Road 326 Kenedy, TX 78119

Re: Relinquishment Act Lands Oil and Gas Lease Dated November 1, 2004 (Successor interests from Robert Roush Vance ("Lease"); Reeves County, Texas

Dear Mrs. Mauch:

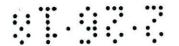
COG Operating LLC ("COG") is the Lessee under the captioned Oil and Gas Lease, under which you are acting as the agent for the State of Texas, covering the following described lands:

All of Section 30, 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 31-3 #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.



Grace F. Vance Estate 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.

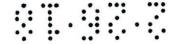
Very truly yours,

COG OPERATING LLC

Jerold Jenkins Staff Landman

I,	, the agent for the State of Texas under the Lease and the owner of the soi
of the above-descr	ribed 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-o	described land, hereby <u>DO NOT</u> 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





The Vance and Virginia Ferguson c/o Christopher Blackburn Ferguson 3701 Peak Lookout Drive Austin, TX 78738

Re: Relinquishment Act Lands Oil and Gas Lease Dated November 1, 2004 (Successor interests from Grace Vance Estate) ("Lease"); Reeves County, Texas

Gentlemen:

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 30, Block 58, Public School Land Survey, Reeves County, Texas

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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 Vance and Virginia Ferguson 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

	the agent for the State of Texas under the Lease and the owner of the soil
of the above-descr	ibed 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-d	escribed land, hereby <u>DO NOT</u> 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





Mr. Christoper Blackburn Ferguson 703 Robert E. Lee Road Austin, TX 78704

Re: Relinquishment Act Lands Oil and Gas Lease Dated November 1, 2004 (Successor interests from Grace Vance Estate) ("Lease"); Reeves County, Texas

Dear Mr. Ferguson:

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 30, 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 31-3 #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.



Christopher Blackburn Ferguson 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-desc	ribed 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 <u>DO NOT</u> 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





The Karyl Kalina Trust dated April 7, 2010 c/o Mr. Christoper Blackburn Ferguson, Trustee 703 Robert E. Lee Road Austin, TX 78704

Re: Relinquishment Act Lands Oil and Gas Lease Dated November 1, 2004 (Successor interests from Grace Vance Estate) ("Lease"); Reeves County, Texas

Dear Mr. Ferguson:

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 30, 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 31-3 #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 Karyl Kalina Trust dated April 7, 2010 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.

soil of the above-described land, hereby DO NOT consent to the forgoing provisions of this letter.

_, I, _____, the agent for the State of Texas under the Lease and the owner of the

cc: Mr. J. Daryl Morgan, CPL Landman, Mineral Leasing Texas General Land Office P.O. Box 12873

Austin, Texas 78711-2873





Mr. Richard Bennett Vance 604 E 41st Street Austin, TX 78751

Re: Relinquishment Act Lands Oil and Gas Lease Dated December 27, 2006 ("Lease"); Reeves County, Texas

Dear Mr. Vance:

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 30, Block 58, Public School Land Survey, Reeves County, Texas

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Mr. Richard Bennett Vance February 19, 2018 Page 2

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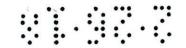
Very truly yours,

COG OPERATING LLC

Jerold Jenkins Staff Landman

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, I,soil of the above-c	, the agent for the State of Texas under the Lease and the owner of the described land, hereby <u>DO NOT</u> consent to the forgoing provisions of this letter.

ce: Mr. J. Daryl Morgan, CPL Landman, Mineral Leasing Texas General Land Office P.O. Box 12873 Austin, Texas 78711-2873





Mr. Raymond Vance Sheffer 2202 Chester Street Sweetwater, TX 79556

Re: Relinquishment Act Lands Oil and Gas Lease Dated December 27, 2006 ("Lease"); Reeves County, Texas

Dear Mr. Sheffer:

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 30, Block 58, Public School Land Survey, Reeves County, Texas

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One Concho Center | 600 West Illinois Avenue | Midland, Texas 79701 | P 432,683 7443 | F 432,683 7441

Mr. Raymond Vance Sheffer 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

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, the agent for the State of Texas under the Lease and the owner of the
escribed land, hereby <u>DO NOT</u> 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





Betty Lou Williams Estate c/o Patti Williams Haugen, Sherri Jones and Judy Williams Pape 2434 Tofttrees Drive San Antonio, TX 78209

Re: Relinquishment Act Lands Oil and Gas Lease Dated February 7, 2007 ("Lease"); Reeves County, Texas

Dear Ladies:

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:

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Betty Lou Williams Estate 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-descr	ibed 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





Mrs. Judy Williams Pape 2806 Bridle Path Road Austin, TX 78703

Re: Relinquishment Act Lands Oil and Gas Lease Dated February 7, 2007 (Successor interests from Betty Lou Williams) ("Lease"); Reeves County, Texas

Dear Mrs. Pape:

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:

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One Concho Center | 600 West Illinois Avenue | Midland, Texas 79701 | P 432 683 7443 | F 432 683 7441



Mrs. Judy Williams Pape February 19, 2018 Page 2

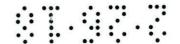
Thank you for your cooperation and we look forward to hearing from you soon. If you have any questions, please give Mr. Jerold Jenkins of COG a call at 432.234.1508.

Very truly yours,

COG OPERATING LLC

Jerold Jenkins Staff Landman

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of the above-descri	bed 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-d	escribed land, hereby <u>DO NOT</u> consent to the forgoing provisions of this letter.





Ms. Kathy Grander 300 Woodlake Circle Austin, TX 78733

Re: Relinquishment Act Lands Oil and Gas Lease Dated January 8, 2007 (Successor interests from Betty Lou Williams) ("Lease"); Reeves County, Texas

Dear Mrs. Grander:

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:

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One Concho Center | 600 West Illinois Avenue | Midland, Texas 79701 | P 432 683 7443 | F 432 683 7441

Ms. Kathy Grander 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

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T	, the agent for the State of Texas under the Lease and the owner of the
soil of the above-d	escribed land, hereby <u>DO NOT</u> consent to the forgoing provisions of this letter.
son of the above a	coorded initia, nevery <u>2011-01</u> constant to the longering pro-





Clayton D. Vance 321 Gulfton Drive Portland, TX 78374

Re: Relinquishment Act Lands Oil and Gas Lease Dated December 27, 2006 ("Lease"); Reeves County, Texas

Dear Mr. Vance:

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:

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Mr. Clayton D. Vance 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

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, I,	, the agent for the State of Texas under the Lease and the owner of the
soil of the above-d	escribed land, hereby <u>DO NOT</u> consent to the forgoing provisions of this letter.





Donna Fay Vance Nase 13518 Camino De Plata Ct. Corpus Christi, TX 78418

Re: Relinquishment Act Lands Oil and Gas Lease Dated December 27, 2006 ("Lease"); Reeves County, Texas

Dear Mrs Nase:

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 30, 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 31-3 #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.



Mr. Donna Fay Vance Nase 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-descr	ibed 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-d	escribed land, hereby <u>DO NOT</u> consent to the forgoing provisions of this letter.





Jonnie Van Brock 1121 Circle Drive DeQueen, AR 71832

Re: Relinquishment Act Lands Oil and Gas Lease Dated January 3, 2007 ("Lease"); Reeves County, Texas

Dear Mrs. Brock

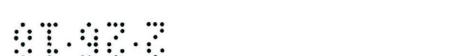
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Accordingly, COG is hereby asking your permission to extend the period of time under the Lease until September 1, 2018, in order that COG is permitted to remove the machinery and fixtures from the location, including the drawing and removal of the 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.



One Concho Center | 600 West Illinois Avenue | Midland, Texas 79701 | P 432 683 7443 | F 432 683 7441

Jonnie Vance Brock 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-desc	ribed 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.





George Finger Vance, Jr. 2414 Twin Grove Drive Kingwood, TX 77339

Re: Relinquishment Act Lands Oil and Gas Lease Dated December 27, 2006 ("Lease"); Reeves County, Texas

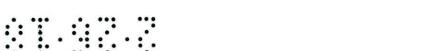
Dear Mr. Vance:

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 30, 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 31-3 #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.



George Finger Vance, Jr. February 19, 2018 Page 2

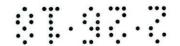
Thank you for your cooperation and we look forward to hearing from you soon. If you have any questions, please give Mr. Jerold Jenkins of COG a call at 432.234.1508.

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-descr	ribed 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-c	lescribed land, hereby DO NOT consent to the forgoing provisions of this letter.





Michelle James 2604 Garner Field Road Uvalde, TX 78801

Re: Relinquishment Act Lands Oil and Gas Lease Dated January 8, 2007 ("Lease"); Reeves County, Texas

Dear Ms. James:

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 30, 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 31-3 #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.

Ms. Michelle James 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



Date Filed: ______George P. Bush, Commissioner File No._ _County