✓ EXPIRED
DATE 1-18-10
LEASING Globase Ltd
MAPS
GIS

STATE LEASE MF104939

CONTROL	BASEFILE	COUNTY	
07-30964	111882 -	CULBERSON	/055
07-30973	111881 -	CULBERSON	/055
07-30982	111880 -	CULBERSON	/055
07-30991	119441 -	CULBERSON	/055
...			

SURVEY : PUBLIC SCHOOL LAND
BLOCK : 103
TOWNSHIP : 00
SECTION/TRACT: 9,11,12,19,20 & 22
PART :
ACRES : 2720.00 net acres/2800.00 gross acres
DEPTH LIMITS : NO

LESSEE : JOHNSON, CLAY
LEASE DATE : Jan 28 2005
PRIMARY TERM : 5 yrs
BONUS ($) : 280000.00
RENTAL ($) : 1.00
ROYALTY : 0.12500000
VAR ROYALTY :

Rentals: MS

Lease Admin:

Mineral Maps: JP

E

M F 1 0 4 9 3 9

F1024084

CONTENTS OF FILE NO. MF104939

1. Letter	3/22/05	
2. Bonus + fee	3/22/05	
3. BAL Review	3/23/05	
4. Letter + fee	5/18/05	
5. Lease	5/18/05	
6. GLO letter	6/21/05	
See MF104095 #8 for		
assignment.	9/15/05	
See MF104555 #5 for		
assignment	9/30/05	
7. Rental Payment	12/14/05	
8. RENTAL PAYMENT	12/27/06	
9. RENTAL PAYMENT	12/31/07	
10. Rental Payment	12/29/08	
Primary term expired 1-18-10		
Scanned SM 7/22/15		

GLO-S-08-(1-82)

ENCANA

EnCana Oil & Gas (USA) Inc.

March 21, 2005

GENERAL LAND OFFICE
Mr. Drew Reid
Stephen F. Austin Bldg.
1700 North Congress Ave.
Austin, TX 78701

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

Dear Drew:

Find enclosed for your files and further handling a certified copy of the following described Oil and Gas Lease:

> Relinquishment Act Oil and Gas lease dated January 28, 2005 by and between The State of Texas by Agent John D. Byram, Joy Manning Scott and Morin M Scott, Jr. and Elizabeth B. Scott, Trustee of the Joy Manning Scott Trust under Trust Agreement dated August 7, 1992, covering Block 103, Public School Land Survey: S ¾ of Section 9; All of Section 11; S ¾ of Section 12; NE/4, N/2 SE/4, W/2 NW/4 of Section 19; N/2, SW/4, N/2 SE/4 of Section 20; and, SW/4, W/2 NE/4, E/2 SE/4 of Section 22, Culberson County, TX.

Find enclosed Encana Oil & Gas (USA) Inc. check # 613411 made payable to the order of Texas General Land Office Commissioner in the amount of $280,000 representing payment in full of lease bonus consideration (1/2 due the State of Texas) for the above mentioned Oil and Gas Lease.

To cover the required filing fees for handling this matter find enclosed Encana Oil & Gas (USA) Inc. check # 613412 made payable to the order of General Land Office – State of Texas in the amount of $100.

14001 N. Dallas Parkway, Suite 1000 Dallas, TX 75240 214-987-7179

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

Respectfully

Jana Ralls

Jana Ralls

RECEIVED THIS ____________ DAY OF ________________________, 2005

COMMISSIONER OF THE GENERAL LAND OFFICE
STATE OF TEXAS

____

Drew Reid

File No. MF704939

Letter

Date Filed: 3/22/05

Jerry E. Patterson, Commissioner

By ~~~~

ENCANA

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

VENDOR NAME	VENDOR NO.	CHECK DATE	CHECK NUMBER	AMOUNT
Texas General Land Office	**2053910**	**Mar-03-2005**	**613411**	**$280,000.00**

VOUCHER	VENDOR INV. #	INV. DATE	TOTAL AMOUNT	PRIOR PMTS & DISCOUNTS	NET AMOUNT
3736006	030205	03/02/05	280000.00	.00	280000.00
Bonus Consideration					
TOTAL INVOICES PAID			280000.00	.00	280000.00

attn: Drew Reid

121

05030823

RECEIVED
05 MAR 22 PM 3:17

3-22-05

ENCANA

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

PRODUCTION ACCOUNT

CITIBANK
NEW YORK, NY 10043
[redacted]

No. 613411

VOID IF NOT PRESENTED FOR PAYMENT WITHIN 90 DAYS

CHECK NUMBER	DATE	PAY EXACTLY
613411	Mar-03-2005	$280,000.00

PAY EXACTLY $280,000dols00cts
Two Hundred Eighty Thousand Dollars Only

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

AUTHORIZED SIGNATURE

ORIGINAL DOCUMENT CONTAINS ARTIFICIAL WATERMARK ON BACK — HOLD AT AN ANGLE TO VIEW; FACE OF DOCUMENT IS A BLUE BACKGROUND NOT A WHITE BACKGROUND.

⑈613411⑈ [redacted]

ENCANA

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

Page 1 of 1

VENDOR NAME	VENDOR NO.	CHECK DATE	CHECK NUMBER	AMOUNT
Texas General Land Office	2053910	Mar-03-2005	613411	$280,000.00

VOUCHER	VENDOR INV. #	INV. DATE	TOTAL AMOUNT	PRIOR PMTS & DISCOUNTS	NET AMOUNT
3736006	030205	03/02/05	280000.00	.00	280000.00
Bonus Consideration					
TOTAL INVOICES PAID			280000.00	.00	280000.00

3-22-05

ENCANA.

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

VENDOR NAME	VENDOR NO.	CHECK DATE	CHECK NUMBER	AMOUNT
Texas General Land Office	2053910	Mar-03-2005	613412	$100.00

VOUCHER	VENDOR INV. #	INV. DATE	TOTAL AMOUNT	PRIOR PMTS & DISCOUNTS	NET AMOUNT
3736012	030205A	03/02/05	100.00	.00	100.00
Filing Fee: Mineral Clasified					
TOTAL INVOICES PAID			100.00	.00	X 100.00

121

05030822

RECEIVED
05 MAR 22 PM 2:11

3-22-05

ENCANA

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

PRODUCTION ACCOUNT

CITIBANK
NEW YORK, NY 10043
[redacted]

No. **613412**

VOID IF NOT PRESENTED FOR PAYMENT WITHIN 90 DAYS

CHECK NUMBER	DATE	PAY EXACTLY
613412	Mar-03-2005	$100.00

PAY EXACTLY **$100dols00cts**
One Hundred Dollars Only

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

AUTHORIZED SIGNATURE

⑈613412⑈ [redacted]

ENCANA

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

VENDOR NAME	VENDOR NO.	CHECK DATE	CHECK NUMBER	AMOUNT
Texas General Land Office	2053910	Mar-03-2005	613412	$100.00

VOUCHER	VENDOR INV. #	INV. DATE	TOTAL AMOUNT	PRIOR PMTS & DISCOUNTS	NET AMOUNT
3736012	030205A	03/02/05	100.00	.00	100.00
Filing Fee: Mineral Clasified					
TOTAL INVOICES PAID			100.00	.00	100.00

2.

File No. MF104939

Bonus + fee

Date Filed: 3/22/05

Jerry E. Patterson, Commissioner

By ________

RAL REVIEW SHEET

Transaction # 4593 **Geologist:** R. Widmayer

Lessor: Byram, John D., Joy Manning Scott and Morin M. Scott, Jr., **Lease Date:** 1/28/2005 **UL** ☐

Lessee: Clay Johnson **Acres:** 2800

LEASE DESCRIPTION

County		Base File No	Part	Sec.	Block	Twp	Survey	Abst#
CULBERSON	[redacted]	111882	S 3/4 480 Ac.	9	103	00	PUBLIC SCHOOL LAND	38
CULBERSON	[redacted]	111881	ALL 640 Ac	11	103	00	PUBLIC SCHOOL LAND	37
CULBERSON	[redacted]	111880	S 3/4 480 Ac.	12	103	00	PUBLIC SCHOOL LAND	36
CULBERSON	[redacted]	119441	NE/4, N/2 SE/4, W/2 (320 Ac)	19	103	00	PUBLIC SCHOOL LAND	3975
CULBERSON	[redacted]	146392	N/2, SW/4, N/2 SE/4 (480 Ac)	20	103	00	PUBLIC SCHOOL LAND	6716
	[redacted]			22	103	(320 Ac.)		

2720 Ac.

80 Ac diff.

TERMS OFFERED		**TERMS RECOMMENDED**	
Primary Term:	5 years	**Primary Term**	5 years
Bonus/Acre:	$200.00	**Bonus/Acre**	$200.00
Rental/Acre:	$1.00	**Rental/Acre**	$1.00
Royalty:	1/4	**Royalty**	1/4

COMPARISONS

MF #	Lessee	Date	Term	Bonus/Ac.	Rental/Ac.	Royalty	Distance Last Lease
Pending	Warrior Exploration	9/16/04	5 Yrs	$50.00	$1.00	3/16	1 Mile North
MF104111	Clay Johnson	2/4/2004	7 years	$10.00	$1.00	1/6	3 Miles West

Comments: 4th year rental will be $200.00 per acre.

Approved: PAB 3-23-05

Wednesday, March 23, 2005

RELINQUISHMENT ACT LEASE APPLICATION

Texas General Land Office — Jerry Patterson, Commissioner

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

DATE: 27-Oct-04

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

Applicant:	Navigator Oil & Minerals, Inc.			County:	CULBERSON
Prim. Term:	5 years	Bonus/Acre	$40.00		
Royalty:	3/16	Rental/Acre	$1.00		

Consideration

Recommended: PAB   Date: 10-27-04

Not Recommended: ________

Comments: 4th year rental will be $40.00 per acre. 180 day continuous drilling provision.

Lease Form

Recommended: RJH   Date: 10/28/04

Not Recommended: ________

Comments:

Matt Edling, Deputy Commissioner   Date: 11-10-04

Recommended: ME

Not Recommended: ________

Bill Warnick, General Counsel   Date: 11/16/04

Recommended: WTW

Not Recommended: ________

Larry Laine, Chief Clerk   Date: 11/16/04

Approved: LL

Not Approved: ________

Jerry Patterson, Commissioner   Date: 19 NOV 04

Approved: JP

Not Approved: ________

RAL REVIEW SHEET

Transaction # 4354 **Geologist:** R. Widmayer

Lessor: Byram, John D., Trustee, and Joy Scott, Successor Trustee **Lease Date:** 10/25/2004 **UE** ☐

Lessee: Navigator Oil & Minerals, Inc. **Acres:** 2720

LEASE DESCRIPTION

County	Base File No	Part	Sec.	Block	Twp	Survey	Abst#
CULBERSON	111882	S 3/4	9	103	00	PUBLIC SCHOOL LAND	38
CULBERSON	111881	ALL	11	103	00	PUBLIC SCHOOL LAND	37
CULBERSON	111880	S 3/4	12	103	00	PUBLIC SCHOOL LAND	36
CULBERSON	119441	NE/4,N/2SE/4,W/2N	19	103	00	PUBLIC SCHOOL LAND	3975
CULBERSON	146392	N/2,S/2SW/4,N/2SE/	20	103	00	PUBLIC SCHOOL LAND	6716

TERMS OFFERED		TERMS RECOMMENDED	
Primary Term:	5 years	Primary Term	5 years
Bonus/Acre:	$40.00	Bonus/Acre	$40.00
Rental/Acre:	$1.00	Rental/Acre	$1.00
Royalty:	3/16	Royalty	3/16

COMPARISONS

MF #	Lessee	Date	Term	Bonus/Ac.	Rental/Ac.	Royalty	Distance Last Lease
Pending	Warrior Exploration	9/16/04	5 Yrs	$50.00	$1.00*	3/16	1 Mile North
MF104111	Clay Johnson	2/4/2004	7 years	$10.00	$1.00	1/6	3 Miles West
MF104081	Douglas W. Ferguson	2/20/2004	5 years	$22.50	$1.00	3/16	3.5 Mile NE

Clay Johnson

Comments: 4th year rental will be $40.00 per acre. 180 day continuous drilling provision. * $25 4th Year rental on offset lease.

A

Leased BOB
1.28.05

200.00 5 YR
200.00 4th YR
1/4

Approved: RAB 10.25.04

Wednesday, October 27, 2004

3.

File No. MF 104939

RAL Review

Date Filed: 3/23/05

Jerry E. Patterson, Commissioner

By SL

Clay Johnson Oil & Gas Properties

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

AAPL-CPL

May 16, 2005

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

Re: Relinquishment Act Correction Oil & Gas Lease
Culberson County, TX

Dear Mr. Reid,

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

1) Relinquishment Act Correction Oil & Gas Lease dated January 28, 2005, by and between The State of Texas by John D. Byram, Joy Manning Scott and Morin M. Scott, Jr., and Elizabeth B. Scott, Trustees of the Joy Manning Scott Trust, Lessor and Clay Johnson, Lessee, covering the S ¾ of Section 9, all of Section 11, the S ¾ of Section 12, the NE/4, N/2 SE/4, W/2 NW/4 of Section 19, the N/2, SW/4, N/2 SE/4 of Section 20, and the SW/4, W/2 NE/4, E/2 SE/4 of Section 22, Block 103, Public School Land Survey, Culberson County, Texas;

To cover required filing fees for handling this matter find enclosed Clay Johnson Check No. 7402 in the amount of $25.00 made payable to General Land Office – State of Texas.

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

Respectfully,

M.K. Brasuel

Mary Kay Brasuel

RECEIVED THIS ____________ DAY OF ____________________, 2004

COMMISSIONER OF THE GENERAL LAND OFFICE STATE OF TEXAS

____

Drew Reid

5·16·05

CLAY JOHNSON 7402

General Land Office - State of Texas 5/15/'05

X 25.00

Attn: Drew Reid

121

05039686

RECEIVED

5.13.05

FIRST NATIONAL CHEC Filing Fee/Encana 25.00

CLAY JOHNSON
203 W. WALL, SUITE 202
MIDLAND, TX 79701
PH. (432) 684-4110

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

7402

5/15/'05

PAY TO THE ORDER OF General Land Office - State of Texas $ **25.00

Twenty-Five and 00/100*** DOLLARS

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

MEMO Filing Fee/Encana

Clay Johnson

⑈007402⑈ [redacted]

CLAY JOHNSON 7402

General Land Office - State of Texas 5/15/'05

25.00

FIRST NATIONAL CHEC Filing Fee/Encana 25.00

5-16-05

4.

File No. MF104939

Littler & Lee

Date Filed: 5/18/05

Jerry E. Patterson, Commissioner

By JJ

588601

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

CORRECTION OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 28th day of January, 2005, between the State of Texas, acting by and through its agent, **John D. Byram, Joy Manning Scott and Morin M. Scott, Jr. and Elizabeth B. Scott, Trustees of the Joy Manning Scott Trust under Trust Agreement dated August 7, 1992** of 510 S. Congress Ave., Suite 400, Austin, Texas 78704 said agent
(Give Permanent Address)
herein referred to as the owner of the soil (whether one or more), and **Clay Johnson** of 203 W. Wall, Suite 202 Midland, Texas 79701
(Give Permanent Address)
hereinafter called Lessee.

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

Block 103, Public School Land Survey

Section 9:	**S 3/4**
Section 11:	**All**
Section 12:	**S 3/4**
Section 19:	**NE/4, N/2 SE/4, W/2 NW/4**
Section 20:	**N/2, SW/4, N/2 SE/4**
Section 22:	**SW/4, W/2 NE/4, E/2 SE/4**

Containing 2800.00 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Two Hundred Thousand Eighty Thousand and No/100--------------
Dollars ($ 280,000.00)

To the owner of the soil: Two Hundred Thousand Eighty Thousand and No/100---------------
Dollars ($ 280,000.00)

Total bonus consideration: Five Hundred Sixty Thousand and No/100-------------
Dollars ($ 560,000.00)

The total bonus consideration paid represents a bonus of Two Hundred and No/100---------------
Dollars ($ 200.00) per acre, on 2,800.00 net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of Five (5) years from this date (herein called primary term") and as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land. As used in this lease, the term "produced in paying quantities" means that the receipts from the sale or other authorized commercial use of the substance(s) covered exceed out of pocket operational expenses for the six months last past.

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

To the owner of the soil: One Thousand Four Hundred and No/100--------
Dollars ($ 1,400.00 *)
To the State of Texas: One Thousand Four Hundred and No/100--------
Dollars ($ 1,400.00 *)
Total Rental: Two Thousand Eight Hundred and No/100--------
Dollars ($ 2,800.00 **)

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

A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK
ATTEST: May 4, 2005
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS
BY Yanci Rodriguez DEPUTY

445436 5-05-05

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

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

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

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

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

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

5. MINIMUM ROYALTY. During any year after the expiration of the primary term of this lease, if this lease is maintained by production, the royalties paid under this lease in no event shall be less than an amount equal to the total annual delay rental herein provided; otherwise, there shall be due and payable on or before the last day of the month succeeding the anniversary date of this lease a sum equal to the total annual rental less the amount of royalties paid during the preceding year. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar ($1.00) per acre.

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

445436

implied, under this lease.

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

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

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

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

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

(B) PERMITS, DRILLING RECORDS. Written notice of all operations on this lease shall be submitted to the Commissioner of the General Land Office by Lessee or operator five (5) days before spud date, workover, re-entry, temporary abandonment or plug and abandonment of any well or wells. Such written notice to the General Land Office shall include copies of Railroad Commission forms for application to drill. Copies of well tests, completion reports and plugging reports shall be supplied to the General Land Office at the time they are filed with the Texas Railroad Commission. All applications, permits, reports or other filings that reference this lease or any specific well on the leased premises and that are submitted to the Texas Railroad Commission or any other governmental agency shall include the word "State" in the title. Additionally, in accordance with Railroad Commission rules, any signage on the leased premises for the purpose of identifying wells, tank batteries or other associated improvements to the land must also include the word "State." Lessee shall supply the General Land Office with any records, memoranda, accounts, reports, cuttings and cores, or other information relative to the operation of the above described premises, which may be requested by the General Land Office, in addition to those herein expressly provided for. Lessee shall have an electrical and/or radioactivity survey made on the bore-hole section, from the base of the surface casing to the total depth of well, of all wells drilled on the above described premises and shall transmit a true copy of the log of each survey on each well to the General Land Office within fifteen (15) days after the making of said survey.

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

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

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

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

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

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

NOTE: Paras. 16. (A) and (B) were stricken from this lease.

16. (C) RETAINED ACREAGE 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. 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 three hundred (300) feet to any house or barn now on said premises without the written consent of the owner of the soil.

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

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

27. (A) ASSIGNMENTS. Under the conditions contained in this paragraph and Paragraph 29 of this lease, the rights and estates of either party to this lease may be assigned, in whole or in part, and the provisions of this lease shall extend to and be binding upon their heirs, devisees, legal representatives, successors and assigns. However, a change or division in ownership of the land, rentals, or royalties will not enlarge the obligations of Lessee, diminish the rights, privileges and estates of Lessee, impair the effectiveness of any payment made by Lessee or impair the effectiveness of any act performed by Lessee. And no change or division in ownership of the land, rentals, or royalties shall bind Lessee for any purpose until thirty (30) days after the owner of the soil (or his heirs, devisees, legal representatives or assigns) furnishes the Lessee with satisfactory written evidence of the change in ownership, including the original recorded muniments of title (or a certified copy of such original) when the ownership changed because of a conveyance. A total or partial assignment of this lease shall, to the extent of the interest assigned, relieve and discharge Lessee of all subsequent obligations under this lease. If this lease is assigned in its entirety as to only part of the acreage, the right and option to pay rentals shall be apportioned as between the several owners ratably, according to the area of each, and failure by one or more of them to pay his share of the rental shall not affect this lease on the part of the land upon which pro rata rentals are timely paid or tendered; however, if the assignor or assignee does not file a certified copy of such assignment in the General Land Office before the next rental paying date, the entire lease shall terminate for failure to pay the entire rental due under Paragraph 3. Every assignee shall succeed to all rights and be subject to all obligations, liabilities, and penalties owed to the State by the original lessee or any prior assignee of the lease, including any liabilities to the State for unpaid royalties.

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

(1) a nominee of the owner of the soil;

(2) a corporation or subsidiary in which the owner of the soil is a principal stockholder or is an employee of such a corporation or subsidiary;

(3) a partnership in which the owner of the soil is a partner or is an employee of such a partnership;

(4) a principal stockholder or employee of the corporation which is the owner of the soil;

(5) a partner or employee in a partnership which is the owner of the soil;

(6) a fiduciary for the owner of the soil; including but not limited to a guardian, trustee, executor, administrator, receiver, or conservator for the owner of the soil; or

(7) a family member of the owner of the soil or related to the owner of the soil by marriage, blood, or adoption.

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

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

30. DISCLOSURE CLAUSE. All provisions pertaining to the lease of the above-described land have been included in

this instrument, including the statement of the true consideration to be paid for the execution of this lease and the rights and duties of the parties. Any collateral agreements concerning the development of oil and gas from the leased premises which are not contained in this lease render this lease invalid.

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

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

33. LIEN. In accordance with Texas Natural Resources Code 52.136, the State shall have a first lien upon all oil and gas produced from the area covered by this lease to secure payment of all unpaid royalty and other sums of money that may become due under this lease. By acceptance of this lease, Lessee grants the State, in addition to the lien provided by Texas Natural Resources Code 52.136 and any other applicable statutory lien, an express contractual lien on and security interest in all leased minerals in and extracted from the leased premises, all proceeds which may accrue to Lessee from the sale of such leased minerals, whether such proceeds are held by Lessee or by a third party, and all fixtures on and improvements to the leased premises used in connection with the production or processing of such leased minerals in order to secure the payment of all royalties or other amounts due or to become due under this lease and to secure payment of any damages or loss that Lessor may suffer by reason of Lessee's breach of any covenant or condition of this lease, whether express or implied. This lien and security interest may be foreclosed with or without court proceedings in the manner provided in the Title I, Chapter 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this lease forfeited as provided herein.

34. POOLING. Lessee is hereby granted the right to pool or unitize the royalty interest of the owner of the soil under this lease with any other leasehold or mineral interest for the exploration, development and production of oil or gas or either of them upon the same terms as shall be approved by the School Land Board and the Commissioner of the General Land Office for the pooling or unitizing of the interest of the State under this lease pursuant to Texas Natural Resources Code 52.151-52.153. The owner of the soil agrees that the inclusion of this provision in this lease satisfies the execution requirements stated in Texas Natural Resources Code 52.152.

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

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

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

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

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

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

LESSEE: CLAY JOHNSON

Clay Johnson

DATE: 5-3-05

STATE OF TEXAS

By: ____________________
Individually and as Agent for the State of Texas
John D. Byram

TAX ID NO: [redacted]

DATE: April 22, 2005

5-16-05

445436

A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK
ATTEST: May 9, 2005
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS
BY Linda Rodriguez DEPUTY

By: Joy Manning Scott
Individually and as Agent for the State of Texas
Joy Manning Scott

TAX ID NO: [redacted]

DATE: April 28, 2005

JOY MANNING SCOTT TRUST UNDER TRUST AGREEMENT
DATED AUGUST 7, 1992

By: Morin M. Scott, Jr.
Morin M. Scott, Jr., Trustee

TAX ID NO: [redacted]

DATE: April 26, 2005

JOY MANNING SCOTT TRUST UNDER TRUST AGREEMENT
DATED AUGUST 7, 1992

By: ELIZABETH B. SCOTT
Elizabeth B. Scott, Trustee

TAX ID NO: [redacted]

DATE: April 26, 2005

STATE OF TEXAS **(INDIVIDUAL ACKNOWLEDGMENT)**

COUNTY OF MIDLAND

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

Given under my hand and seal of office this the 3 day of MAY, 2005.

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

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

STATE OF TEXAS **(INDIVIDUAL ACKNOWLEDGMENT)**

COUNTY OF TRAVIS

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

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

DONNA CODRINGTON
NOTARY PUBLIC
State of Texas
Comm. Exp. 05-09-2008

Donna Codrington
Notary Public in and for the State of TEXAS

A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK
ATTEST: May 9, 2005
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS
BY

445436

STATE OF TEXAS (INDIVIDUAL ACKNOWLEDGMENT)

COUNTY OF TRAVIS

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

Given under my hand and seal of office this the 28th day of April, 2005.

Remi Kirsch

Notary Public in and for the State of TEXAS

RENI KIRSCH NOTARY PUBLIC STATE OF TEXAS EXPIRES JAN. 31, 2009

STATE OF ~~TEXAS~~ arkansas (INDIVIDUAL ACKNOWLEDGMENT)

COUNTY OF ~~TRAVIS~~ Pulaski

Before me, the undersigned authority, on this day personally appeared **Morin M. Scott, Jr., Trustee of the Joy Manning Scott Trust created under Trust Agreement dated August 7, 1992**, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed and in the capacity therein stated.

Given under my hand and seal of office this the 26 day of April, 2005.

Lyndell J. Jones

Notary Public in and for the State of ~~TEXAS~~ Arkansas

LYNDELL J. JONES MY COMMISSION EXPIRES June 1, 2014 PULASKI COUNTY NOTARY PUBLIC, STATE OF ARKANSAS

STATE OF ~~TEXAS~~ arkansas (INDIVIDUAL ACKNOWLEDGMENT)

COUNTY OF ~~TRAVIS~~ Pulaski

Before me, the undersigned authority, on this day personally appeared **Elizabeth B. Scott, Trustee of the Joy Manning Scott Trust created under Trust Agreement dated August 7, 1992**, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that she executed the same for the purposes and consideration therein expressed and in the capacity therein stated.

Given under my hand and seal of office this the 26 day of April, 2005.

Lyndell J. Jones

Notary Public in and for the State of ~~TEXAS~~ arkansas

LYNDELL J. JONES MY COMMISSION EXPIRES June 1, 2014 PULASKI COUNTY NOTARY PUBLIC, STATE OF ARKANSAS

A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK
ATTEST: May 9, 2005
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS
BY [signature] DEPUTY

445436

EXHIBIT "A"

ATTACHED TO AND MADE PART OF THAT CERTAIN CORRECTION OIL AND GAS LEASE DATED JANUARY 28, 2005, BY AND BETWEEN THE STATE OF TEXAS, ACTING BY AND THROUGH ITS AGENT, JOHN D. BYRAM, ET AL. AND CLAY JOHNSON, AS LESSEE

NOTWITHSTANDING ANYTHING ELSE IN THIS LEASE TO THE CONTRARY, THE FOLLOWING PROVISIONS WILL PREVAIL OVER ANY CONFLICTING PROVISIONS CONTAINED IN THE PRINTED PROVISIONS ABOVE:

1. This provision shall replace section 16, Retained Acreage, in the printed lease form except for 16 (C) regarding Identification and filing of retained acreage:

(a) Entire Lease Maintained By Continuous Drilling Operations. Notwithstanding any other provision herein to the contrary, the entire Lease shall remain in full force and effect for so long as Lessee is conducting Continuous Drilling Operations (as herein defined).

(b) Partial Termination. Upon the expiration of the primary term, or upon cessation of Continuous Drilling Operations, whichever date is later (such later date being herein called the "Partial Termination Date"), this Lease shall terminate as to all lands and depths save and except those lands and depths designated by Lessee to be within a Production Unit (as hereinafter defined) on which there is a well then producing or capable of producing in paying quantities.

(c) Continuous Drilling Operations. Lessee shall be considered to be engaged in Continuous Drilling Operations at the expiration of the primary term if Lessee is engaged in drilling operations on the Leased Premises, or lands pooled therewith, at the expiration of the primary term or if Lessee has completed a well as a producer or as a dry hole within one hundred twenty (120) days prior to the expiration of the primary term, and Lessee shall be considered to be engaged in Continuous Drilling Operations for so long thereafter as Lessee conducts drilling operations on the leased premises, or lands pooled therewith, with due diligence and with intervals of no more than one hundred twenty (120) days between the date of completion of one well and the date of commencement of drilling operations on an additional well. Continuous Drilling Operations shall be deemed to have ceased upon the failure of Lessee to commence drilling operations on an additional well within such 120 day period.

(1) "commencement" of a well - the commencement of drilling operations on a well.

(2) "drilling operations" - drilling operations shall be deemed to have commenced when a derrick, a rig and machinery capable of drilling to a depth sufficient to test a prospective oil or gas horizon have been erected, and such well has been spudded in at the surface and the rotary bit is rotating under power and shall include all actual physical work conducted on or within the wellbore in an effort to make such well produce oil or gas in commercial quantities.

(3) "completion date" or "date of completion" of a well – the earliest of the following dates: (i) the date on which the initial potential test is run; (ii) the date certified to the Railroad Commission of Texas as the date a well has been completed as a producing well; (iii) the date sixty (60) days after the date on which the total depth has been reached in drilling operations; (iv) the date on which a dry hole is plugged.

(d) Extension of Partial Termination Date For Reworking Operations. If on the Partial Termination Date, Lessee is conducting reworking operations on a well in an effort to return it to production, the Partial Termination Date shall be extended for so long as reworking operations are conducted on such well with no cessation of more than 30 consecutive days. In that event, the Partial Termination Date shall be the date on which the thirtieth (30^{th}) consecutive day expires without such reworking operations being conducted on such well.

(e) "Production Unit," is defined as area of land to be designated by Lessee around a well producing or capable of producing oil or gas in paying quantities and shall not exceed the following maximum sizes:

(1) Oil Wells. If the well is a vertical oil well under the rules and regulations of the Railroad Commission of Texas then in effect, the maximum size of the Production Unit shall not exceed forty (40) acres for wells completed above a depth of 7,500 feet and eighty (80) acres for wells completed at or below a depth of 7,500 feet.

A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK
ATTEST: MAY 4 2005
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS
BY Yinye Rodriguez DEPUTY

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(2) Gas Wells. If the well is a vertical gas well under the rules and regulations of the Railroad Commission of Texas then in effect, the maximum size of the Production Unit shall not exceed eighty (80) acres for wells completed above a depth of 7,500 feet and one hundred sixty (160) acres for wells completed at or below a depth of 7,500 feet.

(3) Horizontal Drainhole Wells. If the well is classified as a horizontal drainhole well by the Railroad Commission, the Production Unit shall be limited to the following maximum amount of acreage depending on the length of the lateral horizontal drainhole displacement within the productive formation:

Horizontal Drainhole Displacement	Horizontal Oil Well	Horizontal Gas Well
100' - 1,500'	80 acres	160 acres
1,501' - 3,000'	160 acres	320 acres
3,001' – 5,000'	320 acres	640 acres
5,001' and longer	640 acres	640 acres

(4) Railroad Commission Special Field Rules. Notwithstanding the maximum size limitations set forth above, in the event that the Railroad Commission has adopted special field rules applicable to the field in which such well is completed, which rules require a larger amount of acreage to obtain a regular drilling permit without an exception to the density rule than the amounts set forth above, the Production Unit for such well may contain such larger amount of acreage.

(5) The acreage from the Leased Premises included within in a pooled unit formed under the pooling authority granted by this Lease in printed form paragraph 34, on which pooled unit there is located a well that is producing or capable of producing oil or gas in paying quantities, shall be considered to be a Production Unit.

(f) Depth Limitation. Each Production Unit shall be limited in depth to one hundred (100) feet below the stratigraphic equivalent of the total depth drilled by the well located on such Production Unit and all depths below such depth shall be released.

(g) Shape Of Production Units. Every effort shall be made, in designating Production Units, to avoid releasing small or irregularly shaped portions of the Leased Premises. Acreage assigned to wells producing from different zones may overlap, and shall overlap when necessary to comply with the requirements of this section. If a well is producing from more than one field which would result in Production Units of different sizes, Lessee shall be entitled to designate the largest of the Production Units to which such well is entitled.

(h) Production Units Shall Be Treated As Separate Leases. Following the Partial Termination Date, each Production Unit shall be considered to be under a separate lease with the same terms and provisions of this Lease, with the effect that production, drilling or reworking operations, or shut-in royalty payments, will only maintain the Production Unit on which such production or operations are located or for which such shut-in royalty payments are made.

(j) Easements Retained Over Lands Released. Although this Lease may have terminated in part and been partially released, Lessee shall have and retain such easements over and across such terminated portion or portions of the lands originally covered by this Lease as shall be reasonably necessary for ingress and egress and to enable Lessee to develop and operate (including the placement of additional pipelines and facilities in support of such operations) the portion of the Leased Premises as to which this Lease remains in effect, and Lessee shall not be required to move or relocate any pipelines, tanks, separators, or other equipment or machinery used in connection with such production of oil or gas.

2. <u>Amended Delay Rental Provision</u>. Paragraph 3 of the printed form is supplemented and revised as follows.

*As to any rentals that may be paid on or before the 1st, 2nd and 4th anniversary date.
In the event that delay rentals are paid on or before the 2nd anniversary date (and after the 3rd anniversary date), they shall be payable in the amount of $1400.00.

**Except that if delay rentals are paid on or before the 3rd anniversary date (and after the 2nd anniversary date), the total rental paid shall be $560,000.00.

3. Notwithstanding anything herein to the contrary, Lease form Paragraph 5 (minimum royalty) and Lease form Paragraph 14 (shut-in royalty) refer to their computation to the delay rentals provided in Lease form Paragraph 3 herein. The undersigned do hereby recognize and acknowledge that minimum royalty and shut-in royalties due herein are payable in the amount of $5,600.00. Of such amount, $2,800.00 is payable to the owner of the soil as provided herein and $2,800.00 is payable to the State of Texas as provided herein.

4. After the expiration of the primary term hereof, payment or payments of shut-in gas royalty as provided in Paragraph 14 of the Lease form shall not maintain this lease in force and effect for any one shut-in period greater than one year, or, from time to time for shorter periods, all of which shall not exceed one year.

5. Anything herein to the contrary notwithstanding, this lease shall cover only oil, gas and other hydrocarbons, and all references to other minerals contained herein is hereby deleted and are void and of no effect.

6. Lessee is granted the right to use existing roads on the leased premises for ingress and egress, and agrees to maintain, restore and keep roads in usable condition so long as this Lease is in force and effect. Any road constructed by Lessee on the leased premises shall be crushed limestone or caliche. All roads constructed by Lessee on the leased premises shall be maintained by Lessee at Lessee's sole cost and expense. Owner of the Soil reserves the right for Owner of the Soil, and the successors and assigns and invitees of Owner of the Soil, to use the roads constructed by Lessee as a means of access to and from the leased premises.

7. Lessee shall obtain Owner of the Soil's consent prior to cutting any fence. If Lessee cuts a fence, Lessee, at its costs, must install a stretch post at each corner of the cut fence. Lessee shall install and maintain cattleguards at every fence crossing. Said cattleguard to remain upon premises as Owner of the Soil's property at the expiration of this lease. With respect to fences cut by Lessee (with Owner of the Soil's consent), Lessee shall also install a gate and cattleguard at the crossing, which gate shall remain locked. Lessee shall provide Owner of the Soil with a key to such gate.

8. Lessee may use no more of the surface of the leased premises than is reasonably necessary to use for the purposes of which this lease is granted, and it shall exercise all rights granted to it herein with due regard for the rights of the owners of the surface. Lessee will pay Owner of the Soil for well locations and other surface damages in accordance with damages prescribed in Schedule I hereto. These damages payments will be shared by Owner of the Soil and the State of Texas, one-half to Owner of the Soil and one-half to the State of Texas. In addition, Lessee will promptly pay Owner of the Soil for the value of any damage to other improvements, including growing crops, livestock, or water wells, that may be caused by or result from operations subject to this lease as provided in Lease form Paragraph 22.

9. Lessee shall not erect any buildings, houses, canals or railroads on the leased premises and agrees that only those structures which are reasonably necessary for production facilities or tank batteries shall be erected on the surface of the leased premises. No compressor may be installed or operated within 900 feet of any residence or barn located on the leased premises as of the date of this lease.

10. Lessee will not pollute any water aquifers or fresh water in, upon or under the leased premises, and Lessee agrees to notify Owner of the Soil in writing if fresh water is encountered during the drilling, or if a fresh water formation is penetrated.

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11. Lessee will maintain all drill sites and other portions of the surface used or occupied by Lessee, its successors or assigns, free and clear of litter, debris, weeds and noxious vegetation and will maintain the same in a reasonable manner to prevent additional damage to Owner of the Soil's other land and crops. Lessee shall not purposefully dispose of or discharge any oil, condensate, saltwater, or any substance used in drilling or production into the leased premises under any circumstances. Prior to commencing production from any well on the leased premises, the tanks and other storage vessels shall be enclosed by an earthen berm or man-made structure of sufficient height to contain any discharge which might occur. In the event that there is a discharge, Lessee shall restore the affected area to its original condition insofar as reasonably practicable. Lessee agrees that such restoration shall include correction of any erosion damage and remove any contaminated soil, and replace with uncontaminated soil, regardless of whether the discharge occurred through its negligence or otherwise. No pits shall be dug on the leased premises. Lessee shall use portable tanks instead of pits during its operations. Upon completion of drilling operations on the drill site, all drilling mud, drilling fluids, chemicals, liquid waste and other liquids shall be removed from the drill site by vacuum truck or other means.

12. Lessee shall build and maintain fences around its slush, sump and drainage pits and tank batteries to protect livestock against loss, damage or injury, and upon completion or abandonment of any well or wells, Lessee shall fill and level off all slush pits and cellars and completely clean up the drill site of rubbish thereon. Lessee shall not dispose of drilling mud, salt water or other produced fluids, in, on or under the leased premises.

13. Lessee further agrees that in the event of a dry hole or production from a well which production ceases and the abandonment of such well, or upon the abandonment of any well location, drillsite, tank battery site or roadway, the premises will be restored as nearly as reasonably possible to its former condition at the cost and expense of the Lessee, it being the intention of the parties hereto that the Lessee shall restore the surface to as nearly the state that it is at the time of execution of this Lease. Within 180 days after a well on the Leased Premises ceases producing oil or gas, whether or not this lease remains in effect, Lessee will either plug and abandon that non-producing well or, if this lease then remains in effect as to that well, commence reworking operations in a bona fide attempt to restore production from the well. Lessee may not obtain an extension to plug the well from the Railroad Commission of Texas without prior notice to and consent of Owner of the Soil.

14. Lessee may not utilize surface water on the premises or water from existing water wells without written permission of Owner of the Soil. This paragraph is a limitation on paragraph 21 of in the printed lease form.

15. Before plugging and abandoning any oil, gas or water well drilled on the leased premises, Lessee shall first offer the same to Owner of the Soil. Within 30 days after receipt of such written notice, Owner of the Soil may elect to obtain ownership of said well and casing for the purpose of using such well as a water well, and the rights to immediate use thereof, by sending written notice of such election to Lessee. Upon Lessee's receipt of such notice of Owner of the Soil's election, Lessee shall abandon the well and shall leave all casing in place down to the depth of the water sand the Owner of the Soil shall designate in its notice to Lessee. Any casing below such depth shall be removed by Lessee, but only if its can be removed without damage to the casing above such depth. Lessee shall grant and convey to Owner of the Soil the well, wellbore and casing not removed. Lessee shall insert a plug in the abandoned well immediately below the depth designated by Owner of the Soil in accordance with all applicable rules and regulations of the Railroad Commission of the State of Texas. Lessee shall then grant and convey to Owner of the Soil the remaining well, wellbore, and casing.

16. In addition to the foregoing rights and remedies, in the event Lessee receives written notice from Owner of the Soil that Lessee has failed to restore such portions of the leased premises that are damaged or destroyed as a result of Lessee's operations thereon, and such portions of the leased premises are required to be restored by Lessee according to the terms of this Lease, and Lessee does not remedy the mater within thirty (30) days of receipt by Lessee of said written notice, then in addition to all other rights and remedies available to Owner of the Soil, Owner of the Soil shall have the right to perform such repair or replacements at Lessee's expense, and Lessee shall repay upon demand all amounts so incurred by Owner of the Soil, together with interest thereon at the rate of ten percent (10%) per annum, compounded monthly, until paid.

17. Lessee agrees that all persons entering said land for his benefit or under his direction, will not hunt, fish, hike, carry firearms or use for recreation any part of the leased premises.

18. Improvements to the Leased Premises, including roads, gates, culverts, cattleguards, bridges, and fences installed and used on the leased premises by Lessee, will become Owner of the Soil's property upon the termination or expiration of this lease. However, Owner of the Soil will have the option of requiring Lessee to remove any such improvements and to restore the land as near as practicable to its original condition within 180 days after they are abandoned or cease to be used, or after the expiration or termination of this lease, whichever is earlier. Owner of the Soil will be entitled to specific performance or damages, or both, for enforcement of this provision.

19. Any applicable statute of limitations relating to any claim concerning any obligations or conditions of this lease will not begin to run until Owner of the Soil knows, or through exercise of reasonable diligence should have known, the facts giving rise to such claim.

20. Lessee will inform Owner of the Soil in writing of the initiation, making, filing, prosecution, recovery, compromise, or settlement of any claim against any other party that Lessee has or asserts, or that Owner of the Soil (and such other royalty owners) may have, which arises in whole or in part from this lease or from drilling, production, operations, management, or administration of, or rights based on, this lease.

21. Lessee agrees to carry liability insurance of not less than $1,000,000, have Owners of the Soil and the State of Texas named as additional insureds, and furnish each annually an insurance certificate reflecting such coverage.

22. Any express obligation in this lease does not eliminate, release, or diminish any implied obligations that Lessee would have under this lease in the absence of such express obligation.

23. All covenants and obligations of this lease, whether express or implied, shall run with the land and be binding upon any assignee, heirs, successors, and sub-lessees of Lessee.

24. All payments of bonus, rentals, shut-in royalties and royalties payable to Owner of the Soil, John D. Byram, and Joy Manning Scott, shall be payable to each of them, individually, at 510 South Congress Avenue, Suite 400, Austin, Texas 78704, and all such payments payable to Owner of the Soil, Morin M. Scott, Jr., et al., Co-Trustees of the Joy Manning Scott Trust, shall be payable to the Co-Trustees at 1100 W. Capitol Avenue, Little Rock, AR 72201, or such other place designated by any Owner of the Soil in writing.

25. Each Owner of the Soil is executing this lease based on whatever ownership each has and whatever executive rights each may possess in regard to the lands included within this lease, and without warranty of title, either express or implied.

5.

File No. MF104939
Lease
Date Filed: 5/18/05
Jerry E. Patterson, Commissioner
By ___

THE STATE OF TEXAS X McDonald
COUNTY OF CULBERSON X I, Linda ~~Urias~~, Clerk of the County Court in and for said County and State, do hereby certify that the foregoing is a true and correct copy of Correction Oil & Gas Lease dated January 28, ~~19~~ 2005, filed for record in my office this 9 day of May, ~~19~~ 2005 at 10:30 A.M., under Clerk's File No. 58861, to be recorded in the OL 78945 Records of Culberson County, Texas.

TO CERTIFY WHICH, Witness my hand and official seal at Van Horn, this 9 day of May, ~~19~~ 2005.

By Janice Rodriguez, Deputy.

LINDA ~~URIAS~~ McDonald, COUNTY CLERK
CULBERSON COUNTY, TEXAS.

TEXAS GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

June 21, 2005

Attn: Mary Kay Brasuel
Clay Johnson Oil & Gas Properties, Inc.
203 West Wall, Suite 202
Midland, Texas 79701

Re: RELINQUISHMENT ACT LEASE No. M-104939
2800 acres out of Sec. 9, 11, 12, 19, 20 & 22, Blk. 103,
PSL Survey, Culberson County, Texas

Dear Ms. Brasuel:

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-104939. Please refer to this number in all future correspondence concerning the lease.

Your remittance of $280,125.00, has been applied as the state's portion of the cash bonus $280,000.00, along with a processing and filing fee in the amount of $125.00. Please let me know if you should have any questions.

Sincerely,

Drew Reid by ms

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

MS/DR

6.

File No. MF104939

2nd letter

Date Filed: 6/21/05

Jerry E. Patterson, Commissioner

By JR

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

WHEN SIGNED, PLEASE MAIL TO:

ENCANA

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

RENTAL RECEIPT/ SHUT IN RECEIPT

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

Page 1 of 1

DATE **Dec-06-2005** NO. **713368**

LEASE RECORDS ACCOUNT

COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	RENTAL PERIOD MONTHS	FROM	TO
CULBERSON	TEXAS	88-7	01/28/05	12	01/28/06	01/28/07

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
872005.000	JOHN D BYRAM ET AL, AGEN	X **$1,400.00**

06016458

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

121

RECEIVED ON ________________ 20 ____
THE AMOUNT SHOWN ABOVE

YOUR COPY

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY ________________

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

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

TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS **		
M-104939	$1,400.00	

Texas General Land Office
Stephen F. Austin Bldg
1700 N Congress Ave
Austin, TEXAS 787011495
TRACT
44758
BLOCK 103, PUBLIC SCHOOL LAND SURVEY
SECTION 9: S 3/4 SECTION 11: ALL
SECTION 12: S 3/4 SECTION 19: NE/4,
N/2 SE/4, W/2 NW/4 SECTION 20: N/2,
SW/4, N/2 SE/4 SECTION 22: SW/4, W/2
More Legal Description On File

12-14-05

File No. MF 104939

Rental Payment

Date Filed: 12/14/05

Jerry E. Patterson, Commissioner

By [signature]

15.14.05

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW, PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
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EnCana Oil & Gas (USA) Inc.
370 17th Street, Suite 1700 (303) 623-2300
Denver, CO 80202

RENTAL RECEIPT/ SHUT IN RECEIPT

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

DATE **Dec-13-2006** NO. **207435**

LEASE RECORDS ACCOUNT

COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	RENTAL PERIOD MONTHS	FROM	TO
CULBERSON	TEXAS	88-7	01/28/05	12	01/28/07	01/28/08

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
872005.000	JOHN D BYRAM ET AL, AGEN	**$1,400.00**

X

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

RECEIVED ON ______________ 20 ____
THE AMOUNT SHOWN ABOVE

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NAME OF BANK, CORPORATION OR INDIVIDUAL

BY

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TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS **		
M-104939	$1,400.00	
Texas General Land Office Stephen F Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44758 BLOCK 103, PUBLIC SCHOOL LAND SURVEY SECTION 9: S 3/4 SECTION 11: ALL SECTION 12: S 3/4 SECTION 19: NE/4, N/2 SE/4, W/2 NW/4 SECTION 20: N/2, SW/4, N/2 SE/4 SECTION 22: SW/4, W/2 ***More Legal Description On File***		

07018357

12-27-06

8,

File No. MF704939

RENTAL PAYMENT

Date Filed: 12/27/06

Jerry E. Patterson, Commissioner

By

GLOBase Main Menu | Business Entity Search | Energy Paper Search | PSF Land Search | SRP Facility Search | SRP Land Search

Energy Paper Details

Paper Type: OIL AND/OR GAS LEASE

Lease/Unit/Permit: MF104939

Related Business Entities | Related Counties | Related Leases | Related PSF Land
View Oil/Gas Lease Details | **Search Docushare** | Revenue Details

General Information

Lease Date	01/28/2005	Total Leased Acres	2,800.00
Status	ACTIVE	Land Part in Lease	
Status Date	01/28/2005	Limited Term	
Non-Unit Status		Term	
Non-Unit Status Date		Primary Term	5 yrs

Payment Information

Original Payment	$280,000.00
Payment Cycle	ANNUAL
Rental Payments	$280,000.00 -- 3316005 -- 12/31/2007

Comments

RAL LEASE

Updated On	**06/16/2005**	By	**msilva**

Business Entity Information

Lessee	**JOHNSON, CLAY**
Lessor	**BYRAM, ET AL, JOHN D.**
Operator	No operators recorded

For technical support please contact the Technical Support Center at 463-8877
This page last updated on 4 November 2000

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

RENTAL RECEIPT/ SHUT IN RECEIPT

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

Page 1 of 1

DATE **Dec-11-2007** NO. **325368**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	88-7	01/28/05	12	01/28/08	01/28/09

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
872005.000	JOHN D BYRAM ET AL AGENT	**$280,000.00**

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

RECEIVED ON ______________ 20 ____
THE AMOUNT SHOWN ABOVE

YOUR COPY

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY ______________

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

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TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS ** M-104939 3RD YR RENTAL Texas General Land Office Stephen F Austin Bldg 1700 N Congress Ave Austin, TEXAS 787011495 TRACT 44758 BLOCK 103, PUBLIC SCHOOL LAND SURVEY SECTION 9: S 3/4 SECTION 11: ALL SECTION 12: S 3/4 SECTION 19: NE/4, N/2 SE/4, W/2 NW/4 SECTION 20: N/2, SW/4, N/2 SE/4 SECTION 22: SW/4, W/2 ***More Legal Description On File***	$280,000.00	

08008625

12-31-07

9

File No. MF-104939

RENTAL PAYMENT

Date Filed: 12-31-07

Jerry E. Patterson, Commissioner

By LINDA ANDERSON

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW, PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
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RENTAL RECEIPT/ SHUT IN RECEIPT

CITIBANK N.A
One Penn's Way
New Castle, DE 19720

Page 1 of 1

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

DATE **Dec-08-2008** NO. **446943**

LEASE RECORDS ACCOUNT				RENTAL PERIOD		
COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
CULBERSON	TEXAS	88-7	01/28/05	12	01/28/09	01/28/10

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
872005.000	JOHN D BYRAM ET AL	**$1,400.00**

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

RECEIVED ON ____________ 20____
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY ____________

Your Copy

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TO BE CREDITED TO	RENTAL AMOUNT	BANK
** DELAY RENTALS **		
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09007123

121

3316005

12-29-08

File No. MF 104939

Rental Payment

Date Filed: 12-29-08

Jerry E. Patterson, Commissioner

By Ana

(10)

15-54-08