

STATE LEASE

MF105269

#	LeaseDate	Acres	Status	CONTROL	BASEFILE	COUNTY
A	Apr 18 2005	140.00	ACTIVE	07-108701	91353 -	REEVES /195
B	Apr 08 2005	70.00	ACTIVE			
C	Apr 08 2005	56.00	ACTIVE	SURVEY	: T & P RY CO	
D	Apr 25 2005	14.00	ACTIVE	BLOCK	: 56	
				TOWNSHIP	: 02S	
				SECTION/TRACT:	28	
				PART	: SW/4, SW/4 NE/4, W/2 SE/4	
				ACRES	: 280.00	
				DEPTH LIMITS	: NO	

Rentals:

Lease

Admin:

Mineral

Maps:

LESSEE : TIERRA EXPLORATION INC
LEASE DATE : Apr 18 2005
PRIMARY TERM : 3 yrs
BONUS (\$) : 0.00
RENTAL (\$) : 1.00
ROYALTY : 0.12500000
VAR ROYALTY :

(N)

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105269

1. Letters 5/2/05
2. BAA Review 5/9/05
3. Letter 6/10/05
4. Letter, bonus + fees 7/13/05
5. Leases A-D 7/13/05
6. BLD letter 9/10/06
7. Well Reports 1/27/06
- Well Docs filed 11/28/06
8. Assignment 2/22/07
9. RENTAL PAYMENT 4/4/07

Scanned sm 9/18/13

10. Assignment 05/02/2014
11. Plat of lease tracts 03/28/2014
- 42-389-32391
12. Well Records: Trinity State "28" #1 03/28/2014
- 42-389-32418
13. Well Records: Trinity State "28" #2 03/28/2014
- 42-389-32481
14. Well Records: Trinity State "28" #3 03/28/2014
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16. P-4 Draco Energy 03/28/2014
17. Production Report: 42-389-32391 05/01/2014
18. Production Report: 42-389-32481 05/01/2014
19. Production Report: 42-389-32541 05/01/2014
20. Partial Termination Letter 05/02/2014
21. Memo re: Mapping 10/29/2015

Scanned PT 11-17-15

22. Division Order 8.6.2021

Scanned TJ 9/27/2021

TIERRA EXPLORATION, INC.

P. O. Box 56
Midland, Texas 79702

Phone: 432-682-1005

April 28, 2005

Contact - 753
Trans. - 4648
Qir - 07108701
RECEIVED
05 MAY - 2 PM 2:46

Mr. Drew Reid
Texas General Land Office
1700 North Congress Avenue
Austin, Texas 78701-1495

RE: SW/4, SW/4NE/4, W/2SE/4
Section 28, Township 2, Block 56,
T&P Ry. Co. Survey,
Reeves County, Texas
containing 280 acres, more or less

Dear Mr. Reid:

Per our conversation of April 18, 2005, please find enclosed copies of three fully executed GLO Oil and Gas Leases covering the captioned acreage which are submitted for review by your office. These leases from Bank of America, N.A., Trustee, under the Will of Roberta M. Regan, Gretchen C. Northrup Foundation, c/o Trinity University and Trinity University represent ninety-five percent (95%) of the Surface Ownership for this acreage. The remaining five percent (5%) of the surface acreage is owned by Sunshine Cottage School for Deaf Children, who has agreed to lease as agent for the State of Texas at the same basis as Bank of America, N.A. and Trinity University. We will forward a copy of the fully executed "Sunshine Cottage" lease to you as soon as it's received. Per my voice mail to you of April 15, 2005, terms agreed to for these leases are as follows:

Bonus:	\$150.00 per acre
Royalty:	One-Fourth (1/4)
Term:	Three Years
Delay Rentals:	\$5.00 per acre per year
Shut-In Royalties:	See Paragraph 14 of the GLO Lease Form
Special Provisions:	Bank of America Surface Addendum GLO Current Lease Form

For your easy reference, I have included with these lease documents, a copy of our Mineral and Surface Interest Takeoff of February 17, 2005 covering the captioned acreage. The Assignee for these leases and operator for this project will be Carmony Exploration, LLC of Denver, Colorado.

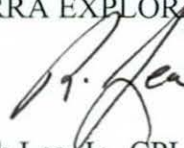
507 5

Mr. Drew Reid
April 28, 2005
Page 2

Thank you for your consideration in this matter. Please advise of any additional information needed.

Sincerely,

TIERRA EXPLORATION, INC.

A handwritten signature in black ink, appearing to read "R. Lea", written over the company name.

Ralph Lea, Jr., CPL
President

RLJr./lz

907 5

RALPH LEA, JR., CPL

P. O. Box 56
Midland, Texas 79702

Phone: 432-682-1005

February 17, 2005

SW/4, SW/4NE/4, W/2SE/4
Section 28, Township 2, Block 56,
T & P Ry. Co. Survey
Reeves County, Texas
containing 280.00 acres, more or less

MINERAL INTEREST

OWNER	FRACTIONAL INTEREST	NET ACRES	STATUS.
Commissioner of the General Land Office of the State of Texas 1700 North Congress Avenue Austin, Texas 78701-1495 Phone: 512-463-5001	8/8 (1.0000000)	280.0000	Open
Total	1.0000000	280.0000	

SURFACE ESTATE

(and Agency Rights for the State of Texas on OGLs)

OWNER	FRACTIONAL INTEREST	NET ACRES	STATUS.
Bank of America, NA Trustee under the Will of Roberta M. Regan P. O. Box 830308 Dallas, Texas 75283-0308 Phone: 214-209-2320	1/2 (.5000000)	140.0000	Open
Gretchen C. Northrup Foundation c/o Trinity University Business Office Endowments One Trinity Place San Antonio, Texas 78212-7200 Phone: 210-999-8415	1/4 (.2500000)	70.0000	Open



OWNER	FRACTIONAL INTEREST	NET ACRES	STATUS.
Trinity University Business Office Endowments One Trinity Place San Antonio, Texas 78212-7200 Phone: 210-999-8415	80% of 1/4 (.20000000)	56.0000	Open
Sunshine Cottage School for Deaf Children 103 Tuleta San Antonio, Texas 78212 Phone: 210-824-0579	20% of 1/4 (.05000000)	14.0000	Open
Total	1.00000000	280.0000	

COMMENTS TO TITLE

1. The State of Texas owns All of the Minerals under this tract of land and must approve all Oil and Gas Leases covering this acreage. The above shown Surface Estate Owners act as Agents for the State of Texas with authority to execute Oil and Gas Leases on behalf of the State of Texas. Said Surface Estate owners receive one-half of the bonus, rental and royalty consideration for these leases. All acreage so leased is on a General Land Office – Relinquishment Act Lease Form. I have attached a copy of such a lease form for your review.
2. The above ownership is based on the records of Elliot and Waldron Abstract Company of Pecos, Texas as posted through February 1, 2005 and the records of the Reeves County Clerk.
3. No search was performed on this property for Mortgages, Liens, Abstracts of Judgment, Federal or State Tax Liens or Production Payments burdening the above shown ownership. Please advise if such information becomes necessary.



2. 5.02

File No. WT 705269
Hollins
Date Filed: 9/27/05
Jerry E. Patterson, Commissioner
By [Signature]

Transaction # 4648

Geologist: R. Widmayer

Lessor: Bank of America, NA, Trustee under the Will of Roberta M.

Lease Date: 4/18/2005

UL ☐

Lessee: Tierra Exploration, Inc.

Acres: 280

LEASE DESCRIPTION

County	PIN#	Base File No	Part	Sec.	Block	Twp	Survey	Abst#
REEVES	07-108701	91353	SW/4, S	28	56	02S	T & P RY CO	2214

TERMS OFFERED

Primary Term: 3 years

Bonus/Acre: \$150.00

Rental/Acre: \$5.00

Royalty: 1/4

TERMS RECOMMENDED

Primary Term: 3 years

Bonus/Acre: \$150.00

Rental/Acre: \$5.00

Royalty: 1/4

COMPARISONS

MF #	Lessee	Date	Term	Bonus/Ac.	Rental/Ac.	Royalty	Distance
							Last Lease
MF101167	Kimlar Oil Co., Inc.	4/10/2000	2 years	\$100.00	\$1.00	1/4	Adjacent East
MF103415	Chaparral Texas, L.P.	10/1/2003	3 years	\$50.00	\$1.00	3/16	2 Miles NE
Blending	McCabe Petroleum	7/6/04	3 yrs.	125.00	1.00	1/5	2 Miles NW

Comments: Also: Gretchen C. Northrup Foundation with 70 acres and Trinity University with 56 acres and Sunshine Cottage School For Deaf Children with 14 acres.

Approved: _____

Tuesday, April 11, 2006

5/9/05

RAL REVIEW SHEET

Transaction # 4648 Geologist: R. Widmayer
 Lessor: Bank of America, NA, Trustee under the Will of Roberta M. Lease Date: 4/18/2005 ☐ ☐
 Lessee: Tierra Exploration, Inc. Acres: 280

LEASE DESCRIPTION

County Base File No Part Sec. Block Twp Survey Abst#
 REEVES 07-108701 91353 SW/4, SW/4NE/4, W/ 28 56 02S T & P RY CO 2214
 640 Ac. (280.0)

TERMS OFFERED

Primary Term: 3 years
 Bonus/Acre: \$150.00
 Rental/Acre: \$5.00
 Royalty: 1/4

TERMS RECOMMENDED

Primary Term: 3 years
 Bonus/Acre: \$150.00
 Rental/Acre: \$5.00
 Royalty: 1/4

COMPARISONS

MF #	Lessee	Date	Term	Bonus/Ac.	Rental/Ac.	Royalty	Distance
							Last Lease
MF101167	Kimlar Oil Co.	4/10/2000	6 month	\$100.00	\$1.00	1/4	Adjacent East
MF103415	Chaparral Texas, L.P.	10/1/2003	3 years	\$50.00	\$1.00	3/16	2 Miles NE
Pending	McCabe Petroleum	7/6/04	3 yrs	\$125.00	\$1.00	1/5	2 Miles NW

Comments: Also: Gretchen C. Northrup Foundation with 70 acres and Trinity University with 56 acres.

Approved: PAB 5.9.05

RELINQUISHMENT ACT LEASE APPLICATION

Texas General Land Office

Jerry Patterson, Commissioner

TO: Jerry Patterson, Commissioner
Larry Laine, Chief Clerk
Bill Warnick, General Counsel
Louis Renaud, Deputy Commissioner

DATE: 09-May-05

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

Applicant:	Tierra Exploration, Inc.	County:	REEVES
Prim. Term:	3 years	Bonus/Acre	\$150.00
Royalty:	1/4	Rental/Acre	\$5.00

Consideration

Recommended: PACB Date: 5.9.05

Not Recommended: _____

Comments: Also: Gretchen C. Northrup Foundation with 70 acres and Trinity University with 56 acres.

✓ Lease Form

Recommended: RLA Date: 5/11/05

Not Recommended: _____

Comments:

Louis Renaud, Deputy Commissioner Date: 5/16/05

Recommended: CLR

Not Recommended: _____

Bill Warnick, General Counsel Date: 5/11/05

Recommended: WW

Not Recommended: _____

Larry Laine, Chief Clerk Date: 5/11/05

Approved: LL

Not Approved: _____

Jerry Patterson, Commissioner Date: 5/11/05

Approved: JP

Not Approved: _____

File No. MT 105269 2.

[Signature]

Date Filed: 9/9/05

Jerry E. Patterson, Commissioner

By [Signature]

TIERRA EXPLORATION, INC.

**P. O. Box 56
Midland, Texas 79702**

Phone: 432-682-1005

June 6, 2005

Mr. Drew Reid
Texas General Land Office
1700 North Congress Avenue
Austin, Texas 78701-1495

RE: SW/4, SW/4NE/4, W/2SE/4
Section 28, Township 2, Block 56,
T&P Ry. Co. Survey,
Reeves County, Texas
containing 280 acres, more or less

Dear Mr. Reid:

As previously referenced in my letter to you of April 28, 2005, please find enclosed a copy of a fully executed GLO Oil and Gas Lease covering the captioned acreage which is submitted for review by your office. This lease from Sunshine Cottage School for Deaf Children represents the remaining five percent (5%) of the Surface Ownership for this acreage. Copies of leases covering the other ninety-five percent of the Surface Ownership were attached to our previous mailing of April 28, 2005.

As previously stated in our April 28, 2005 letter, terms agreed to for all of the leases covering this acreage are as follows:

Bonus:	\$150.00 per acre
Royalty:	One-Fourth (1/4)
Term:	Three Years
Delay Rentals:	\$5.00 per acre per year
Shut-In Royalties:	See Paragraph 14 of the GLO Lease Form
Special Provisions:	Bank of America Surface Addendum GLO Current Lease Form

RECEIVED
05 JUN 10 PM 1:21
2005 JUN 10 11:21 AM
GLO

50-01-9

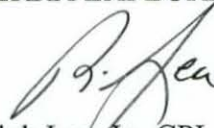
Mr. Drew Reid
June 6, 2005
Page 2

Please refer to the above referenced April 28, 2005 letter for additional information concerning the complete ownership of this acreage and name of the Assignee for these leases.

Thank you for your consideration in this matter. Please advise of any additional information needed.

Sincerely,

TIERRA EXPLORATION, INC.

A handwritten signature in dark ink, appearing to read "R. Lea", is written over the printed name of the signatory.

Ralph Lea, Jr., CPL
President

RLJr./lz

50-07-9

3

File No. NY 705269

Letter

Date Filed: 6/10/05

Jerry E. Patterson, Commissioner

By [Signature]

0.70.02

TIERRA EXPLORATION, INC.

**P. O. Box 56
Midland, Texas 79702**

Phone: 432-682-1005

July 6, 2005

Mr. Drew Reid
Texas General Land Office
1700 North Congress Avenue
Austin, Texas 78701-1495

RE: SW/4, SW/4NE/4, W/2SE/4
Section 28, Township 2, Block 56,
T&P Ry. Co. Survey,
Reeves County, Texas
containing 280 acres, more or less

Dear Mr. Reid:

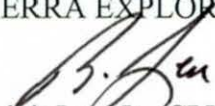
Per our conversation of June 20, 2005, please find enclosed certified copies of our Oil and Gas Leases covering one-hundred percent (100%) of the Mineral Interest on the captioned acreage along with our check No. 3468 in the amount of \$21,200.00 representing the State's one-half share of the \$42,000.00 bonus consideration for these leases (\$150.00 per acre) plus the \$100.00 application fee and \$25.00 per lease filing fees.

It is my understanding that the State of Texas will be providing us an assigned mineral file number for this acreage at a future date and that we can now move forward with plans to drill our initial well.

Thank you for all of your help and consideration in this matter. Please call should any additional information be required.

Sincerely,

TIERRA EXPLORATION, INC.


Ralph Lea, Jr., CPL
President

RLJr./lz

RECEIVED
JUL 13 PM 1:50

50.07.1

RECEIVED
05 JUL 13 PM 1:50
ENERGY RELATIONS

X 21,200.00

05048174

121

attn: Drew Reid



EXPLORATION, INC.
P. O. BOX 56
MIDLAND, TX 79702-0056

3468

DATE July 6, 2005

PAY
TO THE
ORDER OF

Commissioner of the General Land Office
of the State of Texas

\$ 21,200.00

-----Twenty-one thousand, two hundred and No/100-----

DOLLARS



P.O. BOX 61250
MIDLAND, TEXAS 79711
www.wnbonline.com

OGLs-Sec. 28, Blk. 56, T-2, T&P Ry.

FOR Reeves County, Texas

[Signature]

003468

50012

5.73.02

05048114

File No.:

WT 105269

Date Filed:

7/13/05

Jerry E. Patterson, Commissioner

By



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

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

The State of Texas



Austin, Texas

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 18th day of April, 2005, between the State of Texas, acting by and through its agent, BANK OF AMERICA, NA, Trustee under the Will of Roberta M. Regan of P. O. Box 830308, Dallas, Texas (Give Permanent Address) said agent herein referred to as the owner of the soil (whether one or more), and Tierra Exploration, Inc. of P. O. Box 56, Midland, Texas 79702 hereinafter called Lessee. (Give Permanent Address)

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

SW/4, SW/4NE/4, W/2SE/4 Section 28, Township 2,
Block 56, T & P Ry. Co. Survey

containing 280 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Ten Thousand, Five Hundred and No/100
Dollars (\$10,500.00)

To the owner of the soil: Ten Thousand, Five Hundred and No/100
Dollars (\$10,500.00)

Total bonus consideration: Twenty-One Thousand and No/100
Dollars (\$21,000.00)

The total bonus consideration paid represents a bonus of One Hundred Fifty and No/100
Dollars (\$ 150.00) per acre, on 140.00 net acres.

2. **TERM.** Subject to the other provisions in this lease, this lease shall be for a term of Three (3) years from this date (herein called "primary term") and as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land. As used in this lease, the term "produced in paying quantities" means that the receipts from the sale or other authorized commercial use of the substance(s) covered exceed out of pocket operational expenses for the six months last past.

30274



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

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: Three Hundred Fifty and No/100

Dollars (\$350.00)

To the State of Texas: Three Hundred Fifty and No/100

Dollars (\$350.00)

Total Delay Rental: Seven Hundred and No/100

Dollars (\$700.00)

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

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

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

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

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

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

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

5021



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

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

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

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

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

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

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

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

11. DRY HOLE/CESSATION OF PRODUCTION DURING PRIMARY TERM. If, during the primary term hereof and prior to discovery and production of oil or gas on said land, Lessee should drill a dry hole or holes thereon, or if during the primary term hereof and after the discovery and actual production of oil or gas from the leased premises such production thereof should cease from any cause, this lease shall not terminate if on or before the expiration of sixty (60) days from date of completion of said dry hole or cessation of production Lessee commences additional drilling or reworking operations thereon, or pays or tenders the next annual delay rental in the same manner as provided in this lease. If, during the last year of the primary term or within sixty (60) days prior thereto, a dry hole be completed and abandoned, or the production of oil or gas should cease for any cause, Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term; and if Lessee has not resumed production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

32. FORFEITURE. If Lessee shall fail or refuse to make the payment of any sum within thirty days after it becomes due, or if Lessee or an authorized agent should knowingly make any false return or false report concerning production or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith as required by law and the rules and regulations adopted by the Commissioner of the General Land Office, or if Lessee should fail to file reports in the manner required by law or fail to comply with rules and regulations promulgated by the General Land Office, the School Land Board, or the Railroad Commission, or if Lessee should refuse the proper authority access to the records pertaining to operations, or if Lessee or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or knowingly fail or refuse to furnish the General Land Office a correct log of any well, or if Lessee shall knowingly violate any of the material provisions of this lease, or if this lease is assigned and the assignment is not filed in the General Land Office as required by law, the rights acquired under this lease shall be subject to forfeiture by the

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Commissioner, and he shall forfeit same when sufficiently informed of the facts which authorize a forfeiture, and when forfeited the area shall again be subject to lease under the terms of the Relinquishment Act. However, nothing herein shall be construed as waiving the automatic termination of this lease by operation of law or by reason of any special limitation arising hereunder. Forfeitures may be set aside and this lease and all rights thereunder reinstated before the rights of another intervene upon satisfactory evidence to the Commissioner of the General Land Office of future compliance with the provisions of the law and of this lease and the rules and regulations that may be adopted relative hereto.

33. LIEN. In accordance with Texas Natural Resources Code 52.136, the State shall have a first lien upon all oil and gas produced from the area covered by this lease to secure payment of all unpaid royalty and other sums of money that may become due under this lease. By acceptance of this lease, Lessee grants the State, in addition to the lien provided by Texas Natural Resources Code 52.136 and any other applicable statutory lien, an express contractual lien on and security interest in all leased minerals in and extracted from the leased premises, all proceeds which may accrue to Lessee from the sale of such leased minerals, whether such proceeds are held by Lessee or by a third party, and all fixtures on and improvements to the leased premises used in connection with the production or processing of such leased minerals in order to secure the payment of all royalties or other amounts due or to become due under this lease and to secure payment of any damages or loss that Lessor may suffer by reason of Lessee's breach of any covenant or condition of this lease, whether express or implied. This lien and security interest may be foreclosed with or without court proceedings in the manner provided in the Title 1, Chap. 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this lease forfeited as provided herein.

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

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

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

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

50-27-2



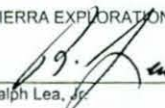
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Clerks Office

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 surface amendments.

LESSEE: TIERRA EXPLORATION, INC.

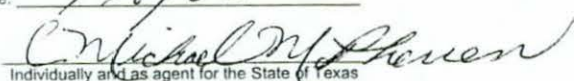
By: 
Ralph Lea, Jr.

Title: President

Date: 4-28-05

STATE OF TEXAS

Date: 4/8/05

By: 
Individually and as agent for the State of Texas
Bank of America, N.A., Trustee u/w/o
Roberta M. Regan

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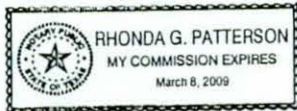
(CORPORATION ACKNOWLEDGMENT)

STATE OF TEXAS

COUNTY OF MIDLAND

BEFORE ME, the undersigned authority, on this day personally appeared Ralph Lea, Jr., known to me to be the person whose name is subscribed to the foregoing instruments as President of Tierra Exploration, Inc., a Texas corporation, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

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



Rhonda G. Patterson
Notary Public in and for Midland County, Texas

(CORPORATION ACKNOWLEDGMENT)

STATE OF TEXAS

COUNTY OF DALLAS

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

Given under my hand and seal of office this the 18th day of April, 2005.



Kimberly Gotsch
Notary Public in and for Texas



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EXHIBIT "A"

SURFACE AMENDMENTS

1. Upon the cessation of drilling at each well location, the abandonment of said lease or surrender thereof, Lessee, its successors or assigns, shall then level all drilling pits and other excavations and shall repair all damage done, or cause to be done, to buildings, fences, roads, culverts, turf, water wells and/or other improvements and to restore same to their original condition within 90 days after the cessation of activity. No drilling mud shall be spread on surface lands of Lessor without express written consent of Lessor.
2. Lessee's right to use water from the leased premises shall not include the right to use fresh water from any fresh water sands or strata underlying the leased premises for any secondary recovery operations that may be conducted on the leased premises. Lessee shall have the right to use fresh water from wells or surface impoundments only with the expressed permission of the Lessor.
3. All operations of Lessee shall be conducted so as to minimize the amount of surface land used or damaged by Lessee and Lessee agrees to construct not more than one road to each location on the leased premises and to confine all travel incident to the drilling and production of such well to the single road. All roads constructed by Lessee shall be of good quality and suitable for all-weather use. The routes for all roads shall be mutually agreed upon between Lessor and Lessee before the commencement of any road construction. Lessee agrees to maintain all roads used by Lessee on the leased premises in good condition and repair during the period of Lessee's operations on the leased premises. The surface owner shall have the right to use all roads on the leased premises.
4. It is understood and agreed that this lease does not cover or include any right or privilege of hunting with firearms and/or with dogs or otherwise on the leased premises or fishing on the leased premises; all such hunting and fishing rights being expressly reserved, and Lessee agrees that none of the Lessee's officers, agents, employees or representatives will bring any dogs and/or firearms upon the leased premises, and that any one so doing shall be trespassers and subject to prosecution as such.
5. Prior to erecting new storage tanks, pipelines, compressor stations or other usual facilities required by Lessee for producing oil and gas and operating this lease, Lessee shall advise Lessor of Lessee's intention. Lessor and Lessee will then mutually select a site or sites for locating such equipment and pipelines taking into consideration the ranching and farming operation of Lessor and Lessee's needs in conducting its operations under the terms of this lease in a reasonable manner.

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6. Lessee, prior to the construction of any new road or the cutting, altering and removal of any existing fence on the leased premises, or the cutting or removal of any tree on the leased premises, shall notify Lessor of such intention and shall be governed by the Lessor's wishes. Lessee shall dispose of all brush, trees, trash and debris away from the property. Under no circumstances will trash, garbage or debris be buried or dumped on the property or adjacent lands of Lessor. Brush and trees may be buried or burned on the property only with written permission from owner or his representative.
7. Lessee agrees to protect, defend, indemnify and hold harmless Lessor, the owners of the surface of the Leased Premises, and their respective agents, employees and tenants, from and against all liabilities, losses, expenses, claims, demands, and causes of action of every kind and character, whether for death or personal injury to persons (including agents and employees of Lessee and Lessee's subcontractors) for loss or damage to property, in any way and at any time arising out of, incident to, or in connection with this Lease, operations conducted on the Leased Premises, or breach of the terms hereof, regardless of whether any such liability, loss, expenses, claim, demand or cause of action is based on the sole or concurrent negligence of any party indemnified hereunder.
8. Each drill site location shall be constructed so as to result in the least interference with surface usage as reasonably practicable under the circumstances. All pits shall be constructed and lined so as not to pollute the adjoining land at the request of Lessor. Lessee shall take all reasonable precautions necessary to prevent land, air and water pollution, including pollution to all underground fresh water zones. Lessee shall collect all trash which accumulates in connection with his operations and remove such trash from the Leased Premises. Lessee shall take all reasonable precautions to prevent blowouts from occurring on the Leased Premises. Lessee shall utilize only such area around each producing well as is reasonably necessary for such purposes, and Lessee shall restore the remainder of such drill site to its original condition as nearly as possible within a reasonable time after the completion of operations on each drill site where no producing well is located, Lessee shall clear the location, remove all equipment placed upon the drill site by the Lessee, clean out and back fill all pits, and return the surface of the drill site to its original condition as nearly as possible. Lessee shall construct and maintain gates at all places where any roads used by Lessee cross through fences on the Leased Premises, and Lessee shall keep such gates locked when not actually passing through such gates. Upon termination of Lessee's operations on the Leased Premises, Lessee shall restore the surface of all lands utilized by Lessee, and not theretofore restored, to their original condition as nearly as possible. Within six (6) months after the termination of this lease, Lessee shall remove any and all property placed by Lessee on the Leased Premises or Lessor shall cause same to be removed at Lessee's Expense.
9. Lessee is to comply with all Federal and State regulations.
10. Lessee shall pay market value for any and all livestock lost as a result of Lessee's operations under this lease.

11. All pipelines are to be buried 36 inches below the ground, which will be from the top of the pipe to the surface of the ground. Only crude oil and natural gas (no other derivatives) will be allowed to be transported through any pipelines on the property.
12. Lessee shall not conduct any operations within one-quarter (1/4) mile of any homestead, living quarters or livestock watering facilities without express consent of Lessor.



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FILE NO. 2456

FILED FOR RECORD ON THE 23RD DAY OF JUNE

A.D. 2005 1:49 P. M.

DULY RECORDED ON THE 27TH DAY OF JUNE

A.D. 2005 9:00 A. M.

BY: *[Signature]*, DEPUTY

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

ANY PROVISION HEREIN THAT ATTEMPTS TO LIMIT THE SALE, RENTAL,
OR USE OF THE DESCRIBED LAND IS VOID AND UNLAWFUL UNDER FEDERAL
LAW

9092

File No. MF-105269
Case A
Date Filed: 7/13/05
Jerry E. Patterson, Commissioner
By _____

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

The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL. 703, PAGE 709 THRU 720 OFFICIAL PUBLIC RECORD

I hereby certified on 06-28-05



DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

BY Norma Chavez DEPUTY
NORMA CHAVEZ

5-73-02

6

FILE# 2457



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BOOK 703 PAGE 721

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

The State of Texas



Austin, Texas

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 8th day of April, 2005, between the State of Texas, acting by and through its agent, GRETCHEN C. NORTHRUP FOUNDATION, C/O TRINITY UNIVERSITY of Attn: Business Office-Endowments, One Trinity Place, San Antonio, Texas 78212-7200 (Give Permanent Address) said agent herein referred to as the owner of the soil (whether one or more), and Tierra Exploration, Inc. of P. O. Box 56, Midland, Texa 79702 hereinafter called Lessee. (Give Permanent Address)

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

SW/4, SW/4NE/4, W/2SE/4 Section 28, Township 2,
Block 56, T & P Ry. Co. Survey

containing 280 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Five Thousand, Two Hundred Fifty and No/100
Dollars (\$5,250.00)

To the owner of the soil: Five Thousand, Two Hundred Fifty and No/100
Dollars (\$5,250.00)

Total bonus consideration: Ten Thousand, Five Hundred and No/100
Dollars (\$10,500.00)

The total bonus consideration paid represents a bonus of One Hundred Fifty and No/100
Dollars (\$ 150.00) per acre, on 70.00 net acres.

2. **TERM.** Subject to the other provisions in this lease, this lease shall be for a term of Three (3) years from this date (herein called "primary term") and as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land. As used in this lease, the term "produced in paying quantities" means that the receipts from the sale or other authorized commercial use of the substance(s) covered exceed out of pocket operational expenses for the six months last past.

50.07.2



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3. **DELAY RENTALS.** If no well is commenced on the leased premises on or before one (1) year from this date, this lease shall terminate, unless on or before such anniversary date Lessee shall pay or tender to the owner of the soil or to his credit in the _____

Frost National Bank, at P. O. Box 27, San Antonio, Texas 78291-0027
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 Hundred Seventy Five and No/100

Dollars (\$175.00)

To the State of Texas: One Hundred Seventy Five and No/100

Dollars (\$175.00)

Total Delay Rental: Three Hundred Fifty and No/100

Dollars (\$350.00)

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

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

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

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

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

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

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

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BOOK 703 PAGE 723

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

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

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

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

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

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

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

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

11. DRY HOLE/CESSATION OF PRODUCTION DURING PRIMARY TERM. If, during the primary term hereof and prior to discovery and production of oil or gas on said land, Lessee should drill a dry hole or holes thereon, or if during the primary term hereof and after the discovery and actual production of oil or gas from the leased premises such production thereof should cease from any cause, this lease shall not terminate if on or before the expiration of sixty (60) days from date of completion of said dry hole or cessation of production Lessee commences additional drilling or reworking operations thereon, or pays or tenders the next annual delay rental in the same manner as provided in this lease. If, during the last year of the primary term or within sixty (60) days prior thereto, a dry hole be completed and abandoned, or the production of oil or gas should cease for any cause, Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term; and if Lessee has not resumed production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

32. FORFEITURE. If Lessee shall fail or refuse to make the payment of any sum within thirty days after it becomes due, or if Lessee or an authorized agent should knowingly make any false return or false report concerning production or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith as required by law and the rules and regulations adopted by the Commissioner of the General Land Office, or if Lessee should fail to file reports in the manner required by law or fail to comply with rules and regulations promulgated by the General Land Office, the School Land Board, or the Railroad Commission, or if Lessee should refuse the proper authority access to the records pertaining to operations, or if Lessee or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or knowingly fail or refuse to furnish the General Land Office a correct log of any well, or if Lessee shall knowingly violate any of the material provisions of this lease, or if this lease is assigned and the assignment is not filed in the General Land Office as required by law, the rights acquired under this lease shall be subject to forfeiture by the

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Commissioner, and he shall forfeit same when sufficiently informed of the facts which authorize a forfeiture, and when forfeited the area shall again be subject to lease under the terms of the Relinquishment Act. However, nothing herein shall be construed as waiving the automatic termination of this lease by operation of law or by reason of any special limitation arising hereunder. Forfeitures may be set aside and this lease and all rights thereunder reinstated before the rights of another intervene upon satisfactory evidence to the Commissioner of the General Land Office of future compliance with the provisions of the law and of this lease and the rules and regulations that may be adopted relative hereto.

33. LIEN. In accordance with Texas Natural Resources Code 52.136, the State shall have a first lien upon all oil and gas produced from the area covered by this lease to secure payment of all unpaid royalty and other sums of money that may become due under this lease. By acceptance of this lease, Lessee grants the State, in addition to the lien provided by Texas Natural Resources Code 52.136 and any other applicable statutory lien, an express contractual lien on and security interest in all leased minerals in and extracted from the leased premises, all proceeds which may accrue to Lessee from the sale of such leased minerals, whether such proceeds are held by Lessee or by a third party, and all fixtures on and improvements to the leased premises used in connection with the production or processing of such leased minerals in order to secure the payment of all royalties or other amounts due or to become due under this lease and to secure payment of any damages or loss that Lessor may suffer by reason of Lessee's breach of any covenant or condition of this lease, whether express or implied. This lien and security interest may be foreclosed with or without court proceedings in the manner provided in the Title 1, Chap. 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this lease forfeited as provided herein.

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

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

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

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



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

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

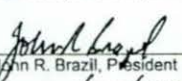
40. See attached Exhibit "A" for surface amendments.

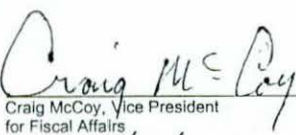
LESSEE: TIERRA EXPLORATION, INC.

By: 
Ralph Leach, Jr.
Title: President
Date: 4-28-05

STATE OF TEXAS

By: GRETCHEN C. NORTHRUP FOUNDATION C/O TRINITY UNIVERSITY
Individually and as agent for the State of Texas

By: 
John R. Brazil, President
Date: 4-14-05

By: 
Craig McCoy, Vice President
for Fiscal Affairs
Date: 4-14-05

TAX ID #74-6294095

(CORPORATION ACKNOWLEDGMENT)

50.27.2



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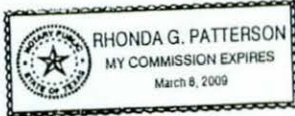
STATE OF TEXAS

(CORPORATION ACKNOWLEDGMENT)

COUNTY OF MIDLAND

BEFORE ME, the undersigned authority, on this day personally appeared Ralph Lea, Jr., known to me to be the person whose name is subscribed to the foregoing instruments as President of Tierra Exploration, Inc., a Texas corporation, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

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



Rhonda G. Patterson
Notary Public in and for Midland County, Texas

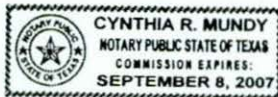
STATE OF TEXAS

(CORPORATION ACKNOWLEDGMENT)

COUNTY OF BEXAR

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

Given under my hand and seal of office this the 15 day of April, 2005.



Cynthia R. Mundy
Notary Public in and for Bexar County, Texas

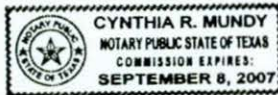
STATE OF TEXAS

(CORPORATION ACKNOWLEDGMENT)

COUNTY OF BEXAR

BEFORE ME, the undersigned authority, on this day personally appeared Craig McCoy, known to me to be the person whose name is subscribed to the foregoing instruments as Vice President for Fiscal Affairs of Trinity University, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the 15 day of April, 2005.



Cynthia R. Mundy
Notary Public in and for Bexar County, Texas

50.87.2



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EXHIBIT "A"

SURFACE AMENDMENTS

1. Upon the cessation of drilling at each well location, the abandonment of said lease or surrender thereof, Lessee, its successors or assigns, shall then level all drilling pits and other excavations and shall repair all damage done, or cause to be done, to buildings, fences, roads, culverts, turf, water wells and/or other improvements and to restore same to their original condition within 90 days after the cessation of activity. No drilling mud shall be spread on surface lands of Lessor without express written consent of Lessor.
2. Lessee's right to use water from the leased premises shall not include the right to use fresh water from any fresh water sands or strata underlying the leased premises for any secondary recovery operations that may be conducted on the leased premises. Lessee shall have the right to use fresh water from wells or surface impoundments only with the expressed permission of the Lessor.
3. All operations of Lessee shall be conducted so as to minimize the amount of surface land used or damaged by Lessee and Lessee agrees to construct not more than one road to each location on the leased premises and to confine all travel incident to the drilling and production of such well to the single road. All roads constructed by Lessee shall be of good quality and suitable for all-weather use. The routes for all roads shall be mutually agreed upon between Lessor and Lessee before the commencement of any road construction. Lessee agrees to maintain all roads used by Lessee on the leased premises in good condition and repair during the period of Lessee's operations on the leased premises. The surface owner shall have the right to use all roads on the leased premises.
4. It is understood and agreed that this lease does not cover or include any right or privilege of hunting with firearms and/or with dogs or otherwise on the leased premises or fishing on the leased premises; all such hunting and fishing rights being expressly reserved, and Lessee agrees that none of the Lessee's officers, agents, employees or representatives will bring any dogs and/or firearms upon the leased premises, and that any one so doing shall be trespassers and subject to prosecution as such.
5. Prior to erecting new storage tanks, pipelines, compressor stations or other usual facilities required by Lessee for producing oil and gas and operating this lease, Lessee shall advise Lessor of Lessee's intention. Lessor and Lessee will then mutually select a site or sites for locating such equipment and pipelines taking into consideration the ranching and farming operation of Lessor and Lessee's needs in conducting its operations under the terms of this lease in a reasonable manner.

50.01.2



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BOOK 703 PAGE 731

6. Lessee, prior to the construction of any new road or the cutting, altering and removal of any existing fence on the leased premises, or the cutting or removal of any tree on the leased premises, shall notify Lessor of such intention and shall be governed by the Lessor's wishes. Lessee shall dispose of all brush, trees, trash and debris away from the property. Under no circumstances will trash, garbage or debris be buried or dumped on the property or adjacent lands of Lessor. Brush and trees may be buried or burned on the property only with written permission from owner or his representative.
7. Lessee agrees to protect, defend, indemnify and hold harmless Lessor, the owners of the surface of the Leased Premises, and their respective agents, employees and tenants, from and against all liabilities, losses, expenses, claims, demands, and causes of action of every kind and character, whether for death or personal injury to persons (including agents and employees of Lessee and Lessee's subcontractors) for loss or damage to property, in any way and at any time arising out of, incident to, or in connection with this Lease, operations conducted on the Leased Premises, or breach of the terms hereof, regardless of whether any such liability, loss, expenses, claim, demand or cause of action is based on the sole or concurrent negligence of any party indemnified hereunder.
8. Each drill site location shall be constructed so as to result in the least interference with surface usage as reasonably practicable under the circumstances. All pits shall be constructed and lined so as not to pollute the adjoining land at the request of Lessor. Lessee shall take all reasonable precautions necessary to prevent land, air and water pollution, including pollution to all underground fresh water zones. Lessee shall collect all trash which accumulates in connection with his operations and remove such trash from the Leased Premises. Lessee shall take all reasonable precautions to prevent blowouts from occurring on the Leased Premises. Lessee shall utilize only such area around each producing well as is reasonably necessary for such purposes, and Lessee shall restore the remainder of such drill site to its original condition as nearly as possible within a reasonable time after the completion of operations on each drill site where no producing well is located, Lessee shall clear the location, remove all equipment placed upon the drill site by the Lessee, clean out and back fill all pits, and return the surface of the drill site to its original condition as nearly as possible. Lessee shall construct and maintain gates at all places where any roads used by Lessee cross through fences on the Leased Premises, and Lessee shall keep such gates locked when not actually passing through such gates. Upon termination of Lessee's operations on the Leased Premises, Lessee shall restore the surface of all lands utilized by Lessee, and not theretofore restored, to their original condition as nearly as possible. Within six (6) months after the termination of this lease, Lessee shall remove any and all property placed by Lessee on the Leased Premises or Lessor shall cause same to be removed at Lessee's Expense.
9. Lessee is to comply with all Federal and State regulations.
10. Lessee shall pay market value for any and all livestock lost as a result of Lessee's operations under this lease.

90.07.1



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11. All pipelines are to be buried 36 inches below the ground, which will be from the top of the pipe to the surface of the ground. Only crude oil and natural gas (no other derivatives) will be allowed to be transported through any pipelines on the property.
12. Lessee shall not conduct any operations within one-quarter (1/4) mile of any homestead, living quarters or livestock watering facilities without express consent of Lessor.

90814



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CERTIFIED COPY OF RESOLUTION
PRESENTED TO AND ADOPTED BY
THE BOARD OF TRUSTEES OF TRINITY UNIVERSITY
ON
OCTOBER 2, 1998

I, DEBORAH BOLSTER, Assistant Secretary of the Board of Trustees of Trinity University, hereby certify that the following is a true and correct copy of a Resolution adopted at the meeting of the Board of Trustees of Trinity University, San Antonio, Texas, held October 2, 1998:

BE IT RESOLVED by the Board of Trustees of Trinity University that on behalf of Trinity University or the Board of Trustees of Trinity University, in the individual capacity of each, and as Executor, Administrator, Trustee, Agent, Representative, Partner, or in any other capacity whatsoever, any two of the following: Chairman of the Board, Immediate Past Chairman, Vice Chairman, Finance & Property Chairman, Secretary, Treasurer, Assistant Treasurer, President of the University, and Vice President for Fiscal Affairs, are hereby authorized and empowered:

To execute any and all instruments required to sell, convey, transfer, assign, rent, lease, mortgage, or otherwise dispose of any interest owned by Trinity University or the Board of Trustees of Trinity University, in any real property (including oil, gas, and mineral interests) wheresoever located, including but not limited to deeds, leases, oil, gas, and mineral leases, division orders, releases, as well as instruments required by any governmental agency, and any other instruments of whatsoever kind or character relating to the sale, management, or disposition of any such property.

Deborah Bolster
DEBORAH BOLSTER, Assistant Secretary
Board of Trustees of Trinity University

Date: 4-13-05

Chairman:
President:
Immediate Past Chair &
Chair, Nomination of Trustees Committee:
Vice Chair:
Honorary Vice Chair &
Chair, Church Relations and Religious Life Committee:
Treasurer:
VP for Fiscal Affairs & Assistant Treasurer:
Secretary
Chair, Investments Committee:
Chair, Audit Committee:
Chair, Advancement Committee:
Chair, Finance and Property Committee:
Chair, Academic Affairs Committee:
Chair, Student Affairs Committee:

Ms. Lissa Wallis Vahldick
Dr. John R. Brazil

Mr. Robert S. McClane
Mr. George C. Hixon

Ms. Sharon J. Bell
Vacant
Mr. Craig McCoy

Mr. Thomas R. Senunes
Mr. James F. Dicke, II
Mr. Douglas D. Hawthorne
Ms. Phyllis Browning
Mr. Marshall B. Miller, Jr.
Ms. Barbara W. Pierce

FILE NO. 2457

FILED FOR RECORD ON THE 23RD DAY OF JUNE A.D. 2005 1:49 P. M.

DULY RECORDED ON THE 27TH DAY OF JUNE A.D. 2005 9:00 A. M.

BY: [Signature], DEPUTY

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

NOT PROVIDED HEREIN SHALL BE THE SALE, RENTAL,
OR USE BY THE PERSONS OF THE PROPERTY BECAUSE OF COLOR
OR RACE IS UNLAWFUL AND VIOLATES FEDERAL
LAW

50812

5.

File No. 14F-105269
Lease B
Date Filed: 7/13/05
Jerry E. Patterson, Commissioner
By _____

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

The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL. 703, PAGE 721, THRU 733 **OFFICIAL PUBLIC RECORD**

I hereby certified on 06-28-05



DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

BY Norma Chavez DEPUTY
NORMA CHAVEZ

5.73.03



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Reeves County
Clerks Office

FILE# 2458

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

The State of Texas



Austin, Texas

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 8th day of April, 2005, between the State of Texas, acting by and through its agent, TRINITY UNIVERSITY

of Attn: Business Office-Endowments, One Trinity Place, San Antonio, Texas 78212-7200

(Give Permanent Address)

said agent herein referred to as the owner of the soil (whether one or more), and Tierra Exploration, Inc.

of P. O. Box 56, Midland, Texas 79702

(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 Reeves County, State of Texas, to-wit:

SW/4, SW/4NE/4, W/2SE/4 Section 28, Township 2,
Block 56, T & P Ry. Co. Survey

containing 280 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Four Thousand, Two Hundred and No/100

Dollars (\$4,200.00)

To the owner of the soil: Four Thousand, Two Hundred and No/100

Dollars (\$4,200.00)

Total bonus consideration: Eight Thousand, Four Hundred and No/100

Dollars (\$8,400.00)

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

Dollars (\$ 150.00) per acre, on 56.00 net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of Three (3) years from this date (herein called "primary term") and as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land. As used in this lease, the term "produced in paying quantities" means that the receipts from the sale or other authorized commercial use of the substance(s) covered exceed out of pocket operational expenses for the six months last past.

50.27.2



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BOOK 703 PAGE 735

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 Frost National Bank

Bank, at P.O. Box 27, San Antonio, Texas 78291-0027

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 Hundred Forty and No/100

Dollars (\$140.00)

To the State of Texas: One Hundred Forty and No/100

Dollars (\$140.00)

Total Delay Rental: Two Hundred Eighty and No/100

Dollars (\$280.00)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

11. DRY HOLE/CESSATION OF PRODUCTION DURING PRIMARY TERM. If, during the primary term hereof and prior to discovery and production of oil or gas on said land, Lessee should drill a dry hole or holes thereon, or if during the primary term hereof and after the discovery and actual production of oil or gas from the leased premises such production thereof should cease from any cause, this lease shall not terminate if on or before the expiration of sixty (60) days from date of completion of said dry hole or cessation of production Lessee commences additional drilling or reworking operations thereon, or pays or tenders the next annual delay rental in the same manner as provided in this lease. If, during the last year of the primary term or within sixty (60) days prior thereto, a dry hole be completed and abandoned, or the production of oil or gas should cease for any cause, Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term; and if Lessee has not resumed production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

32. FORFEITURE. If Lessee shall fail or refuse to make the payment of any sum within thirty days after it becomes due, or if Lessee or an authorized agent should knowingly make any false return or false report concerning production or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith as required by law and the rules and regulations adopted by the Commissioner of the General Land Office, or if Lessee should fail to file reports in the manner required by law or fail to comply with rules and regulations promulgated by the General Land Office, the School Land Board, or the Railroad Commission, or if Lessee should refuse the proper authority access to the records pertaining to operations, or if Lessee or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or knowingly fail or refuse to furnish the General Land Office a correct log of any well, or if Lessee shall knowingly violate any of the material provisions of this lease, or if this lease is assigned and the assignment is not filed in the General Land Office as required by law, the rights acquired under this lease shall be subject to forfeiture by the



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Commissioner, and he shall forfeit same when sufficiently informed of the facts which authorize a forfeiture, and when forfeited the area shall again be subject to lease under the terms of the Relinquishment Act. However, nothing herein shall be construed as waiving the automatic termination of this lease by operation of law or by reason of any special limitation arising hereunder. Forfeitures may be set aside and this lease and all rights thereunder reinstated before the rights of another intervene upon satisfactory evidence to the Commissioner of the General Land Office of future compliance with the provisions of the law and of this lease and the rules and regulations that may be adopted relative hereto.

33. LIEN. In accordance with Texas Natural Resources Code 52.136, the State shall have a first lien upon all oil and gas produced from the area covered by this lease to secure payment of all unpaid royalty and other sums of money that may become due under this lease. By acceptance of this lease, Lessee grants the State, in addition to the lien provided by Texas Natural Resources Code 52.136 and any other applicable statutory lien, an express contractual lien on and security interest in all leased minerals in and extracted from the leased premises, all proceeds which may accrue to Lessee from the sale of such leased minerals, whether such proceeds are held by Lessee or by a third party, and all fixtures on and improvements to the leased premises used in connection with the production or processing of such leased minerals in order to secure the payment of all royalties or other amounts due or to become due under this lease and to secure payment of any damages or loss that Lessor may suffer by reason of Lessee's breach of any covenant or condition of this lease, whether express or implied. This lien and security interest may be foreclosed with or without court proceedings in the manner provided in the Title 1, Chap. 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this lease forfeited as provided herein.

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

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

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

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

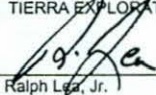
50-27-1

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

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

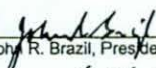
40. See attached Exhibit "A" for surface amendments.

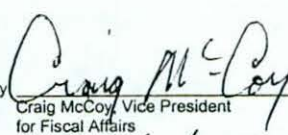
LESSEE: TIERRA EXPLORATION, INC.

By: 
Ralph Lee, Jr.
Title: President
Date: 4-28-05

STATE OF TEXAS

By: TRINITY UNIVERSITY
Individually and as agent for the
State of Texas

By: 
John R. Brazil, President
Date: 4.14.05

By: 
Craig McCoy, Vice President
for Fiscal Affairs
Date: 4-14-05

TAX ID #74-1109633

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Reeves County
Clerks Office



50.07.2

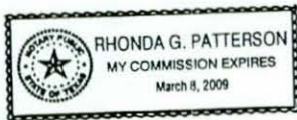
STATE OF TEXAS

(CORPORATION ACKNOWLEDGMENT)

COUNTY OF MIDLAND

BEFORE ME, the undersigned authority, on this day personally appeared Ralph Lea, Jr., known to me to be the person whose name is subscribed to the foregoing instruments as President of Tierra Exploration, Inc., a Texas corporation, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

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



Rhonda G. Patterson
Notary Public in and for Midland Co., Texas

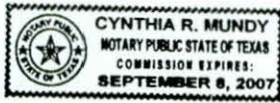
STATE OF TEXAS

(CORPORATION ACKNOWLEDGMENT)

COUNTY OF BEXAR

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

Given under my hand and seal of office this the 15 day of April, 2005.



Cynthia R. Mundy
Notary Public in and for Bexar County, Texas

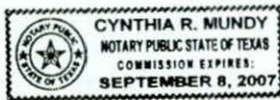
STATE OF TEXAS

(CORPORATION ACKNOWLEDGMENT)

COUNTY OF BEXAR

BEFORE ME, the undersigned authority, on this day personally appeared Craig McCoy, known to me to be the person whose name is subscribed to the foregoing instruments as Vice President for Fiscal Affairs of Trinity University, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the 15 day of April, 2005.



Cynthia R. Mundy
Notary Public in and for Bexar County, Texas



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EXHIBIT "A"

SURFACE AMENDMENTS

1. Upon the cessation of drilling at each well location, the abandonment of said lease or surrender thereof, Lessee, its successors or assigns, shall then level all drilling pits and other excavations and shall repair all damage done, or cause to be done, to buildings, fences, roads, culverts, turf, water wells and/or other improvements and to restore same to their original condition within 90 days after the cessation of activity. No drilling mud shall be spread on surface lands of Lessor without express written consent of Lessor.
2. Lessee's right to use water from the leased premises shall not include the right to use fresh water from any fresh water sands or strata underlying the leased premises for any secondary recovery operations that may be conducted on the leased premises. Lessee shall have the right to use fresh water from wells or surface impoundments only with the expressed permission of the Lessor.
3. All operations of Lessee shall be conducted so as to minimize the amount of surface land used or damaged by Lessee and Lessee agrees to construct not more than one road to each location on the leased premises and to confine all travel incident to the drilling and production of such well to the single road. All roads constructed by Lessee shall be of good quality and suitable for all-weather use. The routes for all roads shall be mutually agreed upon between Lessor and Lessee before the commencement of any road construction. Lessee agrees to maintain all roads used by Lessee on the leased premises in good condition and repair during the period of Lessee's operations on the leased premises. The surface owner shall have the right to use all roads on the leased premises.
4. It is understood and agreed that this lease does not cover or include any right or privilege of hunting with firearms and/or with dogs or otherwise on the leased premises or fishing on the leased premises; all such hunting and fishing rights being expressly reserved, and Lessee agrees that none of the Lessee's officers, agents, employees or representatives will bring any dogs and/or firearms upon the leased premises, and that any one so doing shall be trespassers and subject to prosecution as such.
5. Prior to erecting new storage tanks, pipelines, compressor stations or other usual facilities required by Lessee for producing oil and gas and operating this lease, Lessee shall advise Lessor of Lessee's intention. Lessor and Lessee will then mutually select a site or sites for locating such equipment and pipelines taking into consideration the ranching and farming operation of Lessor and Lessee's needs in conducting its operations under the terms of this lease in a reasonable manner.



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6. Lessee, prior to the construction of any new road or the cutting, altering and removal of any existing fence on the leased premises, or the cutting or removal of any tree on the leased premises, shall notify Lessor of such intention and shall be governed by the Lessor's wishes. Lessee shall dispose of all brush, trees, trash and debris away from the property. Under no circumstances will trash, garbage or debris be buried or dumped on the property or adjacent lands of Lessor. Brush and trees may be buried or burned on the property only with written permission from owner or his representative.
7. Lessee agrees to protect, defend, indemnify and hold harmless Lessor, the owners of the surface of the Leased Premises, and their respective agents, employees and tenants, from and against all liabilities, losses, expenses, claims, demands, and causes of action of every kind and character, whether for death or personal injury to persons (including agents and employees of Lessee and Lessee's subcontractors) for loss or damage to property, in any way and at any time arising out of, incident to, or in connection with this Lease, operations conducted on the Leased Premises, or breach of the terms hereof, regardless of whether any such liability, loss, expenses, claim, demand or cause of action is based on the sole or concurrent negligence of any party indemnified hereunder.
8. Each drill site location shall be constructed so as to result in the least interference with surface usage as reasonably practicable under the circumstances. All pits shall be constructed and lined so as not to pollute the adjoining land at the request of Lessor. Lessee shall take all reasonable precautions necessary to prevent land, air and water pollution, including pollution to all underground fresh water zones. Lessee shall collect all trash which accumulates in connection with his operations and remove such trash from the Leased Premises. Lessee shall take all reasonable precautions to prevent blowouts from occurring on the Leased Premises. Lessee shall utilize only such area around each producing well as is reasonably necessary for such purposes, and Lessee shall restore the remainder of such drill site to its original condition as nearly as possible within a reasonable time after the completion of operations on each drill site where no producing well is located, Lessee shall clear the location, remove all equipment placed upon the drill site by the Lessee, clean out and back fill all pits, and return the surface of the drill site to its original condition as nearly as possible. Lessee shall construct and maintain gates at all places where any roads used by Lessee cross through fences on the Leased Premises, and Lessee shall keep such gates locked when not actually passing through such gates. Upon termination of Lessee's operations on the Leased Premises, Lessee shall restore the surface of all lands utilized by Lessee, and not theretofore restored, to their original condition as nearly as possible. Within six (6) months after the termination of this lease, Lessee shall remove any and all property placed by Lessee on the Leased Premises or Lessor shall cause same to be removed at Lessee's Expense.
9. Lessee is to comply with all Federal and State regulations.
10. Lessee shall pay market value for any and all livestock lost as a result of Lessee's operations under this lease.

90.07.2

11. All pipelines are to be buried 36 inches below the ground, which will be from the top of the pipe to the surface of the ground. Only crude oil and natural gas (no other derivatives) will be allowed to be transported through any pipelines on the property.
12. Lessee shall not conduct any operations within one-quarter (1/4) mile of any homestead, living quarters or livestock watering facilities without express consent of Lessor.



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50-27-2



**CERTIFIED COPY OF RESOLUTION
PRESENTED TO AND ADOPTED BY
THE BOARD OF TRUSTEES OF TRINITY UNIVERSITY
ON
OCTOBER 2, 1998**

I, DEBORAH BOLSTER, Assistant Secretary of the Board of Trustees of Trinity University, hereby certify that the following is a true and correct copy of a Resolution adopted at the meeting of the Board of Trustees of Trinity University, San Antonio, Texas, held October 2, 1998:

BE IT RESOLVED by the Board of Trustees of Trinity University that on behalf of Trinity University or the Board of Trustees of Trinity University, in the individual capacity of each, and as Executor, Administrator, Trustee, Agent, Representative, Partner, or in any other capacity whatsoever, any two of the following: Chairman of the Board, Immediate Past Chairman, Vice Chairman, Finance & Property Chairman, Secretary, Treasurer, Assistant Treasurer, President of the University, and Vice President for Fiscal Affairs, are hereby authorized and empowered:

To execute any and all instruments required to sell, convey, transfer, assign, rent, lease, mortgage, or otherwise dispose of any interest owned by Trinity University or the Board of Trustees of Trinity University, in any real property (including oil, gas, and mineral interests) wheresoever located, including but not limited to deeds, leases, oil, gas, and mineral leases, division orders, releases, as well as instruments required by any governmental agency, and any other instruments of whatsoever kind or character relating to the sale, management, or disposition of any such property.

DEBORAH BOLSTER, Assistant Secretary
Board of Trustees of Trinity University

Date: 4-13-05

Chairman:
President:
Immediate Past Chair &
Chair, Nomination of Trustees Committee:
Vice Chair:
Honorary Vice Chair &
Chair, Church Relations and Religious Life Committee:
Treasurer:
VP for Fiscal Affairs & Assistant Treasurer:
Secretary:
Chair, Investments Committee:
Chair, Audit Committee:
Chair, Advancement Committee:
Chair, Finance and Property Committee:
Chair, Academic Affairs Committee:
Chair, Student Affairs Committee:

Ms. Lissa Walls Vahldick
Dr. John R. Brazil

Mr. Robert S. McClane
Mr. George C. Hixon

Ms. Sharon J. Bell
Vacant
Mr. Craig McCoy

Mr. Thomas R. Semmes
Mr. James F. Dicke, II
Mr. Douglas D. Hawthorne
Ms. Phyllis Browning
Mr. Marshall B. Miller, Jr.
Ms. Barbara W. Pierce



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Clerks Office

FILE NO. 2458

FILED FOR RECORD ON THE 23RD DAY OF JUNE A.D. 2005 1:49 P. M.

DULY RECORDED ON THE 27TH DAY OF JUNE A.D. 2005 9:00 A. M.

BY: [Signature], DEPUTY

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

ANY PROMOTION HEREIN MADE IS SUBJECT TO THE SALE, RENTAL,
OR USE BY THE DEPARTMENT OF THE ARMY BECAUSE OF COLOR
OR RACE IS UNLAWFUL AND IN VIOLATION OF FEDERAL
LAW

90071

5.

File No. HF- 105269
Lease C
Date Filed: 7/13/05
Jerry E. Patterson, Commissioner
By _____

479.02

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

The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL. 703, PAGE 734, THRU 746 **OFFICIAL PUBLIC RECORD**



I hereby certified on 06-28-05
DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS
BY Norma Chavez DEPUTY
NORMA CHAVEZ

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

The State of Texas



Austin, Texas

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 25th day of April, 2005, between the State of Texas, acting by and through its agent, SUNSHINE COTTAGE SCHOOL FOR DEAF CHILDREN of 103 Tuleta, San Antonio, Texas 78212 (Give Permanent Address) said agent herein referred to as the owner of the soil (whether one or more), and Tierra Exploration, Inc. of P. O. Box 56, Midland, Texas 79702 hereinafter called Lessee. (Give Permanent Address)

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

SW/4, SW/4NE/4, W/2SE/4 Section 28, Township 2,
Block 56, T & P Ry. Co. Survey

containing 280 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: One Thousand Fifty and No/100
Dollars (\$1,050.00)

To the owner of the soil: One Thousand Fifty and No/100
Dollars (\$1,050.00)

Total bonus consideration: Two Thousand One Hundred and No/100
Dollars (\$2,100.00)

The total bonus consideration paid represents a bonus of One Hundred Fifty and No/100
Dollars (\$ 150.00) per acre, on 14.00 net acres.

2. **TERM.** Subject to the other provisions in this lease, this lease shall be for a term of Three (3) years from this date (herein called "primary term") and as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land. As used in this lease, the term "produced in paying quantities" means that the receipts from the sale or other authorized commercial use of the substance(s) covered exceed out of pocket operational expenses for the six months last past.

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3. DELAY RENTALS. If no well is commenced on the leased premises on or before one (1) year from this date, this lease shall terminate, unless on or before such anniversary date Lessee shall pay or tender to the owner of the soil or to his credit in the _____

Bank, at _____, or its successors (which shall continue as the depository regardless of changes in the ownership of said land), the amount specified below; in addition, Lessee shall pay or tender to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATE OF TEXAS, AT AUSTIN, TEXAS, a like sum on or before said date. Payments under this paragraph shall operate as a rental and shall cover the privilege of deferring the commencement of a well for one (1) year from said date. Payments under this paragraph shall be in the following amounts:

To the owner of the soil: Thirty-Five and No/100
Dollars (\$35.00)
To the State of Texas: Thirty-Five and No/100
Dollars (\$35.00)
Total Delay Rental: Seventy and No/100
Dollars (\$70.00)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

11. DRY HOLE/CESSATION OF PRODUCTION DURING PRIMARY TERM. If, during the primary term hereof and prior to discovery and production of oil or gas on said land, Lessee should drill a dry hole or holes thereon, or if during the primary term hereof and after the discovery and actual production of oil or gas from the leased premises such production thereof should cease from any cause, this lease shall not terminate if on or before the expiration of sixty (60) days from date of completion of said dry hole or cessation of production Lessee commences additional drilling or reworking operations thereon, or pays or tenders the next annual delay rental in the same manner as provided in this lease. If, during the last year of the primary term or within sixty (60) days prior thereto, a dry hole be completed and abandoned, or the production of oil or gas should cease for any cause, Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term; and if Lessee has not resumed production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

32. FORFEITURE. If Lessee shall fail or refuse to make the payment of any sum within thirty days after it becomes due, or if Lessee or an authorized agent should knowingly make any false return or false report concerning production or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith as required by law and the rules and regulations adopted by the Commissioner of the General Land Office, or if Lessee should fail to file reports in the manner required by law or fail to comply with rules and regulations promulgated by the General Land Office, the School Land Board, or the Railroad Commission, or if Lessee should refuse the proper authority access to the records pertaining to operations, or if Lessee or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or knowingly fail or refuse to furnish the General Land Office a correct log of any well, or if Lessee shall knowingly violate any of the material provisions of this lease, or if this lease is assigned and the assignment is not filed in the General Land Office as required by law, the rights acquired under this lease shall be subject to forfeiture by the



Commissioner, and he shall forfeit same when sufficiently informed of the facts which authorize a forfeiture, and when forfeited the area shall again be subject to lease under the terms of the Relinquishment Act. However, nothing herein shall be construed as waiving the automatic termination of this lease by operation of law or by reason of any special limitation arising hereunder. Forfeitures may be set aside and this lease and all rights thereunder reinstated before the rights of another intervene upon satisfactory evidence to the Commissioner of the General Land Office of future compliance with the provisions of the law and of this lease and the rules and regulations that may be adopted relative hereto.

33. LIEN. In accordance with Texas Natural Resources Code 52.136, the State shall have a first lien upon all oil and gas produced from the area covered by this lease to secure payment of all unpaid royalty and other sums of money that may become due under this lease. By acceptance of this lease, Lessee grants the State, in addition to the lien provided by Texas Natural Resources Code 52.136 and any other applicable statutory lien, an express contractual lien on and security interest in all leased minerals in and extracted from the leased premises, all proceeds which may accrue to Lessee from the sale of such leased minerals, whether such proceeds are held by Lessee or by a third party, and all fixtures on and improvements to the leased premises used in connection with the production or processing of such leased minerals in order to secure the payment of all royalties or other amounts due or to become due under this lease and to secure payment of any damages or loss that Lessor may suffer by reason of Lessee's breach of any covenant or condition of this lease, whether express or implied. This lien and security interest may be foreclosed with or without court proceedings in the manner provided in the Title 1, Chap. 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this lease forfeited as provided herein.

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

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

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

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



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copy of
Original filed in
Reeves County
Clerks Office

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 surface amendments.

LESSEE: TIERRA EXPLORATION, INC.

By: *Ralph Lee, Jr.*
Ralph Lee, Jr.

Title: President

Date: June 8, 2005

STATE OF TEXAS

SUNSHINE COTTAGE SCHOOL FOR DEAF CHILDREN
Individually and as agent for the State of Texas

By: *Carolyn Walthall*
Carolyn Walthall, Executive Director

Date: 5-20-05

By: *Glen G. Mortimer, III*
Glen G. Mortimer, III, Chairman of the Board

Date: 5/18/05

Tax ID# 74-1143132

50212



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Reeves County
Clerks Office

STATE OF TEXAS
COUNTY OF MIDLAND

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Ralph Lea, Jr., known to me to be the person whose name is subscribed to the foregoing instruments as President of Tierra Exploration, Inc., a Texas corporation, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the 8th day of June, 2005.



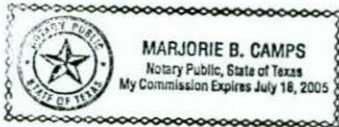
Lunelle Zeeck
Notary Public in and for State of Texas

STATE OF TEXAS
COUNTY OF BEXAR

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Carolyn Walthall, known to me to be the person whose name is subscribed to the foregoing instruments as Executive Director of Sunshine Cottage School for Deaf Children, and acknowledged to me that she executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the 20 day of May, 2005.



Marjorie B. Camps
Notary Public in and for Bexar County, Texas

STATE OF TEXAS
COUNTY OF BEXAR

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Glen G. Mortimer, III, known to me to be the person whose name is subscribed to the foregoing instruments as Chairman of the Board for Sunshine Cottage School for Deaf Children, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the 18th day of May, 2005.



Marjorie B. Camps
Notary Public in and for Bexar County, Texas

50.07.2



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Original filed in
Reeves County
Clerks Office

EXHIBIT "A"

SURFACE AMENDMENTS

1. Upon the cessation of drilling at each well location, the abandonment of said lease or surrender thereof, Lessee, its successors or assigns, shall then level all drilling pits and other excavations and shall repair all damage done, or cause to be done, to buildings, fences, roads, culverts, turf, water wells and/or other improvements and to restore same to their original condition within 90 days after the cessation of activity. No drilling mud shall be spread on surface lands of Lessor without express written consent of Lessor.
2. Lessee's right to use water from the leased premises shall not include the right to use fresh water from any fresh water sands or strata underlying the leased premises for any secondary recovery operations that may be conducted on the leased premises. Lessee shall have the right to use fresh water from wells or surface impoundments only with the expressed permission of the Lessor.
3. All operations of Lessee shall be conducted so as to minimize the amount of surface land used or damaged by Lessee and Lessee agrees to construct not more than one road to each location on the leased premises and to confine all travel incident to the drilling and production of such well to the single road. All roads constructed by Lessee shall be of good quality and suitable for all-weather use. The routes for all roads shall be mutually agreed upon between Lessor and Lessee before the commencement of any road construction. Lessee agrees to maintain all roads used by Lessee on the leased premises in good condition and repair during the period of Lessee's operations on the leased premises. The surface owner shall have the right to use all roads on the leased premises.
4. It is understood and agreed that this lease does not cover or include any right or privilege of hunting with firearms and/or with dogs or otherwise on the leased premises or fishing on the leased premises; all such hunting and fishing rights being expressly reserved, and Lessee agrees that none of the Lessee's officers, agents, employees or representatives will bring any dogs and/or firearms upon the leased premises, and that any one so doing shall be trespassers and subject to prosecution as such.
5. Prior to erecting new storage tanks, pipelines, compressor stations or other usual facilities required by Lessee for producing oil and gas and operating this lease, Lessee shall advise Lessor of Lessee's intention. Lessor and Lessee will then mutually select a site or sites for locating such equipment and pipelines taking into consideration the ranching and farming operation of Lessor and Lessee's needs in conducting its operations under the terms of this lease in a reasonable manner.

5007

6. Lessee, prior to the construction of any new road or the cutting, altering and removal of any existing fence on the leased premises, or the cutting or removal of any tree on the leased premises, shall notify Lessor of such intention and shall be governed by the Lessor's wishes. Lessee shall dispose of all brush, trees, trash and debris away from the property. Under no circumstances will trash, garbage or debris be buried or dumped on the property or adjacent lands of Lessor. Brush and trees may be buried or burned on the property only with written permission from owner or his representative.
7. Lessee agrees to protect, defend, indemnify and hold harmless Lessor, the owners of the surface of the Leased Premises, and their respective agents, employees and tenants, from and against all liabilities, losses, expenses, claims, demands, and causes of action of every kind and character, whether for death or personal injury to persons (including agents and employees of Lessee and Lessee's subcontractors) for loss or damage to property, in any way and at any time arising out of, incident to, or in connection with this Lease, operations conducted on the Leased Premises, or breach of the terms hereof, regardless of whether any such liability, loss, expenses, claim, demand or cause of action is based on the sole or concurrent negligence of any party indemnified hereunder.
8. Each drill site location shall be constructed so as to result in the least interference with surface usage as reasonably practicable under the circumstances. All pits shall be constructed and lined so as not to pollute the adjoining land at the request of Lessor. Lessee shall take all reasonable precautions necessary to prevent land, air and water pollution, including pollution to all underground fresh water zones. Lessee shall collect all trash which accumulates in connection with his operations and remove such trash from the Leased Premises. Lessee shall take all reasonable precautions to prevent blowouts from occurring on the Leased Premises. Lessee shall utilize only such area around each producing well as is reasonably necessary for such purposes, and Lessee shall restore the remainder of such drill site to its original condition as nearly as possible within a reasonable time after the completion of operations on each drill site where no producing well is located, Lessee shall clear the location, remove all equipment placed upon the drill site by the Lessee, clean out and back fill all pits, and return the surface of the drill site to its original condition as nearly as possible. Lessee shall construct and maintain gates at all places where any roads used by Lessee cross through fences on the Leased Premises, and Lessee shall keep such gates locked when not actually passing through such gates. Upon termination of Lessee's operations on the Leased Premises, Lessee shall restore the surface of all lands utilized by Lessee, and not theretofore restored, to their original condition as nearly as possible. Within six (6) months after the termination of this lease, Lessee shall remove any and all property placed by Lessee on the Leased Premises or Lessor shall cause same to be removed at Lessee's Expense.
9. Lessee is to comply with all Federal and State regulations.
10. Lessee shall pay market value for any and all livestock lost as a result of Lessee's operations under this lease.



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Original filed in
Reeves County
Clerks Office

50-272

11. All pipelines are to be buried 36 inches below the ground, which will be from the top of the pipe to the surface of the ground. Only crude oil and natural gas (no other derivatives) will be allowed to be transported through any pipelines on the property.
12. Lessee shall not conduct any operations within one-quarter (1/4) mile of any homestead, living quarters or livestock watering facilities without express consent of Lessor.



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Original filed in
Reeves County
Clerks Office

FILE NO. 2459

FILED FOR RECORD ON THE 23RD DAY OF JUNE

A.D. 2005 1:49 P. M.

DULY RECORDED ON THE 27TH DAY OF JUNE

A.D. 2005 9:00 A. M.

BY: [Signature], DEPUTY

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

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

90072

52

File No. 174105269
Sealed
Date Filed: 7/13/05
JERRY E. PATTERSON, Commissioner
By [Signature]

CERTIFIED TRUE AND CORRECT COPY CERTIFICATE
STATE OF TEXAS
COUNTY OF REEVES
The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL. 703, PAGE 747, THRU 758 OFFICIAL PUBLIC RECORD
I hereby certified on 06-28-05
DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS
BY Norma Chavez DEPUTY
NORMA CHAVEZ



47302

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

April 10, 2006

ATTN RALPH LEA JR
TIERRA EXPLORATION INC
P. O. BOX 56
MIDLAND TEXAS 79702

Re: RELINQUISHMENT ACT LEASE No. MF-105269.

Reeves County:

Part	Sec	Block	Survey	Abst#	Acres
SW/4, SW/4NE/4 W/2SE/4	28	56	T&P Ry. Co	2214	280

Dear Mr. Lea,

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 MF-105269. Please refer to this number in all future correspondence concerning the lease.

Your remittance of \$10,625.00 has been applied as the state's portion of the cash bonus \$10,500.00, along with a processing and filing fee in the amount of \$125.00. Please let me know if you should have any questions.

Sincerely,

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

MS/DR

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

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

www.glo.state.tx.us

File No. 27705269

210 Cedar

Date Filed: 9/10/06

Jerry E. Patterson, Commissioner

By [Signature]

RAILROAD COMMISSION OF TEXAS

OIL & GAS DIVISION

 MF
105269

WF

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

PERMIT NUMBER 610105	DATE PERMIT ISSUED OR AMENDED 11/29/2005	DISTRICT * 08
API NUMBER 42 389 32391	FORM W-1 RECEIVED 11/28/2005	COUNTY REEVES
TYPE OF OPERATION DRILL		ACRES 280.00
OPERATOR 227845 DRACO ENERGY, INC. P O BOX 11404 MIDLAND TX		NOTICE This permit and any allowable assigned may be revoked if payment for fee(s) submitted to the Commission is not honored. District Office Telephone No.: 432 684-5581
LEASE NAME TRINITY STATE "28"		WELL NUMBER 1
LOCATION 3.00 MILES E FROM ORIA		TOTAL DEPTH 4,000
SECTION, BLOCK and/or SURVEY SECTION => 28 BLOCK => 56 T2 ABSTRACT => SURVEY ==> T&P RR CO		
DISTANCE--LEASE LINES 586.00 F E - 1,667.00 F S		DISTANCE--NEAREST WELL ON LEASE 0.0
DISTANCE--SURVEY LINES 1,900.00 F E - 1,667.00 F S		

READ IMPORTANT CONDITIONS AND INSTRUCTIONS ON THE BACK OF THIS FORM

FIELD(S) AND LIMITATIONS

* - SEE FIELD DISTRICT FOR REPORTING PURPOSES

FIELD NAME	LEASE NAME	DEPTH	WELL #	DST
WILDCAT	TRINITY STATE "28"	3,700	1	08
	ACRES => 280.00			
TUNSTILL	TRINITY STATE "28"	3,225	1	08
	ACRES => 280.00			
TUNSTILL (OLDS)	TRINITY STATE "28"	3,275	1	08
	ACRES => 280.00			

** LIMITATIONS **

THIS WELL SHALL BE COMPLETED AND PRODUCED IN COMPLIANCE WITH APPLICABLE SPECIAL FIELD OR STATEWIDE SPACING AND DENSITY RULES. IF THIS WELL IS TO BE USED FOR BRINE MINING, UNDERGROUND STORAGE OF LIQUID HYDROCARBONS IN SALT FORMATIONS, OR UNDERGROUND STORAGE OF GAS IN SALT FORMATIONS, A PERMIT FOR THAT SPECIFIC PURPOSE MUST BE OBTAINED FROM ENVIRONMENTAL SERVICES PRIOR TO CONSTRUCTION INCLUDING DRILLING, OF A WELL IN ACCORDANCE WITH STATEWIDE RULES 81, 95, AND 97.

THE FOLLOWING RESTRICTIONS APPLY TO THE FIELDS SPECIFIED

THIS IS A HYDROGEN SULFIDE FIELD. THIS WELL SHALL BE DRILLED IN ACCORDANCE WITH STATEWIDE RULE 36.

TUNSTILL

*** PLEASE REFER TO ATTACHMENT ***

 RECEIVED
05 JAN 27 AM 11:29

ATTACHMENT
FOR DRILLING PERMIT NUMBER
610105

THIS IS A HYDROGEN SULFIDE FIELD. THIS WELL SHALL BE DRILLED IN
ACCORDANCE WITH STATEWIDE RULE 36.
WILDCAT

5
3
4
1

PLEASE
DO NOT STAPLE

DEPTH C USABLE-QUALITY GROUND WATER TO BE PROTECTED

PLEASE READ ALL INSTRUCTIONS

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

Surface Casing - MC 151

Date 11/23/05

TCEQ File No.: SC-

2875

TCEQ

P.O. Box 13087

Austin, TX 78711-3087

John E. Scherer, Jr. 432-687-4661

Name of person preparing this request & phone No. (with area code)

Draco Energy, Inc.

Company (operator's name as on RRC form W-1)

P.O. Box 11404

Mailing Address

Midland, TX

79702

City and State

ZIP Code

FOR TCEQ USE ONLY

RECEIVED

DEC 7 2005

BY: gjs

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

COUNTY Reeves Survey Name T&P RR Co.
Block No. 56 Township 2 Section or Survey No. 28 (or) Lot No. 1
Abstract No. A- 1900 LEASE Name Trinity State "28" Well No. 1
Distances, in feet, and directions measured at right angles from each of two intersecting ☐ Section or ☐ Survey lines
(NOT LEASE LINES) 1900 feet from East line and 1667 feet from South line.
Distance (in miles) and direction from a nearby town in this County (name the town) 3 miles east of Orla

THE ABOVE INFORMATION IN THIS BLOCK MUST BE COMPLETE AND CORRECT

API # 103 51' 46.257" W RRC Lease No. 31 48' 54.421" N RRC Dist. No. 27
GPS Coord. (long/lat or X-Y state plane) 103 51' 46.257" W 31 48' 54.421" N NAD 27

Elevation 2805' Total Depth 4000' Geologic Fm. at T.D. Bell Canyon

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

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

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

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

Additional remarks: _____

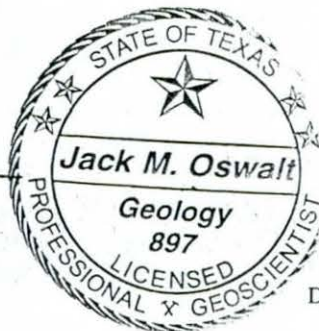
To protect usable-quality ground water at this location, the TEXAS COMMISSION ON ENVIRONMENTAL QUALITY recommends:

CO-REEVES, SUR-T&P, BLK-56, T-2, SEC-28, LSE-TRINITY STATE-28-, #37/350, RUSTLER, 450, 95...

Water-bearing strata from the land surface to a depth of 350 feet and the RUSTLER, which is estimated to occur from 450 to 950 feet must be protected.

Very truly yours,

Jack M. Oswalt, P.G.



Date

December 1, 2005

Geologist, Surface Casing, TCEQ

typed by TCEQ

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

FOLD

TYPE OR PRINT IN INK

FOLD

DO NOT WRITE HERE
FOR TCEQ USE ONLY

File No. MT 705269

Will Reports

Date Filed: 11/27/06

By Jerry E. Patterson, Commissioner

2006-11-27

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

January 24, 2007

Ralph Lea, Jr.
Tierra Exploration, Inc.
PO Box 56.
Midland, TX 79702

Re: GLO Assignment ID # 5804

Dear Mr. Lea,

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

Assignment of Oil and Gas Leases, executed October 6th, 2006
from Carmony Exploration, LLC to the assignees attached in the
attached "Exhibit A-1". Vol. 748. P. 710, Reeves Co.

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

Sincerely,

A handwritten signature in cursive script, reading "Beverly Boyd".

Beverly Boyd
Mineral Leasing
Energy Resources
512-463-6521

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

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

www.glo.state.tx.us

“Exhibit A-1”

<u>Assignees</u>	<u>Working Interest</u>	<u>Net Revenue Interest</u>
Carmony Resources, LLC 1400 Athene Drive Lafayette, Colorado 80026-1411	4.0000%	.03000000
James R. Smail, Inc. P.O. Box 1157 Wooster, Ohio 44691	10.8000%	.08100000
Buckeye Oil Producing Co. P.O. Box 129 Wooster, Ohio 44691	21.6000%	.16200000
Oxford Oil Company P.O. Box 910 Zanesville, Ohio 43702	30.0000%	.22500000
MB Oil & Gas, LLC 612 S. Market Street Canton, Ohio 44702	24.0000%	.18000000
Draco Energy, Inc. P.O. Box 11404 Midland, Texas 79702	6.7200%	.05040000
Jack Estes 2501 Highland Dr. Lamesa, Texas 79331	1.9200%	.01440000
Steve Prewit P.O. Box 1983 Midland, Texas 79702	.09600%	.00720000

Exhibit "A"

GLO ID

County

Lease

5804 Reeves

MF105269

Wednesday, January 24, 2007

5804
Tierra Exploration, Inc.
P.O. Box 56
Midland, Texas 79702

RECEIVED
07 JAN 11 AM 10:32

Phone: 432-682-1005

December 11, 2006

Mr. Drew Reid
Texas General Land Office
1700 North Congress Avenue
Austin, Texas 78701-1495

RE: Assignment of Oil and Gas Leases dated
October 2, 2006 covering SW/4, SW/4NE/4,
W/2SE/4 Section 28, Township 2, Block 56,
T&P Ry. Co. Survey, Reeves County, Texas
containing 280 acres, more or less
Relinquishment Act Lease No. MF-105269

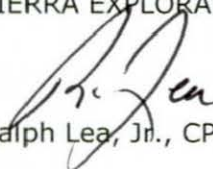
Dear Mr. Reid:

Please find enclosed a Certified Copy of the captioned Assignment from Carmony Exploration, LLC to James R. Small, Inc. et al as required by Paragraph 27(A) of these GLO leases.

Thank you for your consideration in this matter. Please call should any questions arise.

Sincerely,

TIERRA EXPLORATION, INC.


Ralph Lea, Jr., CPL

RLJr./eds
Enclosure

FILE# 5745

10-6-06

ASSIGNMENT OF OIL AND GAS LEASES

STATE OF TEXAS §
 §
 COUNTY OF REEVES §

Reference is made to the Oil and Gas Leases described on Exhibit "A" attached hereto and made a part hereof, covering the lands described in said Exhibit "A" in Reeves County, Texas

WHEREAS, said leases and all rights thereunder or incident thereto are now owned by Carmony Exploration, LLC, whose Address is 1400 Athene Drive, Lafayette, Colorado 80026-1411

NOW, THEREFORE, for and in consideration of the sum of Ten Dollars (\$10.00) cash and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Carmony Exploration, LLC does hereby grant, sell, assign and convey unto the following Assignees the respective interest indicated:

<u>Assignees</u>	<u>Working Interest</u>	<u>Net Revenue Interest</u>
Carmony Resources, LLC 1400 Athene Drive Lafayette, Colorado 80026-1411	4.0000%	.03000000
James R. Smail, Inc. P.O. Box 1157 Wooster, Ohio 44691	10.8000%	.08100000
Buckeye Oil Producing Co. P.O. Box 129 Wooster, Ohio 44691	21.6000%	.16200000
Oxford Oil Company P.O. Box 910 Zanesville, Ohio 43702	30.0000%	.22500000
MB Oil & Gas, LLC 612 S. Market Street Canton, Ohio 44702	24.0000%	.18000000
Draco Energy, Inc. P.O. Box 11404 Midland, Texas 79702	6.7200%	.05040000
Jack Estes 2501 Highland Dr. Lamesa, Texas 79331	1.9200%	.01440000
Steve Prewit P.O. Box 1983 Midland, Texas 79702	.09600%	.00720000

in and to said Oil and Gas Leases in Reeves County, Texas, together with a like interest in all personal property and leasehold equipment used or obtained in connection therewith.

Assignor warrants and covenants with Assignees that he is the owner of the interests hereby assigned and has neither disposed of nor encumbered same since acquisition thereof and will warrant

Dec 28 SW4, SW4 NE4 + W2 SE4

Dec 56 T2 280Ac
 T+P Ry Co A-2214
 Tierra Expl

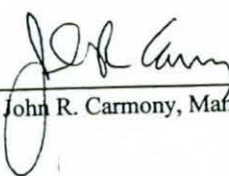


True and Correct
 copy of
 Original filed in
 Reeves County
 Clerks Office

and defend title thereto against the claims and demands of all persons claiming by, through, or under Assignor, but no further.

Dated this 2nd day of October, 2006.

Carmony Exploration, LLC

By 
John R. Carmony, Manager

STATE OF COLORADO §
 §
COUNTY OF DENVER §

The foregoing instrument as acknowledged before me on this 2nd day of October, 2006 by John R. Carmony, Manager of Carmony Exploration, LLC, a Colorado limited liability company on behalf of said company.

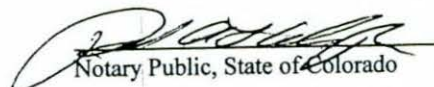

Notary Public, State of Colorado



EXHIBIT "A"

Attached to and made a part of that certain Assignment of Oil and Gas Leases dated October 2, 2006 by and between Carmony Exploration, LLC and James R. Smail, Inc., et al

<u>LESSOR</u>	<u>LESSEE</u>	<u>DATED</u>	<u>RECORDED</u>	<u>ACREAGE</u>
Bank of America, NA Trustee Under the Will of Roberta M. Regan, Individually and as Agent for the State of Texas	Tierra Exploration, Inc.	04/18/2005	OPR Volume 703 Page 709	SW/4, SW/4NE/4, W/2SE/4 Section 28, Township 2, Block 56, T&P Ry. Co. Survey, Reeves County, Texas
Gretchen C. Northrup Foundation c/o Trinity University, Individually and as Agent for the State of Texas	Tierra Exploration, Inc.	04/08/2005	OPR Volume 703 Page 721	Same as above
Trinity University, Individually and as Agent for the State of Texas	Tierra Exploration, Inc.	04/08/2005	OPR Volume 703 Page 734	Same as above
Sunshine Cottage School for Deaf Children, Individually and as Agent for the State of Texas	Tierra Exploration, Inc.	04/25/2005	OPR volume 703 Page 747	Same as above

FILE NO. 5745

FILED FOR RECORD ON THE 30TH DAY OF OCTOBER A.D. 2006 11:28 A.M.

DULY RECORDED ON THE 31ST DAY OF OCTOBER A.D. 2006 8:00 A.M.

BY: [Signature], DEPUTY

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

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



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

2011

#8

File No. MF105269

ASSIGNMENT FILED IN MF

Date Filed: 1/24/07

2/22/07

Jerry E. Patterson, Commissioner

By B. Boyd

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

The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL. 748
PAGE 711, THRU 713

OFFICIAL PUBLIC
RECORDS

I hereby certified on 11/14/2006



DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

BY Dianne Flores DEPUTY

DRACO ENERGY, INC. ✓

REFERENCE
MF-105269

DATE RECVD
04-03-2007
COMMISSIONER OF THE

WELL
TRIAC

DESC
DELAY RENTALS

TOTAL

38992

X
700.00
700.00

~~07035658~~ 07035668

121

att:
Drew Reid

File No. RF-105269

RENTAL PAYMENT

Date Filed: 8/14/07

By Jerry E. Patterson, Commissioner

FILE# 3558

5290



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

8-10-05

MF 101167

ASSIGNMENT OF OIL, GAS AND MINERAL LEASES

STATE OF TEXAS §
 §
COUNTY OF REEVES §

KNOW ALL MEN BY THESE PRESENTS:

That, **TIERRA EXPLORATION, INC.**, whose mailing address is P. O. Box 56, Midland, Texas 79702 (hereinafter called "**Assignor**"), for and in consideration of the sum of Ten Dollars (\$10.00) cash and other good and valuable consideration paid by **CARMONY EXPLORATION, LLC**, whose address is 5600 S. Alexander Court, Greenwood Village, Colorado 80121-1726 (hereinafter called "**Assignee**"), the receipt and sufficiency of which are hereby acknowledged, does, subject to the terms and provisions herein contained, hereby transfer, sell, assign and convey unto said Assignee, its successors and assigns, **ALL of Assignor's right, title and interest in and to the Oil, Gas and Mineral Leases described on Exhibit "A" attached hereto, and by reference made a part hereof, and the lands covered by such leases insofar only as such lands are described in Exhibit "A":**

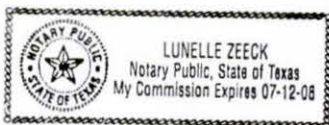
Executed on the 10th day of August, 2005.

TIERRA EXPLORATION, INC.

By: *Ralph Lea, Jr.*
Ralph Lea, Jr., President

STATE OF TEXAS §
 §
COUNTY OF MIDLAND §

This instrument was acknowledged before me on the 10th day of August, 2005 by Ralph Lea, Jr., President of Tierra Exploration, Inc., a Texas corporation, on behalf of said corporation.



Lunelle Zeeck
Notary Public in and for the
State of Texas

File No: 101167

Date Filed: 12/1/05

Jerry E. Patterson, Commissioner

By [Signature]

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

The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL. 709, PAGE 148, THRU 150 OFFICIAL PUBLIC RECORD

I hereby certified on 11-21-2005



DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

BY Norma Chavez DEPUTY
NORMA CHAVEZ

75 3.00

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

December 9, 2005

Ralph Lea, Jr
Tierra Exploration, Inc.
PO Box 56
Midland, TX 79702

RE: Assignment filing; GLO ID 5290

Dear Mr. Lea,

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

Assignment of Oil, Gas and Mineral Leases, executed August 10th, 2005, from Tierra Exploration, Inc., as Assignor, to Carmony Exploration, LLC, as Assignee. **MF101167.**

MF105269

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

Sincerely,

Beverly Boyd
Mineral Leasing
Energy Resources
512-463-6521

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

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

www.glo.state.tx.us

Exhibit "A"

<i>GLO ID</i>	<i>County</i>	<i>Lease</i>
5290	Reeves	ME101467 MF105269

Friday, December 09, 2005

TIERRA EXPLORATION, INC.

P. O. Box 56
Midland, Texas 79702

Phone: 432-682-1005

RECEIVED

05 DEC -5 PM 3:35

RECEIVED

November 30, 2005

Mr. Drew Reid
Texas General Land Office
1700 North Congress Avenue
Austin, Texas 78701-1495

RE: SW/4, SW/4NE/4, W/2SE/4, Section 28,
Township 2, Block 56, T&P Ry. Co. Survey,
Reeves County, Texas
containing 280 acres, more or less

Dear Mr. Reid:

In accordance with paragraph 27A of the four General Land Office Oil and Gas Leases covering the captioned acreage, please find enclosed a Certified Copy of that certain Assignment of Oil, Gas and Mineral Leases from Tierra Exploration, Inc. of Midland, Texas to Carmony Exploration, LLC of Greenwood Village, Colorado dated August 10, 2005.

Thank you for all of your help and cooperation in this matter. Please advise of any additional documentation or information needed.

Sincerely,

TIERRA EXPLORATION, INC.


Ralph Lea, Jr., CPL
President

RLJr./lz

905 37

File No. MF 105269

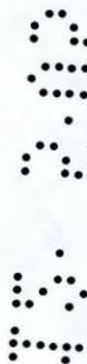
@

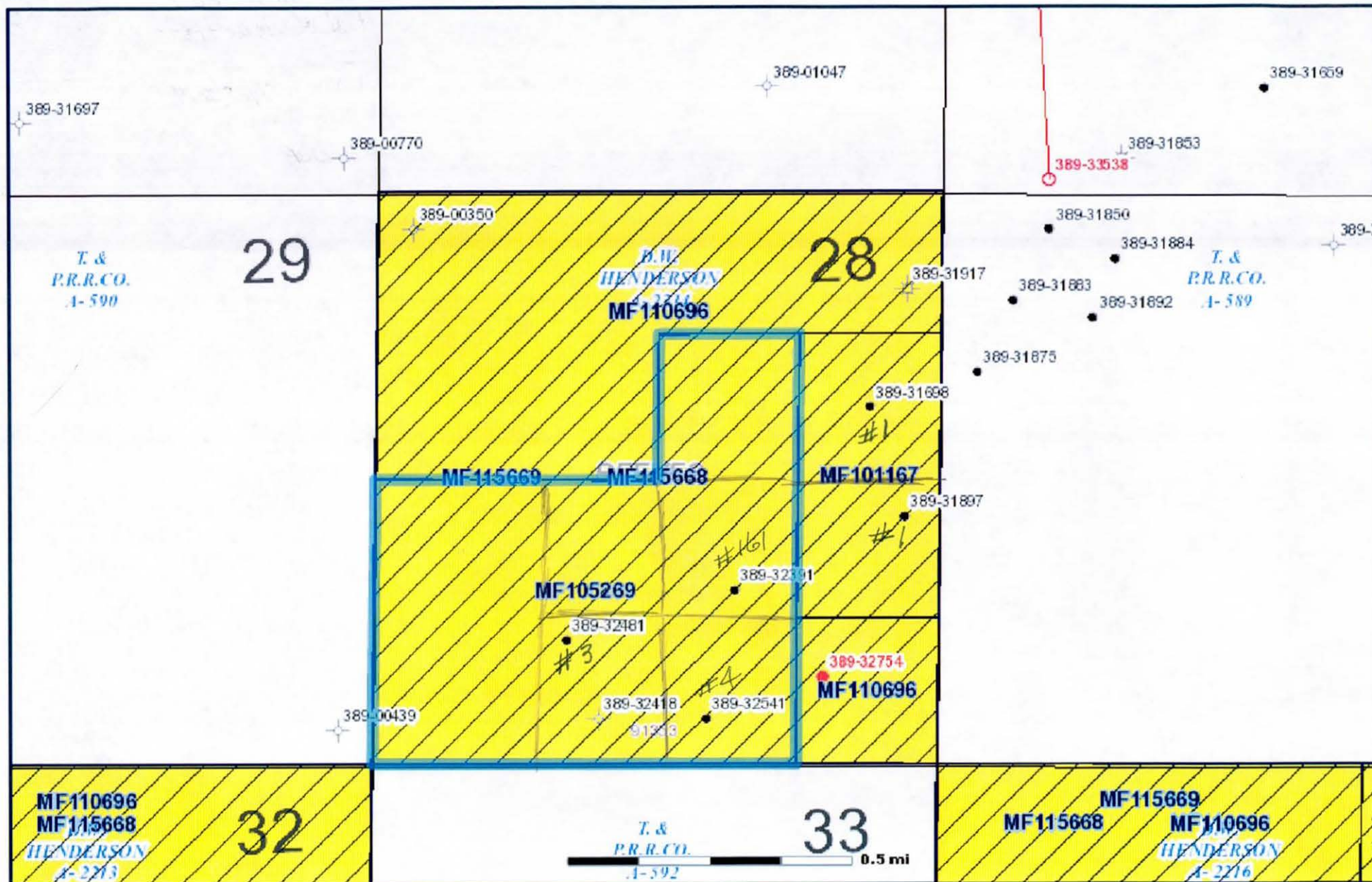
Assignment

Date Filed: 05/02/2014

Jerry E. Patterson, Commissioner

By *JEP*





MF105269

The Texas General Land Office makes no representations or warranties regarding the accuracy or completeness of the information depicted on this map or the data from which it was produced. This map is NOT suitable for navigational purposes and does not purport to depict or establish boundaries between private and public land.

Printed: Mar 28, 2014



File No. MF105269 (11)

Plat of lease tracts

Date Filed: 03/28/2014

Jerry E. Patterson, Commissioner

By JEP

RECEIVED

P. 01

RAILROAD COMMISSION OF TEXAS

APR 06 2006

Oil and Gas Division

4-4-06

BY:

Form W-2

Rev. 4/1/83

402-006

Type or print only

API No. 42-389-32391

7. RRC District No.

8

8. RRC Lease No.

Oil Well Potential Test, Completion or Recompletion Report, and Log

9. Well No.

1

1. FIELD NAME (as per RRC Records or Wildcat)

Wildcat

2. LEASE NAME

Trinity State "28"

3. OPERATOR'S NAME (Exactly as shown on Form P-5, Organization Report)

Draco Energy, Inc.

RRC Operator No.

227845

4. ADDRESS

P.O. Box 11404; Midland, TX 79702

5. If Operator has changed within last 60 days, name former operator

6a. Location (Section, Block, and Survey)

Sec 28, Blk 56 T-2, T&PRR

6b. Distance and direction to nearest town in this county.

3 miles East of Orla

12. If workover or recom, give former field (with reservoir) & gas ID or oil lease no.

FIELD & RESERVOIR

GAS ID or
OIL LEASE #Oil - O
Gas - O

WELL NO.

-011

-1

11. Purpose of filing

Initial Potential ☒Recess ☐Reclass ☐Well record only
(explain in Remarks) ☐

13. Type of electric or other log run

GR-N-D

14. Completion or recompletion date

2/25/06

SECTION I: POTENTIAL TEST DATA IMPORTANT: Test should be for 24 hours unless otherwise specified in field rules.

15. Date of test 3/05/06	16. No. of hours tested 24	17. Production method (Flowing, Gas Lift, Jetting, Pumping— Size & Type of pump) Flowing			18. Choke size 24/64"
19. Production during Test Period	Oil - BBLs 55	Gas - MCF 34	Water - BBLs 166	Gas - Oil Ratio 618	Flowing Tubing Pressure 80 PSI
20. Calculated 24- Hour Rate	Oil - BBLs 55	Gas - MCF 34	Water - BBLs 166	Oil Gravity-API-60° 39.9	Casing Pressure 0-Pkr PSI
21. Was snub used during this test? Yes ☐ No ☒		22. Oil produced prior to test (New & Reworked wells) 230			23. Injection Gas-Oil Ratio

REMARKS:

Notes: (1) - 51
(att) - no log run
(P. 7)

INSTRUCTIONS: File an original and one copy of the completed Form W-2 in the appropriate RRC District Office within 30 days after completing a well and within 10 days after a potential test. If an operator does not properly report the results of a potential test within the 10-day period, the effective date of the allowable assigned to the well will not extend back more than 10 days before the W-2 was received in the District Office. (Statewide Rules 16 and 17 apply to completion or recompletion, fill in both sides of this form. To report a retest, fill in only the front side of this form.)

MAR 22 2006

WELL TESTER'S CERTIFICATION

I declare under penalties prescribed in Sec. 91.143, Texas Natural Resources Code, that I conducted or supervised this test by observing readings or (b) the top and bottom gauges of each tank into which production was run during the test. I further certify that the potential test data shown above is true, correct, and complete, to the best of my knowledge.

Signature: Well Tester

Draco Energy, Inc.

Name of Company

RRC Representative

OPERATOR'S CERTIFICATION

I declare under penalties prescribed in Sec. 91.143, Texas Natural Resources Code, that I am authorized to make this report, that this report was prepared by me or under my supervision and direction, and that data and facts stated therein are true, correct, and complete, to the best of my knowledge.

John E. Scherer, Jr.

Typed or printed name of operator's representative

432-687-4661

3 / 20 / 06

Telephone Area Code Number

Date mo. day year

Vice President

Title of Representative

Signature

X

SECTION II DATA ON WELL COMPLETION AND LOG (Not Required on Re-test)

14. Type of Completion: ☒ New Well ☐ Deepening ☐ Plug Back ☐ Other ☐

15. Notice of Intention to Drill this well was filed in Name of **Draco Energy Inc.**

16. Number of producing wells on this lease in this field (reservoir) including this well: **1**

17. Total number of acres in this lease: **280**

18. Date Plug Back, Deepening, Workover or Drilling Operations: **1/10/06** Commenced **1/20/06** Completed **N/A**

19. Distance to nearest well, Same Lease & Reservoir: **N/A**

20. Permit to Drill, Plug Back or Deepen: **DATE 11/29/05 PERMIT NO. 610105**

21. Rule 37 Exception: **PERMIT NO.**

22. Water Injection Permit: **PERMIT NO.**

23. Salt Water Disposal Permit: **PERMIT NO.**

24. Other: **PERMIT NO.**

25. Location of well, relative to nearest lease boundaries of lease on which this well is located: **586 Feet From East Line and 1667 Feet from South Line of the Trinity State "28" Lease**

26. Elevation (DF, ROR, RT, OR, ETC.): **2805 GR**

27. Was directional survey made other than inclination (Form W-12)? ☐ Yes ☒ No

28. Top of Pay: **3223'** 29. Total Depth: **3800'** 30. P. B. Depth: **3750'** 31. Surface Casing Determined by: **Field Rules** 32. Recommendation of T.D.W.R. Railroad Commission (Special): **0-350', 450'-950'** 33. Dt. of Letter: **12/1/05**

34. Is well multiple completion? **No** 35. If multiple completion, list all reservoir names (completions in this well and Oil Lease or Gas ID No.): **FIELD & RESERVOIR** 36. GAS ID or OIL LEASE: **WELL** 37. Interval Drilled by: **10-TD** 38. Rotary Tools: **10-TD** 39. Cable Tools: **10-TD** 40. Is Cementing Affidavit Attached? ☒ Yes ☐ No

41. Name of Drilling Contractor: **Ramsey Delaware Patterson/UTI**

42. CASING RECORD (Report All Strings Set in Well)

CASING SIZE	WT #/FT.	DEPTH SET	MULTISTAGE TOOL DEPTH	TYPE & AMOUNT CEMENT (sacks)	MOLE SIZE	TOP OF CEMENT	SLURRY VOL. cu. ft.
8 5/8"	32#	1130'		1010 CI "C"	12 1/4"	Surface	1411
5 1/2"	15.5#	3800'		400 SX "C"/pcz	7 7/8"	2020'	520

43. LINER RECORD

Size	TOP	Bottom	Sacks Cement	Screen

44. TUBING RECORD

Size	Depth Set	Packer Set	From	To
2 3/8"	3104	3104	3227	3244

45. Producing Interval (this completion) indicate depth of perforation or open hole

From	To
3227	3244

46. ACID, SHOT, FRACTURE, CEMENT SQUEEZE, ETC.

Depth Interval	Amount and Kind of Material Used
3227-3244	1250 gals 7 1/2% NEFE HCL
	12,500 X-Link 2% KCL+13,750# sand

47. FORMATION RECORD (List Depths of Principal Geological Markers and Formation Tops)

Formations	Depth	Formations	Depth
Delaware	1090'		
Delaware	3180'		
Ramsey	3222'		

48. REMARKS: **Cement did not initially circulate on 8 5/8" Cas. operation temp survey. Found PVC to 405'. Down Pipe with 10-TD. Office approach for op to 1" from 398' to surface with 300 gals. on 280**

Operator/Wellbore/PDQ Results

[Print](#)OPERATOR/WELLBORE
API: 389-32391

WELLBORE STATUS	OPEN
LAST PERMIT ISSUED	610105
LAST PERMIT OPERATOR NUMBER	227845
LAST PERMIT OPERATOR	DRACO ENERGY, INC.
LAST PERMIT LEASE NAME	TRINITY STATE "28"
TOTAL DEPTH	3800
SURFACE LOCATION	Land
ABSTRACT	
SURVEY	T&P RR CO
BLOCK	56 T2
SECTION	28
DISTANCE 1	1900
DIRECTION 1	E
DISTANCE 2	1667
DIRECTION 2	S

[Oil/Gas Imaged Records for API: 389-32391](#)

COMPLETION INFORMATION

PRORATION SCHEDULE	OIL
DISTRICT	08
LEASE/ID	37754
OPERATOR NUMBER	227845
OPERATOR	DRACO ENERGY, INC.
LEASE NAME	TRINITY STATE "28"
FIELD	SAND BEND DRAW (RAMSEY)
WELL NUMBER	161
TYPE WELL	PRODUCING
ON SCHEDULE	YES

[Production Data Query\(PDQ\)](#)[Oil/Gas Imaged Records for Lease/ID: 37754](#)

PLUGGING INFORMATION

DATE PLUGGED	
PLUG DEPTH	
PLUGGING OPERATOR	
PLUGGED LEASE	

File No. MF 105269 (12)

Well records: 42-389-32 391

Date Filed: 03/28/2014

Jerry E. Patterson, Commissioner

By JP

RECEIVED
DRILLING INFORAILROAD COMMISSION OF TEXAS
OIL AND GAS DIVISIONFORM W-3
Rev. 12.92 (99)

AUG 24 2006

RAILROAD COMMISSION

API No. (if available)

42-389-32418

1. RRC District

8

FILE IN DUPLICATE WITH DISTRICT OFFICE OF DISTRICT IN WHICH
WELL IS LOCATED WITHIN THIRTY DAYS AFTER PLUGGING

4. RRC Lease or ID

Number 37754-11

2. FIELD NAME (as per RRC Records)

Wildcat

3. Lease Name

Trinity State "28"

5. Well Number

42

6. OPERATOR

Draco Energy, Inc

6a. Original form W-1's filed in name of:

Draco Energy, Inc

10. County

Reeves

7. ADDRESS

P.O. Box 11404 Midland, TX

6b. Any subsequent W-1's filed in name of:

11. Date Drilling Permit Issued

5/08/2006

8. Location of well, relative to nearest lease boundaries
of lease on which this well is located1841 feet from East line and 467 feet from
South line of the Trinity State "28" lease

12. Permit Number

618865

9a. SECTION, BLOCK and SURVEY

Sec 28, Blk 56 T-2 T&P RR

9b. Distance and direction from nearest town in this county

3 Miles East of Orla

13. Date Drilling Commenced

5/27/06

16. Type Well (oil, gas,
or dry) DryTotal Depth
3457

If multiple completion list all field names and oil lease or gas id no.'s

Gas ID or
Oil Lease #Oil - O
Gas - G

Well #

14. Date Drilling Completed

6/05/06

18. If gas, amt. of cond. on
hand at time of plugging

15. Date Well Plugged

6/05/06

CEMENTING TO PLUG AND ABANDON DATA:

	PLUG #1	PLUG #2	PLUG #3	PLUG #4	PLUG #5	PLUG #6	PLUG #7	PLUG #8
*19. Cementing Date	6/4/2006	6/4/2006	6/4/2006	6/4/2006	6/4/2006	6/4/2006		
20. Size of Hole or Pipe in which Plug Placed (inches)	7 7/8"	7 7/8"	8 5/8"	8 5/8"	8 5/8"	8 5/8"		
21. Depth to Bottom of Tubing or Drill Pipe (ft.)	3200'	1270'	1000'	500'	15			
*22. Sacks of Cement Used (each plug)	60	60	35	65	15			
*23. Slurry Volume Pumped (cu. ft.)	79.8	79.8	46.5	86.5	19.9			
*24. Calculated top of Plug (ft.)	2964'	1034'	864'	247'	Surface			
25. Measured Top of Plug (if tagged) (ft.)			850'					
*26. Slurry Wt. #/Gal.	14.8	14.8	14.8	14.8	14.8			
*27. Type Cement	C Neat	C Neat	C+2% CC	C Neat	C+2% CC			

28. CASING AND TUBING RECORDS AFTER PLUGGING

SIZE	WT. #/FT.	PUT IN WELL (ft.)	LEFT IN WELL (ft.)	HOLE SIZE (in.)
8 5/8	32	1220	1220	12 1/4

29. Was any non-drillable material (other than casing) left in this well? ☐ Yes ☒ No29a. If answer to above is "Yes" state depth to top of "junk" left in hole and briefly
describe non-drillable material. (use reverse side of form if more space is needed.)

30. LIST ALL OPEN HOLE AND/OR PERFORATED INTERVALS

FROM	1220	TO	3457
FROM		TO	
FROM		TO	
FROM		TO	
FROM		TO	

FROM	TO
FROM	TO
FROM	TO
FROM	TO
FROM	TO

I have knowledge that the cementing operations, as reflected by the information found in this form, were performed as indicated by such information.

* Designates items to be completed by Cementing Company. Items not so designated shall be completed by operator.

Signature of Cementer or Authorized Representative

BJ Services

Name of Cementing Company

RECORDS

CERTIFICATE:

I declare under penalties prescribed in Sec. 91.143, Texas Natural Resources Code, that I am authorized to make this report, that this report was
prepared by me or under my supervision and direction, and that data and facts stated therein are true, correct, and complete, to the best of my
knowledge.

REPRESENTATIVE OF COMPANY

V-P
TITLE7/25/06
DatePHONE 432
A/C687-4661
NUMBER

SIGNATURE: REPRESENTATIVE OF RAILROAD COMMISSION

31. Was well filled with mud-laden fluid, according to the regulations of the Railroad Commission? ☒ Yes ☐ No		32. How was mud applied? DP	33. Mud 10.2
34. Total Depth 3457	Other Fresh Water Zones by T.D.W.R. TOP 450 BOTTOM 950	35. Have all abandoned wells on this lease been plugged according to R R C Rules? ☒ Yes ☐ No	
Depth of Deepest Fresh Water 350		36. If No, Explain 	
37. Name and address of cementing company who mixed and pumped cement plugs in this well BJ Services Odessa TX			Date RRC District Office notified of plugging 6/04/06
38. Names(s) and address(es) of surface owners of well site Texas Pacific Land Trust 1700 Pacific Avenue Suite 1670 Dallas TX 75201			
39. Was notice given before plugging to the above? Yes			
FILL IN BELOW FOR DRY HOLES ONLY			
40. For dry holes, this form must be accompanied by either a driller's, electric, radioactivity, or acoustical/sonic log or such log must be released to a commercial log service.			
☒ Log Attached Type Logs: ☐ Log released to _____ Date _____ ☐ Driller's ☐ Electric ☒ Radioactivity ☐ Acoustical / Sonic			
41. Date FORM P-8 (Special Clearance) filed: _____			
42. Amount of oil produced prior to plugging _____ bbls* File FORM P-1 (Oil Production Report) for month this oil was produced			
R R C USE ONLY			
Nearest field _____			

REMARKS

File No. MF105269

(13)

Well Records: 42-389-32418

Date Filed: 03/28/2014

Jerry E. Patterson, Commissioner

By JEP

MPH

RAILROAD COMMISSION OF TEXAS
Oil and Gas DivisionForm W-2
Rev. 4/1/83
483-048

Type or print only

API No. 42-389-32481

Oil Well Potential Test, Completion or Recompletion Report, and Log				7. RRC District No. 8
1. FIELD NAME (as per RRC Records or Wildcat) Sand Bend Draw (Ramsey)				8. RRC Lease No. 37754
2. LEASE NAME Trinity State "28"		9. Well No. 3		10. County of well site Reeves
3. OPERATOR'S NAME (Exactly as shown on Form P-5, Organization Report) Draco Energy, Inc.		RRC Operator No. 227845		11. Purpose of filing Initial Potential ☒ Retest ☐ Reclass ☐ Well record only (explain in Remarks) ☐
4. ADDRESS P.O. Box 11404 Midland, TX 79702				
5. If Operator has changed within last 60 days, name former operator				
6a. Location (Section, Block and Survey) Section 28, Blk 56 T2, T&P RR Co.		6b. Distance and direction to nearest town in this county. 3 miles East of Orla		
12. If workover or reclass, give former field (with reservoir) # gas ID or oil lease no. FIELD # RESERVOIR		GAS ID or OIL LEASE #	OIL - O Gas - G	WELL NO.
13. Type of electric or other log run GR-N-D DLL		14. Completion or recompletion date 12/29/07		

SECTION I: POTENTIAL TEST DATA IMPORTANT: Test should be for 24 hours unless otherwise specified in field rules.

15. Date of test 1/05/08	16. No. of hours tested 24	17. Production method (Flowing, Gas Lift, Jetting, Pumping— Size # Type of pump) Flowing		18. Choice size 10/64"
19. Production during Test Period	Oil - BBLS 6.2	Gas - MCF 7	Water - BBLS 64	Gas - Oil Ratio 1129
20. Calculated 24- Hour Rate	Oil - BBLS	Gas - MCF	Water - BBLS	Oil Gravity—API—60° 40.2
21. Was swab used during this test? Yes ☐ No ☒	22. Oil produced prior to test (New # Reworked wells) 19		23. Injection Gas—Oil Ratio	

REMARKS:

RECEIVED
CENTRAL RECORDS

FEB 28 2008

RECEIVED
RRC OF TEXAS

JAN 09 2008

INSTRUCTIONS: File an original and one copy of the completed Form W-2 in the appropriate RRC District Office within 30 days after completing a well and within 10 days after a potential test. If an operator does not properly report the results of a potential test within the 10-day period, the effective date of the allowable assigned to the well will not extend back more than 10 days before the W-2 was received in the District Office. (Statewide Rules 16 and 51) To report a completion or recompletion, fill in both sides of this form. To report a retest, fill in only the front side.

WELL TESTER'S CERTIFICATION

I declare under penalties prescribed in Sec. 91.143, Texas Natural Resources Code, that I conducted or supervised this test by observation of (a) meter readings or (b) the top and bottom gauges of each tank into which production was run during the test. I further certify that the potential test data shown above is true, correct, and complete, to the best of my knowledge.

Signature: Well Tester

Draco Energy, Inc.

Name of Company

RRC Representative

OPERATOR'S CERTIFICATION

I declare under penalties prescribed in Sec. 91.143, Texas Natural Resources Code, that I am authorized to make this report, that this report was prepared by me or under my supervision and direction, and that data and facts stated therein are true, correct, and complete, to the best of my knowledge.

John E. Scherer, Jr.

President

Typed or printed name of operator's representative

Title of Person

432-687-4661

1 / 08 / 08

Telephone: Area Code Number

Date: mo. day year

Signature

SECTION II DATA ON WELL COMPLETION AND LOG (Not Required on Retest)									
24. Type of Completion: New Well ☒ Deepening ☐ Plug Back ☐ Other ☐					25. Permit to Drill, Plug Back or Deepen DATE 7/10/2007 PERMIT NO. 641561				
26. Notice of Intention to Drill this well was filed in Name of Draco Energy, Inc.					Rule 37 Exception Water Injection Permit Salt Water Disposal Permit Other PERMIT NO.				
27. Number of producing wells on this lease in this field (reservoir) including this well 2			28. Total number of acres in this lease 280						
29. Date Plug Back, Deepening, WorkOver or Drilling Operations: Commenced OK 08/08/07 Completed 8-19-07 3-20-07		30. Distance to nearest well, Same Lease # Reservoir 1631'							
31. Location of well, relative to nearest lease boundaries of lease on which this well is located 1200 Feet From South Line and 1800 Feet from West Line of the Trinity State "28" Lease					32. Elevation (DF, RKB, KT, GR, ETC.) 2801' GR 2811' RKB				
33. Was directional survey made other than inclination (Form W-12)? ☐ Yes ☒ No					34. Top of Pay 3216' 35. Total Depth 3420' 36. P. B. Depth 3266' 37. Surface Casing Determined by: Field Rules ☐ Recommendation of T.D.W.R. Railroad Commission (Special) ☒				
38. Is well multiple completion? No		39. If multiple completion, list all reservoir names (completions in this well) and Oil Lease or Gas ID No. FIELD # RESERVOIR			40. Intervals Drilled by: Rotary Cable Tools 10-TD		41. Name of Drilling Contractor United Drilling		
					42. Is Cementing Affidavit Attached? ☒ Yes ☐ No				
43. CASING RECORD (Report All Strings Set in Well)									
CASING SIZE	WT #/FT.	DEPTH SET	MULTISTAGE TOOL DEPTH	TYPE # AMOUNT CEMENT (sacks)	HOLE SIZE	TOP OF CEMENT	SLURRY VOL cu. ft.		
8 5/8"	32#	1304'		1025 sx C	12 1/4"	Surface	1742		
5 1/2"	15.5#	3418'		300 sx C	7 7/8"	2160'	390		
44. LINER RECORD									
Size	TOP	Bottom	Sacks Cement	Screen					
45. TUBING RECORD									
Size	Depth Set	Packer Set	46. Producing Interval (this completion) Indicate depth of perforation or open hole						
2 3/8"	3101'		From 3216' To 3219'						
			From To						
			From To						
47. ACID, SHOT, FRACTURE, CEMENT SQUEEZE, ETC.									
Depth Interval					Amount and Kind of Material Used				
3279-91' 24 holes					1500 gals 10% NEFE acid				
3266' Cement Retainer /					Squeeze w/ 75 sx Cl "C" cement				
3216-19' 9 holes					1000 gals 7 1/2% acid + 15,000 gal+15,000# frac				
48. FORMATION RECORD (LIST DEPTHS OF PRINCIPAL GEOLOGICAL MARKERS AND FORMATION TOPS)									
Formations	Depth	Formations	Depth						
Bell Canyon	3174'								
Ramsey Sand	3216'								

REMARKS

FEB 12 2008

VALID PERMIT

641561

Operator/Wellbore/PDQ Results

[Print](#)

OPERATOR/WELLBORE

API: 389-32481

WELLBORE STATUS	OPEN
LAST PERMIT ISSUED	641561
LAST PERMIT OPERATOR NUMBER	227845
LAST PERMIT OPERATOR	DRACO ENERGY, INC.
LAST PERMIT LEASE NAME	TRINITY STATE "28"
TOTAL DEPTH	3420
SURFACE LOCATION	Land
ABSTRACT	
SURVEY	
BLOCK	
SECTION	
DISTANCE 1	
DIRECTION 1	
DISTANCE 2	
DIRECTION 2	

[Oil/Gas Imaged Records for API: 389-32481](#)

COMPLETION INFORMATION

PRORATION SCHEDULE	OIL
DISTRICT	08
LEASE/ID	37754
OPERATOR NUMBER	227845
OPERATOR	DRACO ENERGY, INC.
LEASE NAME	TRINITY STATE "28"
FIELD	SAND BEND DRAW (RAMSEY)
WELL NUMBER	3
TYPE WELL	PRODUCING
ON SCHEDULE	YES

[Production Data Query\(PDQ\)](#)[Oil/Gas Imaged Records for Lease/ID: 37754](#)

PLUGGING INFORMATION

DATE PLUGGED	
PLUG DEPTH	
PLUGGING OPERATOR	
PLUGGED LEASE	

File No. MF 105269

Ukll Records: 42-389-32481

Date Filed: 03/28/2014

Jerry E. Patterson, Commissioner

By JEP

RECEIVED
CENTRAL RECORDS
OCT 13 2010
AUSTIN, TEXAS

RAILROAD COMMISSION OF TEXAS
Oil and Gas Division

Type or print only

Form W-2
Rev. 4/1/83
483-046

API No. **42-389-32541**

7. RRC District No.
8

Oil Well Potential Test, Completion or Recompletion Report, and Log

8. RRC Lease No.
37754

1. FIELD NAME (as per RRC Records or Wildcat)
Sand Bend Draw (Ramsey)

2. LEASE NAME
Trinity State "28"

9. Well No.
4

3. OPERATOR'S NAME (Exactly as shown on Form P-5, Organization Report)
Draco Energy, Inc.

RRC Operator No.
227845

10. County of well site
Reeves

4. ADDRESS
P.O. Box 11404 Midland, TX 79702

11. Purpose of filing
Initial Potential ☒

5. If Operator has changed within last 60 days, name former operator

Retest ☐

6a. Location (Section, Block, and Survey)
Sec. 28, Blk 56, T&P RR Co.

6b. Distance and direction to nearest town in this county.
3 miles East from Orla

Reclass ☐

12. If workover or reclass, give former field (with reservoir) & gas ID or oil lease no.
FIELD & RESERVOIR

GAS ID or
OIL LEASE #

OIL - O
Gas - G

WELL NO.

Well record only
(explain in Remarks) ☐

13. Type of electric or other log run
GR-N-D and DLL

14. Completion or recompletion date
2/9/10

SECTION I: POTENTIAL TEST DATA IMPORTANT: Test should be for 24 hours unless otherwise specified in field rules.

15. Date of test 3/16/10	16. No. of hours tested 24	17. Production method (Flowing, Gas Lift, Jetting, Pumping— Size & Type of pump) Flowing		18. Choke size 10/64"	
19. Production during Test Period	Oil - BBLS 26	Gas - MCF 25	Water - BBLS 18	Gas - Oil Ratio 962	Flowing Tubing Pressure 80 PSI
20. Calculated 24- Hour Rate	Oil - BBLS 26	Gas - MCF 25	Water - BBLS 18	Oil Gravity—API—60° 39.6	Casing Pressure 0 PSI
21. Was swab used during this test? Yes ☐ No ☒		22. Oil produced prior to test (New & Reworked wells) 1139 bbls		23. Injection Gas—Oil Ratio	

REMARKS:

INSTRUCTIONS: File an original and one copy of the completed Form W-2 in the appropriate RRC District Office within 30 days after completing a well and within 10 days after a potential test. If an operator does not properly report the results of a potential test within the 10-day period, the effective date of the allowable assigned to the well will not extend back more than 10 days before the W-2 was received in the District Office. (Statewide Rules 16 and 51) To report a completion or recompletion, fill in both sides of this form. To report a retest, fill in only the front side.

WELL TESTER'S CERTIFICATION

I declare under penalties prescribed in Sec. 91.143, Texas Natural Resources Code, that I conducted or supervised this test by observation of (a) meter readings or (b) the top and bottom gauges of each tank into which production was run during the test. I further certify that the potential test data shown above is true, correct, and complete, to the best of my knowledge.

Lon Estes **Draco Energy, Inc.**

Signature: Well Tester

Name of Company

RRC Representative

OPERATOR'S CERTIFICATION

I declare under penalties prescribed in Sec. 91.143, Texas Natural Resources Code, that I am authorized to make this report, that this report was prepared by me or under my supervision and direction, and that data and facts stated therein are true, correct, and complete, to the best of my knowledge.

John E. Scherer, Jr.

President

Typed or printed name of operator's representative

432-687-4661

04 / 12 / 10

Telephone: Area Code Number

Date: mo. day year

Title of Person

Signature

MAPPING

RECEIVED
RAILROAD COMMISSION OF TEXAS
JUN 30 2010
O&G
MIDLAND

SECTION II		DATA ON WELL COMPLETION AND LOG (Not Required on Retest)					
24. Type of Completion:		New Well ☒ Deepening ☐ Plug Back ☐ Other ☐				25. Permit to Drill, Plug Back or Deepen DATE 5/21/2008 PERMIT NO. 661079	
26. Notice of Intention to Drill this well was filed in Name of		Draco Energy, Inc.				Rule 37 Exception CASE NO.	
27. Number of producing wells on this lease in this field (reservoir) including this well		28. Total number of acres in this lease		29. Date Plug Back, Deepening, WorkOver or Drilling Operations:		30. Distance to nearest well, Same Lease & Reservoir	
3		280		1/4/10 1/12/10		1231'	
31. Location of well, relative to nearest lease boundaries of lease on which this well is located		836 Feet From East Line and 467 Feet from South Line of the Trinity State "28" Lease					
32. Elevation (DF, RKB, RT, GR, ETC.)		2811'					
33. Was directional survey made other than inclination (Form W-12)?		☐ Yes ☒ No					
34. Top of Pay	35. Total Depth	36. P. B. Depth	37. Surface Casing Determined by:	Field ☐ Rules ☐	Recommendation of T.D.W.R. ☐ Railroad Commission (Special) ☒		Dt. of Letter
3217'	3450'	3414'					7/18/08
38. Is well multiple completion?		39. If multiple completion, list all reservoir names (completions in this well) and Oil Lease or Gas ID No.				40. Intervals Drilled by:	
No		FIELD & RESERVOIR				Rotary Tools Cable Tools	
41. Name of Drilling Contractor		42. Is Cementing Affidavit Attached?					
Eagle Rock Drilling		☒ Yes ☐ No					
43. CASING RECORD (Report All Strings Set in Well)							
CASING SIZE	WT #/FT.	DEPTH SET	MULTISTAGE TOOL DEPTH	TYPE & AMOUNT CEMENT (sacks)	HOLE SIZE	TOP OF CEMENT	SLURRY VOL. cu. ft.
8 5/8"	24	1253'	975	950 sks "C"	12 1/4"	sfc	1644
5 1/2"	15.5	3450'	350	345 sks "C"	7 7/8"	1150'	570
44. LINER RECORD							
Size	TOP	Bottom	Sacks Cement	Screen			
45. TUBING RECORD							
Size	Depth Set	Packer Set	46. Producing Interval (this completion) Indicate depth of perforation or open hole				
2 7/8"	3113'	3119'	From 3216'	To 3235'			
			From	To			
			From	To			
			From	To			
47. ACID, SHOT, FRACTURE, CEMENT SQUEEZE, ETC.							
Depth Interval			Amount and Kind of Material Used				
Perforate 3216-3235'							
48. FORMATION RECORD (LIST DEPTHS OF PRINCIPAL GEOLOGICAL MARKERS AND FORMATION TOPS)							
Formations	Depth	Formations	Depth				
Deleware Lime	3174'	Olds Sand	3250'				
Deleware Sand	3198'						
Ramsey Sand	3217'						
REMARKS							

0102 17 SEP
 661079
 VALID PERMIT

Operator/Wellbore/PDQ Results

[Print](#)

OPERATOR/WELLBORE

API: 389-32541

WELLBORE STATUS	OPEN
LAST PERMIT ISSUED	661079
LAST PERMIT OPERATOR NUMBER	227845
LAST PERMIT OPERATOR	DRACO ENERGY, INC.
LAST PERMIT LEASE NAME	TRINITY STATE "28"
TOTAL DEPTH	3450
SURFACE LOCATION	Land
ABSTRACT	
SURVEY	
BLOCK	
SECTION	
DISTANCE 1	
DIRECTION 1	
DISTANCE 2	
DIRECTION 2	

[Oil/Gas Imaged Records for API: 389-32541](#)

COMPLETION INFORMATION

PRORATION SCHEDULE	OIL
DISTRICT	08
LEASE/ID	37754
OPERATOR NUMBER	227845
OPERATOR	DRACO ENERGY, INC.
LEASE NAME	TRINITY STATE "28"
FIELD	SAND BEND DRAW (RAMSEY)
WELL NUMBER	4
TYPE WELL	PRODUCING
ON SCHEDULE	YES

[Production Data Query\(PDQ\)](#)[Oil/Gas Imaged Records for Lease/ID: 37754](#)

PLUGGING INFORMATION

DATE PLUGGED	
PLUG DEPTH	
PLUGGING OPERATOR	
PLUGGED LEASE	

File No. MF105269

(15)

Well Records: 42-389-32541

Date Filed: 03/28/2014

Jerry E. Patterson, Commissioner

By JEP

**CERTIFICATE OF COMPLIANCE
AND TRANSPORTATION AUTHORITY**

READ INSTRUCTIONS ON BACK

P-4
5/02
www-1

1. Field name exactly as shown on proration schedule SAND BEND DRAW		2. Lease name as shown on proration schedule TRINITY STATE "28"					
3. Current operator name exactly as shown on P-5 Organization Report Draco Energy, Incorporated		4. Operator P-5 no. 227845	5. Oil Lse/Gas ID no. 37754	6. County REEVES	7. RRC district 08		
8. Operator address including city, state, and zip code P O BOX 11404 Midland, Texas 79702		9. Well no(s) (see instruction E)					
		10. Classification ☒ Oil ☐ Gas ☐ Other (see instruction A)			11. Effective Date 7/1/2011		
12. Purpose of Filing (Complete section a or b below.) (See instructions B and G) a. Change of: ☐ operator ☒ oil or condensate gatherer ☐ gas gatherer ☐ gas purchaser ☐ gas purchaser system code ☐ field name from: _____ ☐ lease name from: _____ OR b. New RRC Number for: ☐ oil lease ☐ gas well ☐ other well (specify) _____ Due to: ☐ new completion or recompletion ☐ reclass oil to gas ☐ reclass gas to oil ☐ consolidation, unitization, or subdivision (oil lease only)							
13. Authorized GAS WELL GAS or CASINGHEAD GAS Gatherer(s) and/or Purchaser(s). (See instruction G).							
Gatherer	Purchaser	Name of GAS WELL GAS or CASINGHEAD GAS Gatherer(s) or Purchaser(s) As Indicated in Columns to the Left (Attach an additional sheet in same format if more space is needed)			Purchaser's RRC Assigned System Code	Percent of Take	Full-well stream
		RECEIVED RRC OF TEXAS JUN 30 2011 O&G AUSTIN TX					
14. Authorized OIL or CONDENSATE Gatherer(s). (See instruction G).							
Name of OIL or CONDENSATE Gatherer(s) - List Highest Volume Gatherer First (Attach an additional sheet in same format if more space is needed)				Percent of Take	RRC USE ONLY Reviewer's initials: AKM Approval date: 7/14/11		
PERMIAN CRUDE TRANSPORT. LP				100			
15. PREVIOUS OPERATOR CERTIFICATION FOR CHANGE OF OPERATOR P-4 FILING. Being the PREVIOUS OPERATOR, I certify that operating responsibility for the well(s) designated in this filing, located on the subject lease has been transferred in its entirety to the above named Current Operator. I understand, as Previous Operator, that designation of the above named operator as Current Operator is not effective until this certificate is approved by the Commission.							
Name of Previous Operator		Signature					
Name (print)		☐ Authorized Employee of previous operator ☐ Authorized agent of previous operator (see instruction G)					
Title		Date		Phone with area code			
16. CURRENT OPERATOR CERTIFICATION. By signing this certificate as the Current Operator, I certify that all statements on this form are true and correct and I acknowledge responsibility for the regulatory compliance of the subject lease including plugging of well(s) pursuant to Rule 14. I further acknowledge that I assume responsibility for the physical operation, control, and proper plugging of each well designated in this filing. I also acknowledge that I will remain designated as the Current Operator until a new certificate designating a new Current Operator is approved by the Commission.							
John E Scherer, Jr.		Signature					
President		☒ Authorized Employee of current operator ☐ Authorized agent of current operator (see instruction G)					
E-mail Address (optional)		Date 6/30/2011		Phone with area code 432-687-4641			

File No. MF 105269

(16)

P-4 Draco Energy

Date Filed: 03/28/2014

Jerry E. Patterson, Commissioner

By JEP

DrillingInfo One-Page Production Summary



[Tag This Element](#)

API# 42-389-32391
 Well# 1
 Lease TRINITY STATE "28"
 Field SAND BEND DRAW (RAMSEY)
 Lease DRACO ENERGY, INC.
 Operator [Well Op History](#)
 County Reeves
 State Texas
 Location 1900.0 E / 1667.0 S, T&P RR CO/CAMP, J C
 A-1308 Block:56T2S Section:28
 Elevation 2805 GR
 Date Spud --
 Date TD --
 Logs Run

Prod.	First Production	Most Recent Production	Cumulative (MCF & BBL)	Gravity (SG & API)	Gatherer
Oil	3/1/06	2/1/14	69,873	0.00	PERMT
Gas	3/1/06	2/1/14	145,733	0.00	REGEF

Most Recently Reported Monthly Production (12 Months)

Mo/Yr	Gas (MCF)					Oil (BBL)				Water (BW)	#Wells Flowing	#Wells Other	Avg Gas (MCF/D)	Avg Oil (BBL/D)	Avg Wtr (BW/D)
	Produced	Sold	Used	Vented/Flared	Other	Produced	Sold	Other	Closing						
3/2013	2,062	0	0	2,062	0	917	542	0	569	0	1	1	33.26	14.79	0.00
4/2013	2,013	0	0	2,013	0	895	1,127	0	337	0	1	1	33.55	14.92	0.00
5/2013	1,766	0	0	1,766	0	785	935	0	187	0	1	1	28.48	12.66	0.00
6/2013	1,788	0	0	1,788	0	795	757	0	225	0	1	1	29.80	13.25	0.00
7/2013	2,217	0	0	2,217	0	859	939	0	145	0	1	2	23.84	9.24	0.00
8/2013	2,292	0	0	2,292	0	888	759	0	274	0	1	2	24.65	9.55	0.00
9/2013	2,166	0	0	2,166	0	839	754	0	359	0	1	2	24.07	9.32	0.00
10/2013	2,328	0	0	2,328	0	902	955	0	306	0	1	2	25.03	9.70	0.00
11/2013	1,690	0	0	1,690	0	655	752	0	209	0	1	2	18.78	7.28	0.00
12/2013	1,924	0	0	1,924	0	746	770	0	185	0	1	2	20.69	8.02	0.00
1/2014	1,578	0	0	1,578	0	612	568	0	229	0	1	2	16.97	6.58	0.00
2/2014	2,080	0	0	2,080	0	807	553	0	483	0	1	2	24.76	9.61	0.00
Totals	23,904	0	0	23,904	0	9,700	9,411	0	3,508	0	---	---	---	---	---

Annual Production

Year	Gas (MCF)	Oil (BBL)	Water (BW)	#Wells Flowing	#Wells Other	Avg Gas (MCF/D)	Avg Oil (BBL/D)	Avg Wtr (BW/D)	Annual Dec. Gas	Annual Dec. Oil
2006	12,425	8,701	---	1	---	40.87	28.62	0.00	---	---
2007	8,798	5,808	---	1	---	24.12	15.92	0.00	29.2%	33.2%
2008	13,309	5,575	---	2	---	18.24	7.64	0.00	---	4.0%
2009	14,196	6,387	---	2	2	9.73	4.38	0.00	---	---
2010	23,259	11,766	---	1	2	21.25	10.75	0.00	---	---
2011	23,130	10,070	---	1	2	21.13	9.20	0.00	0.6%	14.4%
2012	22,404	9,950	---	1	2	20.47	9.09	0.00	3.1%	1.2%
2013	24,554	10,197	---	1	2	22.44	9.32	0.00	---	---
2014	3,658	1,419	---	1	2	20.05	7.78	0.00	85.1%	86.1%
Totals	145,733	69,873	---	---	---	---	---	---	---	---

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File No. MF105269 (17)

Production Report: 42-389-32391

Date Filed: 05/01/2014

Jerry E. Patterson, Commissioner

By JP

DrillingInfo One-Page Production Summary



Tag This
Element

API# 42-389-32481
Well# 3
Lease TRINITY STATE "28"
Field SAND BEND DRAW (RAMSEY)
Lease DRACO ENERGY, INC.
Operator [Well Op History](#)
County Reeves
State Texas
Location 1200.0 S / 1800.0 W,
Elevation 2811 KB
Date Spud --
Date TD --
Logs Run GR-N-D,DLL,

	First Production	Most Recent Production	Cumulative (MCF & BBL)	Gravity (SG & API)	Gatherer
Oil	3/1/06	2/1/14	69,873	0.00	PERMT
Gas	3/1/06	2/1/14	145,733	0.00	REGEF

Most Recently Reported Monthly Production (12 Months)

Mo/Yr	Gas (MCF)					Oil (BBL)				Water (BW)	# Wells Flowing	# Wells Other	Avg Gas (MCF/D)	Avg Oil (BBL/D)	Avg Wtr (BW/D)
	Produced	Sold	Used	Vented/Flared	Other	Produced	Sold	Other	Closing						
3/2013	2,062	0	0	2,062	0	917	542	0	569	0	1	1	33.26	14.79	0.00
4/2013	2,013	0	0	2,013	0	895	1,127	0	337	0	1	1	33.55	14.92	0.00
5/2013	1,766	0	0	1,766	0	785	935	0	187	0	1	1	28.48	12.66	0.00
6/2013	1,788	0	0	1,788	0	795	757	0	225	0	1	1	29.80	13.25	0.00
7/2013	2,217	0	0	2,217	0	859	939	0	145	0	1	2	23.84	9.24	0.00
8/2013	2,292	0	0	2,292	0	888	759	0	274	0	1	2	24.65	9.55	0.00
9/2013	2,166	0	0	2,166	0	839	754	0	359	0	1	2	24.07	9.32	0.00
10/2013	2,328	0	0	2,328	0	902	955	0	306	0	1	2	25.03	9.70	0.00
11/2013	1,690	0	0	1,690	0	655	752	0	209	0	1	2	18.78	7.28	0.00
12/2013	1,924	0	0	1,924	0	746	770	0	185	0	1	2	20.69	8.02	0.00
1/2014	1,578	0	0	1,578	0	612	568	0	229	0	1	2	16.97	6.58	0.00
2/2014	2,080	0	0	2,080	0	807	553	0	483	0	1	2	24.76	9.61	0.00
Totals	23,904	0	0	23,904	0	9,700	9,411	0	3,508	0	---	---	---	---	---

Annual Production

Year	Gas (MCF)	Oil (BBL)	Water (BW)	# Wells Flowing	# Wells Other	Avg Gas (MCF/D)	Avg Oil (BBL/D)	Avg Wtr (BW/D)	Annual Dec. Gas	Annual Dec. Oil
2006	12,425	8,701	---	1	---	40.87	28.62	0.00	---	---
2007	8,798	5,808	---	1	---	24.12	15.92	0.00	29.2%	33.2%
2008	13,309	5,575	---	2	---	18.24	7.64	0.00	---	4.0%
2009	14,196	6,387	---	2	2	9.73	4.38	0.00	---	---
2010	23,259	11,766	---	1	2	21.25	10.75	0.00	---	---
2011	23,130	10,070	---	1	2	21.13	9.20	0.00	0.6%	14.4%
2012	22,404	9,950	---	1	2	20.47	9.09	0.00	3.1%	1.2%
2013	24,554	10,197	---	1	2	22.44	9.32	0.00	---	---
2014	3,658	1,419	---	1	2	20.05	7.78	0.00	85.1%	86.1%
Totals	145,733	69,873	---	---	---	---	---	---	---	---

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File No. ME105269

(18)

Production Report: 42-389-32481

Date Filed: 05/01/2014

Jerry E. Patterson, Commissioner

By JEP

DrillingInfo One-Page Production Summary



[Tag This Element](#)

API# 42-389-32541
 Well# 4
 Lease TRINITY STATE "28"
 Field SAND BEND DRAW (RAMSEY)
 Lease DRACO ENERGY, INC.
 Operator [Well Op History](#)
 County Reeves
 State Texas
 Location 467.0 S / 2150.0 E, T&P RR CO/CAMP, J C
 A-1308 Block:56T2S Section:28
 Elevation 2811
 Date Spud --
 Date TD --
 Logs Run GR-N-D,AND,DLL,

Prod.	First Production	Most Recent Production	Cumulative (MCF & BBL)	Gravity (SG & API)	Gatherer
Oil	3/1/06	2/1/14	69,873	0.00	PERMT
Gas	3/1/06	2/1/14	145,733	0.00	REGEF

Most Recently Reported Monthly Production (12 Months)

Mo/Yr	Gas (MCF)					Oil (BBL)				Water (BW)	#Wells Flowing	#Wells Other	Avg Gas (MCF/D)	Avg Oil (BBL/D)	Avg Wtr (BW/D)
	Produced	Sold	Used	Vented/Flared	Other	Produced	Sold	Other	Closing						
3/2013	2,062	0	0	2,062	0	917	542	0	569	0	1	1	33.26	14.79	0.00
4/2013	2,013	0	0	2,013	0	895	1,127	0	337	0	1	1	33.55	14.92	0.00
5/2013	1,766	0	0	1,766	0	785	935	0	187	0	1	1	28.48	12.66	0.00
6/2013	1,788	0	0	1,788	0	795	757	0	225	0	1	1	29.80	13.25	0.00
7/2013	2,217	0	0	2,217	0	859	939	0	145	0	1	2	23.84	9.24	0.00
8/2013	2,292	0	0	2,292	0	888	759	0	274	0	1	2	24.65	9.55	0.00
9/2013	2,166	0	0	2,166	0	839	754	0	359	0	1	2	24.07	9.32	0.00
10/2013	2,328	0	0	2,328	0	902	955	0	306	0	1	2	25.03	9.70	0.00
11/2013	1,690	0	0	1,690	0	655	752	0	209	0	1	2	18.78	7.28	0.00
12/2013	1,924	0	0	1,924	0	746	770	0	185	0	1	2	20.69	8.02	0.00
1/2014	1,578	0	0	1,578	0	612	568	0	229	0	1	2	16.97	6.58	0.00
2/2014	2,080	0	0	2,080	0	807	553	0	483	0	1	2	24.76	9.61	0.00
Totals	23,904	0	0	23,904	0	9,700	9,411	0	3,508	0	---	---	---	---	---

Annual Production

Year	Gas (MCF)	Oil (BBL)	Water (BW)	#Wells Flowing	#Wells Other	Avg Gas (MCF/D)	Avg Oil (BBL/D)	Avg Wtr (BW/D)	Annual Dec. Gas	Annual Dec. Oil
2006	12,425	8,701	---	1	---	40.87	28.62	0.00	---	---
2007	8,798	5,808	---	1	---	24.12	15.92	0.00	29.2%	33.2%
2008	13,309	5,575	---	2	---	18.24	7.64	0.00	---	4.0%
2009	14,196	6,387	---	2	2	9.73	4.38	0.00	---	---
2010	23,259	11,766	---	1	2	21.25	10.75	0.00	---	---
2011	23,130	10,070	---	1	2	21.13	9.20	0.00	0.6%	14.4%
2012	22,404	9,950	---	1	2	20.47	9.09	0.00	3.1%	1.2%
2013	24,554	10,197	---	1	2	22.44	9.32	0.00	---	---
2014	3,658	1,419	---	1	2	20.05	7.78	0.00	85.1%	86.1%
Totals	145,733	69,873	---	---	---	---	---	---	---	---

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File No. MF105269

19

Production Report: 42-389-32541

Date Filed: 05/01/2014

Jerry E. Patterson, Commissioner

By JEP

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JOHN E SHERER JR
PRESIDENT
DRACO ENERGY INC
PO BOX 11404
MIDLAND TEXAS 79702

7011 1150 0001 2416 4073

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- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

JOHN E SHERER JR
PRESIDENT
DRACO ENERGY INC
PO BOX 11404
MIDLAND TEXAS 79702

2. Article Number

* (Transfer from service label)

COMPLETE THIS SECTION ON DELIVERY

A. Signature

X *Erica Tagle* ☐ Agent
☐ Addressee

B. Received by (Printed Name)

Erica Tagle

C. Date of Delivery

*5-16-14*D. Is delivery address different from item 1? ☐ YesIf YES, enter delivery address below: ☐ No*11404*

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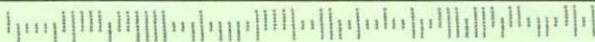
MF 105269 A-D

LINDA PRICE, 845-E

TEXAS GENERAL LAND OFFICE

PO BOX 12873

AUSTIN TX 78711-2873





May 2, 2014

John E. Scherer, Jr.
President
Draco Energy, Inc.
P O. Box 11404
Midland, Texas 79702
(Via CMRRR #: 7011 1150 0001 2416 4073)

RE: **State Leases MF105269A-D** 4 RAL Leases, described on Page 3
280 gross acres
SW/4, SW/4 NE/4, W/2 SE/4, Section 28, T-2, Block 56,
T&P Ry. Co. Survey, Reeves County, Texas

Trinity State "28" #161 (API#: 42-389-32391)
Trinity State "28" #3 (API #: 42-389-32481)
Trinity State "28" #4 (API #: 42-389-32541)

Dear Mr. Scherer:

Paragraph 16(A) and (B) of the subject leases provides that two years after the expiration of the primary terms, the leases terminate as to all lands outside of the proration units and all depths below 100' below the total depth drilled. Our review indicates that the retained acreage provisions of the leases became effective on various dates in April 2010.

Paragraph 16(A) provides for the termination of the leased premises except for forty acres surrounding each oil well producing in paying quantities and 16(B) provides for the termination of all depths below 100' below the total depth drilled in each well retained in Paragraph 16(A).

According to the completion reports filed with the RRC for each of the wells listed above, Draco may retain the following:

1. Trinity State "28" #161 (API#: 42-389-32391) – completed as an oil well with a total depth of 3,800'. Draco Energy may retain the NW/4 SE/4 from the surface down to 3,900'.
2. Trinity State "28" #3 (API #: 42-389-32481) – completed as an oil well with a total depth of 3,420' – Draco Energy may retain the SE/4 SW/4 from the surface down to 3,520'.
3. Trinity State "28" #4 (API #: 42-389-32541) – completed as an oil well with a total depth of 3,450'. Draco Energy may retain the SW/4 SE/4 from the surface down to 3,540'.

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

Post Office Box 12873 • Austin, Texas 78711-2873

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www.glo.state.tx.us

John E. Scherer, Jr.
Draco Energy, Inc.
MF105269
May 2, 1014
Page 2

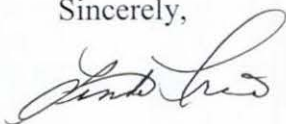
Pursuant to the TAC, an original or certified copy of a Partial Release of State Oil and Gas Lease of all lease lands outside of the proration units and all depths below 100' below the total depth drilled, along with the filing fee of \$25 per lease, must be filed with our office and sent to my attention.

Please be specific in the description of the land and depths being retained or excepted from the partial release. List the depths in actual feet and the land in actual number of acres, as well as the section number, block, township, survey name, abstract, county, etc., where they are located. Describe each well by well name, number and API number. Reference each lease by its State lease Mineral File number and the name of the agent acting on behalf of the State of Texas. List the recording information of the original lease by volume and page or file number and county recorded.

If you disagree with this assessment, you have 30 days from the receipt of this letter in which to present evidence and convince the General Land Office that all of the acreage outside of the proration units and all depths below 100' below the total depth drilled have not terminated. If such evidence has not been presented by the expiration of the 30-day period, the lease, insofar as it covers all of the acreage outside of the proration units and all depths below 100' below the total depth drilled, shall be endorsed "terminated".

If you have any questions, please contact me.

Sincerely,



Linda Price, RL
Energy Resources, Mineral Leasing
512-463-5118
512-475-1543 (fax)
linda.price@glo.texas.gov

John E. Scherer, Jr.
Draco Energy, Inc.
MF105269
May 2, 1014
Page 3

<u>State Lease No.</u>	<u>Agent for State of TX</u>	<u>Lease Date</u>	<u>Rec. Volume/Page</u>
MF105269A	Bank of America, NA, Trustee UWO Roberta M. Regan	04/18/2005	703/709
MF105269B	Gretchen C. Northrup Foundation c/o Trinity University	04/08/2005	703/721
MF105269C	Trinity University	04/08/2005	703/734
MF105269D	Sunshine Cottage School For Deaf Children	04/25/2005	703/747

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May 5, 2014 , 9:48 am	Out for Delivery	MIDLAND, TX 79701
May 5, 2014 , 9:38 am	Sorting Complete	MIDLAND, TX 79701
May 5, 2014 , 6:25 am	Arrival at Unit	MIDLAND, TX 79701
May 4, 2014 , 6:51 am	Depart USPS Sort Facility	MIDLAND, TX 79711
May 4, 2014 , 6:17 am	Processed through USPS Sort Facility	MIDLAND, TX 79711
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File No. ME105269

(20)

Partial Termination Letter

Date Filed: 05/02/2014

Jerry E. Patterson, Commissioner

By JEP



MEMORANDUM

TEXAS GENERAL LAND OFFICE • GEORGE P. BUSH • COMMISSIONER

Date: October 29, 2015

To: State Lease Nos. MF105269; MF115669; MF115668; MF116549; MF116837; MF116838; MF116839; MF115920; and MF101167

From: Dustin Brian Oslick

Subject: Mapping Issues in Alamo

Short Answer: Alamo is unable to reflect the proper depth interval cross-hatching in the Alamo GIS system when: 1) a tract of land is owned by multiple undivided interest owners; 2) one of those undivided interest owners includes additional tracts they may own in their State Lease; and 3) one of the tracts is an "Allow All Depths" tract, and the other tract is a "Specified Depths" tract. In such scenario, both red and blue cross-hatching will be reflected in Alamo GIS.

Long Answer: The above referenced mineral files were originally flagged by Jesse Arellano due to the fact that the cross-hatching reflected conflicting depth intervals. A review of the mineral files indicated the following:

- A. MF105269 originally covered the SW/4, SW/4NE/4, W/2SE/4 of Section 28, Block 56, Township 2, T&P Ry. Co. Survey, Reeves County, Texas. A Termination Letter was sent by this office on May 2, 2014 which indicated the following:
1. The Trinity State "28" #3 Well (API #42-389-32481) was completed to a total depth of 3,420' subsurface and further indicated that Draco Energy may retain the SE/4SW/4 from the surface down to 3,520' subsurface. This depth interval is supported by the Well Records. New State Leases MF115668, MF115669 and MF101167, in so far as said State Leases cover the SE/4SW/4, cover all the deep rights lying below 3,518' subsurface. No correction in Alamo was made due to the small amount of vertical footage at issue.
 2. The Trinity State "28" #4 (API No. 42-389-32541) was completed to a total depth of 3,450' subsurface and further indicated that Draco Energy may retain the SW/4SE/4 down to 3,540' subsurface. New State Leases MF115668, MF115669 and MF101167, in so far as said State Leases cover the SW/4SE/4, cover all the deep rights lying below 3,550' subsurface. Well Records confirm total depth drilled was 3,450' subsurface. It appears the depth on the Termination Letter was incorrectly calculated and should have been 3,550' subsurface, being 100' below the deepest well drilled. This has been corrected in Alamo.
 3. The Trinity State "28" #161 (API No. 42-389-32391) was completed to a total depth of 3,800' subsurface and further indicated that Draco Energy may retain the NW4/SE4 down to 3,900' subsurface. New State Leases MF115668, MF115669 and MF101167, in so far

as said State Leases cover the NW4/SE4, cover all the deep rights lying below 3,900' subsurface. There were no depth issues with this tract.

B. MF101167 originally covered the SE/4NE/4 and NE/4SE/4 of Section 28, Block 56, Township 2, T&P Ry. Co. Survey, Reeves County, Texas. A Termination Letter was sent by this office on May 2, 2014 which indicated the following:

1. The Northrup "A" Estate #1 (API No. 42-389-31897) was completed to a total depth of 3,394' subsurface and further indicated Kimlar Energy may retain the NE/4SE/4 down to 3,494' subsurface. New State Leases MF115668 and MF115669 covering the NE/4SE/4 cover all the deep rights lying below 3,494' subsurface. There were no depth issues with this tract.
2. The Northrup "A" Estate #1 (API No. 42-389-31698) was completed to a total depth of 4,800' subsurface and further indicated Kimlar Energy may retain the SE/4NE/4 down to 4,900' subsurface. New State Leases MF115668 and MF115669 covering the SE/4NE/4 cover all the deep rights lying below 4,900' subsurface. There were no depth issues with this tract.

Based on the above review, the depths for MF105269 and for MF101167 were updated in Alamo to reflect the specified depth intervals outline above. These tracts appear to now be reflected correctly in Alamo GIS. Additionally, MF101167A was updated in Alamo to reflect the correct the following: lease date; control number; base file; and legal description.

Furthermore, a review of the above captioned mineral files also indicated the following:

- C. MF116837 covers all depths in so far as it covers Section 34, Block 56, Township 2 *South*¹, T&P Ry. Co. Survey, Reeves County, Texas.
- D. MF116838 covers all depths in so far as it covers the NW/4, N/2NE/4, and the SE/4SE/4 of Section 28, Block 56, Township 2 *South*¹, T&P Ry. Co. Survey, Reeves County, Texas.
- E. MF116839 covers all depths in so far as it covers Section 32, Block 56, Township 2 *South*¹, T&P Ry. Co. Survey, Reeves County, Texas.
- F. MF115920 covers all depths in so far as it covers 240 acres out to the N/2 of Section 32, Block 56, Township 2, T&P Ry. Co. Survey, Reeves County, Texas.
- G. MF116549 covers both all depth tracts and the following specified depths in Section 28, Block 56, Township 2 *South*¹, T&P Ry. Co. Survey, Reeves County, Texas, to wit:

¹ Township 2 *South* appears to be erroneous based on a review of the Texas GLO Land Grant Search. The legal description should only read "Township 2."

1. W/2SW/4 and the NE/4SW/4 as to all depths;
2. SE/4SW/4- all depths below 3,518' subsurface;
3. NW/4SE/4- all depths below 3,900' subsurface;
4. SW/4SE/4- all depths below 3,550' subsurface;
 - i. Note: The correct depth interval was used on the Lease. *See* Section (1) (b) hereinabove.
5. NE/4SE/4- all depths below 3,494' subsurface;
6. SE/4NE/4- depths below 4,900' subsurface; and
7. SW/4NE/4 as to all depths.

H. MF115668 and MF115669 cover the following specified depths in Section 28, Section and all depths in Section 32 and Section 34, Block 56, Township 2, T&P Ry. Co. Survey, Reeves County, Texas, to wit:

1. Section 34 SAVE AND EXCEPT the NE/4NE/4- as to all depths;
2. Section 32- as to all depths;
3. NW/4; N/2NE/4; SE/4SE/4 of Section 28- as to all depths;
4. W/2SW/4 and the NE/4SW/4 of Section 28- as to all depths;
5. SE/4SW/4 of Section 28- all depths below 3,518' subsurface;
6. NW/4SE/4 of Section 28- all depths below 3,900' subsurface;
7. SW/4SE/4- all depths below 3,550' subsurface;
 - i. Note: The correct depth interval was used on the Lease. *See* Section (1) (b) hereinabove.
8. NE/4SE/4- all depths below 3,494' subsurface;
9. SE/4NE/4- depths below 4,900' subsurface; and
10. SW/4NE/4 as to all depths.

A review of the Alamo GIS system with Jesse Arellano indicated that the system analyzes the depth interval specified in Alamo and then reflects the mineral file in Alamo GIS as either: 1) cross-hatched in blue, indicating a the tract is an "Allow All Depths" tract; or 2) cross-hatched in red, indicating the tract is a "Specified Depths" tract. When a mineral file is cross-hatched in both red and blue, there is a discrepancy in the depth intervals. Generally, this is corrected by updating the depth interval of the older mineral file after the deep rights have terminated.

However, correcting conflicting cross-hatching in Alamo GIS is not possible when: 1) a tract of land is owned by multiple undivided interest owners; 2) one of those undivided interest owners includes additional tracts they may own in their State Lease; and 3) one of the tracts is

an "Allow All Depths" tract, and the other tract is a "Specified Depths" tract, then, in this situation, Alamo is unable to reflect the proper depth interval cross-hatching in Alamo GIS due to system limitations. To further illustrate using MF116839 and MF115669 outlined hereinabove: 1) MF116839 covers all depths in Section 32 from one undivided interest owner; and 2) MF115669 also covers all depths in Section 32 from a different undivided mineral interest owner; however, MF115669 also covers "Specified Depth" tracts in Section 28 which are owned by the same undivided interest owner. As such, Alamo GIS reflects Section 32 as both "Allow All Depths," due to MF116839, being the cross-hatches in blue, and also as "Specified Depths," due to MF115669, being the cross-hatches in red. Due to the limitations of the Alamo depth field, said tracts are not able to be corrected.

#21

File No. MF105269

Reeves County

Mapping Memorandum

Date Filed: 10/29/2015

George P. Bush, Commissioner

By [Signature] DBO

DIVISION ORDER CONTRACT

MF105269

Property No. 154792000000 FJA

TO: Sunoco Partners Marketing & Terminals L.P.
PO Box 4933
Houston, TX 77210-4933

07/30/2020

Effective 7 a m MAY 01, 2020

The undersigned, severally and not jointly, certifies it is the owner of the interest set out below of all the oil (defined herein to include condensate), produced from the property described as:

Operator: GRACE PETROLEUM OPERATING LLC
Property Name: TRINITY STATE 28 (37754)
County: REEVES State: TX
Legal Description:



TAX I.D./SOC. SEC. NO.	OWNER NO.	PAYEE	DIVISION OF INTEREST
--0108	0000000026	COMM OF THE GEN LAND OFFICE ID 1 23 3102655 4 STATE OF TX LAND OFFICE BLDG AUSTIN TX 78701	.1250000000 RI

THIS CONTRACT DOES NOT AMEND ANY LEASE OR OPERATING AGREEMENT BETWEEN THE INTEREST OWNERS AND THE LESSEE OR OPERATOR.

The following provisions apply to all interest owners ("owner") who execute this contract:

DELEGATION: The owner warrants and represents that it has delegated to the Lessee or Operator full authority to sell and deliver, and to Sunoco Partners Marketing & Terminals L.P.("Sunoco Mktg.") or its agent the right to receive, on such terms and conditions as the Lessee or Operator or his designee may determine, all oil produced from the described property and allocable to the interest of the owner as set forth herein. For the purpose of this provision, "Lessee" means the Lessee of the lease under which interest is owned, its successors or assigns and "Operator" means the operator of the described property, at the time the oil is sold.

PAYMENT: From the effective date, payment is to be made monthly by Sunoco Mktg. based on this Division of Interest for oil run during the preceeding calendar month from the property listed above, less taxes required by law to be deducted and paid by Sunoco Mktg. as purchaser. Payments of less than \$100.00/month may be accrued before disbursement until the total amount equals \$100.00 or more. Amounts greater than \$10.00 will be released at least annually.

The owner agrees to indemnify and hold Sunoco Mktg. harmless from all liability resulting from payments made to the owner in accordance with such division of interest, including but not limited to attorney's fees or judgements in connection with any suit affecting the owners interest to which Sunoco Mktg. is made a Party, including right of set off.

DISPUTE/WITHHOLDING OF FUNDS: If a suit is filed affecting the interest of the owner, written notice shall be given to Sunoco Mktg. by the owner together with a copy of the complaint or petition filed.

In the event of a claim or dispute affecting the division of interest and/or funds credited herein, Sunoco Mktg. is authorized to withhold payments accruing to such interest, without interest unless otherwise required by applicable statute, until the claim or dispute is settled.

CANCELLATION/REVOCATION: Cancellation or revocation of this contract shall be effective on the first day of that month commencing thirty (30) days after receipt of written notice of such cancellation or revocation to Sunoco Mktg.

NOTICES: The owner agrees to notify Sunoco Mktg. in writing of any change in the division of interest, including changes of interest contingent on payment of money or expiration of time. No change of interest shall be binding upon Sunoco Mktg. until the recorded copy of the instrument of change, or documents satisfactorily evidencing such change, are furnished to Sunoco Mktg. at the time the change occurs.

Any change of interest shall be made effective on the first day of the month following receipt of such notice by Sunoco Mktg.

All correspondence regarding this contract shall be furnished to the addresses listed above unless otherwise advised by either party.

Witnesses:	Signature of Interest Owner:	Social Security / Tax I.D. No.
	Phone Number	Email

Failure to furnish your Social Security/Tax I.D. Number will result in withholding tax in accordance with federal law, and any tax withheld will not be refunded by payor.



TEXAS GENERAL LAND OFFICE
GEORGE P. BUSH, COMMISSIONER

August 5, 2021

Alice J. Holland
Division Order Manager
Sunoco Partners Marketing & Terminal L.P.
PO Box 4933
Houston, TX 77210-4933

Re: State Lease No. MF105269 Trinity State 28

Dear Mrs. Holland:

The Texas General Land Office (GLO) has received your Division Order for the referenced unit. This Division Order has been filed in the appropriate mineral file.

The payment of royalties attributable to state-owned mineral and royalty interests is set by contract and applicable statutes and rules. The execution of division orders may, in some cases, affect the manner in which such payments are made or calculated. Therefore, Title 31, §9.32, of the Texas Administrative Code specifies that GLO staff cannot execute a division order or bind the state to any terms contained within it.

Subject to applicable state law and the state's right to take its production in-kind, the GLO acquiesces to the sale of oil and gas in accordance with the terms and conditions set out in the oil and gas leases. If you have questions concerning this matter, please feel free to e-mail me at the address below my signature.

We look forward to being put on pay status as soon as you are able to set up the wells in our RRAC system.

Thank you,

Vivian Zamora
Landman, Energy Resources
512-475-0428
512-475-1404 (fax)
vivian.zamora@glo.texas.gov

File No. MF105269Reeves CountyDivision OrderDate Filed: 8/6/2021

George P. Bush, Commissioner

By VR