

## STATE LEASE

MF105524

| #            | LeaseDate              | Acres           | Status            | CONTROL              | BASEFILE            | COUNTY                 |
|--------------|------------------------|-----------------|-------------------|----------------------|---------------------|------------------------|
| <del>A</del> | <del>Mar 15 2005</del> | <del>0.00</del> | <del>ACTIVE</del> | <del>07-105713</del> | <del>127850</del>   | <del>REEVES</del> /195 |
| <del>B</del> | <del>Mar 15 2005</del> | <del>0.00</del> | <del>ACTIVE</del> | <del>07-105704</del> | <del>153255 -</del> | <del>REEVES</del> /195 |
| <del>C</del> | <del>Mar 15 2005</del> | <del>0.00</del> | <del>ACTIVE</del> |                      |                     |                        |
| <del>D</del> | <del>Mar 15 2005</del> | <del>0.00</del> | <del>ACTIVE</del> |                      |                     |                        |
| <del>E</del> | <del>Mar 15 2005</del> | <del>0.00</del> | <del>ACTIVE</del> |                      |                     |                        |

✓ EXPIRED

DATE

3/15/10

LEASING

Robase Ted

Rentals:

MS

MAPS

GIS

MS

Lease

Admin:

DB

Mineral

Maps:

JA

JP

SURVEY : PUBLIC SCHOOL LAND  
BLOCK : 59  
TOWNSHIP : 00  
SECTION/TRACT: 22  
PART : North part / 280 AC  
ACRES : 559.98 280  
DEPTH LIMITS : NO

LESSEE : PETRO-HUNT LLC  
LEASE DATE : Mar 15 2005  
PRIMARY TERM : 5 yrs  
BONUS (\$) : 0.00  
RENTAL (\$) : 1.00  
ROYALTY : 0.12500000  
VAR ROYALTY :

ATTENTION FILE USERS!  
This file has been placed in table  
of contents order.  
RETURN TO VAULT WITH  
DOCUMENTS IN ORDER!

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F705524

1. BAA Review 5/12/05
2. Letter 6/16/05
3. (6) Leases <sup>missing 2 of 6</sup> 6/24/05
4. SO letter 2/7/06
5. Rental Payments 4/18/06
6. Rental Payments 2/24/06
7. Rental Payments <sup>(2)</sup> 4/35/07
8. Rental Payments 2/26/07
9. Social note 4/12/08
10. Rental payment 3/2/08
- Primary term expired 3/15/10
- Scanned SM 8/4/15

# RAL REVIEW SHEET

Transaction # 4673  
 Lessor: Keenom, Dorothy Jean, Individually and as Trustee  
 Lessee: Petro-Hunt, L.L.C.

Geologist: R. Widmayer

Lease Date: 3/15/2005

U~~L~~ ☐

Acres:

280 ~~360~~  
 net 9333

## LEASE DESCRIPTION

|        |              |       |      |       |     |                    |       |
|--------|--------------|-------|------|-------|-----|--------------------|-------|
| County | Base File No | Part  | Sec. | Block | Twp | Survey             | Abst# |
| REEVES | 127850       | North | 22   | 59    | 00  | PUBLIC SCHOOL LAND | 3968  |

360 Ac.

280 Ac.

640 Ac.

280 Ac.

## TERMS OFFERED

Primary Term: 5 years  
 Bonus/Acre: \$150.00  
 Rental/Acre: \$1.00  
 Royalty: 1/4

## TERMS RECOMMENDED

Primary Term: 5 years  
 Bonus/Acre: \$150.00  
 Rental/Acre: \$1.00  
 Royalty: 1/4

## COMPARISONS

| MF #     | Lessee       | Date       | Term    | Bonus/Ac. | Rental/Ac. | Royalty | Distance       |
|----------|--------------|------------|---------|-----------|------------|---------|----------------|
|          |              |            |         |           |            |         | Last Lease     |
| MF104539 | Clay Johnson | 10/21/2004 | 5 years | \$100.00  | \$1.00     | 1/5     | Adjacent South |
|          |              |            |         |           |            |         |                |
|          |              |            |         |           |            |         |                |
|          |              |            |         |           |            |         |                |

Comments: 4th and 5th year rentals will be \$25.00 per acre.

Approved: PAB 5.12.05

# 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: 12-May-05

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

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

County: REEVES

Prim. Term: 5 years

Bonus/Acre

\$150.00

Royalty: 1/4

Rental/Acre

\$1.00

## Consideration

Recommended: PAB

Date: 5-12-05

Not Recommended: \_\_\_\_\_

Comments: 4th and 5th year rentals will be \$25.00 per acre.

## ☒ Lease Form

Recommended: RH

Date: 5/16/05

Not Recommended: \_\_\_\_\_

Comments:

Louis Renaud, Deputy Commissioner

Date: 5/16/05

Recommended: CR

Not Recommended: \_\_\_\_\_

Bill Warnick, General Counsel

Date: 6/20/05

Recommended: WW

Not Recommended: \_\_\_\_\_

Larry Laine, Chief Clerk

Date: 6/21/05

Approved: LL

Not Approved: \_\_\_\_\_

Jerry Patterson, Commissioner

Date: 20 Jun 05

Approved: JP

Not Approved: \_\_\_\_\_

1.  
File No. MF 105524  
BAA Review  
Date Filed: 5/12/05  
Jerry E. Patterson, Commissioner  
By [Signature]

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



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

June 16, 2005

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

Gentlemen:

Enclosed please find Petro-Hunt, L.L.C.'s check in the amount of \$34,349.75 as payment for one-half of the bonus consideration due for six Relinquishment Act leases taken in Reeves County, Texas along with appropriate application and filing fees. A breakdown of payment for each lease is as follows:

|                                                                                                                                                                                                                                                                                        |          |                                                                              |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|------------------------------------------------------------------------------|
| <u>J. J. Meeker</u><br>PSL Block 59<br>Section 22: North 280 acres.                                                                                                                                                                                                                    | 03/15/05 | \$6,999.75- Lease Bonus<br>\$100.00- Application Fee<br>\$25.00- Filing Fee  |
| <u>James Robert Hill, et al.</u><br>PSL Block 59<br>Section 22: South 360 acres.                                                                                                                                                                                                       | 03/15/05 | \$13,500.00- Lease Bonus<br>\$100.00- Application Fee<br>\$25.00- Filing Fee |
| <u>H. S. Minerals &amp; Realty, Ltd.</u><br>PSL Block 59<br>Section 22: South 360 acres.                                                                                                                                                                                               | 03/15/05 | \$562.50- Lease Bonus<br>\$25.00- Filing Fee                                 |
| <u>Dorothy Jean Keenon / Dorothy Jean Hill, individually<br/>and as Trustee of the Nancy Puff Jones Trust and<br/>Thomas Hill Puff Trust.</u><br>PSL Block 59<br>Section 22: South 360 acres.                                                                                          | 03/15/05 | \$6,187.50- Lease Bonus<br>\$25.00- Filing Fee                               |
| <u>Kenneth M. Waltrip, Sole Trustee of the Waltrip Marital<br/>Trust, Michael S. Waltrip, Trustee of the MSW Revocable<br/>Trust, and Margery L. Hanna, Trustee of the MLH Revocable<br/>Trust, all doing business as Hill Trusts.</u><br>PSL Block 59<br>Section 22: South 360 acres. | 03/15/05 | \$6,187.50- Lease Bonus<br>\$25.00- Filing Fee                               |

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Gentlemen:

Enclosed please find Petro-Hunt, L.L.C.'s check in the amount of \$41,374.50 as payment for one-half of the bonus consideration due for seven Relinquishment Act leases taken in Reeves County, Texas along with appropriate application and filing fees. A breakdown of payment for each lease is as follows:

|                                                                                                                                                                                                                          |          |                                                                              |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|------------------------------------------------------------------------------|
| <u>Julian Wade Meeker, et al. as Trustees under</u><br><u>Will of J. R. Meeker for lifetime benefit of L.H. Meeker.</u><br>T&P RR. Survey Block 55 T-5<br>Section 34: North 280 acres.                                   | 03/15/05 | \$6,999.75- Lease Bonus<br>\$100.00- Application Fee<br>\$25.00- Filing Fee  |
| <u>J. J. Meeker</u><br>T&P RR. Survey Block 55 T-5<br>Section 34: North 280 acres.                                                                                                                                       | 03/15/05 | \$6,999.75- Lease Bonus<br>\$25.00- Filing Fee                               |
| <u>James Robert Hill, et al. as Trustees of the</u><br><u>Houston &amp; Emma Hill Trust Estate.</u><br>T&P RR. Survey Block 55 T-5<br>Section 34: South 360 acres.                                                       | 03/15/05 | \$13,500.00- Lease Bonus<br>\$100.00- Application Fee<br>\$25.00- Filing Fee |
| <u>H. S. Minerals &amp; Realty, Ltd.</u><br>T&P RR. Survey Block 55 T-5<br>Section 34: South 360 acres.                                                                                                                  | 03/15/05 | \$562.50- Lease Bonus<br>\$25.00- Filing Fee                                 |
| <u>Dorothy Jean Keenon / Dorothy Jean Hill, individually</u><br><u>and as Trustee of the Nancy Puff Jones Trust and</u><br><u>Thomas Hill Puff Trust.</u><br>T&P RR. Survey Block 55 T-5<br>Section 34: South 360 acres. | 03/15/05 | \$6,187.50- Lease Bonus<br>\$25.00- Filing Fee                               |

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|                                                                                                                                                                                                                                                                                                                         |          |                                                                              |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|------------------------------------------------------------------------------|
| <u>Julian Wade Meeker, et al. as Trustees under</u><br><u>Will of J. R. Meeker for lifetime benefit of L.H. Meeker.</u><br>T&P RR. Survey Block 55 T-5<br>Section 30: North 280 acres.                                                                                                                                  | 03/15/05 | \$6,999.75- Lease Bonus<br>\$100.00- Application Fee<br>\$25.00- Filing Fee  |
| <u>J. J. Meeker</u><br>T&P RR. Survey Block 55 T-5<br>Section 30: North 280 acres.                                                                                                                                                                                                                                      | 03/15/05 | \$6,999.75- Lease Bonus<br>\$25.00- Filing Fee                               |
| <u>James Robert Hill, et al. as Trustees of the</u><br><u>Houston &amp; Emma Hill Trust Estate.</u><br>T&P RR. Survey Block 55 T-5<br>Section 30: South 360 acres.                                                                                                                                                      | 03/15/05 | \$13,500.00- Lease Bonus<br>\$100.00- Application Fee<br>\$25.00- Filing Fee |
| <u>H. S. Minerals &amp; Realty, Ltd.</u><br>T&P RR. Survey Block 55 T-5<br>Section 30: South 360 acres.                                                                                                                                                                                                                 | 03/15/05 | \$562.50- Lease Bonus<br>\$25.00- Filing Fee                                 |
| <u>Dorothy Jean Keenon / Dorothy Jean Hill, individually</u><br><u>and as Trustee of the Nancy Puff Jones Trust and</u><br><u>Thomas Hill Puff Trust.</u><br>T&P RR. Survey Block 55 T-5<br>Section 30: South 360 acres.                                                                                                | 03/15/05 | \$6,187.50- Lease Bonus<br>\$25.00- Filing Fee                               |
| <u>Kenneth M. Waltrip, Sole Trustee of the Waltrip Marital</u><br><u>Trust, Michael S. Waltrip, Trustee of the MSW Revocable</u><br><u>Trust, and Margery L. Hanna, Trustee of the MLH Revocable</u><br><u>Trust, all doing business as Hill Trusts.</u><br>T&P RR. Survey Block 55 T-5<br>Section 30: South 360 acres. | 03/15/05 | \$6,187.50- Lease Bonus<br>\$25.00- Filing Fee                               |

2.

File No. MF 705524

Heller

Date Filed: 6/16/05

Jerry E. Patterson, Commissioner

By [Signature]

FILE# 2203

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 15th day of March, 2005, between the State of Texas, acting by and through its agent, J.J. Meeker, dealing in his sole and separate property,  
of 1014 Broadway, Suite A, El Cajon, CA 92021  
(Give Permanent Address)  
said agent herein referred to as the owner of the soil (whether one or more), and Petro-Hunt, L.L.C.  
of 1601 Elm Street, Suite 3400, Dallas, TX 75201-7201 hereinafter called Lessee.  
(Give Permanent Address)

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

The North 280 acres of Section 22, PSL Survey, Block 59;

containing 280.00 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Six thousand nine hundred ninety nine and 75/100's  
Dollars (\$6,999.75)

To the owner of the soil: Six thousand nine hundred ninety nine and 75/100's  
Dollars (\$6,999.75)

Total bonus consideration: Thirteen thousand nine hundred ninety nine and 50/100's  
Dollars (\$13,999.50)

The total bonus consideration paid represents a bonus of One hundred fifty and No/100's  
Dollars (\$150.00) per acre, on 93.33 net acres.

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

50479



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

To the owner of the soil: Forty six and 67/100's

Dollars (\$46.67)

To the State of Texas: Forty six and 67/100's

Dollars (\$46.67)

Total Delay Rental: Ninety three and 34/100's [See Addendum attached hereto concerning third and fourth anniversary rentals]

Dollars (\$93.34)

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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Reeves County  
Clerks Office

50439

**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.

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

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

LESSEE

BY: Bruce HuntTitle: Bruce Hunt, PresidentDate: 05/19/05

11/17/05  
J. A. ...  
J. A. ...

STATE OF TEXAS

BY: \_\_\_\_\_

Individually and as agent for the State of Texas

Date: \_\_\_\_\_

STATE OF TEXAS

BY: [Signature] X

Individually and as agent for the State of Texas

Date: \_\_\_\_\_

STATE OF TEXAS

BY: \_\_\_\_\_

Individually and as agent for the State of Texas

Date: \_\_\_\_\_

STATE OF TEXAS

BY: \_\_\_\_\_

Individually and as agent for the State of Texas

Date: \_\_\_\_\_



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STATE OF TEXAS  
COUNTY OF DALLAS

(CORPORATION ACKNOWLEDGMENT)

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

Given under my hand and seal of office this the 19<sup>th</sup> day of April may, 2005.



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

STATE OF \_\_\_\_\_  
COUNTY OF \_\_\_\_\_

(CORPORATION ACKNOWLEDGMENT)

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

Given under my hand and seal of office this the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

Notary Public in and for \_\_\_\_\_

STATE OF CALIFORNIA  
COUNTY OF San Diego

(INDIVIDUAL ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared J.J. Meeker, dealing in his sole and separate property X

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

Given under my hand and seal of office this the 8 day of April May, 202005.



Gini Araiza  
Notary Public in and for \_\_\_\_\_

STATE OF \_\_\_\_\_  
COUNTY OF \_\_\_\_\_

(INDIVIDUAL ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared \_\_\_\_\_

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

Given under my hand and seal of office this the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

Notary Public in and for \_\_\_\_\_

50-42-9



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ADDENDUM TO LEASE

This Addendum is attached to and made a part of that certain Oil and Gas Lease dated March 15, 2005, by and between the State of Texas, acting by and through its agent, J.J. Meeker, dealing in his sole and separate property; and Petro-Hunt, L.L.C., Lessee.

Paragraph 3 of said lease provides for the annual payment of Delay Rentals upon the lease anniversary date. Rental payments covering the first and second anniversary dates shall be as provided in Paragraph 3. Notwithstanding any provisions in said lease to the contrary, Delay Rental payments covering the third and fourth anniversary date shall be in the amounts as provided below:

|                           |                                                                            |
|---------------------------|----------------------------------------------------------------------------|
| To the owner of the soil: | One thousand one hundred sixty six and 63/100's Dollars (\$1,166.63)       |
| To the State of Texas:    | One thousand one hundred sixty six and 63/100's Dollars (\$1,166.63)       |
| Total delay rental:       | Two thousand three hundred thirty three and 26/100's Dollars (\$2,333.26). |

Initialed for Identification:

*JJM*  
JJM

FILE NO. 2203

FILED FOR RECORD ON THE 9TH DAY OF JUNE A.D. 2005 3:06 P M.

DULY RECORDED ON THE 10TH DAY OF JUNE A.D. 2005 9:00 A M.

BY: *Joni Snow*, DEPUTY

DIANNE O. FLOREZ, COUNTY CLERK  
REEVES COUNTY, TEXAS

ANY PROVISION HEREIN WHICH MIGHT BE THE SALE, RENTAL,  
OR USE BY THE DESCRIBED LAND OR PROPERTY BECAUSE OF COLOR  
OR RACE IS HEREBY AND UNLAWFULLY REPEALED UNDER FEDERAL  
LAW

50-42-9



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File No. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Date Filed: \_\_\_\_\_  
Jerry E. Patterson, Commissioner  
By \_\_\_\_\_

3, File No. 125509-JW  
Leave A  
Date Filed: 6/24/05  
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 702  
PAGE 599 THRU 608 OFFICIAL PUBLIC RECORDS



I hereby certified on JUNE 10, 2005

DIANNE O. FLOREZ, COUNTY CLERK  
REEVES COUNTY, TEXAS

By [Signature] DEPUTY

0.54.02

FILE# 3395

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 15th day of May, 2005, between the State of Texas, acting by and through its agent, Windi Grimes, Sole Trustee of the AWP 1983 Trust of 2476 Bolsover Street, PMB 609, Houston, TX 77005 (Give Permanent Address) said agent herein referred to as the owner of the soil (whether one or more), and Petro-Hunt, L.L.C. of 1601 Elm Street, Suite 3400, Dallas, TX 75201-7201 (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:

The North 280 acres of Section 22, PSL Survey, Block 59;

containing 280.00 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Three thousand five hundred and 25/100's  
Dollars (\$3,500.25)

To the owner of the soil: Three thousand five hundred and 25/100's  
Dollars (\$3,500.25)

Total bonus consideration: Seven thousand and 50/100's  
Dollars (\$7,000.50)

The total bonus consideration paid represents a bonus of One hundred fifty and No/100's  
Dollars (\$150.00) per acre, on 46.67 net acres.

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



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

Bank, at P.O. Box 2546, Fort Worth, TX 76113-2546

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

To the owner of the soil: Twenty three and 34/100's

Dollars (\$23.34)

To the State of Texas: Twenty three and 34/100's

Dollars (\$23.34)

Total Delay Rental: Forty six and 68/100's [See Addendum attached hereto concerning third and fourth anniversary rentals]

Dollars (\$46.68)

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

LESSEE

BY: B. Hunt

Title: Bruce W. Hunt, President

Date: 02-19-05

OK-WMH  
2/16/05

STATE OF TEXAS

BY: \_\_\_\_\_  
Individually and as agent for the State of Texas

Date: \_\_\_\_\_

STATE OF TEXAS

BY: \_\_\_\_\_  
Individually and as agent for the State of Texas

Date: \_\_\_\_\_

STATE OF TEXAS

BY: AWP 1983 Trust, as agent for the State of Texas

BY: Wind Grimes  
Wind Grimes, Sole Trustee

Date: \_\_\_\_\_



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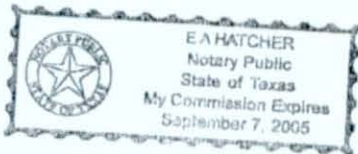
STATE OF TEXAS

(TRUST ACKNOWLEDGEMENT)

COUNTY OF HARRIS

BEFORE ME, the undersigned authority, on this day personally appeared Wendi Grimes, who is Sole Trustee of the AWP 1983 Trust, known to me to be the person whose name is subscribed to the foregoing instrument on behalf of said Trust, and acknowledged to me that she executed the same for the purposes and consideration therein expressed, in the capacity stated on behalf of said Trust.

Given under my hand and seal of office this the 19<sup>th</sup> day of May, 2005.



E.A. Hatcher  
Notary Public in and for \_\_\_\_\_

STATE OF TEXAS

(CORPORATE ACKNOWLEDGEMENT)

COUNTY OF DALLAS

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

Given under my hand and seal of office this the 19<sup>th</sup> day of July, 2006.



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

50.73.0



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ADDENDUM TO LEASE

This Addendum is attached to and made a part of that certain Oil and Gas Lease dated May 15, 2005, by and between the State of Texas, acting by and through its agent, Windi Grimes, Sole Trustee of the AWP 1983 Trust; and Petro-Hunt, L.L.C., Lessee.

Paragraph 3 of said lease provides for the annual payment of Delay Rentals upon the lease anniversary date. Rental payments covering the first and second anniversary dates shall be as provided in Paragraph 3. Notwithstanding any provisions in said lease to the contrary, Delay Rental payments covering the third and fourth anniversary date shall be in the amounts as provided below:

|                           |                                                                       |
|---------------------------|-----------------------------------------------------------------------|
| To the owner of the soil: | Five hundred eighty three and 38/100's Dollars (\$583.38)             |
| To the State of Texas:    | Five hundred eighty three and 38/100's Dollars (\$583.38)             |
| Total delay rental:       | One thousand one hundred sixty six and 76/100's Dollars (\$1,166.76). |

Initialed for Identification:

  
WG



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**2<sup>nd</sup> ADDENDUM TO LEASE**  
 Surface Use Agreement  
 Additional Lease Provisions

This 2<sup>nd</sup> Addendum is attached to and made a part of that certain Oil and Gas Lease dated May 15, 2005, between the State of Texas, acting by and through its agent, Windi Grimes, Sole Trustee of the AWP 1983 Trust, Owner of the Soil, and Petro-Hunt, L.L.C., Lessee.

Notwithstanding any provisions of this Lease to the contrary, it is expressly understood and agreed by and between the parties that:

1. Lessee is granted the right to use existing roads on the leased premises for ingress and egress, and to the extent such roads are used by Lessee, agrees to maintain, restore and keep roads in usable condition so long as this lease is in force and effect.
2. Lessee shall notify Lessor a minimum of 24 hours before cutting any new road, if necessary, into or on the leased premises.
3. Lessee shall install and maintain cattle guards at every fence crossing, said cattle guards to remain upon premises as Lessor's property at the expiration of this lease.
4. Lessee will bury and maintain all pipelines and electrical transmission lines 18 inches deep below the surface of the ground.
5. Lessee may use no more of the surface of the leased premises than is reasonably necessary to use for the purpose of which this lease is granted, and it shall exercise all rights granted to it herein with due regard for the rights of the Surface Owner.
6. Lessee, its successors and assigns, shall not erect any buildings or houses on the leased premises and that only those structures which are reasonably necessary for production facilities or tank batteries shall be erected on the surface of the leased premises.
7. Lessee will not pollute any water aquifers or fresh water in, upon or under the leased premises, and Lessee agrees to notify Surface Owner in writing if fresh water is encountered during drilling, or if a fresh water formation is penetrated.
8. Lessee shall maintain all drill sites and other portions of the surface used or occupied by Lessee, its successors or assigns, free and clear of weed and noxious vegetation, and will maintain the same in a reasonable manner to prevent additional damage to Surface Owner, other land, and crops.
9. Upon written demand by Surface Owner, Lessee shall build and maintain fences around its slush, sump and drainage pits and tank batteries to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level off all slush pits and cellars and completely clean up the drill site of all rubbish thereon.
10. In the event of a dry hole or production from a well which production ceases and the abandonment of such well, or upon the abandonment of any well location, drill site, tank battery site or roadway, the premises will be restored by Lessee as nearly as reasonably possible to its former condition at the cost and expense of Lessee, it being the intention of the parties hereto that Lessee shall restore the surface to as nearly the state that is in at the time of execution of this lease.
11. If all or any part of this lease is assigned, released, pooled or unitized, Lessee agrees to furnish the Surface Owner with a copy of any such document.
12. This lease grants no hunting or fishing rights whatsoever. Furthermore, Lessee, its agents, contractors, employees or assigns shall be prohibited from carrying or transporting firearms of any type upon or across the herein premises.
13. Weather permitting, Lessee shall remove from the herein described premises any and all structures, equipment and property of every kind and character placed by Lessee on said premises within ninety (90) days after Lessee has finished with the use of the area where such structure, equipment and property are placed. After thirty (30) days written notice to Lessee by Surface Owner, any such structure, equipment or property left on the lease premises by Lessee after the ninety (90) day period, shall at Lessor's option, become the property of Surface Owner. Lessee shall properly plug all wells drilled by Lessee on the leased premises in accordance with the requirements of the Railroad Commission of Texas, the Texas Natural Resources Conservation Commission or other governmental agency having jurisdiction. In plugging the wells, Lessee shall cut off the casing at least thirty six (36) inches below the surface.

Initialed for identification:

*WG*  
WG

FILE NO. 3395

FILED FOR RECORD ON THE 9TH DAY OF AUGUST A.D. 2005 2:27 P. M.

DULY RECORDED ON THE 10TH DAY OF AUGUST A.D. 2005 9:30 A. M.

BY: Windi Grimes, DEPUTY

DIANNE O. FLOREZ, COUNTY CLERK  
 REEVES COUNTY, TEXAS

ANY PROVISION HEREIN WHICH LIMITS THE SALE, RENTAL, OR USE BY THE DISCLOSED SURFACE OWNER BECAUSE OF COLOR OR RACE IS INVALID AND UNENFORCEABLE UNDER FEDERAL LAW

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3.

File No. MF-105524  
cease  
Date Filed: 6/24/05  
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. 708  
PAGE 237 THRU 247

OFFICIAL PUBLIC  
RECORDS

I hereby certified on AUGUST 11, 2005



DIANNE O. FLOREZ, COUNTY CLERK  
REEVES COUNTY, TEXAS

BY [Signature] DEPUTY

0.55.02

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 20th day of May, 2005, between the State of Texas, acting by and through its agent, Bank of America, N.A., Trustee of the Charles R. Meeker Trust, u/a/d 7-6-92, as amended and restated on 6-6-98. of P.O. Box 2546, Fort Worth, TX 76113-2546 (Give Permanent Address) said agent herein referred to as the owner of the soil (whether one or more), and Petro-Hunt, L.L.C. of 1601 Elm Street, Suite 3400, Dallas, TX 75201-7201 hereinafter called Lessee. (Give Permanent Address)

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

The North 280 acres of Section 22, PSL Survey, Block 59;

containing 280.00 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Three thousand five hundred and 25/100's  
Dollars (\$3,500.25)

To the owner of the soil: Three thousand five hundred and 25/100's  
Dollars (\$3,500.25)

Total bonus consideration: Seven thousand and 50/100's  
Dollars (\$7,000.50)

The total bonus consideration paid represents a bonus of One hundred fifty and No/100's  
Dollars (\$150.00) per acre, on 46.67 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 of America, N.A., Trustee

Bank, at P.O. Box 2546, Fort Worth, TX 76113-2546

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

To the owner of the soil: Twenty three and 34/100's

Dollars (\$23.34)

To the State of Texas: Twenty three and 34/100's

Dollars (\$23.34)

Total Delay Rental: Forty six and 68/100's

Dollars (\$46.68)

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

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

(A) OIL. Royalty payable on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well and also as all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, shall be 1/4 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.

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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 of 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 to the State and the prescribed filing fee shall accompany such certified copy to the General Land Office.

LESSEE

BY: B. W. Hunt

Title: Bruce W. Hunt, President

Date: 07.19.05

OK with  
7/15/05  
BO

STATE OF TEXAS

BY: \_\_\_\_\_  
Individually and as agent for the State of Texas

Date: \_\_\_\_\_

STATE OF TEXAS

BY: \_\_\_\_\_  
Individually and as agent for the State of Texas

Date: \_\_\_\_\_

STATE OF TEXAS

BY: Charles R. Meeker Trust, u/a/d 7-6-92, as amended and  
restituted on 6-6-98, as agent for the State of Texas

BY: Bank of America, N.A., Trustee

BY: Janet M. Cunningham  
Vice President

JANET M. CUNNINGHAM  
VICE PRESIDENT

Date: 5-31-05



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STATE OF TEXAS

(TRUST ACKNOWLEDGEMENT)

COUNTY OF TARRANT

BEFORE ME, the undersigned authority, on this day personally appeared JANET M. CUNNINGHAM, who is Vice President of Bank of America, N.A., known to me to be the person whose name is subscribed to the foregoing instrument on behalf of Bank of America, N.A., Trustee of the Charles R. Meeker Trust, u/a/d 7-6-92, as amended and restated on 6-6-98, and acknowledged to me that (s)he executed the same for the purposes and consideration therein expressed, in the capacity stated on behalf of said Bank of America and said Trust.

Given under my hand and seal of office this the 31st day of MAY, 2005.



Shena Hutto  
Notary Public in and for \_\_\_\_\_

STATE OF TEXAS

(CORPORATE ACKNOWLEDGEMENT)

COUNTY OF DALLAS

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

Given under my hand and seal of office this the 19th day of July, 2005.



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

FILE NO. 3391FILED FOR RECORD ON THE 9TH DAY OF AUGUST A.D. 2005 2:27 P. M.DULY RECORDED ON THE 10TH DAY OF AUGUST A.D. 2005 9:30 A. M.BY: Donna Spivey, DEPUTY

DIANNE O. FLOREZ, COUNTY CLERK  
REEVES COUNTY, TEXAS

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

50-32-0



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File No. WF-65524  
Lease  
Date Filed: 6/24/05  
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. 708  
PAGE 199, THRU 207 **OFFICIAL PUBLIC RECORDS**



I hereby certified on AUGUST 11, 2005

DIANNE O. FLOREZ, COUNTY CLERK  
REEVES COUNTY, TEXAS  
By Diane Flores DEPUTY

8.33.02

FILE# 2856

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 15th day of March, 2005, between the State of Texas, acting by and through its agent, Julian Wade Meeker, Daniel Hill Meeker, and Lawrence Hill Meeker, all as Co-Trustees under the Will of J.R. Meeker for the lifetime benefit of L.H. Meeker of 108 West 8th Street, Suite 410, Fort Worth, TX 76102 (Give Permanent Address) said agent herein referred to as the owner of the soil (whether one or more), and Petro-Hunt, L.L.C. of 1601 Elm Street, Suite 3400, Dallas, TX 75201-7201 hereinafter called Lessee (Give Permanent Address)

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

The North 280 acres of Section 22, PSL Survey, Block 59;

containing 280.00 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Six thousand nine hundred ninety nine and 75/100's  
Dollars (\$6,999.75)

To the owner of the soil: Six thousand nine hundred ninety nine and 75/100's  
Dollars (\$6,999.75)

Total bonus consideration: Thirteen thousand nine hundred ninety nine and 50/100's  
Dollars (\$13,999.50)

The total bonus consideration paid represents a bonus of One hundred fifty and No/100's  
Dollars (\$150.00) per acre, on 93.33 net acres.

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



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

To the owner of the soil: Forty six and 67/100's  
Dollars (\$46.67)  
To the State of Texas: Forty six and 67/100's  
Dollars (\$46.67)  
Total Delay Rental: Ninety three and 34/100's [See Addendum attached hereto concerning third and fourth anniversary rentals]  
Dollars (\$93.34)

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

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

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

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



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

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

LESSEE  
BY: B. Hunt  
Title: Bruce Hunt, President  
Date: 05/14/05

with  
5/17/05  
B.H.

STATE OF TEXAS  
BY: [Signature]  
Individually and as agent for the State of Texas  
Date: 5/11/05

STATE OF TEXAS  
BY: [Signature]  
Individually and as agent for the State of Texas  
Date: 5/11/05

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

STATE OF TEXAS  
BY: [Signature]  
Individually and as agent for the State of Texas  
Date: 5/11/05

5  
4  
3  
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1



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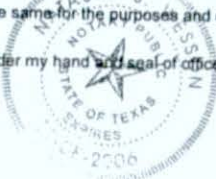
STATE OF TEXAS

COUNTY OF Tarrant

(TRUST ACKNOWLEDGEMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Julian Wade Meeker, known to me to be the person whose name is subscribed to the foregoing instrument as Co-Trustee under the Will of J.R. Meeker for the lifetime benefit of L.H. Meeker, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated on behalf of said Trust.

Given under my hand and seal of office this the 11<sup>th</sup> day of May, 2005.



Natasha J. Wesson  
Notary Public in and for State of Texas

STATE OF TEXAS

COUNTY OF Tarrant

(TRUST ACKNOWLEDGEMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Daniel Hill Meeker, known to me to be the person whose name is subscribed to the foregoing instrument as Co-Trustee under the Will of J.R. Meeker for the lifetime benefit of L.H. Meeker, and acknowledged to me that he executed the same for the purposes and consideration therein expressed, in the capacity stated on behalf of said Trust.

Given under my hand and seal of office this the 11<sup>th</sup> day of May, 2005.



Natasha J. Wesson  
Notary Public in and for State of Texas

STATE OF TEXAS

COUNTY OF Tarrant

(TRUST ACKNOWLEDGEMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Lawrence Hill Meeker, known to me to be the person whose name is subscribed to the foregoing instrument as Trustee of the Co-Trustee under the Will of J.R. Meeker for the lifetime benefit of L.H. Meeker, and acknowledged to me that she executed the same for the purposes and consideration therein expressed, in the capacity stated on behalf of said Trust.

Given under my hand and seal of office this the 11<sup>th</sup> day of May, 2005.



Natasha J. Wesson  
Notary Public in and for State of Texas

STATE OF TEXAS

COUNTY OF DALLAS

(CORPORATE ACKNOWLEDGEMENT)

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

Given under my hand and seal of office this the 19<sup>th</sup> day of May, 2005.



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



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ADDENDUM TO LEASE

This Addendum is attached to and made a part of that certain Oil and Gas Lease dated March 15, 2005, by and between the State of Texas, acting by and through its agent, Julian Wade Meeker, Daniel Hill Meeker, and Lawrence Hill Meeker, all as Co-Trustees under the Will of J.R. Meeker for the lifetime benefit of L.H. Meeker, and Petro-Hunt, L.L.C., Lessee.

Paragraph 3 of said lease provides for the annual payment of Delay Rentals upon the lease anniversary date. Rental payments covering the first and second anniversary dates shall be as provided in Paragraph 3. Notwithstanding any provisions in said lease to the contrary, Delay Rental payments covering the third and fourth anniversary date shall be in the amounts as provided below:

|                           |                                                                            |
|---------------------------|----------------------------------------------------------------------------|
| To the owner of the soil: | One thousand one hundred sixty six and 63/100's Dollars (\$1,166.63)       |
| To the State of Texas:    | One thousand one hundred sixty six and 63/100's Dollars (\$1,166.63)       |
| Total delay rental:       | Two thousand three hundred thirty three and 26/100's Dollars (\$2,333.26). |

Initialed for Identification:

JWM  
JWM

DHM  
DHM DHM  
LHM  
LHM



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2<sup>nd</sup> ADDENDUM TO LEASE  
Surface Use Agreement  
Additional Lease Provisions

This 2<sup>nd</sup> Addendum is attached to and made a part of that certain Oil and Gas Lease dated March 15, 2005, between the State of Texas, acting by and through its agent, and Julian Wade Meeker, Daniel Hill Meeker, and Lawrence Hill Meeker, all as Co-Trustees under the Will of J.R. Meeker for the lifetime benefit of L.H. Meeker, Owner of the Soil, and Petro-Hunt, L.L.C., Lessee.

Notwithstanding any provisions of this Lease to the contrary, it is expressly understood and agreed by and between the parties that:

1. Lessee is granted the right to use existing roads on the leased premises for ingress and egress, and to the extent such roads are used by Lessee, agrees to maintain, restore and keep roads in usable condition so long as this lease is in force and effect.
2. Lessee shall notify Lessor a minimum of 24 hours before cutting any new road, if necessary, into or on the leased premises.
3. Lessee shall install and maintain cattle guards at every fence crossing, said cattle guards to remain upon premises as Lessor's property at the expiration of this lease.
4. Lessee will bury and maintain all pipelines and electrical transmission lines 18 inches deep below the surface of the ground.
5. Lessee may use no more of the surface of the leased premises than is reasonably necessary to use for the purpose of which this lease is granted, and it shall exercise all rights granted to it herein with due regard for the rights of the Surface Owner.
6. Lessee, its successors and assigns, shall not erect any buildings or houses on the leased premises and that only those structures which are reasonably necessary for production facilities or tank batteries shall be erected on the surface of the leased premises.
7. Lessee will not pollute any water aquifers or fresh water in, upon or under the leased premises, and Lessee agrees to notify Surface Owner in writing if fresh water is encountered during drilling, or if a fresh water formation is penetrated.
8. Lessee shall maintain all drill sites and other portions of the surface used or occupied by Lessee, its successors or assigns, free and clear of weed and noxious vegetation, and will maintain the same in a reasonable manner to prevent additional damage to Surface Owner, other land, and crops.
9. Upon written demand by Surface Owner, Lessee shall build and maintain fences around its slush, sump and drainage pits and tank batteries to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level off all slush pits and cellars and completely clean up the drill site of all rubbish thereon.
10. In the event of a dry hole or production from a well which production ceases and the abandonment of such well, or upon the abandonment of any well location, drill site, tank battery site or roadway, the premises will be restored by Lessee as nearly as reasonably possible to its former condition at the cost and expense of Lessee, it being the intention of the parties hereto that Lessee shall restore the surface to as nearly the state that is in at the time of execution of this lease.
11. If all or any part of this lease is assigned, released, pooled or unitized, Lessee agrees to furnish the Surface Owner with a copy of any such document.
12. This lease grants no hunting or fishing rights whatsoever. Furthermore, Lessee, its agents, contractors, employees or assigns shall be prohibited from carrying or transporting firearms of any type upon or across the herein premises.
13. Weather permitting, Lessee shall remove from the herein described premises any and all structures, equipment and property of every kind and character placed by Lessee on said premises within ninety (90) days after Lessee has finished with the use of the area where such structure, equipment and property are placed. After thirty (30) days written notice to Lessee by Surface Owner, any such structure, equipment or property left on the lease premises by Lessee after the ninety (90) day period, shall at Lessor's option, become the property of Surface Owner. Lessee shall properly plug all wells drilled by Lessee on the leased premises in accordance with the requirements of the Railroad Commission of Texas, the Texas Natural Resources Conservation commission or other governmental agency having jurisdiction. In plugging the wells, Lessee shall cut off the casing at least thirty six (36) inches below the surface.



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FILE NO. 2856

FILED FOR RECORD ON THE 14TH DAY OF JULY A.D. 2005 4:49 P M.

DULY RECORDED ON THE 19TH DAY OF JULY A.D. 2005 9:00 A M.

BY: [Signature], DEPUTY

DIANNE O. FLOREZ, COUNTY CLERK  
REEVES COUNTY, TEXAS

ANY PROVISIONS HEREIN THAT REQUIRE THE SEAL, RENTAL,  
OR USE OF THE INSTRUCTIONS HEREIN BECAUSE OF COLOR  
OR PAGE QUALITY AND/OR REPAIRS UNDER FEDERAL  
LAW

3.  
File No. NF 105524  
[Signature]  
Date Filed: 6/24/05  
By [Signature] Jerry E. Patterson, Commissioner

3  
5  
5  
5  
3

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

The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL. 705, PAGE 790, THRU 799.



I hereby certified on JULY 20, 2005

DIANNE O. FLOREZ, COUNTY CLERK  
REEVES COUNTY, TEXAS

BY [Signature] DEPUTY

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

February 7, 2006

Attn: Jacqueline Avery  
Petro-Hunt, L.L.C.  
1601 Elm St. Ste. 3400  
Dallas, Texas 75201-7201

Re: RELINQUISHMENT ACT LEASE No. M-105524  
559.98 acres out of Sec. 22, Blk. 59, PSL  
Reeves County, Texas

Dear Ms. Avery,

The certified copy of the Relinquishment Act lease covering the above referenced tracts has been approved and filed in our records under mineral file number M-105524. Please refer to this number in all future correspondence concerning the lease.

Your remittance of \$42,123.50, has been applied as the state's portion of the cash bonus \$41,998.50, 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](http://www.glo.state.tx.us)

File No. MF105524 4.  
820 letter  
Date Filed: 2/7/06  
Jerry E. Patterson, Commissioner  
By [Signature]

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

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

| OWNER NAME                       | OWNER NO. | DATE               | CHECK NUMBER   | AMOUNT                    |
|----------------------------------|-----------|--------------------|----------------|---------------------------|
| <b>TEXAS GENERAL LAND OFFICE</b> |           | <b>Apr-11-2006</b> | <b>7004483</b> | <b><del>\$23.34</del></b> |

LEASE NUMBER 118\*1019270 ORIGINAL LESSOR/LEASE NAME **AWP 1983 TRUST** DATE 04/11/06 CHECK NO 7004483

RENTAL PERIOD

LEASE DATE MONTHS FROM TO FILE ID  
05/15/05 12 05/15/06 05/15/07 68350-0040-004

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

PAYMENT AMOUNT 23.34

TO BE CREDITED TO ADDITIONAL TEXT

BANK SERVICE CHG

TOTAL AMOUNT 23.34

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

RECORDED BOOK 708 PAGE 237 ENTRY  
PROSPECT N W TOYAH PROSPECT  
COUNTY/PARISH REEVES STATE TX

LEGAL DESCRIPTION  
**REEVES COUNTY TEXAS BLOCK 59, PUBLIC  
SCHOOL LAND SURVEY SEC. 22: N/280AC  
BEING 280.00 ACRES MORE OR LESS**

M-105524

121  
RECEIVED  
06 APR 18 PM 1:55  
06037198

90014

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

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

| OWNER NAME                | OWNER NO. | DATE        | CHECK NUMBER | AMOUNT  |
|---------------------------|-----------|-------------|--------------|---------|
| TEXAS GENERAL LAND OFFICE |           | Apr-11-2006 | 7004481      | \$23.34 |

LEASE NUMBER  
118\*1019268

ORIGINAL LESSOR/LEASE NAME  
CHARLES R MEEKER TRUST U/A

DATE  
04/11/06

CHECK NO 7004481

LEASE DATE MONTHS FROM TO FILE ID  
05/20/05 12 05/20/06 05/20/07 68350-0040-003

RENTAL PERIOD

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

PAYMENT AMOUNT 23.34

BANK SERVICE CHG

TOTAL AMOUNT 23.34

TO BE CREDITED TO ADDITIONAL TEXT

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

RECORDED BOOK 708 PAGE 199

ENTRY

PROSPECT N W TOYAH PROSPECT

COUNTY/PARISH REEVES

STATE TX

TRACT NO 20115

LEGAL DESCRIPTION

REEVES COUNTY TEXAS BLOCK 59, PUBLIC  
SCHOOL LAND SURVEY SEC. 22: N/280AC  
BEING 280.00 ACRES MORE OR LESS

M-105524

06037199

00.01.4

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

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

Page 1 of 1

| OWNER NAME                | OWNER NO. | DATE        | CHECK NUMBER | AMOUNT  |
|---------------------------|-----------|-------------|--------------|---------|
| TEXAS GENERAL LAND OFFICE |           | Apr-11-2006 | 7004510      | \$12.64 |

|                             |                                                      |                           |                     |
|-----------------------------|------------------------------------------------------|---------------------------|---------------------|
| LEASE NUMBER<br>118*1019907 | ORIGINAL LESSOR/LEASE NAME<br>MEEKER CHARLES R TRUST | DATE<br>04/11/06          | CHECK NO<br>7004510 |
| LEASE DATE<br>05/20/05      | MONTHS<br>12                                         | FROM<br>05/19/06          | TO<br>05/19/07      |
| RENTAL PERIOD               |                                                      | FILE ID<br>68352-0090-008 |                     |

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

|                  |       |
|------------------|-------|
| PAYMENT AMOUNT   | 12.64 |
| BANK SERVICE CHG | 0.00  |
| TOTAL AMOUNT     | 12.64 |

TO BE CREDITED TO                      ADDITIONAL TEXT

OWNER # 58207  
TEXAS GENERAL LAND OFFICE  
1700 N CONGRESS AVENUE ROOM 60  
AUSTIN, TEXAS 78701  
SSN/TAX ID  
RECORDED BOOK 708                      PAGE 190                      ENTRY 003390  
PROSPECT SOUTH DELAWARE BASIN  
COUNTY/PARISH REEVES                      STATE TX  
TRACT NO 20540  
LEGAL DESCRIPTION  
BLOCK 58, PUBLIC SCHOOL LAND SURVEY  
SEC. 14: E/2  
\*\*\*MORE TRACTS ON LEASE\*\*\*

06037204

M-105524

90.01.4

**PETRO-HUNT, L.L.C.**

1601 Elm Street, Suite 3400

Dallas, Texas 75201

(214) 880-8400

**JPMorgan Chase Bank, N.A.**

Jefferson County

8200 Hwy 69

Port Arthur, Texas 77640

Page 1 of 1

| OWNER NAME                | OWNER NO. | DATE        | CHECK NUMBER | AMOUNT  |
|---------------------------|-----------|-------------|--------------|---------|
| TEXAS GENERAL LAND OFFICE |           | Apr-11-2006 | 7004508      | \$12.64 |

LEASE NUMBER

118\*1019906

ORIGINAL LESSOR/LEASE NAME

AWP 1983 TRUST

DATE

04/11/06

CHECK NO

7004508

RENTAL PERIOD

LEASE DATE

MONTHS

FROM

TO

FILE ID

05/15/05

12

05/14/06

05/14/07

68352-0090-007

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

PAYMENT AMOUNT

12.64

BANK SERVICE CHG

0.00

TOTAL AMOUNT

12.64

TO BE CREDITED TO

ADDITIONAL TEXT

OWNER # 58207

TEXAS GENERAL LAND OFFICE

1700 N CONGRESS AVENUE ROOM 60

AUSTIN, TEXAS 78701

SSN/TAX ID

RECORDED BOOK 708

PAGE 226

ENTRY 003394

PROSPECT SOUTH DELAWARE BASIN

COUNTY/PARISH REEVES

STATE TX

TRACT NO 20540

LEGAL DESCRIPTION

BLOCK 58, PUBLIC SCHOOL LAND SURVEY

SEC. 14, E/2 15W/4

\*\*\*MORE TRACTS ON LEASE\*\*\*

M - 105524

06037205

90.07.4

**PETRO-HUNT, L.L.C.**

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

**JPMorgan Chase Bank, N.A.**

Jefferson County  
 8200 Hwy 69  
 Port Arthur, Texas 77640

Page 1 of 1

| OWNER NAME                       | OWNER NO. | DATE               | CHECK NUMBER   | AMOUNT         |
|----------------------------------|-----------|--------------------|----------------|----------------|
| <b>TEXAS GENERAL LAND OFFICE</b> |           | <b>Apr-11-2006</b> | <b>7004501</b> | <b>\$53.33</b> |

LEASE NUMBER  
 118\*1019699

ORIGINAL LESSOR/LEASE NAME  
**COLLIE C MICHAELS**  
 RENTAL PERIOD

DATE 04/11/06

CHECK NO 7004501

LEASE DATE MONTHS FROM TO FILE ID  
 05/14/05 12 05/14/06 05/14/07 68350-0048-002

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

PAYMENT AMOUNT 53.33

TO BE CREDITED TO ADDITIONAL TEXT

BANK SERVICE CHG

TOTAL AMOUNT 53.33

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

SSN/TAX ID  
 RECORDED BOOK 704 PAGE 510  
 PROSPECT N W TOYAH PROSPECT  
 COUNTY/PARISH REEVES  
 TRACT NO 20429

ENTRY

STATE TX

LEGAL DESCRIPTION  
**REEVES COUNTY TEXAS BLOCK 59, PUBLIC**  
**SCHOOL LAND SURVEY SEC. 37: NE/4 &**  
**SW/4 BEING 320.00 ACRES MORE OR LESS**

M-105524

06037207

90.07.4

✓  
**PETRO-HUNT, L.L.C.**

1601 Elm Street, Suite 3400

Dallas, Texas 75201

(214) 880-8400

**JPMorgan Chase Bank, N.A.**

Jefferson County

8200 Hwy 69

Port Arthur, Texas 77640

Page 1 of 1

| OWNER NAME                       | OWNER NO. | DATE               | CHECK NUMBER   | AMOUNT         |
|----------------------------------|-----------|--------------------|----------------|----------------|
| <b>TEXAS GENERAL LAND OFFICE</b> |           | <b>Apr-11-2006</b> | <b>7004503</b> | <b>\$53.33</b> |

LEASE NUMBER

118\*1019700

ORIGINAL LESSOR/LEASE NAME

KATIE ONISIPHOROU

DATE

04/11/06

CHECK NO

7004503

RENTAL PERIOD

LEASE DATE

MONTHS

FROM

TO

FILE ID

05/14/05

12

05/14/06

05/14/07

68350-0048-003

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

PAYMENT AMOUNT

53.33

TO BE CREDITED TO

ADDITIONAL TEXT

BANK SERVICE CHG

TOTAL AMOUNT

53.33

OWNER # 58207

TEXAS GENERAL LAND OFFICE

1700 N CONGRESS AVENUE ROOM 60

AUSTIN, TEXAS 78701

SSN/TAX ID

RECORDED BOOK 704

PAGE 519

ENTRY

PROSPECT N W TOYAH PROSPECT

COUNTY/PARISH REEVES

STATE TX

TRACT NO 20429

LEGAL DESCRIPTION

REEVES COUNTY TEXAS BLOCK 59, PUBLIC

SCHOOL LAND SURVEY SEC. 37: NE/4 &amp;

SW/4 BEING 320.00 ACRES MORE OR LESS

M-105524

06037208

90.07.4

File No.

mf105524

5.

RENTAL PAYMENT

Date Filed:

4/18/06

Jerry E. Patterson, Commissioner

By

*[Signature]*

80558020

4.70.00

738247

## PETRO-HUNT, L.L.C.

1601 Elm Street, Suite 3400

Dallas, Texas 75201

(214) 880-8400

## JPMorgan Chase Bank, N.A.

Jefferson County

8200 Hwy 69

Port Arthur, Texas 77640

Page 1 of 1

| OWNER NAME                | OWNER NO. | DATE        | CHECK NUMBER | AMOUNT  |
|---------------------------|-----------|-------------|--------------|---------|
| TEXAS GENERAL LAND OFFICE |           | Feb-13-2006 | 7004109      | \$46.67 |

LEASE NUMBER

118\*1019262

ORIGINAL LESSOR/LEASE NAME

J R MEEKER TRUST

DATE

02/13/06

CHECK NO

7004109

RENTAL PERIOD

LEASE DATE

MONTHS

FROM

TO

FILE ID

03/15/05

12

03/15/06

03/15/07

68350-0040-001

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

PAYMENT AMOUNT

46.67

TO BE CREDITED TO

ADDITIONAL TEXT

BANK SERVICE CHG

TOTAL AMOUNT

46.67

OWNER # 58207

TEXAS GENERAL LAND OFFICE

1700 N CONGRESS AVENUE ROOM 60

AUSTIN, TEXAS 78701

SSN/TAX ID

RECORDED BOOK 705

PAGE 790

ENTRY

PROSPECT N W TOYAH PROSPECT

COUNTY/PARISH REEVES

STATE TX

TRACT NO 20115

LEGAL DESCRIPTION

REEVES COUNTY TEXAS BLOCK 59, PUBLIC

SCHOOL LAND SURVEY SEC. 22: N/280AC

BEING 280.00 ACRES MORE OR LESS

M-105524

06027716  
06027715

90.42.3

**PETRO-HUNT, L.L.C.**

1601 Elm Street, Suite 3400

Dallas, Texas 75201

(214) 880-8400

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Jefferson County

8200 Hwy 69

Port Arthur, Texas 77640

Page 1 of 1

| OWNER NAME                | OWNER NO. | DATE        | CHECK NUMBER | AMOUNT  |
|---------------------------|-----------|-------------|--------------|---------|
| TEXAS GENERAL LAND OFFICE |           | Feb-13-2006 | 7004111      | \$46.67 |

LEASE NUMBER

118\*1019266

ORIGINAL LESSOR/LEASE NAME

MEEKER J J

DATE

02/13/06

CHECK NO

7004111

RENTAL PERIOD

LEASE DATE

MONTHS

FROM

TO

FILE ID

03/15/05

12

03/15/06

03/15/07

68350-0040-002

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

PAYMENT AMOUNT

46.67

BANK SERVICE CHG

TOTAL AMOUNT

46.67

TO BE CREDITED TO

ADDITIONAL TEXT

OWNER # 58207

TEXAS GENERAL LAND OFFICE

1700 N CONGRESS AVENUE ROOM 60

AUSTIN, TEXAS 78701

SSN/TAX ID

RECORDED BOOK 702

PAGE 599

ENTRY

PROSPECT N W TOYAH PROSPECT

COUNTY/PARISH REEVES

STATE TX

TRACT NO 20115

LEGAL DESCRIPTION

REEVES COUNTY TEXAS BLOCK 59, PUBLIC

SCHOOL LAND SURVEY SEC. 22: N/280AC

BEING 280.00 ACRES MORE OR LESS

MP105524

90.42.3

File No. MF 105524

RENTIAL PAYMENT

Date Filed: 7/24/06

Jerry E. Patterson, Commissioner

By 

0005175

5.54.00

730713

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

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

Page 1 of 1

| OWNER NAME                | OWNER NO. | DATE        | CHECK NUMBER | AMOUNT  |
|---------------------------|-----------|-------------|--------------|---------|
| TEXAS GENERAL LAND OFFICE |           | Apr-11-2007 | 7006032      | \$23.34 |

|                             |                                                          |                           |                     |
|-----------------------------|----------------------------------------------------------|---------------------------|---------------------|
| LEASE NUMBER<br>118*1019268 | ORIGINAL LESSOR/LEASE NAME<br>CHARLES R MEEKER TRUST U/A | DATE<br>04/11/07          | CHECK NO<br>7006032 |
| LEASE DATE<br>05/20/05      | RENTAL PERIOD<br>FROM 05/20/07 TO 05/20/08               | FILE ID<br>68350-0040-003 |                     |

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

PAYMENT AMOUNT 23.34

BANK SERVICE CHG

TOTAL AMOUNT 23.34

TO BE CREDITED TO

ADDITIONAL TEXT

OWNER # 58207  
TEXAS GENERAL LAND OFFICE  
1700 N CONGRESS AVENUE ROOM 60  
AUSTIN, TEXAS 78701  
RECORDED BOOK 708 PAGE 199  
PROSPECT N W TOYAH PROSPECT  
COUNTY/PARISH REEVES  
TRACT NO 20115  
LEGAL DESCRIPTION

ENTRY

STATE TX

REEVES COUNTY TEXAS BLOCK 59, PUBLIC  
SCHOOL LAND SURVEY SEC. 22: N/280AC  
BEING 280.00 ACRES MORE OR LESS

M-105524

07038437

153255

20.524

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

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

Page 1 of 1

| OWNER NAME                | OWNER NO. | DATE        | CHECK NUMBER | AMOUNT  |
|---------------------------|-----------|-------------|--------------|---------|
| TEXAS GENERAL LAND OFFICE |           | Apr-11-2007 | 7006034      | \$23.34 |

|                             |                                              |                           |                     |
|-----------------------------|----------------------------------------------|---------------------------|---------------------|
| LEASE NUMBER<br>118*1019270 | ORIGINAL LESSOR/LEASE NAME<br>AWP 1983 TRUST | DATE<br>04/11/07          | CHECK NO<br>7006034 |
| LEASE DATE<br>05/15/05      | RENTAL PERIOD<br>FROM 05/15/07 TO 05/15/08   | FILE ID<br>68350-0040-004 |                     |

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

PAYMENT AMOUNT 23.34

BANK SERVICE CHG

TOTAL AMOUNT 23.34

TO BE CREDITED TO ADDITIONAL TEXT

OWNER # 58207  
 TEXAS GENERAL LAND OFFICE  
 1700 N CONGRESS AVENUE ROOM 60  
 AUSTIN, TEXAS 78701  
 RECORDED BOOK 708 PAGE 237 ENTRY  
 PROSPECT N W TOYAH PROSPECT STATE TX  
 COUNTY/PARISH REEVES  
 TRACT NO 20115  
 LEGAL DESCRIPTION  
 REEVES COUNTY TEXAS BLOCK 59, PUBLIC  
 SCHOOL LAND SURVEY SEC. 22: N/280AC  
 BEING 280.00 ACRES MORE OR LESS

M-105524

121  
07038438

20.524

File No. MF 105524 . 7.

(4) RENTAL PAYMENTS

Date Filed: 9/29/07

By Jerry E. Patterson, Commissioner  
JP

8E48E070

A. 52.05

831363

**PETRO-HUNT, L.L.C.**

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

**JPMorgan Chase Bank, N.A.**

Jefferson County  
8200 Hwy 69  
Port Arthur, Texas 77640

Page 1 of 1

| OWNER NAME                | OWNER NO. | DATE        | CHECK NUMBER | AMOUNT  |
|---------------------------|-----------|-------------|--------------|---------|
| TEXAS GENERAL LAND OFFICE |           | Feb-13-2007 | 7005606      | \$46.67 |

LEASE NUMBER  
118\*1019262

ORIGINAL LESSOR/LEASE NAME

J R MEEKER TRUST

DATE

02/13/07

CHECK NO 7005606

RENTAL PERIOD

| LEASE DATE | MONTHS | FROM     | TO       | FILE ID        |
|------------|--------|----------|----------|----------------|
| 03/15/05   | 12     | 03/15/07 | 03/15/08 | 68350-0040-001 |

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

PAYMENT AMOUNT 46.67

BANK SERVICE CHG

TOTAL AMOUNT 46.67

TO BE CREDITED TO

ADDITIONAL TEXT

OWNER # 58207

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

RECORDED BOOK 705 PAGE 790

ENTRY

PROSPECT N W TOYAH PROSPECT

COUNTY/PARISH REEVES

STATE TX

TRACT NO 20115

LEGAL DESCRIPTION

REEVES COUNTY TEXAS BLOCK 59, PUBLIC  
SCHOOL LAND SURVEY SEC. 22: N/280AC  
BEING 280.00 ACRES MORE OR LESS

121

M-105524

07028118

20.03.2

**PETRO-HUNT, L.L.C.**

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

**JPMorgan Chase Bank, N.A.**

Jefferson County  
 8200 Hwy 69  
 Port Arthur, Texas 77640

Page 1 of 1

| OWNER NAME                | OWNER NO. | DATE        | CHECK NUMBER | AMOUNT  |
|---------------------------|-----------|-------------|--------------|---------|
| TEXAS GENERAL LAND OFFICE |           | Feb-13-2007 | 7005608      | \$46.67 |

LEASE NUMBER  
 118\*1019266

ORIGINAL LESSOR/LEASE NAME  
 MEEKER J J

DATE

02/13/07

CHECK NO 7005608

RENTAL PERIOD

| LEASE DATE | MONTHS | FROM     | TO       | FILE ID        |
|------------|--------|----------|----------|----------------|
| 03/15/05   | 12     | 03/15/07 | 03/15/08 | 68350-0040-002 |

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

PAYMENT AMOUNT 46.67

TO BE CREDITED TO

ADDITIONAL TEXT

BANK SERVICE CHG

TOTAL AMOUNT 46.67

OWNER # 58207

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

RECORDED BOOK 702 PAGE 599

ENTRY

PROSPECT N W TOYAH PROSPECT

COUNTY/PARISH REEVES

STATE TX

TRACT NO 20115

LEGAL DESCRIPTION

REEVES COUNTY TEXAS BLOCK 59, PUBLIC  
 SCHOOL LAND SURVEY SEC. 22, N/280AC  
 BEING 280.00 ACRES MORE OR LESS

M-105524

07028119

20-02-7

5.50.05

833320

01185070

File No. WF-105524 8.

Rental

Date Filed: 2-26-67

Jerry E. Patterson, Commissioner

By JEK

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

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

Page 1 of 1

| OWNER NAME                   | OWNER NO. | DATE        | CHECK NUMBER | AMOUNT   |
|------------------------------|-----------|-------------|--------------|----------|
| ST OF TX GENERAL LAND OFFICE |           | Apr-08-2008 | 7007738      | \$583.38 |

|                             |                                              |                           |                     |
|-----------------------------|----------------------------------------------|---------------------------|---------------------|
| LEASE NUMBER<br>118*1019270 | ORIGINAL LESSOR/LEASE NAME<br>AWP 1983 TRUST | DATE<br>04/08/08          | CHECK NO<br>7007738 |
| LEASE DATE<br>05/15/05      | RENTAL PERIOD<br>FROM 05/15/08 TO 05/15/09   | FILE ID<br>68350-0040-004 |                     |

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

PAYMENT AMOUNT 583.38

BANK SERVICE CHG 0.00

TOTAL AMOUNT 583.38

TO BE CREDITED TO

ADDITIONAL TEXT

OWNER # 73248

ST TX MP 105524

RECORDED BOOK 708

PAGE 237

ENTRY

PROSPECT N W TOYAH PROSPECT

COUNTY/PARISH REEVES

STATE TX

TRACT NO 20115

LEGAL DESCRIPTION

REEVES COUNTY TEXAS BLOCK 59 PUBLIC

SCHOOL LAND SURVEY SEC. 22 N/280AC

BEING 280.00 ACRES MORE OR LESS

08015364

00.11.4

File No. MF-105524

9.

RENTAL PAYMENT

Date Filed: 4-11-08

Jerry E. Patterson, Commissioner

By LINDA ANDERSON

08012304

ATT. 904621

**PETRO-HUNT, L.L.C.**

1601 Elm Street, Suite 3400

Dallas, Texas 75201

(214) 880-8400

**JPMorgan Chase Bank, N.A.**

Jefferson County

8200 Hwy 69

Port Arthur, Texas 77640

Page 1 of 1

| OWNER NAME                   | OWNER NO. | DATE        | CHECK NUMBER | AMOUNT  |
|------------------------------|-----------|-------------|--------------|---------|
| ST OF TX GENERAL LAND OFFICE |           | Feb-13-2008 | 7007248      | \$93.75 |

LEASE NUMBER

118\*1019275

ORIGINAL LESSOR/LEASE NAME

HILL INVESTMENTS LTD

DATE

02/13/08

CHECK NO 7007248

RENTAL PERIOD

LEASE DATE

MONTHS

FROM

TO

FILE ID

03/15/05

12

03/15/08

03/15/09

68350-0041-004

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

PAYMENT AMOUNT

93.75

TO BE CREDITED TO

ADDITIONAL TEXT

BANK SERVICE CHG

0.00

TOTAL AMOUNT

93.75

OWNER # 73248

ST TX MF 105524

RECORDED BOOK 402

PAGE 631

ENTRY

PROSPECT N W TOYAH PROSPECT

COUNTY/PARISH REEVES

STATE TX

TRACT NO 20121

LEGAL DESCRIPTION

REEVES COUNTY TEXAS BLOCK 59, PUBLIC

SCHOOL LAND SURVEY SEC. 22: S/360

ACRES BEING 360.00 ACRES MORE OR LESS

08012553



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

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

Page 1 of 1

| OWNER NAME                   | OWNER NO. | DATE        | CHECK NUMBER | AMOUNT  |
|------------------------------|-----------|-------------|--------------|---------|
| ST OF TX GENERAL LAND OFFICE |           | Feb-13-2008 | 7007250      | \$93.75 |

LEASE NUMBER  
118\*1019276

ORIGINAL LESSOR/LEASE NAME  
H-S MINERALS & REALTY LTD  
RENTAL PERIOD

DATE

02/13/08

CHECK NO 7007250

LEASE DATE MONTHS FROM TO FILE ID  
03/15/05 12 03/15/08 03/15/09 68350-0041-005

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

PAYMENT AMOUNT 93.75

BANK SERVICE CHG 0.00

TOTAL AMOUNT 93.75

TO BE CREDITED TO

ADDITIONAL TEXT

OWNER # 73248

ST TX MP 105524

RECORDED BOOK 766

PAGE 588

ENTRY

PROSPECT N W IOYAH PROSPECT

COUNTY/PARISH REEVES

STATE TX

TRACT NO 20121

LEGAL DESCRIPTION

REEVES COUNTY TEXAS BLOCK 59, PUBLIC

SCHOOL LAND SURVEY SEC. 22: S/360

ACRES BEING 360.00 ACRES MORE OR LESS

08012550

**PETRO-HUNT, L.L.C.**

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

**JPMorgan Chase Bank, N.A.**

Jefferson County  
 8200 Hwy 69  
 Port Arthur, Texas 77640

Page 1 of 1

| OWNER NAME                   | OWNER NO. | DATE        | CHECK NUMBER | AMOUNT     |
|------------------------------|-----------|-------------|--------------|------------|
| ST OF TX GENERAL LAND OFFICE |           | Feb-13-2008 | 7007246      | \$1,031.25 |

|                             |                                                                          |                           |                     |
|-----------------------------|--------------------------------------------------------------------------|---------------------------|---------------------|
| LEASE NUMBER<br>118*1019274 | ORIGINAL LESSOR/LEASE NAME<br>KEENON DOROTHY JEAN ET AL<br>RENTAL PERIOD | DATE<br>02/13/08          | CHECK NO<br>7007246 |
| LEASE DATE<br>03/15/05      | MONTHS<br>12                                                             | FROM<br>03/15/08          | TO<br>03/15/09      |
|                             |                                                                          | FILE ID<br>68350-0041-003 |                     |

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

TO BE CREDITED TO                      ADDITIONAL TEXT

OWNER # 73248

ST TX MP 105524

RECORDED BOOK 702                      PAGE 609

PROSPECT NEW TOYAH PROSPECT

COUNTY/PARISH REEVES

TRACT NO 20121

LEGAL DESCRIPTION

REEVES COUNTY TEXAS BLOCK 59, PUBLIC

SCHOOL LAND SURVEY SEC. 22: S/360

ACRES BEING 360.00 ACRES MORE OR LESS

PAYMENT AMOUNT                      1,031.25

BANK SERVICE CHG                      0.00

TOTAL AMOUNT                      1,031.25

08012551



**PETRO-HUNT, L.L.C.**

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

**JPMorgan Chase Bank, N.A.**

Jefferson County  
 8200 Hwy 69  
 Port Arthur, Texas 77640

Page 1 of 1

| OWNER NAME                   | OWNER NO. | DATE        | CHECK NUMBER | AMOUNT     |
|------------------------------|-----------|-------------|--------------|------------|
| ST OF TX GENERAL LAND OFFICE |           | Feb-13-2008 | 7007236      | \$1,166.63 |

|                             |                                            |                           |                     |
|-----------------------------|--------------------------------------------|---------------------------|---------------------|
| LEASE NUMBER<br>118*1019266 | ORIGINAL LESSOR/LEASE NAME<br>MEEKER J J   | DATE<br>02/13/08          | CHECK NO<br>7007236 |
| LEASE DATE<br>03/15/05      | RENTAL PERIOD<br>FROM 03/15/08 TO 03/15/09 | FILE ID<br>68350-0040-002 |                     |

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

PAYMENT AMOUNT 1,166.63

BANK SERVICE CHG 0.00

TOTAL AMOUNT 1,166.63

TO BE CREDITED TO

ADDITIONAL TEXT

OWNER # 73248

ST TX MF 105524

RECORDED BOOK 702

PAGE 599

ENTRY

PROSPECT N W TOYAH PROSPECT

COUNTY/PARISH REEVES

STATE TX

TRACT NO 20115

LEGAL DESCRIPTION

REEVES COUNTY TEXAS BLOCK 59, PUBLIC

SCHOOL LAND SURVEY SEC. 22: N/280AC

BEING 280.00 ACRES MORE OR LESS

08012552

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

Page 1 of 1

| OWNER NAME                   | OWNER NO. | DATE        | CHECK NUMBER | AMOUNT     |
|------------------------------|-----------|-------------|--------------|------------|
| ST OF TX GENERAL LAND OFFICE |           | Feb-13-2008 | 7007242      | \$1,031.25 |

LEASE NUMBER  
118\*1019273ORIGINAL LESSOR/LEASE NAME  
HILL TRUSTS  
RENTAL PERIOD

DATE

02/13/08

CHECK NO 7007242

| LEASE DATE | MONTHS | FROM     | TO       | FILE ID        |
|------------|--------|----------|----------|----------------|
| 03/15/05   | 12     | 03/15/08 | 03/15/09 | 68350-0041-002 |

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

PAYMENT AMOUNT 1,031.25

BANK SERVICE CHG 0.00

TOTAL AMOUNT 1,031.25

TO BE CREDITED TO

ADDITIONAL TEXT

OWNER # 73248

ST TX MF 105524

RECORDED BOOK 7023

PAGE 620

ENTRY

PROSPECT N W TOYAH PROSPECT

COUNTY/PARISH REEVES

STATE TX

TRACT NO 20121

LEGAL DESCRIPTION

REEVES COUNTY TEXAS BLOCK 59, PUBLIC

SCHOOL LAND SURVEY SEC. 22: S/360

ACRES BEING 360.00 ACRES MORE OR LESS

08012558

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

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

Page 1 of 1

| OWNER NAME                          | OWNER NO. | DATE               | CHECK NUMBER   | AMOUNT            |
|-------------------------------------|-----------|--------------------|----------------|-------------------|
| <b>ST OF TX GENERAL LAND OFFICE</b> |           | <b>Feb-13-2008</b> | <b>7007234</b> | <b>\$1,166.63</b> |

|                              |                                                |                           |                     |
|------------------------------|------------------------------------------------|---------------------------|---------------------|
| LEASE NUMBER<br>*118*1019262 | ORIGINAL LESSOR/LEASE NAME<br>J R MEEKER TRUST | DATE<br>02/13/08          | CHECK NO<br>7007234 |
| LEASE DATE<br>03/15/05       | RENTAL PERIOD<br>FROM 03/15/08 TO 03/15/09     | FILE ID<br>68350-0040-001 |                     |

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

|                  |          |
|------------------|----------|
| PAYMENT AMOUNT   | 1,166.63 |
| BANK SERVICE CHG | 0.00     |
| TOTAL AMOUNT     | 1,166.63 |

TO BE CREDITED TO

ADDITIONAL TEXT

OWNER # 73248  
 ST TX MP 105524  
 RECORDED BOOK 705 PAGE 790  
 PROSPECT N W IOYAH PROSPECT  
 COUNTY/PARISH REEVES  
 TRACT NO 20115  
 LEGAL DESCRIPTION  
 REEVES COUNTY TEXAS BLOCK 59, PUBLIC  
 SCHOOL LAND SURVEY SEC. 22: N/280AC  
 BEING 280.00 ACRES MORE OR LESS

ENTRY

STATE TX

*received*  
*3/31/08*  
*rd*

*121*

08012555

File No. MF- 105524

Dental Report

Date Filed: 3-3-08

Jerry E. Patterson, Commissioner

By Sua

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08015222

907282