

STATE LEASE

MF106093

CONTROL	BASEFILE		COUNTY	
01-2809	000	-	BRAZOS	/021
01-2818	000	-	GRIMES	/093

SURVEY : NAVASOTA RIVER
BLOCK :
TOWNSHIP : 00
SECTION/TRACT:
PART :
ACRES : 15.00
DEPTH LIMITS : NO

LESSEE : PATTERSON PETROLEUM LP.
LEASE DATE : Apr 04 2006
PRIMARY TERM : 6 mos
BONUS (\$) : 2250.00
RENTAL (\$) : 0.00
ROYALTY : 0.25000000
VAR ROYALTY :

Rentals: *YMS*

Lease
Admin:

Mineral
Maps:

F1037333

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

CONTENTS OF FILE NO. M-F106093

1. Letter - Term Pooling 4/30/06

2. GSD Letter 5/1/06

See MF105301#5 for Pooling

Committee Report + Term Pooling
Agreement. 5/10/06

See MF105301#6 for Pooling

Committee Report + Term Pooling
Agreement Pursuant to TNRC 52.076 5/10/06

See MF105301#8 for Pooling

Committee Reports, Pooling Agreement,
+ Pooling Agreement Pursuant to
TNRC 52.076. 12/11/06

3. Division Orders 12/28/06

4. Pooling Agreement 2-15-07

Scanned sm 1/16/15

See MF 102980#9 FY12 Demand Letter 7/23/15.

See MF 110168 FY10-11 Demand Letter #10 1/7/16.

Scanned PJ 2-1-16

PATTERSON PETROLEUM LP

A Limited Partnership
*Barton Oaks Plaza One, Suite 430
901 Mopac Expressway South
Austin, Texas 78746-5788*

April 20, 2006

Texas General Land Office
Stephen F. Austin Building
1700 N. Congress Ave
Austin, Texas 78701-1495

Attn: Mr. J. Daryl Morgan, CPL

Re: Term Pooling Agreements
Patterson Petroleum-Peters No. 5 Well
Brazos and Grimes Counties, Texas

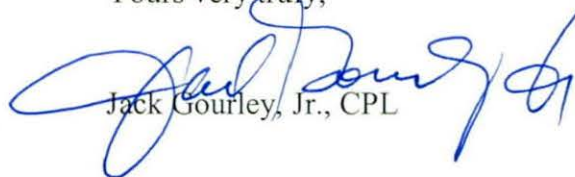
Gentlemen:

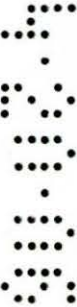
Pursuant with letter dated April 6, 2006 from Mr. J. Daryl Morgan, enclosed please find the following with regard to the captioned matter:

1. Duplicate originals of "Term Pooling Agreement Pursuant To TNRC § 52.076". We have attached Exhibits A, B & C to these documents as requested.
2. Duplicate originals of "Term Pooling Agreement" that pertains to the pooling of your lease Nos. M-105344 and M-105301. We have attached Exhibits A, B & C to these documents as requested.
3. Patterson's check payable to the Texas General Land Office in the amount of \$2250.00 representing consideration for the un-leased riverbed relating to 1. above.

Our thanks to the State for its assistance in dealing with these matters. Please return one fully executed original of each agreement for our files.

Yours very truly,


Jack Gourley, Jr., CPL



30154

1.

Copy

File No. MF706093

Letter re: Jermolov

Date Filed: 4/20/06

Jerry F. Patterson, Commissioner

By [Signature]

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

May 1, 2006

Mr. Jack Gourley, Jr., CPL
Patterson Petroleum LP
Barton Oaks Plaza One, Suite 430
901 Mopac Expressway South
Austin, Texas 78746-5788

RE: 52.076 Term Pooling Agreement and Term Pooling Agreement
Patterson-Peters No. 5 Unit
Brazos and Grimes Counties, Texas

Dear Mr. Gourley:

Enclosed are originals of the above referenced Term Pooling Agreement and Term Pooling Agreement pursuant to §52.076 that have been executed by Jerry E. Patterson, Commissioner of the Texas General Land Office. We have retained the other set of originals of the Agreements for our files. Please note the Agreement pursuant to §52.076 covering the unleased riverbed will be filed in Mineral File **M-106093** and given that State Lease number. Please refer to this file number in all future correspondence with the State involving the unleased riverbed in the referenced unit.

Thank you for your assistance with this matter, if you have any questions, please do not hesitate to contact me.

Sincerely,

J. Daryl Morgan, CPL
Energy Resources Division
(512) 305-9106

Enclosures

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

2.

File No. MF106093

20060609

Date Filed: 7/1/06

By Jerry E. Patterson, Commissioner

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

December 28, 2006

Patterson Petroleum LP
PO Box 1416
Snyder, TX 79550

Re: State Lease MF106093
Peters #5
2500.008

The General Land Office has received and filed the division order submitted for the above-referenced state lease. Please be advised that the payment of royalties attributable to state-owned mineral interests is set by statute. As the execution of division orders may, in some cases, affect the manner in which such payments are paid or calculated, it is the policy of this office not to execute them.

Subject to applicable state law and the state's right to take its production in-kind, the General Land Office acquiesces to the sale of oil and gas under the terms and conditions set out in the oil and gas lease. If you should have questions concerning this matter, please feel free to call me at (512) 463-6521.

Sincerely,

A handwritten signature in cursive script that reads "Beverly Boyd".

Beverly Boyd, Lease Analyst
Mineral Leasing Division

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

DIVISION ORDER

TO: Patterson Petroleum LP
P. O. Box 1416
Snyder, Texas 79550
PHONE 325/574-6300
FAX 325/574-6390

Property No: 2500.008
Date: December 21, 2006
Effective: Date of first production

The undersigned severally and not jointly certifies it is the legal owner of the interest set out below of all the oil, gas, condensate or other related liquid hydrocarbon substances produced from the property described below:

OPERATOR: PATTERSON PETROLEUM, LP
PROPERTY NAME: Peters #5
COUNTY: Brazos County, State of Texas
LEGAL DESCRIPTION:

MF 106093

1,280 acres, more or less, out of the Perfecto Diaz Survey, A-106, Brazos County, Texas and the J.R. Gaines Survey, Grimes County Texas

Reference to instrument herein is made for descriptive purposes only.

DIVISION OF INTEREST:

See Exhibit "A", on back hereto and made a part hereof.

THIS AGREEMENT DOES NOT AMEND ANY LEASE OR OPERATING AGREEMENT BETWEEN THE INTEREST OWNERS AND THE LESSEE OR OPERATOR OR ANY OTHER CONTRACTS FOR THE PURCHASE OF OIL OR GAS.

The following provisions apply to each interest owner ("owner") who executes this agreement:

TERMS OF SALE: The undersigned will be paid in accordance with the division of interests set out above. The payer shall pay all parties at the price agreed to by the operator for oil, gas, condensate or other related hydrocarbon substances to be sold pursuant to this division order.

PAYMENT: From the effective date, payment is to be made monthly by payer's check, based on this division of interest, for oil run and/or gas, condensate or other related hydrocarbon substances sold during the prior calendar month from the property listed above, less taxes required by law to be deducted and remitted by payer as purchaser.

INDEMNITY: The owner agrees to indemnify and hold payer harmless from all liability resulting from payments made to the owner in accordance with such division of interest, including but not limited to attorney fees or judgments in connection with any suit that affects the owner's interest to which payer is made a party.

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

In the event of a claim or dispute that affects title to the division of interest credited herein, payer is authorized to withhold payments accruing to such interest, without interest unless otherwise required by applicable statute, until the claim or dispute is settled.

TERMINATION: Termination of this agreement is effective on the first day of the month that begins after the 30th day after the date written notice of termination is received by either party.

NOTICES: The owner agrees to notify payer in writing of any change in the division of interest, including changes of interest contingent on payment of money or expiration of time.

No change of interest is binding on payer until the recorded copy of the instrument of change or documents satisfactorily evidencing such change are furnished to payer at the time the change occurs.

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

Any correspondence regarding this agreement shall be furnished to the addresses listed unless otherwise advised by either party.

In addition to the legal rights provided by the terms and provisions of this division order, an owner may have certain statutory rights under the laws of this state.

Failure to furnish your Social Security/Tax I.D. number will result in 31% withholding tax in accordance with federal law, and any tax withheld will not be refundable by payer.

DATED THIS ___ DAY OF ___, 2006

Witness Signature of Interest Owner Social Security/Tax I.D. No. Address

Phone: _____

EXHIBIT "A"
2500.008 - PETERS #5
OIL AND/OR GAS DIVISION ORDER

<u>NAME AND ADDRESS</u>	<u>SSN</u>	<u>OWNER NO</u>	<u>DECIMAL INTEREST</u>	<u>INTEREST TYPE</u>
COMMISSIONER OF THE GLO GENERAL LAND OFFICE STATE OF TEXAS STEPHEN F AUSTIN BUILDING 1700 N CONGRESS AVE AUSTIN TX 78701	74-6000108	24258	0.01891407	R

=====
0.01891407



STATE OF TEXAS
GENERAL LAND OFFICE
STEPHEN F AUSTIN BUILDING
1700 N CONGRESS AVE
AUSTIN TX 78701

INSTRUCTIONS TO ALL INTEREST OWNERS

READ CAREFULLY BEFORE SIGNING THE INSTRUMENT

This instrument should not be altered in any way unless accompanied by documentary evidence to support the change.

If your name and interest are correctly shown:

SIGNATURE:

Sign name as shown on the instrument. Have your signature witnessed by at least one person that is not related to the party signing.

If signing for a corporation, signature must be attested, corporate seal affixed, and title of signatory party shown. If not previously furnished, a certified copy of authority of executing officer must be submitted.

If signing for a partnership, all partners must sign unless signed by an authorized partner and we are furnished a certified copy of his authority.

SIGNATURE BY
SECOND PARTY:

If the instrument is signed by agent, attorney-in-fact, guardian, estate representative, trustee, or any party other than the named interest owner, we must have evidence of the rights vested in the signatory party.

TAXPAYERS IDENTIFICATION
NUMBER OR SOCIAL SECURITY
NUMBER:

Insert your social security number in the space provided unless this is a company or trust; use the tax i.d. for that entity.

MALING ADDRESS:

Indicate, in the space provided, the address to which checks are to be mailed. Print or type. Do not abbreviate. If you are already receiving checks from this company, be sure to use the same address to which we are now mailing checks.

LEASE NUMBER:

Please refer to the owner number on all correspondence.

CHANGE OF ADDRESS:

You should notify us promptly in writing of any change in your mailing address. This notice should be signed by you or your appointed agent. Always include your Owner Number (which appears on the check attachment) and your old address, and then state your new address.

If your phone number changes, please include this also.

RETURN THE EXECUTED INSTRUMENT WITHOUT DELAY TO THE ADDRESS BELOW.

Properly executed Division Orders must be received by the 1st of the month in order to place your interest in line for payment on the 10th of the month. If your Division Order is received after the 1st of the month, your interest may be placed in line for payment on the 10th of the following month.

KEEP THIS LETTER AND THE ATTACHED DIVISION OR TRANSFER ORDER COPY
FOR YOUR RECORDS.

IF THERE IS A LETTER OF REQUIREMENT, PLEASE SEND THE NECESSARY INFORMATION
FOR THE REQUIREMENT WITH YOUR EXECUTED DIVISION ORDER

PATTERSON PETROLEUM LP

Attn: Shirley Scifres

P. O. BOX 1416

SNYDER, TEXAS 79550

PHONE (325) 574-6364

FAX (325) 574-6390



3.

File No. MF706093

DIVISION ORDER

Date Filed: 12-28-06

Jerry E. Patterson, Commissioner

By [Signature]

2006

Pooling Committee Report

To: School Land Board PA06-164
Date of Board Meeting: November 7, 2006 Unit Number: 3904
Effective Date: 10/4/2006
Unit Expiration Date: Permanent
Applicant: PATTERSON PETROLEUM LP
Attorney Rep:
Operator: PATTERSON PETROLEUM LP
County 1: Brazos
County 2: Grimes
County 3:
Unit Name: Patterson-Peters No. 5 Unit
Field Name: Kurten (Buda), Kurten (Georgetown)

<u>Lease Type</u>	<u>MF Number</u>	<u>Lease Royalty</u>	<u>Expiration Date</u>	<u>Lease Term</u>	<u>Lease Acres</u>	<u>Lease Acres in Unit</u>	<u>Royalty Participation</u>
SF	MF105301	0.2	7/19/2010	5 years	72.3	72.3	0.0112969
SF	MF105344	0.2	7/19/2008	3 years	30	30	0.0046875
UR	MF106093	0.25				15	0.0029297

A part of the Navasota River is being pooled pursuant to Texas Natural Resources Code 52.076 which gives the School Land Board the authority to pool unleased riverbeds and channels.

SF = State Fee RAL = Relinquishment Act FR = Free Royalty UR = Unleased River

Private Acres:	1162.7
State Acres:	117.3
Total Unit Acres:	1280

<u>Participation Basis:</u>	
Surface Acreage	
<u>State Acreage:</u>	9.16%
<u>State Unit Royalty:</u>	1.89%

<u>Unit Type:</u>	<u>Unitized for:</u>
Permanent	Oil & Gas
<u>Term:</u>	0 Months

<u>Well Location:</u>
Private Land

<u>RRC Rules:</u>	<u>Spacing Acres:</u>
Special Field Rule	1280

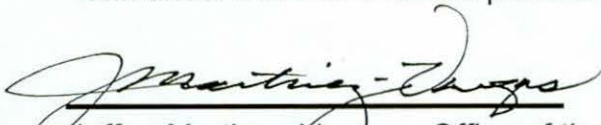
REMARKS:

- o Patterson Petroleum, L.P. is requesting permanent oil and gas pooling from the top of the Buda Formation to the base of the Georgetown Formation defined as the stratigraphic interval or its correlative equivalent occurring from 9,198 feet TVD to 9,605 feet TVD as seen in the unit well log. The requested effective date is October 4, 2006.
- o On April 4, 2006, the School Land Board approved 6-month temporary oil and gas pooling from the top of the Buda Formation to the base of the Georgetown Formation. On July 12, 2006, the applicant completed a dual lateral horizontal oil well, with completions in the Buda and Georgetown Formations. The well is currently shut-in awaiting pipeline connection.
- o The applicant previously submitted \$150.00 per acre for a total of \$2,250.00 for the unleased Navasota River acreage.


- o With approval of the unit the State's unit royalty participation will be 1.89%.

POOLING COMMITTEE RECOMMENDATION:

- o The Pooling Committee recommends Board approval of a permanent oil and gas unit under the above-stated provisions.


 Jeffee Martinez-Vargas - Office of the Attorney General

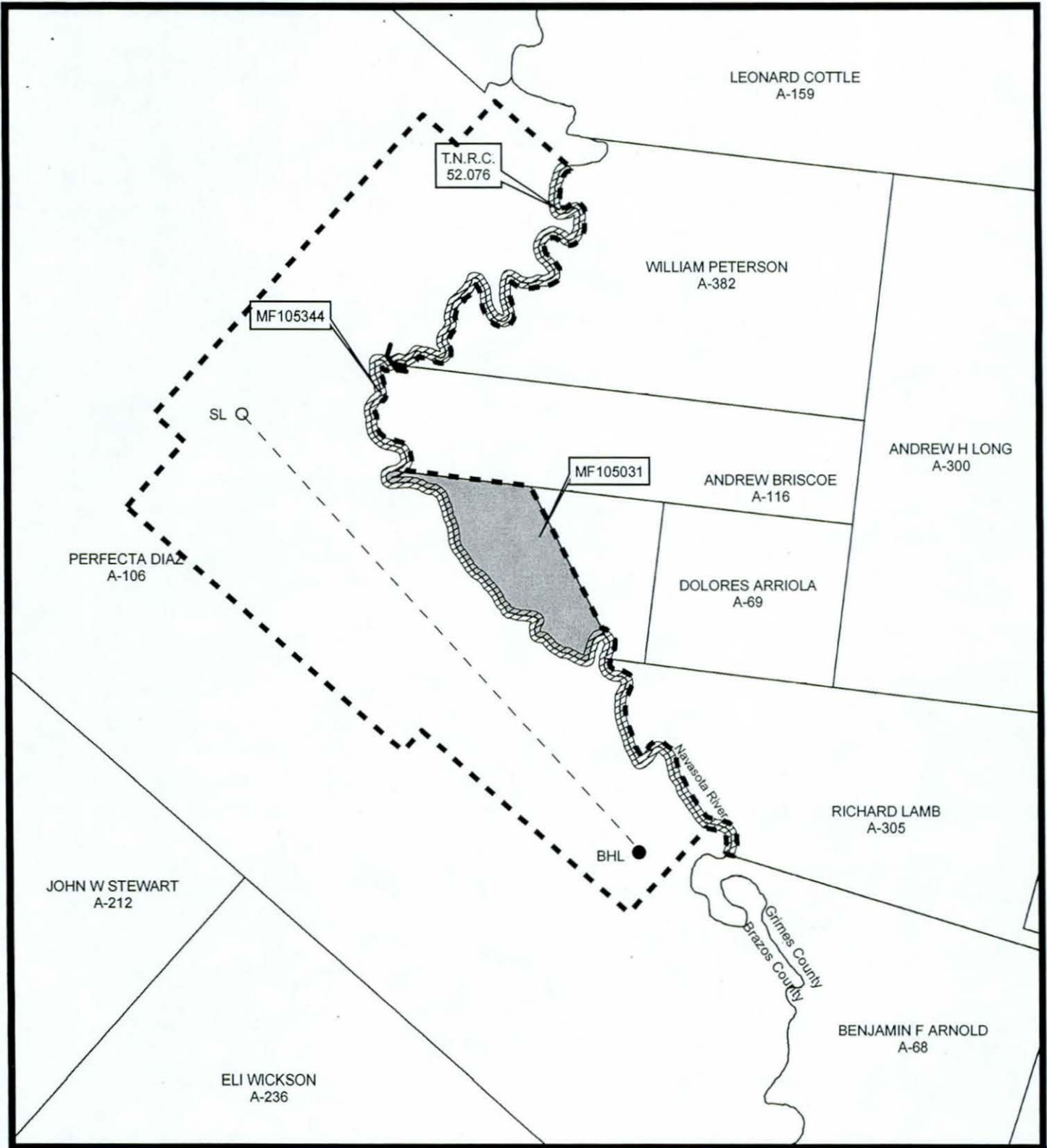
10-25-06
 Date:


 Peter A. Boone - General Land Office

10-25-06
 Date:

 Vacant - Office of the Governor

 Date:



Patterson Petroleum, L.P.
 Patterson-Peters No. 5 Unit
 Kurten (Buda) (Georgetown)
 MF105301, MF105344 and a part of
 the Navasota River is being pooled
 under T.N.R.C. 52.076
 Brazos and Grimes Counties
 PA06-164

NAD_1927_Albers
 Projection: Albers
 False_Easting: 0.000000
 False_Northing: 0.000000
 Central_Meridian: -100.000000
 Standard_Parallel_1: 28.000000
 Standard_Parallel_2: 35.000000
 Latitude_Of_Origin: 31.000000

GCS_North_American_1927
 0 1,000 2,000 Feet



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



Map Compiled By:
 Ferrel Taylor
 Information Systems - GIS
 April 4, 2006

**POOLING AGREEMENT PURSUANT TO TNRC § 52.076
STATE OF TEXAS / PATTERSON PETROLEUM LP
PATTERSON-PETERS NO. 5 UNIT
M-106093
BRAZOS AND GRIMES COUNTIES, TEXAS**

THIS AGREEMENT ("Agreement") is made and entered into effective the 4th day of October 2006, by and between the Commissioner of the General Land Office of the State of Texas ("State"), and Patterson Petroleum LP ("Patterson").

WITNESSETH THAT:

WHEREAS, the State owns the minerals under approximately 15 acres of the Navasota River contained within the boundaries of the 1,280-acre, Patterson-Peters No. 5 Unit ("Unit"), said 15 acres hereinafter referred to as the ("unleased interest"); and

WHEREAS, pursuant to Texas Natural Resources Code § 52.076(a)(4), the School Land Board has authority to pool unleased riverbeds and channels owned by the State; and

WHEREAS, Patterson and the State desire to pool the above-referenced unleased interest into said Unit; and

WHEREAS, The School Land Board at its regular meeting on November 7, 2006 determined that pooling said unleased interest as to oil and gas from the top of the Buda Formation to the base of the Georgetown Formation as described on Exhibit "2" is in the best interest of the State.

NOW, THEREFORE, in consideration of the mutual agreements hereinafter set forth and together with other valuable consideration, the receipt and sufficiency of which are hereby acknowledged and confessed, and for the purposes and upon the terms and conditions contained herein, the parties hereto agree as follows:

1. This Agreement is entered into pursuant to the authority granted in Chapter 52, of the Texas Natural Resources Code and Chapter 9 of Title 31 of the Texas Administrative Code and is intended to be performed pursuant to and in compliance with all applicable statutes, decisions, regulations, rules, orders and directives of any governmental agency having jurisdiction over the production and conservation of minerals from the Unit and in the interpretation and application hereof this Agreement shall be, in all things, subject thereto.

2. The State and Patterson agree that nothing herein shall be construed as granting a leasehold interest to Patterson in the unleased interest, but rather this Agreement affects a contractual pooling of interests with the respective rights and duties of the parties defined in paragraph 3, below.

3. The rights and duties of the State and Patterson with respect to the State's unleased interest within the boundaries of the Unit shall be established, governed and controlled by the terms, conditions and covenants contained in Exhibit "1" and Exhibit "2" attached hereto and incorporated herein, wherein the State shall be considered the Lessor and Patterson the Lessee and the State shall receive its share of unit production in the form of a royalty as provided in Exhibit "1" and allocated to the State as provided in Exhibit "2" with no obligation to the State for operating costs of any kind, including but not limited to exploring, drilling, equipping, completion, treating, transporting, marketing, plugging, abandonment or restoration.

4. This Agreement shall remain in effect for a term of one year from the effective date (herein called "primary term") and so long as the pooled mineral is being produced in paying quantities from the Unit, or so long as this Agreement is maintained in force by payment of shut-in oil or gas well royalties on a unit well, by drilling or rework operations on a unit well, or by other means in accordance with the terms of Exhibit "1" to this Agreement, or so long as the instrument creating the Unit remains in effect; provided that this Agreement shall automatically terminate on the date production of the pooled mineral ceases and there are no further operations on the unit to re-establish production of the pooled mineral, even though the instrument creating the pooled unit may remain in effect because a dissolution of unit has not been filed of record.

5. Inasmuch as the parties may not be able conveniently to execute one original hereof, it is agreed that a counterpart hereof may be executed by each party to this Agreement, each of which shall be considered an original, and all of said counterparts shall be construed together as one instrument.

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

7. This Agreement is to be performed in the State of Texas, and the substantive laws of the State of Texas will govern the validity, construction and enforcement of this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement upon the respective dates indicated below.

Date Executed 12/7/06

STATE OF TEXAS

legal [Signature]
geol. [Signature]
cont. [Signature]
exec. [Signature]

[Signature: Jerry E. Patterson]
Jerry E. Patterson, Commissioner
General Land Office

Date Executed 11/21/06

PATTERSON PETROLEUM LP

By: [Signature: Cloyce A. Talbott]
Cloyce A. Talbott, CEO

STATE OF TEXAS

COUNTY OF SCURRY

This instrument was acknowledged before me on November 21, 2006, by Cloyce A. Talbott as CEO of Patterson Petroleum LP, a Delaware limited partnership on behalf of said partnership.



[Signature: Brenda A. Glesley]
Notary Public in and for the State of Texas

CERTIFICATE

I, Stephanie Crenshaw, Secretary of the School Land Board of the State of Texas, do hereby certify that at a meeting of the School Land Board duly held on November 7, 2006, the foregoing instrument was approved by said Board under the provisions of Chapter 52 of the Natural Resources Code all of which is set forth in the Minutes of the Board of which I am custodian.

IN TESTIMONY WHEREOF, witness my hand this the 5th day of December, 2006.

[Signature: Stephanie Crenshaw]
Secretary of the School Land Board

EXHIBIT "1"

§52.076 Exhibit 1, Revised 10/06

1. RESERVATION AND GRANT: There is hereby excepted and reserved to Lessor the full use of the property covered hereby and all rights with respect to the surface and subsurface thereof for any and all purposes except those granted to Lessee, being the right to explore for, drill and produce the pooled mineral from the pooled area, and Lessor further reserves the rights of ingress and egress and use of said lands by Lessor and its mineral lessees, for purposes of exploring for and producing the minerals and zones which are not covered by this Agreement. All of the rights in and to the pooled area retained by Lessor and all of the rights in and to the pooled area granted to Lessee herein shall be exercised in such a manner that neither shall unduly interfere with the operations of the other.

2. PRODUCTION ROYALTIES: Upon production of the pooled mineral Lessee agrees to pay or cause to be paid to the Commissioner of the General Land Office in Austin, Texas, for the use and benefit of the State of Texas, during the term hereof:

(A) OIL: As a royalty on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well and also all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, $\frac{1}{4}$ part of the gross production or the market value thereof, at the option of the Lessor, 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 land hereby pooled is sold, used or processed in a plant, it will be run free of cost to Lessor through an adequate oil and gas separator of conventional type or other equipment at least as efficient to the end that all liquid hydrocarbons recoverable from the gas by such means will be recovered. Upon written consent of Lessor, the requirement that such gas be run through such a separator or other equipment may be waived upon such terms and conditions as prescribed by Lessor.

(B) NON-PROCESSED GAS: As a 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) $\frac{1}{4}$ part of the gross production or the market value thereof, at the option of the Lessor, 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 greater provided that the maximum pressure base in measuring the gas under this agreement contract 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 test 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: As a royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbons, $\frac{1}{4}$ part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the Lessor. 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 agreement, 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 agreement; 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 arms' 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: As a 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, $\frac{1}{4}$ part of gross production of such products, or the market value thereof, at the option of Lessor, such market value to be determined as follows:

- (1) On the basis of the highest market price of each product, during 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.

(E) NO DEDUCTIONS: Lessee agrees that all royalties accruing to Lessor under this agreement shall be without deduction for the cost of producing, transporting, and otherwise making the oil, gas and other products produced hereunder ready for sale or use.

(F) ROYALTY IN KIND: Notwithstanding anything contained herein to the contrary, Lessor may, at its option, upon not less than 60 days notice to Lessee, require at any time or from time to time that payment of all or any royalties accruing to Lessor under this agreement be made in kind without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting and otherwise making the oil, gas and other products produced hereunder ready for sale or use. Lessor's right to take its royalty in kind shall not diminish or negate Lessor's rights or Lessee's obligations, whether express or implied, under this agreement.

(G) PLANT FUEL AND RECYCLED GAS: No royalty shall be payable on any gas as may represent this agreement's proportionate share of any fuel used to process gas produced hereunder in any processing plant. Notwithstanding anything contained herein to the contrary, and subject to the consent in writing of the Commissioner of the General Land Office, Lessee may recycle gas for gas lift purposes on the pooled area after the liquid hydrocarbons contained in the gas have been removed, and no royalties shall be payable on the gas so recycled until such time as the same may thereafter be produced and sold or used by Lessee in such manner as to entitle Lessor to a royalty thereon under the royalty provisions of this agreement.

(H) MINIMUM ROYALTY: The royalties paid to Lessor each year in no event shall be less than \$5.00 per acre pooled; otherwise, there shall be due and payable on or before the last day of the month succeeding the anniversary date of first production a sum equal to \$5.00 per acre pooled less the amount of royalties paid during the preceding year.

3. 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 to each lease number. If Lessee pays his royalty on or before thirty (30) days after the royalty payment was due, then Lessee owes a penalty of 5% on the royalty or \$25.00, whichever is greater. A royalty payment which is over thirty (30) days late shall accrue a penalty of 10% of the royalty due or \$25.00 whichever is greater. In addition to a penalty, royalties shall accrue interest at a rate of 12% per year; such interest will begin accruing when the royalty is sixty (60) days overdue. Affidavits and supporting documents which are not filed when due shall incur a penalty in an amount set by the General Land Office administrative rule which is effective on the date when the affidavits or supporting documents were due. The Lessee shall bear all responsibility for paying or causing royalties to be paid as prescribed by the due date provided herein. Payment of the delinquency penalty shall in no way operate to prohibit the State's right of forfeiture as provided by law nor act to postpone the date on which royalties were originally due. The above penalty provisions shall not apply in cases of title dispute as to the State's portion of the royalty or to that portion of the royalty in dispute as to fair market value.

4. (A) RESERVES, CONTRACTS AND OTHER RECORDS: Lessee shall annually furnish the Commissioner of the General Land Office with its best possible estimate of pooled mineral reserves underlying the pooled area 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 pooled

mineral produced from the pooled area, 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) DRILLING RECORDS: Written notice of all operations on the pooled unit 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. 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 unit 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.

5. OFFSET WELLS: If the pooled mineral should be produced in commercial quantities from a well located on land privately owned or on State land leased at a lesser royalty, which well is within one thousand (1,000) feet of the area included herein, or which well is draining the area covered by this agreement, the Lessee shall, within sixty (60) days after such initial production from the draining well or the well located within one thousand (1,000) feet from the area covered by this agreement begin in good faith and prosecute diligently the drilling of an offset well on the area covered by this agreement, and such offset well shall be drilled to such depth as may be necessary to prevent the undue drainage of the area covered by this agreement, and the Lessee, manager or driller shall use all means necessary in a good faith effort to make such offset well produce oil and/or gas in commercial quantities. Only upon the determination of the Commissioner and with his written approval, may the payment of a compensatory royalty satisfy the obligation to drill an offset well or wells required under this Paragraph.

6. CESSATION, DRILLING, AND REWORKING: If at the end of, or after the primary term, production of the pooled mineral should cease from any cause, this agreement shall not terminate if Lessee re-establishes production in paying quantities within sixty (60) days after such cessation or commences additional drilling or reworking operations within sixty (60) days after such cessation, and this agreement 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. For a cessation of production prior to the end of the primary term, Lessee may use the expiration of the primary term as the date of cessation of production. If such drilling or reworking operations result in the production of the pooled mineral, the agreement shall remain in full force and effect for so long as the pooled mineral is produced from the pooled unit 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, this agreement 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 agreement 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.

7. EXTENSIONS: If, at the expiration of the primary term of this agreement, production of the pooled mineral has not been obtained on the unit but drilling operations are being conducted thereon in good faith and in a good and workmanlike manner, Lessee may, on or before the expiration of the primary term, file in the General Land Office written application to the Commissioner of the General Land Office for a thirty (30) day extension of this agreement, accompanied by payment of Three Thousand Dollars (\$3,000.00) if this agreement covers six hundred forty (640) acres or less and Six Thousand Dollars (\$6,000.00) if this agreement covers more than six hundred forty (640) acres and the Commissioner shall, in writing, extend this agreement for a thirty (30) day period from and after the expiration of the primary term and so long thereafter as the pooled mineral is produced in paying quantities; provided further, that Lessee may, so long as such drilling operations are being conducted make like application and payment during any thirty (30) day extended period for an additional extension of thirty (30) days and, upon receipt of such application and payment, the Commissioner shall, in writing, again extend this lease so that same shall remain in force for such additional thirty (30) day period and so long thereafter as the pooled mineral is produced in paying quantities; provided, however, that this agreement shall not be extended for more than a total of three hundred ninety (390) days from and after the expiration of the primary term unless production in paying quantities has been obtained.

8. 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 a well capable of producing the pooled mineral in paying quantities is located on the pooled area, but the pooled mineral 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 \$10.00 per acre pooled, but not less than \$1,200 a year for each well capable of producing the pooled mineral in paying quantities. 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 the pooled mineral from the pooled area, or (3) 60 days after Lessee completes a drilling or reworking operation in accordance with the terms of this agreement; whichever date is latest. If the shut-in oil or gas royalty is paid, this agreement shall be considered to be a producing agreement and the payment shall extend the term of the agreement for a period of one year 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 pooled mineral exists, Lessee may extend this agreement 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.

9. COMPENSATORY ROYALTIES: If, during the period the agreement is kept in effect by payment of the shut-in oil or gas royalty, the pooled mineral is sold and delivered in paying quantities from a well located within one thousand (1,000) feet of the pooled area and completed in the same producing reservoir, or in any case in which drainage of the pooled mineral is occurring, the right to continue to maintain the agreement by paying the shut-in oil or gas royalty shall cease, but the agreement shall remain effective for the remainder of the year for which the royalty has been paid. The Lessee may maintain the agreement for four more successive years by Lessee paying compensatory royalty at the royalty rate provided in this agreement 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 pooled area. The compensatory royalty is to be paid monthly to the Commissioner beginning on or before the last day of the month following the month in which the pooled mineral 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 pooled area; if the compensatory royalty paid in any 12-month period is in an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within thirty (30) days from the end of the 12-month period; and none of these provisions will relieve Lessee of the obligation of reasonable development nor the obligation to drill offset wells as provided in N.R.C. Section 52.034; however, at the determination of the Commissioner, and with the Commissioner's written approval, the payment of compensatory royalties shall satisfy the obligation to drill offset wells. Compensatory royalty payments, which are not timely paid, will accrue penalty and interest in accordance with Paragraph 3 of this agreement.

10. USE OF WATER; SURFACE: Lessee shall have the right to use water produced on said land necessary for operations hereunder and solely upon the pooled area; provided, however, Lessee shall not use potable water or water suitable for livestock or irrigation purposes for water flood operations without the prior written consent of Lessor. Subject to its obligation to pay surface damages, Lessee shall have the right to use so much of the surface of the land that may be reasonably necessary for drilling and operating wells and transporting and marketing the production therefrom, such use to be conducted under conditions of least injury to the surface of the land.

11. POLLUTION: In developing this pooled 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.

(A) 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.

(B) No discharge of solid waste or garbage shall be allowed into State waters from any drilling or support vessels, production platform, crew or supply boat, barge, jack-up rig or other equipment located on the pooled area. Solid waste shall include but shall not be limited to containers, equipment, rubbish, plastic, glass, and any other man-made non-biodegradable items. A sign must be displayed in a high traffic area on all vessels and manned platforms stating, "Discharge of any solid waste or garbage into State Waters from vessels or platforms is strictly prohibited and may subject a this agreement to forfeiture." Such statement shall be in lettering of at least 1" in size.

(C) **PENALTY:** Failure to comply with the requirements of this provision may result in the maximum penalty allowed by law including forfeiture of the agreement. Lessee shall be liable for the damages caused by such failure and any costs and expenses incurred in cleaning areas affected by the discharged waste.

12. IDENTIFICATION MARKERS: Lessee shall erect, at a distance not to exceed twenty-five (25) feet from each well on the premises covered by this agreement, a legible sign on which shall be stated the name of the operator, the State Lease Number designation and the well number. Where two or more wells on the same lease or where wells on two or more leases are connected to the same tank battery, whether by individual flow line connections direct to the tank or tanks or by use of a multiple header system, each line between each well and such tank or header shall be legibly identified at all times, either by a firmly attached tag or plate or an identification properly painted on such line at a distance not to exceed three (3) feet from such tank or header connection. Said signs, tags, plates or other identification markers shall be maintained in a legible condition throughout the term of this agreement.

13. ASSIGNMENTS: The agreement may be transferred at any time; provided, however, that the liability of the transferor to properly discharge its obligation under the agreement, including properly plugging abandoned wells, removing platforms or pipelines, or remediation of contamination at drill sites shall pass to the transferee upon the prior written consent of the Commissioner of the General Land Office. The Commissioner may require the transferee to demonstrate financial responsibility and may require a bond or other security. All transfers must reference this agreement by the State Lease Number and must be recorded in the county where the pooled area is located, and the recorded transfer or a copy certified to by the County Clerk of the county where the transfer is recorded must be filed in the General Land Office within ninety (90) days of the execution date, as provided by N.R.C. Section 52.026, accompanied by the filing fee prescribed by the General Land Office rules in effect on the date of receipt by the General Land Office of such transfer or certified copy thereof. Every transferee 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 transferee of the agreement, including any liabilities to the state for unpaid royalties.

14. LIEN: In accordance with N.R.C. Section 52.136, the State shall have a first lien upon all of the pooled mineral produced from the unit to secure payment of all unpaid royalty and other sums of money that may become due under this agreement. By acceptance of this agreement, Lessee grants the State, in addition to the lien provided by N.R.C. Section 52.136 and any other applicable statutory lien, an express contractual lien on and security interest in all pooled minerals in and extracted from the pooled area, all proceeds which may accrue to Lessee from the sale of such minerals, whether such proceeds are held by Lessee or by a third party, and all fixtures on and improvements to the pooled area used in connection with the production or processing of such minerals in order to secure the payment of all royalties or other amounts due or to become due under this agreement 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 agreement, 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, Chapter 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's pooling of the area. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this agreement forfeited as provided herein.

15. FORFEITURE: If Lessee shall fail or refuse to make the payment of any sum within thirty (30) 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 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 agreement, or if this agreement is assigned and the assignment is not filed in the General Land Office as required by law, the rights acquired under this agreement shall be subject to forfeiture by the Commissioner, and he shall forfeit same when sufficiently informed of the facts which authorize a forfeiture, and when forfeited the area shall again be subject to lease or pooling. However, nothing herein shall be construed as waiving the automatic termination of this agreement by operation of law or by reason of any special limitation arising hereunder. Forfeitures may be set aside and this agreement 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 agreement and the rules and regulations that may be adopted relative hereto.

16. RIVERBED TRACTS: Lessee is hereby specifically granted the right of eminent domain and condemnation as provided for in N.R.C. Sections 52.092-52.093, as a part of the consideration moving to Lessor for the covenants herein made by Lessee.

17. APPLICABLE LAWS AND DRILLING RESTRICTIONS: This agreement shall be subject to all rules and regulations, and amendments thereto, promulgated by the Commissioner of the General Land Office governing drilling and producing operations on Permanent Free School Land (specifically including any rules promulgated that relate to plans of operations), payment of royalties, and auditing procedures, and shall be subject to all other valid statutes, rules, regulations, orders and ordinances that may affect operations under the provisions of this agreement. Without limiting the generality of the foregoing, Lessee hereby agrees, by the acceptance of this agreement, to be bound by and subject to all statutory and regulatory provisions relating to the General Land Office's audit billing notice and audit hearings procedures. Said provisions are currently found at Texas Natural Resources Code Sections 52.135 and 52.137 through 52.140.

18. REMOVAL OF EQUIPMENT: Upon the termination of this agreement, Lessee shall not, in any event, be permitted to remove the casing or any part of the equipment from any producing, dry, or abandoned well or wells on State Land without the written consent of the Commissioner of the General Land Office or his authorized representative; nor shall Lessee, without the written consent of said Commissioner or his authorized representative remove from the pooled area the casing or any other equipment, material, machinery, appliances or property owned by Lessee and used by Lessee in the development and production of the pooled mineral therefrom until all dry or abandoned wells have been plugged and until all slush or refuse pits have been properly filled and all broken or discarded lumber, machinery, or debris shall have been removed from the premises to the satisfaction of the said Commissioner or his authorized representative.

19. FORCE MAJEURE: Should Lessee be prevented from complying with any express or implied covenant of this agreement, from conducting drilling operations thereon, or from producing the pooled mineral therefrom, after effort made in good faith, by reason of war, rebellion, riots, strikes, fires, acts of God or any order, rule or regulation of governmental authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended upon proper and satisfactory proof presented to the Commissioner of the General Land Office in support of Lessee's contention and Lessee shall not be liable for damages for failure to comply therewith (except in the event of operations suspended as provided in the rules and regulations adopted by the School Land Board); and this agreement shall be extended while and so long as Lessee is prevented, by any such cause, from drilling, reworking operations or producing the pooled mineral from the pooled area; provided, however, that nothing herein shall be construed to suspend the or to abridge Lessee's right to a suspension under any applicable statute of this State.

20. SECURITY: Lessee shall take the highest degree of care and all proper safeguards to protect said premises and to prevent theft of oil, gas, and other hydrocarbons produced from the pooled area. This includes, but is not limited to, the installation of all necessary equipment, seals, locks, or other appropriate protective devices on or at all access points of the pooled area's production, gathering and storage systems where theft of hydrocarbons can occur. Lessee shall be liable for the loss of any hydrocarbons resulting from theft and shall pay the State of Texas royalties thereon as provided herein on all oil, gas or other hydrocarbons lost by reason of theft.

21. SUCCESSORS AND ASSIGNS: The covenants, conditions and agreements contained herein shall extend to and be binding upon the heirs, executors, administrators, successors or assigns of Lessee herein.

22. ANTIQUITIES CODE: In the event that any site, object, location, artifact or other feature of archaeological, scientific, educational, cultural, archeological or historical interest are encountered on Permanent School Fund Land during the activities authorized by this agreement, Lessee will immediately cease activities and will immediately notify the General Land Office (ATTN: Archaeologist, Asset Management Division, 1700 N. Congress Ave., Austin, Texas 78701) and the Texas Historical Commission (P.O. Box 12276, Austin, TX 78711) so that adequate measures may be undertaken to protect or recover such discoveries or findings, as appropriate. Lessee is expressly placed on notice of the National Historical Preservation Act of 1966 (PB-89-66, 80 Statute 915; 16 U.S.C.A. 470) and the Antiquities Code of Texas, Chapter 191, Tex. Nat. Code Ann. (Vernon 1993 & Supp. 1998).

23. VENUE: Lessor and lessee, hereby agree that venue for any dispute arising out of a provision of this agreement, whether express or implied, regarding interpretation of this agreement, or relating in any way to this agreement or to applicable case law, statutes, or administrative rules, shall be in a court of competent jurisdiction located in Travis County, State of Texas.

24. FILING: Pursuant to Chapter 9 of the Tex. Bus. & Com. Code, this agreement must be filed of record in the office of the County Clerk in any county in which all or any part of the pooled area is located, and recorded copies thereof must be filed in the General Land Office. The prescribed filing fee shall accompany the recorded copies sent to the General Land Office.

EXHIBIT "2"

PURPOSES:

1.

This Pooling Agreement ("Agreement") is made for the purposes of conservation and utilization of the pooled mineral, to prevent waste, to facilitate orderly development and to preserve correlative rights. To such end, it is the purpose of this Agreement to effect equitable participation within the unit. This Agreement is intended to be performed pursuant to and in compliance with all applicable statutes, decisions, regulations, rules, orders and directives of any governmental agency having jurisdiction over the production and conservation of the pooled mineral and in its interpretation and application shall, in all things, be subject thereto.

UNIT DESCRIPTION:

2.

The oil and gas leases, which are included within the pooled unit, are listed on the attached Exhibit "A", to which leases and the records thereof reference is here made for all pertinent purposes. The pooled unit shall consist of all of the lands described in Exhibit "B" attached hereto and made a part hereof. A plat of the pooled unit is attached hereto as Exhibit "C".

MINERAL POOLED:

3.

The mineral pooled and unitized ("pooled mineral") hereby shall be oil and gas including all hydrocarbons that may be produced from an oil well or a gas well as such wells are recognized and designated by the Railroad Commission of Texas or other state regulatory agency having jurisdiction of the drilling and production of oil and gas wells. The pooled mineral shall extend to those depths underlying the surface boundaries of the pooled unit from the top of the Buda Formation to the base of the Georgetown Formation defined as the stratigraphic interval or its correlative equivalent occurring from 9,198 feet true vertical depth to 9,605 feet true vertical depth as seen on the log of the Patterson Petroleum LP, Peters Unit No. 5 well ("unitized interval").

POOLING AND EFFECT:

4.

The parties hereto commit all of their interests which are within the unit to the extent and as above described into said unit and unitize and pool hereunder the separate tracts described on the attached Exhibit "B", for and during the term hereof, so that such pooling or unitization shall have the following effect:

- (a) The unit, to the extent as above described, shall be operated as an entirety for the exploration, development and production of the pooled mineral, rather than as separate tracts.
- (b) All drilling operations, reworking or other operations with respect to the pooled mineral on land within the unit shall be considered as though the same were on each separate tract in the unit, regardless of the actual location of the well or wells thereon, for all purposes under the terms of the respective leases or other contracts thereon and this Agreement.
- (c) Production of the pooled mineral from the unit allocated to each separate tract, respectively, as hereinafter provided, shall be deemed to have been produced from each such separate tract in the unit, regardless of the actual location of the well or wells thereon, for all purposes under the terms of the respective leases or other contracts thereon and this Agreement.
- (d) All rights to the production of the pooled mineral from the unit, including royalties and other payments, shall be determined and governed by the lease or other contract pertaining to each separate tract, respectively, based upon the production so allocated to such tract only, in lieu of the actual production of the pooled mineral therefrom.
- (e) A shut-in oil or gas well located upon any land or lease included within said unit shall be considered as a shut-in oil or gas well located upon each tract or lease included within said unit.
- (f) If the Railroad Commission of Texas (or any other Texas regulatory body having jurisdiction) shall adopt special field rules providing for oil and/or gas proration units of less than 1,280 acres, then Lessee agrees to either (1) drill to the density permitted by the Railroad Commission, (2) make application to the School Land Board of the State of Texas to reform the unit to comply with Railroad Commission unit rules, or (3) make application to the School Land Board of the State of Texas for such remedy as may be agreeable to the Board.
- (g) This Agreement shall not relieve Lessee from the duty of protecting the State lands within the boundaries of the pooled unit described in Exhibit "B" from drainage from any well situated on privately owned land, lying outside the unitized area described in Exhibit "B", but, subject to such obligation, Lessee may produce the allowable for the entire unit as fixed by the Railroad Commission of Texas or other lawful authority, from any one or more wells completed thereon.
- (h) There shall be no obligation to drill internal offsets to any other well on separate tracts within the pooled unit, nor to develop the lands within the boundaries thereof separately, as to the pooled mineral.

ALLOCATION OF PRODUCTION:

5.

For the purpose of computing the share of production of the pooled mineral to which each interest owner shall be entitled from the pooled unit, there shall be allocated to each tract committed to said unit that pro rata portion of the pooled mineral produced from the pooled unit which the number of surface acres covered by each such tract and included in the unit bears to the total number of surface acres included in said unit, and the share of production to which each interest owner is entitled shall be computed on the basis of such owner's interest in the production so allocated to each tract.

DISSOLUTION:

6.

The unit covered by this Agreement may be dissolved by Lessee, his heirs, successors or assigns, by an instrument filed for record in Brazos and Grimes Counties, Texas, and a certified copy thereof filed in the General Land Office at any time after the cessation of production on said unit or the completion of a dry hole thereon prior to production or upon such other date as may be approved by the School Land Board and mutually agreed to by the undersigned parties, their successors or assigns.

RATIFICATION/WAIVER:

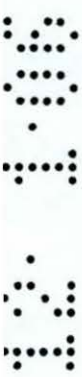
7.

Nothing in this Agreement, nor the approval of this Agreement by the School Land Board, nor the execution of this Agreement by the Commissioner shall: (1) operate as a ratification or revivor of any State lease or Pooling Agreement that has expired, terminated, or has been released in whole or in part or terminated under the their terms or the laws applicable thereto; (2) constitute a waiver or release of any claim for money, oil, gas or other hydrocarbons, or other thing due to the State by reason of the existence or failure of such lease or Pooling Agreement; (3) constitute a waiver or release of any claim by the State that such lease or Pooling Agreement is void or voidable for any reason, including, without limitation, violations of the laws of the State with respect to such lease or Pooling Agreement or failure of consideration; (4) constitute a confirmation or recognition of any boundary or acreage of any tract or parcel of land in which the State has or claims an interest; or (5) constitute a ratification of, or a waiver or release of any claim by the State with respect to any violation of a statute, regulation, or any of the common laws of this State, or any breach of any contract, duty, or other obligation owed to the State.

EXHIBIT "A"

Attached to and made a part of State Of Texas Pooling Agreement Pursuant To TNRC §52.076 for Patterson Petroleum LP-Peters No. 5 Unit, Brazos and Grimes Counties, Texas

1. Oil, Gas and Mineral Lease dated December 24, 1975, from Diane Peters, Edgar Duane Peters and Patricia Kay Peters to Jack E. Havard, covering 1008.25 acres, more or less, recorded in Volume 22 at Page 435 of the Oil and Gas Lease Records of Brazos County, Texas; as amended.
2. Oil, Gas and Mineral Lease dated December 24, 1975 from The City National Bank of Bryan, Texas, as Trustee of the Diane Peters, Edgar Duane Peters, Patricia Kay Peters Trust #205 to Jack E. Havard, covering 524.48 acres, more or less, recorded in Volume 22 at Page 437 of the Oil and Gas Lease Records of Brazos County, Texas, as amended.
3. Oil, Gas and Mineral Lease dated July 22, 2002 from Charles E. Foltin, a.k.a. Charles Edward Foltin et al to Patterson Petroleum LP, Limited Partnership, covering 361.913 acres, more or less, recorded in Volume 4818 at Page 267 of the Official Records of Brazos County, Texas, as amended.
4. Oil and Gas Lease No. M-105344, dated July 19, 2005 from The State of Texas to Patterson Petroleum LP, Limited Partnership, covering 30.00 acres, more or less, recorded in Volume 1141 at Page 187 in the Real Property Records of Grimes County, Texas.
5. Oil and Gas Lease No. M-105301, dated July 19, 2005 from The State of Texas to Patterson Petroleum LP, Limited Partnership, covering 72.3 acres, more or less, recorded in Volume 1141 at Page 194 in the Real Property Records of Grimes County, Texas.
6. Oil, Gas and Mineral Lease dated June 8, 2003, as extended, by and between Clear Lake Properties, Inc. as Lessor and Patterson Petroleum LP, Limited Partnership, a Memorandum of which is recorded in Volume 5666 at Page 295 of the Official Records of Brazos County, Texas; as amended by Amendment of Oil, Gas and Mineral Lease dated July 22, 2004 and being recorded in Volume 6190 at Page 214 of the Official Records of Brazos County, Texas.
7. Ratification of Amended Oil, Gas and Mineral Lease dated August 10, 2004 executed by Nancy Jean Arnold, et vir, recorded in Volume 6547 at Page 200 of the Official Records of Brazos County, Texas.
8. Ratification of Amended Oil, Gas and Mineral Lease dated August 12, 2004 executed by Carolyn Kindt Benjamin, recorded in Volume 6547 at Page 201 of the Official Records of Brazos County, Texas.
9. Ratification of Amended Oil, Gas and Mineral Lease dated August 13, 2004 executed by Mary Lois Bland, recorded in Volume 6547 at Page 202 of the Official Records of Brazos County, Texas.
10. Ratification of Amended Oil, Gas and Mineral Lease dated November 5, 2004 executed by Danice Deegan Corbin, Attorney-in-Fact for Ina Dyess Browning, and as Remainderman, recorded in Volume 6547 at Page 210 of the Official Records of Brazos County, Texas.
11. Ratification of Amended Oil, Gas and Mineral Lease dated August 20, 2004 executed by Bobby Russell Carter et ux, recorded in Volume 6547 at Page 203 of the Official Records of Brazos County, Texas.
12. Ratification of Amended Oil, Gas and Mineral Lease dated January 25, 2005 executed by James Lee Carter, recorded in Volume 6547 at Page 204 of the Official Records of Brazos County, Texas.

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13. Ratification of Amended Oil, Gas and Mineral Lease dated August 10, 2004 executed by Joseph T. Carter (a/k/a J. T. Carter) et ux, recorded in Volume 6547 at Page 205 of the Official Records of Brazos County, Texas.
 14. Ratification of Amended Oil, Gas and Mineral Lease dated December 22, 2004 executed by William Benton Carter et ux, recorded in Volume 6547 at Page 206 of the Official Records of Brazos County, Texas.
 15. Ratification of Amended Oil, Gas and Mineral Lease dated September 29, 2004 executed by Central Baptist Church, recorded in Volume 6547 at Page 241 of the Official Records of Brazos County, Texas.
 16. Ratification of Amended Oil, Gas and Mineral Lease dated August 17, 2004 executed by Edward L. Cobb et ux, recorded in Volume 6547 at Page 207 of the Official Records of Brazos County, Texas.
 17. Ratification of Amended Oil, Gas and Mineral Lease dated August 11, 2004 executed by Sammye Kay Collier, recorded in Volume 6547 at Page 208 of the Official Records of Brazos County, Texas.
 18. Ratification of Amended Oil, Gas and Mineral Lease dated August 11, 2004 executed by Robert Henry Conaway, Jr., Guardian of the Person and Estate of Mary Frances Conaway, mind, recorded in Volume 6547 at Page 209 of the Official Records of Brazos County, Texas.
 19. Ratification of Amended Oil, Gas and Mineral Lease dated August 12, 2004 executed by Patsy Ruth Cox, recorded in Volume 6547 at Page 211 of the Official Records of Brazos County, Texas.
 20. Ratification of Amended Oil, Gas and Mineral Lease dated August 10, 2004 executed by Dorothy Jean Carter Davis et vir, recorded in Volume 6547 at Page 212 of the Official Records of Brazos County, Texas.
 21. Ratification of Amended Oil, Gas and Mineral Lease dated August 24, 2004 executed by Leola Todd Davis, recorded in Volume 6547 at Page 213 of the Official Records of Brazos County, Texas.
 22. Ratification of Amended Oil, Gas and Mineral Lease dated August 31, 2004 executed by Linda Edling Andrews, Successor Co-Trustee of the Glenn Edward Edling Trust, recorded in Volume 6547 at Page 238 of the Official Records of Brazos County, Texas.
 23. Ratification of Amended Oil, Gas and Mineral Lease dated August 13, 2004 executed by Lillie Maurine Edwards et vir, recorded in Volume 6547 at Page 239 of the Official Records of Brazos County, Texas.
 24. Ratification of Amended Oil, Gas and Mineral Lease dated September 11, 2004 executed by Linda Ruth Fayard et vir, recorded in Volume 6547 at Page 240 of the Official Records of Brazos County, Texas.
 25. Ratification of Amended Oil, Gas and Mineral Lease dated November 5, 2004 executed by First Baptist Church of Bryan, Texas, recorded in Volume 6547 at Page 214 of the Official Records of Brazos County, Texas.
 26. Ratification of Amended Oil, Gas and Mineral Lease dated August 27, 2004 executed by Leah Elizabeth Gelber, recorded in Volume 6547 at Page 216 of the Official Records of Brazos County, Texas.
 27. Ratification of Amended Oil, Gas and Mineral Lease dated September 22, 2004 executed by Joseph R. Gelber, Jr., recorded in Volume 6547 at Page 215 of the Official Records of

Brazos County, Texas.

28. Ratification of Amended Oil, Gas and Mineral Lease dated August 18, 2004 executed by Morris J. Gelber, recorded in Volume 6547 at Page 217 of the Official Records of Brazos County, Texas.
29. Ratification of Amended Oil, Gas and Mineral Lease dated August 10, 2004 executed by Gladys Jeske, recorded in Volume 6547 at Page 218 of the Official Records of Brazos County, Texas.
30. Ratification of Amended Oil, Gas and Mineral Lease dated August 13, 2004 executed by Georgia Kay Jones, recorded in Volume 6547 at Page 219 of the Official Records of Brazos County, Texas.
31. Ratification of Amended Oil, Gas and Mineral Lease dated August 9, 2004 executed by Kenneth John Kindt et ux, recorded in Volume 6547 at Page 220 of the Official Records of Brazos County, Texas.
32. Ratification of Amended Oil, Gas and Mineral Lease dated September 28, 2004 executed by Bernerd Krause, Trustee for Cory Krause, Cameron Krause and Kristin Krause, recorded in Volume 6547 at Page 221 of the Official Records of Brazos County, Texas.
33. Ratification of Amended Oil, Gas and Mineral Lease dated August 6, 2004 executed by Paul Levy, Individually and as Trustee of the Paul Levy Trust, recorded in Volume 6547 at Page 222 of the Official Records of Brazos County, Texas.
34. Ratification of Amended Oil, Gas and Mineral Lease dated June 4, 2005 executed by Linda Sue Lingwall, recorded in Volume 6718 at Page 43 of the Official Records of Brazos County, Texas.
35. Ratification of Amended Oil, Gas and Mineral Lease dated September 28, 2004 executed by Kathy S. McBride, recorded in Volume 6547 at Page 223 of the Official Records of Brazos County, Texas.
36. Ratification of Amended Oil, Gas and Mineral Lease dated August 16, 2004 executed by Angus S. McSwain, Jr., recorded in Volume 6547 at Page 224 of the Official Records of Brazos County, Texas.
37. Ratification of Amended Oil, Gas and Mineral Lease dated August 13, 2004 executed by Mary Lois Bland, Co-Trustee of The James Brooks McSwain Trust, recorded in Volume 6547 at Page 243 of the Official Records of Brazos County, Texas.
38. Ratification of Amended Oil, Gas and Mineral Lease dated August 16, 2004 executed by Angus S. McSwain, Jr. (a/k/a A. S. McSwain, Jr. and Angus Stewart McSwain, Jr.), Co-Trustee of The James Brooks McSwain Trust, recorded in Volume 6547 at Page 245 of the Official Records of Brazos County, Texas.
39. Ratification of Amended Oil, Gas and Mineral Lease dated August 9, 2004 executed by Betty Ann Pate et vir, recorded in Volume 6547 at Page 225 of the Official Records of Brazos County, Texas.
40. Ratification of Amended Oil, Gas and Mineral Lease dated August 9, 2004 executed by Willie E. Pieters, Jr., recorded in Volume 6547 at Page 226 of the Official Records of Brazos County, Texas.
41. Ratification of Amended Oil, Gas and Mineral Lease dated August 9, 2004 executed by Cecil Gelber Reese, recorded in Volume 6547 at Page 227 of the Official Records of Brazos County, Texas.

42. Ratification of Amended Oil, Gas and Mineral Lease dated October 6, 2004 executed by John Alex Riley et ux, recorded in Volume 6547 at Page 228 of the Official Records of Brazos County, Texas.
43. Ratification of Amended Oil, Gas and Mineral Lease dated August 27, 2004 executed by Martin Luther Riley, Jr. et ux, recorded in Volume 6547 at Page 242 of the Official Records of Brazos County, Texas.
44. Ratification of Amended Oil, Gas and Mineral Lease dated February 11, 2005 executed by Claude W. Rosier, recorded in Volume 6547 at Page 229 of the Official Records of Brazos County, Texas.
45. Ratification of Amended Oil, Gas and Mineral Lease dated February 18, 2005 executed by James M. Rosier, recorded in Volume 6547 at Page 230 of the Official Records of Brazos County, Texas.
46. Ratification of Amended Oil, Gas and Mineral Lease dated January 26, 2005 executed by James Edward Rumfield, recorded in Volume 6547 at Page 231 of the Official Records of Brazos County, Texas.
47. Ratification of Amended Oil, Gas and Mineral Lease dated January 26, 2005 executed by Michael Lynn Rumfield, Sr., recorded in Volume 6547 at Page 232 of the Official Records of Brazos County, Texas.
48. Ratification of Amended Oil, Gas and Mineral Lease dated August 13, 2004 executed by The Saxon Trust, recorded in Volume 6547 at Page 233 of the Official Records of Brazos County, Texas.
49. Ratification of Amended Oil, Gas and Mineral Lease dated August 11, 2004 executed by Clyde D. Sides et ux, recorded in Volume 6547 at Page 234 of the Official Records of Brazos County, Texas.
50. Ratification of Amended Oil, Gas and Mineral Lease dated August 27, 2004 executed by Larry W. Sides et ux, recorded in Volume 6547 at Page 235 of the Official Records of Brazos County, Texas.
51. Ratification of Amended Oil, Gas and Mineral Lease dated January 26, 2005 executed by Cindy Lou Smith, recorded in Volume 6547 at Page 236 of the Official Records of Brazos County, Texas.
52. Ratification of Amended Oil, Gas and Mineral Lease dated August 9, 2004 executed by Ruby M. Watson, recorded in Volume 6547 at Page 237 of the Official Records of Brazos County, Texas.
53. Oil and Gas Lease No. M-106093 (Pooling Agreement) dated October 4, 2006 covering 15 acres, more or less, in Brazos and Grimes Counties, Texas, by and between the Commissioner of the General Land Office of the State of Texas, as lessor and Patterson Petroleum LP, Limited Partnership, as lessee.

EXHIBIT "B"

Attached to and made a part of the State of Texas Pooling Agreement
Pursuant to TNRC §52.076 for the Patterson Petroleum LP - Peters No. 5 Unit
Brazos and Grimes Counties, Texas

1,280 acres, more or less, out of the Perfecto Diaz Survey, Abstract 106, Brazos County, Texas and the J.R. Gaines Survey, Grimes County, Texas, more particularly described as follows:

Beginning at a fence corner marking the most southerly corner of a called 427 acre tract described in a Warranty Deed from J.E. Newcomb, et al to Edward H. Foltin, et ux dated February 15, 1956 and recorded in Volume 173 at Page 34 of the Deed Records of Brazos County, Texas, then North 42°09'46" East 1126.98' to the Place of Beginning herein;

Then North 47°34'40" West 5443.42' to a point for corner;

Then North 42°25'20" East 1449.28' to a point for corner on the fence line between the Foltin called 427 acre property and Peters called 451.25 acre property;

Then North 47°34'40" West 1060.25' to a point for a corner;

Then, across the Peters property crossing a called 451.25 acre tract and onto a called 557 acre tract, North 42°25'20" East 6557.40' to a point for a corner;

Then South 48°53'14" East 1143.00' to a point for corner;

Then North 42°25'20" East 1143.30' to a point for corner on the northeast line of the Peters property;

Then South 48°53'14" East to the western high bank of the Navasota River and continuing across the river to the high bank on the east side of the Navasota River for a corner;

Then down the Navasota River, along the high bank on the Grimes County side of said river, in a general southerly direction to the intersection of said high bank and the common northwest corner of the J.R. Gaines Survey and the southwest corner of the A. Briscoe Survey, Abstract 116;

Then in an easterly direction along the common survey line of the J.R. Gaines Survey and the A. Briscoe Survey, Abstract 116, to the northeast corner of the J.R. Gaines Survey;

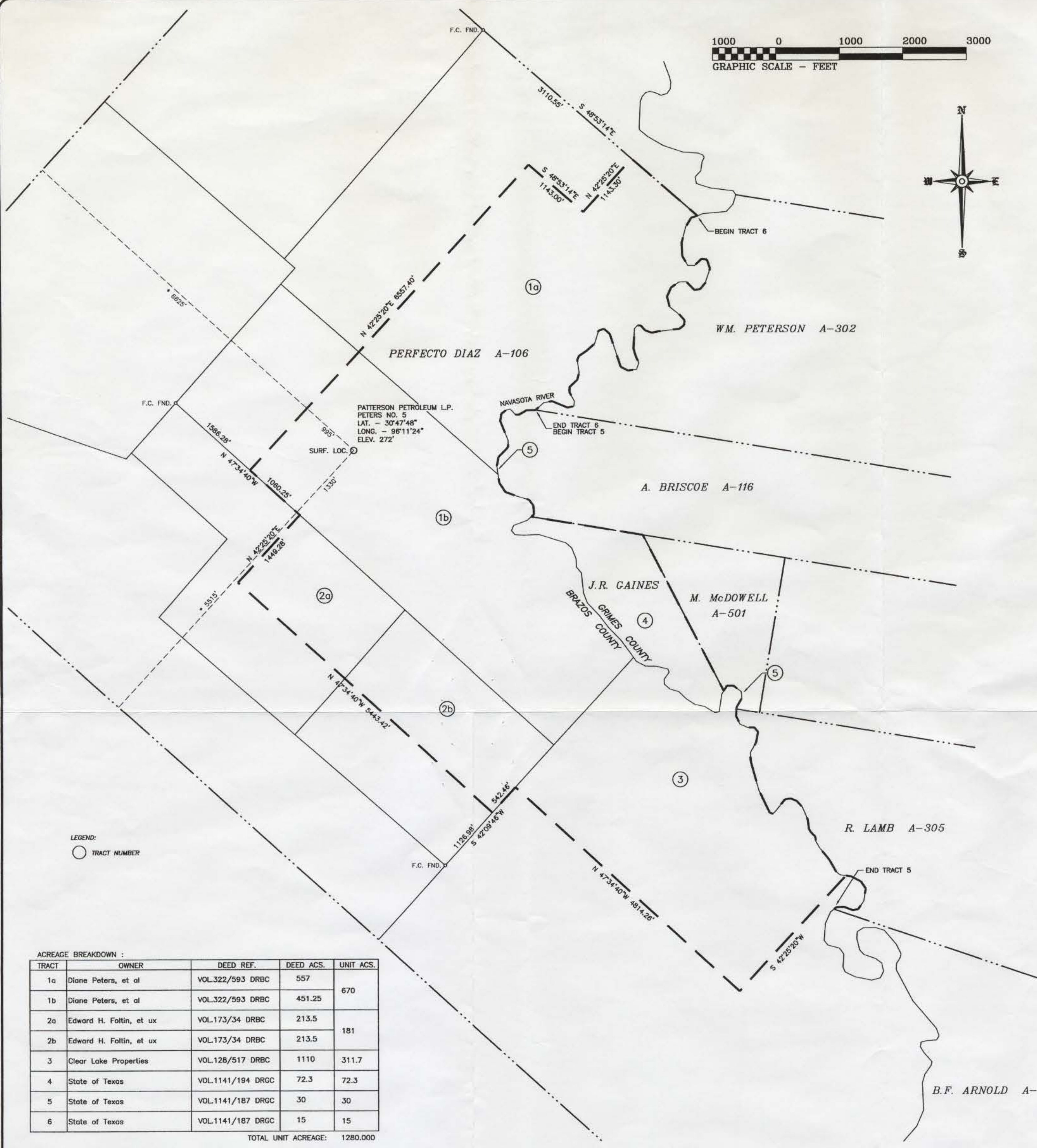
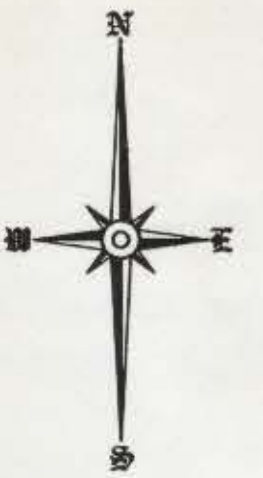
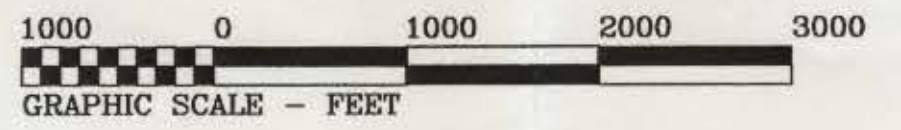
Then in a southeasterly direction along the common survey line of the J.R. Gaines Survey and the M. McDowell Survey, A-501 to the high bank of the Navasota River;

Then down said high bank of the Navasota River to a point that intersects with a line whose bearings begin at the Place of Beginning and then runs North 42°09'46" East 542.46' and then South 47°34'40" East 4814.26' to a point for a corner and then North 42°25'20" East to a point on the high bank on the Grimes County side of said river;

Then South 42°25'20" West to a point of intersection for a corner that intersects with a line whose bearings begin at the Place of Beginning and then runs North 42°09'46" East 542.46' and then South 47°34'40" East 4814.26';

Then North 47°34'40" West 4814.26' to a point for corner;

Then South 42°09'46" West 542.46' to the Place of Beginning.



LEGEND:
 ○ TRACT NUMBER

ACREAGE BREAKDOWN :

TRACT	OWNER	DEED REF.	DEED ACS.	UNIT ACS.
1a	Diane Peters, et al	VOL.322/593 DRBC	557	670
1b	Diane Peters, et al	VOL.322/593 DRBC	451.25	
2a	Edward H. Foltin, et ux	VOL.173/34 DRBC	213.5	181
2b	Edward H. Foltin, et ux	VOL.173/34 DRBC	213.5	
3	Clear Lake Properties	VOL.128/517 DRBC	1110	311.7
4	State of Texas	VOL.1141/194 DRGC	72.3	72.3
5	State of Texas	VOL.1141/187 DRGC	30	30
6	State of Texas	VOL.1141/187 DRGC	15	15

TOTAL UNIT ACREAGE: 1280.000

NOTES:

1. WELL IS LOCATED 4.5 MILES EAST OF KURTEN IN BRAZOS COUNTY, TEXAS.
2. ——— INDICATES LIMITS OF PROPOSED UNIT.
3. ALL DEED REFERENCES WERE PROVIDED BY PATTERSON PETROLEUM, INC.
4. ACREAGE CALCULATED FROM DEED AND AERIAL PHOTOGRAPHY.
5. - - - IDENTIFIES SURVEY OR LEASE LINE.
6. * - INDICATES DIMENSION SCALED FROM DEED OR AERIAL PHOTOGRAPHY.
7. BEARINGS ARE BASED ON GEODETIC NORTH AS DETERMINED BY GPS OBSERVATION.
8. ELEVATION, LATITUDE, AND LONGITUDE DETERMINED BY GPS OBSERVATION.

File No. M-10693
 Planning Department
 Date Filed: 2-15-07
 JERRY E. PATTERSON, Commissioner
 By: Amy Bohannon

Robert C. Schmidt
 Robert C. Schmidt, RPLS
 Texas Registered Professional Land
 Surveyor No. 4705



EXHIBIT "C"

 O'MALLEY ENGINEERS 203 S. JACKSON BRENHAM, TEXAS (979) 836-7937	AS-DRILLED PLAT PATTERSON PETROLEUM L.P. PETERS NO. 5 UNIT 1280.000 ACRE UNIT
	PERFECTO DIAZ, A-106, BRAZOS COUNTY, TEXAS J.R. GAINES SURVEY, GRIMES COUNTY, TEXAS
OE JOB NO. 2005.22 LC SCALE: 1" = 1000' DATE: 9-19-2006	DRAWING NO.: ASDRILL1a.DWG SHT. 1 OF 1

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