### MF106270

	State Lease Control MF106270 07-032757	Basefile County 153008 CULBERSON
	Survey	PUBLIC SCHOOL LAND
FYPIRED	Block	113
DATE 101112008	Block Name	
LEASING KE	Township	
MAPS	Section/Tract	12
GISNS	Land Part	
010	Part Description	S2 OF SW4
	Acres	80
	Depth Below	Depth Above Depth Other
	0	0
	Role	LESSEE
	Name	BLAIR, CRAIG L.
	Lessee Date	6/17/2005
Leasing:	Primary Term	3 yrs
Analyst:	Bonus (\$)	\$0.00
Maps:	Rental (\$)	\$1.00
10	Gas Decimal	0.1
GIS:	Oil Decimal	0.1

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

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9. 4 4 5.8.00 9. 4 4 5.8.00 9. 4 4 5.8.00	
10, u n I 5.8-06 11. n J 5.8-06 12. Tepm-owners letter 105.8.00 13. letter 5.8-06 14. letter + Fees 5.30.00	
15. letter + Flerental Pm+ (0.5.67  16. lac coller 8-21-07  Scanned Sm 1/6/15	

## **RAL REVIEW SHEET**

Transaction #	510	9			Geolo	gist:	F	R. Widmayer		
Lessor: Pear	rson, Mattie	Russell			Leas	e Date:	6	/17/2005	UŁ -	
. <b>08800</b> : Clair	L. Blair an	d Stephen S. I	Blair		Acre	<b>98</b> :		80		
EASE DESCRIPTION	N									
County		PIN#	153008	<b>Part</b> S/2 of th S/2 SW/	<b>Sec.</b> 12	Block 113	<b>Twp</b> 00	<b>Survey</b> Public s	CHOOL LAI	Abst#
TERMS OFFERED			TERMS	S RECOMMEN						
Primary Term:	3 years	S	Primar	ry Term	3 y	ears				
Bonus/Acre:		\$75.00	Bonus	Acre		\$200.00				
Rental/Acre:		\$1.00	Rental	/Acre			\$1.00			
Royalty:	1/5		Royalt	у	1/5					
COMPARISONS										
MF#	Lessee		Date	Ter	m	Bonus/A	Ac.	Rental/Ac.	Royalty	Distance Last Lease
Comments- 9 m	ore leases	on this proper	h							

Approved: PAB 33006

### RELINQUISHMENT ACT LEASE APPLICATION

### Texas General Land Office Jerry Patterson, Commissioner DATE: 27-Mar-06 TO: Jerry Patterson, Commissioner Larry Laine, Chief Clerk Bill Warnick, General Counsel Louis Renaud, Deputy Commissioner Robert Hatter, Director of Mineral Leasing FROM: Peter Boone, Chief Geologist Applicant: Clair L. Blair and Stephen S. Blair County: **CULBERSON** Prim. Term: 3 years Bonus/Acre \$200.00 Royalty: 1/5 Rental/Acre \$1.00 Consideration Recommended: CAB Date: 3.30.06 Not Recommended: Comments: 9 more leases on this property. Lease Form Date: 4/11/06 Recommended: RAH Not Recommended: Comments: Date: 5/2/06 Louis Renaud, Deputy Commissioner Recommended: CCR Not Recommended: Bill Warnick, General Counsel Recommended: 1950 Not Recommended: Larry Laine, Chief Clerk Approved: Not Approved: Date MAY 06 Jerry Patterson, Commissioner Approved: Not Approved:

File No. ANT- (00270

Date Filed: 6 17.05

Jerry E. Patterson, Commissioner By

General Land Office Relinquishment Act Lease Form Revised, September 1997

# The State of Texas



#60914

# Austin, Texas

#### OIL AND GAS LEASE

f 602 W. 3 <sup>rd</sup> St., Brenham, TX 77833-4041	
(Give Permanent Address)	
aid agent herein referred to as the owner of the soil (whether one or more), and Craig	L. Blair and Stephen S. Blair
P.O. Box 2476, Carlsbad, New Mexico 88221	hereinafter called Lessee.
(Give Permanent Address)	
GRANTING CLAUSE. For and in consideration of the amounts stated be efformed by Lessee under this lease, the State of Texas acting by and through the se sole and only purpose of prospecting and drilling for and producing oil and gas tations, telephone lines and other structures thereon, to produce, save, take care of, structed in Culberson  County, State of Texas, to-wit:	owner of the soil, hereby grants, leases and lets unto Lessee, fo, laying pipe lines, building tanks, storing oil and building powe
The S/2 of the SW/4 of Section 12, Block 113, Public School Land Survey, Culberson	County, Texas
containing 90.0	this large is as follows:
To the State of Texas: One Thousand Three Hundred Thirty-Three	
To the State of Texas: One Thousand Three Hundred Thirty-Three Dollars (\$1,333,33)	e and 33/100 Dollars
To the State of Texas: One Thousand Three Hundred Thirty-Three Dollars (\$1,333,33)  To the owner of the soil: One Thousand Three Hundred Thirty-Three	e and 33/100 Dollars
To the State of Texas: One Thousand Three Hundred Thirty-Three Dollars (\$1,333,33)	e and 33/100 Dollars
To the State of Texas: One Thousand Three Hundred Thirty-Three Dollars (\$1,333,33)  To the owner of the soil: One Thousand Three Hundred Thirty-Three	ee and 33/100 Dollars eee and 33/100 Dollars
To the State of Texas: One Thousand Three Hundred Thirty-Three Dollars (\$1,333.33 )  To the owner of the soil: One Thousand Three Hundred Thirty-Three Dollars (\$1,333.33 )	ee and 33/100 Dollars eee and 33/100 Dollars
To the State of Texas: One Thousand Three Hundred Thirty-Three Dollars (\$1,333.33)  To the owner of the soil: One Thousand Three Hundred Thirty-Three Dollars (\$1,333.33)  Total bonus consideration: Two Thousand Six Hundred Sixty-Six and Dollars (\$2,666.66)	ee and 33/100 Dollars eee and 33/100 Dollars and 66/100 Dollars
To the State of Texas: One Thousand Three Hundred Thirty-Three Dollars (\$1,333.33)  To the owner of the soil: One Thousand Three Hundred Thirty-Three Dollars (\$1,333.33)  Total bonus consideration: Two Thousand Six Hundred Sixty-Six and Dollars (\$2,666.66)  The total bonus consideration paid represents a bonus of Two Hundred and 0/100 Dollars (\$2,666.66)	e and 33/100 Dollars ee and 33/100 Dollars and 66/100 Dollars
To the State of Texas: One Thousand Three Hundred Thirty-Three Dollars (\$1,333,33 )  To the owner of the soil: One Thousand Three Hundred Thirty-Three Dollars (\$1,333,33 )  Total bonus consideration: Two Thousand Six Hundred Sixty-Six and Three Hundred Sixty-Six and Thousand Six And Thousand Six And Thousand Six Hundred Sixty-Six and Thousand Six And	e and 33/100 Dollars ee and 33/100 Dollars and 66/100 Dollars

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LINDA MODONALD, COUNTY CLERK
CULBERSON COUNTY TEXAS

BY

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Contract Con	

unless on or before such anniversary date Lessee shall pay or tender to the owner of the soil or to his credit in the
Bank, at
or its successors (which shall continue as the depository regardless of changes in the ownership of said land), the amount specified below; in addition Lessee shall pay or tender to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATE OF TEXAS, AT AUSTIN, TEXAS, a like sum or or before said date. Payments under this paragraph shall operate as a rental and shall cover the privilege of deferring the commencement of a well for one (1) year from said date. Payments under this paragraph shall be in the following amounts:
To the owner of the soil: Six and Sixty-seven one hundredths
Dollars (\$ <u>6.67</u> )
To the State of Texas: Six and Sixty-seven one hundredths
Dollars (\$6.67
Total Delay Rental:Thirteen and Thirty-four one hundredths
Dollars (\$13.34)
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 1/5 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be determined by 1) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity in the general area where produced and when run, or 2) the highest market price thereof offered or paid in the general area where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is the greater. Lessee agrees that before any gas produced from the leased premises is sold, used or processed in a plant, it will be 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 1/5 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be based on the highest market price paid or offered for gas of comparable quality in the general area where produced and when run, or the gross 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 1/5 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 1/5 part of the gross production of such products, or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such market value to be determined as follows: 1) on the basis of the highest market price of each product for the same month in which such produced; whichever is the greater.
5. MINIMUM ROYALTY. During any year after the expiration of the primary term of this lease, if this lease is maintained by production, the royalties paid under this lease in no event shall be less than an amount equal to the total annual delay rental herein provided; otherwise, there shall be due and payable on or before the last day of the month succeeding the anniversary date of this lease a sum equal to the total annual rental less the amount of royalties paid during the preceding year. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre.

IF IT BEARS THE SEAL OF THE ABUTY CLERK

ATTEST:

LINDAY CONNALD, COUNTY CLERK

CUCBENSON COUNTY, TEXAS

BY

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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 filled in the General Land Office. Each royalty payment shall be accompanied by a check stub, schedule, summary or other remittance advice showing by the assigned General Land Office lease number the amount of royalty being paid on each lease. If Lessee pays his royalty on or before thirty (30) days after the royalty payment was due, then Lessee owes a penalty of 5% on the royalty or \$25.00, whichever is greater. A royalty payment which is over thirty (30) days late shall accrue a penalty of 10% of the royalty due or \$25.00 whichever is greater. In addition to a penalty, royalties shall accrue interest at a rate of 12% per year; such interest will begin to accrue when the royalty is sixty (60) days overdue. Affidavits and supporting documents which are not filed when due shall incur a penalty

- 10. (A) RESERVES, CONTRACTS AND OTHER RECORDS. Lessee shall annually furnish the Commissioner of the General Land Office with its best possible estimate of oil and gas reserves underlying this lease or allocable to this lease and shall furnish said Commissioner with copies of all contracts under which gas is sold or processed and all subsequent agreements and amendments to such contracts within thirty (30) days after entering into or making such contracts, agreements or amendments. Such contracts and agreements when received by the General Land Office shall be held in confidence by the General Land Office unless otherwise authorized by Lessee. All other contracts and records pertaining to the production, transportation, sale and marketing of the oil and gas produced on said premises, including the books and accounts, receipts and discharges of all wells, tanks, pools, meters, and pipelines shall at all times be subject to inspection and examination by the Commissioner of the General Land Office, the Attorney General, the Governor, or the representative of any of them.
- (B) PERMITS, DRILLING RECORDS. Written notice of all operations on this lease shall be submitted to the Commissioner of the General Land Office by Lessee or operator five (5) days before spud date, workover, re-entry, temporary abandonment or plug and abandonment of any well or wells. Such written notice to the General Land Office shall include copies of Railroad Commission forms for application to drill. Copies of well tests, completion reports and plugging reports shall be supplied to the General Land Office at the time they are 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

ATTEST:

LINDA CODNALD, COUNTY CLERK
CULBETSON COUNTY, TEXAS



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 øwner 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 Creasonable 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 so 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.

ATTEST:

LINDA HODONALD, COUNTY CLERK

CUEBERBOY COUNTY TEXAS

BY

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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 covenants; additionally, this lease shall be extended while Lessee is prevented, by any such cause, from conducting drilling and reworking operations or from producing oil or gas from the leased premises. However, nothing in this paragraph shall suspend the payment of delay rentals in order to maintain this lease in effect during the primary term in the absence of such drilling or reworking operations or production of oil or gas.
- 19. WARRANTY CLAUSE. The owner of the soil warrants and agrees to defend title to the leased premises. If the owner of the soil defaults in payments owed on the leased premises, then Lessee may redeem the rights of the owner of the soil in the leased premises by paying any mortgage, taxes or other liens on the leased premises. If Lessee makes payments on behalf of the owner of the soil under this paragraph, Lessee may recover the cost of these payments from the rental and royalities due the owner of the soil.
- 20. (A) PROPORTIONATE REDUCTION CLAUSE. If the owner of the soil owns less than the entire undivided surface estate in the above described land, whether or not Lessee's interest is specified herein, then the royalties and rental herein provided to be paid to the owner of the soil shall be paid to him in the proportion which his interest bears to the entire undivided surface estate and the royalties and rental herein provided to be paid to the Commissioner of the General Land Office of the State of Texas shall be likewise proportionately reduced. However, before Lessee adjusts the royalty or rental due to the Commissioner of the General Land Office, Lessee or his authorized representative must submit to the Commissioner of the General Land Office a written statement which explains the discrepancy between the interest purportedly leased under this lease and the actual interest owned by the owner of the soil. The Commissioner of the General Land Office shall be paid the value of the whole production allocable to any undivided interest. 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.

ACERTIFIED SOPY

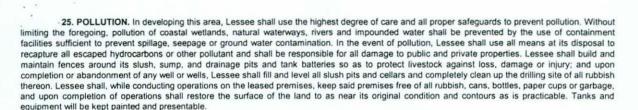
ATTEST:

LINDA MODENALD, COUNTY CLERK

CULCERTON COUNTY, TEXAS

BY

DEPUT



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

> IF IT BEARS THE SEA NTY, TEXAS
>
> MY DEPUTY

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 the
- 36. ENVIRONMENTAL HAZARDS. Lessee shall use the highest degree of care and all reasonable safeguards to prevent contamination or pollution of any environmental medium, including soil, surface waters, groundwater, sediments, and surface or subsurface strata, ambient air or any other environmental medium in, on, or under, the leased premises, by any waste, pollutant, or contaminant. Lessee shall not bring or permit to remain on the leased premises any asbestos containing materials, explosives, toxic materials, or substances regulated as hazardous wastes, hazardous materials, hazardous substances (as the term "Hazardous 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 CERCL
- 37. APPLICABLE LAW. This lease is issued under the provisions of Texas Natural Resources Code 52.171 through 52.190, commonly known as the Relinquishment Act, and other applicable statutes and amendments thereto, and if any provision in this lease does not conform to these statutes, the statutes will prevail over any nonconforming lease provisions.

ATTEST:

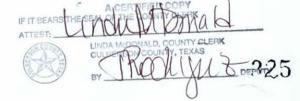
LINDA McDONALD, COUNTY CLERK
CULBRISON COUNTY, TEXAS

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

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

BY: CRAIG L. BLAIR	BY: Stephen S. Blair STEPHEN S. BLAIR
Title: 12-03-05 C.12 Date: 12-03-05	Title:
LESSOR: STATE OF TEXAS BY: Frankie R. West- Davis	STATE OF TEXAS BY:
FRANKIE R. WEST-DAVIS Individually and as agent for the State of Texas  Date: 8-29-05	Individually and as agent for the State of Texas  Date:
STATE OF TEXAS BY:	STATE OF TEXAS BY:
Individually and as agent for the State of Texas	Individually and as agent for the State of Texas  Date:

Mall Instrument back to Slate Land Services P.O. Box 550 Big Spring, Texas 79721-0550



3.	STATE OF	(CORPORATION ACKNOWLEDGMENT)
	COUNTY OF	
	BEFORE ME, the undersigned authority, on this day personally	y 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	d, 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 TEXAS	(INDIVIDUAL ACKNOWLEDGMENT)
	COUNTY OF Washington	
	BEFORE ME, the undersigned authority, on this day personally	y appeared FRANKIE R. WEST-DAVIS
	SEASON SE	going instrument, and acknowledged to me that they executed the same for the
	purposes and consideration therein expressed.	^
	G day	of August 20 Ost.
	JOYCE LYNN DICKSCHAT Notary Public, State of Texas My Commission Expires	a a llit
	September 16, 2005	One Com Comme
		Notary Public in and for Brown, Washington Co. X
	STATE OF JEHAN	(INDIVIDUAL ACKNOWLEDGMENT)
	9/2.1220	(INDIVIDUAL ACKNOWLEDGINENT)
	COUNTY OF 1877 YULUMUU	100101 0110
	BEFORE ME, the undersigned authority, on this day personally	y appeared CRAIG L. BLAIR
	known to me to be the persons whose names are subscribed to the fore	going instrument, and acknowledged to me that they executed the same for the
	purposes and consideration therein expressed.	
	Given under my hand and seal of office this the 3 day	of December 2005
		100
		Il ary Co. Detus
	TOURS MARY E. BETUS	Notary Public in and for Telas
	STATE OF Notary Public, State of My Commission Ex	(INDIVIDUAL ACKNOWLEDGMENT)
	COUNTY OF RAULS July 09, 2007	pres
	BEFORE ME, the undersigned authority, on this day personall	ly appeared STEPHEN S. BLAIR
	known to me to be the persons whose names are subscribed to the fore	egoing instrument, and acknowledged to me that they executed the same for the
	purposes and consideration therein expressed.	going installing, and additionaged to the that they exceeded the same for the
	Given under my hand and seal of office this the day	or December 2005.
	Given under my hand and sear of office this the day	0 0 1
		Reser & Daniell
		Notary Public in and for Texas
	PEGGY J. BARNETT MY COMMISSION EXPIRES	usu-arat year shariga asaa-asaa-asaa
	June 1, 2008	
0	A OERTIFIED POPY	
IF IT BEARS THE SEAL	VOLTHE COUNTY CHEEN U	
ATTEST: LINI	DA MARONALD, COUNTY CLERK USERS DI COUNTY, TEXAS	
CUL	GERSON COUNTY, TEXAS	
BY.	DEPUTY	
	U	
		IL, A.D. 2006 @ 11:30 O'CLOCK A M. &
	DULY RECORDED ON THE 19th DAY OF APRIL	A.D. 2006 @ 3:10 O'CLOCK P M.
	$(X_{1})$	LINDA MCDONALD, COUNTY CLERK
		CIT PEDCON COUNTY TEXAS

, DEPUTY

Jerry E. Patterson, Commissioner File No. Mt. (00070 Date Filed:

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

The above and foregoing is a full, true and correct photographic copy of the original record now in any laught custody and possession, as the same is filed/recorded in the page 318 326 Records of my office, found in VOL.



Thereby certified on 4 May 2006

LINDA McDONALD, COUNTY & DISTRICT CLERK
CHESTROON COUNTY, TEXAS
BY DEPUT

DEPUTY

2. 8.08



General Land Office Relinquishment Act Lease Form Revised, September 1997

# The State of Texas



#60910

## Austin, Texas

#### OIL AND GAS LEASE

		, between the State of Texas, acting
y and through its agent, Mattie Russell Pearson		
f 726 Hartman Dr., Baytown, TX 77521		
(Give Permanent Address)		
aid agent herein referred to as the owner of the soil (whether one or more)	, and Craig L. Blair and Stephen S.	Blair
f P.O. Box 2476, Carlsbad, New Mexico 88221		hereinafter called Lessee.
(Give Permanent Address)		
1. GRANTING CLAUSE. For and in consideration of the amount performed by Lessee under this lease, the State of Texas acting by and the sole and only purpose of prospecting and drilling for and producing stations, telephone lines and other structures thereon, to produce, save, to interest the country, State of Texas, to-with the country of the same country.	hrough the owner of the soil, hereb oil and gas, laying pipe lines, buil ake care of, treat and transport said	by grants, leases and lets unto Lessee, for ding tanks, storing oil and building power
The S/2 of the SW/4 of Section 12, Block 113, Public School Land Survey	y, Culberson County, Texas	
		4
para may at less. The bonus applicant	tion poid for this loops is as follows:	
containing 80.0 acres, more or less. The bonus considera		
containing 80.0 acres, more or less. The bonus considera  To the State of Texas: One Thousand Three Hundred		
	Thirty-Three and 33/100 Dollars	
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To the State of Texas: One Thousand Three Hundred  Dollars (\$1,333.33	Thirty-Three and 33/100 Dollars  d Thirty-Three and 33/100 Dollars	
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unless on or bef	ore such anniversary date Lessee shall pay or tender to the owner of the soil or to his credit in the
	Bank, at
Lessee shall par or before said d	s (which shall continue as the depository regardless of changes in the ownership of said land), the amount specified below; in addition or tender to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATE OF TEXAS, AT AUSTIN, TEXAS, a like sum of ate. Payments under this paragraph shall operate as a rental and shall cover the privilege of deferring the commencement of a well for an said date. Payments under this paragraph shall be in the following amounts:
	To the owner of the soil: _Six and Sixty-seven one hundredths
	Dollars (\$6.67
	To the State of Texas: Six and Sixty-seven one hundredths
	Dollars (\$6.67
	Total Delay Rental: Thirteen and Thirty-four one hundredths
	Dollars (\$13.34
year each durin assignee of this cease to exist, held in default f	r and upon like payments or tenders annually, the commencement of a well may be further deferred for successive periods of one (1 g 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 an lease, and may be delivered on or before the rental paying date. If the bank designated in this paragraph (or its successor bank) should business, liquidate, fail or be succeeded by another bank, or for any reason fail or refuse to accept rental, Lessee shall not be or 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 unent naming another bank as agent to receive such payments or tenders.
provided for in the	ODUCTION ROYALTIES. Upon production of oil and/or gas, Lessee agrees to pay or cause to be paid one-half (1/2) of the royalt his 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
all condensate, shall be 1/5 Land Office, suchydrocarbons, ripaid in the gene any gas produciand gas separa will be recovere	It. Royalty payable on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well and also a distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided 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 value to be determined by 1) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquidespectively, of a like type and gravity in the general area where produced and when run, or 2) the highest market price thereof offered or all area where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is the greater. Lessee agrees that before ad 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 of or conventional type, or other equipment at least as efficient, so that all liquid hydrocarbons recoverable from the gas by such mean d. The requirement that such gas be run through a separator or other equipment may be waived, in writing, by the royalty owners upon conditions as they prescribe.
defined as oil in the extraction of option of the ov- gas of compara provided that the and the standar	ON PROCESSED GAS. Royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substances not subparagraph (A) above, produced from any well on said land (except as provided herein with respect to gas processed in a plant for gasoline, liquid hydrocarbons or other products) shall be 1/5 part of the gross production or the market value thereof, at the mer 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 ble quality in the general area where produced and when run, or the gross price paid or offered to the producer, whichever is the greate e maximum pressure base in measuring the gas under this lease shall not at any time exceed 14.65 pounds per square inch absolute d base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specifig 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.
hydrocarbons s of the soil or the production of regreater, of the recovered from hydrocarbons s agreement neg; the industry), w price paid or off gas (or the welg gas (or the welg the industry).	PROCESSED GAS. Royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquing hall be 1/5 part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the owner of the General Land Office. All royalties due herein shall be based on one hundred percent (100%) of the total plansidue gas attributable to gas produced from this lease, and on fifty percent (50%), or that percent accruing to Lessee, whichever is the total plant production of liquid hydrocarbons attributable to the gas produced from this lease; provided that if liquid hydrocarbons are gas processed in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the percentage applicable to liquing hall be fifty percent (50%) or the highest percent accruing to a third party processing gas through such plant under a processinated at arm's length (or if there is no such third party, the highest percent then being specified in processing agreements or contracts in inchever is the greater. The respective royalties on residue gas and on liquid hydrocarbons shall be determined by 1) the highest market ered for any gas (or liquid hydrocarbons) of comparable quality in the general area, or 2) the gross price paid or offered for such residue the paragraph be less than the royalties which would have been due had the gas not been processed.
hydrocarbons) the gross produ such market va	whether said gas be "casinghead," "dry," or any other gas, by fractionating, burning or any other processing shall be 1/5 part of ction 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 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 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
royalties paid u due and payab	NIMUM ROYALTY. During any year after the expiration of the primary term of this lease, if this lease is maintained by production, the noter this lease in no event shall be less than an amount equal to the total annual delay rental herein provided; otherwise, there shall be 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 lities paid during the preceding year. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this

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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 filled in the General Land Office. Each royalty payment shall be accompanied by a check stub, schedule, summary or other remittance advice showing by the assigned General Land Office lease number the amount of royalty being paid on each lease. If Lessee pays his royalty on or before thirty (30) days after the royalty payment was due, then Lessee owes a penalty of 5% on the royalty or \$25.00, whichever is greater. A royalty payment which is over thirty (30) days late shall accrue a penalty of 10% of the royalty due or \$25.00 whichever is greater. In addition to a penalty, royalties shall accrue interest at a rate of 12% per year; such interest will begin to accrue when the royalty is sixty (60) days overdue. Affidavits and supporting documents which are not filed when due shall incur a penalty

- 10. (A) RESERVES, CONTRACTS AND OTHER RECORDS. Lessee shall annually furnish the Commissioner of the General Land Office with its best possible estimate of oil and gas reserves underlying this lease or allocable to this lease and shall furnish said Commissioner with copies of all contracts under which gas is sold or processed and all subsequent agreements and amendments to such contracts within thirty (30) days after entering into or making such contracts, agreements or amendments. Such contracts and agreements when received by the General Land Office shall be held in confidence by the General Land Office unless otherwise authorized by Lessee. All other contracts and records pertaining to the production, transportation, sale and marketing of the oil and gas produced on said premises, including the books and accounts, receipts and discharges of all wells, tanks, pools, meters, and pipelines shall at all times be subject to inspection and examination by the Commissioner of the General Land Office, the Attorney General, the Governor, or the representative of any of them.
- (B) PERMITS, DRILLING RECORDS. Written notice of all operations on this lease shall be submitted to the Commissioner of the General Land Office by Lessee or operator five (5) days before spud date, workover, re-entry, temporary abandonment or plug and abandonment of any well or wells. Such written notice to the General Land Office shall include copies of Railroad Commission forms for application to drill. Copies of well tests, completion reports and plugging reports shall be supplied to the General Land Office at the time they are 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 Lessee completes a drilling or reworking operation in accordance with the lease provisions; whichever date is latest. Such payment shall be made one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil. If the shut-in oil or gas royalty is paid, the lease shall be considered to be a producing lease and the payment shall extend the term of the lease for a period of one year from the end of the primary term, or from the first day of the month following the month in which production ceased, and, after that, if no suitable production facilities or suitable market for the oil or gas exists, Lessee may extend the lease for four more successive periods of one (1) year by paying the same amount each year on or before the expiration of each shut-in year.
- 15. COMPENSATORY ROYALTIES. If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is sold and delivered in paying quantities from a well located within one thousand (1,000) feet of the leased premises and completed in the same producing reservoir, or in any case in which drainage is occurring, the right to continue to maintain the lease by paying the shut-in oil or gas royalty shall cease, but the lease shall remain effective for the remainder of the year for which the royalty has been paid. The Lessee may maintain the lease for four more successive years by Lessee paying compensatory royalty at the royalty rate provided in the lease of the market value of production from the well causing the drainage or which is completed in the same producing reservoir and within one thousand (1,000) feet of the leased premises. The compensatory royalty is to be paid monthly, one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil, beginning on or before the last day of the month following the month in which the oil or gas is produced from the well causing the drainage or that is completed in the same producing reservoir and located within one thousand (1,000) feet of the leased premises. If the compensatory royalty paid in any 12-month period is an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within thirty (30) days from the end of the 12-month period. Compensatory royalty payments which are not timely paid will accrue penalty and interest in accordance with Paragraph 9 of this lease. None of these provisions will relieve Lessee of the obligation of reasonable development nor the obligation to drill offset wells as provided in Texas Natural Resources Code 52.173; however, at the determination of the Commissioner, and with the Commissioner's written approval, the payment of compensatory royalties can satisfy the obligation to drill offset wells.
- 16. RETAINED ACREAGE. Notwithstanding any provision of this lease to the contrary, after a well producing or capable of producing oil or gas has been completed on the leased premises, Lessee shall exercise the diligence of a reasonably prudent operator in drilling such additional well or wells as may be reasonably necessary for the proper development of the leased premises and in marketing the production thereon.
- (A) VERTICAL. In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall then terminate as to all of the leased premises, EXCEPT (1) 40 acres surrounding each oil well capable of producing in paying quantities and 320 acres surrounding each gas well capable of producing in paying quantities (including a shut-in oil or gas well as provided in Paragraph 14 hereof), or a well upon which Lessee is then engaged in continuous drilling or reworking operations, or (2) the number of acres included in a producing pooled unit pursuant to Texas Natural Resources Code 52.151-52.154, or (3) such greater or lesser number of acres as may then be allocated for production purposes to a proration unit for each such producing well under the rules and regulations of the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction. If at any time after the effective date of the partial termination provisions hereof, the applicable field rules are changed or the well or wells located thereon are reclassified so that less acreage is thereafter allocated to said well or wells for production purposes, this lease shall thereupon terminate as to all acreage not thereafter allocated to said well or wells for production purposes. Notwithstanding the termination of this lease as to a portion of the lands covered hereby, Lessee shall nevertheless continue to have the right of ingress to and egress from the lands still subject to this lease for all purposes described in Paragraph 1 hereof, together with easements and rights-of-way for existing roads, existing pipelines and other existing facilities on, over and across all the lands described in Paragraph 1 hereof ("the retained lands"), for access to and from the retained lands and for the gathering or transportation of oil, gas and other minerals produced from the retained lands.



- (B) HORIZONTAL. In the event this lease is in force and effect two (2) years after the expiration 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 releases or releases within ninety (90) days after being requested to do so by the General Land Office, then the Commissioner at his sole discretion may designate by written instrument the acreage and/or depths to be released hereunder and record such instrument at Lessee's expense in the county or counties where the lease is located and in the official records of the General Land Office and such designation shall be binding upon Lessee for all purposes.
- 17. OFFSET WELLS. Neither the bonus, delay rentals, nor royalties paid, or to be paid, under this lease shall relieve Lessee of his obligation to protect the oil and gas under the above-described land from being drained. Lessee, sublessee, receiver or other agent in control of the leased premises shall drill as many wells as the facts may justify and shall use appropriate means and drill to a depth necessary to prevent undue drainage of oil and gas from the leased premises. In addition, if oil and/or gas should be produced in commercial quantities within 1,000 feet of the leased premises, or in any case where the leased premises is being drained by production of oil or gas, the Lessee, sublessee, receiver or other agent in control of the leased premises shall in good faith begin the drilling of a well or wells upon the leased premises within 100 days after the draining well or wells or the well or wells completed within 1,000 feet of the leased premises start producing in commercial quantities and shall prosecute such drilling with diligence. Failure to satisfy the statutory offset obligation may subject this lease and the owner of the soil's agency rights to forfeiture. Only upon the determination of the Commissioner of the General Land Office and with his written approval may the payment of compensatory royalty under applicable statutory parameters satisfy the obligation to drill an offset well or wells required under this paragraph.
- 18. FORCE MAJEURE. If, after a good faith effort, Lessee is prevented from complying with any express or implied covenant of this lease, from conducting drilling operations on the leased premises, or from producing oil or gas from the leased premises by reason of war, rebellion, riots, strikes, acts of God, or any valid order, rule or regulation of government authority, then while so prevented, Lessee's obligation to comply with such covenants shall be suspended and Lessee shall not be liable for damages for failure to comply with such covenants; additionally, this lease shall be extended while Lessee is prevented, by any such cause, from conducting drilling and reworking operations or from producing oil or gas from the leased premises. However, nothing in this paragraph shall suspend the payment of delay rentals in order to maintain this lease in effect during the primary term in the absence of such drilling or reworking operations or production of oil or gas.
- 19. WARRANTY CLAUSE. The owner of the soil warrants and agrees to defend title to the leased premises. If the owner of the soil defaults in payments owed on the leased premises, then Lessee may redeem the rights of the owner of the soil in the leased premises by paying any mortgage, taxes or other liens on the leased premises. If Lessee makes payments on behalf of the owner of the soil under this paragraph, Lessee may recover the cost of these payments from the rental and royalties due the owner of the soil.
- 20. (A) PROPORTIONATE REDUCTION CLAUSE. If the owner of the soil owns less than the entire undivided surface estate in the above described land, whether or not Lessee's interest is specified herein, then the royalties and rental herein provided to be paid to the owner of the soil shall be paid to him in the proportion which his interest bears to the entire undivided surface estate and the royalties and rental herein provided to be paid to the Commissioner of the General Land Office of the State of Texas shall be likewise proportionately reduced. However, before Lessee adjusts the royalty or rental due to the Commissioner of the General Land Office, Lessee or his authorized representative must submit to the Commissioner of the General Land Office a written statement which explains the discrepancy between the interest purportedly leased under this lease and the actual interest owned by the owner of the soil. The Commissioner of the General Land Office shall be paid the value of the whole production allocable to any undivided interest. 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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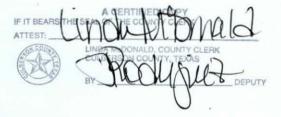
- 25, POLLUTION, In developing this area, Lessee shall use the highest degree of care and all proper safeguards to prevent pollution. Without limiting the foregoing, pollution of coastal wetlands, natural waterways, rivers and impounded water shall be prevented by the use of containment facilities sufficient 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 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
  - (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 nts concerning the development of oil and gas from the leased premises which are not contained in this lease render this lease invalid
- 31. FIDUCIARY DUTY. The owner of the soil owes the State a fiduciary duty and must fully disclose any facts affecting the State's interest in the leased premises. When the interests of the owner of the soil conflict with those of the State, the owner of the soil is obligated to put the State's interests before his personal interests.
- 32. FORFEITURE. If Lessee shall fail or refuse to make the payment of any sum within thirty days after it becomes due, or if Lessee or an authorized agent should knowingly make any false return or false report concerning production or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith as required by law and the rules and regulations adopted by the Commissioner of the General Land Office, or if Lessee should fail to file reports in the manner required by law or fail to comply with rules and regulations promulgated by the General Land Office, the School Land Board, or the Railroad Commission, or if Lessee should refuse the proper authority access to the records pertaining to operations, or if Lessee or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or knowingly fail or refuse to furnish the General Land Office a correct log of any well, or if Lessee shall knowingly violate any of the material provisions of this lease, or if this lease is assigned and the assignment is not filed in the General Land Office as required by law, the rights acquired under this lease shall be subject to forfeiture by the



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

- 33. LIEN. In accordance with Texas Natural Resources Code 52.136, the State shall have a first lien upon all oil and gas produced from the area covered by this lease to secure payment of all unpaid royalty and other sums of money that may become due under this lease. By acceptance of this lease, Lessee grants the State, in addition to the lien provided by Texas Natural Resources Code 52.136 and any other applicable statutory lien, an express contractual lien on and security interest in all leased minerals in and extracted from the leased premises, all proceeds which may accrue to Lessee from the sale of such leased minerals, whether such proceeds are held by Lessee or by a third party, and all fixtures on and improvements to the leased premises used in connection with the production or processing of such leased minerals in order to secure the payment of all royalties or other amounts due or to become due under this lease and to secure payment of any damages or loss that Lessor may suffer by reason of Lessee's breach of any covenant or condition of this lease, whether express or implied. This lien and security interest may be foreclosed with or without court proceedings in the manner provided in the Title 1, Chap. 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this lease forfeited as provided herein.
- 34. POOLING. Lessee is hereby granted the right to pool or 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 affailure 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 t
- 36. ENVIRONMENTAL HAZARDS. Lessee shall use the highest degree of care and all reasonable safeguards to prevent contamination or pollution of any environmental medium, including soil, surface waters, groundwater, sediments, and surface or subsurface strata, ambient air or any other environmental medium in, on, or under, the leased premises, by any waste, pollutant, or contaminant. Lessee shall not bring or permit to remain on the leased premises any asbestos containing materials, explosives, toxic materials, or substances regulated as hazardous wastes, hazardous materials, hazardous substances (as the term "Hazardous Substance" is defined in the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), 42 U.S.C. Sections 9601, et seq.), or toxic substances under any federal, state, or local law or regulation ("Hazardous Materials"), except ordinary products commonly used in connection with oil and gas exploration and development operations and stored in the usual manner and quantities. LESSEE'S VIOLATION OF THE FOREGOING PROHIBITION SHALL CONSTITUTE A MATERIAL BREACH AND DEFAULT HEREUNDER AND LESSEE SHALL INDEMNIFY, HOLD HARMLESS AND DEFEND THE STATE OF TEXAS AND THE OWNER OF THE SOIL FROM AND AGAINST ANY CLAIMS, DAMAGES, JUDGMENTS, PENALTIES, LIABILITIES, AND COSTS (INCLUDING REASONABLE ATTORNEYS' FEES AND COURT ONLY OR CONTROL 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 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 SH
- 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.



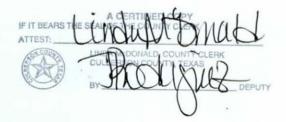
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38. EXECUTION. This oil and gas lease must be signed and acknowledged by the Lessee before it is filed of record in the county records and in the General Land Office of the State of Texas. Once the filing requirements found in Paragraph 39 of this 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.

CRAIG L' BLAIR	STEPHEN S. BLAIR
Title:	Title:
LESSOR:	
BY: Matter Brown Baarson Matter Russell Pearson	STATE OF TEXAS BY:
Individually and as agent for the State of Texas  Date:	Individually and as agent for the State of Texas  Date:
STATE OF TEXAS	STATE OF TEXAS
BY:	BY:
Individually and as agent for the State of Texas	Individually and as agent for the State of Texas
Date:	Date:

Mail Instrument back to Slate Land Services P.O. Box 550 Big Spring, Texas 79721-0550



STATE OF	(CORPORATION ACKNOWLEDGMENT)
COUNTY OF	
BEFORE ME, the undersigned authority, on this day person	nally appeared
nown to me to be the person whose name is subscribed to the forego	
ecuted the same for the purposes and consideration therein express	and acknowledged to me that he sed, in the capacity stated, and as the act and deed of said corporation.
Given under my hand and seal of office this the da	ay or 20
	Notary Public in and for
DUNTY OF AMA	(INDIVIDITAL ACKNOWLEDGMENT)
BEFORE ME, the undersigned authority, on this day person	nally appeared MATTIE RUSSELL PEARSON
nown to me to be the persons whose names are subscribed to the fo	oregoing instrument, and acknowledged to me that they executed the same for the
urposes and consideration therein expressed.	
my handhow shaddibence this the	lay of tober, 2005.
Notary Public, State of Texas My Commission Expires	as y ano.
September 10, 2009	Gangy Conly
	Notary Public in and for Xlfs
TATE OF Jeslas	(INDIVIDUAL ACKNOWLEDGMENT)
OUNTY OF HOWARD	
BEFORE ME, the undersigned authority, on this day person	nally appeared <u>CRAIG L. BLAIR</u>
nown to me to be the persons whose names are subscribed to the fo urposes and consideration therein expressed.	oregoing instrument, and acknowledged to me that they executed the same for the
	1 1 00
Given under my hand and seal of office this the 3 nd	tay of <u>L. R.CO.M. L. W</u> 20 (15).
	Maryes Betus
MARY E. BE	TUS Aptary Public in and for Exact
TATE OF EVAS Notary Public, State My Commission July 09, 20	te of Texas (INDIVIDUAL ACKNOWLEDGMENT)
BEFORE ME, the undersigned authority, on this day person	nally appeared STEPHEN S. BLAIR
	oregoing instrument, and acknowledged to me that they executed the same for the
urposes and consideration therein expressed.	Dear her
Given under my hand and seal of office this the d	tay of December 2005.
	Resse J Dant
	Notary Public in and for TEX AS
PEGGY J. BAPINETT MY COMMISSION EXPIRES	itolary i delication and its analysis an
June 1, 2008	
	IF IT BEARS THE SEALOR THE COUNTY AND THE SEALOR THE SE
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	U
LED FOR RECORD ON THE 12th DAY OF AP	PRIL , A.D. 2006 @ 11:30 O'CLOCK A M. &
RECORDED ON THE 19th DAY OF APRI	
XXX	LINDA MCDONALD, COUNTY CLERK CULBERSON COUNTY, TEXAS

Jerry E. Patterson, Commissioner File No. MF 104270 Date Filed:

1)

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

In the property of the propert

2. 0.00



# The State of Texas



#60911

## Austin, Texas

#### OIL AND GAS LEASE

f 14023 St. Mary's St., Houston, TX 77079	
(Give Permanent Address)	
aid agent herein referred to as the owner of the soil (whether one or more), a	nd Craig L. Blair and Stephen S. Blair
P.O. Box 2476, Carlsbad, New Mexico 88221	hereinafter called Lessee.
(Give Permanent Address)	
1. GRANTING CLAUSE. For and in consideration of the amounts be enformed by Lessee under this lease, the State of Texas acting by and three sole and only purpose of prospecting and drilling for and producing oil stations, telephone lines and other structures thereon, to produce, save, take situated in Culberson  County, State of Texas, to-wit:	and gas, laying pipe lines, building tanks, storing oil and building powe
The S/2 of the SW/4 of Section 12, Block 113, Public School Land Survey,	Culberson County, Texas
	*
containing 80.0 acres, more or less. The bonus consideration	n paid for this lease is as follows:
containing 80.0 acres, more or less. The bonus consideration acres from the State of Texas: One Thousand Three Hundred Th	ALL PHOSPY II DANG TO HIS THE AND TO CONTROL OF THE STORY
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To the State of Texas: One Thousand Three Hundred Th	irty-Three and 33/100 Dollars
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To the State of Texas: One Thousand Three Hundred The Dollars (\$1,333,33)  To the owner of the soil: One Thousand Three Hundred	irty-Three and 33/100 Dollars
To the State of Texas: One Thousand Three Hundred The Dollars (\$1,333,33)  To the owner of the soil: One Thousand Three Hundred	Thirty-Three and 33/100 Dollars  Thirty-Three and 33/100 Dollars
To the State of Texas: One Thousand Three Hundred The Dollars (\$1,333,33)  To the owner of the soil: One Thousand Three Hundred Dollars (\$1,333,33)	Thirty-Three and 33/100 Dollars  Thirty-Three and 33/100 Dollars
To the State of Texas: One Thousand Three Hundred The Dollars (\$1,333.33)  To the owner of the soil: One Thousand Three Hundred Dollars (\$1,333.33)  Total bonus consideration: Two Thousand Six Hundred Six Hundr	Thirty-Three and 33/100 Dollars  Thirty-Three and 33/100 Dollars  Sixty-Six and 66/100 Dollars
To the State of Texas: One Thousand Three Hundred The Dollars (\$1,333.33)  To the owner of the soil: One Thousand Three Hundred Dollars (\$1,333.33)  Total bonus consideration: Two Thousand Six Hundred Six Dollars (\$2,666.66)	Thirty-Three and 33/100 Dollars  Thirty-Three and 33/100 Dollars  Sixty-Six and 66/100 Dollars



3. DELAY RENTALS	s. 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 anniver	rsary date Lessee shall pay or tender to the owner of the soil or to his credit in the
or its evenessors (which shall or	Bank, at
Lessee shall pay or tender to the or before said date. Payments u	or commissioner of the General Land Office of the State of teaching in the division of said land, in a mount specimed below, in adultion of commissioner of the state of the s
To the own	er of the soil: Six and Sixty-seven one hundredths
	Dollars (\$ <u>6.67</u>
To the State	e of Texas: <u>Six and Sixty-seven one hundredths</u>
	Dollars (\$ <u>6.67</u>
. Total Delay	Rental:Thirteen and Thirty-four one hundredths
	Dollars (\$13.34
year each during the primary to assignee of this lease, and may cease to exist, suspend busines held in default for failure to mal	payments or tenders annually, the commencement of a well may be further deferred for successive periods of one (1 brm. All payments or tenders of rental to the owner of the soil may be made by check or sight draft of Lessee, or an or be delivered on or before the rental paying date. If the bank designated in this paragraph (or its successor bank) should ss, liquidate, fail or be succeeded by another bank, or for any reason fail or refuse to accept rental, Lessee shall not be ke such payments or tenders of rental until thirty (30) days after the owner of the soil shall deliver to Lessee a proper mother bank as agent to receive such payments or tenders.
	DYALTIES. Upon production of oil and/or gas, Lessee agrees to pay or cause to be paid one-half (1/2) of the royalf Commissioner of the General Land Office of the State of Texas, at Austin, Texas, and one-half (1/2) of such royalty to the
all condensate, distillate, and ot shall be 1/5 part of the and Office, such value to be denydrocarbons, respectively, of a baild in the general area where pany gas produced from the leas and gas separator of convention	able on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well and also a ther liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provide the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the Gener etermined by 1) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distiflate, or other liquing like type and gravity in the general area where produced and when run, or 2) the highest market price thereof offered produced and when run, or 3) the gross proceeds of the sale thereof, whichever is the greater. Lessee agrees that before the premises is sold, used or processed in a plant, it will be run free of cost to the royalty owners through an adequate of all type, or other equipment at least as efficient, so that all liquid hydrocarbons recoverable from the gas by such mean ent that such gas be run through a separator or other equipment may be waived, in writing, by the royalty owners uponly prescribe.
defined as oil in subparagraph the extraction of gasoline, liquid poption of the owner of the soil of gas of comparable quality in the provided that the maximum preand the standard base tempera	ED GAS. Royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substances in (A) above, produced from any well on said land (except as provided herein with respect to gas processed in a plant of the hydrocarbons or other products) shall be 1/5 part of the gross production or the market value thereof, at the commissioner of the General Land Office, such value to be based on the highest market price paid or offered in a general area where produced and when run, or the gross price paid or offered to the producer, whichever is the greate assure base in measuring the gas under this lease shall not at any time exceed 14.65 pounds per square inch absolut ture shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specif by the Balance Method or by the most approved method of testing being used by the industry at the time of testing.
hydrocarbons shall be 1/5 of the soil or the Commissione production of residue gas attrib greater, of the total plant produce to the covered from gas processed hydrocarbons shall be fifty per agreement negotiated at arm's the industry), whichever is the gorice paid or offered for any gargas (or the weighted average g	part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the own of the General Land Office. All royalties due herein shall be based on one hundred percent (100%) of the total pla outable to gas produced from this lease, and on fifty percent (50%), or that percent accruing to Lessee, whichever is the outcion of liquid hydrocarbons attributable to the gas produced from this lease; provided that if liquid hydrocarbons a in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the percentage applicable to liquing recent (50%) or the highest percent accruing to a third party processing gas through such plant under a processing length (or if there is no such third party, the highest percent then being specified in processing agreements or contracts greater. The respective royalties on residue gas and on liquid hydrocarbons, shall be determined by 1) the highest mark as (or liquid hydrocarbons) of comparable quality in the general area, or 2) the gross price paid or offered for such residuross selling price for the respective grades of liquid hydrocarbons), whichever is the greater. In no event, however, she paragraph be less than the royalties which would have been due had the gas not been processed.
hydrocarbons) whether said gas the gross production of such pro such market value to be determ	JCTS. Royalty on carbon black, sulphur or any other products produced or manufactured from gas (excepting liquid is be "casinghead," "dry," or any other gas, by fractionating, burning or any other processing shall be 1/5 part oducts, or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Officinined as follows: 1) on the basis of the highest market price of each product for the same month in which such product the average gross sale price of each product for the same month in which such products are produced; whichever is the average gross sale price of each product for the same month in which such products are produced; whichever is the average gross sale price of each product for the same month in which such products are produced; whichever is the average gross sale price of each product for the same month in which such products are produced; whichever is the average gross sale price of each product for the same month in which such products are produced; whichever is the average gross sale price of each product for the same month in which such products are produced; whichever is the average gross sale price of each product for the same month in which such products are produced; whichever is the average gross sale price of each product for the same month in which such products are produced; whichever is the average gross sale price of each product for the same month in which such products are produced; which we have the product for the same month in which such products are produced.
	LTY. During any year after the expiration of the primary term of this lease, if this lease is maintained by production, t in no event shall be less than an amount equal to the total annual delay rental herein provided; otherwise, there shall

IF IT BEARS THE SEAR STREET COUNTY CLERK
PATENTS

LINDS NALD COUNTY CLERK
PALE COUNTY, TEXAS

BY DEPUTY



- 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:

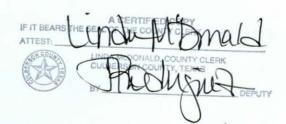
Payment of royalty on production of oil and gas shall be as provided in the rules set forth in the Texas Register. Rules currently provide that royalty on oil is due and must be received in the General Land Office on or before the 5th day of the second month succeeding the month of production, and royalty 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

- 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, memorands, accounts, reports, cuttings and cores, or other information relative to the operation of the above-described premises, which may be requested by the General Land Office, in addition to those herein expressly provided for. Lessee shall have an electrical and/or radioactivity survey made on the bore-hole section, from the base of the surface casing to the total depth of well, of all wells drilled on the above described premises and shall transmit a true copy of the log of each survey on each well to the General Land Office within fifteen (15) days after the making of said survey.
- (C) PENALTIES. Lessee shall incur a penalty whenever reports, documents or other materials are not filed in the General Land Office when due. The penalty for late filing shall be set by the General Land Office administrative rule which is effective on the date when the materials were due in the General Land Office.
- 11. DRY HOLE/CESSATION OF PRODUCTION DURING PRIMARY TERM. If, during the primary term hereof and prior to discovery and production of oil or gas on said land, Lessee should drill a dry hole or holes thereon, or if during the primary term hereof and after the discovery and actual production of oil or gas from the leased premises such production thereof should cease from any cause, this lease shall not terminate if on or before the expiration of sixty (60) days from date of completion of said dry hole or cessation of production Lessee commences additional drilling or reworking operations thereon, or pays or tenders the next annual delay rental in the same manner as provided in this lease. If, during the last year of the primary term or within sixty (60) days prior thereto, a dry hole be completed and abandoned, or the production of oil or gas should cease for any cause, Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term; and if Lessee has not resumed production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking



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

- 12. DRILLING AND REWORKING AT EXPIRATION OF PRIMARY TERM. If, at the expiration of the primary term, neither oil nor gas is being produced on said land, but Lessee is then engaged in drilling or reworking operations thereon, this lease shall remain in force so long as operations on said well or for drilling or reworking of any additional wells are prosecuted in good faith and in workmanlike manner without Interruptions totaling more than sixty (60) days during any one such operation, and if they result in the production of oil and/or gas, so long thereafter as oil and/or gas is produced in paying quantities from said land, or payment of shut-in oil or gas well royalties or compensatory royalties is made as provided in this lease.
- 13. CESSATION, DRILLING, AND REWORKING. If, after the expiration of the primary term, production of oil or gas from the leased premises, after once obtained, should cease from any cause, this lease shall not terminate if Lessee commences additional drilling or reworking operations within sixty (60) days after such cessation, and this lease shall remain in full force and effect for so long as such operations continue in good faith and in workmanlike manner without interruptions totaling more than sixty (60) days. If such drilling or reworking operations result in the production of oil or gas, the lease shall remain in full force and effect for so long as oil or gas is produced from the leased premises in paying quantities or payment of shut-in oil or gas well royalties or payment of compensatory royalties is made as provided herein or as provided by law. If the drilling or reworking operations result in the completion of a well as a dry hole, the lease will not terminate if the Lessee commences additional drilling or reworking operations within sixty (60) days after the completion of the well as a dry hole, and this lease shall remain in effect so long as Lessee continues drilling or reworking operations in good faith and in a workmanlike manner without interruptions totaling more than sixty (60) days. Lessee shall give written notice to the General Land Office within thirty (30) days of any cessation of production.
- 14. SHUT-IN ROYALTIES. For purposes of this paragraph, "well" means any well that has been assigned a well number by the state agency having jurisdiction over the production of oil and gas. If, at any time after the expiration of the primary term of a lease that, until being shut in, was being maintained in force and effect, a well capable of producing oil or gas in paying quantities is located on the leased premises, but oil or gas is not being produced for lack of suitable production facilities or lack of a suitable market, then Lessee may pay as a shut-in oil or gas royalty an amount equal to double the annual rental provided in the lease, but not less than \$1,200 a year for each well capable of producing oil or gas in paying quantities. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this paragraph, the detay rental amount shall be one doller (\$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 leasese 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 release 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. 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 soil.

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CULBURYON COUNTY TEXAS

BY DEPUTY

- 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 ssioner 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 Lessee, diminish the rights, privileges and estates of Lessee, impair the effectiveness of any payment made by Lessee or impair the effectiveness of any payment made by Lessee for impair the effectiveness of any payment made by Lessee for any purpose until thirty (30) days after the owner of the soil (or his heirs, devisees, legal representatives or assigns) 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 acceage, 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
  - (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
- (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 properly 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 properly the lease properly iately 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 filling 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 and 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 fall 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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CULBERTON COUNTY, TEXAS
BY DEPUTY 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

w 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 failure to comply with any and all environmental laws; those arising from Lessee's use of the surface of the leased premises; and those that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Agreement or any other act or omission of Lessee, its directors, officers, employees, partners, agents, contractors, subcontractors, guests, invitees, and their respective successors and assigns. Each assignee of this Agreement
- 36. ENVIRONMENTAL HAZARDS. Lessee shall use the highest degree of care and all reasonable safeguards to prevent contamination or pollution of any environmental medium, including soil, surface waters, groundwater, sediments, and surface or subsurface strata, ambient air or any other environmental medium in, on, or under, the leased premises, by any waste, pollutant, or contaminant. Lessee shall not bring or permit to remain on the leased premises any asbestos containing materials, explosives, toxic materials, or substances regulated as hazardous wastes, hazardous materials, hazardous substances (as the term "Hazardous Substances" is defined in the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), 42 U.S.C. Sections 9601, et seq.), or toxic substances under any federal, state, or local law or regulation ("Hazardous Materials"), except ordinary products commonly used in connection with oil and gas exploration and development operations and stored in the usual manner and quantities. LESSEE'S VIOLATION OF THE FOREGOING PROHIBITION SHALL CONSTITUTE A MATERIAL BREACH AND DEFAULT HEREUNDER AND LESSEE SHALL INDEMNIFY, HOLD HARMLESS AND DEFEND THE STATE OF TEXAS AND THE OWNER OF THE SOIL FROM AND AGAINST ANY CLAIMS, DAMAGES, JUDGMENTS, PENALTIES, LIABILITIES, AND COSTS (INCLUDING REASONABLE ATTORNEYS' FEES AND COURT COSTS) CAUSED BY OR ARISING OUT OF (1) A VIOLATION OF THE FOREGOING PROHIBITION OR (2) THE PRESENCE, RELEASE, OR DISPOSAL OF ANY HAZARDOUS MATERIALS ON, UNDER, OR ABOUT THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OR CONTROL OF THE LEASED PREMISES. LESSEE SHALL CLEAN UP, REMOVE, REMEDY AND REPAIR ANY SOIL OR GROUND WATER 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 DURING LESSEE'S COCUPANCY OR REPORTED TO LIABILITY FOR RESPONSE ACTIONS UNDERTAKEN PURSUANT TO CERCLA OR ANY OTHER ENVIRONMENTAL LAW OR REGULATION. LESSEE SHALL IMMEDIATELY GIVE THE STAT
- 37. APPLICABLE LAW. This lease is issued under the provisions of Texas Natural Resources Code 52.171 through 52.190, commonly known as the Relinquishment Act, and other applicable statutes and amendments thereto, and if any provision in this lease does not conform to these statutes, the statutes will prevail over any nonconforming lease provisions.

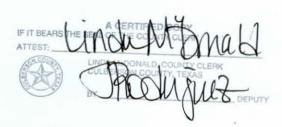


38, EXECUTION. This oil and gas lease must be signed and acknowledged by the Lessee before it is filed of record in the county records and in the General Land Office of the State of Texas. Once the filing requirements found in Paragraph 39 of this lease have been satisfied, the effective date of this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

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

CRAIG L. BLAIR	BY: Stephen S. Blair STEPHEN S. BLAIR		
Title:	Title:		
LESSOR:			
STATE OF TEXAS  BY: Maurice Russel Wilson	STATE OF TEXAS BY:		
Individually and as agent for the State of Texas  Date: 1110712005	Individually and as agent for the State of Texas  Date:		
STATE OF TEXAS	STATE OF TEXAS		
BY:	BY:		
Individually and as agent for the State of Texas	Individually and as agent for the State of Texas		
Date:	Date:		

Mall Instrument back to Slate Land Services P.O. Box 550 Big Spring, Texas 79721-0550



TATE OF	(CORPORATION ACKNOWLEDGMENT)
DUNTY OF	
BEFORE ME, the undersigned authority, on this day personally app	peared
own to me to be the person whose name is subscribed to the foregoing inst	
ecuted the same for the purposes and consideration therein expressed, in	and acknowledged to me that he 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
Given didentify hand and sear of office and the day of _	
	Notary Public in and for
ATE OF TEXAS	(INDIVIDUAL ACKNOWLEDGMENT)
DUNTY OF Harris	,
	peared MAURICE RUSSELL WILSON
own to me to be the persons whose names are subscribed to the foregoin rposes and consideration therein expressed.	g instrument, and acknowledged to me that they executed the same for the
Given under my hand and seal of office this the Ttl day of	
IRENE R. LUNA Notary Public, State of Texas	- Hene R. Luna
My Comm. Expires Dec. 8, 2008	Notary Public in and for Harris County, Texas
TATE OF FLYEN	(INDIVIDUAL ACKNOWLEDGMENT)
OUNTY OF FRANCE	(INDIVIDUAL ACKNOWLEDGMENT)
BEFORE ME, the undersigned authority, on this day personally ap	peared CRAIG L BLAIR
THE CONTRACT OF THE CONTRACT O	ng instrument, and acknowledged to me that they executed the same for the
urposes and consideration therein expressed.	
Given under my hand and seal of office this the 3 day of	secontes. 2015.
	Mary Co. Setus
MARY E. BETUS	Notary Public in and for Texas
TATE OF GAS Notary Public, State of Texas My Commission Expires	
OUNTY OF TRAUS July 09, 2007	
BEFORE ME, the undersigned authority, on this day personally ap	opeared STEPHEN S. BLAIR
nown to me to be the persons whose names are subscribed to the foregoin urposes and consideration therein expressed.	ng instrument, and acknowledged to me that they executed the same for the
Given under my hand and seal of office this the day of _	DECEmber of
Given under my hand and seal of office this the day of _	2003
	Reggy ) Pillimit
PEGGY J. BARNETT	Notary Public in and for TEXAS
MY COMMISSION EXPIRES June 1, 2008	
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	IF IT BEARS THE SEA CONTROL OF THE SEA
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	Jenny M
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10.1	
LED FOR RECORD ON THE 12th DAY OF APRIL	
y recorded on the 19th DAY OF APRIL	, A.D. 2006 @ <u>2:50</u> o'CLOCK P M.
y recorded on the 19th DAY OF APRIL	
Y RECORDED ON THE 19th DAY OF APRIL	LINDA MCDONALD, COUNTY CLERK CULBERSON COUNTY, TEXAS

Jerry E. Patterson, Commissioner File No. Mt. 106270 Jate Filed:

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

The above and foregoing is a full, true and correct photographic copy of the original record now the same is filed/recorder in the page 12 and possession, as the same is Records of my office, found in Vol.



General Land Office Relinquishment Act Lease Form Revised, September 1997

# The State of Texas

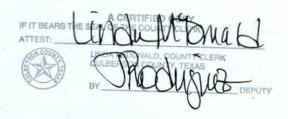


#60912

# Austin, Texas

#### OIL AND GAS LEASE

and the only to see the Reighans Bonder			of Texas, acting
y and through its agent, Kay Reichenau Ponder			
f 2216 Sylvan Lane, Baytown TX 77521			
(Give Permanent Address)			
aid agent herein referred to as the owner of the soil (whether one or more	e), and Craig L. Blair and Stephen	S. Blair	
f P.O. Box 2476, Carlsbad, New Mexico 88221		hereinafter called Less	see.
(Give Permanent Address)			
1. GRANTING CLAUSE. For and in consideration of the amount of the sole and only purpose of prospecting and drilling for and producing stations, telephone lines and other structures thereon, to produce, save, to intuit the sole and other structures thereon, to produce, save, to county, State of Texas, to-we	through the owner of the soil, here oil and gas, laying pipe lines, but take care of, treat and transport sa	eby grants, leases and lets uilding tanks, storing oil an	unto Lessee, for nd building power
The S/2 of the SW/4 of Section 12, Block 113, Public School Land Surve	ey, Culberson County, Texas		
containing 80.0 acres, more or less. The bonus consider	ation paid for this lease is as follow	vs:	
To the State of Texas: Six Hundred Sixty-Six and 66/1	100 Dollars		
To the State of Texas: Six Hundred Sixty-Six and 66/1 Dollars (\$666.66	100 Dollars		_
A CONTROL OF CONTROL O	100 Dollars		-
4 - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 -	_)		_
Dollars (\$ <u>666.66</u>	_)		-
Dollars (\$666.66  To the owner of the soil: Six Hundred Sixty-Six and 66  Dollars (\$666.66	_) 6/100 Dollars )		-
To the owner of the soil: Six Hundred Sixty-Six and 66 Dollars (\$666.66  Total bonus consideration: One Thousand Three Hun	_) 6/100 Dollars )	8	-
Dollars (\$666.66  To the owner of the soil: Six Hundred Sixty-Six and 66  Dollars (\$666.66	_) 6/100 Dollars )	5	-
Dollars (\$666.66  To the owner of the soil: Six Hundred Sixty-Six and 66 Dollars (\$666.66  Total bonus consideration: One Thousand Three Hun Dollars (\$1,333.32  The total bonus consideration paid represents a bonus of Two Hundred and Three Hundred and Two Hundred And Tw	dred Thirty-Two and 32/100 Dollar		-
Dollars (\$666.66  To the owner of the soil: Six Hundred Sixty-Six and 66 Dollars (\$666.66  Total bonus consideration: One Thousand Three Hundred Sixty-Six and 66 Dollars (\$1,333.32	) S/100 Dollars) dred Thirty-Two and 32/100 Dollar		-
Dollars (\$666.66  To the owner of the soil: Six Hundred Sixty-Six and 66 Dollars (\$666.66  Total bonus consideration: One Thousand Three Hun Dollars (\$1,333.32  The total bonus consideration paid represents a bonus of Two Hundred and Three Hundred and Two Hundred And Tw		net acres.	vears from





unless on or before such anniversary date Lessee shall pay or tender to the owner of the soil or to his credit in the
Bank, at or its successors (which shall continue as the depository regardless of changes in the ownership of said land), the amount specified below; in addition, Lessee shall pay or tender to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATE OF TEXAS, AT AUSTIN, TEXAS, a like sum on or before said date. Payments under this paragraph shall operate as a rental and shall cover the privilege of deferring the commencement of a well for one (1) year from said date. Payments under this paragraph shall be in the following amounts:
To the owner of the soil: Three and Thirty-three one hundredths
Dollars (\$3.33
To the State of Texas: Three and Thirty-three one hundredths
Dollars (\$3.33)
Total Delay Rental: Six and Sixty-six one hundredths
Dollars (\$6.66)
In a like manner and upon like payments or tenders annually, the commencement of a well may be further deferred for successive periods of one (1) year each during the primary term. All payments or tenders of rental to the owner of the soil may be made by check or sight draft of Lessee, or any assignee of this lease, and may be delivered on or before the rental paying date. If the bank designated in this paragraph (or its successor bank) should cease to exist, suspend business, liquidate, fail or be succeeded by another bank, or for any reason fail or refuse to accept rental, Lessee shall not be held in default for failure to make such payments or tenders of rental until thirty (30) days after the owner of the soil shall deliver to Lessee a proper recordable instrument naming another bank as agent to receive such payments or tenders.
4. PRODUCTION ROYALTIES. Upon production of oil and/or gas, Lessee agrees to pay or cause to be paid one-half (1/2) of the royalty 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 1/5 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be determined by 1) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity in the general area where produced and when run, or 2) the highest market price thereof offered or paid in the general area where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is the greater. Lessee agrees that before any gas produced from the leased premises is sold, used or processed in a plant, it will be 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 1/5 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be based on the highest market price paid or offered for gas of comparable quality in the general area where produced and when run, or the gross 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 1/5 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 1/5 part of the gross production of such products, or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such market value to be determined as follows: 1) on the basis of the highest market price of each product for the same month in which such produced; whichever is the greater.
5. MINIMUM ROYALTY. During any year after the expiration of the primary term of this lease, if this lease is maintained by production, the royalties paid under this lease in no event shall be less than an amount equal to the total annual delay rental herein provided; otherwise, there shall be due and payable on or before the last day of the month succeeding the anniversary date of this lease a sum equal to the total annual rental less the amount of royalties paid during the preceding year. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre.

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BY POOL DEPUTY

- 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. A royalty payment which is over thirty (30) days late shall accrue 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

- 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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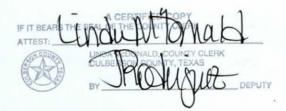
LINDAM-DONALD, COUNTY CLERK

BY COUNTY TEXAS

BY DEPUTY

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 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 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, his lease shall thereupon terminate as to all acreage not thereafter allocated to said well or wells for production purposes. Notwithstanding the termination of this lease as to a portion of the lands covered hereby, Lessee shall nevertheless continue to have the right of ingress to and egress from the lands still subject to this lease for all purposes described in Paragraph 1 hereof ('the retained lands'), for access to and from the retained lands and for the gathering or transportation of oil, gas and other minerals produced from the retained lands.



- (B) HORIZONTAL. In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall further terminate as to all depths below 100 feet below the total depth drilled (hereinafter "deeper depths") in each well located on acreage retained in Paragraph 16 (A) above, unless on or before two (2) years after the primary or extended term Lessee pays an amount equal to one-half (1/2) of the bonus originally paid as consideration for this lease (as specified on page 1 hereof). If such amount is paid, this lease shall be in force and effect as to such deeper depths, and said termination shall be delayed for an additional period of two (2) years and so long thereafter as oil or gas is produced in paying quantities from such deeper depths covered by this lease.
- (C) IDENTIFICATION AND FILING. The surface acreage retained hereunder as to each well shall, as nearly as practical, be in the form of a square with the well located in the center thereof, or such other shape as may be approved by the Commissioner of the General Land Office. Within thirty (30) days after partial termination of this lease as provided herein, Lessee shall execute and record a release or releases containing a satisfactory legal description of the acreage and/or depths not retained hereunder. The recorded release, or a certified copy of same, shall be filed in the General Land Office, accompanied by the filing fee prescribed by the General Land Office rules in effect on the date the release is filed. If Lessee fails or refuses to execute and record such release or releases within ninety (90) days after being requested to do so by the General Land Office, then the Commissioner at his sole discretion may designate by written instrument the acreage and/or depths to be released hereunder and record such instrument at Lessee's expense in the county or counties where the lease is located and in the official records of the General Land Office and such designation shall be binding upon Lessee for all purposes.
- 17. OFFSET WELLS. Neither the bonus, delay rentals, nor royalties paid, or to be paid, under this lease shall relieve Lessee of his obligation to protect the oil and gas under the above-described land from being drained. Lessee, sublessee, receiver or other agent in control of the leased premises shall drill as many wells as the facts may justify and shall use appropriate means and drill to a depth necessary to prevent undue drainage of oil and gas from the leased premises. In addition, if oil and/or gas should be produced in commercial quantities within 1,000 feet of the leased premises, or in any case where the leased premises is being drained by production of oil or gas, the Lessee, sublessee, receiver or other agent in control of the leased premises shall in good faith begin the drilling of a well or wells upon the leased premises within 100 days after the draining well or wells or the well or wells completed within 1,000 feet of the leased premises start producing in commercial quantities and shall prosecute such drilling with diligence. Failure to satisfy the statutory offset obligation may subject this lease and the owner of the soil's agency rights to forfeiture. Only upon the determination of the Commissioner of the General Land Office and with his written approval may the payment of compensatory royalty under applicable statutory parameters satisfy the obligation to drill an offset well or wells required under this paragraph.
- 18. FORCE MAJEURE. If, after a good faith effort, Lessee is prevented from complying with any express or implied covenant of this lease, from conducting drilling operations on the leased premises, or from producing oil or gas from the leased premises by reason of war, rebellion, riots, strikes, acts of God, or any valid order, rule or regulation of government authority, then while so prevented, Lessee's obligation to comply with such 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.

ATTEST:

LIND HALD, GOUNTY CLERK

PULBULANDON COUNTY, TEXAS

BY

DEPUTY

- 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 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 vner of the soil: or
  - (7) a family member of the owner of the soil or related to the owner of the soil by marriage, blood, or adoption
- 28. RELEASES. Under the conditions contained in this paragraph and Paragraph 29, Lessee may at any time execute and deliver to the owner of the soil and place of record a release or releases covering any portion or portions of the leased premises, and thereby surrender this lease as to such portion or portions, and be relieved of all subsequent obligations as to acreage surrendered. If any part of this lease is properly surrendered, the delay rental due under this lease shall be reduced by the proportion that the surrendered acreage bears to the acreage which was covered by this lease immediately prior to such surrender; however, such release will not relieve Lessee of any liabilities which may have accrued under this lease prior to the surrender of such acreage.
- 29. FILING OF ASSIGNMENTS AND RELEASES. If all or any part of this lease is assigned or released, such assignment or release must be recorded in the county where the land is situated, and the recorded instrument, or a copy of the recorded instrument certified by the County Clerk of the county in which the instrument is recorded, must be filed in the General Land Office within 90 days of the last execution date accompanied by the prescribed filing fee. If any such assignment is not so filed, the rights acquired under this lease shall be subject to forfeiture at the option of the Commissioner of the General Land Office.
- 30. DISCLOSURE CLAUSE. All provisions pertaining to the lease of the above-described land have been included in this instrument, including the statement of the true consideration to be paid for the execution of this lease and the rights and duties of the parties. Any collateral agreements concerning the development of oil and gas from the leased premises which are not contained in this lease render this lease invalid.
- 31. FIDUCIARY DUTY. The owner of the soil owes the State a fiduciary duty and must fully disclose any facts affecting the State's interest in the leased premises. When the interests of the owner of the soil conflict with those of the State, the owner of the soil is obligated to put the State's interests before his personal interests.
- 32. FORFEITURE. If Lessee shall fail or refuse to make the payment of any sum within thirty days after it becomes due, or if Lessee or an authorized agent should knowingly make any false return or false report concerning production or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith as required by law and the rules and regulations adopted by the Commissioner of the General Land Office, or if Lessee should fail to file reports in the manner required by law or fail to comply with rules and regulations promulgated by the General Land Office, the School Land Board, or the Railroad Commission, or if Lessee should refuse the proper authority access to the records pertaining to operations, or if Lessee or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or knowingly fail or refuse to furnish the General Land Office a correct log of any well, or if Lessee shall knowingly violate any of the material provisions of this lease, or if this lease is assigned and the assignment is not filed in the General Land Office as required by law, the rights acquired under this lease shall be subject to forfeiture by the



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

- 33. LIEN. In accordance with Texas Natural Resources Code 52.136, the State shall have a first lien upon all oil and gas produced from the area covered by this lease to secure payment of all unpaid royalty and other sums of money that may become due under this lease. By acceptance of this lease, Lessee grants the State, in addition to the lien provided by Texas Natural Resources Code 52.136 and any other applicable statutory lien, an express contractual lien on and security interest in all leased minerals in and extracted from the leased premises, all proceeds which may accrue to Lessee from the sale of such leased minerals, whether such proceeds are held by Lessee or by a third party, and all fixtures on and improvements to the leased premises used in connection with the production or processing of such leased minerals in order to secure the payment of all royalties or other amounts due or to become due under this lease and to secure payment of any damages or loss that Lessor may suffer by reason of Lessee's breach of any covenant or condition of this lease, whether express or implied. This lien and security Interest may be foreclosed with or without court proceedings in the manner provided in the Title 1, Chap. 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this lease forfeited as provided herein.
- 34. POOLING. Lessee is hereby granted the right to pool or unitize the royalty interest of the owner of the soil under this lease with any other leasehold or mineral interest for the exploration, development and production of oil or gas or either of them upon the same terms as shall be approved by the School Land Board and the Commissioner of the General Land Office for the pooling or unitizing of the interest of the State under this lease pursuant to Texas Natural Resources Code 52.151-52.154. The owner of the soil agrees that the inclusion of this provision in this lease satisfies the execution requirements stated in Texas Natural Resources Code 52.152.
- 35. INDEMNITY. Lessee hereby releases and discharges the State of Texas and the owner of the soil, their officers, employees, partners, agents, contractors, subcontractors, guests, invitees, and their respective successors and assigns, of and from all and any actions and causes of action of every nature, or other harm, including environmental harm, for which recovery of damages is sought, including, but not limited to, all losses and expenses which are caused by the activities of Lessee, its officers, employees, and agents arising out of, incidental to, or resulting from, the operations of or for Lessee on the leased premises hereunder, or that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Agreement, or by any other negligent or strictly liable act or omission of Lessee. Further, Lessee hereby agrees to be liable for, exonerate, indemnify, defend and hold harmless the State of Texas and the owner of the soil, their officers, employees and agents, their successors or assigns, against any and all claims, liabilities, losses, damages, actions, personal injury (including death), costs and expenses, or other harm for which recovery of damages is sought, under any theory including tort, contract, or strict liability, including attorneys' fees and other legal expenses, including those related to environmental hazards, on the leased premises or in any way related to Lessee's failure to comply with any and all environmental laws; those arising from or in any way related to Lessee's operations or any other of Lessee's activities on the leased premises; those arising from Lessee's use of the surface of the leased premises; and those that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Agreement or any other act or omission of Lessee, its directors, officers, employees, partners, agents, contractors, subcontractors, guests, invitees, and their respective successors and assigns. Each assignee of this Agreement, or an interest the
- 36. ENVIRONMENTAL HAZARDS. Lessee shall use the highest degree of care and all reasonable safeguards to prevent contamination or 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 CERCL
- 37. APPLICABLE LAW. This lease is issued under the provisions of Texas Natural Resources Code 52.171 through 52.190, commonly known as the Relinquishment Act, and other applicable statutes and amendments thereto, and if any provision in this lease does not conform to these statutes, the statutes will prevail over any nonconforming lease provisions.



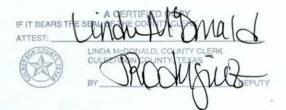


38. EXECUTION. This oil and gas lease must be signed and acknowledged by the Lessee before it is filed of record in the county records and in the General Land Office of the State of Texas. Once the filing requirements found in Paragraph 39 of this lease have been satisfied, the effective date of this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

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

BY: LBlu  CRAIG LYBLAIR	BY: Stephen S. Blain STEPHEN S. BLAIR
Title:	Date: Nec 1, 2005
LESSOR:	
BY: Hay Glichenau Gondle	STATE OF TEXAS BY:
Individually and as agent for the State of Texas  Date: 8 - 22 - 5	Individually and as agent for the State of Texas  Date:
STATE OF TEXAS BY:	STATE OF TEXAS BY:
Individually and as agent for the State of Texas	Individually and as agent for the State of Texas

Mall Instrument back to Slate Land Services P.O. Box 550 Big Spring, Texas 79721-0550



STATE OF	(CORPORATION ACKNOWLEDGMENT)
COUNTY OF	
	peared
nown to me to be the person whose name is subscribed to the foregoing ins	truments as
f	and acknowledged to me that he
xecuted 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
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	Notary Public in and for
	Total y 1 dollo III di a loi
TATE OF TEXAS	(INDIVIDUAL ACKNOWLEDGMENT)
OUNTY OF HOURT S	
BEFORE ME, the undersigned authority, on this day personally ap	peared KAY REICHENAU PONDER
nown to me to be the persons whose names are subscribed to the foregoing	g instrument, and acknowledged to me that they executed the same for the
urposes and consideration therein expressed.	g institution, and acknowledged to the that they executed the same for the
Given under my hand and seal of office this the day of _	Availest 2005
ARE CRAWIN	August 2005.
TARY PUBL OF	Tusa Marie Margosa
OUNTY OF TOWARD THE STATE OF TELES	Notary Public in and for 5 atl of texas
Tula of the state	0
TATE OF JESON SPIRES	(INDIVIDUAL ACKNOWLEDGMENT)
OUNTY OF TOWN S. 13-2008	
BEFORE ME, the undersigned authority, on this day personally ap	peared CRAIG L. BLAIR
nown to me to be the persons whose names are subscribed to the foregoin	g instrument, and acknowledged to me that they executed the same for the
urposes and consideration therein expressed.	
Given under my hand and seal of office this the 3 day of	December 2005.
	Mary & Return
	- My Co. Mells
STATE OF EXAS MARY E. BETUS Notary Public, State of Texas	Notary Public in and for SUSAN (INDIVIDUAL ACKNOWLEDGMENT)
COUNTY OF TRAUS  My Commission Expires July 09, 2007	(MONDOAL ACTION ELECTRICAT)
CONTROL A PROPERTY OF THE PROP	DOCTOR STEPHEN S BLAIR
BEFORE ME, the undersigned authority, on this day personally ap	peared STEPHENS, BLAIR
nown to me to be the persons whose names are subscribed to the foregoin	g instrument, and acknowledged to me that they executed the same for the
urposes and consideration therein expressed.	
Given under my hand and seal of office this the day of	December 2005
	Praga Privitt
W	Teyas
PEGGY J. BARNETT	Notary Public in and for
MY COMMISSION EXPIRES June 1, 2006	
401111	1 Sacronisen edeld
	IF IT BEARS THE SEAL OF THE PURITY A EFFE THE COLOR
	ATTEST: UNDA DONALD COUNTY OF EDV
	CILL TRS IN COUNTY, TEXAS
	BUNGUM DEPUTY
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ILED FOR RECORD ON THE 12th DAY OF APRIL	, A.D. 2006 @ 11:30 O'CLOCK A M. &
LY RECORDED ON THE 19th DAY OF APRIL	, A.D. 2006 @ <u>2:55</u> 0'CLOCK <u>P</u> M.
L/V h	and the second s
$\langle \wedge \rangle $	LINDA MCDONALD, COUNTY CLERK
	CULBERSON COUNTY, TEXAS

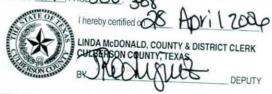
File No. Mt (100270)

Date Filed: 58.00

Jerry E. Patterson, Commissioner

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

The above and foregoing is a full, true and correct photographic copy of the original record now in his lawful as a no possession, as the same is filed/reported in the in VOL. PAGESOO 308







General Land Office Relinquishment Act Lease Form Revised, September 1997

## The State of Texas

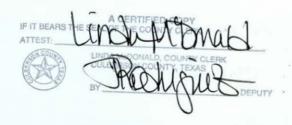


#60913

### Austin, Texas

#### OIL AND GAS LEASE

f 1667 Pfeiffer Rd., Fredericksburg TX 78624	
(Give Permanent Address)	
aid agent herein referred to as the owner of the soil (whether one or more), and (	Craig L. Blair and Stephen S. Blair
P.O. Box 2476, Carlsbad, New Mexico 88221	hereinafter called Lessee.
(Give Permanent Address)	
1. GRANTING CLAUSE. For and in consideration of the amounts state performed by Lessee under this lease, the State of Texas acting by and through the sole and only purpose of prospecting and drilling for and producing oil and stations, telephone lines and other structures thereon, to produce, save, take care ituated in Culberson  County, State of Texas, to-wit:	the owner of the soil, hereby grants, leases and lets unto Lessee, foild gas, laying pipe lines, building tanks, storing oil and building power
The S/2 of the SW/4 of Section 12, Block 113, Public School Land Survey, Culb	person County, Texas
containing 80.0 acres, more or less. The bonus consideration pa	aid for this lease is as follows:
containing 80.0 acres, more or less. The bonus consideration pa	
To the State of Texas: Six Hundred Sixty-Six and 66/100 Dol	
To the State of Texas: Six Hundred Sixty-Six and 66/100 Dollars (\$666.66)	lars
To the State of Texas: Six Hundred Sixty-Six and 66/100 Dol	lars
To the State of Texas: Six Hundred Sixty-Six and 66/100 Dollars (\$666.66)  To the owner of the soil: Six Hundred Sixty-Six and 66/100 D	lars
To the State of Texas: Six Hundred Sixty-Six and 66/100 Dollars (\$666.66)  To the owner of the soil: Six Hundred Sixty-Six and 66/100 D	lars
To the State of Texas: Six Hundred Sixty-Six and 66/100 Dollars (\$666.66)  To the owner of the soil: Six Hundred Sixty-Six and 66/100 D  Dollars (\$666.66)	lars
To the State of Texas: Six Hundred Sixty-Six and 66/100 Dollars (\$666.66 )  To the owner of the soil: Six Hundred Sixty-Six and 66/100 D  Dollars (\$666.66 )  Total bonus consideration: One Thousand Three Hundred Th	ollars hirty-Two and 32/100 Dollars
To the State of Texas: Six Hundred Sixty-Six and 66/100 Dollars (\$666.66)  To the owner of the soil: Six Hundred Sixty-Six and 66/100 D  Dollars (\$666.66)  Total bonus consideration: One Thousand Three Hundred Th  Dollars (\$1,333.32)  The total bonus consideration paid represents a bonus of Two Hundred and 0/100	ollars hirty-Two and 32/100 Dollars
To the State of Texas: Six Hundred Sixty-Six and 66/100 Dollars (\$666.66)  To the owner of the soil: Six Hundred Sixty-Six and 66/100 D  Dollars (\$666.66)  Total bonus consideration: One Thousand Three Hundred Th  Dollars (\$1,333.32)  The total bonus consideration paid represents a bonus of Two Hundred and 0/100	ollars  nirty-Two and 32/100 Dollars  0 Dollars



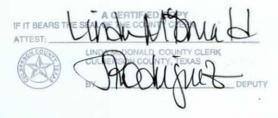
Bank, at
To the owner of the soil: Three and Thirty-three one hundredths
Dollars (\$3.33
To the State of Texas: Three and Thirty-three one hundredths
Dollars (\$3,33
Total Delay Rental: Six and Sixty-six one hundredths
Dollars (\$ <u>6.66</u> )
In a like manner and upon like payments or tenders annually, 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 1/5 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be determined by 1) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity in the general area where produced and when run, or 2) the highest market price thereof offered or paid in the general area where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is the greater. Lessee agrees that before any gas produced from the leased premises is sold, used or processed in a plant, it will be 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 1/5 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be based on the highest market price paid or offered for gas of comparable quality in the general area where produced and when run, or the gross 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 1/5 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 1/5 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

5. MINIMUM ROYALTY. During any year after the expiration of the primary term of this lease, if this lease is maintained by production, theroyalties 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.

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

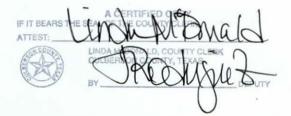




- 6. ROYALTY IN KIND. Notwithstanding any other provision in this lease, at any time or from time to time, the owner of the soil or the Commissioner of the General Land Office may, at the option of either, upon not less than sixty (60) days notice to the holder of the lease, require that the payment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

Payment of royalty on production of oil and gas shall be as provided in the rules set forth in the Texas Register. Rules currently provide that royalty on oil is due and must be received in the General Land Office on or before the 5th day of the second month succeeding the month of production, and royalty on gas is due and must be received in the General Land Office on or before the 15th day of the second month succeeding the month of production, accompanied by the affidavit of the owner, manager or other authorized agent, completed in the form and manner prescribed by the General Land Office and showing the gross amount and disposition of all oil and gas produced and the market value of the oil and gas, together with a copy of all documents, records or reports confirming the gross production, disposition and market value including gas meter readings, pipeline receipts, gas line receipts and other checks or memoranda of amount produced and put into pipelines, tanks, or pools and gas lines or gas storage, and any other reports or records which the General Land Office may require to verify the gross production, disposition and market value. In all cases the authority of a manager or agent to act for the Lessee herein must be filled in the General Land Office. Each royalty payment shall be accompanied by a check stub, schedule, summary or other remittance advice showing by the assigned General Land Office lease number the amount of royalty being paid on each lease. If Lessee pays his royalty on or before thirty (30) days after the royalty payment was due, then Lessee owes a penalty of 5% on the royalty or \$25.00, whichever is greater. A royalty payment which is over thirty (30) days late shall accrue a penalty of 10% of the royalty due or \$25.00 whichever is greater. In addition to a penalty, royalties shall accrue interest at a rate of 12% per year; such interest will begin to accrue when the royalty is sixty (60) days overdue. Affidavits and supporting documents which are not filled when due shall incur a penalt

- 10. (A) RESERVES, CONTRACTS AND OTHER RECORDS. Lessee shall annually furnish the Commissioner of the General Land Office with its best possible estimate of oil and gas reserves underlying this lease or allocable to this lease and shall furnish said Commissioner with copies of all contracts under which gas is sold or processed and all subsequent agreements and amendments to such contracts within thirty (30) days after entering into or making such contracts, agreements or amendments. Such contracts and agreements when received by the General Land Office shall be held in confidence by the General Land Office unless otherwise authorized by Lessee. All other contracts and records pertaining to the production, transportation, sale and marketing of the oil and gas produced on said premises, including the books and accounts, receipts and discharges of all wells, tanks, pools, meters, and pipelines shall at all times be subject to inspection and examination by the Commissioner of the General Land Office, the Attorney General, the Governor, or the representative of any of them.
- (B) PERMITS, DRILLING RECORDS. Written notice of all operations on this lease shall be submitted to the Commissioner of the General Land Office by Lessee or operator five (5) days before spud date, workover, re-entry, temporary abandonment or plug and abandonment of any well or wells. Such written notice to the General Land Office shall include copies of Railroad Commission forms for application to drill. Copies of well tests, completion reports and plugging reports shall be supplied to the General Land Office at the time they are filed with the Texas Railroad Commission. All applications, permits, reports or other filings that reference this lease or any specific well on the leased premises and that are submitted to the Texas Railroad Commission or any other governmental agency shall include the word "State" in the title. Additionally, in accordance with Railroad Commission rules, any signage on the leased premises for the purpose of identifying wells, tank batteries or other associated improvements to the land must also include the word "State." Lessee shall supply the General Land Office with any records, memoranda, accounts, reports, cuttings and cores, or other information relative to the operation of the above-described premises, which may be requested by the General Land Office, in addition to those herein expressly provided for. Lessee shall have an electrical and/or radioactivity survey made on the bore-hole section, from the base of the surface casing to the total depth of well, of all wells drilled on the above described premises and shall transmit a true copy of the log of each survey on each well to the General Land Office within fifteen (15) days after the making of said survey.
- (C) PENALTIES. Lessee shall incur a penalty whenever reports, documents or other materials are not filed in the General Land Office when due. The penalty for late filing shall be set by the General Land Office administrative rule which is effective on the date when the materials were due in the General Land Office.
- 11. DRY HOLE/CESSATION OF PRODUCTION DURING PRIMARY TERM. If, during the primary term hereof and prior to discovery and production of oil or gas on said land, Lessee should drill a dry hole or holes thereon, or if during the primary term hereof and after the discovery and actual production of oil or gas from the leased premises such production thereof should cease from any cause, this lease shall not terminate if on or before the expiration of sixty (60) days from date of completion of said dry hole or cessation of production Lessee commences additional drilling or reworking operations thereon, or pays or tenders the next annual delay rental in the same manner as provided in this lease. If, during the last year of the primary term or within sixty (60) days prior thereto, a dry hole be completed and abandoned, or the production of oil or gas should cease for any cause, Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term; and if Lessee has not resumed production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking



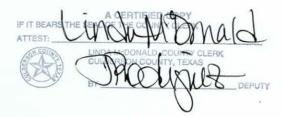
operations pursuant to Paragraph 13, using the expiration of the primary term as the date of cessation of production under Paragraph 13. Should the first well or any subsequent well drilled on the above described land be completed as a shut-in oil or gas well within the primary term hereof, Lessee may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

- 12. DRILLING AND REWORKING AT EXPIRATION OF PRIMARY TERM. If, at the expiration of the primary term, neither oil nor gas is being produced on said land, but Lessee is then engaged in drilling or reworking operations thereon, this lease shall remain in force so long as operations on said well or for drilling or reworking of any additional 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 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 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 from the retained lands.)



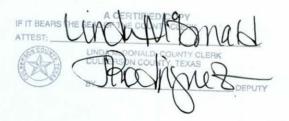


- (B) HORIZONTAL. In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall further terminate as to all depths below 100 feet below the total depth drilled (hereinafter "deeper depths") in each well located on acreage retained in Paragraph 16 (A) above, unless on or before two (2) years after the primary or extended term Lessee pays an amount equal to one-half (1/2) of the bonus originally paid as consideration for this lease (as specified on page 1 hereof). If such amount is paid, this lease shall be in force and effect as to such deeper depths, and said termination shall be delayed for an additional period of two (2) years and so long thereafter as oil or gas is produced in paying quantities from such deeper depths covered by this lease.
- (C) IDENTIFICATION AND FILING. The surface acreage retained hereunder as to each well shall, as nearly as practical, be in the form of a square with the well located in the center thereof, or such other shape as may be approved by the Commissioner of the General Land Office. Within thirty (30) days after partial termination of this lease as provided herein, Lessee shall execute and record a release or releases containing a satisfactory legal description of the acreage and/or depths not retained hereunder. The recorded release, or a certified copy of same, shall be filed in the General Land Office, accompanied by the filing fee prescribed by the General Land Office rules in effect on the date the release is filed. If Lessee fails or refuses to execute and record such release or releases within ninety (90) days after being requested to do so by the General Land Office, then the Commissioner at his sole discretion may designate by written instrument the acreage and/or depths to be released hereunder and record such instrument at Lessee's expense in the county or counties where the lease is located and in the official records of the General Land Office and such designation shall be binding upon Lessee for all purposes.
- 17. OFFSET WELLS. Neither the bonus, delay rentals, nor royalties paid, or to be paid, under this lease shall relieve Lessee of his obligation to protect the oil and gas under the above-described land from being drained. Lessee, sublessee, receiver or other agent in control of the leased premises shall drill as many wells as the facts may justify and shall use appropriate means and drill to a depth necessary to prevent undue drainage of oil and gas from the leased premises. In addition, if oil and/or gas should be produced in commercial quantities within 1,000 feet of the leased premises, or in any case where the leased premises is being drained by production of oil or gas, the Lessee, sublessee, receiver or other agent in control of the leased premises shall in good faith begin the drilling of a well or wells upon the leased premises within 100 days after the draining well or wells or the well or wells completed within 1,000 feet of the leased premises start producing in commercial quantities and shall prosecute such drilling with diligence. Failure to satisfy the statutory offset obligation may subject this lease and the owner of the soil's agency rights to forfeiture. Only upon the determination of the Commissioner of the General Land Office and with his written approval may the payment of compensatory royalty under applicable statutory parameters satisfy the obligation to drill an offset well or wells required under this paragraph.
- 18. FORCE MAJEURE. If, after a good faith effort, Lessee is prevented from complying with any express or implied covenant of this lease, from conducting drilling operations on the leased premises, or from producing oil or gas from the leased premises by reason of war, rebellion, riots, strikes, acts of God, or any valid order, rule or regulation of government authority, then while so prevented, Lessee's obligation to comply with such 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.



- 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 vner 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 in
- 31. FIDUCIARY DUTY. The owner of the soil owes the State a fiduciary duty and must fully disclose any facts affecting the State's interest in d premises. When the interests of the owner of the soil conflict with those of the State, the owner of the soil is obligated to put the State's the leased premises. When the intere interests before his personal interests.
- 32. FORFEITURE. If Lessee shall fail or refuse to make the payment of any sum within thirty days after it becomes due, or if Lessee or an authorized agent should knowingly make any false return or false report concerning production or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith as required by law and the rules and regulations adopted by the Commissioner of the General Land Office, or if Lessee should fail to file reports in the manner required by law or fail to comply with rules and regulations promulgated by the General Land Office, the School Land Board, or the Railroad Commission, or if Lessee should refuse the proper authority access to the records pertaining to operations, or if Lessee or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or knowingly fail or refuse to furnish the General Land Office a correct log of any well, or if Lessee shall knowingly violate any of the material provisions of this lease, or if this lease is assigned and the assignment is not filed in the General Land Office as required by law, the rights acquired under this lease shall be subject to forfeiture by the





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

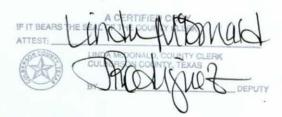
33. LIEN. In accordance with Texas Natural Resources Code 52.136, the State shall have a first lien upon all oil and gas produced from the area covered by this lease to secure payment of all unpaid royalty and other sums of money that may become due under this lease. By acceptance of this lease, Lessee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

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

35. INDEMNITY. Lessee hereby releases and discharges the State of Texas and the owner of the soil, their officers, employees, partners, agents, contractors, subcontractors, guests, invitees, and their respective successors and assigns, of and from all and any actions and causes of action of every nature, or other harm, including environmental harm, for which recovery of damages is sought, including, but not limited to, all losses and expenses which are caused by the activities of Lessee, its officers, employees, and agents arising out of, incidental to, or resulting from, the operations of or for Lessee on the leased premises hereunder, or that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Agreement, or by any other negligent or strictly liable act or omission of Lessee. Further, Lessee hereby agrees to be liable for, exonerate, indemnify, defend and hold harmless the State of Texas and the owner of the soil, their officers, employees and agents, their successors or assigns, against any and all claims, liabilities, losses, damages, actions, personal injury (including death), costs and expenses, or other harm for which recovery of damages is sought, under any theory including tort, contract, or strict liability, including attorneys' fees and other legal expenses, including those related to environmental hazards, on the leased premises or in any way related to Lessee's failure to comply with any and all environmental laws; those arising from or in any way related to Lessee's operations or any other of Lessee's activities on the leased premises; those arising from Lessee's use of the surface of the leased premises; and those that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Agreement or any other act or omission of Lessee, its directors, officers, employees, partners, agents, contractors, subcontractors, guests, invitees, and their respective successors and assigns. Each assignee of this Agreement, or an interest the

36. ENVIRONMENTAL HAZARDS. Lessee shall use the highest degree of care and all reasonable safeguards to prevent contamination or 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 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

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



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

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

BY: CRAIG L. BLAIR	BY: Sighus Slair STEPHEN S. BLAIR
Title:	Date: Acr 1, 2001
LESSOR:  STATE OF TEXAS  O  O  O  O  O  O  O  O  O  O  O  O  O	STATE OF TEXAS
STATE OF TEXAS  BY: Geana R. Reference GEANA R. PFEIFFER  Individually and as agent for the State of Texas  Date: Cug. 25, 700	Individually and as agent for the State of Texas  Date:
STATE OF TEXAS BY:	STATE OF TEXAS BY:
Individually and as agent for the State of Texas  Date:	Individually and as agent for the State of Texas  Date:

Mall Instrument back to Slate Land Services P.O. Box 550 Big Spring, Texas 79721-0550



	(CORPORATION ACKNOWLEDGMENT)
OUNTY OF	
BEFORE ME, the undersigned authority, on this day personally app	peared
nown to me to be the person whose name is subscribed to the foregoing inst	
f	and acknowledged to me that he
executed the same for the purposes and consideration therein expressed, in t	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
,	Totally Foolio in and for
STATE OF TEXAS	(INDIVIDUAL ACKNOWLEDGMENT)
COUNTY OF GILLEDIC	
BEFORE ME, the undersigned authority, on this day personally app	peared GEANA R. PFEIFFER
crown to me to be the persons whose names are subscribed to the foregoing ourposes and consideration therein expressed.	g instrument, and acknowledged to me that they executed the same for the
200	August or
Given under my hand and seal of office this the day of	. 2005.
S. S. FRY PURIL	allion nurrentine
ALLISON TURRENTINE Notary Public, State of Reads Ny Commission Expires Nov. 16, 2005	Notary Public in and for
My Commission Expires Nov. 16, 2005	-
STATE OF LEGAS	(INDIVIDUAL ACKNOWLEDGMENT)
COUNTY OF ANDUNAL	
BEFORE ME, the undersigned authority, on this day personally app	peared CRAIG L. BLAIR
known to me to be the persons whose names are subscribed to the foregoing	g instrument, and acknowledged to me that they avacuted the came for the
purposes and consideration therein expressed.	g institution, and acknowledged to the that they executed the same for the
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Given under my hand and seal of office this the day of A	20CV.
	I Mary Co. Betus
William, MARY F RETUR	Notary Publicin and for Telas
STATE OF SYAS MARY E. BETUS Notary Public, State of Texas My Commission Expires My Commission Expires	(INDIVIDUAL ACKNOWLEDGMENT)
COUNTY OF TRAUS July 09, 2007	
BEFORE ME, the undersigned authority, on this day personally app	peared STEPHEN S. BLAIR
soun to me to be the persons where names are subscribed to the foresting	a instrument and columnidated to me that they are used to the core for the
known to me to be the persons whose names are subscribed to the foregoing purposes and consideration therein expressed.	g instrument, and acknowledged to me that they executed the same for the
purposes and consideration therein expressed.	- 1
purposes and consideration therein expressed.	g instrument, and acknowledged to me that they executed the same for the DECENDER. 2005.
purposes and consideration therein expressed.	- 1
Given under my hand and seal of office this the day of	- 1
Given under my hand and seal of office this the day of	DECEMBER 2005.
Given under my hand and seal of office this the day of PEGGY J. BARNETT	DECEMBER 2005.
Given under my hand and seal of office this the day of	DECEMBER 2005.
Given under my hand and seal of office this the day of	DECEMBER 2005.  Pages Paint  Notary Public in and for TEXAS.
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Given under my hand and seal of office this the day of	DECEMBER 2005.  Pages Paint  Notary Public in and for TEXAS.
Given under my hand and seal of office this the day of PEGGY J. BARNETT MY COMMISSION EXPIRES June 1, 2006	Pages Paint  Notary Public in and for TEXAS  IF IT BEARS THE STAND JOUNTS OF THE STAND
Given under my hand and seal of office this the	Notary Public in and for TEXAS  IF IT BEARS THE STAND JOUNTS CHERK OUT TEXAS  LINDA MEDINALD, COUNTY CLERK OUT TEXAS  BY TEXAS
Given under my hand and seal of office this the	Notary Public in and for TEXAS  Notary Public in and for TEXAS  IF IT BEARS THE STAPP WOUNT CLERK CHARLES TO TEXAS  LINDA MADERIALD, COUNTY CLERK CHARLES TO TEXAS  N. A.D. 2006 @ 11:30 O'CLOCK A M. &
Given under my hand and seal of office this the	Notary Public in and for TEXAS  Notary Public in and for TEXAS  A CERTIFIED COLOR AMAGE  ATTEST  LINDA MACHALLA, COUNTY CLERK  CLERT FOR DOUNTY CLERK  CHARLES TO TEXAS  A CERTIFIED COLOR AMAGE  ATTEST  LINDA MACHALLA, COUNTY CLERK  CHARLES TO TEXAS  A CERTIFIED COLOR AMAGE  ATTEST  LINDA MACHALLA, COUNTY CLERK  CHARLES TO TEXAS  A CERTIFIED COLOR AMAGE  A CERTIFIED COL

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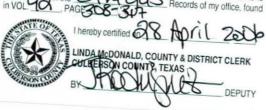
Date Filed: 5.8.00

Jerry E. Patterson, Commissioner

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

The above and foregoing is a full, true and correct photographic copy of the original record now in the filed/records in the in VOL.

PAGE 305-101.





General Land Office Relinquishment Act Lease Form Revised, September 1997

# The State of Texas



#60909

### Austin, Texas

#### OIL AND GAS LEASE

and agreements to be paid, kept and ants, leases and lets unto Lessee, for tanks, storing oil and building power ducts of the lease, the following lands	unts stated below and of the cov through the owner of the soil, he oil and gas, laying pipe lines, lake care of, treat and transport sit:	herein referred to as the owner of the soil (whether one or more x 2476, Carlsbad, New Mexico 88221  ermanent Address)  1. GRANTING CLAUSE. For and in consideration of the amount by Lessee under this lease, the State of Texas acting by and not only purpose of prospecting and drilling for and producing elephone lines and other structures thereon, to produce, save, Culberson  County, State of Texas, to-vertices thereon, to ground the structures thereon.
ereinafter called Lessee.  and agreements to be paid, kept and ants, leases and lets unto Lessee, fo tanks, storing oil and building powe ducts of the lease, the following lands	unts stated below and of the cov through the owner of the soil, he oil and gas, laying pipe lines, lake care of, treat and transport sit:	ermanent Address)  1. GRANTING CLAUSE. For and in consideration of the amount by Lessee under this lease, the State of Texas acting by and and only purpose of prospecting and drilling for and producing elephone lines and other structures thereon, to produce, save,
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ants, leases and lets unto Lessee, fo tanks, storing oil and building powe ducts of the lease, the following land	through the owner of the soil, he oil and gas, laying pipe lines, lake care of, treat and transport vit:	by Lessee under this lease, the State of Texas acting by and nd only purpose of prospecting and drilling for and producing elephone lines and other structures thereon, to produce, save,
240 acres more or less	ev, Culberson County, Texas, cor	
		of the SW/4 of Section 12, Block 113, Public School Land Surve
	ation paid for this lease is as folk	80.0 acres, more or less. The bonus consider
	100 Dollars	To the State of Texas: Six Hundred Sixty-Six and 66/
		Dollars (\$666.66
	3/100 Dollars	To the owner of the soil: Six Hundred Sixty-Six and 6
	_)	Dollars (\$666.66
	_)	Dollars (\$ <u>666.66</u>
	) dred Thirty-Two and 32/100 Dolla	Dollars (\$666.66  Total bonus consideration: One Thousand Three Hun
2	) dred Thirty-Two and 32/100 Doll:)	Y.
2	_)	Total bonus consideration: One Thousand Three Hun
net acres.	_)	Total bonus consideration: One Thousand Three Hun Dollars (\$1,333,32
	100 Dollars	To the State of Texas: Six Hundred Sixty-Six and 66/ Dollars (\$666.66



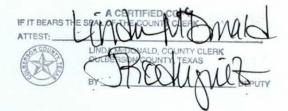
loce on	r before such anniversary date Lessee shall pay or tender to the owner of the soil or to his credit in the
11633 011	Bank, at
ssee sha	issors (which shall continue as the depository regardless of changes in the ownership of said land), the amount specified below; in addition if pay or tender to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATE OF TEXAS, AT AUSTIN, TEXAS, a like sum of aid date. Payments under this paragraph shall operate as a rental and shall cover the privilege of deferring the commencement of a well for from said date. Payments under this paragraph shall be in the following amounts:
	To the owner of the soil: Three and Thirty-three one hundredths
	Dollars (\$3.33
	To the State of Texas: Three and Thirty-three one hundredths
	Dollars (\$3.33)
	Total Delay Rental: Six and Sixty-six one hundredths
	Dollars (\$6.66
ear each ssignee of ease to eald in de	anner and upon like payments or tenders annually, the commencement of a well may be further deferred for successive periods of one (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 as fithis lease, and may be delivered on or before the rental paying date. If the bank designated in this paragraph (or its successor bank) should kist, suspend business, liquidate, fail or be succeeded by another bank, or for any reason fail or refuse to accept rental, Lessee shall not least 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 propinistrument naming another bank as agent to receive such payments or tenders.
	I. PRODUCTION ROYALTIES. Upon production of oil and/or gas, Lessee agrees to pay or cause to be paid one-half (1/2) of the royar 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 soil:
I condent all be 1/2 and Office ydrocarbaid in the my gas prond gas still be reconstilled.	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 sate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the Gene as such value to be determined by 1) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquins, respectively, of a like type and gravity in the general area where produced and when run, or 2) the highest market price thereof offered general area where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is the greater. Lessee agrees that befooduced 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 parator of conventional type, or other equipment at least as efficient, so that all liquid hydrocarbons recoverable from the gas by such mean overed. The requirement that such gas be run through a separator or other equipment may be waived, in writing, by the royalty owners up and conditions as they prescribe.
ne extraction of the street of correction of the street of correction of the street of	B) NON PROCESSED GAS. Royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substances of oil in subparagraph (A) above, produced from any well on said land (except as provided herein with respect to gas processed in a plant on of gasoline, liquid hydrocarbons or other products) shall be 1/5 part of the gross production or the market value thereof, at 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 uparable quality in the general area where produced and when run, or the gross price paid or offered to the producer, whichever is the great the maximum pressure base in measuring the gas under this lease shall not at any time exceed 14.65 pounds per square inch absoluted base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for spectording 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.
f the soi roduction reater, o ecovered ydrocarb greemer ne indust rice paid as (or th	(C) PROCESSED GAS. Royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid high shall be 1/5 part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the own or the Commissioner of the General Land Office. All royalties due herein shall be based on one hundred percent (100%) of the total plant of residue gas attributable to gas produced from this lease, and on fifty percent (50%), or that percent accruing to Lessee, whichever is the total plant production of liquid hydrocarbons attributable to the gas processed in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the percentage applicable to liquid hydrocarbons in egotiated at arm's length (or if there is no such third party, the highest percent then being specified in processing agreements or contracts or othered for any gas (or liquid hydrocarbons) of comparable quality in the general area, or 2) the gross price paid or offered for such reside weighted average gross selling price for the respective grades of liquid hydrocarbons), whichever is the greater. In no event, however, she payable under this paragraph be less than the royalties which would have been due had the gas not been processed.
ne gross uch mar	(D) OTHER PRODUCTS. Royalty on carbon black, sulphur or any other products produced or manufactured from gas (excepting liquided) in the product of the said gas be "casinghead," "dry," or any other gas, by fractionating, burning or any other processing shall be 1/5 part 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 Officet 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 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 same month in the product of the same month in which such products are produced; whichever is the same month in the product of the same month in which such products are produced; whichever is the same month in the product of the same month in which such products are produced; whichever is the same month in the product of the same month in which such products are produced; whichever is the same month in the product of the same month in which such products are produced; whichever is the same month in the product of the same month in which such products are produced; whichever is the same month in the product of the same month in which such products are produced; whichever is the same month in the product of the same month in which such products are produced; whichever is the same month in the product of the same month in t
lue and	5. MINIMUM ROYALTY. During any year after the expiration of the primary term of this lease, if this lease is maintained by production, aid under this lease in no event shall be less than an amount equal to the total annual delay rental herein provided; otherwise, there shall ayable 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 royalties paid during the preceding year. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of the delay rental amount shall be one dollar (\$1.00) per acre.

IF IT BEARS THE SEARCH THE COUNTY CLERK
CULBURY COUNTY TEXAS
BY
DEPUTY

- 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 cil 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

- 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.

  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 popular unit 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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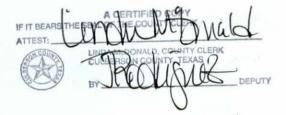
LINDA McDONALD, COUNTY CLERK
CHILLES OUNTY, TEXAS

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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. However, in no event shall the Commissioner of the General Land Office receive as a royalty on the gross production allocable to the undivided interest not leased an amount less than the value of one-sixteenth (1/16) of such gross production.
- (B) REDUCTION OF PAYMENTS. If, during the primary term, a portion of the land covered by this lease is included within the boundaries of a pooled unit that has been approved by the School Land Board and the owner of the soil in accordance with Natural Resources Code Sections 52.151-52.154, or if, at any time after the expiration of the primary term or the extended term, this lease covers a lesser number of acres than the total amount described herein, payments that are made on a per acre basis hereunder shall be reduced according to the number of acres pooled, released, surrendered, or otherwise severed, so that payments determined on a per acre basis under the terms of this lease during the primary term shall be calculated based upon the number of acres outside the boundaries of a pooled unit, or, if after the expiration of the primary term, the number of acres actually retained and covered by this lease.
- 21. USE OF WATER. Lessee shall have the right to use water produced on said land necessary for operations under this lease except water from wells or tanks of the owner of the soil; provided, however, Lessee shall not use potable water or water suitable for livestock or irrigation purposes for waterflood operations without the prior consent of the owner of the soil.
- 22. AUTHORIZED DAMAGES. Lessee shall pay the owner of the soil for damages caused by its operations to all personal property, improvements, livestock and crops on said land.
  - 23. PIPELINE DEPTH. When requested by the owner of the soil, Lessee shall bury its pipelines below plow depth.
- 24. WELL LOCATION LIMIT. No well shall be drilled nearer than two hundred (200) feet to any house or barn now on said premises without the written consent of the owner of the soil.



- 25. POLLUTION. In developing this area, Lessee shall use the highest degree of care and all proper safeguards to prevent pollution. Without limiting the foregoing, pollution of coastal wetlands, natural waterways, rivers and impounded water shall be prevented by the use of containment facilities sufficient to prevent spillage, seepage or ground water contamination. In the event of pollution, Lessee shall use all means at its disposal to recapture all escaped hydrocarbons or other pollutant and shall be responsible for all damage to public and private properties. Lessee shall build and maintain fences around its slush, sump, and drainage pits and tank batteries so as to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level all slush pits and cellars and completely clean up the drilling site of all rubbish thereon. Lessee shall, while conducting operations on the leased premises, keep said premises free of all rubbish, cans, bottles, paper cups or garbage, and upon completion of operations shall restore the surface of the land to as near its original condition and contours as is practicable. Tanks and equipment will be kept painted and presentable.
- 26. REMOVAL OF EQUIPMENT. Subject to limitations in this paragraph, Lessee shall have the right to remove machinery and fixtures placed by Lessee on the leased premises, including the right to draw and remove casing, within one hundred twenty (120) days after the expiration or the termination of this lease unless the owner of the soil grants Lessee an extension of this 120-day period. However, Lessee may not remove casing from any well capable of producing oil and gas in paying quantities. Additionally, Lessee may not draw and remove casing until after thirty (30) days written notice to the Commissioner of the General Land Office and to the owner of the soil. The owner of the soil shall become the owner of any machinery, fixtures, or casing which are not timely removed by Lessee under the terms of this paragraph.
- 27. (A) ASSIGNMENTS. Under the conditions contained in this paragraph and Paragraph 29 of this lease, the rights and estates of either party to this le 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 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 inval
- 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 forfelt 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, 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

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 lerm "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 CERCL

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



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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.

BY: CRAIG L. BLAIR	BY: Stephen S. Blan STEPHEN S. BLAIR
Title:	Date: Accept 2005
LESSOR:	
STATE OF TEXAS  BY: CARL D. RUSSELL  CARL D. RUSSELL	STATE OF TEXAS BY:
Individually and as agent for the State of Texas  Date:	Individually and as agent for the State of Texas  Date:
•	
STATE OF TEXAS	STATE OF TEXAS
BY:	BY:
Individually and as agent for the State of Texas	Individually and as agent for the State of Texas
Date:	Date:

Mall Instrument back to Slate Land Services P.O. Box 550 Big Spring, Texas 70701-0550





STATE OF	(CORPORATION ACKNOWLEDGMENT)
COUNTY OF	
BEFORE ME, the undersigned authority, on this day personally appeared	
nown to me to be the person whose name is subscribed to the foregoing instruments as	
f	and acknowledged to me that he
Given under my hand and seal of office this the day of	, 20
Notary	Public in and for
TATE OF TEXAS	(INDIVIDUAL ACKNOWLEDGMENT)
COUNTY OF	
BEFORE ME, the undersigned authority, on this day personally appeared <u>CA</u>	RL D. RUSSELL
snown to me to be the persons whose names are subscribed to the foregoing instrument our posses and consideration therein expressed.  Given under my hand and seal of office this the	
STATE OF LEGAN COUNTY OF HOWARD  BEFORE ME, the undersigned authority, on this day personally appeared CR	LISA C. RICE Notary Public State of Council Website State My Commission Expires August 30, 2008  Alig L. BLAIR
nown to me to be the persons whose names are subscribed to the foregoing instrume	nt, and acknowledged to me that they executed the same for the
ourposes and consideration therein expressed.  Given under my hand and seal of office this the 3 rd day of Local	mber . 2025
80	January Statery
Notice Notice	Public m and for Texas
STATE OF EX AS MARY E. BETUS Notary Public, State of Texas My Commission Expires July 09, 2007  BEFORE ME, the undersigned authority, on this day personally appeared STI	(INDIVIDUAL ACKNOWLEDGMENT)
<u></u>	
crown to me to be the persons whose names are subscribed to the foregoing instrume purposes and consideration therein expressed.  Given under my hand and seal of office this the	nt, and acknowledged to me that they executed the same for the
Given under my hand and sear of office this the day of	2020.4
PEGGY J. BARNETT MY COMMISSION EXPIRES June 1, 2008	Public In and for TEXAS
IF I	T BEARS THE SELLA CETTIFIE CHE MALL MALL SOUNTY CLERK  BY COUNTY CLERK  BY COUNTY CLERK  BY COUNTY CLERK  BY COUNTY CLERK
FILED FOR RECORD ON THE 12th DAY OF APRIL	
DULY RECORDED ON THE 19th	_, A.D. 2006 @ 11:30o'CLOCK A M. & A.D. 2006 @ 2:40 o'CLOCK P M.
, DEPITTY	LINDA MCDONALD, COUNTY CLERK CULBERSON COUNTY, TEYAS

Jerry E. Patterson, Commissioner File No. Mt. 106270 19 Gas Date Filed: 5

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

The above and foregoing is a full, true and correct photographic copy of the original record now in the large control in the page 23 - 8 Records of my office, found in VOL.

Thereby contiled an American Copy CERTIFICATE

Records of my office, found in VOL.

Thereby contiled an American Copy CERTIFICATE

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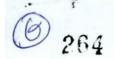
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I hereby certified on AS April 768 LINDA MCDONALD, COUNTY & DISTRICT CLERK
CULSERSON COUNTY, TEXAS



General Land Office Relinquishment Act Lease Form Revised, September 1997

## The State of Texas



#60908

## Austin, Texas

#### OIL AND GAS LEASE

of 11183 Huffmeister Rd., Cypress, TX 77429		
(Give Permanent Address)		
aid agent herein referred to as the owner of the soil (whether one or more	, and Craig L. Blair and Stephen	S. Blair
of P.O. Box 2476, Carlsbad, New Mexico 88221		hereinafter called Lessee.
(Give Permanent Address)		
1. GRANTING CLAUSE. For and in consideration of the amou beeformed by Lessee under this lease, the State of Texas acting by and the sole and only purpose of prospecting and drilling for and producing stations, telephone lines and other structures thereon, to produce, save, to county, State of Texas, to-weighted in Culberson	hrough the owner of the soil, her oil and gas, laying pipe lines, bake care of, treat and transport so	reby grants, leases and lets unto Lessee juilding tanks, storing oil and building po
The S/2 of the SW/4 of Section 12, Block 113, Public School Land Surve	v Culherson County Texas	
		*
containing 80,0 acres, more or less. The bonus considera	tion paid for this lease is as follow	ws:
To the State of Texas: Six Hundred Sixty-Six and 66/1		
To the State of Texas: Six Hundred Sixty-Six and 66/1	00 Dollars	
To the State of Texas: Six Hundred Sixty-Six and 66/1 Dollars (\$666.66	00 Dollars	
To the State of Texas: Six Hundred Sixty-Six and 66/1 Dollars (\$666.66  To the owner of the soil: Six Hundred Sixty-Six and 66	00 Dollars	
To the State of Texas: Six Hundred Sixty-Six and 66/1 Dollars (\$666.66  To the owner of the soil: Six Hundred Sixty-Six and 66	00 Dollars _) /100 Dollars	
To the State of Texas: Six Hundred Sixty-Six and 66/1 Dollars (\$666.66  To the owner of the soil: Six Hundred Sixty-Six and 66 Dollars (\$666.66	00 Dollars _) /100 Dollars	
To the State of Texas: Six Hundred Sixty-Six and 66/1 Dollars (\$666.66  To the owner of the soil: Six Hundred Sixty-Six and 66 Dollars (\$666.66  Total bonus consideration: One Thousand Three Hund Dollars (\$1,333.32	00 Dollars /100 Dollars _)  tred Thirty-Two and 32/100 Dollar	
To the State of Texas: Six Hundred Sixty-Six and 66/1 Dollars (\$666.66  To the owner of the soil: Six Hundred Sixty-Six and 66 Dollars (\$666.66  Total bonus consideration: One Thousand Three Hund Dollars (\$1,333.32	00 Dollars //100 Dollars _/ // Ired Thirty-Two and 32/100 Dollar _/ d 0/100 Dollars	rs
To the State of Texas: Six Hundred Sixty-Six and 66/1 Dollars (\$666.66  To the owner of the soil: Six Hundred Sixty-Six and 66 Dollars (\$666.66  Total bonus consideration: One Thousand Three Hund Dollars (\$1,333.32	00 Dollars /100 Dollars _)  tred Thirty-Two and 32/100 Dollar	rs



dilicos on or beior	e such anniversary date Lessee shall pay or tender to the owner of the soil or to his credit in the
	Bank, at
Lessee shall pay or before said da	(which shall continue as the depository regardless of changes in the ownership of said land), the amount specified below; in addition or tender to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATE OF TEXAS, AT AUSTIN, TEXAS, a like sum of the example of the commencement of a well for said date. Payments under this paragraph shall be in the following amounts:
	To the owner of the soil: Three and Thirty-three one hundredths
	Dollars (\$3.33)
	To the State of Texas: Three and Thirty-three one hundredths
	Dollars (\$3.33)
	Total Delay Rental: Six and Sixty-six one hundredths
	Dollars (\$6.66
year each during assignee of this locease to exist, so	and upon like payments or tenders annually, the commencement of a well may be further deferred for successive periods of one (1 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 an ease, and may be delivered on or before the rental paying date. If the bank designated in this paragraph (or its successor bank) should repend business, liquidate, fail or be succeeded by another bank, or for any reason fail or refuse to accept rental, Lessee shall not be 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

- owner of the soil:

  (A) Oll.. 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 1/5 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be determined by 1) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity in the general area where produced and when run, or 2) the highest market price thereof offered or paid in the general area where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is the greater. Lessee agrees that before any gas produced from the leased premises is sold, used or processed in a plant, it will be run free of cost to the royalty owners through an adequate oil and gas separator of conventional type, or other equipment at least as efficient, so that all liquid hydrocarbons recoverable from the gas by such means will be recovered. The requirement that such gas be run through a separator or other equipment may be waived, in writing, by the royalty owners upon such terms and conditions as they prescribe. such terms and conditions as they prescribe
- (B) NON PROCESSED GAS. Royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substances not defined as oil in subparagraph (A) above, produced from any well on said land (except as provided herein with respect to gas processed in a plant for the extraction of gasoline, liquid hydrocarbons or other products) shall be 1/5 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be based on the highest market price paid or offered for gas of comparable quality in the general area where produced and when run, or the gross 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 1/5 part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office. All royalties due herein shall be based on one hundred percent (100%) of the total plant production of residue gas attributable to gas produced from this lease, and on fifty percent (50%), or that percent accruing to Lessee, whichever is the greater, of the total plant production of liquid hydrocarbons attributable to the gas produced from this lease; provided that if liquid hydrocarbons are greater, 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 1/5 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
- 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.

owner of the soil:

- 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. 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 documen

- 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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CULBERTS COUNTY CLERK

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BY

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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 doltar (\$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 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 so 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.

IF IT BEARS THE SEAL OF THE GUNTHOUGHK

ATTEST:

LINDA MODIFIALD, COUNTY-SLERIK

CULBERSON COORD TEXAS

BY

BY

LINDA MODIFIALD, COUNTY-SLERIK

CULBERSON COORD TEXAS

- (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 release 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 releases 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.

ATTEST:

CUBERSO SOUNTY, TEXAS

BY

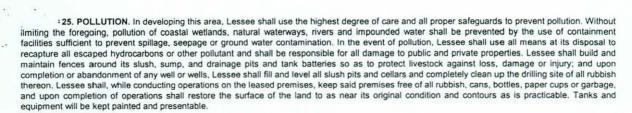
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CUBERSO SOUNTY, TEXAS

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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

(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

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

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

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

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



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

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

34. POOLING. Lessee is hereby granted the right to pool or 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 sufface of the leased premises; and those that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Agreement or any other act or omission of Lessee, its directors, officers, employees, partners, agents, contractors, subcontractors, guests, invitees, and their respective successors and assigns. Each assignee of this Agreement, or an interest the

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

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

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

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

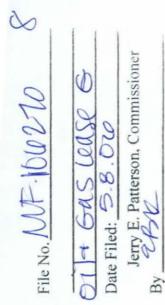
BY: CRAIG L. BLAIR	BY: Stephen S. Blue STEPHEN S. BLAIR
Title:	Date: Par 1 2006
LESSOR:	
STATE OF TEXAS BY: Dr. JOHNA. RUSSELL, Jr.	STATE OF TEXAS BY:
Individually and as agent for the State of Texas  Date: 8/3///	Individually and as agent for the State of Texas  Date:
STATE OF TEXAS BY: Patricia Gome Lynch	STATE OF TEXAS BY:
Individually and as agent for the State of Texas  Date: 8/3//2005	Individually and as agent for the State of Texas  Date:

Mail Instrument back to Slate Land Services P.O. Box 550 Big Spring, Texas 79721-0550



PATRICIA ANNE LYNCH MY COMMISSION EXPIRES December 13, 2008

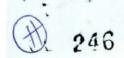
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nown to me to be the person whose name is subscribed to the foregoing in:	2 97 2 9 9 9
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Given under my hand and seal of office this the day of _	, 20
	Notary Public in and for
8	
STATE OF	(INDIVIDUAL ACKNOWLEDGMENT)
COUNTY OF	
BEFORE ME, the undersigned authority, on this day personally ag	ppeared Dr. JOHN R. RUSSELL, Jr.
	ng instrument, and acknowledged to me that they executed the same for the
surposes and consideration therein expressed.	
Given under my hand and seal of office this the 26 day of	Outabor 2005.
30,00	
PATRICIA ANNE LYNCH	( Salvicia anne Sinch
MY COMMISSION EXPIRES December 13, 2008	Notary Public in and for State of Te 499
December 13, 2008	dount y of Harning
STATE OF Legas	(INDIVIDUAL ACKNOWLEDGMENT)
COUNTY OF FROWARD	
BEFORE ME, the undersigned authority, on this day personally a	ppeared CRAIG L. BLAIR
Given under my hand and seal of office this the 3 rd day of	Mary & Betus
MARY E. BETUS	Notary Public In and for Lefa
STATE OF EUAS Notary Public, State of Texas My Commission Expires	(INDIVIDUÁL ACKNOWLEDGMENT)
COUNTY OF KAUS July 09, 2007	
BEFORE ME, the undersigned authority, on this day personally a	ppeared STEPHEN S. BLAIR
known to me to be the persons whose names are subscribed to the forests	ing instrument, and acknowledged to me that they executed the same for the
purposes and consideration therein expressed.	ing instrument, and acknowledged to the that they executed the same for the
	DECEMBER 2005
Given under my hand and seal of office this the day of	V(CETUDE)C . 2000.
	Keggs I Valenett
CONTROL CONTRO	Notary Public in and for TEXAS
PEGGY J. BARNETT MY COMMISSION EXPIRES	Hotal y I dollo in and lot
June 1, 2008	
	IF IT BEARS THE SEMOSTING CONTINUESTS
	LINDAY DO NALD, COUNTY CLERK  OCCUPATION COUNTY, TEXAS  BY DEPUTY
FILED FOR RECORD ON THE 12th DAY OF APRI	IL, A.D. 2006 @ 11:30 O'CLOCK A M. &
ULY RECORDED ON THE 19th DAY OF APRIL	
1, 8/10	LINDA MCDONALD, COUNTY CLERK
1 - ( /IX ) - :	CULBERSON COUNTY, TEXAS



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

The above and forecoing is a full, true and correct photographic copy of the original record now in the law cush of and possession, as the same is filed/records in the in VOL.

PAGE 164 199 PAGE 164 1



General Land Office Relinquishment Act Lease Form Revised, September 1997

# The State of Texas



# Austin, Texas

#### OIL AND GAS LEASE

f Rt. 1, Box 216, Bogota TX 75417	
(Give Permanent Address)	
aid agent herein referred to as the owner of the soil (whether one or more), an	d Craig L. Blair and Stephen S. Blair
f P.O. Box 2476, Carlsbad, New Mexico 88221	hereinafter called Lessee.
(Give Permanent Address)	
GRANTING CLAUSE. For and in consideration of the amounts in the consideration of the amounts in the consideration of the amounts in the consideration of the consideration o	and gas, laying pipe lines, building tanks, storing oil and building powe
The S/2 of the SW/4 of Section 12, Block 113, Public School Land Survey, C	ulberson County, Texas
participation 90.0	and for this longs is as follows:
	• INTERNATIONAL CONTRACTOR CONTRA
containing 80.0 acres, more or less. The bonus consideration  To the State of Texas: Four Hundred Forty-Four and 44/10	• INTERNATIONAL CONTRACTOR CONTRA
	• INTERNATIONAL CONTRACTOR CONTRA
To the State of Texas: Four Hundred Forty-Four and 44/10	• INTERNATIONAL CONTRACTOR CONTRA
To the State of Texas: Four Hundred Forty-Four and 44/10	00 Dollars
To the State of Texas: Four Hundred Forty-Four and 44/10 Dollars (\$444.44	00 Dollars
To the State of Texas: Four Hundred Forty-Four and 44/10  Dollars (\$444.44)  To the owner of the soil: Four Hundred Forty-Four and 44/10	00 Dollars
To the State of Texas: Four Hundred Forty-Four and 44/10  Dollars (\$444.44)  To the owner of the soil: Four Hundred Forty-Four and 44/10	100 Dollars
To the State of Texas: Four Hundred Forty-Four and 44/10  Dollars (\$444.44)  To the owner of the soil: Four Hundred Forty-Four and 44/  Dollars (\$444.44)	100 Dollars
To the State of Texas: Four Hundred Forty-Four and 44/10 Dollars (\$444.44)  To the owner of the soil: Four Hundred Forty-Four and 44/ Dollars (\$444.44)  Total bonus consideration: Eight Hundred Eighty-Eight and Dollars (\$888.88)	100 Dollars 188/100 Dollars
To the State of Texas: Four Hundred Forty-Four and 44/10  Dollars (\$444.44)  To the owner of the soil: Four Hundred Forty-Four and 44/  Dollars (\$444.44)  Total bonus consideration: Eight Hundred Eighty-Eight and  Dollars (\$888.88)  The total bonus consideration paid represents a bonus of Two Hundred and 0/	100 Dollars  188/100 Dollars
To the State of Texas: Four Hundred Forty-Four and 44/10  Dollars (\$444.44)  To the owner of the soil: Four Hundred Forty-Four and 44/  Dollars (\$444.44)  Total bonus consideration: Eight Hundred Eighty-Eight and	100 Dollars 188/100 Dollars

ris 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, all kes unto no relevore said date. Payments under this paragraph shall be in the following amounts:  To the owner of the soil: "To and Twenty-two one hundredths  Dollars (\$2.22	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
or its successors (which shall continue as the depository regardless of changes in the ownership of said land), the amount specified below, in addition, the content of the	
To the State of Texas: "Two and Twenty-two one hundredths Dollars (\$2.22	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
To the State of Texas: Two and Twenty-two one hundredths Dollars (\$2.22.  Dollars (\$4.44.  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. Siguidate, laid or be successed by another bank, or for any reason fail or refuse to accessor bank) should cease to exist, suspend business, siguidate, laid or be successed by another bank, or for any reason fail or refuse to accessor bank) should recordable instrument naming another bank as again to receive such payments or tenders.  4. PRODUCTION ROYALTES. Upon production of old andor gas, Lessee agrees to pay or cause to be paid one-half (1/2) of the royally 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 royally 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 hereinather provided.  (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 hereinather provided.  (A) Oil. Royalty payable on oil, which is defined as including all hydrocarbons recovered from Commissioner of the General Land Office, such value to be determined by 1) the highest posted price, plus premium, if any, offered or paid fo	To the owner of the soil: Two and Twenty-two one hundredths
Total Delay Rental: Four and Forty-four one hundredits.  Dollars (\$4,44	Dollars (\$2.22)
Total Delay Rental: Four and Forty-four one hundredths  Dollars (\$4.44  In a like manner and upon like payments or tenders armually, 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 metal to the owner of the soil may be made by check or sight draft of Lessee, or any are active to the properties of the propert	To the State of Texas: Two and Twenty-two one hundredths
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 be cased to exist, suspend business, liquidate, fail or be succeeded by another bank, or for any reason fail or refuse to serior printal. 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 royally to the owner of the soil. Royally appaide on oil, which is defined as including all hydrocarbons produced in a liquid form at menuth of the well and also as all condenses utilistics, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinather provided shall be 1/5.  part of the gross production or the market value thered, at the option of the owner of the soil or Commissioner of the General Land Office, such value to be determined by 1) the hiphest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of all keype and gravity in the general area where produced and when run, or 2) the hippest plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid hydrocarbons respectively on the general area where produced and when run, or 2) the hippest plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid hydrocarbons, and assequate of conventional type, or other equipment	Dollars (\$2.22)
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 paragrapt 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 the did in default for failure to make 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 royally 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 the royally 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 the royally 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 the royally provided for in this lease to the Commissioner of the General Land Office, such value to be determined by 11 he highest protect from oil or gas mult hough a separator or other expendent, as hereivaler provided shall be 1/5.  Land Office, such value to be determined by 11 he highest protect from oil or gas mult hough a separator or other expendent, disclibitate, and determined by 11 he highest protect from oil or gas num through a separator or other highest market price thereof offered to paid in the general area where produced and when run, or 31 here of the Section of paid in the general area where reproduced and when run, or 31 here of the section of paid in the general area where requirement a least as efficient, so that all liquid hydrocarbons reviews that before any gas produced from t	Total Delay Rental: Four and Forty-four one hundredths
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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) Oll 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 1/5.  part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be determined by 11 the highest posted price, plus premium, if any, offered or paid ic, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity in the general area where produced and when nun, or 2) the highest market price there of offered to paid in the general area where produced and when nun, or 2) the highest market price there of the red or paid in the general area where produced and when nun, or 2) the highest market price there are grounded 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 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 1/5.  part of the owner of the soil or the Commissioner of th	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
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defined as oil in subparagraph (A) above, produced from any well on said land (except as provided herein with respect to gas processed in a plant for the extraction of gasoline, liquid hydrocarbons or other products) shall be 1/5 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be based on the highest market price paid or offered for gas of comparable quality in the general area where produced and when run, or the gross 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 1/5 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 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 fitly percent (50%) or the highest percent accruing to a bird party processing gas through such plant under a processing agreements or contracts in the industry), whichever is the greater. The respective royalties on residue gas and no liquid hydrocarbons shall be determined by	(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 1/5 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such, value to be determined by 1) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity in the general area where produced and when run, or 2) the highest market price thereof offered or paid in the general area where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is the greater. Lessee agrees that before any gas produced from the leased premises is sold, used or processed in a plant, it will be 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
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 1/5 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	defined as oil in subparagraph (A) above, produced from any well on said land (except as provided herein with respect to gas processed in a plant for the extraction of gasoline, liquid hydrocarbons or other products) shall be 1/5 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be based on the highest market price paid or offered to 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
hydrocarbons) whether said gas be "casinghead," "dry," or any other gas, by fractionating, burning or any other processing shall be 1/5 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	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
royalties paid under this lease in no event shall be less than an amount equal to the total annual delay rental herein provided; otherwise, there shall be due and payable on or before the last day of the month succeeding the anniversary date of this lease a sum equal to the total annual rental less the amount of royalties paid during the preceding year. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this	hydrocarbons) whether said gas be "casinghead," "dry," or any other gas, by fractionating, burning or any other processing shall be 1/5 part of the gross production of such products, or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office such market value to be determined as follows: 1) on the basis of the highest market price of each product for the same month in which such produced; whichever is the 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
	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

A CONTINUE COPY

ATTEST:

LINDATINDONALD, COUNEY CLERK

CULBERT Y COUNTY

BY

DEPUTY

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

Payment of royalty on production of oil and gas shall be as provided in the rules set forth in the Texas Register. Rules currently provide that royalty on oil is due and must be received in the General Land Office on or before the 5th day of the second month succeeding the month of production, and royalty on gas is due and must be received in the General Land Office on or before the 15th day of the second month succeeding the month of production, accompanied by the affidavit of the owner, manager or other authorized agent, completed in the form and manner prescribed by the General Land Office and showing the gross amount and disposition of all oil and gas produced and the market value of the oil and gas, together with a copy of all documents, records or reports confirming the gross production, disposition and market value including gas meter readings, pipeline receipts, gas line receipts and other checks or memoranda of amount produced and put into pipelines, tanks, or pools and gas lines or gas storage, and any other reports or records which the General Land Office may require to verify the gross production, disposition and market value. In all cases the authority of a manager or agent to act for the Lessee herein must be filled in the General Land Office. Each royalty payment shall be accompanied by a check stub, schedule, summary or other remittance advice showing by the assigned General Land Office lease number the amount of royalty being paid on each lease. If Lessee pays his royalty on or before thirty (30) days after the royalty payment was due, then Lessee owes a penalty of 5% on the royalty or \$25.00, whichever is greater. A royalty payment which is over thirty (30) days late shall accrue a penalty of 10% of the royalty due or \$25.00 whichever is greater. In addition to a penalty, royalties shall accrue interest at a rate of 12% per year; such interest will begin to accrue when the royalty is sixty (60) days overdue. Affidavits and supporting documents which are not filed when due shall incur a penalty

- 10. (A) RESERVES, CONTRACTS AND OTHER RECORDS. Lessee shall annually furnish the Commissioner of the General Land Office with its best possible estimate of oil and gas reserves underlying this lease or allocable to this lease and shall furnish said Commissioner with copies of all contracts under which gas is sold or processed and all subsequent agreements and amendments to such contracts within thirty (30) days after entering into or making such contracts, agreements or amendments. Such contracts and agreements when received by the General Land Office shall be held in confidence by the General Land Office unless otherwise authorized by Lessee. All other contracts and records pertaining to the production, transportation, sale and marketing of the oil and gas produced on said premises, including the books and accounts, receipts and discharges of all wells, tanks, pools, meters, and pipelines shall at all times be subject to inspection and examination by the Commissioner of the General Land Office, the Attorney General, the Governor, or the representative of any of them.
- (B) PERMITS, DRILLING RECORDS. Written notice of all operations on this lease shall be submitted to the Commissioner of the General Land Office by Lessee or operator five (5) days before spud date, workover, re-entry, temporary abandonment or plug and abandonment of any well or wells. Such written notice to the General Land Office shall include copies of Railroad Commission forms for application to drill. Copies of well tests, completion reports and plugging reports shall be supplied to the General Land Office at the time they are 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

A CERTIFICACION DEPUTY

ATTEST:

LINDANGDONALD, COUNTY CLERK

CULBERSON COUNTY, TEXAS

BY

DEPUTY



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 Cexas 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, his lease shall thereupon terminate as to all acreage not thereafter allocated to said well or wells for production purposes. Notwithstanding the termination of this lease as to a portion of the lands covered hereby, Lessee shall nevertheless continue to have the right of ingress to and egress from the lands still subject to this lease for all purposes described in Paragraph 1 hereof, together with easements and rights-of-way for existing roads, existing pipelines and other existing facilities on, over and across all the lands described in Paragraph 1 hereof ("the retained lands"), for access to and from the retained lands and for the gathering or transportation of oil, gas and other minerals produced from the retained lands.



- (B) HORIZONTAL. In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall further terminate as to all depths below 100 feet below the total depth drilled (hereinafter "deeper depths") in each well located on acreage retained in Paragraph 16 (A) above, unless on or before two (2) years after the primary or extended term Lessee pays an amount equal to one-half (1/2) of the borus 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.

ATTEST:

LINDA NCDONALD, COUNTY CLERK

CULEBRISON COUNTY, TEXAS

BY

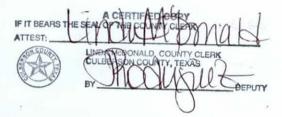
DEPUTY



- 25. POLLUTION. In developing this area, Lessee shall use the highest degree of care and all proper safeguards to prevent polling 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 conveyance. A total or partial assignment or trils lease shall, to the extent or 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

  - (2) a corporation or subsidiary in which the owner of the soil is a principal stockholder or is an employee of such a corporation or subsidiary;
  - (3) a partnership in which the owner of the soil is a partner or is an employee of such a partnership;
    (4) a principal stockholder or employee of the corporation which is the owner of the soil;
    (5) a partner or employee in a partnership which is the owner of the soil;

  - (6) a fiduciary for the owner of the soil; including but not limited to a guardian, trustee, executor, administrator, receiver, or conservator for the owner of the soil; or
  - (7) a family member of the owner of the soil or related to the owner of the soil by marriage, blood, or adoption
- 28, RELEASES. Under the conditions contained in this paragraph and Paragraph 29, Lessee may at any time execute and deliver to the owner of the soil and place of record a release or releases covering any portion or portions of the leased premises, and thereby surrender this lease as to such portion or portions, and be relieved of all subsequent obligations as to acreage surrendered. If any part of this lease is properly surrendered, the delay rental due under this lease shall be reduced by the proportion that the surrendered acreage bears to the acreage which was covered by this lease immediately prior to such surrender; however, such release will not relieve Lessee of any liabilities which may have accrued under this lease prior to the surrender of such acreage
- 29. FILING OF ASSIGNMENTS AND RELEASES. If all or any part of this lease is assigned or released, such assignment or release must be recorded in the county where the land is situated, and the recorded instrument, or a copy of the recorded instrument certified by the County Clerk of the county in which the instrument is recorded, must be filed in the General Land Office within 90 days of the last execution date accompanied by the prescribed filing fee. If any such assignment is not so filed, the rights acquired under this lease shall be subject to forfeiture at the option of the Commissioner of the General Land Office.
- 30. DISCLOSURE CLAUSE. All provisions pertaining to the lease of the above-described land have been included in this instrument, including the statement of the true consideration to be paid for the execution of this lease and the rights and duties of the parties. Any collateral agreements concerning the development of oil and gas from the leased premises which are not contained in this lease render this lease invalid
- 31. FIDUCIARY DUTY. The owner of the soil owes the State a fiduciary duty and must fully disclose any facts affecting the State's interest in the leased premises. When the interests of the owner of the soil conflict with those of the State, the owner of the soil is obligated to put the State's interests before his personal interests.
- 32. FORFEITURE. If Lessee shall fail or refuse to make the payment of any sum within thirty days after it becomes due, or if Lessee or an authorized agent should knowingly make any false return or false report concerning production or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith as required by law and the rules and regulations adopted by the Commissioner of the General Land Office, or if Lessee should fail to file reports in the manner required by law or fail to comply with rules and regulations promulgated by the General Land Office, the School Land Board, or the Railroad Commission, or if Lessee should refuse the proper authority access to the records pertaining to operations, or if Lessee or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or knowingly fail or refuse to furnish the General Land Office a correct log of any well, or if Lessee shall knowingly violate any of the material provisions of this lease, or if this lease is assigned and the assignment is not filed in the General Land Office as required by law, the rights acquired under this lease shall be subject to forfeiture by the



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

- 33. LIEN. In accordance with Texas Natural Resources Code 52.136, the State shall have a first lien upon all oil and gas produced from the area covered by this lease to secure payment of all unpaid royalty and other sums of money that may become due under this lease. By acceptance of this lease, Lessee grants the State, in addition to the lien provided by Texas Natural Resources Code 52.136 and any other applicable statutory lien, an express contractual lien on and security interest in all leased minerals in and extracted from the leased premises, all proceeds which may accrue to Lessee from the sale of such leased minerals, whether such proceeds are held by Lessee or by a third party, and all fixtures on and improvements to the leased premises used in connection with the production or processing of such leased minerals in order to secure the payment of all royalties or other amounts due or to become due under this lease and to secure payment of any damages or loss that Lessor may suffer by reason of Lessee's breach of any covenant or condition of this lease, whether express or implied. This lien and security interest may be foreclosed with or without court proceedings in the manner provided in the Title 1, Chap. 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this lease forfeited as provided herein.
- 34. POOLING. Lessee is hereby granted the right to pool or unitize the royalty interest of the owner of the soil under this lease with any other leasehold or mineral interest for the exploration, development and production of oil or gas or either of them upon the same terms as shall be approved by the School Land Board and the Commissioner of the General Land Office for the pooling or unitizing of the interest of the State under this lease pursuant to Texas Natural Resources Code 52.151-52.154. The owner of the soil agrees that the inclusion of this provision in this lease satisfies the execution requirements stated in Texas Natural Resources Code 52.152.
- 35. INDEMNITY. Lessee hereby releases and discharges the State of Texas and the owner of the soil, their officers, employees, partners, agents, contractors, subcontractors, guests, invitees, and their respective successors and assigns, of and from all and any actions and causes of action of every nature, or other harm, including environmental harm, for which recovery of damages is sought, including, but not limited to, all losses and expenses which are caused by the activities of Lessee, its officers, employees, and agents arising out of, incidental to, or resulting from, the operations of or for Lessee on the leased premises hereunder, or that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Agreement, or by any other negligent or strictly liable act or omission of Lessee. Further, Lessee hereby agrees to be liable for, exonerate, indemnify, defend and hold harmless the State of Texas and the owner of the soil, their officers, employees and agents, their successors or assigns, against any and all claims, liabilities, losses, damages, actions, personal injury (including death), costs and expenses, or other harm for which recovery of damages is sought, under any theory including tort, contract, or strict liability, including attorneys' fees and other legal expenses, including those related to environmental hazards, on the leased premises or in any way related to Lessee's operations or any other of Lessee's failure to comply with any and all environmental laws; those arising from or in any way related to Lessee's operations or any other of Lessee's breach of any of the terms or provisions of this Agreement or any other act or omission of Lessee, its directors, officers, employees, partners, agents, contractors, subcontractors, guests, invitees, and their respective successors and assigns. Each assignee of this Agreement, or an interest therein, agrees to be liable for, exonerate, indemnify, defend and hold harmless the State of Texas and the owner of the soil, their o
- 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, PENAL TIES, LIABILITIES, AND COSTS (INCLUDING REASONABLE ATTORNEYS' FEES AND COURT COSTS) CAUSED BY OR ARISING OUT OF (1) A VIOLATION OF THE FOREGOING PROHIBITION OR (2) THE PRESENCE, RELEASE, OR DISPOSAL OF ANY HAZARDOUS MATERIALS ON, UNDER, OR ABOUT THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OR CONTROL OF THE LEASED PREMISES. 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 CERC
- 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.

ACERTIFIED COLVECTION

ATTEST:

LINEA M. DONALD, COUNTY CLERK

CULLED COLCUTY, TEXAS

BY

DEPUTY

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

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

BY: CRAIGE BLAIR	BY: Styles S. Bland STEPHEN S. BLAIR
Title:	Date: Dec 1, 200
LESSOR:	
BY: Johan Rusull Jurgin Johan Russell Turpin, AGENT, AND ATTORNEY-IN-FACT FOR ERNESTINE POOL, LIFE ESTATE	STATE OF TEXAS BY:
Individually and as agent for the State of Texas  Date:	Individually and as agent for the State of Texas  Date:
STATE OF TEXAS BY: Johan Russell Lurgin	STATE OF TEXAS BY:
Individually and as agent for the State of Texas	Individually and as agent for the State of Texas

Mail Instrument back to Slate Land Services P.O. Box 550 Big Spring, Texas 79721-0550

IF IT BEARS THE SEAL OF THE COUNTY CLERK

ATTEST:

LIMON MEDONALD, COUNTY CLERK

CULBUSSON SOUNTY, TEXAS

BY

DEPUTY

TATE OF	(CORPORATION ACKNOWLEDGMENT)	
OUNTY OF		
BEFORE ME, the undersigned authority, on this day personally appeared		
nown to me to be the person whose name is subscribed to the fore	going instruments as	
secuted the same for the purposes and consideration therein expre	essed, 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	
TATE OF TEXAS	(INDIVIDUAL ACKNOWLEDGMENT)	
DUNTY OF TITUS		
	sonally appeared JOHAN RUSSELL TURPIN, AGENT AND ATTORNEY-IN-FACT	
own to me to be the persons whose names are subscribed to the proses and consideration therein expressed.	e foregoing instrument, and acknowledged to me that they executed the same for the	
	5.101	
Given under my hand and seal of office this the 15+	day of	
boooooooooooooooooooooooooooooooooooooo	Sacrella & Darra	
JACLELLA L. DAVIS	Notary Public in and for Settles Co Seylos	
STATE OF TEXAS	The state of the s	
ATE OF JEST OF My Comm. Exp. 06-04-06	(INDIVIDUAL ACKNOWLEDGMENT)	
DUNTY OF TOWARD		
BEFORE ME, the undersigned authority, on this day pers	conally appeared CRAIG L. BLAIR	
Given under my hand and seal of office this the 3.20	Mary Se. Betus	
MARY E. BETU		
Notary Public, State of My Commission E July 09, 200	Expires (INDIVIDUAL ACKNOWLEDGMENT)	
SONT OF THE STATE	STEDLEN C DI AID	
BEFORE ME, the undersigned authority, on this day pers	onally appeared STEPHENS, BLAIR	
own to me to be the persons whose names are subscribed to the	e foregoing instrument, and acknowledged to me that they executed the same for the	
rposes and consideration therein expressed.	2	
Given under my hand and seal of office this the	day of Veckyeber 2005	
	D. S. S. Provit	
	Notary Public in and for TEXAS	
PEGGY J. BARNETT	Notary Public in and for 1 CX-TC3	
MY COMMISSION EXPIRES June 1, 2008		
	A CERTIFIED COM	
	ATTEST:	
	LINDAY DONALD, COUNTY-CLERK CYCBERSON COUNTY, TEXAS	
	JONIN 11	
	BA DEBOLLA	
	U	
ED FOR RECORD ON THE 12th DAY OF A	PRIL , A.D. 2006 @11:30 O'CLOCK A M. &	
	PRIL , A.D. 2006 @ 2:25 O'CLOCK P M.	
	LINDA MCDONALD, COUNTY CLERK	
In All	CULBERSON COUNTY, TEXAS	

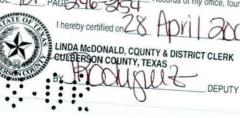
, DEPUTY

Jerry E. Patterson, Commissioner Date Filed: 5

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

The above and foregoing is a full, true and correct photographic cop
original record now in the authority and possession, as the se
filed/recorded in the in Vol.

PAGE 110 PAG





General Land Office Relinquishment Act Lease Form Revised, September 1997

# The State of Texas

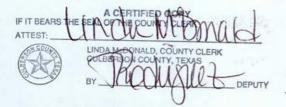


#60907

# Austin, Texas

#### OIL AND GAS LEASE

(Give Permanent Address) said agent herein referred to as the owner of the soil (whether one or more), as of P.O. Box 2476, Carlsbad, New Mexico 88221  (Give Permanent Address)	
of P.O. Box 2476, Carlsbad, New Mexico 88221	
	hereinafter called Lessee.
1. GRANTING CLAUSE. For and in consideration of the amounts performed by Lessee under this lease, the State of Texas acting by and thro he sole and only purpose of prospecting and drilling for and producing oil stations, telephone lines and other structures thereon, to produce, save, take ituated in Culberson  County, State of Texas, to-wit:	and gas, laying pipe lines, building tanks, storing oil and building po-
The S/2 of the SW/4 of Section 12, Block 113, Public School Land Survey, C	Culberson County, Texas
containing 80.0 acres, more or less. The bonus consideration	on paid for this lease is as follows:
containing 80.0 acres, more or less. The bonus consideration  To the State of Texas: Four Hundred Forty-Four and 44/1	
To the State of Texas: Four Hundred Forty-Four and 44/1	
To the State of Texas: Four Hundred Forty-Four and 44/1	100 Dollars
To the State of Texas: Four Hundred Forty-Four and 44/1  Dollars (\$444.44	100 Dollars
To the State of Texas: Four Hundred Forty-Four and 44/1  Dollars (\$444.44)  To the owner of the soil: Four Hundred Forty-Four and 44  Dollars (\$444.44)	100 Dollars 4/100 Dollars
To the State of Texas: Four Hundred Forty-Four and 44/1  Dollars (\$444.44 )  To the owner of the soil: Four Hundred Forty-Four and 14  Dollars (\$444.44 )  Total bonus consideration: Eight Hundred Eighty-Eight and	100 Dollars 4/100 Dollars
To the State of Texas: Four Hundred Forty-Four and 44/1  Dollars (\$444.44)  To the owner of the soil: Four Hundred Forty-Four and 44  Dollars (\$444.44)	100 Dollars 4/100 Dollars
To the State of Texas: Four Hundred Forty-Four and 44/1  Dollars (\$444.44)  To the owner of the soil: Four Hundred Forty-Four and 44  Dollars (\$444.44)  Total bonus consideration: Eight Hundred Eighty-Eight and Dollars (\$888.88)	100 Dollars  4/100 Dollars  nd 88/100 Dollars
To the State of Texas: Four Hundred Forty-Four and 44/1	
To the State of Texas: Four Hundred Forty-Four and 44/1  Dollars (\$444.44)  To the owner of the soil: Four Hundred Forty-Four and 44  Dollars (\$444.44)	100 Dollars 4/100 Dollars
To the State of Texas: Four Hundred Forty-Four and 44/1  Dollars (\$444.44 )  To the owner of the soil: Four Hundred Forty-Four and 14  Dollars (\$444.44 )  Total bonus consideration: Eight Hundred Eighty-Eight and	100 Dollars 4/100 Dollars
To the State of Texas: Four Hundred Forty-Four and 44/1  Dollars (\$444.44 )  To the owner of the soil: Four Hundred Forty-Four and 14  Dollars (\$444.44 )  Total bonus consideration: Eight Hundred Eighty-Eight and	100 Dollars  4/100 Dollars  nd 88/100 Dollars



unless on or before such anniversary date Lessee shall pay or tender to the owner of the soil or to his credit in the	
Bank, at or its successors (which shall continue as the depository regardless of changes in the ownership of said land), the amount specified below; in at Lessee shall pay or tender to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATE OF TEXAS, AT AUSTIN, TEXAS, a like or before said date. Payments under this paragraph shall operate as a rental and shall cover the privilege of deferring the commencement of a one (1) year from said date. Payments under this paragraph shall be in the following amounts:	sum on
To the owner of the soil: Two and Twenty-two one hundredths	
Dollars (\$2.22	
To the State of Texas: _Two and Twenty-two one hundredths	
Dollars (\$2.22	
Total Delay Rental: Four and Forty-four one hundredths	
Dollars (\$4.44)	
In a like manner and upon like payments or tenders annually, the commencement of a well may be further deferred for successive periods of 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, assignee of this lease, and may be delivered on or before the rental paying dote. If the bank designated in this paragraph (or its successor bank) cease to exist, suspend business, liquidate, fall or be succeeded by another bank, or for any reason fail or refuse to accept rental, Lessee shall 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 recordable instrument naming another bank as agent to receive such payments or tenders.	or any should not be
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 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 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 all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter probable by 1/5	y to the also as ovided, Seneral er liquid ered or before uate oil means
(B) NON PROCESSED GAS. Royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substant 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 put the extraction of gasoline, liquid hydrocarbons or other products) shall be 1/5 part of the gross production or the market value thereof 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 offer 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 grovided that the maximum pressure base in measuring the gas under this lease shall not at any time exceed 14.65 pounds per square inch at and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for 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 hydrocarbons shall be 1/15 part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the soil or the Commissioner of the General Land Office. All conditions the hydrocarbons plundred percent (10%) of the soil or the Commissioner of the General Land Office.	lant for , at the ered for greater; osolute, specific ig. er liquid e 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 tot production of residue gas attributable to gas produced from this lease, and on fifty percent (50%), or that percent accruing to Lessee, whicheve greater, of the total plant production of liquid hydrocarbons attributable to the gas produced from this lease; provided that if liquid hydrocarbor recovered from gas processed in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the percentage applicable thydrocarbons shall be fifty percent (50%) or the highest percent accruing to a third party processing gas through such plant under a proagreement negotiated at arm's length (or if there is no such third party, the highest percent then being specified in processing agreements or conthe industry), whichever is the greater. The respective royalties on residue gas and on liquid hydrocarbons shall be determined by 1) the highest 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 gas (or the weighted average gross selling price for the respective grades of liquid hydrocarbons), whichever is the greater. In no event, however the royalties payable under this paragraph be less than the royalties which would have been due had the gas not been processed.	er is the cons are to liquid cessing racts in market residue
(D) OTHER PRODUCTS. Royalty on carbon black, sulphur or any other products produced or manufactured from gas (excepting hydrocarbons) whether said gas be "casinghead," "dry," or any other gas, by fractionating, burning or any other processing shall be 1/5 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 such market value to be determined as follows: 1) on the basis of the highest market price of each product for the same month in which such produced, or 2) on the basis of the average gross sale price of each product for the same month in which such produced; whichever greater.	oduct is
5. MINIMUM ROYALTY. During any year after the expiration of the primary term of this lease, if this lease is maintained by product 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 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 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 paragraph, the delay rental amount shall be one dollar (\$1.00) per acre.	shall be ess the

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,

ACER NELLOOPY
ATTEST:

LINDANCDONALD, COUNTY CLERK
CULLER COUNTY, TEXAS

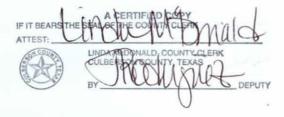
BY

DEPUTY

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

Payment of royalty on production of oil and gas shall be as provided in the rules set forth in the Texas Register. Rules currently provide that royalty on oil is due and must be received in the General Land Office on or before the 5th day of the second month succeeding the month of production, and royalty on gas is due and must be received in the General Land Office on or before the 15th day of the second month succeeding the month of production, accompanied by the affidavit of the owner, manager or other authorized agent, completed in the form and manner prescribed by the General Land Office and showing the gross amount and disposition of all oil and gas produced and the market value of the oil and gas, together with a copy of all documents, records or reports confirming the gross production, disposition and market value including gas meter readings, pipeline receipts, gas line receipts and other checks or memoranda of amount produced and put into pipelines, tanks, or pools and gas lines or gas storage, and any other reports or records which the General Land Office may require to verify the gross production, disposition and market value. In all cases the authority of a manager or agent to act for the Lessee herein must be filled in the General Land Office. Each royalty payment shall be accompanied by a check stub, schedule, summary or other remittance advice showing by the assigned General Land Office lease number the amount of royalty being paid on each lease. If Lessee pays his royalty on or before thirty (30) days after the royalty payment was due, then Lessee owes a penalty of 5% on the royalty or \$25.00, whichever is greater. A royalty payment which is over thirty (30) days late shall accrue a penalty of 10% of the royalty due or \$25.00 whichever is greater. In addition to a penalty, royalties shall accrue interest at a rate of 12% per year; such interest will begin to accrue when the royalty is sixty (60) days overdue. Affidavits and supporting documents which are not filed when due shall incur a penalty

- 10. (A) RESERVES, CONTRACTS AND OTHER RECORDS. Lessee shall annually furnish the Commissioner of the General Land Office with its best possible estimate of oil and gas reserves underlying this lease or allocable to this lease and shall furnish said Commissioner with copies of all contracts under which gas is sold or processed and all subsequent agreements and amendments to such contracts within thirty (30) days after entering into or making such contracts, agreements or amendments. Such contracts and agreements when received by the General Land Office shall be held in confidence by the General Land Office unless otherwise authorized by Lessee. All other contracts and records pertaining to the production, transportation, sale and marketing of the oil and gas produced on said premises, including the books and accounts, receipts and discharges of all wells, tanks, pools, meters, and pipelines shall at all times be subject to inspection and examination by the Commissioner of the General Land Office, the Attorney General, the Governor, or the representative of any of them.
- (B) PERMITS, DRILLING RECORDS. Written notice of all operations on this lease shall be submitted to the Commissioner of the General Land Office by Lessee or operator five (5) days before spud date, workover, re-entry, temporary abandonment or plug and abandonment of any well or wells. Such written notice to the General Land Office shall include copies of Railroad Commission forms for application to drill. Copies of well tests, completion reports and plugging reports shall be supplied to the General Land Office at the time they are filed with the Texas Railroad Commission. All applications, permits, reports or other filings that reference this lease or any specific well on the leased premises and that are submitted to the Texas Railroad Commission or any other governmental agency shall include the word "State" in the title. Additionally, in accordance with Railroad Commission rules, any signage on the leased premises for the purpose of identifying wells, tank batteries or other associated improvements to the land must also include the word "State." Lessee shall supply the General Land Office with any records, memoranda, accounts, reports, cuttings and cores, or other information relative to the operation of the above-described premises, which may be requested by the General Land Office, in addition to those herein expressly provided for. Lessee shall have an electrical and/or radioactivity survey made on the bore-hole section, from the base of the surface casing to the total depth of well, of all wells drilled on the above described premises and shall transmit a true copy of the log of each survey on each well to the General Land Office within fifteen (15) days after the making of said survey.
- (C) PENALTIES. Lessee shall incur a penalty whenever reports, documents or other materials are not filed in the General Land Office when due. The penalty for late filing shall be set by the General Land Office administrative rule which is effective on the date when the materials were due in the General Land Office.
- 11. DRY HOLE/CESSATION OF PRODUCTION DURING PRIMARY TERM. If, during the primary term hereof and prior to discovery and production of oil or gas on said land, Lessee should drill a dry hole or holes thereon, or if during the primary term hereof and after the discovery and actual production of oil or gas from the leased premises such production thereof should cease from any cause, this lease shall not terminate if on or before the expiration of sixty (60) days from date of completion of said dry hole or cessation of production Lessee commences additional drilling or reworking operations thereon, or pays or tenders the next annual delay rental in the same manner as provided in this lease. If, during the last year of the primary term or within sixty (60) days prior thereto, a dry hole be completed and abandoned, or the production of oil or gas should cease for any cause, Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term; and if Lessee has not resumed production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking



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

- 12. DRILLING AND REWORKING AT EXPIRATION OF PRIMARY TERM. If, at the expiration of the primary term, neither oil nor gas is being produced on said land, but Lessee is then engaged in drilling or reworking operations thereon, this lease shall remain in force so long as operations on said well or for drilling or reworking of any additional 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 a period 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 popled 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.

IF IT BEARS THE SEN OF THE COUNTY CLEAN

ATTEST:

LINDA MODIALD, COUNTY CLERK

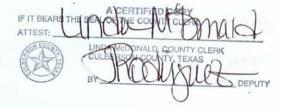
CULEERS ON COUNTY, TEXAS

BY

DEPUTY

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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 release 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 releases or releases within ninety (90) days after being requested to do so by the General Land Office, then the Commissioner at his sole discretion may designate by written instrument the acreage and/or depths to be released hereunder and record such instrument at Lessee's expense in the county or counties where the lease is located and in the official records of the General Land Office and such designation shall be binding upon Lessee for all purposes.
- 17. OFFSET WELLS. Neither the bonus, delay rentals, nor royalties paid, or to be paid, under this lease shall relieve Lessee of his obligation to protect the oil and gas under the above-described land from being drained. Lessee, sublessee, receiver or other agent in control of the leased premises shall drill as many wells as the facts may justify and shall use appropriate means and drill to a depth necessary to prevent undue drainage of oil and gas from the leased premises. In addition, if oil and/or gas should be produced in commercial quantities within 1,000 feet of the leased premises, or in any case where the leased premises is being drained by production of oil or gas, the Lessee, sublessee, receiver or other agent in control of the leased premises shall in good faith begin the drilling of a well or wells upon the leased premises within 100 days after the draining well or wells or the well or wells completed within 1,000 feet of the leased premises start producing in commercial quantities and shall prosecute such drilling with diligence. Failure to satisfy the statutory offset obligation may subject this lease and the owner of the soil's agency rights to forfeiture. Only upon the determination of the Commissioner of the General Land Office and with his written approval may the payment of compensatory royalty under applicable statutory parameters satisfy the obligation to drill an offset well or wells required under this paragraph.
- 18. FORCE MAJEURE. If, after a good faith effort, Lessee is prevented from complying with any express or implied covenant of this lease, from conducting drilling operations on the leased premises, or from producing oil or gas from the leased premises by reason of war, rebellion, riots, strikes, acts of God, or any valid order, rule or regulation of government authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended and Lessee shall not be liable for damages for failure to comply with such covenants; additionally, this lease shall be extended while Lessee is prevented, by any such cause, from conducting drilling and reworking operations or from producing oil or gas from the leased premises. However, nothing in this paragraph shall suspend the payment of delay rentals in order to maintain this lease in effect during the primary term in the absence of such drilling or reworking operations or production of oil or gas.
- 19. WARRANTY CLAUSE. The owner of the soil warrants and agrees to defend title to the leased premises. If the owner of the soil defaults in payments owed on the leased premises, then Lessee may redeem the rights of the owner of the soil in the leased premises by paying any mortgage, taxes or other liens on the leased premises. If Lessee makes payments on behalf of the owner of the soil under this paragraph, Lessee may recover the cost of these payments from the rental and royalties due the owner of the soil.
- 20. (A) PROPORTIONATE REDUCTION CLAUSE. If the owner of the soil owns less than the entire undivided surface estate in the above described land, whether or not Lessee's interest is specified herein, then the royalties and rental herein provided to be paid to the owner of the soil shall be paid to him in the proportion which his interest bears to the entire undivided surface estate and the royalties and rental herein provided to be paid to the Commissioner of the General Land Office of the State of Texas shall be likewise proportionately reduced. However, before Lessee adjusts the royalty or rental due to the Commissioner of the General Land Office, Lessee or his authorized representative must submit to the Commissioner of the General Land Office a written statement which explains the discrepancy between the interest purportedly leased under this lease and the actual interest owned by the owner of the soil. The Commissioner of the General Land Office shall be paid the value of the whole production allocable to any undivided interest. However, in no event shall the Commissioner of the General Land Office receive as a royalty on the gross production allocable to the undivided interest not leased an amount less than the value of one-sixteenth (1/16) of such gross production.
- (B) REDUCTION OF PAYMENTS. If, during the primary term, a portion of the land covered by this lease is included within the boundaries of a pooled unit that has been approved by the School Land Board and the owner of the soil in accordance with Natural Resources Code Sections 52.151-52.154, or if, at any time after the expiration of the primary term or the extended term, this lease covers a lesser number of acres than the total amount described herein, payments that are made on a per acre basis hereunder shall be reduced according to the number of acres pooled, released, surrendered, or otherwise severed, so that payments determined on a per acre basis under the terms of this lease during the primary term shall be calculated based upon the number of acres outside the boundaries of a pooled unit, or, if after the expiration of the primary term, the number of acres actually retained and covered by this lease.
- 21. USE OF WATER. Lessee shall have the right to use water produced on said land necessary for operations under this lease except water from wells or tanks of the owner of the soil; provided, however, Lessee shall not use potable water or water suitable for livestock or irrigation purposes for waterflood operations without the prior consent of the owner of the soil.
- 22. AUTHORIZED DAMAGES. Lessee shall pay the owner of the soil for damages caused by its operations to all personal property, improvements, livestock and crops on said land.
  - 23. PIPELINE DEPTH. When requested by the owner of the soil, Lessee shall bury its pipelines below plow depth.
- 24. WELL LOCATION LIMIT. No well shall be drilled nearer than two hundred (200) feet to any house or barn now on said premises without the written consent of the owner of the soil.



- 25. POLLUTION. In developing this area, Lessee shall use the highest degree of care and all proper safeguards to prevent pollution. Without limiting the foregoing, pollution of coastal wetlands, natural waterways, rivers and impounded water shall be prevented by the use of containment facilities sufficient to prevent spillage, seepage or ground water contamination. In the event of pollution, Lessee shall use all means at its disposal to recapture all escaped hydrocarbons or other pollutant and shall be responsible for all damage to public and private properties. Lessee shall build and maintain fences around its slush, sump, and drainage pits and tank batteries so as to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level all slush pits and cellars and completely clean up the drilling site of all rubbish thereon. Lessee shall, while conducting operations on the leased premises, keep said premises free of all rubbish, cans, bottles, paper cups or garbage, and upon completion of operations shall restore the surface of the land to as near its original condition and contours as is practicable. Tanks and equipment will be kept painted and presentable.
- 26, REMOVAL OF EQUIPMENT. Subject to limitations in this paragraph, Lessee shall have the right to remove machinery and fixtures placed by Lessee on the leased premises, including the right to draw and remove casing, within one hundred twenty (120) days after the expiration or the termination of this lease unless the owner of the soil grants Lessee an extension of this 120-day period. However, Lessee may not remove casing from any well capable of producing oil and gas in paying quantities. Additionally, Lessee may not draw and remove casing until after thirty (30) days written notice to the Commissioner of the General Land Office and to the owner of the soil. The owner of the soil shall become the owner of any machinery, fixtures, or casing which are not timely removed by Lessee under the terms of this paragraph.
- 27. (A) ASSIGNMENTS. Under the conditions contained in this paragraph and Paragraph 29 of this lease, the rights and estates of either 27. (A) ASSIGNMENTS. Under the conditions contained in this paragraph and Paragraph 29 or this lease, the rights and estates or either party to this lease may be assigned, in whole or in part, and the provisions of this lease shall extend to and be binding upon their heirs, devisees, legal representatives, successors and assigns. However, a change or division in ownership of the land, rentals, or royalties will not enlarge the obligations of Lessee, diminish the rights, privileges and estates of Lessee, impair the effectiveness of any payment made by Lessee or impair the effectiveness of any payment made by Lessee or impair the effectiveness of any payment made by Lessee 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 subsequents. 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 of the lease including any liabilities to the State for unpaid royalties. 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 ency power of the owner may be forfeited by the Commissioner. An assignment will be treated as if it were made to the owner of the soil if the
  - (1) a 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
  - (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

IF IT BEARS THE SEA

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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 operations or any vay 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 failure to comply with any and all environmental laws; those arising from Lessee's use of the surface of the leased premises; and those that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Agreement or any other act or omission of Lessee, its directors, officers, employees, partners, agents, contractors, subcontractors, guests, invitees, and their respective successors an
- 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 CERCL

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

A CERTIFIED CONTROLLERS

ATTEST:

LINDAMO NALD, COUNTY CLERK
CHERRY COUNTY TEXAS

BY

DEPUTY

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

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

Title: \_ Date: Necl, 200( 12-03-05 LESSOR: STATE OF TEXAS STATE OF TEXAS BY: Mada E. Hambrick
MADA E. HAMBRICK Individually and as agent for the State of Texas Individually and as agent for the State of Texas Date: \_ Date: \_\_ STATE OF TEXAS STATE OF TEXAS Individually and as agent for the State of Texas Individually and as agent for the State of Texas Date:

> Mail Instrument back to Slate Land Services P.O. Box 550 Big Spring, Texas 79721-0550



COUNTY OF SUSPEX	
BEFORE ME, the undersigned authority, on this day personally	y appeared
nown to me to be the person whose name is subscribed to the foregoing	instruments as
ſ	and acknowledged to me that he
xecuted the same for the purposes and consideration therein expressed	d, 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 TEXAS	(INDIVIDUAL ACKNOWLEDGMENT)
COUNTY OF Jasper	(IIII)
BEFORE ME, the undersigned authority, on this day personally	Vanneared MADA F. HAMBRICK
DET ONE ME, the diagragine dutionty, on this day personally	y appealed invitor E. Firsh Minoritor
	going instrument, and acknowledged to me that they executed the same for the
purposes and consideration therein expressed.	$\wedge$
Given under my hand and seal of office this the 30th day	of Ungust 20 US.
*	Con il Know
	Notes Bullion and from
	Notary Public in and for
STATE OF Jeyas	CAROL RODGERS
COUNTY OF 1 LOWARD	February 6, 2008
BEFORE ME, the undersigned authority, on this day personally	y appeared CRAIG L. BLAIR
STATE OF TEXAS  COUNTY OF TRAVIS  MARY E. BETUS  Notary Public, State of Te My Commission Expir  July 09, 2007	Notary Public in and for Jelas (INDIVIDUAL ACKNOWLEDGMENT)
BEFORE ME, the undersigned authority, on this day personally	y appeared STEPHEN S. BLAIR
known to me to be the persons whose names are subscribed to the fore	going instrument, and acknowledged to me that they executed the same for the
purposes and consideration therein expressed.	
The state of the s	6
The state of the s	or DECEMBER 2005
The state of the s	or December 2005.
Given under my hand and seal of office this the 15+ day	or December 2005. Reggy J. Baint.
Given under my hand and seal of office this the day  PEGGY J. BARNETT MY COMMISSION EXPIRES	OF DECEMBER. 20 05.  Reggn J. Backett  Notary Public in and for TEXAS.
Given under my hand and seal of office this the day	Reggy 9 Bainett.
Given under my hand and seal of office this the day  PEGGY J. BARNETT MY COMMISSION EXPIRES	Reggy 9 Bainett.
Given under my hand and seal of office this the day  PEGGY J. BARNETT MY COMMISSION EXPIRES	Reggy 9 Baint.
Given under my hand and seal of office this the day  PEGGY J. BARNETT MY COMMISSION EXPIRES	Notary Public in and for TEX AS  IF IT BEARS THE SEAL OF THE COUNTY CLERK  ATTEST:  LIND AMEDONAL D. COLINTY CLERK
Given under my hand and seal of office this the day  PEGGY J. BARNETT MY COMMISSION EXPIRES	Notary Public in and for TEX AS  IF IT BEARS THE SEAL OF THE COUNTY CLERKY ATTEST:
Given under my hand and seal of office this the	Notary Public in and for TEX AS  IF IT BEARS THE SEAL OF THE COUNTY CLERK ATTEST:  LIND AMODONAL D. COUNTY CLERK CULBERS ON COUNTY, TEXAS  BY  DEPUTY  ILL  , A.D. 2006 @ 11:30 O'CLOCK AM. &
Given under my hand and seal of office this the	Notary Public in and for TEX AS  IF IT BEARS THE SEAL OF THE COUNTY CLERK ATTEST:  LINDAMODONALD, COUNTY CLERK CULBERS ON COUNTY, REAS  BY  DEPUTY  LIL, A.D. 2006 @ 11:30O'CLOCK _AM. &
Given under my hand and seal of office this the	Notary Public in and for TEX AS  IF IT BEARS THE SEAL OF THE COUNTY CLERK ATTEST:  LINDAMODONALD, COUNTY CLERK CULBERS ON COUNTY, REXAS  BY  DEPUTY  LIL, A.D. 2006 @ 11:30O'CLOCK _AM. &

File No. MF. 104270 10

OTHER SURFIELD

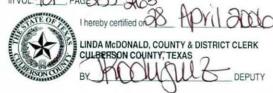
Date Filed: 5.8.04

Jerry E. Patterson, Commissioner

By The

# CERTIFIED TRUE AND CORRECT COPY CERTIFICATE STATE OF TEXAS COUNTY OF CULBERSON

The above and foregoing is a full, true and correct photographic copy of the original record now in the lawfall possession, as the same is filed/recorded in the page of the p







General Land Office Relinquishment Act Lease Form Revised, September 1997

# The State of Texas

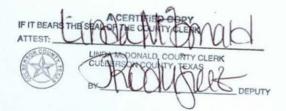


#60905

### Austin, Texas

#### OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 17 day	of <u>June</u> .20 <u>05</u> , between the State of Texas, acting
by and through its agent, Johan Russell Turpin, Individually and as Remaind	erman of the Life Estate of Ernestine Pool
of Rt. 1, Box 216, Bogota TX 75417	
(Give Permanent Address)	
said agent herein referred to as the owner of the soil (whether one or more),	and Craig L. Blair and Stephen S. Blair
of P.O. Box 2476, Carlsbad, New Mexico 88221	hereinafter called Lessee.
(Give Permanent Address)	
performed by Lessee under this lease, the State of Texas acting by and the he sole and only purpose of prospecting and drilling for and producing or	ts stated below and of the covenants and agreements to be paid, kept and rough the owner of the soil, hereby grants, leases and lets unto Lessee, for oil and gas, laying pipe lines, building tanks, storing oil and building power ke care of, treat and transport said products of the lease, the following lands
The S/2 of the SW/4 of Section 12, Block 113, Public School Land Survey.	, Culberson County, Texas
	The state of the s
The beautiful and a second sec	to a selection to the selection of the s
containing 80.0 acres, more or less. The bonus consideration	
To the State of Texas: Four Hundred Forty-Four and 44	/100 Dollars
Dollars (\$444.44	
To the owner of the call: Saw Mundered Sorts Saw and a	44/400 Pallace
To the owner of the soil: Four Hundred Forty-Four and 4 Dollars (\$444.44	14/100 Dollars
Dollars (\$444,44	
Total bonus consideration: Eight Hundred Eighty-Eight;	and 88/100 Dollars
Dollars (\$ 888.88	)
The total bonus consideration paid represents a bonus of Two Hundred and	0/100 Pollage
	) per acre, on 4.4444 net acres.
Donats (\$200.00	/ por doit, off 4,4444   fiet doits.
2. TERM. Subject to the other provisions in this lease, this lease s	shall be for a term of Three (3) years from
this date (herein called "primary term") and as long thereafter as oil and ga-	
in this lease, the term "produced in paying quantities" means that the recovered exceed out of pocket operational excepts for the six months last	eipts from the sale or other authorized commercial use of the substance



unless on or before such anniversary date Lessee shall pay or tender to the owner of the soil or to his credit in the		
Bank, at		
or its successors (which shall continue as the depository regardless of changes in the ownership of said land), the amount specified below; in addition Lessee shall pay or tender to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATE OF TEXAS, AT AUSTIN, TEXAS, a like sum or or before said date. Payments under this paragraph shall operate as a rental and shall cover the privilege of deferring the commencement of a well fo one (1) year from said date. Payments under this paragraph shall be in the following amounts:		
To the owner of the soil: Two and Twenty-two one hundredths		
Dollars (\$2.22)		
To the State of Texas: Two and Twenty-two one hundredths		
Dollars (\$2,22)		
Total Delay Rental: Four and Forty-four one hundredths		
Dollars (\$4,44)		
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 an 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 royalt 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 a all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided shall be 1/5 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be determined by 1) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity in the general area where produced and when run, or 2) the highest market price thereof offered or paid in the general area where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is the greater. Lessee agrees that befor 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 of and gas separator of conventional type, or other equipment at least as efficient, so that all liquid hydrocarbons recoverable from the gas by such mean 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 1/5 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be based on the highest market price paid or offered for gas of comparable quality in the general area where produced and when run, or the gross price paid or offered to the producer, whichever is the greate 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 absolut 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 1/5 part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option 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 plan 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 processin 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, she 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 liquing hydrocarbons) whether said gas be "casinghead," "dry," or any other gas, by fractionating, burning or any other processing shall be 1/5 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 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 the paragraph, the delay rental amount shall be one dollar (\$1.00) per acre.		

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LINDA NADONALD, COUNTY CLERK

CULBERTON POUNTY, TEXTS

BY

BY

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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

- 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 Raifroad Commission forms for application to drill. Copies of well tests, completion reports and plugging reports shall be supplied to the General Land Office at the time they are filled with the Texas Railroad Commission. All applications, permits, reports or other fillings that reference this lease or any specific well on the leased premises and that are submitted to the Texas Railroad Commission or any other governmental agency shall include the word "State" in the title. Additionally, in accordance with Railroad Commission rules, any signage on the leased premises for the purpose of identifying wells, tank batteries or other associated improvements to the land 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

ATTEST:

LINDA GONALD, COUNTY CLERK

CULBER SOLICOUNTY, TEXAS

BY

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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 esult 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 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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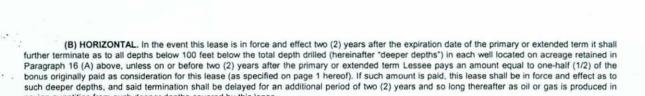
LIND TO COUNTY CLERK

CULBER COUNTY, TEXAS

BY

DEPUTY

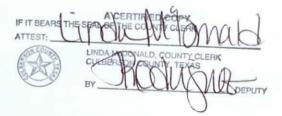
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(C) IDENTIFICATION AND FILING. The surface acreage retained hereunder as to each well shall, as nearly as practical, be in the form of a square with the well located in the center thereof, or such other shape as may be approved by the Commissioner 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 nation shall be binding upon Lessee for all purposes.

paying quantities from such deeper depths covered by this lease.

- 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 cross production 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 27. (A) ASSIGNMENTS. Under the conditions contained in this paragraph and Paragraph 29 of this lease, the rights and estates of either party to this lease may be assigned, in whole or in part, and the provisions of this lease shall extend to and be binding upon their heirs, devisees, legal representatives, successors and assigns. However, a change or division in ownership of the land, rentals, or royalties will not enlarge the obligations of Lessee, diminish the rights, privileges and estates of Lessee, impair the effectiveness of any payment made by Lessee or impair the effectiveness of any payment made by Lessee or impair the effectiveness of any payment made by Lessee 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 un
- (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

  - a nominee of the owner of the soil;
     a corporation or subsidiary in which the owner of the soil is a principal stockholder or is an employee of such a corporation or subsidiary;
     a partnership in which the owner of the soil is a partner or is an employee of such a partnership;
     a partnership in which the owner of the corporation which is the owner of the soil;
     a partner or employee in a partnership which is the owner of the soil;
     a fiduciary for the owner of the soil; including but not limited to a guardian, trustee, executor, administrator, receiver, or conservator for the owner of the soil; or
     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
- 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 filled in the General Land Office as required by law, the rights acquired under this lease shall be subject to forfeiture by the

ATTEST:

LINDA MODONALD, COUNTY-CLERK

BY

DEBUTY

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 perations 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 owne

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 wastle, pollutant, or contaminant. Lessee shall not bring or permit to remain on the leased premises any asbestos containing materials, explosives, toxic materials, or substances equilated as hazardous wastles, 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 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

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



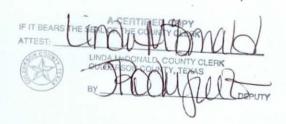
\*

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

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

BY: CRAIG L. BLAIR	BY: Supple S. Blair STEPHEN S. BLAIR
Title:	Title:
LESSOR:	
BY: JOHAN RUSSELL TURPIN, AGENT AND ATTORNEY-IN-FACT	STATE OF TEXAS BY:
Individually and as agent for the State of Texas Date: $9-1-0.5$	Individually and as agent for the State of Texas  Date:
STATE OF TEXAS	STATE OF TEXAS
BY:	BY:
Individually and as agent for the State of Texas  Date:	Individually and as agent for the State of Texas  Date:

Mail Instrument back to Slate Land Services P.O. Box 550 Big Spring, Texas 79721-0550



STATE OF	(CORPORATION ACKNOWLEDGMENT)
COUNTY OF	
	peared
snown to me to be the person whose name is subscribed to the foregoing ins	truments 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 TEXAS	(INDIVIDUAL ACKNOWLEDGMENT)
COUNTY OF ZITUD	***************************************
	INDIVIDUALLY & peared JOHAN RUSSELL TURPIN, AGENT AND ATTORNEY-IN-FACT
FOR ERNESTINE POOL, LIFE ESTATE	
known to me to be the persons whose names are subscribed to the foregoin	g instrument, and acknowledged to me that they executed the same for the
purposes and consideration therein expressed.	5. 01
Given under my hand and seal of office this the 15t day of	
WOLFILA L DA	VIS Jacella L Dazes
STATE OF TEX	AS Netary Public in and for <u>States</u> Co · Seyas
STATE OF LEAST	
COUNTY OF Loward	
BEFORE ME, the undersigned authority, on this day personally ap	peared CRAIG L. BLAIR
	P. C.
known to me to be the persons whose names are subscribed to the foregoin purposes and consideration therein expressed.  Given under my hand and seal of office this the 3 day of J	
	man 1 - 14 to
	1 wyle gens
MARY E. BETUS Notary Public, State of Texas	Notary Public in and for
July 09, 2007	(INDIVIDUAL ACKNOWLEDGMENT)
COUNTY OF KAUS	
BEFORE ME, the undersigned authority, on this day personally ap	peared STEPHEN S. BLAIR
known to me to be the persons whose names are subscribed to the foregoin	ng 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	December 20to
·	Q Q Q +
	View Toutell
PEGGY J. BARNETT	Notary Public in and for 18445
MY COMMISSION EXPIRES	
June 1, 2008	
180	
Alex	
THE CONTROLLERS WAS	
TO THE STATE OF TH	
DONALD, COUNTY CLERK	
MUN U DEPUTY	
FILED FOR RECORD ON THE 12th DAY OF APRI	
ULY RECORDED ON THE 19th DAY OF APRIL	, A.D. 2006 @ <u>2:20</u> 0'CLOCK <u>P</u> M.
(X)	LINDA MCDONALD, COUNTY CLERK CULBERSON COUNTY, TEXAS

File No. MF . 10 U2220 11

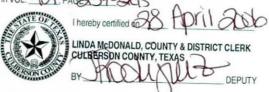
On a fas Uase a

Date Filed: 5.8-00

Jeny E. Patterson, Commissioner

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

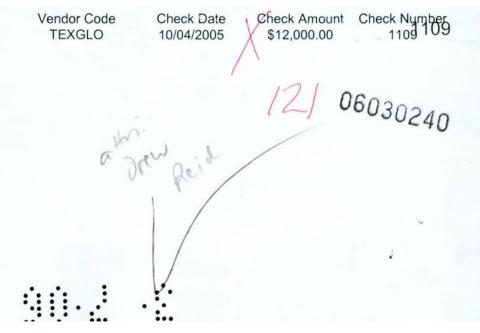
The above and foregoing is a full, true and correct photographic copy of the original record now in involved the same is filed/recorded in the Records of my office, found in VOL



). (k.)(k)

# THE SCREWBEAN L.P. To: Texas General Land Office 1700 Congress Ave., Suite 600 Austin, TX 78701-1436

Invoice # Invoice Amt
100405 12,000.00
Bonus Consideration for 320 ac. Lease
covering all depths in the W/2 of Sec. 12,
Blk 113, PSL Survey, A-2085, Culberson
County, TX



# Slate Land & Right-of-Way Services

INCLUDING LAND ADMINISTRATIVE ASSISTANCE P. O. Box 550 BIG SPRING, TEXAS 79721-0550 (432) 267-3601

February 21, 2006



Texas General Land Office Mineral Leasing Division Attn: Drew Reid 1700 Congress Ave., Suite 640 Austin, Texas 78701-1495

RE: Copies of Sixteen (16) Oil and Gas Leases to Relinquishment Act (Mineral Classified) Lands covering the West One-half (W/2) of Section 12, Block 113, Public School Land Survey, Culberson County, Texas, containing 320 acres, more or less.

Dear Mr. Reid:

Please find enclosed the above referenced Leases for your review and approval. I have also included check #6123 in the amount of \$200.00 as payment to cover processing fees as required by the State.

The above sixteen leases include two legal descriptions due to being undivided interest leases and are described by the following:

- The S/2 of the SW/4 of Section 12, Block 113, Public School Land Survey, Culberson County, Texas, containing 80.0 acres, more or less.
- The NW/4 and the N/2 of the SW/4 of Section 12, Block 113, Public School Land Survey, Culberson County, Texas, containing 240.0 acres, more or less.

The total bonus consideration paid represents \$75.00 per acre. The primary term on each of the sixteen leases is for three (3) years, and the delay rentals are \$1 per acre as specified in each lease. The Leases also provide for a one-fifth (1/5) royalty.

If approved, the bonus consideration that will be payable to the State will be in the amount of \$12,000.00. Payments totaling \$12,000 have already been paid to the surface owners for acting as agents and for negotiating the leases on behalf of the State. The following is a list of owners accounting for 100% of the surface estate:

- 1. Kenneth R. Johnson, tract 2; surface interest owned 1/3.
- Amy Susan Kerbow, tract 2; surface interest owned 1/6.
- Landrum L. Medlock, II, tract 2; surface interest owned 1/6.
- 4. Leslie J. Parish, tract 2; surface interest owned 1/9.
- 5. James Gilbert Parish, tract 2; surface interest owned 1/9.
- 6. John Dennis Parish, tract 2; surface interest owned 1/9.



- 7. Frankie R. West-Davis, tract 1; surface interest owned 1/6.
- 8. Mattie Russell Pearson, tract 1; surface interest owned 1/6.
- 9. Maurice Russell Wilson, tract 1; surface interest owned 1/6.
- 10. Kay Reichenau Ponder, tract 1; surface interest owned 1/12.
- 11. Geana R. Pfeiffer, tract 1; surface interest owned 1/12.
- 12. Carl D. Russell, tract 1; surface interest owned 1/12.
- 13. Dr. John R. Russell, Jr., tract 1; surface interest owned 1/12.
- 14. Ernestine Pool Life Estate, tract 1; surface interest owned 1/18.
- 15. Made E. Hambrick, tract 1; surface interest owned 1/18.
- 16. Johan Russell Turpin, tract 1; surface interest owned 1/18.

Once again, thank you for all of your help. If you have any questions, please do not hesitate to call me toll-free at 1-877-589-8858. Please return any correspondence to my attention at Slate Land and Right of Way Services, P.O. Box 550, Big Spring, TX 79721-0550.

Sincerely,

Augustine Hernandez

Cuzustin Henordey

Landman

AH/dr

Encl.



File No. MF. 10 6270

Termlowners letter inter Date Filed: 5.800

Jerry E. Patterson, Commissioner

# Slate Land & Right-of-Way Services

INCLUDING LAND ADMINISTRATIVE ASSISTANCE P. O. Box 550 BIG SPRING, TEXAS 79721-0550 (432) 267-3601

March 3, 2006

COPY

Texas General Land Office Mineral Leasing Division Attn: Drew Reid 1700 Congress Ave., Suite 640 Austin, Texas 78701-1495

RE: Copies of seven (7) Oil and Gas Leases to Relinquishment Act (Mineral Classified) Lands covering all of Section 22, Block 57, T&P Ry. Co. Survey, Twp. 2, Abstract No. 2026, Reeves County, Texas, containing 644.62 acres, more or less, Save and Except a 1.0 acre tract of land described by metes and bounds in Warranty Deed dated June 30, 1961 from Herbert H. Sandel, et al, as grantor to AT&T, as grantee, recorded in Volume 208, Page 219 of the Deed Records of Reeves County, Texas, containing 643.62 acres, more or less.

#### Dear Mr. Reid:

Please find enclosed the above referenced Leases for your review and approval. I have also included check #2735 in the amount of \$32,306.00 as payment for the State's share of the bonus consideration and to cover processing fees as required by the State. Check #1109 in the amount of \$12,000.00 is payment for the State's share of the bonus to the W/2 of Section 12, Block 113, PSL Survey, Abstract 2085, Culberson County, Texas that were previously forwarded to you for approval on February 21, 2006.

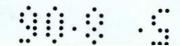
The above seven leases are split up into three groups of leases due to being undivided interest leases, and they all have the same legal description.

The total bonus consideration paid for Section 22 represents \$100.00 per acre. The primary term on each of the leases is for three (3) years, and the delay rentals are \$10 per acre for one of the group of lessors and \$1 per acre for the other group as specified in each lease. The Leases also provide for a one-fifth (1/5) royalty.

The total bonus consideration paid for Section 12 represents \$75.00 per acre, the other terms and list of the surface owners are on the previous approval letter that I had sent with the leases dated February 21, 2006.

The following is a list of owners accounting for 100% of the surface estate to Section 22:

- 1. Jack E. Blake; surface interest; surface interest owned 1/20.
- 2. Mary Perry Anderson; surface interest owned 1/5.



- 3. Jack E. Blake, Jr.; surface interest owned 1/80.
- 4. Bruce W. Blake; surface interest owned 1/80.
- Carolyn Blake Johnston; surface interest owned 1/80
- 6. Mark D. Blake; surface interest owned 1/80.
- 7. Jane Ann Sigler and husband, Jimmie B. Sigler; surface interest owned 1/3.
- 8. CBAT Corp.; surface interest owned 1/6.
- 9. Ann Appling Bradford; surface interest owned 1/5.

After I receive the two leases that are client had to execute from recording I will forward certified copies of the recorded instruments to replace these leases.

Thank you for all of your help. If you have any questions, please do not hesitate to call me toll-free at 1-877-589-8858. Please return any correspondence to my attention at Slate Land and Right of Way Services, P.O. Box 550, Big Spring, TX 79721-0550.

Sincerely,

Augustine Hernandez

Landman

AH/dr

Encl.



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File NO. MF. (BU270 13

WHILE Date Filed: 5.8.

Jerry E. Patterson, Commissioner By CHM

Market Street, Street,

# Slate Land & Right-of-Way Services

P.O. BOX 550 BIG SPRING, TX 79721-0550 (432) 267-3601

May 26, 2006

Texas General Land Office Mineral Leasing Division Attn: Linda Anderson 1700 N. Congress Ave., Suite 640 Austin, TX 78701-1495 Sent via UPS #1Z F70 964 22 1001 7449

RE: Mineral File Numbers 106269 and 106270.

Dear Linda:

Please find enclosed check #16490 totaling \$160.00 made payable to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATE OF TEXAS, AT AUSTIN, TEXAS, as payment for delay rentals to Mineral Classified Lands that are due on or before June 17, 2006 covering the S/2 of the SW/4 of Section 12, Block 113, Public School Land Survey, Culberson County, Texas, containing 80 acres, more or less and as payment for delay rentals that are due on or before July 17, 2006 covering the NW/4 and the N/2 of the SW/4 of Section 12, Block 113, Public School Land Survey, Culberson County, Texas, containing 240 acres, more or less:

A STO THE S/2 OF THE SW/4 OF SEC. 12, BLK. 113, PSL SURVEY, CULBERSON CO., TX, CONTAINING 80 ACRES, MORE OR LESS.

TUKE	OR LESS.				
	SURFACE OWNER	LESSEE	ANNIVERSARY DATES OF LEASES	MINERAL FILE NUMBER	AMOUNT TO STATE
1.	Frankie R. West-Davis NET ACRES-13.3333	Craig & Stephen Blair	June 17, 2006	106270	\$6.67
2.	Mattie Russell Pearson NET ACRES-13.3333	Craig & Stephen Blair	June 17, 2006	106270	\$6.67
3.	Maurice Russell Wilson NET ACRES-13.333	Craig & Stephen Blair	June 17, 2006	106270	\$6.67
4.	Kay Reichenau Ponder NET ACRES-6.6667	Craig & Stephen Blair	June 17, 2006	106270	\$3.33
5.	Geana R. Pfeiffer NET ACRES-6.6667	Craig & Stephen Blair	June 17, 2006	106270	\$3.33
6.	Carl D. Russell NET ACRES-6.6667	Craig & Stephen Blair	June 17, 2006	106270	\$3.33
7.	Dr. John R. Russell Jr. NET ACRES-6.6667	Craig & Stephen Blair	June 17, 2006	106270	\$3.33
8.	Ernestine Pool Life Est. NET ACRES-4.4444	Craig & Stephen Blair	June 17, 2006	106270	\$2.22
9.	Mada E. Hambrick NET ACRES-4.4444	Craig & Stephen Blair	June 17, 2006	106270	\$2.22
10.	Johan Russell Turpin NET ACRES-4.4444	Craig & Stephen Blair	June 17, 2006	106270	\$2.22

# AS TO THE NW/4 & N/2 OF THE SW/4 OF SEC. 12, BLK. 113, PSL SURVEY, CULBERSON CO., TX, CONTAINING 240 ACRES, MORE OR LESS.

SURFACE OWNER	<u>LESSEE</u>	ANNIVERSARY DATES OF LEASES	MINERAL FILE NUMBER	AMOUNT TO STATE
11. Kenneth R. Johnson NET ACRES-80.0	Craig & Stephen Blair	July 17, 2006	106269	\$40.00
12. Amy Susan Kerbow NET ACRES-40.0	Craig & Stephen Blair	July 17, 2006	106269	\$20.00
13. Landrum L. Medlock, III NET ACRES-40.0	Craig & Stephen Blair	July 17, 2006	106269	\$20.00
14. Leslie J. Parish NET ACRES-26.6667	Craig L. Blair	July 17, 2006	106269	\$13.33
15. James Gilbert Parish NET ACRES-26.6667	Craig & Stephen Blair	July 17, 2006	106269	\$13.33
16. John Dennis Parish NET ACRES-26.6667	Craig & Stephen Blair	July 17, 2006	106269	\$13.33
		TOTAL DELAY RENTAL		\$160.00

If you have any questions, please do not hesitate to our office toll-free at 1-877-589-8858.

Sincerely,

Augustine Hernandez

Landman

AH/dr

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16490 SLATE LAND SERVICES P.O. BOX 550 PH. 432-267-3601 05-26 2006 BIG SPRING, TX 79721-0550 General hard Office Security teatures are included. Decare on their DOLLARS THE STATE NATIONAL BANK 52C Q. BIK. 113, 75L Charles Co. 17. Mas Ke FOR Mineral File #\$ 106269+106270 10 164901 Attn: Linda anderson 121 06043072 **SLATE LAND SERVICES** 16480 P.O. BOX 550 PH. 432-267-3601 05-26 BIG SPRING, TX 79721-0550 PAY TO THE General hard Office Security leatures are included. Oesalts on back. THE STATE NATIONAL BANK Min. File #106056 BIG SPRING, TEXAS 79721
BTA Prospect Delay furtals Section 22, mayE FOR BILL . ST. Twp. 2, THPky . Co. Survey 643.62 acres "O16480"

File No. Mt. 100270

Date Filed: 5.30.000

Jerry E. Patterson, Commissioner

By EWN

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# GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

August 21, 2007

Slate Land & Right of Way Services P.O. Box 550 Big Spring, Texas 79721-0550

Re:

Relinquishment Act Lease MF-106270

80.0 acres out of Section 12, Blk. 113, PSL Survey,

Culberson County, Texas

Dear Mr. Arrington:

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-106270. Please refer to this number when making payments to the State and in all future correspondence concerning the lease. Failure to include the mineral file number may delay processing of any payments towards the lease.

Your remittance of \$8,124.95, has been applied as the state's portion of the cash bonus \$7,999.95, along with a processing and filing fee in the amount of \$125.00. Please let me know if you should have any questions.

Dren Revel by ME-

Drew Reid

Minerals Leasing

**Energy Resources** 

(512) 475-1534

MS/DR

(76) File No. MF 106270

Date Filed: 8-21-07
Jerry E. Patterson, Commissioner
By Shar