

MF107627

A-LEASE 12-15-2006

~~B-LEASE 9-28-2006~~

B-LEASE
TERMINATED

Date 9-28-09

Accounting

Legal C2B

Explanation

Construction

State Lease Control

MF107627 07-130614

Basefile

101449

County

REEVES

Survey

PUBLIC SCHOOL LAND

Block

59

Block Name

Township

00

Section/Tract

9

Land Part

Part Description

Acres

640

Depth Below

Depth Above

Depth Other

0

0

Role

LESSEE

Name

PINNACLE LAND SERVICES, INC.

Lessee Date

12/15/2006

Primary Term

5 yrs

Bonus (\$)

\$0.00

Rental (\$)

\$0.00

Gas Decimal

0.125

Oil Decimal

0.125

Leasing: DC

Analyst: MS

Maps:

GIS: JP

"B" LEASE
RELEASE FILED

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

CONTENTS OF FILE NO. MF-107627

1. Fee Payment 10/9/06
2. BAH Review 10/10/06
3. Letter 12/12/06
4. Bonus Payment 12/15/06
5. Letter bonus, + fee 3/1/07
6. (2) Leases 3/1/07
7. No letter 3/22/07
- ASSIGNMENT FILED IN MF-10699/178-#8. 11/20/07
8. Ltr from Chesapeake 10-5-09
9. Release Letter 1-28-10
10. Release 1.28.10
11. No Release letter 1.28.10
12. Email to Chesapeake 12-14-09
- Scanned 1W 1.7.2015

07-130614 All

07006846

121

**PARKS LAND MANAGEMENT
RESEARCH & LEASE ACQUISITIONS**

11306 N CR 31/ PO BOX 711
BIG SPRING, TX 79720
432-399-4659/ 432-264-8024

10031

88-2258/1113

PAY TO THE
ORDER OF

Texas General Land Office

One hundred & no/100

10-2 20 06

~~X~~ \$100

00

DOLLARS

 Security features
are included.
Details on back.

AMERICAN STATE BANK

FOR

COATES ENERGY LSE

Mary J. Parks

MP

⑈010031⑈

File No. MF707627
For Payment
Date Filed: 10/19/06
Jerry E. Patterson, Commissioner
By: [Signature]

RAL REVIEW SHEET

Transaction # 5454

Geologist: R. Widmayer

Lessor: Coates Energy Trust & Coates Energy Interests, Ltd.

Lease Date: 9/28/2006

Ut ☐

Lessee: Pinnacle Land Services, Inc.

Acres: 640

LEASE DESCRIPTION

County	PIN#	Base File No	Part	Sec.	Block	Twp	Survey	Abst#
REEVES	640.0 Ac. 07-130614	101449	ALL	9	59	00	PUBLIC SCHOOL LAND	2952

TERMS OFFERED

Primary Term: 5 years

Bonus/Acre: \$325.00

Rental/Acre: \$1.00

Royalty: 1/4

TERMS RECOMMENDED

Primary Term: 5 years

Bonus/Acre: \$325.00

Rental/Acre: \$1.00

Royalty: 1/4

COMPARISONS

MF #	Lessee	Date	Term	Bonus/Ac.	Rental/Ac.	Royalty	Distance
							Last Lease
Pending	Pinnacle Land Services	8-30-06	5 yrs	\$325.00	\$1.00	1/4	Adjacent SW

Comments: 4th year rental will be \$325.00 per acre and will pay up the 5th year.

Approved: PAC 10-10-06

RELINQUISHMENT ACT LEASE APPLICATION

Texas General Land Office

Jerry Patterson, Commissioner

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

DATE: 10-Oct-06

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

Applicant:	Pinnacle Land Services, Inc.	County:	REEVES
Prim. Term:	5 years	Bonus/Acre	\$325.00
Royalty:	1/4	Rental/Acre	\$1.00

Consideration

Recommended: PAB Date: 10-10-06

Not Recommended: _____

Comments: 4th year rental will be \$325.00 per acre and will pay up the 5th year.

☒ Lease Form

Recommended: RH Date: 10/13/06

Not Recommended: _____

Comments:

Louis Renaud, Deputy Commissioner Date: 11/8/06

Recommended: CCR

Not Recommended: _____

Bill Warnick, General Counsel Date: 11/9/06

Recommended: WW

Not Recommended: _____

Larry Laine, Chief Clerk Date: 11/10/06

Approved: DL

Not Approved: _____

Jerry Patterson, Commissioner Date: 10 Nov 06

Approved: JP

Not Approved: _____

File No. MF 107627BH ReviewDate Filed: 10/10/06

Jerry E. Patterson, Commissioner

By JP

Parks Land Management

RESEARCH & ACQUISITION SPECIALISTS

Doyle W. Parks, Owner

Office: 432-399-4659, Toll Free: 866-764-8371, Cell: 432-264-8024, Fax: 432-399-4659

11306 North CR 31

Big Spring, TX 79721

December 12, 2006

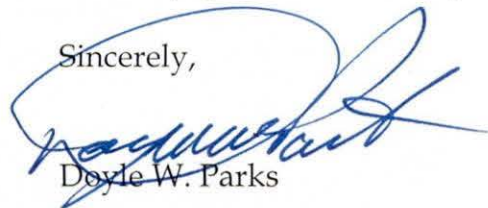
Texas General Land Office
Attention: Drew Reid
1700 N. Congress Avenue, Suite 600
Austin, Texas 78701

*Have she then
to. here - find
m. H*

Dear Mr. Reid;

I am enclosing certified copies of two GLO lease forms, covering all of Section 40, A-2634, N/2 Section 45, A-2633, Block 56, and Section 9, A-2952, Block 59, PSL Survey, Reeves County, Texas. These leases cover a 1/6 interest in this acreage, the ownership of which belongs to Coates Energy Trust & Coates Energy Interests, LTD. I am also enclosing two lease bonus checks, one for Section 9 in the amount of \$17,387.50 and one for Sections 40 & 45 in the amount of \$26,000.00. The remaining 5/6 interest belongs to the Roberta Regan Trust which was leased and sent to you for filing earlier. Please do not hesitate to call if you have any questions. Thank you for your time and help.

Sincerely,



Doyle W. Parks

Att:

3.
File No. MF107627
Letter
Date Filed: 12/12/06
Jerry E. Patterson, Commissioner
By [Signature]

07017139

X 17,387.50

06 DEC 09 PM 2:09

RECEIVED

121

PINNACLE LAND SERVICES, INC. ✓
P.O. BOX 991 830-569-5436
PLEASANTON, TX 78064

8128

37-65/1119 1120
4230795734

DATE 11-21-06

PAY TO THE
ORDER OF

State of Texas

\$ 17,387.50

Seventeen thousand three hundred eighty seven & 50/100

DOLLARS



Wells Fargo Bank, N.A.
Texas
wellsfargo.com

FOR Lease Bonus, Coates Energy Trust O&L
All of Sec. 9, Blk 59, PSL, A-2952, Reeves Co.

Cindy L. Mercer

⑈0000008128⑈

90.57.01

4.

File No. MF107627

Bonus Segment

Date Filed: 12/15/06

Jerry E. Patterson, Commissioner

By [Signature]



151008



Parks Land Management

RESEARCH & ACQUISITION SPECIALISTS

Doyle W. Parks, Owner

Office: 432-399-4659, Toll Free: 866-764-8371, Cell: 432-264-8024, Fax: 432-399-4203

11306 North CR 31

Big Spring, TX 79721

February 23, 2007

Texas General Land Office
Attention: Drew Reid
1700 N. Congress Avenue, Suite 600
Austin, Texas 78701

Dear Mr. Reid;

I have enclosed a filing fee check for \$25.00 and the State's portion of the lease bonus for this Mineral Classified lease for \$86,666.67. This is the ROBERTA REGAN TESTAMENTARY TRUST LEASE on SECTION 9, A-2952, BLOCK 59 PSL SURVEY, dated December 15, 2006, Reeves County, Texas.

I am also including a \$100.00 check for the approval of the leases on the attached ownership area. We have made the same offer of \$325.00 per acre for 5 years with a \$325.00 option for years 4 and 5 with a 25% royalty as we have been offering to all the surface owners that were not already leased.

Sincerely,



Mary Parks

att:
Dew Red

07028987

PINNACLE LAND SERVICES, INC.
P.O. BOX 991 830-569-5436
PLEASANTON, TX 78064

8481

37-65/1119 1120
4230795734

DATE Feb. 20, 2007

PAY TO THE
ORDER OF

State of Texas

\$ 86,666.⁶⁷

Eighty six thousand six hundred sixty six & 67/100

DOLLARS



Security
Features
Details on
Back

WELLS
FARGO

Wells Fargo Bank, N.A.
Texas
wellsfargo.com

FOR Roberta M. Regan Testamentary Trust, Reeves Co.
dated 12-15-06 - All Acq, A-2952, blk 59, PSL

Cindy G. Mercer

MP

⑈0000000848⑈

121

PARKS LAND MANAGEMENT
RESEARCH & LEASE ACQUISITIONS

11306 N CR 31/ PO BOX 711
BIG SPRING, TX 79720
432-399-4659/ 432-264-8024

109080

88-2258/1113

2-23 2007

PAY TO THE
ORDER OF

Texas General Land Office

\$ 25.

Twenty-five & no/100

DOLLARS



Security
Features
Details on
Back

AMERICAN STATE BANK

FOR Roberta Regan lease
dated 12-15-07

Mary J. Parks

MP

⑈010908⑈

8808SOTO

5

File No. NF 107627
Letter bonus, & fee
Date Filed: 3/1/07
Jerry E. Patterson, Commissioner
By [Signature]

8808SOTO

8808SOTO

2. 7. 0.

FILE# 613

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

Read up 2nd + 3rd

The State of Texas



Austin, Texas

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 15th day of December, 2006, between the State of Texas, acting

by and through its agent, ROBERTA M. REGAN TESTAMENTARY TRUST, BANK OF AMERICA, N.A. - TRUSTEE

of P.O. BOX 830308, DALLAS, TEXAS 75283

(Give Permanent Address)

said agent herein referred to as the owner of the soil (whether one or more), and PINNACLE LAND SERVICES, INC.

of P.O. BOX 991, PLEASANTON, TEXAS 78064

hereinafter called Lessee.

(Give Permanent Address)

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

All of Section 9, A-2952, Block 59, PSL Survey.

containing 640.00 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: EIGHTY SIX THOUSAND SIX HUNDRED SIXTY SIX DOLLARS AND 67/100

Dollars (\$86,666.67)

To the owner of the soil: EIGHTY SIX THOUSAND SIX HUNDRED SIXTY SIX DOLLARS AND 66/100

Dollars (\$86,666.66)

Total bonus consideration: ONE HUNDRED SEVENTY THREE THOUSAND THREE HUNDRED THIRTY THREE DOLLARS AND 33/100

Dollars (\$173,333.33)

The total bonus consideration paid represents a bonus of THREE HUNDRED TWENTY FIVE

Dollars (\$325.00) per acre, on 533.33334 net acres.

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



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

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

Bank, at PAY DIRECTLY TO OWNER OF THE SOIL, 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: SEE ADDENDUM PARAGRAPH #41

Dollars (\$ _____)

To the State of Texas: SEE ADDENDUM PARAGRAPH #41

Dollars (\$ _____)

Total Delay Rental: _____

Dollars (\$ _____)

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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



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

(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.



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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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



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

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

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

ADDENDUM PROVISIONS - #40 thru #52

40. CONTINUOUS DEVELOPMENT. After the expiration of the primary term, and notwithstanding paragraphs 16 (A) and 16 (B) above and any other provision in this lease to the contrary, no portion of this lease will terminate if Lessee continues to drill a well (or wells) anywhere on the leased premises with no more than 180 days between the release of the drilling rig on one well and the commencement of actual drilling operations on a subsequent well (hereinafter referred to as "continuous drilling"). Upon the cessation of continuous drilling this lease shall terminate in accordance with the other relevant provisions herein. If, however, Lessee has filed with the Texas Railroad Commission, no later than 60 days prior to the expiration of the said 180-day period, all requisite applications to drill the next well in the continuous drilling program, and Lessee is unable to proceed with drilling pending authorization by the Texas Railroad Commission, then Lessee shall be allowed such additional time as may be reasonably necessary to obtain the authorization and thereafter spud the subsequent well.

41. DELAY RENTALS. As stipulated in Paragraph #3 of this lease, the rentals for this lease have been PAID-UP for the second (2nd) and third (3rd) years of the primary term hereof. Lessee or its assigns shall have the right to keep this lease in force and effect for the fourth (4th) and fifth (5th) years of the primary term provided for herein by tendering a payment of three hundred twenty five dollars (\$325.00) per net acre prior to December 15, 2009, as to any acreage covered hereby and not otherwise being maintained by any other provision herein at such time.

42. Upon the cessation of drilling at each well location, the abandonment of said lease or surrender thereof, Lessee, its successors or assigns, shall then level all drilling pits and other excavations and shall repair all damage done, or cause to be done, to buildings, fences, roads, culverts, turf, water wells and/or other improvements and to restore same to their original condition, as reasonably practical, within 90 days after the cessation of activity. No drilling mud shall be spread on surface lands of Lessor without express written consent of Lessor.

43. Lessee's right to use water from the leased premises shall not include the right to use fresh water from any fresh water sands or strata underlying the leased premises for any secondary recovery operations that may be conducted on the leased premises. Lessee shall have the right to use fresh water from Lessor's existing wells or surface impoundments only with the expressed permission of the Lessor.

44. All operations of Lessee shall be conducted so as to minimize the amount of surface land used or damaged by Lessee and Lessee agrees to construct not more than one road to each location on the leased premises and to confine all travel incident to the drilling and production of such well to the single road. All roads constructed by Lessee shall be of good quality and suitable for all-weather use. The routes for all roads shall be mutually agreed upon between Lessor and Lessee before the commencement of any road construction. Lessee agrees to maintain all roads used by Lessee on the leased premises in good condition and repair during the period of Lessee's operations on the lease premises. The surface owner shall have the right to use all roads on the leased premises.

45. It is understood and agreed that this lease does not cover or include any right or privilege of hunting with firearms and/or with dogs or otherwise on the leased premises or fishing on the leased premises; all such hunting and fishing rights being expressly reserved, and Lessee agrees that none of the Lessee's officers, agents, employees or representatives will bring any dogs and/or firearms upon the leased premises, and that any one so doing shall be trespassers and subject to prosecution as such.

46. Prior to erecting new storage tanks, pipelines compressor stations or other usual facilities required by Lessee for producing oil and gas and operating this lease, Lessee shall advise Lessor of Lessee's intention. Lessor and Lessee will then mutually select a site or sites for locating such equipment and pipelines taking into consideration the ranching and farming operation of Lessor and Lessee's needs in conducting its operations under the terms of this lease in a reasonable manner.

47. Lessee prior to the construction of any new road or the cutting, altering and removal of any existing fence on the leased premises, or the cutting or removal of any tree on the leased premises shall notify Lessor of such intention and shall be governed by the Lessor's wishes. Lessee shall dispose of all brush, trees, trash and debris away from the property. Under no circumstances will trash, garbage or debris be buried or dumped on the property or adjacent lands of Lessor. Brush and trees may be buried or burned on the property only with written permission from owner or his representative.

48. Lessee agrees to protect, defend, indemnify and hold harmless Lessor, the owners of the surface of the Leased Premises, and their respective agents, employees and tenants, from and against all liabilities, losses, expenses, claims, demands, and causes of action of every kind and character, whether for death or personal injury to persons (including agents and employees of Lessee and Lessee's subcontractors) for loss or damage to property, in any way and at any time arising out of, incident to, or in connection with this Lease, operations conducted by Lessee on the Leased Premises, or breach of the terms hereof.

49. Each drill site location shall be constructed so as to result in the least interference with surface usage as reasonably practicable under the circumstances. All pits shall be constructed and lined so as not to pollute the adjoining land at the prior written request of Lessor. Lessee shall take all reasonable precautions necessary to prevent land, air and water pollution, including pollution to all underground fresh water zones. Lessee shall collect all trash which accumulates in connection with his operations and remove such trash from the Leased Premises. Lessee shall take all reasonable precautions to prevent blowouts from occurring on the Leased Premises. Lessee shall utilize only such area around each producing well as is reasonably necessary for such purposes, and Lessee shall restore the remainder of such drill site to its original condition as nearly as practical within a reasonable time after the completion of operations on each drill site where no producing well is located. Lessee shall clear the location, remove all equipment placed upon the drill site by the Lessee, clean out and back fill all pits, and return the surface of the drill site to its original condition as nearly as practical. Lessee shall construct and maintain gates at all places where any roads used by Lessee cross through fences on the Leased Premises, and Lessee shall keep such gates locked when not actually passing through such gates. Upon termination of Lessee's operations on the Leased Premises, Lessee shall restore the surface of all lands utilized by Lessee, and not theretofore restored, to their original condition as nearly as practical. Within six (6) months after the termination of this



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

lease, Lessee shall remove any and all property placed by Lessee on the Leased Premises or Lessor shall cause same to be removed at Lessee's expense.

50. Lessee is to comply with all Federal and State regulations.

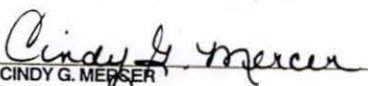
51. Lessee shall pay market value, on the day of the event, for any and all livestock lost as a direct result of Lessee's operations under this lease.

52. All pipelines are to be buried 36 inches below the ground, which will be from the top of the pipe to the surface of the ground. Only crude oil and natural gas (no other derivatives) will be allowed to be transported through any pipelines located on the property.

IN WITNESS WHEREOF, this instrument is executed on the date first above written.

LESSEE

PINNACLE LAND SERVICES, INC.


BY: CINDY G. MESSER

Title: PRESIDENT

Date: 2.7.07

STATE OF TEXAS


BANK OF AMERICA, N.A. - TRUSTEE

ROBERTA M. REGAN
TESTAMENTARY TRUST

BY: H. GREG HOLCOMB

SENIOR VICE-PRESIDENT

Individually and as agent for the State of

Texas

Date: 12/15/06



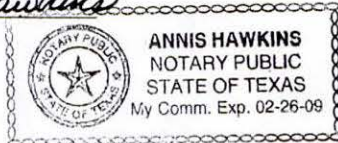
True and Correct
copy of
Original filed in
Reeves County
Clerks Office

STATE OF TEXAS)
COUNTY OF DALLAS)

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

Given under my hand and seal of office this the 18TH day of December, 2006

Annis Hawkins
Notary Public in and for
The State of TEXAS

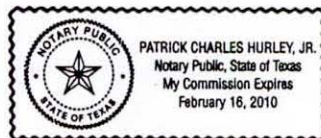


STATE OF TEXAS)
COUNTY OF ATASCOSA)

BEFORE ME, the undersigned authority, on this day personally appeared Cindy G. Mercer, known to me to be the person whose name is subscribed to the foregoing instruments as President of Pinnacle Land Services, Inc., and acknowledged to me that she executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the 17th day of ~~December, 2006~~ February, 2007 ^{CG}

Patrick Charles Hurley, Jr.
Notary Public in and for
The State of TEXAS



FILE NO. 613

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

FILED FOR RECORD ON THE 12TH DAY OF FEBRUARY A.D. 2007 10:45 A.M.

DULY RECORDED ON THE 19TH DAY OF FEBRUARY A.D. 2007 8:00 A.M.

BY: *Janie Flores*, DEPUTY

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS



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

File No. 107627 (6)

County _____

Lease A

Date Filed: 3.1.2007

George P. Bush, Commissioner

By _____

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

The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL. 756, PAGE 178, THRU 187 **OFFICIAL PUBLIC RECORDS**

I hereby certified on 02/20/2007



DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

BY [Signature] DEPUTY

The State of Texas



Austin, Texas

Paid up 2nd + 3rd
OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 28th day of September, 2006, between the State of Texas, acting by and through its agent, COATES ENERGY TRUST and COATES ENERGY INTERESTS, LTD., P.O. BOX 90569, SAN ANTONIO, TEXAS 78209
(Give Permanent Address)
said agent herein referred to as the owner of the soil (whether one or more), and PINNACLE LAND SERVICES, INC.
of P.O. BOX 991, PLEASANTON, TEXAS 78064 hereinafter called Lessee.
(Give Permanent Address)

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

All of Section 9, A-2952, Block 59, PSL Survey.

containing 640.00 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: SEVENTEEN THOUSAND THREE HUNDRED EIGHTY SEVEN DOLLARS AND 50/100
Dollars (\$17,387.50)

To the owner of the soil: SEVENTEEN THOUSAND THREE HUNDRED EIGHTY SEVEN DOLLARS AND 50/100
Dollars (\$17,387.50)

Total bonus consideration: THIRTY FOUR THOUSAND SEVEN HUNDRED SEVENTY FIVE DOLLARS AND 00/100
Dollars (\$34,775.00)

The total bonus consideration paid represents a bonus of THREE HUNDRED TWENTY FIVE
Dollars (\$325.00) per acre, on 107.00 net acres.

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



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

90-57-01

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

Bank, at PAY DIRECTLY TO OWNER OF THE SOIL, 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: SEE ADDENDUM PARAGRAPH #41

Dollars (\$ _____)

To the State of Texas: SEE ADDENDUM PARAGRAPH #41

Dollars (\$ _____)

Total Delay Rental: _____

Dollars (\$ _____)

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

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

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

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

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

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

5. MINIMUM ROYALTY. During any year after the expiration of the primary term of this lease, if this lease is maintained by production, the royalties paid under this lease in no event shall be less than an amount equal to the total annual delay rental herein provided; otherwise, there shall be due and payable on or before the last day of the month succeeding the anniversary date of this lease a sum equal to the total annual delay 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.

99.57.01



Original filed in
Reeves County
Clerk's Office

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

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

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

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

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

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

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

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

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

44-1-31



Original filed in
Reeves County
Clerks Office

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

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

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

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

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

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

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



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

00:51:31

(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.



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

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

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

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

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

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

28. RELEASES. Under the conditions contained in this paragraph and Paragraph 29, Lessee may at any time execute and deliver to the owner of the soil and place of record a release or releases covering any portion or portions of the leased premises, and thereby surrender this lease as to such portion or portions, and be relieved of all subsequent obligations as to acreage surrendered. If any part of this lease is property 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

30-51-21



Original filed in
Reeves County
Clerk's Office

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

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

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

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

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

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

90.51.21



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

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

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

ADDENDUM PROVISIONS - #40 thru #52

40. CONTINUOUS DEVELOPMENT. After the expiration of the primary term, and notwithstanding paragraphs 16 (A) and 16 (B) above and any other provision in this lease to the contrary, no portion of this lease will terminate if Lessee continues to drill a well (or wells) anywhere on the leased premises with no more than 180 days between the release of the drilling rig on one well and the commencement of actual drilling operations on a subsequent well (hereinafter referred to as "continuous drilling"). Upon the cessation of continuous drilling this lease shall terminate in accordance with the other relevant provisions herein. If, however, Lessee has filed with the Texas Railroad Commission, no later than 60 days prior to the expiration of the said 180-day period, all requisite applications to drill the next well in the continuous drilling program, and Lessee is unable to proceed with drilling pending authorization by the Texas Railroad Commission, then Lessee shall be allowed such additional time as may be reasonably necessary to obtain the authorization and thereafter spud the subsequent well.

41. DELAY RENTALS. As stipulated in Paragraph #3 of this lease, the rentals for this lease have been PAID-UP for the second (2nd) and third (3rd) years of the primary term hereof. Lessee or its assigns shall have the right to keep this lease in force and effect for the fourth (4th) and fifth (5th) years of the primary term provided for herein by tendering a payment of three hundred twenty five dollars (\$325.00) per net acre prior to September 28, 2009, as to any acreage covered hereby and not otherwise being maintained by any other provision herein at such time.

42. Upon the cessation of drilling at each well location, the abandonment of said lease or surrender thereof, Lessee, its successors or assigns, shall then level all drilling pits and other excavations and shall repair all damage done, or cause to be done, to buildings, fences, roads, culverts, turf, water wells and/or other improvements and to restore same to their original condition, as reasonably practical, within 90 days after the cessation of activity. No drilling mud shall be spread on surface lands of Lessor without express written consent of Lessor.

43. Lessee's right to use water from the leased premises shall not include the right to use fresh water from any fresh water sands or strata underlying the leased premises for any secondary recovery operations that may be conducted on the leased premises. Lessee shall have the right to use fresh water from Lessor's existing wells or surface impoundments only with the expressed permission of the Lessor.

44. All operations of Lessee shall be conducted so as to minimize the amount of surface land used or damaged by Lessee and Lessee agrees to construct not more than one road to each location on the leased premises and to confine all travel incident to the drilling and production of such well to the single road. All roads constructed by Lessee shall be of good quality and suitable for all-weather use. The routes for all roads shall be mutually agreed upon between Lessor and Lessee before the commencement of any road construction. Lessee agrees to maintain all roads used by Lessee on the leased premises in good condition and repair during the period of Lessee's operations on the lease premises. The surface owner shall have the right to use all roads on the leased premises.

45. It is understood and agreed that this lease does not cover or include any right or privilege of hunting with firearms and/or with dogs or otherwise on the leased premises or fishing on the leased premises; all such hunting and fishing rights being expressly reserved, and Lessee agrees that none of the Lessee's officers, agents, employees or representatives will bring any dogs and/or firearms upon the leased premises, and that any one so doing shall be trespassers and subject to prosecution as such.

46. Prior to erecting new storage tanks, pipelines compressor stations or other usual facilities required by Lessee for producing oil and gas and operating this lease, Lessee shall advise Lessor of Lessee's intention. Lessor and Lessee will then mutually select a site or sites for locating such equipment and pipelines taking into consideration the ranching and farming operation of Lessor and Lessee's needs in conducting its operations under the terms of this lease in a reasonable manner.

47. Lessee prior to the construction of any new road or the cutting, altering and removal of any existing fence on the leased premises, or the cutting or removal of any tree on the leased premises shall notify Lessor of such intention and shall be governed by the Lessor's wishes. Lessee shall dispose of all brush, trees, trash and debris away from the property. Under no circumstances will trash, garbage or debris be buried or dumped on the property or adjacent lands of Lessor. Brush and trees may be buried or burned on the property only with written permission from owner or his representative.

48. Lessee agrees to protect, defend, indemnify and hold harmless Lessor, the owners of the surface of the Leased Premises, and their respective agents, employees and tenants, from and against all liabilities, losses, expenses, claims, demands, and causes of action of every kind and character, whether for death or personal injury to persons (including agents and employees of Lessee and Lessee's subcontractors) for loss or damage to property, in any way and at any time arising out of, incident to, or in connection with this Lease, operations conducted by Lessee on the Leased Premises, or breach of the terms hereof.

49. Each drill site location shall be constructed so as to result in the least interference with surface usage as reasonably practicable under the circumstances. All pits shall be constructed and lined so as not to pollute the adjoining land at the prior written request of Lessor. Lessee shall take all reasonable precautions necessary to prevent land, air and water pollution, including pollution to all underground fresh water zones. Lessee shall collect all trash which accumulates in connection with his operations and remove such trash from the Leased Premises. Lessee shall take all reasonable precautions to prevent blowouts from occurring on the Leased Premises. Lessee shall utilize only such area around each producing well as is reasonably necessary for such purposes, and Lessee shall restore the remainder of such drill site to its original condition as nearly as practical within a reasonable time after the completion of operations on each drill site where no producing well is located, Lessee shall clear the location, remove all equipment placed upon the drill site by the Lessee, clean out and back fill all pits, and return the surface of the drill site to its original condition as nearly as practical. Lessee shall construct and maintain gates at all places where any roads used by Lessee cross through fences on the Leased Premises, and Lessee shall keep such gates locked when not actually passing through such gates. Upon termination of Lessee's operations on the Leased Premises, Lessee shall restore the surface of all lands utilized by Lessee, and not theretofore restored, to their original condition as nearly as practical. Within six (6) months after the termination of this

90-51-27



copy of
Original filed in
Reeves County
Clerk's Office

* lease, Lessee shall remove any and all property placed by Lessee on the Leased Premises or Lessor shall cause same to be removed at Lessee's expense.

50. Lessee is to comply with all Federal and State regulations.

51. Lessee shall pay market value, on the day of the event, for any and all livestock lost as a direct result of Lessee's operations under this lease.

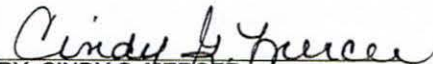
52. All pipelines are to be buried 36 inches below the ground, which will be from the top of the pipe to the surface of the ground. Only crude oil and natural gas (no other derivatives) will be allowed to be transported through any pipelines located on the property.

53. Lessee agrees to furnish to owner of the soil copies of all applications filed with the Texas Railroad Commission, including one copy of all well logs, daily drilling reports and completion reports. Such information is to be provided to the attention of: Coates Energy, attention Colette Van Horn, P.O. Box 90569, San Antonio, Texas 78209, phone 210-820-0113, ext 100, fax 210-820-0160, e-mail cvanhorn@coatesenergy.com. It is understood that the information to be provided shall not contain any interpreted data, well cuttings, or core. The owner of the soil agrees that it shall keep all information provided to it by Lessee in strict confidence during the term of this lease.

IN WITNESS WHEREOF, this instrument is executed on the date first above written.

LESSEE

PINNACLE LAND SERVICES, INC.

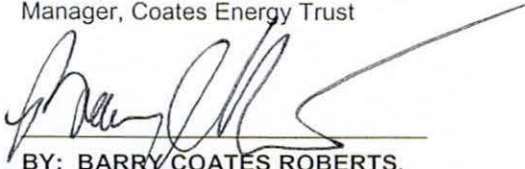

BY: CINDY G. MERCER

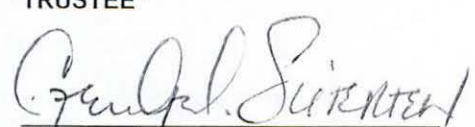
Title: PRESIDENT

Date: 12.4.06

STATE OF TEXAS

COATES ENERGY TRUST, on its own behalf, and COATES ENERGY INTERESTS, LTD., acting by and through its General Partner, Coates Energy, L.L.C., acting by and through its Manager, Coates Energy Trust


BY: BARRY COATES ROBERTS,
TRUSTEE


BY: GEORGE L. STIEREN, TRUSTEE

Individually and as agent for the State of Texas

Date: October 18, 2006



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

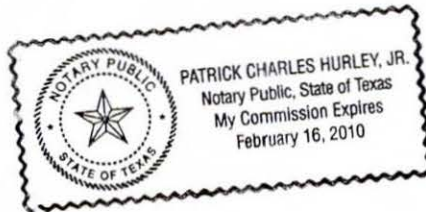
90.51.21

STATE OF TEXAS }

COUNTY OF ATASCOSA }

BEFORE ME, the undersigned authority, on this day personally appeared CINDY G. MERCER, known to me to be the person whose name is subscribed to the foregoing instruments as President of Pinnacle Land Services, Inc. and acknowledged to me that she executed the same for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the 4TH day of November, 2006.
DECEMBER



Patrick Charles Hurley, Jr.
Notary Public, State of Texas

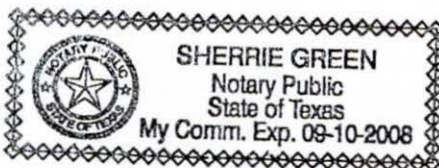
PATRICK CHARLES HURLEY, JR.
Typed or Printed Name of Notary

Commission Expires: 2-16-2010

STATE OF TEXAS }

COUNTY OF BEXAR }

This instrument was acknowledged before me on the 18th day of October, 2006, by BARRY COATES ROBERTS and GEORGE L. STIEREN, each as Trustee of Coates Energy Trust, on its own behalf and in its capacity as Manager of Coates Energy, L.L.C., a limited liability company, in its capacity as General Partner of Coates Energy Interests, Ltd., a limited partnership.



Sherrie Green
Notary Public, State of Texas

Sherrie Green
Typed or Printed Name of Notary

Commission Expires: 9-10-2008

TO CERTIFY WHICH, WHERE my hand and official seal is hereunto set, in presence of the undersigned, on this day of _____, 2006, at _____, Texas.

My commission expires on the _____ day of _____, 2006.

Recorded for record in my office this _____ day of _____, 2006.

I, _____, County Clerk of Bexar County, Texas, do hereby certify that the foregoing is a true and correct copy of the original instrument filed for record in my office.

RENEE D. FLORES, COUNTY CLERK
BEXAR COUNTY, TEXAS



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

00-57-37

6.
File No. 45707627
(2) Leases B
Date Filed: 3/1/07
Jerry E. Patterson Commissioner
By [Signature]

THE STATE OF TEXAS
COUNTY OF REEVES
I, Dianne O. Florez, Clerk of the County Court in and
for said County and State do hereby certify that the foregoing is a true and correct copy of
Oil & Gas Leases dated September 28, 2006
filed for record in my office this 1st day of December, 2006, at
11:09 AM, under Clerk's File No. 6290-06, to be recorded in the
Official Public
Records of Reeves County, Texas.
TO CERTIFY WHICH, Witness my hand and official seal at Pecos, Texas
this 1st day of December, 2006.
[Signature] Dianne O. Florez
By [Signature] Deputy, DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

15-12-06

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

March 22, 2007

Attn: Cindy G. Mercer, President
Pinnacle Land Services, Inc.
P.O. Box 991
Pleasanton, Texas 78064

Re: **Relinquishment Act Lease MF-107627**
640.0 acres out of Section 9, Blk. 59, A-2952
Reeves County, Texas

Dear Ms. Mercer:

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-107627**. **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 **\$104,179.17** has been applied as the state's portion of the cash bonus **\$104,054.17** along with a processing and filing fee in the amount of **\$125.00**. Please let me know if you should have any questions.

Sincerely,

Drew Reid by MS-

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

MS/DR

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

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

www.glo.state.tx.us

7.

File No. MF 107627

Geo letter

Date Filed: 3/22/07

Jerry E. Patterson, Commissioner

By [Signature]



October 5, 2009

Chesapeake Exploration Limited Partnership
P. O. Box 18496
Oklahoma City, Oklahoma 73154-0496

*updated as per 12
e/f
9-8-09*

RE: Oil and Gas Lease dated 9/28/2006 between the State of Texas, acting by and through its agent, Coates Energy Trust and Coates Energy Interests, Ltd., as Lessor, to Pinnacle Land Services, Inc., as Lessee, covering 960 acres of land, more or less, being all of Section 40, A-2634, Block 56, PSL Survey, and the N/2 of Section 45, A-2633, Block 56, PSL Survey, Reeves County, Texas, and recorded in Volume 751, Page 173, Official Public Records of Reeves County, Texas

mf 106989B

Oil and Gas Lease dated 9/28/2006 between the State of Texas, acting by and through its agent, Coates Energy Trust and Coates Energy Interests, Ltd., as Lessor, to Pinnacle Land Services, Inc., as Lessee, covering 640 acres of land, more or less, being all of Section 9, A-2952, Block 59, PSL Survey, Reeves County, Texas, and recorded in Volume 751, Page 183, Official Public Records of Reeves County, Texas

mf 107627B

Gentlemen:

The records of Coates Energy Trust and Coates Energy Interests, Ltd. ("Coates Energy") reflect that the above Oil and Gas Leases were assigned to Chesapeake Exploration Limited Partnership ("Chesapeake") on December 7, 2006. Our records also reflect that as per the provisions of Paragraph 41 of each of the leases, in order to maintain the leases in force for the fourth and fifth years of the primary term, a payment of \$325.00 per net acre prior to September 28, 2009 was to be made. We do not have any record of receiving such payment for the delay rentals under these two leases. Accordingly, it appears these two leases have terminated due to non-payment of the rentals due for the fourth and fifth years of the primary term.

COATES ENERGY
Quarry Heights Building
~~PO Box 90569~~
7373 Broadway, Suite 406
San Antonio, Texas 78209
Tel 210.820.0113 Fax 210.820.0160

Chesapeake Exploration Limited Partnership
October 5, 2009
Page 2

We would appreciate Chesapeake advising in writing if Coates Energy's information is correct and, if so, we would also appreciate Chesapeake preparing and recording a full release of these two leases and then filing a copy of the recorded release with the General Land Office as provided under Paragraph 29 of the leases and also furnishing a copy of the recorded release of these two leases to Coates Energy at your earliest convenience.

Your early reply to this inquiry would be greatly appreciated.

Yours very truly,

COATES ENERGY


Sherrie Green, CPL
Land Manager

cc: ✓ Commissioner of the General Land Office
1700 N. Congress Ave., Suite 935
Austin, Texas 78701-1495

File No. MF107627
Ltr. from Chesapeake

8

Date Filed: 10-5-09

Jerry E. Patterson, Commissioner

By Carl Bonn

70. 000



Permian Land Department

January 26, 2010

VIA OVERNIGHT COURIER

Ms. Beverly Boyd
Texas General Land Office
1700 N. Congress Ave.
Suite 935
Austin, Texas 78701-1495

Re: Filing of Release of Leases
MF 106989, Sections 40 and 45, Block 56, PSL Survey - *TERM*
MF 107627, Section 9, Block 59, PSL Survey - *ACTIVE being terminated*
Reeves County, Texas

Dear Ms. Boyd:

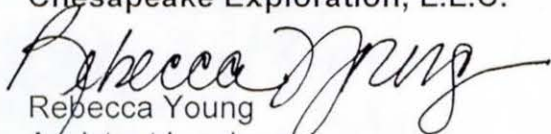
Enclosed please find certified copies of the above mentioned Release of Leases ("Releases") located in Reeves County, Texas. Chesapeake Exploration, L.L.C. ("Chesapeake") desires to file these Releases with the General Land Office.

Also enclosed, is Chesapeake's check number 1234712 in the amount of \$50.00 and which represents the required filing fee of \$25.00 per Release.

Should you have any questions in this regard, please call me at (405) 935-4344.

Sincerely,

Chesapeake Exploration, L.L.C.


Rebecca Young
Assistant Landman

Enclosures

COPY

Chesapeake Operating, Inc.

10704062

No. 1234712

008019 TX GENERAL LAND OFFICE

VOUCHER NUMBER	INVOICE DATE	INVOICE NUMBER	DESCRIPTION OR GROSS AMOUNT DISCOUNT	NET AMOUNT
458268	01/12/10	011210	BALMORHEA PROSP FILLING FEE	X 50.00
				126
			Total for check	\$50.00

9

File No. MF 107627

Letter w/ Release

Date Filed: 1-28-10

Jerry E. Patterson, Commissioner

By B Boyd

FILE # 3731

RELEASE OF OIL AND GAS LEASE For "B" LEASE

STATE OF TEXAS)
) SS
 COUNTY OF REEVES)

CHESAPEAKE EXPLORATION, L.L.C., successor by merger to Chesapeake Exploration Limited Partnership, whose address is P. O. Box 18496, Oklahoma City, Oklahoma, 73154-0496, does hereby release, relinquish and surrender all its right, title and interest in and to that certain Oil and Gas Lease located in Reeves County, Texas, and described as follows:

LESSOR: Coates Energy Trust and Coates Energy Interests, LTD.
 LESSEE: Pinnacle Land Services, Inc.
 DATE: September 28, 2006
 RECORDED: Vol. 751, Pg. 183
 DESCRIPTION: Block 59, Public School Land Survey, A-2952
 Section 9: ALL
 STATE LEASE #: MF-107627

IN WITNESS WHEREOF, the undersigned owner and Lessee has signed this instrument this 12th day of November, 2009

CHESAPEAKE EXPLORATION, L.L.C.,

By: [Signature]
 Henry J. Hood, Senior Vice President -
 Land and Legal & General Counsel

STATE OF OKLAHOMA)
) ss:
 COUNTY OF OKLAHOMA)

This instrument was acknowledged before me on this 12th day of November, 2009, by Henry J. Hood, as Senior Vice President - Land and Legal & General Counsel of Chesapeake Exploration, L.L.C. on behalf of said limited liability company.

[Signature]
 Notary Public

My Commission Expires: 11-7-12
 Commission Number: 08011086

W:\Permian_South\Levescy\Releases\TX3230258-001.doc



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



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

FILE# 3731

FILED FOR RECORD ON THE 7TH DAY OF DECEMBER A.D. 2009 1:52 P. M.DULY RECORDED ON THE 9TH DAY OF DECEMBER A.D. 2009 1:00 P. M.BY: [Signature], DEPUTY

DIANNE O. FLOREZ, COUNTY CLERK
 REEVES COUNTY, TEXAS

Rec
 1-27-10

#10

File No. MF107627
~~RR~~ Lebar
Date Filed: 1-28-10
Jerry E. Patterson, Commissioner
By D Boyd

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

The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL 833
PAGE 101, THRU XXXXX. **OFFICIAL PUBLIC RECORDS**



I hereby certified on 12/17/2009

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

By Dalia Galindo, DEPUTY
DALIA GALINDO

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

January 28, 2010

Ms. Rebecca Young
Chesapeake Energy Corp.
PO Box 18496
Oklahoma City, OK 73154

Re: Release of State of Texas Lease - MF 106989, MF 107267 Reeves County

Dear Ms. Young,

The General Land Office received the following instrument on January 27, 2010. Said instrument has been filed in the mineral file stated above.

The release is effective November 12th, 2009 recorded in Reeves Co. Vol. 833, P. 102. and Vol. 833, P. 101. The \$50.00 filing fee has been noted in the file.

Best regards,

Beverly Boyd
Energy Resources
Mineral Leasing

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

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

www.glo.state.tx.us

#11

File No. MF107627

Qld Release Letter

Date Filed: 1-28-10

Jerry E. Patterson, Commissioner

By B. Boyd

From: Ray Rice <ray.rice@chk.com>
To: Victoria Adams <victoria.adams@chk.com>, Heather Anderson <heather.ander...>
CC: 'Carl Bonn' <Carl.Bonn@GLO.STATE.TX.US>
Date: 12/10/2009 3:30 PM
Subject: FW: MF107627 Reeves County - Due to terminate 12/15/09 if no rental paid
Attachments: Carl Bonn.vcf

I received this from Carl from the Texas General Land Office. It deals with a lease in your area. Thanks

-----Original Message-----

From: Carl Bonn [mailto:Carl.Bonn@GLO.STATE.TX.US]
Sent: Thursday, December 10, 2009 2:50 PM
To: Ray Rice
Subject: MF107627 Reeves County - Due to terminate 12/15/09 if no rental paid

Jay,

Thanks for helping out on the other day with my questions. Got another one for you, being our MF107627 covering 5/6ths of Sec 9, A-2952, Blk 59, PSL Survey, Reeves County. Rental payment needs to be in our office by the referenced date per terms of the lease.

Coates indicated that you missed the September 2009 rental on the 1/6th interest and just wanted to make sure you were aware of the situation.

Thanks,

Carl Bonn, CPL
Landman
Energy Resources
Texas General Land Office
PO Box 12873 Austin, TX 78711
(512) 463-5407 - Office (512) 475-1543 - Fax

This email (and attachments if any) is intended only for the use of the individual or entity to which it is addressed, and may contain information that is privileged, confidential and exempt from disclosure under applicable law. If the reader of this email is not the intended recipient, or the employee or agent responsible for delivering this message to the intended recipient, you are hereby notified that any dissemination, distribution or copying of this communication is strictly prohibited. If you have received this communication in error, please notify the sender immediately by return email and destroy all copies of the email (and attachments if any).

12
File No. MF107627
email to Chesapeake

Date Filed: 12-14-09

Jerry E. Patterson, Commissioner

By Carl Bonn