MF109108

State Lease	*Control*	*Base File*	*County*
MF109108	07-104199	101794	REEVES

~~#5043~~ Shallow - Surface to 14,875' MD

#5132 Deep T

~~#7476~~

TERMINATION
DATE 7/18/2018
LEASING BG
MAPS
GIS

Leasing: MS
Analyst:
Maps:
GIS: AB

Survey	PUBLIC SCHOOL LAND
Block	56
Block Name	
Township	
Section/Tract	45
Land Part	
Part Description	
Acres	~~266.66~~ 320

Depth Below	*Depth Above*	*Depth Other*
0	0	SEE RELEASE FOR DEPTHS

Name	ARMSTRONG, STEVE F
Lease Date	3/29/2008
Primary Term	3 yrs
Bonus ($)	~~$53,332.00~~ 64,000.00
Rental ($)	$0.00
Lease Royalty	0.1250

STOP

CAUTION

Documents in this file have been placed in Table of Contents order and scanned.

Please help keep documents in content order and let the ScanLab know when new documents are added to this file.

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Archives and Records Staff

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RETURN TO VAULT WITH DOCUMENTS IN ORDER!

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(See MF 103820 #35 Assign #10599	
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Coates Energy 5/24/2019)	
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New

STEVE F. ARMSTRONG
ENERGY INVESTMENTS

P.O. Box 64370
Lubbock, TX 79464

Bus. 806-785-1113
Fax 806-785-6901
Cell 806-543-9263

March 11, 2008

07-104199

Mr. Drew Reid
Texas General Land Office
Stephen F. Austin Bldg.
1700 North Congress Ave.
Austin, TX 78701-1495

RE: All of the South One-half (S/2) of Section 45, Block 56, Public School Land Survey, Reeves County, Texas

Dear Drew:

Enclosed, please find an unsigned completed lease form that I am purposing to be granted by the Owner of the Soil of the above referenced lands.

This lease covers the undivided 5/6ths interest in said lands that Bank of America as Trustee of the Roberta M. Regan Trust owns, being a net 266.66 acres. We are offering \$325.00 per acre for this three (3) year oil and gas lease with a 1/4th royalty. We will prepay the \$5.00 per acre delay rentals called for at the beginning of years two and three. Please review this matter and inform me as to whether or not the General Land Office will approve this lease as to form and consideration. Upon word back from you, I will have the lease executed and forward a certified copy of same to you along with the State of Texas' share of the monies to be paid.

Should you have any further questions, please do not hesitate to call upon me.

Very truly yours,

Steve F. Armstrong
STEVE F. ARMSTRONG

SFA/
Enclosure: (1)

1.

File No MF109108

Letter

Date Filed: 3/13/08

Jerry Patterson, Commissioner

By

RAL REVIEW SHEET

Transaction # 6094

Geologist: R. Widmayer

Lessor: Bank of America, Trustee of the Roberta M. Regan Trust

Lease Date: 3/29/2008 **UI:** ☐

Lessee: Steve F. Armstrong

Gross Acres: 320

Net Acres: 266.66

LEASE DESCRIPTION

County		PIN#	Base File No	Part	Sec.	Block	Twp	Survey	Abst#
REEVES	640.0	07-104199	101794	S/2	45	56	00	PUBLIC SCHOOL LAND	2633

TERMS OFFERED

Primary Term:	3 years
Bonus/Acre:	$325.00
Rental/Acre:	$5.00
Royalty:	1/4

TERMS RECOMMENDED

Primary Term	3 years
Bonus/Acre	$400.00
Rental/Acre	$5.00
Royalty	1/4

COMPARISONS

MF #	Lessee	Date	Term	Bonus/Ac.	Rental/Ac.	Royalty	Distance
MF105211	George G. Staley	3/28/2005	3 years	$125.00	$2.50	1/4	Last Lease
Pending	Pinnacle Land	2-12.08	5 yrs	$400.00	$1.00	1/4	1.5 Miles SW

Comments: Paid up rentals.

Approved: PAB 3.25.08

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: 25-Mar-08

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

Applicant:	Steve F. Armstrong		County:	REEVES
Prim. Term:	3 years	Bonus/Acre	$400.00	
Royalty:	1/4	Rental/Acre	$5.00	

Consideration
Recommended: PAB   Date: 3-25-08
Not Recommended: ____
Comments: Paid up rentals.

Lease Form
Recommended: RJH   Date: 4/11/08
Not Recommended: ____
Comments:

Louis Renaud, Deputy Commissioner   Date: 4/16/08
Recommended: CLR
Not Recommended: ____

Bill Warnick, General Counsel   Date: 4/21/08
Recommended: WH
Not Recommended: ____

Larry Laine, Chief Clerk   Date: 4/24/08
Approved: [signature]
Not Approved: ____

Jerry Patterson, Commissioner   Date: 24 Apr 08
Approved: JEP
Not Approved: ____

2.

File No. MF 109108

Date Filed: 3/25/08

Jerry Patterson, Commissioner

By

STEVE F. ARMSTRONG
ENERGY INVESTMENTS

P.O. Box 64370
Lubbock, TX 79464

Bus. 806-785-1113
Fax 806-785-6901
Cell 806-543-9263

May 16, 2008

Texas General Land Office
ATTN: Drew Reid
1700 North Congress Ave.
Austin, TX 78701-1495

RE: S/2 of Section 45, Block 56, Public School Land Survey, Reeves County, Texas

Dear Drew:

As per my letter to you dated March 11, 2008 and our subsequent phone conversation of March 24, 2008, enclosed please find a certified copy of an Oil and Gas Lease from Bank of America, Trustee of the Roberta M. Regan Testamentary Trust as Owner of the Soil, covering 266.66 net mineral acres out of the above referenced lands.

As per our phone conversation, you approved this lease based on $400.00 per acre bonus consideration for a three year term with $5.00 per acre prepaid delay rentals for years two and three, and reflecting a gross royalty of one-fourth (1/4th). Enclosed, you will find my check number 585 in the amount of $54,665.32 reflecting these payments to the State of Texas, with the Oil of the Soil having received the exact same payment. Also, enclosed is my check number 2385 in the amount of $125.00 to cover the cost to the General Land Office for the required $100.00 processing fee and the $25.00 filing fee. Should you have any further questions regarding this lease, please do not hesitate to call upon me.

Thank you very much for your assistance in this transaction.

Very truly yours,

Steve F. Armstrong

STEVE F. ARMSTRONG

SFA/
Enclosures: (3)

BAR S ENTERPRISES, INC. 2385

State of Texas - General Land Office 5/16/2008

Date	Type	Reference	Original Amt.	Balance Due	Discount	Payment
5/16/2008	Bill		125.00	125.00		125.00
					Check Amount	125.00

08017765

121

CITY BANK # 302482 Processing & Filing Fees 125.00

08017766

121

attn: Drew Reid

585

STEVE F. ARMSTRONG 05-04
TRUST ACCOUNT
P.O. BOX 64370
LUBBOCK, TX 79464

88-173/1113 30

DATE May 16, 2008

PAY TO THE ORDER OF THE STATE OF TEXAS $ 54,665.32

Fifty Four Thousand Six Hundred Sixty Five and 32/100------------- DOLLARS

Security Features Included. Details on Back.

3yr Pd	UP O&GL on S/2 Sect. 45, Blk. 56,			
Public	School Land Survey, Reeves County			
$400/ac	Bonus - $5.00/ac Rentals Pre-			
Paid	266.66 net acres			

THIS CHECK IS DELIVERED FOR PAYMENT ON THE ACCOUNTS LISTED

Steve F. Armstrong

MP

City Bank P.O. BOX 5060, LUBBOCK, TEXAS 79408

⑈000585⑈ [redacted]

121

11709701

STEVE F. ARMSTRONG 05-04
TRUST ACCOUNT
P.O. BOX 64370
LUBBOCK, TX 79464

665

88-173/1113 30

DATE April 27, 2011

PAY TO THE ORDER OF State of Texas - General Land Office $ 66,665.00

Sixty Six Thousand Six Hundred Sixty Five and no/100---------------- DOLLARS

Security Features Included. Details on Back

1 yr Pd	Up O&GL on S/2 Sec45,	Blk 56,	
PSL, Re	eves Co., TX - Owner of	Soil:	
Roberta	M. Regan Test. Trust	266.66	acs
@$500/a	c lease bonus		

THIS CHECK IS DELIVERED FOR PAYMENT ON THE ACCOUNTS LISTED

Steve F. Armstrong

MP

City Bank
P.O. BOX 5060, LUBBOCK, TEXAS 79408

⑈000665⑈ [redacted]

3.

File No. MF 109108

Letter, bonus, + fees

Date Filed: 5/19/08

Jerry Patterson, Commissioner

By

FILE#1692

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

The State of Texas

THE STATE OF TEXAS

Austin, Texas

Paid up

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 29th day of March, 2008, between the State of Texas, acting by and through its agent, BANK OF AMERICA, TRUSTEE OF THE ROBERTA M. REGAN TESTAMENTARY TRUST

of P.O. Box 830308, Dallas, TX 75283
(Give Permanent Address)

said agent herein referred to as the owner of the soil (whether one or more), and STEVE F. ARMSTRONG

of P.O. Box 64370, Lubbock, TX 79464 hereinafter called Lessee.
(Give Permanent Address)

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

The S/2 of Section 45, Block 56, Public School Land Survey

containing 320.0 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Fifty Three Thousand Three Hundred Thirty Two and no/100
Dollars ($53,332.00)

To the owner of the soil: Fifty Three Thousand Three Hundred Thirty Two and no/100
Dollars ($53,332.00)

Total bonus consideration: One Hundred Six Thousand Six Hundred Sixty Four and no/100
Dollars ($106,664.00)

The total bonus consideration paid represents a bonus of Four Hundred and no/100 Dollars ($400.00) per acre, on 266.66 net acres.

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

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

To the owner of the soil: Six Hundred Sixty Six and 66/100 (See Paragraph #40)

Dollars ($666.66)

To the State of Texas: Six Hundred Sixty Six and 66/100 (See Paragraph # 40)

Dollars ($666.66)

Total Delay Rental: One Thousand Three Hundred Thirty Three and 32/100 (See Paragraph # 40)

Dollars ($1,333.32)

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 1/4th______ 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 1/4th______ 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 1/4th______ 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 1/4th______ 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.

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 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.

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.

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

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

40. **NOTHWITHSTANDING ANYTHING HEREIN TO THE CONTRARY,** this Lease is a paid up lease. Delay rentals for the second and third years have been prepaid. The receipt of the rentals is hereby acknowledged by the State of Texas and by Bank of America, Trustee of the Roberta M. Regan Trust, each party having received $1,333.33 for the prepaid rentals.

41. See attached Exhibit "A" for Surface Amendments.

LESSEE
BY: Steve F. Armstrong
Title: ______
Date: 04/25/2008

STATE OF TEXAS
BANK OF AMERICA, TRUSTEE OF THE ROBERTA M. REGAN TESTAMENTARY TRUST

BY: ______
Individually and as agent for the State of Texas
Date: April 14, 2008

STATE OF TEXAS

BY: ______
Individually and as agent for the State of Texas
Date: ______

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

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

STATE OF TEXAS (CORPORATION ACKNOWLEDGMENT)

COUNTY OF TARRANT

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 SR VICE PRESIDENT of BANK OF AMERICA, NA 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 29 day of MARCH, 2008.

SHARON L. WILSON
Notary Public
STATE OF TEXAS
My Comm. Exp. 10-06-10

Notary Public in and for ____

STATE OF ____ (CORPORATION ACKNOWLEDGMENT)

COUNTY OF ____

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

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

Notary Public in and for ____

STATE OF TEXAS (INDIVIDUAL ACKNOWLEDGMENT)

COUNTY OF LUBBOCK

BEFORE ME, the undersigned authority, on this day personally appeared STEVE F. ARMSTRONG known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this the 25th day of APRIL, 2008.

Cheryl Ann Harris
My Commission Expires
04/10/2010

Cheryl Ann Harris

Notary Public in and for STATE OF TEXAS

STATE OF ____ (INDIVIDUAL ACKNOWLEDGMENT)

COUNTY OF ____

BEFORE ME, the undersigned authority, on this day personally appeared ____ known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes and consideration therein expressed.

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

Notary Public in and for ____

EXHIBIT "A"

BANK OF AMERICA
SURFACE AMENDMENTS

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

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

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

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

5. Prior to erecting new storage tanks, pipelines compressor stations or other usual facilities required by Lessee for producing oil and gas and operating this lease, Lessee shall advise of Lessor, 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.

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

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

whether any such liability, loss, expenses, claim, demand or cause of action is based on the sole or concurrent negligence of any party indemnified hereunder.

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

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

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

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

12. Lessee shall not conduct any operations within one-quarter (1/4) mile of any homestead, living quarters or livestock watering facilities without express consent of Lessor, such consent shall not be unreasonably withheld.

FILE# 1692

FILED FOR RECORD ON THE 30TH DAY OF APRIL A.D. 2008 2:18 P. M.

DULY RECORDED ON THE 7TH DAY OF MAY A.D. 2008 2:00 P. M.

BY: Jole Olivas, DEPUTY

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

File No. MF109108

Lease

Date Filed: 5/9/08

Jerry Patterson, Commissioner

By

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

The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL. 790, PAGE 507, THRU 517. OPR

I hereby certified on 05/14/2008

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

BY DENISE G. VALDEZ DEPUTY

TEXAS GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

May 29, 2008

Steve F. Armstrong
P.O. Box 64370
Lubbock, Texas 79464

Re: Relinquishment Act Lease **MF-109108**
266.66 acres out of the S/2 of Section 45, Blk. 66,
PSL Survey, Reeves County, Texas

Dear Mr. Armstrong:

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-109108. 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 **$53,457.00** has been applied as the state's portion of the cash bonus **$53,332.00,** along with a processing and filing fee in the amount of **$125.00**. Please let me know if you should have any questions.

Sincerely,

Drew Reid by MS

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

MS/DR

5.

File No. MF109108

~~Stio letter~~

Date Filed: 5/29/08

Jerry Patterson, Commissioner

By

Harriet Dunne - Section 45, Block 56, A-2633; Reeves County, Texas

From: "Long, J.N." <j.n.long@ustrust.com>
To: "harriet.dunne@glo.texas.gov" <harriet.dunne@glo.texas.gov>
Date: 2/19/2015 4:31 PM
Subject: Section 45, Block 56, A-2633; Reeves County, Texas
CC: Drew Reid <Drew.Reid@glo.texas.gov>, "Perdue, Brandon - 2" <brandon.perd...
Attachments: 20150219162945.pdf; 20150219162818.pdf

3/18 Telephone call - called his attention to proportionate reduction clause in ¶ 20A. HDunne

Ms. Dunne,

Drew Reid suggested that I contact you concerning some shut-in royalty payments that Bank of America has recently received pursuant to the attached oil & gas leases.

I spoke with Ted Fergeson at Staley Operating. He confirmed that Staley is calculating the shut-in payment as follows:

$2/acre x 640 acres = $1,280.00

Staley is then allocating the $1,280 50% to the State and the other 50% proportionately amongst the surface owners as follows:

Owner	Shut-In Payment
Judd Roberts Trust	$320.00
Mary Jane McGary Bank of America, N.A., Agent	$88.89
McGary Living Trust – SPH Brian McGary, Trustee Bank of America, N.A., Agent	$88.89
McGary Family Trust – Kelly Separate Property Kelly McGary, Trustee Bank of America, N.A., Agent	$88.89
Coates Energy	$53.33
TOTAL	$640.00

I believe that Staley is making an error in that they are making a total payment of $1,280 (although they appear to only owe $1,200). I believe that payment specified in Paragraph 14 of the lease form is a contractual payment – not a payment from production – and that it should be *per lease* (*i.e.*, if there's one lease, then it's $1,200; if there's two leases, then it's 2 x $1,200; three leases 3 x $1,200 and so on) and not allocated on an acreage basis. In speaking with Drew about this, he referred me to you for your input on the matter.

We are going to wait to cash these shut-in checks until we get a ruling from you. Please feel free to call me directly if you'd like to discuss.

J. N. Long, RPL
Vice President and Property Manager
U.S. Trust, Bank of America Private Wealth Management
Oil and Gas Department
901 Main Street, 17th Floor, TX1-492-17-01
Dallas, Texas 75202-3738
Phone: (214) 209-9888
Fax: (214) 416-0802

Please note my new e-mail address: j.n.long@ustrust.com

File No. MF109108 14.

Email re: Shut in ~~County~~

payment amount

Date Filed: 2-19-15

George P. Bush, Commissioner

By [illegible]

GEORGE G. STALEY OIL & GAS ACCOUNT

From: George G. Staley

To: STATE OF TEXAS
1700 N. Congress Avenue; Suite 935
Austin, TX 78701-1495

002117

Vendor Code	Check Date	Check Amount	Check Number
STATE	02/10/2015	$640.00	W TX-2117

Invoice #	Invoice Amt
	640.00
Shut in Gas Royalty payments for the GS State Pooled Gas Unit covering the S/2 Section 45, Block 56, PSL Survey and the N/2 Section 4, Block 59, PSL Survey, Reeves County, Texas State Of Texas 1700 N. Congress Ave. Suite 935 Austin, Texas 78701-1495	$640.00

121

GEORGE G. STALEY OIL & GAS ACCOUNT

From: George G. Staley

To: STATE OF TEXAS
1700 N. Congress Avenue; Suite 935
Austin, TX 78701-1495

002117

Vendor Code	Check Date	Check Amount	Check Number
STATE	02/10/2015	$640.00	W TX-2117

Invoice #	Invoice Amt
	640.00
Shut in Gas Royalty payments for the GS State Pooled Gas Unit covering the S/2 Section 45, Block 56, PSL Survey and the N/2 Section 4, Block 59, PSL Survey, Reeves County, Texas State Of Texas 1700 N. Congress Ave. Suite 935 Austin, Texas 78701-1495	$640.00

15708622

14,875 + below exp. 12/13/12
MF ~~112906~~ affidavit is wrong
109108
103820

GEORGE G. STALEY
OIL & GAS ACCOUNT
P.O. BOX 1556
MIDLAND, TX 79702
432-682-3749

WEST TEXAS NATIONAL BANK
MIDLAND, TEXAS 79701

15708622 002117

2117

PAY Six hundred forty dollars and no cents

TO THE
ORDER OF

DATE 02/10/2015

X

AMOUNT $**640.00*

STATE OF TEXAS
1700 N. Congress Avenue
Suite 935
Austin, TX 78701-1495

AUTHORIZED SIGNATURE

⑈002117⑈ [redacted]

GEORGE G. STALEY OIL & GAS ACCOUNT
From: George G. Staley
To: STATE OF TEXAS
1700 N. Congress Avenue; Suite 935
Austin, TX 78701-1495

002117

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15708622

Shut-In Affidavit

Texas General Land Office
Jerry E. Patterson Commissioner
PO Box 12873
Austin, TX 78711-2873

Please respond fully to all applicable questions on this affidavit. Shut-in may be denied for failure to provide information establishing the validity of this request for shut-in status. For shut-in leases contained within units, separate affidavits must be submitted for each state lease within the unit.

103820

Land Office lease no.	Operator		
M-~~112906~~ & M-109108	Staley Operating Co.		
Lease name GS State Gas Unit	**Field name** Pamela(Silurian)		
Area	**Tract**	**Part**	**Acres** 640

Section	Block	Grantee	County
N 1/2 Sec 4*	59		Reeves

SHUT-IN PAYMENTS

Wells must be capable of producing in paying quantities. Attach an extra sheet to list additional gas wells.

GAS

Well #	RRC ID #	Date shut-in	Produced in past?
1	233353	01-07-2015	☑ Yes ☐ No

Reason shut-in Lack of Market

Well capable of producing @ 350 MCF/D + 0 Bbls condensate + 25 BBls Water

Well #	RRC ID #	Date shut-in	Produced in past?
			☐ Yes ☐ No

Reason shut-in ______

Well capable of producing @ ______ MCF/D + ______ Bbls condensate + ______ BBls Water

Well #	RRC ID #	Date shut-in	Produced in past?
			☐ Yes ☐ No

Reason shut-in ______

Well capable of producing @ ______ MCF/D + ______ Bbls condensate + ______ BBls Water

Please list additional oil wells in the additional information section below

OIL

RRC Lease ID #	No. of wells for ID #	Date shut-in	TOTAL DAILY POTENTIAL RATE FOR ID # Bbls oil	MCF gas	Bbls water

Reason oil wells are shut-in ______

Method of water disposal for above gas and oil leases SWD on Section 3 Blk 59 PSL

Total shut-in payment due for this lease $640.00

Indicate which one of these is applicable

- [x] payment is being made at the rate of twice the annual rental
- [ ] payment is being made at the rate of $ ______ for each well/completion

Are gas wells connected to a pipeline?

- [x] YES
- [ ] NO

Will purchaser take gas?

Name of nearest purchaser Eagle Claw Midstream

- [ ] yes-price per MCF offered $ ______
- [x] no

Distance ______

Price offered $ ______

List all producing wells within 1,000 feet of this lease. If there are wells more than 1,000 feet from the lease which are draining the lease, list these also.

Operator	Lease Name	Well #	RRC ID #	Distance	Completion Interval	Status
Energen Resoucres	Ranger 56-40	1H		200	Unknown-No Completion Filed	Producing

Please provide any additional information here: API: 389-32351Original Completion - 10-08-2006
Gas purchaser, Eagle Claw Midstream, was shut in due to Enterprise gas plant being down. Enterprise had a turbine go down and are in the process of replacing it. April 1, 2015, should be the date of completion on the new turbine
*Also includes the S/2 Section 45 BLK 56, PSL

Contact Mark E. Staley
Operator's representative

Phone 432-682-3749 x106

I certify that this statement is true and correct.

By: Mark E. Staley Title: Vice President

Sworn and subscribed to before me, the undersigned authority this 10th day of February, 20 15

Becky Lynn Worcester

Notary Public in and for Midland County, State of Texas

GLO Use Only

Receiving Stamp

BECKY LYNN WORCESTER
Notary Public, State of Texas
My Commission Expires
August 19, 2016

From: **Steve Young** syoung@eagleclawmidstream.com
Subject: Enterprise Force Majeure Notice
Date: January 27, 2015 at 9:46 AM
To: Ted Ferguson (TFergeson@StaleyOperating.com) TFergeson@StaleyOperating.com
Cc: Bob Milam bmilam@eagleclawmidstream.com

SY

Ted – Following up on our call yesterday… Attached is Enterprise's FM Notice. I've chased this issue internally as well, and this is the only issue that has caused an interruption. I trust this addresses your question; however, please feel free to call with other questions.

Steve Young
EVP - Commercial
EagleClaw Midstream Services, LLC
Desk) 432-789-1333 x6

EAGLECLAW MIDSTREAM

Enterprise Products

P.O. Box 4324
Houston, Texas 77210-4324
713.381.6500

1100 Louisiana St.
Houston, Texas 77002
www.epplp.com

January 20, 2015

RE: NOTICE OF FORCE MAJEURE
Enterprise Waha Treating Facility

To Whom It May Concern:

This letter provides a written notice update of Force Majeure Events which began on January 1, 2015, impacting deliveries of Gas to the Waha Treating Facility.

Enterprise GC LLC ("Enterprise") herby notifies ("Customer") that the Force Majeure notice originally effective January 1, 2015 for inclement weather was extended on January 8, 2015 as the Waha Plant inlet compressor had sustained extensive damage and has subsequently been sent in for repairs. Enterprise expects the inlet compressor to be fully operational by March 31, 2015. Currently the treating of gas that does not require inlet compression has been resumed. All customers will be notified when full Plant operations have resumed and full gas production can resume.

Enterprise regrets any inconvenience this event may cause Customer. Should you have any questions, please contact James Schwarz, 713-381-5130, Jschwarz@eprod.com.

Sincerely,

James Schwarz
Director, Gas Supply & Processing

GEORGE G. STALEY

P.O. Box 1556
Midland, Texas 79702
(432) 682-3749

February 10, 2015

Jud O. Roberts, Trustee of the Jud O. Roberts Living Trust
c/o Bank of America, N.A., Agent
P.O. Box 830308
Dallas, Texas 75203-0308

McGary Living Trust – SPH
McGary Family Trust – Kelly
Separate Property
Mary Jane McGary, a Feme Sole
c/o Bank of America, N. A., Agent
P.O. Box 830308
Dallas, Texas 75203-0308

Coates Energy Trust and Coates Energy Interests, Ltd
7373 Broadway
Suite 406
San Antonio, Texas 78209-3268

State of Texas
1700 N. Congress Ave.
Suite 935
Austin, Texas 78701-1495

Atten: Harriet Dunne

RE: Shut in Gas Royalty payments for the ***GS State Pooled Gas Unit*** covering the S/2 Section 45, Block 56, PSL Survey and the N/2 Section 4, Block 59, PSL Survey, Reeves County, Texas

Gentleman:

Attached is a copy of an email from Eagleclaw Midstream, purchaser of the gas produced from the captioned well and a copy of a letter from Enterprise Products, the pipeline company who transports the gas to their Waha plant for processing.

Enterprise has given notice to Eagleclaw of force majeure due to problems with the equipment at the Waha plant as of January 1, 2015 later extended to January 7, 2015. The plant will not be fully operational until March 31, 2015.

This notice has caused Staley Operating Co. to shut in the ***GS State #1*** gas well effective January 7, 2015 due to lack of market. Under paragraph 14 of the Mineral Classified Oil And Gas Leases covering the pooled gas unit, Staley Operating Co. is tendering shut in gas royalty payments to each lessor and the state of Texas in the amounts shown on the attached schedule in order to perpetuate the leases for one year or until the force majeure is lifted by Enterprise and gas production is resumed.

Also enclosed is the executed and notarized original Shut-In Gas Affidavit, covering the GS State Gas Pooled Unit.

Please execute the extra enclosed letter in the space provided below, evidencing the receipt of the shut in payment and return the letter to the undersigned at your earliest convenience.

Should you have any questions about this matter, please call the undersigned at 432-682-3749, ext. 105.

Yours truly,

Ted M. Fergeson

Ted M. Fergeson

The undersigned acknowledge the receipt of the Shut in Gas Royalty payment on the _____ day of February, 2015.

STATE OF TEXAS

By: ____

Shut in Gas Royalty payments for the ***GS State Pooled Gas Unit*** covering the S/2 Section 45, Block 56, PSL Survey and the N/2 Section 4, Block 59, PSL Survey, Reeves County, Texas

Jud O. Roberts, Trustee of the Jud O. Roberts Living Trust c/o Bank Of America, N.A., Agent P.O. Box 830308 Dallas, Texas 75203-0308	$320.00
McGary Living Trust – SPH % Bank of America, N.A., Agent P.O. Box 830308 Dallas, Texas 75203-0308	$ 88.89
McGary Family Trust – Kelly Separate Property % Bank of America, N.A., Agent P.O. Box 830308 Dallas, Texas 75203-0308	$ 88.89
Mary Jane McGary, A Feme Sole % Bank of America, N.A., Agent P.O. Box 830308 Dallas, Texas 75203-0308	$ 88.89
Coates Energy Trust and Coates Energy Interests, Ltd 7373 Broadway Suite 406 San Antonio, Texas 78209-3268	$ 53.34
State Of Texas 1700 N. Congress Ave. Suite 935 Austin, Texas 78701-1495	$640.00

Payment is based on $2.00/acre

File No. MF109108 15.

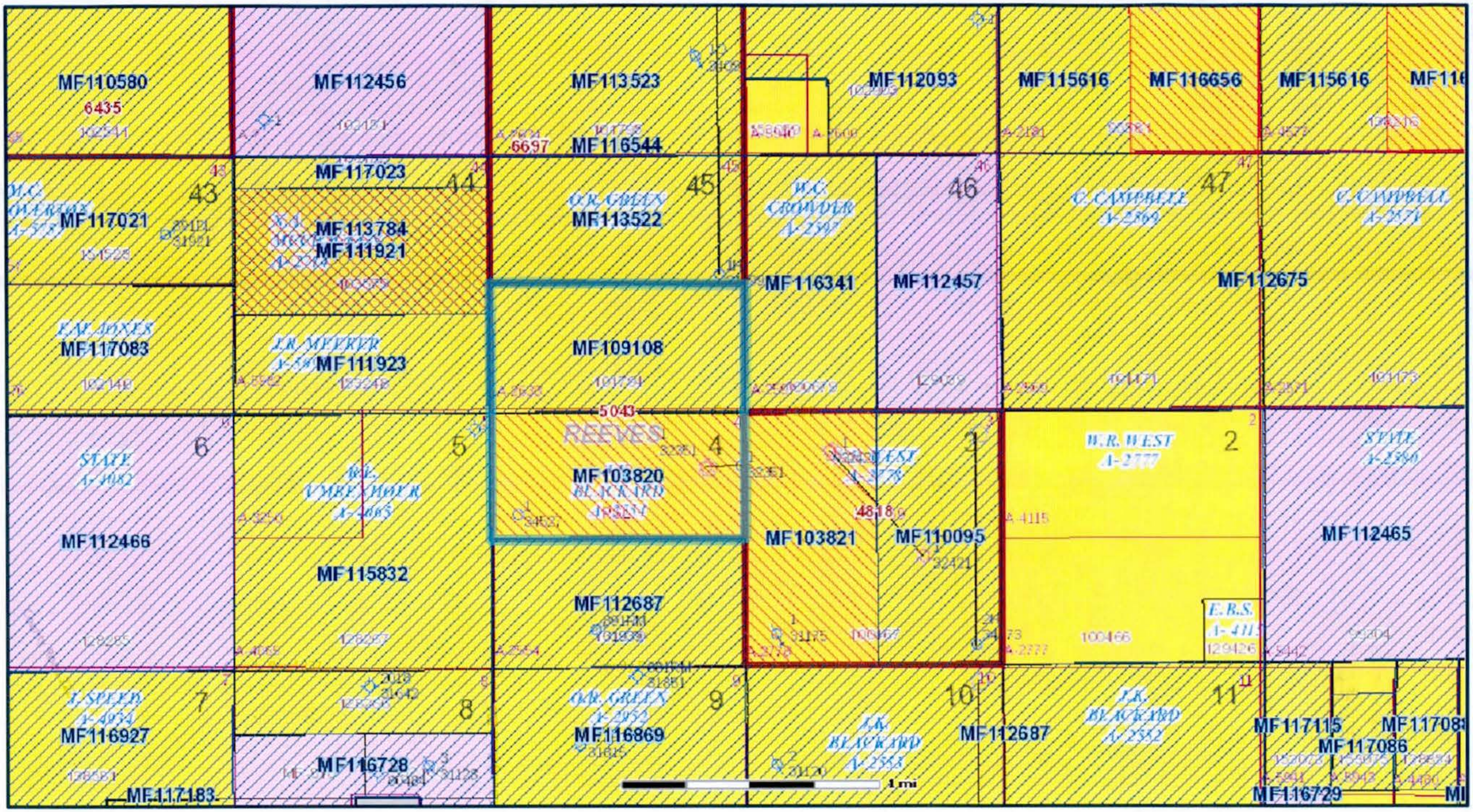
Shut in royalty payment ~~County~~

\+ affidaivt

Date Filed: 3-4-15

George P. Bush, Commissioner

By



MF109108 & 103820

Unit 5043

Shut in 1-07-15

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

Printed: Mar 19, 2015

File No. MF 109108 16.

Unit 5043 Plat [redacted]

Date Filed: 3-19-15

George P. Bush, Commissioner

By

07:05:55 Fri Mar 20, 2015

5043 Unit Well

*** OIL AND GAS W-2/G-1 RECORD *** INQUIRY

API #: 389 32351 SOURCE: RRC
DIST: 08 LSE/ID: 223353 WELL#: 1 TYPE: GAS CNTY: REEVES
FLD: PAMELA (SILURIAN) LSE: GS STATE
OPER: STALEY OPERATING CO.

COMPLETION: 10 08 2005 DRILLING PERMIT #: 560015
W2-G1: 06 30 2006 BUILT: 04 20 2007 R-37 EXCEP CASE #:
ATTACHMENTS: ON FILE WATER INJECT PERM #:
KEY 'S' TO VIEW ATTACH: _ SALT WATER DISP #:
DOCKET NUMBER:
DRILL COMPLETED: 07 29 2005 DIST W3 APPR DATE: MM DD YYYY
ELEVATION: 3147
TOTAL DEPTH: 14775 WELLBORE PLUGGED:
PLUGBACK DEPTH: 14410

LOCATION SEC: 4 BLK: 59 ABST: 2554
SUR: PSL/BLACKARD, J K

SUR/SECT: 001200 FT FROM NORTH AND 000800 FT FROM EAST
NOTE=> REMARKS ON FILE FOR THIS DATE
* SCREEN OPTIONS: 12=FORM/SQZE 13=REMARKS 14=WATER 19=PERMITS/WELLIDS
* SELECT OPTION: __ (01=WBTM, 00=HELP, 21=DIST PLUG)
PRESS 'ENTER' FOR NEXT SCREEN

GAS LEDGER INQUIRY FOR **01/2015**

DISTRICT	> 08	TYPE FIELD	> **CAPACITY**
FIELD NAME	> **PAMELA (SILURIAN)**	FIELD NUMBER	> **68721 600**
OPERATOR NAME	> **STALEY OPERATING CO.**	OPERATOR NUMBER	> **811415**
LEASE NAME	> **GS STATE**	GAS RRC ID	> **223353**

WELL #> 1

GAS ALLOWABLE > **14446** ALLOWABLE CODE > **X**
GAS PROD > 0
GAS TYPE BAL > **NO BALANCING**
CUMULATIVE GAS STATUS> 0
CUR REIN UNDER> DATE >
COND PROD > 0 EOM BAL> 0

GAS DISP AND METHOD COND DISP AND METHOD

VIEW LEDGER INFO FOR DIST > GAS RRC ID > FOR **MM YY**
PF3=MENU PF4=PRIOR MONTH PF5=NEXT MONTH PF6=PROD LEDGER PF7=SCHED PF8=P4

07:12:31 Fri Mar 20, 2015

DISTRICT > **08** GAS LEDGER INQUIRY

FIELD > **PAMELA (SILURIAN)** # **68721 600**

OPERATOR > **STALEY OPERATING CO.** # **811415**

LEASE > **GS STATE** # **223353** WELL # **1**

MM/YYYY	ALLOW	GAS PROD	GAS LIFT	* DISPOSITIONS AMT	CODE	* AMT	CODE	CUMU STAT	G/C RATIO (MCF/BBL)
03/2014	**13677 X**	**13677**	**0**	**13677**	**2**				**0**
04/2014	14670 X	11965	0	11965	2				0
05/2014	**15159 X**	**11723**	**0**	**11723**	**2**				**0**
06/2014	14670 X	11513	0	11513	2				0
07/2014	**13671 X**	**13274**	**0**	**13274**	**2**				**0**
08/2014	14460 X	14460	0	14460	2				0
09/2014	**13469 X**	**13469**	**0**	**13469**	**2**				**0**
10/2014	13268 X	12136	0	12136	2				0
11/2014	**13980 X**	**12333**	**0**	**12333**	**2**				**0**
12/2014	14446 X	11147	0	11147	2				0
01/2015	**14446 X**	**0**	**0**						**0**
02/2015	12572 X	NO RPT							0

shut in 1-7-15

GO TO DIST > GAS RRC ID # >

PF1=HELP PF2=COND PF3=MENU PF4=PROD RMKS PF6=PROD PF7=SCHEDULE PF8=P4 PF9=LDGR

PF10=G10 PF11=STATUS PF12=G-1 _ PF17=P-17 PMT _ PF18=T-1 _ PF19=HIST LDG

**** PRESS ENTER TO SCROLL ****

07:12:22 Fri Mar 20, 2015

DISTRICT > **08** GAS LEDGER INQUIRY
FIELD > **PAMELA (SILURIAN)** # **68721 600**
OPERATOR > **STALEY OPERATING CO.** # **811415**
LEASE > **GS STATE** # **223353** WELL # **1**

MM/YYYY	ALLOW	GAS PROD	GAS LIFT	* DISPOSITIONS * AMT	CODE	AMT	CODE *	CUMU STAT	G/C RATIO (MCF/BBL)
03/2013	**21266 X**	**12065**	**0**	**12065**	**2**				**0**
04/2013	18390 X	15975	0	15975	2				0
05/2013	**17143 X**	**13916**	**0**	**13916**	**2**				**0**
06/2013	13770 X	11522	0	11522	2				0
07/2013	**16523 X**	**15289**	**0**	**15289**	**2**				**0**
08/2013	16523 X	14520	0	14520	2				0
09/2013	**15990 X**	**12886**	**0**	**12886**	**2**				**0**
10/2013	15283 X	12300	0	12300	2				0
11/2013	**14790 X**	**12300**	**0**	**12300**	**2**				**0**
12/2013	15283 X	11786	0	11786	2				0
01/2014	**15149 X**	**15149**	**0**	**15149**	**2**				**0**
02/2014	12040 X	10348	0	10348	2				0

GO TO DIST > GAS RRC ID # >
PF1=HELP PF2=COND PF3=MENU PF4=PROD RMKS PF6=PROD PF7=SCHEDULE PF8=P4 PF9=LDGR
PF10=G10 PF11=STATUS PF12=G-1 _ PF17=P-17 PMT _ PF18=T-1 _ PF19=HIST LDG
**** PRESS ENTER TO SCROLL ****

File No. MF109108 17.

Unit well ~~County~~

Production Report

Date Filed: 3-20-15

George P. Bush, Commissioner

By AD

Drew Reid - Fwd: COATES LEASE

From:	Ted Fergeson <tfergeson@staleyoperating.com>
To:	Drew Reid <Drew.Reid@GLO.TEXAS.GOV>
Date:	4/28/2015 9:02 AM
Subject:	Fwd: COATES LEASE
Attachments:	new EX A COATES.docx; ATT00001.htm

FYI.

Begin forwarded message:

MF. 109108 B Lease

From: Ted Fergeson <tfergeson@staleyoperating.com>
Subject: COATES LEASE
Date: April 27, 2015 at 4:45:35 PM CDT
To: SHERRIE GREEN <SGreen@coatesenergy.com>

* A Lease Shows Approved - WRONG *

SHERRIE:

IN AN EFFORT TO ACOMMODATE ALL PARTIES, STALEY WOULD PROPOSE TO COATES THE FOLLOWING:

LEASE THE COATES INTEREST UNDER THE PREVIOUS TALKED ABOUT TERMS, IE 3 MONTHS, $125/AC AND A 1/4 ROYALTY AS TO ALL RIGHTS BELOW THE WOODFORD FORMATION AT A DEPTH OF 13,884 AS DESCRIBED BY THE BOREHALL COMPENSATED SONIC/GAMMA RAY LOG ON THE BULLDOG OPERATING COMPANY GS STATE #1 WELL (API #42-389-32351) LOCATED 1,200' FNL AND 800' FEL OF SECTION 4, BLOCK 59, PSL. THIS LANGUAGE WOULD BE ADDED TO THE EX. A AS SHOWN ON THE ATTACHED REVISED EX A. THIS PROPOSAL WOULD FREE UP THE SHALLOW RIGHTS OWNED BY COATES. YOUR DEEP RIGHTS WOULD BE SUBJECT TO THE POOLED UNIT AS TO THE PRODUCING WELL FOR THE 3 YEAR TERM AS PREVIOUSLY DISCUSSED.

This is Done

Cert. & Money coming Monday 4th

Drew Reid - Re: OFFSET OBLIGATION TO ENERGEN Ranger 56-40 #1 WELL

From: Drew Reid
To: Fergeson, Ted
Subject: Re: OFFSET OBLIGATION TO ENERGEN Ranger 56-40 #1 WELL
CC: Dunne, Harriet; GREEN, SHERRIE; Hatter, Robert; LONG, JUSTIN; OLSEN,...

Ted,
Thank you for getting back to me on this. Information is hard to find on this well at this time. The GLO is also looking. As you know the offset obligation is there but having the well information to evaluate the well is important to the process. The State is willing to extend some time to gather all the information needed to evaluate the well. The State will also need the following data: 1) The direction of maximum compressive stress, 2) Estimated permeability of the targeted zone and 3) Half fracture lengths, based upon micro-seismic. I have discuss this with Robert Hatter, the Director of Energy and he has agreed that extra time is needed to evaluate this offset properly. The State will allow Staley a six (6) month time period, from first production (Feb 15, 2015) to gather all the information needed and furnish this information to the GLO. At that time we will sit down with you and your attorney and discuss what needs to be done as to the offset well.
Drew

>>> Ted Fergeson <tfergeson@staleyoperating.com> 4/29/2015 12:41 PM >>>
DREW:

STALEY HAS BEEN MADE AWARE OF A POTENTIAL OFFSET OBLIGATION UNDER THE COATES AND REGAN LEASES IN SECTION 45. THESE LEASES ARE LOCATED SOUTH OF THE RECENTLY COMPLETED ENERGEN HORIZONTAL WELL THAT IS DRILLED IN AN ORIENTATION THAT IS ESSENTIALLY NORTH/SOUTH. THIS INFORMATION ALONE, AND THE FACT THAT DRAINAGE FROM THESE WOLFCAMP HORIZONTAL WELLS IS PERPENDICULAR FROM THE WELLS' ORIENTATIONS (EAST/WEST FROM THE ENERGEN WELL), NOT TO MENTION THAT THE DISTANCE OF THE WELL'S CLOSEST TAKE POINT TO STALEY'S LEASES HAS NOT BEEN PROVIDED, RAISE SERIOUS DOUBTS AS TO WHETHER THE WELL IS DRAINING STALEY LEASES AT ALL

MOREOVER, THERE ARE SIGNIFICANT QUESTIONS WHETHER THE ENERGEN WELL IS PRODUCING IN PAYING QUANTITIES. FIRST PRODUCTION APPARENTLY WAS IN FEBRUARY 2015. WE WERE ABLE TO GET THAT INFO FROM DRILLNG INFO. WE HAVE TRIED TO LOCATE COMPLETION REPORTS IN THE RRC BUT HAVE BEEN UNABLE TO FIND ANY COMPLETION INFORMATION INCLUDING THE LOCATION OF TAKE POINTS OFFSETTING OUR LEASES AND/OR PRODUCTION REPORTS ON THE WELL FROM THE RRC.

IN ORDER TO COMPLETELY EVALUATE THE PRODUCTION FROM THE WELL TO DETERMINE IF IT IS COMMERCIAL, WE WILL NEED TO GATHER ALL OF THE INFORMATION FROM THE WELL INCLUDING FUTURE MONTHLY PRODUCTION REPORTS AND THE COMPLETION REPORTS WHEN AVAILABLE AS WELL AS PRODUCTION FROM OTHER WELLS IN THE AREA. INFORMATION AS TO DRAINAGE IN THIS AREA WOULD ALSO BE HELPFUL BUT DUE TO THE LACK OF PRODUCTION AND WELL DENSITY, THAT INFO MAY NOT BE YET AVAILABLE. WE ARE ALSO AWARE OF THE HORIZONTAL PRODUCTION DECLINES IN THE FIRST MONTHS OF PRODUCTION FROM WOLFCAMP HORIZONTAL WELLS IN THIS AREA SO THAT WILL HAVE TO BE ALSO EVALUATED TO DETERMINE THE ECONOMICS OF THE OFFSET WELL AND WHETHER IT IS PRODUCING IN PAYING QUANTITIES. BASED ON THE PRODUCTION REPORTS FROM THE RRC ON THE EOG WELLS ABOUT 5 MILES TO THE NORTH AND EAST, STEEP PRODUCTION DECLINES IN THESE WELLS OCCUR IN THE FIRST 9 MONTHS.

Harriet Dunne - OFFSET OBLIGATION TO ENERGEN Ranger 56-40 #1 WELL

From: Ted Fergeson <tfergeson@staleyoperating.com>
To: Drew Reid <Drew.Reid@GLO.TEXAS.GOV>
Date: 4/29/2015 12:41 PM
Subject: OFFSET OBLIGATION TO ENERGEN Ranger 56-40 #1 WELL
CC: SHERRIE GREEN <SGreen@coatesenergy.com>, BRENDA OLSEN <brenda.s.olsen@us...

DREW:

STALEY HAS BEEN MADE AWARE OF A POTENTIAL OFFSET OBLIGATION UNDER THE COATES AND REGAN LEASES IN SECTION 45. THESE LEASES ARE LOCATED SOUTH OF THE RECENTLY COMPLETED ENERGEN HORIZONTAL WELL THAT IS DRILLED IN AN ORIENTATION THAT IS ESSENTIALLY NORTH/SOUTH. THIS INFORMATION ALONE, AND THE FACT THAT DRAINAGE FROM THESE WOLFCAMP HORIZONTAL WELLS IS PERPENDICULAR FROM THE WELLS' ORIENTATIONS (EAST/WEST FROM THE ENERGEN WELL), NOT TO MENTION THAT THE DISTANCE OF THE WELL'S CLOSEST TAKE POINT TO STALEY'S LEASES HAS NOT BEEN PROVIDED, RAISE SERIOUS DOUBTS AS TO WHETHER THE WELL IS DRAINING STALEY LEASES AT ALL

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BASED ON THE ABOVE, STALEY IS REQUESTING A REASONABLE LENGTH OF TIME FROM THE GLO ,AS IT HAS PROVIDED OTHER OPERATORS WITH OFFSET WELL ISSUES RAISED BY HORIZONTAL WOLFCAMP WELLS IN THIS GENERAL AREA, TO GET THE INFORMATION NEEDED TO MAKE AN ADEQUATE BUSINESS DECISION AS TO WHETHER OR NOT AN OFFSET WELL IS NECESSARY.

TED FERGESON

Drew Reid - FW: OFFSET OBLIGATION TO ENERGEN Ranger 56-40 #1 WELL

From: Flip Whitworth <fwhitworth@scottdoug.com>
To: Ted Fergeson <tfergeson@staleyoperating.com>, "Drew Reid(drew.reid@glo.t...
Date: 4/29/2015 1:25 PM
Subject: FW: OFFSET OBLIGATION TO ENERGEN Ranger 56-40 #1 WELL

Ted – as Drew knows, Mr. Long is only partially correct. For the offset provision to be triggered, that well must be producing in paying quantities, which is the basis for our requesting the extension of time to make that determination that the agency has granted on many previous occasions. In addition, the agency has historically applied this offset provision in a fair and reasonable manner such that no offset well was required to be drilled if there was in fact no drainage. I don't think we want to make this second point with the bank, at least at this time. FW

From: Long, J.N. [j.n.long@ustrust.com]
Sent: Wednesday, April 29, 2015 12:55 PM
To: 'Ted Fergeson'; 'Drew Reid'
Cc: 'SHERRIE GREEN'; Olsen, Brenda S; 'robert.hatter@GLO.TEXAS.GOV'; 'Harriet Dunne'; Flip Whitworth
Subject: RE: OFFSET OBLIGATION TO ENERGEN Ranger 56-40 #1 WELL

Ted,

Whether the Energen well is draining or not is not the point. The borehole of the well is within 1,000 feet of our lease line and is therefore deemed to be draining whether or not it actually is.

J. N. Long, RPL
Vice President and Property Manager
U.S. Trust, Bank of America Private Wealth Management
Oil and Gas Department
901 Main Street, 17th Floor, TX1-492-17-01
Dallas, Texas 75202-3738
Phone: (214) 209-9888
Fax: (214) 416-0802

Please note my new e-mail address: j.n.long@ustrust.com

-----Original Message-----
From: Ted Fergeson [tfergeson@staleyoperating.com]
Sent: Wednesday, April 29, 2015 12:41 PM Central Standard Time
To: Drew Reid
Cc: SHERRIE GREEN; Olsen, Brenda S; Long, J.N.; robert.hatter@glo.texas.gov; Harriet Dunne; PHILIP WHITWORTH, JR.
Subject: OFFSET OBLIGATION TO ENERGEN Ranger 56-40 #1 WELL

DREW:

. Exhibit "A"

Attached to that certain Oil and Gas Lease dated April 15, 2015
By and Between The State of Texas acting by and through its agents, Lessors
Coates Energy Trust and Coates Energy Interests, Ltd.
and George G. Staley, Lessee

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

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

S. 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.

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

6. 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 of Lessor, 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.

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

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

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

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

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

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

12. Lessee shall not conduct any operations within one-quarter (1/4) mile of any homestead, living quarters or livestock watering facilities without express consent of Lessor.

13. This lease is a three-month primary term, paid-up lease so no delay rental payments are due. For purposes of the payment of any minimum royalty and/or shut-in royalty, the delay rental for this lease shall be deemed to be $5 per gross surface acre or $66.67 per year to Coates Energy Trust, $66.66 per year to Coates Energy Interests, Ltd. and $133.33 per year to the State of Texas.

14. NOTWHITHSTANDING ANYTHING CONTAINED HEREIN TO THE CONTRARY, THIS LEASE SHALL ONLY COVER ALL RIGHTS BELOW THE TOP OF THE WOODFORD FORMATION AT **13,884'** TO **14,875'**, AS DESCRIBED BY THE BOREHALL COMPENSATED SONIC/GAMMA RAY LOG ON THE BULLDOG OPERATING COMPANY GS STATE #1 WELL (API #42-389-32351) LOCATED 1,200' FNL AND 800' FEL OF SECTION 4, BLOCK 59, PSL AND

18.

File No. 109108

County

Email- offset obligation

Date Filed: 04/28/15

George P. Bush, Commissioner

By [initials]

15-03742
FILED FOR RECORD
REEVES COUNTY, TEXAS
May 01, 2015 at 10:20:00 AM

RELEASE OF OIL AND GAS LEASES

STATE OF TEXAS

COUNTY OF REEVES

KNOWN ALL MEN BY THESE PRESENTS, that the undersigned does hereby relinquish, surrender, and forever quitclaim to the hereinafter named Lessors, their heirs, successors and Assigns, as their interest may appear, any and all right, title and interest whatsoever presently owned by the undersigned in and to the land described herein below by virtue of the following described Oil and Gas Leases, to-wit:

LESSOR: Roberta M. Regan Testamentary Trust, Bank of America, N.A., Trustee, and as agent for the State of Texas
LESSEE: GEORGE G. STALEY
DATE: March 30, 2011
RECORDED: OPR VOLUME 876, PAGE 256

Insofar as said Oil and Gas Lease covers the following described land:

SOUTH ONE-HALF (S/2) OF SECTION 45, BLOCK 56, PUBLIC SCHOOL SURVEY, REEVES COUNTY, TEXAS. AS TO ALL DEPTHS BELOW 14,875 FEET. MF-109108 A+C Lease

AND

LESSOR: Jud O. Roberts Living Trust, Jud O. Roberts Trustee, and as agent for the State of Texas
LESSEE: GEORGE G. STALEY
DATE: JUne 13, 2011
RECORDED: OPR VOLUME 887, PAGE 769

Insofar as said Oil and Gas Lease covers the following described land:

NORTH ONE-HALF (N/2) OF SECTION 4, BLOCK 59, PUBLIC SCHOOL SURVEY, REEVES COUNTY, TEXAS, AS TO ALL DEPTHS BELOW 14,875 FEET. MF-112906

IN WITNESS WHEREOF, this instrument is executed on this 28th day of April, 2015.

George G. Staley
GEORGE G. STALEY

STATE OF TEXAS {}

COUNTY OF MIDLAND {}

This instrument was acknowledged before me this the 28th day of April, 2015, by GEORGE G. STALEY.

8/19/2016
My Commission Expires

Becky Lynn Worcester
Notary Public in and for
the State of Texas

BECKY LYNN WORCESTER
Notary Public, State of Texas
My Commission Expires
August 19, 2016

TRUE & CORRECT
COPY OF
ORIGINAL FILED IN
REEVES COUNTY
CLERKS OFFICE

Inst No. 15-03742
DIANNE O. FLOREZ
COUNTY CLERK
2015 May 01 at 10:20 AM
REEVES COUNTY, TEXAS
By: Elizabeth Rayos, DEPUTY

19.

File No. 109108 County

Release - C

Date Filed: 05/04/15

George P. Bush, Commissioner

By

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 Release of OGL dated 4-28-15, filed for record in my office this 1st day of May at 10:20 AM, under Clerk's File No. 1503742, to be recorded in the Official Public Records Records of Reeves County, Texas.

TO CERTIFY WHICH, Witness my hand and official seal at Pecos, Texas this 1st day of May, 2015.

By Elizabeth Rayos, Deputy.

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

TRUE & CORRECT COPY OF ORIGINAL FILED IN REEVES COUNTY CLERKS OFFICE

GEORGE G. STALEY
OIL & GAS ACCOUNT
P.O. BOX 1556
MIDLAND, TX 79702
432-682-3749

WEST TEXAS NATIONAL BANK
MIDLAND, TEXAS 79701

15711415

002146

2146

PAY One hundred twenty-five dollars and no cents

TO THE
ORDER OF

DATE 05/01/2015

AMOUNT $**125.00*

General Land Office
1700 N. Congress Ave.
Austin, TX 78701-1495

AUTHORIZED SIGNATURE

⑈002146⑈ [redacted]

GEORGE G. STALEY OIL & GAS ACCOUNT

002146

From: George G. Staley
To: General Land Office
1700 N. Congress Ave.
Austin, TX 78701-1495

Vendor Code	Check Date	Check Amount	Check Number
GLO	05/01/2015	X $125.00	W TX-2146

Invoice #	Invoice Amt
01	125.00
Filing fees for Release of Oil & Gas Leases	

121

15711415

GEORGE G. STALEY OIL & GAS ACCOUNT

002146

From: George G. Staley
To: General Land Office
1700 N. Congress Ave.
Austin, TX 78701-1495

Vendor Code	Check Date	Check Amount	Check Number
GLO	05/01/2015	$125.00	W TX-2146

Invoice #	Invoice Amt
01	125.00
Filing fees for Release of Oil & Gas Leases	

20.

File No. 109108

County

Fee - release

Date Filed: 05/04/15

George P. Bush, Commissioner

By

2 1472

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

15-03741
FILED FOR RECORD
REEVES COUNTY, TEXAS
May 01, 2015 at 10:20:00 AM

MF109108D

The State of Texas

Austin, Texas

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 15 day of APRIL ,2015 , between the State of Texas, acting by and through its agent, COATES ENERGY TRUST AND COATES ENERGY INTERESTS, LTD. (HERINAFTER COLLECTIVELY CALLED COATES ENERGY)

of 7373 BROADWAY STE 406, SAN ANTONIO, TX 78209

(Give Permanent Address)

said agent herein referred to as the owner of the soil (whether one or more), and GEORGE G. STALEY

of P.O. BOX 1556, MIDLAND, TX 79702 hereinafter called Lessee.

(Give Permanent Address)

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

SOUTH ONE-HALF (S/2) OF SECTION 45, BLOCK 56. PUBLIC SCHOOL LAND SURVEY

containing 320 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: THREE THOUSAND THREE HUNDRED THIRTY THREE & 34/100

Dollars ($3,333.34)

To the owner of the soil: THREE THOUSAND THREE HUNDRED THIRTY THREE & 34/100

Dollars ($3,333.34)

Total bonus consideration: SIX THOUSAND SIX HUNDRED SIXTY-SIX & 68/100

Dollars ($ 6,666.68)

The total bonus consideration paid represents a bonus of ONE HUNDRED TWENTY FIVE Dollars ($ 125.00) per acre, on 53.33 net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of THREE (3) MONTHS 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.

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

To the owner of the soil: ______________________________

Dollars ($______________________)

To the State of Texas: ______________________________

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.

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 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.

(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.

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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. Notwithstanding anything herein to the contrary, the owner of the soil does not warrant title to his interest.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

40. See attached Exhibit "A" for surface requirements and the paid up rentals clause.

LESSEE
GEORGE G. Staley

By: George D. Staley

Title: ______________________

Date: ______________________

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
George L. Stieren, Trustee

STATE OF TEXAS §
§
COUNTY OF BEXAR §

This instrument was acknowledged before me on the 29th day of April, 2015, by BARRY COATES ROBERTS and GEORGE L. STIEREN, as Trustees 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
My Comm. Exp. 09-15-2016

Sherrie Green
Notary Public, State of Texas
Sherrie Green
Typed or printed name of Notary

My Commission expires: 9-15-2016

STATE OF ____________________ (CORPORATION ACKNOWLEDGMENT)

COUNTY OF ____________________

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

Given under my hand and seal of office this the _______ day of ____________________, 20____.

____

Notary Public in and for ____________________

STATE OF ____________________ (CORPORATION ACKNOWLEDGMENT)

COUNTY OF ____________________

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

Given under my hand and seal of office this the _______ day of ____________________, 20____.

____

Notary Public in and for ____________________

STATE OF TEXAS (INDIVIDUAL ACKNOWLEDGMENT)

COUNTY OF MIDLAND

BEFORE ME, the undersigned authority, on this day personally appeared GEORGE G. STALEY ____________________ known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this the 15 day of April, 2015.

BECKY LYNN WORCESTER
Notary Public, State of Texas
My Commission Expires
August 19, 2016

Becky Lynn Worcester

Notary Public in and for Midland Co. TX.

STATE OF ____________________ (INDIVIDUAL ACKNOWLEDGMENT)

COUNTY OF ____________________

BEFORE ME, the undersigned authority, on this day personally appeared ____________________ known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this the _______ day of ____________________, 20____.

____

Notary Public in and for ____________________

EXHIBIT "A"

Attached to that certain Oil and Gas Lease dated April 15, 2015
By and Between The State of Texas acting by and through its agents,
Lessors Coates Energy Trust and Coates Energy Interests, Ltd.
and George G. Staley, Lessee

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

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

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

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

5. Prior to erecting new storage tanks, pipelines compressor stations or other usual facilities required by Lessee for producing oil and gas and operating this lease, Lessee shall advise of Lessor, 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.

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

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

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

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

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

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

12. Lessee shall not conduct any operations within one-quarter (1/4) mile of any homestead, living quarters or livestock watering facilities without express consent of Lessor.

13. This lease is a three-month primary term, paid-up lease so no delay rental payments are due. For purposes of the payment of any minimum royalty and/or shut-in royalty, the delay rental for this lease shall be deemed to be \$5 per gross surface acre or \$66.67 per year to Coates Energy Trust, \$66.66 per year to Coates Energy Interests, Ltd. and \$133.33 per year to the State of Texas.

14. NOTWHITHSTANDING ANYTHING CONTAINED HEREIN TO THE CONTRARY, THIS LEASE SHALL ONLY COVER ALL RIGHTS FROM THE TOP OF THE WOODFORD FORMATION AT **13,884'** (AS DESCRIBED BY THE BOREHOLE COMPENSATED SONIC/GAMMA RAY LOG ON THE BULLDOG OPERATING COMPANY GS STATE #1 WELL (API #42-389-32351) LOCATED 1,200' FNL AND 800' FEL OF SECTION 4, BLOCK 59, PSL) DOWN TO AND INCLUDING **14,875'**, ALL OTHER DEPTHS BEING SPECIFICALLY RESERVED BY THE OWNER OF THE SOIL.

Signed for Identification only.

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

Inst No. 15-03741
DIANNE O. FLOREZ
COUNTY CLERK
2015 May 01 at 10:20 AM
REEVES COUNTY, TEXAS
By: ER__________, DEPUTY

THE STATE OF TEXAS
REEVES COUNTY

TRUE & CORRECT
COPY OF
ORIGINAL FILED IN
REEVES COUNTY
CLERKS OFFICE

21.

File No. 109108

Lease D County

Date Filed: 05/04/15

George P. Bush, Commissioner

By

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 OGL dated 4-15-15, filed for record in my office this 1st day of May at 10:20A M, under Clerk's File No. 15-03791, to be recorded in the Official Public Records Records of Reeves County, Texas.

TO CERTIFY WHICH, Witness my hand and official seal at Pecos, Texas this 1st day of May, 2015.

By Elizabeth Rayos, Deputy.

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

GEORGE G. STALEY
OIL & GAS ACCOUNT
P.O. BOX 1556
MIDLAND, TX 79702
432-682-3749

WEST TEXAS NATIONAL BANK
MIDLAND, TEXAS 79701

15711413 002144

2144

PAY Three thousand three hundred thirty-three dollars and 34 cents

TO THE ORDER OF

DATE 05/01/2015

AMOUNT $**3,333.34*

General Land Office
1700 N. Congress Ave.
Austin, TX 78701-1495

AUTHORIZED SIGNATURE

⑈002144⑈ [redacted]

GEORGE G. STALEY OIL & GAS ACCOUNT

002144

From: George G. Staley
To: General Land Office
1700 N. Congress Ave.
Austin, TX 78701-1495

Vendor Code	Check Date	Check Amount	Check Number
GLO	05/01/2015	$3,333.34	W TX-2144

Invoice #	Invoice Amt
	3,333.34
Bonus Condiseration for the the Coates et al Lease, S/2 Section 45, Block 56, PSL, Reeves County, Texas	

121

15711413

GEORGE G. STALEY OIL & GAS ACCOUNT

002144

From: George G. Staley
To: General Land Office
1700 N. Congress Ave.
Austin, TX 78701-1495

Vendor Code	Check Date	Check Amount	Check Number
GLO	05/01/2015	$3,333.34	W TX-2144

Invoice #	Invoice Amt
	3,333.34
Bonus Condiseration for the the Coates et al Lease, S/2 Section 45, Block 56, PSL, Reeves County, Texas	

GEORGE G. STALEY
OIL & GAS ACCOUNT
P.O. BOX 1556
MIDLAND, TX 79702
432-682-3749

WEST TEXAS NATIONAL BANK
MIDLAND, TEXAS 79701

15711414 002145

2145

PAY One hundred twenty-five dollars and no cents

TO THE
ORDER OF

DATE 05/01/2015

AMOUNT $**125.00*

General Land Office
1700 N. Congress Ave.
Austin, TX 78701-1495

AUTHORIZED SIGNATURE

⑈002145⑈ [redacted]

GEORGE G. STALEY OIL & GAS ACCOUNT

From: George G. Staley
To: General Land Office
1700 N. Congress Ave.
Austin, TX 78701-1495

002145

Vendor Code	Check Date	Check Amount	Check Number
GLO	05/01/2015	X $125.00	W TX-2145

Invoice #	Invoice Amt
	125.00
F ling fee for Oil & Gas Lease	

121

15711414

GEORGE G. STALEY OIL & GAS ACCOUNT

From: George G. Staley
To: General Land Office
1700 N. Congress Ave.
Austin, TX 78701-1495

002145

Vendor Code	Check Date	Check Amount	Check Number
GLO	05/01/2015	$125.00	W TX-2145

Invoice #	Invoice Amt
	125.00
Filing fee for Oil & Gas Lease	

GEORGE G. STALEY

P.O. Box 1556
Midland, Texas 79702
(432) 682-3749

May 1, 2015

Texas General Land Office
Mineral Leasing Division
1700 North Congress Avenue
Room #600
Austin, Texas 78701-2873

Atten: Mr. Drew Reid

Re: New Oil and Gas Lease between George G. Staley and Coates Energy Trust et al and a Certified Release of Oil and Gas Leases, Reeves County, Texas

Dear Drew:

Enclosed please find a certified copy of the above referenced Lease filed for record in File 15-03741, the lease covers the S/2 of Section 45, Block 56, PSL Survey.

- MF 109108 – Coates Energy Trust and Coated Energy Interest, LTD (Lessors) and as Agent for the State of Texas
  George G. Staley (Lessee)
  Date: 4/15/2015

- Certified copy of the above referenced Release of Leases filed for record in File 15-03742, which covers expired leases on the S/2 of Section 45, Block 56, PSL Survey and N/2 of Section 4, Block 59, PSL Survey, Reeves County, Texas below 14,875 feet.

Also enclosed are the following checks:

✓ Check number 2144 in the amount of $3,333.34 for Bonus Consideration for the Coates etal Lease, S/2 Section 45, Block 56, PSL, Reeves County, Texas

✓ Check number 2145 in the amount of $125.00 for filing fees for Oil and Gas Lease

✓ Check number 2146 in the amount of $125.00 for filing fees for Release of Oil and Gas Leases

If you need anything further in this regard, please call me at 432.682.3749 ext. 105.

Very truly yours,

Ted M. Fergeson

Ted Fergeson
Enclosures (5)

22.

File No. 109108

_______________ County

Ltr, bonus, fee - D

Date Filed: 05/04/15

George P. Bush, Commissioner

By ______________

SHUT-IN ROYALTY COMMITTEE Meeting, Mineral Leasing
Sept ___, 2015, ________

Well Name	Casino Royale Well #1H API 389-34172 RRC #08-780624

State Lease No.	MF113072- MF113187 MF113188	**Lease NRI**	0.125 0.125 [NUML 8018] 0.125

State Unit No.	NA	**Unit NRI**	NA

Operator	Atlantic Exploration LLC (Centennial Resource Production LLC)

Field	Hoefs T-K (Wolfcamp)	**County**	Reeves

Lease Date	5/2/2011	**Lease Term**	3 yr	**Lessee**	Red Willow Production

Shut-in Royalty	640.00	**Date Received**	3/18/201

Affidavit received	3/18/2015	**Date Well shut in**	02/11/2015

Reason for shut-in:
Too high of H2S content in gas stream; no currently available marketer.

Additional Comments:
The Moonraker #1H and many of our other wells in this area is also experiencing H2S issues. The Casino's H2S concentrations have spiked as high as 20,000 PPM making it a safety issue as well as not suitabale for market. We have tried a number of different treatments on the Casino well and will continue to work with our gas gatherers to come up with a long-term solution.

Capable of producing:	**Oil**	**120 bbl/d**	**Gas 200 mcf/d**	Water 1000 bbl/d

History:

Well completed	Aug-Sept 2014 (no completion report filed with RRC)

Prior Shut-ins	None

Additional Comments:
First production was Sept 2014. .

Decision of Committee:

File No. MF109108 23.

SLR Committee ~~County~~

agenda

Date Filed: 10-15-15

George P. Bush, Commissioner

By

April 2, 2015

VIA EMAIL tfergeson@staleyoperating.com & U.S. MAIL

Mr. Ted M. Fergeson
George G. Staley
P. O. Box 1556
Midland, Texas 79702

RE: Shut in Gas Royalty payments for the **GS State Pooled Gas Unit** covering the S/2 Section 45, Block 56, PSL Survey and the N/2 Section 4, Block 59, PSL Survey, Reeves County, Texas

Dear Mr. Fergeson:

Coates Energy Trust and Coates Energy Interests, Ltd. ("Coates Energy") received your letter of February 10, 2015, in which you enclosed a Shut-In Gas Royalty payment to Coates Energy in the amount of $53.34, and explained this was due to problems with the equipment at the Enterprise Products Waha plant.

In reviewing the lease form and its terms regarding a shut-in payment, it appears the payment was made as set out under the terms of Paragraph 14 of the lease. However, upon closer review of all the terms of the lease, Paragraph 13 of the Exhibit A states that the State of Texas and Coates Energy each received $266.70 for the prepaid rentals for the second and third years of the lease term, which would equate to $5.00/net acre rental received ($266.70 per year total rental ÷ 53.33 net ac. = $5 rental—1/2 paid to the State and 1/2 paid to Coates Energy). Therefore, per the terms of Paragraph 14 of the lease, the shut-in payment should be calculated as 53.33 nma x $10/nma (double the rental) = $533.33 ($266.66 to Coates Energy and $266.66 to the State of Texas).

Accordingly, Coates Energy believes that an additional payment of $213.32 to each Coates Energy and the State of Texas is required under the terms of the lease, and request that the additional shut-in royalty be paid as soon as possible.

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

Your immediate attention to this matter would be appreciated.

Yours very truly,

COATES ENERGY

Sherrie Green

Sherrie Green, CPL
Land Manager

cc: State of Texas
1700 N. Congress Ave.
Suite 935
Austin, Texas 78701-1495
Attention: Harriet Dunne

File No. MF109108 24.

Ltr re: amount

Of Shut in Royalty

Date Filed: 4-8-15

George P. Bush, Commissioner

By [signature]

07:40:31 Wed Oct 28, 2015

DISTRICT > 08 GAS LEDGER INQUIRY
FIELD > PAMELA (SILURIAN) # 68721 600
OPERATOR > STALEY OPERATING CO. # 811415
LEASE > GS STATE # 223353 WELL # 1

MM/YYYY	ALLOW	GAS PROD	GAS LIFT	* DISPOSITIONS AMT	CODE	AMT	CODE *	CUMU STAT	G/C RATIO (MCF/BBL)
10/2014	13268 X	12136	0	12136	2				0
11/2014	13980 X	12333	0	12333	2				0
12/2014	14446 X	11147	0	11147	2				0
01/2015	14446 X	0	0						0
02/2015	12572 X	0	0						0
03/2015	12741 X	0	0						0
04/2015	12330 X	0	0						0
05/2015	11160 X	0	0						0
06/2015	12903 X	12903	0	12903	2				0
07/2015	18847 X	18847	0	18847	2				0
08/2015	18847 X	18847	0	18847	2				0
09/2015	12900 X	15511	0	15511	2				0

shut in period

GO TO DIST > GAS RRC ID # >
PF1=HELP PF2=COND PF3=MENU PF4=PROD RMKS PF6=PROD PF7=SCHEDULE PF8=P4 PF9=LDGR
PF10=G10 PF11=STATUS PF12=G-1 _ PF17=P-17 PMT _ PF18=T-1 _ PF19=HIST LDG
** PRESS ENTER TO SCROLL **

07:40:09 Wed Oct 28, 2015

DISTRICT > 08 GAS LEDGER INQUIRY
FIELD > PAMELA (SILURIAN) # 68721 600
OPERATOR > STALEY OPERATING CO. # 811415
LEASE > GS STATE # 223353 WELL # 1

MM/YYYY	ALLOW	GAS PROD	GAS LIFT	* DISPOSITIONS AMT	CODE	AMT	CODE *	CUMU STAT	G/C RATIO (MCF/BBL)
10/2013	15283 X	12300	0	12300	2				0
11/2013	14790 X	12300	0	12300	2				0
12/2013	15283 X	11786	0	11786	2				0
01/2014	15149 X	15149	0	15149	2				0
02/2014	12040 X	10348	0	10348	2				0
03/2014	13677 X	13677	0	13677	2				0
04/2014	14670 X	11965	0	11965	2				0
05/2014	15159 X	11723	0	11723	2				0
06/2014	14670 X	11513	0	11513	2				0
07/2014	13671 X	13274	0	13274	2				0
08/2014	14460 X	14460	0	14460	2				0
09/2014	13469 X	13469	0	13469	2				0

GO TO DIST > GAS RRC ID # >
PF1=HELP PF2=COND PF3=MENU PF4=PROD RMKS PF6=PROD PF7=SCHEDULE PF8=P4 PF9=LDGR
PF10=G10 PF11=STATUS PF12=G-1 _ PF17=P-17 PMT _ PF18=T-1 _ PF19=HIST LDG
** PRESS ENTER TO SCROLL **

File No. MF 109108 25.

Production Report ~~County~~

10/2013 - 9/2015

Date Filed: 10-28-15

George P. Bush, Commissioner

By

SHUT-IN ROYALTY COMMITTEE Meeting, Mineral Leasing
Dec 18, 2015, 1:30 p.m.

Well Name	GS State Gas Unit Well #1 API 389-32351 RRC# 08 223353 Recompletion Permit 721414

State Lease No.	MF109108 & MF103820	**Lease NRI**	0.125 0.09375

State Unit No.	5043	**Unit NRI**	0.109375

Operator	Staley Operating Co.

Field	Pamela (Silurian)	**County**	Reeves

Lease Date	3/30/2011 12/15/2003	**Lease Term**	1 yr 3 yr	**Lessee**	Steve Armstrong Pure Resources

Shut-in Royalty	640.00	**Date Received**	03/04/2015

Affidavit received	03/04/2015	**Date Well shut in**	01/07/2015 Back on prod 6/15

Reason for shut-in:

Lack of Market.

Additional Comments:

Gas purchaser, Eagle Claw Midstream, was shut in due to Enterprise gas plant being down. Enterprise had a turbine go down and are in the process of replacing it. April1, 2015 should be the date of completion on the new turbine.

Capable of producing:	**Oil**	**0**	**Gas 350 mcf/d**	Water 25

History:

Well completed	10/08/2006

Prior Shut-ins	none

Additional Comments:

Type Leases: RAL

Decision of Committee:

accept

26.

File No. MF 109108

SIR Committee Agenda County

Date Filed: 1/8/15

George P. Bush, Commissioner

By SSD

TEXAS GENERAL LAND OFFICE
GEORGE P. BUSH, COMMISSIONER

August 24, 2015

Mr. H. Philip Whitworth
Scott, Douglass & McConnico, L.L.P.
303 Colorado Street, Suite 2400
Austin, Texas 78701

Re: George G. Staley
GS State Gas Unit
State Lease MF103820 and MF109108
Reeves County, Texas

Dear Mr. Whitworth,

I hereby acknowledge receipt of your letter dated July 30, 2015 concerning the Energen Resources Corporation Ranger 56-40 Unit, 1H Well, API No. 42-389-34099 ("Offset Well"), which is located within 1,000 feet of the referenced State Leases and Unit. In response, we have reviewed the information you have provided and concur that the Offset Well may not ultimately be economic and may not be immediately draining the GS State Gas Unit. However, we would like to evaluate the performance of the well for an additional period of time.

Therefore, while we cannot waive the offset requirement as we have not been provided with specific information about the drainage area of the Offset Well, we are agreeable to delaying enforcement of the offset provision for two years. We will reassess this matter at that time.

Sincerely,

Robert Hatter, Deputy Director
Energy Resources
Texas General Land Office
(512) 475-1542

(27)

File No. M-109108

_______________ County

Ltr. to Flip Whitworth

Date Filed: 4/27/16

George P. Bush, Commissioner

By [signature]