

MF110304

<i>State Lease</i>	<i>Control</i>	<i>Base File</i>	<i>County</i>
MF110304	01-002774		ROBERTSON

<i>Survey</i>	NAVASOTA RIVER
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*Block*

*Block Name*

*Township*

*Section/Tract*

*Land Part*

*Part Description*

<i>Acres</i>	15
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<i>Depth Below</i>	<i>Depth Above</i>	<i>Depth Other</i>
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0	0	
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<i>Name</i>	PETROGULF CORPORATION
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<i>Lease Date</i>	7/14/2009
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<i>Primary Term</i>	3 yrs
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<i>Bonus (\$)</i>	\$38,325.00
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<i>Rental (\$)</i>	\$5.00
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<i>Lease Royalty</i>	0.2500
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*Leasing:* SR

*Analyst:* \_\_\_\_\_

*Maps:* JK

*GIS:* AS



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5. Memo to School Land Board 2/23/10	
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14. Memo to SLB Filed 1/29/16	
Scanned pt 3-3-16	

State Lease Number  
**M- 110304**  
For GLO Use Only



**JULY 14, 2009**

**OIL AND GAS LEASE BID APPLICATION**

**APPLICANT AGREEMENT**

I agree, if awarded a lease on the referenced tract, to comply with all terms and conditions of said lease and with all applicable laws that so govern said lease, and as those laws may be amended.

**APPLICANT IDENTIFICATION TO APPEAR ON LEASE** (type/print)

Name: Petrogulf Corporation  
Address: 518 17th Street, Suite 1525  
City: Denver State: CO Zip: 80202-4124  
Telephone: (303) 893-5400  
(Include +4 Code)

**AREA DESCRIPTION**

County(ies): Robertson Survey/Area: \_\_\_\_\_  
(If Applicable)  
Block/Tsp.: \_\_\_\_\_ Section/Tract: Tr. 5D Acres: 15  
(If Applicable)

**BID SUBMISSION**

(A) Bonus Amount (\$) 38,325.00  
Thirty-Eight Thousand, Three Hundred Twenty-Five Dollars  
(type/print above)

(B) Sales Fee Amount (\$) 574.88  
Five Hundred Seventy-Four Dollars and Eighty-Eight Cents  
(type/print above)

This Sales Fee is 1½% of the cash bonus as provided in Section 32.110 of the Natural Resources Code as amended.

**MGL. NO.**  
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**APPLICANT NAME**

Petrogulf Corporation  
(same as above)

**BONUS AMOUNT ONLY (A)**  
(Do Not include sales fee)

~~(\$) 38,325~~

**STATE OF TEXAS TAX I.D. #**

[REDACTED]  
(must be an 11-digit number)

**SIGNATURE OF AGENT**

Brandon Bartels  
(signature)

Brandon Bartels  
(type/print name)

574.88

09016762

09016763

PETROGULF CORPORATION

118775

Bid on Tract 5-D July 14th State Sale  
Bossier Leasing Project

\$ 38,325

Texas General Land Office

PETROGULF CORPORATION


118774

Sales Tax, Lease App on Tract 5-D  
Bossier Leasing Project

\$ 574.88

Texas General Land Office

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File No. MF 110304  
Best form  
Date Filed: 2/14/09  
By:   
Jerry Patterson, Commissioner

# The State of Texas



## Austin, Texas

### OIL AND GAS LEASE NO. M-110304

WHEREAS, pursuant to the Texas Natural Resources Code Chapters 32, 33, 51, and Chapter 52, Subchapters A-D and H, (said Code being hereinafter referred to as N.R.C.), and subject to all rules and regulations promulgated by the Commissioner of the General Land Office and/or the School Land Board pursuant thereto, and all other applicable statutes and amendments to said N.R.C., the following area, to-wit:

TRACT 5-D OF THE NAVASOTA RIVER, ROBERTSON COUNTY, TEXAS, CONTAINING APPROXIMATELY 15 ACRES; TRACT 5-D IS BOUND ON ITS UPSTREAM END BY A LINE BEARING GRID N 30° 08' W AND PASSING THROUGH A POINT HAVING COORDINATES OF X=3,278,340 FEET AND Y=520,150 FEET, TEXAS STATE PLANE COORDINATE SYSTEM, CENTRAL ZONE, NAD 1927, AND IS BOUND ON ITS DOWNSTREAM END BY A SOUTHWESTERLY EXTENSION OF THE NORTHWEST LINE OF THE S.A. & M.G. RY. CO. SURVEY, A-838, LEON COUNTY (TRACT IS SUBJECT TO THE SMALL BILL),

was, after being duly advertised, offered for lease on 14<sup>th</sup> day of July, 2009, at 10:00 o'clock a.m., by the Commissioner of the General Land Office of the State of Texas and the School Land Board of the State of Texas, for the sole and only purpose of prospecting and drilling for, and producing oil and/or gas that may be found and produced from the above described area; and

WHEREAS, after all bids and remittances which were received up to said time have been duly considered by the Commissioner of the General Land Office and the School Land Board at a regular meeting thereof in the General Land Office, on the 14<sup>th</sup> day of July, 2009, hereinafter the "effective date" and it was found and determined that PETROGULF CORPORATION whose address is 518 17TH STREET, SUITE 1525, DENVER, COLORADO 80202-4124, had offered the highest and best bid for a lease of the area above described and is, therefore, entitled to receive a lease thereon:

NOW, THEREFORE, I, Jerry E. Patterson, Commissioner of the General Land Office of the State of Texas, hereinafter sometimes referred to as "Lessor," whose address is Austin, Texas, by virtue of the authority vested in me and in consideration of the payment by the hereinafter designated Lessee, the sum of **Thirty-Eight Thousand Three Hundred Twenty-Five And 00/100 Dollars (\$38,325.00)**, receipt of which is hereby acknowledged and of the royalties, covenants, stipulations and conditions contained and hereby agreed to be paid, observed and performed by Lessee, do hereby demise, grant, lease and let unto the above mentioned bidder the exclusive right to prospect for, produce and take oil and/or gas from the aforesaid area upon the following terms and conditions, to-wit:

1. **RESERVATION:** There is hereby excepted and reserved to Lessor the full use of the property covered hereby and all rights with respect to the surface and subsurface thereof for any and all purposes except those granted and to the extent herein granted to Lessee, together with the rights of ingress and egress and use of said lands by Lessor and its mineral lessees, for purposes of exploring for and producing the minerals which are not covered, or which may not be covered in the future, under the terms of this lease, but which may be located within the surface boundaries of the leased area. All of the rights in and to the leased premises retained by Lessor and all of the rights in and to the leased premises granted to Lessee herein shall be exercised in such a manner that neither shall unduly interfere with the operations of the other.

2. **TERM:** Subject to the other provisions hereof, this lease shall be for a term of **three (3) years** from the effective date hereof (herein called "primary term") and as long thereafter as oil or gas is produced in paying quantities from said area.

3. **DELAY RENTALS:** If no well be commenced on the land hereby leased on or before the anniversary date of this lease, this lease shall terminate as to both parties unless the Lessee on or before said date shall pay or tender to the Commissioner of the General Land Office of the State of Texas at Austin, Texas, the sum of **Five Dollars (\$5.00), per acre**, which shall operate as rental and cover the privilege of deferring the commencement of a well for twelve (12) months from said date. In like manner and upon like payments or tenders the commencement of a well may be further deferred for like periods of the same number of months successively during the primary term hereof.

4. **PRODUCTION ROYALTIES:** Subject to the provisions for royalty reductions set out in subparagraph (E) of this paragraph 4, upon production of oil and/or gas, the Lessee agrees to pay or cause to be paid to the Commissioner of the General Land Office in Austin, Texas, for the use and benefit of the State of Texas, during the term hereof:

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

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

(C) **PROCESSED GAS:** As a royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbons,  $\frac{1}{4}$  part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the Lessor. All royalties due herein shall be based on one hundred percent (100%) of the total plant production of residue gas attributable to gas produced from this 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 arms' length (or if there is no such third party, the highest percent then being specified in processing agreements or contracts in the industry), whichever is the greater. The respective royalties on residue gas and on liquid hydrocarbons shall be determined by 1) the highest market price paid or offered for any gas (or liquid hydrocarbons) of comparable quality in the general area or 2) the gross price paid or offered for such residue gas (or the weighted average gross selling price for the respective grades of liquid hydrocarbons), whichever is the greater. In no event, however, shall the royalties payable under this paragraph be less than the royalties which would have been due had the gas not been processed.

(D) **OTHER PRODUCTS:** As a royalty on carbon black, sulphur or any other products produced or manufactured from gas (excepting liquid hydrocarbons) whether said gas be "casinghead," "dry" or any other gas, by fractionating, burning or any other processing,  $\frac{1}{4}$  part of gross production of such products, or the market value thereof, at the option of Lessor, such market value to be determined as follows:

- (1) On the basis of the highest market price of each product, during the same month in which such product is produced, or
- (2) On the basis of the average gross sale price of each product for the same month in which such products are produced; whichever is the greater.

(E) **VARIABLE ROYALTY:** (i) Subject to the other provisions of this lease, it is hereby provided that in the event production in paying quantities is established pursuant to the terms of this lease and such production is brought on line and sales thereof are commenced within twelve (12) months of the effective date hereof, the royalty rate provided herein shall be reduced to 20%, and shall apply to each subsequent well drilled and produced on the land covered by this lease. Provided that, if during such twelve (12) month term during which Lessee may earn a reduced royalty rate of 20% as herein provided, Lessee should drill in good faith and complete the first well as a dry hole on the land covered by this lease, Lessee may receive a three (3) month extension of the term in which to earn a reduced royalty rate by giving notice to the Commissioner of the General Land Office, commencing drilling operations on an additional well prior to the expiration of such three (3) month period and prosecuting diligently and in good faith the drilling of such additional well and completing same so that production in paying quantities is established and so that such production is brought on line and sales thereof are commenced prior to the expiration of such three (3) month extension period.

(ii) In the event production in paying quantities is established pursuant to the terms of this lease and such production is brought on line and sales thereof are commenced after the expiration of twelve (12) months from the effective date hereof but prior to the expiration of twenty-four (24) months from the effective date hereof, the royalty rate provided herein shall be reduced to 22.5% and shall apply to each subsequent well drilled and produced on the land covered by this lease. Provided that, if during such twelve (12) month term during which Lessee may earn a reduced royalty rate of 22.5% as herein provided, Lessee should drill in good faith and complete the first well as a dry hole on the land covered by this lease, Lessee may receive a three (3) month extension of the term in which to earn a reduced royalty rate by giving notice to the Commissioner of the General Land Office, commencing drilling operations on an additional well prior to the expiration of such three (3) month period and prosecuting diligently and in good faith the drilling of such additional well and completing same so that production in paying quantities is established and so that such production is brought on line and sales thereof are commenced prior to the expiration of such three (3) month extension period.

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

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

(H) **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 anything contained herein to the contrary, and subject to the consent in writing of the Commissioner of the General Land Office, Lessee may recycle gas for gas lift purposes on the leased premises after the liquid hydrocarbons contained in the gas have been removed, and no royalties shall be payable on the gas so recycled until such time as the same may thereafter be produced and sold or used by Lessee in such manner as to entitle Lessor to a royalty thereon under the royalty provisions of this lease.

(I) **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 to Lessor 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.

(J) **MARGINAL PRODUCTION ROYALTY:** Upon Lessee's written application, the School Land Board may reduce the royalty rate set out in this paragraph and/or the minimum royalty set out in subparagraph 4 (I) to extend the economic life of this lease and encourage recovery of oil or gas that might otherwise remain unrecovered. Any such royalty reduction must conform to the requirements of any School Land Board administrative rules on this subject. Royalty may not be reduced below the applicable statutory minimum.

**5. 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 accruing when the royalty is sixty (60) days overdue. Affidavits and supporting documents which are not filed when due shall incur a penalty in an amount set by the General Land Office administrative rule which is effective on the date when the affidavits or supporting documents were due. The Lessee shall bear all responsibility for paying or causing royalties to be paid as prescribed by the due date provided herein. Payment of the delinquency penalty shall in no way operate to prohibit the State's right of forfeiture as provided by law nor act to postpone the date on which royalties were originally due. The above penalty provisions shall not apply in cases of title dispute as to the State's portion of the royalty or to that portion of the royalty in dispute as to fair market value.

**6. (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) **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. 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.

7. **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 11 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 Natural Resources Code Sections 52.151-52.153, 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. Within 90 days of a partial termination of this lease in accordance with this subparagraph and upon payment of the minimum filing fee set by General Land Office rules in effect at the time of the partial termination, Lessee shall have the right to obtain a surface lease for ingress and egress on and across the terminated portion of the leased premises as may be reasonably necessary for the continued operation of the portions of the lease remaining in force and effect. If Lessee fails to apply for a surface lease within the 90 day period specified above, Lessee may apply for a surface lease from the Land Office, but the Land Commissioner has the discretion to grant or deny such application and to set the fee for such surface lease.

(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 7 (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 School Land Board. 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. 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.

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

9. **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 10, using the expiration of the primary term as the date of cessation of production under Paragraph 10. 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.

10. **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.

11. **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. 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. 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.

12. **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 to the Commissioner 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 in an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within thirty (30) days from the end of the 12-month period; and none of these provisions will relieve Lessee of the obligation of reasonable development nor the obligation to drill offset wells as provided in N.R.C. Section 52.034; however, at the determination of the Commissioner, and with the Commissioner's written approval, the payment of compensatory royalties shall satisfy the obligation to drill offset wells. Compensatory royalty payments which are not timely paid will accrue penalty and interest in accordance with Paragraph 5 of this lease.

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

**14. USE OF WATER; SURFACE:** Lessee shall have the right to use water produced on said land necessary for operations hereunder and solely upon the leased premises; provided, however, Lessee shall not use potable water or water suitable for livestock or irrigation purposes for water flood operations without the prior written consent of Lessor. Subject to its obligation to pay surface damages, Lessee shall have the right to use so much of the surface of the land that may be reasonably necessary for drilling and operating wells and transporting and marketing the production therefrom, such use to be conducted under conditions of least injury to the surface of the land. Lessee shall pay surface damages in an amount set by the General Land Office fee schedule which is effective on the date when the activity requiring the payment of surface damages occurs.

**15. 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.

**(A) UPLANDS:** Lessee shall build and maintain fences around its slush, sump, and drainage pits and tank batteries so as to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level all slush pits and cellars and completely clean up the drilling site of all rubbish thereon.

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

**(C) RIVERS:** To the extent necessary to prevent pollution, the provisions found in subsections (a) and (b) of this paragraph shall also apply to rivers and riverbeds.

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

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

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

**18. RELEASES:** Lessee may relinquish the rights granted hereunder to the State at any time by recording the relinquishment in the county where this area is situated and filing the recorded relinquishment or certified copy of same in the General Land Office within ninety (90) days after its execution accompanied by the filing fee prescribed by the General Land Office rules in effect on the date of receipt by the General Land Office of such relinquishment or certified copy thereof. Such relinquishment will not have the effect of releasing Lessee from any liability theretofore accrued in favor of the State.

**19. LIEN:** In accordance with N.R.C. Section 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 N.R.C. Section 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, Chapter 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's 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.

**20. FORFEITURE:** If Lessee shall fail or refuse to make the payment of any sum within thirty (30) days after it becomes due, or if Lessee or an authorized agent should knowingly make any false return or false report concerning production or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith as required by law and the rules and regulations adopted by the Commissioner of the General Land Office, or if Lessee should fail to file reports in the manner required by law or fail to comply with rules and regulations promulgated by the General Land Office, the School Land Board, or the Railroad Commission, or refuse the proper authority access to the records pertaining to operations, or if Lessee or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or knowingly fail or refuse to furnish the General Land Office a correct log of any well, or if Lessee shall knowingly violate any of the material provisions of this 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 to the highest bidder, under the same regulations controlling the original sale of leases. 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.

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

**22. APPLICABLE LAWS AND DRILLING RESTRICTIONS:** This lease shall be subject to all rules and regulations, and amendments thereto, promulgated by the Commissioner of the General Land Office governing drilling and producing operations on Permanent Free School Land (specifically including any rules promulgated that relate to plans of operations), payment of royalties, and auditing procedures, and shall be subject to all other valid statutes, rules, regulations, orders and ordinances that may affect operations under the provisions of this lease. Without limiting the generality of the foregoing, Lessee hereby agrees, by the acceptance of this lease, to be bound by and subject to all statutory and regulatory provisions relating to the General Land Office's audit billing notice and audit hearings procedures. Said provisions are currently found at 31 Texas Administrative Code, Chapter 4, and Texas Natural Resources Code Sections 52.135 and 52.137 through 52.140. In the event this lease covers land franchised or leased or otherwise used by a navigation district or by the United States for the purpose of navigation or other purpose incident to the operation of a port, then Lessee shall not be entitled to enter or possess such land without prior approval as provided under Section 61.117 of the Texas Water Code, but Lessee shall be entitled to develop such land for oil and gas by directional drilling; provided, however, that no surface drilling location may be nearer than 660 feet and special permission from the Commissioner of the General Land Office is necessary to make any surface location nearer than 2,160 feet measured at right angles from the nearest bulkhead line or from the nearest dredged bottom edge of any channel, slip, or turning basin which has been authorized by the United States as a federal project for future construction, whichever is nearer.

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

**24. FORCE MAJEURE:** Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling operations thereon, or from producing oil and/or gas therefrom, after effort made in good faith, by reason of war, rebellion, riots, strikes, fires, acts of God or any order, rule or regulation of governmental authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended upon proper and satisfactory proof presented to the Commissioner of the General Land Office in support of Lessee's contention and Lessee shall not be liable for damages for failure to comply therewith (except in the event of lease operations suspended as provided in the rules and regulations adopted by the School Land Board); and this lease shall be extended while and so long as Lessee is prevented, by any such cause, from drilling, reworking operations or producing oil and/or gas from the leased premises; provided, however, that nothing herein shall be construed to suspend the payment of rentals during the primary or extended term, nor to abridge Lessee's right to a suspension under any applicable statute of this State.

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

**26. 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 in accordance with Natural Resources Code Sections 52.151-52.153, 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.

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

**28. ANTIQUITIES CODE:** In the event that any feature of archeological or historical interest on Permanent School Fund Land is encountered during the activities authorized by this lease, Lessee will immediately cease activities and will immediately notify the General Land Office (ATTN: Archaeologist, Asset Management Division, 1700 N. Congress Ave., Austin, Texas 78701) and the Texas Historical Commission (P.O. Box 12276, Austin, TX 78711) so that adequate measures may be undertaken to protect or recover such discoveries or findings, as appropriate. Lessee is expressly placed on notice of the National Historical Preservation Act of 1966 (PB-89-66, 80 Statute 915; 16 U.S.C.A. 470) and the Antiquities Code of Texas, Chapter 191, Tex. Nat. Code Ann. (Vernon 1993 & Supp. 1998). On state-owned land not dedicated to the Permanent School Fund, lessee shall notify the Texas Historical Commission before breaking ground at a project location. An archaeological survey might be required by the commission before construction of the project can commence. Further, in the event that any site, object, location, artifact or other feature of archaeological, scientific, educational, cultural or historic interest is encountered during the activities authorize by this lease, lessee will immediately notify lessor and the Texas Historical Commission so that adequate measures may be undertaken to protect or recover such discoveries or findings, as appropriate.

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

**30. LEASE FILING:** Pursuant to Chapter 9 of the Tex. Bus. & Com. 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. The prescribed filing fee shall accompany the certified copies sent to the General Land Office.

31. 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.

File No. MF 710304  
Lease  
Date Filed: 7/19/09  
By: Jerry Patterson, Commissioner

LESSEE \_\_\_\_\_  
BY: \_\_\_\_\_  
TITLE: \_\_\_\_\_  
DATE: \_\_\_\_\_

IN TESTIMONY WHEREOF, witness the signature of the Commissioner of the General Land Office of the State of Texas under the seal of the General Land Office.

\_\_\_\_\_  
COMMISSIONER OF THE GENERAL LAND OFFICE  
OF THE STATE OF TEXAS  
  
APPROVED  
Contents \_\_\_\_\_  
Legal \_\_\_\_\_  
DC \_\_\_\_\_  
Exec \_\_\_\_\_

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

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared \_\_\_\_\_  
known to me to be the person whose name is subscribed to the foregoing instrument, 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 \_\_\_\_\_  
COUNTY OF \_\_\_\_\_

(INDIVIDUAL ACKNOWLEDGMENT)

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

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

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

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

July 24, 2009

Mr. Brandon Bartels  
Petrogulf Corporation  
518 17th Street, Suite 1525  
Denver, Colorado 80202-4124

Dear Mr. Bartels:

Thank you for participating in the General Land Office Oil and Gas Lease Sale held on July 14, 2009. I am pleased to inform you that Petrogulf Corporation was the high bidder on **MGL. No. 6**, which has been assigned the lease number **M-110304**.

State Lease M-110304 is enclosed and serves as your receipt for your bid. This lease form must be fully executed by the lessee, and then recorded in the County Clerk's office of the county or counties in which lands covered by the lease are located. After signing and recording the lease, please submit a certified copy of the recorded lease to the attention of the undersigned. These requirements are material provisions of the lease; therefore, please return the certified copy at your earliest convenience.

The lessee's other contractual and statutory responsibilities are outlined in the lease agreement, such as Section 6(B), which requires submission of written notice for all drilling, production, and related activities. When forms are filed with the Texas Railroad Commission, they are required to submit copies of these forms to the General Land Office, such as Forms W-1, Application to Drill; W-2, Oil Well Completion Report and Log; G-1, Gas Well Completion Report and Log; W-3, Plugging Record; G-5, Gas Well Classification Report; G-10, Gas Well Status Report; W-10, Oil Well Status Report; W-12, Inclination Report; Electric Logs; Directional Surveys.

Please let me know if you have any questions or need any additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "R. B. Hatter", is written over a horizontal line.

Robert B. Hatter, Director  
Mineral Leasing Division

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

Post Office Box 12873 • Austin, Texas 78711-2873

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28.

File No. MF 10304

Letter

Date Filed: 7/24/09  
Jerry Patterson, Commissioner

By [Signature]



# MEMORANDUM

Texas General Land Office • Jerry Patterson • Commissioner

---

**DATE:** February 23, 2010

**TO:** School Land Board

**FROM:** Peter A. Boone

**SUBJECT:** Request by Petrogulf Corporation to proceed at the Railroad Commission under the Mineral Interest Pooling Act for a determination by the Railroad Commission for the possible inclusion of all or a part of State Lease MF110304, Navasota River Tract 5-D, into a unit with Encana Oil & Gas (USA) Inc.'s, Little 4 Ranch Well No. 3, Leon and Robertson Counties, Texas.

Petrogulf Corporation (Petrogulf) is requesting School Land Board permission under Texas Natural Resources Code Chapter 102, the Mineral Interest Pooling Act (MIPA), to proceed at the Railroad Commission to force pool all or a part of State Lease MF110304, into a unit with Encana Oil & Gas (USA) Inc.'s (Encana), Little 4 Ranch Well No. 3, Leon and Robertson Counties, Texas.

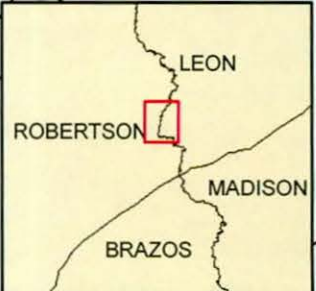
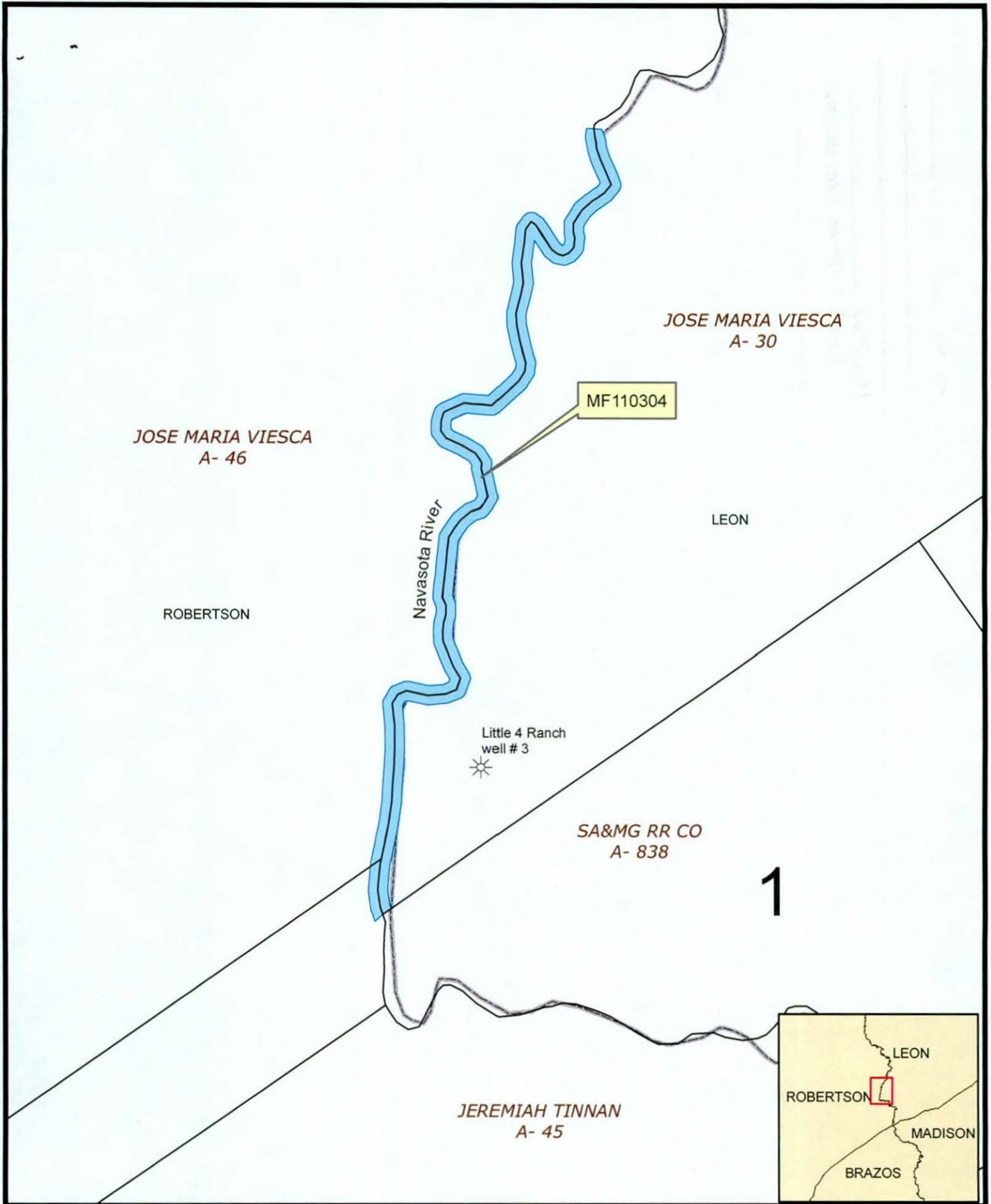
Texas Natural Resources Code §102.004 (d) states: "With the approval or consent first obtained, or at the instance of the Commissioner of the General Land Office, or any board or agency having jurisdiction, the land in which the State of Texas has an interest as described in this chapter may be pooled under the provisions of this chapter."

Petrogulf incurred an offset obligation when Encana completed the Little 4 Ranch Well No. 3 (offset well) 800 feet from State Lease MF110304. The offset well was completed on July 22, 2009 in the Hilltop Resort (Bossier) field and has produced approximately 1.5 BCF of gas through November 2009. Petrogulf does not currently possess any geologic or engineering information to determine if the State lease is being drained by the offset well.

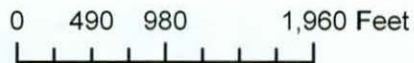
Petrogulf has proposed voluntary pooling to Encana but that offer has been rejected. Petrogulf plans to extend a statutory fair and reasonable voluntary pooling offer to Encana pursuant to the MIPA. If this offer is rejected, then Petrogulf will file an MIPA with the Railroad Commission.

**RECOMMENDATION:**

Staff recommends Board approval of the request by Petrogulf to pursue, under the Mineral Interest Pooling Act, inclusion of all or a part of State Lease MF110304 into a pooled unit with Encana's Little 4 Ranch Well No. 3.



Petrogulf Corporation  
 MIPA Request  
 Navasota River  
 Leon and Robertson Counties  
 MF110304 MIPA



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



Map Compiled By: Zeke Guillen  
 February 23, 2010

5

File No. M-110304  
Memo to School Law Board

Date Filed: 7/23/10  
Jerry E. Patterson, Commissioner

By Daryl Morgan



March 5, 2010

David Gross  
Gross & Nelson  
12400 Hwy. 71 West, Suite 350-230  
Austin, Texas 78738

Re: State of Texas Navasota River Lease M-110304; Request of  
Petrogulf Corporation for Consent to MIPA Pooling  
Encana Oil & Gas (USA) Inc.  
Little 4 Ranch Lease Well No. 3  
Hilltop Resort (Bossier) Field  
Leon and Robertson Counties, Texas

Dear Mr. Gross:

I am writing to you in your capacity as Counsel for Petrogulf Corporation ("Petrogulf"), Lessee of the 15-acre State of Texas Navasota River Lease M-110304. We understand that Petrogulf intends to initiate a Mineral Interest Pooling Act ("MIPA") pooling application with the Texas Railroad Commission ("Commission"). You have provided the GLO with a copy of the voluntary pooling offer letter, which Petrogulf has extended to Encana.

In the application Petrogulf will seek the formation of an involuntary 80 acre pooled unit for Encana's Little 4 Ranch Lease Well No. 3 consisting of approximately 7.5 acres of M-110304 and approximately 72.5 acres of Encana's adjoining Little 4 Ranch Lease.

MIPA § 102.004(d) provides that lands in which the State of Texas owns an interest can only be pooled with the approval or consent of the Commissioner of the General Land Office or any Board having authority. On behalf of Petrogulf you requested that the School Land Board ("Board") consent to the MIPA pooling of M-110304 into involuntarily pooled unit for Encana's Little 4 Ranch Lease Well No. 3.

At the February 23, 2010 meeting of the Board, GLO Staff presented your MIPA pooling consent requests as a regular agenda item. The Board granted its consent to MIPA involuntary pooling of M-110304 into the pooled unit for the Little 4 Ranch Lease Well No. 3. We understand that the ultimate pooled unit size that may be approved by

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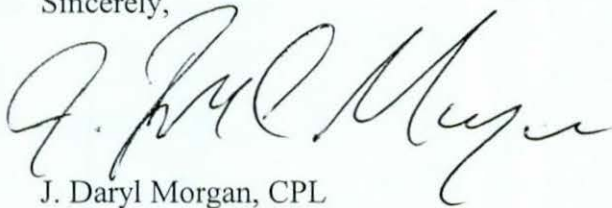
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the Railroad Commission could be smaller or larger than 80 acres, depending upon the evidence presented at the MIPA hearing. We also understand that the Commission can only pool acreage, which it finds to be reasonably productive; consequently if it were to find that a portion of M-110304 was not productive then it would only pool the productive portion. This letter will constitute proof of the Board's consent to MIPA pooling of M-110304.

Please contact me if I can provide you with any additional information. Thank you for your attention to this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Daryl Morgan". The signature is fluid and cursive, with a large initial "J" and "M".

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

6

File No. M-110304

Ltr. to David Gross

Date Filed: 3/5/10

Jerry E. Patterson, Commissioner

By: David Morgan

**DO NOT DESTROY**



**Texas General Land Office  
UNIT AGREEMENT MEMO**

PA10-76

**Unit Number** 4738  
**Operator Name** ENCANA OIL & GAS (USA) INC **Effective Date** 5/4/2010  
**Customer ID** C000044571 **Unitized For** Gas  
**Unit Name** Adams State Unit **Unit Term** 0 Months  
**County 1** Leon **Old Unit Number** **Inactive Status Date**  
**County 2** Robertson 0  
**County 3** 0  
**RRC District:** 05 0  
**Unit Type:** Permanent 0  
**State Royalty Interest:** 0.0053267045455 0  
**State Part in Unit:** 0.0213068181818 0  
**Unit Depth** **Well:**  
**Below Depth** 0 **Formation:**  
**Above Depth** 0 **Participation Basis:** Surface Acreage  
*[If Exclusions Apply: See Remarks]*

**MF Number** MF110304 **Tract Number** 1  
**Lease Acres** 15 / **Total Unit Acres** 704 =  
**Tract Participation:** 0.0213068 X  
**Lease Royalty** 0.25 = **Manual Tract Participation:**  0 **See Remarks**  
**Tract Royalty Participation** 0.0053267 **Manual Tract Royalty:**  0

<b>Tract Royalty Reduction</b>	Yes
<b>Tract Royalty Rate</b>	0.2
<b>Tract On-Line Date:</b>	7/14/2010

01-002 774

API Number

RRC Number

Remarks:

Prepared By:

M

GLO Base Updated By:

me

RAM Approval By:

SKJ

GIS By:

A

Prepared Date:

5-6-10

GLOBase Date:

5-6-10

RAM Approval Date:

5-10-2010

GIS Date:

8-10-10

## Pooling Committee Report

**To:** School Land Board PA10-76  
**Date of Board Meeting:** May 4, 2010 Unit Number: 4738  
**Effective Date:** 5/4/2010  
**Unit Expiration Date:** Permanent  
**Applicant:** PETROGULF CORP / ENCANA OIL & GAS (USA) INC  
**Attorney Rep:** David Gross / H. Philip Whitworth, Jr.  
**Operator:** ENCANA OIL & GAS (USA) INC  
**County 1:** Leon  
**County 2:** Robertson  
**County 3:**  
**Unit Name:** Adams State Unit  
**Field Name:** Hilltop Resort (Bossier)

<u>Lease Type</u>	<u>MF Number</u>	<u>Lease Royalty</u>	<u>Expiration Date</u>	<u>Lease Term</u>	<u>Lease Acres</u>	<u>Lease Acres in Unit</u>	<u>Royalty Participation</u>
SF	MF110304	0.25	7/14/2012	3 years	15	15	0.0053267

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

<b>Private Acres:</b>	689
<b>State Acres:</b>	15
<b>Total Unit Acres:</b>	704

<b><u>Participation Basis:</u></b>	
Surface Acreage	
<b><u>State Acreage:</u></b>	2.13%
<b><u>State Unit Royalty:</u></b>	0.53%

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

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

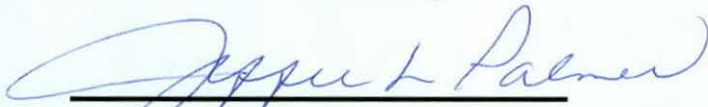
<b><u>RRC Rules:</u></b>	<b><u>Spacing Acres:</u></b>
Statewide	40

REMARKS:

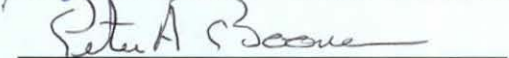
- Petrogulf Corporation and EnCana Oil & Gas (USA), Inc. are requesting permanent gas pooling to all depths.
  
- EnCana proposes to drill up to six unit wells to test the Bossier Formation. The first well is to be spud in May this year with a proposed total depth of 22,000 feet.
  
- With approval of the unit the State's unit royalty participation will be 0.53%. If a unit well is on-line to sales by July 14, 2010, Petrogulf Corporation will earn a reduced royalty to 20% on the State lease, making the State's unit royalty participation 0.43%.
  
- Horizontal severance is included in the State lease.

POOLING COMMITTEE RECOMMENDATION:

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



Jeffrey L. Palmer - Office of the Attorney General



Peter A. Boone - General Land Office



David Zimmerman - Office of the Governor

4-22-10

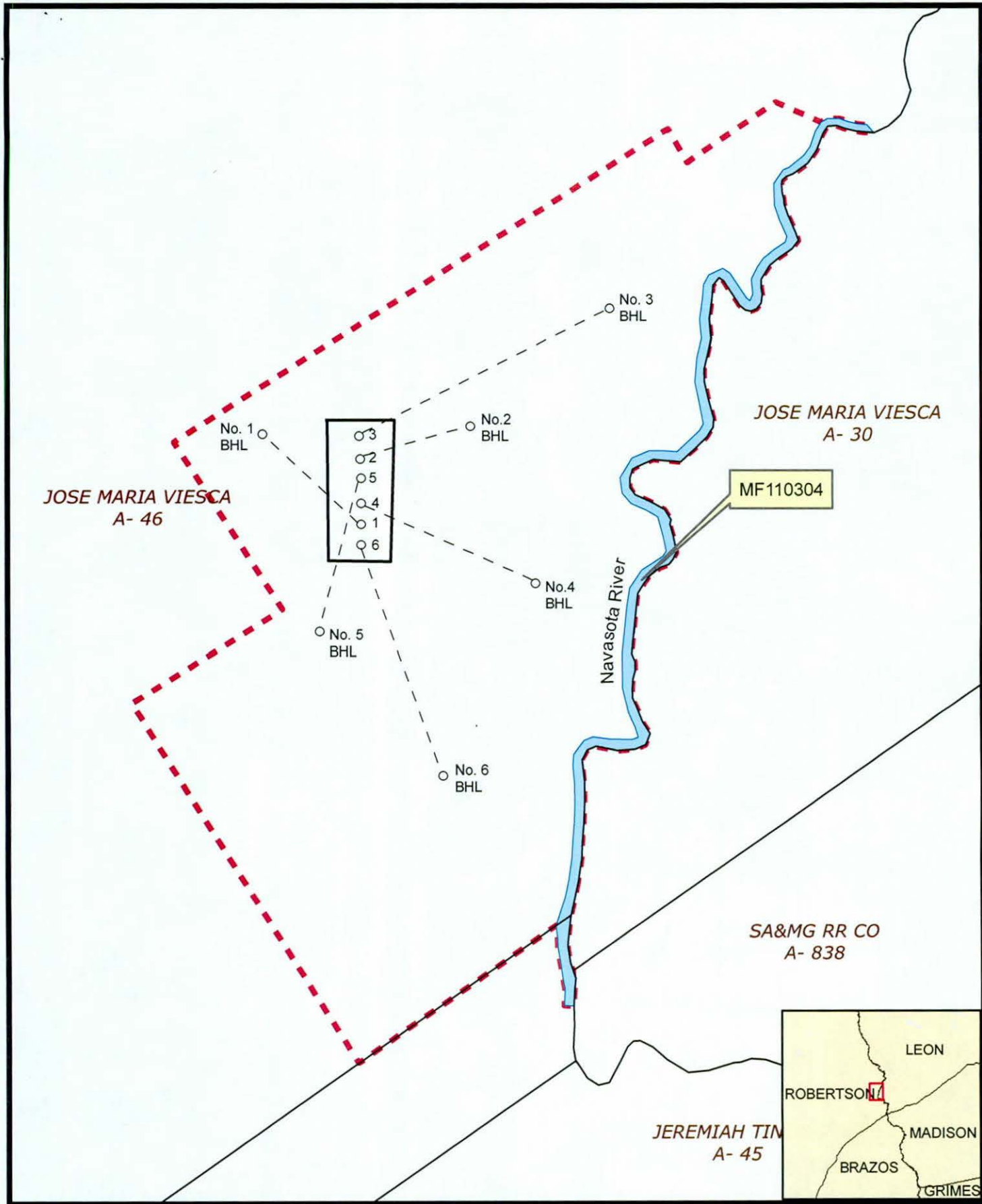
Date:

4-22-10

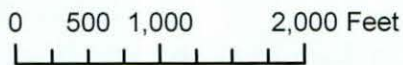
Date:

4-26-10

Date:



Petrogulf Corp / EnCana Oil & Gas (USA), Inc.  
 Adams State Unit  
 MF110304  
 Hilltop Resort (Bossier)  
 Leon & Robertson Counties  
 Unit #4738  
 PA10-76



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



Map Compiled By: Zeke Guillen  
 May 4, 2010



**RATIFICATION OF POOLING DECLARATION  
ADAMS-STATE UNIT  
ROBERTSON COUNTY, TEXAS**

WHEREAS, a certain instrument, entitled Pooling Declaration, Adams-State Unit ("Unit Agreement"), has been executed for conducting Unit Operations in Robertson County, Texas, as more particularly described in said Unit Agreement filed of Record at Volume 1106, Page 236 of the Official Public Records of Robertson County, Texas; and,

WHEREAS, a person may become a party to said Unit Agreement by signing the original of said instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions thereof;

WHEREAS, the State of Texas is the owner of Royalty Interests in the Adams-State Unit ("Unit") and pursuant to the provisions of Subchapter E, Chapter 52 of the Natural Resources Code, the School Land Board has approved said Unit Agreement, upon the condition, however, that the Working Interest Owners agree to the terms hereinafter set forth in consideration of the commitment of the State's Royalty Interests to said Unit, and the Commissioner of the General Land Office is authorized by said statute to commit the State's royalty interests to said Unit on behalf of the State:

NOW THEREFORE, KNOW ALL MEN BY THESE PRESENTS, that the undersigned, the Commissioner of the General Land Office of the State of Texas, acting on behalf of the State, for and in consideration of the premises and the benefits anticipated to accrue to the State under said Unit Agreement, does hereby commit to said Unit Agreement the Royalty Interests of the State of Texas as described in said Unit Agreement, and does hereby agree that the State of Texas shall be bound by all of the provisions of said Unit Agreement, except as hereinafter set forth, the same as if the undersigned had executed the original or a counterpart of said Unit Agreement.

This instrument is executed by the undersigned upon the condition that the Working Interest Owners agree to the following terms in consideration of the commitment of the State's Royalty Interest to said Unit:

PURPOSES:

1.

This Ratification of Declaration of Pooling ("Ratification") is made for the purposes of conservation and utilization of the pooled mineral, to prevent waste, to facilitate orderly development and to preserve correlative rights. To such end, it is the purpose of

this Ratification to effect equitable participation within the Unit formed hereby. This Ratification is intended to be performed pursuant to and in compliance with all applicable statutes, decisions, regulations, rules, orders and directives of any governmental agency having jurisdiction over the production and conservation of the pooled mineral and in its interpretation and application shall, in all things, be subject thereto.

UNIT DESCRIPTION: 2.

The oil and gas leases, which are included within the pooled unit, are described in the Unit Agreement as Exhibit "A" to which leases and the records thereof reference is made for all pertinent purposes. The pooled unit consists of the 704 acres as described on Exhibit "B" and shown on a plat as Exhibit "C" to the Unit Agreement.

MINERAL POOLED: 3.

The mineral pooled and unitized ("pooled mineral") hereby shall be gas including all hydrocarbons that may be produced from a gas well as such wells are recognized and designated by the Railroad Commission of Texas or other state regulatory agency having jurisdiction over the drilling and production of oil and gas wells. The pooled mineral shall extend to all depths underlying the surface boundaries of the pooled unit ("unitized interval"), provided that the State Lease as described in Exhibit A is subject to its Paragraph 7(B), which provides for the termination of certain depths two years after the end of the primary term, unless such depths are otherwise maintained pursuant to the provisions of such State Lease.

POOLING AND EFFECT: 4.

The State's interest which is within the Unit Area is hereby committed thereto to the extent and as above described into said Unit and do unitize and pool hereunder the State's tract described in the Unit Agreement, for and during the term hereof, so that such pooling or unitization shall have the following effect:

- (a) The Unit, to the extent as above described, shall be operated as an entirety for the exploration, development and production of the pooled mineral, rather than as separate tracts.
- (b) All drilling operations, reworking or other operations with respect to the pooled mineral on land within the Unit shall be considered as though the same were on each separate tract in the Unit,

regardless of the actual location of the well or wells thereon, for all purposes under the terms of the respective leases or other contracts thereon and this Ratification.

- (c) Production of the pooled mineral from the Unit allocated to each separate tract, respectively, as hereinafter provided, shall be deemed to have been produced from each such separate tract in the Unit, regardless of the actual location of the well or wells thereon, for all purposes under the terms of the respective leases or other contracts thereon and this Ratification. Provided that, if any State Lease described in Exhibit "A" of the Unit Agreement contains provision 4(E) VARIABLE ROYALTY, and a unit well is not located on such State Lease and a reduced royalty has not otherwise been earned, then a reduced royalty may be earned by unit production, but it shall only apply to the acreage included within the unit. Acreage outside of the unitized area must earn a reduced royalty independently.
- (d) All rights to the production of the pooled mineral from the Unit, including royalties and other payments, shall be determined and governed by the lease or other contract pertaining to each separate tract, respectively, based upon the production so allocated to such tract only, in lieu of the actual production of the pooled mineral therefrom.
- (e) A shut-in oil or gas well located upon any lease included within said Unit shall be considered as a shut-in oil or gas well located upon each lease included within said Unit; provided, however, that shut-in oil or gas well royalty shall be paid to the State on each State lease wholly or partially within the Unit, according to the terms of such lease as though such shut-in oil or gas well were located on said lease, it being agreed that shut-in royalties provided in each State lease shall not be shared with other royalty owners or otherwise diminished by reason of this Ratification.
- (f) Notwithstanding any other provision hereof, it is expressly agreed that each State lease may be maintained in force as to areas lying outside the unitized area only as provided in each such lease without regard to Unit operations or Unit

production. Neither production of the pooled mineral, nor Unit operations with respect thereto, nor the payment of shut-in royalties from a Unit well, shall serve to hold any State lease in force as to any area outside the unitized area regardless of whether the production or operations on the Unit are actually located on the State lease or not. "Area" as used in this paragraph shall be based upon surface acres to the end that, except as may be provided in each State Lease, the area inside the surface boundaries of the Unit, if held, will be held as to all depths and horizons.

- (g) If the Railroad Commission of Texas (or any other Texas regulatory body having jurisdiction) shall adopt special field rules providing for oil and/or gas proration units of less than 704 acres, then Lessee agrees to either (1) drill to the density permitted by the Railroad Commission, (2) make application to the School Land Board of the State of Texas to reform the Unit to comply with Railroad Commission unit rules, or (3) make application to the School Land Board of the State of Texas for such remedy as may be agreeable to the Board.
- (h) This Ratification shall not relieve Lessee from the duty of protecting the State lease from drainage from any well situated on privately owned land outside the Unit Area or as to any mineral not pooled hereby, but, subject to such obligation, Lessee may produce the allowable for the entire unit as fixed by the Railroad Commission of Texas or other lawful authority, from any one or more wells completed thereon.
- (i) There shall be no obligation to drill internal offsets to any other well on separate tracts within the Unit Area, nor to develop the tracts separately, as to the pooled mineral.
- (j) Should the Unit Agreement terminate for any cause, the leases and other contracts affecting the lands within the Unit, if not then otherwise maintained in force and effect, shall remain and may be maintained in force and effect under their respective terms and conditions in the same manner as though there had been production or operations under said lease or contract and the same had

ceased on the date of the termination of the Unit Agreement.

ALLOCATION OF PRODUCTION: 5.

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

TAKING ROYALTY IN KIND: 6.

Notwithstanding anything contained herein to the contrary, the State may, at its option, upon not less than sixty (60) days notice to Lessee, require that payment of all or any royalties accruing to the State under this Ratification be made in kind, without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting and otherwise making the oil, gas and other products produced hereunder ready for sale or use.

FULL MARKET VALUE: 7.

In the event the State does not elect to take its royalty in kind, the State shall receive full market value for its royalty hereunder, such value to be determined as follows:

(a) As to royalty on oil 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 for the field where produced and when run, or (2) the highest market price thereof offered or paid for the field where produced and when run, or (3) the gross proceeds of the sale thereof, whichever is the greatest;

(b) As to royalty on gas, such value to be based on (1) the highest market price paid or offered for gas of comparable quality for the field where produced and when run, or (2) the gross price paid or offered to the producer, whichever is the greater.

lease or the laws applicable thereto; (2) constitute a waiver or release of any claim for money, oil, gas or other hydrocarbons, or other thing due to the State by reason of the existence or failure of such lease; (3) constitute a waiver or release of any claim by the State that such lease is void or voidable for any reason, including, without limitation, violations of the laws of the State with respect to such lease or failure of consideration; (4) constitute a confirmation or recognition of any boundary or acreage of any tract or parcel of land in which the State has or claims an interest; or (5) constitute a ratification of, or a waiver or release of any claim by the State with respect to any violation of a statute, regulation, or any of the common laws of this State, or any breach of any contract, duty, or other obligation owed to the State.

COUNTERPARTS:

13.

This Ratification may be executed in counterparts and if so executed shall be valid, binding and have the same effect as if all the parties hereto actually joined in and executed one and the same document. For recording purposes and in the event counterparts of this Ratification are executed, the executed pages, together with the pages necessary to show acknowledgments may be combined with the other pages of this Ratification so as to form what shall be deemed and treated as a single original instrument showing execution by all parties hereto.

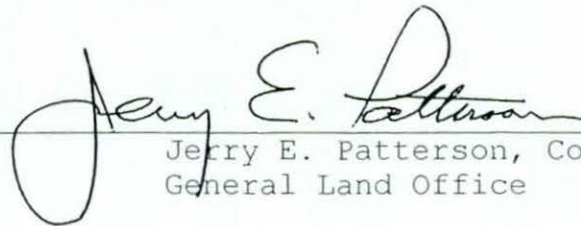
IN WITNESS WHEREOF, the parties hereto have executed this Ratification upon the respective dates indicated below.

Date Executed 4/29/10

STATE OF TEXAS

Legal   two  

By:



Jerry E. Patterson, Commissioner  
General Land Office

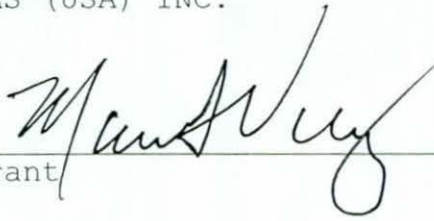
Content   one  

Geology   III  

Executive   All by LA

Date Executed June 15, 2010

ENCANA OIL & GAS (USA) INC.

By:  AGT  
M

Mark A. Virant

Its: Attorney-In-Fact

Date Executed JUNE 17, 2010

PETROGULF CORPORATION

By: 

Betty A. Pennington

Its: Executive Vice President

CERTIFICATE

I, Stephanie Crenshaw, Secretary of the School Land Board of the State of Texas, do hereby certify that at a meeting of the School Land Board duly held on the 4<sup>th</sup> day of May, 2010, the foregoing instrument was presented to and approved by said Board under the provisions of Subchapter E, Chapter 52, of the Natural Resources Code, all of which is set forth in the Minutes of the Board of which I am custodian.

IN TESTIMONY WHEREOF, witness my hand this the 30<sup>th</sup> day of June, 2010.

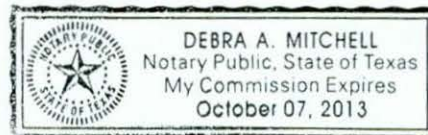
Stephanie Crenshaw  
Secretary of the School Land Board

STATE OF TEXAS

COUNTY OF DALLAS

This instrument was acknowledged before me on June 15, 2010, by Mark A. Virant as Attorney-In-fact of EnCana Oil & Gas (USA) Inc., a Delaware corporation on behalf of said corporation.

Debra A. Mitchell  
Notary Public in and for the State of Texas



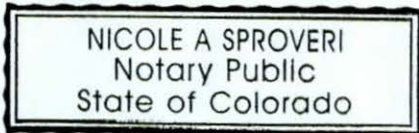
STATE OF COLORADO

COUNTY OF DENVER

This instrument was acknowledged before me on June 17, 2010,  
2010, by BETTY A. PENNINGTON as

Executive Vice President of Petrogulf Corporation, a  
COLORADO corporation on behalf of said  
corporation.

Nicole A Sproveri  
Notary Public in and for the State of Colorado



My Commission Expires June 19, 2012

**POOLING DECLARATION  
ADAMS-STATE UNIT**

STATE OF TEXAS           §  
  §  
COUNTY OF ROBERTSON   §

KNOW ALL MEN BY THESE PRESENTS:

Whereas, the undersigned, hereinafter referred to as "Lessee", are the owners and holders of oil, gas and mineral leases or have the current legal right to exercise the pooling provisions of such leases hereby create a unit comprised of lands described on the plat attached hereto as Exhibit "C". That, by virtue of the authority conferred by the terms of such oil, gas and mineral leases which are more particularly described on Exhibit "A" attached hereto, and incorporated herein by reference for all purposes (collectively referred to herein as the "Leases"), Lessee hereby pools, unitizes and combines all or a portion of the lands covered thereby with other land or lands, lease or leases to form a pooled unit for the proper and orderly development and operation of the premises, as required under the rules and regulations of the Texas Railroad Commission, or other governmental authority having jurisdiction over same;

Now, therefore, in consideration of the premises, Lessee hereby pools, unitizes and combines the leases, lands and interests, including renewals, extensions, ratifications and amendments thereof, to form a unit as outlined on the plat, attached hereto as Exhibit "C" (the "Unit").

- 1) Description of Unit. Production from the Unit shall be allocated proportionately among all of the tracts being described on Exhibit "B" attached hereto, within the Unit in the proportion which the number of surface acres in each such tract bears to the total number of surface acres in the Unit. If at any time any tract of land or interest within the Unit is not properly pooled or unitized hereby, or is not otherwise committed to the Unit, such fact shall not affect, terminate, impair or otherwise invalidate the Unit as to any interest properly pooled or unitized hereby or otherwise.
- 2) Unit Name. The pooled unit created hereby shall be known as the EnCana Oil & Gas (USA) Inc. **Adams-State Unit** containing **704.00 acres**, more or less.
- 3) Additional Interests Included. In the event the undersigned own any leasehold interest or mineral and/or royalty interest other than those specifically described or referred to herein covering the lands within the Unit area, including any unleased mineral interest in lands inside the Unit area, or any interest for which ratification of the pooled unit created hereby is necessary, said interest or interests are hereby pooled and combined into said pooled unit as hereby declared, without the necessity of specifically enumerating such interest or interests and the specific lands which they cover or in which they are held.
- 4) Right to Amend. The undersigned hereby expressly reserve the right, from time to time, to amend this Pooling Declaration, and the respective terms and provisions hereof, and to change the size and area of, and interest covered by the pooled unit described herein, including, without limitation, the power (i) to change, reduce, enlarge or extend the size or configuration of the Unit area; (ii) to include any other formation or formations and any other mineral or minerals therein, thereunder or produced therefrom, all in accordance with the terms and provisions of the Leases; (iii) to include in the pooled unit described herein or any amendments hereto, oil, gas and mineral leases, or interests in the lands described therein, covering interest in the Unit area, which are secured or obtained subsequent to the date hereof, or prior to the date hereof and not included and described herein, and (iv) to include in the pooled unit described herein or in any amendments hereto, full or undivided interests in the Unit area which are not otherwise included herein by the respective owner of such full or undivided interests. Any such amendment may be executed by the Operator of the Unit on behalf of the undersigned, provided that such amendment will not change the interests of the owners in the Unit.
- 5) Dissolution of Unit. The unit formed hereby may be dissolved by EnCana Oil & Gas (USA) Inc. at any time by an instrument filed for record in Robertson County, Texas, for failure to establish Unit production, or after cessation of operations upon the pooled unit. The Unit hereby created shall remain in force as long as the pooled minerals are being produced from the Unit, or so long as the leases covering the Unit are maintained in force and effect by payment or tender of shut-in royalties, or by other means, in accordance with the terms of said leases.

Doc           Bk           Vol           Ps  
20102289   OR           1106       236

- 6) Multiple Originals. This instrument may be executed in any number of counterparts, each which shall have the same force and effect as an original instrument executed by all of the undersigned parties, regardless of whether such counterpart is executed subsequent to the date hereof or the filing of record of a counterpart hereof. Further, this instrument may be ratified by the undersigned or by other parties by separate instruments in writing, referring to this instrument. This Pooling Declaration, and each counterpart or ratification hereof, shall be binding upon each party who executes the same, without regard to whether any other party owning an interest in the Leases or Unit area may have executed this instrument, or a counterpart or ratification hereof.

IN WITNESS WHEREOF, this Pooling Declaration is executed on this 11<sup>th</sup> day of May, 2010.

ENCANA OIL & GAS (USA) INC.

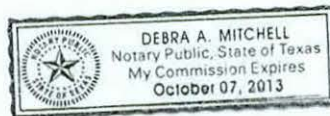
By: *Mark A. Virant* *MS*  
Mark A. Virant, Attorney in Fact

**ACKNOWLEDGEMENT**

State of Texas           §  
County of Dallas       §

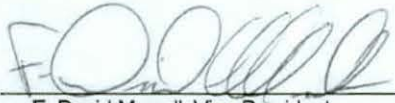
This instrument was acknowledged before me on the 11<sup>th</sup> day of May, 2010, by Mark A. Virant, Attorney-in-Fact for EnCana Oil & Gas (USA) Inc., a Delaware corporation, on behalf of said corporation.

*Debra A. Mitchell*  
Notary Public, State of Texas



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20102289 OR       1106       237


NAVASOTA RESOURCES LTD., LLP  
By Alta Mesa GP, LLC, its sole general partner

By:   
F. David Murrell, Vice President –  
Land and Business Development

ACKNOWLEDGEMENT

State of Texas           §  
County of Harris       §

This instrument was acknowledged before me on the 14<sup>th</sup> day of May, 2010, by F. David Murrell as Vice President – Land and Business Development for Alta Mesa GP, LLC, the sole general partner of **Navasota Resources, Ltd., LLP**, a Texas limited liability partnership, acting as such general partner on behalf of such limited liability partnership.

  
Notary Public, State of Texas



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Petrogulf Corporation

By: Betty A. Pennington

Name: Betty A. Pennington

Title: EXECUTIVE VICE PRESIDENT

**ACKNOWLEDGEMENT**

State of Colorado §  
County of Denver §

This instrument was acknowledged before me on the 14<sup>th</sup> day of May, 2010, by Betty A. Pennington, Executive Vice President for Petrogulf Corporation, a corporation, on behalf of said corporation.

NICOLE A SPROVERI  
Notary Public  
State of Colorado

My Commission Expires June 19, 2012

Nicole A. Sproveri  
Notary Public, State of Colorado

Doc 20102289 Bk OR Vol 1106 Pg 239

**EXHIBIT A**

Attached to and made a part of that certain Pooling Declaration executed May 5, 2010, designating the Adams-State Unit

**ECA File#:** 875983.106  
**Date:** 05/11/2004  
**Lessor:** Diana Clark Kimble, et al  
**Lessee:** First Source Texas, Inc.  
**Recorded:** Memorandum, V899/P532, Robertson County, Texas

**ECA File#:** 878460.000  
**Date:** 05/11/2004  
**Lessor:** Edward I. Adams and wife, Bobbie J. Adams  
**Lessee:** First Source Texas, Inc.  
**Recorded:** Memorandum, V899/P542, Robertson County, Texas

**ECA File#:**  
**Date:** 07/14/2009  
**Lessor:** State of Texas, M-110304  
**Lessee:** Petrogulf Corporation  
**Recorded:** V1088/P516, Robertson County, Texas

Doc 20102289 Bk OR Vol 1106 Ps 240

**EXHIBIT B**

Attached to and made a part of that certain Pooling Declaration executed May 5, 2010, designating the Adams-State Unit.

**ADAMS-STATE UNIT DESCRIPTION**

**BEING** a called 704.00 unit situated in the J.M. Viesca survey, A-46 in Robertson County, Texas and the J.M. Viesca survey, A-30 in Leon county, Texas, and being all of lot 14 called 140.70 acres, lot 15 called 140.30 acres, lot 16 called 140.30 acres and being 126.2 acres out of called 144.20 acre lot 17, and being the east 62.8 acres out of called 150 acre lot 11, and being the east 78.7 acres out of called 159 acre lot 12 all being part of Mitchell Lake Ranch sub-division plat being described in Volume 1, Page 47, and being all of a called 15 acre lease described as Oil and Gas lease No. M-110304 with the state of Texas, said unit to be more particularly described as follows;

**BEGINNING** at the most westerly corner of said lot 15;

**THENCE** northeasterly with northwest line of said lots 15, 16, and 17 to a corner of said lot 17;

**THENCE** southeasterly with a northeast line of said lot 17;

**THENCE** northeasterly with a northwest line of said lot 17 to a point;

**THENCE** southeasterly over and across said lot 17 to a point in west line of said 15 acre lease leaving 126.2 acres out of said lot 17;

**THENCE** with west line of said 15 acres northeasterly to a point described as the upstream end of said lease in M-110304;

**THENCE** continuing along north and east side of said 15 acre lease southerly to a point in the downstream end of said 15 acres being in the north line of the S.A. & M.G. RR Co. survey, A-838 of Leon County, Texas;

**THENCE** northerly along west side of 15 acre lease to the southeast corner of said lot 12;

**THENCE** southwesterly with the southeast line of said lot 12 to a point in the southeast line of same from which a line projected northwesterly being perpendicular to the southeast line over and across said lot 12 leaving the east 78.7 acres of same;

**THENCE** northwesterly over and across said lot 12 and lot 11 to a point in the northwest line of same containing the east 62.8 acres out of lot 11;

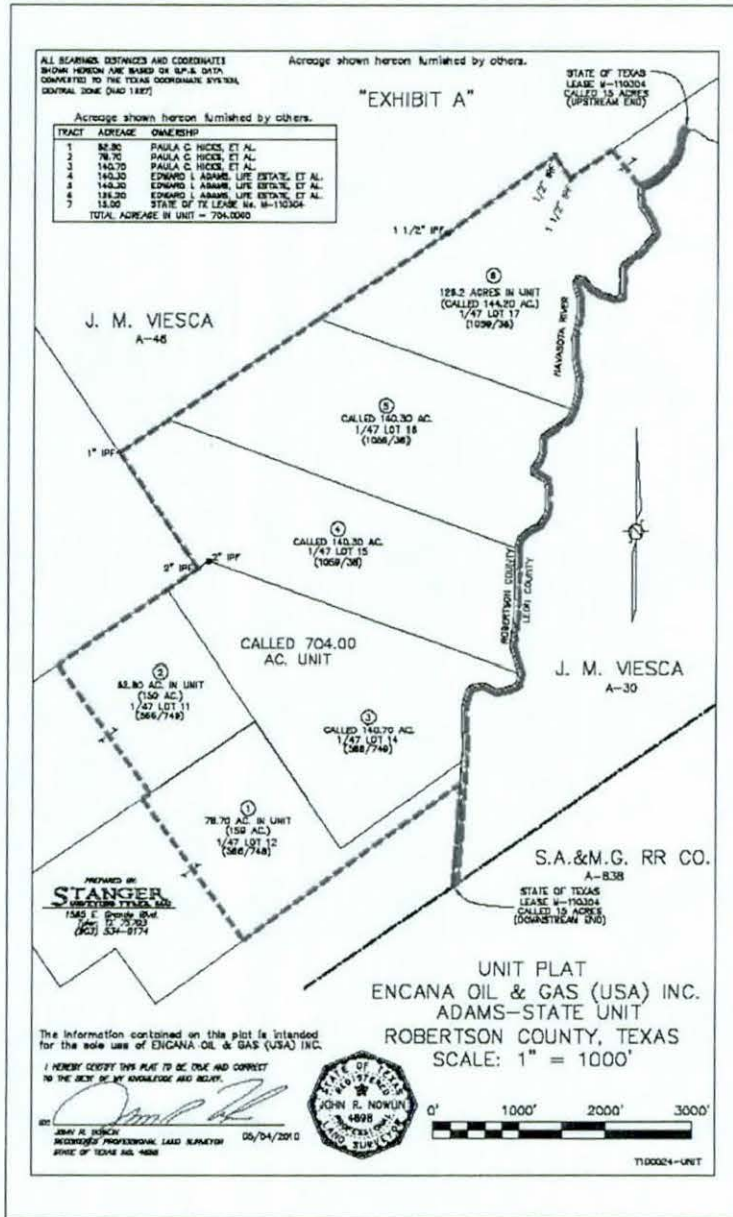
**THENCE** northeasterly with the northwest line of said lot 11 and lot 14 to a common corner of lots 14 and 15 being in the southwest line of said lot 15;

**THENCE** northwesterly with the southwest line of said lot 15 back to the place of beginning contains a called 704.00 acres of land.

Doc 20102289 Bk OR Vol 1106 Ps 241

EXHIBIT C

Attached to and made a part of that certain Pooling Declaration executed May 5, 2010, designating the Adams-State Unit



Doc 20102289 OR Bk Vol 1106 Pg 242

7.

File No. MF 110304  
Pool Committee Report - 4  
Reduction of Pooling Declaration

Date Filed: 7/1/10  
Jerry Patterson, Commissioner

By 

# PETROGULF

C O R P O R A T I O N

June 30, 2010

COMMISSIONER OF THE GENERAL LAND OFFICE  
STATE OF TEXAS  
PO Box 12873  
Austin, TX 78711-2873

Gentlemen:

Enclosed for your files are certified copies of State of Texas Lease M-110304 which is located in Robertson and Leon Counties. Also enclosed is our check in the amount of \$50.00 to cover your required filing fees.

Very truly yours,

PETROGULF CORPORATION



LOUISE ROSEWELL  
Asst. Land Manager

Enc.

PETROGULF CORPORATION  
2 Houston Ctr. • 909 Fannin, Suite 3820 • Houston, TX 77010 • (303) 893-5400

CHECK NO. 214056

Reference	Inv date	Invoice No.	Invoice Amt	Prior Pmt	Discount	Amount Paid
1006-AP-6	06/03/10	CHKREQ06031	50.00	0.00	10709191	50.00

FILING FEE FOR CERTIFIED COPY OF LEASE M-110304: ROBERTSON & LEON COUNTIES



Vendor  
-----  
2324 COMMISSIONER OF THE GENERAL

Ck date  
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# The State of Texas

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## Austin, Texas

Accepted for Filing in:  
Robertson County  
On: Nov 02, 2009 at 10:03A  
By: Carol Bancroft

### OIL AND GAS LEASE NO. M-110304

TX0586  
LEASE FILE

WHEREAS, pursuant to the Texas Natural Resources Code Chapters 32, 33, 51, and Chapter 52, Subchapters A-D and H, (said Code being hereinafter referred to as N.R.C.), and subject to all rules and regulations promulgated by the Commissioner of the General Land Office and/or the School Land Board pursuant thereto, and all other applicable statutes and amendments to said N.R.C., the following area, to-wit:

TRACT 5-D OF THE NAVASOTA RIVER, ROBERTSON COUNTY, TEXAS, CONTAINING APPROXIMATELY 15 ACRES; TRACT 5-D IS BOUND ON ITS UPSTREAM END BY A LINE BEARING GRID N 30° 08' W AND PASSING THROUGH A POINT HAVING COORDINATES OF X=3,278,340 FEET AND Y=520,150 FEET, TEXAS STATE PLANE COORDINATE SYSTEM, CENTRAL ZONE, NAD 1927, AND IS BOUND ON ITS DOWNSTREAM END BY A SOUTHWESTERLY EXTENSION OF THE NORTHWEST LINE OF THE S.A. & M.G. RY. CO. SURVEY, A-838, LEON COUNTY (TRACT IS SUBJECT TO THE SMALL BILL),

was, after being duly advertised, offered for lease on 14<sup>th</sup> day of July, 2009, at 10:00 o'clock a.m., by the Commissioner of the General Land Office of the State of Texas and the School Land Board of the State of Texas, for the sole and only purpose of prospecting and drilling for, and producing oil and/or gas that may be found and produced from the above described area; and

WHEREAS, after all bids and remittances which were received up to said time have been duly considered by the Commissioner of the General Land Office and the School Land Board at a regular meeting thereof in the General Land Office, on the 14<sup>th</sup> day of July, 2009, hereinafter the "effective date" and it was found and determined that PETROGULF CORPORATION whose address is 518 17TH STREET, SUITE 1525, DENVER, COLORADO 80202-4124, had offered the highest and best bid for a lease of the area above described and is, therefore, entitled to receive a lease thereon:

NOW, THEREFORE, I, Jerry E. Patterson, Commissioner of the General Land Office of the State of Texas, hereinafter sometimes referred to as "Lessor," whose address is Austin, Texas, by virtue of the authority vested in me and in consideration of the payment by the hereinafter designated Lessee, the sum of Thirty-Eight Thousand Three Hundred Twenty-Five And 00/100 Dollars (\$38,325.00), receipt of which is hereby acknowledged and of the royalties, covenants, stipulations and conditions contained and hereby agreed to be paid, observed and performed by Lessee, do hereby demise, grant, lease and let unto the above mentioned bidder the exclusive right to prospect for, produce and take oil and/or gas from the aforesaid area upon the following terms and conditions, to-wit:

1. RESERVATION: There is hereby excepted and reserved to Lessor the full use of the property covered hereby and all rights with respect to the surface and subsurface thereof for any and all purposes except those granted and to the extent herein granted to Lessee, together with the rights of ingress and egress and use of said lands by Lessor and its mineral lessees, for purposes of exploring for and producing the minerals which are not covered, or which may not be covered in the future, under the terms of this lease, but which may be located within the surface boundaries of the leased area. All of the rights in and to the leased premises retained by Lessor and all of the rights in and to the leased premises granted to Lessee herein shall be exercised in such a manner that neither shall unduly interfere with the operations of the other.

2. TERM: Subject to the other provisions hereof, this lease shall be for a term of three (3) years from the effective date hereof (herein called "primary term") and as long thereafter as oil or gas is produced in paying quantities from said area.

3. DELAY RENTALS: If no well be commenced on the land hereby leased on or before the anniversary date of this lease, this lease shall terminate as to both parties unless the Lessee on or before said date shall pay or tender to the Commissioner of the General Land Office of the State of Texas at Austin, Texas, the sum of Five Dollars (\$5.00), per acre, which shall operate as rental and cover the privilege of deferring the commencement of a well for twelve (12) months from said date. In like manner and upon like payments or tenders the commencement of a well may be further deferred for like periods of the same number of months successively during the primary term hereof.

4. PRODUCTION ROYALTIES: Subject to the provisions for royalty reductions set out in subparagraph (E) of this paragraph 4, upon production of oil and/or gas, the Lessee agrees to pay or cause to be paid to the Commissioner of the General Land Office in Austin, Texas, for the use and benefit of the State of Texas, during the term hereof:

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

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



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COUNTY

(C) PROCESSED GAS: As a royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbons, 1/4 part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the Lessor. All royalties due herein shall be based on one hundred percent (100%) of the total plant production of residue gas attributable to gas produced from this 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 arms' length (or if there is no such third party, the highest percent then being specified in processing agreements or contracts in the industry), whichever is the greater. The respective royalties on residue gas and on liquid hydrocarbons shall be determined by 1) the highest market price paid or offered for any gas (or liquid hydrocarbons) of comparable quality in the general area or 2) the gross price paid or offered for such residue gas (or the weighted average gross selling price for the respective grades of liquid hydrocarbons), whichever is the greater. In no event, however, shall the royalties payable under this paragraph be less than the royalties which would have been due had the gas not been processed.

(D) OTHER PRODUCTS: As a royalty on carbon black, sulphur or any other products produced or manufactured from gas (excepting liquid hydrocarbons) whether said gas be "casinghead," "dry" or any other gas, by fractionating, burning or any other processing, 1/4 part of gross production of such products, or the market value thereof, at the option of Lessor, such market value to be determined as follows:

- (1) On the basis of the highest market price of each product, during the same month in which such product is produced, or
- (2) On the basis of the average gross sale price of each product for the same month in which such products are produced; whichever is the greater.

(E) VARIABLE ROYALTY: (i) Subject to the other provisions of this lease, it is hereby provided that in the event production in paying quantities is established pursuant to the terms of this lease and such production is brought on line and sales thereof are commenced within twelve (12) months of the effective date hereof, the royalty rate provided herein shall be reduced to 20%, and shall apply to each subsequent well drilled and produced on the land covered by this lease. Provided that, if during such twelve (12) month term during which Lessee may earn a reduced royalty rate of 20% as herein provided, Lessee should drill in good faith and complete the first well as a dry hole on the land covered by this lease, Lessee may receive a three (3) month extension of the term in which to earn a reduced royalty rate by giving notice to the Commissioner of the General Land Office, commencing drilling operations on an additional well prior to the expiration of such three (3) month period and prosecuting diligently and in good faith the drilling of such additional well and completing same so that production in paying quantities is established and so that such production is brought on line and sales thereof are commenced prior to the expiration of such three (3) month extension period.

(ii) In the event production in paying quantities is established pursuant to the terms of this lease and such production is brought on line and sales thereof are commenced after the expiration of twelve (12) months from the effective date hereof but prior to the expiration of twenty-four (24) months from the effective date hereof, the royalty rate provided herein shall be reduced to 22.5% and shall apply to each subsequent well drilled and produced on the land covered by this lease. Provided that, if during such twelve (12) month term during which Lessee may earn a reduced royalty rate of 22.5% as herein provided, Lessee should drill in good faith and complete the first well as a dry hole on the land covered by this lease, Lessee may receive a three (3) month extension of the term in which to earn a reduced royalty rate by giving notice to the Commissioner of the General Land Office, commencing drilling operations on an additional well prior to the expiration of such three (3) month period and prosecuting diligently and in good faith the drilling of such additional well and completing same so that production in paying quantities is established and so that such production is brought on line and sales thereof are commenced prior to the expiration of such three (3) month extension period.

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

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

(H) 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 anything contained herein to the contrary, and subject to the consent in writing of the Commissioner of the General Land Office, Lessee may recycle gas for gas lift purposes on the leased premises after the liquid hydrocarbons contained in the gas have been removed, and no royalties shall be payable on the gas so recycled until such time as the same may thereafter be produced and sold or used by Lessee in such manner as to entitle Lessor to a royalty thereon under the royalty provisions of this lease.

(I) 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 to Lessor 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.

(J) MARGINAL PRODUCTION ROYALTY: Upon Lessee's written application, the School Land Board may reduce the royalty rate set out in this paragraph and/or the minimum royalty set out in subparagraph 4 (I) to extend the economic life of this lease and encourage recovery of oil or gas that might otherwise remain unrecovered. Any such royalty reduction must conform to the requirements of any School Land Board administrative rules on this subject. Royalty may not be reduced below the applicable statutory minimum.

5. 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 accruing when the royalty is sixty (60) days overdue. Affidavits and supporting documents which are not filed when due shall incur a penalty in an amount set by the General Land Office administrative rule which is effective on the date when the affidavits or supporting documents were due. The Lessee shall bear all responsibility for paying or causing royalties to be paid as prescribed by the due date provided herein. Payment of the delinquency penalty shall in no way operate to prohibit the State's right of forfeiture as provided by law nor act to postpone the date on which royalties were originally due. The above penalty provisions shall not apply in cases of title dispute as to the State's portion of the royalty or to that portion of the royalty in dispute as to fair market value.

6. (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) 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



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Commission forms for application to drill. Copies of well tests, completion reports and plugging reports shall be supplied to the General Land Office at the time they are filed with the Texas Railroad Commission. Lessee shall supply the General Land Office with any records, memoranda, accounts, reports, cuttings and cores, or other information relative to the operation of the above-described premises, which may be requested by the General Land Office, in addition to those herein expressly provided for. Lessee shall have an electrical and/or radioactivity survey made on the bore-hole section, from the base of the surface casing to the total depth of well, of all wells drilled on the 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.

7. 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 11 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 Natural Resources Code Sections 52.151-52.153, 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. Within 90 days of a partial termination of this lease in accordance with this subparagraph and upon payment of the minimum filing fee set by General Land Office rules in effect at the time of the partial termination, Lessee shall have the right to obtain a surface lease for ingress and egress on and across the terminated portion of the leased premises as may be reasonably necessary for the continued operation of the portions of the lease remaining in force and effect. If Lessee fails to apply for a surface lease within the 90 day period specified above, Lessee may apply for a surface lease from the Land Office, but the Land Commissioner has the discretion to grant or deny such application and to set the fee for such surface lease.

(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 7 (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 School Land Board. 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. 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.

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

9. 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 10, using the expiration of the primary term as the date of cessation of production under Paragraph 10. 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.

10. 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.

11. 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. 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. 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.

12. 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



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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 to the Commissioner 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 in an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within thirty (30) days from the end of the 12-month period; and none of these provisions will relieve Lessee of the obligation of reasonable development nor the obligation to drill offset wells as provided in N.R.C. Section 52.034; however, at the determination of the Commissioner, and with the Commissioner's written approval, the payment of compensatory royalties shall satisfy the obligation to drill offset wells. Compensatory royalty payments which are not timely paid will accrue penalty and interest in accordance with Paragraph 5 of this lease.

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

14. **USE OF WATER; SURFACE:** Lessee shall have the right to use water produced on said land necessary for operations hereunder and solely upon the leased premises; provided, however, Lessee shall not use potable water or water suitable for livestock or irrigation purposes for water flood operations without the prior written consent of Lessor. Subject to its obligation to pay surface damages, Lessee shall have the right to use so much of the surface of the land that may be reasonably necessary for drilling and operating wells and transporting and marketing the production therefrom, such use to be conducted under conditions of least injury to the surface of the land. Lessee shall pay surface damages in an amount set by the General Land Office fee schedule which is effective on the date when the activity requiring the payment of surface damages occurs.

15. **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.

(A) **UPLANDS:** Lessee shall build and maintain fences around its slush, sump, and drainage pits and tank batteries so as to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level all slush pits and cellars and completely clean up the drilling site of all rubbish thereon.

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

(C) **RIVERS:** To the extent necessary to prevent pollution, the provisions found in subsections (a) and (b) of this paragraph shall also apply to rivers and riverbeds.

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

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

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

18. **RELEASES:** Lessee may relinquish the rights granted hereunder to the State at any time by recording the relinquishment in the county where this area is situated and filing the recorded relinquishment or certified copy of same in the General Land Office within ninety (90) days after its execution accompanied by the filing fee prescribed by the General Land Office rules in effect on the date of receipt by the General Land Office of such relinquishment or certified copy thereof. Such relinquishment will not have the effect of releasing Lessee from any liability theretofore accrued in favor of the State.

19. **LIEN:** In accordance with N.R.C. Section 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 N.R.C. Section 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, Chapter 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's 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.

20. **FORFEITURE:** If Lessee shall fail or refuse to make the payment of any sum within thirty (30) days after it becomes due, or if Lessee or an authorized agent should knowingly make any false return or false report concerning production or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith as required by law and the rules and regulations adopted by the Commissioner of the General Land Office, or if Lessee should fail to file reports in the manner required by law or fail to comply with rules and regulations promulgated by the General Land Office, the School Land Board, or the Railroad Commission, or refuse the proper authority access to the records pertaining to operations, or if Lessee or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or knowingly fail or refuse to furnish the General Land Office a correct log of any well, or if Lessee shall knowingly violate any of the material provisions of this 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 to the highest bidder, under the same regulations controlling the original sale of leases. However, nothing herein shall be construed as waiving the automatic termination of this lease by



CERTIFICATION:  
TRUE AND CORRECT  
COPY OF ORIGINAL ON  
FILE IN LEON COUNTY  
CLERK'S OFFICE

ATTEST:

*A Kaiser*  
A KAISER

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.

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

22. **APPLICABLE LAWS AND DRILLING RESTRICTIONS:** This lease shall be subject to all rules and regulations, and amendments thereto, promulgated by the Commissioner of the General Land Office governing drilling and producing operations on Permanent Free School Land (specifically including any rules promulgated that relate to plans of operations), payment of royalties, and auditing procedures, and shall be subject to all other valid statutes, rules, regulations, orders and ordinances that may affect operations under the provisions of this lease. Without limiting the generality of the foregoing, Lessee hereby agrees, by the acceptance of this lease, to be bound by and subject to all statutory and regulatory provisions relating to the General Land Office's audit billing notice and audit hearings procedures. Said provisions are currently found at 31 Texas Administrative Code, Chapter 4, and Texas Natural Resources Code Sections 52.135 and 52.137 through 52.140. In the event this lease covers land franchised or leased or otherwise used by a navigation district or by the United States for the purpose of navigation or other purpose incident to the operation of a port, then Lessee shall not be entitled to enter or possess such land without prior approval as provided under Section 61.117 of the Texas Water Code, but Lessee shall be entitled to develop such land for oil and gas by directional drilling; provided, however, that no surface drilling location may be nearer than 660 feet and special permission from the Commissioner of the General Land Office is necessary to make any surface location nearer than 2,160 feet measured at right angles from the nearest bulkhead line or from the nearest dredged bottom edge of any channel, slip, or turning basin which has been authorized by the United States as a federal project for future construction, whichever is nearer.

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

24. **FORCE MAJEURE:** Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling operations thereon, or from producing oil and/or gas therefrom, after effort made in good faith, by reason of war, rebellion, riots, strikes, fires, acts of God or any order, rule or regulation of governmental authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended upon proper and satisfactory proof presented to the Commissioner of the General Land Office in support of Lessee's contention and Lessee shall not be liable for damages for failure to comply therewith (except in the event of lease operations suspended as provided in the rules and regulations adopted by the School Land Board); and this lease shall be extended while and so long as Lessee is prevented, by any such cause, from drilling, reworking operations or producing oil and/or gas from the leased premises; provided, however, that nothing herein shall be construed to suspend the payment of rentals during the primary or extended term, nor to abridge Lessee's right to a suspension under any applicable statute of this State.

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

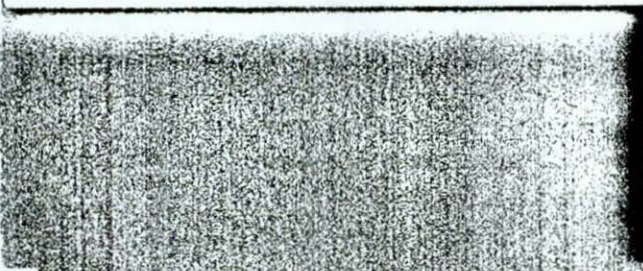
26. **REDUCTION OF PAYMENTS:** If, during the primary term, a portion of the land covered by this lease is included within the boundaries of a pooled unit that has been approved by the School Land Board in accordance with Natural Resources Code Sections 52.151-52.153, or if, at any time after the expiration 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.

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

28. **ANTIQUITIES CODE:** In the event that any feature of archeological or historical interest on Permanent Free School Land is encountered during the activities authorized by this lease, Lessee will immediately cease activities and will immediately notify the General Land Office (ATTN: Archeology Asset Management Division, 1700 N. Congress Ave., Austin, Texas 78701) and the Texas Historical Commission (P.O. Box 12276, Austin, TX 78711) so that adequate measures may be undertaken to protect or recover such discoveries or findings, as appropriate. Lessee is expressly placed on notice of the National Historical Preservation Act of 1966 (PB-89-66, 80 Stat. 915; 16 U.S.C. 420) and the Antiquities Code of Texas, Chapter 191, Tex. Nat. Code Ann. (Vernon 1993 & Supp. 1998). On state-owned land not dedicated to the Permanent School Land, Lessee shall notify the Texas Historical Commission before breaking ground at a project location. An archaeological survey might be required by the commission before construction of the project can commence. Further, in the event that any site, object, location, artifact or other feature of archaeological, scientific, educational, cultural or historic interest is encountered during the activities authorized by this lease, lessee will immediately notify lessor and the Texas Historical Commission so that adequate measures may be undertaken to protect or recover such discoveries or findings, as appropriate.

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

30. **LEASE FILING:** Pursuant to Chapter 9 of the Tex. Bus. & Com. 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. The prescribed filing fee shall accompany the certified copies sent to the General Land Office.



CERTIFICATION:  
TRUE AND CORRECT  
COPY OF ORIGINAL ON  
FILE IN LEON COUNTY  
CLERK'S OFFICE

ATTEST:

*A. Kaiser*  
A KAISER

31. 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.

Petrogult Corporation  
LESSEE  
BY: Betty A. Pennington  
TITLE: Executive Vice President  
DATE: 8/18/09

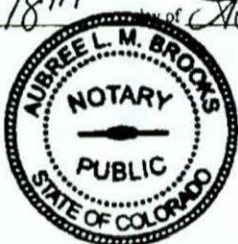
IN TESTIMONY WHEREOF, witness the signature of the Commissioner of the General Land Office of the State of Texas under the seal of the General Land Office.



STATE OF Colorado (CORPORATION ACKNOWLEDGMENT)  
COUNTY OF Welder

BEFORE ME, the undersigned authority, on this day personally appeared Betty A. Pennington  
known to me to be the person whose name is subscribed to the foregoing instrument, as Executive Vice President of  
Petrogult Corporation and acknowledged to me that he executed the same  
for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the 18th day of August



A. Brooks  
Notary Public in and for \_\_\_\_\_

My Commission Expires June 23, 2012

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 \_\_\_\_\_

THE STATE OF TEXAS }  
County of Robertson } I, Kathryn N. Brimhall, Clerk of County Court  
of said County, do hereby certify the foregoing instrument of writing with its Certificate of  
Authentication, was filed for record in my office, the 2nd day of November  
2009, at 10:10 o'clock A M., and duly recorded the 2nd day of November  
2009, at 10:10 o'clock A M., in the Official Public records of  
said County, in Vol. 1088 on pages 516-501.

WITNESS MY HAND and official seal of the County Court of this County at office in  
Franklin, the day and year last above written.

By Candace Brimhall Deputy. KATHRYN N. BRIMHALL, Clerk  
County Court, Robertson County, Texas

CERTIFICATION:  
TRUE AND CORRECT  
COPY OF ORIGINAL ON  
FILE IN LEON COUNTY  
CLERK'S OFFICE  
ATTEST: A. Kaiser  
A KAISER

162300

Filed for Record in: Leon County  
On: Dec 21, 2009 at 10:58A  
As a Recordings  
Document Number: 00367494  
Amount: \$ 30.00  
Receipt Number: 95882  
By: Amy Kaiser

STATE OF TEXAS COUNTY OF LEON  
I hereby certify that this instrument was filed on the  
date and time stamped hereon by me and was duly recorded  
in the volume and page of the named records of:  
Leon County  
as stamped hereon by me.

Dec 21, 2009  
Carla McEachern, County Clerk  
Leon County

State of Texas  
County of Leon

I, Carla McEachern, County Clerk of Leon County, Texas, do hereby  
certify that this document is a true and correct copy of the original record  
on file and/or of record in Vol. 410, Page 338  
00367494 Records of Leon County, Texas. Witness my hand and  
Official seal of office, this 3 day of Feb, 2010.



CARLA McEACHERN, County Clerk,  
Leon County Texas  
By: A Kaiser Deputy

019

# The State of Texas



## Austin, Texas

Accepted for Filing in:  
Robertson County  
On: Nov 02, 2009 at 10:03A  
By: Carol Bancroft

OIL AND GAS LEASE  
NO. M-110304

WHEREAS, pursuant to the Texas Natural Resources Code Chapters 32, 33, 51, and Chapter 52, Subchapters A-D and H, (said Code being hereinafter referred to as N.R.C.), and subject to all rules and regulations promulgated by the Commissioner of the General Land Office and/or the School Land Board pursuant thereto, and all other applicable statutes and amendments to said N.R.C., the following area, to-wit:

TRACT 5-D OF THE NAVASOTA RIVER, ROBERTSON COUNTY, TEXAS, CONTAINING APPROXIMATELY 15 ACRES; TRACT 5-D IS BOUND ON ITS UPSTREAM END BY A LINE BEARING GRID N 30° 08' W AND PASSING THROUGH A POINT HAVING COORDINATES OF X=3,278,340 FEET AND Y=520,150 FEET, TEXAS STATE PLANE COORDINATE SYSTEM, CENTRAL ZONE, NAD 1927, AND IS BOUND ON ITS DOWNSTREAM END BY A SOUTHWESTERLY EXTENSION OF THE NORTHWEST LINE OF THE S.A. & M.G. RY. CO. SURVEY, A-838, LEON COUNTY (TRACT IS SUBJECT TO THE SMALL BILL),

was, after being duly advertised, offered for lease on 14<sup>th</sup> day of July, 2009, at 10:00 o'clock a.m., by the Commissioner of the General Land Office of the State of Texas and the School Land Board of the State of Texas, for the sole and only purpose of prospecting and drilling for, and producing oil and/or gas that may be found and produced from the above described area; and

WHEREAS, after all bids and remittances which were received up to said time have been duly considered by the Commissioner of the General Land Office and the School Land Board at a regular meeting thereof in the General Land Office, on the 14<sup>th</sup> day of July, 2009, hereinafter the "effective date" and it was found and determined that PETROGULF CORPORATION whose address is 518 17TH STREET, SUITE 1525, DENVER, COLORADO 80202-4124, had offered the highest and best bid for a lease of the area above described and is, therefore, entitled to receive a lease thereon:

NOW, THEREFORE, I, Jerry E. Patterson, Commissioner of the General Land Office of the State of Texas, hereinafter sometimes referred to as "Lessor," whose address is Austin, Texas, by virtue of the authority vested in me and in consideration of the payment by the hereinafter designated Lessee, the sum of Thirty-Eight Thousand Three Hundred Twenty-Five And 00/100 Dollars (\$38,325.00), receipt of which is hereby acknowledged and of the royalties, covenants, stipulations and conditions contained and hereby agreed to be paid, observed and performed by Lessee, do hereby demise, grant, lease and let unto the above mentioned bidder the exclusive right to prospect for, produce and take oil and/or gas from the aforesaid area upon the following terms and conditions, to-wit:

1. **RESERVATION:** There is hereby excepted and reserved to Lessor the full use of the property covered hereby and all rights with respect to the surface and subsurface thereof for any and all purposes except those granted and to the extent herein granted to Lessee, together with the rights of ingress and egress and use of said lands by Lessor and its mineral lessees, for purposes of exploring for and producing the minerals which are not covered, or which may not be covered in the future, under the terms of this lease, but which may be located within the surface boundaries of the leased area. All of the rights in and to the leased premises retained by Lessor and all of the rights in and to the leased premises granted to Lessee herein shall be exercised in such a manner that neither shall unduly interfere with the operations of the other.

2. **TERM:** Subject to the other provisions hereof, this lease shall be for a term of three (3) years from the effective date hereof (herein called "primary term") and as long thereafter as oil or gas is produced in paying quantities from said area.

3. **DELAY RENTALS:** If no well be commenced on the land hereby leased on or before the anniversary date of this lease, this lease shall terminate as to both parties unless the Lessee on or before said date shall pay or tender to the Commissioner of the General Land Office of the State of Texas at Austin, Texas, the sum of Five Dollars (\$5.00), per acre, which shall operate as rental and cover the privilege of deferring the commencement of a well for twelve (12) months from said date. In like manner and upon like payments or tenders the commencement of a well may be further deferred for like periods of the same number of months successively during the primary term hereof.

4. **PRODUCTION ROYALTIES:** Subject to the provisions for royalty reductions set out in subparagraph (E) of this paragraph 4, upon production of oil and/or gas, the Lessee agrees to pay or cause to be paid to the Commissioner of the General Land Office in Austin, Texas, for the use and benefit of the State of Texas, during the term hereof:

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

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

Doc 20094975 Bk OR Vol 1088 Pg 516

ROBERTSON COUNTY



**CERTIFIED COPY**  
This is a true and correct  
copy of the original filed in  
Robertson County Clerk's Office  
Kathryn Nickelson Brimhall

(C) **PROCESSED GAS:** As a royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbons,  $\frac{1}{4}$  part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the Lessor. All royalties due herein shall be based on one hundred percent (100%) of the total plant production of residue gas attributable to gas produced from this 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 arms' length (or if there is no such third party, the highest percent then being specified in processing agreements or contracts in the industry), whichever is the greater. The respective royalties on residue gas and on liquid hydrocarbons shall be determined by 1) the highest market price paid or offered for any gas (or liquid hydrocarbons) of comparable quality in the general area or 2) the gross price paid or offered for such residue gas (or the weighted average gross selling price for the respective grades of liquid hydrocarbons), whichever is the greater. In no event, however, shall the royalties payable under this paragraph be less than the royalties which would have been due had the gas not been processed.

(D) **OTHER PRODUCTS:** As a royalty on carbon black, sulphur or any other products produced or manufactured from gas (excepting liquid hydrocarbons) whether said gas be "casinghead," "dry" or any other gas, by fractionating, burning or any other processing,  $\frac{1}{4}$  part of gross production of such products, or the market value thereof, at the option of Lessor, such market value to be determined as follows:

- (1) On the basis of the highest market price of each product, during the same month in which such product is produced, or
- (2) On the basis of the average gross sale price of each product for the same month in which such products are produced; whichever is the greater.

(E) **VARIABLE ROYALTY:** (i) Subject to the other provisions of this lease, it is hereby provided that in the event production in paying quantities is established pursuant to the terms of this lease and such production is brought on line and sales thereof are commenced within twelve (12) months of the effective date hereof, the royalty rate provided herein shall be reduced to 20%, and shall apply to each subsequent well drilled and produced on the land covered by this lease. Provided that, if during such twelve (12) month term during which Lessee may earn a reduced royalty rate of 20% as herein provided, Lessee should drill in good faith and complete the first well as a dry hole on the land covered by this lease, Lessee may receive a three (3) month extension of the term in which to earn a reduced royalty rate by giving notice to the Commissioner of the General Land Office, commencing drilling operations on an additional well prior to the expiration of such three (3) month period and prosecuting diligently and in good faith the drilling of such additional well and completing same so that production in paying quantities is established and so that such production is brought on line and sales thereof are commenced prior to the expiration of such three (3) month extension period.

(ii) In the event production in paying quantities is established pursuant to the terms of this lease and such production is brought on line and sales thereof are commenced after the expiration of twelve (12) months from the effective date hereof but prior to the expiration of twenty-four (24) months from the effective date hereof, the royalty rate provided herein shall be reduced to 22.5% and shall apply to each subsequent well drilled and produced on the land covered by this lease. Provided that, if during such twelve (12) month term during which Lessee may earn a reduced royalty rate of 22.5% as herein provided, Lessee should drill in good faith and complete the first well as a dry hole on the land covered by this lease, Lessee may receive a three (3) month extension of the term in which to earn a reduced royalty rate by giving notice to the Commissioner of the General Land Office, commencing drilling operations on an additional well prior to the expiration of such three (3) month period and prosecuting diligently and in good faith the drilling of such additional well and completing same so that production in paying quantities is established and so that such production is brought on line and sales thereof are commenced prior to the expiration of such three (3) month extension period.

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

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

(H) **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 anything contained herein to the contrary, and subject to the consent in writing of the Commissioner of the General Land Office, Lessee may recycle gas for gas lift purposes on the leased premises after the liquid hydrocarbons contained in the gas have been removed, and no royalties shall be payable on the gas so recycled until such time as the same may thereafter be produced and sold or used by Lessee in such manner as to entitle Lessor to a royalty thereon under the royalty provisions of this lease.

(I) **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 to Lessor 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.

(J) **MARGINAL PRODUCTION ROYALTY:** Upon Lessee's written application, the School Land Board may reduce the royalty rate set out in this paragraph and/or the minimum royalty set out in subparagraph 4 (I) to extend the economic life of this lease and encourage recovery of oil or gas that might otherwise remain unrecovered. Any such royalty reduction must conform to the requirements of any School Land Board administrative rules on this subject. Royalty may not be reduced below the applicable statutory minimum.

5. **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 accruing when the royalty is sixty (60) days overdue. Affidavits and supporting documents which are not filed when due shall incur a penalty in an amount set by the General Land Office administrative rule which is effective on the date when the affidavits or supporting documents were due. The Lessee shall bear all responsibility for paying or causing royalties to be paid as prescribed by the due date provided herein. Payment of the delinquency penalty shall in no way operate to prohibit the State's right of forfeiture as provided by law nor act to postpone the date on which royalties were originally due. The above penalty provisions shall not apply in cases of title dispute as to the State's portion of the royalty or to that portion of the royalty in dispute as to fair market value.

6. (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) **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

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Commission forms for application to drill. Copies of well tests, completion reports and plugging reports shall be supplied to the General Land Office at the time they are filed with the Texas Railroad Commission. Lessee shall supply the General Land Office with any records, memoranda, accounts, reports, cuttings and cores, or other information relative to the operation of the above-described premises, which may be requested by the General Land Office, in addition to those herein expressly provided for. Lessee shall have an electrical and/or radioactivity survey made on the bore-hole section, from the base of the surface casing to the total depth of well, of all wells drilled on the 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.

7. **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 11 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 Natural Resources Code Sections 52.151-52.153, 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. Within 90 days of a partial termination of this lease in accordance with this subparagraph and upon payment of the minimum filing fee set by General Land Office rules in effect at the time of the partial termination, Lessee shall have the right to obtain a surface lease for ingress and egress on and across the terminated portion of the leased premises as may be reasonably necessary for the continued operation of the portions of the lease remaining in force and effect. If Lessee fails to apply for a surface lease within the 90 day period specified above, Lessee may apply for a surface lease from the Land Office, but the Land Commissioner has the discretion to grant or deny such application and to set the fee for such surface lease.

(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 7 (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 School Land Board. 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. 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.

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

9. **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 10, using the expiration of the primary term as the date of cessation of production under Paragraph 10. 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.

10. **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.

11. **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. 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. 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.

12. **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

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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 to the Commissioner 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 in an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within thirty (30) days from the end of the 12-month period; and none of these provisions will relieve Lessee of the obligation of reasonable development nor the obligation to drill offset wells as provided in N.R.C. Section 52.034; however, at the determination of the Commissioner, and with the Commissioner's written approval, the payment of compensatory royalties shall satisfy the obligation to drill offset wells. Compensatory royalty payments which are not timely paid will accrue penalty and interest in accordance with Paragraph 5 of this lease.

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

14. **USE OF WATER; SURFACE:** Lessee shall have the right to use water produced on said land necessary for operations hereunder and solely upon the leased premises; provided, however, Lessee shall not use potable water or water suitable for livestock or irrigation purposes for water flood operations without the prior written consent of Lessor. Subject to its obligation to pay surface damages, Lessee shall have the right to use so much of the surface of the land that may be reasonably necessary for drilling and operating wells and transporting and marketing the production therefrom, such use to be conducted under conditions of least injury to the surface of the land. Lessee shall pay surface damages in an amount set by the General Land Office fee schedule which is effective on the date when the activity requiring the payment of surface damages occurs.

15. **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.

(A) **UPLANDS:** Lessee shall build and maintain fences around its slush, sump, and drainage pits and tank batteries so as to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level all slush pits and cellars and completely clean up the drilling site of all rubbish thereon.

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

(C) **RIVERS:** To the extent necessary to prevent pollution, the provisions found in subsections (a) and (b) of this paragraph shall also apply to rivers and riverbeds.

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

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

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

18. **RELEASES:** Lessee may relinquish the rights granted hereunder to the State at any time by recording the relinquishment in the county where this area is situated and filing the recorded relinquishment or certified copy of same in the General Land Office within ninety (90) days after its execution accompanied by the filing fee prescribed by the General Land Office rules in effect on the date of receipt by the General Land Office of such relinquishment or certified copy thereof. Such relinquishment will not have the effect of releasing Lessee from any liability theretofore accrued in favor of the State.

19. **LIEN:** In accordance with N.R.C. Section 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 N.R.C. Section 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, Chapter 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's 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.

20. **FORFEITURE:** If Lessee shall fail or refuse to make the payment of any sum within thirty (30) days after it becomes due, or if Lessee or an authorized agent should knowingly make any false return or false report concerning production or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith as required by law and the rules and regulations adopted by the Commissioner of the General Land Office, or if Lessee should fail to file reports in the manner required by law or fail to comply with rules and regulations promulgated by the General Land Office, the School Land Board, or the Railroad Commission, or refuse the proper authority access to the records pertaining to operations, or if Lessee or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or knowingly fail or refuse to furnish the General Land Office a correct log of any well, or if Lessee shall knowingly violate any of the material provisions of this 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 to the highest bidder, under the same regulations controlling the original sale of leases. However, nothing herein shall be construed as waiving the automatic termination of this lease by

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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.

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

**22. APPLICABLE LAWS AND DRILLING RESTRICTIONS:** This lease shall be subject to all rules and regulations, and amendments thereto, promulgated by the Commissioner of the General Land Office governing drilling and producing operations on Permanent Free School Land (specifically including any rules promulgated that relate to plans of operations), payment of royalties, and auditing procedures, and shall be subject to all other valid statutes, rules, regulations, orders and ordinances that may affect operations under the provisions of this lease. Without limiting the generality of the foregoing, Lessee hereby agrees, by the acceptance of this lease, to be bound by and subject to all statutory and regulatory provisions relating to the General Land Office's audit billing notice and audit hearings procedures. Said provisions are currently found at 31 Texas Administrative Code, Chapter 4, and Texas Natural Resources Code Sections 52.135 and 52.137 through 52.140. In the event this lease covers land franchised or leased or otherwise used by a navigation district or by the United States for the purpose of navigation or other purpose incident to the operation of a port, then Lessee shall not be entitled to enter or possess such land without prior approval as provided under Section 61.117 of the Texas Water Code, but Lessee shall be entitled to develop such land for oil and gas by directional drilling; provided, however, that no surface drilling location may be nearer than 660 feet and special permission from the Commissioner of the General Land Office is necessary to make any surface location nearer than 2,160 feet measured at right angles from the nearest bulkhead line or from the nearest dredged bottom edge of any channel, slip, or turning basin which has been authorized by the United States as a federal project for future construction, whichever is nearer.

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

**24. FORCE MAJEURE:** Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling operations thereon, or from producing oil and/or gas therefrom, after effort made in good faith, by reason of war, rebellion, riots, strikes, fires, acts of God or any order, rule or regulation of governmental authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended upon proper and satisfactory proof presented to the Commissioner of the General Land Office in support of Lessee's contention and Lessee shall not be liable for damages for failure to comply therewith (except in the event of lease operations suspended as provided in the rules and regulations adopted by the School Land Board); and this lease shall be extended while and so long as Lessee is prevented, by any such cause, from drilling, reworking operations or producing oil and/or gas from the leased premises; provided, however, that nothing herein shall be construed to suspend the payment of rentals during the primary or extended term, nor to abridge Lessee's right to a suspension under any applicable statute of this State.

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

**26. 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 in accordance with Natural Resources Code Sections 52.151-52.153, 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.

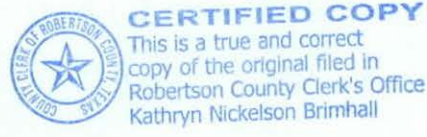
**27. SUCCESSORS AND ASSIGNS:** The covenants, conditions and agreements contained herein shall extend to and be binding upon the heirs, executors, administrators, successors or assigns of Lessee herein.

**28. ANTIQUITIES CODE:** In the event that any feature of archeological or historical interest on Permanent Free School Land is encountered during the activities authorized by this lease, Lessee will immediately cease activities and will immediately notify the General Land Office (ATTN: Archeological Asset Management Division, 1700 N. Congress Ave., Austin, Texas 78701) and the Texas Historical Commission (P.O. Box 12276, Austin, TX 78711) so that adequate measures may be undertaken to protect or recover such discoveries or findings, as appropriate. Lessee is expressly placed on notice of the National Historical Preservation Act of 1966 (PB-89-66, 80 Stat. 915, 16 U.S.C. 431-433) and the Antiquities Code of Texas, Chapter 191, Tex. Nat. Code Ann. (Vernon 1993 & Supp. 1998). On state-owned land not dedicated to the Permanent School Fund, Lessee shall notify the Texas Historical Commission before breaking ground at a project location. An archaeological survey might be required by the commission before construction of the project commences. Further, in the event that any site, object, location, artifact or other feature of archaeological, scientific, educational, cultural or historic interest is encountered during the activities authorized by this lease, Lessee will immediately notify Lessor and the Texas Historical Commission so that adequate measures may be undertaken to protect or recover such discoveries or findings, as appropriate.

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

**30. LEASE FILING:** Pursuant to Chapter 9 of the Tex. Bus. & Com. 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. The prescribed filing fee shall accompany the certified copies sent to the General Land Office.

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31. 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.

Petrogult Corporation  
LESSEE  
BY: Betty A. Pennington  
TITLE: Executive Vice President  
DATE: 8/18/09

IN TESTIMONY WHEREOF, witness the signature of the Commissioner of the General Land Office of the State of Texas under the seal of the General Land Office.

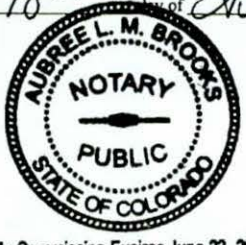


STATE OF Colorado  
COUNTY OF Denver

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Betty A. Pennington  
known to me to be the person whose name is subscribed to the foregoing instrument, as Executive Vice President of  
Petrogult Corporation and acknowledged to me that he executed the same  
for the purposes and consideration therein expressed, in the capacity stated, and as the act and deed of said corporation.

Given under my hand and seal of office this the 18th day of August



A. Brooks  
Notary Public in and for \_\_\_\_\_

My Commission Expires June 23, 2012

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

(INDIVIDUAL ACKNOWLEDGMENT)

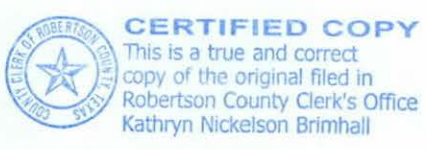
Before me, the undersigned authority, on this day personally appeared \_\_\_\_\_  
known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the  
same for the purposes and consideration therein expressed.

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

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

Doc 20094975 Bk OR Vol 1088 Pg 521

16360



8.

File No. MF110304  
Letter, fees, and  
2- Certified leases  
Date Filed: 7/6/10  
Jerry Patterson, Commissioner  
By: *[Signature]*

3 2 0

IN PAYMENT OF DELAY RENTAL SHUT-IN ROYALTY/MIN. ROYALTY TO PARTY OR PARTIES NAMED BELOW PURSUANT TO THE TERMS OF LEASE IDENTIFIED HEREIN

LEASE NO	LEASE DATE	COUNTY	ST.	RECORDED		RENTAL PERIOD	
				BOOK	PAGE	MOS.	BEGINNING

TX0586                      07/14/09    ROBERTSON                      TX                      1088                      516                      12                      07/14/10

ST TX M-110304

PROPERTY DESCRIPTION:

Prospect: BOSSIER PROSPECT

Twp    Blk                      Sec

S.A. & M.G.R.R. CO. SURVEY,

10708909

Gr acs: 15.0000                      Net acs: 15.0000

*MF 110304*



DEPOSIT TO THE CREDIT OF:

TOTAL AMOUNT:                      **X** 75.00  
RENTAL AMOUNT:                      75.00  
BANK CHARGE:

PAYABLE TO:  
COMMISSIONER OF THE GENERAL  
LAND OFFICE - STATE OF TEXAS  
PO BOX 12873  
AUSTIN, TX 78711-2873

*121*

ACCOUNT NO.


# 9

File No. MF- 110304

RENTAL PAYMENT

Date Filed: 6/25/10

Jerry E. Patterson, Commissioner

By 



LAW OFFICES  
**SCOTT, DOUGLASS  
& McCONNICO, L.L.P.**

A REGISTERED LIMITED LIABILITY PARTNERSHIP

ONE AMERICAN CENTER  
600 CONGRESS AVENUE, 15<sup>TH</sup> FLOOR  
AUSTIN, TEXAS 78701-2589

TELEPHONE (512) 495-6300

FAX (512) 474-0731

WWW.SCOTTDG.COM

†BOARD CERTIFIED-CIVIL TRIAL LAW  
‡BOARD CERTIFIED-PERSONAL INJURY TRIAL LAW  
§BOARD CERTIFIED-LABOR & EMPLOYMENT LAW  
¶BOARD CERTIFIED-OIL, GAS & MINERAL LAW  
▲BOARD CERTIFIED-CIVIL APPELLATE LAW  
◆BOARD CERTIFIED-ADMINISTRATIVE LAW  
TEXAS BOARD OF LEGAL SPECIALIZATION

PAIGE ARNETTE AMSTUTZ  
DANIEL C. BITTING  
JOHN W. CAMP\*  
SARA WILDER CLARK  
CYNTHIA SAITER CONNOLLY  
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RICHARD P. MARSHALL, JR.\*

WALLACE H. SCOTT, JR.  
(1920-2005)  
FRANK DOUGLASS  
(1933-2007)

CARROLL MARTIN\*  
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ELIZABETH N. MILLER\*  
CURTIS J. OSTERLOH  
GREG PIERCE  
PHYLLIS POLLARD†\*  
DIANA E. REINHART  
JOE T. SANDERS  
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QUENTIN (DOUG) SIGEL

CHRISTOPHER D. SILEO  
JOHN G. SOULE\*  
JULIE A. SPRINGER†\*  
RYAN S. SQUIRES  
JANE M. N. WEBRE▲  
H. PHILIP WHITWORTH, JR.\*  
STEVEN J. WINGARD

July 20, 2010

In Re: Application by EnCana Oil & Gas (USA) Inc. for School Land Board Pooling Authority for the EnCana/Petrogulf Adams State Unit, Hilltop Resort (Bossier) Field, Leon County, Texas; State Lease No. M-110304

**VIA HAND DELIVERY**

Mr. J. Daryl Morgan  
General Land Office  
1700 N. Congress Avenue, Room No. 840  
Austin, Texas 78701

Dear Daryl:

On behalf of EnCana Oil & Gas (USA) Inc., we enclose a copy of the recorded Ratification of Pooling Declaration for the Adams-State Unit, Robertson County, Texas. This document verifies that the subject ratification was filed of record in the official public records of Robertson County, Texas.

Please let us know if you need anything further regarding this matter. Thank you for your cooperation.

Very truly yours,

H. Philip Whitworth  
Attorney for EnCana Oil & Gas (USA) Inc.

HPW:map  
Enclosure  
cc: David Gross, w/encl.

RATIFICATION OF POOLING DECLARATION  
ADAMS-STATE UNIT  
ROBERTSON COUNTY, TEXAS

Accepted for Filing in:  
Robertson County  
On: Jul 14, 2010 at 01:00P  
By: Stephanie Sanders

WHEREAS, a certain instrument, entitled Pooling Declaration, Adams-State Unit ("Unit Agreement"), has been executed for conducting Unit Operations in Robertson County, Texas, as more particularly described in said Unit Agreement filed of Record at Volume 1106, Page 236 of the Official Public Records of Robertson County, Texas; and,

WHEREAS, a person may become a party to said Unit Agreement by signing the original of said instrument, a counterpart thereof, or other instrument agreeing to be bound by the provisions thereof;

WHEREAS, the State of Texas is the owner of Royalty Interests in the Adams-State Unit ("Unit") and pursuant to the provisions of Subchapter E, Chapter 52 of the Natural Resources Code, the School Land Board has approved said Unit Agreement, upon the condition, however, that the Working Interest Owners agree to the terms hereinafter set forth in consideration of the commitment of the State's Royalty Interests to said Unit, and the Commissioner of the General Land Office is authorized by said statute to commit the State's royalty interests to said Unit on behalf of the State:

NOW THEREFORE, KNOW ALL MEN BY THESE PRESENTS, that the undersigned, the Commissioner of the General Land Office of the State of Texas, acting on behalf of the State, for and in consideration of the premises and the benefits anticipated to accrue to the State under said Unit Agreement, does hereby commit to said Unit Agreement the Royalty Interests of the State of Texas as described in said Unit Agreement, and does hereby agree that the State of Texas shall be bound by all of the provisions of said Unit Agreement, except as hereinafter set forth, the same as if the undersigned had executed the original or a counterpart of said Unit Agreement.

This instrument is executed by the undersigned upon the condition that the Working Interest Owners agree to the following terms in consideration of the commitment of the State's Royalty Interest to said Unit:

PURPOSES:

1.

This Ratification of Declaration of Pooling ("Ratification") is made for the purposes of conservation and utilization of the pooled mineral, to prevent waste, to facilitate orderly development and to preserve correlative rights. To such end, it is the purpose of

Doc            Ek            Vol            Pg  
20103142 OR            1111            85

this Ratification to effect equitable participation within the Unit formed hereby. This Ratification is intended to be performed pursuant to and in compliance with all applicable statutes, decisions, regulations, rules, orders and directives of any governmental agency having jurisdiction over the production and conservation of the pooled mineral and in its interpretation and application shall, in all things, be subject thereto.

UNIT DESCRIPTION: 2.

The oil and gas leases, which are included within the pooled unit, are described in the Unit Agreement as Exhibit "A" to which leases and the records thereof reference is made for all pertinent purposes. The pooled unit consists of the 704 acres as described on Exhibit "B" and shown on a plat as Exhibit "C" to the Unit Agreement.

MINERAL POOLED: 3.

The mineral pooled and unitized ("pooled mineral") hereby shall be gas including all hydrocarbons that may be produced from a gas well as such wells are recognized and designated by the Railroad Commission of Texas or other state regulatory agency having jurisdiction over the drilling and production of oil and gas wells. The pooled mineral shall extend to all depths underlying the surface boundaries of the pooled unit ("unitized interval"), provided that the State Lease as described in Exhibit A is subject to its Paragraph 7(B), which provides for the termination of certain depths two years after the end of the primary term, unless such depths are otherwise maintained pursuant to the provisions of such State Lease.

POOLING AND EFFECT: 4.

The State's interest which is within the Unit Area is hereby committed thereto to the extent and as above described into said Unit and do unitize and pool hereunder the State's tract described in the Unit Agreement, for and during the term hereof, so that such pooling or unitization shall have the following effect:

- (a) The Unit, to the extent as above described, shall be operated as an entirety for the exploration, development and production of the pooled mineral, rather than as separate tracts.
- (b) All drilling operations, reworking or other operations with respect to the pooled mineral on land within the Unit shall be considered as though the same were on each separate tract in the Unit,

regardless of the actual location of the well or wells thereon, for all purposes under the terms of the respective leases or other contracts thereon and this Ratification.

- (c) Production of the pooled mineral from the Unit allocated to each separate tract, respectively, as hereinafter provided, shall be deemed to have been produced from each such separate tract in the Unit, regardless of the actual location of the well or wells thereon, for all purposes under the terms of the respective leases or other contracts thereon and this Ratification. Provided that, if any State Lease described in Exhibit "A" of the Unit Agreement contains provision 4(E) VARIABLE ROYALTY, and a unit well is not located on such State Lease and a reduced royalty has not otherwise been earned, then a reduced royalty may be earned by unit production, but it shall only apply to the acreage included within the unit. Acreage outside of the unitized area must earn a reduced royalty independently.
- (d) All rights to the production of the pooled mineral from the Unit, including royalties and other payments, shall be determined and governed by the lease or other contract pertaining to each separate tract, respectively, based upon the production so allocated to such tract only, in lieu of the actual production of the pooled mineral therefrom.
- (e) A shut-in oil or gas well located upon any lease included within said Unit shall be considered as a shut-in oil or gas well located upon each lease included within said Unit; provided, however, that shut-in oil or gas well royalty shall be paid to the State on each State lease wholly or partially within the Unit, according to the terms of such lease as though such shut-in oil or gas well were located on said lease, it being agreed that shut-in royalties provided in each State lease shall not be shared with other royalty owners or otherwise diminished by reason of this Ratification.
- (f) Notwithstanding any other provision hereof, it is expressly agreed that each State lease may be maintained in force as to areas lying outside the unitized area only as provided in each such lease without regard to Unit operations or Unit

production. Neither production of the pooled mineral, nor Unit operations with respect thereto, nor the payment of shut-in royalties from a Unit well, shall serve to hold any State lease in force as to any area outside the unitized area regardless of whether the production or operations on the Unit are actually located on the State lease or not. "Area" as used in this paragraph shall be based upon surface acres to the end that, except as may be provided in each State Lease, the area inside the surface boundaries of the Unit, if held, will be held as to all depths and horizons.

- (g) If the Railroad Commission of Texas (or any other Texas regulatory body having jurisdiction) shall adopt special field rules providing for oil and/or gas proration units of less than 704 acres, then Lessee agrees to either (1) drill to the density permitted by the Railroad Commission, (2) make application to the School Land Board of the State of Texas to reform the Unit to comply with Railroad Commission unit rules, or (3) make application to the School Land Board of the State of Texas for such remedy as may be agreeable to the Board.
- (h) This Ratification shall not relieve Lessee from the duty of protecting the State lease from drainage from any well situated on privately owned land outside the Unit Area or as to any mineral not pooled hereby, but, subject to such obligation, Lessee may produce the allowable for the entire unit as fixed by the Railroad Commission of Texas or other lawful authority, from any one or more wells completed thereon.
- (i) There shall be no obligation to drill internal offsets to any other well on separate tracts within the Unit Area, nor to develop the tracts separately, as to the pooled mineral.
- (j) Should the Unit Agreement terminate for any cause, the leases and other contracts affecting the lands within the Unit, if not then otherwise maintained in force and effect, shall remain and may be maintained in force and effect under their respective terms and conditions in the same manner as though there had been production or operations under said lease or contract and the same had

ceased on the date of the termination of the Unit Agreement.

ALLOCATION OF PRODUCTION: 5.

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

TAKING ROYALTY IN KIND: 6.

Notwithstanding anything contained herein to the contrary, the State may, at its option, upon not less than sixty (60) days notice to Lessee, require that payment of all or any royalties accruing to the State under this Ratification be made in kind, without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting and otherwise making the oil, gas and other products produced hereunder ready for sale or use.

FULL MARKET VALUE: 7.

In the event the State does not elect to take its royalty in kind, the State shall receive full market value for its royalty hereunder, such value to be determined as follows:

(a) As to royalty on oil 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 for the field where produced and when run, or (2) the highest market price thereof offered or paid for the field where produced and when run, or (3) the gross proceeds of the sale thereof, whichever is the greatest;

(b) As to royalty on gas, such value to be based on (1) the highest market price paid or offered for gas of comparable quality for the field where produced and when run, or (2) the gross price paid or offered to the producer, whichever is the greater.

(For the purposes of this Ratification "field" means the general area in which the lands covered hereby are located.)

EFFECTIVE DATE: 8.

Upon execution by the Commissioner of the General Land Office of the State of Texas this Ratification shall become effective as of May 11, 2010.

TERM: 9.

This Ratification shall remain in effect so long as the pooled mineral is being produced from said Unit, or so long as all leases included in the pooled Unit are maintained in force by payment of delay rentals or shut-in oil or gas well royalties, by drilling or rework, or by other means, in accordance with the terms of said leases. Nothing herein shall amend or modify Section 52.031 of the Natural Resources Code, or any of the provisions thereof, which are contained in any State lease covered by this Ratification.

STATE LAND: 10.

Insofar as the royalty interest of the State of Texas in and under any State tract committed to the Unit is concerned, this Ratification is entered into, made and executed by the undersigned Commissioner of the General Land Office by virtue of the authority and pursuant to the provisions of Subchapter E, Chapter 52, of the Natural Resources Code, authorizing the same, after the prerequisites, findings and approval hereof, as provided in said Code having been duly considered, made and obtained.

DISSOLUTION: 11.

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

RATIFICATION/WAIVER: 12.

Nothing in this Ratification, nor the approval of this Ratification by the School Land Board, nor the execution of this Ratification by the Commissioner shall: (1) operate as a ratification or revivor of any State lease that has expired, terminated, or has been released in whole or in part or terminated under the terms of such State

lease or the laws applicable thereto; (2) constitute a waiver or release of any claim for money, oil, gas or other hydrocarbons, or other thing due to the State by reason of the existence or failure of such lease; (3) constitute a waiver or release of any claim by the State that such lease is void or voidable for any reason, including, without limitation, violations of the laws of the State with respect to such lease or failure of consideration; (4) constitute a confirmation or recognition of any boundary or acreage of any tract or parcel of land in which the State has or claims an interest; or (5) constitute a ratification of, or a waiver or release of any claim by the State with respect to any violation of a statute, regulation, or any of the common laws of this State, or any breach of any contract, duty, or other obligation owed to the State.

COUNTERPARTS:

13.

This Ratification may be executed in counterparts and if so executed shall be valid, binding and have the same effect as if all the parties hereto actually joined in and executed one and the same document. For recording purposes and in the event counterparts of this Ratification are executed, the executed pages, together with the pages necessary to show acknowledgments may be combined with the other pages of this Ratification so as to form what shall be deemed and treated as a single original instrument showing execution by all parties hereto.

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

Date Executed 4/29/10

STATE OF TEXAS

Legal no

By:

  
Jerry E. Patterson, Commissioner  
General Land Office

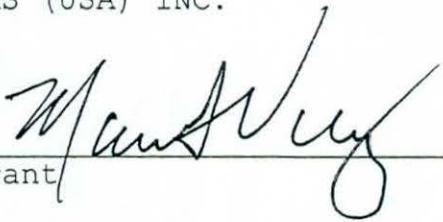
Content see

Geology III

Executive all by la

Date Executed June 15, 2010

ENCANA OIL & GAS (USA) INC.

By:  AST  
3/2

Mark A. Virant

Its: Attorney-In-Fact

Date Executed JUNE 17, 2010

PETROGULF CORPORATION

By: 

Betty A. Pennington

Its: Executive Vice President

CERTIFICATE

I, Stephanie Crenshaw, Secretary of the School Land Board of the State of Texas, do hereby certify that at a meeting of the School Land Board duly held on the 4<sup>th</sup> day of May, 2010, the foregoing instrument was presented to and approved by said Board under the provisions of Subchapter E, Chapter 52, of the Natural Resources Code, all of which is set forth in the Minutes of the Board of which I am custodian.

IN TESTIMONY WHEREOF, witness my hand this the 30<sup>th</sup> day of June, 2010.

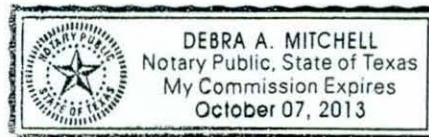
Stephanie Crenshaw  
Secretary of the School Land Board

STATE OF TEXAS

COUNTY OF DALLAS

This instrument was acknowledged before me on June 15, 2010, by Mark A. Virant as Attorney-In-fact of EnCana Oil & Gas (USA) Inc., a Delaware corporation on behalf of said corporation.

Debra A. Mitchell  
Notary Public in and for the State of Texas



STATE OF COLORADO

COUNTY OF DENVER

This instrument was acknowledged before me on June 17, 2010, 2010, by BETTY A. PENNINGTON as

Executive Vice President of Petrogulf Corporation, a COLORADO corporation on behalf of said corporation.

Nicole A Sproveri  
Notary Public in and for the State of Colorado

NICOLE A SPROVERI  
Notary Public  
State of Colorado  
My Commission Expires June 19, 2012

Doc 20103142 Bk OR Vol 1111 Pg 94

(10)

File No. M-110304  
Ltr. from Flip Whitworth with  
recorded Affidavit  
Date Filed: 7/20/10  
Jerry E. Patterson, Commissioner  
By Daryl Morgan

LEASE NO  
TX0586

LEASE DATE  
07/14/09 ROBERTSON

TX

1088

516

12

07/14/11

CHECK DATE 06/20/11

TOTAL AMT: 75.00

REMARKS:

005257

MF  
110304

DEPOSIT TO THE CREDIT OF:

TAX I.D.: 74-6000108

PAYABLE TO:

COMMISSIONER OF THE GENERAL

**IMPORTANT**

The attached check is for the person(s) named above. **PLEASE DATE, SIGN AND RETURN THIS RECEIPT** on the day you receive it. If directed to a bank, please deposit the amount to the credit of the person(s) named above and date, sign and return the receipt on the day you receive it. If correspondence is required, please make reference to lease number.

DATE:

JUN 24 2011

SIGN HERE:



RENTAL PAYMENT

IN PAYMENT OF DELAY RENTAL SHUT-IN ROYALTY/MIN. ROYALTY TO PARTY OR PARTIES NAMED BELOW PURSUANT TO THE TERMS OF LEASE IDENTIFIED HEREIN

LEASE NO	LEASE DATE	COUNTY	ST.	RECORDED		RENTAL PERIOD	
				BOOK	PAGE	MOS.	BEGINNING
TX0586	07/14/09	ROBERTSON	TX	1088	516	12	07/14/11

ST TX M-110304

PROPERTY DESCRIPTION:

Prospect: BOSSIER PROSPECT

11712304

Twp Blk Sec

S.A. & M.G.R.R. CO. SURVEY,  
A-838

Gr acs: 15.0000 Net acs: 15.0000

COPY

DEPOSIT TO THE CREDIT OF:

TOTAL AMOUNT: 75.00  
RENTAL AMOUNT: 75.00  
BANK CHARGE:

PAYABLE TO:

COMMISSIONER OF THE GENERAL  
LAND OFFICE - STATE OF TEXAS  
PO BOX 12873  
AUSTIN, TX 78711-2873

ACCOUNT NO.

(11)

File No. MF 111304  
Delay Ranta

Date Filed: 6/24/11  
Jerry E. Patterson, Commissioner  
By: FA

0347

**From:** Ladell Collier  
**To:** Dunne, Harriet  
**Date:** 4/10/2012 7:37 AM  
**Subject:** MF110304

Harriet,  
Lease MF110304 is in a producing unit.

File No. MF110304 12.

Case - *Levin vs*

*Producting*

Date Filed: 4-10-12

By: *[Signature]*  
Jerry E. Patterson, Commissioner

# GROSS & NELSON

ATTORNEYS AT LAW

12400 Hwy. 71 West  
Suite 350-230  
Austin, Texas 78738

(512) 263-8046

FAX (512) 263-2702

CELL: (512) 497-1111

dgross@grossandnelson.com

WRITER'S DIRECT DIAL NUMBER IS (512) 263-8046

January 19, 2010

## VIA HAND DELIVERY

Tracy Throckmorton  
Energy Resources Division  
Texas General Land Office  
P.O. Box 12873  
Austin, TX 78711-2873

Re: M - 110304  
Tract 5-D of the Navasota River  
Robertson County, Texas

Dear Ms. Throckmorton:

This letter is written to you on behalf of Petrogulf Corporation ("Petrogulf"). At the July 14, 2009 lease sale ghostly for him the General Land Office awarded Petrogulf a lease on the roughly 15 acre Navasota River tract referenced above. I am writing this letter in order to request the Commissioner's consent to the Mineral Interest Pooling Act ("MIPA") pooling of all or a portion of that Lease into a pooled unit for an offsetting well located on private lands. Petrogulf seeks the Commissioner's consent pursuant to V.T.C.A. Natural Resources Code §102.004(d).

Attached is a well location plat for the Encana Oil & Gas (USA) Inc. ("Encana") Little 4 Ranch Lease Well No. 3 (API 42-289-31798) located in Leon County, Texas ("Well"). According to that plat the Well's permitted location is approximately 800 feet from the River Lease. It was permitted by the Railroad Commission on January 15, 2009. Also attached is a copy of the Form G-1 for that well, indicating a July 22, 2009 completion test date. So, roughly eight days after the Lease was awarded to Petrogulf, Encana completed the Well approximately 800 feet from the River Lease.

Petrogulf does not have any seismic data or subsurface well control data. It does not know him and whether the River Lease is or is not productive or is or is not being

GROSS & NELSON ATTORNEYS

drained by the Well. However, because the Well is located less than 1000 feet from the River Lease Petrogulf is naturally concerned that it fulfill its lease obligations.

Petrogulf has had several communications with Encana representatives concerning the Well and the River Lease. Petrogulf has proposed a voluntary pooling to Encana but that offer has been rejected. Encana is willing to discuss a pooling of the River Lease into a unit for a drilling well and possibly future wells that it may drill in this area, but to date it has been unwilling to agree to a pooling of all or a portion of the River Lease into a pooled unit for the Little 4 Ranch Well No. 3. Because these discussions have been unfruitful, Petrogulf plans to extend a statutory fair and reasonable voluntary pooling offer to Encana pursuant to the MIPA. If this offer is rejected, then Petrogulf plans to file an MIPA pooling application with the Railroad Commission.

Of course, State Lands are only subject to MIPA pooling if the Land Commissioner consents to such pooling. Petrogulf respectfully requests the Commissioner's written consent pursuant to MIPA §102.004 (d). We ask that the Commissioner's consent extend to a pooling of all or a portion of the River Lease into a MIPA pooled unit for the Encana Little 4 Ranch Lease Well No. 3 in the Hilltop Resort (Bossier) Field.

After you have had an opportunity to review request please contact me if I can provide you with any additional information. Thank you very much for your attention to this matter.

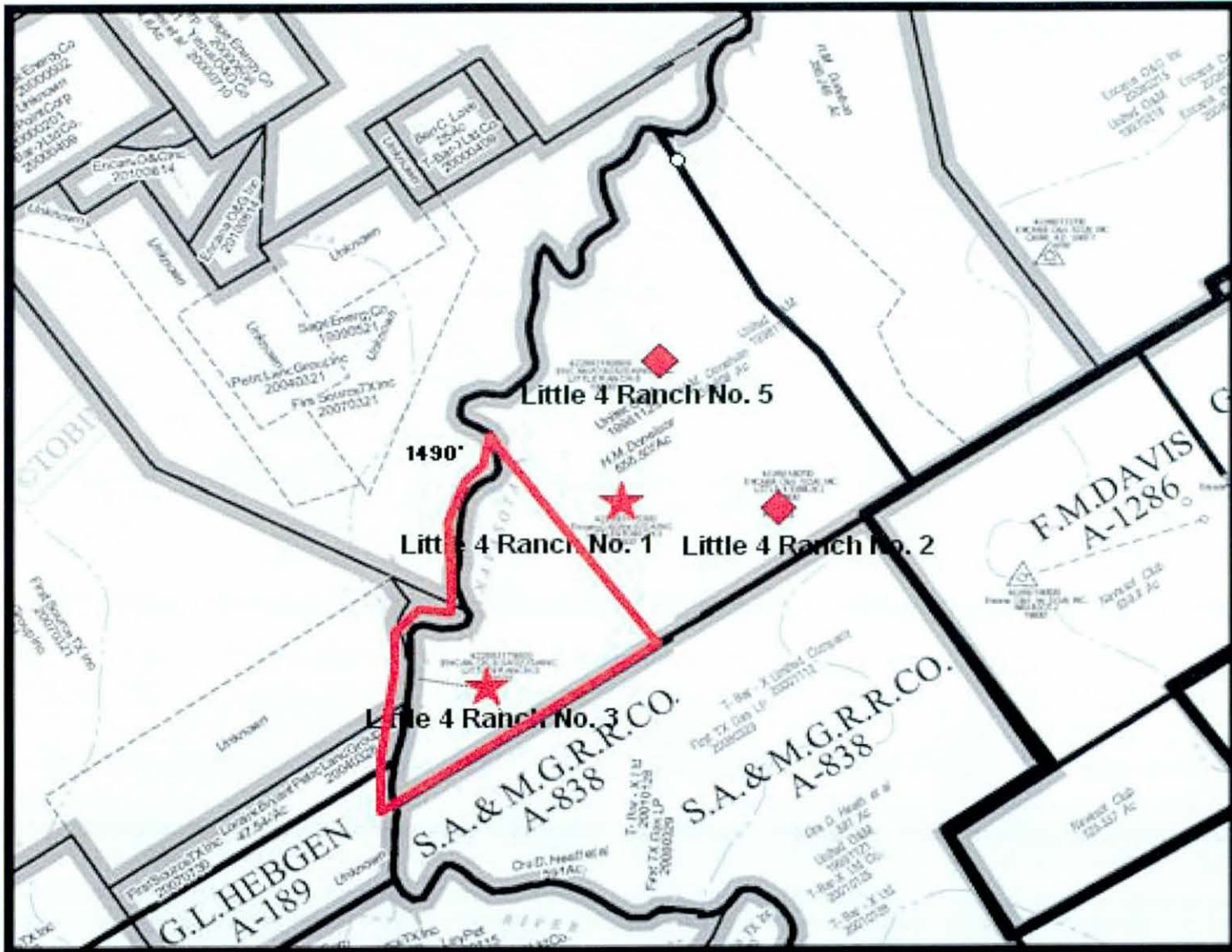
Respectfully submitted,



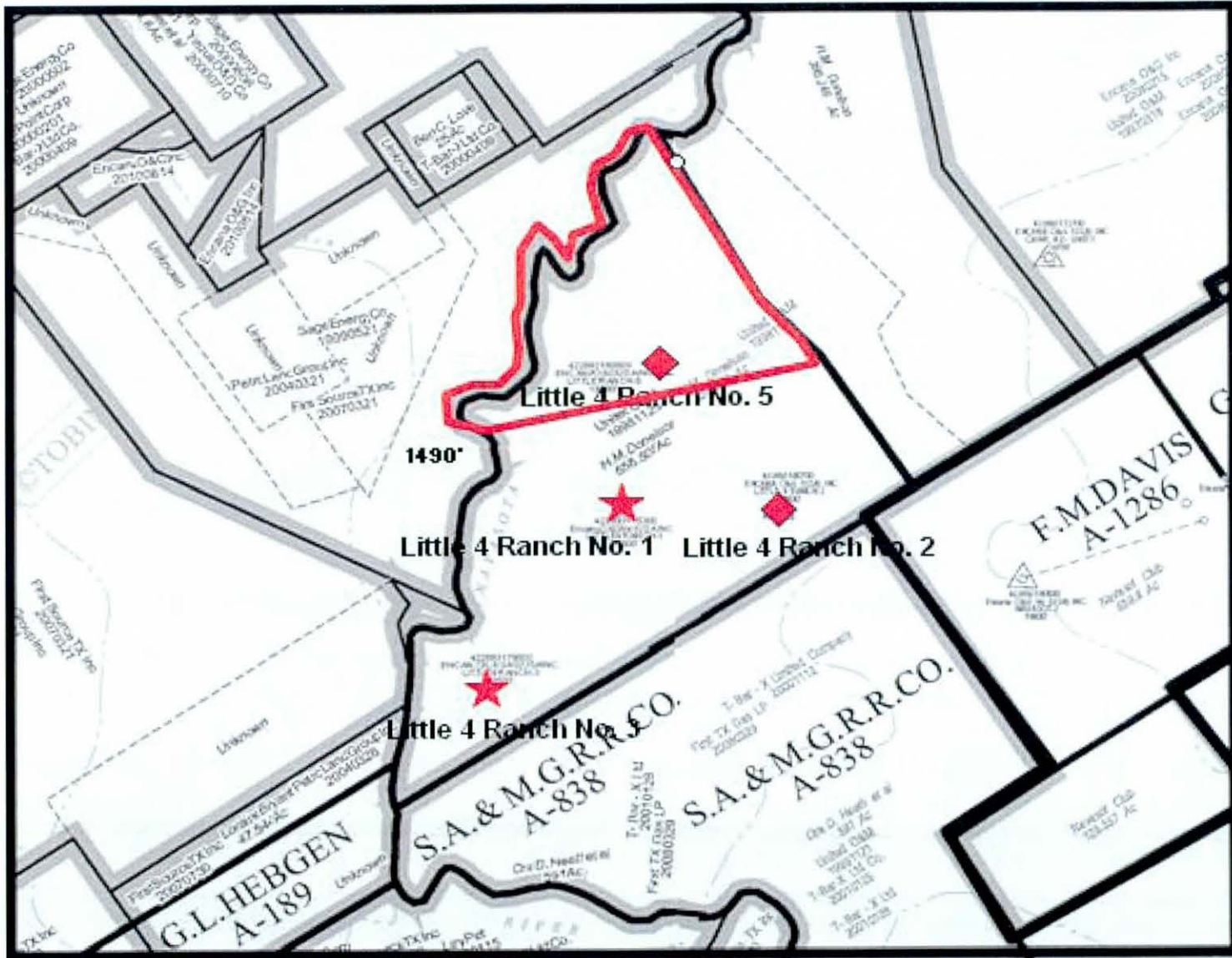
David Gross

Attorney for Petrogulf Corporation

Enclosures



**Proposed Little 4 Ranch Well No. 3 Pooled Unit**



**Proposed Little 4 Ranch Well No. 5 Pooled Unit**

Proposed location is S 78 W - 4.7 miles from Wealthy, Tx.  
 Proposed Location is 700' Sc. FSEL &  
 48,850' Sc. FNEL of the J. VIESCA SUR., A-30.

ALL BEARINGS, DISTANCES AND COORDINATES  
 SHOWN HEREON ARE BASED ON G.P.S. DATA  
 CONVERTED TO THE TEXAS COORDINATE SYSTEM,  
 CENTRAL ZONE (NAD 1927)

Acreage shown hereon furnished by others.



WELL LOCATION PLAT  
 ENCANA OIL & GAS (USA) INC.  
 LITTLE 4 RANCH NO.3  
 LEON COUNTY, TEXAS  
 SCALE: 1" = 1000'

PROPOSED LOCATION  
 NAD 27 DATA-TX.C.Z.  
 LAT: 31°00'47.83"  
 LON: -96°15'25.88"  
 X: 3,276,606  
 Y: 513,135  
 ELEV: 269' Sc.

CALLED 73.3 AC.  
 299/572

CALLED 88 AC.  
 299/583

CALLLED 532.8 ACRE LEASE

J. VIESCA  
 A-30

2.847'  
 LITTLE 4 RANCH  
 NO.1

CALLLED 167 AC.  
 299/561

CALLLED 1181 AC. LEASE  
 953/757 (Tr-1)

CALLLED 204.5 AC.  
 293/345

800' Sc.  
 LITTLE 4 RANCH  
 NO.3

48,850 Sc.


S.A. & M.G.R.R.CO.  
 A-838

SURVEY LINE AS DESCRIBED IN CALLED  
 204.5 ACRE LEASE TRACT (293/345)

SURVEY LINE AS SHOWN BY PLAT OF SURVEY  
 OF HILL TOP LAND CO., LTD. 1163.29 ACRE TR.  
 PREPARED BY RICHARD J. REED RPLS #1593  
 AND DATED 12/30/1996

The information contained on this plat is intended for the  
 sole use of ENCANA OIL & GAS (USA) INC.

F. M. DAVIS  
 A-1286

BY:   
 JOHN R. NOWLIN  
 STATE OF TEXAS R.P.L.S. NO. 4898



1/7/2009

T81500

Proposed location is S 78 W - 4.7 miles from Wealthy, Tx.  
 Proposed Location is 700' Sc. FSEL &  
 48,850' Sc. FNEL of the J. VIESCA SUR., A-30.

ALL BEARINGS, DISTANCES AND COORDINATES  
 SHOWN HEREON ARE BASED ON G.P.S. DATA  
 CONVERTED TO THE TEXAS COORDINATE SYSTEM,  
 CENTRAL ZONE (NAD 1927)

Acreeage shown hereon furnished by others.



**PROPOSED LOCATION**  
 NAD 27 DATA-TX.C.Z.  
 LAT: 31°00'47.83"  
 LON: -96°15'25.88"  
 X: 3,276,606  
 Y: 513,135  
 ELEV: 269' Sc.

**WELL LOCATION PLAT**  
**ENCANA OIL & GAS (USA) INC.**  
**LITTLE 4 RANCH NO.3**  
**LEON COUNTY, TEXAS**  
**SCALE: 1" = 1000'**

*Petroguik  
 MF 110304  
 7-14-09*

CALLED 73.3 AC.  
 299/572

CALLED 88 AC.  
 299/583

CALLLED 532.8 ACRE LEASE

**J. VIESCA**  
 A-30

PREPARED BY:  
**STANGER**  
 SURVEYING TYLER LLC  
 6381 New Copeland Road  
 Tyler, Texas 75703  
 (903) 534-0174

LITTLE 4 RANCH  
 NO.1

CALLLED 167 AC.  
 299/561

CALLLED 1181 AC. LEASE  
 953/757 (Tr-1)

CALLLED 204.5 AC.  
 293/345

LITTLE 4 RANCH  
 NO.3

**S.A. & M.G.R.R.CO.**  
 A-838

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SURVEY LINE AS SHOWN BY PLAT OF SURVEY  
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**F. M. DAVIS**  
 A-1286

BY: *[Signature]*  
 JOHN R. NOWLIN  
 STATE OF TEXAS R.P.L.S. NO. 4898



1/7/2009

T81500

*Permitted  
 Jan. 09  
 Completion  
 July 2009  
 IA 20 mmcf/day  
 Hilltop Resort  
 (Bossier)*



Proposed location is S 86 W - 4.2 miles from Wealthy, Tx.  
 Proposed Location is 2,983' Sc. FSEL &  
 44,840' Sc. FNEL of the J. VIESCA SUR., A-30.

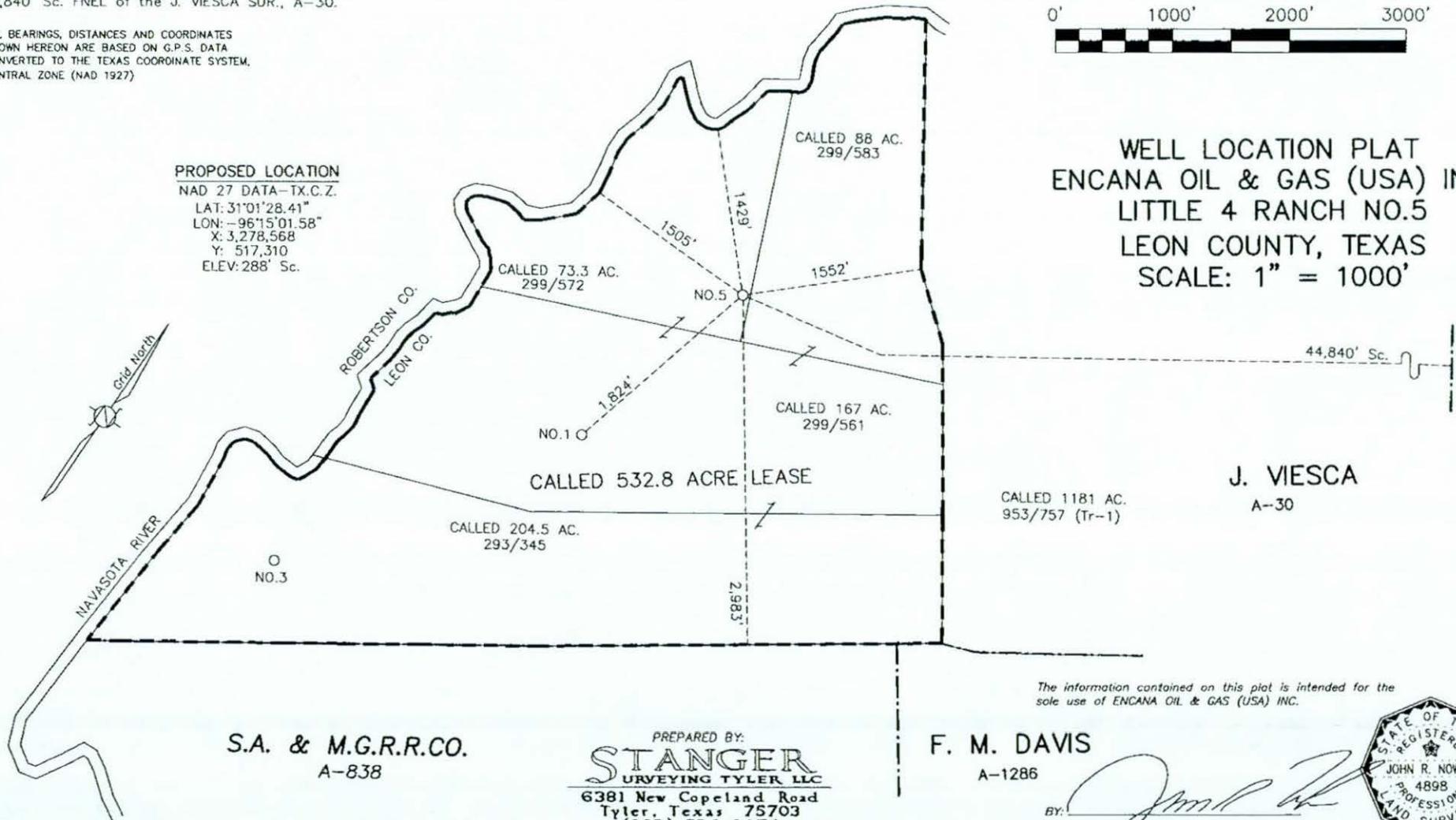
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 CENTRAL ZONE (NAD 1927)

Acreeage shown hereon furnished by others.



WELL LOCATION PLAT  
 ENCANA OIL & GAS (USA) INC.  
 LITTLE 4 RANCH NO.5  
 LEON COUNTY, TEXAS  
 SCALE: 1" = 1000'

PROPOSED LOCATION  
 NAD 27 DATA-TX.C.Z.  
 LAT: 31°01'28.41"  
 LON: -96°15'01.58"  
 X: 3,278,568  
 Y: 517,310  
 ELEV: 288' Sc.



J. VIESCA  
 A-30

S.A. & M.G.R.R.CO.  
 A-838

PREPARED BY:  
**STANGER**  
 SURVEYING TYLER LLC  
 6381 New Copeland Road  
 Tyler, Texas 75703  
 (903) 534-0174

F. M. DAVIS  
 A-1286

The information contained on this plat is intended for the  
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BY: *[Signature]*  
 JOHN R. NOWLIN  
 STATE OF TEXAS R.P.L.S. NO. 4898



03/05/2009

T90136



Proposed location is S 78 W - 4.7 miles from Wealthy, Tx.  
 Proposed Location is 700' Sc. FSEL &  
 48,850' Sc. FNEL of the J. VIESCA SUR., A-30.

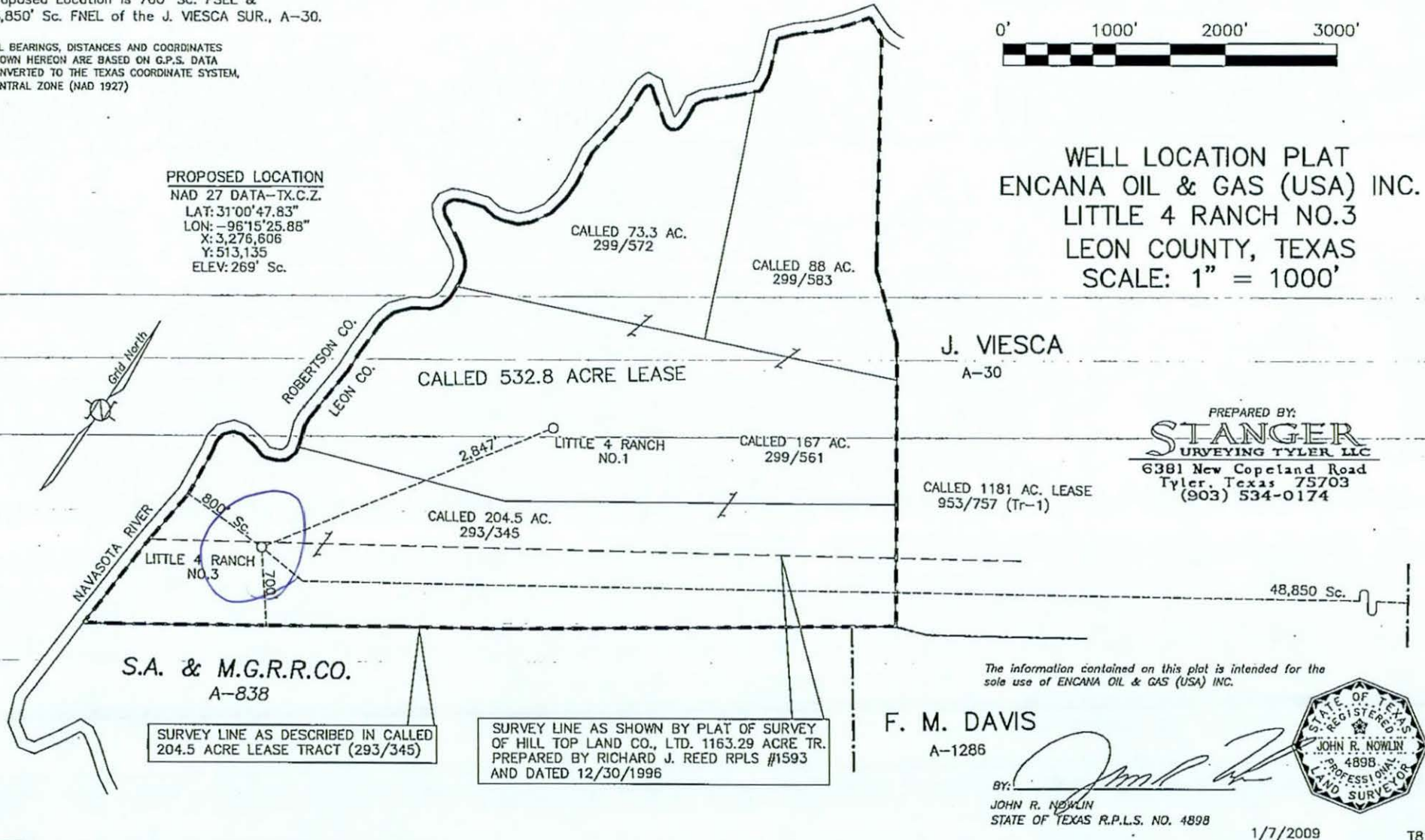
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 CENTRAL ZONE (NAD 1927)

Acreage shown hereon furnished by others.



**PROPOSED LOCATION**  
 NAD 27 DATA-TX.C.Z.  
 LAT: 31°00'47.83"  
 LON: -96°15'25.88"  
 X: 3,276,606  
 Y: 513,135  
 ELEV: 269' Sc.

**WELL LOCATION PLAT**  
**ENCANA OIL & GAS (USA) INC.**  
**LITTLE 4 RANCH NO.3**  
**LEON COUNTY, TEXAS**  
**SCALE: 1" = 1000'**



PREPARED BY:  
**STANGER**  
 SURVEYING TYLER LLC  
 6381 New Copeland Road  
 Tyler, Texas 75703  
 (903) 534-0174

**S.A. & M.G.R.R.CO.**  
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SURVEY LINE AS DESCRIBED IN CALLED  
 204.5 ACRE LEASE TRACT (293/345)

SURVEY LINE AS SHOWN BY PLAT OF SURVEY  
 OF HILL TOP LAND CO., LTD. 1163.29 ACRE TR.  
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The information contained on this plat is intended for the  
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**F. M. DAVIS**  
 A-1286

BY: *[Signature]*  
 JOHN R. NOWLIN  
 STATE OF TEXAS R.P.L.S. NO. 4898



Type or print only  
42-047

RAILROAD COMMISSION OF TEXAS  
Oil and Gas Division

289 31798

Form G-1  
Rev. 4/1/83

**Gas Well Back Pressure Test,**  
**Completion or Recompletion Report, and Log**

API No. 42-

7. RRC District No. 5

8. RRC Gas ID No. 252401

9. Well No. 3

10. County of well site Leon

11. Purpose of filing  
Initial Potential   
Retest   
Reclass   
Well record only   
(Explain in remarks)

1. FIELD NAME (as per RRC Records or Wildcat)  
HILLTOP RESORT (BOSSIER)

2. LEASE NAME  
Little 4 Ranch

3. OPERATOR'S NAME (Exactly as shown on Form P-5, Organization Report)  
Encana Oil & Gas (USA), Inc. RRC Operator No. 251691

4. ADDRESS  
14001 N DALLAS PARKWAY STE 1000; DALLAS, TX 75240

5. Location (Section, Block, and Survey)  
VIESCA JM A-30

5b. Distance and direction to nearest town in this county.  
4.7 mi SW of Wealthy

6. If operator has changed within last 60 days, name former operator

12. If workover or reclass, give former field (with reservoir) & Gas ID or oil lease no.  
FIELD & RESERVOIR

13. Pipe Line Connection  
ENCANA

14. Completion or recompletion date  
7-22-09

15. Any condensate on hand at time of workover or recompletion?  Yes  No

16. Type of Electric or other Log Run.  
INDUCTION

**Section I**  
**GAS MEASUREMENT DATA**

Date of Test	Gas Measurement Method (Check One)							Gas produced during test		
08/02/09	Orifice	Flange Taps	Positive	Orifice Vent	Pitot	Critical-flow				
	Meter	Pipe Taps	Choke	Meter	Tube	Prover	61236 MCF			
Run No.	Line Size	Orif. or Choke Size	24 Hr. Coeff.	Static Pm or Choke Press.	Diff. hw	Flow Temp. deg. F.	Temp. Factor Ft	Grav. Factor Fg	Comp. Factor Fpw	Volume MCF/DAY
1	4.026	2.750	54417.41	1080	129.0	114	0.9518	0.9892	1.0674	20412
2										
3										
4										

**Section II**  
**LOG DATA AND PRESSURE CALCULATIONS**

Gravity (Dry Gas)	Gravity Liquid Hydrocarbon	Gas-Liquid Ratio	Gravity of Mixture	Avg. Shut-in Temp.	Bottom Hole Temperature				
0.613	N/A Deg. API	N/A	Gmix = 0.613	260 °F	447 °F @ 16939 (Depth)				
Deff 8/3 = 42.580		$\sqrt{TI} = \sqrt{790.32} = 28.11$		$\sqrt{GL} = \sqrt{10386.69} = 101.92$					
$C = \frac{1118 \times \text{Deff } 8/3}{\sqrt{790.32}} = \frac{47604.44}{28.11} = 1693.34$		$\frac{\sqrt{GL}}{C} = \frac{101.92}{1693.34} = 0.0602$							
Run No.	Time of Run Min.	Choke Size	Wellhead Press. Pw PSIA	Wellhead Flow Temp. °F	P <sub>w</sub> <sup>2</sup> (Thousands)	R	R <sup>2</sup> (Thousands)	P <sub>1</sub>	P <sub>w</sub> /P <sub>1</sub>
Shut-in	24 Hours		13866	192266					
1	4320	20/64	10615	214	112678	1228.50	1509.22	##	0.9934
2									
3									
4									
Run No.	F	K	S = 1/Z	E <sub>ks</sub>	P <sub>i</sub> and P <sub>s</sub>	P <sub>i</sub> <sup>2</sup> and P <sub>s</sub> <sup>2</sup> (thousands)	P <sub>i</sub> <sup>2</sup> - P <sub>s</sub> <sup>2</sup> (thousands)	Angle of Slope	
Shut-in		0.2703	0.6031	1.17708	16321	266387		θ	45.0
1	0.9967	0.2456	0.6319	1.16787	12397	153684	112703	n	1.000
2								Absolute Open Flow	
3								48246 MCF/DAY	
4									

WELL TESTER'S CERTIFICATION: I declare under penalties prescribed in Sec. 91.143, Texas Natural Resources Code that I conducted or supervised this test and that data and facts shown in Sections I and II above are true, correct, and complete, to the best of my knowledge. Bottomhole temperature and the diameter and length of flow string were furnished by the operator of the well.

Signature: Well Tester *Antony Y...* Name of Company: TETRA Production Testing Services, LLC. RRC Representative

OPERATOR'S CERTIFICATION: I declare under penalties prescribed in Sec. 91.143, Texas Natural Resources Code, that I am authorized to make this report, that I prepared or supervised and directed this report, and that data and facts stated therein are true, correct, and complete, to the best of my knowledge.

Signature: Operator's representative *Bev Hatfield* Title: Regulatory Analyst Date: 8-12-09 A/C Number: 214 723 7413

MAPPING  
WM  
8-12-09

VALID PERMIT

AUG 24 2009

SECTION III DATA ON WELL COMPLETION AND LOG (Not Required on Retest)

17. Type of Completion: New Well  Deepening  Plug Back  Other

18. Permit to Drill, Plug Back or Deepen 01/15/2009 677255  
 Rule 37 CASE NO.  
 Exception: / /0000  
 Water Injection PERMIT NO.  
 Permit  
 Salt Water Disposal PERMIT NO.  
 Permit  
 Other PERMIT NO.

19. Notice of Intention to Drill this well was filed in Name of  
**EnCana Oil & Gas (USA) Inc.**

20. Number of producing wells on this lease in this field (reservoir) including this well: 2  
 21. Total number of acres in this lease: 532.8

22. Date Plug Back, Deepening, WorkOver or Drilling Operations: 03/19/2009  
 Commenced: 06/06/2009  
 Completed: 2847  
 23. Distance to nearest well, Same Lease & Reservoir

24. Location of well, relative to nearest lease boundaries of lease on which this well is located: 700 Feet From SE Line and 800 Feet from NW Line of file LITTLE 4 RANCH Lease

25. Elevation (DF, RKB, RT, GR, ETC.): 269' GR  
 26. Was directional survey made other than inclination (Form W-12)?  Yes  No

27. Top of Pay: 16462  
 28. Total Depth: 17850  
 29. P.B. Depth: 17850  
 30. Surface Casing Determined by: Field  Recommendation of T.D.W.R.   
 Rules  Railroad Commission (Special)   
 Dt. of Letter: 01/13/2009  
 Dt. of Letter: 02/27/2009

31. Is well multiple completion?  Yes  No  
 32. If multiple completion, list all reservoir names (completions in this well) and Off Lease or Gas ID No. FIELD & RESERVOIR  
 GAS ID or OIL LEASE #  
 Oil-O Gas-G WELL #  
 33. Intervals Drilled by: Rotary Tools  Cable Tools

34. Name of Drilling Contractor: ROWAN 84  
 35. Cementing Affidavit Attached?  Yes  No

36. CASING RECORD (Report All Strings Set in Well)

CASING SIZE	WT #/FT.	DEPTH SET	MULTISTAGE TOOL DEPTH	TYPE & AMOUNT CEMENT (sacks)	HOLE SIZE	TOP OF CEMENT	SLURRY VOL. cu. ft.
13.375	68	2925		2600 MHL C	17-1/2	CIRC SURF	4740
9.625	53.5	11402	1195	50/50 POZ/P	12.250	520	1797
4.5	23.2	17850		750 PREM	6.75	9700	1207.5

37. LINER RECORD

Size	Top	Bottom	Sacks Cement	Screen
7-5/8	11058	15949	760	-

38. TUBING RECORD

Size	Depth Set	Packer Set	From	To
			17461	17420
			16780	16786
			16462	61468

39. Producing Interval (this completion) Indicate depth of perforation or open hole

From	To
17461	17420
16780	16786
16462	61468

40. ACID, SHOT, FRACTURE, CEMENT SQUEEZE, ETC.

Depth Interval	Amount and Kind of Material Used
17461-420	2806 BBLs 50/45# SIROCCO 2500# 100 SD
17571-579	1489 BBLs 50/45/40# SIR 25000# 20/40 HP
16848-846	2176 BBLs 50/45# sIR, 5000# 100 SD, 92000# 18/40 ULTRP PROP, 3300# 30/50 BAX

41. FORMATION RECORD (LIST DEPTHS OF PRINCIPAL GEOLOGICAL MARKERS AND FORMATION TOPS)

Formations	Depth	Formations	Depth
PETTET	10545	AUSTIN CHALK	6320
BOSSIER FM	15570		

REMARKS

**DrillingInfo One-Page Production Summary**



Tag This Element

API# 42-289-31798  
 Well# 3  
 Lease LITTLE 4 RANCH  
 Field HILLTOP RESORT (BOSSIER)  
 Lease ENCANA OIL & GAS(USA) INC.  
 Operator Well Op History  
 County Leon  
 State Texas  
 Location 700.0 SE / 48850.0 NE, VIESCA, J M A-30  
 Elevation 269 GR  
 Date Spud --  
 Date TD --  
 Logs Run INDUCTION,

	First Production	Most Recent Production	Cumulative (MCF & BBL)	Gravity (SG & API)	Gatherer
Oil	7/1/09	11/1/09	22	---	SUNOC
Gas	7/1/09	11/1/09	1,514,008	0.61	ENCAO

**Most Recently Reported Monthly Production (12 Months)**

Mo/Yr	Gas (MCF)				Oil (BBL)				Water (BW)	#Wells Flowing	#Wells Other	Avg Gas (MCF/D)	Avg Oil (BBL/D)	Avg Wtr (BW/D)
	Produced	Sold	Used	Other	Produced	Sold	Other	Closing						
7/2009	118,771	118,771	0	0	0	---	---	0	---	---	---	3,831.32	0.00	0.00
8/2009	607,332	607,309	0	23	21	0	21	0	---	---	---	19,591.36	0.68	0.00
9/2009	329,920	329,920	0	0	0	---	---	0	---	---	---	10,997.33	0.00	0.00
10/2009	278,648	278,648	0	0	0	---	---	0	---	---	---	8,988.65	0.00	0.00
11/2009	179,337	179,331	5	1	1	0	1	0	---	---	---	5,977.90	0.03	0.00
Totals	<b>1,514,008</b>	1,513,979	5	24	22	0	22	---	---	---	---	---	---	---

**Annual Production**

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

Year	Gas (MCF)	Oil (BBL)	Water (BW)	#Wells Flowing	#Wells Other	Avg Gas (MCF/D)	Avg Oil (BBL/D)	Avg Wtr (BW/D)	Annual Dec. Gas	Annual Dec. Oil
2009	1,514,008	22	---	---	---	9,960.58	0.14	0.00	---	---
Totals	1,514,008	22	---	---	---	---	---	---	---	---

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13

File No. M-110304

Ltr. From Adv. O. Gross County

Date Filed: 1/29/16

George P. Bush, Commissioner  
By [Signature]



# MEMORANDUM

Texas General Land Office • Jerry Patterson • Commissioner

---

**DATE:** February 23, 2010

**TO:** School Land Board

**FROM:** Peter A. Boone

**SUBJECT:** Request by Petrogulf Corporation to proceed at the Railroad Commission under the Mineral Interest Pooling Act for a determination by the Railroad Commission for the possible inclusion of all or a part of State Lease MF110304, Navasota River Tract 5-D, into a unit with Encana Oil & Gas (USA) Inc.'s, Little 4 Ranch Well No. 3, Leon and Robertson Counties, Texas.

Petrogulf Corporation (Petrogulf) is requesting School Land Board permission under Texas Natural Resources Code Chapter 102, the Mineral Interest Pooling Act (MIPA), to proceed at the Railroad Commission to force pool all or a part of State Lease MF110304, into a unit with Encana Oil & Gas (USA) Inc.'s (Encana), Little 4 Ranch Well No. 3, Leon and Robertson Counties, Texas.

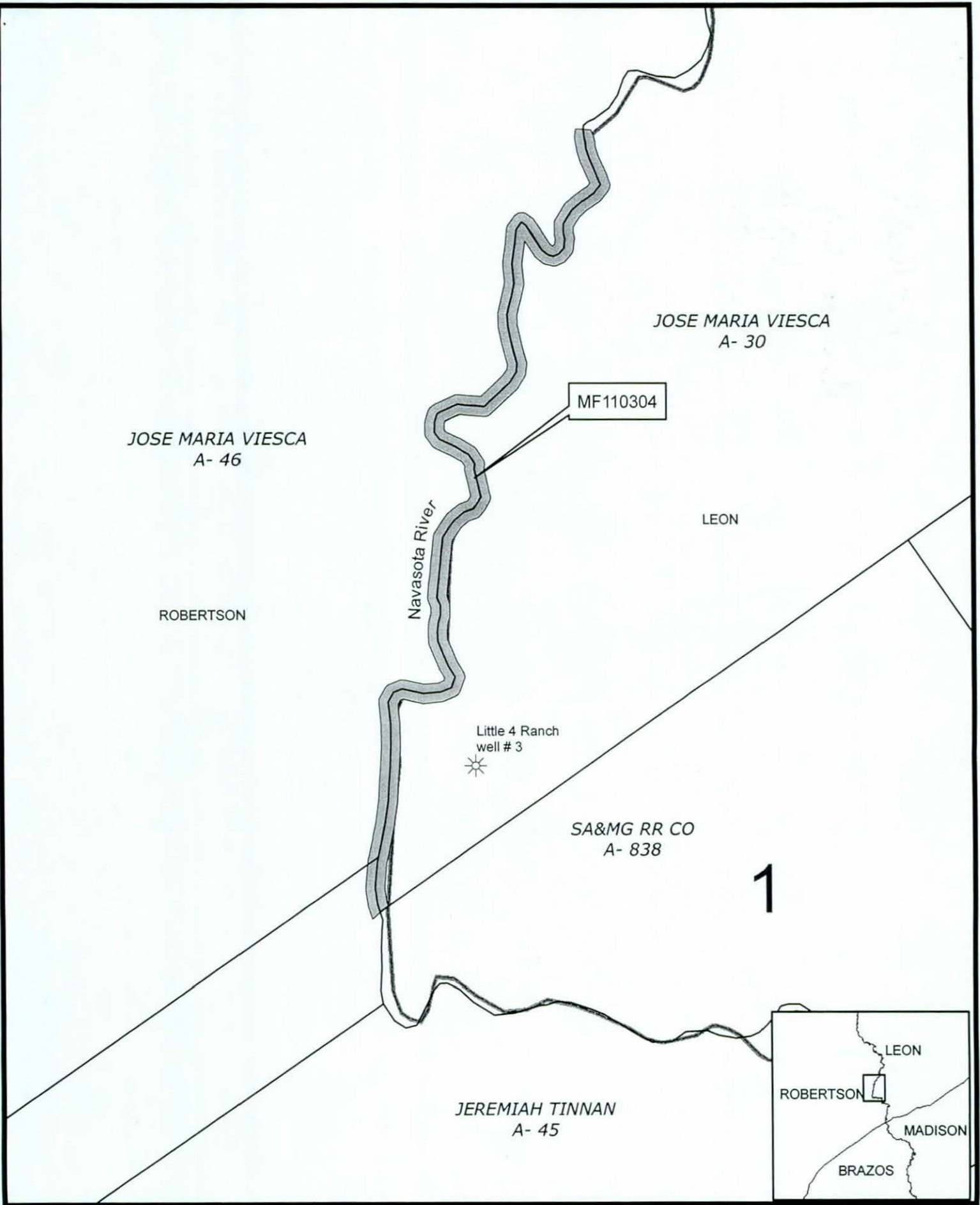
Texas Natural Resources Code §102.004 (d) states: "With the approval or consent first obtained, or at the instance of the Commissioner of the General Land Office, or any board or agency having jurisdiction, the land in which the State of Texas has an interest as described in this chapter may be pooled under the provisions of this chapter."

Petrogulf incurred an offset obligation when Encana completed the Little 4 Ranch Well No. 3 (offset well) 800 feet from State Lease MF110304. The offset well was completed on July 22, 2009 in the Hilltop Resort (Bossier) field and has produced approximately 1.5 BCF of gas through November 2009. Petrogulf does not currently possess any geologic or engineering information to determine if the State lease is being drained by the offset well.

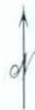
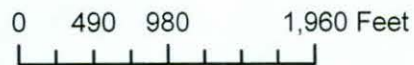
Petrogulf has proposed voluntary pooling to Encana but that offer has been rejected. Petrogulf plans to extend a statutory fair and reasonable voluntary pooling offer to Encana pursuant to the MIPA. If this offer is rejected, then Petrogulf will file an MIPA with the Railroad Commission.

RECOMMENDATION:

Staff recommends Board approval of the request by Petrogulf to pursue, under the Mineral Interest Pooling Act, inclusion of all or a part of State Lease MF110304 into a pooled unit with Encana's Little 4 Ranch Well No. 3.



Petrogulf Corporation  
 MIPA Request  
 Navasota River  
 Leon and Robertson Counties  
 MF110304 MIPA



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



Map Compiled By: Zeke Guillen  
 February 23, 2010

File No. M-110304 \_\_\_\_\_ County \_\_\_\_\_  
Memo to SLB \_\_\_\_\_  
Date Filed: 1/29/16 \_\_\_\_\_  
By: George P. Bush, Commissioner \_\_\_\_\_