



CAUTION

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Thank you for your assistance.

Archives and Records Staff

TERMINATION

DATE 12/4/13

LEASING SSD

MAPS JK

GIS ML

Leasing: DR

Analyst: DR

Maps: AS

GIS: AS

PARTIAL RELEASE JK

MF110604

State Lease	Control	Base File	County
MF110604	07-031598	143350	CULBERSON
MF110604	07-031605	143351	CULBERSON
MF110604	07-031614	143352	CULBERSON
MF110604	07-031623	143353	CULBERSON

Survey	PUBLIC SCHOOL LAND	
Block	109, 115	
Block Name		
Township		
Section/Tract	1, 2, 3, 4, 5, 6, 7, 8, 11, 12, 13,	
Land Part		
Part Description		
Acres	18098.29 <u>4807.13</u>	
Depth Below	Depth Above	Depth Other
0	0	
Name	ENCANA OIL & GAS (USA) INC	
Lease Date	1/12/2010	
Primary Term	5 yrs	
Bonus (\$)	\$1,108,500.00	
Rental (\$)	\$0.00	
Lease Royalty	0.1250	

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

CONTENTS OF FILE NO. MF- 110604

1. Emails 1/11/10 + 1/13/10
2. Emails 1/13/10 + 1/18/10
3. BAA Review 1/25/10
4. Letter, fee, + bonus 2/1/10
5. Lease 2/1/10
6. GID letter 2/4/10
7. Bonus Payment 4/29/10
8. Filed in both files.
Emails + well updates. 1/6/11
9. Partial Release 3-16-12
10. PLAT OF LEASE AFTER →
→ RELEASE 8/6/2012

Scanned SM 5/6/13

Drew Reid - Proposed Addendum for Montgomery Ranch Lease

From: "Bill Patterson" <billpatterson@petroleumlegal.com>
To: "Drew Reid" <Drew.Reid@GLO.STATE.TX.US>
Date: 1/11/2010 12:45 PM
Subject: Proposed Addendum for Montgomery Ranch Lease
CC: "Robert Cocanougher" <robert@wiseadv.com>, "Daniel Cocanougher" <daniel@skeds.com>, "Jamie Downing" <jamie@wiseadv.com>
Attachments: Addendum.OGL.Encana.Final.doc

Drew:

Attached is the proposed Addendum EnCana and Wise Asset No. 2, Ltd. have agreed to attach to the lease that will cover the Montgomery Ranch. The addendum is the same as the one used for the Delaware Ranch lease (or, actually, the same as the revised addendum I just emailed you on Delaware Ranch). The only two significant changes are:

1. *Instead of drilling 3 obligation wells per year during the primary term, EnCana must only drill 2 per year (since the Montgomery Ranch is 2/3 the size of the Delaware Ranch).*
2. *We agreed to accept payment of 1/3 of the bonus monies (which are the same per acre as on the Delaware Ranch) with the balance payable on May 1. In return, EnCana agreed to spud on or about Feb. 1 on the Montgomery Ranch (and, EnCana is already building road and location and has a rig under contract for the Feb. 1 spud). If by May 1, EnCana does NOT like what it sees with its test well, it doesn't have to pay the rest of the bonus, but the lease would automatically expire (and EnCana would have to plug and abandon the well as per lease terms). If EnCana does like the results from the test well as of May 1, then it pays the balance of the bonus monies and the lease continues.*

Wise Asset plans on executing the lease for Montgomery tomorrow – the old lease expires today – and overnighting it to EnCana in Denver. EnCana will execute the lease, then send it on to GLO.

Will the GLO be okay with the Montgomery Ranch lease?

Thanks.

Bill Patterson

William D. Patterson* **
 William D Patterson PC
 6851 NE Loop 820, Suite 110
 North Richland Hills, TX 76180
 Ph: (817) 577-1131 ext. 206
 Cell: (817) 228-9184
 Fax: (817) 503-8985
 Email: billpatterson@petroleumlegal.com

* Licensed in Texas & New Mexico

** Board Certified in Oil, Gas & Mineral Law by the Texas Board of Legal Specialization

Handwritten:
 Hatter + I
 talked 1/11
 2 OK 2
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This message is confidential and may be legally privileged. If you have received it in error, please notify the sender by replying to this email; then immediately delete this email IN ITS ENTIRETY, INCLUDING ATTACHMENTS, from your computer and any other server or drive to which it may have been saved.

Drew Reid - RE: Montgomery Ranch Lease, Wise Asset

From: Drew Reid
To: McElyea, David R.
Subject: RE: Montgomery Ranch Lease, Wise Asset

thanks David, I will start the approval work-up when I get the signed lease, it will take a couple of days, so I will get your approval letter to you on Tues. 19th - Drew

>>> "McElyea, David R." <David.McElyea@encana.com> 1/14/2010 12:04 PM >>>

Drew, I just received the signed Montgomery Lease with Wise Asset....I will try and get it signed today...I will e-mail you a signed copy and have the original recorded...I have requested the checks for the bonus payment, should have them by Monday....

David

From: Drew Reid [mailto:Drew.Reid@GLO.STATE.TX.US]
Sent: Wednesday, January 13, 2010 9:44 AM
To: McElyea, David R.
Subject: RE: Montgomery Ranch Lease, Wise Asset

sorry David - to much going on at the same time - I will do the Montgomery letter when I have a copy of the lease - everything is good in concept but I need to have a copy of the lease for final approval - I have a copy of the addendum - Drew

>>> "McElyea, David R." <David.McElyea@encana.com> 1/13/2010 10:37 AM >>>

Drew...this issue covers the Clay Taylor Ranch....the letter I requested is for the Wise Asset, Montgomery Ranch Lease...

thanks

From: Drew Reid [mailto:Drew.Reid@GLO.STATE.TX.US]
Sent: Wednesday, January 13, 2010 9:34 AM
To: McElyea, David R.
Subject: Re: Montgomery Ranch Lease, Wise Asset

David, we still need to clear up the issue of either having a \$200.00 per ac. rental for the 4th year or drilling one well in the first three years with continues drilling (180 days) starting at the end of the 5 year term - I will do that letter for you when we have a better handle on this small issue - Drew

>>> "McElyea, David R." <David.McElyea@encana.com> 1/13/2010 9:08 AM >>>

Drew, can you send me a letter (lease Approved by GLO) for the Montgomery Ranch Lease, same as you sent for the Delaware Ranch Lease....? I will order the checks today for bonus payment...

thanks,

This email communication and any files transmitted with it may contain confidential and or proprietary information and is provided for the use of the intended recipient only. Any review, retransmission or dissemination of this information by anyone other than the intended recipient is prohibited. If you receive this email in error, please contact the sender and delete this communication and any copies immediately. Thank you.

<http://www.encana.com>

File No. MF 110604

Enails

Date Filed: 1/11/10 & 1/13/10
Jerry Patterson, Commissioner

By [Signature]

Drew Reid - Montgomery Ranch Lease, Wise Asset

From: "McElyea, David R." <David.McElyea@encana.com>
To: <Drew.Reid@GLO.State.TX.US>
Date: 1/13/2010 9:08 AM
Subject: Montgomery Ranch Lease, Wise Asset

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<http://www.encana.com>

Drew Reid - RE: Montgomery Ranch Lease, Wise Asset

From: "McElyea, David R." <David.McElyea@encana.com>
To: "Drew Reid" <Drew.Reid@GLO.STATE.TX.US>
Date: 1/13/2010 10:47 AM
Subject: RE: Montgomery Ranch Lease, Wise Asset

Bill Patterson overnighted the signed lease to me...I should get it today...after I have it signed by EnCana I will e-mail you a copy...

thanks

From: Drew Reid [mailto:Drew.Reid@GLO.STATE.TX.US]
Sent: Wednesday, January 13, 2010 9:44 AM
To: McElyea, David R.
Subject: RE: Montgomery Ranch Lease, Wise Asset

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Sent: Wednesday, January 13, 2010 9:34 AM
To: McElyea, David R.
Subject: Re: Montgomery Ranch Lease, Wise Asset

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<http://www.encana.com>

Drew

From: "McElyea, David R." <David.McElyea@encana.com>
To: <Drew.Reid@GLO.State.TX.US>
CC: <bill.patterson@petroleumlegal.com>
Date: 1/18/2010 3:39 PM
Subject: FW: Scanned Document
Attachments: Document.pdf

Drew, attached is a copy of the signed lease for Wise Asset, for the Montgomery Ranch Lease..

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

From: dmcelyea [mailto:dmcelyea@encana.com]
Sent: Monday, January 18, 2010 2:29 PM
To: DAVID.MCELYEA
Subject: Scanned Document

Please open the attached document. This document was digitally sent to you using EnCana's HP Digital Sending Service.

This email communication and any files transmitted with it may contain confidential and or proprietary information and is provided for the use of the intended recipient only. Any review, retransmission or dissemination of this information by anyone other than the intended recipient is prohibited. If you receive this email in error, please contact the sender and delete this communication and any copies immediately. Thank you.
<http://www.encana.com>

2.

File No. MF 110604

Enails

Date Filed: 1/13/10 ✓ 1/18/10
Jenny Patterson, Commissioner

By

[Signature]

RAL REVIEW SHEET

Transaction # 6632

Lessor: Wise Asset No. 2, Ltd.

Lessee: Encana Oil & Gas (USA), Inc.

Geologist: R. Widmayer

Lease Date: 1/12/2010 **UL** ☐

Gross Acres: 18068.29

Net Acres: 18068.29

LEASE DESCRIPTION

County	PIN#	Base File No	Part	Sec.	Block	Twp	Survey	Abst#
CULBERSON	07-033140	143511	ALL	4	115	00	PUBLIC SCHOOL LAND	6614
CULBERSON	07-033159	143512	ALL	5	115	00	PUBLIC SCHOOL LAND	6615
CULBERSON	07-033168	143513	ALL	6	115	00	PUBLIC SCHOOL LAND	6616
CULBERSON	07-033177	143514	ALL	7	115	00	PUBLIC SCHOOL LAND	6617
CULBERSON	07-033186	143515	ALL	8	115	00	PUBLIC SCHOOL LAND	6618

TERMS OFFERED

Primary Term:

Bonus/Acre:

Rental/Acre:

Royalty:

TERMS RECOMMENDED

Primary Term

Bonus/Acre

Rental/Acre

Royalty

COMPARISONS

MF #	Lessee	Date	Term	Bonus/Ac.	Rental/Ac.	Royalty	Distance
MF104920	W.B. Robbins, III	1/11/2005	5 years	\$35.00	\$1.00	1/5	Last Lease
<i>Pending</i>	<i>Encana Oil and Gas</i>	<i>1-1-2010</i>	<i>5-5</i>	<i>\$122.70</i>	<i>\$1.00</i>	<i>1/4</i>	6 Miles North

Comments: See MF for balance of property. 29 sections of land in 7 acreage blocks. Drilling obligation of 2 wells per year. \$400 additional bonus per acre to be paid on tracts to be drilled after the first 2 years. Blocks 109 and 115 PSL.

Approved: PAT 1-25-10

Monday, January 25, 2010

leased premises contain exactly 18,068.29 net acres, whether more or less. All other amounts payable under this lease, including, but not limited to, royalties and shut-in royalties, shall be computed based upon the actual net acres covered by this lease.

43. **Acreage Blocks.** The leased premises is hereby partitioned, for the purposes set forth below, into seven different units or blocks of acreage as follows (collectively, the "Acreage Blocks;" individually, an "Acreage Block"):

Acreage Block	Section	Block	Gross Acres	
I	4	115	628.89	07-033140
	5	115	632.15	07-033159
	10	115	561.98	07-033202
	11	115	562.13	07-033211
Total Gross Acres in Block I:			2385.15	
II	6	115	635.40	07-033168
	7	115	639.24	07-033177
	8	115	643.28	07-033186
	9	115	642.32	07-033195
Total Gross Acres in Block II:			2560.24	
III	20	115	642.25	07-033300
	21	115	642.35	07-033319
	22	115	571.70	07-033328
	23	115	570.31	07-033337
Total Gross Acres in Block III:			2426.61	
IV	18	115	561.95	07-033284
	19	115	561.98	07-033293
	24	115	651.47	07-033346
	25	115	651.06	07-033355
Total Gross Acres in Block IV:			2426.46	
V	1	109	678.28	07-031598
	2	109	644.45	07-031605
	13	109	641.70	07-031703
	14	109	675.57	07-031712
	16	109	642.54	07-031730
Total Gross Acres in Block V:			3282.54	
VI	3	109	644.47	07-031614
	4	109	563.93	07-031623
	11	109	641.17	07-031687
	12	109	641.33	07-031696
Total Gross Acres in Block VI:			3282.54	
VII	5	109	563.76	07-031632
	6	109	644.37	07-031641
	7	109	645.91	07-031650
	8	109	642.35	07-031669
Total Gross Acres in Block VII:			2496.39	
Total Gross Acres in Blocks I-VII:			18068.29	

Upon the expiration of the primary term, this lease shall automatically:

the soil, in equal shares, on or before May 1, 2010. The sole consequence of Lessee's failure to pay the Balance of the Bonus on or before such date as provided herein shall be the automatic termination of this lease, insofar as the lease covers the entire leased premises (described in Paragraph 42 below), and the reversion of all of Lessee's rights, titles and interests hereunder to the party or parties granting same.

42. Leased Premises. The leased premises consist of the following lands situated in Culberson County, Texas:

Abstract	Block	Survey	Section	Subdivision	Gross Acres (More or Less)
6614	115	PSL	4	All	628.89
6615	115	PSL	5	All	632.15
6616	115	PSL	6	All	635.40
6617	115	PSL	7	All	639.24
6618	115	PSL	8	All	643.28
5068	115	PSL	9	All	642.32
5069	115	PSL	10	NE/4, W/2, N/2 SE/4	561.98
5070	115	PSL	11	E/2, NW/4, N/2 SW/4	562.13
5071	115	PSL	18	E/2, S/2 NW/4, SW/4	561.95
5072	115	PSL	19	S/2 NE/4, W/2, SE/4	561.98
6619	115	PSL	20	All	642.25
3969	115	PSL	21	All	642.35
3970	115	PSL	22	W/2 NE/4, W/2, SE/4	571.70
5073	115	PSL	23	E/2, E/2 NW/4, SW/4	570.31
6620	115	PSL	24	All	651.47
5074	115	PSL	25	All	651.06
6634	109	PSL	1	All	678.28
6635	109	PSL	2	All	644.45
6636	109	PSL	3	All	644.47
6637	109	PSL	4	E/2, NW/4, N/2 SW/4	563.93
6638	109	PSL	5	NE/4, W/2, N/2 SE/4	563.76
6639	109	PSL	6	All	644.37
6640	109	PSL	7	All	645.91
6641	109	PSL	8	All	642.35
6642	109	PSL	11	All	641.17
6643	109	PSL	12	All	641.33
337	109	PSL	13	All	641.70
6644	109	PSL	14	All	675.57
6645	109	PSL	16	All	642.54
Total Gross Acres (more or less):					18068.29

07-033140
07-033159
07-033168
07-033177
07-033186
07-033195
07-033202
07-033211
07-033284
07-033293
07-033300
07-033319
07-033328
07-033337
07-033346
07-033355
07-033398
07-033605
07-033614
07-033623
07-033632
07-033641
07-033650
07-033669
07-033687
07-033696
07-033703
07-033712
07-033730

The State of Texas owns all of the oil and gas in and under the leased premises. It is believed that the owner of the soil owns the fee surface estate in the same lands. The general warranty contained in this lease shall apply to the oil and gas in and under the leased premises, but shall not apply with respect to the agency rights of the owner of the soil, except by, through and under the owner of the soil.

For the purposes of computing the bonus payable under Paragraph 1, it shall be deemed that the

RELINQUISHMENT ACT LEASE APPLICATION

Texas General Land Office

Jerry Patterson, Commissioner

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

DATE: 25-Jan-10

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

Applicant:	Encana Oil & Gas (USA), Inc.	County:	CULBERSON
Prim. Term:	5 years	Bonus/Acre	\$122.70
Royalty:	1/4	Rental/Acre	\$1.00

Consideration

Recommended: PAB Date: 1-25-10

Not Recommended: _____

Comments: See MF for balance of property. 29 sections of land in 7 acreage blocks. Drilling obligation of 2 wells per year. \$400 additional bonus per acre to be paid on tracts to be drilled after the first 2 years.
Blocks 109 and 115 PSI.

☒ Lease Form

Recommended: RHH Date: 2/1/10

Not Recommended: _____

Comments:

Louis Renaud, Deputy Commissioner Date: 2/3/10

Recommended: CLR

Not Recommended: _____

Bill Warnick, General Counsel Date: 2/9/10

Recommended: WFW

Not Recommended: _____

Larry Laine, Chief Clerk Date: 2/10/10

Approved: [Signature]

Not Approved: _____

Jerry Patterson, Commissioner Date: 2/12/10

Approved: [Signature]

Not Approved: _____

30.

File No. MF 110604
Bill Review
Date Filed: 1/25/10
By [Signature] Perry Patterson, Commissioner

1/25/10

1/25/10

Clay Johnson Oil & Gas Properties

203 WEST WALL, SUITE 202* MIDLAND, TEXAS 79701 * (432) 684-4110* FAX (432) 684-5166



AAPL-CPL

January 28, 2010

GENERAL LAND OFFICE

Mr. Drew Reid
Stephen F. Austin Bldg.
1700 North Congress Ave.
Austin, TX 78701

Re: Relinquishment Act Leases
Culberson County, Texas

Dear Drew:

Find enclosed for your files and further handling a file stamped copy of the following described Relinquishment Act Oil and Gas Lease:

Oil and Gas Lease dated January 12, 2010, by and between The State of Texas, acting by and through its agent, Wise Asset No. 2, Ltd., as Lessor and EnCana Oil & Gas (USA) Inc., as Lessee, file stamped #65081, Culberson County, Texas.

Find enclosed JPMorgan Chase Check No. 331326 made payable to the order of The State of Texas in the amount of \$369,500.00 representing payment of 1/3 of lease bonus consideration (1/2 due the State of Texas) for the above mentioned Oil and Gas Lease. Pursuant to Paragraph 41 of the Addendum to said Oil and Gas Lease the remaining 2/3 bonus is to be paid on or before May 1, 2010.

To cover the required filing fees for handling this matter find enclosed Clay Johnson Check in the amount of \$25.00 made payable to the order of General Land Office – State of Texas.

Respectfully

Mary Kay Brasuel

Enclosures:

0113

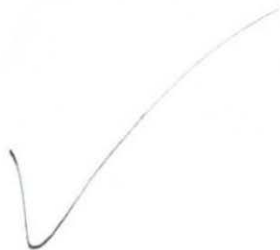
CLAY JOHNSON

THE STATE OF TEXAS

1/28/2010

13111

25.00



121

10704238

FIRST NATIONAL CH Processing Fee - EnCana

01.1.3

25.00

THE FACE OF THIS DOCUMENT HAS A BLUE BACKGROUND - THE BACK HAS AN ARTIFICIAL WATERMARK

P.O. Box 31147
Tampa, FL 33610

JPMorganChase 

10704239

JPMORGAN CHASE REF#

1-2
210

0317900021FE

CHECK DATE

CHECK NUMBER

01/21/2010

331326

U.S. DOLLARS

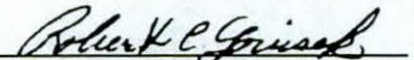
THREE HUNDRED SIXTY NINE THOUSAND FIVE HUNDRED AND 00/100 DOLLARS

CHECK AMOUNT

PAY
TO THE
ORDER OF
THE STATE OF TEXAS
1700 N. CONGRESS AVE, RM 640
AUSTIN, TX 78701-1495

\$369,500.00

00174


AUTHORIZED SIGNATURE

BY: JPMorgan Chase Bank, N.A., Brooklyn, New York as Agent for the Drawer Bank
DRAWER: ESCROW MANUAL CHECKS



331326

00174

To: THE STATE OF TEXAS

Date: 1-25-10

LESSOR is hereby notified that ENCANA OIL & GAS (USA) INC. ("ENCANA"), under the terms of a certain Oil and Gas Lease by which LESSOR is leasing property to ENCANA (the "Agreement"), is assigning its rights as buyer to a Qualified Intermediary in Assignment of Rights 10-01001-B (the "Assignment of Rights"), in order to effect a like-kind exchange of property, as provided under Section 1031 of U. S. Treasury Regulations.

This notification shall in no way be deemed to release ENCANA or LESSOR from any of their agreements, representations, warranties and/or indemnifications set forth in the Agreement, nor shall the Assignment of Rights be deemed to enlarge the rights, duties or obligations of any party under the Agreement.

ENCANA OIL & GAS (USA) INC.
370 17TH STREET, STE. 1700
Denver, CO 80202

4.

File No. MF 110604

Letter, J. V. Brown
Date Filed: 2/11/10

By Jerry Patterson, Commissioner

65081

The State of Texas



Austin, Texas

Paid up
OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 12th day of January, 2010, between the State of Texas, acting by and through its agent, WISE ASSET NO. 2, LTD.

of 6851 NE Loop 820, Suite 110, North Richland Hills, Texas 76180

(Give Permanent Address)

said agent herein referred to as the owner of the soil (whether one or more), and ENCANA OIL & GAS (USA) INC.

of Republic Plaza 370 17th Street, Suite 1700, Denver Colorado 80202

(Give Permanent Address)

hereinafter called Lessee.

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

as described in Addendum 1, attached to and made a part hereof

containing 18,068.29 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: One million one hundred eight thousand five hundred dollars

Dollars (\$1,108,500.00)

To the owner of the soil: One million one hundred eight thousand five hundred dollars

Dollars (\$1,108,500.00)

Total bonus consideration: Two million two hundred seventeen thousand dollars

Dollars (\$2,217,000.00)

The total bonus consideration paid represents a bonus of One hundred twenty two dollars and seventy cents

Dollars (\$122.70) per acre, on 18,068.29 net acres.

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

0011

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

Bank, at N/A
or its successors (which shall continue as the depository regardless of changes in the ownership of said land), the amount specified below; in addition, Lessee shall pay or tender to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATE OF TEXAS, AT AUSTIN, TEXAS, a like sum on or before said date. Payments under this paragraph shall operate as a rental and shall cover the privilege of deferring the commencement of a well for one (1) year from said date. Payments under this paragraph shall be in the following amounts:

To the owner of the soil: N/A
Dollars (\$N/A)
To the State of Texas: N/A
Dollars (\$N/A)
Total Delay Rental: N/A
Dollars (\$N/A)

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

(B) **HORIZONTAL.** In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall further terminate as to all depths below 100 feet below the total depth drilled (hereinafter "deeper depths") in each well located on acreage retained in Paragraph 16 (A) above, unless on or before two (2) years after the primary or extended term Lessee pays an amount equal to one-half (1/2) of the bonus originally paid as consideration for this lease (as specified on page 1 hereof). If such amount is paid, this lease shall be in force and effect as to such deeper depths, and said termination shall be delayed for an additional period of two (2) years and so long thereafter as oil or gas is produced in paying quantities from such deeper depths covered by this lease.

(C) **IDENTIFICATION AND FILING.** The surface acreage retained hereunder as to each well shall, as nearly as practical, be in the form of a square with the well located in the center thereof, or such other shape as may be approved by the Commissioner of the General Land Office. Within thirty (30) days after partial termination of this lease as provided herein, Lessee shall execute and record a release or releases containing a satisfactory legal description of the acreage and/or depths not retained hereunder. The recorded release, or a certified copy of same, shall be filed in the General Land Office, accompanied by the filing fee prescribed by the General Land Office rules in effect on the date the release is filed. If Lessee fails or refuses to execute and record such release or releases within ninety (90) days after being requested to do so by the General Land Office, then the Commissioner at his sole discretion may designate by written instrument the acreage and/or depths to be released hereunder and record such instrument at Lessee's expense in the county or counties where the lease is located and in the official records of the General Land Office and such designation shall be binding upon Lessee for all purposes.

17. OFFSET WELLS. Neither the bonus, delay rentals, nor royalties paid, or to be paid, under this lease shall relieve Lessee of his obligation to protect the oil and gas under the above-described land from being drained. Lessee, sublessee, receiver or other agent in control of the leased premises shall drill as many wells as the facts may justify and shall use appropriate means and drill to a depth necessary to prevent undue drainage of oil and gas from the leased premises. In addition, if oil and/or gas should be produced in commercial quantities within 1,000 feet of the leased premises, or in any case where the leased premises is being drained by production of oil or gas, the Lessee, sublessee, receiver or other agent in control of the leased premises shall in good faith begin the drilling of a well or wells upon the leased premises within 100 days after the draining well or wells or the well or wells completed within 1,000 feet of the leased premises start producing in commercial quantities and shall prosecute such drilling with diligence. Failure to satisfy the statutory offset obligation may subject this lease and the owner of the soil's agency rights to forfeiture. Only upon the determination of the Commissioner of the General Land Office and with his written approval may the payment of compensatory royalty under applicable statutory parameters satisfy the obligation to drill an offset well or wells required under this paragraph.

18. FORCE MAJEURE. If, after a good faith effort, Lessee is prevented from complying with any express or implied covenant of this lease, from conducting drilling operations on the leased premises, or from producing oil or gas from the leased premises by reason of war, rebellion, riots, strikes, acts of God, or any valid order, rule or regulation of government authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended and Lessee shall not be liable for damages for failure to comply with such covenants; additionally, this lease shall be extended while Lessee is prevented, by any such cause, from conducting drilling and reworking operations or from producing oil or gas from the leased premises. However, nothing in this paragraph shall suspend the payment of delay rentals in order to maintain this lease in effect during the primary term in the absence of such drilling or reworking operations or production of oil or gas.

19. WARRANTY CLAUSE. The owner of the soil warrants and agrees to defend title to the leased premises. If the owner of the soil defaults in payments owed on the leased premises, then Lessee may redeem the rights of the owner of the soil in the leased premises by paying any mortgage, taxes or other liens on the leased premises. If Lessee makes payments on behalf of the owner of the soil under this paragraph, Lessee may recover the cost of these payments from the rental and royalties due the owner of the soil.

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

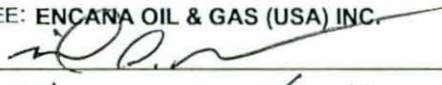
37. APPLICABLE LAW. This lease is issued under the provisions of Texas Natural Resources Code 52.171 through 52.190, commonly known as the Relinquishment Act, and other applicable statutes and amendments thereto, and if any provision in this lease does not conform to these statutes, the statutes will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



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

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

LESSEE: ENCANA OIL & GAS (USA) INC.

BY: 

Title: Attorney-in-Fact

Date: 1/18/10

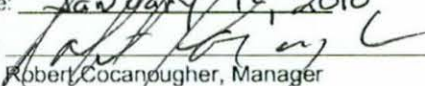
DRM


STATE OF TEXAS

BY: WISE OIL & GAS NO. 8, LTD.,

Individually and as agent for the State of Texas

Date: January 13, 2010

By: 

Robert Cocanougher, Manager

STATE OF TEXAS

BY: _____

Individually and as agent for the State of Texas

Date: _____

STATE OF TEXAS

BY: _____

Individually and as agent for the State of Texas

Date: _____

STATE OF TEXAS

BY: _____

Individually and as agent for the State of Texas

Date: _____

STATE OF Colorado
COUNTY OF Denver

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Ricardo D. Gallegos
known to me to be the person whose name is subscribed to the foregoing instruments as Attorney-in-fact
of Encana Oil & Gas (USA) Inc. 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 January, 2010.

April Jackson
Notary Public in and for Colorado

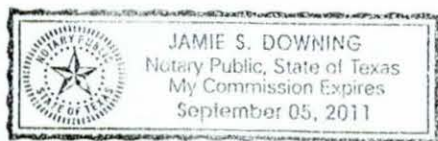


STATE OF Texas
COUNTY OF Tarrant

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Robert Cocanougher
known to me to be the person whose name is subscribed to the foregoing instruments as manager
of Wise Asset No. 2, Ltd. 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 12th day of January, 2010.



Jamie Downing
Notary Public in and for Texas

My Commission Expires 03/25/2013

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 _____

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 _____

017 3

ADDENDUM 1

Attached to and Made a Part of Oil and Gas Lease dated January 12, 2010,
from the State of Texas, acting by and through its agent, Wise Asset No. 2, Ltd.,
as the Lessor, to EnCana Oil & Gas (USA) Inc., as Lessee

The printed lease form to which this addendum is attached contains printed Paragraphs 1 through 39. The provisions set forth below, including Paragraphs 40 through 48, are made a part of the printed lease form, as though originally contained therein. In the event of a conflict between any of the provisions of Paragraphs 1 through 39 and any of the provisions contained in this addendum, the conflicting provision of this addendum shall prevail. The term "this lease" or "the lease," whether appearing in the printed lease form or this addendum, shall mean the agreement contained in the printed lease form, as amended, supplemented and superseded by this addendum.

40. **Definitions.** The following terms shall have the meanings ascribed thereto:

- a. "Acreage Block" is defined below in Paragraph 43.
- b. "Development Well" means any oil and/or gas well other than an Exploratory Well (defined below).
- c. "Earned Acreage Block" means an Acreage Block on which an Exploratory Well has been drilled and completed, and/or plugged and abandoned, during the primary term.
- d. "Exploratory Well" means the initial oil or gas well drilled and/or re-entered by Lessee on an Acreage Block pursuant to the provisions of this lease.
- e. "Horizontal Well" means a well producing, or capable of producing, oil and/or gas from a pool in paying quantities, in which the horizontal component of the gross completion interval within such pool exceeds the vertical component of such interval.
- f. "Lease Year" means the one-year period commencing on the date, or any anniversary date, of this lease.
- g. "Production Unit" is defined below in Paragraph 46.
- h. "RRC" means the Texas Railroad Commission (or its successor agency).
- i. "Shale Well" means an oil or gas well producing, or capable of producing, oil and/or gas in a zone (or zones) whose lithologic composition is at least 50% shale.
- j. "Vertical Well" means a well producing, or capable of producing, oil and/or gas from a pool in paying quantities, in which (i) the vertical component of the completion interval within such pool constitutes the entire completion interval within such pool, or (ii) the vertical component of the gross completion interval within such pool exceeds the horizontal component of such interval.

41. **Payment of Initial Bonus.** The total bonus consideration paid by Lessee to the State of Texas and owner of the soil for this lease is \$2,217,000.00, which equates to \$122.70 per acre on 18,068.29 net acres. Lessee has paid one-third (1/3) of the total bonus consideration to the State of Texas and owner of the soil, in equal shares, at or shortly after the time of execution, delivery and General Land Office approval of this lease. Lessee shall pay the remaining two-thirds (2/3) of the total bonus consideration (the "Balance of the Bonus") to the State of Texas and owner of



the soil, in equal shares, on or before May 1, 2010. The sole consequence of Lessee's failure to pay the Balance of the Bonus on or before such date as provided herein shall be the automatic termination of this lease, insofar as the lease covers the entire leased premises (described in Paragraph 42 below), and the reversion of all of Lessee's rights, titles and interests hereunder to the party or parties granting same.

42. **Leased Premises.** The leased premises consist of the following lands situated in Culberson County, Texas:

Abstract	Block	Survey	Section	Subdivision	Gross Acres (More or Less)
6614	115	PSL	4	All	628.89
6615	115	PSL	5	All	632.15
6616	115	PSL	6	All	635.40
6617	115	PSL	7	All	639.24
6618	115	PSL	8	All	643.28
5068	115	PSL	9	All	642.32
5069	115	PSL	10	NE/4, W/2, N/2 SE/4	561.98
5070	115	PSL	11	E/2, NW/4, N/2 SW/4	562.13
5071	115	PSL	18	E/2, S/2 NW/4, SW/4	561.95
5072	115	PSL	19	S/2 NE/4, W/2, SE/4	561.98
6619	115	PSL	20	All	642.25
3969	115	PSL	21	All	642.35
3970	115	PSL	22	W/2 NE/4, W/2, SE/4	571.70
5073	115	PSL	23	E/2, E/2 NW/4, SW/4	570.31
6620	115	PSL	24	All	651.47
5074	115	PSL	25	All	651.06
6634	109	PSL	1	All	678.28
6635	109	PSL	2	All	644.45
6636	109	PSL	3	All	644.47
6637	109	PSL	4	E/2, NW/4, N/2 SW/4	563.93
6638	109	PSL	5	NE/4, W/2, N/2 SE/4	563.76
6639	109	PSL	6	All	644.37
6640	109	PSL	7	All	645.91
6641	109	PSL	8	All	642.35
6642	109	PSL	11	All	641.17
6643	109	PSL	12	All	641.33
337	109	PSL	13	All	641.70
6644	109	PSL	14	All	675.57
6645	109	PSL	16	All	642.54
Total Gross Acres (more or less):					18068.29

The State of Texas owns all of the oil and gas in and under the leased premises. It is believed that the owner of the soil owns the fee surface estate in the same lands. The general warranty contained in this lease shall apply to the oil and gas in and under the leased premises, but shall not apply with respect to the agency rights of the owner of the soil, except by, through and under the owner of the soil.

For the purposes of computing the bonus payable under Paragraph 1, it shall be deemed that the



leased premises contain exactly 18,068.29 net acres, whether more or less. All other amounts payable under this lease, including, but not limited to, royalties and shut-in royalties, shall be computed based upon the actual net acres covered by this lease.

43. **Acreage Blocks.** The leased premises is hereby partitioned, for the purposes set forth below, into seven different units or blocks of acreage as follows (collectively, the "Acreage Blocks;" individually, an "Acreage Block"):

Acreage Block	Section	Block	Gross Acres
I	4	115	628.89
	5	115	632.15
	10	115	561.98
	11	115	562.13
Total Gross Acres in Block I:			2385.15
II	6	115	635.40
	7	115	639.24
	8	115	643.28
	9	115	642.32
Total Gross Acres in Block II:			2560.24
III	20	115	642.25
	21	115	642.35
	22	115	571.70
	23	115	570.31
Total Gross Acres in Block III:			2426.61
IV	18	115	561.95
	19	115	561.98
	24	115	651.47
	25	115	651.06
Total Gross Acres in Block IV:			2426.46
V	1	109	678.28
	2	109	644.45
	13	109	641.70
	14	109	675.57
	16	109	642.54
Total Gross Acres in Block V:			3282.54
VI	3	109	644.47
	4	109	563.93
	11	109	641.17
	12	109	641.33
Total Gross Acres in Block VI:			3282.54
VII	5	109	563.76
	6	109	644.37
	7	109	645.91
	8	109	642.35
Total Gross Acres in Block VII:			2496.39
Total Gross Acres in Blocks I-VII:			18068.29

Upon the expiration of the primary term, this lease shall automatically:



- (i) expire as to all lands not then included in an Earned Acreage Block (if any); and
- (ii) be segregated into separate and distinct oil and gas leases, each of which shall cover a single Earned Acreage Block.

Each such segregated lease shall be deemed to contain terms and provisions identical to those set forth herein, except that the leased premises embraced by the segregated lease shall consist solely of the lands within the Earned Acreage Block covered thereby. Operations on and/or production from one segregated lease shall have no application to or bearing upon the status of any other segregated lease.

If at the end of the primary term there are no Earned Acreage Blocks, this lease shall automatically expire as to all of the lands described in Paragraph 42 above and all of Lessee's rights, titles and interests hereunder shall immediately revert to the party or parties granting same.

44. **Drilling Obligation During Primary Term.**

- a. **Obligation Wells.** During the primary term of this lease, Lessee shall drill and complete, and/or plug and abandon, at legal locations of its choice on leased premises, the following wells (the "Obligation Wells"):
- (1) **Lease Year 1.** During the first Lease Year of this lease, Lessee shall drill and complete, and/or plug and abandon, at least two (2) Exploratory Wells.
- (2) **Lease Years 2-5.** During each of the second, third, fourth and fifth Lease Years of this lease, Lessee shall drill and complete, and/or plug and abandon, at least two (2) oil or gas wells, at least one of which must be Exploratory Well; provided, if at the beginning of any such Lease Year Lessee shall have previously drilled one Exploratory Well on each of the seven Acreage Blocks, then the two Obligation Wells Lessee shall be required to drill during that Lease Year may be Development Wells.

If during any such Lease Year Lessee should drill and complete, and/or plug and abandon, one or more oil or gas wells in excess of the two (2) Obligation Wells required in that year ("Additional Obligation Wells"), then Lessee shall receive a credit for each such Additional Obligation Well against the number of Obligation Wells, if during the primary term, or Continuous Development Wells (defined below in Paragraph 45.a), if after the primary term, Lessee is required to drill and complete, and/or plug and abandon, during the next succeeding Lease Year and, if applicable, any succeeding Lease Year or Lease Years thereafter; provided, however, nothing in this provision shall be construed to excuse Lessee from its obligation to drill at least one Exploratory Well during each of the second, third, fourth and fifth years Lease Years unless Lessee shall have previously drilled an Exploratory Well on all seven Acreage Blocks.

- b. **Depths to be Penetrated.** Unless otherwise agreed in writing, each Exploratory Well drilled by Lessee pursuant to this lease must be drilled at least to the vertical depth that equates to the stratigraphic equivalent of 5,100 feet subsurface in the Delaware River Corp. #1 well (API 42-109-30861) located in Section 16, Block 61, Township 1, T&P Ry. Co. Survey, Culberson County, Texas, or to a depth sufficient to test the upper Bone Springs formation for the presence of hydrocarbons, whichever depth is the lesser. Each Development Well must be drilled to a depth sufficient to test at least one zone or



formation, reasonably believed by Lessee to contain commercially recoverable deposits of oil and/or gas, for the presence of such hydrocarbons.

- c. **Consequences of Failure to Comply.** The sole consequences of Lessee's failure to drill Obligation Wells in accordance with the preceding provisions of this Paragraph 44 shall be as follows:
- (1) notwithstanding any other provisions of this lease to the contrary, the primary term shall automatically expire at the end of the Lease Year during which such failure occurred; and
 - (2) this lease shall automatically expire, insofar as it covers the entire leased premises, save and except those lands situated in an Earned Acreage Block or Blocks, if any (the "Forfeited Acreage"), and all of Lessee's rights, titles and interests in the Forfeited Acreage shall automatically revert to the party or parties granting same.
- d. **Additional Bonus Payments.** If Lessee:
- (i) after having previously commenced the drilling of four Exploratory Wells during the first two Lease Years of the primary term, commences the drilling of any additional Exploratory Well during said two-year period; or
 - (ii) commences the drilling of any Exploratory Well in the third, fourth or fifth Lease Year of the primary term;

then, prior to commencing the drilling of such Exploratory Well, Lessee shall pay to the State of Texas and owner of the soil, in equal shares, a supplemental bonus equal to \$400 per net acre contained in the Acreage Block on which such Exploratory Well is located. Such supplemental bonus payment shall be in addition to any bonus consideration previously paid by Lessee for, or pursuant to the terms of, this lease.

45. **Continuous Development Following Primary Term.**

- a. **Continuous Development Wells.** Following the expiration of the primary term and subject to Lessee's right under Paragraph 44.a to a credit or credits against future drilling obligations for drilling and completing, and/or plugging and abandoning, Additional Obligation Wells during the primary term, Lessee shall drill and complete, and/or plug and abandon, at least three (3) oil and/or gas wells per year during the first five (5) Lease Years following the primary term, and at least (6) oil and/or gas wells per Lease Year thereafter ("Continuous Development Wells").

If during any such Lease Year Lessee should drill and complete, and/or plug and abandon, one or more oil or gas wells in excess of the total number of Continuous Development Wells required in that year ("Additional Continuous Development Wells"), then Lessee shall receive a credit for each such Additional Continuous Development Well against the number of Continuous Development Wells Lessee is required to drill and complete, and/or plug and abandon, during the next succeeding Lease Year and, if applicable, any succeeding Lease Year or Lease Years thereafter.

- b. **Locations and Depths.**

- (1) **Drilling Locations.** Lessee may drill Continuous Development Wells at legal



locations of its choice anywhere on the Earned Acreage Block.

- (2) **Depths to be Penetrated.** Each Continuous Development Well must be drilled to a depth sufficient to test at least one zone or formation, reasonably believed by Lessee to contain commercially recoverable deposits of oil and/or gas, for the presence of such hydrocarbons.

- c. **Consequences of Failure to Comply.** The only consequence of Lessee's failure to drill and complete, and/or plug and abandon, the required number of Continuous Development Wells in accordance with Paragraphs 45.a and 45.b shall be the automatic termination of this lease at the end of the Lease Year during which such failure occurred, insofar as this lease covers:

- (i) all lands covered by this lease not then included in a Production Unit (defined below in Paragraph 46.a); and
- (ii) as to each Production Unit, the base of the deepest formation within such unit that is then producing, or capable of producing, oil and/or gas in paying quantities, or 100 feet below the deepest perforation in the oil or gas well to which such Production Unit is assigned that is open to such formation, whichever depth is the shallower.

46. **Production Units; Termination.**

- a. **Production Units.** The term "Production Unit" is defined as the minimum area of land within a pool, reasonably assigned by Lessee to a well that is producing, or capable of producing, oil and/or gas in paying quantities from such pool, which can be efficiently and economically, and to the extent possible, fully, drained by such well. A Production Unit need have no correlation with the proration unit dedicated (under applicable RRC rules or order) to the well to which such Production Unit is assigned. Lessee shall assign a Production Unit to each well drilled pursuant to this lease and completed as a producer, or capable of producing, oil and/or gas in paying quantities within a reasonable time following the well's completion. Nothing in this Paragraph 46 shall be construed as prohibiting Lessee from revising a Production Unit previously assigned to a well by reducing the number of acres allocated thereto (and adjusting the shape of such unit accordingly).

Notwithstanding any provision of this lease to the contrary, a Production Unit shall never exceed the following acreage limitations.

- (1) **Vertical Wells.** The provisions of this subparagraph (1) apply to Vertical Wells only.
- (a) With respect to any well classified as an oil well or any Shale Well, whether an oil well or gas well:
 - (i) If the deepest stratum in which the well is completed and capable of producing in paying quantities lies between the surface and the base of the Wolfcamp formation, then the Production Unit shall contain no more than 40 acres.
 - (ii) If the deepest stratum in which the well is completed and capable of producing in paying quantities lies below the base of



the Wolfcamp formation, then the Production Unit shall contain no more than 80 acres.

(b) With respect to any well classified as a gas well, other than a Shale Well:

- (i) If the deepest stratum in which the well is completed and capable of producing in paying quantities lies between the surface and the base of the Wolfcamp formation, then the Production Unit shall contain no more than 80 acres.
- (ii) If the deepest stratum in which the well is completed and capable of producing in paying quantities lies below the base of the Wolfcamp formation, then the Production Unit shall contain no more than 160 acres.

(2) **Horizontal Wells.** The provisions of this subparagraph (2) apply to Horizontal Wells only.

(a) If the well is an oil or gas well and the deepest stratum in which it is completed and capable of producing in paying quantities lies between the surface and the base of the Wolfcamp formation, or if the well is a Shale Well (regardless of the depth or depths in which it is completed and capable of producing in paying quantities), the following limitations shall apply:

If the Length (in feet) of the Horizontal Drainhole Displacement in the Well is:		then the Production Unit shall contain no more than (in gross acres):
greater than	but equal to or less than:	
0	4,800	80
4,800	7,200	120
7,200	n/a	160

It is provided, however, that if the entire length of the horizontal drainhole displacement is situated within a single section of land, then the Production Unit shall contain no more than 80 gross acres.

(b) If the well is an oil or gas well, other than a Shale Well, and the deepest stratum in which it is completed and capable of producing in paying quantities lies below the base of the Wolfcamp formation, the following limitations shall apply:

If the Length (in feet) of the Horizontal Drainhole Displacement in the Well is:		then the Production Unit shall contain no more than (in gross acres):
greater than	but equal to or less than:	
0	2,400	80
2,400	4,800	160
4,800	7,200	240
7,200	n/a	320

It is provided, however, that if the entire length of the horizontal drainhole displacement is situated within a single section of land, then the



Production Unit shall contain no more than 160 gross acres.

- b. **Automatic Terminations.** The following provisions of this Paragraph 46.b shall apply notwithstanding any other provision of this lease to the contrary:

- (1) **10-Year Termination.** With respect to each Production Unit then held under this lease, upon the expiration of ten (10) years from the date hereof, this lease shall automatically expire as to all depths lying below the shallower of:
 - (a) the base of the deepest formation within such unit from which oil and/or gas is being produced, or capable of being produced (through the borehole of the well to which such unit is assigned) in paying quantities; and
 - (b) the stratigraphic equivalent of 100 feet below the deepest perforation in such well then open to a formation that is producing, or capable of producing oil and/or gas in paying quantities.
- (2) **15-Year Termination.** With respect to each Production Unit then held under this lease, upon the expiration of fifteen (15) years from the date hereof, this lease shall automatically:
 - (a) expire as to:
 - (i) all lands covered by this lease not then included in a Production Unit; and
 - (ii) all depths between the surface and the top of the shallowest formation within such Production Unit from which oil and/or gas is being produced, or capable of being produced (through the borehole of the well to which such unit is assigned), in paying quantities; and
 - (b) be segregated into separate and distinct oil and gas leases, each of which shall cover a single Production Unit from which oil and/or gas is then being produced, or capable of being produced, in paying quantities.

Each such segregated lease shall be deemed to contain terms and provisions identical to those set forth herein, except that the leased premises embraced by the segregated lease shall consist solely of the lands within the Production Unit covered thereby, subject to the above depth restrictions. Operations on and/or production from one segregated lease shall have no application to or bearing upon the status of any other segregated lease.

- (3) **Downspacing.** If, at any time (or times) after the expiration of fifteen (15) years from the date of this lease, the field rules applicable to a well on this lease are revised or the well to which such Production Unit is assigned is reclassified such that the acreage thereafter allocated to such well for production purposes constitutes less than all of the lands covered by this lease, then this lease shall automatically terminate at the expiration of one year following the date the revised field rules take effect, insofar as this lease covers all lands not then allocated, under RRC rules, to a well for production purposes.



47. **Surface Use and Damages.**

- a. **Damages.** Except as expressly provided below, Lessee shall pay the State of Texas and owner of the soil, in equal shares, for pad sites, the construction and/or use of roads and pipelines, water production and use, and the excavation and use of caliche or other surface materials on the leased premises, for water, and for any other use of the surface of said premises, as set forth below:

- (1) For each drillsite pad or other pad site, \$15,000.00.
- (2) For the construction and use of new roads, \$10.00 per rod; for the use of existing roads, \$5.00 per rod.
- (3) For the construction and use of pipelines and gathering lines, \$10.00 per rod.
- (4) For caliche or other surface material excavated from the leased premises, \$2.50 per yard.
- (5) For the use of potable water produced from the leased premises, \$0.25 per barrel.

It is provided, however, that any damages paid for water under Paragraph 47.a(5), excluding water produced from a well or wells drilled by Lessee, shall be paid entirely to the owner of the soil.

- b. **Roads.** Lessee shall have the right to use existing roads, and to construct and use new roads, on the leased premises for operations conducted under the lease; provided, the location of new roads shall be stipulated in advance by the agreement of the owner of the soil and Lessee. Lessee's right to use any such newly constructed and existing roads shall not be exclusive to Lessee, but shall be concurrent with the right of the owner of the soil, and its principals, employees, agents, representatives, contractors, subcontractors and lessees to use such roads. Lessee and the owner of the soil each agree to refrain from unreasonably interfering with the use of such roads by the other. Lessee shall improve existing roads prior to first use thereof by any heavy equipment and shall maintain all roads (new or existing) used by Lessee in a state of good condition and repair.
- c. **Fences/Cattleguards.** Prior to cutting any fence, Lessee shall construct and install in the fence proper braces sufficient to maintain the existing tension and prevent any slack from developing in adjoining, or nearby, sections of the fence. If required by the owner of the soil, Lessee shall at its sole cost and expense install a cattleguard and gate at each point in the fence that Lessee cuts. Following installation, cattleguards and gates shall be the property of the owner of the soil. Upon request, Lessee shall furnish owner of the soil and/or its surface lessees a plat or plats depicting the locations of all cattleguards and gates installed by Lessee.
- d. **Pad Sites.** Lessee shall secure the approval of the owner of the soil, which approval will not be unreasonably withheld, prior to the construction of any drill site pad, or other pad site,) or the erection of any production or transportation facility, including, but not limited to, tank batteries and booster stations, on the leased premises. Drill site pads shall be designed so as to minimize the impact of drilling operations on the surface. This includes minimizing the size of the pad and the amount of cut-and-fill required to the extent reasonably practicable. After completion of a well, the drill site pad shall be downsized to



the minimum area necessary for prudent operations thereon.

- e. **Pits and Well Sites.** Lessee agrees that all sumps, pits and related drilling and production facilities will be enclosed to minimize danger to persons and livestock. Lessee shall install a fence that is capable of turning livestock around each productive well, and around each related production facility. Lessee shall post on each such fence a sign stating the name of the Operator, well name and location. The fence shall be installed as soon as practicable after the completion of the well, but no later than sixty (60) days after completion. Tank batteries and other production facilities placed or constructed on the leased premises shall, to the extent reasonably practical, be placed on existing pad sites, and shall be constructed of materials (painted, coated or buried as necessary) to withstand the operating environment with earthen berms of sufficient size to contain any spills that might occur. Such berms shall be constructed so as to comply with the rules and regulations of the RRC or other agency having jurisdiction. Prior to construction of a reserve pit, the topsoil shall be scraped off to a depth of six inches and piled beyond the pit area. Topsoil is herein considered to be the zone of aerated soil above a continuous rock layer. If less than six inches of topsoil exists at the site, then the topsoil will be removed down to the rock layer and stored beyond the pit area. Unlined earthen pits other than reserve pits shall not be constructed or used for storage or disposal of waste. The reserve pit shall be designed for normal operations. Upon completion of drilling operations, the reserve pit shall be dewatered. When the pit has dried satisfactorily, (i) the pit shall be broken out, with the remaining walls leveled evenly across pit area, (ii) the topsoil shall be spread back over pit area, and (iii) the location of the pit shall be reseeded with native grasses during the appropriate planting season.
- f. **Restoration of Well Site and Location.** Lessee agrees that at such time as any drill site pad, tank battery site or other facilities site ceases to be used as such, Lessee shall remove any surface materials (such as caliche) placed thereon, reseed with native grasses during the appropriate planting season, and restore the site to the maximum extent practicable to its original condition. Upon the expiration of five months following the date a well is completed (or plugged), or such later time as the owner of the soil may authorize in writing, Lessee shall have completed all repair and clean-up work hereinabove required and shall furnish the owner of the soil with written notice thereof. Each mud pit shall be leveled and restored as soon as reasonably practicable (but only after the pit has fully dried). If requested by the owner of the soil, Lessee shall remove all drilling mud from the mud pits and from the leased premises. Such mud pits when restored shall also be reseeded with native grasses during the appropriate planting season.
- g. **Electric Transmission and Distribution Lines.** Lessee shall construct or place electric lines and other utility lines, if any, adjacent to roads or pipelines. The placement of any such lines at other locations must be approved in advance by the owner of the soil, but such approval shall not be unreasonably withheld.
- h. **Use of Water.** Lessee shall have no right to use surface water found on the leased premises. Lessee shall not use natural surface waters or subsurface waters found in beds of creeks, streams or rivers. Furthermore, Lessee shall not use water from any wells, water pipelines, ponds or tanks constructed or owned by the owner of the soil. Lessee shall not use potable water found in the leased premises for repressuring, pressure maintenance, cycling and/or secondary recovery operations. Additionally, in the absence of the express written consent of the owner of the soil, potable water found on the leased premises shall not be used in any operations conducted on lands other than those described in Paragraph 42 above.



- i. **Water Wells.** Upon the prior written consent of the owner of the soil, which consent shall not be unreasonably withheld, Lessee may drill water wells on the leased premises and use the water produced therefrom for the purpose of conducting oil and gas operations on the leased premises. Each water well drilled by Lessee, its successors or assigns, on said lands will be properly cased, capped, plainly marked and properly identified, and immediately upon the termination by Lessee of its use thereof shall be turned over to and owned by the owner of the soil, its successors, assigns and lessees. Lessee shall immediately notify the owner of the soil upon the termination of its use of any water well.
- j. **Protection of Water From Contamination.** The operations of Lessee on the leased premises shall be conducted in such manner so as to prevent the contamination of any and all waters in, under and on said lands, whether in surface tanks or any other type of storage, in creek or river beds, or in any surface or subsurface water bearing strata or formations due to such operations. Lessee shall prevent contamination of the leased premises from salt water or other contaminating substances flowing over or seeping onto such land because of Lessee's operations. At the request of the owner of the soil, Lessee shall remove the contaminated soils and replace them with soils that have been reasonably approved by the owner of the soil.
- k. **Salt Water.** Unless otherwise agreed by the owner of the soil in writing and in advance, Lessee shall be prohibited from disposing, and shall use due diligence to prevent, the disposal or spilling of salt water, or any other fluid, anywhere on the surface of the leased premises. All salt water is to be injected into formations lying beneath the base of the deepest formation bearing potable water as dictated by the Texas Water Commission or other governmental authority having jurisdiction. Salt water recovered from oil or gas produced from the leased premises may be used for repressuring, pressure maintenance, cycling, and/or secondary recovery operations on the lands covered by this Lease and may be transported from the lease. Disposal of any such salt water, the use of salt water in operations on the leased premises or the removal of salt water from the leased premises shall be accomplished in strict compliance with the rules and regulations of the RRC and any other governmental agency having jurisdiction thereof.
- l. **Pipelines and Flowlines.** If and when requested by the owner of the soil, the Lessee shall bury pipelines and flowlines below plow depth. Prior to installing or placing any pipeline or flowline on the leased premises that is constructed of a material other than steel, Lessee shall secure the consent of the owner of the soil, which consent shall not be unreasonably withheld. All pipelines and flowlines installed or placed on the leased premises shall be adequately marked and identified so as to not interfere with the surface operations of the owner of the soil.
- m. **Erosion Control.** The construction and use of roads, pad sites, tank batteries and other facilities, and all other operations conducted by Lessee under this lease shall be accomplished so as to prevent damage to roads and erosion of canyons, hillsides and creek beds.
- n. **Vehicles.** To the extent possible, Lessee shall avoid operation of vehicles of any type whatsoever over roads and ranch lands that are muddy or soft, and shall promptly repair any damage or ruts unavoidably incurred by reason of Lessee's use thereof. Vehicles used in or incident to Lessee's operations shall always be driven in a safe manner, so as to avoid harm or injury to plant, animal or human life.
- o. **Native Vegetation.** Lessee shall be strictly prohibited from removing or harming yucca

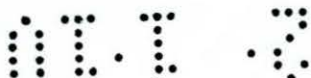


plants or other vegetation of value found on the leased premises, except as required in connection with Lessee's operations hereunder.

- p. **Rights-of-Way.** Lessee shall seed all pipeline and electric line rights-of-way with a native grasses during the appropriate planting season so as to prevent erosion. Lessee further agrees that all such rights-of-way shall be adequately marked, identified and kept free from brush so as to not interfere with the operations of the owner of the soil and to facilitate periodic inspections thereof.
- q. **No Hunting, Fishing or Firearms.** This lease does not confer upon any party the right to hunt, carry or discharge firearms, trap, fish or start fires on the leased premises.
- r. **Abandonment of Wells.** Lessee shall give written notice to the owner of the soil at least thirty (30) days prior to abandonment of any oil or gas well drilled on the leased premises. Thereafter, the owner of the soil shall have the option but not the obligation to take over the wellbore of any such well for use as a water well. Within thirty (30) days following its receipt of such notice, the owner of the soil shall notify Lessee in writing whether or not it will take over the wellbore. If the owner of the soil timely and properly notifies Lessee it is electing to take over the wellbore and convert it for use as a water well, Lessee shall plug and abandon the wellbore in accordance with the rules and regulation of the Railroad Commission of Texas or such other governmental authority having jurisdiction to the base of the lowest fresh water-bearing stratum and turn over the wellbore to the owner of the soil. If the owner of the soil takes over any wellbore pursuant to this provision, Lessee its successors or assigns shall not be relieved from its obligation to properly plug and abandon such well in accordance with applicable rules and regulations, or to restore the surface location of such well as prescribed herein. Lessee also agrees to leave in the wellbore a minimum diameter casing of 5 1/2" to a depth below the fresh water stratum described above.
- s. **Plats.** Upon request, Lessee shall furnish the owner of the soil with a plat(s) or schematic drawing(s) reflecting the locations and, if applicable, sizes of the pad sites, new and existing roads, electric lines, utility lines and other facilities constructed, installed and/or used by Lessee on the leased premises.

48. **Miscellaneous Provisions.**

- a. **Drilling Density; Obligation and Continuous Development Wells.** When drilling Exploratory and Development Wells under the provisions of this lease, Lessee shall locate pad sites, surface locations, bottomhole locations and drainholes in a manner that allows for the development of a pool to the greatest density contemplated in this lease. With respect to any Obligation Well drilled pursuant to Paragraph 44 or Continuous Development Well drilled pursuant to Paragraph 45 whose well bore or bores penetrate more than one section, the well shall, for the sole purpose of determining whether Lessee has satisfied its drilling and other obligations under such paragraph, be deemed to have been drilled entirely within the section on which the longest portion of the horizontal drainhole displacement of such well is located.
- b. **Duty to Develop.** Notwithstanding any provision to the contrary, at any time after a well drilled pursuant to the terms of this lease has been completed as a producer, or as a well that is capable of producing, oil and/or gas in paying quantities, Lessee shall drill such additional well or wells in the same field or pool, and market the production from such field or pool, as would a reasonably prudent operator.



- c. **Meetings.** No less than quarterly each Lease Year during the term of this lease, Lessee shall meet with the owner of the soil to discuss its ongoing and planned operations on the leased premises, matters affecting, or that may affect, the surface, and any other matters pertaining to Lessee's operations under this lease. Unless otherwise agreed, the site of such meetings alternate between Lessee's offices in Denver, Colorado, and the offices of the owner of the soil in North Richland Hills, Texas.
- d. **No Pooling Without Consent.** Lessee is not authorized to pool or unitize the interest of the owner of the soil in this lease absent such owner's prior written consent, which consent shall not be unreasonably withheld. Whether or not consent has been obtained, an agreement purporting to pool or unitize an interest of the owner of the soil in this lease shall not be binding until the owner of the soil executes (or ratifies) the agreement. Should a provision of this paragraph conflict with a provision of Texas Natural Resources Code §§ 52.151 – 52.154, the conflicting provision of said statutes shall prevail.
- e. **Operations Information; Seismic.** Lessee agrees to furnish the owner of the soil with the same data, information and documentation pertaining to its operations under this lease that an operator is required to furnish a non-operator under the terms of the A.A.P.L. Form 610-1989 Model Form Operating Agreement ("Operations Information"). All Operations Information furnished to the owner of the soil will be kept strictly confidential until and unless it is first made available to the general public by Lessee and/or pursuant to applicable rule, regulation, statute, or order of any agency or court of competent jurisdiction or authority, or this lease expires or is terminated as to the entire leased premises initially covered hereby; provided, owner of the soil shall have the right to share the Operations Information with its owners, managers, agents, employees and consultants to the extent, and only to the extent, necessary or convenient to properly analyze and file same; further provided, the owner of the soil shall not disseminate any Operations Information to any owner, manager, agent, employee or consultant without first securing such party's agreement to keep same strictly confidential. In the event Lessee acquires proprietary seismic data covering all or part of the leased premises, Lessee agrees to grant owner of the soil a license to such data (including field records and processed data) over the portion or portions of the leased premises covered by such data plus 1/2-mile tails in all directions therefrom.
- f. **No Delay Rentals.** Notwithstanding anything else in this lease to the contrary, this lease is a paid-up lease; no delay rentals shall be payable hereunder.
- g. **Shut-in Wells.** Lessee's right to pay shut-in royalties under Paragraph 14 shall be limited to shut-in gas wells only. Although Lessee's right to pay shut-in royalties may be exercised at any time, and from time to time, following the expiration of the primary term, this lease may be maintained by shut-in royalty payments only if Lessee has shut in the well (or wells) in good faith and is at all pertinent times exercising due diligence in an attempt to produce, market, transport and sell the gas producible from such well or wells. Notwithstanding anything herein to the contrary, this lease may not be maintained solely by the payment of shut-in gas royalties for any single period in excess of twelve (12) consecutive months or three (3) years in the aggregate. For the sole purpose of computing the amount of shut-in royalties that may become payable under Paragraph 14, it shall be deemed that the rental amount stipulated in Paragraph 3 is \$3.00 per acre.
- h. **Continuing Rights of Ingress and Egress.** Notwithstanding the partial termination of this lease as to any of the lands covered hereby, Lessee shall continue to have the same rights of ingress to and egress from the lands remaining subject to this lease granted in Paragraph 1 hereof (the "Retained Lands"), together with easements and rights-of-way



for existing roads, existing pipelines and other existing facilities on, over and across all of the lands described in Paragraph 42 hereof, for access to and from the Retained Lands and for the gathering and transportation of oil and gas (and other substances) produced therefrom.

- i. **Binding Effect.** The provisions of this lease, which shall be deemed covenants running with the leased premises, shall inure to the benefit of and be binding upon the owner of the soil, the State of Texas and Lessee, and their respective heirs, successors, assigns, representatives, directors, principals, agents, employees, contractors and subcontractors.



Original Was:

"FILED FOR RECORD"

AT 11:10 O'CLOCK A M.
On Jan 27, 2010

Linda McDonald

County Clerk, Culberson County, Tx

BY Anna C. Casas (DEPUTY)

3. 7. 10

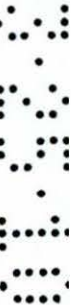
Doc# 00000055081
#Pages 23 ENFPages 0
1/27/2010 11:10:47 AM
Filed & Recorded in
Official Public Records of
County and District Clerk
Linda McDonald
Fees 98.88

State of Texas
County of Culberson

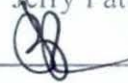
I hereby certify this instrument was FILED on
the date and at the time stamped hereon by ce
and was duly RECORDED in the VOL 100 and
Page 5113B of the Official Public Records of
Culberson County, Texas on:

February 11, 2010

Linda C. Wilson
By Deputy



01.25.8

5.
File No. MF110604
Lease
Date Filed: 2/1/10
Jerry Patterson, Commissioner
By 

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

February 4, 2010

David McElyea
Encana Oil & Gas
17th St., Suite 1700
Denver, Colorado 80202

Re: Relinquishment Act Lease - **MF-110604**
18,068.29 ac., being the Wise Asset / Montgomery Ranch lease
in Culberson Co., Texas

Dear Mr. McElyea:

The certified copy of the Relinquishment Act lease covering the above referenced tracts has been approved and filed in our records under Mineral File number **MF-110604**. **Please refer to this number when making payments to the State and in all future correspondence concerning the lease. Failure to include the mineral file number may delay processing of any payments towards the lease.**

Your remittance of **\$369,625.00** has been applied to the State's portion of 1/3 of the cash bonus (**\$369,500.00**), the processing fee (**\$100.00**) and the filling fee's (**\$25.00**). The remaining 2/3 of the cash bonus (\$738,882.00) is due on or before 5-1-10 or the lease will terminate. Please let me know if you have any questions.

Sincerely,

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

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

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

www.glo.state.tx.us

6.

File No. MF 110604
No letter
Date Filed: 2/4/10
Jerry Patterson, Commissioner
By [Signature]

IN FAVOR OF	SENDER
618227 1009 33 168 1/1 33 THE STATE OF TEXAS 1700 N. CONGRESS AVE. RM.640 AUSTIN TX 78701-1495 ENCANA 10-01001/RPP-B (2/3 BONUS)	ESCROW MANUAL CHECKS FDMS ATTN: TREASURY DEPT 1307 WALT WHITMAN RD MELVILLE NY 11747-4819

RETAIN THIS PORTION FOR YOUR RECORDS

DATE	AMOUNT	CHECK NUMBER	JPMORGAN CHASE REFERENCE
04/26/2010	\$739,001.00	340475	0068100116FE

REFERENCE

TEXT: SENDER'S REFERENCE = 0068100116FE
THE STATE OF TEXAS 1700 N. CONGRESS AVE. RM.640 AUSTIN TX 78701-1495 ENCANA 10-0
1001/RPP-B (2/3 BONUS)

PAYING BANK: JPMORGAN CHASE BANK, N.A.
BROOKLYN, NEW YORK

ORDERING PARTY: /838731537
ESCROW MANUAL CHECKS
FDMS ATTN: TREASURY DEPT
1307 WALT WHITMAN RD

*For your check related inquiries, please contact our dedicated Chase Customer Service Department
at (866) 253-5474.

THE FACE OF THIS DOCUMENT HAS A BLUE BACKGROUND - THE BACK HAS AN ARTIFICIAL WATERMARK

P.O. Box 31147
Tampa, FL 33610JPMorganChase 1-2
210

U.S. DOLLARS

*****SEVEN HUNDRED THIRTY NINE THOUSAND ONE AND 00/100 DOLLARS*****

PAY
TO THE
ORDER OF

00033

THE STATE OF TEXAS
1700 N. CONGRESS AVE. RM.640
AUSTIN TX 78701-1495
ENCANA 10-01001/RPP-B (2/3 BONUS)

JPMORGAN CHASE REF#

0068100116FE

CHECK DATE

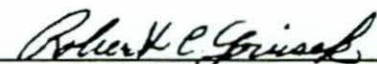
CHECK NUMBER

04/26/2010

340475

CHECK AMOUNT

\$739,001.00


AUTHORIZED SIGNATUREBY: JPMorgan Chase Bank, N.A., Brooklyn, New York as Agent for the Drawer Bank
DRAWER: ESCROW MANUAL CHECKS

7,
File No. MF 110604

Bonus Payment

Date Filed: 4/29/10

Jerry Patterson, Commissioner

By [Signature]

Drew Reid - RE: DELAWARE BASIN WELLS UPDATE 12.2010.doc Lease No. MF-110604 and MF-110597

From: Drew Reid
To: McElyea, David R.
Subject: RE: DELAWARE BASIN WELLS UPDATE 12.2010.doc Lease No. MF-110604 and MF-110597

David,

Sorry I did not get back to you on Fri. Your attachment with the information on the five (5) wells drilled, three wells drilled on the Delaware Ranch and two wells drilled on the Montgomery Ranch, has satisfied the drilling obligation that Encana had for MF-110604 and MF-110597 in the First (1st) year of the lease. Thank you for the information and good luck in the second year.

Drew Reid

>>> "McElyea, David R." <David.McElyea@encana.com> 1/10/2011 3:59 PM >>>

Drew, do you have an estimated time for your review....?

thanks,

David

From: Drew Reid [mailto:Drew.Reid@GLO.STATE.TX.US]
Sent: Thursday, January 06, 2011 9:55 AM
To: McElyea, David R.
Subject: Re: DELAWARE BASIN WELLS UPDATE 12.2010.doc Lease No. MF-110604 and MF-110597

thanks David, I will review and be in touch - Drew

>>> "McElyea, David R." <David.McElyea@encana.com> 1/6/2011 10:44 AM >>>

Drew, please review the attached information for above identified GLO Leases.

Encana feels that it has satisfied the Drilling Obligations for Lease No. MF-110604 and MF-110597 for the First Year.

Please review and advise if you concur.

Thanks,

David R. McElyea

Encana Oil and Gas (USA) Inc.

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<http://www.encana.com>



MEMORANDUM

Texas General Land Office • Jerry Patterson • Commissioner

DATE: January 14, 2011

TO: David McElyea
Encana Oil & Gas (USA) Inc.

FROM: Drew Reid
Mineral Leasing

SUBJECT: MF-110604 & MF-110597

David,

The information you furnished the State on the drilling activity that took place in the first year of the lease term on MF-110604 and MF-110597 has satisfied the drilling obligations that Encana had for both leases in the first year of each lease. Thank you for the information and good luck in the second year.

Drew Reid
512-475-1534
Texas General Land Office

GENERAL LAND OFFICE
1700 NORTH CONGRESS, SUITE 840
AUSTIN, TEXAS 78701
TELEPHONE: 512/463-5042
FAX: 512/475-1543

FACSIMILE TRANSMITTAL SHEET

TO:

COMPANY:

David McElroy

FROM:

DATE:

Drew Reil

FAX NUMBER:

702 876 6304

TOTAL NO. OF PAGES INCLUDING COVER:

PHONE NUMBER:

SENDER'S REFERENCE NUMBER:

RE:

YOUR REFERENCE NUMBER:

☐ URGENT ☐ FOR REVIEW ☐ PLEASE COMMENT ☐ PLEASE REPLY ☐ PLEASE RECYCLE

NOTES/COMMENTS:

Drew Reid - RE: DELAWARE BASIN WELLS UPDATE 12.2010.doc Lease No. MF-110604 and MF-110597

From: "McElyea, David R." <David.McElyea@encana.com>
To: "Drew Reid" <Drew.Reid@GLO.STATE.TX.US>
Date: 1/11/2011 1:40 PM
Subject: RE: DELAWARE BASIN WELLS UPDATE 12.2010.doc Lease No. MF-110604 and MF-110597

Thanks, Drew.

720-876-6304

From: Drew Reid [mailto:Drew.Reid@GLO.STATE.TX.US]
Sent: Tuesday, January 11, 2011 12:36 PM
To: McElyea, David R.
Subject: RE: DELAWARE BASIN WELLS UPDATE 12.2010.doc Lease No. MF-110604 and MF-110597

Yes David, please get me your Fax number and I will gt it to you - Drew

>>> "McElyea, David R." <David.McElyea@encana.com> 1/11/2011 11:11 AM >>>
 Drew, thanks for the e-mail....

My Manager asked if you could put the same on a GLO Letter Head to show to his Manager...?

David

From: Drew Reid [mailto:Drew.Reid@GLO.STATE.TX.US]
Sent: Monday, January 10, 2011 3:33 PM
To: McElyea, David R.
Subject: RE: DELAWARE BASIN WELLS UPDATE 12.2010.doc Lease No. MF-110604 and MF-110597

David,
 Sorry I did not get back to you on Fri. Your attachment with the information on the five (5) wells drilled, three wells drilled on the Delaware Ranch and two wells drilled on the Montgomery Ranch, has satisfied the drilling obligation that Encana had for MF-110604 and MF-110597 in the First (1st) year of the lease. Thank you for the information and good luck in the second year.
 Drew Reid

>>> "McElyea, David R." <David.McElyea@encana.com> 1/10/2011 3:59 PM >>>
 Drew, do you have an estimated time for your review....?

thanks,

David

From: Drew Reid [mailto:Drew.Reid@GLO.STATE.TX.US]
Sent: Thursday, January 06, 2011 9:55 AM
To: McElyea, David R.

Drew Reid - DELAWARE BASIN WELLS UPDATE 12.2010.doc Lease No. MF-110604 and MF-110597

From: "McElyea, David R." <David.McElyea@encana.com>
To: <Drew.Reid@GLO.STATE.TX.US>
Date: 1/6/2011 10:45 AM
Subject: DELAWARE BASIN WELLS UPDATE 12.2010.doc Lease No. MF-110604 and MF-110597
CC: <billpatterson@petroleumlegal.com>
Attachments: DELAWARE BASIN WELLS UPDATE 12.2010.doc

Drew, please review the attached information for above identified GLO Leases.

Encana feels that it has satisfied the Drilling Obligations for Lease No. MF-110604 and MF-110597 for the First Year.

Please review and advise if you concur.

Thanks,

David R. McElyea

720-876-5304

Encana Oil and Gas (USA) Inc.

This email communication and any files transmitted with it may contain confidential and or proprietary information and is provided for the use of the intended recipient only. Any review, retransmission or dissemination of this information by anyone other than the intended recipient is prohibited. If you receive this email in error, please contact the sender and delete this communication and any copies immediately. Thank you.

<http://www.encana.com>

OK. With Ron

David said he thought
 Ron had received
 all info

No
 We do not
 have info

DELAWARE BASIN WELLS UPDATE 12-14-2010

Delaware State 61-T1-16 #1H

Spud Date: 03-21-2010

Drilling Rig Release Date: 04-15-2010

Date Production String Ran: 04-13-2010

Date of First Sales: N/A

Frac Date: 05-03-2010

Currently SI, Waiting Management approval for tie in

OBLIGATION WELLS DELAWARE RANCH

During the first Lease Year, Lessee shall drill and complete, and/or plug and abandon, at least Three (3) Exploratory Wells. By drilling the above well Encana earned the Exploratory Block covering the following Sections: 16, 14, 22 & Section 24, total of **(2,768.10) acres** held in this Exploration Block.

During each of the Second, Third, Fourth and Fifth Lease years, Lessee shall drill and complete, and/or plug and abandon, at least Three (3) oil or gas wells, At least one must be an Exploratory Well.

Each Exploratory Well must be drilled to a depth sufficient to test the Upper Bone Springs Formation. Wells must be capable of producing in "Paying Quantities".

Delaware State 61-T1-12 #1H

Spud Date: 05-10-2010

Drilling Rig Release Date:

Date Production String Ran:

Date of First Sales: N/A

Frac Date: **Currently SI, Waiting Management approval for tie in**

OBLIGATION WELLS DELAWARE RANCH

During the first Lease Year, Lessee shall drill and complete, and/or plug and abandon, at least Three (3) Exploratory Wells. By drilling the above well Encana earned the Exploratory Block covering the following Sections: 12, 2, 6 & Section 8, total of **(2,704.60) acres** held in this Exploration Block.

During each of the Second, Third, Fourth and Fifth Lease years, Lessee shall drill and complete, and/or plug and abandon, at least Three (3) oil or gas wells, At least one must be an Exploratory Well.

Each Exploratory Well must be drilled to a depth sufficient to test the Upper Bone Springs Formation. Wells must be capable of producing in "Paying Quantities".

Delaware State 61-T1-28 #1H

Spud Date: 04-20-2010

Drilling Rig Release Date: 05-07-2010

Date Production String Ran: 05-06-2010

Date of First Sales: N/A

Frac Date: **Currently SI, Waiting Management approval for tie in**

OBLIGATION WELLS DELAWARE RANCH

During the first Lease Year, Lessee shall drill and complete, and/or plug and abandon, at least Three (3) Exploratory Wells. By drilling the above well Encana earned the Exploratory Block covering the following Sections: 28, 26, 34 & Section 36, total of **(2,770.50) acres** held in this Exploration Block.

During each of the Second, Third, Fourth and Fifth Lease years, Lessee shall drill and complete, and/or plug and abandon, at least Three (3) oil or gas wells, At least one must be an Exploratory Well.

Each Exploratory Well must be drilled to a depth sufficient to test the Upper Bone Springs Formation. Wells must be capable of producing in "Paying Quantities".

SUMMARY OF DELAWARE RANCH LEASE

By drilling the (3) Exploratory Wells Encana has fulfilled its drilling obligations for the First Year. Currently **a total of (8,243.20) acres earned.** (Earned Exploration Blocks) Failure to drill the (3) obligation wells in the Second Year will result in the termination of the Lease at the end of the lease year such failure occurred, save and except those lands situated in an Earned Exploration Block.

ADDITIONAL BONUS PAYMENT

After having previously commenced the drilling of Six Exploratory wells during the First Two Lease Years of the primary term, if Lessee commences the drilling of any additional Exploratory Well during said Two year period, or commences the drilling of any Exploratory Well in the Third, Fourth, or Fifth Lease Year of the primary term: then prior to commencing the drilling of such Exploratory Well, Lessee shall pay to the State of Texas and the Owner of the Soil, in equal shares, a supplemental bonus equal to \$400 per net acre contained in the Acreage Block on which Exploratory Well is located.

(\$4,084,520.00) Possible Additional Bonus Payments over the 5 year primary term of the Lease – Delaware Ranch Lease Acres (26,697.30) minus the (8,243.20) acres currently held by the (3) Drilled Exploration Blocks plus an additional (8,243) acres that would be held by the drilling of the (3) Exploratory wells in 2012 leaves (10,211.) net acres @ \$400.00 per net acre equals \$4,084,520.00

Montgomery State 115-20

Spud Date: 02-01-2010

Drilling Rig Release Date: 03-15-2010

Date Production String Ran: 03-12-2010

Date of First Sales: N/A

Currently SI, Non-Commercial

OBLIGATION WELLS MONTGOMERY RANCH

During the first Lease Year, Lessee shall drill and complete, and/or plug and abandon, at least Two (2) Exploratory Wells. By drilling the above well Encana earned the Exploratory Block covering the following Sections: 20, 21, 22 & Section 23, total of **(2,426.61) acres** held in this Exploration Block.

During each of the Second, Third, Fourth and Fifth Lease years, Lessee shall drill and complete, and/or plug and abandon, at least Two (2) oil or gas wells, At least one must be an Exploratory Well.

Each Exploratory Well must be drilled to a depth sufficient to test the Upper Bone Springs Formation. Wells must be capable of producing in "Paying Quantities".

Montgomery State 115-4H

Spud Date: 06-07-2010

Drilling Rig Release Date:

Date Production String Ran:

Date of First Sales: N/A

Currently SI, Non-Commercial

OBLIGATION WELLS MONTGOMERY RANCH

During the first Lease Year, Lessee shall drill and complete, and/or plug and abandon, at least Two (2) Exploratory Wells. By drilling the above well Encana earned the Exploratory Block covering the following Sections: 4, 5, 10 & Section 11, total of **(2,385.15) acres** held in this Exploration Block.

During each of the Second, Third, Fourth and Fifth Lease years, Lessee shall drill and complete, and/or plug and abandon, at least Two (2) oil or gas wells, At least one must be an Exploratory Well.

Each Exploratory Well must be drilled to a depth sufficient to test the Upper Bone Springs Formation. Wells must be capable of producing in "Paying Quantities".

SUMMARY OF MONTGOMERY RANCH LEASE

By drilling the (2) Exploratory Wells Encana has fulfilled its drilling obligations for the First Year. Currently a total of **(4,811.76) acres** earned. (Earned Exploration Blocks) Failure to drill the (2) obligation wells in the Second Year will result in the termination of the Lease at the end of the lease year such failure occurred, save and except those lands situated in an Earned Exploration Block.

ADDITIONAL BONUS PAYMENT

After having previously commenced the drilling of Four Exploratory wells during the First Two Lease Years of the primary term, if Lessee commences the drilling of any additional Exploratory Well during said Two year period, or commences the drilling of any Exploratory Well in the Third, Fourth, or Fifth Lease Year of the primary term: then prior to commencing the drilling of such Exploratory Well, Lessee shall pay to the State of Texas and the Owner of the Soil, in equal shares, a supplemental bonus equal to \$400 per net acre contained in the Acreage Block on which Exploratory Well is located.

(\$3,377,716.00) Possible Additional Bonus over the 5 year Primary term of the Lease. Montgomery Lease covers (18,068.29) net acres, minus the (4,811.76) currently held by the drilling of the (2) Montgomery Wells plus an additional (4,812) acres that would be held by the drilling of the (2) Exploratory wells in 2012 leaves (8,444.29) net acres @ \$400.00 per net acre equals \$3,377,716.00.

8
File No. MF 110604
Filed in both files.
Mails of well updates.

Date Filed: 1/6/11
Jerry Patterson, Commissioner

By JH

STATE OF TEXAS

COUNTY OF CULBERSON

PARTIAL RELEASE OF OIL AND GAS LEASE

KNOW ALL MEN BY THESE PRESENTS:

That ENCANA OIL & GAS (USA) INC., 370 17th Street Suite 1700, Denver, Colorado 80202, is the owner of that certain oil and gas lease dated January 12, 2010 by and between the State of Texas, acting by and through its agent, Wise Asset No. 2, Ltd, a Texas Limited Partnership of 6851 NE Loop 820, Suite 200, North Richland Hills, Texas 76180, said agent herein referred to as the owner of the soil (hereinafter called "Lessor") and Encana Oil & Gas (USA) Inc., of 370 17th Street, Suite 1700, Denver, Colorado 80202, (hereinafter called "Lessee"), recorded in Volume 100, Page 371, Doc# 65081 of the Official Records of Culberson County, Texas, and hereinafter referred to as "said lease" covering the following described lands on the attached Exhibit "A".

NOW THEREFORE, for good and valuable consideration, the undersigned Lessee does hereby RELEASE, RELINQUISH AND SURRENDER to the Lessor named therein, their heirs, successors and assigns, all of its right, title and interest of said lease to the described lands on the attached Exhibit "A".

IN WITNESS WHEREOF this instrument is executed this 26 day of January, 2012.

ENCANA OIL & GAS (USA), INC.

By


Ricardo D. Gallegos
Attorney-in-Fact

DEM

STATE OF COLORADO

COUNTY OF DENVER

The forgoing instrument was acknowledged before me this 26th day of January, 2012 by Ricardo D. Gallegos, Attorney-in-Fact for Encana Oil & Gas (USA), Inc.

WITNESS my hand and official seal.

My commission expires: 3/25/13


Notary Public

Lease No. 27967.000

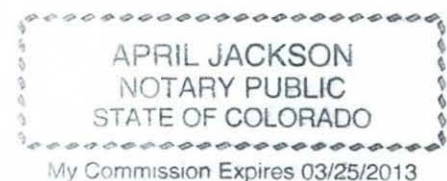


EXHIBIT "A"
ATTACHED TO AND MADE A PART OF THAT CERTAIN PARTIAL RELEASE
OF OIL AND GAS LEASE
DATED JANUARY 26, 2012

Relinquishment Act Lease MF-110604

Abstract	Block	Survey	Section	Subdivision	Gross Acres (More or Less)
6616	115	PSL	6	All	635.40
6617	115	PSL	7	All	639.24
6618	115	PSL	8	All	643.28
5068	115	PSL	9	All	642.32
5071	115	PSL	18	E2, S2NW, SW	561.95
5072	115	PSL	19	S2NE, W2, SE	561.98
6620	115	PSL	24	All	651.47
5074	115	PSL	25	All	651.06
6634	109	PSL	1	All	678.28
6635	109	PSL	2	All	644.45
6636	109	PSL	3	All	644.47
6637	109	PSL	4	E2, NW, N2SW	563.93
6638	109	PSL	5	NE, W2, N2SE	563.76
6639	109	PSL	6	All	644.37
6640	109	PSL	7	All	645.91
6641	109	PSL	8	All	642.35
6642	109	PSL	11	All	641.17
6643	109	PSL	12	All	641.33
337	109	PSL	13	All	641.70
6644	109	PSL	14	All	675.57
6645	109	PSL	16	All	642.54
				Total Gross Acres (More or Less)	13,256.53

#9

File No. WF110604

Partial Release

Date Filed: 3-16-12

Jerry E. Patterson, Commissioner

By _____

Doc# 00000067645
#Pages 2 WNFPages 0
2/6/2012 1:08:15 PM
Filed & Recorded in
Official Public Records of
County and District Clerk
Linda McDonald
Fees 14.00

State of Texas
County of Culberson

I hereby certify this instrument was FILED on
the date and at the time stamped hereon by me
and was duly RECORDED in the VOL 107 and
Page 283 of the Official Public Records of
Culberson County, Texas on: Oil & Gas
February 22, 2012
Dana C. Lunsford
By Deputy



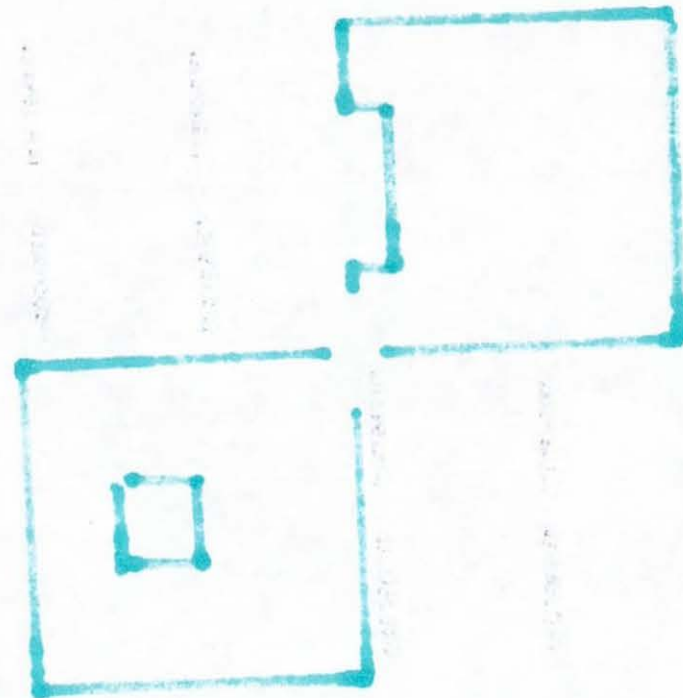
File No. M-110604

PLAT OF LEASE
AFTER RELEASE

Date Filed: 8/6/2012

Jerry E. Patterson, Commissioner

By _____



MF110604

Type or print only

RAILROAD COMMISSION OF TEXAS
Oil and Gas Division
Notice of Intention to Plug and Abandon

Operators must comply with RRC plugging procedures as outlined on the reverse side.

Form W-3A

Rev 1/1/83

(02/00)

WWW-1

1. Operator's Name and Address (Exactly as shown on Form P-5, Organization Report) Encana Oil & Gas (USA) Inc. 14001 N. Dallas Pkwy., Ste. 1100 Dallas, TX 75240		3. RRC District No. 08	4. County of Well Site Culberson					
2. RRC Operator Number 251691		5. API No. 42-109-32328	6. Drilling Permit No. 696380					
10. Field Name (Exactly as shown on RRC records) Wildcat		11. Lease Name Montgomery State 115-4						
12. Location Section No. 4 Block No. 115 Survey PSI/Rader, WH No. Abstract No. A. 6614 Distance (in miles) and direction from a nearby town in this county (name the town). 56.2 miles NE of Van Horn								
13. Type of well 1. oil 3. disposal 5. other (specify) 2. gas 4. injection Enter appropriate no. in box 2		14. Type of completion Single ☒ Multiple ☐	15. Total depth 10516' PBTD 8530' TVD NA					
16. Usable-quality water strata (as determined by Texas Dept. of Water Resources) occur to a depth of 100 feet and in deeper strata from to feet and from to feet								
17. If there are wells in this area which are producing from or have produced from a shallower zone, state depth of zone If there are wells into which salt water is being or has been disposed of into a shallower zone, state depth of zone								
18. Casing record (list all casing in well)								
Size	Depth	Cement (sacks)	Drilled hole size	Top of cement (feet)	Top of cement determined by: Temper. Survey	Calculated	Cement Bond Log	Anticipated casing recovery (feet)
9-5/8" set @	281' w/	155	12-1/4"	0	☐	☒	☐	4900'
5-1/2" set @	10612' w/	2025	8-3/4"	4950'	☐	☐	☒	
set @	w/				☐	☐	☐	
set @	w/				☐	☐	☐	
set @	w/				☐	☐	☐	
19. Has notice of intent to plug been filed previously for this well? ☐ Yes ☒ No								
20. Plugging proposal (List all bridge and cement plugs. Load the hole with at least 9.5 lbs. per gallon mud.) Class "C" HSR Cement ONLY								
No. of sacks	Depth	Plugging method						
3 sacks dump based	6150-6320'							
20	3600-3740' perf & squeeze							
45 50	2600-2730' perf & squeeze							
40 50	231-331' (tag) perf & squeeze							
30 40	0-150' verify							
25 60								
21. Record of perforated intervals or open hole								
Perforations	Open	Plugged	Plugging method					
8976-10420'	☒	☐						
	☐	☐						
	☐	☐						
Open Hole	☐	☐						
22. Name and address of cementing company or contractor TBD								
23. Anticipated plugging date for this well is: ASAP / Mo. Day Yr.								
Natalie Krueger		Regulatory Analyst						
Typed or printed name of operator's representative		Title of person						
469-461-2418		Natalie Krueger						
Telephone: Area Code Number		Signature						
Date: 06 / 18 / 12		Date						
RRC District Office Action								
Expiration date		District Director						
Mo. Day Yr.		Date						



ONLINE SYSTEM

Oil & Gas Data Query

[Query Menu](#) [Help](#)

Specific Lease Query Results

Query Path: [Search Criteria](#) > District: 08

Date Range: Nov 2012 to Sep 2013

Related

[O&G Direct](#)

[O&G Prorat](#)

[Offshore Co](#)

[Production and Total Disposition](#) [Disposition Details](#) [County Production](#)

Search Criteria:

Lease Name: MONTGOMERY STATE 115-4 , **Lease No.:** 270253 , **Well No.:** 1H

Well Type: Gas

District: 08

Lease Production and Disposition

Date Range: Nov 2012 - Sep 2013

1 - 10 of 11 results [[<<First](#)][[<Previous](#)][[Next>](#)][[Last>>](#)] | Page: 1 2 of 2 Page Siz

Date	GW Gas (MCF)		Condensate (BBL)		Operator Name	Operator No.	F N
	Production	Disposition	Production	Disposition			
Nov 2012	NO RPT	NO RPT	NO RPT	NO RPT	ENCANA OIL & GAS(USA) INC.	251691	WI
Dec 2012	NO RPT	NO RPT	NO RPT	NO RPT			
Jan 2013	NO RPT	NO RPT	NO RPT	NO RPT			
Feb 2013	NO RPT	NO RPT	NO RPT	NO RPT			
Mar 2013	NO RPT	NO RPT	NO RPT	NO RPT			
Apr 2013	NO RPT	NO RPT	NO RPT	NO RPT			
May 2013	NO RPT	NO RPT	NO RPT	NO RPT			
Jun 2013	NO RPT	NO RPT	NO RPT	NO RPT			
Jul 2013	NO RPT	NO RPT	NO RPT	NO RPT			
Aug 2013	NO RPT	NO RPT	NO RPT	NO RPT			

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MF 110604

Type or print only

RAILROAD COMMISSION OF TEXAS
Oil and Gas Division
Notice of Intention to Plug and Abandon

Operators must comply with RRC plugging procedures as outlined on the reverse side.

Form W-3A

Rev 1/1/83
(02/00)
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Natalie Krueger Typed or printed name of operator's representative 469-461-2418 Telephone: Area Code Number		Regulatory Analyst Title of person Signature																																											

RRC District Office Action

Expiration date

Mo. Day Yr.

District Director

Date

Operator/Wellbore/PDQ Results

[Print](#)**OPERATOR/WELLBORE**
API: 109-32322

WELLBORE STATUS	LOCATION
LAST PERMIT ISSUED	690201
LAST PERMIT OPERATOR NUMBER	251691
LAST PERMIT OPERATOR	ENCANA OIL & GAS(USA) INC.
LAST PERMIT LEASE NAME	MONTGOMERY STATE 115-20
TOTAL DEPTH	
SURFACE LOCATION	Land
ABSTRACT	6619
SURVEY	PSL/RADER, W H
BLOCK	115
SECTION	20
DISTANCE 1	10
DIRECTION 1	NORTH
DISTANCE 2	990
DIRECTION 2	EAST

COMPLETION INFORMATION
No completion data found.**PLUGGING INFORMATION**

DATE PLUGGED	
PLUG DEPTH	
PLUGGING OPERATOR	
PLUGGED LEASE	

(11)

File No. MF 110604
P+A - no production rpt.
109-32328 + 109-32322
Date Filed: 12/9/13
Jerry E. Patterson, Commissioner
By SSD

~~TERMINATION~~

~~DATE _____~~
~~LEASING _____~~
~~MARS _____~~
~~GIS _____~~

MF110604

-date of lease 1/12/10 5yr term

-Terminated: All wells P&A, scheduled for P&A, and no reported production or sales for over one year.

-Lease called for obligation wells

1st year: drill & complete, producing or dry 2 exploratory wells

Years 2-5: 2 wells per year

-First well completed: 7/15/2010. Montgomery State 115-20, 42-109-32322

-Second well completed: 11/29/2010, Montgomery State 115-4, 42-109-32328

-As of 12/09/13 : There have been no additional wells, permits or production

-Lease Terminated

(12)

File No. MF 110604
Memo about termination

Date Filed: 12/10/13
Jerry E. Patterson, Commissioner
By SSD

~~TERMINATION~~
~~DATE~~
~~LEASING~~
~~MAPS~~
~~GIS~~

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David McElyea

Encana Oil and Gas

17th Street, Suite 1700

Denver, CO 80202

Certified Mail Provides:

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- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

David McElyea
Encana Oil and Gas
17th Street, Suite 1700
Denver, CO 80202

2. Article Number

(Transfer from service label)

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COMPLETE THIS SECTION ON DELIVERY

A. Signature

X

Beth McElyea

☐ Agent

☐ Addressee

B. Received by (Printed Name)

C. Date of Delivery

12-13-13

D. Is delivery address different from item 1?

☐ Yes

If YES, enter delivery address below:

☐ No

3. Service Type

☒ Certified Mail

☐ Express Mail

☐ Registered

☐ Return Receipt for Merchandise

☐ Insured Mail

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4. Restricted Delivery? (Extra Fee)

☐ Yes

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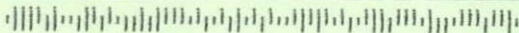


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Texas General Land Office
Jerry Patterson, Commissioner
P.O. Box 12873
Austin, TX 78711-2873

Attn: Susan Draughn - Energy Resources



TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

December 10, 2013

Certified Mail: #70111150000124163410

David McElyea
Encana Oil and Gas
17th Street, Suite 1700
Denver, CO 80202

RE: Termination of State Lease MF110604
Wise Asset No. 2 LTD.
18,068.29 acres, Culberson County, TX

Dear Mr. McElyea,

Based on the information reviewed, it appears that the referenced lease covering 18,068.29 acres may have terminated January 12, 2012 due to non-compliance of drilling obligation wells in year two. Two obligation wells were drilled in the first year, according to the terms of the lease. Our records do not indicate additional permits, wells, or production during year two of the primary term. As a result, this lease may have terminated under the terms and conditions of the lease and laws of the State as further defined in Title 31 of the Texas Administrative Code ("TAC").

In accordance with the provisions of the TAC, if you disagree with this assessment please provide evidence to this office at the address shown below within thirty (30) days of receipt of this letter. Failure to reply or failure to present sufficient evidence of the continuation of the agreement will result in the mineral file being endorsed as terminated. You will receive no further communication from this office prior to endorsement.

Sincerely yours,

Susan Draughn, Landman
Mineral Leasing, Energy Resources
512-463-6521
512-475-1543 (fax)
susan.draughn@glo.state.tx.us

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

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

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13.

File No. MF 110604

Termination letter

Date Filed: 12/10/13

Jerry E. Patterson, Commissioner

By SSD