

MF111889

111889A
Term 111889B
111889C

<i>State Lease</i>	<i>Control</i>	<i>Base File</i>	<i>County</i>
MF111889	07-110173	153251	REEVES

<i>Survey</i>	T & P RY CO	
<i>Block</i>	55	
<i>Block Name</i>		
<i>Township</i>	5-S	
<i>Section/Tract</i>	34	
<i>Land Part</i>		
<i>Part Description</i>	N 7/16	
<i>Acres</i>	233.331	
<i>Depth Below</i>	<i>Depth Above</i>	<i>Depth Other</i>
		See Lease
<i>Name</i>	ELEPHANT-ARABELLA OPERATING, L	
<i>Lease Date</i>	6/9/2010	
<i>Primary Term</i>	3 yrs	
<i>Bonus (\$)</i>	\$93,331.20	
<i>Rental (\$)</i>	\$0.00	
<i>Lease Royalty</i>	0.2500	

Leasing: 
Analyst: 
Maps: _____
GIS: ML
DocuShare: _____

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F
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8
8
9

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6. 9th Letter	5/23/11
7. Lease Termination Notice Letter 10/11/11	
8. Underpaid rental check	11/29/11
9. Delay Rental Payment (Leases) 6/29/11	
10. 3rd yr Renewal Lease A 5-11-12	
11. Delay Rental c	3/12/12
12-14. Leases 12-C	3/14/11
<u>Scanned PSE 4-16-13</u>	

RAL REVIEW SHEET

Transaction #	6976	Geologist:	R. Widmayer	
Lessor:	Meeker, Julian Wade and Lawrence Hill Meeker, Co-Truste	Lease Date:	6/9/2010	UT ☐
Lessee:	Elephant-Arabella Operating, LLC	Gross Acres:	280	
		Net Acres:	93.33	

LEASE DESCRIPTION

County	PIN#	Base File No	Part	Sec.	Block	Twp	Survey	Abst#
REEVES	07-110173	153251	N/280 ac	34	55	05S	T & P RY CO	5998

TERMS OFFERED

Primary Term:	3 years
Bonus/Acre:	\$800.00
Rental/Acre:	\$1.00
Royalty:	1/4

TERMS RECOMMENDED

Primary Term	3 years
Bonus/Acre	\$800.00
Rental/Acre	\$1.00
Royalty	1/4

COMPARISONS

MF #	Lessee	Date	Term	Bonus/Ac.	Rental/Ac.	Royalty	Distance
MF106024	Petro-Hunt, L.L.C.	5/15/2005	5 years	\$150.00	\$1.00	1/4	Last Lease

3 U.F. Leases as of 3/29/11 - 233.331 net acres leased

Comments:

Approved: TH 10/6/10

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: 06-Oct-10

FROM: Robert Hatter, Director of Mineral Leasing
Tracey Throckmorton, Geoscience Manager

Applicant:	Elephant-Arabella Operating, LLC	County:	REEVES
Prim. Term:	3 years	Bonus/Acre	\$800.00
Royalty:	1/4	Rental/Acre	\$1.00

Consideration

Recommended: 

Date: 10/6/10

Not Recommended: _____

Comments:

✓ Lease Form

Recommended: 

Date: 10/9/10

Not Recommended: _____

Comments:

Louis Renaud, Deputy Commissioner

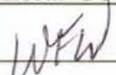
Date: 10/15/10

Recommended: 

Not Recommended: _____

Bill Warnick, General Counsel

Date: 10/20/10

Recommended: 

Not Recommended: _____

Larry Laine, Chief Clerk

Date: 10/20/10

Approved: 

Not Approved: _____

Jerry Patterson, Commissioner

Date: 10/21/10

Approved: 

Not Approved: _____

1,
File No. MF 11889

GAH Review

Date Filed: 10/6/10

Jerry E. Patterson, Commissioner

By JB

From: Elephant-Atabella Operating LLC

To: STATE OF TEXAS

Vendor Code
STATEX

Check Date
10/28/2010

Check Amount
\$37,332.00

Check Number
A-10418

Invoice #	Invoice Amt
MEEKER	37,332.00
Meeker Investments, Inc. (Section 34)	

11702314

121

MF 11889A



From: Elephant-Arabella Operating LLC
To: STATE OF TEXAS

Vendor Code
STATEX

Check Date
10/28/2010

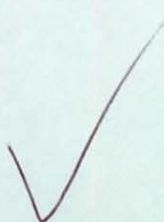
Check Amount
\$37,332.00

Check Number
A-10415

Invoice #	Invoice Amt
J.MEEKER	37,332.00
Julian Wade Meeker and Lawrence Hill Meeker as co-trustees u/w/o J.R. Meeker, deceased for the lifetime benefit of L.H. Meeker (Section 34)	

11702315

121



From: Elephant-Arabella Operating LLC

To: STATE OF TEXAS

Vendor Code
STATEX

Check Date
10/28/2010

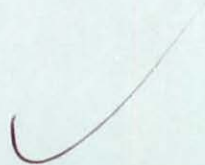
Check Amount
\$18,666.00

Check Number
A-10411

Invoice #	Invoice Amt
GRIMES	18,666.00
Winid Grimes, as sole trustee of the AWP (Section 34)	

11702316

121



From: Elephant-Arabella Operating LLC

To: STATE OF TEXAS

Vendor Code
STATEX

Check Date
10/28/2010

Check Amount
~~\$200.00~~

Check Number
A-10420

Invoice #	Invoice Amt
MEEKER FEE	200.00
Processing Fee - Meeker 34 Tract	

11702313

121





ELEPHANT-ARABELLA
OPERATING, LLC

October 29, 2010

Drew Reid
Mineral Leasing Division
Texas General Land Office
1700 North Congress Ave., Room 600
Austin, Texas 78701

Re: North 280 acres out of Section 34, Block 55, Township 5, T&P Railroad Company
Survey, Reeves County, Texas.

Drew,

Please find enclosed a copy of the Oil and Gas Leases we have been a party to, check number 10420 in the amount of \$200.00 for the processing fee, check number 10418 in the amount of \$37,332.00 for the State's portion of the bonus on the Meeker Investments, Inc. lease, check number 10415 in the amount of \$37,332.00 for the State's portion of the bonus on the Julian Wade Meeker and Lawrence Hill Meeker as co-trustees u/w/o J.R. Meeker, deceased for the lifetime benefit of L.H. Meeker lease, and check number 10411 in the amount of \$18,666.00 for the State's portion of the bonus on the Winid Grimes, as sole trustee of the AWP lease.

The leases are currently being filed with the Reeves County Clerk and I will be forwarding you a Certified Copy of those leases as soon as they are available to me.

Please feel free to contact me with any questions or concerns at (214) 800-5166 - Office, or (432) 770-6405 - Cell.

Yours truly,

Jason Hoisager

2,
File No. MF111889

Letter, bonuses, & fees

Date Filed: 11/12/10

Jerry E. Patterson, Commissioner

By [Signature]

11.15.10

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENERGEN RESOURCES CORPORATION
605 Richard Arrington Blvd North
Birmingham, Alabama 35203-2707
Telephone (205) 326-8139

**RENTAL RECEIPT/
SHUT IN RECEIPT**

SOUTHTRUST BANK OF ALABAMA, N.A.
BIRMINGHAM, ALABAMA

DATE **05/04/2011**

11710249
NO.

Page 1 of 1
32681

LEASE RECORDS ACCOUNT

RENTAL PERIOD

COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
REEVES	TEXAS	859-776	06/09/10	12	06/09/11	06/09/12

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
TX430339-02R	J R MEEKER TRUST ST OF TX	\$93.33

PAY TO THE
ORDER OF

STATE OF TEXAS
COMMISSIONER OF THE GENERAL LAND OFFICE
1700 NORTH CONGRESS AVENUE
STEPHEN F AUSTIN BUILDING
AUSTIN, TX 78701-1495

RECEIVED ON **MAY 10 2011** 20
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED
WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY
NAMED COVERING OUR INTEREST IN OIL AND GAS
LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT
BY NEXT MAIL. OFFICER'S SIGNING FOR CORPORATIONS WILL
PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO

RENTAL AMOUNT

BANK

ENERGEN RESOURCES CO** DELAY RENTALS **
STATE OF TEXAS
COMMISSIONER OF THE GENERAL LAND OFFICE
1700 NORTH CONGRESS AVENUE
STEPHEN F AUSTIN BUILDING
AUSTIN, TEXAS 78701-1495

TRACT
52578
T&PRR

55 T5S 34

MF 111889A

\$93.33

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW, PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENERGEN RESOURCES CORPORATION
605 Richard Arrington Blvd North
Birmingham, Alabama 35203-2707
Telephone (205) 326-8139

RENTAL RECEIPT/
SHUT IN RECEIPT

SOUTHTRUST BANK OF ALABAMA, N.A.
BIRMINGHAM, ALABAMA

Page 1 of 1

DATE 05/04/2011

NO. 32681

LEASE RECORDS ACCOUNT

COUNTY		STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	RENTAL PERIOD	
						FROM	TO
REEVES		TEXAS	859-776	06/09/10	12	06/09/11	06/09/12

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
TX430339-02R	J R MEEKER TRUST ST OF TX	\$93.33

PAY TO THE
ORDER OF

STATE OF TEXAS
COMMISSIONER OF THE GENERAL LAND OFFICE
1700 NORTH CONGRESS AVENUE
STEPHEN F AUSTIN BUILDING
AUSTIN, TX 78701-1495

RECEIVED ON MAY 10 2011 20

PE RENTAL PAYMENT

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED
WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY
NAMED COVERING OUR INTEREST IN OIL AND GAS
LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT
BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL
PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO

RENTAL AMOUNT

BANK

ENERGEN RESOURCES CO** DELAY RENTALS **

STATE OF TEXAS
COMMISSIONER OF THE GENERAL LAND OFFICE
1700 NORTH CONGRESS AVENUE
STEPHEN F AUSTIN BUILDING
AUSTIN, TEXAS 78701-1495

\$93.33

TRACT
52578
T&PRR

55 TSS 34

COPY

PLEASE DETACH THIS PORTION BEFORE DEPOSITING THIS CHECK

ENERGEN RESOURCES CORPORATION

605 Richard Arrington Blvd North
Birmingham, Alabama 35203-2707
Telephone (205) 326-8139

SOUTHTRUST BANK OF ALABAMA, N.A.
BIRMINGHAM, ALABAMA

61-8
620

No. 32681

DATE: 05/04/2011

LEASE RECORDS ACCOUNT

COUNTY		STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	RENTAL PERIOD	
						FROM	TO
REEVES		TEXAS	859-776	06/09/10	12	06/09/11	06/09/12

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
TX430339-02R	J R MEEKER TRUST ST OF TX	\$93.33

PAY EXACTLY \$93.33

PAY TO THE
ORDER OF

STATE OF TEXAS
COMMISSIONER OF THE GENERAL LAND OFFICE
1700 NORTH CONGRESS AVENUE
STEPHEN F AUSTIN BUILDING
AUSTIN, TX 78701-1495

COPY

File No. MF 111889

Dental Payment

Date Filed: 5/10/11

Jerry E. Patterson, Commissioner

By SE

44444

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

April 4, 2011

Jordyn Gingras
Elephant-Arabella Operating, LLC
3131 McKinney Ave., Suite 750
Dallas, TX 75204

RE: GLO Assignment ID # 7864

Dear Ms. Gingras,

The General Land Office received the following instrument(s) and has filed them in the appropriate files. Please see attached "Exhibit A" for reference.

Assignment of Oil and Gas Lease, executed October 28th, 2010
from Elephant-Arabella Operating, LLC, as Assignor, to Energen
Resources Corp., as Assignee. Reeves Co. Vol. 859, P. 455.

Filing fees of \$325.00 were received in connection with the above lease. If you have any questions, please feel free to call me at (800) 998-4GLO, or at my direct number at (512) 463-6521.

Sincerely,

Beverly Boyd
Mineral Leasing
Energy Resources
512-463-6521

See 2nd page

*WI
75% NEI*

Exhibit "A"

<i>GLO ID</i>	<i>County</i>	<i>Lease</i>
7864	Reeves	MF111889A
7864	Reeves	MF111889B
7864	Reeves	MF111889C
7864	Reeves	MF111890A
7864	Reeves	MF111890B
7864	Reeves	MF111890C
7864	Reeves	MF111891A
7864	Reeves	MF111891B
7864	Reeves	MF111891C
7864	Reeves	MF111892 x 8

DR

Monday, April 04, 2011

m F 111 892x8
111890
111891
111889

FILE # 4564

NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON,
YOU MAY REMOVE OR STRIKE ANY OF THE FOLLOWING INFORMATION
FROM THIS INSTRUMENT BEFORE IT IS FILED FOR RECORD IN THE PUBLIC
RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVERS LICENSE
NUMBER.

ASSIGNMENT OF OIL AND GAS LEASES

THE STATE OF TEXAS §
 §
COUNTY OF REEVES §

NOW, THEREFORE, for and in consideration of Ten Dollars (\$10.00) and other good and valuable consideration, the receipt of which are hereby acknowledged, and subject to the reservations, terms and conditions hereinafter contained, **Elephant-Arabella Operating, LLC**, a Texas Limited Liability Company, whose address is 3523 McKinney Ave., Suite 601, Dallas, Texas 75204 (hereinafter referred to as "Assignor"), does hereby TRANSFER, GRANT, CONVEY and ASSIGN unto **Energen Resources Corporation**, whose address is 3300 North A Street, Bldg. 4, Suite 100, Midland, Texas 79705 (hereinafter referred to as "Assignee"), an undivided 100% interest in and to the certain oil and gas leases more fully described in Exhibit "A" attached hereto and made a part hereof (the "Leases"), covering lands in Reeves County, Texas (the "Lands"), to have and to hold the same unto Assignee, Assignee's successors and assigns forever, subject to the applicable terms and provisions of said oil and gas leases, which Assignee hereby assumes, and further subject to the following:

1. Reservation of Overriding Royalty Interest. Assignor excepts and reserves unto itself, its successors and assigns, an overriding royalty equal to the difference between all royalty and overriding royalty burdens existing as of the effective date hereof and a proportionate twenty-five percent (25%) of 8/8ths of all oil, gas, other hydrocarbons and minerals produced from the Lands pursuant to the Leases, thereby conveying to Assignee a proportionate seventy-five percent (75%) net revenue interest in the Leases. Said reserved overriding royalty interest shall be free and clear of all costs and expenses of exploring, developing and operating said property, except for applicable taxes and shall be paid in the same manner and at the same time as royalty, under the Leases. However, in no event shall the net cash received that is attributable to said overriding royalty interest be calculated on a basis that is less than that paid to the Operator of these leases.
2. It is expressly understood and agreed that none of the provisions herein contained shall ever be construed to create any obligation on the part of Assignee, assignee's successors and assigns, to maintain the Leases in effect, develop said Leases, or to drill for, operate or produce oil, gas or other minerals.
3. The overriding royalty interest herein reserved shall apply to all renewals and extensions and exercise of options and options to extend & renew that occur within six (6) months of the date upon which the applicable lease would have otherwise expired.
4. The overriding royalty interest reserved herein shall be proportionately reduced to the extent Assignors are assigning to Assignee less than 100% interest in the Leases. In the event that any of the Leases cover less than the entire mineral estate, the overriding royalty interests reserved herein shall be proportionately reduced.
5. This Assignment is further made and accepted subject to all of the term, conditions, covenants and obligations contained in said leases.

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



6. This Assignment is further made subject to the Letter Agreement dated August 11, 2010 by and between Elephant-Arabella Operating, LLC and Energen Resources Corporation.
7. THE ASSIGNOR HEREBY WARRANTS TITLE TO THE LEASES AND LANDS ASSIGNED HEREIN TO THE EXTENT THAT SHOULD ASSIGNEE SUFFER A LOSS OF TITLE FOR FAILURE OF ASSIGNOR TO PROPERLY RESEARCH TITLE AND ACQUIRE LEASES FROM THE APPROPRIATE LESSORS, OR FOR ASSIGNOR'S FAILURE TO MAKE APPROPRIATE BONUS MONEY PAYMENTS TO LESSORS, OR FOR ANY OTHER REASON OTHER THEN ASSIGNEE'S FAILURE TO PROPERLY PAY ANY RENTALS, ROYALTIES, OR OTHERWISE COMPLY WITH PROVISIONS OF THE LEASES HEREIN ASSIGNED, THEN FOR SUCH LOSS OF TITLE ASSIGNOR SHALL REIMBURSE ASSIGNEE ALL CONSIDERATION PAID FOR THIS ASSIGNMENT PROPORTIONATELY REDUCED TO THE AMOUNT THAT THE ACREAGE LOST FOR FAILURE OF TITLE BEARS TO THE TOTAL ACREAGE ASSIGNED HEREIN. IN THE EVENT OF SUCH FAILURE OF TITLE, ASSIGNEE SHALL NOTIFY ASSIGNOR OF THE FAILURE OF TITLE BY CERTIFIED MAIL, WHEREUPON ASSIGNOR SHALL HAVE SIXTY (60) DAYS FROM THE RECEIPT OF NOTICE TO CURE THE LOSS OF TITLE. IF ASSIGNOR DOES NOT CURE THE LOSS OF TITLE WITHIN THE SIXTY (60) DAY PERIOD AS SPECIFIED, THEN IT SHALL IMMEDIATELY REIMBURSE ASSIGNEE THAT PORTION OF THE CONSIDERATION PAID AS DESCRIBED ABOVE.

IN WITNESS WHEREOF, his instrument is executed the date of each party's acknowledgment, but to be effective for all purposes as of the 28th day of **October, 2010**.

ASSIGNOR:

ELEPHANT-ARABELLA OPERATING, LLC

By:


Bradley Williams
Managing Member

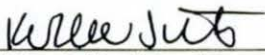
STATE OF TEXAS

§
§
§

COUNTY OF MIDLAND

This instrument was acknowledged before me on the 28th day of October, 2010, by Bradley Williams, as Managing Member of **Elephant-Arabella Operating, LLC**, a Texas limited liability company, on behalf of said company.

Seal


Notary Public, State of Texas

My Commission Expires: Dec 18, 2013



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

3311

EXHIBIT "A"

Attached to and made a part of that certain Assignment of Oil and Gas Leases dated October 28, 2010, by and between Elephant-Arabella Operating, LLC as Assignor and Energen Resources Corporation as Assignee, covering lands in Reeves County, Texas.

LESSOR	LESSEE	DESCRIPTION	GROSS ACRES	NET ACRES	DATE	RECORDED VOL./PAGE
Ada Mae English, Trustee of the Ada Mae English Revocable Living Trust dated 6/11/02	Navigator Oil & Minerals, Inc.	<u>Block 54, Township 4, T&P RR Co Survey</u> Section 30: All, containing 640 acres, more or less. Section 38: All, containing 640 acres, more or less Reeves County, Texas	1,280.00	165.6061	August 26, 2010	OPR Vol. 852/274
Ann Katherine Tims Fish	Navigator Oil & Minerals, Inc.	<u>Block 54, Township 4, T&P RR Co Survey</u> Section 30: All, containing 640 acres, more or less. Section 38: All, containing 640 acres, more or less Reeves County, Texas	1,280.00	165.6061	August 26, 2010	OPR Vol. 851/820
Larry Keith Tims	Navigator Oil & Minerals, Inc.	<u>Block 54, Township 4, T&P RR Co Survey</u> Section 30: All, containing 640 acres, more or less. Section 38: All, containing 640 acres, more or less Reeves County, Texas	1,280.00	89.8486	August 26, 2010	OPR Vol. 851/815
JM Cox Resources LP	Navigator Oil & Minerals, Inc.	<u>Block 54, Township 4, T&P RR Co Survey</u> Section 30: All, containing 640 acres, more or less. Section 38: All, containing 640 acres, more or less Reeves County, Texas	1,280.00	109.6880	September 7, 2010	OPR Vol. 852/781
William E. Tims and wife, Carol A. Tims	Navigator Oil & Minerals, Inc.	<u>Block 54, Township 4, T&P RR Co Survey</u> Section 30: All, containing 640 acres, more or less. Section 38: All, containing 640 acres, more or less Reeves County, Texas	1,280.00	87.7274	August 26, 2010	OPR Vol. 852/447



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

7864

VOL 859

P 455

BOOK 859 PAGE 457

3311

EXHIBIT "A"

Attached to and made a part of that certain Assignment of Oil and Gas Leases dated October 28, 2010, by and between Elephant-Arabella Operating, LLC as Assignor and Energen Resources Corporation as Assignee, covering lands in Reeves County, Texas.

Robin Burford, Trustee of the Burford Irrevocable Trust dated 1/4/01	Navigator Oil & Minerals, Inc.	Block 54, Township 4, T&P RR Co Survey Section 30: All, containing 640 acres, more or less. Section 38: All, containing 640 acres, more or less Reeves County, Texas	1,280.00	31.8182	September 8, 2010	OPR Vol. 852/457
Jack B. Searle and wife, Tamara D. Searle	Navigator Oil & Minerals, Inc.	Block 54, Township 4, T&P RR Co Survey Section 30: All, containing 640 acres, more or less. Section 38: All, containing 640 acres, more or less Reeves County, Texas	1,280.00	50.2272	September 13, 2010	OPR Vol. 852/442
Donna L. Durham	Navigator Oil & Minerals, Inc.	Block 54, Township 4, T&P RR Co Survey Section 30: All, containing 640 acres, more or less. Section 38: All, containing 640 acres, more or less Reeves County, Texas	1,280.00	31.8182	September 8, 2010	OPR Vol. 852/452
Marcella Christensen, a widow	Navigator Oil & Minerals, Inc.	Block 54, Township 4, T&P RR Co Survey Section 30: All, containing 640 acres, more or less. Section 38: All, containing 640 acres, more or less Reeves County, Texas	1,280.00	27.4219	September 7, 2010	OPR Vol. 852/793
Christensen Petroleum, Inc.	Navigator Oil & Minerals, Inc.	Block 54, Township 4, T&P RR Co Survey Section 30: All, containing 640 acres, more or less. Section 38: All, containing 640 acres, more or less Reeves County, Texas	1,280.00	9.1406	September 7, 2010	OPR Vol. 852/787



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

3.31.11

EXHIBIT "A"

Attached to and made a part of that certain Assignment of Oil and Gas Leases dated October 28, 2010, by and between Elephant-Arabella Operating, LLC as Assignor and Energen Resources Corporation as Assignee, covering lands in Reeves County, Texas.

American State Bank, as Trustee for the E. Hayes Sieber Trust, the Harry C. Sieber A & B Trusts, the Emma R. Sieber A & B Trusts, the Carl C. Ruasmussen Trust, the Mary Elizabeth Shelton Trust, the Helen S. Yoder Trust, the Ruth S. Jones Trust, and the Marion S. Saybolt Trust	Elephant-Arabella Operating, LLC	E/2 of Section 38, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas and the W/2 of Section 36, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas 111892	640.00	320.00	August 3, 2010	859-786
Penwith Partnership, LP	Elephant-Arabella Operating, LLC	E/2 of Section 38, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas and the W/2 of Section 36, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas 111892	640.00	106.667	July 21, 2010	859-796
Ann M. Baker Family Interest, Ltd	Elephant-Arabella Operating, LLC	E/2 of Section 38, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas and the W/2 of Section 36, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas 111892	640.00	106.667	July 21, 2010	859-806
Martha Guerin Intervivos Trust	Elephant-Arabella Operating, LLC	E/2 of Section 38, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas and the W/2 of Section 36, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas 111892	640.00	53.3333	July 21, 2010	859-816

7864



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

3.31.11

EXHIBIT "A"

Attached to and made a part of that certain Assignment of Oil and Gas Leases dated October 28, 2010, by and between Elephant-Arabella Operating, LLC as Assignor and Energen Resources Corporation as Assignee, covering lands in Reeves County, Texas.

Martha Guerin as AIF for James Robison	Elephant-Arabella Operating, LLC 111892	E/2 of Section 38, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas and the W/2 of Section 36, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas	640.00	13.3333	July 21, 2010	859 - 856
Martha Guerin as AIF for Joel Robison	Elephant-Arabella Operating, LLC 111892	E/2 of Section 38, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas and the W/2 of Section 36, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas	640.00	13.3333	July 21, 2010	859 - 826
Martha Guerin as AIF for Frances Osborne	Elephant-Arabella Operating, LLC 111892	E/2 of Section 38, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas and the W/2 of Section 36, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas	640.00	13.3333	July 21, 2010	859 - 846
Martha Guerin as AIF for Helen Brady	Elephant-Arabella Operating, LLC 111892	E/2 of Section 38, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas and the W/2 of Section 36, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas	640.00	13.3333	July 21, 2010	859 - 836



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

3.31.11

EXHIBIT "A"

Attached to and made a part of that certain Assignment of Oil and Gas Leases dated October 28, 2010, by and between Elephant-Arabella Operating, LLC as Assignor and Energen Resources Corporation as Assignee, covering lands in Reeves County, Texas.

Julian Wade Meeker and Lawrence Hill Meeker, Co-Trustees under the will of J.R. Meeker for the lifetime benefit of L.H. Meeker	Elephant-Arabella Operating, LLC <i>111891A</i>	280 acres, more or less, being the North 280 acres of Section 30, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas	280.00	93.333	June 9, 2010	
Windi Grimes, as sole Trustee of the AWP 1983 Trust	Elephant-Arabella Operating, LLC <i>111891C</i>	280 acres, more or less, being the North 280 acres of Section 30, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas	280.00	46.665	August 16, 2010	
Meeker Investments, Inc	Elephant-Arabella Operating, LLC <i>111891B</i>	280 acres, more or less, being the North 280 acres of Section 30, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas	280.00	93.333	August 16, 2010	
Julian Wade Meeker and Lawrence Hill Meeker, Co-Trustees under the will of J.R. Meeker for the lifetime benefit of L.H. Meeker	Elephant-Arabella Operating, LLC <i>111889A</i>	280 acres, more or less, being the North 280 acres of Section 34, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas	280.00	93.333	June 9, 2010	



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

EXHIBIT "A"

Attached to and made a part of that certain Assignment of Oil and Gas Leases dated October 28, 2010, by and between Elephant-Arabella Operating, LLC as Assignor and Energen Resources Corporation as Assignee, covering lands in Reeves County, Texas.

Windi Grimes, as sole Trustee of the AWP 1983 Trust	Elephant-Arabella Operating, LLC 111889C	280 acres, more or less, being the North 280 acres of Section 34, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas	280.00	46.665	August 16, 2010	
Meeker Investments, Inc	Elephant-Arabella Operating, LLC 111889B	280 acres, more or less, being the North 280 acres of Section 34, Block 55, Township 5, T&P RR Co. Survey, Reeves County, Texas	280.00	93.333	August 16, 2010	
J. Robert McGehee, dealing in his Sole and Separate Property	Elephant-Arabella Operating, LLC 111890B	160 acres, more or less, being the SW/4 of Section 32, Block 54, Township 4, T&P RR Co. Survey, Reeves County, Texas	160.00	40.00	August 30, 2010	854/692
Caryn Bains, dealing in her Sole and Separate Property	Elephant-Arabella Operating, LLC 111890A	160 acres, more or less, being the SW/4 of Section 32, Block 54, Township 4, T&P RR Co. Survey, Reeves County, Texas	160.00	80.00	August 30, 2010	854/714
Tommy Stewart, Individually and as Executor of the Estate of Lynn McGehee Stewart	Elephant-Arabella Operating, LLC 111890C	160 acres, more or less, being the SW/4 of Section 32, Block 54, Township 4, T&P RR Co. Survey, Reeves County, Texas	160.00	40.00	August 30, 2010	854/683

FILE # 4564

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

FILED FOR RECORD ON THE 2ND DAY OF DECEMBER A.D. 2010 10:50 A.M.
 DEPT. RECORDED ON THE 10TH DAY OF DECEMBER A.D. 2010 9:00 A.M.
 BY: *Diana Paludo* DEPUTY
 DIANNE O. FLOREZ, COUNTY CLERK
 REEVES COUNTY, TEXAS



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

5
2
0
1
1

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

The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL. 859,
PAGE 455 THRU 462 OFFICIAL PUBLIC RECORDS

I hereby certified on 03/22/2011



DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

BY *[Signature]* DEPUTY



ELEPHANT-ARABELLA
OPERATING, LLC

3131 McKinney Avenue, Suite 750 • Dallas, Texas 75204
(214) 323-8360 • Fax (214) 580-2882

7 assignments

March 30, 2011

Beverly Boyd
Mineral Assignment Division
Texas General Land Office
1700 N. Congress
Austin, TX 78711

Re: Certified copies of Thirteen (13) assignments of mineral class Oil and Gas Leases.

Mrs. Boyd,

Please find enclosed check #10774 in the amount of \$325.00 as payment for the processing fee for Thirteen (13) lease assignments at \$25.00 per lease, and certified copies of the Oil and Gas Lease Assignments described below:

- File Number 111914 – Assignment of Oil and Gas Leases dated December 20, 2010 between Elephant-Arabella Operating, LLC (Assignor) and Energen Resources (Assignee) (Book 862, Page 378, Reeves County)
111200
- File Number 12000 – Assignment of Oil and Gas Leases dated December 20, 2010 between Elephant-Arabella Operating, LLC (Assignor) and Energen Resources (Assignee) (Book 862, Page 378, Reeves County) *Rentals due 5/10/11*
- File Number 112001 – Assignment of Oil and Gas Leases dated December 20, 2010 between Elephant-Arabella Operating, LLC (Assignor) and Energen Resources (Assignee) (Book 862, Page 378, Reeves County) *11 611*
- File Number 111327 – Assignment of Oil and Gas Leases dated September 7, 2010 between Elephant-Arabella Operating, LLC (Assignor) and Energen Resources (Assignee) (Book 852, Page 379, Reeves County) *STACK paid-up*
- File Number 111327 – Assignment of Oil and Gas Leases dated June 16, 2010 between Energen Resources (Assignor) and Elephant-Arabella Operating, LLC (Assignee) (Book 852, Page 255, Reeves County)
- File Number 111873 – Assignment of Oil and Gas Leases dated August 3, 2010 between Wildhorse Interest, LLC (Assignor) and Elephant-Arabella Operating, LLC (Assignee) (Book 849, Page 122, Reeves County) *3-27-10 due May*
- File Number 111892 – Assignment of Oil and Gas Leases dated October 28, 2010 between Elephant-Arabella Operating, LLC (Assignor) and Energen Resources (Assignee) (Book 859, Page 455, Reeves County) *7-21-10 due*

- File Number 111889– Assignment of Oil and Gas Leases dated October 28, 2010 *rentals*
between Elephant-Arabella Operating, LLC (Assignor) and Energen Resources *deal*
(Assignee) (Book 859, Page 455, Reeves County)
- File Number 111891 – Assignment of Oil and Gas Leases dated October 28, 2010
between Elephant-Arabella Operating, LLC (Assignor) and Energen Resources
(Assignee) (Book 859, Page 455, Reeves County)
- File Number 111890 – Assignment of Oil and Gas Leases dated October 28, 2010
between Elephant-Arabella Operating, LLC (Assignor) and Energen Resources
(Assignee) (Book 859, Page 455, Reeves County)
- File Number 111080 – Assignment of Oil and Gas Leases dated May 18, 2010 *paid-up*
between Stack Enterprises, LLC (Assignor) and Elephant-Arabella Operating, LLC
(Assignee) (Book 847, Page 595, Reeves County)
- File Number 111873 – Assignment of Oil and Gas Leases dated August 13, 2010
between Elephant-Arabella Operating, LLC (Assignor) and Energen Resources
(Assignee) (Book 852, Page 376, Reeves County)
- File Number 111080 – Assignment of Oil and Gas Leases dated August 13, 2010
between Elephant-Arabella Operating, LLC (Assignor) and Energen Resources
(Assignee) (Book 852, Page 376, Reeves County)

Please feel free to contact me with any questions or concerns at (214) 323-8360.

Yours truly,



Jordyn J. Gingras
Lease Analyst & Executive Assistant
jgingras@eaoperating.com
Office: (214) 323-8360
Direct: (214) 323-8364

5.

MF 11889

File No.

7864, WI, 7500 NRT,

ASSIGNMENT FILED IN MF.

Date Filed:

4/4/11

Jerry E. Patterson, Commissioner

By



TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

May 23, 2011

Jordyn Gingras
Elephant-Arabella Operating LLC
3131 McKinney Ave Suite 750
Dallas TX 75204

Re: State Lease No. MF 111889A

Lease dated June 9, 2010, recorded Book 859, pg 776
Trustees for lifetime benefit of LH Meeker, agent for State, Lessor

State Lease No. MF 111889B

Lease dated Aug 16, 2010 recorded Book 859, pg 746
Meeker Investments, Inc, agent for State of TX, Lessor

State Lease No. MF 111889C

Lease dated Aug 16, 2010 recorded Book 859, pg 737
AWP 1983 Trust, agent for State of TX, Lessor

covering N 280 ac of Sec 34, Blk 55, T-5, T&P RR Co,
Reeves Co TX

Dear Jordyn Gingras:

The certified copies of the Relinquishment Act leases covering the above referenced tract have been approved and filed in our records under the **State Lease No. MF111889A, MF111889B, and MF111889C. Please refer to those numbers when making rental, shut-in or any other payments to the State and in all future correspondence concerning the leases. Failure to include the mineral file numbers may delay processing of any payments towards the leases.**

There are several contractual and statutory responsibilities for the Lessee which are material provisions of the lease as outlined in the agreement such as Section 10(B) which requires submission of written notice for all drilling, production and related activities. When forms are filed with the Texas Railroad Commission, they are required to be submitted to the General Land Office as well. Examples are W-1, Application to Drill; W-2, Oil Well Completion Report and Log; G-1, Gas Well Completion Report and Log; W-3, Plugging Report; G-5, Gas Well Classification Report; G-10, Gas Well Status Report; W-10, Oil Well Status Report; W-12, Inclination Report; electric logs; directional surveys.

Your remittances of **\$37,332.00, \$37,332.00 and \$18,666.00** have been applied to the State's portion of the cash bonuses. Your remittance of **\$200** covers the processing and filing fees.

Because we are aware that Elephant-Arabella Operating has assigned these leases to Energen Resources, we are sending a copy of this notice to Energen.

Sincerely yours,

Drew Reid
Minerals Leasing
Energy Resources
(512) 475-1534
drew.reid@glo.state.tx.us

xc: Bob Heller, Energen Resources Corp, 3300 North A St, Bldg 4, Suite 100, Midland, TX 79705

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 111 889

J. E. Patterson

Date Filed: 7/33/11

Jerry E. Patterson, Commissioner

By [Signature]

TEXAS



GENERAL LAND OFFICE

JERRY PATTERSON, COMMISSIONER

October 11, 2011

Debbie Walker
Energen Resources Co.
3300 N "A" St. Building 4, Suite 100
Midland, TX 79705

RE: **State Lease MF 111889B**

Lease dated August 16, 2010, being part of the North 280 acres of Section 34, Block 55, Township 5, T&P RR Co., Reeves County, Texas

UNDERPAYMENT OF RENTAL due August 16, 2011

Dear Ms. Walker:

By your check 32748 (copy of check attached), it appears that you have underpaid the 2nd year delay rentals by an amount of \$46.66. It appears this lease covers 93.333 acres and at \$1 per acre the 2nd year delay rentals due is \$93.33.

Since the deadline for paying this rental has passed, the referenced lease has terminated for failure to pay the full second year delay rentals due on or before August 16, 2011

You have 40 days from the date of this letter in which to present evidence and convince the General Land Office that a termination has not occurred. If such evidence has not been presented at the expiration of the 40-day period, the mineral file shall be endorsed "terminated." Pursuant to the Texas Administrative Code, we request that you file with this office a recorded original or certified copy of a Release of this State Oil and Gas Lease along with a processing fee of \$25.00 per document to be sent to the attention of Beverly Boyd

Yours truly,

Grant Huber
Mineral Leasing, Energy Resources
512-936-4435
512-475-1543 (fax)
Grant.huber@glo.texas.gov

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

Post Office Box 12873 • Austin, Texas 78711-2873

512-463-5001 • 800-998-4GLO

www.glo.state.tx.us

(7)

File No. MF 111889

Lease Termination Notice Letter

Date Filed: 10/11/11

Jerry E. Patterson, Commissioner

By GL

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW, PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENERGEN RESOURCES CORPORATION
605 Richard Arrington Blvd North
Birmingham, Alabama 35203-2707
Telephone (205) 326-8139

**RENTAL RECEIPT/
SHUT IN RECEIPT**

SOUTHTRUST BANK OF ALABAMA, N.A.
BIRMINGHAM, ALABAMA

Page 1 of 1

11713125

DATE **07/06/2011**

NO. **32748**

LEASE RECORDS ACCOUNT

RENTAL PERIOD

COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
REEVES	TEXAS	859-746	08/16/10	12	08/16/11	08/16/12

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
TX430339-03R	MEEKER INVESTMENTS ST OF TX	\$46.67

PAY TO THE
ORDER OF

STATE OF TEXAS
COMMISSIONER OF THE GENERAL LAND OFFICE
1700 NORTH CONGRESS AVENUE
STEPHEN F AUSTIN BUILDING
AUSTIN, TX 78701-1495

MF
11/18/89B

RECEIVED ON **JUL 12 2011** 20
THE AMOUNT SHOWN ABOVE

RENTAL PAYMENT

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED
WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY
NAMED COVERING OUR INTEREST IN OIL AND GAS
LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT
BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL
PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO

RENTAL AMOUNT

BANK

ENERGEN RESOURCES CO** DELAY RENTALS **
STATE OF TEXAS
COMMISSIONER OF THE GENERAL LAND OFFICE
1700 NORTH CONGRESS AVENUE
STEPHEN F AUSTIN BUILDING
AUSTIN, TEXAS 78701-1495
TRACT
52578
T&PRR 55 T5S 34

X \$46.67

121

COPY

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW. PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENERGEN RESOURCES CORPORATION
605 Richard Arrington Blvd North
Birmingham, Alabama 35203-2707
Telephone (205) 326-8139

RENTAL RECEIPT/
SHUT IN RECEIPT

SOUTHTRUST BANK OF ALABAMA, N.A.
BIRMINGHAM, ALABAMA

Page 1 of 1

DATE 07/06/2011

NO. 32748

LEASE RECORDS ACCOUNT

RENTAL PERIOD

COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
REEVES	TEXAS	859-746	08/16/10	12	08/16/11	08/16/12

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TX430339-03R	MEEKER INVESTMENTS ST OF TX	\$46.67

PAY TO THE
ORDER OF

STATE OF TEXAS
COMMISSIONER OF THE GENERAL LAND OFFICE
1700 NORTH CONGRESS AVENUE
STEPHEN F AUSTIN BUILDING
AUSTIN, TX 78701-1495

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED
WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY
NAMED COVERING OUR INTEREST IN OIL AND GAS
LEASE DESCRIBED HEREIN.

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TO BE CREDITED TO

RENTAL AMOUNT

BANK

ENERGEN RESOURCES CO** DELAY RENTALS **
STATE OF TEXAS
COMMISSIONER OF THE GENERAL LAND OFFICE
1700 NORTH CONGRESS AVENUE
STEPHEN F AUSTIN BUILDING
AUSTIN, TEXAS 78701-1495

\$46.67

TRACT
52578
T&PRR 55 T5S 34

PLEASE DETACH THIS PORTION BEFORE DEPOSITING THIS CHECK

ENERGEN RESOURCES CORPORATION

605 Richard Arrington Blvd North
Birmingham, Alabama 35203-2707
Telephone (205) 326-8139

SOUTHTRUST BANK OF ALABAMA, N.A.
BIRMINGHAM, ALABAMA

61-8
620

No. 32748

DATE: 07/06/2011

LEASE RECORDS ACCOUNT

RENTAL PERIOD

COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
REEVES	TEXAS	859-746	08/16/10	12	08/16/11	08/16/12

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
TX430339-03R	MEEKER INVESTMENTS ST OF TX	\$46.67

PAY TO THE ORDER OF \$46.67
EXACTLY \$46.67

PAY TO THE
ORDER OF

STATE OF TEXAS
COMMISSIONER OF THE GENERAL LAND OFFICE
1700 NORTH CONGRESS AVENUE
STEPHEN F AUSTIN BUILDING
AUSTIN, TX 78701-1495



July 8, 2011

State of Texas
Commissioner of the General Land Office
1700 North Congress Avenue
Stephen F Austin Building
Austin, TX 78701-1495

RE: Rental Payment

Please find enclosed the rental payments due under the terms of the oil and gas leases identified below for the month of August, 2011.

<u>Check No</u>	<u>File No.</u>	<u>Lessor</u>	<u>Due Date</u>
32736	TX430332-01R	E Hayes Sieber Trust	08-03-11
32738	TX430333-01R	AWP 1983 Trust/ Windi Grimes Trustee	08-16-11
32740	TX430334-01R	Caryn Bains	08-03-11
32742	TX430334-02R	J Robert McGehee	08-03-11
32744	TX430334-03R	Lynn M Stewart Est/ Tommy Stewart Ext	08-03-11
32746	TX430339-01R	AWP 1983 Trust/ Windi Grimes Trustee	08-16-11
32748	TX430339-03R	Meeker Investments	08-16-11

To confirm for our files that you have received the above mentioned payment(s) please fill in the RECEIVED ON date of the check copy and return it to Energen Resources Corporation in the enclosed return envelope.

Thank you for your consideration in this matter.

Yours truly,

Energen Resources Corporation

A handwritten signature in blue ink that reads "Billie E. Lopez".

Billie E. Lopez, CPLTA
Lease Analyst IV

File No. 11889

Underpaid rental checks

Date Filed: 11/29/11

Jerry E. Patterson, Commissioner

By GH

11/29/11

11889

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW, PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENERGEN RESOURCES CORPORATION
605 Richard Arrington Blvd North
Birmingham, Alabama 35203-2707
Telephone (205) 326-8139

11713124

**RENTAL RECEIPT/
SHUT IN RECEIPT**

SOUTHTRUST BANK OF ALABAMA, N.A.
BIRMINGHAM, ALABAMA

Page 1 of 1

DATE **07/06/2011**

NO. **32746**

LEASE RECORDS ACCOUNT

RENTAL PERIOD

COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
REEVES	TEXAS	859-737	08/16/10	12	08/16/11	08/16/12

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
TX430339-01R	WINDI GRIMES TRUSTEE ST OF TX	\$46.67

PAY TO THE
ORDER OF

STATE OF TEXAS
COMMISSIONER OF THE GENERAL LAND OFFICE
1700 NORTH CONGRESS AVENUE
STEPHEN F AUSTIN BUILDING
AUSTIN, TX 78701-1495

MF
111889C

RECEIVED ON **JUL 12 2011** 20
THE AMOUNT SHOWN ABOVE

RENTAL PAYMENT
NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED
WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY
NAMED COVERING OUR INTEREST IN OIL AND GAS
LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT
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PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO

RENTAL AMOUNT

BANK

ENERGEN RESOURCES CO** DELAY RENTALS **
STATE OF TEXAS
COMMISSIONER OF THE GENERAL LAND OFFICE
1700 NORTH CONGRESS AVENUE
STEPHEN F AUSTIN BUILDING
AUSTIN, TEXAS 78701-1495

TRACT
52578
T&PRR

55 T5S 34

X \$46.67
121

COPY

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ENERGEN RESOURCES CORPORATION
605 Richard Arrington Blvd North
Birmingham, Alabama 35203-2707
Telephone (205) 326-8139

RENTAL RECEIPT/
SHUT IN RECEIPT

SOUTHTRUST BANK OF ALABAMA, N.A.
BIRMINGHAM, ALABAMA

Page 1 of 1

DATE 07/06/2011

NO. 32746

LEASE RECORDS ACCOUNT

RENTAL PERIOD

COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
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PAY TO THE
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COMMISSIONER OF THE GENERAL LAND OFFICE
1700 NORTH CONGRESS AVENUE
STEPHEN F AUSTIN BUILDING
AUSTIN, TX 78701-1495

RECEIVED ON _____ 20____
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED
WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY
NAMED COVERING OUR INTEREST IN OIL AND GAS
LEASE DESCRIBED HEREIN.

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PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO

RENTAL AMOUNT

BANK

ENERGEN RESOURCES CO** DELAY RENTALS **

STATE OF TEXAS
COMMISSIONER OF THE GENERAL LAND OFFICE
1700 NORTH CONGRESS AVENUE
STEPHEN F AUSTIN BUILDING
AUSTIN, TEXAS 78701-1495

\$46.67

TRACT

52578

T&PRR

55 T5S 34

PLEASE DETACH THIS PORTION BEFORE DEPOSITING THIS CHECK

ENERGEN RESOURCES CORPORATION

605 Richard Arrington Blvd North
Birmingham, Alabama 35203-2707
Telephone (205) 326-8139

SOUTHTRUST BANK OF ALABAMA, N.A.
BIRMINGHAM, ALABAMA

61-8
620

No. 32746

DATE: 07/06/2011

LEASE RECORDS ACCOUNT

RENTAL PERIOD

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REEVES	TEXAS	859-737	08/16/10	12	08/16/11	08/16/12

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PAY EXACTLY \$46.67

PAY TO THE
ORDER OF

STATE OF TEXAS
COMMISSIONER OF THE GENERAL LAND OFFICE
1700 NORTH CONGRESS AVENUE
STEPHEN F AUSTIN BUILDING
AUSTIN, TX 78701-1495

File No. 111889

Delay Reorg/Assignment

Date Filed: 12/29/11 6-12-11

Jerry E. Patterson, Commissioner

By GH

6.15.11

PAYMENT IS MADE UNDER INSTRUMENT DESCRIBED BELOW, PLEASE DEPOSIT AMOUNT OF CHECK TO THE CREDIT OF PARTY OR PARTIES NAMED.
DATE, SIGN AND RETURN THIS RECEIPT ON THE DAY YOU RECEIVE IT.
THIS PAYMENT IS MADE IN A MANNER TO CONFORM TO THE TERMS OF THE INSTRUMENT REFERRED TO WHEREIN YOU ARE NAMED DEPOSITORY.

WHEN SIGNED, PLEASE MAIL TO:

ENERGEN RESOURCES CORPORATION
605 Richard Arrington Blvd North
Birmingham, Alabama 35203-2707
Telephone (205) 326-8139

**RENTAL RECEIPT/
SHUT IN RECEIPT**

Wells Fargo
BIRMINGHAM, ALABAMA

Page 1 of 1

DATE **05/01/2012**

NO. **32996**

LEASE RECORDS ACCOUNT

RENTAL PERIOD

COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
REEVES	TEXAS	859-776	06/09/10	12	06/09/12	06/09/13

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
TX430339-02R	J R MEEKER TRUST ST OF TX	\$93.33

PAY TO THE
ORDER OF

STATE OF TEXAS
COMMISSIONER OF THE GENERAL LAND OFFICE
1700 NORTH CONGRESS AVENUE
STEPHEN F AUSTIN BUILDING
AUSTIN, TX 78701-1495

RECEIVED ON **MAY 11 2012** 20_____
THE AMOUNT SHOWN ABOVE

RENTAL PAYMENT
NAME OF BANK, CORPORATION OR INDIVIDUAL

BY _____

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED
WHICH IS IN FULL SETTLEMENT OF RENTAL/SHUT-IN DUE PARTY
NAMED COVERING OUR INTEREST IN OIL AND GAS
LEASE DESCRIBED HEREIN.

PAYEE WILL PLEASE DATE, SIGN AND RETURN THIS RECEIPT
BY NEXT MAIL. OFFICERS SIGNING FOR CORPORATIONS WILL
PLEASE GIVE FULL NAME AND TITLE.

TO BE CREDITED TO

RENTAL AMOUNT

BANK

ENERGEN RESOURCES CO** DELAY RENTALS **

STATE OF TEXAS
COMMISSIONER OF THE GENERAL LAND OFFICE
1700 NORTH CONGRESS AVENUE
STEPHEN F AUSTIN BUILDING
AUSTIN, TEXAS 78701-1495

TRACT
52578

T&PRR A-2443 55 T5S 34

X \$93.33

mf-111889-A

(P)

21115

PLEASE DETACH THIS PORTION BEFORE DEPOSITING THIS CHECK

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TO BE CREDITED TO RENTAL AMOUNT BANK

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\$93.33

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ENERGEN RESOURCES CORPORATION

605 Richard Arrington Blvd North
Birmingham, Alabama 35203-2707
Telephone (205) 326-8139

Wells Fargo
BIRMINGHAM, ALABAMA

61-8
620

No. **32996**

DATE: **05/01/2012**

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PAY EXACTLY **\$93.33**

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1700 NORTH CONGRESS AVENUE
STEPHEN F AUSTIN BUILDING
AUSTIN, TX 78701-1495

10.

MF 111889

File No.

Lease A 3rd yr

rental

Date Filed:

5-11-12

Jerry E. Patterson, Commissioner

By

[Signature]

2012

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RENTAL RECEIPT/
SHUT IN RECEIPT

Wells Fargo
BIRMINGHAM, ALABAMA

Page 1 of 1

DATE 07/05/2012

NO. 33065

LEASE RECORDS ACCOUNT

RENTAL PERIOD

COUNTY	STATE	RECORDED-BOOK PAGE	DATE OF LEASE	MONTHS	FROM	TO
REEVES	TEXAS	859-737	08/16/10	12	08/16/12	08/16/13

LEASE NUMBER	ORIGINAL LESSOR IDENTIFICATION OR LEASE SERIAL NUMBER	PAY EXACTLY
TX430339-01R	AWP 1983 TRUST ST OF TX	\$46.67

PAY TO THE
ORDER OF

STATE OF TEXAS

COMMISSIONER OF THE GENERAL LAND OFFICE
1700 NORTH CONGRESS AVENUE
STEPHEN F AUSTIN BUILDING
AUSTIN, TX 78701-1495

RECEIVED ON JUL 17 2012 20
THE AMOUNT SHOWN ABOVE

NAME OF BANK, CORPORATION OR INDIVIDUAL

BY RENTAL PAYMENT

RECEIPT IS HEREBY ACKNOWLEDGED OF THE AMOUNT STATED
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TO BE CREDITED TO

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BANK

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STATE OF TEXAS
COMMISSIONER OF THE GENERAL LAND OFFICE
1700 NORTH CONGRESS AVENUE
STEPHEN F AUSTIN BUILDING
AUSTIN, TEXAS 78701-1495

TRACT
52578

T&PRR A-2443 55 T5S 34

State of Texas of Lease Number MF-111889-C

\$46.67

3rd yr Rental

(P)
GA

21.11.11

PLEASE DETACH THIS PORTION BEFORE DEPOSITING THIS CHECK



July 14, 2012

State of Texas
Commissioner of the General Land Office
1700 North Congress Avenue
Stephen F Austin Building
Austin, TX 78701-1495

RE: Rental Payment

Please find enclosed the rental payments due under the terms of the oil and gas leases identified below for the month of August, 2012.

<u>Check No</u>	<u>File No.</u>	<u>Lessor</u>	<u>Due Date</u>
33053	TX430332-01R	E Hayes Sieber MF 111892A	08-03-12
33055	TX430333-01R	AWP 1983 TRUST MF 111891-C	08-16-12
33057	TX430333-03R	Meeker Investments MF 111891-B	08-16-12
33059	TX430334-01R	Caryn Bains MF 111890-A	08-03-12
33061	TX430334-02R	J Robert McGehee	08-03-12
33063	TX430334-03R	Lynn M Stewart MF 111890-C	08-03-12
33065	TX430339-01R	AWP 1983 TRUST MF 111889-C	08-16-12

To confirm for our files that you have received the above mentioned payment(s) please fill in the RECEIVED ON date of the check copy and return it to Energen Resources Corporation in the enclosed return envelope.

Thank you for your consideration in this matter.

Yours truly,

Energen Resources Corporation

Billie E. Lopez, CPLTA
Lease Analyst IV

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Telephone (205) 326-8139

**RENTAL RECEIPT/
SHUT IN RECEIPT**

Wells Fargo
BIRMINGHAM, ALABAMA

Page 1 of 1

DATE **07/05/2012**

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AUSTIN, TX 78701-1495

RECEIVED ON _____ 20____
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TO BE CREDITED TO

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AUSTIN, TEXAS 78701-1495
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T&PRR A-2443 55 T5S 34

\$46.67

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ENERGEN RESOURCES CORPORATION

605 Richard Arrington Blvd North
Birmingham, Alabama 35203-2707
Telephone (205) 326-8139

Wells Fargo
BIRMINGHAM, ALABAMA

61-8
620

No. **33065**

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STEPHEN F AUSTIN BUILDING
AUSTIN, TX 78701-1495

6.17.12

211

File No. MF 111889
Delay Rental C
Date Filed: 7/17/12
By Jerry E. Patterson, Commissioner
GP

File No. 111889
Delay Rental C
Date Filed: 7/17/12
By Jerry E. Patterson, Commissioner
G-14

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

The State of Texas



Austin, Texas

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 9th day of June, 2010, between the State of Texas, acting by and through its agent, Julian Wade Meeker and Lawrence Hill Meeker, Co-Trustees under the will of J.R. Meeker for the lifetime benefit of L.H. Meeker

of 108 West 8th St. Suite 601, Fort Worth, TX 76102

(Give Permanent Address)

said agent herein referred to as the owner of the soil (whether one or more), and Elephant-Arabella Operating, LLC

of 3523 McKinney Ave., Suite 601, Dallas, TX 75204

(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 Reeves County, State of Texas, to-wit:

280 acres, more or less, being the North 280 acres of Section 34, Block 55, Township 5, T&P RR Co., Reeves County, Texas.

**See attached Addendum for further lease provisions.

containing 280 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Thirty Seven Thousand Three Hundred Thirty Two and 00/100

Dollars (\$37,332.00)

To the owner of the soil: Thirty Seven Thousand Three Hundred Thirty Two and 00/100

Dollars (\$37,332.00)

Total bonus consideration: Seventy Four Thousand Six Hundred Sixty Four and 00/100

Dollars (\$74,664.00)

The total bonus consideration paid represents a bonus of Eight Hundred and 00/100

Dollars (\$800) per acre, on 93.333 net acres.

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



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

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

_____ Bank, at _____ 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: One and 00/100 Per Acre
Dollars (\$1.00 Per Acre _____)
To the State of Texas: One and 00/100 Per Acre
Dollars (\$1.00 Per Acre _____)
Total Delay Rental: Two and 00/100 Per Acre
Dollars (\$2.00 Per Acre _____)

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

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

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

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

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

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

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



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

11410

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 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



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

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

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

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

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

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

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



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

(C) **IDENTIFICATION AND FILING.** The surface acreage retained hereunder as to each well shall, as nearly as practical, be in the form of a square with the well located in the center thereof, or such other shape as may be approved by the Commissioner of the General Land Office. Within thirty (30) days after partial termination of this lease as provided herein, Lessee shall execute and record a release or 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.



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

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

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

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



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

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

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

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



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

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

LESSEE

BY: *James H. Hovag*

Title: Managing Member of Elephant-Arabella Operating, LLC

Date: 8/16/2010

STATE OF TEXAS

BY: *Sullivan Wade Meeker*
Individually and as agent for the State of Texas

Date: 10/28/10

Sullivan Wade Meeker, Co-Trustee under the will of J.R. Meeker for the lifetime benefit of L.H. Meeker

STATE OF TEXAS

BY: _____
Individually and as agent for the State of Texas

Date: _____

STATE OF TEXAS

BY: *Lawrence Hill Meeker*
Individually and as agent for the State of Texas

Date: 10/25/10

Lawrence Hill Meeker, Co-Trustee under the will of J.R. Meeker for the lifetime benefit of L.H. Meeker

STATE OF TEXAS

BY: _____
Individually and as agent for the State of Texas

Date: _____



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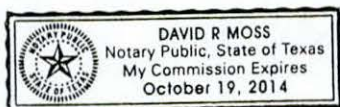
STATE OF Texas

(CORPORATION ACKNOWLEDGMENT)

COUNTY OF Tarrant

BEFORE ME, the undersigned authority, on this day personally appeared L.H. Meeker,
known to me to be the person whose name is subscribed to the foregoing instruments as Co-Trustee
of the will of J.R. Meeker for the Lifetime benefit of L.H. Meeker 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 20th day of October, 2010.



David R. Moss
Notary Public in and for Tarrant County

STATE OF Texas

(CORPORATION ACKNOWLEDGMENT)

COUNTY OF Tarrant

BEFORE ME, the undersigned authority, on this day personally appeared Julian Wade Meeker
known to me to be the person whose name is subscribed to the foregoing instruments as Co-Trustee
of the will of J.R. Meeker for the Lifetime benefit of L.H. Meeker 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 28th day of October, 2010.



Jennifer Lynn Miller
Notary Public in and for Tarrant County

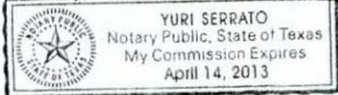
STATE OF TEXAS

(INDIVIDUAL ACKNOWLEDGMENT)

COUNTY OF TARRANT

BEFORE ME, the undersigned authority, on this day personally appeared Jason Haegege, as Managing
Member of Elephant-Arabia Operating, LLC
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 28th day of October, 2010.



Yuri Serrato
Notary Public in and for _____

STATE OF _____

(INDIVIDUAL ACKNOWLEDGMENT)

COUNTY OF _____

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

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

Notary Public in and for _____

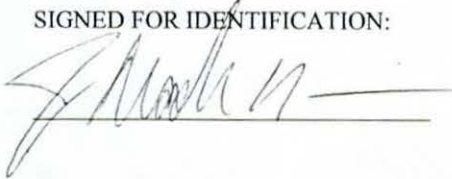


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ADDENDUM TO LEASE

16. Lessee shall notify Surface Tenant, if any, before entering the leased premises for any reason, and Lessee shall keep all gates closed if they are found closed, and open if they are found open.
17. Lessee is granted the right to use existing roads on the leased premises for ingress and egress, and agrees to maintain, restore and keep roads in usable condition so long as this lease is in force and effect.
18. Lessee shall notify Lessor a minimum of 24 hours before cutting any new road, if necessary, into or on the leased premises.
19. Lessee shall install and maintain cattle guards at every fence crossing, said cattle guards to remain upon premises as Lessor's property at the expiration of this lease.
20. It is further understood and agreed that Lessee will bury and maintain all pipelines and electrical transmission lines 24 inches below the surface.
21. Lessee may use no more of the surface of the leased premises than is reasonably necessary to use for the purposes of which this lease is granted, and it shall exercise all rights granted to it herein with due regard for the rights of the owners of the surface.
22. It is further agreed that Lessee, its successors and assigns, shall not erect any buildings or houses on the leased premises and that only those structures which are reasonably necessary for production facilities or tank batteries shall be erected on the surface of the leased premises.
23. Lessee agrees to settle damages with Lessor for all surface operations prior to Beginning any operations on the surface of this lease.
24. Notwithstanding any other provisions of this lease to the contrary, it is expressly understood and agreed that Lessee will not pollute any water aquifers or fresh water in, upon or under the leased premises, and Lessee agrees to notify in writing if fresh water is encountered during drilling or if a fresh water formation is penetrated.
25. Lessee further agrees to maintain all drill sites and other portions of the surface used or occupied by Lessee, its successors or assigns, free and clear of weeds and noxious vegetation and will maintain the same in reasonable manner to prevent additional damage to Lessor's other land and crops.
26. Lessee shall build and maintain fences around its slush, sump and drainage pits and tank batteries to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level off all slush pits and cellars and completely clean up the drill site of all rubbish thereon.
27. It is understood and agreed that, notwithstanding the foregoing, Lessee shall have a period of 180 days from and after the termination of this lease to remove casing and fixtures from the premises, and in the event Lessee fails to remove such property, casing and/or fixtures within 180 days, the ownership of same shall vest in Lessor, its heirs and assigns, upon the expiration of 180 days from and after the date of termination of this lease. Lessor may require the removal of said equipment.
28. Lessee further agrees that in the event of a dry hole or production from a well which production ceases and the abandonment of such well, or upon the abandonment of any well location, drill site, tank battery site or roadway, the premises will be restored as nearly as reasonably possible to its former condition at the cost and expense of the Lessee, it being the intention of the parties hereto that the Lessee shall restore the surface to as nearly the state that it is in at the time of execution of this lease. In addition, Lessee agrees to restore the surface, whether coastal or native grasses, back to its original condition and agrees to re-sprig or re-seed, accordingly.

SIGNED FOR IDENTIFICATION:





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FILE # 4622

FILED FOR RECORD ON THE 3RD DAY OF DECEMBER A.D. 2010 4:29 P.M.

DULY RECORDED ON THE 10TH DAY OF DECEMBER A.D. 2010 9:00 A.M.

BY:  DEPUTY

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

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

11410

12

File No. 111889

Lease A

Date Filed: 3/14/11

Jerry E. Patterson, Commissioner

By CH

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

The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL 859, PAGE 776, THRU 785 OFFICIAL PUBLIC

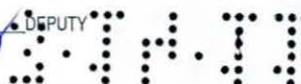
RECORD

I hereby certified on 03/10/11



DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

BY Norma Chavez DEPUTY
NORMA CHAVEZ



MF 111889 B

BOOK 859 PAGE 746

B

FILE # 4619

TERMINATION

DATE : 8/16/11

LEASING GLOBASE (644)

MAPS _____

GIS _____

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

The State of Texas



Austin, Texas

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 16th day of August, 2010, between the State of Texas, acting by and through its agent, Meeker Investments, Inc.

of 1014 Broadway, Ste. A, El Cajon, CA 92021

(Give Permanent Address)

said agent herein referred to as the owner of the soil (whether one or more), and Elephant-Arabella Operating, LLC

of 3523 McKinney Ave., Suite 601, Dallas, TX 75204

(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 Reeves County, State of Texas, to-wit:

280 acres, more or less, being the North 280 acres of Section 34, Block 55, Township 5, T&P RR Co., Reeves County, Texas.

** See attached Addendum for further lease provisions.*

containing 280 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Thirty Seven Thousand Three Hundred Thirty Three and 20/100

Dollars (\$37,333.20)

To the owner of the soil: Thirty Seven Thousand Three Hundred Thirty Three and 20/100

Dollars (\$37,333.20)

Total bonus consideration: Seventy Four Thousand Six Hundred Sixty Six and 40/100

Dollars (\$74,666.40)

The total bonus consideration paid represents a bonus of Eight Hundred and 00/100

Dollars (\$800) per acre, on 93.333 net acres.

2. **TERM.** Subject to the other provisions in this lease, this lease shall be for a term of Three 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.



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

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

To the owner of the soil: One and 00/100 Per Acre
Dollars (\$1.00 Per Acre _____)
To the State of Texas: One and 00/100 Per Acre
Dollars (\$1.00 Per Acre _____)
Total Delay Rental: Two and 00/100 Per Acre
Dollars (\$2.00 Per Acre _____)

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.



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

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

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

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

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



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

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

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

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

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

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

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



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

(C) **IDENTIFICATION AND FILING.** The surface acreage retained hereunder as to each well shall, as nearly as practical, be in the form of a square with the well located in the center thereof, or such other shape as may be approved by the Commissioner of the General Land Office. Within thirty (30) days after partial termination of this lease as provided herein, Lessee shall execute and record a release or 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.



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

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

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

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



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

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

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

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



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

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

LESSEE

BY: *Loren Kinsinger*

Title: Managing Member of Elephant-Arabella

Date: 8/19/2010

Operating, LLC

STATE OF TEXAS

BY: *Walter L. Bolt*

Individually and as agent for the State of Texas

Date: 9/28/10

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: _____



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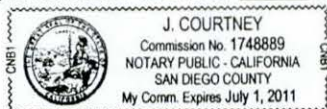
77410

STATE OF California
COUNTY OF San Diego

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Robert W. DeBolt
known to me to be the person whose name is subscribed to the foregoing instruments as Robert W. DeBolt, President
of Decker Investments 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 28th day of September, 2010



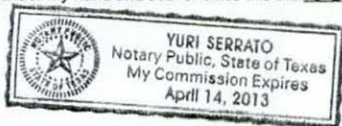
Notary Public in and for Calif

STATE OF TEXAS
COUNTY OF TARRANT

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Jason Hiseager
known to me to be the person whose name is subscribed to the foregoing instruments as Managing Member
of Elephant-Avalon Operating, LLC 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 28th day of October, 2010



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 _____

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 _____



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ADDENDUM TO LEASE

Attached to and made a part of that certain Oil and Gas Lease dated 8-16, 2010 by and between the STATE OF TEXAS, acting by and through its agent, Meeker Investments, Owner of the Soil, and _____, Lessee.

Notwithstanding any provisions of this Lease to the contrary, it is expressly understood and agreed by and between the parties that:

16. Lessee shall notify Surface Tenant, if any, before entering the leased premises for any reason, and Lessee shall keep all gates closed if they are found closed, and open if they are found open.
17. Lessee is granted the right to use existing roads on the leased premises for ingress and egress, and agrees to maintain, restore and keep roads in usable condition so long as this lease is in force and effect.
18. Lessee shall notify Lessor a minimum of 24 hours before cutting any new road, if necessary, into or on the leased premises.
19. Lessee shall install and maintain cattle guards at every fence crossing, said cattle guards to remain upon premises as Lessor's property at the expiration of this lease.
20. It is further understood and agreed that Lessee will bury and maintain all pipelines and electrical transmission lines 24 inches below the surface.
21. Lessee may use no more of the surface of the leased premises than is reasonably necessary to use for the purposes of which this lease is granted, and it shall exercise all rights granted to it herein with due regard for the rights of the owners of the surface.
22. It is further agreed that Lessee, its successors and assigns, shall not erect any buildings or houses on the leased premises and that only those structures which are reasonably necessary for production facilities or tank batteries shall be erected on the surface of the leased premises.
23. Lessee agrees to settle damages with Lessor for all surface operations prior to beginning any operations on the surface of this lease.
24. Notwithstanding any other provisions of this lease to the contrary, it is expressly understood and agreed that Lessee will not pollute any water aquifers or fresh water in, upon or under the leased premises, and Lessee agrees to notify in writing if fresh water is encountered during drilling or if a fresh water formation is penetrated.
25. Lessee further agrees to maintain all drill sites and other portions of the surface used or occupied by Lessee, its successors or assigns, free and clear of weeds and noxious vegetation and will maintain the same in reasonable manner to prevent additional damage to Lessor's other land and crops.
26. Lessee shall build and maintain fences around its slush, sump and drainage pits and tank batteries to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level off all slush pits and cellars and completely clean up the drill site of all rubbish thereon.
27. It is understood and agreed that, notwithstanding the foregoing, Lessee shall have a period of 180 days from and after the termination of this lease to remove casing and fixtures from the premises, and in the event Lessee fails to remove such property, casing and/or fixtures within 180 days, the ownership of same shall vest in Lessor, its heirs and assigns, upon the expiration of 180 days from and after the date of termination of this lease. Lessor may require the removal of said equipment.
28. Lessee further agrees that in the event of a dry hole or production from a well which production ceases and the abandonment of such well, or upon the abandonment of any well location, drill site, tank battery site or roadway, the premises will be restored as nearly as reasonably possible to its former condition at the cost and expense of the Lessee, it being the intention of the parties hereto that the Lessee shall restore the surface to as nearly the state that it is in at the time of execution of this lease. In addition, Lessee agrees to restore the surface, whether coastal or native grasses, back to its original condition and agrees to re-sprig or re-seed, accordingly.

SIGNED FOR IDENTIFICATION:

Meeker Investments Inc.
By R. W. DeBalt, President



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

FILE # 4619

FILED FOR RECORD ON THE 3RD DAY OF DECEMBER A.D. 2010 4:29 P M.

DULY RECORDED ON THE 10TH DAY OF DECEMBER A.D. 2010 9:00 A M.

BY *[Signature]* DEPUTY

DIANNE O. FLOREZ, COUNTY CLERK
 REEVES COUNTY, TEXAS

File No. 111889Lease BDate Filed: 3/14/11

Jerry E. Patterson, Commissioner

By elt

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

The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL. 859, PAGE 746, THRU 755 **OFFICIAL PUBLIC**

RECORD

I hereby certified on 03/10/11

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

BY Norma Chavez DEPUTY
NORMA CHAVEZ

31411

FILE # 4618

C

General Land Office
Relinquishment Act Lease Form
Revised, September 1997

The State of Texas



Austin, Texas

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 16th day of August, 2010, between the State of Texas, acting by and through its agent, Windi Grimes, as sole Trustee of the AWP 1983 Trust

of 3310 W. Main St., Houston, TX 77098

(Give Permanent Address)

said agent herein referred to as the owner of the soil (whether one or more), and Elephant-Arabella Operating, LLC

of 3523 McKinney Ave., Suite 601, Dallas, TX 75204

(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 Reeves County, State of Texas, to-wit:

280 acres, more or less, being the North 280 acres of Section 34, Block 55, Township 5, T&P RR Co., Reeves County, Texas.

containing 280 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Eighteen Thousand Six Hundred Sixty Six and 00/100

Dollars (\$18,666.00)

To the owner of the soil: Eighteen Thousand Six Hundred Sixty Six and 00/100

Dollars (\$18,666.00)

Total bonus consideration: Thirty Seven Thousand Three Hundred Thirty Two and 00/100

Dollars (\$37,332.00)

The total bonus consideration paid represents a bonus of Eight Hundred and 00/100

Dollars (\$800) per acre, on 46.665 net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of Three 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.



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

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

To the owner of the soil: One and 00/100 Per Acre
Dollars (\$1.00 Per Acre _____)
To the State of Texas: One and 00/100 Per Acre
Dollars (\$1.00 Per Acre _____)
Total Delay Rental: Two and 00/100 Per Acre
Dollars (\$2.00 Per Acre _____)

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.



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

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

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

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

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



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

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

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

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

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

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

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



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

(C) **IDENTIFICATION AND FILING.** The surface acreage retained hereunder as to each well shall, as nearly as practical, be in the form of a square with the well located in the center thereof, or such other shape as may be approved by the Commissioner of the General Land Office. Within thirty (30) days after partial termination of this lease as provided herein, Lessee shall execute and record a release or 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.



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

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

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

(B) ASSIGNMENT LIMITATION. Notwithstanding any provision in Paragraph 27(a), if the owner of the soil acquires this lease in whole or in part by assignment without the prior written approval of the Commissioner of the General Land Office, this lease is void as of the time of assignment and the agency power of the owner may be forfeited by the Commissioner. An assignment will be treated as if it were made to the owner of the soil if the 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 authorities, or knowingly fail or refuse to furnish the General Land Office a correct log of any well, or if Lessee shall knowingly violate any of the material provisions of this lease, or if this lease is assigned and the assignment is not filed in the General Land Office as required by law, the rights acquired under this lease shall be subject to forfeiture by the



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

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

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

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

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

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



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

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

LESSEE

BY: Asen Heising

Title: Managing Member of Elephant-Avabele Operating, LLC

Date: 8/16/2010

STATE OF TEXAS.

BY: Wind - Surines

Individually and as agent for the State of Texas

Date: 8-16-10

as Sole Trustee of the AWP1983 Trust

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: _____



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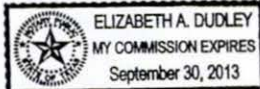
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STATE OF Texas
COUNTY OF HARRIS

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Windi Grimes
known to me to be the person whose name is subscribed to the foregoing instruments as Sole Trustee
of AWP 1983 Trust 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 5th day of October, 20 10



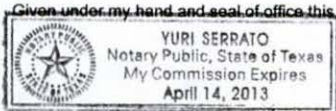
Elizabeth A. Dudley
Notary Public in and for _____

STATE OF TEXAS
COUNTY OF TARRANT

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Jason Heisager
known to me to be the person whose name is subscribed to the foregoing instruments as Managing Member
of Elephant-Arakella Operating, LLC 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 28th day of October, 20 10



Yuri Serrato
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 _____

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 _____

FILE # 4618

FILED FOR RECORD ON THE 3RD DAY OF DECEMBER A.D. 2010 4:29 P M.

DULY RECORDED ON THE 10TH DAY OF DECEMBER A.D. 2010 9:00 A M.

BY: Dianne O. Florez DEPUTY

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

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



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

11410

141

File No. DF 11889
Winters Lease C
Date Filed: 3/14/11
Jerry E. Patterson, Commissioner
By [Signature]

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

The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL. 859, PAGE 737, THRU 745. OFFICIAL PUBLIC



I hereby certified on RECORD 03/10/11
DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS
BY Norma Chavez DEPUTY
NORMA CHAVEZ

31411