



## **CAUTION**

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*Archives and Records Staff*

Barcode  
F293090  
MENARD ENERGY CORP  
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9  
6

# ~~2549~~

65.00 UNIT ACRES  
- 0 - NON-UNIT AC.

STATE LEASE

MF097296

✓ TERMINATED  
Cessation of Production

Date 2-1-10

Leasing CZB

Maps/GIS MC

CONTROL

BASEFILE

COUNTY

01-000767

000

-

BRAZOS

/021

01-000758

000

-

BURLESON

/026

SURVEY : BRAZOS RIVER

BLOCK :

TOWNSHIP : 00

SECTION/TRACT:

PART :

ACRES : 65.00 ✓

DEPTH LIMITS : NO

LESSEE : Menard Energy Corp.

LEASE DATE : Jun 04 1996

PRIMARY TERM : 1 yrs

BONUS (\$) : 16250.00

RENTAL (\$) : 0.00

ROYALTY : 0.25000000

VAR ROYALTY :

Rentals: M.T.

Lease KSA

Admin:

Mineral QA

Maps:

CAS AS

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⑨ Ltr. of Termin Lse	from Crawford 3-23-11
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97296

JUNE 4, 1996  
MINERAL LEASE BID APPLICATION  
Texas General Land Office ED - CA-040(8-93)

APPLICANT AGREEMENT

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

APPLICANT IDENTIFICATION TO APPEAR ON LEASE (type/print)

Name Menard Energy Corp  
Address 5901 Woodward, Suite 350  
City Houston State TX Zip 77057-1501  
(Include +4 Code)  
Telephone (713) 266 9914

AREA DESCRIPTION

County(ies) Brazos-Burleson Survey/Area P. Singleton - Burleson Co. Brazos Co. J. Millican A-41  
Block/Tsp. MGL #7 Section/Tract 2-C (If Applicable) Acres 65  
(If Applicable) 36053670

BID SUBMISSION

(A) Cash Bonus Enclosed (\$) 16,250<sup>00</sup> (type/print amount below)  
Sixteen Thousand Two Hundred & Fifty 00/100  
(B) Sales Fee Attached (\$) 243.75 36053671 (type/print amount below)  
Two Hundred Forty Three & 75/100

This Sales Fee is 1 - 1/2% of the cash bonus as provided in Section 32.110 of the Natural Resources Code as amended.

MGL. NO.

7

APPLICANT (same as above)

Menard Energy Corp

BONUS AMOUNT ONLY (A)

(Do Not include sales fee)

(S) 16,250<sup>00</sup>

APPLICANT TAX ID. #

[REDACTED]

SIGNATURE OF AGENT

(type/print below)

R.S. Shanell

①

M- 97296

BID FORM

File Dated JUN 04 1996

# The State of Texas



Austin, Texas

OIL AND GAS LEASE  
NO. M-97296

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

TRACT 2-C, BRAZOS RIVER, BRAZOS AND BURLESON COUNTIES, TEXAS, CONTAINING APPROXIMATELY 65 ACRES, IS BOUND ON THE EAST BY A LINE WITH A GRID BEARING N29°E AND PASSING THROUGH A POINT HAVING COORDINATES OF X=3,277,210 FEET AND Y=290,720 FEET, AND IS BOUND ON THE WEST BY A LINE BEARING GRID NORTH AND PASSING THROUGH A POINT HAVING COORDINATES OF X=3,273,300 FEET AND Y=293,690 FEET, TEXAS STATE PLANE COORDINATE SYSTEM, SOUTH CENTRAL ZONE, 1927 DATUM, AS SHOWN ON THE OFFICIAL MAP OF BRAZOS AND BURLESON COUNTIES, TEXAS, NOW ON FILE IN THE TEXAS GENERAL LAND OFFICE, AUSTIN, TEXAS,

was, after being duly advertised, offered for lease on the 4th day of June, 1996, at 10:00 o'clock a.m., by the Commissioner of the General Land Office of the State of Texas and the School Land Board of the State of Texas, for the sole and only purpose of prospecting and drilling for, and producing oil and/or gas that may be found and produced from the above described area; and

WHEREAS, after all bids and remittances which were received up to said time have been duly considered by the Commissioner of the General Land Office and the School Land Board at a regular meeting thereof in the General Land Office, on the 4th day of June, 1996, hereinafter the "effective date" and it was found and determined that Menard Energy Corp. whose address is 5701 Woodway, Suite 350, Houston, TX 77057-1501 had offered the highest and best bid for a lease of the area above described and is, therefore, entitled to receive a lease thereon:

NOW, THEREFORE, I, Garry Mauro, Commissioner of the General Land Office of the State of Texas, hereinafter sometimes referred to as "Lessor," whose address is Austin, Texas, by virtue of the authority vested in me and in consideration of the payment by the hereinafter designated Lessee, the sum of Sixteen Thousand Two Hundred Fifty and 00/100 Dollars (\$16,250.00), receipt of which is hereby acknowledged and of the royalties, covenants, stipulations and conditions contained and hereby agreed to be paid, observed and performed by Lessee, do hereby demise, grant, lease and let unto the above mentioned bidder the exclusive right to prospect for, produce and take oil and/or gas from the aforesaid area upon the following terms and conditions, to-wit:

- 1. RESERVATION:** There is hereby excepted and reserved to Lessor the full use of the property covered hereby and all rights with respect to the surface and subsurface thereof for any and all purposes except those granted and to the extent herein granted to Lessee, together with the rights of ingress and egress and use of said lands by Lessor and its mineral lessees, for purposes of exploring for and producing the minerals which are not covered, or which may not be covered in the future, under the terms of this lease, but which may be located within the surface boundaries of the leased area. All of the rights in and to the leased premises retained by Lessor and all of the rights in and to the leased premises granted to Lessee herein shall be exercised in such a manner that neither shall unduly interfere with the operations of the other.
- 2. TERM:** Subject to the other provisions hereof, this lease shall be for a term of one (1) year from the effective date hereof (herein called "primary term") and as long thereafter as oil or gas is produced in paying quantities from said area.
- 3. POOLING:** If this lease is included a pooled unit in accordance with Natural Resources Code Sections 52.151-52.153, all acreage in this lease must be included in the pooled unit.
- 4. PRODUCTION ROYALTIES:** Upon production of oil and/or gas, the Lessee agrees to pay or cause to be paid to the Commissioner of the General Land Office in Austin, Texas, for the use and benefit of the State of Texas, during the term hereof:

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

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

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

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

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

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

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

**(G) PLANT FUEL AND RECYCLED GAS:** No royalty shall be payable on any gas as may represent this lease's proportionate share of any fuel used to process gas produced hereunder in any processing plant. Notwithstanding anything contained herein to the contrary, and subject to the consent in writing of the Commissioner of the General Land Office, Lessee may recycle gas for gas lift purposes on the leased premises after the liquid hydrocarbons contained in the gas have been removed, and no royalties shall be payable on the gas so recycled until such time as the same may thereafter be produced and sold or used by Lessee in such manner as to entitle Lessor to a royalty thereon under the royalty provisions of this lease.

**(H) MINIMUM ROYALTY:** During any year after the expiration of the primary term of this lease, if this lease is maintained by production, the royalties paid to Lessor in no event shall be less than Five Dollars (\$5.00) per acre; 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 Five Dollars (\$5.00) per acre less the amount of royalties paid during the preceding year.

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

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

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

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

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

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

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

**(A) VERTICAL:** In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall then terminate as to all of the leased premises, EXCEPT (1) 40 acres surrounding each oil well capable of producing in paying quantities and 320 acres surrounding each gas well capable of producing in paying quantities (including a shut-in oil or gas well as provided in Paragraph 11 hereof), or a well upon which Lessee is then engaged in continuous drilling or reworking operations, or (2) the number of acres included in a producing pooled unit pursuant to Natural Resources Code Sections 52.151-52.153, or (3) such greater or lesser number of acres as may then be allocated for production purposes to a proration unit for each such producing well under the rules and regulations of the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction. Within 90 days of a partial termination of this lease in accordance with this subparagraph and upon payment of the minimum filing fee set by General Land Office rules in effect at the time of the partial termination, Lessee shall have the right to obtain a surface lease for ingress and egress on and across the terminated portion of the leased premises as may be reasonably necessary for the continued operation of the portions of the lease remaining in force and effect. If Lessee fails to apply for a surface lease within the 90 day period specified above, Lessee may apply for a surface lease from the Land Office, but the Land Commissioner has the discretion to grant or deny such application and to set the fee for such surface lease.

**(B) HORIZONTAL:** In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall further terminate as to all depths below 100 feet below the total depth drilled (hereinafter "deeper depths") in each well located on acreage retained in Paragraph 7 (A) above, unless on or before two (2) years after the primary or extended term Lessee pays an amount equal to one-half (1/2) of the bonus originally paid as consideration for this lease (as specified on page 1 hereof). If such amount is paid, this lease shall be in force and effect as to such deeper depths, and said termination shall be delayed for an additional period of two (2) years and so long thereafter as oil or gas is produced in paying quantities from such deeper depths covered by this lease.

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

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

**9. DRY HOLE/CESSATION OF PRODUCTION DURING PRIMARY TERM:** If, during the primary term a dry hole be completed and abandoned, or the production of oil or gas should cease for any cause, Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term; and if Lessee has not resumed production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking operations pursuant to Paragraph 10, using the expiration of the primary term as the date of cessation of production under Paragraph 10. If at the expiration of the primary term or any time thereafter a shut-in oil or gas well is located on the leased premises payments may be made in accordance with the shut-in provisions hereof.

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

**11. SHUT-IN ROYALTIES:** For purposes of this paragraph, "well" means any well that has been assigned a well number by the state agency having jurisdiction over the production of oil and gas. If at any time after the expiration of the primary term of a lease that, until being shut in, was being maintained in force and effect, a well capable of producing oil or gas in paying quantities is located on the leased premises, but oil or gas is not being produced for lack of suitable production facilities or lack of a suitable market, then Lessee may pay as a shut-in oil or gas royalty an amount equal to Ten Dollars (\$10.00) per acre, but not less than \$1,200 a year for each well capable of producing oil or gas in paying quantities. To be effective, each initial shut-in oil or gas royalty must be paid on or before: (1) the expiration of the primary term, (2) 60 days after the Lessee ceases to produce oil or gas from the leased premises, or (3) 60 days after Lessee completes a drilling or reworking operation in accordance with the lease provisions; whichever date is latest. If the shut-in oil or gas royalty is paid, the lease shall be considered to be a producing lease and the payment shall extend the term of the lease for a period of one year from the end of the primary term, or from the first day of the month following the month in which production ceased, and, after that, if no suitable production facilities or suitable market for the oil or gas exists, Lessee may extend the lease for four more successive periods of one (1) year by paying the same amount each year on or before the expiration of each shut-in year.

**12. COMPENSATORY ROYALTIES:** If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is sold and delivered in paying quantities from a well located within one thousand (1,000) feet of the leased premises and completed in the same producing reservoir, or in any case in which drainage is occurring, the right to continue to maintain the lease by paying the shut-in oil or gas royalty shall cease, but the lease shall remain effective for the remainder of the year for which the royalty has been paid. The Lessee may maintain the lease for four more successive years by Lessee paying compensatory royalty at the royalty rate provided in the lease of the market value of production from the well causing the drainage or which is completed in the same producing reservoir and within one thousand (1,000) feet of the leased premises. The compensatory royalty is to be paid monthly to the Commissioner beginning on or before the last day of the month following the month in which the oil or gas is produced from the well causing the drainage or that is completed in the same producing reservoir and located within one thousand (1,000) feet of the leased premises; if the compensatory royalty paid in any 12-month period is in an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within thirty (30) days from the end of the 12-month period; and none of these provisions will relieve Lessee of the obligation of reasonable development nor the obligation to drill offset wells as provided in N.R.C. Section 52.034; however, at the determination of the Commissioner, and with the Commissioner's written approval, the payment of compensatory royalties shall satisfy the obligation to drill offset wells. Compensatory royalty payments which are not timely paid will accrue penalty and interest in accordance with Paragraph 5 of this lease.

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

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

**15. POLLUTION:** In developing this area, Lessee shall use the highest degree of care and all proper safeguards to prevent pollution. Without limiting the foregoing, pollution of coastal wetlands, natural waterways, rivers and impounded water shall be prevented by the use of containment facilities sufficient to prevent spillage, seepage or ground water contamination. In the event of pollution; Lessee shall use all means at its disposal to recapture all escaped hydrocarbons or other pollutant and shall be responsible for all damage to public and private properties.

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

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

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

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

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

**17. ASSIGNMENTS:** The lease may be transferred at any time. All transfers must reference the lease by the file number and must be recorded in the county where the area is located, and the recorded transfer or a copy certified to by the County Clerk of the county where the transfer is recorded must be filed in the General Land Office within ninety (90) days of the execution date, as provided by N.R.C. Section 52.026, accompanied by the filing fee prescribed by the General Land Office rules in effect on the date of receipt by the General Land Office of such transfer or certified copy thereof. Every transferee shall succeed to all rights and be subject to all obligations, liabilities, and penalties owed to the State by the original lessee or any prior transferee of the lease, including any liabilities to the state for unpaid royalties.

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

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

**20. FORFEITURE:** If Lessee shall fail or refuse to make the payment of any sum within thirty (30) days after it becomes due, or if Lessee or an authorized agent should knowingly make any false return or false report concerning production or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith as required by law and the rules and regulations adopted by the Commissioner of the General Land Office, or if Lessee should fail to file reports in the manner required by law or fail to comply with rules and regulations promulgated by the General Land Office, the School Land Board, or the Railroad Commission, or refuse the proper authority access to the records pertaining to operations, or if Lessee or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or knowingly fail or refuse to furnish the General Land Office a correct log of any well, or if Lessee shall knowingly violate any of the material provisions of this lease, or if this lease is assigned and the assignment is not filed in the General Land Office as required by law, the rights acquired under this lease shall be subject to forfeiture by the Commissioner, and he shall forfeit same when sufficiently informed of the facts which authorize a forfeiture, and when forfeited the area shall again be subject to lease to the highest bidder, under the same regulations controlling the original sale of leases. However, nothing herein shall be construed as waiving the automatic termination of this lease by operation of law or by reason of any special limitation arising hereunder. Forfeitures may be set aside and this lease and all rights thereunder reinstated before the rights of another intervene upon satisfactory evidence to the Commissioner of the General Land Office of future compliance with the provisions of the law and of this lease and the rules and regulations that may be adopted relative hereto.

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

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

**23. REMOVAL OF EQUIPMENT:** Upon the termination of this lease for any cause, Lessee shall not, in any event, be permitted to remove the casing or any part of the equipment from any producing, dry, or abandoned well or wells without the written consent of the Commissioner of the General Land Office or his authorized representative; nor shall Lessee, without the written consent of said Commissioner or his authorized representative remove from the leased premises the casing or any other equipment, material, machinery,

appliances or property owned by Lessee and used by Lessee in the development and production of oil or gas therefrom until all dry or abandoned wells have been plugged and until all slush or refuse pits have been properly filled and all broken or discarded lumber, machinery, or debris shall have been removed from the premises to the satisfaction of the said Commissioner or his authorized representative.

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

**25. RAILROAD COMMISSION HEARINGS ON GAS:** No natural gas or casinghead gas, including both associated and non-associated gas, produced from the mineral estate subject to this lease may be sold or contracted for sale to any person for ultimate use outside the State of Texas unless the Railroad Commission of Texas, after notice and hearing as provided in Title 3 of the N.R.C., finds that (a) the person, agency, or entity that executed the lease in question does not require the natural gas or casinghead gas to meet its own existing needs for fuel; (b) no private or public hospital, nursing home, or other similar health-care facility in this State requires the natural gas or casinghead gas to meet its existing needs for fuel; (c) no public or private school in this State that provides elementary, secondary, or higher education requires the natural gas or casinghead gas to meet its existing needs for fuel; (d) no facility of the State or of any county, municipality, or other political subdivision in this State requires the natural gas or casinghead gas to meet its existing needs for fuel; (e) no producer of food and fiber requires the natural gas or casinghead gas necessary to meet the existing needs of irrigation pumps and other machinery directly related to this production; and (f) no person who resides in this State and who relies on natural gas or casinghead gas to provide in whole or part his existing needs for fuel or raw material requires the natural gas or casinghead gas to meet those needs. However, the Railroad Commission of Texas may grant exceptions to these provisions as set forth in N.R.C. Section 52.296.

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

**27. REDUCTION OF PAYMENTS:** If, during the primary term, a portion of the land covered by this lease is included within the boundaries of a pooled unit that has been approved by the School Land Board in accordance with Natural Resources Code Sections 52.151-52.153, or if, at any time after the expiration of the primary term or the extended term, this lease covers a lesser number of acres than the total amount described herein, payments that are made on a per acre basis hereunder shall be reduced according to the number of acres pooled, released, surrendered, or otherwise severed, so that payments determined on a per acre basis under the terms of this lease during the primary term shall be calculated based upon the number of acres outside the boundaries of a pooled unit, or, if after the expiration of the primary term, the number of acres actually retained and covered by this lease.

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

**29. ANTIQUITIES CODE:** In the event that any feature of archeological or historical interest is encountered during the activities authorized by this lease, Lessee will immediately cease activities and will immediately notify the General Land Office and the Texas Historical Commission so that adequate measures may be undertaken to protect or recover such discoveries or findings, as appropriate. Lessee is expressly placed on notice of the National Historical Preservation Act of 1966 (PB-89-66, 80 Statute 915; 16 U.S.C.A. 470). Lessee shall comply with the Antiquities Code of Texas, Chapter 191, Natural Resources Code, as amended.

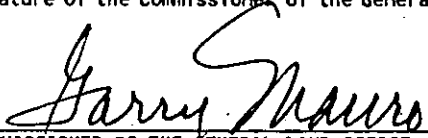
**30. VENUE:** Lessor and lessee, including lessee's successors and assigns, hereby agree that venue for any dispute arising out of a provision of this lease, whether express or implied, regarding interpretation of this lease, or relating in any way to this lease or to applicable case law, statutes,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

**31. LEASE FILING:** Pursuant to Chapter 9 of the Tex. Bus. & Com. Code, this lease must be filed of record in the office of the County Clerk in any county in which all or any part of the leased premises is located, and certified copies thereof must be filed in the General Land Office. The prescribed filing fee shall accompany the certified copies sent to the General Land Office.

32. 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.

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

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

  
\_\_\_\_\_  
COMMISSIONER OF THE GENERAL LAND OFFICE  
OF THE STATE OF TEXAS

APPROVED

Contents KSA  
Legal DL  
DC \_\_\_\_\_  
SD \_\_\_\_\_  
Exec [Signature]

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

(CORPORATION ACKNOWLEDGMENT)

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

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

Given under my hand and seal of office this the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_\_.

\_\_\_\_\_  
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 \_\_\_\_\_, 19\_\_\_\_\_.

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

OIL AND GAS LEASE NO.

97296

JUN 04 1996

DATE

②



August 13, 1996

Mr. R.S. Shanell  
Menard Energy Corp.  
5701 Woodway, Suite 350  
Houston, TX 77057-1501

Dear Mr. Shanell:

Thank you for your participation in the State of Texas Oil and Gas Lease Sale held on June 4, 1996. I am pleased to inform you that you were the high bidder on the marginal number listed below, which has been assigned the corresponding lease number:

MGL NO. 7            M-97296

The lease agreement for this marginal number is enclosed and will serve as your receipt for the amount of your bid. As stated in Sections 31 and 32, this lease form must be signed and acknowledged by the lessee, and then recorded in the County Clerk's office of the county or counties in which lands covered by the lease are located. After signing and recording the lease, please submit a certified copy of the recorded lease to the attention of Kristin Anderson at the Texas General Land Office. These requirements are material provisions of the lease; therefore, please return the certified copy at your earliest convenience.

The lessee's other contractual and statutory responsibilities are outlined in the lease agreement, such as Section 6(B), which requires operators to submit written notice of all drilling, production, and related activities. When lessees file specific forms with the Texas Railroad Commission and the Department of Energy, they are required to submit copies of these forms to the Texas General Land Office. Examples of these forms are:

- W-1, Application to Drill, Deepen, or Plug Back with Plat;
- W-2, Oil Well Potential Test, Completion or Recompletion Report and Log;
- W-3, Plugging Record;
- G-1, Gas Well Back Pressure Test, Completion/Recompletion Report and Log;
- G-5, Gas Well Classification Report;
- G-10, Gas Well Status Report;
- W-10, Oil Well Status Report;
- W-12, Inclination Report;
- Electrical Logs (any scale and within fifteen (15) days after they are made);
- Directional Surveys;

P-12, Certificate of Pooling Authority  
F-1, NGPA Supplemental Application; and  
FERC-121, Application for Determination

When production is secured from this lease, production/royalty reports outlining production/disposition activities (GLO Forms 1,1a,2,2a) are required to be submitted to this office. If you are not familiar with the required forms and procedures, please call the Royalty Management Division of the Land Office at (512) 463-5042 and request the Oil and Gas Reports and Payment Procedures booklet. With respect to any applicable Resource Management Codes, lessees should contact the Texas General Land Office for updates and any additional information prior to drilling. Your cooperation in complying with the reporting requirements outlined above will be greatly appreciated and will contribute to this office's efforts to effectively manage the State of Texas' oil and gas resources.

Please do not hesitate to contact my office at (512) 463-5042 if you need any assistance in the future or if you have questions concerning any state lease that you operate.

Sincerely,

  
Garry Mauro  
Texas Land Commissioner

GM/RH/ka

Enclosures

3

97296

TRANSMITTAL LETTER

File Dated **AUG 13 1996**



**Texas General Land Office**  
Garry Mauro, Commissioner

Stephen F. Austin Building  
1700 North Congress Avenue  
Austin, Texas 78701-1495  
(512) 463-5001

March 17, 1997

David V. De Marco  
Tomcat Exploration, Inc  
3050 Post Oak Blvd, Suite 502  
Houston, Tx 77056-6524

Re: Terrell #4-H Unit  
Brazos County, Texas  
Mineral File No. M-097296

Dear Mr. De Marco,

We have received the division order submitted by your company for the above-referenced lease and added it to our files. Please be sure to reference this mineral file number in all future royalty payments, reports and correspondence concerning the lease.

The payment of royalties to the State of Texas is set by statute. As the execution of the division order may in some cases affect the payments of such royalties, it is not the policy of this office to execute them. Insofar as allowed by law, the Texas General Land Office acquiesces in the sale of oil and gas under the terms and conditions set out in the lease.

If you should have any questions, please feel free to call me at (512) 475-2266.

Sincerely,

*Sabrina Pope*

Sabrina Pope  
Accounts Examiner  
Royalty and Revenue Processing  
Energy Resources

5:41/197

**TOMCAT EXPLORATION, INC.**

3050 Post Oak Blvd., Suite 502  
Houston, Texas 77056 - 6524  
(713) 960-7161  
fax (713) 960-7167

RECEIVED  
97 MAR 14 PM 3:42  
ENERGY RESOURCES



March 11, 1997

RE: Terrell 4-H  
Brazos County, Texas

Dear Interest Owner,

Enclosed herewith is the Division Pay Order and two (2) Division Orders covering the referenced property. The Division Orders are delivered pursuant to Section 91.402 of the Texas Natural Resources code. Please review the information set out on the Division Order and, if acceptable, execute and return one original in the self addressed envelope. In the event there is an error with your name and/or address please make such correction on the division order, execute and return in the self addressed envelope. However, in the event you have any questions or a discrepancy with the interest set on the Division Order, please call me at the above number.

Yours Truly,

David V. De Marco

TOMCAT EXPLORATION, INC.

P.O. Box 684928  
Austin, Texas 78767

OIL AND GAS DIVISION ORDER DATED FEBRUARY 26, 1997

The undersigned severally and not jointly certifies it is the legal owner of the interest set out below of all the Oil, Gas, and related liquid or gaseous hydrocarbons (collectively oil and/or gas) produced from the property described below:

**TYPE OF PRODUCTION:** Oil and Gas  
**EFFECTIVE DATE:** First Date of Production  
**PROPERTY NUMBER:** TX-001  
**WELL NUMBER:** 00101001  
**OPERATOR:** Tomcat Exploration, Inc.  
**PROPERTY NAME:** Terrell #4-H Unit  
**COUNTY, STATE:** Brazos County, Texas

**LEGAL DESCRIPTION:** 533.42 acres, more or less, out of the James Millican Survey, A-41, Brazos County, Texas and the P. Singleton Survey, A-56, Burleson County, Texas being comprised of the following two tracts and being more particularly set out in that certain Designation of Unit dated November 21, 1996, and recorded in Volume 2728 Pages 205 et seq. in the Official Deed Records of Brazos County, Texas.

Lease No.	Lessor	Lessee	Lease Date	Recording Data Book/Page
0101001	State of Texas	Menard Energy	June 4, 1996	2689/75
0102001	William J. Terrell	Menard Energy	Dec. 12, 1995	2514/273
0103001	Mary T. Pederson	Menard Energy	Dec. 12, 1995	2514/273

OWNER/PAYEE	NET INTEREST TYPE	DECIMAL INTERES
Texas General Land Office 1700 N. Congress Ave. Austin, Texas 78701-1495	R	.03046380

\* Net Interest Type Key: (W) Net revenue Interest, ® Royalty Interest, (O) Overriding Royalty Interest

THIS DIVISION ORDER IS DELIVERED PURSUANT TO SECTION 91.402 © OF THE TEXAS NATURAL RESOURCES CODE (CODE), AND DOES NOT AMEND ANY LEASE OR OPERATING AGREEMENT BETWEEN THE UNDERSIGNED AND THE LESSEE OR OPERATOR OR ANY OTHER CONTRACTS FOR THE PURCHASE OF OIL AND/OR GAS. IF ANY OF THE PROVISIONS OF THIS DIVISION ORDER ARE NOT IN COMPLIANCE WITH THE CODE, THEN THE TERMS OF THE CODE WILL BE DEEMED TO REPLACE THOSE DIVISION ORDER TERMS WHERE THE CONFLICT APPLIES.

Tomcat Exploration, Inc. (Tomcat) is hereby authorized to credit such undersigned owners ("owner") all proceeds of production sold by Tomcat from the property described above subject to the following provisions:

- Owner agrees to notify Tomcat in writing of any change in their ownership; and no transfer shall be binding on Tomcat until Tomcat is furnished the recorded instrument evidencing such transfer or a certified copy thereof. Regardless of the effective date of the instrument of conveyance, all transfers shall not be made effective earlier than the first day of the calendar month in which said written notice is received by Tomcat.
- Owner agrees to indemnify and reimburse Payor for payments made to owner hereunder in accordance with the above division of interest if owner does not have merchantable title to the oil and/or gas sold and attributable to owner.
- Payor is authorized to suspend payments accruing to any disputed portion of the interest credited to owner herein in the event any title dispute or adverse claim is asserted regarding title to that interest until resolution of dispute or claim.
- Valuation of and settlement for owner's interest in oil and/or gas production shall be made in accordance with the terms and provisions of the lease or other instrument(s) to which owner's interest is subject. If the lease or other instrument(s) does not address the timing of settlements of oil and gas production to owner, the applicable provisions of section 91.402 (a) of the Texas Natural Resources Code shall control.
- Be advised no moneys will be released for any one owner until the value accrued has reached a minimum of \$100.00 or on the last day of the calendar year.

WITNESS	SIGNATURE OF INTEREST OWNER	ADDRESS
_____	BY: _____	_____
_____	_____	_____

TAX IDENTIFICATION NO. \_\_\_\_\_

Failure of owner to furnish owner's Social Security/Tax I.D. Number will result in 31 percent withholding tax in accordance with federal law. Any tax withheld will not be refunded by payor.

# TERRELL # 4-II UNIT

Brazos County, Texas

## DIVISION PAY ORDER

**DESCRIPTION:** 533.42 acres, more or less, out of the James Millican Survey, A-41, Brazos County, Texas and the P. Singleton Survey, A-56, Burleson County, Texas being comprised of the following two tracts and being more particularly set out in that certain Designation of Unit dated November 21, 1996, and recorded in Volume 2728 Pages 205 et seq. in the Official Deed Records of Brazos County, Texas.

**TRACT I:** 65 acres, more or less, as described in Oil and Gas Lease executed by the State of Texas, as Lessor, to Menard Energy Corp., as Lessee, dated June 4, 1996 and recorded in Volume 2689, Page 75 of the Official Records of Brazos County, Texas, and in Volume 254, Page 735, Oil and Gas Lease Records of Burleson County, Texas.

**TRACT II:** 468.42 acres, more or less, out of the James Millican Survey, A-41, Brazos County, Texas, and being the westernmost 468.42 acres out of that certain 601.59 acre tract which is described in the following two leases.

- (i) That certain lease dated December 12, 1995, but effective January 1, 1996 by and between William J. Terrell et al, as Lessor and Menard Energy Corp., as Lessee, recorded in Volume. 2514, Page 273 et seq. in the Official Deed Records of Brazos County, Texas.
- (ii) That certain lease dated December 12, 1995, but effective January 1, 1996 by and between Mary T. Pederson, as Lessor and Menard Energy Corp., as Lessee, recorded in Volume. 2514, Page 273 et seq. in the Official Deed Records of Brazos County, Texas.

### DEPTH LIMITATION

This unit is limited to the Austin Chalk Formation defined as the stratigraphic interval (or its correlative equivalent) occurring from 11,600 feet to 12,050 feet on the Dual Induction-SFL Compensated Neutron-Formation-Density Schlumberger log of the Dalceo Resources Terrell No. 4 well.

97296

ROYALTY OWNER	MINERAL INTEREST	TRACT I ROYALTY INTEREST	TRACT II ROYALTY INTEREST	UNIT ROYALTY INTEREST
Texas General Land Office Stephen F. Austin Bldg. 1700 N. Congress Ave. Austin, Texas 78701-1495 Attn. Revenue Processing	100%	25.0%	0	3.046380%
William J. Terrell 45 Johnson Navasota, Texas 77868	50.0%	0	10.0%	8.781448%
Mary J. Pederson 915 E. Washington Navasota, Texas 77868	50.0%	0	10.0%	8.781448%
			<b>TOTAL</b>	<b>20.609276%</b>

WORKING INTEREST OWNER	WORKING INTEREST	NET REVENUE INTEREST
Garrison, LTD. 9901 I-H 10 W, Suite 200 San Antonio, Texas 78230	87.5%	65.6250%
Eric Yerkovich 7639 HWY 71 W Austin, Texas 78735	2.5%	1.8750%
Menard Energy Corp. 5701 Woodway, Suite 350 Houston, Texas 77057	10.0%	7.5000%
	<b>TOTAL</b>	<b>75.0000%</b>

OVER-RIDING ROYALTY INTEREST OWNER	OVERRIDING INTEREST
Menard Energy Corp. 5701 Woodway, Suite 350 Houston, Texas 77057	4.390724%
<b>TOTAL</b>	<b>4.390724%</b>

IN-97894  
Division Order  
3-17-97

3 1/2

3 1/2

# 2549

DO NOT DESTROY

GLO-36-10-84

-MEMO-

Operator C. D. CONSULTING

Unit Name ROBERTSON-TERRELL UNIT

County BIG-BOW

Effective Date November 19, 1996

Unitized for: Oil  Gas  Oil & Gas

1. M.F. No. 97296

FIELD GIDDING  
Area AUSTIN CHALK-3) Abst 41  
Tr. 41

Sec. 65.00 Blk. 533.42 Survey Jas MILLICAN

65.00 x 1/4 = 3.05 %

121855 x .25 = .0305

2. M.F. No. \_\_\_\_\_

Area \_\_\_\_\_ Tr. \_\_\_\_\_

Sec. \_\_\_\_\_ Blk. \_\_\_\_\_ Survey \_\_\_\_\_

\_\_\_\_\_ x \_\_\_\_\_ = \_\_\_\_\_ %

3. M.F. No. \_\_\_\_\_

Area \_\_\_\_\_ Tr. \_\_\_\_\_

Sec. \_\_\_\_\_ Blk. \_\_\_\_\_ Survey \_\_\_\_\_

\_\_\_\_\_ x \_\_\_\_\_ = \_\_\_\_\_ %

4. M.F. No. \_\_\_\_\_

Area \_\_\_\_\_ Tr. \_\_\_\_\_

Sec. \_\_\_\_\_ Blk. \_\_\_\_\_ Survey \_\_\_\_\_

\_\_\_\_\_ x \_\_\_\_\_ = \_\_\_\_\_ %

REMARKS:

well 3-1162090 

w/ - from 3-121330

Keyed 6/12/97 M.T.

97296

POOLING COMMITTEE REPORT

TO: SCHOOL LAND BOARD  
 DATE: November 19, 1996  
 OPERATOR: Menard Energy Corporation COUNTY: Brazos & Burleson  
 UNIT NAME: ~~Rederson~~ Terrell Unit FIELD: Giddings  
 (Austin Chalk-3)

STATE LEASE(S) IN UNIT

Lease *Type	State Number	State Royalty	Expiration Date	Term Year	Acres Acres	Acres In Unit	Lessee of Record
SF	M-97296	1/4	6/4/97	1	65	65	Menard Energy Corp.

- \* RAL = Relinquishment Act
- \* SF = State Fee
- \* FR = Free Royalty

PRIVATE ACRES: 468.42  
 STATE ACRES: 65.00  
 TOTAL UNIT ACRES: 533.42

Unitized for: Depth(s): Well Location:  
 Oil \_\_\_\_\_ See Remarks State Land \_\_\_\_\_  
 Gas \_\_\_\_\_ Formation: Private Land   x    
 Both   x   See Remarks

Participation: Railroad Commission Rules:  
 Basis Surface acreage Spacing 680 Acres  
 State Acreage 12.185% Acreage Factor 100%  
 State Unit Royalty 3.05%

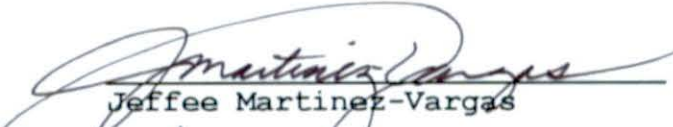
Agree to drill to density of field rules: Yes   x   No \_\_\_\_\_  
 Holds only acreage included in the unit  
 past primary term: Yes   x   No \_\_\_\_\_  
 Satisfactory geological data furnished: Yes   x   No \_\_\_\_\_

REMARKS:

- Menard Energy Corporation is requesting permanent oil and gas pooling of the Austin Chalk Formation defined as the stratigraphic interval or its correlative equivalent occurring from 11,560 feet to 12,300 feet as shown on the Dual Induction log of Daleco Resources #4 Terrell well.
- The applicant spud a horizontal well on October 29, 1996 to test the Austin Chalk Formation. The proposed total depth of the well is approximately 12,300 feet.
- The applicant has included all of the river acreage that was leased. The state's unit royalty participation will be 3.05%. Horizontal severance is provided for in the state lease.
- APPROVAL BY THE SCHOOL LAND BOARD IN NO WAY RATIFIES ANY OF THE STATE LEASES INCLUDED IN THIS PROPOSED UNIT.

POOLING COMMITTEE RECOMMENDATION:

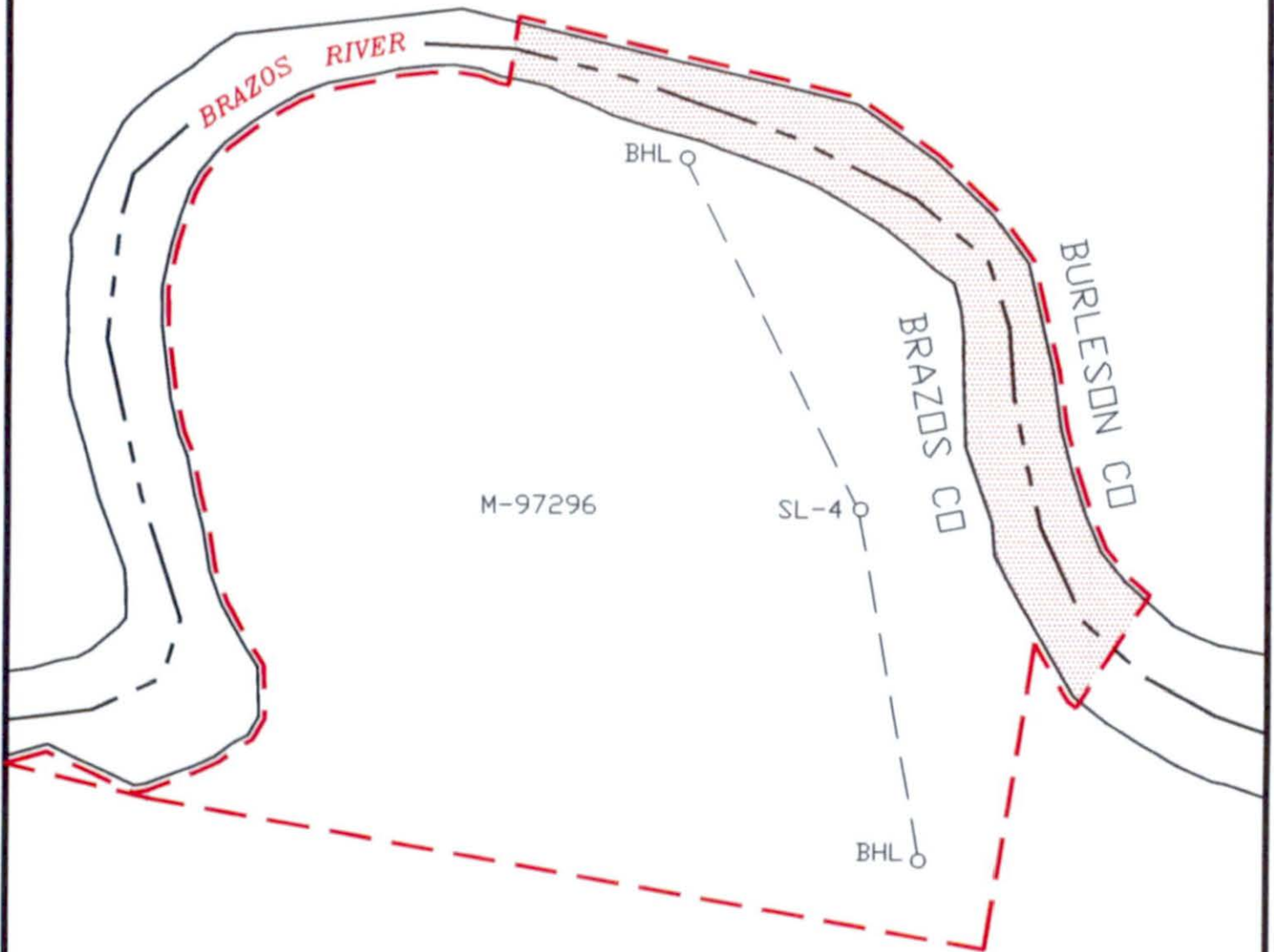
- The Pooling Committee recommends Board approval of a permanent oil and gas unit, under the above stated provisions.

  
\_\_\_\_\_  
Jeffee Martinez-Vargas

  
\_\_\_\_\_  
Al Gonzales

  
\_\_\_\_\_  
Peter A. Boone

PHILLIP SINGLETON A-56



J. MILLICAN A-41

96-78\RH\11-96

MENARD ENERGY CORPORATION  
PEDERSON-TERRELL UNIT  
GIDDINGS (AUSTIN CHALK-3)  
M-97296  
BRAZOS AND BURLESON COUNTY'S

POOLING AGREEMENT  
MENARD ENERGY CORPORATION  
TERRELL #4-H GAS UNIT  
BRAZOS AND BURLESON COUNTIES, TEXAS

THIS AGREEMENT is entered into by and between the Commissioner of the General Land Office, on behalf of the State of Texas, as "Lessor" and Menard Energy Corporation, herein referred to as "Lessee", and such other interested parties as may join in the execution hereof, the undersigned parties herein collectively referred to as the "parties", in consideration of the mutual agreements hereinafter set forth and other valuable considerations, the receipt and sufficiency of which are hereby acknowledged, and for the purposes and upon the terms and conditions which follow:

PURPOSES:

1.

This Pooling Agreement ("Agreement") is made for the purposes of conservation and utilization of the pooled mineral, to prevent waste, to facilitate orderly development and to preserve correlative rights. To such end, it is the purpose of this Agreement to effect equitable participation within the unit formed hereby. This Agreement is intended to be performed pursuant to and in compliance with all applicable statutes, decisions, regulations, rules, orders and directives of any governmental agency having jurisdiction over the production and conservation of the pooled mineral and in its interpretation and application shall, in all things, be subject thereto.

UNIT DESCRIPTION:

2.

The oil and gas leases, which are included within the pooled unit, are listed on the attached Exhibit "A", to which leases and the records thereof reference is here made for all pertinent purposes. The pooled unit shall consist of all of the lands described in Exhibit "B" attached hereto and made a part hereof. A plat of the pooled unit is attached hereto as Exhibit "C".

MINERAL POOLED:

3.

The mineral pooled and unitized ("pooled mineral") hereby shall be oil and gas including all hydrocarbons that may be produced from an oil well or a gas well as such wells are recognized and designated by the Railroad Commission of Texas or other state regulatory agency having jurisdiction of the drilling and production of oil and gas wells. The pooled mineral shall extend to those depths underlying the surface boundaries of the pooled unit in the Austin Chalk Formation defined as the stratigraphic interval or its correlative equivalent occurring from 11,560 feet to 12,300 feet as shown on the Dual Induction log of the Daleco Resources, No. 4 Terrell well ("unitized interval").

POOLING AND EFFECT:

4.

The parties hereto commit all of their interests which are within the unit to the extent and as above described into said unit and unitize and pool hereunder the separate tracts described on the attached Exhibit "B", for and during the term hereof, so that such pooling or unitization shall have the following effect:

- (a) The unit, to the extent as above described, shall be operated as an entirety for the exploration, development and production of the pooled mineral, rather than as separate tracts.
- (b) All drilling operations, reworking or other operations with respect to the pooled mineral on land within the unit shall be considered as though the same were on each separate tract in the unit, regardless of the actual location of the well or wells thereon, for all purposes under the terms of the respective leases or other contracts thereon and this Agreement. In the event the unitized area covered by this Agreement is maintained in force by drilling or reworking operations conducted on a directional well drilled under the unitized area from a surface location on adjacent or adjoining lands not included within the boundaries of the unitized area, such operations shall be considered to have been commenced on the unitized area when drilling is commenced on the adjacent or adjoining land for the purpose of directionally drilling under the unitized area and production of oil or gas from the unitized area through any directional well surfaced on adjacent or adjoining land or drilling or reworking of any such directional well shall be considered production or drilling or reworking operations, as the case may be, on the unitized area for all purposes under this Agreement. Nothing in this Agreement is intended or shall be construed as granting to Lessee any leasehold interest, easements, or other rights in or with respect to any such adjacent or adjoining land in addition to any such leasehold interests, easements, or other rights which the lessee, operator or other interest owner in the unitized area may have lawfully acquired from the state or others.
- (c) Production of the pooled mineral from the unit allocated to each separate tract, respectively, as hereinafter provided, shall be deemed to have been produced from each such separate tract in the unit, regardless of the actual location of the well or wells thereon, for all purposes under the terms of the respective leases or other contracts thereon and this Agreement.
- (d) All rights to the production of the pooled mineral from the unit, including royalties and other payments, shall be determined and governed by the lease or other contract pertaining to each separate tract, respectively, based upon the production so allocated to such tract only, in lieu of the actual production of the pooled mineral therefrom. Provided that, payments that are made on a per acre basis shall be reduced according to the number of acres pooled and included herein, so that payments made on a per acre basis shall be calculated based upon the number of acres actually included within the boundaries of the pooled unit covered by this Agreement.
- (e) A shut-in oil or gas well located upon any land or lease included within said unit shall be considered as a shut-in oil or gas well located upon each land or lease included within said unit; provided, however, that shut-in oil or gas well royalty shall be paid to the State on each State lease wholly or partially within the unit, according to the terms of such lease as though such shut-in oil or gas well were

located on said lease, it being agreed that shut-in royalties provided in each State lease shall not be shared with other royalty owners.

- (f) Notwithstanding any other provision hereof, it is expressly agreed that each State lease may be maintained in force as to areas lying outside the unitized area described in Exhibit "B" only as provided in each such lease without regard to unit operations or unit production. Neither production of the pooled mineral, nor unit operations with respect thereto, nor the payment of shut-in royalties from a unit well, shall serve to hold any State lease in force as to any area outside the unitized area described in Exhibit "B" regardless of whether the production or operations on the unit are actually located on the State lease or not. "Area" as used in this paragraph shall be based upon surface acres to the end that, except as may otherwise be provided in each State Lease, the area inside the surface boundaries of the pooled unit, if held, will be held as to all depths and horizons.
- (g) If the Railroad Commission of Texas (or any other Texas regulatory body having jurisdiction) shall adopt special field rules providing for oil and/or gas proration units of less than 533.42 acres, then Lessee agrees to either (1) drill to the density permitted by the Railroad Commission, (2) make application to the School Land Board of the State of Texas to reform the unit to comply with Railroad Commission unit rules, or (3) make application to the School Land Board of the State of Texas for such remedy as may be agreeable to the Board.
- (h) This Agreement shall not relieve Lessee from the duty of protecting the State leases described in Exhibit "A" and the State lands within the boundaries of the pooled unit described in Exhibit "B" from drainage from any well situated on privately owned land, lying outside the unitized area described in Exhibit "B", but, subject to such obligation, Lessee may produce the allowable for the entire unit as fixed by the Railroad Commission of Texas or other lawful authority, from any one or more wells completed thereon.
- (i) There shall be no obligation to drill internal offsets to any other well on separate tracts within the pooled unit, nor to develop the lands within the boundaries thereof separately, as to the pooled mineral.
- (j) Should this Agreement terminate for any cause, in whole or in part, the leases and other contracts affecting the lands within the unit, if not then otherwise maintained in force and effect, shall remain and may be maintained in force and effect under their respective terms and conditions in the same manner as though there had been production or operations under said lease or contract and the same had ceased on the date of the termination of this Agreement.

ALLOCATION OF PRODUCTION:

5.

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

TAKING ROYALTY IN KIND:

6.

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

FULL MARKET VALUE:

7.

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

- (a) As to royalty on oil by (1) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity for the field where produced and when run, or (2) the highest market price thereof offered or paid for the field where produced and when run, or (3) gross proceeds of the sale thereof, whichever is the greater;
- (b) As to royalty on gas, such value to be based on (1) the highest market price paid or offered for gas of comparable quality for the field where produced and when run, or (2) the gross price paid or offered to the producer, whichever is the greater.

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

EFFECTIVE DATE:

8.

Upon execution by the Commissioner of the General Land Office of the State of Texas this Agreement shall become effective as of November 19, 1996; however, it is agreed that the State will participate in production from the Unit well or wells on a unitized basis from the date the pooled mineral was or is first produced.

TERM:

9.

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

STATE LAND:

10.

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

DISSOLUTION:

11.

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

RATIFICATION/WAIVER:

12.

Nothing in this Agreement, nor the approval of this Agreement by the School Land Board, nor the execution of this Agreement by the Commissioner shall: (1) operate as a ratification or revivor of any State lease that has expired, terminated, or has been released in whole or in part or terminated under the terms of such State lease or the laws applicable thereto; (2) constitute a waiver or release of any claim for money, oil, gas or other hydrocarbons, or other thing due to the State by reason of the existence or failure of such lease; (3) constitute a waiver or release of any claim by the State that such lease is void or voidable for any reason, including, without limitation, violations of the laws of the State with respect to such lease or failure of consideration; (4) constitute a confirmation or recognition of any boundary or acreage of any tract or parcel of land in which the State has or claims an interest; or (5) constitute a ratification of, or a waiver or release of any claim by the State with respect to any violation of a statute, regulation, or any of the common laws of this State, or any breach of any contract, duty, or other obligation owed to the State.

COUNTERPARTS:

13.

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

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

Date Executed

2/19/97

Legal  
Content  
Geology  
Execution



STATE OF TEXAS

By

Garry Mauro  
Garry Mauro, Commissioner  
of the General Land Office

Date Executed

2/18/97

MENARD ENERGY CORPORATION

By  
Its

Raymond S. Stumell  
President

ATTEST:

\_\_\_\_\_

CERTIFICATE

I, Linda K. Fisher, Secretary of the School Land Board of the State of Texas, do hereby certify that at a meeting of the School Land Board duly held on the 19th, day of November, 1996 the foregoing instrument was presented to and approved by said Board under the provisions of Subchapter E, Chapter 52, of the Natural Resources Code, all of which is set forth in the Minutes of the Board of which I am custodian.

IN TESTIMONY WHEREOF, witness my hand this the 28th day of February, 1997.

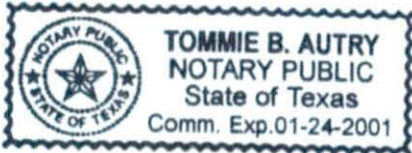
Linda K. Fisher  
Secretary of the School Land Board

STATE OF TEXAS

COUNTY OF HARRIS

This instrument was acknowledged before me on FEB. 18, 1997, by RANDALL S. SHAWELL as PRESIDENT of Menard Energy Corporation, a TEXAS corporation, on behalf of said corporation.

Tommy B. Autry  
Notary Public in and for the  
State of Texas



**EXHIBIT "A"**  
**Attached to and made a part of**  
**Designation of Unit**  
**Terrell #4-H Gas Unit**  
**dated November 21, 1996**

1. Lessor: William J. Terrell and wife, Jane Terrell, William J. Terrell,  
Trustee, Terrell Family L.P.  
Lessee: Menard Energy Corp.  
Dated: December 12, 1995, but effective January 1, 1996  
Recorded: Vol. 2514, Page 273, Official Records, Brazos County,  
Texas
  
2. Lessor: Mary T. Pederson  
Lessee: Menard Energy Corp.  
Dated: December 12, 1995, but effective January 1, 1996  
Recorded: Vol. 2514, Page 267, Official Records, Brazos County,  
Texas.
  
3. Lessor: The State of Texas (Oil & Gas Lease No. M-97296)  
Lessee: Menard Energy Corp.  
Dated: June 4, 1996  
Recorded: Vol. 2689, Page 75, Official Records, Brazos County, Texas, and  
Vol. 254, Page 735, Oil & Gas Lease Records of Burleson County,  
Texas

**EXHIBIT "B"**  
**Attached to and made a part of**  
**Designation of Unit**  
**Terrell #4-H Gas Unit**  
**dated November 21, 1996**

Terrell #4-H Gas Unit  
533.42 acres

Being 533.42 acres, more or less, out of the James Millican Survey, A-41, Brazos County, Texas, and the P. Singleton Survey, A-56, Burleson County, Texas, comprised of two tracts described as follows:

Tract One: 65 acres of land, more or less, as described in Oil and Gas Lease executed by the State of Texas, as Lessor, to Menard Energy Corp., as Lessee, dated June 4, 1996 and recorded in Volume 2689, Page 75 of the Official Records of Brazos County, Texas, and in Volume 254, Page 735, Oil & Gas Lease Records of Burleson County, Texas.

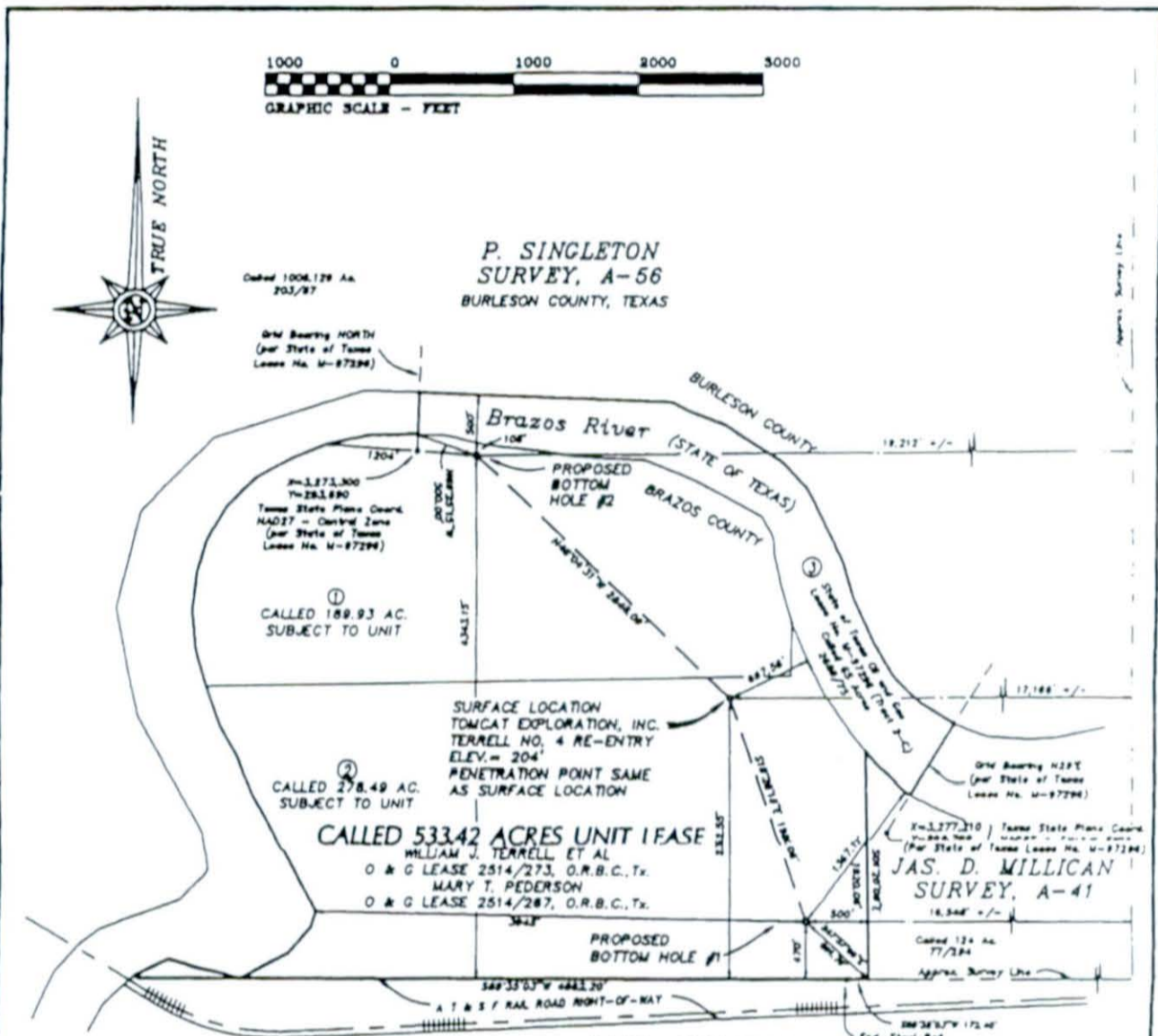
Tract Two: 468.42 acres of land, more or less, out of the James Millican Survey, A-41, Brazos County, Texas, and being the westernmost 468.42 acres out of that certain 601.59 acre tract which is described in leases No. 1 (William J. Terrell, et al) and No. 2 (Mary Pederson) as listed on Exhibit "A" herein, to which reference is hereby made for descriptive purposes.

---

\* DEPTH LIMITATION

This unit is limited to the Austin Chalk Formation defined as the stratographic interval (or its correlative equivalent) occurring from 11,600 feet to 12,050 feet on the Dual Induction - SFL Compensated Neutron-Formation Density Schlumberger log of the Dalceo Resources Terrell No. 4 well.

**EXHIBIT "C"**  
 Attached to and made a part of  
 Designation of Unit  
 Terrell #4-H Gas Unit  
 dated November 21, 1996



Bearings are based on TRUE NORTH obtained by GPS observations.  
 This work furnished by TOMCAT EXPLORATION, INC.  
 Aerials shown herein were furnished by others.

THE STATE OF TEXAS  
 COUNTY OF BRAZOS

I, Donald W. Lampe, Registered Professional Land Surveyor No. 1732 of the State of Texas, do hereby certify that this plot accurately shows the surface location of the TOMCAT EXPLORATION, INC. - TERRELL NO. 4 RE-ENTRY WELL as located on the ground under my direction during the month of November, 1996.

Dated this 29th day of November, 1996. *Donald W. Lampe*  
 Donald W. Lampe  
 R.P.L.S. No. 1732



**DONALD W. LAMPE**  
 REGISTERED PROFESSIONAL  
 LAND SURVEYORS  
 1408 WEST MAIN STREET  
 P. O. BOX 2037  
 BROWNSVILLE, TEXAS 77834  
 (409) 838-8877 • FAX (409) 838-1177  
 H.O. 1818 1818AVCELDWO 1818TDMC.DND

JAS. D. MILLICAN SURVEY, A-41  
 BRAZOS COUNTY, TEXAS  
 TERRELL NO. 4 UNIT surface location is approximately 8.5 miles southwest of Millican, Brazos County, Texas  
 LATITUDE 30° 24' 19" N • LONGITUDE 96° 17' 07" W

M-97296 (4) Pooling Agreement  
FILED: 3-20-97



Texas General Land Office  
Garry Mauro, Commissioner

Stephen F. Austin Building  
1700 North Congress Avenue  
Austin, Texas 78701-1495  
(512) 463-5001

MAY 12, 1997

NORTHRIDGE ENERGY MARKETING CORP.  
ATTN SHARON FOWLER  
16945 NORTHCHASE, SUITE 1200  
HOUSTON, TX 77060-2132

Re: MINERAL FILE MF-97296  
UNIT NO. 2549

Dear Ms. Fowler:

We have received the division order submitted by your company for the above referenced lease and filed same in our files. Please be sure to reference this mineral file number in all future royalty payments, reports and correspondence concerning the lease.

The payment of royalties to the State of Texas is set by statute.

As the execution of the division order may, in some cases, effect the payments of such royalties, it is not the policy of this office to execute them. Insofar as allowed by law, the Texas General Land Office acquiesces in the sale of oil and gas under the terms and conditions set out in the lease.

If you should have any questions, please feel free to call me at (512) 475-1494.

Sincerely,

Joshua Sanchez  
Accounts Examiner  
Royalty Management  
Energy Resources

JS/bh

OIL DIVISION ORDER

5/9/97

NORTHRIDGE ENERGY MARKETING CORP.  
16945 NORTHCHASE, SUITE 1200  
HOUSTON, TX 77060  
Attention: Division Order Department

LSE NO.: TXCD3309  
LSE NAME: TERRELL #4  
OPERATOR: CD CONSULTING

Each of the parties to this Division Order ("Division Order Party" or collectively "Division Order Parties") represents and warrants that he is an owner of oil produced from the land ("Land") described as follows:

GIDDINGS (AUSTIN-CHALK GAS) FIELD  
BRAZOS COUNTY, TEXAS

Commencing at 7:00 a.m. on DECEMBER 1, 1996, and effective until further notice, Northridge Energy Marketing Corp. ("Purchaser") is authorized to receive all oil production from the land, for its own purchase, or for resale, to receive payment therefor, and to credit the proceeds therefrom and pay therefor as follows:

INTEREST OWNER & ADDRESS DIVISION OF INTEREST

SEE EXHIBIT "A"

162090

w/2 FROM  
S-127330

All of the provisions appearing on the reverse side hereof are incorporated in this Division Order by reference and each Division Order Party agrees that each such provision constitutes an essential part of this Division Order in like manner and with the same force and effect as if printed above his signature.

WITNESS / ATTEST: \_\_\_\_\_ OWNER(S): \_\_\_\_\_ SOCIAL SECURITY or TAX IDENTIFICATION # \_\_\_\_\_  
X \_\_\_\_\_ By: \_\_\_\_\_ X \_\_\_\_\_  
X \_\_\_\_\_ Date: \_\_\_\_\_

WITNESS / ATTEST: \_\_\_\_\_ OWNER(S): \_\_\_\_\_ SOCIAL SECURITY or TAX IDENTIFICATION # \_\_\_\_\_  
X \_\_\_\_\_ By: \_\_\_\_\_ X \_\_\_\_\_  
X \_\_\_\_\_ Date: \_\_\_\_\_

PAYMENT ADDRESS: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

The following provisions are part of the Division Order on the reverse side hereof, and such provisions shall become valid and binding upon each and every Division Order Party shown on the reverse side hereof upon execution of said Division Order by such Party, and upon his successors, legal representatives and assigns, without regard to whether or not any other Division Order Party or Parties have so executed.

1. Oil received and purchased under this Division Order shall become the property of Purchaser at the time of receipt by Purchaser or a designated agent or carrier of Purchaser. The term "oil", as used in this Division Order, shall include all marketable liquid hydrocarbons.
2. Settlement and payment by Purchaser for oil received under this Division Order shall be at the price posted or paid by Purchaser for said oil on the date the oil is received by Purchaser, less any taxes required by law to be deducted and paid by Purchaser. If oil received by Purchaser under this Division Order is sold to another purchaser, settlement and payment shall be on the basis of the net proceeds realized by Purchaser from the sale after deduction of any costs for transportation and treatment of the oil prior to the sale and any taxes required by law to be deducted and paid by Purchaser.
3. Settlement and payment shall be made on a monthly basis by check mailed on or prior to the 20th day of the month following the month for which payment is being made.
4. The quantity and quality of the oil produced under this Division Order shall be determined in accordance with the customs and prevailing practice at the time and place of delivery and subject to rules and regulations prescribed by any governmental authority having jurisdiction in the premises. Purchaser shall not be required to purchase any oil under this Division Order that is not of merchantable quality. For purposes of this Division Order, merchantable quality means oil that is not contaminated by any substances not normally associated with oil and that is suitable for ordinary refinery processing.
5. Satisfactory abstracts or other evidence of title shall be furnished to Purchaser at any time and on demand by Purchaser. Upon failure to furnish such evidence of title, in the event of any claim that, in the reasonable opinion of Purchaser, adversely affects the title of any interest credited under this Division Order, Purchaser shall be entitled to withhold payment for all oil received that pertains to the disputed interest until the claim is settled to the satisfaction of the Purchaser. In the event that any suit is filed with respect to title to any interest subject to this Division Order or the right to receive the proceeds from the sale or disposition of production subject to this Division Order, the affected Division Order Party shall indemnify and hold Purchaser harmless from any and all liability for loss, costs, damages, attorney's fees and any other expenses resulting from the receipt or disposition of the affected Division Order Party's interest or the proceeds attributable to that interest. In the event that Purchaser withholds payment to any Division Order Party pursuant to the provisions of the Division Order, the affected Division Order Party shall indemnify and hold Purchaser harmless from any and all liability for production, severance, gathering excise, sales and any other taxes, including interest and penalties, attributable to the interest of that party.
6. Each owner of a working interest covered by this Division Order warrants that all oil has been produced in accordance with all applicable laws, rules and regulations.
7. Each Division Order Party shall notify Purchaser, in writing, of any change in the ownership interest of that party. A change in the ownership interest of a Division Order Party shall not be effective as to Purchaser until Purchaser has been furnished with satisfactory evidence of the change of ownership and an executed transfer order in a form acceptable to Purchaser in the reasonable exercise of Purchaser's judgment. A transfer of interest shall not be effective as to Purchaser until the first day of the month following the month in which notice of the transfer is received by Purchaser. Purchaser will not be responsible for determining when any of the interest covered by this Division Order reverts to other parties or for any overpayment made prior to the receipt of notice of a reversion of the interest of any Division Order Party.
8. This Division Order shall remain in full force and effect until further notice. A Division Order Party may cancel this Division Order as to the interest of the party by providing 30 days' written notice to Purchaser. In the event that a Division Order Party provides notice to Purchaser of the termination of the Division Order, this Division Order shall terminate as to that Division Order Party on the first day of the first full month following the expiration of the 30 day period. Termination by any Division Order Party or Parties shall not be effective as to the interest of any other Division Order Party.
9. This Division Order may be executed in counterparts, each of which shall be deemed an original for all purposes. This Division Order is binding on each of the Division Order Parties and their heirs, personal representatives, successors and assigns, and is effective as to each executing party without the necessity of execution by all of the parties named above.
10. Wherever the context shall so require, all words in this Division Order in the male gender shall be deemed to include the female or neuter gender.

EXHIBIT "A"

<u>CREDIT TO</u>	<u>INTEREST</u>
1) MARY T. PEDERSON (Owner #105593)	0.08781448 RI
2) TERRELL FAMILY, L.P. (Owner #105592)	0.04390724 RI
3) WILLIAM J. & JANE TERRELL (Owner #105591)	0.04390724 RI
4) TEXAS GENERAL LAND OFFICE (Owner #102912)	0.03046380 RI
5) MENARD ENERGY CORP. (Owner #103441)	0.04390724 OR
6) MENARD ENERGY CORP. (Owner #103441)	0.07500000 WI
7) GARRISON, LTD. (Owner #105589)	0.67500000 WI

M-97296 ⑤  
Division Order  
D-13-97

Texas General  
Land Office



David Dewhurst  
Commissioner

September 14, 1999

GENESIS CRUDE OIL L P  
ATTN: DIVISION ORDER DEPT.  
500 DALLAS SUITE 2500  
HOUSTON TX 77002

Re: Property Name: TERRELL #4  
Mineral File No: M-097296  
Property Number: 40003413

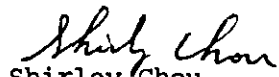
Dear Sir or Madam:

We have received the division order submitted by your company for the above-referenced lease and added it to our files. Please be sure to reference this mineral file number in all future royalty payments, reports and correspondence concerning the lease.

The payment of royalties to the State of Texas is set by statute. As the execution of the division order may in some cases affect the payments of such royalties, it is not the policy of this office to execute them. Insofar as allowed by law, the Texas General Land Office is acquiescent in the sale of oil and gas under the terms and conditions set out in the lease.

If you should have any questions, please feel free to call me at (512) 463-5408.

Sincerely,

  
Shirley Chou  
Accounts Examiner  
Royalty and Revenue Processing  
Energy Resources

Stephen F. Austin Building

1700 North  
Congress Avenue

Austin, Texas  
78701-1495

512-463-5001



August 5, 1999

TO ALL INTEREST OWNERS

Re: D. O. #40003413 – Terrell #4  
Brazos County, Texas

Dear Owner:

We are pleased to advise that effective May 1, 1999, Genesis Crude Oil, L.P. is the designated purchaser of oil sold from the referenced lease and will be making revenue disbursements.

Enclosed are two copies of our division order covering your interest. One copy of the division order should be executed and returned to us in the enclosed envelope. The other copy (stamped "For Your Records - Not To Be Returned") should be kept for your files.

••• The enclosed Form W-9 should also be completed and returned to us along with your signed division order.

••• Also enclosed is an Instruction Sheet. Please review these instructions carefully before signing your division order.

••• Your attention to this matter is appreciated. Please do not hesitate to call the undersigned or Beverly Foley at 860-2561 should there be any questions.

Sincerely,

GENESIS CRUDE OIL, LP

A handwritten signature in cursive script that reads "Kathy L. Warren".

Kathy L. Warren  
Division Order Manager  
(713) 860-2560

Enclosures

99 AUG - 9 PM 7:30  
C.O.Y. RESOURCES

DIVISION ORDER

Lease No. 40003413

To Genesis Crude Oil, L.P.
Gathering Division
500 Dallas Suite 2500
Houston, Texas 77002

DATE AUGUST 05, 1999

MFO 97296

Each of the undersigned severally and not jointly certifies it is the legal owner of the interest set out below of all the produced from the GARRISON LTD - TERRELL #4

property, located in BRAZOS County/Parish, State of TEXAS more particularly described as follows:

TERRELL #4: SEE ATTACHED LEGAL DESCRIPTION

STATE LEASE M-97296

Effective 7 a.m. MAY 01, 1999

and until further written notice, subject to the conditions, covenants and directions hereof, Genesis Crude Oil, L.P. (Payor), its successors and assigns, are authorized to receive and purchase such oil and to give credit to the following:

Table with 4 columns: OWNER NO., LEASE NO., INTEREST, CREDIT TO NAME AND ADDRESS. Row 1: LEASE NO. 40003413, INTEREST FOR DIVISION OF INTEREST SEE EXHIBIT "A" ATTACHED HERETO AND MADE A PART HEREOF.

THIS AGREEMENT DOES NOT AMEND ANY LEASE OR OPERATING AGREEMENT BETWEEN THE INTEREST OWNERS AND THE LESSEE OR OPERATOR OR ANY OTHER CONTRACTS FOR THE PURCHASE OF OIL.

The following provisions apply to each interest owner (Owner) who executes this agreement:

TERMS OF SALE: The undersigned will be paid in accordance with the division of interests set out above. The payor shall pay all parties at the price agreed to by the operator for oil to be sold pursuant to this division order.

PAYMENT: From the effective date, payment is to be made monthly by payor's check, based on this division of interest, for oil run during the preceding calendar month from the property listed above, less taxes required by law to be deducted and remitted by the payor as purchaser.

INDEMNITY: Owner agrees to indemnify and hold payor harmless from all liability resulting from payments made to the owner in accordance with such division of interest, including but not limited to attorney fees or judgments in connection with any suit that affects owner's interest to which payor is made a party.

DISPUTE: WITHHOLDING OF FUNDS: If a suit is filed that affects the interest of owner, written notice shall be given to payor by the owner together with a copy of the complaint or petition filed.

TERMINATION: Termination of the agreement is effective on the first day of the month that begins after the 30th day after the date written notice of termination is received by either party.

NOTICES: Owner agrees to notify payor in writing of any change in the division of interest, including changes of interest contingent on payment of money or expiration of time.

IMPORTANT: NO PAYMENT WILL BE MADE UNTIL GENESIS CRUDE OIL, L.P. HAS YOUR SOCIAL SECURITY/TAX I.D. NUMBER.

WITNESSES: SIGNATURE OF OWNER: OWNER'S SOCIAL SECURITY OR IRS TAX ACCOUNT NUMBER

FOR YOUR RECORDS NOT TO BE RETURNED

Is your signature witnessed?

Is your correct address shown?

Include Zip Code

LEASE NUMBER : 40003413  
LEASE NAME : TERRELL #4  
LOCATION : BRAZOS

TX

OWNER NO.	INTEREST		CREDIT TO		
** 10974	0.03046380	R	THE STATE OF TEXAS COMMISSIONER OF THE GENERAL LAND OFFICE 1700 NORTH CONGRESS AVENUE AUSTIN	TX	78701
B9868	0.85062896	W	GARRISON LTD 9901 IH 10 SUITE 200 SAN ANTONIO	TX	78230
C9098	0.04390724	O	MENARD ENERGY CORP 5701 WOODWAY #350 HOUSTON	TX	77057
C9098	0.07500000	W	MENARD ENERGY CORP 5701 WOODWAY #350 HOUSTON	TX	77057
	1.00000000				



## PROPERTY DESCRIPTION

**TERRELL # 4-H UNIT**

Brazos County, Texas

LEASE NO. 40003413

**DESCRIPTION:** 533.42 acres, more or less, out of the James Millican Survey, A-41, Brazos County, Texas and the P. Singleton Survey, A-56, Burleson County, Texas being comprised of the following two tracts and being more particularly set out in that certain Designation of Unit dated November 21, 1996, and recorded in Volume 2728 Pages 205 et seq. in the Official Deed Records of Brazos County, Texas.

**TRACT I:** 65 acres, more or less, as described in Oil and Gas Lease executed by the State of Texas, as Lessor, to Menard Energy Corp., as Lessee, dated June 4, 1996 and recorded in Volume 2689, Page 75 of the Official Records of Brazos County, Texas, and in Volume 254, Page 735, Oil and Gas Lease Records of Burleson County, Texas.

**TRACT II:** 468.42 acres, more or less, out of the James Millican Survey, A-41, Brazos County, Texas, and being the westernmost 468.42 acres out of that certain 601.59 acre tract which is described in the following two leases.

- (i) That certain lease dated December 12, 1995, but effective January 1, 1996 by and between William J. Terrell et al, as Lessor and Menard Energy Corp., as Lessee, recorded in Volume. 2514, Page 273 et seq. in the Official Deed Records of Brazos County, Texas.
- (ii) That certain lease dated December 12, 1995, but effective January 1, 1996 by and between Mary T. Pederson, as Lessor and Menard Energy Corp., as Lessee, recorded in Volume. 2514, Page 273 et seq. in the Official Deed Records of Brazos County, Texas.

**DEPTH LIMITATION**

This unit is limited to the Austin Chalk Formation defined as the stratigraphic interval (or its correlative equivalent) occurring from 11,600 feet to 12,050 feet on the Dual Induction-SFL Compensated Neutron-Formation Density Schlumberger log of the Dalceo Resources Terrell No. 4 well.

EXHIBIT "A"LEASE DESCRIPTION

## TERRELL #4

Two tracts of land out of the Phillip Singleton League, A-56, Burleson County, Texas, totaling 440.31 acres being a portion of the Oil, Gas and Mineral Lease executed by Jessie B. Moore and the Oil, Gas and Mineral Lease executed by Jack E. Havard as described below.

Tract No. 1: ±373.6 acres out of the Phillip Singleton Survey, Burleson County, Texas described as Tract Two in that certain Warranty Deed from John H. Rizzo, et ux to Jesse B. Moore recorded in Volume 124, Page 614, Deed Records of Burleson County, Texas, to which reference is here made for descriptive purposes;

Tract No. 2: ±66.71 acres out of the Phillip Singleton League, A-56, Burleson County, Texas, being all of that certain 390.5 acre tract described in Royalty Deed dated August 11, 1982 executed by Jesse B. Moore, et al, recorded in Volume 310, Page 276, Deed Records of Burleson County, Texas, ONLY INSOFAR AS said tract covers acreage outside the boundaries of the Seneca Resources Corporation - Jesse Moore 10-1H Unit described in Designation of Unit executed by Seneca Resources Corporation, et al, recorded in Volume 229, Page 698, Oil and Gas Lease Records of Burleson County, Texas.

The above described 440.31 acres is included in Oil, Gas and Mineral Lease dated November 7, 1973 executed by Jesse B. Moore, Lessor to Jack D. Brogdon, Lessee (15/164 OGLR) and Oil, Gas and Mineral Lease dated March 28, 1979 executed by Jack E. Havard, Lessor to Randy Shawell, lessee (25/874 OGLR).



6

M.I. 097296

Correspondence File

To Division Order

From

Dated 8-5-99

4 33

**Texas General  
Land Office**



**David Dewhurst  
Commissioner**

October 20, 2000

**CERTIFIED MAIL**  
70000520002325035765

**ENGROUP RESOURCES L P  
815 WALKER STE 1443  
HOUSTON TX 77002**

**RE: Notice of underpayment on State Lease M-097296**

Dear Sir,

The Royalty Management Division of the Texas General Land Office has completed a limited review of the above referenced lease operated by Engroup Resources L P. Through this review, it was determined that \$642.75 has been underpaid to the State for the reporting periods December 1996 through July 1998. This amount comprises \$297.91 in additional royalty, \$225.00 in penalty and \$119.84 in interest, which has been computed through November 13, 2000, in accordance with Section 52.131 of the Texas Natural Resources Code.

The following documents are attached in support of our findings:

- A brief summary of our review (Attachment I);
- Schedule supporting our royalty, penalty and interest calculations (Attachment II), and;
- Procedures used for assessment of penalties and interest (Attachment III).

To ensure your company remains in good standing with the General Land Office, please respond to this notice within 25 days of the above date. If your records reflect this royalty has been paid, please provide us with documentation of payments made and remittance dates. Payment of this notice should be submitted separately from monthly royalty payments you may be remitting. In order to ensure proper credit, your payment should be mailed to my attention along with a copy of this letter.

Stephen F. Austin Building

1700 North  
Congress Avenue

Austin, Texas  
78701-1495

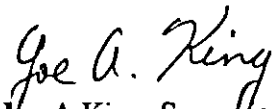
512-463-5001

Engroup Resources L P  
October 20, 2000  
Page 2

This notice in no way precludes the General Land Office from pursuing any claim or remedy related to this royalty payment. Additionally, this notice does not constitute an Audit Billing Notice as defined in Section 52.135 of the Natural Resources Code and, consequently, does not preclude the General Land Office from conducting further examinations of this or other leases operated and/or reported by Engroup Resources L P or from examining these or other issues and time periods in a future inspection of your books, accounts, reports or other records.

If you have any questions, please call Shirley Chou at (512) 463-5408.

Sincerely,

A handwritten signature in cursive script that reads "Joe A. King".

Joe A King, Supervisor  
Royalty Management / Energy Resources

JK/sc

**ATTACHMENT I**  
**REVIEW SUMMARY**

State Lease M-097296

We have reviewed our records for the period of September 1996 through August 1999, to determine whether or not royalty for condensate and gas has been reported and paid correctly with respect to volume and price. Volumes reported to the Texas General Land Office (TGLO) were compared to volumes reported to the Texas Railroad Commission (TRRC) with any differences being noted.

As a result of this review, it was determined that oil royalties were underpaid on Terrell #4 for December 1996 to July 1998.

Therefore, we have concluded that additional royalty revenue is due in the following amount.

Royalty	Penalty	Interest	Total
\$297.91	\$225.00	\$119.84	\$642.75

**(See attachment II for supporting calculations)**

ENGROUP RESOURCES L P  
 STATE LEASE NUMBER M-097296  
 LEASE NAME TERRELL #4  
 FIELD NAME GIDDINGS (AUSTIN CHALK GAS)  
 BRAZORIA COUNTY, TEXAS  
 RCC GAS WELL ID# 03-162090  
 STATE'S ROYALTY DECIMAL: 0.25

ATTACHMENT II

Accts Examiner: SCHOU  
 DATE: 10/20/00

PENALTY/  
 INTEREST DATE: 11/13/00

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	
MONTH	RRC OIL : PROD (BBLs): (A)	TRACT : PARTICIPATION : (A) *.121855	PRICE : (B)	GROSS : VALUE : (1)x(2)	ROYALTY : DUE : (3)x(0.25)	ROYALTY : PAID	ADDITIONAL : ROYALTY DUE : (4)-(5)	NET ROYALTY : DUE : LESS CREDIT	NUMBER OF : DAYS LATE	PENALTY : DUE	INTEREST : DUE	TOTAL : DUE : (6)+(8)+(9)
Dec-96	1,708	208.13	24.210	5,038.79	1,259.70	1,184.16	75.54	75.54	1377	25.00	32.73	133.27
Jan-97	3,504	426.98	24.160	10,315.83	2,578.96	2,451.93	127.03	127.03	1349	25.00	53.87	205.90
Feb-97	553	67.39	21.080	1,420.49	355.12	338.78	16.34	16.34	1318	25.00	6.76	48.10
Mar-97	359	43.75	19.880	869.67	217.42	207.43	9.99	9.99	1288	25.00	4.04	39.03
Apr-97	737	89.81	18.810	1,689.27	422.32	399.40	22.92	22.92	1257	25.00	9.03	56.95
May-97	382	46.55	19.770	920.27	230.07	448.50	(218.43)	(218.43)	1227	0.00	0.00	(218.43)
Jun-97	750	91.39	17.950	1,640.47	410.12	405.78	4.34	(214.09)	1196	0.00	0.00	4.34
Jul-97	7	0.85	17.950	15.31	3.83	0.00	3.83	(210.26)	1165	0.00	0.00	3.83
Aug-97	806	98.22	18.290	1,796.35	449.09	417.62	31.47	(178.79)	1135	0.00	0.00	31.47
Sep-97	754	91.88	18.233	1,675.22	418.81	416.01	2.80	(175.99)	1104	0.00	0.00	2.80
Oct-97	196	23.88	19.810	473.13	118.28	114.43	3.85	(172.14)	1074	0.00	0.00	3.85
Nov-97	216	26.32	18.590	489.30	122.33	109.95	12.38	(159.76)	1043	0.00	0.00	12.38
Dec-97	399	48.62	16.777	815.70	203.93	189.18	14.75	(145.01)	1012	0.00	0.00	14.75
Jan-98	208	25.35	16.777	425.23	106.31	0.00	106.31	(38.70)	984	0.00	0.00	106.31
Feb-98	176	21.45	14.350	307.76	76.94	0.00	76.94	38.24	953	25.00	11.24	113.18
Mar-98	202	24.61	12.850	316.30	79.08	73.45	5.63	5.63	923	25.00	1.60	32.23
May-98	196	23.88	12.740	304.28	76.07	74.36	1.71	1.71	862	25.00	0.45	27.16
Jul-98	186	22.67	11.590	262.69	65.67	65.16	0.51	0.51	800	25.00	0.12	25.63
	11,339			28,776.06	7,194.05	6,896.14	297.91			225.00	119.84	642.75

COMMENTS:

(A). OIL AND SKIM OIL VOLUMES DERIVED FROM THE RAILROAD COMMISSION ANNUAL PRODUCTION LEDGERS.

(B). PRICES ARE OBTAINED FROM GLO-1 REPORTS.

(C). SEE ATTACHMENT III, "SUMMARY OF PENALTY/INTEREST ASSESSMENT RULES", FOR EXPLANATION OF PENALTY AND INTEREST CALCULATION.

ATTACHMENT III

**SUMMARY OF PENALTY/INTEREST ASSESSMENT RULES  
FOR DELINQUENT ROYALTIES AND DELINQUENT  
REQUIRED REPORTS OR DOCUMENTS**

	DUE BEFORE 10-1-75 (Production Prior to 8-1-75)	DUE AFTER 10-1-75 AND BEFORE 9-1-85 (Production 8-1-75 thru 6-30-85)	DUE AFTER 9-1-85 (Production 7-1-85 Forward)
<u>PENALTY (3)</u> • For delinquent royalty	NONE	The greater of 1% of the delinquent amount or \$5.00 for each 30-day delinquency	For delinquencies of 30 days or less, the greater of 5% of the delinquent amount or \$25.00 For delinquencies of more than 30 days, the greater of 10% of the delinquent amount or \$25.00
• For delinquent report, affidavit, or other document	NONE	\$5.00 per document for each 30-day period of delinquency	\$10.00 per document for each 30-day period of delinquency
<u>INTEREST</u> • For delinquent royalty	6% per year, compounded annually; accrual begins 30 days after due date (1)	6% per year, compounded annually; accrual begins 30 days after due date (1)	12% per year, simple; accrual begins 60 days after due date (2)

(1) Tex. Rev. Civ. Stat. Ann., Article 5069-1.03 and related case law.

(2) Tex. Nat. Res. Code Ann. § 52.131 (g).

(3) Penalties are not assessed in cases of title dispute as to the state's portion of the royalty or to royalty in dispute as to fair market value except when fraud is involved, in which case the fraud penalty is applicable. Penalty provisions are found at Tex. Nat. Res. Code Ann. § 52.131 (e), (f), & (h).

A royalty payment that is not accompanied by the required royalty affidavit identifying the GLO lease number is delinquent.

The State's power to forfeit a lease shall not be affected by the assessment or payment of any delinquency, penalty, or interest.

7

File No.

M-97296

Billing

Date Filed:

10.20.00

By

David Dewhurst, Commissioner

UNITED STATES POSTAL SERVICE



First-Class Mail  
Postage & Fees Paid  
USPS  
Permit No. G-10

• Sender: Please print your name, address, and ZIP in this box •

TEXAS GENERAL LAND OFFICE  
P.O. BOX 12873  
AUSTIN, TEXAS 78711-2873

03111

Chon M-97296

ENERGY RESOURCES

NOV 17 PM 3:45

RECEIVED RECEIVED

NOV 17 2000

GENERAL LAND OFFICE

**SENDER: COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Darrison Ltd  
 990 IH-10 St 200  
 San Antonio TX  
 78230

2. Article Number (Copy from service label)

7000 0520 0023 2503 5819

**COMPLETE THIS SECTION ON DELIVERY**

A. Received by (Please Print Clearly) B. Date of Delivery

X Melissa Wood 11-15-00

C. Signature

X Melissa M. Wood  Agent  
 Addressee

D. Is delivery address different from item 1?  Yes

If YES, enter delivery address below:  No

3. Service Type

Certified Mail  Express Mail  
 Registered  Return Receipt for Merchandise  
 Insured Mail  C.O.D.

4. Restricted Delivery? (Extra Fee)

 Yes

**Texas General  
Land Office**



**David Dewhurst  
Commissioner**

November 13, 2000

**CERTIFIED MAIL**  
70000520002325035819

GARRISON LTD  
9901 IH 10 SUITE 200  
SAN ANTONIO TX 78230

RE: Notice of underpayment on State Lease M-097296

Dear Sir,

The Royalty Management Division of the Texas General Land Office has completed a limited review of the above referenced lease operated by Engroup Resources L P. Through this review, it was determined that \$642.75 has been underpaid to the State for the reporting periods December 1996 through July 1998. This amount comprises \$297.91 in additional royalty, \$225.00 in penalty and \$119.84 in interest, which has been computed through November 13, 2000, in accordance with Section 52.131 of the Texas Natural Resources Code.

The following documents are attached in support of our findings:

- A brief summary of our review (Attachment I);
- Schedule supporting our royalty, penalty and interest calculations (Attachment II), and;
- Procedures used for assessment of penalties and interest (Attachment III).

To ensure your company remains in good standing with the General Land Office, please respond to this notice within 25 days of the above date. If your records reflect this royalty has been paid, please provide us with documentation of payments made and remittance dates. Payment of this notice should be submitted separately from monthly royalty payments you may be remitting. In order to ensure proper credit, your payment should be mailed to my attention along with a copy of this letter.

Stephen F. Austin Building

1700 North  
Congress Avenue

Austin, Texas  
78701-1495

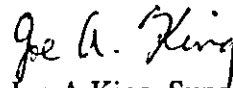
512-463-5001

Garrison LTD  
November 13, 2000  
Page 2

This notice in no way precludes the General Land Office from pursuing any claim or remedy related to this royalty payment. Additionally, this notice does not constitute an Audit Billing Notice as defined in Section 52.135 of the Natural Resources Code and, consequently, does not preclude the General Land Office from conducting further examinations of this or other leases operated and/or reported by Engroup Resources L P or from examining these or other issues and time periods in a future inspection of your books, accounts, reports or other records.

If you have any questions, please call Shirley Chou at (512) 463-5408.

Sincerely,



Joe A King, Supervisor  
Royalty Management / Energy Resources

JK/sc

**ATTACHMENT I**  
**REVIEW SUMMARY**

State Lease M-097296

We have reviewed our records for the period of September 1996 through August 1999, to determine whether or not royalty for condensate and gas has been reported and paid correctly with respect to volume and price. Volumes reported to the Texas General Land Office (TGLO) were compared to volumes reported to the Texas Railroad Commission (TRRC) with any differences being noted.

We sent the original billing to current operator-Engroup Resources L P on October 20,2000. They replied to us on November 9, 2000. They advised us to contact you regarding this underpayment notice.

As a result of this review, it was determined that oil royalties were underpaid on Terrell #4 for December 1996 to July 1998.

Therefore, we have concluded that additional royalty revenue is due in the following amount.

Royalty	Penalty	Interest	Total
\$297.91	\$225.00	\$119.84	\$642.75

**(See attachment II for supporting calculations)**

SC

GARRISON LTD  
 STATE LEASE NUMBER M-097296  
 LEASE NAME TERRELL #4  
 FIELD NAME GIDDINGS (AUSTIN CHALK GAS)  
 BRAZORIA COUNTY, TEXAS  
 RCC GAS WELL ID# 03-162090  
 STATE'S ROYALTY DECIMAL:

0.25

ATTACHMENT II

Accts Examiner: SCHOU  
 DATE: 10/20/00

PENALTY/  
 INTEREST DATE:  
 11/13/00

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	
MONTH	RRC OIL : PROD (BBLS): (A)	TRACT : PARTICIPATION : (A) *.121855	PRICE : (B)	GROSS : VALUE : (1)x(2)	ROYALTY : DUE : (3)x(0.25)	ROYALTY : PAID	ADDITIONAL : ROYALTY DUE : (4)-(5)	NET ROYALTY : DUE : LESS CREDIT	NUMBER OF : DAYS LATE	PENALTY : DUE	INTEREST : DUE	TOTAL : DUE : (6)+(8)+(9)
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Feb-98	176	21.45	14.350	307.76	76.94	0.00	76.94	38.24	953	25.00	11.24	113.18
Mar-98	202	24.61	12.850	316.30	79.08	73.45	5.63	5.63	923	25.00	1.60	32.23
May-98	196	23.88	12.740	304.28	76.07	74.36	1.71	1.71	862	25.00	0.45	27.16
Jul-98	186	22.67	11.590	262.69	65.67	65.16	0.51	0.51	800	25.00	0.12	25.63
	11,339			28,776.06	7,194.05	6,896.14	297.91			225.00	119.84	642.75

COMMENTS:

- (A). OIL AND SKIM OIL VOLUMES DERIVED FROM THE RAILROAD COMMISSION ANNUAL PRODUCTION LEDGERS.
- (B). PRICES ARE OBTAINED FROM GLO-1 REPORTS.
- (C). SEE ATTACHMENT III, "SUMMARY OF PENALTY/INTEREST ASSESSMENT RULES", FOR EXPLANATION OF PENALTY AND INTEREST CALCULATION.

File No. M-97296 (P)

Billing

Date Filed: 11-13-00

David Dewhurst, Commissioner

By \_\_\_\_\_

March 23, 2011

Texas General Land Office  
P. O. Box 12873  
Austin, Texas 77811

Attn: Mineral Leasing  
Tracey Throckmorton

Re: Notice of expired Oil and Gas Leases  
M-102004, M-102346, Burleson County, Texas  
and M-97296, Brazos & Burleson Counties, Texas

Ms. Throckmorton,

*Termin eff 2-1-10*

Please be advised that the above State of Texas Oil and Gas Leases have expired, due to lack of production.

State of Texas Oil and Gas Leases M-102004 (State of Texas, as Lessor, to Menard Energy Corporation, as Lessee, recorded in Volume 554, Page 270 of the Official Public Records of Burleson County, Texas) and M-102346 (State of Texas, as Lessor, to Crawford Energy Operating Company, as Lessee, recorded in Volume 569, Page 270 of the Official Public Records of Burleson County, Texas) were part of the Crawford Hughes Operating Company – Jessie Moore 11-H Unit (Unit #3172), API# 42-051-33457, a horizontal well that no longer produces oil or gas. The well will be re-completed as a vertical lease well that will not include any minerals owned by the State.

Additionally, State of Texas Oil and Gas Lease M-97296 (State of Texas, as Lessor, to Menard Energy Corporation, as Lessee, recorded in Volume 2689, Page 73, Official Records, Brazos County, Texas and Volume 254, Page 735, Oil & Gas Lease Records of Burleson County, Texas) was part of the Crawford Hughes Operating Company – Terrell #4H Gas Unit (Unit #2549), API# 42-041-31151, a horizontal well that no longer produces oil or gas and was plugged and abandoned in June 2010.

Should you have any questions, please feel free to call me at 713-626-2637, ext. 109.

Very truly yours,



Stephen Hill



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File No. MF097296  
Ltr. of Terminated  
LSP from Crawford Hughes  
Date Filed: 3-23-11  
Jerry E. Patterson, Commissioner  
By Carol Bonn