

STATE LEASE

MF100073

#	LeaseDate	Acres	Status	CONTROL	BASEFILE	COUNTY
A	May 05 1998	80.00	ACTIVE	07-130071	138817 -	CULBERSON /055
B	May 08 1998	40.00	ACTIVE			
C	May 08 1998	40.00	ACTIVE			

EXPIREDDATE 05/05/03LEASING RSMAPS RSGIS RSRentals: MALease DLAdmin: DLMineral ASMaps: AS

SURVEY : PUBLIC SCHOOL LAND
BLOCK : 54
TOWNSHIP : 00
SECTION/TRACT: 11
PART : SE/4
ACRES : 160.00
DEPTH LIMITS : NO

LESSEE : JOHNSON, CLAY
LEASE DATE : May 05 1998
PRIMARY TERM : 5 yrs
BONUS (\$) : 0.00
RENTAL (\$) : 1.00
ROYALTY : 0.18750000
VAR ROYALTY :

952101
MF 100073

M-100073

1
0
0
0
7
3

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Letter + Assignment	
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Assignment	
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19. Rental Payment	4/22/02
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Assignment	
	4/28/03

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TEXAS GENERAL LAND OFFICE

GARRY MAURO
COMMISSIONER

MEMORANDUM

DATE: 10-Jul-98

TO: Garry Mauro, Commissioner
Spencer Reid, Senior Deputy Commissioner

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

M-100073 ✓

RE: Relinquishment Act Lease

Applicant: Clay Johnson

County: CULBERSON

Section: 11 Block: 54

Survey: PUBLIC SCHOOL LAND

Prim. Term: 5 years Bonus/Acre \$50.00

Royalty: 3/16 Rental/Acre \$1.00

Base File #: 138817

Abstract: 6005

Consideration

Recommended: CRB 7-10-98

Not Recommended: _____

Comments:

Lease Form

Recommended: PRH 8/5/98

Not Recommended: _____

Comments:

Spencer Reid, Senior Deputy

Date: 8/7/98

Recommended: SR

Not Recommended: _____

Garry Mauro, Commissioner

Date: _____

Approved: GM

Not Approved: _____

TEXAS GENERAL LAND OFFICE

GARRY MAURO
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TO: Garry Mauro, Commissioner
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RE: Relinquishment Act Lease

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Comments:

Lease Form

Recommended: BA 8/5/98

Not Recommended: _____

Comments:

Spencer Reid, Senior Deputy

Date: 8/7/98

Recommended: SR

Not Recommended: _____

Garry Mauro, Commissioner

Date: _____

Approved: GM

Not Approved: _____

ITEM Bid Form
TO _____
FROM _____
DATE 7-10-98

A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK
ATTEST: June 9, 1998
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS
BY [Signature] DEPUTY



50792

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 5th day of May 19 98, between the State of Texas, acting by and through its agent, Perry Chapman, dealing in his sole and separate property of 1001 Prospect Ave, Bristol, VA 24201 said agent

(Give Permanent Address)

herein referred to as the owner of the soil (whether one or more), and CLAY JOHNSON
203 W. Wall, Suite 800 XXX
Midland, TX 79701

(Give Permanent Address)

hereinafter called Lessee.

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

SE/4 of Section 11, Block 54, Public School Land Survey

containing 160 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Two Thousand and 00/100-----
Dollars (\$ 2,000.00)

To the owner of the soil: Two Thousand and 00/100-----
Dollars (\$ 2,000.00)

Total bonus consideration: Four Thousand and 00/100-----
Dollars (\$ 4,000.00)

The total bonus consideration paid represents a bonus of Fifty and 00/100-----
Dollars (\$ 50.00) per acre, on 80 net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of Five (5) years from this date (herein called "primary term") and as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land. As used in this lease, the term "produced in paying quantities" means that the receipts from the sale or other authorized commercial use of the substance(s) covered exceed out of pocket operational expenses for the six months last past.

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

To the owner of the soil: Forty and 00/100-----
Dollars (\$ 40.00)
To the State of Texas: Forty and 00/100-----
Dollars (\$ 40.00)
Total Rental: Eighty and 00/100-----
Dollars (\$ 80.00)

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

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

(A) **OIL.** Royalty payable on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well and also as all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, shall be 3/16 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be determined by 1) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity in the general area where produced and when run, or 2) the highest market price thereof offered or paid in the general area where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is the greater. Lessee agrees that before any gas produced from the leased premises is sold, used or processed in a plant, it will be run free of cost to the royalty owners through an adequate oil and gas separator of conventional type, or other equipment at least as efficient, so that all liquid hydrocarbons recoverable from the gas by such means will be recovered. The requirement that such gas be run through a separator or other equipment may be waived in writing by the royalty owners upon such terms and conditions as they prescribe.

(B) **NON PROCESSED GAS.** Royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substances not defined as oil in subparagraph (A) above, produced from any well on said land (except as provided herein with respect to gas processed in a plant for the extraction of gasoline, liquid hydrocarbons or other products) shall be 3/16 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be based on the highest market price paid or offered for gas of comparable quality in the general area where produced and when run, or the gross price paid or offered to the producer, whichever is the greater; provided that the maximum pressure base in measuring the gas under this lease shall not at any time exceed 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to tests made by the Balance Method or by the most approved method of testing being used by the industry at the time of testing.

(C) **PROCESSED GAS.** Royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbons shall be 3/16 part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office. All royalties due herein shall be based on one hundred percent (100%) of the total plant production of residue gas attributable to gas produced from this lease, and on fifty percent (50%), or that percent accruing to Lessee, whichever is the greater, of the total plant production of liquid hydrocarbons attributable to the gas produced from this lease; provided that if liquid hydrocarbons are recovered from gas processed in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the percentage applicable to liquid hydrocarbons shall be fifty percent (50%) or the highest percent accruing to a third party processing gas through such plant under a processing agreement negotiated at arm's length (or if there is no such third party, the highest percent then being specified in processing agreements or contracts in the industry), whichever is the greater. The respective royalties on residue gas and on liquid hydrocarbons shall be determined by 1) the highest market price paid or offered for any gas (or liquid hydrocarbons) of comparable quality in the general area, or 2) the gross price paid or offered for such residue gas (or the weighted average gross selling price for the respective grades of liquid hydrocarbons), whichever is the greater. In no event, however, shall the royalties payable under this paragraph be less than the royalties which would have been due had the gas not been processed.

(D) **OTHER PRODUCTS.** Royalty on carbon black, sulphur or any other products produced or manufactured from gas (excepting liquid hydrocarbons) whether said gas be "casinghead," "dry," or any other gas, by fractionating, burning or any other processing shall be 3/16 part of the gross production of such products, or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such market value to be determined as follows: 1) on the basis of the highest market price of each product for the same month in which such product is produced, or 2) on the basis of the average gross sale price of each product for the same month in which such products are produced; whichever is the greater.

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

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

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

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

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

Payment of royalty on production of oil and gas shall be as provided in the rules set forth in the Texas Register. Rules currently provide that royalty on oil is due and must be received in the General Land Office on or before the 5th day of the second month succeeding the month of production, and royalty on gas is due and must be received in the General Land Office on or before the 15th day of the second month succeeding the month of production, accompanied by the affidavit of the owner, manager or other authorized agent, completed in the form and manner prescribed by the General Land Office and showing the gross amount and disposition of all oil and gas produced and the market value of the oil and gas, together with a copy of all documents, records or reports confirming the gross production, disposition

ATTEST:



LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS

BY [Signature] DEPUTY

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.

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

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

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

11. DRY HOLE/CESSATION OF PRODUCTION DURING PRIMARY TERM. If, during the primary term hereof and prior to discovery and production of oil or gas on said land, Lessee should drill a dry hole or holes thereon, or if during the primary term hereof and after the discovery and actual production of oil or gas from the leased premises such production thereof should cease from any cause, this lease shall not terminate if on or before the expiration of sixty (60) days from date of completion of said dry hole or cessation of production Lessee commences additional drilling or reworking operations thereon, or pays or tenders the next annual delay rental in the same manner as provided in this lease. If, during the last year of the primary term or within sixty (60) days prior thereto, a dry hole be completed and abandoned, or the production of oil or gas should cease for any cause, Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term; and if Lessee has not resumed production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking operations pursuant to Paragraph 13, using the expiration of the primary term as the date of cessation of production under Paragraph 13. Should the first well or any subsequent well drilled on the above described land be completed as a shut-in oil or gas well within the primary term hereof, Lessee may resume payment of the annual rental in the same manner as provided herein on or before the rental paying date following the expiration of sixty (60) days from the date of completion of such shut-in oil or gas well and upon the failure to make such payment, this lease shall ipso facto terminate. If at the expiration of the primary term or any time thereafter a shut-in oil or gas well is located on the leased premises, payments may be made in accordance with the shut-in provisions hereof.

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

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

14. SHUT-IN ROYALTIES. For purposes of this paragraph, "well" means any well that has been assigned a well number by the state agency having jurisdiction over the production of oil and gas. If, at any time after the expiration of the primary term of a lease that, until being shut in, was being maintained in force and effect, a well capable of producing oil or gas in paying quantities is located on the leased premises, but oil or gas is not being produced for lack of suitable production facilities or lack of a suitable market, then Lessee may pay as a shut-in oil or gas royalty an amount equal to double the annual rental provided in the lease, but not less than \$1,200 a year for each well capable of producing oil or gas in paying quantities. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre. To be effective, each initial shut-in oil or gas royalty

IF IT BEARS THE SEAL OF THE COUNTY
ATTEST: June 9, 1988
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS



BY Rasmussen DEPUTY

must be paid on or before: (1) the expiration of the primary term, (2) 60 days after the Lessee ceases to produce oil or gas from the leased premises, or (3) 60 days after Lessee completes a drilling or reworking operation in accordance with the lease provisions; whichever date is latest. Such payment shall be made one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil. If the shut-in oil or gas royalty is paid, the lease shall be considered to be a producing lease and the payment shall extend the term of the lease for a period of one year from the end of the primary term, or from the first day of the month following the month in which production ceased, and, after that, if no suitable production facilities or suitable market for the oil or gas exists, Lessee may extend the lease for four more successive periods of one (1) year by paying the same amount each year on or before the expiration of each shut-in year.

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

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

(A) **VERTICAL.** In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall then terminate as to all of the leased premises, EXCEPT (1) 40 acres surrounding each oil well capable of producing in paying quantities and 320 acres surrounding each gas well capable of producing in paying quantities (including a shut-in oil or gas well as provided in Paragraph 14 hereof), or a well upon which Lessee is then engaged in continuous drilling or reworking operations, or (2) the number of acres included in a producing pooled unit pursuant to Texas Natural Resources Code 52.151-52.153, 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. If at any time after the effective date of the partial termination provisions hereof, the applicable field rules are changed or the well or wells located thereon are reclassified so that less acreage is thereafter allocated to said well or wells for production purposes, this lease shall thereupon terminate as to all acreage not thereafter allocated to said well or wells for production purposes. Notwithstanding the termination of this lease as to a portion of the lands covered hereby, Lessee shall nevertheless continue to have the right of ingress to and egress from the lands still subject to this lease for all purposes described in Paragraph 1 hereof, together with easements and rights-of-way for existing roads, existing pipelines and other existing facilities on, over and across all the lands described in Paragraph 1 hereof ("the retained lands"), for access to and from the retained lands and for the gathering or transportation of oil, gas and other minerals produced from the retained lands.

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

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

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

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

A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK

ATTEST:



June 3, 1998
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS

By *Alan C. ...* DEPUTY

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

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

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

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

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

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

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

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

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

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

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

- (1) a nominee of the owner of the soil;
- (2) a corporation or subsidiary in which the owner of the soil is a principal stockholder or is an employee of such a corporation or subsidiary;
- (3) a partnership in which the owner of the soil is a partner or is an employee of such a partnership;
- (4) a principal stockholder or employee of the corporation which is the owner of the soil;
- (5) a partner or employee in a partnership which is the owner of the soil;

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IF IT BEARS THE SEAL OF THE COUNTY CLERK
ATTEST: June 9, 1998
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS
 DEPUTY

(6) a fiduciary for the owner of the soil; including but not limited to a guardian, trustee, executor, administrator, receiver, or conservator for the owner of the soil; or

(7) a family member of the owner of the soil or related to the owner of the soil by marriage, blood, or adoption.

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

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

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

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

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

33. **LIEN.** In accordance with Texas Natural Resources Code 52.136, the State shall have a first lien upon all oil and gas produced from the area covered by this lease to secure payment of all unpaid royalty and other sums of money that may become due under this lease. By acceptance of this lease, Lessee grants the State, in addition to the lien provided by Texas Natural Resources Code 52.136 and any other applicable statutory lien, an express contractual lien on and security interest in all leased minerals in and extracted from the leased premises, all proceeds which may accrue to Lessee from the sale of such leased minerals, whether such proceeds are held by Lessee or by a third party, and all fixtures on and improvements to the leased premises used in connection with the production or processing of such leased minerals in order to secure the payment of all royalties or other amounts due or to become due under this lease and to secure payment of any damages or loss that Lessor may suffer by reason of Lessee's breach of any covenant or condition of this lease, whether express or implied. This lien and security interest may be foreclosed with or without court proceedings in the manner provided in the Title 1, 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.

34. **POOLING.** Lessee is hereby granted the right to pool or unitize the royalty interest of the owner of the soil under this lease with any other leasehold or mineral interest for the exploration, development and production of oil or gas or either of them upon the same terms as shall be approved by the School Land Board and the Commissioner of the General Land Office for the pooling or unitizing of the interest of the State under this lease pursuant to Texas Natural Resources Code 52.151-52.153. The owner of the soil agrees that the inclusion of this provision in this lease satisfies the execution requirements stated in Texas Natural Resources Code 52.152.

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

IF IT BEARS THE SEAL OF THE COUNTY CLERK

ATTEST:



LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS

[Signature]

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

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

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

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

Clay Johnson
LESSEE
BY: CLAY JOHNSON
TITLE: _____
DATE: 5-22-98

STATE OF TEXAS

BY: Perry C. Chapman
Individually and as agent for the State of Texas Perry Chapman,
dealing in his sole and separate property

Date: _____
SS# [REDACTED]

STATE OF TEXAS

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

STATE OF TEXAS

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

STATE OF TEXAS

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

A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK

ATTEST: June 9, 1998

LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS

BY: Linda McDonald DEPUTY

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 _____

(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 VIRGINIA

(INDIVIDUAL ACKNOWLEDGMENT)

COUNTY OF WASHINGTON

Before me, the undersigned authority, on this day personally appeared Perry Chapman, dealing in
his sole and separate property
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 18th day of May, 1998.

Jim L. Robinson
Notary Public in and for VIRGINIA
9/30/2001

STATE OF Texas

(INDIVIDUAL ACKNOWLEDGMENT)

COUNTY OF Midland

Before me, the undersigned authority, on this day personally appeared Clay Johnson
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 22 day of May, 1998.

Monica Marlowe
Notary Public in and for Texas



A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK

ATTEST: June 9, 1998
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS
BY Ramona Canales DEPUTY



EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OIL AND GAS LEASE DATED MAY 5, 1998, BY AND BETWEEN PERRY CHAPMAN, DEALING IN HIS SOLE AND SEPARATE PROPERTY AS LESSOR, AND CLAY JOHNSON, AS LESSEE, AND COVERING THE SE/4 OF SECTION 11, BLOCK 54, PUBLIC SCHOOL LAND SURVEY, CULBERSON COUNTY, TEXAS.

If, at the expiration of the primary term hereof, this lease is being held by production or a shut-in well pursuant to the terms hereof, or Lessee is then engaged in operations on said land or on lands pooled therewith, or Lessee has completed a well as a dry hole or shall have commenced a well within 180 days prior to the expiration of the primary term hereof, Lessee agrees to commence a continuous drilling program on said lands, or on lands pooled therewith, within 180 days after the end of the primary term hereof or within 180 days after the completion of drilling operations being conducted on said land, or lands pooled therewith, at the end of the primary term hereof, whichever is the later date; and thereafter carry on the continuous drilling program until all proration units have been drilled, allowing not more than 180 days to elapse between the completion of one well and the commencement of the next succeeding well. Should Lessee fail to commence the continuous drilling program or subsequently default in the performance thereof, then in either event, this lease shall terminate as to all lands covered hereby, save and except for the proration units surrounding each well then producing, capable of producing or upon which operations are being conducted. The term "proration unit" as used in this paragraph means any acreage designated as a drilling unit or production unit in accordance with the rules of the Railroad Commission of the State of Texas. Further, the term "commencement" shall mean that point in time when the pertinent well is spudded and the term "completion" shall mean the date upon which the initial potential test report is filed with the Railroad Commission of the State of Texas, if a productive well, or the date of filing the plugging report with the commission, if a dry hole. Notwithstanding the termination of this lease as to a portion of the lands covered hereby, Lessee shall nevertheless continue to have the right of ingress to and egress from said land still subject to this lease for purposes described in paragraph 1 hereof, together with easements and rights of way for roads, pipelines and other facilities on, over and across all of the lands still subject to this lease and for the gathering or transportation of oil and gas produced from the retained lands. The sole liability or penalty for the failure of Lessee to drill any well or wells required or permitted in this lease shall be the termination or partial termination of Lessee's rights under the lease as provided above.

In conducting such continuous drilling program, Lessee shall be entitled to accumulate and later use time, if any, saved between wells, beginning with the second well under this continuous drilling program. If one well is commenced sooner than 180 days after the completion of the last preceding well, the portion of the prescribed 180 day period not used may be carried forward and added to the period between subsequent wells.

Perry Chapman 5-18-98
PERRY CHAPMAN, DEALING IN HIS
SOLE AND SEPARATE PROPERTY

A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK
ATTEST: June 9, 1998
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS
BY Linda McDonald DEPUTY



(2) MF 100073
ITEM Lease
TO _____
FROM _____
DATE 5-5-98

STATE OF TEXAS
COUNTY OF CULBERSON I, Linda McDonald, Clerk of the County Court in and for the County and State, do hereby certify that the foregoing is a true and correct copy of Oil & Gas Lease dated 5-22-98
filed for record in my office this 9th day of June, 1998 at 1:15 P.M., under Clerk's File No. 50792, to be recorded in the Oil & Gas Records of Culberson County, Texas.
TO CERTIFY WHICH, Witness my hand and official seal at Van Horn, this 9th day of June, 1998.
Linda McDonald Deputy, LINDA McDONALD, COUNTY CLERK, CULBERSON COUNTY, TEXAS.

FILED FOR RECORD
AT 1:15 O'CLOCK P M
ON THE 9 DAY OF June
A.D., 19 98.
STATE OF TEXAS
COUNTY OF CULBERSON
I hereby certify that this instrument was FILED on the date and at the time stamped hereon by me and was duly RECORDED in the Volume and Page of the _____ Records of Culberson County, Texas.
Linda McDonald
COUNTY CLERK, CULBERSON COUNTY, TEXAS
BY Rosario Carrasco DEPUTY
VOL _____ PAGE _____
RECORDED _____

50792

OIL AND GAS LEASE

50789

THIS AGREEMENT is made and entered into this 8th day of May 19 98, between the State of Texas, acting by and through its agent, William Wise Vinson, dealing in his sole and separate property of 712 Cambridge Drive, Lafayette, LA 70503 said agent
(Give Permanent Address)
herein referred to as the owner of the soil (whether one or more), and CLAY JOHNSON
203 W. Wall, Suite 800 of
Midland, TX 79701
(Give Permanent Address)
hereinafter called Lessee.

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

SE/4 of Section 11, Block 54, Public School Land Survey

containing 160 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: One Thousand and 00/100
Dollars (\$ 1,000.00)

To the owner of the soil: One Thousand and 00/100
Dollars (\$ 1,000.00)

Total bonus consideration: Two Thousand and 00/100
Dollars (\$ 2,000.00)

The total bonus consideration paid represents a bonus of Fifty and 00/100
Dollars (\$ 50.00) per acre, on 40 net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of Five (5) years from this date (herein called "primary term") and as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land. As used in this lease, the term "produced in paying quantities" means that the receipts from the sale or other authorized commercial use of the substance(s) covered exceed out of pocket operational expenses for the six months last past.

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

To the owner of the soil: Twenty and 00/100
Dollars (\$ 20.00)

To the State of Texas: Twenty and 00/100
Dollars (\$ 20.00)

Total Rental: Forty and 00/100
Dollars (\$ 40.00)

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

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

(A) OIL. Royalty payable on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well and also as all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, shall be 3/16 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be determined by 1) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity in the general area where produced and when run, or 2) the highest market price thereof offered or paid in the general area where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is the greater. Lessee agrees that before any gas produced from the leased premises is sold, used or processed in a plant, it will be run free of cost to the royalty owners through an adequate oil and gas separator of conventional type, or other equipment at least as efficient, so that all liquid hydrocarbons recoverable from the gas by such means will be recovered. The requirement that such gas be run through a separator or other equipment may be waived in writing by the royalty owners upon such terms and conditions as they prescribe.

(B) NON PROCESSED GAS. Royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substances not defined as oil in subparagraph (A) above, produced from any well on said land (except as provided herein with respect to gas processed in a plant for the extraction of gasoline, liquid hydrocarbons or other products) shall be 3/16 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be based on the highest market price paid or offered for gas of comparable quality in the general area where produced and when run, or the gross price paid or offered to the producer, whichever is the greater; provided that the maximum pressure base in measuring the gas under this lease shall not at any time exceed 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to tests made by the Balance Method or by the most approved method of testing being used by the industry at the time of testing.

(C) PROCESSED GAS. Royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbons shall be 3/16 part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office. All royalties due herein shall be based on one hundred percent (100%) of the total plant production of residue gas attributable to gas produced from this lease, and on fifty percent (50%), or that percent accruing to Lessee, whichever is the greater, of the total plant production of liquid hydrocarbons attributable to the gas produced from this lease; provided that if liquid hydrocarbons are recovered from gas processed in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the percentage applicable to liquid hydrocarbons shall be fifty percent (50%) or the highest percent accruing to a third party processing gas through such plant under a processing agreement negotiated at arm's length (or if there is no such third party, the highest percent then being specified in processing agreements or contracts in the industry), whichever is the greater. The respective royalties on residue gas and on liquid hydrocarbons shall be determined by 1) the highest market price paid or offered for any gas (or liquid hydrocarbons) of comparable quality in the general area, or 2) the gross price paid or offered for such residue gas (or the weighted average gross selling price for the respective grades of liquid hydrocarbons), whichever is the greater. In no event, however, shall the royalties payable under this paragraph be less than the royalties which would have been due had the gas not been processed.

(D) OTHER PRODUCTS. Royalty on carbon black, sulphur or any other products produced or manufactured from gas (excepting liquid hydrocarbons) whether said gas be "casinghead," "dry," or any other gas, by fractionating, burning or any other processing shall be 3/16 part of the gross production of such products, or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such market value to be determined as follows: 1) on the basis of the highest market price of each product for the same month in which such product is produced, or 2) on the basis of the average gross sale price of each product for the same month in which such products are produced; whichever is the greater.

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

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

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

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

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

Payment of royalty on production of oil and gas shall be as provided in the rules set forth in the Texas Register. Rules currently provide that royalty on oil is due and must be received in the General Land Office on or before the 5th day of the second month succeeding the month of production, and royalty on gas is due and must be received in the General Land Office on or before the 15th day of the second month succeeding the month of production, accompanied by the affidavit of the owner, manager or other authorized agent, completed in the form and manner prescribed by the General Land Office and showing the gross amount and disposition of all oil and gas produced and the market value of the oil and gas, together with a copy of all documents, records or reports confirming the gross production, disposition

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June 9, 1998
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS

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.

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

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

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

11. DRY HOLE/CESSATION OF PRODUCTION DURING PRIMARY TERM. If, during the primary term hereof and prior to discovery and production of oil or gas on said land, Lessee should drill a dry hole or holes thereon, or if during the primary term hereof and after the discovery and actual production of oil or gas from the leased premises such production thereof should cease from any cause, this lease shall not terminate if on or before the expiration of sixty (60) days from date of completion of said dry hole or cessation of production Lessee commences additional drilling or reworking operations thereon, or pays or tenders the next annual delay rental in the same manner as provided in this lease. If, during the last year of the primary term or within sixty (60) days prior thereto, a dry hole be completed and abandoned, or the production of oil or gas should cease for any cause, Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term; and if Lessee has not resumed production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking operations pursuant to Paragraph 13, using the expiration of the primary term as the date of cessation of production under Paragraph 13. Should the first well or any subsequent well drilled on the above described land be completed as a shut-in oil or gas well within the primary term hereof, Lessee may resume payment of the annual rental in the same manner as provided herein on or before the rental paying date following the expiration of sixty (60) days from the date of completion of such shut-in oil or gas well and upon the failure to make such payment, this lease shall ipso facto terminate. If at the expiration of the primary term or any time thereafter a shut-in oil or gas well is located on the leased premises, payments may be made in accordance with the shut-in provisions hereof.

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

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

14. SHUT-IN ROYALTIES. For purposes of this paragraph, "well" means any well that has been assigned a well number by the state agency having jurisdiction over the production of oil and gas. If, at any time after the expiration of the primary term of a lease that, until being shut in, was being maintained in force and effect, a well capable of producing oil or gas in paying quantities is located on the leased premises, but oil or gas is not being produced for lack of suitable production facilities or lack of a suitable market, then Lessee may pay as a shut-in oil or gas royalty an amount equal to double the annual rental provided in the lease, but not less than \$1,200 a year for each well capable of producing oil or gas in paying quantities. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre. To be effective, each initial shut-in oil or gas royalty

ATTEST:



JUNE 9 1998
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS

BY *[Signature]* DEPUTY

must be paid on or before: (1) the expiration of the primary term, (2) 60 days after the Lessee ceases to produce oil or gas from the leased premises, or (3) 60 days after Lessee completes a drilling or reworking operation in accordance with the lease provisions; whichever date is latest. Such payment shall be made one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil. If the shut-in oil or gas royalty is paid, the lease shall be considered to be a producing lease and the payment shall extend the term of the lease for a period of one year from the end of the primary term, or from the first day of the month following the month in which production ceased, and, after that, if no suitable production facilities or suitable market for the oil or gas exists, Lessee may extend the lease for four more successive periods of one (1) year by paying the same amount each year on or before the expiration of each shut-in year.

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

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

(A) **VERTICAL.** In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall then terminate as to all of the leased premises, EXCEPT (1) 40 acres surrounding each oil well capable of producing in paying quantities and 320 acres surrounding each gas well capable of producing in paying quantities (including a shut-in oil or gas well as provided in Paragraph 14 hereof), or a well upon which Lessee is then engaged in continuous drilling or reworking operations, or (2) the number of acres included in a producing pooled unit pursuant to Texas Natural Resources Code 52.151-52.153, 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. If at any time after the effective date of the partial termination provisions hereof, the applicable field rules are changed or the well or wells located thereon are reclassified so that less acreage is thereafter allocated to said well or wells for production purposes, this lease shall thereupon terminate as to all acreage not thereafter allocated to said well or wells for production purposes. Notwithstanding the termination of this lease as to a portion of the lands covered hereby, Lessee shall nevertheless continue to have the right of ingress to and egress from the lands still subject to this lease for all purposes described in Paragraph 1 hereof, together with easements and rights-of-way for existing roads, existing pipelines and other existing facilities on, over and across all the lands described in Paragraph 1 hereof ("the retained lands"), for access to and from the retained lands and for the gathering or transportation of oil, gas and other minerals produced from the retained lands.

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

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

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

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

A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK

ATTEST:



June 9, 1998
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS

BY *Dan Canales* DEPUTY

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

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

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

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

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

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

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

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

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

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

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

- (1) a nominee of the owner of the soil;
- (2) a corporation or subsidiary in which the owner of the soil is a principal stockholder or is an employee of such a corporation or subsidiary;
- (3) a partnership in which the owner of the soil is a partner or is an employee of such a partnership;
- (4) a principal stockholder or employee of the corporation which is the owner of the soil;
- (5) a partner or employee in a partnership which is the owner of the soil;

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ATTEST: June 9, 1998
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS
BY Dorinda C. [Signature]

(6) a fiduciary for the owner of the soil; including but not limited to a guardian, trustee, executor, administrator, receiver, or conservator for the owner of the soil; or

(7) a family member of the owner of the soil or related to the owner of the soil by marriage, blood, or adoption.

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

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

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

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

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

33. **LIEN.** In accordance with Texas Natural Resources Code 52.136, the State shall have a first lien upon all oil and gas produced from the area covered by this lease to secure payment of all unpaid royalty and other sums of money that may become due under this lease. By acceptance of this lease, Lessee grants the State, in addition to the lien provided by Texas Natural Resources Code 52.136 and any other applicable statutory lien, an express contractual lien on and security interest in all leased minerals in and extracted from the leased premises, all proceeds which may accrue to Lessee from the sale of such leased minerals, whether such proceeds are held by Lessee or by a third party, and all fixtures on and improvements to the leased premises used in connection with the production or processing of such leased minerals in order to secure the payment of all royalties or other amounts due or to become due under this lease and to secure payment of any damages or loss that Lessor may suffer by reason of Lessee's breach of any covenant or condition of this lease, whether express or implied. This lien and security interest may be foreclosed with or without court proceedings in the manner provided in the Title 1, 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.

34. **POOLING.** Lessee is hereby granted the right to pool or unitize the royalty interest of the owner of the soil under this lease with any other leasehold or mineral interest for the exploration, development and production of oil or gas or either of them upon the same terms as shall be approved by the School Land Board and the Commissioner of the General Land Office for the pooling or unitizing of the interest of the State under this lease pursuant to Texas Natural Resources Code 52.151-52.153. The owner of the soil agrees that the inclusion of this provision in this lease satisfies the execution requirements stated in Texas Natural Resources Code 52.152.

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

IF IT BEARS THE SEAL OF THE COUNTY CLERK
ATTEST: June 9, 1998



LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS

BY Linda McDonald

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

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

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

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

CLAY JOHNSON
LESSEE
BY: CLAY JOHNSON
TITLE: _____
DATE: 5-15-98

STATE OF TEXAS

BY: William M. Vinson
Individually and as agent for the State of Texas William Wise
Vinson, dealing in his sole and separate property
Date: 5-8-98

SS# [REDACTED]

STATE OF TEXAS

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

STATE OF TEXAS

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

STATE OF TEXAS

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

A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK
ATTEST: Linda McDonald
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS
BY: [Signature] DEPUTY

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 _____

(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 LOUISIANA

(INDIVIDUAL ACKNOWLEDGMENT)

~~STATE OF~~ PARISH OF LAFAYETTE

Before me, the undersigned authority, on this day personally appeared William Wise Vinson, dealing in
his sole and separate property
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 8TH day of MAY, 1998.

Barlene O. Malgouye

Notary Public in and for LOUISIANA PARISH OF LAFAYETTE

STATE OF Texas

(INDIVIDUAL ACKNOWLEDGMENT)

COUNTY OF Midland

Before me, the undersigned authority, on this day personally appeared Clay Johnson

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 15th day of May, 1998.

Monic-Marlowe

Notary Public in and for Texas



A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK

ATTEST: June 9, 1998
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS
BY Linda McDonald DEPUTY



EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OIL AND GAS LEASE DATED MAY 5, 1998, BY AND BETWEEN WILLIAM WISE VINSON, DEALING IN HIS SOLE AND SEPARATE PROPERTY AS LESSOR, AND CLAY JOHNSON, AS LESSEE, AND COVERING THE SE/4 OF SECTION 11, BLOCK 54, PUBLIC SCHOOL LAND SURVEY, CULBERSON COUNTY, TEXAS.

If, at the expiration of the primary term hereof, this lease is being held by production or a shut-in well pursuant to the terms hereof, or Lessee is then engaged in operations on said land or on lands pooled therewith, or Lessee has completed a well as a dry hole or shall have commenced a well within 180 days prior to the expiration of the primary term hereof, Lessee agrees to commence a continuous drilling program on said lands, or on lands pooled therewith, within 180 days after the end of the primary term hereof or within 180 days after the completion of drilling operations being conducted on said land, or lands pooled therewith, at the end of the primary term hereof, whichever is the later date; and thereafter carry on the continuous drilling program until all proration units have been drilled, allowing not more than 180 days to elapse between the completion of one well and the commencement of the next succeeding well. Should Lessee fail to commence the continuous drilling program or subsequently default in the performance thereof, then in either event, this lease shall terminate as to all lands covered hereby, save and except for the proration units surrounding each well then producing, capable of producing or upon which operations are being conducted. The term "proration unit" as used in this paragraph means any acreage designated as a drilling unit or production unit in accordance with the rules of the Railroad Commission of the State of Texas. Further, the term "commencement" shall mean that point in time when the pertinent well is spudded and the term "completion" shall mean the date upon which the initial potential test report is filed with the Railroad Commission of the State of Texas, if a productive well, or the date of filing the plugging report with the commission, if a dry hole. Notwithstanding the termination of this lease as to a portion of the lands covered hereby, Lessee shall nevertheless continue to have the right of ingress to and egress from said land still subject to this lease for purposes described in paragraph 1 hereof, together with easements and rights of way for roads, pipelines and other facilities on, over and across all of the lands still subject to this lease and for the gathering or transportation of oil and gas produced from the retained lands. The sole liability or penalty for the failure of Lessee to drill any well or wells required or permitted in this lease shall be the termination or partial termination of Lessee's rights under the lease as provided above.

In conducting such continuous drilling program, Lessee shall be entitled to accumulate and later use time, if any, saved between wells, beginning with the second well under this continuous drilling program. If one well is commenced sooner than 180 days after the completion of the last preceding well, the portion of the prescribed 180 day period not used may be carried forward and added to the period between subsequent wells.

William Wise Vinson

WILLIAM WISE VINSON, DEALING IN
HIS SOLE AND SEPARATE PROPERTY

IF IT BEARS THE SEAL OF THE COUNTY CLERK
A CERTIFIED COPY
ATTEST: *June 9, 1998*



LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS

BY *Linda McDonald* DEPUTY

100073
100073
5-8-98

THE STATE OF TEXAS I McDonald
COUNTY OF CULBERSON I Linda Hrias, Clerk of the County Court in and
for said County and State, do hereby certify that the foregoing is a true and
correct copy of Oil & Gas Lease dated 5-15-98
1998,
filed for record in my office this 9th day of June
1998 at 1:15 P.M., under Clerk's File No. 50789
recorded in the Oil & Gas Records of Culberson Co
Texas.

TO CERTIFY WHICH, Witness my hand and official seal at Van Horn, this
9th day of June, 1998
By Linda McDonald Deputy. McDonald
LINDA Hrias, COUNTY CLERK
CULBERSON COUNTY, TEXAS.

FILED FOR RECORD
AT 1:15 O'CLOCK P M
ON THE 9 DAY OF June
A.D., 1998.

STATE OF TEXAS
COUNTY OF CULBERSON
I hereby certify that this instrument was FILED on
the date and at the time stamped hereon by me
and was duly RECORDED in the Volume and
Page of the 50789 Records
of Culberson County, Texas.

Linda McDonald
COUNTY CLERK, CULBERSON COUNTY, TEXAS



Linda McDonald
COUNTY CLERK,
CULBERSON COUNTY, TEXAS

BY Asencio Carrasco
DEPUTY

VOL. _____ PAGE _____
RECORDED _____

50789



50788

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 8th day of May 19 98, between the State of Texas, acting by and through its agent, Lucille Agnes Vinson Martin, dealing in her sole and separate property of 406 West Governor Miro Drive, Lafayette, LA 70506 said agent
(Give Permanent Address)
herein referred to as the owner of the soil (whether one or more), and CLAY JOHNSON
203 W. Wall, Suite 800 XXX
Midland, TX 79701
(Give Permanent Address)

hereinafter called Lessee.

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

SE/4 of Section 11, Block 54, Public School Land Survey

containing 160 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: One Thousand and 00/100-----
Dollars (\$ 1,000.00)

To the owner of the soil: One Thousand and 00/100-----
Dollars (\$ 1,000.00)

Total bonus consideration: Two Thousand and 00/100-----
Dollars (\$ 2,000.00)

The total bonus consideration paid represents a bonus of Fifty and 00/100-----
Dollars (\$ 50.00) per acre, on 40 net acres.

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of Five (5) years from this date (herein called "primary term") and as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land. As used in this lease, the term "produced in paying quantities" means that the receipts from the sale or other authorized commercial use of the substance(s) covered exceed out of pocket operational expenses for the six months last past.

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

To the owner of the soil: Twenty and 00/100-----
Dollars (\$ 20.00)

To the State of Texas: Twenty and 00/100-----
Dollars (\$ 20.00)

Total Rental: Forty and 00/100-----
Dollars (\$ 40.00)

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

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

(A) **OIL.** Royalty payable on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well and also as all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, shall be 3/16 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be determined by 1) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity in the general area where produced and when run, or 2) the highest market price thereof offered or paid in the general area where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is the greater. Lessee agrees that before any gas produced from the leased premises is sold, used or processed in a plant, it will be run free of cost to the royalty owners through an adequate oil and gas separator of conventional type, or other equipment at least as efficient, so that all liquid hydrocarbons recoverable from the gas by such means will be recovered. The requirement that such gas be run through a separator or other equipment may be waived in writing by the royalty owners upon such terms and conditions as they prescribe.

(B) **NON PROCESSED GAS.** Royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substances not defined as oil in subparagraph (A) above, produced from any well on said land (except as provided herein with respect to gas processed in a plant for the extraction of gasoline, liquid hydrocarbons or other products) shall be 3/16 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be based on the highest market price paid or offered for gas of comparable quality in the general area where produced and when run, or the gross price paid or offered to the producer, whichever is the greater; provided that the maximum pressure base in measuring the gas under this lease shall not at any time exceed 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to tests made by the Balance Method or by the most approved method of testing being used by the industry at the time of testing.

(C) **PROCESSED GAS.** Royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbons shall be 3/16 part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office. All royalties due herein shall be based on one hundred percent (100%) of the total plant production of residue gas attributable to gas produced from this lease, and on fifty percent (50%), or that percent accruing to Lessee, whichever is the greater, of the total plant production of liquid hydrocarbons attributable to the gas produced from this lease; provided that if liquid hydrocarbons are recovered from gas processed in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the percentage applicable to liquid hydrocarbons shall be fifty percent (50%) or the highest percent accruing to a third party processing gas through such plant under a processing agreement negotiated at arm's length (or if there is no such third party, the highest percent then being specified in processing agreements or contracts in the industry), whichever is the greater. The respective royalties on residue gas and on liquid hydrocarbons shall be determined by 1) the highest market price paid or offered for any gas (or liquid hydrocarbons) of comparable quality in the general area, or 2) the gross price paid or offered for such residue gas (or the weighted average gross selling price for the respective grades of liquid hydrocarbons), whichever is the greater. In no event, however, shall the royalties payable under this paragraph be less than the royalties which would have been due had the gas not been processed.

(D) **OTHER PRODUCTS.** Royalty on carbon black, sulphur or any other products produced or manufactured from gas (excepting liquid hydrocarbons) whether said gas be "casinghead," "dry," or any other gas, by fractionating, burning or any other processing shall be 3/16 part of the gross production of such products, or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such market value to be determined as follows: 1) on the basis of the highest market price of each product for the same month in which such product is produced, or 2) on the basis of the average gross sale price of each product for the same month in which such products are produced; whichever is the greater.

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

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

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

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

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

Payment of royalty on production of oil and gas shall be as provided in the rules set forth in the Texas Register. Rules currently provide that royalty on oil is due and must be received in the General Land Office on or before the 5th day of the second month succeeding the month of production, and royalty on gas is due and must be received in the General Land Office on or before the 15th day of the second month succeeding the month of production, accompanied by the affidavit of the owner, manager or other authorized agent, completed in the form and manner prescribed by the General Land Office and showing the gross amount and disposition of all oil and gas produced and the market value of the oil and gas, together with a copy of all documents, records or reports confirming the gross production, disposition

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BY B. Camacho DEPUTY

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.

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

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

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

11. DRY HOLE/CESSATION OF PRODUCTION DURING PRIMARY TERM. If, during the primary term hereof and prior to discovery and production of oil or gas on said land, Lessee should drill a dry hole or holes thereon, or if during the primary term hereof and after the discovery and actual production of oil or gas from the leased premises such production thereof should cease from any cause, this lease shall not terminate if on or before the expiration of sixty (60) days from date of completion of said dry hole or cessation of production Lessee commences additional drilling or reworking operations thereon, or pays or tenders the next annual delay rental in the same manner as provided in this lease. If, during the last year of the primary term or within sixty (60) days prior thereto, a dry hole be completed and abandoned, or the production of oil or gas should cease for any cause, Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term; and if Lessee has not resumed production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking operations pursuant to Paragraph 13, using the expiration of the primary term as the date of cessation of production under Paragraph 13. Should the first well or any subsequent well drilled on the above described land be completed as a shut-in oil or gas well within the primary term hereof, Lessee may resume payment of the annual rental in the same manner as provided herein on or before the rental paying date following the expiration of sixty (60) days from the date of completion of such shut-in oil or gas well and upon the failure to make such payment, this lease shall ipso facto terminate. If at the expiration of the primary term or any time thereafter a shut-in oil or gas well is located on the leased premises, payments may be made in accordance with the shut-in provisions hereof.

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

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

14. SHUT-IN ROYALTIES. For purposes of this paragraph, "well" means any well that has been assigned a well number by the state agency having jurisdiction over the production of oil and gas. If, at any time after the expiration of the primary term of a lease that, until being shut in, was being maintained in force and effect, a well capable of producing oil or gas in paying quantities is located on the leased premises, but oil or gas is not being produced for lack of suitable production facilities or lack of a suitable market, then Lessee may pay as a shut-in oil or gas royalty an amount equal to double the annual rental provided in the lease, but not less than \$1,200 a year for each well capable of producing oil or gas in paying quantities. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre. To be effective, each initial shut-in oil or gas royalty

WELLS, TANKS, PIPELINES, AND
GAS, TANKS, PIPELINES, AND

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BY *Bernie Capen* DEPUTY

must be paid on or before: (1) the expiration of the primary term, (2) 60 days after the Lessee ceases to produce oil or gas from the leased premises, or (3) 60 days after Lessee completes a drilling or reworking operation in accordance with the lease provisions; whichever date is latest. Such payment shall be made one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil. If the shut-in oil or gas royalty is paid, the lease shall be considered to be a producing lease and the payment shall extend the term of the lease for a period of one year from the end of the primary term, or from the first day of the month following the month in which production ceased, and, after that, if no suitable production facilities or suitable market for the oil or gas exists, Lessee may extend the lease for four more successive periods of one (1) year by paying the same amount each year on or before the expiration of each shut-in year.

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

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

(A) **VERTICAL.** In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall then terminate as to all of the leased premises, EXCEPT (1) 40 acres surrounding each oil well capable of producing in paying quantities and 320 acres surrounding each gas well capable of producing in paying quantities (including a shut-in oil or gas well as provided in Paragraph 14 hereof), or a well upon which Lessee is then engaged in continuous drilling or reworking operations, or (2) the number of acres included in a producing pooled unit pursuant to Texas Natural Resources Code 52.151-52.153, 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. If at any time after the effective date of the partial termination provisions hereof, the applicable field rules are changed or the well or wells located thereon are reclassified so that less acreage is thereafter allocated to said well or wells for production purposes, this lease shall thereupon terminate as to all acreage not thereafter allocated to said well or wells for production purposes. Notwithstanding the termination of this lease as to a portion of the lands covered hereby, Lessee shall nevertheless continue to have the right of ingress to and egress from the lands still subject to this lease for all purposes described in Paragraph 1 hereof, together with easements and rights-of-way for existing roads, existing pipelines and other existing facilities on, over and across all the lands described in Paragraph 1 hereof ("the retained lands"), for access to and from the retained lands and for the gathering or transportation of oil, gas and other minerals produced from the retained lands.

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

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

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

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

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CULBERSON COUNTY, TEXAS

BY Darlene Camacho DEPUTY

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

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

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

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

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

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

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

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

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

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

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

- (1) a nominee of the owner of the soil;
- (2) a corporation or subsidiary in which the owner of the soil is a principal stockholder or is an employee of such a corporation or subsidiary;
- (3) a partnership in which the owner of the soil is a partner or is an employee of such a partnership;
- (4) a principal stockholder or employee of the corporation which is the owner of the soil;
- (5) a partner or employee in a partnership which is the owner of the soil;

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CULBERSON COUNTY, TEXAS
BY [Signature]



(6) a fiduciary for the owner of the soil; including but not limited to a guardian, trustee, executor, administrator, receiver, or conservator for the owner of the soil; or

(7) a family member of the owner of the soil or related to the owner of the soil by marriage, blood, or adoption.

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

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

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

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

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

33. **LIEN.** In accordance with Texas Natural Resources Code 52.136, the State shall have a first lien upon all oil and gas produced from the area covered by this lease to secure payment of all unpaid royalty and other sums of money that may become due under this lease. By acceptance of this lease, Lessee grants the State, in addition to the lien provided by Texas Natural Resources Code 52.136 and any other applicable statutory lien, an express contractual lien on and security interest in all leased minerals in and extracted from the leased premises, all proceeds which may accrue to Lessee from the sale of such leased minerals, whether such proceeds are held by Lessee or by a third party, and all fixtures on and improvements to the leased premises used in connection with the production or processing of such leased minerals in order to secure the payment of all royalties or other amounts due or to become due under this lease and to secure payment of any damages or loss that Lessor may suffer by reason of Lessee's breach of any covenant or condition of this lease, whether express or implied. This lien and security interest may be foreclosed with or without court proceedings in the manner provided in the Title 1, 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.

34. **POOLING.** Lessee is hereby granted the right to pool or unitize the royalty interest of the owner of the soil under this lease with any other leasehold or mineral interest for the exploration, development and production of oil or gas or either of them upon the same terms as shall be approved by the School Land Board and the Commissioner of the General Land Office for the pooling or unitizing of the interest of the State under this lease pursuant to Texas Natural Resources Code 52.151-52.153. The owner of the soil agrees that the inclusion of this provision in this lease satisfies the execution requirements stated in Texas Natural Resources Code 52.152.

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

IF IT BEARS THE SEAL OF THE COUNTY CLERK

ATTEST:



Linda McDonald
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS

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

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

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

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

Clay Johnson
LESSEE
BY: CLAY JOHNSON
TITLE: _____
DATE: 5-15-98

STATE OF TEXAS

BY: Lucille Agnes Vinson Martin

Individually and as agent for the State of Texas Lucille Agnes

Vinson Martin, dealing in her sole and separate property

Date: May 8, 1998

SS# [REDACTED]

STATE OF TEXAS

BY: _____

Individually and as agent for the State of Texas

Date: _____

STATE OF TEXAS

BY: _____

Individually and as agent for the State of Texas

Date: _____

STATE OF TEXAS

BY: _____

Individually and as agent for the State of Texas

Date: _____

IF IT BEARS THE SEAL OF THE COUNTY CLERK
A CERTIFIED COPY
ATTEST: June 9, 1998
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS
BY: [Signature] DEPUTY

STATE OF LOUISIANA

(CORPORATION ACKNOWLEDGMENT)

~~COUNTY OF~~ PARISH OF LAFAYETTE

BEFORE ME, the undersigned authority, on this day personally appeared LUCILLE AGNES VINSON MARTIN

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 8TH day of MAY, 19 98.

Carlene C. Malagane
Notary Public in and for STATE OF LOUISIANA

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 LOUISIANA

(INDIVIDUAL ACKNOWLEDGMENT)

~~COUNTY OF~~ PARISH OF LAFAYETTE

Before me, the undersigned authority, on this day personally appeared Lucille Agnes Vinson Martin,
dealing in her sole and separate property

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 8TH day of MAY, 19 98.

Carlene C. Malagane
Notary Public in and for LOUISIANA LAFAYETTE PARISH

STATE OF Texas

(INDIVIDUAL ACKNOWLEDGMENT)

COUNTY OF Midland

Before me, the undersigned authority, on this day personally appeared Clay Johnson

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 15th day of May, 19 98.

Monica Marlowe
Notary Public in and for Texas



A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK
ATTEST: June 9, 1998



LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS

BY Linda McDonald DEPUTY

EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OIL AND GAS LEASE DATED MAY 5, 1998, BY AND BETWEEN LUCILLE AGNES VINSON MARTIN, DEALING IN HER SOLE AND SEPARATE PROPERTY AS LESSOR, AND CLAY JOHNSON, AS LESSEE, AND COVERING THE SE/4 OF SECTION 11, BLOCK 54, PUBLIC SCHOOL LAND SURVEY, CULBERSON COUNTY, TEXAS.

If, at the expiration of the primary term hereof, this lease is being held by production or a shut-in well pursuant to the terms hereof, or Lessee is then engaged in operations on said land or on lands pooled therewith, or Lessee has completed a well as a dry hole or shall have commenced a well within 180 days prior to the expiration of the primary term hereof, Lessee agrees to commence a continuous drilling program on said lands, or on lands pooled therewith, within 180 days after the end of the primary term hereof or within 180 days after the completion of drilling operations being conducted on said land, or lands pooled therewith, at the end of the primary term hereof, whichever is the later date; and thereafter carry on the continuous drilling program until all proration units have been drilled, allowing not more than 180 days to elapse between the completion of one well and the commencement of the next succeeding well. Should Lessee fail to commence the continuous drilling program or subsequently default in the performance thereof, then in either event, this lease shall terminate as to all lands covered hereby, save and except for the proration units surrounding each well then producing, capable of producing or upon which operations are being conducted. The term "proration unit" as used in this paragraph means any acreage designated as a drilling unit or production unit in accordance with the rules of the Railroad Commission of the State of Texas. Further, the term "commencement" shall mean that point in time when the pertinent well is spudded and the term "completion" shall mean the date upon which the initial potential test report is filed with the Railroad Commission of the State of Texas, if a productive well, or the date of filing the plugging report with the commission, if a dry hole. Notwithstanding the termination of this lease as to a portion of the lands covered hereby, Lessee shall nevertheless continue to have the right of ingress to and egress from said land still subject to this lease for purposes described in paragraph 1 hereof, together with easements and rights of way for roads, pipelines and other facilities on, over and across all of the lands still subject to this lease and for the gathering or transportation of oil and gas produced from the retained lands. The sole liability or penalty for the failure of Lessee to drill any well or wells required or permitted in this lease shall be the termination or partial termination of Lessee's rights under the lease as provided above.

In conducting such continuous drilling program, Lessee shall be entitled to accumulate and later use time, if any, saved between wells, beginning with the second well under this continuous drilling program. If one well is commenced sooner than 180 days after the completion of the last preceding well, the portion of the prescribed 180 day period not used may be carried forward and added to the period between subsequent wells.

Lucille Agnes Vinson Martin
LUCILLE AGNES VINSON MARTIN,
DEALING IN HER SOLE AND SEPARATE
PROPERTY

A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK
ATTEST: *Linda McDonald* 9, 1998
LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS
BY *Tamara Calhoun* DEPUTY



(4.)
MF 100073
ITEM Lease
TO _____
FROM _____
DATE 5-8-98

THE STATE OF TEXAS I McDonald
COUNTY OF CULBERSON I, Linda ~~McDonald~~ Clerk of the County Court in and
for said County and State, do hereby certify that the foregoing is a true and
correct copy of Oil & Gas Lease dated 5-15-98
to _____
19 98 at 1:15 filed for record in my office this 9th day of June
P M., under Clerk's File No. 50788, to be
recorded in the Oil & Gas Records of Culberson County,
Texas.
TO CERTIFY WHICH, Witness my hand and official seal at Van Horn, this
9th day of June, 19 98.
By Linda McDonald Deputy. Linda McDonald
LINDA ~~McDonald~~ COUNTY CLERK
CULBERSON COUNTY, TEXAS.

FILED FOR RECORD
AT 1:15 O'CLOCK P M
ON THE 9 DAY OF June
A.D., 19 98.

STATE OF TEXAS
COUNTY OF CULBERSON
I hereby certify that this instrument was FILED on
the date and at the time stamped hereon by me
and was duly RECORDED in the Volume and
Page of the _____ Records
of Culberson County, Texas.

Linda McDonald
COUNTY CLERK, CULBERSON COUNTY, TEXAS

 Linda McDonald
COUNTY CLERK,
CULBERSON COUNTY, TEXAS

BY Rosario Carrasco
DEPUTY

VOL. _____ PAGE _____
RECORDED _____

50788

TITAN RESOURCES, L.P.
ACQUISITION CHECKING

COMMISSIONER OF THE GENERAL LAND OFFICE

6/8/98

001874

PARAGON #299:Lease Bonus

Payment in full of the 1/2 of lease bonus
consideration due the State
of Texas for Oil and Gas Lease dated
05/08/98 from the State of Texas by Agent,
Lucille Agnes Vinson Martin, Lessors, in
favor of Clay Johnson, Lessee,
covering the SE/4 of Section 11,
Block 54, PSL, Culberson
County, Texas.

1,000.00

170

Checking

Lease Bonus

98053823

X

1,000.00

TITAN RESOURCES, L.P.
ACQUISITION CHECKING

COMMISSIONER OF THE GENERAL LAND OFFICE

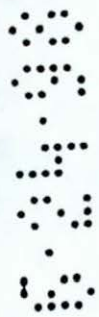
6/8/98

001874

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Payment in full of the 1/2 of lease bonus
consideration due the State
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Lucille Agnes Vinson Martin, Lessors, in
favor of Clay Johnson, Lessee,
covering the SE/4 of Section 11,
Block 54, PSL, Culberson
County, Texas.

1,000.00



PAYMENT
RECORDED

Checking

Lease Bonus

Trans. 2476

1,000.00

COMMISSIONER OF THE GENERAL LAND OFFICE

6/8/98

001873

PARAGON #299:GLO Filing & Processing Fees

Payment in full of the filing and processing fees due the State of Texas for Oil and Gas Lease dated 05/08/98 from the State of Texas by Agent, Lucille Agnes Vinson Martin, Lessors, in favor of Clay Johnson, Lessee, covering the SE/4 of Section 11, Block 54, PSL, Culberson County, Texas.

125.00

170

Checking

GLO Filing and Processing Fees

98053822

X

125.00

COMMISSIONER OF THE GENERAL LAND OFFICE

6/8/98

001873

PARAGON #299:GLO Filing & Processing Fees

Payment in full of the filing and processing fees due the State of Texas for Oil and Gas Lease dated 05/08/98 from the State of Texas by Agent, Lucille Agnes Vinson Martin, Lessors, in favor of Clay Johnson, Lessee, covering the SE/4 of Section 11, Block 54, PSL, Culberson County, Texas.

125.00



Checking

GLO Filing and Processing Fees

Trans, 2476

125.00

TITAN RESOURCES, L.P.
ACQUISITION CHECKING

COMMISSIONER OF THE GENERAL LAND OFFICE

6/8/98

001872

PARAGON #299:Lease Bonus

Payment in full of the 1/2 of lease bonus
consideration due the State
of Texas for Oil and Gas Lease dated
05/08/98 from the State of Texas by Agent,
William Wise Vinson, Lessors, in
favor of Clay Johnson, Lessee,
covering the SE/4 of Section 11,
Block 54, PSL, Culberson
County, Texas.

1,000.00

170

Checking

Lease Bonus

98053821

X

1,000.00

TITAN RESOURCES, L.P.
ACQUISITION CHECKING

COMMISSIONER OF THE GENERAL LAND OFFICE

6/8/98

001872

PARAGON #299:Lease Bonus

Payment in full of the 1/2 of lease bonus
consideration due the State
of Texas for Oil and Gas Lease dated
05/08/98 from the State of Texas by Agent,
William Wise Vinson, Lessors, in
favor of Clay Johnson, Lessee,
covering the SE/4 of Section 11,
Block 54, PSL, Culberson
County, Texas.

1,000.00



Checking

Lease Bonus

Trans. 2477

1,000.00

COMMISSIONER OF THE GENERAL LAND OFFICE

6/8/98

001871

PARAGON #299:GLO Filing & Processing Fees

Payment in full of the filing and
processing fees due the State
of Texas for Oil and Gas Lease dated
05/08/98 from the State of Texas by Agent,
William Wise Vinson, Lessors, in
favor of Clay Johnson, Lessee,
covering the SE/4 of Section 11,
Block 54, PSL, Culberson
County, Texas.

125.00

170

Checking

GLO Filing and Processing Fees

98053820

X

125.00

COMMISSIONER OF THE GENERAL LAND OFFICE

6/8/98

001871

PARAGON #299:GLO Filing & Processing Fees

Payment in full of the filing and
processing fees due the State
of Texas for Oil and Gas Lease dated
05/08/98 from the State of Texas by Agent,
William Wise Vinson, Lessors, in
favor of Clay Johnson, Lessee,
covering the SE/4 of Section 11,
Block 54, PSL, Culberson
County, Texas.

125.00



Checking

GLO Filing and Processing Fees

Trans. 2477

125.00

COMMISSIONER OF THE GENERAL LAND OFFICE

6/9/98

001896

PARAGON #299:GLO Filing & Processing Fees

Payment in full of the filing and processing fees due the State of Texas for Oil and Gas Lease dated 05/05/98 from the State of Texas by Agent, Perry Chapman, Lessors, in favor of Clay Johnson, Lessee, covering SE/4 of Section 11, Block 54, PSL, Culberson County, Texas.

125.00

170

Checking

GLO Filing and Processing Fees

98053844

X

125.00

COMMISSIONER OF THE GENERAL LAND OFFICE

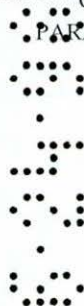
6/9/98

001896

• PARAGON #299:GLO Filing & Processing Fees

Payment in full of the filing and processing fees due the State of Texas for Oil and Gas Lease dated 05/05/98 from the State of Texas by Agent, Perry Chapman, Lessors, in favor of Clay Johnson, Lessee, covering SE/4 of Section 11, Block 54, PSL, Culberson County, Texas.

125.00



Checking

GLO Filing and Processing Fees

Trans 2473

125.00

TITAN RESOURCES, L.P.
ACQUISITION CHECKING

COMMISSIONER OF THE GENERAL LAND OFFICE

6/9/98

001897

PARAGON #299:Lease Bonus

Payment in full of the 1/2 of lease bonus
consideration due the State
of Texas for Oil and Gas Lease dated
05/05/98 from the State of Texas by Agent,
Perry Chapman, Lessors,
in favor of Clay Johnson, Lessee,
covering SE/4 of Section 11,
Block 54, PSL, Culberson
County, Texas.

2,000.00

170

98053845

Checking

Lease Bonus

X 2,000.00

TITAN RESOURCES, L.P.
ACQUISITION CHECKING

COMMISSIONER OF THE GENERAL LAND OFFICE

6/9/98

001897

PARAGON #299:Lease Bonus

Payment in full of the 1/2 of lease bonus
consideration due the State
of Texas for Oil and Gas Lease dated
05/05/98 from the State of Texas by Agent,
Perry Chapman, Lessors,
in favor of Clay Johnson, Lessee,
covering SE/4 of Section 11,
Block 54, PSL, Culberson
County, Texas.

2,000.00

Checking

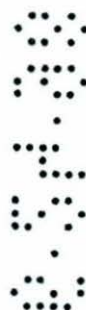
Lease Bonus

2,000.00

Trans 2473

(5) MF 100073
ITEM Power Receipt
TO _____
FROM _____
DATE 6-24-98

98023842





June 11, 1998

Mr. Drew Reid
Texas General Land Office
Stephen F. Austin Building
1700 North Congress Avenue
Austin, Texas 78701

Re: Relinquishment Act Oil and Gas Lease
Lucille Agnes Vinson Martin
Agent for the State of Texas, Lessor
Clay Johnson, Lessee
Culberson County, Texas
Paragon Prospect

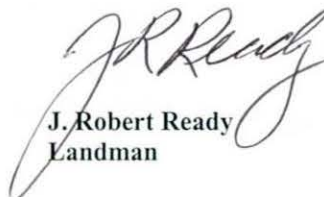
Dear Mr. Reid:

With reference to our previous conversations pertaining to the captioned Oil and Gas Lease, enclosed please find the following for your files and further handling:

1. Certified copy of Oil and Gas Lease dated May 8, 1998, between the State of Texas, acting by and through its Agent, Lucille Agnes Vinson Martin, said Agent referred to as the owner of the soil, and Clay Johnson, Lessee, covering SE/4 of Section 11, Block 54, Public School Land Survey containing 160 acres in Culberson County, Texas, which has been duly filed and recorded in the Oil and Gas Lease Records of Culberson County, Texas. Titan Lease No. TX299-109-080-002-00.
2. Titan Resources, L.P. Check No. 1874 made payable to the order of Commissioner of the General Land Office of the State of Texas in the amount of \$1,000.00, representing payment in full of lease bonus consideration (1/2 due the State of Texas) for the above mentioned Oil and Gas Lease.
3. Titan Resources, L.P. Check No. 1873 made payable to the order of Commissioner of the General Land Office of the State of Texas in the amount of \$125.00, representing the required processing and filing fee for handling this matter.

Please advise this office of the assigned Mineral Number for the enclosed lease when it has been processed and duly filed in your records. If additional information is required, please do not hesitate to contact the undersigned. Thank you for your continued cooperation and courtesy in this matter.

Very truly yours,


J. Robert Ready
Landman

/gm/wb
Enclosures

contact - 186
trans - 3476
Dr 



June 11, 1998

Mr. Drew Reid
Texas General Land Office
Stephen F. Austin Building
1700 North Congress Avenue
Austin, Texas 78701

Re: Relinquishment Act Oil and Gas Lease
William Wise Vinson, Agent for the State of Texas, Lessor
Clay Johnson, Lessee
Culberson County, Texas
Paragon Prospect

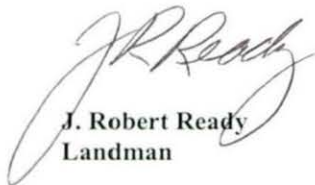
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With reference to our previous conversations pertaining to the captioned Oil and Gas Lease, enclosed please find the following for your files and further handling:

1. Certified copy of Oil and Gas Lease dated May 8, 1998, between the State of Texas, acting by and through its Agent, William Wise Vinson, said Agent referred to as the owner of the soil, and Clay Johnson, Lessee, covering SE/4 of Section 11, Block 54, Public School Land Survey containing 160 acres in Culberson County, Texas, which has been duly filed and recorded in the Oil and Gas Lease Records of Culberson County, Texas. Titan Lease No. TX299-109-080-001-00.
2. Titan Resources, L.P. Check No. 1872 made payable to the order of Commissioner of the General Land Office of the State of Texas in the amount of \$1,000.00, representing payment in full of lease bonus consideration (1/2 due the State of Texas) for the above mentioned Oil and Gas Lease.
3. Titan Resources, L.P. Check No. 1871 made payable to the order of Commissioner of the General Land Office of the State of Texas in the amount of \$125.00, representing the required processing and filing fee for handling this matter.

Please advise this office of the assigned Mineral Number for the enclosed lease when it has been processed and duly filed in your records. If additional information is required, please do not hesitate to contact the undersigned. Thank you for your continued cooperation and courtesy in this matter.

Very truly yours,


J. Robert Ready
Landman

/gm/wb
Enclosures

Contact - 186
Trans. - 2477
Pir [redacted]



June 11, 1998

Mr. Drew Reid
Texas General Land Office
Stephen F. Austin Building
1700 North Congress Avenue
Austin, Texas 78701

Re: Relinquishment Act Oil and Gas Lease
Perry Chapman, Agent for the State of Texas, Lessor
Clay Johnson, Lessee
Culberson County, Texas
Paragon Prospect

Dear Mr. Reid:

With reference to our previous conversations pertaining to the captioned Oil and Gas Lease, enclosed please find the following for your files and further handling:

1. Certified copy of Oil and Gas Lease dated May 5, 1998, between the State of Texas, acting by and through its Agent, Perry Chapman, said Agent referred to as the owner of the soil, and Clay Johnson, Lessee, covering SE/4 of Section 11, Block 54, PSL, containing 160 acres in Culberson County, Texas, which has been duly filed and recorded in the Oil and Gas Lease Records of Culberson County, Texas. Titan Lease No. TX299-109-080-003-00.
2. Titan Resources, L.P. Check No. 1897 made payable to the order of Commissioner of the General Land Office of the State of Texas in the amount of \$2,000.00, representing payment in full of lease bonus consideration (1/2 due the State of Texas) for the above mentioned Oil and Gas Lease.
3. Titan Resources, L.P. Check No. 1896 made payable to the order of Commissioner of the General Land Office of the State of Texas in the amount of \$125.00, representing the required processing and filing fee for handling this matter.

Please advise this office of the assigned Mineral Number for the enclosed lease when it has been processed and duly filed in your records. If additional information is required, please do not hesitate to contact the undersigned. Thank you for your continued cooperation and courtesy in this matter.

Very truly yours,


J. Robert Ready
Landman

/gm/wb
Enclosures

Contact - 186
Trans. - 2473
Per - [redacted]

⑥ AF 100073
ITEM Letter
TO _____
FROM _____
DATE 6-11-98

RAL REVIEW SHEET

Transaction # 2476
Lessor: Martin, Lucille Agnes Vinson
Lessee: Clay Johnson

Geologist: L. Collier
Lease Date: 5/8/98 **UE** ☐
Acres: 160

LEASE DESCRIPTION

County	Base File No	Part	Sec.	Block	Twp	Survey	Abst#
CULBERSON	138817	SE/4	11	54	00	PUBLIC SCHOOL LAND	6005

TERMS OFFERED

Primary Term: 5 years
Bonus/Acre: \$50.00
Rental/Acre: \$1.00
Royalty: 3/16

TERMS RECOMMENDED

Primary Term 5 years
Bonus/Acre \$50.00
Rental/Acre \$1.00
Royalty 3/16

COMPARISONS

MF #	Lessee	Date	Term	Bonus/Ac.	Rental/Ac.	Royalty	Distance Last Lease

Comments: William Wise Vinson--SE/4 Sec.11, blk. 54.

Approved: PAB 7-10-98

Friday, July 10, 1998

RAL REVIEW SHEET

Transaction # 2473

Geologist: L. Collier

Lessor: Chapman, Perry

Lease Date: 5/5/98

U: ☐

Lessee: Clay Johnson

Acres: 160

LEASE DESCRIPTION

County	Base File No	Part	Sec.	Block	Twp	Survey	Abst#
CULBERSON	138817	SE/4	11	54	00	PUBLIC SCHOOL LAND	6005

TERMS OFFERED

Primary Term: 5 years

Bonus/Acre: \$50.00

Rental/Acre: \$1.00

Royalty: 3/16

TERMS RECOMMENDED

Primary Term: 5 years

Bonus/Acre: \$50.00

Rental/Acre: \$1.00

Royalty: 3/16

COMPARISONS

MF #	Lessee	Date	Term	Bonus/Ac.	Rental/Ac.	Royalty	Distance
							Last Lease

Comments:

Approved: PAB 7.10.98

Friday, July 10, 1998

100073
ITEM Real Review Sheet
TO _____
FROM _____
DATE ✓



Texas General Land Office
Garry Mauro, Commissioner

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

September 17, 1998

Titan Resources, L.P.
500 W. Texas, Suite 500
Midland, Texas 79701

Attn: J. Robert Ready

Re: Relinquishment Act Lease No. M-100073
SE/4 of Sec. 11, Blk. 54, PSL Survey
Culberson County

Dear Mr. Ready:

The certified copy of the Relinquishment Act lease covering the above referenced tract has been approved and filed in our records under mineral file number M-100073. Please refer to this number in all future correspondence concerning the lease.

Your remittance of \$4,125.00, has been applied as the state's portion of the bonus, the processing fee and the filing fee. Please let me know if you should have any questions.

Sincerely,

Drew Reid by post

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

MT/DR

OF 100073
ITEM Letter
O
FROM
DATE 9-17-98

9.

File No. MF 100073A

Rental Payment

Date Filed: 4/30/99

By David Dawhurst, Commissioner

2023

Lease Number	Book/Vol	Page	Entry	County / Parish	State			
TX299-109-080-002-00	77	283	50788	CULBERSON	TX			
Lease Name:	Vinson, L.: State of Texas, et al, acting by and			Lease Date	05/08/98			
Legal Description								
SE/4 of Section 11, Block 54, Public School Land Survey								
99040991								
PROSPECT TX299 - PARAGON INDIAN/ST/FED LSE# M-100073								
Payer(s)	Account Number			Amount				
State of Texas General Land Office 1700 N. Congress Avenue Austin, TX 78701				X 20.00 121 Titan Resources				
RN... Period Beg. 05/08/1999 DELAY RENTAL				CHECK # 100290				

INSTRUCTIONS TO DEPOSITORY: You have been designated as depository for the above described payment. Please credit the proceeds thereof to the parties named and in the amounts indicated. Should any difficulty of any nature arise, DO NOT RETURN our check, but make the deposit to the credit of the party named in a special account, and advise us as soon as possible for further instructions.

100290

10.

File No. MF 100073B

Kentel Gayment

Date Filed: 4/27/99

By David Dewhurst, Commissioner

4363

Lease Number	Book/Vol	Page	Entry	County / Parish	State
TX299-109-080-003-00	77	319	50792	CULBERSON	TX
Lease Name:	Chapman, P.: State of Texas, et al, acting by and			Lease Date	05/08/98
Legal Description					
SE/4 of Section 11, Block 54, Public School Land Survey					
99040990  PROSPECT TX299 - PARAGON INDIAN/ST/FED LSE# M-100073					
Payee(s)			Account Number	Amount	
State of Texas General Land Office 1700 N. Congress Avenue Austin, TX 78701			X 40.00 121 Titan Resources		
RN - Period Beg. 05/08/1999 DELAY RENTAL				CHECK # 100292	

INSTRUCTIONS TO DEPOSITORY: You have been designated as depository for the above described payment. Please credit the proceeds thereof to the parties named and in the amounts indicated. Should any difficulty of any nature arise, DO NOT RETURN our check, but make the deposit to the credit of the party named in a special account, and advise us as soon as possible for further instructions.

100292

File No. MF100073C

Rental Payment

Date Filed:

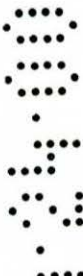
4/27/99

David DeBurst, Commissioner

By

David DeBurst

25.00

Lease Number	Book/Vol	Page	Entry	County / Parish	State			
TX299-109-080-003-00	77	319	50792	CULBERSON	TX			
Lease Name:	Chapman, P.: State of Texas, et al, acting by and			Lease Date	05/08/98			
Legal Description								
SE/4 of Section 11, Block 54, Public School Land Survey								
 PROSPECT TX299 - PARAGON INDIAN/ST/FED LSE# M-100073								
Payee(s)			Account Number		Amount			
State of Texas General Land Office 1700 N. Congress Avenue Austin, TX 78701			43299		40.00			
RN - Period Beg. 05/08/2000 DELAY RENTAL				CHECK # 100940				

INSTRUCTIONS TO DEPOSITORY: You have been designated as depository for the above described payment. Please credit the proceeds thereof to the parties named and in the amounts indicated. Should any difficulty of any nature arise, DO NOT RETURN our check, but make the deposit to the credit of the party named in a special account, and advise us as soon as possible for further instructions.

100940

12.

File No. MF100073

Rental Payment

Date Filed: 4/4/00

By [Signature]
Deputy Assistant Commissioner

4.3.00

Lease Number	Book/Vol	Page	Entry	County / Parish	State			
TX299-109-080-001-00	77	292	50789	CULBERSON	TX			
Lease Name:	Vinson, W.: State of Texas, et al, acting by and			Lease Date	05/08/98			
Legal Description								
SE/4 of Section 11, Block 54, Public School Land Survey								
 PROSPECT TX299 - PARAGON INDIAN/ST/FED LSE# M-100073								
Page(s) State of Texas General Land Office 1700 N. Congress Avenue Austin, TX 78701			Account Number		Amount			
			43298		Cax 20.00			
RN - Period Beg. 05/08/2000 DELAY RENTAL				CHECK # 100936				

INSTRUCTIONS TO DEPOSITORY: You have been designated as depository for the above described payment. Please credit the proceeds thereof to the parties named and in the amounts indicated. Should any difficulty of any nature arise, DO NOT RETURN our check, but make the deposit to the credit of the party named in a special account, and advise us as soon as possible for further instructions.

100936

13.

File No. MF 100073

Rental Payment

Date Filed: 4/24/00

By David J. Carter, Commissioner

2000

Lease Number	Book/Vol	Page	Entry	County / Parish	State
TX299-109-080-002-00	77	283	50788	CULBERSON	TX
Lease Name:	Vinson, L.: State of Texas, et al, acting by and			Lease Date	05/08/98
Legal Description					
SE/4 of Section 11, Block 54, Public School Land Survey					
43592 					
PROSPECT TX299 - PARAGON INDIAN/ST/FED LSE# M-100073					
Payee(s)			Account Number		Amount
State of Texas General Land Office 1700 N. Congress Avenue Austin, TX 78701					 20.00
RN - Period Beg. 05/08/2000 DELAY RENTAL				CHECK # 100938	

INSTRUCTIONS TO DEPOSITORY: You have been designated as depository for the above described payment. Please credit the proceeds thereof to the parties named and in the amounts indicated. Should any difficulty of any nature arise, DO NOT RETURN our check, but make the deposit to the credit of the party named in a special account, and advise us as soon as possible for further instructions.

100938

MF100073

Rental Payment

Date Filed:

Transportation Commissioner

22

00:25:44

Check # 102133

Property Id / MMS	Eff. Date	Recording Information	State	County/Parish		
TX299-109-080-003-00 M-100073	05/08/1998	07/09/98 BK 77 PG 319 ENTRY 50792	Texas	Culberson		
Property Name / Lessor						
State of Texas, acting by and through its agent, Perry Chapman Martin, dealing in his sole and separate property						
Property Legal Description						
SE/4 of Section 11, Block 54, Public School Land Survey						
01036255						
12/cm						
Payee Name & Address				SSN/Tax Id Number		
State of Texas, acting by and through the Commissioner of the General Land Office 1700 N. Congress Avenue Austin, TX 78701						
				Federal Tax Withheld		
				0.00		
				Account Number		
				Total Bank Charges		
				0.00		
Payment Due Date	Period (in months)	Payment Description	Amount Due	Bank Service Charges	Property Sub-Type	Property Sub-Id
05/08/2001	12	DELAY RENTAL	40.00	0.00		
//			0.00	0.00		
//			0.00	0.00		
//			0.00	0.00		
//			0.00	0.00		

Instructions to depository: you have been designated as depository for the above described payment(s). Please credit the proceeds thereof to the parties named and in the amounts indicated. Should any difficulty arise, make the deposit in a special account, and contact us immediately.

No 102133

10-314

File No. MF 100073 15.
Rental Payment
Date Filed: 4/16/01
David Dewhurst, Commissioner
By [Signature]

Check #102129

Property Id / MMS	Eff. Date	Recording Information	State	County/Parish		
TX299-109-080-001-00 M-100073	05/08/1998	07/09/98 BK 77 PG 292 ENT BY 50789	Texas	Culberson		
Property Name / Lessor						
State of Texas, acting by and through its agent, William Wise Vinson, dealing in his sole and separate property						
Property Legal Description						
SE/4 of Section 11, Block 54, Public School Land Survey						
01036256						
Payee Name & Address				SSN/Tax Id Number		
State of Texas, acting by and through the Commissioner of the General Land Office 1700 N. Congress Avenue Austin, TX 78701						
				Federal Tax Withheld		
				0.00		
				Account Number		
				Total Bank Charges		
				0.00		
Payment Due Date	Period (in months)	Payment Description	Amount Due	Bank Service Charges	Property Sub-Type	Property Sub-Id
05/08/2001	12	DELAY RENTAL	20.00	0.00		
/ /			0.00	0.00		
/ /			0.00	0.00		
/ /			0.00	0.00		
/ /			0.00	0.00		

Instructions to depository: you have been designated as depository for the above described payment(s). Please credit the proceeds thereof to the parties named and in the amounts indicated. Should any difficulty arise, make the deposit in a special account, and contact us immediately.

No 102129

10-31-4

File No. MF100073 16
Rental Payment
Date Filed: 4/16/01
David Dewhurst, Commissioner
By [Signature]

Check # 102133

Property Id / MMS	Eff. Date	Recording Information	State	County/Parish		
TX299-109-080-003-00 M-100073	05/08/1998	07/09/98 BK 77 PG 319 ENTRY 50792	Texas	Culberson		
Property Name / Lessor						
State of Texas, acting by and through its agent, Perry Chapman Martin, dealing in his sole and separate property						
Property Legal Description						
SE/4 of Section 11, Block 54, Public School Land Survey						
Payee Name & Address				SSN/Tax Id Number		
State of Texas, acting by and through the Commissioner of the General Land Office 1700 N. Congress Avenue Austin, TX 78701						
				Federal Tax Withheld		
				0.00		
				Account Number		
				Total Bank Charges		
				0.00		
Payment Due Date	Period (in months)	Payment Description	Amount Due	Bank Service Charges	Property Sub-Type	Property Sub-Id
05/08/2001	12	DELAY RENTAL	40.00	0.00		
/ /			0.00	0.00		
/ /			0.00	0.00		
/ /			0.00	0.00		
/ /			0.00	0.00		
/ /			0.00	0.00		

Instructions to depository: you have been designated as depository for the above described payment(s). Please credit the proceeds thereof to the parties named and in the amounts indicated. Should any difficulty arise, make the deposit in a special account, and contact us immediately.

Received By : _____

Title : _____

Date Received : _____

Check # **102133**

Check Date 04/10/2001

Property Id TX299-109-080-003-00

Total Amount \$40.00

***** Please sign, insert the date received, and return to: *****

Depository Bank Information:

Pure Resources, L.P.
Attn: Donna Keffler
500 West Illinois St.
Midland, TX 79701
Phone : 915.498.8665
Fax : 915.498.2675

17.

10.3.14

File No.

MF100073

David Dewhurst

Date Filed:

4/16/10

David Dewhurst, Commissioner

By

Check # 102131

Property Id / MMS	Eff. Date	Recording Information	State	County/Parish		
TX299-109-080-002-00 M-100073	05/08/1998	07/09/98 BK 77 PG 283 ENTRY 50788	Texas	Culberson		
Property Name / Lessor						
State of Texas, acting by and through its agent, Lucille Agnes Vinson Martin, dealing in her sole and separate property						
Property Legal Description						
SE/4 of Section 11, Block 54, Public School Land Survey						
01036265 X 20.00						
Payee Name & Address				SSN/Tax Id Number		
State of Texas, acting by and through the Commissioner of the General Land Office 1700 N. Congress Avenue Austin, TX 78701						
				Federal Tax Withheld		
				0.00		
				Account Number		
				Total Bank Charges		
				0.00		
Payment Due Date	Period (in months)	Payment Description	Amount Due	Bank Service Charges	Property Sub-Type	Property Sub-Id
05/08/2001	12	DELAY RENTAL	20.00	0.00		
/ /			0.00	0.00		
/ /			0.00	0.00		
/ /			0.00	0.00		
/ /			0.00	0.00		
/ /			0.00	0.00		

Instructions to depository: you have been designated as depository for the above described payment(s). Please credit the proceeds thereof to the parties named and in the amounts indicated. Should any difficulty arise, make the deposit in a special account, and contact us immediately.

No 102131

10.31.4

File No.

MF 100073

18.

Rental Payment

Date Filed:

4/16/09

David Dewhurst, Commissioner

By

[Signature]

Check # 9901006

Property Id / MMS	Eff. Date	Recording Information	State	County/Parish		
TX299-109-0&0-001-00 M-100073	05/08/1998	07/09/98 BK 77 PG 292 ENTRY 50789	Texas	Culberson		
Property Name / Lessor						
State of Texas, acting by and through its agent, William Wise Vinson, dealing in his sole and separate property						
Property Legal Description						
SE/4 of Section 11, Block 54, Public School Land Survey						
✓ Pure Resources LP 02031425 121 X 20.00						
Payee Name & Address			SSN/Tax Id Number			
State of Texas, acting by and through the Commissioner of the General Land Office 1700 N. Congress Avenue Austin, TX 78701						
			Federal Tax Withheld			
			0.00			
			Account Number			
			Total Bank Charges			
			0.00			
Payment Due Date	Period (in months)	Payment Description	Amount Due	Bank Service Charges	Property Sub-Type	Property Sub-Id
05/08/2002	12	DELAY RENTAL	20.00	0.00		
/ /			0.00	0.00		
/ /			0.00	0.00		
/ /			0.00	0.00		
/ /			0.00	0.00		

Instructions to depository: you have been designated as depository for the above described payment(s). Please credit the proceeds thereof to the parties named and in the amounts indicated. Should any difficulty arise, make the deposit in a special account, and contact us immediately.

9901006

RECEIVED
 02 APR 22 PM 1:23
 DEPOSIT RECEIVED



File No. MF100073

Rental Payment

Date Filed: 4/22/02

David Dewhurst, Commissioner

By PR

Check #9901008

Property Id / MMS	Eff. Date	Recording Information	State	County/Parish		
TX299-109-080-002-00 M-100073	05/08/1998	07/09/98 BK 77 PG 283 ENTRY 50788	Texas	Culberson		
Property Name / Lessor						
State of Texas, acting by and through its agent, Lucille Agnes Vinson Martin, dealing in her sole and separate property						
Property Legal Description						
SE/4 of Section 11, Block 54, Public School Land Survey						
 Pure Resources LP 02031428 X 20.00 121						
Payee Name & Address			SSN/Tax Id Number			
State of Texas, acting by and through the Commissioner of the General Land Office 1700 N. Congress Avenue Austin, TX 78701						
			Federal Tax Withheld			
			0.00			
			Account Number			
			Total Bank Charges			
			0.00			
Payment Due Date	Period (in months)	Payment Description	Amount Due	Bank Service Charges	Property Sub-Type	Property Sub-Id
05/08/2002	12	DELAY RENTAL	20.00	0.00		
//			0.00	0.00		
//			0.00	0.00		
//			0.00	0.00		
//			0.00	0.00		

Instructions to depository: you have been designated as depository for the above described payment(s). Please credit the proceeds thereof to the parties named and in the amounts indicated. Should any difficulty arise, make the deposit in a special account, and contact us immediately.

9901008

 RECEIVED
 02 APR 22 PM 1:28
 TARRANT COUNTY CLERK

File No. MF100073

Rental Payment

Date Filed: 7/22/02

David Dewhurst, Commissioner

By DD

Check #9901010

Property Id / MMS	Eff. Date	Recording Information	State	County/Parish
TX299-109-080-003-00 M-100073	05/08/1998	07/09/98 BK 77 PG 319 ENTRY 50792	Texas	Culberson

Property Name / Lessor

State of Texas, acting by and through its agent, Perry Chapman Martin, dealing in his sole and separate property

Property Legal Description

SE/4 of Section 11, Block 54, Public School Land Survey

✓ Pure Resources LP

02031422

121
X 40.00**Payee Name & Address**

State of Texas, acting by and through the Commissioner of the General Land Office
1700 N. Congress Avenue
Austin, TX 78701

SSN/Tax Id Number**Federal Tax Withheld**

0.00

Account Number**Total Bank Charges**

0.00

Payment Due Date	Period (in months)	Payment Description	Amount Due	Bank Service Charges	Property Sub-Type	Property Sub-Id
05/08/2002	12	DELAY RENTAL	40.00	0.00		
/ /			0.00	0.00		
/ /			0.00	0.00		
/ /			0.00	0.00		
/ /			0.00	0.00		

Instructions to depository: you have been designated as depository for the above described payment(s). Please credit the proceeds thereof to the parties named and in the amounts indicated. Should any difficulty arise, make the deposit in a special account, and contact us immediately.

9901010

RECEIVED
02 APR 22 PM 1:25
ENERGY SERVICES DEPT

7
3
5

File No. MF100073 ^{19.}
Rental Payments
Date Filed: 4/22/02
David Dewhurst, Commissioner
By [Signature]