#	LeaseDate	Acres	Status	CONTROL		BASEFILE	COUNTY	
A B C D E F G	Jul 17 1998	640.00 640.00 106.66 106.66 80.00	ACTIVE ACTIVE ACTIVE ACTIVE ACTIVE ACTIVE ACTIVE	07-30866 07-30875 07-30884 07-30893 SURVEY BLOCK TOWNSHIP SECTION/TRACT PART ACRES DEPTH LIMITS	:	134162 - 134163 - 134169 - 134170 - PUBLIC SCHOO 100 00 8,9,16 & 17 2560.00	CULBERSON CULBERSON CULBERSON CULBERSON	/055 /055 /055 /055 /055
Lea Adm	in:	NAZ	D/2	LESSEE LEASE DATE PRIMARY TERM BONUS (\$) RENTAL (\$) ROYALTY VAR ROYALTY		JOHNSON, CLA Jul 17 1998 5 yrs 0.00 0.00 0.18750000	Y	



M-100186

CONTENTS OF FIL	E NO. <u>M-100</u> /86
	T
1. 9-leases	
3. RAL Review Sects	
3. Memo	
4. Bonus put receipts	
4. Bonus put receipts 5. Letter- 6 Lo.	
SelMT 09902677 7 Killis	
+ assignment 9/16/00	
See 114 F0990 36 #10 ROD	
6. Les fr Pure 3.6:2002	
Scanned Sm 3/23/15	
SCOTIVACE 3111 5/85/13	
,	
	١.

· (\$)

General Land Office Relinquishmnt Act Lease Form Revised, September 1997

IF IT BEARS	THE SEAL OF THE COUNTY CLERK
ATTEST:	- 10-26-OP
SON COURT	LINDA McDONALD, COUNTY CLERK
	CULBERSON COUNTY, TEXAS
	BY Mal 14 OK, Of

### PAID UP

# OIL AND GAS LEASE

	of 403 N. Marienfeld, Midland, TX 79701
	said agent
	(Give Permanent Address)
erein referred to as the owner of	the soil (whether one or more), and Clay Johnson
	203 W. Wall, Suite 800 of
	Midland, TX 79701
ereinafter called Lessee.	(Give Permanent Address)
-	
<ol> <li>GRANTING CLAU</li> </ol>	ISE. For and in consideration of the amounts stated below and of the covenants and agreements to be paid, kept and performed by
essee under this lease, the State of	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
	roducing oil and gas, laying pipe lines, building tanks, storing oil and building power stations, telephone lines and other structures
f Texas, to-wit:	re of, treat and transport said products of the lease, the following lands situated in <u>Culberson</u> County, State
recas, w-wit	Block 100, Public School Land Survey
	Section 8: All
	Section 9: All
	Section 16: All
	Section 17: All
ontaining 2,560 ac	
shtaining 2,500 ac	cres, more or less. The bonus consideration paid for this lease is as follows:
To the State	of Texas: Seventeen Thousand Two Hundred Eighty and No/100
	Dollars (\$ 17,280.00 )
To the owne	rofthe soil: Seventeen Thousand Two Hundred Eighty and No/100
D	Dollars (5 17, 280.00
Total bassa	consideration: Thirty-four Thousand Five Hundred Sixty and No/100
	Consideration: Intity-four indusand Five Hundred Sixty and Noy100 Dollars (\$ 34.560.00 )
he total bonus consideration paid	represents a bonus of Fifty-four and No/100
• ••	Dollars (\$ 54.00 ) per acre, on 640 net acres.
e Exhibit "A" a	attached for Pd-Up Delay Rental Provision shown as Paragraph oject to the other provisions in this lease, this lease shall be for a term of Five (5) years from this date
•••• 2. TERM. Sub	efform this date
exein called "primary term") and	as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land.
s used in this lease, the term "pro	oduced in paying quantities" means that the receipts from the sale or other authorized commercial use of the substance(s) covered
cest out of pocket operational es	expenses for the six months last past.
oo o	NTALS. If no well is commenced on the leased premises on or before one (1) year from this date, this lease shall terminate, uni-
	Lessee shall pay or tender to the owner of the soil or to his credit in
e .	Bank,
-	, or its successors (which shall continue as the depository regardless of changes in the ownership of
id land), the amount specified be	though in addition, Lessee shall pay or tender to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATE OF
	like sum on or before said date. Payments under this paragraph shall operate as a reneal and shall cover the privilege of deferring
	ne (1) year from said date. Payments under this paragraph shall be in the following amounts:
•	
	er of the soil:
To the owner	2)=
To the owner Dollar	13 (3
Dollar To the State Dollar	of Texas:rs (S
Dollar To the State	of Texas:

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.

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 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 liqui 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 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 typ 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 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 define 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 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 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 by 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.
PROCESSED GAS. Royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbors 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%) 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 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 rebeen 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 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 royaltic 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. Norwithstanding any other provision in this lease, at any time or from time to time, the owner of the soil or the Commissione 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 possible 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 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 costs producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting, and otherwise making the oil, gas and other products or 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. Norwithstanding any other provision of this lease, and subject to the written consent of the owner of the sand 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,

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

Texas, in the following manner:

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

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 easing 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.
- 23. CESSATION, DRILLING, AND REWORKING. If, after the expiration of the primary term, production of oil or gas from the leased premises, after page 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 the interpret 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 point for gas royalty

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

- 19. WARRANTY CLAUSE. The owner of the soil warrants and agrees to defend title to the leased premises. If the owner of the soil defaults in payments owed on the leased premises, then Lessee may redeem the rights of the owner of the soil in the leased premises by paying any mortgage, taxes or other liens on the leased premises. If Lessee makes payments on behalf of the owner of the soil under this paragraph, Lessee may recover the cost of these payments from the rental and royalties due the owner of the soil.
- 20. (A) PROPORTIONATE REDUCTION CLAUSE. If the owner of the soil owns less than the entire undivided surface estate in the above described land, whether or not Lessee's interest is specified herein, then the royalties and rental herein provided to be paid to the owner of the soil shall be paid to him in the proportion which his interest bears to the entire undivided surface estate and the royalties and rental herein provided to be paid to the Commissioner of the General Land Office of the State of Texas shall be likewise proportionately reduced. However, before Lessee adjusts the royalty or rental due to the Commissioner of the General Land Office, Lessee or his authorized representative must submit to the Commissioner of the General Land Office a written statement which explains the discrepancy between the interest purportedly leased under this lease and the actual interest owned by the owner of the soil. The Commissioner of the General Land Office shall be paid the value of the whole production allocable to any undivided interest not covered by a lease, less the proportionate development and production cost allocable to such undivided interest. However, in no event shall the Commissioner of the General Land Office receive as a royalty on the gross production allocable to the undivided interest not leased an amount less than the value of one-sixteenth (1/16) of such gross-production.
- (B) REDUCTION OF PAYMENTS. If, during the primary term, a portion of the land covered by this lease is included within the boundaries of a pooled unit that has been approved by the School Land Board and the owner of the soil in accordance with Natural Resources Code Sections 52.151-52.154, or if, at any time after the expiration of the primary term or the extended term, this lease covers a lesser number of acres than the total amount described herein, payments that are made on a per acre basis hereunder shall be reduced according to the number of acres pooled, released, surrendered, or otherwise severed, so that payments determined on a per acre basis under the terms of this lease during the primary term shall be calculated based upon the number of acres outside the boundaries of a pooled unit, or, if after the expiration of the primary term, the number of acres actually retained and covered by this lease.
- 21. USE OF WATER. Lessee shall have the right to use water produced on said land necessary for operations under this lease except water from wells or tanks of the owner of the soil; provided, however, Lessee shall not use potable water or water suitable for livestock or irrigation purposes for waterflood operations without the prior consent of the owner of the soil.
- 22. AUTHORIZED DAMAGES. Lessee shall pay the owner of the soil for damages caused by its operations to all personal property, improvements, livestock and crops on said land.
  - 23. PIPELINE DEPTH. When requested by the owner of the soil, Lessee shall bury its pipelines below plow depth.
- 24. WELL LOCATION LIMIT. No well shall be drilled nearer than two hundred (200) feet to any house or barn now on said premises without the written consent of the owner of the soil.
- 25. POLLUTION. In developing this area, Lessee shall use the highest degree of care and all proper safeguards to prevent pollution. Without limiting the foregoing, pollution of coastal wetlands, natural waterways, rivers and impounded water shall be prevented by the use of containment facilities sufficient to prevent spillage, seepage or ground water contamination. In the event of pollution, Lessee shall use all means at its disposal to recapture all escaped hydrocarbons or other pollutant and shall be responsible for all damage to public and private properties. Lessee shall build and maintain fences around its slush, sump, and drainage pits and tank batteries so as to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level all slush pits and cellars and completely clean up the drilling site of all rubbish thereon. Lessee shall, while conducting operations on the leased premises, keep said premises free of all rubbish, cans, bottles, paper cups or garbage, and upon completion of operations shall restore the surface of the land to as near its original condition and contours as is practicable. Tanks and equipment will be kept painted and presentable.
- 26. REMOVAL OF EQUIPMENT. Subject to limitations in this paragraph, Lessee shall have the right to remove machinery and fixtures placed by Lessee on the leased premises, including the right to draw and remove easing, 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 easing from any well capable of producing oil and gassia paying quantities. Additionally, Lessee may not draw and remove easing 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 easing which are not timely removed by Lessee undeathe ferms 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 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 opains a 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;

A CERTIFIED COPY

IF IT BEARS THE SEAL OF THE COUNTY CLERK

ATTEST:

LINDA MEDONALD, COUNTY

LINDA M-DONALD, COUNTY CLERK
CURREASON COUNTY, TEXAS

NO COUNTY, TEXAS

- (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 filled 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, bereby 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 is not true, then the Commissioner may declare this lease forfeited as provided, herein.
- 34. PCOLING. 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 aEd 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 anomeys' fees and other legal expenses, including those related to environmental hazards, on the leased premises or in any way related to Lessee's failure to comply with any and all environmental laws; those arising from or in any way related to Lessee's operations or any other of Lessee's activities on the leased premises; those arising from Lessee's use of the surface of the leased premises; and those that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Agreement or any other act or omission of Lessee, its directors, officers, employees, partners, agents, contractors, subcontractors, guests, invitees, and their respective successors and assigns. Each assignee of this Agreement, or an interest therein, agrees to be liable for, exonerate, indemnify, defend and hold harmless the State of Texas and the owner of the soil, their officers, employees, and agents in the same manner provided above in connection with the activities of Lessee, its officers, employees, and agents as described above. EXCEPT AS OTHERWISE EXPRESSLY LIMITED HEREIN, ALL OF THE INDEMNITY OBLIGATIONS AND/OR LIABILITIES ASSUMED UNDER THE TERMS OF THIS AGREEMENT SHALL BE WITHOUT LIMITS AND WITHOUT REGARD TO THE CAUSE OR CAUSES THEREOF (EXCLUDING PRE-EXISTING CONDITIONS), STRICT LIABILITY, OR THE NEGLIGENCE OF ANY PARTY OR PARTIES (INCLUDING THE NEGLIGENCE OF THE INDEMNIFIED PARTY), WHETHER SUCH NEGLIGENCE BE SOLE, JOINT, CONCURRENT, ACTIVE, OR PASSIVE.

- 36. ENVIRONMENTAL HAZARDS. Lessee shall use the highest degree of care and all reasonable safeguards to prevent contamination or pollution of any environmental medium, including soil, surface waters, groundwater, sediments, and surface or subsurface strata, ambient air or any other environmental medium in, on, or under, the leased premises, by any waste, pollutant, or contaminant. Lessee shall not bring or permit to remain on the leased premises any asbestos containing materials, explosives, toxic materials, or substances regulated as hazardous wastes, hazardous materials, hazardous substances (as the term "Hazardous Substance" is defined in the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), 42 U.S.C. Sections 9601, et seq.), or toxic substances under any federal, state, or local law or regulation ("Hazardous Materials"), except ordinary products commonly used in connection with oil and gas exploration and development operations and stored in the usual manner and quantities. LESSEE'S VIOLATION OF THE FOREGOING PROHIBITION SHALL CONSTITUTE A MATERIAL BREACH AND DEFAULT HEREUNDER AND LESSEE SHALL INDEMNIFY, HOLD HARMLESS AND DEFEND THE STATE OF TEXAS AND THE OWNER OF THE SOIL FROM AND AGAINST ANY CLAIMS, DAMAGES, JUDGMENTS, PENALTIES LIABILITIES, AND COSTS (INCLUDING REASONABLE ATTORNEYS' FEES AND COURT COSTS) CAUSED BY OR ARISING OUT OF (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.

LESSEE BY: Clay	Johnson
TITLE:	
DATE: 8-344	98
SPANS OF TEXAS  BY  Individually and as agent for the State of Texas  Wayne Moore, a widewerr  Date:	BY: Individually and as agent for the State of Texas Tax ID # Date:
STATE OF TEXAS	STATE OF TEXAS
BY.	BY:
Individually and as agent for the State of Texas	Individually and as agent for the State of Texas
Date:	Date:

A CERTIFIED COPY

IF IT BEARS THE SEAL OF THE COUNTY CLERK

ATTEST:

LINDA MADONALD, COUNTY CLERK

CULBERSON GOUNTY, TEXAS

BY CALCE MAD AND DEPLY

STATE OF	(CORPORATION ACKNOWLEDGMENT)
COUNTY OF	
BEFORE ME, the undersigned authority, on this day personally appeared	4
nown to me to be the person whose name is subscribed to the foregoing instrument	
	and acknowledged to me that he executed the
r the purposes and consideration therein expressed, in the capacity stated, and as the	he act and deed of said corporation.
Given under my hand and seal of office this theday of	. 19
	Notary Public in and for
TATE OF	
FATE OF	(CORPORATION ACKNOWLEDGMENT)
OUNTY OF	*
BEFORE ME, the undersigned authority, on this day personally appeared	
nown to me to be the person whose name is subscribed to the foregoing instrument,	of
	and acknowledged to me that he executed the
r the purposes and consideration therein expressed, in the capacity stated, and as the	
Given under my hand and seal of office this theday of	
4.47	
	Notary Public in and for
<u> </u>	- A
TATE OF TEXAS	(INDIVIDUAL ACKNOWLEDGMENT)
ounty of Midland	(a.b. r.b. o. E. r.o. o. v. E. B. o. v. e. v. E. b. o.
Before me, the undersigned authority, on this day personally appeared	Wayne Moore, a widower
nown to me to be the persons whose names are subscribed to the foregoing instrume	ent, and acknowledged to me that they executed the same for the purpos
$\gamma_{1ab}$	· Only 98
	The transfer of Ray 1
PATRICIA L. BANE NOTARY PUBLIC	Patrician. Dane:
State of Texas Comm. Exp. 05-29-2000	Notary Public in and for
ATE OF TOTAL	DEPLATIAL ACCIONAL EDGMENT
00:410.0	(INDIVIDUAL ACKNOWLEDGMENT)
DUNTY OF TYLIQUE AND THE	Clay Johnson:
Before me, the undersigned authority, on this day personally appeared	any sorrison.
own to me to be the persons whose names are subscribed to the foregoing instrume	mt, and acknowledged to me that they executed the same for the purpos
nsideration therein expressed.	August 20
Given under my hand and seal of office this theday of	1 19 10.
MONICA MARLOWE	Monic- marione
NOTARY PUBLIC §	Notary Public in and for Texos
State of Texas Comm. Exp. 10-30-99	
mmmmm	

### EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OIL AND GAS LEASE DATED JULY 17, 1998, BY AND BETWEEN WAYNE MOORE, A WIDOWER AS LESSOR, AND CLAY JOHNSON, AS LESSEE, AND COVERING 640 NET MINERAL ACRES, MORE OR LESS, ALL IN CULBERSON COUNTY, TEXAS.

- 40. Notwithstanding anything to the contrary indicated in Paragraph Three (3) herein this Lease for all purposes shall be considered a fully Paid-Up Oil & Gas Lease. Said Delay Rentals have been paid in full with the Bonus Consideration tendered herein. Delay Rental payment was based on a \$1.00 per net mineral acre per year for Four (4) Years. Concluding a \$4.00 per acre Pd-Up Rental Payment was made in advance for the Four (4) Year Period on the net mineral acres indicated in this Lease.
- 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 I 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.

LINDA MCDONALD, COUNTY CLERK CULBERSON COUNTY, TEXAS

File No. 100186	9
A coco	_County
Date Filed: 10.29.1998	
George P. Bush, Commissioner	1
By	

THE STATE OF THE COUNTY OF CULE	ERSON I LL	M4Donal	k of the County	Court in and	108
for said County and correct copy of 10	ua 40 0 19	Lease da	ted Jal		198
98 85	filed for recor	d in my office th	his 24 th	1250	ber.
recorded in the	Oil 6	der Clerk's File		tecords of Cuibe	rson County.
20 th CERT	TRY WAICH WITH	ess my hand and	d official son	Van Horn, this	
Wind.	me Dave	0	LINDA MEDE	Transland a Sound	ERK
Suren !	Portato	- Depute:	CULBERSON	COUNTY TEX	A.S.

#51242



General Land Office Relinquishmnt Act Lease Form Revised, September 1997

A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK LINDA MCDONALD, COUNTY CLERK CULBERSON COUNTY, TEXAS ву Дидино Спинь бриту

PAID UP

### OIL AND GAS LEASE

					of 16	801 A	ddison	Pd .	Sutie	200
						llas.		5248		said agent
				(Give Perm	anent Addres	3)	•			
erein referred to	as the owner of the so	il (whether one o	r more), a	ınd C	lay Jo					and the second
				2		Wall,		800		of
		•			idland		79701			
ereinafter called	Lessee			(Give reim	anent Audres	3)				
	LANTING CLAUSE 1									
	lease, the State of Tex									
	irilling for and product									
Texas, to-wit:	ce, save, take care of,	reat and transpor	t said pro	ducts of the	lease, the lot	lowing lan	as simated in	CIL	berson	County, Stat
Texas, w-wit		Block 1	00, E	ublic	Schoo	1 Lan	d Surv	ey		
		Section		A11						
		Section	9:	A11						
		Section		A11						
		Section		A11				4		
		Section	17.	HII						
	E	A23-								
ntaining 2,	560	nore or less. The	bonus co	nsideration	naid for this	ease is as	follows			
	To the State of Te				sand T	wo Hu	ndred	Eighty	and No	0/100
	Dollar	s (S 17, 28	80.00							
		_								- 1
	To the owner of the	he soil: Seve	entee	n Tho	usand	I'WO H	undred	Eight	v and i	10/100
	<b>5</b> 11							_	,	10/100==
	Dollar	s (S 17, 28	80.00					W.		10/100
	Dollar				Thousa			4		
	Dollar:		irty-	four	Thousa			4		nd No/100
·::·	Total bonus consi Dollar	deration: Th:	irty-	four		nd Fi	ve Hun	dred S	ixty an	nd No/100
ne total bonus o	Total bonus consi Dollar	deration: Th:	irty-	four 	ur and	nd Fi	ve Hun	dred S	ixty an	nd No/100
ie total bonus c	Dollar:	deration: Th: s (\$ 34,56	irty-	four 	ur and	nd Fi	ve Hun	dred S	ixty an	nd No/100
ne total bonus c	Total bonus consi Dollar: onsideration paid repre	deration: Th: s (\$ 34,56 esents a bonus of Dollars	irty- 60.00 Fif	four 	ur and	No/1	ve Hun 00 on 640	dred S	ixty an	nd No/100
2.	Total bonus consi Dollar: onsideration paid repre	deration: Th: s (\$ 34,56  esents a bonus of Dollars  to the other provise	irty- 60.00 Fif (S	four ty-fo 54.00	ur and	No/1 ) per acre,	ve Hun  00  on 640  nof Fi	dred S	ixty an	nd No/100
2.	Total bonus consi Dollar: onsideration paid repre TERM. Subject to imary term") and as los	deration: Th: s (\$ 34,56  esents a bonus of  Dollars  the other provising thereafter as o	Fif (Ssions in the	four  ty-fo  54.00  is lease, this, or either on	ur and	No/1 No/1 per acre,	ve Hun  00 on 640  n of Fi	net acres.  ve (5)	ixty and	nd No/100
2. erein called "pr s used in this le	Total bonus consi Dollar: onsideration paid repre TERM. Subject timary term*) and as loses, the term *produces.	deration: Th: s (\$ 34,56  esents a bonus of Dollars  to the other provising thereafter as of d in paying quant	Fif (S	four ty-fo 54.00 is lease, this, or either on that the	ur and	No/1 No/1 per acre,	ve Hun  00 on 640  n of Fi	net acres.  ve (5)	ixty and	nd No/100
2. crein called "pr s used in this le	Total bonus consi Dollars  onsideration paid repre  TERM. Subject to imary term*) and as loses, the term *produced ket operational expens	deration: Th: s (\$ 34,56  Essents a bonus of  Dollars  to the other provising thereafter as of in paying quant ties for the six mo	Fif (S_sions in the ill and gas stitles meanths last controls and controls and controls as to the ill and controls as to the control as to the control as	four ty-fo 54.00 is lease, this, or either on ons that the sast.	our and	No/1 ) per acre, e for a terr duced in po	00 on 640 n of Fi	net acres.	ixty and years land.	from this date
2. serein called "pros used in this less seed out of poor Exhibit	Total bonus consi Dollari onsideration paid repre TERM. Subject to imary term") and as located, the term "produced, the term atta  DELAY RENTAL	deration: Th: s (\$ 34,56  Esents a bonus of  Dollars to the other provising thereafter as of in paying quant ties for the six mo  Ched for	Fif (S sions in the ill and gas sittles" meanths last p Pd=1	ty-fo 54.00 is lease, this, or either on that the start.	s lease shall be fithern, is pro-	No/1 ) per acre, e for a terr duced in potthe sale or	on 640  n of Fi	net acres.  ve (5) es from said ted commerce on sho	years	from this date
2. expin talled "pris used in this less escadous of pool Exhibitation before such	Total bonus consi  Dollar:  onsideration paid repre  TERM. Subject to imary term") and as longuese, the term "produced ket operational expensional exp	deration: Th: s (\$ 34,56  Esents a bonus of  Dollars to the other provising thereafter as of in paying quant ties for the six mo  Ched for	Fif (S sions in the ill and gas sittles" meanths last p Pd=1	ty-fo 54.00 is lease, this, or either on that the start.	s lease shall be fithern, is pro-	No/1 ) per acre, e for a terr duced in potthe sale or	on 640  n of Fi	net acres.  ve (5) es from said ted commerce on sho	years	from this date substance(s) covered Paragraph
2. crein talled "pr s used in this le- ceed out of pool Exhibit	Total bonus consi Dollari onsideration paid repre TERM. Subject to imary term") and as located, the term "produced, the term atta  DELAY RENTAL	deration: Th: s (\$ 34,56  Esents a bonus of  Dollars to the other provising thereafter as of in paying quant ties for the six mo  Ched for	Fif (S	ty-fo 54.00 is lease, this, or either on that the start. ap del	s lease shall be f them, is pro- receipts from ay ren ased premises the soil or to h	No/1 ) per acre, e for a terr duced in pr the sale or tal pr on or bear is credit in	on 640  n of Fi aying quantiti other authori provisi	net acres.  ve (5) es from said ted commerci	years land cial use of the	from this date substance(s) covered Paragraph
2.  cetain talled "pr s used in this let ceed out of pool Exhibit nor before such	Total bonus consi Dollars  onsideration paid repre  TERM. Subject to imary term ") and as longuese, the term "produced ket operational expense to "A" atta  DELAY RENTAL anniversary date Lesse	deration: Th:  s (\$ 34,56  Esents a bonus of  Dollars  to the other provising thereafter as of d in paying quant tess for the six mo  Ched for ES. If no well is the shall pay or ter	Fif (S	ty-fo 54.00 is lease, this, or either on that the stast. ap del control to or its successive	s lease shall be f them, is pro- receipts from ay ren ased premises the soil or to he	No/1 ) per acre, e for a terr duced in pothe sale or that I proposed is credit in	on 640  n of Fi aying quantiti other authori orovisi orovisi	net acres.  ve (5) es from said ced commerce on sho	years land. ial use of the	from this date substance(s) covered Paragraph shall terminate, and Bank, ges in the ownership
erein talted pris used in this lesseed out of pool	Total bonus consi Dollari  onsideration paid repre  TERM. Subject to imary term") and as los ase, the term "produced ket operational expense to "A" atta  DELAY RENTAL  anniversary date Lesse ount specified below:	deration: Th:  s (\$ 34,56  seents a bonus of Dollars  to the other provising thereafter as of d in paying quant tess for the six mo Ched for S. If no well is the shall pay or test	Fif (S	ty-fo 54.00 is lease, this, or either ones that the least. ap deleast or the least or its successive or tender	s lease shall be f them, is pro- receipts from  ay ren ased premises the soil or to he ssors (which to the COMM	No/1 ) per acre, e for a terr duced in pr the sale or tal pr on or belo is credit in shall continues	on 640  n of Fi aying quantiti other authori provisi	net acres  ve (5) es from said ced commerc  on sho es from this	years land ial use of the own as date, this lease	from this date substance(s) covered Paragraph shall terminate, wal
ergin called "pr sused in this lessed out of pool Exhibit or before such id land), the am	Total bonus consi  Dollar:  Total bonus consi  Dollar:  TERM. Subject to imary term") and as long ase, the term "produced ket operational expensions at "A" atta  DELAY RENTAL anniversary date Lesse ount specified below;  TIN, TEXAS, a like so	deration: Th:  s (S 34,56  Esents a bonus of  Dollars  to the other provising thereafter as of d in paying quantities for the six mo  Ched for  S. If no well is the shall pay or teres  is addition, Lesseum on or before s	Fif (S	ty-fo 54.00 is lease, this, or either or ans that the start app del country the lease owner of the country or its successive or tender Payments up	s lease shall be f them, is pro- receipts from  ay ren ased premises the soil or to he ssors (which to the COMM under this pare	No/1 ) per acre, e for a terr duced in pr the sale or tal pr on or bein is credit in shall continuitissione graph shall	on 640  n of Fi aying quantiti other authori or ovi Si or one (1) year	net acres.  ye (5) es from said zed commerc on sho	years land ial use of the own as date, this lease	from this date substance(s) covered Paragraph shall terminate, wal
erein tailed prisuged in this less seed on of pool Exhibitation before such and and the american and the ame	Total bonus consi Dollari  onsideration paid repre  TERM. Subject to imary term") and as los ase, the term "produced ket operational expense to "A" atta  DELAY RENTAL  anniversary date Lesse ount specified below:	deration: Th:  s (S 34,56  Esents a bonus of  Dollars  to the other provising thereafter as of d in paying quantities for the six mo  Ched for  S. If no well is the shall pay or teres  is addition, Lesseum on or before s	Fif (S	ty-fo 54.00 is lease, this, or either or ans that the start app del country the lease owner of the country or its successive or tender Payments up	s lease shall be f them, is pro- receipts from  ay ren ased premises the soil or to he ssors (which to the COMM under this pare	No/1 ) per acre, e for a terr duced in pr the sale or tal pr on or bein is credit in shall continuitissione graph shall	on 640  n of Fi aying quantiti other authori or ovi Si or one (1) year	net acres.  ye (5) es from said zed commerc on sho	years land ial use of the own as date, this lease	from this date substance(s) covered paragraph shall terminete, wal ges in the ownership OF THE STATE OF
erein tailed prisused in this lessed out of pool Exhibitation before such id land), the arm EXAS, AT AUS	Total bonus consi Dollari  Dollari  onsideration paid repre  TERM. Subject to imary term") and as longues, the term "produced ket operational expense to "A" atta  DELAY RENTAL anniversary date Lesse ount specified below; TIN, TEXAS, a like so int of a well for one (1)	deration: Th:  s (\$ 34,56  Esents a bonus of  Dollars  to the other provising thereafter a so d in paying quant tess for the six mo  Ched for  S. If no well is the shall pay or test the addition, Less turn on or before so year from said of	Fif (S	ty-fo 54.00 is lease, this, or either or ans that the start app del country the lease owner of the country or its successive or tender Payments up	s lease shall be f them, is pro- receipts from  ay ren ased premises the soil or to he ssors (which to the COMM under this pare	No/1 ) per acre, e for a terr duced in pr the sale or tal pr on or bein is credit in shall continuitissione graph shall	on 640  n of Fi aying quantiti other authori or ovi Si or one (1) year	net acres.  ye (5) es from said zed commerc on sho	years land ial use of the own as date, this lease	from this date substance(s) covered paragraph shall terminete, wal ges in the ownership OF THE STATE OF
ergin called "pr sused in this lessed out of pool Exhibit or before such id land), the am	Total bonus consi  Dollar:  Total bonus consi  Dollar:  TERM. Subject to imary term") and as long ase, the term "produced ket operational expense it "A" atta  DELAY RENTAL anniversary date Lesse ount specified below;  TIN, TEXAS, a like so int of a well for one (1)  To the owner of the constant of the owner of the constant in the co	deration: Th:  s (\$ 34,56  Esents a bonus of  Dollars  to the other provising thereafter a so d in paying quant tess for the six mo  Ched for  S. If no well is the shall pay or test the addition, Less turn on or before so year from said of	Fif (S	ty-fo 54.00 is lease, this, or either or ans that the start app del country the lease owner of the country or its successive or tender Payments up	s lease shall be f them, is pro- receipts from  ay ren ased premises the soil or to he ssors (which to the COMM under this pare	No/1 ) per acre, e for a terr duced in pr the sale or tal pr on or bein is credit in shall continuitissione graph shall	on 640  n of Fi aying quantiti other authori or ovi Si or one (1) year	net acres.  ye (5) es from said zed commerc on sho	years land ial use of the own as date, this lease	from this date substance(s) covered paragraph shall terminete, wal ges in the ownership OF THE STATE OF
ergin called "pr sused in this lessed out of pool Exhibit or before such id land), the am	Total bonus consi  Dollars  Total bonus consi  Dollars  onsideration paid repre  TERM. Subject to imary term") and as locase, the term "produced ket operational expensive to "A" atta  DELAY RENTAL anniversary date Lesse ount specified below;  TIN, TEXAS, a like sont of a well for one (1)  To the owner of the Dollars (S_	deration: Th:  s (\$ 34,56  Esents a bonus of Dollars  to the other provising thereafter as of din paying quantities for the six mon Ched for the shall pay or terminate the shall pay o	Fif (S	ty-fo 54.00 is lease, this, or either or ans that the start app del country the lease owner of the country or its successive or tender Payments up	s lease shall be f them, is pro- receipts from  ay ren ased premises the soil or to he ssors (which to the COMM under this pare	No/1 ) per acre, e for a terr duced in pr the sale or tal pr on or bein is credit in shall continuitissione graph shall	on 640  n of Fi aying quantiti other authori or ovi Si or one (1) year	net acres.  ye (5) es from said zed commerc on sho	years land ial use of the own as date, this lease	from this date substance(s) covered paragraph shall terminete, wal ges in the ownership OF THE STATE OF
erein tailed prisuged in this less seed on of pool Exhibitation before such and and the american and the ame	Total bonus consinuous Dollars  Total bonus consinuous Dollars  TERM. Subject to imary term") and as locase, the term "produced ket operational expensional expens	deration: Th:  s (\$ 34,56  Esents a bonus of Dollars  to the other provising thereafter as of din paying quantities for the six monoched for the shall pay or terminate the shall pay o	Fif (S	ty-fo 54.00 is lease, this, or either or ans that the start app del country the lease owner of the country or its successive or tender Payments up	s lease shall be f them, is pro- receipts from  ay ren ased premises the soil or to he ssors (which to the COMM under this pare	No/1 ) per acre, e for a terr duced in pr the sale or tal pr on or bein is credit in shall continuitissione graph shall	on 640  n of Fi aying quantiti other authori or ovi Si or one (1) year	net acres.  ye (5) es from said zed commerc on sho	years land ial use of the own as date, this lease	from this date substance(s) covered Paragraph shall terminate, wal
erein tailed prisuged in this less seed on of pool Exhibitation before such and and the american and the ame	Total bonus consi  Dollars  Total bonus consi  Dollars  onsideration paid repre  TERM. Subject to imary term") and as locase, the term "produced ket operational expensive to "A" atta  DELAY RENTAL anniversary date Lesse ount specified below;  TIN, TEXAS, a like sont of a well for one (1)  To the owner of the Dollars (S_	deration: Th:  s (\$ 34,56  Esents a bonus of Dollars  to the other provising thereafter as of din paying quantities for the six monoched for the shall pay or terminate the shall pay o	Fif (S	ty-fo 54.00 is lease, this, or either or ans that the start app del country the lease owner of the country or its successive or tender Payments up	s lease shall be f them, is pro- receipts from  ay ren ased premises the soil or to he ssors (which to the COMM under this pare	No/1 ) per acre, e for a terr duced in pr the sale or tal pr on or bein is credit in shall continuitissione graph shall	on 640  n of Fi aying quantiti other authori or ovi Si or one (1) year	net acres.  ye (5) es from said zed commerc on sho	years land ial use of the own as date, this lease	from this date substance(s) covered paragraph shall terminete, wal ges in the ownership OF THE STATE OF

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 assigned 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:

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 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 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 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 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 a 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 defin 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 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 qualify 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 based 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.
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
(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 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 myalite 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 Commissione 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 myafter 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 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 implies 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 of the resunder 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 sand the Commissioner of the General Land Office, Lessee may recycle gas for gas lift purposes on the leased premises or for injection into any oil or gas producing formation underlying the leased premises after the liquid hydrocarbons contained in the gas have been removed; no royalties shall be payable on the recycled gas until it is produced and sold or used by Lessee in a manner which entitles the royalty owners to a royalty under this lease.
9. ROYALTY PAYMENTS AND REPORTS. All royalties not taken in kind shall be paid to the Commissioner of the General Land Office at Austin, Texas, in the following manner:

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

and market value including gas meter readings, pipeline receipts, gas line receipts and other checks or memoranda of amount produced and put into pipelines, tanks, or pools and gas lines or gas storage, and any other reports or records which the General Land Office may require to verify the gross production, disposition and market value. In all cases the authority of a manager or agent to act for the Lessee herein must be filed in the General Land Office. Each royalty payment shall be accompanied by a check stub, schedule, summary or other remittance advice showing by the assigned General Land Office lease number the amount of royalty being paid on each lease. If Lessee pays his royalty on or before thirty (30) days after the royalty payment was due, then Lessee owes a penalty of 5% on the royalty or \$25.00, whichever is greater. A royalty payment which is over thirty (30) days late shall accrue a penalty of 10% of the royalty due or \$25.00 whichever is greater. In addition to a penalty, royalties shall accrue interest at a rate of 12% per year, such interest will begin 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 easing 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 Paragraphia of this lease does not the Copy and delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre. To be affective, each initial shut-in oil or gas royalty



LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS

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

- 19. WARRANTY CLAUSE. The owner of the soil warrants and agrees to defend title to the leased premises. If the owner of the soil defaults in payments owed on the leased premises, then Lessee may redeem the rights of the owner of the soil in the leased premises by paying any mortgage, taxes or other liens on the leased premises. If Lessee makes payments on behalf of the owner of the soil under this paragraph, Lessee may recover the cost of these payments from the rental and royalties due the owner of the soil.
- (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 berein 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 Lessed on the leased premises, including the right to draw and remove easing, 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 easing 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 estues 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 repeathfuives 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;
  - A CERTIFIED COPY (4) a principal stockholder or employee of the corporation which is the owner of the soil; IF IT BEARS THE SEAL OF THE COUNTY CLERK
  - (5) a partner or employee in a partnership which is the owner of the soil;

10-26-98 LINDA McDONALD, COUNTY CLERK CULBERSON COUNTY, TEXAS

BY DesaucCincin 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.

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

- 36. ENVIRONMENTAL HAZARDS. Lessee shall use the highest degree of care and all reasonable safeguards to prevent contamination or pollution of any environmental medium, including soil, surface waters, groundwater, sediments, and surface or subsurface strata, ambient air or any other environmental medium in, on, or under, the leased premises, by any waste, pollutant, or contaminant. Lessee shall not bring or permit to remain on the leased premises any asbestos containing materials, explosives, toxic materials, or substances regulated as hazardous wastes, hazardous materials, hazardous substances (as the term "Hazardous Substance" is defined in the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), 42 U.S.C. Sections 9601, et seq.), or toxic substances under any federal, state, or local law or regulation ("Hazardous Materials"), except ordinary products commonly used in connection with oil and gas exploration and development operations and stored in the usual manner and quantities. LESSEE'S VIOLATION OF THE FOREGOING PROHIBITION SHALL CONSTITUTE A MATERIAL BREACH AND DEFAULT HEREUNDER AND LESSEE SHALL INDEMNIFY, HOLD HARMLESS AND DEFEND THE STATE OF TEXAS AND THE OWNER OF THE SOIL FROM AND AGAINST ANY CLAIMS, DAMAGES, JUDGMENTS, PENALTIES LIABILITIES, AND COSTS (INCLUDING REASONABLE ATTORNEYS' FEES AND COURT COSTS) CAUSED BY OR ARISING OUT OF (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 prenises during lessee's OCCUPANCY OF THE LEASED PREMISES IN CONFORMANCE WITH THE REQUIREMENTS OF APPLICABLE LAW. THIS INDEMNIFICATION AND ASSUMPTION SHALL APPLY, BUT IS NOT LIMITED TO, LIABILITY FOR RESPONSE ACTIONS UNDERTAKEN PURSUANT TO CERCLA OR ANY OTHER ENVIRONMENTAL LAW OR REGULATION. LESSEE SHALL IMMEDIATELY GIVE THE STATE OF TEXAS AND THE OWNER OF THE SOIL WRITTEN NOTICE OF ANY BREACH OR SUSPECTED BREACH OF THIS PARAGRAPH, UPON LEARNING OF THE PRESENCE OF ANY HAZARDOUS MATERIALS, OR UPON RECEIVING A NOTICE FROM ANY GOVERNMENTAL AGENCY PERTAINING TO HAZARDOUS MATERIALS WHICH MAY AFFECT THE LEASED PREMISES. THE OBLIGATIONS OF LESSEE HEREUNDER SHALL SURVIVE THE EXPIRATION OR EARLIER TERMINATION, FOR ANY REASON, OF THIS AGREEMENT.
- 37. APPLICABLE LAW. This lease is issued under the provisions of Texas Natural Resources Code 52.171 through 52.190; commonly known as the Relinquishment Act, and other applicable statutes and amendments thereto, and if any provision in this lease does not conform to these statutes, the statutes will prevail over any nonconforming lease provisions.
- 38. EXECUTION. This oil and gas lease must be signed and acknowledged by the Lessee before it is filed of record in the county records and in the General Land Office of the State of Texas. Once the filing requirements found in Paragraph 39 of this lease have been satisfied, the effective date of this lease shall be the date found on Page 1.
- 39. LEASE FILING. Pursuant to Chapter 9 of the Texas Business and Commerce Code, this lease must be filed of record in the office of the County Clerk in any county in which all or any part of the leased premises is located, and certified copies thereof must be filed in the General Land Office. This lease is not effective until a certified copy of this lease (which is made and certified by the County Clerk from his records) is filed in the General Land Office in accordance with Texas Natural Resources Code 52.183. Additionally, this lease shall not be binding upon the State unless it recites the actual and true consideration paid or promised for execution of this lease. The bonus due the State and the prescribed filing fee shall accompany such certified copy to the General Land Office.

LESSEE AU JOHNSON	
BY: Clay Johnson	1
DATE: 324-95	
STATE OF TEXAS  BY ON MONTH AND BOOKS  Intilividually and as agent for the State of Texas  Montebey, Inc., by Joe Montgomery Brooks  Date: 7-30-98	BY:Individually and as agent for the State of Texas s, President Tax ID #
STATE OF TEXAS	STATE OF TEXAS
BY:	BY:
Individually and as agent for the State of Texas	Individually and as agent for the State of Texas
Date:	Date:

STATE OF VINCOS	(CORPORATION ACKNOWLEDGMENT)
COUNTY OF ballas	
BEFORE ME, the undersigned authority, on this day personally appear	ared Joe Montgomery Brooks
known to me to be the person whose name is subscribed to the foregoing instrum	ent as President
	and acknowledged to me that he executed the same as the act and deed of said corporation.
NANCY MALONE Notary Public, State of Texas My Commission Expires 09-02-01	Notary Public in and for State of JONGO  (CORPORATION ACKNOWLEDGMEND)
	, , , , , , , , , , , , , , , , , , , ,
BEFORE ME, the undersigned authority, on this day personally appear	red
mown to me to be the person whose name is subscribed to the foregoing instrume	ent, 25of
	and acknowledged to me that he executed the same
or the purposes and consideration therein expressed, in the capacity stated, and as	s the act and deed of said corporation.
Given under my hand and seal of office this the day of	, 19
BEFORE ME, the undersigned authority, on this day personally appeared  MONTEDEUY. TITC.  MonteDEUY. TI	
BEFORE ME, the undersigned authority, on this day personally appeared	
TATEOR TEXAS	DESCRIPTION ACCOUNT FECURE
m1: 1/1 a	(INDIVIDUAL ACKNOWLEDGMENT)
OUNTY OF / ((WWW)	$M_{\bullet}$ $T_{\bullet}$
Before me, the undersigned authority, on this day personally appeared_	Clay JOHNSON
nown to me to be the persons whose names are subscribed to the foregoing instru	iment, and acknowledged to me that they executed the same for the purposes at
ensideration therein expressed.	0
Given under my hand and seal of office this the 24 da	ref august 1978:
57 St. C.	monia-marlone ::
MONICA MARIOWE	Traine - Trainer
S/S/ A SO NOTARY PUBLIC \$	Notary Public in and for 1 2 Cas
State of Texas	•
ATE OF Comm. Exp. 10-30-99	(INDIVIDUAL ACKNOWLEDGMENT)
DINTY OF	•
	• • • • • • • • • • • • • • • • • • • •
Before me, the undersigned authority, on this day personally appeared_	
	ment, and acknowledged to me that they executed the same for the purposes an
	nof 19
diven under my nand and seal of office this theday	y 01
•	Notary Public in and for

## EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OIL AND GAS LEASE DATED JULY 17, 1998, BY AND BETWEEN MONTEBEV, INC. AS LESSOR, AND CLAY JOHNSON, AS LESSEE, AND COVERING 640 NET MINERAL ACRES, MORE OR LESS, ALL IN CULBERSON COUNTY, TEXAS.

- 40. Notwithstanding anything to the contrary indicated in Paragraph Three (3) herein this Lease for all purposes shall be considered a fully Paid-Up Oil & Gas Lease. Said Delay Rentals have been paid in full with the Bonus Consideration tendered herein. Delay Rental payment was based on a \$1.00 per net mineral acre per year for Four (4) Years. Concluding a \$4.00 per acre Pd-Up Rental Payment was made in advance for the Four (4) Year Period on the net mineral acres indicated in this Lease.
- 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.

A CERTIFIED COPY

IF IT BEARS THE SEAL OF THE COUNTY CLERK

ATTEST:

LINDA McDONALD, COUNTY CLERK

CULBERSON COUNTY, TEXAS.

BY

BY

DEPUTY



9	-County	1	
9		1998	George P. Bush, Commissioner
2/00	3	10.39.	rge P. Bush,
File No.	Pass	Date Filed:	Geo

THE STATE OF TEXAS	
COUNTY OF CULBERSON I L Linda Urias	, Clerk of the County Court in and
for said County and State, do hereby certify that the	ne foregoing is a true and
correct copy of Id UP Oil 160's	dsted
19 98, Feare	21
19 98 at 8 10 MM, under Clerk'	
recorded in the DITAGGS	Records of Culberson County,
Texas,	
26 day of C. F.	ad and official seal at Van Horn, this
La transfer of the second	LINDA URIAS, COUNTY CLERK CULBERSON COUNTY, TEXAS.

General Land Office Relinquishmnt Act Lease Form Revised, September 1997

IF IT BEARS TH	A CERTIFIED COPY IE SEAL OF THE COUNTY CLERK
ATTEST:	10-210-98
	LINDA MODONALD, COUNTY CLERK CULBERSON COUNTY, TEXAS BY LINCK MF LINCK BY LINCK

# PAID UP OIL AND GAS LEASE

	SAGREEMENT is made and entered into this 17 day of July 19 98, between the State of Texas, acting by and through its ontqomery-Walker 1974 Trust, Charlotte Walker Furman Trustee  of 2909 East 17th
	Odessa, TX 79761 said agent
	(Give Permanent Address)
rein 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)
einafter calle	
1. 0	RANTING CLAUSE. For and in consideration of the amounts stated below and of the covenants and agreements to be paid, kept and performed by
ssee under th	is 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
specting and	drilling for and producing oil and gas, laying pipe lines, building tanks, storing oil and building power stations, telephone lines and other structures
	uce, save, take care of, treat and transport said products of the lease, the following lands situated in <u>Culberson</u> County, State
Texas, to-wit	Block 100, Public School Land Survey
	Section 8: All
	Section 16: All
	Section 17: All
taining 2	, 560 acres, more or less. The bonus consideration paid for this lease is as follows:
	To the State of Texas: Seventeen Thousand Two Hundred Eighty and No/100
	TO THE OTHER OF THE CO.
	Dollars (S 17, 280.00
	To the owner of the soil: Seventeen Thousand Two Hundred Eighty and No/100
	Dollars (\$17,280.00_)
• • • •	
	Total bonus consideration: Thirty-four Thousand Five Hundred Sixty and No/100
•••	Doilars (S 34,560.00 )
	Fifty-four and NO/100
total bonus	consideration yald represents a bonds of
•	Doilars (\$ 54.00 ) per acre, on 640 net acres.
• ,	TERM. Subject to the other provisions in this lease, this lease shall be for a term ofFive (5) yearsfrom this date
einealled "r	rimary term") and as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land.
	ease, the term "produced in paying quantities" means that the receipts from the sale or other authorized commercial use of the substance(s) covered
eed out of po	cket operational expenses for the six months last past.
Fyhi	bit "A" attached for Pd-Up Delay Rental Provision shown as Paragraph
4.	DELAY RENTALS. If no well is commenced on the leased premises on or before one (1) year from this date, this lease shall terminate, units
or before suc	hanniversary date Lessee shall pay or tender to the owner of the soil or to his credit in
	Pank,
•	or its successors (which shall continue as the depository regardless of changes in the ownership of
•	mount specified below, in addition, Lessee shall pay or tender to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATE OF
land), the ar	
land), the ar	STIN, 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
land), the ar	
land), the ar	STIN, 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 ent of a well for one (1) year from said date. Payments under this paragraph shall be in the following amounts:
land), the ar	STIN, 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 ent 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:
land), the ar	STIN, 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 ent 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:  Dollars (\$
land), the ar	STIN, 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 ent 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:  Dollars (S
land), the ar	STIN, 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 ent 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:  Dollars (\$

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.

(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 per of the gross production or the market value thereof, at the option of the owner oils oil 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 in the general wars where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is the greater. Lesues agrees that before any gas produced from the general wars where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is the greater. Lesues agrees that before any gas produced from the general wars where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is the greater. Lesues agrees that before any gas produced from the gas by such means will be recovered. The requirement at lesst as efficient, so that all liquid hydrocarbons recoverable from the gas by such means will be recovered. The requirement at lesst as efficient, so that all liquid hydrocarbons recoverable from the gas by such means will be recovered. The requirement at less the prescribe.  (B) NON PROCESSED GAS. Royalty on any gas (including flared gas), which is defined as all hydrocarbons and gasous substances not defined as oil in subparagraph (A) above, produced them any well on said and (except as provided herein with respect to gas produced the any set of the soil or the Commissioner of the General Land Office, such value to be based on the highest market price paid or plant of the gross produced on the highest market price paid or the greater, provided that the maximum pressure base in approach the price of the gross price paid or offered to the producer, whichever is the greater, the value of the producer of the gross price pa
(A) OIL. Royally payable on oil, which is defined as including all hydrocarbons are the mouth of the well and also as a condensate, distillate, and other liquid hydrocarbons recovered from oil or gas nu through a separator or other equipment, as the related too as a condensate, distillate, and other liquid hydrocarbons recovered from oil or gas nu through a separator or other equipment, as the related to the condensate, distillate, and other liquid hydrocarbons recovered from oil or gas nu through a separator or other equipment, as the related to the 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 singlest market price thereof offiend or paid in hydrocarbons, respectively, of a like type and gravity in the general area where produced and when run, or 2) the singlest market price thereof offiend or paid in through a separator 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 so the said liquid hydrocarbons recoverable from the gas by such means will be recovered. The requirement that so the said in a misparagraph (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 a sacilier. All the produced and the produced shall be means the produced and when run, or the ground produced and the produced and when run, or the ground produced and when run, or the ground produced and the produced and when run, or the ground produced that the produced and when run, or the ground produced that the produced produced that the produced and when run, or the ground produced that the produced produced that the produced produced that the produced
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 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
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 firm 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%) of 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 gand 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
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
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 of ore 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.
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 intended in the control of the soil's or the Commissioner of the General Land Office's rights or Lessee's obligations, whether express or intended in the control of the con
(A) OIL. Rayally payable on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well and table of the content
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 soi 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,

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

Texas, in the following manner:

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

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 after 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 easing 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 right 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 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 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 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 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 less than \$1,200 a year for each well capable of producing oil or gas in paying quantities.

LINDA MODONALD, COUNTY CLERK OULBERSON COUNTY, TEXAS

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 amoual 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 10 (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/of . . . 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 (9) \* . . 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 country 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 startery 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 startery parameters satisfy the obligation to drill an offset well or wells required under this paragraph.
- 18. FORCE MAJEURE. If, after a good faith effort, Lessee is prevented from complying with any express or implied covenant of this lease, from conducting drilling operations on the leased premises, or from producing oil or gas from the leased premises by reason of war, rebellion, riots, strikes, acts of God, or any valid order, rule or regulation of government authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended and Lessee shall not be liable for damages for failure to comply with such covenants; additionally, this lease shall be extended while Lessee is prevented, by any such cause, from conducting drilling and reworking operations or from producing oil or gas from the leased premises. However, nothing in this paragraph shall suspend the payment of delay rentals in order to maintain this lease in effect during the primary term in the absence of such drilling or reworking operations or production of oil or gas.

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

    (4) a principal stockholder or employee of the corporation which is the owner of the soil;

    A CERTIFIED CUPY

    (4) a principal stockholder or employee of the corporation which is the owner of the soil;

    ATTEST:

    A CERTIFIED CUPY

    (5) A CERTIFIED CUPY

    (6) A TIEST:

    (7) 246 98

LINDA McDONALD, COUNTY CLERK

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

- 36. ENVIRONMENTAL HAZARDS. Lessee shall use the highest degree of care and all reasonable safeguards to prevent contamination or pollution of any environmental medium, including soil, surface waters, groundwater, sediments, and surface or subsurface strata, ambient air or any other environmental medium in, on, or under, the leased premises, by any waste, pollutant, or contaminant. Lessee shall not bring or permit to remain on the leased premises any asbestos containing materials, explosives, toxic materials, or substances regulated as hazardous wastes, hazardous materials, hazardous substances (as the term "Hazardous Substance" is defined in the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), 42 U.S.C. Sections 9601, et seq.), or toxic substances under any federal, state, or local law or regulation ("Hazardous Materials"), except ordinary products commonly used in connection with oil and gas exploration and development operations and stored in the usual manner and quantities. LESSEE'S VIOLATION OF THE FOREGOING PROHIBITION SHALL CONSTITUTE A MATERIAL BREACH AND DEFAULT HEREUNDER AND LESSEE SHALL INDEMNIFY, HOLD HARMLESS AND DEFEND THE STATE OF TEXAS AND THE OWNER OF THE SOIL FROM AND AGAINST ANY CLAIMS, DAMAGES, JUDGMENTS, PENALTIES. LIABILITIES, AND COSTS (INCLUDING REASONABLE ATTORNEYS' FEES AND COURT COSTS) CAUSED BY OR ARISING OUT OF (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 filled 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.

A/A 17	Tohnes
LESSEE BY: Clay	Johnson
DATE: 924	95
1	STATE OF TEXAS
By Nordanney - Warker 1994 Just Individually and as agent for the State of Texas Montgomery-Walker 1974 Trust, By Co	BY: Individually and as agent for the State of Texas
Montgomery-walker 1974 Trust, By C	Date:Tax ID #
STATE OF TEXAS	STATE OF TEXAS
BY:	BY:
Individually and as agent for the State of Texas	Individually and as agent for the State of Texas
Date:	Date:

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

LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS

BY CHAC WE MILE

COUNTY OF	
BEFORE ME, the undersigned authority, on this day personally app	eared
nown to me to be the person whose name is subscribed to the foregoing instru	
r the purposes and consideration therein expressed, in the capacity stated, and	and acknowledged to me that he executed the
Given under my hand and seal of office this theday of	
	Notary Public in and for
TATE OF	(CORPORATION ACKNOWLEDGMENT)
DUNTY OF	
BEFORE ME, the undersigned authority, on this day personally appe	
own to me to be the person whose name is subscribed to the foregoing instrum	
the purposes and consideration therein expressed, in the capacity stated, and	and acknowledged to me that he executed the s
Given under my hand and seal of office this theday of	
	Notary Public in and for
TATE OF TEXAS	
FI	(INDIVIDUAL ACKNOWLEDGMENT)
OUNTY OF ECTOR	
Before me, the undersigned authority, on this day personally appeared	
7 11 16 TO THE TOTAL TOT	Charlotte Walker Furman, Trustee
of the Montgomery-Walker 1974 Tri	ust
of the Montgomery-Walker 1974 True own to me to be the persons whose names are subscribed to the foregoing instru	ust
of the Montgomery-Walker 1974 True own to me to be the persons whose names are subscribed to the foregoing instru	ust
of the Montgomery-Walker 1974 Tri own to me to be the persons whose names are subscribed to the foregoing instrusideration therein expressed.  Given under my hand and seal of office the RRISTA GAYLE OUIR  KRISTA GAYLE OUIR	ust rument, and acknowledged to me that they executed the same for the purpose  tax of July  1998
of the Montgomery-Walker 1974 Tri own to me to be the persons whose names are subscribed to the foregoing instrusideration therein expressed.  Given under my hand and seal of office the RESTA GAYLE QUIR NOTARY PUBL	rument, and acknowledged to me that they executed the same for the purpose day of July 1998  1802 Krista Dayli Quiray
of the Montgomery-Walker 1974 True own to me to be the persons whose names are subscribed to the foregoing instrusideration therein expressed.  Given under my hand and seal of the the foregoing instruction therein expressed.  KRISTA GAYLE QUIR NOTARY PUBL State of Texas	Have July  1998  1802 Hrista Bayli Quiron  Notary Public in and for
of the Montgomery-Walker 1974 True own to me to be the persons whose names are subscribed to the foregoing instrustion therein expressed.  Given under my hand and seal of the the foregoing instruction therein expressed.  KRISTA GAYLE QUIR NOTARY PUBL State of Texas Comm. Exp. 10-04-	rument, and acknowledged to me that they executed the same for the purpose day of July 1998  1802 Krista Dayki Quircy  10 10 10 10 10 10 10 10 10 10 10 10 10 1
of the Montgomery-Walker 1974 Try own to me to be the persons whose names are subscribed to the foregoing instrusideration therein expressed.  Given under my hand and seal of the Market NOTARY PUBL State of Texas Comm. Exp. 10-04-	Turst  Turst  Turst  Turst  Turst  Told  T
of the Montgomery-Walker 1974 Try own to me to be the persons whose names are subscribed to the foregoing instrusideration therein expressed.  Given under my hand and seal of the Market NOTARY PUBL State of Texas Comm. Exp. 10-04-	rument, and acknowledged to me that they executed the same for the purpose day of July 1998  1802 Krista Dayki Quircy  10 10 10 10 10 10 10 10 10 10 10 10 10 1
of the Montgomery-Walker 1974 Try own to me to be the persons whose names are subscribed to the foregoing instriction therein expressed.  Given under my hand and seal of the Montgomery of the	Tuly  1998  102 Krista Sayli Quiroy  10 Notary Public in and for  (INDIVIDUAL ACKNOWLEDGMENT)
of the Montgomery-Walker 1974 Try own to me to be the persons whose names are subscribed to the foregoing instrusideration therein expressed.  Given under my hand and seal of the the foregoing instruction therein expressed.  KRISTA GAYLE QUIR NOTARY PUBL State of Texas Comm. Exp. 10-04-  TEXAS  UNTY OF Middland  Before me, the undersigned authority, on this day personally appeared.	Tuly  1998  1902   Hyrista Mayle Quercy  10 Notary Public in and for  (INDIVIDUAL ACKNOWLEDGMENT)
of the Montgomery-Walker 1974 Tri own to me to be the persons whose names are subscribed to the foregoing instrusideration therein expressed.  Given under my hand and seal of the third was a common that the foregoing instruction therein expressed.  KRISTA GAYLE QUIR NOTARY PUBL State of Texas Comm. Exp. 10-04- TOTAL	Tuly  1998  102   Hyrista Mayle Quercy  10 Notary Public in and for  (INDIVIDUAL ACKNOWLEDGMENT)
of the Montgomery-Walker 1974 Try own to me to be the persons whose names are subscribed to the foregoing instrusideration therein expressed.  Given under my hand and seal of the MRISTA GAYLE QUIR NOTARY PUBL State of Texas Comm. Exp. 10-04  Before me, the undersigned authority, on this day personally appeared winto me to be the persons whose names are subscribed to the foregoing instrusions therein expressed.	Tuly  1998  102   Hyrista Dayli Quircy  10 Notary Public in and for  (INDIVIDUAL ACKNOWLEDGMENT)
of the Montgomery-Walker 1974 Tri own to me to be the persons whose names are subscribed to the foregoing instrusideration therein expressed.  Given under my hand and seal of the Montgomery - Walker 1974 Tri KRISTA GAYLE QUIR NOTARY PUBL State of Texas Comm. Exp. 10-04  Texas Tunty of Michael Before me, the undersigned authority, on this day personally appeared two one to be the persons whose names are subscribed to the foregoing instrusideration therein expressed.	Tuly  19 98  19 19 98  102
of the Montgomery-Walker 1974 Tri own to me to be the persons whose names are subscribed to the foregoing instrusion therein expressed.  Given under my hand and seal of office this Montgome instruction therein expressed.  KRISTA GAYLE QUIR NOTARY PUBL State of Texas Comm. Exp. 10-04.  Texas Comm. Exp. 10-04.  Before me, the undersigned authority, on this day personally appeared with the me to be the persons whose names are subscribed to the foregoing instrusion therein expressed.  Given under my hand and seal of office this the	Target 1998  (INDIVIDUAL ACKNOWLEDGMENT)  1998  (INDIVIDUAL ACKNOWLEDGMENT)  1998  (INDIVIDUAL ACKNOWLEDGMENT)  1998  1999  (INDIVIDUAL ACKNOWLEDGMENT)  1998  1998  1998  1998  1998  1998  1998  1998  1998  1998  1998  1998  1998  1998  1998  1998
of the Montgomery-Walker 1974 Try own to me to be the persons whose names are subscribed to the foregoing instrusideration therein expressed.  Given under my hand and seal of the MRISTA GAYLE QUIR NOTARY PUBL State of Texas Comm. Exp. 10-04  Texas UNTY OF Michael  Before me, the undersigned authority, on this day personally appeared win to me to be the persons whose names are subscribed to the foregoing instrusideration therein expressed.	Tuly  19 98  19 19 98  102

# EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OIL AND GAS LEASE DATED JULY 17, 1998, BY AND BETWEEN MONTGOMERY-WALKER 1974 TRUST, AS LESSOR, AND CLAY JOHNSON, AS LESSEE, AND COVERING 640 NET MINERAL ACRES, MORE OR LESS, ALL IN CULBERSON COUNTY, TEXAS.

- 40. Notwithstanding anything to the contrary indicated in Paragraph Three (3) herein this Lease for all purposes shall be considered a fully Paid-Up Oil & Gas Lease. Said Delay Rentals have been paid in full with the Bonus Consideration tendered herein. Delay Rental payment was based on a \$1.00 per net mineral acre per year for Four (4) Years. Concluding a \$4.00 per acre Pd-Up Rental Payment was made in advance for the Four (4) Year Period on the net mineral acres indicated in this Lease.
- 41. 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.

LINDA McDONALD, COUNTY CLERK CULBERSON COUNTY, TEXAS

9	Соипт	8	ssioner
0/8/6		199.199	George P. Bush, Commissioner
File No.	Pass (	Date Filed:	George

	THE STATE OF TEXAS X
	COUNTY OF CULBERSON 1 1, Linda Urias, 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 Faid-UP 0/67 Lease dated July 17, 1998
	19 Nith Notices
	19 8 at 8 10 12 M, under Cierk's Eile No. 5/3.36 to be recorded in the 0/1/6/7/4.5 Records of Culberson County.
	Texas,
	26 th day of CLOBEL , 19
(	By Ende Me Diald Deputy. LINDA URIAS, COUNTY CLERK CULBERSON COUNTY, TEXAS.

,...



General Land Office Relinquishmnt Act Lease Form Revised, September 1997

IF IT BEARS	A CERTIFIED COPY THE SEAL OF THE COUNTY CLERK
ATTEST:	10-26-98
SON SOLD	LINDA McDONALD, COUNTY CLERK
	The New Market
	BY I CHAR VITO MILL DEPORT

## PAID UP OIL AND GAS LEASE

	of 830 Ontario	
	Shreveport, LA 71106 said ag	gent
	(Give Permanent Address)	
erem reterred to	as the owner of the soil (whether one or more), and Clay Johnson	
	203 W. Wall, Suite 800 Midland, TX 79701	
	(Give Permanent Address)	
reinafter called		
essee under this especting and	ANTING CLAUSE. For and in consideration of the amounts stated below and of the covenants and agreements to be paid, kept and performents, 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 purplifilling for and producing oil and gas, laying pipe lines, building tanks, storing oil and building power stations, telephone lines and other size, save, take care of, treat and transport said products of the lease, the following lands situated in	pose o
1000, 10 111	Block 100, Public School Land Survey	
	Section 8: All	
	Section 9: All	
	Section 16: All	
	Section 17: All	
	Section 17. All	14.
ntaining 2,	acres, more or less. The bonus consideration paid for this lease is as follows:	
	To the State of Texas: Two Thousand Eight Hundred Seventy-nine and 82/100 Dollars (\$ 2,879.82 )	0
	To the owner of the soil: Two Thousand Eight Hundred Seventy-nine and 82/100	0
	Dollars (\$ 2,879.82 )	0
	Total bonus consideration: Five Thousand Seven Hundred Fifty-nine and 64/10	00
	Doilars (5 5, 759.64 )	
	-11-1-11 - 1	
e tetal sonus ca	onsideration paid represents a bonus of Fifty-four and No/100	
****	Dollars (\$ 54.00 ) per acre, on 106.66 net acres.	
asalin this lea	TERM. Subject to the other provisions in this lease, this lease shall be for a term of <u>Five (5) years</u> from the mary term") and as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land.  see, the term "produced in paying quantities" means that the receipts from the sale or other authorized commercial use of the substance(s) of the term at tached for Pd-Up Delay Rental Provision shown as Paragram at tached for Pd-Up Delay Rental Provision shown as Paragram DELAY RENTALS. If no well is commenced on the leased premises on or before one (1) year from this date, this lease shall termine	cover
or before such	agniversary date Lessee shall pay or tender to the owner of the soil or to his credit in	
	Aurk,	
••••	or its successors (which shall continue as the depository regardless of changes in the own	nershi
id land), the am	ount specified below; in addition, Lessee shall pay or tender to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STA	ATE C
commenceme	it of a well for one (1) year from said date. Payments under this paragraph shall be in the following amounts:	CICITA
. commenceme	tot a wen for one (1) year from said date. Fayments midet dus paragraph share of in the form and anothing.	
	To the owner of the soil:	
	Dollars (5	
	To the State of Texas:	
	To the State of Texas.	
	Dollars (S	

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 payment

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 a condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, shall be a separator of the owner of the soil or the Commissioner 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 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, 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 runting has 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 define 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 to 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 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 bas 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.
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
(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 th 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 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 byafties 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 one 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 goyalty to 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 accepted 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 so 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,

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

and market value including gas meter readings, pipeline receipts, gas line receipts and other checks or memoranda of amount produced and put into pipelines, tanks, or pools and gas lines or gas storage, and any other reports or records which the General Land Office may require to verify the gross production, disposition and market value. In all cases the authority of a manager or agent to act for the Lessee herein must be filed in the General Land Office. Each royalty payment shall be accompanied by a check stub, schedule, summary or other remittance advice showing by the assigned General Land Office lease number the amount of royalty being paid on each lesse. 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 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 accessions 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 produceron 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 paying tof 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 for State for a clark 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 in the acres of the paragraph.

LINDA MCDONALD, COUNTY CLERK
OLLARASON GOLINTY, TEXAS
EN LINDA MCDONALD, COUNTY CLERK
OLLARASON GOLINTY, TEXAS
EN LINDA MCDONALD, COUNTY CLERK
OLLARASON GOLINTY, TEXAS

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

- 19. WARRANTY CLAUSE. The owner of the soil warrants and agrees to defend title to the leased premises. If the owner of the soil defaults in payments owed on the leased premises, then Lessee may redeem the rights of the owner of the soil in the leased premises by paying any mortgage, taxes or other liens on the leased premises. If Lessee makes payments on behalf of the owner of the soil under this paragraph, Lessee may recover the cost of these payments from the rental and royalties due the owner of the soil.
- 20. (A) PROPORTIONATE REDUCTION CLAUSE. If the owner of the soil owns less than the entire undivided surface estate in the above described land, whether or not Lessee's interest is specified herein, then the royalties and rental herein provided to be paid to the owner of the soil shall be paid to him in the proportion which his interest bears to the entire undivided surface estate and the royalties and rental herein provided to be paid to the Commissioner of the General Land Office of the State of Texas shall be likewise proportionately reduced. However, before Lessee adjusts the royalty or rental due to the Commissioner of the General Land Office, Lessee or his authorized representative must submit to the Commissioner of the General Land Office a written statement which explains the discrepancy between the interest purportedly leased under this lease and the actual interest owned by the owner of the soil. The Commissioner of the General Land Office shall be paid the value of the whole production allocable to any undivided interest not covered by a lease, less the proportionate development and production cost allocable to such undivided interest. However, in no event shall the Commissioner of the General Land Office receive as a royalty on the gross production allocable to the undivided interest not leased an amount less than the value of one-sixteenth (1/16) of such gross production.
- (B) REDUCTION OF PAYMENTS. If, during the primary term, a portion of the land covered by this lease is included within the boundaries of a pooled unit that has been approved by the School Land Board and the owner of the soil in accordance with Natural Resources Code Sections 52.151-52.154, or if, at any time after the expiration of the primary term or the extended term, this lease covers a lesser number of acres than the total amount described herein, payments that are made on a per acre basis hereunder shall be reduced according to the number of acres pooled, released, surrendered, or otherwise severed, so that payments determined on a per acre basis under the terms of this lease during the primary term shall be calculated based upon the number of acres outside the boundaries of a pooled unit, or, if after the expiration of the primary term, the number of acres actually retained and covered by this lease.
- 21. USE OF WATER. Lessee shall have the right to use water produced on said land necessary for operations under this lease except water from wells or tanks of the owner of the soil; provided, however, Lessee shall not use potable water or water suitable for livestock or irrigation purposes for waterflood operations without the prior consent of the owner of the soil.
- 22. AUTHORIZED DAMAGES. Lessee shall pay the owner of the soil for damages caused by its operations to all personal property, improvements, livestock and crops on said land.
  - 23. PIPELINE DEPTH. When requested by the owner of the soil, Lessee shall bury its pipelines below plow depth.
- 24. WELL LOCATION LIMIT. No well shall be drilled nearer than two hundred (200) feet to any house or barn now on said premises without the written consent of the owner of the soil.
- 25. POLLUTION. In developing this area, Lessee shall use the highest degree of care and all proper safeguards to prevent pollution. Without limiting the foregoing, pollution of coastal wetlands, natural waterways, rivers and impounded water shall be prevented by the use of containment facilities sufficient to prevent spillage, seepage or ground water contamination. In the event of pollution, Lessee shall use all means at its disposal to recapture all escaped hydrocarbons or other pollutant and shall be responsible for all damage to public and private properties. Lessee shall build and maintain fences around its slush, sump, and drainage pits and tank batteries so as to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level all slush pits and cellars and completely clean up the drilling site of all rubbish thereon. Lessee shall, while conducting operations on the leased premises, keep said premises free of all rubbish, cans, bottles, paper cups or garbage, and upon completion of operations shall restore the surface of the land to as near its original condition and contours as is practicable. Tanks and equipment will be kept painted and presentable.
- 26. REMOVAL OF EQUIPMENT. Subject to limitations in this paragraph, Lessee shall have the right to remove machinery and fixtures placed by Lesseeon the leased premises, including the right to draw and remove easing, 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 easing from any well capable of producing oil and saying quantities. Additionally, Lessee may not draw and remove easing 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 easing 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, elieve 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
- (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;

IF IT BEARS THE SEAL OF THE COUNTY CLER

LINDA M. DONALD, COUNTY CLERK OULD AS ON OUNTY PAXAS

- (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 ar-sing 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 startutory 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 he 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 for his 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. PCOLING. 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 lessenged 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 Requires

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

- 36. ENVIRONMENTAL HAZARDS. Lessee shall use the highest degree of care and all reasonable safeguards to prevent contamination or pollution of 30. ENVIRONMENTAL HAZARUS. Lessee shall use the nighest degree of care and all reasonable safeguate to the political 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 filled 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.

MAL THUS	n/
LESSEE BY: Clay Joh	nson
TITLE: 8=24-92	<del>}</del>
DATE:	
STATE OF TEXAS	STATE OF TEXAS
Individually and as agent for the State of Texas  Dorothy F. Richardson, a widow of C. E	BY:Individually and as agent for the State of Texas Richardson, deceased SS
Date: Mug 45+ 11, 1998	Date:
STATE OF TEXAS	STATE OF TEXAS
Ege.	BY:
Individually and as agent for the State of Texas	Individually and as agent for the State of Texas
Date:	Date:

A CERTIFIED COPY

IF IT BEARS THE SEAL OF THE COUNTY CLERK

ATTEST:

LINDA M. DONALD, COUNTY CLERK

SULBERSON COUNTY, TEXAS

STATE OF	(CORPORATION ACKNOWLEDGMENT)
COUNTY OF	
BEFORE ME, the undersigned authority, on this day personally appear	red
nown to me to be the person whose name is subscribed to the foregoing instrumen	
or the purposes and consideration therein expressed, in the capacity stated, and as	and acknowledged to me that he executed the sa the act and deed of said corporation.
Given under my hand and seal of office this theday of	
	Notary Public in and for
TATE OF	(CORPORATION ACKNOWLEDGMENT)
OUNTY OF	
BEFORE ME, the undersigned authority, on this day personally appeare	ed
nown to me to be the person whose name is subscribed to the foregoing instrument	.t, as
	and acknowledged to me that he executed the sai
r the purposes and consideration therein expressed, in the capacity stated, and as t	the act and deed of said corporation.
Given under my hand and seal of office this theday of	
	-
	Notary Public in and for
ATEOF LOUISIANA	(INDIVIDUAL ACKNOWLEDGMENT)
DUNTY OF Caddo	
Before me, the undersigned authority, on this day personally appeared_	Dorothy F. Richardson, a widow
of C. E. Richardson, deceased own to me to be the persons whose names are subscribed to the foregoing instrum	
asideration therein expressed.	190
Given under my hand and seal of office this the 11 th day	or August 19 98
	Ryland 6. Moore on
	Notary Public in and for RYLAND E. MOORE, JR., Notary Bullia
Tarre	Caddo Parish, Louisiana My Commission is for Life
ATE OF INCO	(INDIVIDUAL ACKNOWLEDGMENT)
UNTY OF WINDLAND	11 T1
Before me, the undersigned authority, on this day personally appeared	Clay Johnson
wn to me to be the persons whose names are subscribed to the foregoing instrume	ent, and acknowledged to me that they executed the same for the purposes
sideration therein expressed.	0, 4, + + O7
Given under my hand and seal of office this theday of	Money Marchae
	Tolling
MONICA MARLOWE NOTARY PUBLIC	Notary Public in and for 19805
State of Texas Comm. Exp. 10-30-99	

## EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OIL AND GAS LEASE DATED JULY 17, 1998, BY AND BETWEEN DOROTHY F. RICHARDSON, A WIDOW OF C. E. RICHARDSON, DECEASED, AS LESSOR, AND CLAY JOHNSON, AS LESSEE, AND COVERING 106.66 NET MINERAL ACRES, MORE OR LESS, ALL IN CULBERSON COUNTY, TEXAS.

- 40. Notwithstanding anything to the contrary indicated in Paragraph Three (3) herein this Lease for all purposes shall be considered a fully Paid-Up Oil & Gas Lease. Said Delay Rentals have been paid in full with the Bonus Consideration tendered herein. Delay Rental payment was based on a \$1.00 per net mineral acre per year for Four (4) Years. Concluding a \$4.00 per acre Pd-Up Rental Payment was made in advance for the Four (4) Year Period on the net mineral acres indicated in this Lease.
- 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.

LINDA McDONALD, COUNTY CLERK
CULBGRON COUNTY, TEXAS

9	_County		
9		8661	ommissioner
8100	0	. pe.0	George P. Bush, Commissioner
File No.	Pace	Date Filed:	By Geo

THE STATE OF TEXA	s I ne	Donald	
COUNTY OF CULBER		ries, Clerk of the Count	v Court is and
for said County and State	o, do hereby pertify th	at the foregoing is a tru	
19 8 - 8:10	filed for record in a		Ortiber.
recorded in the	01/1676		Records of Culberson County,
Texas.	TV TITLE	1 8 2 2 TV P 1	
26 TO CERTIFY	WHICH, Witness my	hand and official seal s	t Van Horn, this
Dunde M	Ordel .	LINDA UNIA	B, COUNTY CLERK COUNTY, TEXAS.

General Land Office Relinquishmnt Act Lease Form Revised, September 1997 A CERTIFIED COPY

IF IT BEARS THE SEAL OF THE COUNTY CLERK

ATTEST:

LINDA MODONALD, COUNTY CLERK

CULBERSON COUNTY, TEXAS

BY MAN DEPUT

# PAID UP

# OIL AND GAS LEASE

	Tis made and entered into this 17 day of July 19 98, between the State of Texas, acting by and through its Laird, dealing in his sole and separate property  of 133 West Mistletoe Ave.
	San Antonio, TX 78212 said agent
	(Give Permanent Address)
rein referred to as the owner	of the soil (whether one or more), and Clay Johnson
	203 W. Wall, Suite 800 of
	Midland, TX 79701
einafter called Lessee.	(Give Permanent Address)
vania vanca passes.	
I. GRANTING CLA	AUSE. For and in consideration of the amounts stated below and of the covenants and agreements to be paid, kept and performed by
isee under this lease, the Stat	e 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
specting and drilling for and	producing oil and gas, laying pipe lines, building tanks, storing oil and building power stations, telephone lines and other structures
	care of, treat and transport said products of the lease, the following lands situated in Culberson County, State
Texas, to-wit:	Block 100, Public School Land Survey
	Section 8: All
	Section 9: All
	Section 16: All
	Section 17: All
taining 2,560	
taining 2,300	acres, more or less. The bonus consideration paid for this lease is as follows:
To the Str	tte of Texas: Two Thousand Eight Hundred Seventy-nine and 82/100
10 4,0 54	Dollars (\$ 2,879.82 )
To the ow	mer of the soil: Two Thousand Eight Hundred Seventy-nine and 82/100
	Dollars (\$
Total boni	us consideration: Five Thousand Seven Hundred Fifty-nine and 64/100
	Dollars (\$ 5,759.64
total bonus consideration pa	uid represents a bonus of Fifty-four and No/100
one consideration po	Dollars (\$ 54.00 ) per acre, on 106.66 net acres.
	prints ( ) prints a ray with the
2. TERM. S	ubject to the other provisions in this lease, this lease shall be for a term ofFive (5) years from this date
rein called "primary term") ar	nd as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land.
	produced in paying quantities" means that the receipts from the sale or other authorized commercial use of the substance(s) covered
	expenses for the six months last past.
e Exhibit "A"	attached for Pd-Up Delay Rental Provision shown as Paragraph
3. DELAY R	ENTALS. If no well is commenced on the leased premises on or before one (1) year from this date, this lease shall terminate, unless the Lessee shall pay or tender to the owner of the soil or to his credit in
of octore such anniversary da	Bank.
	, or its successors (which shall continue as the depository regardless of changes in the ownership of
	below; in addition, Lessee shall pay or tender to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATE OF
land), the amount specified	a like sum on or before said date. Payments under this paragraph shall operate as a rental and shall cover the privilege of deferring
land), the amount specified	a like said of of before said date. I a men and the party spin shall operate situation of the privilege of determine
land), the amount specified XAS, AT AUSTIN, TEXAS,	one (1) year from said date. Payments under this paragraph shall be in the following amounts:
land), the amount specified XAS, AT AUSTIN, TEXAS,	one (1) year from said date. Payments under this paragraph shall be in the following amounts:
land), the amount specified KAS, AT AUSTIN, TEXAS, commencement of a well for	one (1) year from said date. Payments under this paragraph shall be in the following amounts:
land), the amount specified CAS, AT AUSTIN, TEXAS, commencement of a well for To the own Dol	one (1) year from said date. Payments under this paragraph shall be in the following amounts:  ner of the soil:  lars (5
land), the amount specified XAS, AT AUSTIN, TEXAS, commencement of a well for To the own Dol To the States	ner of the soil:  lars (\$
land), the amount specified XAS, AT AUSTIN, TEXAS, commencement of a well for To the own Dol To the States	ner of the soil: lars (\$

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 successed 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.
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.

- 5. MINIMUM ROYALTY. During any year after the expiration of the primary term of this lease, if this lease is maintained by production, the foyalties 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 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, transporting, and otherwise making the oil, gas and other products hereunder ready for sale or use. Lessee agrees to compute and pay royalties on the gross value received, including any reimbursements for severance taxes and production related costs.
- 8. PLANT FUEL AND RECYCLED GAS. No royalty shall be payable on any gas as may represent this lease's proportionate share of any fuel used to process gas produced hereunder in any processing plant. Notwithstanding any other provision of this lease, and subject to the written consent of the owner of the soil and the Commissioner of the General Land Office, Lessee may recycle gas for gas lift purposes on the leased premises or for injection into any oil or gas producing formation underlying the leased premises after the liquid hydrocarbons contained in the gas have been removed; no royalties shall be payable on the recycled gas until it is produced and sold or used by Lessee in a manner which entitles the royalty owners to a royalty under this lease.
- 9. ROYALTY PAYMENTS AND REPORTS. All royalties not taken in kind shall be paid to the Commissioner of the General Land Office at Austin, Texas, in the following manner:

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

and market value including gas meter readings, pipeline receipts, gas line receipts and other checks or memoranda of amount produced and put into pipelines, tanks, or pools and gas lines or gas storage, and any other reports or records which the General Land Office may require to verify the gross production, disposition and market value. In all cases the authority of a manager or agent to act for the Lessee herein must be filed in the General Land Office. Each royalty payment shall be accompanied by a check stub, schedule, summary or other remittance advice showing by the assigned General Land Office lease number the amount of royalty being paid on each lease. If Lessee pays his royalty on or before thirty (30) days after the royalty payment was due, then Lessee owes a penalty of 5% on the royalty or \$25.00, whichever is greater. A royalty payment which is over thirty (30) days late shall accrue a penalty of 10% of the royalty due or \$25.00 whichever is greater. In addition to a penalty, royalties shall accrue interest at a rate of 12% per year; such interest will begin accruing when the royalty is sixry (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 1 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 exciting or reworking of any additional well are prosecuted in good faith and in workmanlike manner without interruptions totaling more than sixty (60) days during 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 receive adelay 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 for the purpose of this paragraph.

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

- 19. WARRANTY CLAUSE. The owner of the soil warrants and agrees to defend title to the leased premises. If the owner of the soil defaults in payments owed on the leased premises, then Lessee may redeem the rights of the owner of the soil in the leased premises by paying any mortgage, taxes or other liens on the leased premises. If Lessee makes payments on behalf of the owner of the soil under this paragraph, Lessee may recover the cost of these payments from the rental and royalties due the owner of the soil.
- 20. (A) PROPORTIONATE REDUCTION CLAUSE. If the owner of the soil owns less than the entire undivided surface estate in the above described land, whether or not Lessee's interest is specified herein, then the royalties and rental herein provided to be paid to the owner of the soil shall be paid to him in the proportion which his interest bears to the entire undivided surface estate and the royalties and rental herein provided to be paid to the Commissioner of the General Land Office of the State of Texas shall be likewise proportionately reduced. However, before Lessee adjusts the royalty or rental due to the Commissioner of the General Land Office, Lessee or his authorized representative must submit to the Commissioner of the General Land Office a written statement which explains the discrepancy between the interest purportedly leased under this lease and the actual interest owned by the owner of the soil. The Commissioner of the General Land Office shall be paid the value of the whole production allocable to any undivided interest not covered by a lease, less the proportionate development and production cost allocable to such undivided interest. However, in no event shall the Commissioner of the General Land Office receive as a royalty on the gross production allocable to the undivided interest not leased an amount less than the value of one-sixteenth (1/16) of such gross-production.
- (B) REDUCTION OF PAYMENTS. If, during the primary term, a portion of the land covered by this lease is included within the boundaries of a pooled unit that has been approved by the School Land Board and the owner of the soil in accordance with Natural Resources Code Sections 52.151-52.154, or if, at any time after the expiration of the primary term or the extended term, this lease covers a lesser number of acres than the total amount described herein, payments that are made on a per acre basis hereunder shall be reduced according to the number of acres pooled, released, surrendered, or otherwise severed, so that payments determined on a per acre basis under the terms of this lease during the primary term shall be calculated based upon the number of acres outside the boundaries of a pooled unit, or, if after the expiration of the primary term, the number of acres actually retained and covered by this lease.
- 21. USE OF WATER. Lessee shall have the right to use water produced on said land necessary for operations under this lease except water from wells or tanks of the owner of the soil; provided, however, Lessee shall not use potable water or water suitable for livestock or irrigation purposes for waterflood operations without the prior consent of the owner of the soil.
- 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 hay 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 expresentatives 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
  - (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;

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

| D - 24-78

LINDA MODONALD, COUNTY CLERK CULBZRSON, COUNTY TEXAS

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

36. ENVIRONMENTAL HAZARDS. Lessee shall use the highest degree of care and all reasonable safeguards to prevent contamination or pollution of any environmental medium, including soil, surface waters, groundwater, sediments, and surface or subsurface strata, ambient air or any other environmental medium in, on, or under, the leased premises, by any waste, pollutant, or contaminant. Lessee shall not bring or permit to remain on the leased premises any asbestos containing materials, explosives, toxic materials, or substances regulated as hazardous wastes, hazardous materials, hazardous substances (as the term "Hazardous Substance" is defined in the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), 42 U.S.C. Sections 9601, et seq.), or toxic substances under any federal, state, or local law or regulation ("Hazardous Materials"), except ordinary products commonly used in connection with oil and gas exploration and development operations and stored in the usual manner and quantities. LESSEE'S VIOLATION OF THE FOREGOING PROHIBITION SHALL CONSTITUTE A MATERIAL BREACH AND DEFAULT HEREUNDER AND LESSEE SHALL INDEMNIFY, HOLD HARMLESS AND DEFEND THE STATE OF TEXAS AND THE OWNER OF THE SOIL FROM AND AGAINST ANY CLAIMS, DAMAGES, JUDGMENTS, PENALTIES. LIABILITIES, AND COSTS (INCLUDING REASONABLE ATTORNEYS' FEES AND COURT COSTS) CAUSED BY OR ARISING OUT OF (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.

The bolies due die State and the prescribed filling lee shall	accompany such certified copy to the General Land Office.
LESSEE BY: Clay Johnson	SON
· · · TITLE:	
0.1.99	
DATE:	
STATE OFTEXAS 1 10	STATE OF TEXAS
RY: Atamal & falled	BY: May & Williamson
Individually and as agent for the State of Texas	Individually and as agent for the State of Texas
Daniel L. Laird, dealing in sister and	separate property, SS#
STATE OF TEXAS	STATE OF TEXAS
BY:	BY:
Individually and as agent for the State of Texas	Individually and as agent for the State of Texas
Date:	Date:

A CERTIFIED COPY

ATTEST:

LINDA McDONALD, COUNTY CLERK

CULTERSON/COUNTY, TEXAS

AY LINE MEDIAL

A CERTIFIED COPY

LINE COUNTY CLERK

CULTERSON/COUNTY, TEXAS

STATE OF	(CORPORATION ACKNOWLEDGMENT)
COUNTY OF	
BEFORE ME, the undersigned authority, on this day personall	ly appeared
nown to me to be the person whose name is subscribed to the foregoing	instrument, asof
or the purposes and consideration therein expressed, in the capacity state	and acknowledged to me that he executed the sed, and as the act and deed of said corporation.
Given under my hand and seal of office this theday	y of
	Notary Public in and for
TATE OF	(CORPORATION ACKNOWLEDGMENT)
OUNTY OF	
BEFORE ME, the undersigned authority, on this day personally	y appeared
nown to me to be the person whose name is subscribed to the foregoing is	instrument, asof
	and acknowledged to me that he executed the sa
or the purposes and consideration therein expressed, in the capacity stated	
Given under my hand and seal of office this theday	
day	
age of	
	Notary Public in and for
	3.27
TATE OF 1 erigo	(INDIVIDUAL ACKNOWLEDGMENT)
OUNTY OF BENJAND	
DUNITY OF 1 SUN JULY	
Before me, the undersigned authority, on this day personally ap his sole and separate property	peared Daniel L. Laird, dealing in
own to me to be the persons whose names are subscribed to the foregoin naideration therein expressed.	ng instrument, and acknowledged to me that they executed the same for the purpose
ith	0 + 05
Given under my hand and seal of office this the	munn day of Microst 1998.
G. WILL	There I- Williamsen
Z 120 1 100	80100
2   5	Z Notary Public in and for SVITUE OF YOYLO
Truca	2
ATE OF TOP TO	(INDIVIDUAL ACKNOWLEDGMENT)
DUNTY OF Midland	200/
Before me, the undersigned authority, on this day personally app	peared Clay Johnson
	i de la companya de l
own to me to be the persons whose names are subscribed to the foregoing asideration therein expressed.	g instrument, and acknowledged to me that they executed the same for the purposes
/	August 1.6
Given under my hand and seal of office this the	day of wife In a love
· · · · · · · · · · · · · · · · · · ·	Morris Mariore
MONICA MARLOWE	Name Public in and for Texas
2/9/ NOTARY PUBLIC \$	Notary Public in and for
State of Texas Comm. Exp. 10-30-99	
3	

### EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OIL AND GAS LEASE DATED JULY 17, 1998, BY AND BETWEEN DANIEL L. LAIRD, DEALING IN HIS SOLE AND SEPARATE PORPERTY AS LESSOR, AND CLAY JOHNSON, AS LESSEE, AND COVERING 106.66 NET MINERAL ACRES, MORE OR LESS, ALL IN CULBERSON COUNTY, TEXAS.

- 40. Notwithstanding anything to the contrary indicated in Paragraph Three (3) herein this Lease for all purposes shall be considered a fully Paid-Up Oil & Gas Lease. Said Delay Rentals have been paid in full with the Bonus Consideration tendered herein. Delay Rental payment was based on a \$1.00 per net mineral acre per year for Four (4) Years. Concluding a \$4.00 per acre Pd-Up Rental Payment was made in advance for the Four (4) Year Period on the net mineral acres indicated in this Lease.
- 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.

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

LINDA MODONALD, COUNTY CLERK
CUSBRISON COUNTY, TEXAS

91	-County	
		1998 mmissioner
28100	(P)	George P. Bush, Commissioner
File No.	Pase	Date Filed: Georg

COUNTY OF CULBERSON 1 1 Linds	Clerk of the County Court in and
for said County and State, do hereby certify that the correct copy of The duple of Lense	
GK X diled for record in my of	1111
recorded to the	Records of Culberson County,
	d and official sealed Van Horn, this
Tinde My Cull	LINDA COUNTY CLERK CULBERSON COUNTY, TEXAS.

General Land Office Relinquishmnt Act Lease Form Revised, September 1997 A CERTIFIED COPY

IF IT BEARS THE SEAL OF THE COUNTY CLERK

ATTEST:

LINDA McDONALD, COUNTY CLERK

CULBERSON COUNTY: TEXAS

# PAID UP OIL AND GAS LEASE

						sepa	-		
					Bush			78212	
			(Cive Perm	anent Address	Anto	1110,	TX	10212	said agent
rein referred to as the owner	r of the soil (whether on	e or more).		lav Jo					
				03 W		Suit	e 80	00	of
The same of the sa			M	idland	, TX	7970			
			(Give Perm	anent Address	)				
reinafter called Lessee.									
1 67 177716 6							•		
essee under this lease, the S	LAUSE. For and in con	sideration o	the amount	the soil here	and of the	covenant	and ag	Lesses for the sole a	ept and performed by
ospecting and drilling for a	nd producing oil and gas	laving nir	e lines build	ing tanks, sto	ing oil and	building	oower st	ations, telephone line	s and other structure
ereon, to produce, save, tak								culberson	
Texas, to-wit:	- September - Anna Committee -							CHIMIT WILL	
				School	Lan	d Sur	vey		
	Sectio	n 8:	A11						
	Sectio	n 9:	A11						
	Sectio	n 15:	A11						
	Sectio	n 17:	A11						
ntaining 2,560	acres, more or less. T	he bonus c	ossidention	naid for this le	nee is ne fo	llower			
	Dollars (\$ 2,87	79.82 70 Tho					•	y-nine and and	
To the o	Dollars (\$ 2,87  owner of the soil: Tw Dollars (\$ 2,87  onus consideration: Fi Dollars (\$ 5,75	79.82 79.82 Ve Th 59.64 of Fi	ousand ousand	Eight Seven	Hundr	ed Se	vent	y-nine and	82/100
To the o	Dollars (\$ 2,87  Dollars (\$ 2,87  Dollars (\$ 2,87  Dollars (\$ 5,75  paid represents a bonus  Dollar	79.82 79.82 1 ve Tho 59.64 of Fi	ousand ousand fty-fo	Eight Seven	Hundre Hund No/1	red F	ifty	y-nine and	64/100
To the of Total books total bonus consideration  2. TERM.	Dollars (\$ 2,87  Dollars (\$ 2,87  Dollars (\$ 2,87  Dollars (\$ 5,75  paid represents a bonus  Dollar  Subject to the other pro	79.82 79.82 1 ve Th 1 ve Th	ousand ousand fty-fo 54.00 his lease, this	Seven our and	Hundre Hundre No/1	red F	vent	y-nine and acres. (5) years	64/100
To the of Total books consideration  2. TERM.  refin called "primary term")	Dollars (\$ 2,87  Dollars (\$ 2,87  Dollars (\$ 2,87  Dollars (\$ 5,75  paid represents a bonus  Dolla  Subject to the other pro and as long thereafter as	79.82  VO Tho 79.82  LVE Th 59.64  of Fi  rs (\$	ousand ousand fty-fo 54.00 his lease, this	Seven our and lease shall be	Hundre Hundre No/1 per acre, of for a term seed in pay	red F	ifty	v-nine and v-nine and v-nine and vacres. (5) years	64/100 64/100 
To the of Total book to the to	Dollars (\$ 2,85)  owner of the soil: Tw Dollars (\$ 2,85)  onus consideration: Fi Dollars (\$ 5,75)  paid represents a bonus Dolla  Subject to the other pro and as long thereafter as  "produced in paying qua	79.82  VO Tho 79.82  Ve Th 59.64  of Fi  rs (\$	ousand ousand fty-fo 54.00 his lease, this s, or either of	Seven our and lease shall be	Hundre Hundre No/1 per acre, of for a term seed in pay	red F	ifty	v-nine and v-nine and v-nine and vacres. (5) years	64/100 64/100 
To the of Total book to the control of the control	Dollars (\$	79.82  Ve The Thomas of Figure (Section 2) with the soil and gas antities me months last	ousand ousand fty-fo 54.00 his lease, this s, or either of cans that the r	Seven our and lease shall be	Hundre Hundre No/1 per acre, of for a term seed in pay the sale or o	red F  00 on 106.  of Fring quantither author	ifty 66net	y-nine and y-nine and acres. (5) years a said land. mmercial use of the s	64/100  from this date substance(s) covered
To the of Total book to the following term of the term	Dollars (\$	ve Tho yo Tho yo Tho yo Se  yo Tho yo	ousand ousand fty-fo 54.00 his lease, this s, or either of cans that the r past	Seven our and lease shall be them, is produced from the second of the se	Hundre Hundre No/1 per acre, of for a term need in pay ne sale or o	red F  00 on 106.  of Fring quantither author	66net	y-nine and y-nine and acres. (5) years as a	64/100  from this date substance(s) covered Paragraph
To the of Total books consideration  2. TERM.  French called "primary term")  assetting this lease, the term conduct of pocket operation of the conduct of t	Dollars (\$ 2,85  owner of the soil: Tw Dollars (\$ 2,85  onus consideration: Fi Dollars (\$ 5,75  paid represents a bonus Dolla  Subject to the other pro and as long thereafter as "produced in paying qual all expenses for the six mattached for REMTALS, If so well	yo Tho 79.82  ve Th 59.64  of Fi rs (5  visions in the solid and gate annities me months last or Pd- is common of the solid and gate annities me months last or Pd- is common of the solid annities me months last or Pd- is common of the solid annities me months last or Pd- is common of the solid annities of t	ousand  ousand  fty-fo 54.00  his lease, this ss, or either of rans that the re past.  Up Dell	Seven our and lease shall be them, is produced premises	Hundre Hundre No/1 per acre, of for a term pared in payme sale or other tal Parent or before	red F  00 on 106.  of Fring quantither author	66net	y-nine and y-nine and acres. (5) years as a	64/100  from this date substance(s) covered Paragraph
To the of Total both total both total both total bonus consideration  2. TERM.  Term called "primary term")  asching this lease, the term aschout of pocket operation  Fighibit "A"  DELAY or before such anniversary	Dollars (\$ 2,85  owner of the soil: Tw Dollars (\$ 2,85  onus consideration: Fi Dollars (\$ 5,75  paid represents a bonus Dolla  Subject to the other pro and as long thereafter as "produced in paying qual all expenses for the six mattached for REMTALS, If so well	yo Tho 79.82  ye Th 59.64  of Fi ars (\$  visions in the soil and gath antities* me months last or Pd- is common tender to the	fty-fo 54.00 his lease, this s, or either of cans that the repast -Up Delland on the lead the owner of the	Seven  our and  lease shall be them, is produced premiese se soil or to his	Hundre Hundre No/1 per acre, of for a term used in pay the sale or of tal Property of credit in	red F  00 on 106.  of Fring quantither author  rovis	ifty 66net ive ties from	y-nine and	from this date substance(s) covered Paragraph
To the of Total books consideration  2 TERM.  erein called "primary term") ascerding this lease, the term consideration of pocket operation  Fight bit "A"  or before such samiversary	Dollars (\$ 2,87  Dollars (\$ 2,87  Dollars (\$ 2,87  Dollars (\$ 5,75  paid represents a bonus  Dollars Subject to the other pro and as long thereafter as produced in paying qual expenses for the six re  attached for PENTALS. If as well- date Lessee shall pay or	vo Tho yo Tho yo Tho yo 82  ve Th yo 64  of Fi as (\$  visions in the soil and ga antities" me norths last or Pd- is common tender to the	fty-fo 54.00 his lease, this s, or either of cans that the repast. Up Delland on the lead the owner of the	Seven  ur and  lease shall be them, is produced premiese soil or to his sors (which si	Hundre Hundre No/1 per acre, of for a term need in pay ne sale or o tal Post or before credit in tall continu	red F  00 on 106.  of Fring quanti ther author  rovis	ifty 66net ive ties from	y-nine and	from this date substance(s) covered paragraph shall terminote, unlarge in the ownership of the covership of
To the of Total book to the consideration  2 TERM.  erein called "primary term") ascering this lease, the term consideration of pocket operation  Figh i bit "A" or before such samiversary d land), the amount specific	Dollars (\$ 2,87  Dollars (\$ 2,87  Dollars (\$ 2,87  Dollars (\$ 5,75  paid represents a bonus  Dollars Subject to the other pro and as long thereafter as "produced in paying qual expenses for the six ratached for RENTALS. If as well- date Lessee shall pay or	vo Tho yo Tho yo Tho yo See Shall p	fty-fo 54.00 his lease, this s, or either of cans that the repast. Up Dellande on the lease the owner of the	Seven  ur and  lease shall be them, is produced premises ses soil or to his sors (which si to the COMM	Hundre Hundre Hundre No/1 per acre, of for a term used in pay ne sale or o tal Proposition of credit in sall continues SSIONER	ed Se  red F  00 on 106.  of Fring quanti ther author  rovis one (1) y	ifty 66net ive ties from	y-nine and	from this date substance(s) covered paragraph thail terminote, unlarge in the ownership of THE STATE OF
To the of Total book total book total book total book to the term 2. TERM. Term called "primary term") asching this lease, the term called "primary term") asching this lease, the term called "primary term" or before such anniversary or before such anniversary d land), the amount specific XAS, AT AUSTIN, TEXAS	Dollars (\$ 2,87  Dollars (\$ 2,87  Dollars (\$ 2,87  Dollars (\$ 5,75  Dollars (\$ 5,75  paid represents a bonus  Dollars Subject to the other pro and as long thereafter as produced in paying qual expenses for the six in a ttached for RENTALS. If as well-date Lessee shall pay or delike sum on or before the six in a time to the	yo Tho 79.82  ye Th 59.64  of Fi ars (\$  visions in the soil and gate antities menonths last or Pd- is common tender to the ssee shall persaid date.	fty-fo 54.00 his lease, this s, or either of trans that the repast. Up Delland be owner of the control or transcered to the lease the owner of the lease the owner ow	Seven  ur and  lease shall be them, is produced premises the soil or to his sors (which si to the COMM det this parage	Hundre Hundre Hundre No/1 per acre, of for a term used in paying sale or of tal Property credit in tall continues SSIONER raph shall	ed Se  red F  00 on 106.  of Fring quanti ther author  rovis one (1) y  te as the de  OF THE (operate as	ifty 66net ive ties from ized co	y-nine and	from this date substance(s) covered paragraph thail terminote, unlarge in the ownership of THE STATE OF
To the of Total bo	Dollars (\$ 2,87  Dollars (\$ 2,87  Dollars (\$ 2,87  Dollars (\$ 5,75  Dollars (\$ 5,75  paid represents a bonus  Dollars Subject to the other pro and as long thereafter as produced in paying qual expenses for the six in a ttached for RENTALS. If as well-date Lessee shall pay or delike sum on or before the six in a time to the	yo Tho 79.82  ye Th 59.64  of Fi ars (\$  visions in the soil and gate antities menonths last or Pd- is common tender to the ssee shall persaid date.	fty-fo 54.00 his lease, this s, or either of trans that the repast. Up Delland be owner of the control or transcered to the lease the owner of the lease the owner ow	Seven  ur and  lease shall be them, is produced premises the soil or to his sors (which si to the COMM det this parage	Hundre Hundre Hundre No/1 per acre, of for a term used in paying sale or of tal Property credit in tall continues SSIONER raph shall	ed Se  red F  00 on 106.  of Fring quanti ther author  rovis one (1) y  te as the de  OF THE (operate as	ifty 66net ive ties from ized co	y-nine and	from this date substance(s) covered paragraph thail terminote, unlarge in the ownership of THE STATE OF
To the of Total bo	Dollars (\$ 2,87  Dollars (\$ 2,87  Dollars (\$ 2,87  Dollars (\$ 2,87  Dollars (\$ 5,75  paid represents a bonus  Dollars Subject to the other pro and as long thereafter as produced in paying qual expenses for the six in a ttached for a ttached for produced in paying qual expenses for the six in a ttached for one (1) year from said	yo Tho 79.82  ye Th 59.64  of Fi ars (\$  visions in the soil and gate antities menonths last or Pd- is common tender to the ssee shall persaid date.	fty-fo 54.00 his lease, this s, or either of trans that the repast. Up Delland be owner of the control or transcered to the lease the owner of the lease the owner ow	Seven  ur and  lease shall be them, is produced premises the soil or to his sors (which si to the COMM det this parage	Hundre Hundre Hundre No/1 per acre, of for a term used in paying sale or of tal Property credit in tall continues SSIONER raph shall	ed Se  red F  00 on 106.  of Fring quanti ther author  rovis one (1) y  te as the de  OF THE (operate as	ifty 66net ive ties from ized co	y-nine and	from this date substance(s) covered paragraph thail terminote, unlarge in the ownership of THE STATE OF
To the of Total bo  TERM.  Term called "primary term")  Solding this lease, the term  Total bo	Dollars (\$ 2,87  Dollars (\$ 2,87  Dollars (\$ 2,87  Dollars (\$ 2,87  Dollars (\$ 5,75  paid represents a bonus  Dollar  Subject to the other pro and as long thereafter as  "produced in paying qual al expenses for the six ratached for a tached for produced in paying qual at expenses for the six ratached for one (1) year from said  where of the soil:	yo Tho 79.82  ye Th 59.64  of Fi ars (\$  visions in the soil and gate antities menonths last or Pd- is common tender to the ssee shall persaid date.	fty-fo 54.00 his lease, this s, or either of trans that the repast. Up Delland be owner of the control or transcered to the lease the owner of the lease the owner ow	Seven  ur and  lease shall be them, is produced premises the soil or to his sors (which si to the COMM det this parage	Hundre Hundre Hundre No/1 per acre, of for a term used in paying sale or of tal Property credit in tall continues SSIONER raph shall	ed Se  red F  00 on 106.  of Fring quanti ther author  rovis one (1) y  te as the de  OF THE (operate as	ifty 66net ive ties from ized co	y-nine and	from this date substance(s) covered paragraph thail terminote, unlarge in the ownership of THE STATE OF
To the of Total book total book total book total book to the total book to the term asset of the term to the total book to the term to the total book to the term	Dollars (\$	yo Tho 79.82  ye Th 59.64  of Fi ars (\$  visions in the soil and gate antities menonths last or Pd- is common tender to the ssee shall persaid date.	fty-fo 54.00 his lease, this s, or either of trans that the repast. Up Delland be owner of the control or transcered to the lease the owner of the lease the owner ow	Seven  ur and  lease shall be them, is produced premises the soil or to his sors (which si to the COMM det this parage	Hundre Hundre Hundre No/1 per acre, of for a term used in paying sale or of tal Property credit in tall continues SSIONER raph shall	ed Se  red F  00 on 106.  of Fring quanti ther author  rovis one (1) y  te as the de  OF THE (operate as	ifty 66net ive ties from ized co	y-nine and	from this date substance(s) covered paragraph thail terminote, unlarge in the ownership of THE STATE OF
To the of Total book total book total book total book to the total book to the term as the term to the total book to the term to the total book to the term to the total book to the term	Dollars (\$	yo Tho 79.82  ye Th 59.64  of Fi ars (\$  visions in the soil and gate antities menonths last or Pd- is common tender to the ssee shall persaid date.	fty-fo 54.00 his lease, this s, or either of trans that the repast. Up Delland be owner of the control or transcered to the lease the owner of the lease the owner ow	Seven  ur and  lease shall be them, is produced premises the soil or to his sors (which si to the COMM det this parage	Hundre Hundre Hundre No/1 per acre, of for a term used in paying sale or of tal Property credit in tall continues SSIONER raph shall	ed Se  red F  00 on 106.  of Fring quanti ther author  rovis one (1) y  te as the de  OF THE (operate as	ifty 66net ive ties from ized co	y-nine and	from this date substance(s) covered paragraph thail terminote, unlarge in the ownership of THE STATE OF
To the of Total book to the consideration  2. TERM. Term called "primary term") asciring this lease, the term consideration or before such anniversary or before such anniversary defeat, and the commencement of a well for the of the STO th	Dollars (\$	yo Tho 79.82  ye Th 59.64  of Fi ars (\$  visions in the soil and gate antities menonths last or Pd- is common tender to the ssee shall persaid date.	fty-fo 54.00 his lease, this s, or either of trans that the repast. Up Delland be owner of the control or transcered to the lease the owner of the lease the owner ow	Seven  ur and  lease shall be them, is produced premises the soil or to his sors (which si to the COMM det this parage	Hundre Hundre Hundre No/1 per acre, of for a term used in paying sale or of tal Property credit in tall continues SSIONER raph shall	ed Se  red F  00 on 106.  of Fring quanti ther author  rovis one (1) y  te as the de  OF THE (operate as	ifty 66net ive ties from ized co	y-nine and	from this date substance(s) covered paragraph shall terminote, unlarge in the ownership of THE STATE OF

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 assigned 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 successed 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 rortal 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 lenders.

(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 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 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 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 rethrough 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 define 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 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 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 basin 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.
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 processes 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%) 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 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 no been processed.
(D) OTHER PRODUCTS. Royalty on carbon black, sulphur or any other products produced or manufactured from gas (excepting liquid hydrogartons) whether said gas be "casinghead," "dry," or any other gas, by fractionating, burning or any other processing shall be 3/16 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 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 byalties 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 throughly 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 o 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 sund 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

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:

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.

- (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 easing 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 85 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 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 market, then Lessee may pay as a shut-in oil or gas royalty an amount equal to double the amount ferror 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 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 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 amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre.

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.

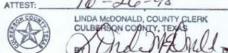
- 15. COMPENSATORY ROYALTIES. If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is sold and delivered in paying quantities from a well located within one thousand (1,000) feet of the leased premises and completed in the same producing reservoir, 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 10(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

- 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.
- (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 slum 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 Losses of 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 easing 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;
  - (3) a partnership in which the owner of the soil is a partner of the soil; if it BEARS THE SEAL OF THE COUNTY CLERK

    (4) a principal stockholder or employee of the corporation which is the owner of the soil; if it BEARS THE SEAL OF THE COUNTY CLERK

    (5) A principal stockholder or employee of the corporation which is the owner of the soil; if it BEARS THE SEAL OF THE COUNTY CLERK

    (6) A principal stockholder or employee of the corporation which is the owner of the soil;



- (6) a fiduciary for the owner of the soil; including but not limited to a guardian, trustee, executor, administrator, receiver, or conservator for the owner of the soil; or
- (7) a family member of the owner of the soil or related to the owner of the soil by marriage, blood, or adoption.
- 28. RELEASES. Under the conditions contained in this paragraph and Paragraph 29, Lessee may at any time execute and deliver to the owner of the soil and place of record a release or releases covering any portion or portions of the leased premises, and thereby surrender this lease as to such portion or portions, and be relieved of all subsequent obligations as to acreage surrendered. If any part of this lease is properly surrendered, the delay rental due under this lease shall be reduced by the proportion that the surrendered acreage bears to the acreage which was covered by this lease immediately prior to such surrender, however, such release will not relieve Lessee of any liabilities which may have accrued under this lease prior to the surrender of such acreage.
- 29. FILING OF ASSIGNMENTS AND RELEASES. If all or any part of this lease is assigned or released, such assignment or release must be recorded in the county where the land is situated, and the recorded instrument, or a copy of the recorded instrument certified by the County Clerk of the county in which the instrument is recorded, must be filed in the General Land Office within 90 days of the last execution date accompanied by the prescribed filing fee. If any such assignment is not so filed, the rights acquired under this lease shall be subject to forfeiture at the option of the Commissioner of the General Land Office.
- 30. DISCLOSURE CLAUSE. All provisions pertaining to the lease of the above-described land have been included in this instrument, including the statement of the true consideration to be paid for the execution of this lease and the rights and duties of the parties. Any collateral agreements concerning the development of oil and gas from the leased premises which are not contained in this lease render this lease invalid.
- 31. FIDUCIARY DUTY. The owner of the soil owes the State a fiduciary duty and must fully disclose any facts affecting the State's interest in the leased premises. When the interests of the owner of the soil conflict with those of the State, the owner of the soil is obligated to put the State's interests before his personal interests.
- 32. FORFEITURE. If Lessee shall fail or refuse to make the payment of any sum within thirty days after it becomes due, or if Lessee or an authorized agent should knowingly make any false return or false report concerning production or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith as required by law and the rules and regulations adopted by the Commissioner of the General Land Office, or if Lessee should fail to file reports in the manner required by law or fail to comply with rules and regulations promulgated by the General Land Office, the School Land Board, or the Railroad Commission, or if Lessee should refuse the proper authority access to the records pertaining to operations, or if Lessee or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or knowingly fail or refuse to furnish the General Land Office a correct log of any well, or if Lessee shall knowingly violate any of the material provisions of this lease, or if this lease is assigned and the assignment is not filed in the General Land Office as required by law, the rights acquired under this lease shall be subject to forfeiture by the Commissioner, and he shall forfeit same when sufficiently informed of the facts which authorize a forfeiture, and when forfeited the area shall again be subject to lease under the terms of the Relinquishment Act. However, nothing herein shall be construed as waiving the automatic termination of this lease by operation of law or by reason of any special limitation arising hereunder. Forfeitures may be set aside and this lease and all rights thereunder reinstated before the rights of another intervene upon satisfactory evidence to the Commissioner of the General Land Office of future compliance with the provisions of the law and of this lease and the rules and regulations that may be adopted relative hereto.
- 33. LIEN. In accordance with Texas Natural Resources Code 52.136, the State shall have a first lien upon all oil and gas produced from the area covered by this lease to secure payment of all unpaid royalty and other sums of money that may become due under this lease. By acceptance of this lease, Lessee grants the State, in addition to the lien provided by Texas Natural Resources Code 52.136 and any other applicable statutory lien, an express contractual lien on and security interest in all leased minerals in and extracted from the leased premises, all proceeds which may accrue to Lessee from the sale of such leased minerals, whether such proceeds are held by Lessee or by a third party, and all fixtures on and improvements to the leased premises used in connection with the production or processing of such leased minerals in order to secure the payment of all royalties or other amounts due or to become due under this lease and to secure payment of any damages or loss that Lessor may suffer by reason of Lessee's breach of any covenant or condition of this lease, whether express or implied. This lien and security interest may be foreclosed with or without court proceedings in the manner provided in the Title 1, 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. PCOLING. 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 lessocial 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 hand 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 aEd 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 anomeys' fees and other legal expenses, including those related to environmental hazards, on the leased premises or in any way related to Lessee's failure to comply with any and all environmental laws; those arising from or in any way related to Lessee's operations or any other of Lessee's activities on the leased premises; those arising from Lessee's use of the surface of the leased premises; and those that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Agreement or any other act or omission of Lessee, its directors, officers, employees, partners, agents, contractors, subcontractors, guests, invitees, and their respective successors and assigns. Each assignee of this Agreement, or an interest therein, agrees to be liable for, exonerate, indemnify, defend and hold harmless the State of Texas and the owner of the soil, their officers, employees, and agents in the same manner provided above in connection with the activities of Lessee, its officers, employees, and agents as described above. EXCEPT AS OTHERWISE EXPRESSLY LIMITED HEREIN, ALL OF THE INDEMNITY OBLIGATIONS AND/OR LIABILITIES ASSUMED UNDER THE TERMS OF THIS AGREEMENT SHALL BE WITHOUT LIMITS AND WITHOUT REGARD TO THE CAUSE OR CAUSES THEREOF (EXCLUDING PRE-EXISTING CONDITIONS), STRICT LIABILITY, OR THE NEGLIGENCE OF ANY PARTY OR PARTIES (INCLUDING THE NEGLIGENCE OF THE INDEMNIFIED PARTY), WHETHER SUCH NEGLIGENCE BE SOLE, JOINT, CONCURRENT, ACTIVE, OR PASSIVE.

- 36. ENVIRONMENTAL HAZARDS. Lessee shall use the highest degree of care and all reasonable safeguards to prevent contamination or pollution of any environmental medium, including soil, surface waters, groundwater, sediments, and surface or subsurface strata, ambient air or any other environmental medium in, on, or under, the leased premises, by any waste, pollutant, or contaminant. Lessee shall not bring or permit to remain on the leased premises any asbestos containing materials, explosives, toxic materials, or substances regulated as hazardous wastes, hazardous materials, hazardous substances (as the term "Hazardous Substance" is defined in the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), 42 U.S.C. Sections 9601, et seq.), or toxic substances under any federal, state, or local law or regulation ("Hazardous Materials"), except ordinary products commonly used in connection with oil and gas exploration and development operations and stored in the usual manner and quantities. LESSEE'S VIOLATION OF THE FOREGOING PROHIBITION SHALL CONSTITUTE A MATERIAL BREACH AND DEFAULT HEREUNDER AND LESSEE SHALL INDEMNIFY, HOLD HARMLESS AND DEFEND THE STATE OF TEXAS AND THE OWNER OF THE SOIL FROM AND AGAINST ANY CLAIMS, DAMAGES, JUDGMENTS, PENALTIES. LIABILITIES, AND COSTS (INCLUDING REASONABLE ATTORNEYS' FEES AND COURT COSTS) CAUSED BY OR ARISING OUT OF (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.

/AU Tohuso	N	
LESSEE BY: Clay Johnson	nn	
TITLE:		
DATE: 8-698		
STATEOFAEXAS	STATE OF TEXAS	
5: 5 MAY MOD LOOD	BY: Mary & Illilliams	con
Jessice Laird Flood, dealing in the State of Texas  Jessice Laird Flood, dealing in the Sole  Date: ARY PUB.	Individually and as/agent for the State of Texas and separate property Date:	SS#
STATE OF TEXAS	STATE OF TEXAS	
BY:	BY:	
Individually and as agent for the State of Texas	Individually and as agent for the State of Texas	
Date: Manage ARY 25 Land	Date:	

A CERTIFIED COPY

ATTEST:

LINDA McDONALD, COUNTY CLERK

CULBERSON COUNTY, TEXAS

BY LUCK MEDICAL COUNTY CLERK

(CORPORATION ACKNOWLEDGMENT)
y appeared_
instrument, asof
and acknowledged to me that he executed the said, and as the act and deed of said corporation.
of
Notary Public in and for
(CORPORATION ACKNOWLEDGMENT)
(CORPORATION ACKNOWLEDGMENT)
sppeared
of
and acknowledged to me that he executed the sar
, and as the act and deed of said corporation.
of
Notary Public in and for
(INDIVIDUAL ACKNOWLEDGMENT)
erty
g instrument, and acknowledged to me that they executed the same for the purposes
day of Aucust 1998
Anna Alland Illand
The transfer
Notary Public in and for State of 1 aspec
(INDIVIDUAL ACKNOWLEDGMENT)
/2/
200
eared Clay Johnson
instrument, and acknowledged to me that they executed the same for the purposes
August 28
day of Mayor 19 70
Monia marione
Notary Public in and for Telas
THE PERSON NAMED IN COLUMN TWO IS NOT THE PERSON NAMED IN COLUMN TWO IS NAMED IN COL

#### EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OIL AND GAS LEASE DATED JULY 17, 1998, BY AND BETWEEN JOGRACE LAIRD FLOOD, DEALING IN HER SOLE AND SEPARATE PROPERTY, AS LESSOR, AND CLAY JOHNSON, AS LESSEE, AND COVERING 106.66 NET MINERAL ACRES, MORE OR LESS, ALL IN CULBERSON COUNTY, TEXAS.

- 40. Notwithstanding anything to the contrary indicated in Paragraph Three (3) herein this Lease for all purposes shall be considered a fully Paid-Up Oil & Gas Lease. Said Delay Rentals have been paid in full with the Bonus Consideration tendered herein. Delay Rental payment was based on a \$1.00 per net mineral acre per year for Four (4) Years. Concluding a \$4.00 per acre Pd-Up Rental Payment was made in advance for the Four (4) Year Period on the net mineral acres indicated in this Lease.
- 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.

A CERTIFIED COPY

IF IT BEARS THE SEAL OF THE COUNTY CLERK

ATTEST:

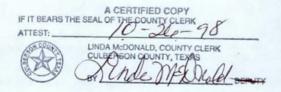
LINDA MCDONALD, COUNTY CLERK

CULBERSON ODUNTY, TEXAS

	Donale
COUNTY OF CULBERSON 1 L. Linda Ori	
correct copy of Paid Woolf Lea	the foregoing is a true and 50 dated Tuly 17,1998
19	NH NHI
19 at 8.10 filed for record in my	office this 26 day of October, the File No. 5 234, to be
Texas	79 5 1
26 th day of October	and and official seal at Van Horn, this
extile Monde and	LINDA TRIAS, COUNTY CLERK CULBERSON COUNTY, TEXAS.



General Land Office Relinquishmnt Act Lease Form Revised, September 1997



## PAID UP

#### OIL AND GAS LEASE

ent_ Ch	ALLOUGE NO	alker Furman,		19 Fast 17		2002101
				essa. TX		
			(Give Permanent Addr		79.761	said agent
rein referred	to as the owner of th	ne soil (whether one or more)		341		
	was die omner of di	e son (whener one or more),	203 W.		ite 800	
			Midlan			of
			(Give Permanent Addr			
reinafter calle	ed Lessee.		,	/		
1. 0	RANTING CLAUS	E. For and in consideration	of the amounts stated bel	ow and of the coven	ants and agreements to be pai	d, kept and performed by
ssee under th	is lease, the State of	Texas acting by and through	the owner of the soil, he	reby grants, leases a	nd lets unto Lessee, for the so	ole and only purpose of
ospecting and	drilling for and pro	ducing oil and gas, laying pi	pe lines, building tanks,	toring oil and buildi	ng power stations, telephone	lines and other structures
		of, treat and transport said pr	roducts of the lease, the f	ollowing lands situat	med in culberso	County, State
Texas, to-wit		Plack 100	Public Scho	ol Land S	TTVOV	
				or Land 3	ur vey	
		Section 8:	A11			
		Section 9:	A11			
		Section 16:	: All ·			
		Section 17:	A11			
		Decoron 11.				
		per to				
taining 2	.560	es, more or less. The bonus	consideration said for thi	learn is as follows:		
	To the State of	Texas: Two Thous	and One Hun	dred Sixty	r and No/100	
		illars (\$ 2,160.00	)		100	
						0
	To the owner	or are sen.		Hunarea Si	exty and No/10	0
	Do	ollars (S 2,160.0	10'	411		4 1 1 1
• • • •						/100
••••		onsideration: Four	Thousand Th	ree Hundre	ed Twenty and	No/100
• •	Do	ollars (S 4.320.00				1 4 m 1 m
•			51 5	1 11- /100		17 pt 1025
total bonus	consideration paid r	epresents a bonus of Fi	54.00	NO/100-	20	
• • •		Dollars (5	54.00	_ per acre, on	net acres.	10 mg
• • • •	TERM C.L.	ect to the other provisions in	this land, this land shall	he for a term of	Fire (E) was	S from this date
rein called "r		s long thereafter as oil and g				S Hom and date
used in this I	eace the term "need	uced in paying quantities" m	eans that the receipts from	n the sale or other a	thorized commercial use of	he substance(s) covered
eed out of oc	scket operational ex	penses for the six months last	t nast	uic sale or other a	diorace commercial asc of	ik substance(s) eo ini
				stal provi	cion chown ac	Daragraph
EXILID	DELAYREN	tached for Pd- TALS. If no well is common	oced on the leased premis	es on or before one	1) year from this date this le	ase shall terminate, unles
or before suc	h anniversary date I	essee shall pay or tender to t	the owner of the soil or to	his credit in	.,,	
						Bank,
			or its successors (which	shall continue as th	ne depository regardless of ch	anges in the ownership o
d land), the ar	mount specified belt	ow; in addition, Lessee shall	pay or tender to the COM	MISSIONER OF TH	HE GENERAL LAND OFFIC	E OF THE STATE OF
XAS, AT AU	STIN, TEXAS, a lil	ke sum on or before said date	Payments under this pr	ragraph shall operate	e as a rental and shall cover the	he privilege of deferring
commencem	ent of a well for one	(1) year from said date. Pay	vments under this paragra	ph shall be in the fol	lowing amounts:	
		(,,,==,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,				
	To the owner	of the soil:				
	Dollars	TO DESCRIPTION OF THE PERSON O		)		
			×			
		f Texas:				
	To the State of			\		
				7		

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 of senders 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 of tenders.

(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 a 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 3) the gross proceeds of the sale thereof, whichever is the greater. Lessee agrees that before any gas produced from 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, 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 define 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 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 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 bas 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.
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%) 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 gand 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 no 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 for 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 for 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 of 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 so 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,

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

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:

Texas, in the following manner:

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 as 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 preworking 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 spot in the ATTEST:

LINDAM-DONALD, COUNTY CLERK
OULSERSON COUNTY AEXAS
BY LINE MEDICAL

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

- 19. WARRANTY CLAUSE. The owner of the soil warrants and agrees to defend title to the leased premises. If the owner of the soil defaults in payments owed on the leased premises, then Lessee may redeem the rights of the owner of the soil in the leased premises by paying any mortgage, taxes or other liens on the leased premises. If Lessee makes payments on behalf of the owner of the soil under this paragraph, Lessee may recover the cost of these payments from the rental and royalties due the owner of the soil.
- 20. (A) PROPORTIONATE REDUCTION CLAUSE. If the owner of the soil owns less than the entire undivided surface estate in the above described land, whether or not Lessee's interest is specified herein, then the royalties and rental herein provided to be paid to the owner of the soil shall be paid to him in the proportion which his interest bears to the entire undivided surface estate and the royalties and rental herein provided to be paid to the Commissioner of the General Land Office of the State of Texas shall be likewise proportionately reduced. However, before Lessee adjusts the royalty or rental due to the Commissioner of the General Land Office, Lessee or his authorized representative must submit to the Commissioner of the General Land Office a written statement which explains the discrepancy between the interest purportedly leased under this lease and the actual interest owned by the owner of the soil. The Commissioner of the General Land Office shall be paid the value of the whole production allocable to any undivided interest not covered by a lease, less the proportionate development and production cost allocable to such undivided interest. However, in no event shall the Commissioner of the General Land Office receive as a royalty on the gross production allocable to the undivided interest not leased an amount less than the value of one-sixteenth (1/16) of such gross-production.
- (B) REDUCTION OF PAYMENTS. If, during the primary term, a portion of the land covered by this lease is included within the boundaries of a pooled unit that has been approved by the School Land Board and the owner of the soil in accordance with Natural Resources Code Sections 52.151-52.154, or if, at any time after the expiration of the primary term or the extended term, this lease covers a lesser number of acres than the total amount described herein, payments that are made on a per acre basis hereunder shall be reduced according to the number of acres pooled, released, surrendered, or otherwise severed, so that payments determined on a per acre basis under the terms of this lease during the primary term shall be calculated based upon the number of acres outside the boundaries of a pooled unit, or, if after the expiration of the primary term, the number of acres actually retained and covered by this lease.
- 21. USE OF WATER. Lessee shall have the right to use water produced on said land necessary for operations under this lease except water from wells or tanks of the owner of the soil; provided, however, Lessee shall not use potable water or water suitable for livestock or irrigation purposes for waterflood operations without the prior consent of the owner of the soil.
- 22. AUTHORIZED DAMAGES. Lessee shall pay the owner of the soil for damages caused by its operations to all personal property, improvements, livestock and crops on said land.
  - 23. PIPELINE DEPTH. When requested by the owner of the soil, Lessee shall bury its pipelines below plow depth.
- 24. WELL LOCATION LIMIT. No well shall be drilled nearer than two hundred (200) feet to any house or barn now on said premises without the written consent of the owner of the soil.
- 25. POLLUTION. In developing this area, Lessee shall use the highest degree of care and all proper safeguards to prevent pollution. Without limiting the foregoing, pollution of coastal wetlands, natural waterways, rivers and impounded water shall be prevented by the use of containment facilities sufficient to prevent spillage, seepage or ground water contamination. In the event of pollution, Lessee shall use all means at its disposal to recapture all escaped hydrocarbons or other pollutant and shall be responsible for all damage to public and private properties. Lessee shall build and maintain fences around its slush, sump, and drainage pits and tank batteries so as to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level all slush pits and cellars and completely clean up the drilling site of all rubbish thereon. Lessee shall, while conducting operations on the leased premises, keep said premises free of all rubbish, cans, bottles, paper cups or garbage, and upon completion of operations shall restore the surface of the land to as near its original condition and contours as is practicable. Tanks and equipment will be kept painted and presentable.
- 26. REMOVAL OF EQUIPMENT. Subject to limitations in this paragraph, Lessee shall have the right to remove machinery and fixtures placed by Lessee on the leased premises, including the right to draw and remove casing, within one hundred twenty (120) days after the expiration or the termination of this lease-affects 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 states 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 his 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, includ
- (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;

IF IT BEARS THE SEAL OF THE COUNTY CLEEK
ATTEST:

LINDA MODONALD, COUNTY CLERK
CHLEGASON COUNTY, TEXAS
BY CHAC DE MANAGEMENT

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

- 36. ENVIRONMENTAL HAZARDS. Lessee shall use the highest degree of care and all reasonable safeguards to prevent contamination or pollution of any environmental medium, including soil, surface waters, groundwater, sediments, and surface or subsurface strata, ambient air or any other environmental medium in, on, or under, the leased premises, by any waste, pollutant, or contaminant. Lessee shall not bring or permit to remain on the leased premises any asbestos containing materials, explosives, toxic materials, or substances regulated as hazardous wastes, hazardous materials, hazardous substances (as the term "Hazardous Substance" is defined in the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), 42 U.S.C. Sections 9601, et seq.), or toxic substances under any federal, state, or local law or regulation ("Hazardous Materials"), except ordinary products commonly used in connection with oil and gas exploration and development operations and stored in the usual manner and quantities. LESSEE'S VIOLATION OF THE FOREGOING PROHIBITION SHALL CONSTITUTE A MATERIAL BREACH AND DEFAULT HEREUNDER AND LESSEE SHALL INDEMNIFY, HOLD HARMLESS AND DEFEND THE STATE OF TEXAS AND THE OWNER OF THE SOIL FROM AND AGAINST ANY CLAIMS, DAMAGES, JUDGMENTS, PENALTIES. LIABILITIES, AND COSTS (INCLUDING REASONABLE ATTORNEYS' FEES AND COURT COSTS) CAUSED BY OR ARISING OUT OF (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.

/All Tohus	EXN .		
LESSEE BY: Clay Johnson	on.		
TITLE:			
DATE: 7-28-78	. السنا		
STATE OF TEXAS	STATE OF TEXAS		
BY: Charlellelkeeker planan	BY:		
Individually and as agent for the State of Texas  Charlotte Walker Furman, dealing in her  Date: 7-27-199	Individually and as agent for the Sta sole and separate Date:	properaty SS#	
STATE OF TEXAS	STATE OF TEXAS		
BY:	BY:		
Individually and as agent for the State of Texas	Individually and as agent for the Sta	te of Texas	
Date:	Date:		

A CERTIFIED COPY

IF IT BEARS THE SEAL OF THE COUNTY CLERK

ATTEST:

LINDA McDONALD, COUNTY CLERK

CULTERSON (DUNTY, TEAS

BY COUNTY OF THE CO

STATE OF	(CORPORATION ACKNOWLEDGMEN
COUNTY OF	
BEFORE ME, the undersigned authority, on this day personally	appeared
own to me to be the person whose name is subscribed to the foregoing in	astrument, as
r the purposes and consideration therein expressed, in the capacity stated,	and acknowledged to me that he executed to an act and deed of said corporation.
Given under my hand and seal of office this the day	of, 19
	Notary Public in and for
TATE OF	(CORPORATION ACKNOWLEDGMEN
DUNTY OF	
BEFORE ME, the undersigned authority, on this day personally	
own to me to be the person whose name is subscribed to the foregoing ins	
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 theday of	
or on aller my mails and seal of office this titetay to	<b>A</b>
m X 2	-
	Notary Public in and for
TATE OF TEXAS	(INDIVIDUAL ACKNOWLEDGMENT)
DUNTY OF Ector	
	exed_Charlotte Walker Furman,
dealing in her sole and separa	ate property
own to me to be the persons whose names are subscribed to the foregoing usideration therein expressed.	instrument, and acknowledged to me that they executed the same for the purp
Given under my hand and seal of affice this be 27 th	day of July 1998
KRISTA GAYLE	The state of the s
NICE NOTARY PL	JBLIC THE
State of Te Comm. Exp. 10	EXAS Notary Public in and for
ATE OF TOXUS	Company 1
no: die d	(INDIVIDUAL ACKNOWLEDGMENT)
UNTY OF ITTOMUME	M. Tales
Before me, the undersigned authority, on this day personally appe	rared Clay Johnson
wn 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 purp
sideration therein expressed.	0.0 98
Given under my hand and seal of office this the	_day of
,	monio marlore
MONICA MARLOWE	Notary Public in and for Texos
NOTARY PUBLIC State of Texas	
Comm. Exp. 10-30-99	{

### EXHIBIT "A"

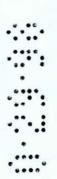
ATTACHED TO AND MADE A PART OF THAT CERTAIN OIL AND GAS LEASE DATED JULY 17, 1998, BY AND BETWEEN CHARLOTTE WALKER FURMAN, DEALING IN HER SOLE AND SEPARATE PROPERTY, AS LESSOR, AND CLAY JOHNSON, AS LESSEE, AND COVERING 80 NET MINERAL ACRES, MORE OR LESS, ALL IN CULBERSON COUNTY, TEXAS.

- 40. Notwithstanding anything to the contrary indicated in Paragraph Three (3) herein this Lease for all purposes shall be considered a fully Paid-Up Oil & Gas Lease. Said Delay Rentals have been paid in full with the Bonus Consideration tendered herein. Delay Rental payment was based on a \$1.00 per net mineral acre per year for Four (4) Years. Concluding a \$4.00 per acre Pd-Up Rental Payment was made in advance for the Four (4) Year Period on the net mineral acres indicated in this Lease.
- 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.

A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK
ATTEST:
LINDA MEDONALD COUNTY

LINDA M.DONALD, COUNTY CLERK CULBEASON COUNTY, TEXAS



File No. 100186

County

Date Filed: 10.39.1998

George P. Bush, Commissioner

Bay.

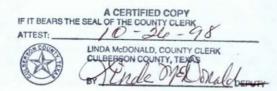
THE STATE OF TEXAS I MEDONAL	
COUNTY OF CULRERSON I I, Linds trees, Clerk of the County Court in and	
for said County and State do hereby certify that the foregoing is a true and correct copy of face Up DIG LEASE dated July 17, 1996	P
19 98 st 8 10 filed for record in my office this Se day of October	to be
recorded to the Cil & G Records of Culberson Co	ounty.
Texas.	
To CERTIFY WHICH, Witness my hand and official sealer Van Horn, this	
And Manual Linda units, county clerk culberson county, texas.	

18 18 × 22



or tenders.

General Land Office Relinquishmnt Act Lease Form Revised, September 1997



#### PAID UP OIL AND GAS LEASE

	of 16801 Addison Rd., Suite 200
	Dallas, TX 75248 said agent
	(Give Permanent Address)
erein referre	to as the owner of the soil (whether one or more), and Clay Johnson
	203 W. Wall, Suite 800
	Midland, TX 79701
reinafter cal	(Give Permanent Address)
essee under to cospecting an	GRANTING CLAUSE. For and in consideration of the amounts stated below and of the covenants and agreements to be paid, kept and performed his lease, the State of Texas acting by and through the owner of the soil, hereby grants, leases and lets unto Lessee, for the soile and only purpose of defilling for and producing oil and gas, laying pipe lines, building tanks, storing oil and building power stations, telephone lines and other structured duce, save, take care of, treat and transport said products of the lease, the following lands situated in
Texas, to-w	Block 100, Public School Land Survey
	Section 8: All
	Section 9: All
	Section 16: All
	Section 17: All
ntaining 2	, 560 acres, more or less. The bonus consideration paid for this lease is as follows:
	The state of the s
	To the State of Texas: Four Thousand Three Hundred TWenty and NO/100
	Dollars (\$ 4,320.00)
	To the owner of the soil: Four Thousand Three Hundred Twenty and No/100
	Dollars (\$ 4,320.00 )
	Total bonus consideration: Eight Thousand Six Hundred Forty and No/100
	Dollars (\$ 8,640.00 )
	400
	consideration paid represents a bonus of Fifty-four and No/100
• • •	Dollars (\$ 54.00 ) per acre, on 160 net acres.
••••	
	TERM. Subject to the other provisions in this lease, this lease shall be for a term of Five (5) years from this date
e used in this	primary term") and as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land.  lease, the term "produced in paying quantities" means that the receipts from the sale or other authorized commercial use of the substance(s) cover
ceed in air	ocket operational expenses for the six months last past.
A Fyhi	bit "A" attached for Pd-Up Delay Rental Provisions shown as Paragra
3	DELAY RENTALS. If no well is commenced on the loased premises on or before one (1) year from this date, this lease shall terminate, or
or before su	ha anniversary date Lessee shall pay or tender to the owner of the soil or to his credit in
c •	Bank
••••	, or its successors (which shall continue as the depository regardless of changes in the ownershi
id hand), the	mount specified below, in addition, Lessee shall pay or tender to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATE O
EXAS. AT A!	JSTIN, 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
	nent of a well for one (1) year from said date. Payments under this paragraph shall be in the following amounts:
commencen	
commencer	
commencen	To the owner of the soil:
commencer	Dollars (\$
commencer	To the State of Texas:
commencer	Dollars (\$
commencer	To the State of Texas:

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 successed 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.

4. provided for in the the soil:	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 is 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
General Land Offi hydrocarbons, resigneral area when leased premises is other equipment 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 ate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, shall be part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the see, 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 pectively, 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 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 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 t 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 or other equipment may be waived in writing by the royalty owners upon such terms and conditions as they prescribe.
gasoline, liquid hy owner of the soil of the general area whis in measuring the g degrees Fahrenheit	NON PROCESSED GAS. Royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substances not defined gaph (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 discourbons or other products) shall be 3/16 part of the gross production or the market value thereof, at the option of the standard and office, such value to be based on the highest market price paid or offered for gas of comparable quality in the produced and when run, or the gross price paid or offered to the producer, whichever is the greater, provided that the maximum pressure base as 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), 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 flad of testing being used by the industry at the time of testing.
owner of the soil of production of reside total plant production in a plant in which the highest percent	PROCESSED GAS. Royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbons 3/16  part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the reference of the General Land Office. All royalties due herein shall be based on one hundred percent (100%) of the total plant use 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 on of liquid hydrocarbons attributable to the gas produced from this lease; provided that if liquid hydrocarbons are recovered from gas processed Lessee (or its parent, subsidiary or affiliate) owns an interest, then the percentage applicable to liquid hydrocarbons shall be fifty percent (50%) or 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 ercent then being specified in processing agreements or contracts in the industry), whichever is the greater. The respective royalties on residue gas

(D) OTHER PRODUCTS. Royalty on earbon black, sulphur or any other products produced or manufactured from gas (excepting liquid hydrocarbons) whether said gas be "easinghead," "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 product; whichever is the greater.

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.

- 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 of the delay rental amount shall be of the purposes of this paragraph.
- 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 Commassioner 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 examplied, 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 other production related costs.
- 8. PLANT FUEL AND RECYCLED GAS. No royalty shall be payable on any gas as may represent this lease's proportionate share of any fuel used to process gas produced hereunder in any processing plant. Notwithstanding any other provision of this lease, and subject to the written consent of the owner of the soil and the Commissioner of the General Land Office, Lessee may recycle gas for gas lift purposes on the leased premises or for injection into any oil or gas producing formation underlying the leased premises after the liquid hydrocarbons contained in the gas have been removed; no royalties shall be payable on the recycled gas until it is produced and sold or used by Lessee in a manner which entitles the royalty owners to a royalty under this lease.
- 9. ROYALTY PAYMENTS AND REPORTS. All royalties not taken in kind shall be paid to the Commissioner of the General Land Office at Austin, Texas, in the following manner:

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

- and market value including gas meter readings, pipeline receipts, gas line receipts and other checks or memoranda of amount produced and put into pipelines, tanks, or pools and gas lines or gas storage, and any other reports or records which the General Land Office may require to verify the gross production, disposition and market value. In all cases the authority of a manager or agent to act for the Lessee herein must be filed in the General Land Office. Each royalty payment shall be accompanied by a check stub, schedule, summary or other remittance advice showing by the assigned General Land Office lease number the amount of royalty being paid on each lease. If Lessee pays his royalty on or before thirty (30) days after the royalty payment was due, then Lessee owes a penalty of 5% on the royalty or \$25.00, whichever is greater. A royalty payment which is over thirty (30) days late shall accrue a penalty of 10% of the royalty due or \$25.00 whichever is greater. In addition to a penalty, royalties shall accrue interest at a rate of 12% per year; such interest will begin 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 of 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 reflective each initial antity of or gas royalty

LINDA McDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS

LINDA MCDONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS

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

- 19. WARRANTY CLAUSE. The owner of the soil warrants and agrees to defend title to the leased premises. If the owner of the soil defaults in payments owed on the leased premises, then Lessee may redeem the rights of the owner of the soil in the leased premises by paying any mortgage, taxes or other liens on the leased premises. If Lessee makes payments on behalf of the owner of the soil under this paragraph, Lessee may recover the cost of these payments from the rental and royalties due the owner of the soil.
- 20. (A) PROPORTIONATE REDUCTION CLAUSE. If the owner of the soil owns less than the entire undivided surface estate in the above described land, whether or not Lessee's interest is specified herein, then the royalties and rental herein provided to be paid to the owner of the soil shall be paid to him in the proportion which his interest bears to the entire undivided surface estate and the royalties and rental herein provided to be paid to the Commissioner of the General Land Office of the State of Texas shall be likewise proportionately reduced. However, before Lessee adjusts the royalty or rental due to the Commissioner of the General Land Office, Lessee or his authorized representative must submit to the Commissioner of the General Land Office a written statement which explains the discrepancy between the interest purportedly leased under this lease and the actual interest owned by the owner of the soil. The Commissioner of the General Land Office shall be paid the value of the whole production allocable to any undivided interest not covered by a lease, less the proportionate development and production cost allocable to such undivided interest. However, in no event shall the Commissioner of the General Land Office receive as a royalty on the gross production allocable to the undivided interest not leased an amount less than the value of one-sixteenth (1/16) of such gross production.
- (B) REDUCTION OF PAYMENTS. If, during the primary term, a portion of the land covered by this lease is included within the boundaries of a pooled unit that has been approved by the School Land Board and the owner of the soil in accordance with Natural Resources Code Sections 52.151-52.154, or if, at any time after the expiration of the primary term or the extended term, this lease covers a lesser number of acres than the total amount described herein, payments that are made on a per acre basis hereunder shall be reduced according to the number of acres pooled, released, surrendered, or otherwise severed, so that payments determined on a per acre basis under the terms of this lease during the primary term shall be calculated based upon the number of acres outside the boundaries of a pooled unit, or, if after the expiration of the primary term, the number of acres actually retained and covered by this lease.
- 21. USE OF WATER. Lessee shall have the right to use water produced on said land necessary for operations under this lease except water from wells or tanks of the owner of the soil; provided, however, Lessee shall not use potable water or water suitable for livestock or irrigation purposes for waterflood operations without the prior consent of the owner of the soil.
- 22. AUTHORIZED DAMAGES. Lessee shall pay the owner of the soil for damages caused by its operations to all personal property, improvements, livestock and crops on said land.
  - 23. PIPELINE DEPTH. When requested by the owner of the soil, Lessee shall bury its pipelines below plow depth.
- 24. WELL LOCATION LIMIT. No well shall be drilled nearer than two hundred (200) feet to any house or barn now on said premises without the written consent of the owner of the soil.
- 25. POLLUTION. In developing this area, Lessee shall use the highest degree of care and all proper safeguards to prevent pollution. Without limiting the foregoing, pollution of coastal wetlands, natural waterways, rivers and impounded water shall be prevented by the use of containment facilities sufficient to prevent spillage, seepage or ground water contamination. In the event of pollution, Lessee shall use all means at its disposal to recapture all escaped hydrocarbons or other pollutant and shall be responsible for all damage to public and private properties. Lessee shall build and maintain fences around its slush, sump, and drainage pits and tank batteries so as to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level all slush pits and cellars and completely clean up the drilling site of all rubbish thereon. Lessee shall, while conducting operations on the leased premises, keep said premises free of all rubbish, cans, bottles, paper cups or garbage, and upon completion of operations shall restore the surface of the land to as near its original condition and contours as is practicable. Tanks and equipment will be kept painted and presentable.
- 26. REMOVAL OF EQUIPMENT. Subject to limitations in this paragraph, Lessee shall have the right to remove machinery and fixtures placed by Lessee on the leased premises, including the right to draw and remove easing, within one hundred twenty (120) days after the expiration or the termination of this lease aniess the owner of the soil grants Lessee an extension of this 120-day period. However, Lessee may not remove easing from any well capable of producing oil and gas in paying quantities. Additionally, Lessee may not draw and remove easing 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 easing 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, incl
- (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;

A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK
ATTEST: / O - H GE

LINDA MODONALD, COUNTY CLERK CULBEASON COUNTY, TEXAS

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

- 36. ENVIRONMENTAL HAZARDS. Lessee shall use the highest degree of care and all reasonable safeguards to prevent contamination or pollution of any environmental medium, including soil, surface waters, groundwater, sediments, and surface or subsurface strata, ambient air or any other environmental medium in, on, or under, the leased premises, by any waste, pollutant, or contaminant. Lessee shall not bring or permit to remain on the leased premises any asbestos containing materials, explosives, toxic materials, or substances regulated as hazardous wastes, hazardous materials, hazardous substances (as the term "Hazardous Substance" is defined in the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), 42 U.S.C. Sections 9601, et seq.), or toxic substances under any federal, state, or local law or regulation ("Hazardous Materials"), except ordinary products commonly used in connection with oil and gas exploration and development operations and stored in the usual manner and quantities. LESSEE'S VIOLATION OF THE FOREGOING PROHIBITION SHALL CONSTITUTE A MATERIAL BREACH AND DEFAULT HEREUNDER AND LESSEE SHALL INDEMNIFY, HOLD HARMLESS AND DEFEND THE STATE OF TEXAS AND THE OWNER OF THE SOIL FROM AND AGAINST ANY CLAIMS, DAMAGES, JUDGMENTS, PENALTIES LIABILITIES, AND COSTS (INCLUDING REASONABLE ATTORNEYS' FEES AND COURT COSTS) CAUSED BY OR ARISING OUT OF (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.

LESSEE BY: Clay John	130D
DATE: 331-98	
STATE OF TEXAS  BY: Or Montgomery Brooks, dealing in his Dates	STATE OF TEXAS  BY: Individually and as agent for the State of Texas  sole and separate property SS:
STATE OF TEXAS	STATE OF TEXAS
BY: Individually and as agent for the State of Texas	BY: Individually and as agent for the State of Texas
Date:	Date:

A CERTIFIED COPY

IF IT BEARS THE SEAL OF THE COUNTY CLERK

ATTEST:

LINDA McDONALD, COUNTY CLERK

CULBIASON COUNTY THAS

COUNTY OF	
BEFORE ME, the undersigned authority, on this day personally	* appeared
nown to me to be the person whose name is subscribed to the foregoing in	nstrument, asof
	and acknowledged to me that he executed the
or 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 theday	of
	Notary Public in and for
TATE OF	(CORPORATION ACKNOWLEDGMENT
	(CORPORATION ACKNOWLEDGMENT
OUNTY OF	
BEFORE ME, the undersigned authority, on this day personally	appeared
nown to me to be the person whose name is subscribed to the foregoing in	strument, asof
	and acknowledged to me that he executed the
r 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 theday	of
	Notary Public in and for
	Notary Fublic in and for
Λ	
TATE OF JOYOU	(INDIVIDUAL ACKNOWLEDGMENT)
OUNTY OF HOULAS	
Before me, the undersigned authority, on this day personally app	exed Joe Montgomery Brooks, dealing
in his sole and separate prope	rty
own to me to be the persons whose names are subscribed to the foregoing ansideration therein expressed.	instrument, and acknowledged to me that they executed the same for the purpo
Given under my hand and seal of office this the 27th	day of 7 0 (1 (4) ) 19 98
)	Janeu Malons
NANCY MALONE	( -   Corts   )
Notary Public, State of Texas My Commission Expires	Notary Public in and for State of Jotas
9 9	· · · · · · · · · · · · · · · · · · ·
ATE OF TOWN 09-02-01	(INDIVIDUAL ACKNOWLEDGMENT)
DUNTY OF Midland	0, 70
Before me, the undersigned authority, on this day personally appe	eared Clay Johnson:
	instrument, and acknowledged to me that they executed the same for the purpos
asideration therein expressed.	misd difficulty and acknowledged to the diat diey excedited the same for the purpose
Given under my hand and seal of office this the 24	day of august 19 98
or on ander my mand and sear or onice uns use	Monica marlore
TO THE PART OF THE	Thomas The work
MONICA MARLOW	Notary Public in and for   IKUS
State of Texas	}
Comm. Exp. 10-30-99	t (

#### EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OIL AND GAS LEASE DATED JULY 17, 1998, BY AND BETWEEN JOE MONTGOMERY BROODS, DEALING IN HIS SOLE AND SEPARATE PROPERTY, AS LESSOR, AND CLAY JOHNSON, AS LESSEE, AND COVERING 160 NET MINERAL ACRES, MORE OR LESS, ALL IN CULBERSON COUNTY, TEXAS.

- 40. Notwithstanding anything to the contrary indicated in Paragraph Three (3) herein this Lease for all purposes shall be considered a fully Paid-Up Oil & Gas Lease. Said Delay Rentals have been paid in full with the Bonus Consideration tendered herein. Delay Rental payment was based on a \$1.00 per net mineral acre per year for Four (4) Years. Concluding a \$4.00 per acre Pd-Up Rental Payment was made in advance for the Four (4) Year Period on the net mineral acres indicated in this Lease.
- If, at the expiration of the primary term hereof, this lease is being held by production or a shut-in 41. 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.

A CERTIFIED COPY

IF IT BEARS THE SEAL OF THE COUNTY CLERK

ATTEST:

O-20-95

LINDA MCDONALD, COUNTY CLERK CULBEASON COUNTY, TEXAS

Lease H County
----------------

THE STATE OF TEXAS COUNTY OF CULBERSON for said County and State, do b correct copy of	M. M
The second secon	offen whis 26th day of October.
19 98 at 8:10 ffled	for record in my office this day of Charles be
Texas.	3 30 Van Horn, this
26 TO CERTIFY OF	CH. Witness my hand and official seasy Van Horn, this

51246

N/

General Land Office Relinquishmnt Act Lease Form Revised, September 1997 A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK
ATTEST:

O 26-4



LINDA MCDONALD, COUNTY CLERK CULBERSON COUNTY, TEXAS

BY Des envelanne berun

#### PAID UP OIL AND GAS LEASE

	Wayne Moore, Trustee for Pearl Moore Carter
	of 403 N. Marienfeld
	Midland, TX 79701 said agen (Give Permanent Address)
rein referred	o as the owner of the soil (whether one or more), and Clay Johnson
250100.5000.500	203 W. Wall, Suite 800
	Midland, TX 79701
	(Give Permanent Address)
reinafter call	d Lessee.
1. (	RANTING CLAUSE. For and in consideration of the amounts stated below and of the covenants and agreements to be paid, kept and perform s 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 purpos
ospecting an	drilling for and producing oil and gas, laying pipe lines, building tanks, storing oil and building power stations, telephone lines and other stru
ereon to pro-	ace, save, take care of, treat and transport said products of the lease, the following lands situated in <u>culberson</u> County,
Texas, to-wi	
	Block 100, Public School Land Survey
	Section 8: All
	Section 9: All
	Section 16: All
	Section 17: All
	Beegrain 1.1 Mar
ntaining 2	scres, more or less. The bonus consideration paid for this lease is as follows:
	Total Control Microsoft Control Contro
	To the State of Texas: Two Thousand One Hundred Sixty and No/100
	Dollars (\$ 2,160.00
	To the owner of the soil: Two Thousand One Hundred Sixty and No/100
	Dollars (\$ 2,160.00 )
••••	
• ••	Total bonus consideration: Four Thousand Three Hundred Twenty and No/100
••••	Dollars (\$ 4,320.00)
•• •	Ti 51 - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1
e total bonus	consideration paid represents a bonus of Fifty-four and NO/100  Dollars (\$ 54.00 ) per acre, on 80 net acres.
2.	TERM. Subject to the other provisions in this lease, this lease shall be for a term ofFive (5) years from this
	rimary term") and as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land.
	ase, the term "produced in paying quantities" means that the receipts from the sale or other authorized commercial use of the substance(s) co
	cket operational expenses for the six months last past.
	it "A" attached for Pd-Up Delay Rental Provision as shown Paragra
- De-	DELAY RENTALS. If no well is commenced on the leased premises on or before one (1) year from this date, this lease shall terminate.
	canniversary date Lessee shall pay or tender to the owner of the soil or to his credit in
c	Bank,
	or its successors (which shall continue as the depository regardless of changes in the owner
	nount specified below, in addition, Lessee shall pay or tender to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATI
	STIN, TEXAS, a like sum on or before said date. Payments under this paragraph shall operate as a rental and shall cover the privilege of defe
XAS, AT AL	
EXAS, AT AL	ent of a well for one (1) year from said date. Payments under this paragraph shall be in the following amounts:
XAS, AT AL	
EXAS, AT AL	To the owner of the soil:
id land), the a	To the owner of the soil:
EXAS, AT AL	To the owner of the soil:  Dollars (\$
id land), the a	To the owner of the soil:

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.

The state of the s	
4. PRODUCTION ROYALTIES. Upon production of oil and/or gas, Lessee agrees to pay or cause provided for in this lease to the Commissioner of the General Land Office of the State of Texas, at Austin, Texas, and the soil:	e to be paid one-half (1/2) of the royalty one-half (1/2) of such royalty to the owner of
(A) OIL Royalty payable on oil, which is defined as including all hydrocarbons produced in a liqui condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipm 3/16 part of the gross production or the market value thereof, at the option of the own General Land Office, such value to be determined by 1) the highest posted price, plus premium, if any, offered or paid hydrocarbons, respectively, of a like type and gravity in the general area where produced and when run, or 2) the higher general area where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is the greater. Less leased premises is sold, used or processed in a plant, it will be run free of cost to the royalty owners through an adequa other equipment at least as efficient, so that all liquid hydrocarbons recoverable from the gas by such means will be ret through a separator or other equipment may be waived in writing by the royalty owners upon such terms and condition	nent, as hereinafter provided, shall be ner of the soil or the Commissioner of the for oil, condensate, distillate, or other liquid est market price thereof offered or paid in the see agrees that before any gas produced from the the oil and gas separator of conventional type, or covered. The requirement that such gas be run
(B) NON PROCESSED GAS. Royalty on any gas (including flared gas), which is defined as all hydrocard as oil in subparagraph (A) above, produced from any well on said land (except as provided herein with respect to gas production, liquid hydrocardons or other products) shall be 3/16 part of the gross production owner of the soil or the Commissioner of the General Land Office, such value to be based on the highest market price; the general area where produced and when run, or the gross price paid or offered to the producer, whichever is the great in measuring the gas under this lease shall not at any time exceed 14.65 pounds per square inch absolute, and the stand degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to most approved method of testing being used by the industry at the time of testing.	or or the market value thereof, at the option of the paid or offered for gas of comparable quality in ater, provided that the maximum pressure base lard base temperature shall be sixty (60)
(C) PROCESSED GAS. Royalty on any gas processed in a gasoline plant or other plant for the record shall be 3/16 part of the residue gas and the liquid hydrocarbons extracted or owner of the soil or the Commissioner of the General Land Office. All royalties due herein shall be based on one hund production of residue gas attributable to gas produced from this lease, and on fifty percent (50%), or that percent accruit total plant production of liquid hydrocarbons attributable to the gas produced from this lease; provided that if liquid hy in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the percentage applicable to liquid the highest percent accruing to a third party processing gas through such plant under a processing agreement negotiated party, the highest percent then being specified in processing agreements or contracts in the industry), whichever is the	the market value thereof, at the option of the fred percent (100%) of the total plant ing to Lessee, whichever is the greater, of the drocarbons are recovered from gas processed id hydrocarbons shall be fifty percent (50%) or d at arm's length (or if there is no such third

(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.

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.

- 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 of 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 odollar (\$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 requires 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 of infinited, under this lease.
- 7. NO DEDUCTIONS. Lessee agrees that all royalties accruing under this lease (including those paid in kind) shall be without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting, and otherwise making the oil, gas and other products hereunder ready for sale or use. Lessee agrees to compute and pay royalties on the gross value received, including any reimbursements for severance taxes and production related costs.
- 8. PLANT FUEL AND RECYCLED GAS. No royalty shall be payable on any gas as may represent this lease's proportionate share of any fuel used to process gas produced hereunder in any processing plant. Notwithstanding any other provision of this lease, and subject to the written consent of the owner of the soil and the Commissioner of the General Land Office, Lessee may recycle gas for gas lift purposes on the leased premises or for injection into any oil or gas producing formation underlying the leased premises after the liquid hydrocarbons contained in the gas have been removed; no royalties shall be payable on the recycled gas until it is produced and sold or used by Lessee in a manner which entitles the royalty owners to a royalty under this lease.
- 9. ROYALTY PAYMENTS AND REPORTS. All royalties not taken in kind shall be paid to the Commissioner of the General Land Office at Austin, Texas, in the following manner:

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

and market value including gas meter readings, pipeline receipts, gas line receipts and other checks or memoranda of amount produced and put into pipelines, tanks, or pools and gas lines or gas storage, and any other reports or records which the General Land Office may require to verify the gross production, disposition and market value. In all cases the authority of a manager or agent to act for the Lessee herein must be filed in the General Land Office. Each royalty payment shall be accompanied by a check stub, schedule, summary or other remittance advice showing by the assigned General Land Office lease number the amount of royalty being paid on each lease. If Lessee pays his royalty on or before thirty (30) days after the royalty payment was due, then Lessee owes a penalty of 5% on the royalty or \$25.00, whichever is greater. A royalty payment which is over thirty (30) days late shall accrue a penalty of 10% of the royalty due or \$25.00 whichever is greater. In addition to a penalty, royalties shall accrue interest at a rate of 12% per year; such interest will begin 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 off 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.
- 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 retain 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 of gas royalty.

  ATTEST:

LINDA McDONALD, COUNTY CLERK CULBERSON COUNTY, TEXAS

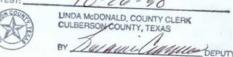
BY Losquiolimmes DEPUTY

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

- 19. WARRANTY CLAUSE. The owner of the soil warrants and agrees to defend title to the leased premises. If the owner of the soil defaults in payments owed on the leased premises, then Lessee may redeem the rights of the owner of the soil in the leased premises by paying any mortgage, taxes or other liens on the leased premises. If Lessee makes payments on behalf of the owner of the soil under this paragraph, Lessee may recover the cost of these payments from the rental and royalties due the owner of the soil.
- 20. (A) PROPORTIONATE REDUCTION CLAUSE. If the owner of the soil owns less than the entire undivided surface estate in the above described land, whether or not Lessee's interest is specified herein, then the royalties and rental herein provided to be paid to the owner of the soil shall be paid to him in the proportion which his interest bears to the entire undivided surface estate and the royalties and rental herein provided to be paid to the Commissioner of the General Land Office of the State of Texas shall be likewise proportionately reduced. However, before Lessee adjusts the royalty or rental due to the Commissioner of the General Land Office, Lessee or his authorized representative must submit to the Commissioner of the General Land Office a written statement which explains the discrepancy between the interest purportedly leased under this lease and the actual interest owned by the owner of the soil. The Commissioner of the General Land Office shall be paid the value of the whole production allocable to any undivided interest not covered by a lease, less the proportionate development and production cost allocable to such undivided interest. However, in no event shall the Commissioner of the General Land Office receive as a royalty on the gross production allocable to the undivided interest not leased an amount less than the value of one-sixteenth (1/16) of such gross production.
- (B) REDUCTION OF PAYMENTS. If, during the primary term, a portion of the land covered by this lease is included within the boundaries of a pooled unit that has been approved by the School Land Board and the owner of the soil in accordance with Natural Resources Code Sections 52.151-52.154, or if, at any time after the expiration of the primary term or the extended term, this lease covers a lesser number of acres than the total amount described herein, payments that are made on a per acre basis hereunder shall be reduced according to the number of acres pooled, released, surrendered, or otherwise severed, so that payments determined on a per acre basis under the terms of this lease during the primary term shall be calculated based upon the number of acres outside the boundaries of a pooled unit, or, if after the expiration of the primary term, the number of acres actually retained and covered by this lease.
- 21. USE OF WATER. Lessee shall have the right to use water produced on said land necessary for operations under this lease except water from wells or tanks of the owner of the soil; provided, however, Lessee shall not use potable water or water suitable for livestock or irrigation purposes for waterflood operations without the prior consent of the owner of the soil.
- 22. AUTHORIZED DAMAGES. Lessee shall pay the owner of the soil for damages caused by its operations to all personal property, improvements, livestock and crops on said land.
  - 23. PIPELINE DEPTH. When requested by the owner of the soil, Lessee shall bury its pipelines below plow depth.
- 24. WELL LOCATION LIMIT. No well shall be drilled nearer than two hundred (200) feet to any house or barn now on said premises without the written consent of the owner of the soil.
- 25. POLLUTION. In developing this area, Lessee shall use the highest degree of care and all proper safeguards to prevent pollution. Without limiting the foregoing, pollution of coastal wetlands, natural waterways, rivers and impounded water shall be prevented by the use of containment facilities sufficient to prevent spillage, seepage or ground water contamination. In the event of pollution, Lessee shall use all means at its disposal to recapture all escaped hydrocarbons or other pollutant and shall be responsible for all damage to public and private properties. Lessee shall build and maintain fences around its slush, sump, and drainage pits and tank batteries so as to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level all slush pits and cellars and completely clean up the drilling site of all rubbish thereon. Lessee shall, while conducting operations on the leased premises, keep said prefineses 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 easing, within one hundred twenty (120) days after the expiration or the termination of this lease whiest 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 easing 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 easing 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 gray 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 states of the land, rentals, or royalties shall bind 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 assignment 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 liabil
- (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;

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



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

- 36. ENVIRONMENTAL HAZARDS. Lessee shall use the highest degree of care and all reasonable safeguards to prevent contamination or pollution of any environmental medium, including soil, surface waters, groundwater, sediments, and surface or subsurface strata, ambient air or any other environmental medium in, on, or under, the leased premises, by any waste, pollutant, or contaminant. Lessee shall not bring or permit to remain on the leased premises any asbestos containing materials, explosives, toxic materials, or substances regulated as hazardous wastes, hazardous materials, hazardous substances (as the term "Hazardous Substance" is defined in the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), 42 U.S.C. Sections 9601, et seq.), or toxic substances under any federal, state, or local law or regulation ("Hazardous Materials"), except ordinary products commonly used in connection with oil and gas exploration and development operations and stored in the usual manner and quantities. LESSEE'S VIOLATION OF THE FOREGOING PROHIBITION SHALL CONSTITUTE A MATERIAL BREACH AND DEFAULT HEREUNDER AND LESSEE SHALL INDEMNIFY, HOLD HARMLESS AND DEFEND THE STATE OF TEXAS AND THE OWNER OF THE SOIL FROM AND AGAINST ANY CLAIMS, DAMAGES, JUDGMENTS, PENALTIES. LIABILITIES, AND COSTS (INCLUDING REASONABLE ATTORNEYS' FEES AND COURT COSTS) CAUSED BY OR ARISING OUT OF (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.

LESSEE BY: Clay Johnson	
TITLE: 9-24-98	
Individually and as agent for the State of Texas  Lee Wayne Moore Trustee for Pearl Moore Date:	STATE OF TEXAS  BY:
STATE OF TEXAS	STATE OF TEXAS
BY:	BY:
Individually and as agent for the State of Texas	Individually and as agent for the State of Texas
Date:	Date:

STATE OF	(CORPORATION ACKNOWLEDGMENT)
COUNTY OF	
BEFORE ME, the undersigned authority, on this day personally appeare	ed
known to me to be the person whose name is subscribed to the foregoing instrumen	nt, asof
for the purposes and consideration therein expressed, in the capacity stated, and as	and acknowledged to me that he executed the st
Given under my hand and seal of office this theday of	
	Notary Public in and for
STATE OF	(CORPORATION ACKNOWLEDGMENT)
COUNTY OF	
BEFORE ME, the undersigned authority, on this day personally appeare	· d_
nown to me to be the person whose name is subscribed to the foregoing instrument	rt, asof
	and acknowledged to me that he executed the sa
r the purposes and consideration therein expressed, in the capacity stated, and as t	he act and deed of said corporation.
Given under my hand and seal of office this theday of	, 19
et a	-
	Notary Public in and for
	12.12.13.13.1
TATE OF ICKUS	(INDIVIDUAL ACKNOWLEDGMENT)
OUNTY OF Midland	
Before me, the undersigned authority, on this day personally appeared	Lee Wayne Moore, Trustee for
Pearl Moore Carter  nown to me to be the persons whose names are subscribed to the foregoing instrum	ent, and acknowledged to me that they executed the same for the purposes
onsideration therein expressed.	0011.
Given under my hand and seal of office this the day	of 19 19 19
PATRICIA L. BANE NOTARY PUBLIC	father Dane
State of Texas Comm. Exp. 05-29-2000	Notary Public in and for
manne manner of the same of th	DEFERRING ACCOUNT TRANSPORT
Mich Ca C	(INDIVIDUAL ACKNOWLEDGMENT) •
DUNTY OF	Man Tobran
Before me, the undersigned authority, on this day personally appeared	Johnson
own to me to be the persons whose names are subscribed to the foregoing instrume	ent, and acknowledged to me that they executed the same for the purposes
asideration therein expressed.	august 98
Given under my hand and seal of office this the day of	Morio Marlone
MONICA MARLOWE	TONIO
NOTARY PUBLIC	Notary Public in and for / Status
State of Texas Comm. Exp. 10-30-99	
Same manner of the same of the	

#### EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OIL AND GAS LEASE DATED JULY 17, 1998, BY AND BETWEEN LEE WAYNE MOORE, TRUSTEE FOR PEARL MOORE CARTER AS LESSOR, AND CLAY JOHNSON, AS LESSEE, AND COVERING 80 NET MINERAL ACRES, MORE OR LESS, ALL IN CULBERSON COUNTY, TEXAS.

- 40. Notwithstanding anything to the contrary indicated in Paragraph Three (3) herein this Lease for all purposes shall be considered a fully Paid-Up Oil & Gas Lease. Said Delay Rentals have been paid in full with the Bonus Consideration tendered herein. Delay Rental payment was based on a \$1.00 per net mineral acre per year for Four (4) Years. Concluding a \$4.00 per acre Pd-Up Rental Payment was made in advance for the Four (4) Year Period on the net mineral acres indicated in this Lease.
- 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.

A CERTIFIED COPY
IF IT BEARS THE SEAL OF THE COUNTY CLERK
ATTEST: 10 - 26 - 98

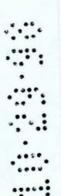
MEST: LINDA MODO CULBERSO

LINDA MODONALD, COUNTY CLERK
CULBERSON COUNTY, TEXAS

BY DIMMUNOLOMBER

BY DIMUNOLOMBER

BY DIMUN



M-100186 O-9 leases.I 10.29.1998

THE STATE OF TEXAS	X .
COUNTY OF CULBERSON	I I. Linda Urias, Clerk of the County Court in and
for said County and State, do he correct copy of Pduf	ereby certify that the foregoing is a true and
19 98	Locse M not
19 99 et 8 10 filed	M, under Clerk's File No. 30 day of Clerk's File No. 3246 to be Records of Culberson County
Texas.	
OG day of	CH, Witness my hand and official scal at Van Horn, this
By Dunia Com	LINDA URIAS, COUNTY CLERK CULBERSON COUNTY, TEXAS.

## **RAL REVIEW SHEET**

Transaction # 2866 Geologist: L. Collier

Lessor: Moore, Wayne Lease Date: 7/17/98

Lessee: Clay Johnson ACres: 640

### LEASE DESCRIPTION

County	Base File No	Part	<b>Sec.</b>	Block	Twp	Survey	Abst#	
CULBERSON	134162	ALL -640 Ac.	8	100	00	PUBLIC SCHOOL LAND	5750	
CULBERSON	134163	ALL -640 Ac.	9	100	00	PUBLIC SCHOOL LAND	5751	
CULBERSON	134169	ALL -640 Ac.	16	100	00	PUBLIC SCHOOL LAND	5757	
CULBERSON	134170	ALL -640 Ac.	17	100	00	PUBLIC SCHOOL LAND	5758	

#### TERMS OFFERED

**Primary Term:** 5 years

Bonus/Acre: \$50.00

3/16

\$1.00

Rental/Acre:

Royalty:

### 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:

Gross acres 2,560. SEE OTHERS: Lee Wayne Moore, Trustee for Peal Moore Carter with 80 acres, Montebev, Inc. with 640 acres, Monttgomery-Walker 1974 Trust with Charlotte Walker Furman, Trustee with 640 acres, Joe Montgomry Brooks with 160 acres,

Approved PAS 10.27.98

# **RAL REVIEW SHEET**

Transaction #	<b>‡</b>	2866			Geol	ogist:	L	Collier		
BSSOF: Moore, Wayne			Leas	Lease Date: 7/			7/17/98 Ut 🗆			
.essee: (	Clay Jo	hnson			Acres:			640		
EASE DESCRI	TION									
County			Base File No	Part	Sec.	Block	Twp	Survey		Abst#
CULBERSO	N		134162	ALL	8	100	00	PUBLIC S	CHOOL LAN	5750
CULBERSO	N		134163	ALL	9	100	00	PUBLIC S	CHOOL LAN	5751
CULBERSO	N		134169	ALL	16	100	00	PUBLIC S	CHOOL LAN	D 5757
CULBERSO	N		134170	ALL	17	100	00	PUBLIC S	CHOOL LAN	5758
										1 145
ERMS OFFERED		TERMS RECO	TERMS RECOMMENDED							
EKM2 OFFEKI		_						7		
	t	5 years		Primary Ter	m 🗆					
Primary Tern	:		554.00	Primary Ter Bonus/Acre	_		\$0.00			
Primary Tern Bonus/Acre:			\$1.00				\$0.00	] ]		
Primary Tern Bonus/Acre: Rental/Acre:				Bonus/Acre						
rimary Tern conus/Acre: cental/Acre: coyalty:		\$		Bonus/Acre Rental/Acre			\$0.00	Rental/Ac.	Royalty	Distance Last Lease
Primary Tern Bonus/Acre: Rental/Acre: Royalty: COMPARISONS		3/16		Bonus/Acre Rental/Acre Royalty			\$0.00	Rental/Ac.	Royalty	Distance Last Lease
Primary Tern Bonus/Acre: Rental/Acre: Royalty: COMPARISONS		3/16		Bonus/Acre Rental/Acre Royalty			\$0.00	Rental/Ac.	Royalty	
Primary Tern Bonus/Acre: Rental/Acre: Royalty: COMPARISONS		3/16		Bonus/Acre Rental/Acre Royalty			\$0.00	Rental/Ac.	Royalty	

Approved:

2) RAL Review Sheets

## TEXAS GENERAL LAND OFFICE

M-100186 ME Paid-up

Not Approved: \_

ANDUM

GARRY MA	URO		101	
COMMISSIO	ONER			MEMOR.
	2		DATE:	20-Oct-98
TO: Garry	Mauro, Commission	oner		
		outy Commissioner		
FROM: Rober	rt Hatter, Director o	f Mineral Leasing		
Peter	Boone, Chief Geolo	ogist		
RE: Relinquish	ment Act Lease			
Applicant:	Clay Johnson			
County:	CULBERSON		Base File	#: 134162
Section:	8	Block: 100	Abstract:	5750
Survey:	PUBLIC SCHOO	L LAND		
Prim. Term:	5 years	Bonus/Acre	\$50.00	
Royalty:	3/16	Rental/Acre	\$1.00	
Consideration				
Recommended:	PAB 10.27.98			
	led:			
Comments:				
I F				
Lease Form	ROA 11/11/98			
Comments:	led:			
Comments.				
Spencer Reid, Se	enior Deputy	Date:	12/98	
Recommended:		<u> </u>	Of 10	
Not Recommend				
Garry Mauro, Co	ommissioner	Date:		
Approved: _G				

3 Memo - 100/86

III AN RESQUECES, L.P. ACQUISITION CHECKING COMMISSIONER OF THE GENERAL LAND OFFICE

PARAGON #299:Lease Bonus

10/21/98

Payment in full of 1/2 Lease Bonus Consideration due the State of Texas for Paid-Up Oil & Gas Lease dated 07/17/98 from the State of Texas by Agent Dorothy F. Richardson, a widow of C.E. Richardson, dec'd., Lessor, in favor of Clay Johnson, Lessee, covering All of Sections 8, 9, 16 & 17, Block 100, PSL Survey, Culberson County, Texas.

99011696

Lease Bonus

2,879.82

TITAN RESOURCES, L.P.

ACQUISIT ON CHERSINGUER OF THE GENERAL LAND OFFICE

10/21/98

002680

2,879.82

PARAGON #299:Lease Bonus

Payment in full of 1/2 Lease Bonus Consideration due the State of Texas for Paid-Up Oil & Gas Lease dated 07/17/98 from the State of Texas by Agent Dorothy F. Richardson, a widow of C.E. Richardson, dec'd., Lessor, in favor of Clay Johnson, Lessee, covering All of Sections 8, 9, 16 & 17, Block 100, PSL Survey, Culberson County, Texas.

99011696

ACQUISITION CHECKING COMMISSIONER OF THE GENERAL LAND OFFICE

10/21/98

PARAGON #299:Lease Bonus

IIIAN RESOURCES, L.F.

Payment in full of 1/2 Lease Bonus Consideration due the State of Texas for Paid-Up Oil & Gas Lease dated 07/17/98 from the State of Texas by Agent David L. Laird, dealing in his sole & separate property, Lessor, in favor of Clay Johnson, Lessee, covering All of Sections 8, 9, 16 & 17, Block 100, PSL Survey, Culberson County, Texas.

99011697



Lease Bonus

2,879.82

TITAN RESOURCES, L.P. ACQUISITION CHECKING OF THE GENERAL LAND OFFICE

10/21/98

002681

2,879.82

PARAGON #299:Lease Bonus

Payment in full of 1/2 Lease Bonus Consideration due the State of Texas for Paid-Up Oil & Gas Lease dated 07/17/98 from the State of Texas by Agent David L. Laird, dealing in his sole & separate property, Lessor, in favor of Clay Johnson, Lessee, covering All of Sections 8, 9, 16 & 17, Block 100, PSL Survey, Culberson County, Texas.

99011697

Checking

Lease Bonus

2,879.82

10/21/98

PARAGON #299:Lease Bonus

Payment in full of 1/2 Lease Bonus Consideration due the State of Texas for Paid-Up Oil & Gas Lease dated 07/17/98 from the State of Texas by Agent Jograce Laird Flood, dealing in her sole & separate property, Lessor, in favor of Clay Johnson, Lessee, covering All of Sections 8, 9, 16 & 17, Block 100, PSL Survey, Culberson County, Texas.

99011698



Lease Bonus

2,879.82

2,879.82

TITAN RESOURCES, L.P.

ACQUISITION CHESSINGUER OF THE GENERAL LAND OFFICE

10/21/98

002682

\*PARAGON #299:Lease Bonus

Payment in full of 1/2 Lease Bonus Consideration due the State of Texas for Paid-Up Oil & Gas Lease dated 07/17/98 from the State of Texas by Agent Jograce Laird Flood, dealing in her sole & separate property, Lessor, in favor of Clay Johnson, Lessee, covering All of Sections 8, 9, 16 & 17, Block 100, PSL Survey, Culberson County, Texas.

99011698

Checking

Lease Bonus

2,879.82

TITAN RESOURCES, L.P. ACQUISITION CHECKING COMMISSIONER OF THE GENERAL LAND OFFICE

10/21/98

002683

PARAGON #299:Lease Bonus

Payment in full of 1/2 Lease Bonus Consideration due the State of Texas for Paid-Up Oil & Gas Lease dated 07/17/98 from the State of Texas by Agent Charlotte Walker Furman, dealing in her sole & separate property, Lessor, in favor of Clay Johnson, Lessee, 1 1 6 9 covering All of Sections 8, 9, 16 & 17, Block 100,

PSL Survey, Culberson County, Texas.

2,160.00

Checking

Lease Bonus

2,160.00

TITAN RESOURCES, L.P.

ACQUISITION CHESSING OF THE GENERAL LAND OFFICE

10/21/98

002683

2.160.00

PARAGON #299:Lease Bonus

Payment in full of 1/2 Lease Bonus Consideration due the State of Texas for Paid-Up Oil & Gas Lease dated 07/17/98 from the State of Texas by Agent Charlotte Walker Furman, dealing in her sole & separate property, Lessor, in favor of Clay Johnson, Lessee, covering All of Sections 8, 9, 16 & 17, Block 100, PSL Survey, Culberson County, Texas.

99011699

III AN RESOURCES, L.F. ACQUISITION CHECKING COMMISSIONER OF THE GENERAL LAND OFFICE

10/21/98

PARAGON #299:Lease Bonus

Payment in full of 1/2 Lease Bonus Consideration due the State of Texas for Paid-Up Oil & Gas Lease dated 07/17/98 from the State of Texas by Agent Joe Montgomery Brooks, dealing in his sole & separate property, Lessor, in favor of Clay Johnson, Lessee, covering All of Sections 8, 9, 16 & 17, Block 100, PSL Survey, Culberson County, Texas.

99011700

Lease Bonus

4,320.00

4,320.00

TITAN RESOURCES, L.P.

ACQUISITION CHECKING OF THE GENERAL LAND OFFICE

10/21/98

002684

ARAGON #299:Lease Bonus

Payment in full of 1/2 Lease Bonus Consideration due the State of Texas for Paid-Up Oil & Gas Lease dated 07/17/98 from the State of Texas by Agent Joe Montgomery Brooks, dealing in his sole & separate property, Lessor, in favor of Clay Johnson, Lessee, covering All of Sections 8, 9, 16 & 17, Block 100, PSL Survey, Culberson County, Texas.

99011700

Checking

Lease Bonus

4,320.00

ACQUISITION CHECKING COMMISSIONER, OF THE GENERAL LAND OFFICE

10/21/98

002685

PARAGON #299:Lease Bonus

Payment in full of 1/2 Lease Bonus Consideration due the State of Texas for Paid-Up Oil & Gas Lease dated 07/17/98 from the State of Texas by Agent Montgomery-Walker 1974 Trust, Charlotte Walker Furman, Trustee, Lessor, in favor of Clay Johnson, Lessee, covering All of Sections 8, 9, 16 & 17, Block 100, PSL Survey, Culberson County, Texas.

99011701

170



Checking

Lease Bonus

17,280.00

17,280.00

TITAN RESOURCES, L.P.

ACQUISITION CHECKING OF THE GENERAL LAND OFFICE

10/21/98

002685

PARAGON #299:Lease Bonus

Payment in full of 1/2 Lease Bonus Consideration due the State of Texas for Paid-Up Oil & Gas Lease dated 07/17/98 from the State of Texas by Agent Montgomery-Walker 1974 Trust, Charlotte Walker Furman, Trustee, Lessor, in favor of Clay Johnson, Lessee, covering All of Sections 8, 9, 16 & 17, Block 100, PSL Survey, Culberson County, Texas.

99011701

Checking

Lease Bonus

17,280.00

ACQUISITION CHECKING COMMISSIONER OF THE GENERAL LAND OFFICE

10/21/98

PARAGON #299:Lease Bonus

IIIAN RESOURCES, L.P. V

Payment in full of 1/2 Lease Bonus Consideration due the State of Texas for Paid-Up Oil & Gas Lease dated 07/17/98 from the State of Texas by Agent Montebey, Inc. Lessor, in favor of Clay Johnson, Lessee, covering All of Sections 8, 9, 16 & 17, Block 100, PSL Survey, Culberson County, Texas. 99011702

170

Lease Bonus

TITAN RESOURCES, L.P.

10/21/98

002686

17,280.00

17,280.00

ACQUISITION CHECKING OF THE GENERAL LAND OFFICE AGON #299:Lease Bonus

Payment in full of 1/2 Lease Bonus Consideration due the State of Texas for Paid-Up Oil & Gas Lease dated 07/17/98 from the State of Texas by Agent Montebev, Inc. Lessor, in favor of Clay Johnson, Lessee, covering All of Sections 8, 9, 16 & 17, Block 100, PSL Survey, Culberson County, Texas.

99011702

Checking

Lease Bonus

17,280.00

ACQUISITION CHECKING COMMISSIONER OF THE GENERAL LAND OFFICE

10/21/98

002667

PARAGON #299:Lease Bonus

Payment in full of 1/2 Lease Bonus Consideration due the State of Texas for Paid-Up Oil & Gas Lease dated 07/17/98 from the State of Texas by Agent Pearl Moore Carter, by Lee Wayne Moore, Trustee, Lessor, in favor of Clay Johnson, Lessee, covering All of Sections 8, 9, 16 & 17, Block 100, PSL Survey, Culberson County, Texas.

99011703

170

(Hanakia)

Lease Bonus

2,160.00

TITAN RESOURCES, L.P. ACQUISITION CHECKING OF THE GENERAL LAND OFFICE

10/21/98

002667

2,160.00

PARAGON #299:Lease Bonus

Payment in full of 1/2 Lease Bonus Consideration due the State of Texas for Paid-Up Oil & Gas Lease dated 07/17/98 from the State of Texas by Agent Pearl Moore Carter, by Lee Wayne Moore, Trustee, Lessor, in favor of Clay Johnson, Lessee, covering All of Sections 8, 9, 16 & 17, Block 100, PSL Survey, Culberson County, Texas.

99011703

Checking

Lease Bonus

2,160.00

IIIAN RESOURCES, L.P. V ACQUISITION CHECKING COMMISSIONER OF THE GENERAL LAND OFFICE

10/21/98

PARAGON #299:Lease Bonus

Payment in full of 1/2 Lease Bonus Consideration due the State of Texas for Paid-Up Oil & Gas Lease dated 07/17/98 from the State of Texas by Agent Wayne Moore, a widower, Lessor, in favor of Clay Johnson, Lessee, covering All of Sections 8, 9, 16 & 17, Block 100, PSL Survey, Culberson County, Texas.

99011704



Lease Bonus

17,280.00

17,280.00

TITAN-RESOURCES, L.P. ACQUISITION CHECKING OF THE GENERAL LAND OFFICE

10/21/98

002668

PARAGON #299:Lease Bonus

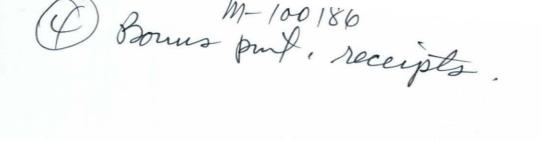
Payment in full of 1/2 Lease Bonus Consideration due the State of Texas for Paid-Up Oil & Gas Lease dated 07/17/98 from the State of Texas by Agent Wayne Moore, a widower, Lessor, in favor of Clay Johnson, Lessee, covering All of Sections 8, 9, 16 & 17, Block 100, PSL Survey, Culberson County, Texas.

99011704

Checking

Lease Bonus

17,280.00





December 18, 1998

Attn: J. Robert Ready Titan Resources, L.P. 500 W. Texas, Suite 500 Midland, Texas 79701

Re:

RELINQUISHMENT ACT LEASE NO. M-100186

All of Sec. 8, 9, 16, & 17, Blk. 100, PSL

**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-100186. Please refer to this number in all future correspondence concerning the lease.

Your remittance of \$17,405.00, 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 Minerals Leasing

Energy Resources (512) 475-1534

DR:MT:mrg

(3)- Sco letter



March 5, 2002

#### VIA FEDERAL EXPRESS

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

Re: Partial Assignment of Oil and Gas Leases (State) executed January 24, 2002, by and between Mobil Producing Texas and New Mexico, Inc., Assignor and Pure Resources, L.P., Assignee, covering State <u>Mineral Classified lands in Culberson County, Texas.</u> Paragon Prospect No. 299

Dear Mr. Reid:

With reference to the captioned, enclosed please find the following for your files and further handling:

- Certified Copy of Partial Assignment of Oil and Gas Leases (State) executed on January 24, 2002, by and between Mobil Producing Texas and New Mexico, Inc., Assignor, and Pure Resources, L.P., Assignee, covering State Mineral Classified lands in Culberson County, Texas, which has been duly filed and recorded in Volume 81, Pages 173-180 of the Oil-Gas Records of Culberson County, Texas.
- Pure Resources, L.P. Check No. 007926 made payable to the order of Commissioner of the General Land Office of the State of Texas in the amount of \$2,075.00, representing the required filing fee for handling this matter (83 leases x \$25.00 per lease).

Also enclosed for your information is a copy of the Exhibit "A" with the <u>Mineral Classified Lease Numbers</u> included. Please acknowledge receipt of this letter and enclosures by signing, dating and returning one (1) copy of this letter in the enclosed self-addressed and stamped envelope. 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,

Laura Thompson
Land Administration

LT/sr
Enclosures

RECEIVED THIS \_\_\_\_ DAY OF \_\_\_\_\_, 2002.

TEXAS GENERAL LAND OFFICE

BY \_\_\_\_\_

Drew Reid

500 West Illinois Midland, Texas 79701 office: 915.498.8600



March 5, 2002

#### VIA FEDERAL EXPRESS

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

Re: Partial Assignment of Oil and Gas Leases (State) executed January 24, 2002, by and between Mobil Producing Texas and New Mexico, Inc., Assignor and Pure Resources, L.P., Assignee, covering State <u>Mineral Classified lands in Culberson County, Texas.</u> Paragon Prospect No. 299

Dear Mr. Reid:

With reference to the captioned, enclosed please find the following for your files and further handling:

- Certified Copy of Partial Assignment of Oil and Gas Leases (State) executed on January 24, 2002, by and between Mobil Producing Texas and New Mexico, Inc., Assignor, and Pure Resources, L.P., Assignee, covering State Mineral Classified lands in Culberson County, Texas, which has been duly filed and recorded in Volume 81, Pages 173-180 of the Oil-Gas Records of Culberson County, Texas.
- Pure Resources, L.P. Check No. 007926 made payable to the order of Commissioner of the General Land Office of the State of Texas in the amount of \$2,075.00, representing the required filing fee for handling this matter (83 leases x \$25.00 per lease).

Also enclosed for your information is a copy of the Exhibit "A" with the Mineral Classified Lease Numbers included. Please acknowledge receipt of this letter and enclosures by signing, dating and returning one (1) copy of this letter in the enclosed self-addressed and stamped envelope. 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,

\*\*Laura Thompson\*\*
Laura Thompson
Land Administration

LT/sr
Enclosures

RECEIVED THIS \_\_\_\_\_ DAY OF \_\_\_\_\_\_, 2002.

TEXAS GENERAL LAND OFFICE

BY \_\_\_\_\_\_

\*\*Drew Reid\*\*

\*\*500 West Illinois \_ Midland, Texas.79701\_\_ office: \$15.498.8600 web: www.epui

File No. 100186

\_County

Date Filed: 3-6-2003 George P. Bush, Commissioner