

STATE LEASE

MF100163

#	LeaseDate	Acres	Status	CONTROL	BASEFILE	COUNTY
A	Jun 25 1998	600.00	ACTIVE	07-105937	135383 -	REEVES /195
B	Jun 25 1998	300.00	ACTIVE	07-105919	153574 -	REEVES /195
C	Jun 25 1998	300.00	ACTIVE	07-105955	153575 -	REEVES /195

✓
EXPIRED

SURVEY : PUBLIC SCHOOL LAND
BLOCK : 59
TOWNSHIP : 00
SECTION/TRACT: 33, ~~32~~, ~~34~~
PART :
ACRES : 1200.00
DEPTH LIMITS : NO

Rentals:

Lease

Admin:

Mineral

Maps:

LESSEE : JOHNSON, CLAY
LEASE DATE : Jun 25 1998
PRIMARY TERM : 5 yrs
BONUS (\$) : 0.00
RENTAL (\$) : 1.00
ROYALTY : 0.18750000
VAR ROYALTY :



MF100163



M-100163

-M-

1

0

0

1

6

3

CONTENTS OF FILE NO. M-100163

- | | |
|-------------------------|------------|
| 1. Lease | 6/25/98 |
| 2. Lease | 6/25/98 |
| 3. Lease | 6/25/98 |
| 4. Memo | 8/19/98 |
| 5. Letter | 8/28/98 |
| 6. Bonus Payments | 9/1/98 |
| 7. Letter | 9/16/98 |
| 8. Bonus Payment | 9/17/98 |
| 9. Letter | 2/3/99 |
| 10. Rental Payment | 5/17/99 |
| 11. Rental Payment | 5/17/99 |
| 12. Rental Payment | 5/17/99 |
| 13. Rental Payment | 5/31/00 |
| 14. Rental Payment | 5/31/00 |
| 15. Rental Payment | 5/31/00 |
| 16. Amendment of Leases | 5/18/01 |
| Scanned | sm 3/23/15 |

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 25 day of June 19 98, between the State of Texas, acting by and through its agent Lisa R. Good, sole and separate property

of 133331 S. 121st E. Ave.,
Broken Arrow, Oklahoma 74011 said agent

(Give Permanent Address)
herein referred to as the owner of the soil (whether one or more), and Clay Johnson

203 W. Wall, Suite 800, Midland, Texas 79701 of
(Give Permanent Address)

hereinafter called Lessee.

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

See Exhibit "A" for legal description

containing 1200 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Fifteen Thousand and no/100's
Dollars (\$ 15,000.00)

To the owner of the soil: Fifteen Thousand and no/100's
Dollars (\$ 15,000.00)

Total bonus consideration: Thirty Thousand and no/100's
Dollars (\$ 30,000.00)

The total bonus consideration paid represents a bonus of Fifty and no/100's
Dollars (\$ 50.00) per acre, on 600 net acres.

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

3. Delay Rentals: If oil or gas in paying quantities is not being produced from the premises on the first anniversary date of this Lease and there are then no drilling operations being conducted on the premises, then this lease shall terminate unless, on or before such anniversary date, Lessee shall pay, $\frac{1}{2}$ directly to the owner of the soil and a like amount paid or tendered to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATE OF TEXAS, AT AUSTIN, TEXAS, a delay rental in the amount specified in the following schedule multiplied by the number of acres then covered by this lease, which payment, when timely made, shall continue this lease for a period of one (1) additional year. In like manner and upon payment of the amounts set out in the following schedule, this lease may be further continued for successive one-year periods during the primary term of this lease provided that payment is made on or before the anniversary date.

Anniversary Date	Delay Rental per Acre
First	\$ 1.00
Second	\$ 1.00
Third	\$ 16.67
Fourth	\$ 16.67



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

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

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

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

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

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

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

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

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

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

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

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

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 above-described section, from the base of the surface casing to the total depth of well, of all wells drilled on the above described premises and shall transmit a true copy of the log of each survey on each well to the General Land Office within fifteen (15) days after the making of said survey.

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

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

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

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

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



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

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

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

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

(A) VERTICAL. In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall then terminate as to all of the leased premises, EXCEPT (1) 40 acres surrounding each oil well capable of producing in paying quantities and 320 acres surrounding each gas well capable of producing in paying quantities (including a shut-in oil or gas well as provided in Paragraph 14 hereof), or a well upon which Lessee is then engaged in continuous drilling or reworking operations, or (2) the number of acres included in a producing pooled unit pursuant to Texas Natural Resources Code 52.151-52.153, or (3) such greater or lesser number of acres as may then be allocated for production purposes to a proration unit for each such producing well under the rules and regulations of the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction. If at any time after the effective date of the partial termination provisions hereof, the applicable field rules are changed or the well or wells located thereon are reclassified so that less acreage is thereafter allocated to said well or wells for production purposes, this lease shall thereupon terminate as to all acreage not thereafter allocated to said well or wells for production purposes. Notwithstanding the termination of this lease as to a portion of the lands covered hereby, Lessee shall nevertheless continue to have the right of ingress to and egress from the lands still subject to this lease for all purposes described in Paragraph 1 hereof, together with easements and rights-of-way for existing roads, existing pipelines and other existing facilities on, over and across all the lands described in Paragraph 1 hereof ("the retained lands"), for access to and from the retained lands and for the gathering or transportation of oil, gas and other minerals produced from the retained lands.

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

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

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

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



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

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 batteries so as to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level all slush pits and cellars and completely clean up the drilling site of all rubbish thereon. Lessee shall, while conducting operations on the leased premises, keep said premises free of all rubbish, cans, bottles, paper cups or garbage, and upon completion of operations shall restore the surface of the land to as near its original condition and contours as is practicable. Tanks and equipment will be kept painted and presentable.

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

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

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

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



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

(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 losses that Lessor may suffer by reason of Lessee's breach of any covenant or condition of this lease, whether express or implied. This lien and security interest may be foreclosed with or without court proceedings in the manner provided in the Title 1, Chapter 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this lease forfeited as provided herein.

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

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



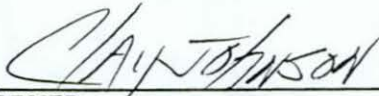
True and Correct
copy of
Original filed in
Reeves County

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.

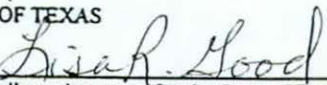
39. LEASE FILING. Pursuant to Chapter 9 of the Texas Business and Commerce Code, this lease must be filed of record in the office of the County Clerk in any county in which all or any part of the leased premises is located, and certified copies thereof must be filed in the General Land Office. This lease 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: 8-13-98

STATE OF TEXAS

BY: 

Individually and as agent for the State of Texas Lisa R. Good,
dealing in her sole and separate property
Date: 7-29-98
SS# [REDACTED]

STATE OF TEXAS

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

STATE OF TEXAS

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

STATE OF TEXAS

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



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

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared _____

Given under my hand and seal of office this the _____ day of _____, 19____

(CORPORATION ACKNOWLEDGMENT)

BEFORE ME, the undersigned authority, on this day personally appeared Quay Johnson

Given under my hand and seal of office this the 13 day of August, 1998



(INDIVIDUAL ACKNOWLEDGMENT)

Before me, the undersigned authority, on this day personally appeared Lisa R. Good, dealing in her sole and separate property

Given under my hand and seal of office this the 29 day of July, 19 98.

Notary Public in and for Alaska 8/6/2001

(INDIVIDUAL ACKNOWLEDGMENT)

Before me, the undersigned authority, on this day personally appeared Asst. Clerk

Given under my hand and seal of office this the 10 day of July, 1919.

Notary Public in and for _____



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

EXHIBIT "A"

Attached to a made a part of that certain Oil and Gas Lease dated June 25, 1998 between Lisa Good, as Lessor and Clay Johnson, as Lessee covering the following described lands, all in Reeves County, Texas, being 1200 acres, more or less.

Tract 1: Section 33, Block 59, Public School Land Survey, Reeves County, Texas, containing 640 acres, more or less.

Tract 2: The Southeast Quarter (SE/4) of Section 32, Block 59, Public School Land Survey, Reeves County, Texas, containing 160 acres, more or less.

Tract 3: The North Half of the Northeast Quarter (N/2 NE/4), and all of the West Half (W/2) of Section 34, Block 59, Public School Lands, Reeves County, Texas, SAVE AND EXCEPT all that portion of the West Half (W/2) lying within the 240 acre tract described by metes and bounds as follows:

BEGINNING at a 1" iron pipe set for the S. W. corner of Section 35, the S. E. corner of Section 34, and the S. E. corner of this Survey;

THENCE West 2418 feet to a 1" iron pipe set in the North line of Section 39, a corner of this Survey;

THENCE N. 65 deg. 06'W. 3161.8 feet to a point in the East line of Section 33, a corner of this Survey;

THENCE North 715.8 feet to a point in the East line of Section 33, a corner of this Survey;

THENCE S. 72 deg. 03'E. 2155.6 feet to a 1-1/4" iron pipe set for a corner of this Survey;

THENCE N. 9 deg. 00' E. 1586.1 feet to a 1-1/4" iron pipe set for a corner of this Survey;

THENCE East 516.1 feet to a point, a corner of this Survey;

THENCE South 202.7 feet to a point, a corner of this Survey;

THENCE East 2471 feet to a point in the West line of Section 35, the N. E. corner of this Survey.



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

EXHIBIT "B"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OIL AND GAS LEASE DATED JUNE 25, 1998, BY AND BETWEEN LISA GOOD AS LESSOR, AND CLAY JOHNSON, AS LESSEE.

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.

THE STATE OF TEXAS
COUNTY OF REEVES

I, Dianne O. Florez, 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 0466 dated 6-25 1998,

filed for record in my office this 14th day of Sept, 1998 at 4:03A M, under Clerk's File No. 2570, to be recorded in the OPR Records of Reeves County, Texas.

TO CERTIFY WHICH, Witness my hand and official seal at Pecos, Texas this 14th day of Sept, 1998.

By J. Alcala, Deputy.

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS



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

M-100163

① Lease A 6/25/98

8
2
4
6

OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 25 day of June 19 98, between the State of Texas, acting by and through its agent, David A. Stephens, sole and separate property of P.O. Box 149, Pecos, Texas 79772 said agent
(Give Permanent Address)
herein referred to as the owner of the soil (whether one or more), and Clay Johnson of
203 W. Wall, Suite 800, Midland, Texas 79701
(Give Permanent Address)
hereinafter called Lessee.

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

See Exhibit "A" for property description.

containing 1200 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Seventy Five Hundred and no/100's
Dollars (\$ 7,500.00)

To the owner of the soil: Seventy Five Hundred and no/100's
Dollars (\$ 7,500.00)

Total bonus consideration: Fifteen Thousand and no/100's
Dollars (\$ 15,000.00)

The total bonus consideration paid represents a bonus of Fifty and no/100's
Dollars (\$ 50.00) per acre, on 300 net acres.

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

3. Delay Rentals: If oil or gas in paying quantities is not being produced from the premises on the first anniversary date of this Lease and there are then no drilling operations being conducted on the premises, then this lease shall terminate unless, on or before such anniversary date, Lessee shall pay, 1/2 directly to the owner of the soil and a like amount paid or tendered to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATE OF TEXAS, AT AUSTIN, TEXAS, a delay rental in the amount specified in the following schedule multiplied by the number of acres then covered by this lease, which payment, when timely made, shall continue this lease for a period of one (1) additional year. In like manner and upon payment of the amounts set out in the following schedule, this lease may be further continued for successive one-year periods during the primary term of this lease provided that payment is made on or before the anniversary date.

Anniversary Date	Delay Rental per Acre
First	\$ 1.00
Second	\$ 1.00
Third	\$ 16.67
Fourth	\$ 16.67



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

(A) **VERTICAL.** In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall then terminate as to all of the leased premises, EXCEPT (1) 40 acres surrounding each oil well capable of producing in paying quantities and 320 acres surrounding each gas well capable of producing in paying quantities (including a shut-in oil or gas well as provided in Paragraph 14 hereof), or a well upon which Lessee is then engaged in continuous drilling or reworking operations, or (2) the number of acres included in a producing pooled unit pursuant to Texas Natural Resources Code 52.151-52.153, or (3) such greater or lesser number of acres as may then be allocated for production purposes to a proration unit for each such producing well under the rules and regulations of the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction. If at any time after the effective date of the partial termination provisions hereof, the applicable field rules are changed or the well or wells located thereon are reclassified so that less acreage is thereafter allocated to said well or wells for production purposes, this lease shall thereupon terminate as to all acreage not thereafter allocated to said well or wells for production purposes. Notwithstanding the termination of this lease as to a portion of the lands covered hereby, Lessee shall nevertheless continue to have the right of ingress to and egress from the lands still subject to this lease for all purposes described in Paragraph 1 hereof, together with easements and rights-of-way for existing roads, existing pipelines and other existing facilities on, over and across all the lands described in Paragraph 1 hereof ("the retained lands"), for access to and from the retained lands and for the gathering or transportation of oil, gas and other minerals produced from the retained lands.

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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



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

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

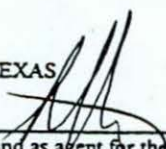
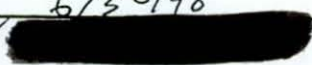
37. APPLICABLE LAW. This lease is issued under the provisions of Texas Natural Resources Code 52.171 through 52.190, commonly known as the Relinquishment Act, and other applicable statutes and amendments thereto, and if any provision in this lease does not conform to these statutes, the statutes will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

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

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

CLAY JOHNSON
LESSEE
BY: CLAY JOHNSON
TITLE:
DATE: 7-2-98

STATE OF TEXAS

BY: 
Individually and as agent for the State of Texas David A. Stephens
dealing in his sole and separate property
Date: 6/30/98
SS# 

STATE OF TEXAS

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

STATE OF TEXAS

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

STATE OF TEXAS

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



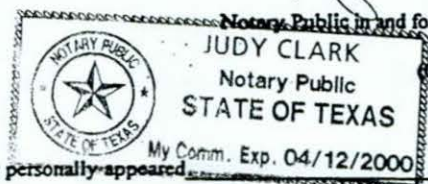
True and Correct
copy of
Original filed in
Reeves County
Clerks Office

STATE OF Texas
COUNTY OF Reeves

(CORPORATION ACKNOWLEDGMENT)

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

Given under my hand and seal of office this the 30th day of June, 1998
Judy Clark



STATE OF _____
COUNTY OF _____

(CORPORATION ACKNOWLEDGMENT)

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

Given under my hand and seal of office this the _____ day of _____, 19____.

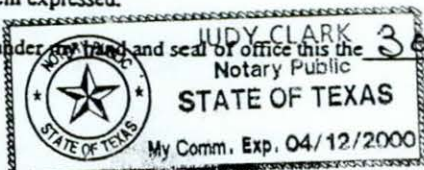
Notary Public in and for _____

STATE OF Texas
COUNTY OF Reeves

(INDIVIDUAL ACKNOWLEDGMENT)

Before me, the undersigned authority, on this day personally appeared David A. Stephens, dealing in
his sole and separate property
known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes and
consideration therein expressed.

Given under my hand and seal of office this the 30th day of June, 1998
Judy Clark
Notary Public in and for _____



STATE OF Texas
COUNTY OF Midland

(INDIVIDUAL ACKNOWLEDGMENT)

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

Given under my hand and seal of office this the 2 day of July, 1998
Monica Marlowe



Notary Public in and for Texas



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

EXHIBIT "A"

Attached to a made a part of that certain Oil and Gas Lease dated June 25, 1998 between David A. Stephens, as Lessor and Clay Johnson, as Lessee covering the following described lands, all in Reeves County, Texas, being 1200 acres, more or less.

- Tract 1: Section 33, Block 59, Public School Land Survey, Reeves County, Texas, containing 640 acres, more or less.
- Tract 2: The Southeast Quarter (SE/4) of Section 32, Block 59, Public School Land Survey, Reeves County, Texas, containing 160 acres, more or less.
- Tract 3: The North Half of the Northeast Quarter (N/2 NE/4), and all of the West Half (W/2) of Section 34, Block 59, Public School Lands, Reeves County, Texas, SAVE AND EXCEPT all that portion of the West Half (W/2) lying within the 240 acre tract described by metes and bounds as follows:

BEGINNING at a 1" iron pipe set for the S. W. corner of Section 35, the S. E. corner of Section 34, and the S. E. corner of this Survey;
THENCE West 2418 feet to a 1" iron pipe set in the North line of Section 39, a corner of this Survey;
THENCE N. 65 deg. 06' W. 3161.8 feet to a point in the East line of Section 33, a corner of this Survey;
THENCE North 715.8 feet to a point in the East line of Section 33, a corner of this Survey;
THENCE S. 72 deg. 03' E. 2155.6 feet to a 1-1/4" iron pipe set for a corner of this Survey;
THENCE N. 9 deg. 00' E. 1586.1 feet to a 1-1/4" iron pipe set for a corner of this Survey;
THENCE East 516.1 feet to a point, a corner of this Survey;
THENCE South 202.7 feet to a point, a corner of this Survey;
THENCE East 2471 feet to a point in the West line of Section 35, the N. E. corner of this Survey.



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

EXHIBIT "B"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OIL AND GAS LEASE DATED JUNE 25, 1998, BY AND BETWEEN DAVID A. STEPHENS AS LESSOR, AND CLAY JOHNSON, AS LESSEE.

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.

THE STATE OF TEXAS
COUNTY OF REEVES I, Dianne O. Florez, 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 OG-L dated 6-25
19 98
filed for record in my office this 26th day of August
19 98 at 9:44 A.M. under Clerk's File No. 2357 to be
recorded in the OPR Records of Reeves County,
Texas.
TO CERTIFY WHICH, Witness my hand and official seal of Texas this
26th day of August, 19 98
By [Signature] Deputy DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS



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

M-100163
(2) Lease 6/25/98

08500000

08500000



OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 25 day of June 19 98, between the State of Texas, acting by and through its agent, Mark Stephens, sole and separate property of 209 S. Oak, Pecos, Texas 79772 said agent
(Give Permanent Address)
herein referred to as the owner of the soil (whether one or more), and Clay Johnson of
203 W. Wall, Suite 800, Midland, Texas 79701
(Give Permanent Address)
hereinafter called Lessee.

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

See Exhibit "A" for legal description

containing 1200 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Seventy Five Hundred and no/100's
Dollars (\$ 7,500.00)
To the owner of the soil: Seventy Five Hundred and no/100's
Dollars (\$ 7,500.00)
Total bonus consideration: Fifteen Thousand and no/100's
Dollars (\$ 15,000.00)

The total bonus consideration paid represents a bonus of Fifty and no/100's
Dollars (\$ 50.00) per acre, on 300 net acres.

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

3. Delay Rentals: If oil or gas in paying quantities is not being produced from the premises on the first anniversary date of this Lease and there are then no drilling operations being conducted on the premises, then this lease shall terminate unless, on or before such anniversary date, Lessee shall pay, 1/2 directly to the owner of the soil and a like amount paid or tendered to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATE OF TEXAS, AT AUSTIN, TEXAS, a delay rental in the amount specified in the following schedule multiplied by the number of acres then covered by this lease, which payment, when timely made, shall continue this lease for a period of one (1) additional year. In like manner and upon payment of the amounts set out in the following schedule, this lease may be further continued for successive one-year periods during the primary term of this lease provided that payment is made on or before the anniversary date.

Anniversary Date	Delay Rental per Acre
First	\$ 1.00
Second	\$ 1.00
Third	\$ 16.67
Fourth	\$ 16.67



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

(A) VERTICAL. In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall then terminate as to all of the leased premises, EXCEPT (1) 40 acres surrounding each oil well capable of producing in paying quantities and 320 acres surrounding each gas well capable of producing in paying quantities (including a shut-in oil or gas well as provided in Paragraph 14 hereof), or a well upon which Lessee is then engaged in continuous drilling or reworking operations, or (2) the number of acres included in a producing pooled unit pursuant to Texas Natural Resources Code 52.151-52.153, or (3) such greater or lesser number of acres as may then be allocated for production purposes to a proration unit for each such producing well under the rules and regulations of the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction. If at any time after the effective date of the partial termination provisions hereof, the applicable field rules are changed or the well or wells located thereon are reclassified so that less acreage is thereafter allocated to said well or wells for production purposes, this lease shall thereupon terminate as to all acreage not thereafter allocated to said well or wells for production purposes. Notwithstanding the termination of this lease as to a portion of the lands covered hereby, Lessee shall nevertheless continue to have the right of ingress to and egress from the lands still subject to this lease for all purposes described in Paragraph 1 hereof, together with easements and rights-of-way for existing roads, existing pipelines and other existing facilities on, over and across all the lands described in Paragraph 1 hereof ("the retained lands"), for access to and from the retained lands and for the gathering or transportation of oil, gas and other minerals produced from the retained lands.

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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



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

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: 7-2-98

STATE OF TEXAS

BY: Mark Stephens
Individually and as agent for the State of Texas Mark Stephens,
dealing in his sole and separate property
Date: 6/30/98

SS# [REDACTED]

STATE OF TEXAS

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

Date: _____

STATE OF TEXAS

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

Date: _____

STATE OF TEXAS

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

Date: _____



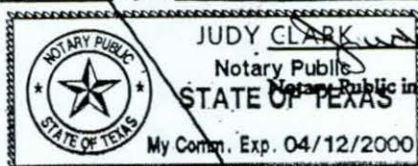
True and Correct
copy of
Original filed in
Reeves County
Clerks Office

STATE OF Texas
COUNTY OF Reeves

(CORPORATION ACKNOWLEDGMENT)

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

Given under my hand and seal of office this the 30th day of June, 1998.



(CORPORATION ACKNOWLEDGMENT)

STATE OF _____
COUNTY OF _____

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

Given under my hand and seal of office this the _____ day of _____, 19____.

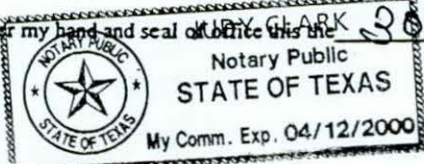
Notary Public in and for _____

STATE OF Texas
COUNTY OF Reeves

(INDIVIDUAL ACKNOWLEDGMENT)

Before me, the undersigned authority, on this day personally appeared Mark Stephens, dealing in
his sole and separate property
known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same for the purposes and
consideration therein expressed.

Given under my hand and seal of office this the 30th day of June, 1998.



Notary Public in and for _____

STATE OF Texas
COUNTY OF Midland

(INDIVIDUAL ACKNOWLEDGMENT)

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

Given under my hand and seal of office this the 2 day of July, 1998.



Notary Public in and for Texas



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

EXHIBIT "A"

Attached to a made a part of that certain Oil and Gas Lease dated June 25, 1998 between Mark Stephens, as Lessor and Clay Johnson, as Lessee covering the following described lands, all in Reeves County, Texas, being 1200 acres, more or less.

- Tract 1: Section 33, Block 59, Public School Land Survey, Reeves County, Texas, containing 640 acres, more or less.
- Tract 2: The Southeast Quarter (SE/4) of Section 32, Block 59, Public School Land Survey, Reeves County, Texas, containing 160 acres, more or less.
- Tract 3: The North Half of the Northeast Quarter (N/2 NE/4), and all of the West Half (W/2) of Section 34, Block 59, Public School Lands, Reeves County, Texas, SAVE AND EXCEPT all that portion of the West Half (W/2) lying within the 240 acre tract described by metes and bounds as follows:

BEGINNING at a 1" iron pipe set for the S. W. corner of Section 35, the S. E. corner of Section 34, and the S. E. corner of this Survey;
THENCE West 2418 feet to a 1" iron pipe set in the North line of Section 39, a corner of this Survey;
THENCE N. 65 deg. 06'W. 3161.8 feet to a point in the East line of Section 33, a corner of this Survey;
THENCE North 715.8 feet to a point in the East line of Section 33, a corner of this Survey;
THENCE S. 72 deg. 03'E. 2155.6 feet to a 1-1/4" iron pipe set for a corner of this Survey;
THENCE N. 9 deg. 00' E. 1586.1 feet to a 1-1/4" iron pipe set for a corner of this Survey;
THENCE East 516.1 feet to a point, a corner of this Survey;
THENCE South 202.7 feet to a point, a corner of this Survey;
THENCE East 2471 feet to a point in the West line of Section 35, the N. E. corner of this Survey.



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

EXHIBIT "B"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OIL AND GAS LEASE DATED JUNE 25, 1998, BY AND BETWEEN MARK STEPHENS AS LESSOR, AND CLAY JOHNSON, AS LESSEE.

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.

THE STATE OF TEXAS
COUNTY OF REEVES

I, Dianne O. Flores, 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 OGA dated 6-25

19 98

filed for record in my office this 26th day of August, 19 98 at 2:46 A.M. under Clerk's File No. 2356, to be recorded in the OPR Records of Reeves County, Texas.

TO CERTIFY WHEREBY, without any bond and official seal of Pecos, Texas this 26th day of August, 19 98

By

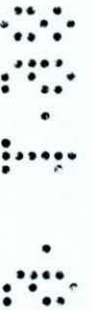
[Signature] Deputy
DIANNE O. FLORES, COUNTY CLERK
REEVES COUNTY, TEXAS



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

M-100/63

③ Lease 6/25/98



TEXAS GENERAL LAND OFFICE

GARRY MAURO
COMMISSIONER

M-100163

MEMORANDUM

DATE: 14-Aug-98

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

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

RE: Relinquishment Act Lease

Applicant: Clay Johnson

County: REEVES

Section: 33 Block: 59

Survey: PUBLIC SCHOOL LAND

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

Royalty: 3/16 Rental/Acre \$1.00

Base File #: 135383

Abstract: 4381

Consideration

Recommended: SAR 8-19-98

Not Recommended: _____

Comments:

Lease Form

Recommended: BJH 9/10/98

Not Recommended: _____

Comments:

Spencer Reid, Senior Deputy

Date: 9-16-98

Recommended: SAR

Not Recommended: _____

Garry Mauro, Commissioner

Date: _____

Approved: GM

Not Approved: _____

RAL REVIEW SHEET

Transaction # 2737
Lessor: Stephens, David A.
Lessee: Clay Johnson

Geologist: L. Collier
Lease Date: 6/25/98 **UL** ☐
Acres: 300

LEASE DESCRIPTION

County	Base File No	Part	Sec.	Block	Twp	Survey	Abst#
REEVES	135383	640 Ac.	33	59	00	PUBLIC SCHOOL LAND	4381
REEVES	153574	SE/4 160 AC.	32	59	00	PUBLIC SCHOOL LAND	6035
REEVES	153575	W/2 & N/2 of NE/4 400 AC.	34	59	00	PUBLIC SCHOOL LAND	6036

TERMS OFFERED

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

TERMS RECOMMENDED

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

COMPARISONS

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

Comments: First & second year rental is \$1.00, third & fourth year rental is \$16.67. Gross acres is 1200. Also: Mark Stephens 300 acres.

Approved: PCB 8.19.98

Friday, August 14, 1998

M-100/63

④ Memo 8/19/98



TITAN RESOURCES, L.P.

August 28, 1998

VIA FEDERAL EXPRESS

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

Re: Proposed Relinquishment Act Oil and Gas Leases (28)
covering lands in Culberson and Reeves Counties, Texas
Paragon Prospect

Dear Mr. Reid:

With reference to the following described Oil and Gas Leases covering lands in Culberson and Reeves Counties, Texas, enclosed herewith please find the following:

1. Copy of page one (1) of Oil and Gas Lease dated June 29, 1998, between the State of Texas, acting by and through its agent, Nora Lee Barnum, referred to as owner of the soil, and Clay Johnson, Lessee. The terms of this Lease are as follows:
 - A. The Lease covers 640 gross and 21.33 net acres;
 - B. Consideration being paid is \$54.00 per net mineral acre;
 - C. Paid-Up Lease, no rentals due;
 - D. Primary term is five (5) years;
 - E. The royalty is 3/16.
2. Copy of page one (1) of Oil and Gas Lease dated June 29, 1998, between the State of Texas, acting by and through its agent, Diane Kay Grant, referred to as owner of the soil, and Clay Johnson, Lessee. The terms of this Lease are as follows:
 - A. The Lease covers 640 gross and 16 net acres;
 - B. Consideration being paid is \$54.00 per net mineral acre;
 - C. Paid-Up Lease, no rentals due;
 - D. Primary term is five (5) years;
 - E. The royalty is 3/16.
3. Copy of page one (1) of Oil and Gas Lease dated June 25, 1998, between the State of Texas, acting by and through its agent, Lisa Good, referred to as owner of the soil, and Clay Johnson, Lessee. The terms of this Lease are as follows:
 - A. The Lease covers 1200 gross and 600 net acres;
 - B. Consideration being paid is \$50.00 per net mineral acre;
 - C. \$1.00 per net acre annual delay rentals;
 - D. Primary term is five (5) years;
 - E. The royalty is 3/16.
4. Copy of page one (1) of Oil and Gas Lease dated June 29, 1998, between the State of Texas, acting by and through its agent, Mary Nell Hinson, referred to as owner of the soil, and Clay Johnson, Lessee. The terms of this Lease are as follows:
 - A. The Lease covers 640 gross and 21.33 net acres;
 - B. Consideration being paid is \$54.00 per net mineral acre;
 - C. Paid-Up Lease, no rentals due;
 - D. Primary term is five (5) years;
 - E. The royalty is 3/16.

Mr. Drew Reid
General Land Office
August 28, 1998
Page 2

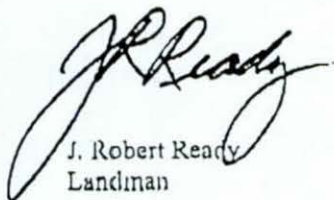
5. Copy of page one (1) of Oil and Gas Lease dated June 22, 1998, between the State of Texas, acting by and through its agent, Georgia B. Breeden, referred to as owner of the soil, and Clay Johnson, Lessee. The terms of this Lease are as follows:
- A. The Lease covers 640 gross and 320 net acres;
 - B. Consideration being paid is \$54.00 per net mineral acre;
 - C. Paid-Up Lease, no rentals due;
 - D. Primary term is five (5) years;
 - E. The royalty is 3/16.
6. Copy of page one (1) of Oil and Gas Lease dated June 29, 1998, between the State of Texas, acting by and through its agent, Sybil Jane Bryce Lipton, referred to as owner of the soil, and Clay Johnson, Lessee. The terms of this Lease are as follows:
- A. The Lease covers 640 gross and 64 net acres;
 - B. Consideration being paid is \$54.00 per net mineral acre;
 - C. Paid-Up Lease, no rentals due;
 - D. Primary term is five (5) years;
 - E. The royalty is 3/16.

We have previously received approval from the Texas General Land Office for leases of the same lands as covered by the above described leases, which were taken upon the same terms and for the same consideration as the subject leases.

On July 20, 1998, several leases and checks were forwarded to you for processing. As discussed in your recent telephone conversation with Clay Johnson, the William N. Booth Lease covered fee lands instead of mineral classified lands. Accordingly, pursuant to your request, the lease bonus, filing and processing fees covered by this lease are being held by the General Land Office as a credit due Titan Resources, L. P. Titan Resources, L. P. Check No. 1959 in the amount of \$4,320.00 and \$125.00 out of Titan Check No. 2052 equal a total credit due Titan in the amount of \$4,445.00. Please apply \$45.00 of this credit together with Titan Resources, L. P. Check No. 2445 in the amount of \$555.00 to cover the required processing fees for handling the enclosed 6 Oil and Gas Leases.

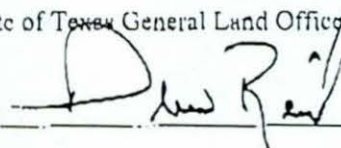
Please acknowledge the approval of the above leases by the State of Texas, by signing and returning one copy of this letter. Should you have any questions concerning this matter, please do not hesitate to contact me.

Very truly yours,


J. Robert Ready
Landman
Enclosures

AGREED TO AND ACCEPTED THIS 10 DAY OF
Sept., 1998.

State of Texas General Land Office

By: 

M-100/63

⑤ Letter 8/28/98

22

8/17/98

002326

PARAGON #299:Lease Bonus

Payment in full of the 1/2 Lease Bonus
Consideration due the State of Texas
for Oil & Gas Lease dated 06/25/98
from the State of Texas by Agent, Mark
Stephens, dealing in his sole and separate
property, Lessor, in favor of Clay Johnson,
Lessee, covering All of Section 33; SE/4
Section 32; and the N/2NE/4, and all of the
W/2 Section 34, Block 59, PSL Survey,
Reeves County, Texas.

7,500.00



Checking

Lease Bonus

X 7,500.00

8/17/98

002326

PARAGON #299:Lease Bonus

Payment in full of the 1/2 Lease Bonus
Consideration due the State of Texas
for Oil & Gas Lease dated 06/25/98
from the State of Texas by Agent, Mark
Stephens, dealing in his sole and separate
property, Lessor, in favor of Clay Johnson,
Lessee, covering All of Section 33; SE/4
Section 32; and the N/2NE/4, and all of the
W/2 Section 34, Block 59, PSL Survey,
Reeves County, Texas.

7,500.00

RECEIVED

98 SEP -2 AM 10:43

ENERGY RESOURCES

Checking

Lease Bonus

7,500.00

COMMISSIONER OF THE GENERAL LAND OFFICE

8/17/98

002322

PARAGON #299:Lease Bonus

Payment in full of the 1/2 Lease Bonus
Consideration due the State of Texas
for Oil & Gas Lease dated 06/25/98
from the State of Texas by Agent, David
A. Stephens, dealing in his sole and separate
property, Lessor, in favor of Clay Johnson,
Lessee, covering All of Section 33; SE/4 of
Section 32; N/2NE/4, and All of W/2 of Section
34/Block 59, PSL Survey, Reeves County,
S&E 240 acres
Texas.

7,500.00

99000281

170

Checking

Lease Bonus

X 7,500.00

COMMISSIONER OF THE GENERAL LAND OFFICE

8/17/98

002322

PARAGON #299:Lease Bonus

Payment in full of the 1/2 Lease Bonus
Consideration due the State of Texas
for Oil & Gas Lease dated 06/25/98
from the State of Texas by Agent, David
A. Stephens, dealing in his sole and separate
property, Lessor, in favor of Clay Johnson,
Lessee, covering All of Section 33; SE/4 of
Section 32; N/2NE/4, and All of W/2 of Section
34/Block 59, PSL Survey, Reeves County,
S&E 240 acres
Texas.

7,500.00

RECEIVED
98 SEP -2 AM 10:42
ENERGY RESOURCES

Checking

Lease Bonus

7,500.00

M-100/63
⑥ Bonus Payments 9/1/98





September 16, 1998

VIA FEDERAL EXPRESS

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

Re: (6) Relinquishment Act Oil and Gas Leases
covering lands in Reeves County, Texas
Paragon Prospect

Dear Mr. Reid:

With reference to the following described Oil and Gas Leases covering lands in Reeves County, Texas, enclosed herewith please find the following:

1. Certified copy of Paid-Up Oil and Gas Lease dated June 29, 1998, between the State of Texas, acting by and through its agent, Noralee Barnum, referred to as owner of the soil, and Clay Johnson, Lessee, covering Section 9, Block 55, PSL Survey, Reeves County, Texas. Titan Resources, L.P. Check No. 2418 made payable to the order of Commissioner of the General Land Office of the State of Texas in the amount of \$575.91, representing payment in full of lease bonus consideration (1/2 due the State of Texas) for the above mentioned Oil and Gas Lease.
2. Certified copy of Paid-Up Oil and Gas Lease dated June 29, 1998, between the State of Texas, acting by and through its agent, Diane Kay Grant, referred to as owner of the soil, and Clay Johnson, Lessee, covering Section 46, Block 57, PSL Survey, Reeves County, Texas. Titan Resources, L.P. Check No. 2431 made payable to the order of Commissioner of the General Land Office of the State of Texas in the amount of \$432.00, representing payment in full of lease bonus consideration (1/2 due the State of Texas) for the above mentioned Oil and Gas Lease.
3. Certified copy of Oil and Gas Lease dated June 25, 1998, between the State of Texas, acting by and through its agent, Lisa R. Good, referred to as owner of the soil, and Clay Johnson, Lessee, covering Section 33, The Southeast Quarter (SE/4) of Section 32, The North Half of the Northeast Quarter (N/2 NE/4) and all of the West Half (W/2) of Section 34 save and except a 240 acre tract lying in the West Half of Section 34, All of said Sections being in Block 59, PSL Survey, Reeves County, Texas. Titan Resources, L.P. Check No. 2437 made payable to the order of Commissioner of the General Land Office of the State of Texas in the amount of \$15000.00, representing payment in full of lease bonus consideration (1/2 due the State of Texas) for the above mentioned Oil and Gas Lease.

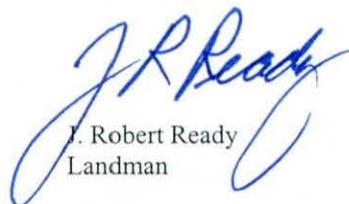
Mr. Drew Reid
General Land Office
September 16, 1998
Page 2

4. Certified copy of Paid-Up Oil and Gas Lease dated June 29, 1998, between the State of Texas, acting by and through its agent, Mary Nell Hinson, referred to as owner of the soil, and Clay Johnson, Lessee, covering Section 9, Block 55, PSL Survey, Reeves County, Texas. Titan Resources, L.P. Check No. 2420 made payable to the order of Commissioner of the General Land Office of the State of Texas in the amount of \$575.91, representing payment in full of lease bonus consideration (1/2 due the State of Texas) for the above mentioned Oil and Gas Lease.
5. Certified copy of Paid-Up Oil and Gas Lease dated June 22, 1998, between the State of Texas, acting by and through its agent, Georgia E. Breeden, referred to as owner of the soil, and Clay Johnson, Lessee, covering Section 8, Block 55, Twp. 5, T&P Ry. Co. Survey, Reeves County, Texas. Titan Resources, L.P. Check No. 2433 made payable to the order of Commissioner of the General Land Office of the State of Texas in the amount of \$8640.00, representing payment in full of lease bonus consideration (1/2 due the State of Texas) for the above mentioned Oil and Gas Lease.
6. Certified copy of Paid-Up Oil and Gas Lease dated June 29, 1998, between the State of Texas, acting by and through its agent, Sybil Jane Bryce Lipton, referred to as owner of the soil, and Clay Johnson, Lessee, covering Section 9, Block 55, PSL Survey, Reeves County, Texas. Titan Resources, L.P. Check No. 2416 made payable to the order of Commissioner of the General Land Office of the State of Texas in the amount of \$1728.00, representing payment in full of lease bonus consideration (1/2 due the State of Texas) for the above mentioned Oil and Gas Lease.

With regard to the payment of the required filing fees for handling the enclosed 6 Oil and Gas Leases, enclosed please find a copy of the request for credit by letter dated September 9, 1998, accepted by the Texas General Land Office on September 11, 1998. Per the terms of this letter, we would like to apply the \$150.00 filing fee toward the existing credit balance thereby leaving \$330.00 as a credit for future terms.

In addition to the above referenced leases and copy of request for credit by letter, enclosed is a copy of request for approval of the leases by letter dated August 28, 1998, accepted by the Texas General Land Office on September 10, 1998. As soon as the leases transmitted herewith have been approved and filed, please advise this office of the assigned Mineral File Number. If additional information is required, please do not hesitate to contact the undersigned. Thank you for your continued cooperation and courtesy in this matter.

Very truly yours,


J. Robert Ready
Landman

/dss
Enclosures

M-100163

⑤ Letter 9/16/98

2244

TITAN RESOURCES, L.P. ✓
ACQUISITION CHECKING

COMMISSIONER OF THE GENERAL LAND OFFICE

8/27/98

X 002437
15,000.00

PARAGON #299:Lease Bonus

Payment in full of 1/2 Lease Bonus Consideration
due the State of Texas for Oil and Gas Lease
dated 06/25/98 from the State of Texas by
Agent, Lisa R. Good, dealing in her sole and separate
property, Lessor, in favor of Clay Johnson, Lessee,
covering All of Section 33; SE/4 Section 32; and
N/2NE/4 and All of W/2 of Section 34, Save
and Except 240 acres in W/2, Block 59, PSL
Survey, Reeves County, Texas.

99003431

170

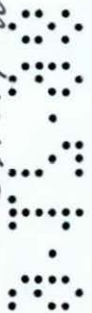
M. 100163

Checking

Lease Bonus

15,000.00





11-10-163

8 Brown Decquet
9/17/98

**Texas General
Land Office**



**David Dewhurst
Commissioner**

February 3, 1999

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

Re: RELINQUISHMENT ACT LEASE No. M-100163
Lisa R. Good, Lessor
1200 acres out of Sec. 33, Blk. 59, PSL Survey
Reeves County, Texas

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-100163. Please refer to this number in all future correspondence concerning the lease.

Your remittance of \$30,175.00, 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

MT/DR

Stephen F. Austin Building

1700 North
Congress Avenue

Austin, Texas
78701-1495

512-463-5001

9:15
REF 100163
ITEM letter
TO _____
FROM _____
DATE 2-3-99

Lease Number	Book/Vol	Page	Entry	County / Parish	State
TX299-389-182-003-00	600	404	AMENDMENT000106	REEVES	TX
Lease Name:	L. Good: State of Texas, ET AL, acting by and			Lease Date	06/25/98
Legal Description					
Tract 1: Section 33, Block 59, Public School Land Survey, Reeves County, Texas, containing 640 acres, more or less. Tract 2: The Southeast Quarter (SE/4) of Section 32, Block 59, Public School Land Survey, Reeves County, Texas, containing 160 acres, more or less. Tract 3: The North Half of the Northeast Quarter (N/2 NE/4), and all of the West Half (W/2) of Section 34, Block 59, Public School Lands, Reeves County, Texas, SAVE AND EXCEPT all that portion of the West Half (W/2) lying within the 240 acre tract described by metes and bounds as follows: BEGINNING at a 1" iron pipe set for the S. W. corner of Section 35, the S. E. corner of Section 34, and the S. E. corner of this Survey; THENCE West 2418 feet to a 1" iron pipe set in the North line of Section 39, a corner of this Survey; THENCE S. 65 deg. 06'W. 3161.8 feet to a point in the East line of Section 33, a corner of this Survey; PROSPECT TX299 - PARAGON INDIAN/ST/FED LSE# M-100163 * SEE LEASE FOR ADDL.					
Payee(s)			Account Number	Amount	
State of Texas General Land Office 1700 N. Congress Avenue Austin, TX 78701			99045061	300.00	
RN - Period Beg. 06/25/1999 DELAY RENTAL				CHECK # 100349	

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

100349

10.
File No. MF/00163

Rental Payment

Date Filed: 5/17/99

By David Denhurst, Commissioner

David Denhurst

2025

Lease Number	Book/Vol	Page	Entry	County / Parish	State			
TX299-389-182-001-00	600	404	AMENDMENT000106	REEVES	TX			
Lease Name:	D. Stephens: State of Texas, ET AL, acting by and			Lease Date	06/25/98			
Legal Description								
Tract 1: Section 33, Block 59, Public School Land Survey, Reeves County, Texas, containing 640 acres, more or less.								
Tract 2: The Southeast Quarter (SE/4) of Section 32, Block 59, Public School Land Survey, Reeves County, Texas, containing 160 acres, more or less.								
Tract 3: The North Half of the Northeast Quarter (N/2 NE/4), and all of the West Half (W/2) of Section 34, Block 59, Public School Lands, Reeves County, Texas, SAVE AND EXCEPT all that portion of the West Half (W/2) lying within the 240 acre tract described by metes and bounds as follows:								
BEGINNING at a 1" iron pipe set for the S. W. corner of Section 35, the S. E. corner of Section 34, and the S. E. corner of this Survey; THENCE West 2418 feet to a 1" iron pipe set in the North line of Section 39, a corner of this Survey; THENCE N. 65 deg. 06'W. 3161.8 feet to a point in the East line of Section 33, a corner of this Survey; PROSPECT TX299 - PARAGON INDIAN/ST/FED LSE# M-100163 * SEE LEASE FOR ADDL.								
Payee:	Account Number			Amount				
State of Texas General Land Office 1700 N. Congress Avenue Austin, TX 78701	99045059			150.00				
RN - Period Beg. 06/25/1999 DELAY RENTAL				CHECK # 100345				

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

121
100345

11

File No.

MP-100163

Sent to Seiment

Date Filed:

5/17/99

David DeHurst, Commissioner

By

[Signature]

2025

Lease Number	Book/Vol	Page	Entry	County / Parish	State
TX299-389-182-002-00	600	404	AMENDMENT000106	REEVES	TX
Lease Name:	M. Stephens: State of Texas, ET AL, acting by and			Lease Date	06/25/98
Legal Description					
Tract 1: Section 33, Block 59, Public School Land Survey, Reeves County, Texas, containing 640 acres, more or less. Tract 2: The Southeast Quarter (SE/4) of Section 32, Block 59, Public School Land Survey, Reeves County, Texas, containing 160 acres, more or less. Tract 3: The North Half of the Northeast Quarter (N/2 NE/4), and all of the West Half (W/2) of Section 34, Block 59, Public School Lands, Reeves County, Texas, SAVE AND EXCEPT all that portion of the West Half (W/2) lying within the 240 acre tract described by metes and bounds as follows: BEGINNING at a 1" iron pipe set for the S. W. corner of Section 35, the S. E. corner of Section 34, and the S. E. corner of this Survey; THENCE West 2418 feet to a 1" iron pipe set in the North line of Section 39, a corner of this Survey; THENCE N. 65 deg. 06'W. 3161.8 feet to a point in the East line of Section 33, a corner of this Survey; PROSPECT TX299 - PARAGON INDIAN/ST/FED LSE# M-100163 * SEE LEASE FOR ADDL.					
Payee(s)			Account Number	Amount	
State of Texas General Land Office 1700 N. Congress Avenue Austin, TX 78701			99045060	150.00	
RN - Period Beg. 06/25/1999 DELAY RENTAL				CHECK # 100347	

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

121
100347

12.

File No. MT-100163

Noted Payment

Date Filed: 5/17/98

By David Newkirk, Commissioner

2025

Check #101014

Property Id / MMS	Eff. Date	Recording Information	State	County/Parish		
TX299-389-182-002-00 M-100163	06/25/1998	08/27/98 BK 592 PG 767 ENTRY 002356	Texas	Reeves		
Property Name / Lessor						
State of Texas, acting by and through its agent, Mark Stephens, sole and separate property						
Property Legal Description						
Tract 1: Section 33, Block 59, Public School Land Survey, Reeves County, Texas, containing 640 acres, more or less.						
Tract 2: The Southeast Quarter (SE/4) of Section 32, Block 59, Public School Land Survey, Reeves County, Texas, containing 160 acres, more or less.						
Tract 3: The North Half of the Northeast Quarter (N/2 NE/4), and all of the West Half (W/2) of Section 34, Block 59, Public School Lands, Reeves County, Texas, SAVE AND EXCEPT all that portion of the West Half (W/2) lying within the 240 acre tract described by metes and bounds as follows:						
BEGINNING at a 1" iron pipe set for the S. W. corner of Section 35, the S. E. corner of Section 34, and the S. E. corner of this Survey; THENCE West 2418 feet to a 1" iron pipe set in the North line of Section 39, a corner of this Survey;						
Payee Name & Address			SSN/Tax Id Number			
State of Texas General Land Office 1700 N. Congress Avenue Austin, TX 78701 121						
			Federal Tax Withheld			
			0.00			
			Account Number			
			Total Bank Charges			
			0.00			
Payment Due Date	Period (in months)	Payment Description	Amount Due	Bank Service Charges	Property Sub-Type	Property Sub-Id
06/25/2000	12	DELAY RENTAL	150.00	0.00		
/			0.00	0.00		
/			0.00	0.00		
/			0.00	0.00		
/			0.00	0.00		
/			0.00	0.00		
Titan Resources L.P. ✓ X 150.00						

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

No 101014

13.

File No. MF100163

Rental Payment

Date Filed: 9/31/00

by Davis DeWitt, Comptroller

2000.09.30

Check # 101012

Property Id / MMS	Eff. Date	Recording Information	State	County/Parish		
TX299-389-182-001-00 M-100163	06/25/1998	08/27/98 BK 592 PG 777 ENTRY 002357	Texas	Reeves		
Property Name / Lessor						
State of Texas, acting by and through its agent, David A. Stephens, sole and separate property						
Property Legal Description						
Tract 1: Section 33, Block 59, Public School Land Survey, Reeves County, Texas, containing 640 acres, more or less.						
Tract 2: The Southeast Quarter (SE/4) of Section 32, Block 59, Public School Land Survey, Reeves County, Texas, containing 160 acres, more or less.						
Tract 3: The North Half of the Northeast Quarter (N/2 NE/4), and all of the West Half (W/2) of Section 34, Block 59, Public School Lands, Reeves County, Texas, SAVE AND EXCEPT all that portion of the West Half (W/2) lying within the 240 acre tract described by metes and bounds as follows:						
BEGINNING at a 1" iron pipe set for the S. W. corner of Section 35, the S. E. corner of Section 34, and the S. E. corner of this Survey; THENCE West 2418 feet to a 1" iron pipe set in the North line of Section 39, a corner of this Survey;						
Payee Name & Address			SSN/Tax Id Number			
State of Texas General Land Office 1700 N. Congress Avenue Austin, TX 78701 121			Federal Tax Withheld			
			0.00			
			Account Number			
			Total Bank Charges			
			0.00			
Payment Due Date	Period (in months)	Payment Description	Amount Due	Bank Service Charges	Property Sub-Type	Property Sub-Id
06/25/2000	12	DELAY RENTAL	150.00	0.00		
/ /			0.00	0.00		
/ /			0.00	0.00		
/ /			0.00	0.00		
/ /			0.00	0.00		
00 51248 .						
/ /			0.00	0.00		
Titan Resources L.P. ✓ X 150.00						

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

No 101012

14.

File No. MF100163

Rental Payment

Date Filed: 5/31/00

David Anthony Commissioner

By

2000.05.31

Check # 101016

Property Id / MMS	Eff. Date	Recording Information	State	County/Parish		
TX299-389-182-003-00 M-100163	06/25/1998	09/15/98 BK 593 PG 727 ENTRY 002570	Texas	Reeves		
Property Name / Lessor						
State of Texas, acting by and through its agent, Lisa R. Good, sole and separate property						
Property Legal Description						
Tract 1: Section 33, Block 59, Public School Land Survey, Reeves County, Texas, containing 640 acres, more or less. Tract 2: The Southeast Quarter (SE/4) of Section 32, Block 59, Public School Land Survey, Reeves County, Texas, containing 160 acres, more or less. Tract 3: The North Half of the Northeast Quarter (N/2 NE/4), and all of the West Half (W/2) of Section 34, Block 59, Public School Lands, Reeves County, Texas, SAVE AND EXCEPT all that portion of the West Half (W/2) lying within the 240 acre tract described by metes and bounds as follows: BEGINNING at a 1" iron pipe set for the S. W. corner of Section 35, the S. E. corner of Section 34, and the S. E. corner of this Survey; THENCE West 2418 feet to a 1" iron pipe set in the North line of Section 39, a corner of this Survey;						
Payee Name & Address			SSN/Tax Id Number			
State of Texas General Land Office 1700 N. Congress Avenue Austin, TX 78701 <i>121</i> <i>Titan Resources</i> <i>X 300.00</i> <i>00 507011</i>			Federal Tax Withheld			
			0.00			
			Account Number			
			Total Bank Charges			
			0.00			
Payment Due Date	Period (in months)	Payment Description	Amount Due	Bank Service Charges	Property Sub-Type	Property Sub-Id
06/25/2000	12	DELAY RENTAL	300.00	0.00		
/ /			0.00	0.00		
/ /			0.00	0.00		
/ /			0.00	0.00		
/ /			0.00	0.00		

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

No 101016

151

File No. 21 F/00163

~~Rental Payment~~

Date Filed: 5/30/00

By [Signature]
Deputy Finance Commissioner

2000-05-30

FILE # 984

m-100163

AMENDMENT OF OIL AND GAS LEASES

Reference is made to the oil and gas leases described on Exhibit "A" attached hereto and made a part hereof for all purposes (the "Subject Leases"), by and between the State of Texas, acting by and through its respective agents, David A. Stephens whose address is P. O. Box 149, Pecos, TX 79772, Mark Stephens whose address is 209 S. Oak, Pecos, TX 79772, and Lisa R. Good whose address is 13705 S. 129th East Ave., Broken Arrow, OK 74011-7414, referred to in the Subject Leases as the owner of the soil, listed on Exhibit "A" opposite the heading "Lessor Name".

The owner of the soil referred to in the Subject Leases, acting as agent for the State of Texas, being the owner of one-half (1/2) of all rights to delay rentals, production royalties, minimum royalty and shut-in royalties under and pursuant to the terms of the Subject Leases, and Pure Resources, L.P. whose address is 500 W. Illinois, Midland, TX 79701, and Mobil Producing Texas & New Mexico Inc. whose address is P. O. Box 2180, Houston, TX 77252-2180, as the present Lessee, desire to amend the Subject Leases, as provided below.

For adequate, mutual and reciprocal consideration, the receipt and sufficiency of which is acknowledged, the owner of the soil referred to in the Subject Leases, acting as agent for the State of Texas, and Pure Resources, L.P. and Mobil Producing Texas & New Mexico Inc., as Lessee, do hereby amend the Subject Leases, as follows:

I.

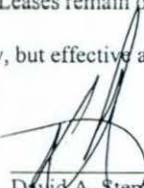
Paragraph 3 of each of the Subject Leases is hereby amended by adding as an additional sentence, the following:

"Notwithstanding anything in this lease to the contrary, the amount of delay rental for purposes of payment of minimum royalty as provided for in Paragraph 5 of this lease and for purposes of payment of shut-in royalties as provided for in Paragraph 14 of this lease shall be \$1.00 per acre."

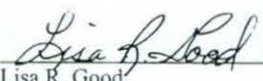
II.

Except as herein amended, the Subject Leases remain otherwise as previously written.

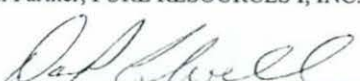
Dated as of the date of acknowledgement below, but effective as of January 1, 2001.


David A. Stephens
Individually and as agent for the State of Texas


Mark Stephens
Individually and as agent for the State of Texas


Lisa R. Good
Individually and as agent for the State of Texas

PURE RESOURCES, L.P., by and through its
General Partner, PURE RESOURCES I, INC.

By: 
Dan P. Colwell, Vice President
Acquisitions, Divestitures & Land



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

5.10.01

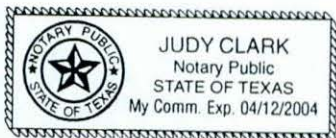
MOBIL PRODUCING TEXAS & NEW MEXICO INC.

By: [Signature]
Title: March 21, 2001

John R. Gallogly
Attorney-In-Fact

STATE OF TEXAS
COUNTY OF ~~MIDLAND~~ Reeves

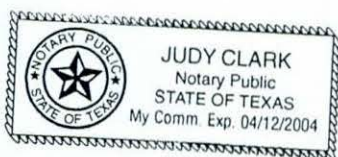
This instrument was acknowledged before me on the 23rd day of February, 2001, by David A. Stephens.



[Signature]
Notary Public
Print Name: Judy Clark
Commission Expires: _____

STATE OF TEXAS
COUNTY OF ~~MIDLAND~~ Reeves

This instrument was acknowledged before me on the 23 day of February, 2001, by Mark Stephens.



[Signature]
Notary Public
Print Name: Judy Clark
Commission Expires: _____

STATE OF ~~TEXAS~~ Oklahoma
COUNTY OF ~~MIDLAND~~ Tulsa

This instrument was acknowledged before me on the 28 day of FEB, 2001, by Lisa R. Good.

[Signature]
Notary Public
Print Name: BARIN ADAMS
Commission Expires: 6-1-01



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

STATE OF TEXAS

§
§
§

COUNTY OF MIDLAND

The foregoing instrument was acknowledged before me this 6th day of March, 2001, by Dan P. Colwell, as Vice President-Acquisitions, Divestitures & Land of PURE RESOURCES I, INC., a Delaware Corporation, on behalf of said corporation, as general partner of PURE RESOURCES, L.P., a Texas Limited Partnership.



Lisa R. Worthan
Notary Public, State of Texas

Print Name: _____

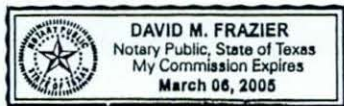
Commission Expires: _____

STATE OF TEXAS

§
§
§

COUNTY OF Harris

The foregoing instrument was acknowledged before me this 21st day of March, 2001, by John R. Gallogly, as Attorney-In-Fact of MOBIL PRODUCING TEXAS & NEW MEXICO INC., a Delaware Corporation, on behalf of said corporation.



[Signature]
Notary Public

Print Name: _____

Commission Expires: _____



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

Exhibit 'A'

Lease Number: TX299-389-182-001-00
 St/Fed Lease No: M-100163
 Lessor: State of Texas, acting by and through its agent, David A. Stephens, sole and separate property
 Lessee: Clay Johnson
 Lease Date: 06/25/1998
 Gross Acres: 1200.0000
 Recording Info: 08/27/98 BK 592 PG 777 ENTRY 002357
 State: Texas
 County: Reeves
 Legal Description: Tract 1: Section 33, Block 59, Public School Land Survey, Reeves County, Texas, containing 640 acres, more or less.

Tract 2: The Southeast Quarter (SE/4) of Section 32, Block 59, Public School Land Survey, Reeves County, Texas, containing 160 acres, more or less.

Tract 3: The North Half of the Northeast Quarter (N/2 NE/4), and all of the West Half (W/2) of Section 34, Block 59, Public School Lands, Reeves County, Texas, SAVE AND EXCEPT all that portion of the West Half (W/2) lying within the 240 acre tract described by metes and bounds as follows:

BEGINNING at a 1" iron pipe set for the S. W. corner of Section 35, the S. E. corner of Section 34, and the S. E. corner of this Survey;
 THENCE West 2418 feet to a 1" iron pipe set in the North line of Section 39, a corner of this Survey;
 THENCE N. 65 deg. 06'W. 3161.8 feet to a point in the East line of Section 33, a corner of this Survey;
 THENCE North 715.8 feet to a point in the East line of Section 33, a corner of this Survey;
 THENCE S. 72 deg. 03'E. 2155.6 feet to a 1-1/4" iron pipe set for a corner of this Survey;
 THENCE N. 9 deg. 00' E. 1586.1 feet to a 1 - 1/4" iron pipe set for a corner of this Survey;
 THENCE East 516.1 feet to a point, a corner of this Survey;
 THENCE South 202.7 feet to a point, a corner of this Survey;
 THENCE East 2471 feet to a point in the West line of Section 35, the N. E. corner of this Survey.

Amendment Recordation:

Culberson: Recorded 01/27/1999, Volume 78, Page 905, Amendment #51493
 Reeves : Recorded 01/14/1999, Volume 600, Page 404, Amendment #000106

Lease Number: TX299-389-182-002-00
 St/Fed Lease No: M-100163
 Lessor: State of Texas, acting by and through its agent, Mark Stephens, sole and separate property
 Lessee: Clay Johnson
 Lease Date: 06/25/1998
 Gross Acres: 1200.0000
 Recording Info: 08/27/98 BK 592 PG 767 ENTRY 002356
 State: Texas
 County: Reeves
 Legal Description: Tract 1: Section 33, Block 59, Public School Land Survey, Reeves County, Texas, containing 640 acres, more or less.

Tract 2: The Southeast Quarter (SE/4) of Section 32, Block 59, Public School Land Survey, Reeves County, Texas, containing 160 acres, more or less.

Tract 3: The North Half of the Northeast Quarter (N/2 NE/4), and all of the West Half (W/2) of Section 34, Block 59, Public School Lands, Reeves County, Texas, SAVE AND EXCEPT all that portion of the West Half (W/2) lying within the 240 acre tract described by metes and bounds as follows:

BEGINNING at a 1" iron pipe set for the S. W. corner of Section 35, the S. E. corner of Section 34, and the S. E. corner of this Survey;
 THENCE West 2418 feet to a 1" iron pipe set in the North line of Section 39, a corner of this Survey;
 THENCE N. 65 deg. 06'W. 3161.8 feet to a point in the East line of Section 33, a corner of this Survey;
 THENCE North 715.8 feet to a point in the East line of Section 33, a corner of this Survey;
 THENCE S. 72 deg. 03'E. 2155.6 feet to a 1-1/4" iron pipe set for a corner of this Survey;
 THENCE N. 9 deg. 00' E. 1586.1 feet to a 1 - 1/4" iron pipe set for a corner of this Survey;
 THENCE East 516.1 feet to a point, a corner of this Survey;



Exhibit 'A'

THENCE South 202.7 feet to a point, a corner of this Survey;
THENCE East 2471 feet to a point in the West line of Section 35, the N. E. corner of this Survey.

Amendment Recordation:

Culberson: Recorded 01/27/1999, Volume 78, Page 905, Amendment #51493
Reeves : Recorded 01/14/1999, Volume 600, Page 404, Amendment #000106

Lease Number: TX299-389-182-003-00
SVFed Lease No: M-100163
Lessor: State of Texas, acting by and through its agent, Lisa R. Good, sole and separate property
Lessee: Clay Johnson
Lease Date: 06/25/1998
Gross Acres: 1200.0000
Recording Info: 09/15/98 BK 593 PG 727 ENTRY 002570
State: Texas
County: Reeves
Legal Description: Tract 1: Section 33, Block 59, Public School Land Survey, Reeves County, Texas, containing 640 acres, more or less.

Tract 2: The Southeast Quarter (SE/4) of Section 32, Block 59, Public School Land Survey, Reeves County, Texas, containing 160 acres, more or less.

Tract 3: The North Half of the Northeast Quarter (N/2 NE/4), and all of the West Half (W/2) of Section 34, Block 59, Public School Lands, Reeves County, Texas, SAVE AND EXCEPT all that portion of the West Half (W/2) lying within the 240 acre tract described by metes and bounds as follows:

BEGINNING at a 1" iron pipe set for the S. W. corner of Section 35, the S. E. corner of Section 34, and the S. E. corner of this Survey;
THENCE West 2418 feet to a 1" iron pipe set in the North line of Section 39, a corner of this Survey;
THENCE N. 65 deg. 06'W. 3161.8 feet to a point in the East line of Section 33, a corner of this Survey;
THENCE North 715.8 feet to a point in the East line of Section 33, a corner of this Survey;
THENCE S. 72 deg. 03'E. 2155.6 feet to a 1-1/4" iron pipe set for a corner of this Survey;
THENCE N. 9 deg. 00' E. 1586.1 feet to a 1 - 1/4" iron pipe set for a corner of this Survey;
THENCE East 516.1 feet to a point, a corner of this Survey;
THENCE South 202.7 feet to a point, a corner of this Survey;
THENCE East 2471 feet to a point in the West line of Section 35, the N. E. corner of this Survey.

Amendment Recordation:

Culberson: Recorded 01/27/1999, Volume 78, Page 905, Amendment #51493
Reeves : Recorded 01/14/1999, Volume 600, Page 404, Amendment #000106

ExhPURE1.fx



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

Page 2

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

FILE NO. 984

FILED FOR RECORD ON THE 9TH DAY OF APRIL A.D. 2001 AT 2:39 P. M.

DULY RECORDED ON THE 10TH DAY OF APRIL A.D. 2001 AT 3:00 P. M.

BY: Estelle Araya DEPUTY

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

File No. MF/00/63 16
Amendment 2 Leases
Date Filed: 5/18/01
By David Dewhurst, Commissioner

10013

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

The above and foregoing is a full, true and correct photographic copy of the original record now in my lawful custody and possession, as the same is filed/recorded in the public records of my office, found in VOL. 634, PAGE 11, THRU 15. **OFFICIAL PUBLIC RECORDS.**

I hereby certified on 11TH APRIL 2001



DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

BY Estela Amaya DEPUTY