STATE LEASE

MF100248

#	LeaseDate	Acres	Status	CONTROL	BASEFILE	COUNTY	7
A B	Aug 19 1998 Aug 19 1998		ACTIVE ACTIVE	07-104849	151745 -	REEVES	/195
C D F	Aug 19 1998 Aug 19 1998 Aug 19 1998		ACTIVE ACTIVE ACTIVE	SURVEY BLOCK TOWNSHIP SECTION/TRACT PART ACRES DEPTH LIMITS	 58 00 14 E/2, SW/4 480.00 G\ 321.		
Lea: Adm	in:			RENTAL (\$)	 Aug 19 1998	Y	

Release ms - Duk



СО	NTENTS OF FILE	NO.MF/002	48
1. Memie + RAL Review	9/9/98		
3. Lease-D	11/10/98		
3. Lease-A	11/10/98		
J. Lease - B	4/19/98		
5, Lease -C	11/10/98		
6. Lease -E	11/10/98		
7. Lease-F	11/10/98		
S' Lease -6	11/10/98		
9. Lease-H	11/10/98		
10. Varments	11/10/98		
11. Gle letter	8/11/99		
2. Rental Payment	8/1/00	-	
B, Rental Payment	1. 8/100		
/ Rental Payment	8/1/00		
15, Rental Payment	8/1/60		
/6, Rental Payment	81/00		
//-	8/1/00		
/8, Rental Payment	8/1/00		
19Rental Payment	82/00		
30 Fetter & Payment	7/29/02		
31. Delease	7/29/02		
32 Pola lottin	8/8/02		
Scanned 5M 3	125/15		
5/11	00/10		
			A

-TEXAS GENERAL LAND OFFICE

Garry Mauro, Commissioner

Spencer Reid, Senior Deputy Commissioner

GARRY MAURO COMMISSIONER

TO:

MEMORANDUM

09-Sep-98

DATE:

FROM: Rober	t Hatter, Director of	Mineral Leasing	
Peter l	Boone, Chief Geolo	gist	
RE: Relinquishr	ment Act Lease		
Applicant:	Clay Johnson		
County:	REEVES		Base File #: 151745
Section:	14	Block: 58	Abstract: 5769
Survey:	PUBLIC SCHOOL	LAND	
Prim. Term:	5 years	Bonus/Acre	\$50.00
Royalty:	3/16	Rental/Acre	\$1.00
Consideration	Ca39.9.98		
Not Recommend			
Comments:			
comments.			
Lease Form			
Recommended:	1824 8/10/98		
Recommended: _ Not Recommend	ed:		
Comments:			
Spencer Reid, Se	enior Deputy	Date: 9-16	-98
Recommended:	SIL		
Not Recommend	ed:		
Garry Mauro, Co		Date:	
Approved:			
Not Approved: _	,		

RAL REVIEW SHEET

Transaction #	2791			600	logist:	L. Collier		
Lessor: KPV	W Revocable Trust;	MSW Revoc	able Trust; & MLH F	Rev Lea	se Date:	8/19/98	Ut 🗆	118
Lessee: Cla	y Johnson			Ac	P88:	44.68		
LEASE DESCRIPTIO	N							
County		Base File No	Part	\$8C.	Block Twp	Survey		Abst#
REEVES		151745	E/2 & SW/4	14	58 00	PUBLIC S	CHOOL LAN	ID 5769
	480 Ac							
TERMS OFFERED			TERMS RECOMM	AENDED				
	5 years		TERMS RECOMM Primary Term		years			
Primary Term:	5 years \$50.0	00			years \$50.00			
Primary Term: Bonus/Acre:			Primary Term			_		
TERMS OFFERED Primary Term: Bonus/Acre: Rental/Acre: Royalty:	\$50.0		Primary Term Bonus/Acre	5	\$50.00	_		
Primary Term: Bonus/Acre: Rental/Acre:	\$50.0 \$1.0		Primary Term Bonus/Acre Rental/Acre	5	\$50.00 \$1.00	_		
Primary Term: Bonus/Acre: Rental/Acre: Royalty:	\$50.0 \$1.0		Primary Term Bonus/Acre Rental/Acre	5	\$50.00 \$1.00	_		
Primary Term: Bonus/Acre: Rental/Acre: Royalty:	\$50.0 \$1.0		Primary Term Bonus/Acre Rental/Acre	5	\$50.00 \$1.00	_	Royalty	Distance
Primary Term: Bonus/Acre: Rental/Acre: Royalty: COMPARISONS	\$50.0 \$1.0 3/16		Primary Term Bonus/Acre Rental/Acre Royalty	3/	\$50.00 \$1.00 /16		Royalty	Distance Last Lease
Primary Term: Bonus/Acre: Rental/Acre: Royalty: COMPARISONS	\$50.0 \$1.0 3/16		Primary Term Bonus/Acre Rental/Acre Royalty	3/	\$50.00 \$1.00 /16		Royalty	
Primary Term: Bonus/Acre: Rental/Acre: Royalty: COMPARISONS	\$50.0 \$1.0 3/16		Primary Term Bonus/Acre Rental/Acre Royalty	3/	\$50.00 \$1.00 /16		Royalty	
Primary Term: Bonus/Acre: Rental/Acre: Royalty: COMPARISONS	\$50.0 \$1.0 3/16		Primary Term Bonus/Acre Rental/Acre Royalty	3/	\$50.00 \$1.00 /16		Royalty	

Approved: \$039.9.98

File No. MT 100248

Menue + RAL Perieu

Date Filed: 9998

By Parket Sewhering Corpulestoner

General Land Office Relinquishmnt Act Lease Form Revised, September 1997

550 Bailey Ave.,

OIL AND GAS LEASE

Worth,

(Give Permanent Address)

Texas

_, between the State of Texas, acting by and through its and MLH Revocable Trust

said agent

THIS AGREEMENT is made and entered into this 19 day of AUGUST 1958 KPW Revocable Trust; MSW Revocable Trust;

year periods during the primary term of this lease provided that payment is made on or before the anniversary date.

Anniversary Date

Delay Rental

First

Second

Third

Fourth

herein referred to	as the owner of the soil (whether one or more), and Clay Johnson
	203 W.: Wall, Suite 800
	Midland, Texas 79701
	(Give Permanent Address)
hereinafter called	Lessee.
Lessee under this prospecting and d	ANTING CLAUSE. For and in consideration of the amounts stated below and of the covenants and agreements to be paid, kept and performed by 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 trilling for and producing oil and gas, laying pipe lines, building tanks, storing oil and building power stations, telephone lines and other structures ce, save, take care of, treat and transport said products of the lease, the following lands situated in Reeves County, State
	Block 58, Public School Land Survey
	Section 14: E/2 (30.93 net acres)
	Section 14: SW/4 (13.75 net acres)
containing	480 acres, more or less. The bonus consideration paid for this lease is as follows: To the State of Texas: One Thousand One Hundred Seventeen and No/100 Dollars (\$ 1,117.00)
	To the owner of the soil: One Thousand One Hundred Seventeen and No/100 Dollars (\$ 1,117.00)
:	
·:::·	Total bonus consideration: Two Thousand Two Hundred Thirty-four and No/100 Dollars (5 2,234.00)
The total bonus co	onsideration paid represents a bonus of Fifty and No/100 Dollars (\$ 50.00) per acre, on 44.68 net acres.
As used in this lea	TERM. Subject to the other provisions in this lease, this lease shall be for a term of <u>Five (5)</u> years from this date many term") and as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land. It is produced in paying quantities means that the receipts from the sale or other authorized commercial use of the substance(s) covered ket 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, ½ 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 continue for successive one-

Delay Rental per Acre

\$ 1.00

\$ 1.00

\$ 16.67

\$ 16.67



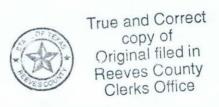
4. PRODUCTION ROYALTIES. Upon production of oil and/or gas, Lessee agrees to pay or cause to be paid one-half (1/2) of the royalty provided for in this lease to the Commissioner of the General Land Office of the State of Texas, at Austin, Texas, and one-half (1/2) of such royalty to the owner of the soil:	£
(A) OIL. Royalty payable on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well and also as a condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, shall be 3/16 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be determined by 1) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity in the general area where produced and when run, or 2) the highest market price thereof offered or paid in the general area where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is the greater. Lessee agrees that before any gas produced from leased premises is sold, used or processed in a plant, it will be run free of cost to the royalty owners through an adequate oil and gas separator of conventional type other equipment at least as efficient, so that all liquid hydrocarbons recoverable from the gas by such means will be recovered. The requirement that such gas be not through a separator or other equipment may be waived in writing by the royalty owners upon such terms and conditions as they prescribe.	the
(B) NON PROCESSED GAS. Royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substances not define as oil in subparagraph (A) above, produced from any well on said land (except as provided herein with respect to gas processed in a plant for the extraction of gasoline, liquid hydrocarbons or other products) shall be	he in
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	i l or

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

 5. MINIMUM ROYALTY. During any year after the expiration of the primary term of this lease, if this lease is maintained by production, the 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 better tho 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 framethe 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 terminates of 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



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 \$2.151-52.153, 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 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 I 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 territarian of this lease as provided herein, Lessee shall execute and record a release or releases containing a satisfactory legal description of the acreage and/or depths not retained hereunder. The recorded release, or a certified copy of same, shall be filed in the General Land Office, accompanied by the filing fee prescribed by the General Land Office rules in effect on the date the release is filed. If Lessee fails or refuses to execute and record such release or releases within ninety (90) days after being requested to do so by the General Land Office, then the Commissioner at his sole discretion may designate by written instrument the acreage and/or depths to be released hereunder and record such instrument at Lessee's expense in the county or counties where the lease is located and in the official records of the General Land Office and such designation shall be binding upon Lessee for all purposes.
- 17. OFFSET WELLS. Neither the bonus, delay rentals, nor royalties paid, or to be paid, under this lease shall relieve Lessee of his obligation to protect the oil and gas under the above-described land from being drained. Lessee, sublessee, receiver or other agent in control of the leased premises shall drill as many wells as the facts may justify and shall use appropriate means and drill to a depth necessary to prevent undue drainage of oil and gas from the leased premises. In addition, if oil and/or gas should be produced in commercial quantities within 1,000 feet of the leased premises, or in any case where the leased premises is being drained by production of oil or gas, the Lessee, sublessee, receiver or other agent in control of the leased premises shall in good faith begin the drilling of a well or wells upon the leased premises within 100 days after the draining well or wells or the well or wells completed within 1,000 feet of the leased premises start producing in commercial quantities and shall prosecute such drilling with diligence. Failure to satisfy the statutory offset obligation may subject this lease and the owner of the soil's agency rights to forfeiture. Only upon the determination of the Commissioner of the General Land Office and with his written approval may the payment of compensatory royalty under applicable statutory parameters satisfy the obligation to drill an offset well or wells required under this paragraph.
- 18. FORCE MAJEURE. If, after a good faith effort, Lessee is prevented from complying with any express or implied covenant of this lease, from conducting drilling operations on the leased premises, or from producing oil or gas from the leased premises by reason of war, rebellion, riots, strikes, acts of God, or any valid order, rule or regulation of government authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended and Lessee shall not be liable for damages for failure to comply with such covenants; additionally, this lease shall be extended while Lessee is prevented, by any such cause, from conducting drilling and reworking operations or from producing oil or gas from the leased premises. However, nothing in this paragraph shall suspend the payment of delay rentals in order to maintain this lease in effect during the primary term in the absence of such drilling or reworking operations or production of oil or gas.

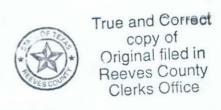


- 19. WARRANTY CLAUSE. The owner of the soil warrants and agrees to defend title to the leased premises. If the owner of the soil defaults in payments owed on the leased premises, then Lessee may redeem the rights of the owner of the soil in the leased premises by paying any mortgage, taxes or other liens on the leased premises. If Lessee makes payments on behalf of the owner of the soil under this paragraph, Lessee may recover the cost of these payments from the rental and royalties due the owner of the soil.
- 20. (A) PROPORTIONATE REDUCTION CLAUSE. If the owner of the soil owns less than the entire undivided surface estate in the above described land, whether or not Lessee's interest is specified herein, then the royalties and rental herein provided to be paid to the owner of the soil shall be paid to him in the proportion which his interest bears to the entire undivided surface estate and the royalties and rental herein provided to be paid to the Commissioner of the General Land Office of the State of Texas shall be likewise proportionately reduced. However, before Lessee adjusts the royalty or rental due to the Commissioner of the General Land Office, Lessee or his authorized representative must submit to the Commissioner of the General Land Office a written statement which explains the discrepancy between the interest purportedly leased under this lease and the actual interest owned by the owner of the soil. The Commissioner of the General Land Office shall be paid the value of the whole production allocable to any undivided interest not covered by a lease, less the proportionate development and production cost allocable to such undivided interest. However, in no event shall the Commissioner of the General Land Office receive as a royalty on the gross production allocable to the undivided interest not leased an amount less than the value of one-sixteenth (1/16) of such gross-production.
- (B) REDUCTION OF PAYMENTS. If, during the primary term, a portion of the land covered by this lease is included within the boundaries of a pooled unit that has been approved by the School Land Board and the owner of the soil in accordance with Natural Resources Code Sections 52.151-52.154, or if, at any time after the expiration of the primary term or the extended term, this lease covers a lesser number of acres than the total amount described herein, payments that are made on a per acre basis hereunder shall be reduced according to the number of acres pooled, released, surrendered, or otherwise severed, so that payments determined on a per acre basis under the terms of this lease during the primary term shall be calculated based upon the number of acres outside the boundaries of a pooled unit, or, if after the expiration of the primary term, the number of acres actually retained and covered by this lease.
- 21. USE OF WATER. Lessee shall have the right to use water produced on said land necessary for operations under this lease except water from wells or tanks of the owner of the soil; provided, however, Lessee shall not use potable water or water suitable for livestock or irrigation purposes for waterflood operations without the prior consent of the owner of the soil.
- 22. AUTHORIZED DAMAGES. Lessee shall pay the owner of the soil for damages caused by its operations to all personal property, improvements, livestock and crops on said land.
 - 23. PIPELINE DEPTH. When requested by the owner of the soil, Lessee shall bury its pipelines below plow depth.
- 24. WELL LOCATION LIMIT. No well shall be drilled nearer than two hundred (200) feet to any house or barn now on said premises without the written consent of the owner of the soil.
- 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 patteries 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.
- 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 and 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 and the lease and 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 soil paragraph.
- ease may be assigned, in whole or in part, and the provisions of this lease shall extend to and be binding upon their heirs, devisees, legal representatives, successors and assigns. However, a change or division in ownership of the land, rentals, or royalties will not enlarge the obligations of Lessee, diminish the rights, privileges and estates of Lessee, impair the effectiveness of any payment made by Lessee or impair the effectiveness of any act performed by Lessee. And no change or division in ownership of the land, rentals, or royalties shall bind Lessee for any purpose until thirty (30) days after the owner of the soil (or his heirs, devisees, legal representatives or assigns) furnishes the Lessee with satisfactory written evidence of the change in ownership, including the original recorded muniments of title (or a certified copy of such original) when the ownership changed because of a conveyance. A total or partial assignment of this lease shall, to the extent of the interest assigned, relieve and discharge Lessee of all subsequent obligations under this lease. If this lease is assigned in its entirety as to only part of the acreage, the right and option to pay rentals shall be apportioned as between the several owners ratably, according to the area of each, and failure by one or more of them to pay his share of the rental shall not affect this lease on the part of the land upon which pro rata rentals are timely paid or tendered; however, if the assignor or assignee does not file a certified copy of such assignment in the General Land Office before the next rental paying date, the entire lease shall terminate for failure to pay the entire rental due under Paragraph 3. Every assignee shall succeed to all rights and be subject to all obligations, liabilities, and penalties owed to the State by the original lessee or any prior assignee of the lease, including any liabilities to the State for unpaid royalties.
- (B) ASSIGNMENT LIMITATION. Notwithstanding any provision in Paragraph 27(a), if the owner of the soil acquires this lease in whole or in part by assignment without the prior written approval of the Commissioner of the General Land Office, this lease is void as of the time of assignment and the agency power of the owner may be forfeited by the Commissioner. An assignment will be treated as if it were made to the owner of the soil if the assignee is:
 - (1) a nominee of the owner of the soil;
 - (2) a corporation or subsidiary in which the owner of the soil is a principal stockholder or is an employee of such a corporation or subsidiary;
 - (3) a partnership in which the owner of the soil is a partner or is an employee of such a partnership;
 - (4) a principal stockholder or employee of the corporation which is the owner of the soil;
 - (5) a partner or employee in a partnership which is the owner of the soil;



- (6) a fiduciary for the owner of the soil; including but not limited to a guardian, trustee, executor, administrator, receiver, or conservator for the owner of the soil; or
- (7) a family member of the owner of the soil or related to the owner of the soil by marriage, blood, or adoption.
- 28. RELEASES. Under the conditions contained in this paragraph and Paragraph 29, Lessee may at any time execute and deliver to the owner of the soil and place of record a release or releases covering any portion or portions of the leased premises, and thereby surrender this lease as to such portion or portions, and be relieved of all subsequent obligations as to acreage surrendered. If any part of this lease is properly surrendered, the delay rental due under this lease shall be reduced by the proportion that the surrendered acreage bears to the acreage which was covered by this lease immediately prior to such surrender, however, such release will not relieve Lessee of any liabilities which may have accrued under this lease prior to the surrender of such acreage.
- 29. FILING OF ASSIGNMENTS AND RELEASES. If all or any part of this lease is assigned or released, such assignment or release must be recorded in the county where the land is situated, and the recorded instrument, or a copy of the recorded instrument certified by the County Clerk of the county in which the instrument is recorded, must be filed in the General Land Office within 90 days of the last execution date accompanied by the prescribed filing fee. If any such assignment is not so filed, the rights acquired under this lease shall be subject to forfeiture at the option of the Commissioner of the General Land Office.
- 30. DISCLOSURE CLAUSE. All provisions pertaining to the lease of the above-described land have been included in this instrument, including the statement of the true consideration to be paid for the execution of this lease and the rights and duties of the parties. Any collateral agreements concerning the development of oil and gas from the leased premises which are not contained in this lease render this lease invalid.
- 31. FIDUCIARY DUTY. The owner of the soil owes the State a fiduciary duty and must fully disclose any facts affecting the State's interest in the leased premises. When the interests of the owner of the soil conflict with those of the State, the owner of the soil is obligated to put the State's interests before his personal interests.
- 32. FORFEITURE. If Lessee shall fail or refuse to make the payment of any sum within thirty days after it becomes due, or if Lessee or an authorized agent should knowingly make any false return or false report concerning production or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith as required by law and the rules and regulations adopted by the Commissioner of the General Land Office, or if Lessee should fail to file reports in the manner required by law or fail to comply with rules and regulations promulgated by the General Land Office, the School Land Board, or the Railroad Commission, or if Lessee should refuse the proper authority access to the records pertaining to operations, or if Lessee or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or knowingly fail or refuse to furnish the General Land Office a correct log of any well, or if Lessee shall knowingly violate any of the material provisions of this lease, or if this lease is assigned and the assignment is not filed in the General Land Office as required by law, the rights acquired under this lease shall be subject to forfeiture by the 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 ease 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 aEd the owner of the soil, their officers, employees, partners, agents, contractors, subcontractors, guests, invitees, and their respective successors and assigns, of and from all and any actions and causes of action of every nature, or other harm, including environmental harm, for which recovery of damages is sought, including, but not limited to, all losses and expenses which are caused by the activities of Lessee, its officers, employees, and agents arising out of, incidental to, or resulting from, the operations of or for Lessee on the leased premises hereunder, or that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Agreement, or by any other negligent or strictly liable act or omission of Lessee. Further, Lessee hereby agrees to be liable for, exonerate, indemnify, defend and hold harmless the State of Texas and the owner of the soil, their officers, employees and agents, their successors or assigns, against any and all claims, liabilities, losses, damages, actions, personal injury (including death), costs and expenses, or other harm for which recovery of damages is sought, under any theory including tort, contract, or strict liability, including attorneys' fees and other legal expenses, including those related to environmental hazards, on the leased premises or in any way related to Lessee's failure to comply with any and all environmental laws; those arising from or in any way related to Lessee's operations or any other of Lessee's activities on the leased premises; those arising from Lessee's use of the surface of the leased premises; and those that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Agreement or any other act or omission of Lessee, its directors, officers, employees, partners, agents, contractors, subcontractors, guests, invitees, and their respective successors and assigns. Each assignee of this Agreement, or an interest therein, agrees to be liable for, exonerate, indemnify, defend and hold harmless the State of Texas and the owner of the soil, their officers, employees, and agents in the same manner provided above in connection with the activities of Lessee, its officers, employees, and agents as described above. EXCEPT AS OTHERWISE EXPRESSLY LIMITED HEREIN, ALL OF THE INDEMNITY OBLIGATIONS AND/OR LIABILITIES ASSUMED UNDER THE TERMS OF THIS AGREEMENT SHALL BE WITHOUT LIMITS AND WITHOUT REGARD TO THE CAUSE OR CAUSES THEREOF (EXCLUDING PRE-EXISTING CONDITIONS), STRICT LIABILITY, OR THE NEGLIGENCE OF ANY PARTY OR PARTIES (INCLUDING THE NEGLIGENCE OF THE INDEMNIFIED PARTY), WHETHER SUCH NEGLIGENCE BE SOLE, JOINT, CONCURRENT, ACTIVE, OR PASSIVE.





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

* See Exhibit "A" attached for	additional lease prov	isions.
:: (1/A1/	Tohis 24	
LESSEE BY: CI	Lay Johnson	******
TITLE:		
DATE:	28-98	
STATE OF TEXAS	STATE OF TEXAS	MOH. W. HOR. W. HOW.
Individually and agent for the State of Texas Marjoric Trustee of the MIH Revocable Trust	BY: Individually and as a largery L. Hanna, Individually and as Tax ID#	ear for the State of Texas
STATE OF TEXAS	STATE OF TEXAS	
Individually and as agent for the State of Texas Michael Trustee of the MSW Revocable Trust Date: 1-23-98	S. Waltrip, Individually and as as Tax ID#	ent for the State of Texas
By: Kenneth Waltrip, Trustee of the KPW Revocable Trust	Act of the first of the control of t	
Date: 9-24-98	Tax ID#	



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

STATE OF TOXAS	Individual
COUNTY OF MICHAIN	(CORPORATION ACKNOWLEDGMENT)
	Clar Cohnson
BEFORE ME, the undersigned authority, on this day personally appear	
known to me to be the person whose name is subscribed to the foregoing instrum	
for the purposes and consideration therein expressed, in the capacity stated, and a	and acknowledged to me that he executed the same as the act and deed of said corporation.
Given under my hand and seal of office this the 28 day of	Sept 198
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MAY PE SA MARLO	
STATE OF TEXAS State of Texas	is {
Comm. Exp. 10-3	
COUNTY OF TARRANT	Margery .
BEFORE ME, the undersigned authority, on this day personally appear	red - Marjerie L. Hanna
known to me to be the person whose name is subscribed to the foregoing instrume	nt, as Trustee of
MLH Revocable Trust	and acknowledged to me that he executed the same
for the purposes and consideration therein expressed, in the capacity stated, and as	SEPTEMBER 1998.
Given under my hand and seal of office this the 3 day of 5	* 1000 1000 K 1/0, 20 and
NOTARY PUBLIC	Grand Grand
State of Texas	Notary Public in and for STATE OF TEXAS
Comm. Exp. 05-01-2002	
STATE OF TEXAS	(INDIVIDUAL ACKNOWLEDGMENT)
COUNTY OF TARRANT	ALTERNATION OF THE PARTY OF THE
Before me, the undersigned authority, on this day personally appeared_ MSW Revocable Trust	Michael S. Waltrip, Trustee of the
knowned me to be the persons whose names are subscribed to the foregoing instruction therein expressed.	ment, and acknowledged to me that they executed the same for the purposes and
Given under my bandond and of affice this than 23 RO	VOE SEPTEMBER 19 98.
KIMBERLY K. HOWARD	Kimberlin K. Howard
NOTARY PUBLIC State of Texas	Notary Public in and for STATE, OF TEXAS
Comm. Exp. 05-01-2002	Notary I done in and lot
STATE OF TEXAS	(INDIVIDUAL ACKNOWLEDGMENT)
COUNTY OF TARRANT	
Before me, the undersigned authority, on this day personally appeared	Kenneth Waltrip, Trustee of the
KPW Revocable Trust known to me to be the persons whose names are subscribed to the foregoing instrur	nent, and acknowledged to me that they executed the same for the nurposes and
consideration therein expressed.	2.1
Given under my hand and seal of office this the 24 +H day	OF SEPTEMBER 19 98.
,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	Kimberly K. Howard
NOTARY PUBLIC	Notary Public in and for STATE OF TEXAS
State of Texas Comm. Exp. 05-01-2002	
CONTIN. Exp. 05-01-2002	

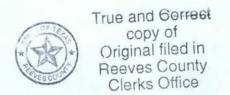


True and Gerreet copy of Original filed in Reeves County Clerks Office

"EXHIBIT A"

Attached to and made a part of Oil and Gas Lease dated August 19, 1998 by and between KPW Revocable Trust; MSW Revocable Trust; and MLH Revocable Trust, as the owner of the soil, and Clay Johnson, as Lessee.

- Lessee is granted the right to use existing roads on the leased premises for ingress and egress, and agrees to maintain, restore and keep roads in usable condition so long as this lease is in force and effect.
- 2. Lessee shall notify the owner of the soil a minimum of 24 hours before cutting any new road, if necessary, into or on the leased premises.
- Lessee shall install and maintain cattle guards at every fence crossing, said cattle guards to remain upon premises as property of the owner of the soil at the expiration of this lease.
- It is further understood and agreed that Lessee will bury and maintain all pipelines and electrical transmission lines 18 inches
 deep below the surface of the ground.
- Lessee may use no more of the surface of the leased premises than is reasonably necessary to use for the purpose of which this
 lease is granted, and it shall exercise all rights granted to it herein with due regard for the rights of the owners of the surface.
- It is further agreed that Lessee, its successors and assigns, shall not erect any buildings or houses on the leased premises and that
 only those structures which are reasonably necessary for production facilities or tank batteries shall be erected on the surface of
 the leased premises.
- 7. Notwithstanding any other provisions of this lease to the contrary, it is expressly understood and agreed that Lessee will not pollute any water aquifers or fresh water in, upon or under the leased premises, and Lessee agrees to notify the owner of the soil in writing if fresh water is encountered during drilling, or if a fresh water formation is penetrated.
- 8. Lessee further agrees to maintain all drill sites and other portions of the surface used or occupied by Lessee, its successors or assigns, free and clear of weeds and noxious vegetation and will maintain the same in a reasonable manner to prevent additional damage to the owner of the soil's other land and crops.
- 9. Upon written demand by the owner of the soil, Lessee shall build and maintain fences around its slush, sump and drainage pits and tank batteries to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, **Lessee shall fill and level off all slush pits and cellars and completely clean up the drill site of all rubbish thereon.
- 10. Lessee further agrees that in the event of a dry hole or production from a well which production ceases and the abandonment of such well, or upon the abandonment of any well location, drillsite, tank battery site or roadway, the premises will be restored as nearly as reasonably possible to its former condition at the cost and expense of the Lessee, it being the intention of the parties hereto that the Lessee shall restore the surface to as nearly the state that it is in at the time of execution of this lease.
- 11. If all or any part of this lease is assigned, released, pooled or unitized, Lessee agrees to furnish the owner of the soil with a copy of any such document.



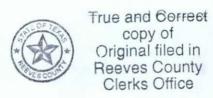


File No. 11/7 /00248

Date Filed: ///0/98

General Land Office Relinquishmnt Act Lease Form Revised, September 1997

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THI Virmi	inia Clam Hill I	de and entered into this_1	day of Aug	dust 19	98 between the State of Tex	as, acting by a	nd through its
Emma Hil	11 Trust Estate;	Virginia Glenn Hil	1 Lattimore,	Individua	lly; and James Robert	Hill, Indi	vidually
		Suite 2803,	, Fort Wo	orth, To	exas 76102		said agent
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rem reterred	to as the owner of the s	oil (whether one or more),		y John			
			0.00000		11. Suite 800 Texas 79701		of
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reinafter call	ed Lessee.						
essee under the ospecting and	nis lease, the State of Te d drilling for and produc duce, save, take care of,	exas acting by and through	the owner of the be lines, building	soil, hereby gratanks, storing of	of the covenants and agreemen ants, leases and lets unto Lesser il and building power stations, g lands situated in <u>Re</u>	e, for the sole a	nd only purpose of
		Block 58,	Public :	School 1	Land Survey		,
		Section 14	4: E/2	(67.	5 net acres)		1
		Section 14	1: SW/4	(30 -	net acres)		
	*					341	
· 10	400						
ntaining	480 acres,	more or less. The bonus of	consideration paid	for this lease i	s as follows:		
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		First			\$ 1.00		
		Second			\$ 1.00		
		Third Fourth			\$ 16.67		
		Fourth			\$ 16.67		



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

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

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

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

•°•°• (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 betieve 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.

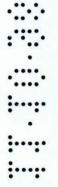
6. ROYALTY IN KIND. Notwithstanding any other provision in this lease, at any time or from time to time, the owner of the soil or the Commissioner of the Ceneral Land Office may, at the option of either, upon not less than sixty (60) days notice to the holder of the lease, require that the payment of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

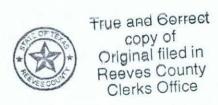
7. NO DEDUCTIONS. Lessee agrees that all royalties accruing under this lease (including those paid in kind) shall be without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, transporting, and otherwise making the oil, gas and other products hereunder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

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

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

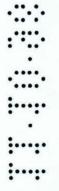
Payment of royalty on production of oil and gas shall be as provided in the rules set forth in the Texas Register. Rules currently provide that royalty on oil is due and must be received in the General Land Office on or before the 5th day of the second month succeeding the month of production, and royalty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

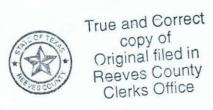




and market value including gas meter readings, pipeline receipts, gas line receipts and other checks or memoranda of amount produced and put into pipelines, tanks, or pools and gas lines or gas storage, and any other reports or records which the General Land Office may require to verify the gross production, disposition and market value. In all cases the authority of a manager or agent to act for the Lessee herein must be filed in the General Land Office. Each royalty payment shall be accompanied by a check stub, schedule, summary or other remittance advice showing by the assigned General Land Office lease number the amount of royalty being paid on each lease. If Lessee pays his royalty on or before thirty (30) days after the royalty payment was due, then Lessee owes a penalty of 5% on the royalty or \$25.00, whichever is greater. A royalty payment which is over thirty (30) days late shall accrue a penalty of 10% of the royalty due or \$25.00 whichever is greater. In addition to a penalty, royalties shall accrue interest at a rate of 12% per year; such interest will begin accruing when the royalty is 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 filling 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 old of gas no 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 non-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 dates of completion of said dry hole or cessation of production Lessee commences additional drilling or reworking operations thereon, or pays or tenders the next annual delay rental in the same manner as provided in this lease. If, during the last year of the primary term or within sixty (60) days prior thereto, a dry hole be completed and abandoned, or the production of oil or gas should cease for any cause, Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term; and if Lessee has not resumed production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking operations pursuant to Paragraph 13, using the expiration of the primary term as the date of cessation of production under Paragraph 13. Should the first well or any subsequent well drilled on the above described land be completed as a shut-in oil or gas well within the primary term as the date of completion of such shut-in oil or gas well and upon the failure to make such payment, this lease shall ipso facto terminate. If at the expiration of the primary term or any time thereafter a shut-in oil or gas well is located on the leased premises, payments may be made in accordance with the shut-in provisions hereof.
- 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. Haragraph 3 of this lease these not specify a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre. To be effective, each initial shut-in oil or gas royalty





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

- 15. COMPENSATORY ROYALTIES. If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is sold and delivered in paying quantities from a well located within one thousand (1,000) feet of the leased premises and completed in the same producing reservoir, or in any case in which drainage is occurring, the right to continue to maintain the lease by paying the shut-in oil or gas royalty shall cease, but the lease shall remain effective for the remainder of the year for which the royalty has been paid. The Lessee may maintain the lease for four more successive years by Lessee paying compensatory royalty at the royalty rate provided in the lease of the market value of production from the well causing the drainage or which is completed in the same producing reservoir and within one thousand (1,000) feet of the leased premises. The compensatory royalty is to be paid monthly, one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil, beginning on or before the last day of the month following the month in which the oil or gas is produced from the well causing the drainage or that is completed in the same producing reservoir and located within one thousand (1,000) feet of the leased premises. If the compensatory royalty paid in any 12-month period is 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 terraination 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.

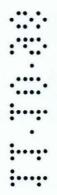




Frue and Correct copy of Original filed in Reeves County Clerks Office (6) a fiduciary for the owner of the soil; including but not limited to a guardian, trustee, executor, administrator, receiver, or conservator for the owner of the soil; or

(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 States 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 processing of 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 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 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 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 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 held by Lessee or by a third party, and all fixtures on and improvements to the leased premises used in connection with the production of the leased premises used in connection with the production of the leased premises used in connection with the production of the leased premises used in connection with the production of the leased premises and the leased premises and the leased premises are the leased p 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 foreslosed 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 Cornmissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby representation 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 raineral interest for the exploration, development and production of oil or gas or either of them upon the same terms as shall be approved by the School Land Board and the Commissioner of the General Land Office for the pooling or unitizing of the interest of the State under this lease pursuant to Texas Natural Resources Code 52.151-52.153. The owner of the soil agrees that the inclusion of this provision in this lease satisfies the execution requirements stated in Texas Natural Resources Code 52.152.
- 35. INDEMNITY. Lessee hereby releases and discharges the State of Texas aEd the owner of the soil, their officers, employees, partners, agents, contractors, subcontractors, guests, invitees, and their respective successors and assigns, of and from all and any actions and causes of action of every nature, or other harm, including environmental harm, for which recovery of damages is sought, including, but not limited to, all losses and expenses which are caused by the activities of Lessee, its officers, employees, and agents arising out of, incidental to, or resulting from, the operations of or for Lessee on the leased premises hereunder, or that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Agreement, or by any other negligent or strictly liable act or omission of Lessee. Further, Lessee hereby agrees to be liable for, exonerate, indemnify, defend and hold harmless the State of Texas and the owner of the soil, their officers, employees and agents, their successors or assigns, against any and all claims, liabilities, losses, damages, actions, personal injury (including death), costs and expenses, or other harm for which recovery of damages is sought, under any theory including tort, contract, or strict liability, including attorneys' fees and other legal expenses, including those related to environmental hazards, on the leased premises or in any way related to Lessee's failure to comply with any and all environmental laws; those arising from or in any way related to Lessee's operations or any other of Lessee's activities on the leased premises; those arising from Lessee's use of the surface of the leased premises; and those that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Agreement or any other act or omission of Lessee, its directors, officers, employees, partners, agents, contractors, subcontractors, guests, invitees, and their respective successors and assigns. Each assignee of this Agreement, or an interest therein, agrees to be liable for, exonerate, indemnify, defend and hold harmless the State of Texas and the owner of the soil, their officers, employees, and agents in the same manner provided above in connection with the activities of Lessee, its officers, employees, and agents as described above. EXCEPT AS OTHERWISE EXPRESSLY LIMITED HEREIN, ALL OF THE INDEMNITY OBLIGATIONS AND/OR LIABILITIES ASSUMED UNDER THE TERMS OF THIS AGREEMENT SHALL BE WITHOUT LIMITS AND WITHOUT REGARD TO THE CAUSE OR CAUSES THEREOF (EXCLUDING PRE-EXISTING CONDITIONS), STRICT LIABILITY, OR THE NEGLIGENCE OF ANY PARTY OR PARTIES (INCLUDING THE NEGLIGENCE OF THE INDEMNIFIED PARTY), WHETHER SUCH NEGLIGENCE BE SOLE, JOINT, CONCURRENT, ACTIVE, OR PASSIVE.





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- 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 shall be responsible for all 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 are of all rubbish, cans, bottles, paper cups or garbage, and upon completion of operations shall restore the surface of the land to as near its original condition and contours as is practicable. Tanks and equipment will be kept painted and presentable.
- ••••26. REMOVAL OF EQUIPMENT. Subject to limitations in this paragraph, Lessee shall have the right to remove machinery and fixtures placed by Lessee on the leased premises, including the right to draw and remove easing, within one hundred twenty (120) days after the expiration or the termination of this lease unless the owner of the soil grants Lessee an extension of this 120-day period. However, Lessee may not remove easing from any well capable of producing oil and 325 in paying quantities. Additionally, Lessee may not draw and remove easing until after thirty (30) days written notice to the Commissioner of the General Land Office and to the owner of the soil. The owner of the soil shall become the owner of any machinery, fixtures, or easing which are not timely removed by Lessee under the terms of this paragraph.
- 27. (A) ASSIGNMENTS. Under the conditions contained in this paragraph and Paragraph 29 of this lease, the rights and estates of either party to this lease stage of this lease shall extend to and be binding upon their heirs, devisees, legal representatives, successors and assigns. However, a change or division in ownership of the land, rentals, or royalties will not enlarge the obligations of Lessee, diminish the rights, privileges and estates of Lessee, impair the effectiveness of any payment made by Lessee or impair the effectiveness of any act performed by Lessee. And no change or division in ownership of the land, rentals, or royalties shall bind Lessee for any purpose until thirty (30) days after the owner of the soil (or his heirs, devisees, legal representatives or assigns) furnishes the Lessee with satisfactory written evidence of the change in ownership, including the original recorded muniments of title (or a certified copy of such original) when the ownership changed because of a conveyance. A total or partial assignment of this lease shall, to the extent of the interest assigned, relieve and discharge Lessee of all subsequent obligations under this lease. If this lease is assigned in its entirety as to only part of the acreage, the right and option to pay rentals shall be apportioned as between the several owners ratably, according to the area of each, and failure by one or more of them to pay his share of the rental shall not affect this lease on the part of the land upon which pro rata rentals are timely paid or tendered; however, if the assignor or assignee does not file a certified copy of such assignment in the General Land Office before the next rental paying date, the entire lease shall terminate for failure to pay the entire rental due under Paragraph 3. Every assignee shall succeed to all rights and be subject to all obligations, liabilities, and penalties owed to the State by the original lessee or any prior assignee of the lease, including any liabilities to the State for unpaid royalties.
- (B) ASSIGNMENT LIMITATION. Notwithstanding any provision in Paragraph 27(a), if the owner of the soil acquires this lease in whole or in part by assignment without the prior written approval of the Commissioner of the General Land Office, this lease is void as of the time of assignment and the agency power of the owner may be forfeited by the Commissioner. An assignment will be treated as if it were made to the owner of the soil if the assignee is:
 - (1) a nominee of the owner of the soil;
 - (2) a corporation or subsidiary in which the owner of the soil is a principal stockholder or is an employee of such a corporation or subsidiary;
 - (3) a partnership in which the owner of the soil is a partner or is an employee of such a partnership;
 - (4) a principal stockholder or employee of the corporation which is the owner of the soil;
 - (5) a partner or employee in a partnership which is the owner of the soil;



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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 LESSÉE 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.

* See Ehxibit "A" attached for ad	ditional lease provisions.
:::	(1)
LESSEE	<u> </u>
BY: Clay Johnson	
• TITLE:	•*
G-20 69	
DATE: /00-/0	
••••	
STATE OF IEXAS	STATE OF TEXAS
Brown Allem Hell Geltamo	BY:
Individually and as agent for the State of Texas	Individually and as agent for the State of Texas
Virginia Glenn Hill Lattimore, Individually and as Co-Tru	stee of the Houston and Emma Hill Trust Estate
Date: September 14, 1998	Date: SS#
STATE OF TEXAS	STATE OF TEXAS
Bys Janus Koluded III	BY:
James Robert Hill, Individually and as Co-Trustee of the	Houston and Emma Hill Thust Estate
Date: September 1, 1998	Date:S
U	
STATE OF TEXAS A	
BA:N M NAMM	
John A. Staysky, Co-Trustee of the Houston and Emma	Hill Trust Estate
Date: Se Tember 14, 1998	Tax ID# 75-6254114
	True and
	True and

Correct

copy of Original filed in Reeves County Clerks Office

		- 6.1.
STATE OF TEXUS		TNOVICUAL (CORPORATION ACKNOWLEDGMENT)
COUNTY OF Midland		
BEFORE ME, the undersigned author	rity on this day personally appeared	Clangohuson
known to me to be the person whose name is sub	scribed to the foregoing instrument,	
for the purposes and consideration therein expres	sed, in the capacity stated, and as th	and acknowledged to me that he executed the same e act and deed of said corporation.
Given under my hand and seal of office	this the 28 day of	Besterber 1998.
******	***************************************	Monic marlone
	MONICA MARLOWE	Notary Public in and for Texas
STATE OF TEXAS	State of Texas Comm. Exp. 10-30-99	(CORPORATION ACKNOWLEDGMENT)
COUNTY OF TARRANT	Contin. Exp. 10-30-99	N/?
BEFORE ME, the undersigned authori	ity, on this day personally appeared	John A. Strysky
known to me to be the person whose name is subs	scribed to the foregoing instrument.	yR.
the Houston and Emma Hill		and acknowledged to me that he executed the same
for the purposes and consideration therein express	ed, in the capacity stated, and as the	act and deed of said XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
Given under my hand and seal of office	e this the 14th day of Sep	otember 1998
SHEILA D.	PICHARING	Theile D. Kichard
Mature Public :	State of Texas res June 27, 15, 2001	Notary Public in and for Tarrant County, TX
ATE OF TELEPORATE AND COMMISSION EXCIT	es Julie 27, 15.25201	
STATE OF TEXAS		(INDIVIDUAL ACKNOWLEDGMENT)
COUNTY OF TARRANT		
	— V	irqinia Glenn Hill Lattimore, Individually
and as Co-Trustee of the H	Mouston and Emma Hill	Trust Estate
consideration therein expressed.	ibscribed to the foregoing instrumen	at, and acknowledged to me that they executed the same for the purposes and
Given under my hand and seal of office	this the 14th day of	September 0,19 98
SHEILA D. RIC	HARDS	Sheila D. Richard
Notary Public, State	e of Texas	Notary Public in and for Tarrant County, TX
The or took		Holly I dolle in aid tot
STATE OF TEXAS		(INDIVIDUAL ACKNOWLEDGMENT)
COUNTY OF TARRANT		
Before me, the undersigned authority, o Co-Trustee of the Houston	n this day personally appeared and Emma Hill Trust	James Robert Hill, Individually and as Estate
known to me to be the persons whose names are su consideration therein expressed.	bscribed to the foregoing instrumen	t, and acknowledged to me that they executed the same for the purposes and
Given under my hand and seal of office	this the 11th day of	September 1998
No.		Shoula D. Richard
SKEILA D. RICH	ff Tennes 2001	Notary Public in and for Tarrant County, TX
2 Commission Expires Ilum	EZ, # 2001	

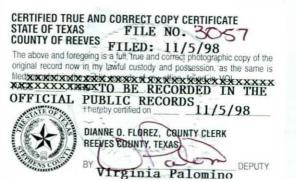


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"EXHIBIT A"

Attached to and made a part of Oil and Gas Lease
dated August 19, 1998 by and between Virginia Glenn Hill Lattimore,
James Robert Hill and John A. Strysky, Co-Trustees of the Houston
And Emma Hill Trust Estate; Virginia Glenn Hill Lattimore, Individually; and
James Robert Hill, Individually, as the owner of the soil, and Clay Johnson, as Lessee.

- Lessee is granted the right to use existing roads on the leased premises for ingress and egress, and agrees to maintain, restore and keep roads in usable condition so long as this lease is in force and effect.
- Lessee shall notify the owner of the soil a minimum of 24 hours before cutting any new road, if necessary, into or on the leased premises.
- Lessee shall install and maintain cattle guards at every fence crossing, said cattle guards to remain upon premises as property of
 the owner of the soil at the expiration of this lease.
- It is further understood and agreed that Lessee will bury and maintain all pipelines and electrical transmission lines 18 inches deep below the surface of the ground.
- 5. Lessee may use no more of the surface of the leased premises than is reasonably necessary to use for the purpose of which this lease is granted, and it shall exercise all rights granted to it herein with due regard for the rights of the owners of the surface.
- 6. It is further agreed that Lessee, its successors and assigns, shall not erect any buildings or houses on the leased premises and that only those structures which are reasonably necessary for production facilities or tank batteries shall be erected on the surface of the leased premises.
- Notwithstanding any other provisions of this lease to the contrary, it is expressly understood and agreed that Lessee will not pollute any water aquifers or fresh water in, upon or under the leased premises, and Lessee agrees to notify the owner of the soil in writing if fresh water is encountered during drilling, or if a fresh water formation is penetrated.
- Lessee further agrees to maintain all drill sites and other portions of the surface used or occupied by Lessee, its successors or assigns, free and clear of weeds and noxious vegetation and will maintain the same in a reasonable manner to prevent additional damage to the owner of the soil's other land and crops.
- 9. Upon written demand by the owner of the soil, Lessee shall build and maintain fences around its slush, sump and drainage pits and tank batteries to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level off all slush pits and cellars and completely clean up the drill site of all rubbish thereon.
 - 10. Lessee further agrees that in the event of a dry hole or production from a well which production ceases and the abandonment of such well, or upon the abandonment of any well location, drillsite, tank battery site or roadway, the premises will be restored as nearly as reasonably possible to its former condition at the cost and expense of the Lessee, it being the intention of the parties hereto that the Lessee shall restore the surface to as nearly the state that it is in at the time of execution of this lease.
 - 11. If all or any part of this lease is assigned, released, pooled or unitized, Lessee agrees to furnish the owner of the soil with a copy of any such document.





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Date Filed:

Daged Dewharst, Commissioner

General Land Office Relinquishmnt Act Lease Form Revised, September 1997

OIL AND GAS LEASE

	dividually of	
30	1 Da Hoba Elicinitado chi propi	said agent
	(Give Permanent Address)	
rein referred	to as the owner of the soil (whether one or more), and Clay Johnson	
	203 W. Wall, Suite 800	ot
	Midland, Texas 79701	
reinafter cal	ed Lessee. (Give Permanent Address)	
essee under to ospecting an	GRANTING CLAUSE. For and in consideration of the amounts stated below and of the covenants and agreements to be parties lease, the State of Texas acting by and through the owner of the soil, hereby grants, leases and lets unto Lessee, for the soil drilling for and producing oil and gas, laying pipe lines, building tanks, storing oil and building power stations, telephone duce, save, take care of, treat and transport said products of the lease, the following lands situated in Reeves	cole and only purpose of
	Block 58, Public School Land Survey	
	Section 14: E/2: (35 net acres)	
	Section 14: SW/4 (15.55 net acres)	,
• •		
taining 4	80 acres, more or less. The bonus consideration paid for this lease is as follows:	
••••		
•• •	To the State of Texas: One Thousand Two Hundred Sixty-three and	75/100
•	Dollars (\$ 1.263.75)	
••••	On The State of Charles the	75/100
••••	To the owner of the soil: One Thousand Two Hundred Sixty-three and	1 /5/100
••••	Dollars (5 1, 263.75)	
• •	man miles and Direct Wood and Manager to	50/100
•	Total bonus consideration: Two Thousand Five Hundred Twenty-seven	ind 50/100-
:	Dollars (5 2,527.50)	
•	consideration paid represents a bonus of Fifty and No/100	
e total bonus		
	Doilars (\$ 50.00) per acre, on 50.55 net acres.	
	TERM Subject to the other provisions in this lease this lease shall be for a term of Five (5) year	
		S from this date
2.	TEIGHT Subject to the other provisions in any rease, and rease state of the Earth of	TOIL UID GE
2. rein called	primary term") and as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land.	nom and on
2. rein called 'used in this	TEIGHT Subject to the other provisions in any rease, and rease state of the Earth of	nom and on

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, ½ 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 continue 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



- 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: 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 (A) condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, shall be 3/16 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be determined by 1) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity in the general area where produced and when run, or 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. 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 part of the gross production or the market value thereof, at the option of the gasoline, liquid hydrocarbons or other products) shall be _ 3/16 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.
- *** (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 great production of such products, or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such market value to be determined as follows: 1) on the basis of the highest market price of each product for the same month in which such product is produced, or 2) on the basis of the average gross sale price of each product for the same month in which such products are produced; whichever is the greater.
- 5. MINIMUM ROYALTY. During any year after the expiration of the primary term of this lease, if this lease is maintained by production, the royalties paid under this lease in no event shall be less than an amount equal to the total annual delay rental herein provided; otherwise, there shall be due and payable on or before the last day of the month succeeding the anniversary date of this lease a sum equal to the total annual rental less the amount of royalties paid during the preceding year. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre.
- 6. ROYALTY IN KIND. Notwithstanding any other provision in this lease, at any time or from time to time, the owner of the soil or the Commissioner of the General Land Office may, at the option of either, upon not less than sixty (60) days notice to the holder of the lease, require that the payment of any royalties accruing to such royalty owner under this lease be made in kind. The owner of the soil's or the Commissioner of the General Land Office's right to take its royalty in kind shall not diminish or negate the owner of the soil's or the Commissioner of the General Land Office's rights or Lessee's obligations, whether express or implied, under this lease.
- 7. NO DEDUCTIONS. Lessee agrees that all royalties accruing under this lease (including those paid in kind) shall be without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting, and otherwise making the oil, gas and other products hereunder ready for sale or use. Lessee agrees to compute and pay royalties on the gross value received, including any reimbursements for severance taxes and production related costs.
- 8. PLANT FUEL AND RECYCLED GAS. No royalty shall be payable on any gas as may represent this lease's proportionate share of any fuel used to process gas produced hereunder in any processing plant. Notwithstanding any other provision of this lease, and subject to the written consent of the owner of the soil and the Commissioner of the General Land Office, Lessee may recycle gas for gas lift purposes on the leased premises or for injection into any oil or gas producing formation underlying the leased premises after the liquid hydrocarbons contained in the gas have been removed; no royalties shall be payable on the recycled gas until it is produced and sold or used by Lessee in a manner which entitles the royalty owners to a royalty under this lease.
- 9. ROYALTY PAYMENTS AND REPORTS. All royalties not taken in kind shall be paid to the Commissioner of the General Land Office at Austin, Texas, in the following manner:

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

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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.
- 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



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

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- 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.
- 5. 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 pollution 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 slushpits 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 easing from any well capable of producing oil and gas in paying quantities. Additionally, Lessee may not draw and remove easing until after thirty (30) days written notice to the Commissioner of the General Land Office and to the owner of the soil. The owner of the soil shall become the owner of any machinery, fixtures, or easing which are not timely removed by Lessee under the terms of this paragraph.
- 27. (A) ASSIGNMENTS. Under the conditions contained in this paragraph and Paragraph 29 of this lease, the rights and estates of either party to this lease may be assigned, in whole or in part, and the provisions of this lease shall extend to and be binding upon their heirs, devisees, legal representatives, successors and assigns. However, a change or division in ownership of the land, rentals, or royalties will not enlarge the obligations of Lessee, diminish the rights, privileges and estates of Lessee, impair the effectiveness of any payment made by Lessee or impair the effectiveness of any act performed by Lessee. And no change or division in ownership of the land, rentals, or royalties shall bind Lessee for any purpose until thirty (30) days after the owner of the soil (or his heirs, devisees, legal representatives or assigns) furnishes the Lessee with satisfactory written evidence of the change in ownership, including the original recorded muniments of title (or a certified copy of such original) when the ownership changed because of a conveyance. A total or partial assignment of this lease shall, to the extent of the interest assigned, relieve and discharge Lessee of all subsequent obligations under this lease. If this lease is assigned in its entirety as to only part of the acreage, the right and option to pay rentals shall be apportioned as between the several owners ratably, according to the area of each, and failure by one or more of them to pay his share of the rental shall not affect this lease on the part of the land upon which pro rata rentals are timely paid or tendered; however, if the assignor or assignee does not file a certified copy of such assignment in the General Land Office before the next rental paying date, the entire lease shall terminate for failure to pay the entire rental due under Paragraph 3. Every assignee shall succeed to all rights and be subject to all obligations, liabilities, and penalties owed to the State by the original lessee or any prior assignee of the lease, including
- (B) ASSIGNMENT LIMITATION. Notwithstanding any provision in Paragraph 27(a), if the owner of the soil acquires this lease in whole or in part by assignment without the prior written approval of the Commissioner of the General Land Office, this lease is void as of the time of assignment and the agency power of the owner may be forfeited by the Commissioner. An assignment will be treated as if it were made to the owner of the soil if the assignee is:
 - (1) a nominee of the owner of the soil;
 - (2) a corporation or subsidiary in which the owner of the soil is a principal stockholder or is an employee of such a corporation or subsidiary;
 - (3) a partnership in which the owner of the soil is a partner or is an employee of such a partnership;
 - (4) a principal stockholder or employee of the corporation which is the owner of the soil;
 - (5) a partner or employee in a partnership which is the owner of the soil;



- (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 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 Coramissioner 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 aEd the owner of the soil, their officers, employees, partners, agents, contractors, subcontractors, guests, invitees, and their respective successors and assigns, of and from all and any actions and causes of action of every nature, or other harm, including environmental harm, for which recovery of damages is sought, including, but not limited to, all losses and expenses which are caused by the activities of Lessee, its officers, employees, and agents arising out of, incidental to, or resulting from, the operations of or for Lessee on the leased premises hereunder, or that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Agreement, or by any other negligent or strictly liable act or omission of Lessee. Further, Lessee hereby agrees to be liable for, exonerate, indemnify, defend and hold harmless the State of Texas and the owner of the soil, their officers, employees and agents, their successors or assigns, against any and all claims, liabilities, losses, damages, actions, personal injury (including death), costs and expenses, or other harm for which recovery of damages is sought, under any theory including tort, contract, or strict liability, including attorneys' fees and other legal expenses, including those related to environmental hazards, on the leased premises or in any way related to Lessee's failure to comply with any and all environmental laws; those arising from or in any way related to Lessee's operations or any other of Lessee's activities on the leased premises; those arising from Lessee's use of the surface of the leased premises; and those that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Agreement or any other act or omission of Lessee, its directors, officers, employees, partners, agents, contractors, subcontractors, guests, invitees, and their respective successors and assigns. Each assignee of this Agreement, or an interest therein, agrees to be liable for, exonerate, indemnify, defend and hold harmless the State of Texas and the owner of the soil, their officers, employees, and agents in the same manner provided above in connection with the activities of Lessee, its officers, employees, and agents as described above. EXCEPT AS OTHERWISE EXPRESSLY LIMITED HEREIN, ALL OF THE INDEMNITY OBLIGATIONS AND/OR LIABILITIES ASSUMED UNDER THE TERMS OF THIS AGREEMENT SHALL BE WITHOUT LIMITS AND WITHOUT REGARD TO THE CAUSE OR CAUSES THEREOF (EXCLUDING PRE-EXISTING CONDITIONS), STRICT LIABILITY, OR THE NEGLIGENCE OF ANY PARTY OR PARTIES (INCLUDING THE NEGLIGENCE OF THE INDEMNIFIED PARTY), WHETHER SUCH NEGLIGENCE BE SOLE, JOINT, True and 60rrect CONCURRENT, ACTIVE, OR PASSIVE. 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.

 * See Exhibit "A" attached for additional lease provisions.

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Date: 10-1-98		Date:	- 1
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"EXHIBIT A"

Attached to and made a part of Oil and Gas Lease dated August 19, 1998 by and between Meeker Investments, Inc., by Robert W. Debolt, President and J. J. Meeker, Individually, as owner of the soil, and Clay Johnson, as Lessee.

- Lessee is granted the right to use existing roads on the leased premises for ingress and egress, and agrees to maintain, restore and keep roads in usable condition so long as this lease is in force and effect.
- 2. Lessee shall notify owner of the soil a minimum of 24 hours before cutting any new road, if necessary, into or on the leased premises.
- Lessee shall install and maintain cattle guards at every fence crossing, said cattle guards to remain upon premises as owner of the soil's property at the expiration of this lease.
- It is further understood and agreed that Lessee will bury and maintain all pipelines and electrical transmission lines 18 inches deep below the surface of the ground.
- 5. Lessee may use no more of the surface of the leased premises than is reasonably necessary to use for the purpose of which this ... lease is granted, and it shall exercise all rights granted to it herein with due regard for the rights of the owners of the surface.
- 6. It is further agreed that Lessee, its successors and assigns, shall not erect any buildings or houses on the leased premises and that only those structures which are reasonably necessary for production facilities or tank batteries shall be erected on the surface of the leased premises.
- 7. Notwithstanding any other provisions of this lease to the contrary, it is expressly understood and agreed that Lessee will not pollute any water aquifers or fresh water in, upon or under the leased premises, and Lessee agrees to notify the owner of the soil in writing if fresh water is encountered during drilling, or if a fresh water formation is penetrated.
- 8. Lessee further agrees to maintain all drill sites and other portions of the surface used or occupied by Lessee, its successors or assigns, free and clear of weeds and noxious vegetation and will maintain the same in a reasonable manner to prevent additional damage to owner of the soil's other land and crops.
- 9. Upon written demand by owner of the soil, Lessee shall build and maintain fences around its slush, sump and drainage pits and tank batteries to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level off all slush pits and cellars and completely clean up the drill site of all rubbish thereon.
- 10. Lessee further agrees that in the event of a dry hole or production from a well which production ceases and the abandonment of such well, or upon the abandonment of any well location, drillsite, tank battery site or roadway, the premises will be restored as nearly as reasonably possible to its former condition at the cost and expense of the Lessee, it being the intention of the parties hereto that the Lessee shall restore the surface to as nearly the state that it is in at the time of execution of this lease.
- 11. If all or any part of this lease is assigned, released, pooled or unitized, Lessee agrees to furnish the owner of the soil with a copy of any such document.
- 12. Lessee agrees to notify owner of the soil prior to drilling any well and upon completion or plugging of any well. Owner of the soil can make reasonable inquiries with Lessee regarding drilling information.



4,

File No. W. 1003 48

Date Filed: W. 1098

Dayld Dewhurst, Commissioner





General Land Office Relinquishmnt Act Lease Form Revised, September 1997

OIL AND GAS LEASE

, between the State of Texas, acting by and through its

THIS AGREEMENT is made and entered into this 19 day of August 1998, between the State of Texas, acting by and the Julian Wade Meeker, Daniel Hill Meeker and Lawrence Hill Meeker,

	O Ridglea Place, Suite 1008, Fort Worth, Texas 76116	said agent
	(Give Permanent Address)	
rem reterred t	to as the owner of the soil (whether one or more), and Clay Johnson 203 W. Wall, Suite 800	
	203 W. Wall, Suite 800 Midland, Texas 79701	of
	(Give Permanent Address)	
reinafter calle		
		*
1. G	RANTING CLAUSE. For and in consideration of the amounts stated below and of the covenants and agreements to be paid, k	ept and performed by
ssee under thi	s lease, the State of Texas acting by and through the owner of the soil, hereby grants, leases and lets unto Lessee, for the sole a	and only purpose of
	drilling for and producing oil and gas, laying pipe lines, building tanks, storing oil and building power stations, telephone line	
Texas, to-wit:	uce, save, take care of, treat and transport said products of the lease, the following lands situated in Reeves	County, State
Texas, to-with		
	Block 58, Public School Land Survey	
	Section 14: E/2 (35 net acres)	
••••	Section 14: SW/4 (15.55 net acres)	
• ••	beeting 11. Buy 1 (15155 her deles)	4
••••		
ntaining 48		
ntaining 48	acres, more or less. The bonus consideration paid for this lease is as follows:	
	To the State of Texas: One Thousand Two Hundred Sixty-three and 75	/100
	Dollars (5 1, 263, 75	
• • • • • • • • • • • • • • • • • • • •		F /100
	To the owner of the soil: One Thousand Two Hundred Sixty-three and 7	5/100
	Dollars (S1, 263.75)	
:	Total bonus consideration: Two Thousand Five Hundred Twenty-seven and	50/100
:	Dollars (\$ 2,527.50)	30/100
•••••	·	
e total bonus	consideration paid represents a bonus of Fifty and No/100	-
	Dollars (\$ 50.00) per acre, on 50.55 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
rein called "pr	rimary term") and as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land.	
	ease, the term "produced in paying quantities" means that the receipts from the sale or other authorized commercial use of the	ubstance(s) covered
	cket operational expenses for the six months last past.	
eed out of po-		
eed out of po-		
3. Dela	ay Rentals: If oil or gas in paying quantities is not being produced from the premises on the first anniversary date of this Lease an ag conducted on the premises, then this lease shall terminate unless, on or before such anniversary date, Lessee shall pay, ½ direct	d there are then no d

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

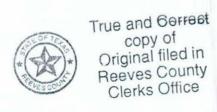
the amount specified in the following schedule multiplied by the number of acres then covered by this lease, which payment, when timely made, shall continue this lease for a period of one (1) additional year. In like manner and upon payment of the amounts set out in the following schedule, this lease may be further continue for successive one-



- 4. PRODUCTION ROYALTIES. Upon production of oil and/or gas, Lessee agrees to pay or cause to be paid one-half (1/2) of the royalty provided for in this lease to the Commissioner of the General Land Office of the State of Texas, at Austin, Texas, and one-half (1/2) of such royalty to the owner of the soil:
- (A) OIL. Royalty payable on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well and also as all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, shall be 3/16 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be determined by 1) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity in the general area where produced and when run, or 2) the highest market price thereof offered or paid in the general area where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is the greater. Lessee agrees that before any gas produced from the leased premises is sold, used or processed in a plant, it will be run free of cost to the royalty owners through an adequate oil and gas separator of conventional type, or other equipment at least as efficient, so that all liquid hydrocarbons recoverable from the gas by such means will be recovered. The requirement that such gas be run through a separator or other equipment may be waived in writing by the royalty owners upon such terms and conditions as they prescribe.
- (B) NON PROCESSED GAS. Royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substances not defined as oil in subparagraph (A) above, produced from any well on said land (except as provided herein with respect to gas processed in a plant for the extraction of gasoline, liquid hydrocarbons or other products) shall be 3/16 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be based on the highest market price paid or offered for gas of comparable quality in the general area where produced and when run, or the gross price paid or offered to the producer, whichever is the greater, provided that the maximum pressure base in measuring the gas under this lease shall not at any time exceed 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to tests made by the Balance Method or by the most approved method of testing being used by the industry at the time of testing.
- PROCESSED GAS. Royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbons shall be 3/16 part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office. All royalties due herein shall be based on one hundred percent (100%) of the total plant production of residue gas attributable to gas produced from this lease, and on fifty percent (50%), or that percent accruing to Lessee, whichever is the greater, of the total plant production of liquid hydrocarbons attributable to the gas produced from this lease; provided that if liquid hydrocarbons are recovered from gas processed in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the percentage applicable to liquid hydrocarbons shall be fifty percent (50%) or the highest percent accruing to a third party processing gas through such plant under a processing agreement negotiated at arm's length (or if there is no such third highest percent then being specified in processing agreements or contracts in the industry), whichever is the greater. The respective royalties on residue gas antion flquid hydrocarbons shall be determined by 1) the highest market price paid or offered for any gas (or liquid hydrocarbons) of comparable quality in the general area, or 2) the gross price paid or offered for such residue gas (or the weighted average gross selling price for the respective grades of liquid hydrocarbons), whichever is the greater. In no event, however, shall the royalties payable under this paragraph be less than the royalties which would have been due had the gas not been processed.
- 5. MINIMUM ROYALTY. During any year after the expiration of the primary term of this lease, if this lease is maintained by production, the royalties paid under this lease in no event shall be less than an amount equal to the total annual delay rental herein provided; otherwise, there shall be due and payable on or before the last day of the month succeeding the anniversary date of this lease a sum equal to the total annual rental less the amount of royalties paid during the preceding year. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre.
- 6. ROYALTY IN KIND. Notwithstanding any other provision in this lease, at any time or from time to time, the owner of the soil or the Commissioner of the General Land Office may, at the option of either, upon not less than sixty (60) days notice to the holder of the lease, require that the payment of any royalties accruing to such royalty owner under this lease be made in kind. The owner of the soil's or the Commissioner of the General Land Office's right to take its royalty in kind shall not diminish or negate the owner of the soil's or the Commissioner of the General Land Office's rights or Lessee's obligations, whether express or implied, under this lease.
- 7. NO DEDUCTIONS. Lessee agrees that all royalties accruing under this lease (including those paid in kind) shall be without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, transporting, and otherwise making the oil, gas and other products hereunder ready for sale or use. Lessee agrees to compute and pay royalties on the gross value received, including any reimbursements for severance taxes and production related costs.
- 8. PLANT FUEL AND RECYCLED GAS. No royalty shall be payable on any gas as may represent this lease's proportionate share of any fuel used to process gas produced hereunder in any processing plant. Notwithstanding any other provision of this lease, and subject to the written consent of the owner of the soil and the Commissioner of the General Land Office, Lessee may recycle gas for gas lift purposes on the leased premises or for injection into any oil or gas producing formation underlying the leased premises after the liquid hydrocarbons contained in the gas have been removed; no royalties shall be payable on the recycled gas until it is produced and sold or used by Lessee in a manner which entitles the royalty owners to a royalty under this lease.
- 9. ROYALTY PAYMENTS AND REPORTS. All royalties not taken in kind shall be paid to the Commissioner of the General Land Office at Austin, Texas, in the following manner:

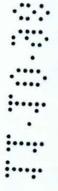
Payment of royalty on production of oil and gas shall be as provided in the rules set forth in the Texas Register. Rules currently provide that royalty on oil is due and must be received in the General Land Office on or before the 5th day of the second month succeeding the month of production, and royalty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

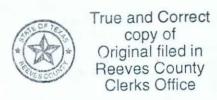




and market value including gas meter readings, pipeline receipts, gas line receipts and other checks or memoranda of amount produced and put into pipelines, tanks, or pools and gas lines or gas storage, and any other reports or records which the General Land Office may require to verify the gross production,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





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.

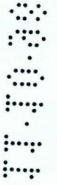
- 15. COMPENSATORY ROYALTIES. If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is sold and delivered in paying quantities from a well located within one thousand (1,000) feet of the leased premises and completed in the same producing reservoir, 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 52.151-52e155.° 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 explaintons of the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction. If at any time after the effective date of the partial termination provisions hereof, the applicable field rules are changed or the well or wells located thereon are reclassified so that less acreage is thereafter allocated to said well or wells for production purposes. Notwithstanding the termination of this lease 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 interest to an errors 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.
- (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 terminates 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 Lahd 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.

copy of Original filed in Reeves County

- 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, scepage or ground water contamination. In the event of pollution, Lessee shall use all means at its disposal to recapture all escaped hydrocarbons or other pollution 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 five 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
- (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;
 - a partnership in which the owner of the soil is a partner or is an employee of such a partnership;
 - (4) a principal stockholder or employee of the corporation which is the owner of the soil;
 - (5) a partner or employee in a partnership which is the owner of the soil;



- (6) a fiduciary for the owner of the soil; including but not limited to a guardian, trustee, executor, administrator, receiver, or conservator for the owner of the soil; or
- (7) a family member of the owner of the soil or related to the owner of the soil by marriage, blood, or adoption.
- 28. RELEASES. Under the conditions contained in this paragraph and Paragraph 29, Lessee may at any time execute and deliver to the owner of the soil and place of record a release or releases covering any portion or portions of the leased premises, and thereby surrender this lease as to such portion or portions, and be relieved of all subsequent obligations as to acreage surrendered. If any part of this lease is properly surrendered, the delay rental due under this lease shall be reduced by the proportion that the surrendered acreage bears to the acreage which was covered by this lease immediately prior to such surrender; however, such release will not relieve Lessee of any liabilities which may have accrued under this lease prior to the surrender of such acreage.
- 29. FILING OF ASSIGNMENTS AND RELEASES. If all or any part of this lease is assigned or released, such assignment or release must be recorded in the county where the land is situated, and the recorded instrument, or a copy of the recorded instrument certified by the County Clerk of the county in which the instrument is recorded, must be filed in the General Land Office within 90 days of the last execution date accompanied by the prescribed filing fee. If any such assignment is not so filed, the rights acquired under this lease shall be subject to forfeiture at the option of the Commissioner of the General Land Office.
- 30. DISCLOSURE CLAUSE. All provisions pertaining to the lease of the above-described land have been included in this instrument, including the statement of the true consideration to be paid for the execution of this lease and the rights and duties of the parties. Any collateral agreements concerning the development of oil and gas from the leased premises which are not contained in this lease render this lease invalid.
- 31. FIDUCIARY DUTY. The owner of the soil owes the State a fiduciary duty and must fully disclose any facts affecting the State's interest in the leased premises. When the interests of the owner of the soil conflict with those of the State, the owner of the soil is obligated to put the State's interests before his personal interests.
- 32. FORFEITURE. If Lessee shall fail or refuse to make the payment of any sum within thirty days after it becomes due, or if Lessee or an authorized agent should knowingly make any false return or false report concerning production or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith as required by law and the rules and regulations adopted by the Commissioner of the General Land Office, or if Lessee should fail to file reports in the manner required by law or fail to comply with rules and regulations promulgated by the General Land Office, the School Land Board, or the Railroad Commission, or if Lessee should refuse the proper authority access to the records pertaining to operations, or if Lessee or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or knowingly fail or refuse to furnish the General Land Office a correct log of any well, or if Lessee shall knowingly violate any of the material provisions of this lease, or if this lease is assigned and the assignment is not filed in the General Land Office as required by law, the rights acquired under this lease shall be subject to forfeiture by the 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 warring 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 completance 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 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 aEd the owner of the soil, their officers, employees, partners, agents, contractors, subcontractors, guests, invitees, and their respective successors and assigns, of and from all and any actions and causes of action of every nature, or other harm, including environmental harm, for which recovery of damages is sought, including, but not limited to, all losses and expenses which are caused by the activities of Lessee, its officers, employees, and agents arising out of, incidental to, or resulting from, the operations of or for Lessee on the leased premises hereunder, or that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Agreement, or by any other negligent or strictly liable act or omission of Lessee. Further, Lessee hereby agrees to be liable for, exonerate, indemnify, defend and hold harmless the State of Texas and the owner of the soil, their officers, employees and agents, their successors or assigns, against any and all claims, liabilities, losses, damages, actions, personal injury (including death), costs and expenses, or other harm for which recovery of damages is sought, under any theory including tort, contract, or strict liability, including attorneys' fees and other legal expenses, including those related to environmental hazards, on the leased premises or in any way related to Lessee's failure to comply with any and all environmental laws; those arising from or in any way related to Lessee's operations or any other of Lessee's activities on the leased premises; those arising from Lessee's use of the surface of the leased premises; and those that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Agreement or any other act or omission of Lessee, its directors, officers, employees, partners, agents, contractors, subcontractors, guests, invitees, and their respective successors and assigns. Each assignee of this Agreement, or an interest therein, agrees to be liable for, exonerate, indemnify, defend and hold harmless the State of Texas and the owner of the soil, their officers, employees, and agents in the same manner provided above in connection with the activities of Lessee, its officers. employees, and agents as described above. EXCEPT AS OTHERWISE EXPRESSLY LIMITED HEREIN, ALL OF THE INDEMNITY OBLIGATIONS AND/OR LIABILITIES ASSUMED UNDER THE TERMS OF THIS AGREEMENT SHALL BE WITHOUT LIMITS AND WITHOUT REGARD TO THE CAUSE OR CAUSES THEREOF (EXCLUDING PRE-EXISTING CONDITIONS), STRICT LIABILITY, OR THE NEGLIGENCE OF ANY PARTY OR PARTIES (INCLUDING THE NEGLIGENCE OF THE INDEMNIFIED PARTY), WHETHER SUCH NEGLIGENCE BE SOLE, JOINT, CONCURRENT, ACTIVE, OR PASSIVE.





- 36. ENVIRONMENTAL HAZARDS. Lessee shall use the highest degree of care and all reasonable safeguards to prevent contamination or pollution of any environmental medium, including soil, surface waters, groundwater, sediments, and surface or subsurface strata, ambient air or any other environmental medium in, on, or under, the leased premises, by any waste, pollutant, or contaminant. Lessee shall not bring or permit to remain on the leased premises any asbestos containing materials, explosives, toxic materials, or substances regulated as hazardous wastes, hazardous materials, hazardous substances (as the term "Hazardous Substance" is defined in the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), 42 U.S.C. Sections 9601, et seq.), or toxic substances under any federal, state, or local law or regulation ("Hazardous Materials"), except ordinary products commonly used in connection with oil and gas exploration and development operations and stored in the usual manner and quantities. LESSEE'S VIOLATION OF THE FOREGOING PROHIBITION SHALL CONSTITUTED 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 LESSÉE 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 Clerkin 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 exception 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:	//L)41
	DATE: 9-38-	38
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"EXHIBIT A"

Attached to and made a part of Oil and Gas Lease dated August 19, 1998 by and between Julian Wade Meeker, Daniel Hill Meeker and Lawrence Hill Meeker, Trustees UWO J. R. Meeker for Lifetime Benefit of L. H. Meeker, as owner of the soil, and Clay Johnson, as Lessee.

- 1. Lessee is granted the right to use existing roads on the leased premises for ingress and egress, and agrees to maintain, restore and keep roads in usable condition so long as this lease is in force and effect.
- 2. Lessee shall notify owner of the soil a minimum of 24 hours before cutting any new road, if necessary, into or on the leased premises.
- 3. Lessee shall install and maintain cattle guards at every fence crossing, said cattle guards to remain upon premises as owner of the soil's property at the expiration of this lease.
- 4. It is further understood and agreed that Lessee will bury and maintain all pipelines and electrical transmission lines 18 inches deep below the surface of the ground.
- 5. Lessee may use no more of the surface of the leased premises than is reasonably necessary to use for the purpose of which this lease is granted, and it shall exercise all rights granted to it herein with due regard for the rights of the owners of the surface.
- 6. It is further agreed that Lessee, its successors and assigns, shall not erect any buildings or houses on the leased premises and that only those structures which are reasonably necessary for production facilities or tank batteries shall be erected on the surface of the leased premises.
- Notwithstanding any other provisions of this lease to the contrary, it is expressly understood and agreed that Lessee will not pollute any water aquifers or fresh water in, upon or under the leased premises, and Lessee agrees to notify the owner of the soil in writing if fresh water is encountered during drilling, or if a fresh water formation is penetrated.
- •8. • Lessee further agrees to maintain all drill sites and other portions of the surface used or occupied by Lessee, its successors or assigns, free and clear of weeds and noxious vegetation and will maintain the same in a reasonable manner to prevent additional damage to owner of the soil's other land and crops.
- 9...Upon written demand by owner of the soil, Lessee shall build and maintain fences around its slush, sump and drainage pits and tank batteries to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level off all slush pits and cellars and completely clean up the drill site of all rubbish thereon.
- 10. Lessee further agrees that in the event of a dry hole or production from a well which production ceases and the abandonment of such well, or upon the abandonment of any well location, drillsite, tank battery site or roadway, the premises will be restored as nearly as reasonably possible to its former condition at the cost and expense of the Lessee, it being the intention of the parties hereto that the Lessee shall restore the surface to as nearly the state that it is in at the time of execution of this lease.

11. If all or any part of this lease is assigned, released, pooled or unitized, Lessee agrees to furnish the owner of the soil with a copy

of any such document.

Julian Wade Meeker, Trustee UWO J. R.

Meeker for Lifetime Benefit of L. H. Meeker

Lawrence Hill Meeker, Trustee UWO

Meeker for Lifetime Benefit of L. H. Meeker

Date: September 18, 1998

Daniel Hill Meeker, Trustee UWO J. R.

Meeker for Lifetime Benefit of L. H. Meeker

September 18, 1998

STATE OF TEXAS. COUNTY OF Tarrant 8

Before me, the undersigned authority, on this day personally appeared Julian Wade Meeker, Trustee UWO J. R. Meeker, for Lifetime Benefit of L. H. Meeker 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.

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STATE OF TEXAS COUNTY OF Tarvart 8

Before me, the undersigned authority, on this day personally appeared Daniel Hill Meeker, Trustee UWO J. R. Meeker, for Lifetime Benefit of L. H. Meeker 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 this the NATASHA J. LYMAN NOTARY PUBLIC STATE OF TEXAS My Comm. Exp. 10-31-98 ****************** STATE OF TEXAS COUNTY OF Tarrant &

Before me, the undersigned authority, on this day personally appeared Lawrence Hill Meeker, Trustee UWO J. R. Meeker, for Lifetime Benefit of L. H. Meeker 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.

NATASHA J. LYMAN Given under my hand and seal this the My Comm. Exp. 10-31-98

day of C

Notary Public in and for

STATE OF TEXAS

COUNTY OF MIDLAND §

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

Given under my hand and seal this the $\,\,$ $\,$ day of





CERTIFIED TRUE AND CORRECT COPY CERTIFICATE
STATE OF TEXAS
COUNTY OF REEVES
FILED: 11/5/98

DIANNE O. FLOREZ, COUNTY CLERK REEVES COUNTY, TEXAS

Virginia Palomino

General Land Office Relinquishmnt Act Lease Form Revised, September 1997

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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.

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, ½ 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 continue 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



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: 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 (A) condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, shall be 3/16 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be determined by 1) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity in the general area where produced and when run, or 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. 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 part of the gross production or the market value thereof, at the option of the gasoline, liquid hydrocarbons or other products) shall be _ owner of the soil or the Commissioner of the General Land Office, such value to be based on the highest market price paid or offered for gas of comparable quality in the general area where produced and when run, or the gross price paid or offered to the producer, whichever is the greater, provided that the maximum pressure base in measuring the gas under this lease shall not at any time exceed 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to tests made by the Balance Method or by the most approved method of testing being used by the industry at the time of testing. PROCESSED GAS. Royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbons part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the shall be 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 pasty, 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 part of the carried and Office such market. gross production of such products, or the market value thereof, at the option of the owner of 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.

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:

until it is produced and sold or used by Lessee in a manner which entitles the royalty owners to a royalty under this lease.

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.

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

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

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



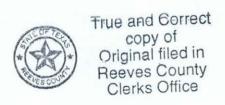


and market value including gas meter readings, pipeline receipts, gas line receipts and other checks or memoranda of amount produced and put into pipelines, tanks, or pools and gas lines or gas storage, and any other reports or records which the General Land Office may require to verify the gross production, disposition and market value. In all cases the authority of a manager or agent to act for the Lessee herein must be filed in the General Land Office. Each royalty payment shall be accompanied by a check stub, schedule, summary or other remittance advice showing by the assigned General Land Office lease number the amount of royalty being paid on each lease. If Lessee pays his royalty on or before thirty (30) days after the royalty payment was due, then Lessee owes a penalty of 5% on the royalty or \$25.00, whichever is greater. A royalty payment which is over thirty (30) days late shall accrue a penalty of 10% of the royalty due or \$25.00 whichever is greater. In addition to a penalty, royalties shall accrue interest at a rate of 12% per year; such interest will begin accruing when the royalty is sixty (60) days overdue.

Affidavits and supporting documents which are not filed when due shall incur a penalty in an amount set by the General Land Office administrative rule which is effective on the date when the affidavits or supporting documents were due. The Lessee shall bear all responsibility for paying or causing royalties to be paid as prescribed by the due date provided herein. Payment of the delinquency penalty shall in no way operate to prohibit the State's right of forfeiture as provided by law nor act to postpone the date on which royalties were originally due. The above penalty provisions shall not apply in cases of title dispute as to the State's portion of the royalty or to that portion of the royalty in dispute as to fair market value.

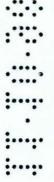
- 10. (A) RESERVES, CONTRACTS AND OTHER RECORDS. Lessee shall annually furnish the Commissioner of the General Land Office with its best possible estimate of oil and gas reserves underlying this lease or allocable to this lease and shall furnish said Commissioner with copies of all contracts under which gas is sold or processed and all subsequent agreements and amendments to such contracts within thirty (30) days after entering into or making such contracts, agreements or amendments. Such contracts and agreements when received by the General Land Office shall be held in confidence by the General Land Office unless otherwise authorized by Lessee. All other contracts and records pertaining to the production, transportation, sale and marketing of the oil and gas produced on said premises, including the books and accounts, receipts and discharges of all wells, tanks, pools, meters, and pipelines shall at all times be subject to inspection and examination by the Commissioner of the General Land Office, the Attorney General, the Governor, or the representative of any of them.
- (B) PERMITS, DRILLING RECORDS. Written notice of all operations on this lease shall be submitted to the Commissioner of the General Land Office by Lessee or operator five (5) days before spud date, workover, re-entry, temporary abandonment or plug and abandonment of any well or wells. Such written notice to the General Land Office shall include copies of Railroad Commission forms for application to drill. Copies of well tests, completion reports and plugging reports shall be supplied to the General Land Office at the time they are filed with the Texas Railroad Commission. All applications, permits, reports or other filings that reference this lease or any specific well on the leased premises and that are submitted to the Texas Railroad Commission or any other governmental agency shall include the word "State" in the title. Additionally, in accordance with Railroad Commission rules, any signage on the leased premises for the purpose of identifying wells, tank batteries or other associated improvements to the land must also include the word "State." Lessee shall supply the General Land Office with any records, memoranda, accounts, reports, cuttings and cores, or other information relative to the operation of the above-described premises, which may be requested by the General Land Office, in addition to those herein expressly provided for. Lessee shall have an electrical and/or radioactivity survey made on the bore-hole section, from the base of the surface easing to the total depth of well, of all wells drilled on the above described premises and shall transmit a true copy of the log of each survey on each well to the General Land Office within fifteen (15) days after the making of said survey.
- (C) PENALTIES. Lessee shall incur a penalty whenever reports, documents or other materials are not filed in the General Land Office when due. The penalty for late filing shall be set by the General Land Office administrative rule which is effective on the date when the materials were due in the General Land Office.
- ••••• 11. DRY HOLE/CESSATION OF PRODUCTION DURING PRIMARY TERM. If, during the primary term hereof and prior to discovery and production of oil or gas 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. Heracaraph 3 of this lease does not specify a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre. To be effective, each initial shut-in oil or gas royalty

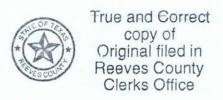




must be paid on or before: (1) the expiration of the primary term, (2) 60 days after the Lessee ceases to produce oil or gas from the leased premises, or (3) 60 days after Lessee completes a drilling or reworking operation in accordance with the lease provisions; whichever date is latest. Such payment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

- 15. COMPENSATORY ROYALTIES. If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is sold and delivered in paying quantities from a well located within one thousand (1,000) feet of the leased premises and completed in the same producing reservoir, or in any case in which drainage is occurring, the right to continue to maintain the lease by paying the shut-in oil or gas royalty shall cease, but the lease shall remain effective for the remainder of the year for which the royalty has been paid. The Lessee may maintain the lease for four more successive years by Lessee paying compensatory royalty at the royalty rate provided in the lease of the market value of production from the well causing the drainage or which is completed in the same producing reservoir and within one thousand (1,000) feet of the leased premises. The compensatory royalty is to be paid monthly, one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil, beginning on or before the last day of the month following the month in which the oil or gas is produced from the well causing the drainage or that is completed in the same producing reservoir and located within one thousand (1,000) feet of the leased premises. If the compensatory royalty paid in any 12-month period is in an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within thirty (30) days from the end of the 12-month period. Compensatory royalty payments which are not timely paid will accrue penalty and interest in accordance with Paragraph 9 of this lease. None of these provisions will relieve Lessee of the obligation of reasonable development nor the obligation to drill offset wells as provided in Texas Natural Resources Code 52.173; however, at the determination of the Commissioner, and with the Commissioner's written approval, the payment of compensatory royalties can satisfy the obligation to drill offset wells.
- 16. RETAINED ACREAGE. Notwithstanding any provision of this lease to the contrary, after a well producing or capable of producing oil or gas has been completed on the leased premises, Lessee shall exercise the diligence of a reasonably prudent operator in drilling such additional well or wells as may be reasonably necessary for the proper development of the leased premises and in marketing the production thereon.
- (A) VERTICAL. In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall then terminate as to all of the leased premises, EXCEPT (1) 40 acres surrounding each oil well capable of producing in paying quantities and 320 acres surrounding each gas well capable of producing in paying quantities (including a shut-in oil or gas well as provided in Paragraph 14 hereof), or a well upon which Lessee is then engaged in continuous drilling or reworking operations, or (2) the number of acres included in a producing pooled unit pursuant to Texas Natural Resources Code 52.151-52.153, or (3) such greater or lesser number of acres as may then be allocated for production purposes to a proration unit for each such producing well under the rules and regulations of the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction. If at any time after the effective date of the partial termination provisions hereof, the applicable field rules are changed or the well or wells located thereon are reclassified so that less acreage is thereafter allocated to said well or wells for production purposes, this lease shall thereupon terminate as to all acreage not thereafter allocated to said well or wells for production purposes. Norwithstanding the termination of this lease as to a portion of the lands covered hereby, Lessee shall nevertheless continue to have the right of ingress to and egress from the lands still subject to this lease for all purposes described in Paragraph 1 hereof, ("the retained lands"), for access to and from the retained lands and for the gathering or transportation of oil, gas and other minerals produced from the retained lands.
- (B) HORIZONTAL. In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall further terminate as to all depths below 100 feet below the total depth drilled (hereinafter "deeper depths") in each well located on acreage retained in Paragraph 16 (A) above, unless on or before two (2) years after the primary or extended term Lessee pays an amount equal to one-half (1/2) of the bonus originally paid as consideration for this lease (as specified on page 1 hereof). If such amount is paid, this lease shall be in force and effect as to such deeper depths, and said termination shall be delayed for an additional period of two (2) years and so long thereafter as oil or gas is produced in paying quantities from such deeper depths covered by this lease.
- (C) IDENTIFICATION AND FILING. The surface acreage retained hereunder as to each well shall, as nearly as practical, be in the form of a square with the well located in the center thereof, or such other shape as may be approved by the Commissioner of the General Land Office. Within thirty (30) days after partial termination of this lease as provided herein, Lessee shall execute and record a release or release 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 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 starturory 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 starturory parameters satisfy the obligation to drill an offset well or wells required under this paragraph.
- 18. FORCE MAJEURE. If, after a good faith effort, Lessee is prevented from complying with any express or implied covenant of this lease, from conducting drilling operations on the leased premises, or from producing oil or gas from the leased premises by reason of war, rebellion, riots, strikes, acts of God, or any valid order, rule or regulation of government authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended and Lessee shall not be liable for damages for failure to comply with such covenants; additionally, this lease shall be extended while Lessee is prevented, by any such cause, from conducting drilling and reworking operations or from producing oil or gas from the leased premises. However, nothing in this paragraph shall suspend the payment of delay rentals in order to maintain this lease in effect during the primary term in the absence of such drilling or reworking operations or production of oil or gas.





- 19. WARRANTY CLAUSE. The owner of the soil warrants and agrees to defend title to the leased premises. If the owner of the soil defaults in payments owed on the leased premises, then Lessee may redeem the rights of the owner of the soil in the leased premises by paying any mortgage, taxes or other liens on the leased premises. If Lessee makes payments on behalf of the owner of the soil under this paragraph, Lessee may recover the cost of these payments from the rental and royalties due the owner of the soil.
- 20. (A) PROPORTIONATE REDUCTION CLAUSE. If the owner of the soil owns less than the entire undivided surface estate in the above described land, whether or not Lessee's interest is specified herein, then the royalties and rental herein provided to be paid to the owner of the soil shall be paid to him in the proportion which his interest bears to the entire undivided surface estate and the royalties and rental herein provided to be paid to the Commissioner of the General Land Office of the State of Texas shall be likewise proportionately reduced. However, before Lessee adjusts the royalty or rental due to the Commissioner of the General Land Office, Lessee or his authorized representative must submit to the Commissioner of the General Land Office a written statement which explains the discrepancy between the interest purportedly leased under this lease and the actual interest owned by the owner of the soil. The Commissioner of the General Land Office shall be paid the value of the whole production allocable to any undivided interest not covered by a lease, less the proportionate development and production cost allocable to such undivided interest. However, in no event shall the Commissioner of the General Land Office receive as a royalty on the gross production allocable to the undivided interest not leased an amount less than the value of one-sixteenth (1/16) of such gross-production.
- (B) REDUCTION OF PAYMENTS. If, during the primary term, a portion of the land covered by this lease is included within the boundaries of a pooled unit that has been approved by the School Land Board and the owner of the soil in accordance with Natural Resources Code Sections 52.151-52.154, or if, at any time after the expiration of the primary term or the extended term, this lease covers a lesser number of acres than the total amount described herein, payments that are made on a per acre basis hereunder shall be reduced according to the number of acres pooled, released, surrendered, or otherwise severed, so that payments determined on a per acre basis under the terms of this lease during the primary term shall be calculated based upon the number of acres outside the boundaries of a pooled unit, or, if after the expiration of the primary term, the number of acres actually retained and covered by this lease.
- 21. USE OF WATER. Lessee shall have the right to use water produced on said land necessary for operations under this lease except water from wells or tanks of the owner of the soil; provided, however, Lessee shall not use potable water or water suitable for livestock or irrigation purposes for waterflood operations without the prior consent of the owner of the soil.
- 22. AUTHORIZED DAMAGES. Lessee shall pay the owner of the soil for damages caused by its operations to all personal property, improvements, livestock and crops on said land.
 - 23. PIPELINE DEPTH. When requested by the owner of the soil, Lessee shall bury its pipelines below plow depth.
- 24. WELL LOCATION LIMIT. No well shall be drilled nearer than two hundred (200) feet to any house or barn now on said premises without the written consent of the owner of the soil.
- 25. POLLUTION. In developing this area, Lessee shall use the highest degree of care and all proper safeguards to prevent pollution. Without limiting the foregoing, pollution of coastal wetlands, natural waterways, rivers and impounded water shall be prevented by the use of containment facilities sufficient to prevent spillage, scepage or ground water contamination. In the event of pollution, Lessee shall use all means at its disposal to recapture all escaped hydrocarbons or other pollutint 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 this 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 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 assignment or assignee does not file a certified copy of such assignment in the General Land Office before the next rental paying date, the entire lease shall terminate for failure to pay the entire rental due under Paragraph 3. Every assignee shall succeed to all rights and be subject to all obligations, liabilities, and penalties owed to the State by the original lessee or any prior assignee of the lease, includi
- (B) ASSIGNMENT LIMITATION. Notwithstanding any provision in Paragraph 27(a), if the owner of the soil acquires this lease in whole or in part by assignment without the prior written approval of the Commissioner of the General Land Office, this lease is void as of the time of assignment and the agency power of the owner may be forfeited by the Commissioner. An assignment will be treated as if it were made to the owner of the soil if the assignee is:
 - (1) a nominee of the owner of the soil;
 - (2) a corporation or subsidiary in which the owner of the soil is a principal stockholder or is an employee of such a corporation or subsidiary;
 - (3) a partnership in which the owner of the soil is a partner or is an employee of such a partnership;
 - (4) a principal stockholder or employee of the corporation which is the owner of the soil;
 - (5) a partner or employee in a partnership which is the owner of the soil;



- (6) a fiduciary for the owner of the soil; including but not limited to a guardian, trustee, executor, administrator, receiver, or conservator for the owner of the soil: or
- (7) a family member of the owner of the soil or related to the owner of the soil by marriage, blood, or adoption.
- (7) a family member of the owner of the son or related to the owner of the soil 23. RELEASES. Under the conditions contained in this paragraph and Paragraph 29, Lessee may at any time execute and deliver to the owner of the soil and place of record a releases covering any portion or portions of the leased premises, and thereby surrender this lease as to such portion or portions, and be and place of record a release or releases covering any portion of portions of the 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
- 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 a signed 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 forfgiture, 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 tense 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 Lassor 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 fore 10.5cm 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 reptached 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
- 34. POOLING. Lessee is hereby granted the right to pool or unitize the royalty interest of the owner of the soil under this lease with any other leasehold or mineral interest for the exploration, development and production of oil or gas or either of them upon the same terms as shall be approved by the School Land Board and the Commissioner of the General Land Office for the pooling or unitizing of the interest of the State under this lease pursuant to Texas Natural Resources Code 52.151-52.153. The owner of the soil agrees that the inclusion of this provision in this lease satisfies the execution requirements stated in Texas Natural Resources Code 52.152.
- 35. INDEMNITY. Lessee hereby releases and discharges the State of Texas aEd the owner of the soil, their officers, employees, partners, agents, contractors, subcontractors, guests, invitees, and their respective successors and assigns, of and from all and any actions and causes of action of every nature, or other harm, including environmental harm, for which recovery of damages is sought, including, but not limited to, all losses and expenses which are caused by the activities of Lessee, its officers, employees, and agents arising out of, incidental to, or resulting from, the operations of or for Lessee on the leased premises hereunder, or that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Agreement, or by any other negligent or strictly liable act or omission of Lessee. Further, Lessee hereby agrees to be liable for, exonerate, indemnify, defend and hold harmless the State of Texas and the owner of the soil, their officers, employees and agents, their successors or assigns, against any and all claims, liabilities, losses, damages, actions, personal injury (including death). costs and expenses, or other harm for which recovery of damages is sought, under any theory including tort, contract, or strict liability, including attorneys' fees and other legal expenses, including those related to environmental hazards, on the leased premises or in any way related to Lessee's failure to comply with any and all environmental laws; those arising from or in any way related to Lessee's operations or any other of Lessee's activities on the leased premises; those arising from Lessee's use of the surface of the leased premises; and those that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Agreement or any other act or omission of Lessee, its directors, officers, employees, partners, agents, contractors, subcontractors, guests, invitees, and their respective successors and assigns. Each assignee of this Agreement, or an interest therein, agrees to be liable for, exonerate, indemnify, defend and hold harmless the State of Tex as and the owner of the soil, their officers, employees, and agents in the same manner provided above in connection with the activities of Lessee, its officers, employees, and agents as described above. EXCEPT AS OTHERWISE EXPRESSLY LIMITED HEREIN, ALL OF THE INDEMNITY OBLIGATIONS AND/OR LIABILITIES ASSUMED UNDER THE TERMS OF THIS AGREEMENT SHALL BE WITHOUT LIMITS AND WITHOUT REGARD TO THE CAUSE OR CAUSES THEREOF (EXCLUDING PRE-EXISTING CONDITIONS), STRICT LIABILITY, OR THE NEGLIGENCE OF ANY PARTY OR PARTIES (INCLUDING THE NEGLIGENCE OF THE INDEMNIFIED PARTY), WHETHER SUCH NEGLIGENCE BE SOLE, JOINT, CONCURRENT, ACTIVE, OR PASSIVE.





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

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

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

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

See Exhibit "A" attached for	additional lease provisions.	
·····	Tohuson	
LESSEE BY: Clay Jo	ohnson	
•	· ·	
DATE: 9-8	28-98	
• •••••	National Control of the Control of t	
STATE OF TEXAS	STATE OF TEXAS	
BY: Derethy Jan Keenom	BY:	
Dorothy Jean Hiff, Individually and as	s Trustee of the Thomas Hill Puff Trust and as Tru	stee
Date: Keenom 2946 September 24, 1998	Date: of the Nancy Puff Jones Trust	
STATE OF TEXAS	STATE OF TEXAS	
BY:	BY:	
Individually and as agent for the State of Texas	Individually and as agent for the State of Texas	
Date:	Date:	
Keenom		
Thomas Hill Puff Trust Tax ID# 75-626	56417	
Nancy Puff Jones Trust Tax ID# 75-626	56418	



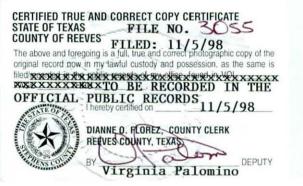
STATE OF	(CORPORATION ACKNOWLEDGMENT)
COUNTY OF	
BEFORE ME, the undersigned authority, on this day personally ap	peared
nown to me to be the person whose name is subscribed to the foregoing instru	ument, asof
	and acknowledged to me that he executed the sa
r the purposes and consideration therein expressed, in the capacity stated, an	id as the act and deed of said corporation.
Given under my hand and seal of office this theday of	
	Notary Public in and for
*ATE OF	(CORPORATION ACKNOWLEDGMENT)
DUNTY OF	
BEFORE ME, the undersigned authority, on this day personally app	and the same of th
own to me to be the person whose name is subscribed to the foregoing instru	
the purposes and consideration therein expressed, in the capacity stated, and	and acknowledged to me that he executed the said as the act and deed of said corporation.
Given under my hand and seal of office this theday of_	. 19
	* *
•••	Notary Public in and for
···· :	
ATE OF TEXAS	(INDIVIDUAL ACKNOWLEDGMENT)
OUNTY OF TEXAS Tarrant	SAL
Before me, the undersigned authority, on this day personally appears	Dorothy Jean Hill Individually and as
own to me to be the persons whose names are subscribed to the foregoing ins	strument, and acknowledged to me that they executed the same for the purposes
asideration therein expressed.	
Given under my hand and seal of office this the 24th IMMIE	Id-NOOKS September 19 98
March	7, 2002 Samuel & 4500
	Botary Public in and for the State of Texas
TAKAD	
ATE OF DATE	(INDIVIDUAL ACKNOWLEDGMENT)
UNTY OF 114 alaha	00 00 000
Before me, the undersigned authority, on this day personally appeare	d Clay Johnson
wn to me to be the persons whose names are subscribed to the foregoing inst	trument, and acknowledged to me that they executed the same for the purposes
sideration therein expressed.	Controlon an
Given under my hand and seal of office this the Z 0	day of September, 1998.
	Monic marlowe
MONICA MARLOWE	Notary Public in and for Texas
NOTARY PUBLIC State of Texas	
Comm Exp 10-30-99	



"EXHIBIT A"

Attached to and made a part of Oil and Gas Lease Keenom dated August 19, 1998 by and between Dorothy Jean Hill, Individually and as Trustee of the Thomas Hill Puff Trust and as Trustee of the Nancy Puff Jones Trust, as the owner of the soil, and Clay Johnson, as Lessee.

- Lessee is granted the right to use existing roads on the leased premises for ingress and egress, and agrees to maintain, restore and keep roads in usable condition so long as this lease is in force and effect.
- Lessee shall notify the owner of the soil a minimum of 24 hours before cutting any new road, if necessary, into or on the leased premises.
- Lessee shall install and maintain cattle guards at every fence crossing, said cattle guards to remain upon premises as property of the owner of the soil at the expiration of this lease.
- 4. It is further understood and agreed that Lessee will bury and maintain all pipelines and electrical transmission lines 18 inches deep below the surface of the ground.
- Lessee may use no more of the surface of the leased premises than is reasonably necessary to use for the purpose of which this
 lease is granted, and it shall exercise all rights granted to it herein with due regard for the rights of the owners of the surface.
- 6. It is further agreed that Lessee, its successors and assigns, shall not erect any buildings or houses on the leased premises and that
 only those structures which are reasonably necessary for production facilities or tank batteries shall be erected on the surface of
 the leased premises.
- 7. Notwithstanding any other provisions of this lease to the contrary, it is expressly understood and agreed that Lessee will not pollute any water aquifers or fresh water in, upon or under the leased premises, and Lessee agrees to notify the owner of the soil in writing if fresh water is encountered during drilling, or if a fresh water formation is penetrated.
- 8. Lessee further agrees to maintain all drill sites and other portions of the surface used or occupied by Lessee, its successors or assigns, free and clear of weeds and noxious vegetation and will maintain the same in a reasonable manner to prevent additional damage to the owner of the soil's other land and crops.
- 9. Upon written demand by the owner of the soil, Lessee shall build and maintain fences around its slush, sump and drainage pits and tank batteries to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level off all slush pits and cellars and completely clean up the drill site of all rubbish thereon.
- 10. Lessee further agrees that in the event of a dry hole or production from a well which production ceases and the abandonment of such well, or upon the abandonment of any well location, drillsite, tank battery site or roadway, the premises will be restored as nearly as reasonably possible to its former condition at the cost and expense of the Lessee, it being the intention of the parties hereto that the Lessee shall restore the surface to as nearly the state that it is in at the time of execution of this lease.
- 11. If all or any part of this lease is assigned, released, pooled or unitized, Lessee agrees to furnish the owner of the soil with a copy of any such document.





Leon E File No. MF (BO248

Date Filed: _

General Land Office Relinquishmnt Act Lease Form Revised, September 1997

	OIL AND GAS LEASE	
THI	SAGREEMENT is made and entered into this 19 day of August 1998, between the State of Texas, acting by an adi Phillips 1983 Trust, Philip J. Boschetti and John L. Mar	d through its
CO.	Trustees of	ion,
80:	Cherry Street, Suite 1500, Fort Worth, Texas 76102-6869	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 calle	d Lessee.	
	drilling for and producing oil and gas, laying pipe lines, building tanks, storing oil and building power stations, telephone lines uce, save, take care of, treat and transport said products of the lease, the following lands situated in Reeves:	and other structures County, State
	Block 58, Public School Land Survey	
	Section 14: E/2 (17.5 net acres)	
	Section 14: SW/4 (7.77 net acres)	
	beedin 111 billy 1 (11) 1 heb deleby	1 -
		.1
containing 4	acres, more or less. The bonus consideration paid for this lease is as follows:	
	To the State of Texas: Six Hundred Thirty-one and 75/100 Dollars (\$ 631.75)	
	To the owner of the soil: Six Hundred Thirty-one and 75/100 Dollars (S 631.75)	
	Total bonus consideration: One Thousand Two Hundred Sixty-three and 5	0/100
	Dollars (5 1,263.50	*
	consideration paid represents a bonus of Fifty and No/100	

•••• 2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of <u>Five (5) years</u> from this date (necessia 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.

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, ½ directly to the owner of the soil the 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 continue 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



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
NON PROCESSED GAS. Royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substances not defined as oil in subparagraph (A) above, produced from any well on said land (except as provided herein with respect to gas processed in a plant for the extraction of gasoline, liquid hydrocarbons or other products) shall be 3/16 part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be based on the highest market price paid or offered for gas of comparable quality in the general area where produced and when run, or the gross price paid or offered to the producer, whichever is the greater; provided that the maximum pressure base in measuring the gas under this lease shall not at any time exceed 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to tests made by the Balance Method or by the most approved method of testing being used by the industry at the time of testing.
PROCESSED GAS. Royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbons shall be 3/16 part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office. All royalties due herein shall be based on one hundred percent (100%) of the total plant production of residue gas attributable to gas produced from this lease, and on fifty percent (50%), or that percent accruing to Lessee, whichever is the greater, of the total plant production of liquid hydrocarbons attributable to the gas produced from this lease; provided that if liquid hydrocarbons are recovered from gas processed in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the percentage applicable to liquid hydrocarbons shall be fifty percent (50%) or the highest percent accruing to a third party processing gas through such plant under a processing agreement negotiated at arm's length (or if there is no such third party, the highest percent then being specified in processing agreements or contracts in the industry), whichever is the greater. The respective royalties on residue gas

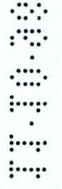
(D) OTHER PRODUCTS. Royalty on carbon black, sulphur or any other products produced or manufactured from gas (excepting liquid hydrocarbons) whether said gas be "casinghead," "dry," or any other gas, by fractionating, burning or any other processing shall be 3/16 part of the gross production of such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

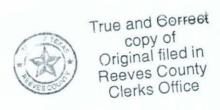
and on liquid hydrocarbons shall be determined by 1) the highest market price paid or offered for any gas (or liquid hydrocarbons) of comparable quality in the general area, or 2) the gross price paid or offered for such residue gas (or the weighted average gross selling price for the respective grades of liquid hydrocarbons), whichever is the greater. In no event, however, shall the royalties payable under this paragraph be less than the royalties which would have been due had the gas not

been processed.

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

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





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



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

- 15. COMPENSATORY ROYALTIES. If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is sold and delivered in paying quantities from a well located within one thousand (1,000) feet of the leased premises and completed in the same producing reservoir, or in any case in which drainage is occurring, the right to continue to maintain the lease by paying the shut-in oil or gas royalty shall cease, but the lease shall remain effective for the remainder of the year for which the royalty has been paid. The Lessee may maintain the lease for four more successive years by Lessee paying compensatory royalty at the royalty rate provided in the lease of the market value of production from the well causing the drainage or which is completed in the same producing reservoir and within one thousand (1,000) feet of the leased premises. The compensatory royalty is to be paid monthly, one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil, beginning on or before the last day of the month following the month in which the oil or gas is produced from the well causing the drainage or that is completed in the same producing reservoir and located within one thousand (1,000) feet of the leased premises. If the compensatory royalty paid in any 12-month period is in an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within thirty (30) days from the end of the 12-month period. Compensatory royalty payments which are not timely paid will accrue penalty and interest in accordance with Paragraph 9 of this lease. None of these provisions will relieve Lessee of the obligation of reasonable development nor the obligation to drill offset wells as provided in Texas Natural Resources Code 52.173; however, at the determination of the Commissioner, and with the Commissioner's written approval, the payment of compensatory royalties can satisfy the obligation to drill offset
- 16. RETAINED ACREAGE. Notwithstanding any provision of this lease to the contrary, after a well producing or capable of producing oil or gas has been completed on the leased premises, Lessee shall exercise the diligence of a reasonably prudent operator in drilling such additional well or wells as may be reasonably necessary for the proper development of the leased premises and in marketing the production thereon.
- (A) VERTICAL. In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall then terminate as to all of the leased premises, EXCEPT (1) 40 acres surrounding each oil well capable of producing in paying quantities and 320 acres surrounding each gas well capable of producing in paying quantities (including a shut-in oil or gas well as provided in Paragraph 14 hereof), or a well upon which Lessee is then engaged in continuous drilling or reworking operations, or (2) the number of acres included in a 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 templication 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.
- the oil and gas under the above-described land from being drained. Lessee, sublessee, receiver or other agent in control of the leased premises shall drill as many wells as the facts may justify and shall use appropriate means and drill to a depth necessary to prevent undue drainage of oil and gas from the leased premises. In addition, if oil and/or gas should be produced in commercial quantities within 1,000 feet of the leased premises, or in any case where the leased premises is being drained by production of oil or gas, the Lessee, sublessee, receiver or other agent in control of the leased premises shall in good faith begin the drilling of a well or wells upon the leased premises within 100 days after the draining well or wells or the well or wells completed within 1,000 feet of the leased premises start producing in commercial quantities and shall prosecute such drilling with diligence. Failure to satisfy the statutory offset obligation may subject this lease and the owner of the soil's agency rights to forfeiture. Only upon the determination of the Commissioner of the General Land Office and with his written approval may the payment of compensatory royalty under applicable statutory parameters satisfy the obligation to drill an offset well or wells required under this paragraph.
- 18. FORCE MAJEURE. If, after a good faith effort, Lessee is prevented from complying with any express or implied covenant of this lease, from conducting drilling operations on the leased premises, or from producing oil or gas from the leased premises by reason of war, rebellion, riots, strikes, acts of God, or any valid order, rule or regulation of government authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended and Lessee shall not be liable for damages for failure to comply with such covenants; additionally, this lease shall be extended while Lessee is prevented, by any such cause, from conducting drilling and reworking operations or from producing oil or gas from the leased premises. However, nothing in this paragraph shall suspend the payment of delay rentals in order to maintain this lease in effect during the primary term in the absence of such drilling or reworking operations or production of oil or gas.

- 19. WARRANTY CLAUSE. The owner of the soil warrants and agrees to defend title to the leased premises. If the owner of the soil defaults in payments owed on the leased premises, then Lessee may redeem the rights of the owner of the soil in the leased premises by paying any mortgage, taxes or other liens on the leased premises. If Lessee makes payments on behalf of the owner of the soil under this paragraph, Lessee may recover the cost of these payments from the rental and royalties due the owner of the soil.
- 20. (A) PROPORTIONATE REDUCTION CLAUSE. If the owner of the soil owns less than the entire undivided surface estate in the above described land, whether or not Lessee's interest is specified herein, then the royalties and rental herein provided to be paid to the owner of the soil shall be paid to him in the proportion which his interest bears to the entire undivided surface estate and the royalties and rental herein provided to be paid to the Commissioner of the General Land Office of the State of Texas shall be likewise proportionately reduced. However, before Lessee adjusts the royalty or rental due to the Commissioner of the General Land Office, Lessee or his authorized representative must submit to the Commissioner of the General Land Office a written statement which explains the discrepancy between the interest purportedly leased under this lease and the actual interest owned by the owner of the soil. The Commissioner of the General Land Office shall be paid the value of the whole production allocable to any undivided interest not covered by a lease, less the proportionate development and production cost allocable to such undivided interest. However, in no event shall the Commissioner of the General Land Office receive as a royalty on the gross production allocable to the undivided interest not leased an amount less than the value of one-sixteenth (1/16) of such gross-production.
- (B) REDUCTION OF PAYMENTS. If, during the primary term, a portion of the land covered by this lease is included within the boundaries of a pooled unit that has been approved by the School Land Board and the owner of the soil in accordance with Natural Resources Code Sections 52.151-52.154, or if, at any time after the expiration of the primary term or the extended term, this lease covers a lesser number of acres than the total amount described herein, payments that are made on a per acre basis hereunder shall be reduced according to the number of acres pooled, released, surrendered, or otherwise severed, so that payments determined on a per acre basis under the terms of this lease during the primary term shall be calculated based upon the number of acres outside the boundaries of a pooled unit, or, if after the expiration of the primary term, the number of acres actually retained and covered by this lease.
- 21. USE OF WATER. Lessee shall have the right to use water produced on said land necessary for operations under this lease except water from wells or tanks of the owner of the soil; provided, however, Lessee shall not use potable water or water suitable for livestock or irrigation purposes for waterflood operations without the prior consent of the owner of the soil.
- 22. AUTHORIZED DAMAGES. Lessee shall pay the owner of the soil for damages caused by its operations to all personal property, improvements, livestock and crops on said land.
 - 23. PIPELINE DEPTH. When requested by the owner of the soil, Lessee shall bury its pipelines below plow depth.
- 24. WELL LOCATION LIMIT. No well shall be drilled nearer than two hundred (200) feet to any house or barn now on said premises without the written consent of the owner of the soil.
- 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 appremises 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.
- 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
- (B) ASSIGNMENT LIMITATION. Notwithstanding any provision in Paragraph 27(a), if the owner of the soil acquires this lease in whole or in part by assignment without the prior written approval of the Commissioner of the General Land Office, this lease is void as of the time of assignment and the agency power of the owner may be forfeited by the Commissioner. An assignment will be treated as if it were made to the owner of the soil if the assignee is:
 - (1) a nominee of the owner of the soil;
 - (2) a corporation or subsidiary in which the owner of the soil is a principal stockholder or is an employee of such a corporation or subsidiary;
 - (3) a partnership in which the owner of the soil is a partner or is an employee of such a partnership;
 - (4) a principal stockholder or employee of the corporation which is the owner of the soil;
 - (5) a partner or employee in a partnership which is the owner of the soil;



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

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

- 28. RELEASES. Under the conditions contained in this paragraph and Paragraph 29, Lessee may at any time execute and deliver to the owner of the soil and place of record a release or releases covering any portion or portions of the leased premises, and thereby surrender this lease as to such portion or portions, and be and place of recert a release or releases covering any portion of portions of the 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 leash 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 herain.
- 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 hineral 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 Boardand 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.
- •••••\$. INDEMNITY. Lessee hereby releases and discharges the State of Texas aEd the owner of the soil, their officers, employees, partners, agents, contractors, subcontractors, guests, invitees, and their respective successors and assigns, of and from all and any actions and causes of action of every nature, or other harm, including environmental harm, for which recovery of damages is sought, including, but not limited to, all losses and expenses which are caused by the activities of Lessee, its officers, employees, and agents arising out of, incidental to, or resulting from, the operations of or for Lessee on the leased premises hereunder, or that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Agreement, or by any other negligent or strictly liable act or omission of Lessee. Further, Lessee hereby agrees to be liable for, exonerate, indemnify, defend and hold harmless the State of Texas and the owner of the soil, their officers, employees and agents, their successors or assigns, against any and all claims, liabilities, losses, damages, actions, personal injury (including death), costs and expenses, or other harm for which recovery of damages is sought, under any theory including tort, contract, or strict liability, including attorneys' fees and other legal expenses, including those related to environmental hazards, on the leased premises or in any way related to Lessee's failure to comply with any and all environmental laws; those arising from or in any way related to Lessee's operations or any other of Lessee's activities on the leased premises; those arising from Lessee's use of the surface of the leased premises; and those that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Agreement or any other act or omission of Lessee, its directors, officers, employees, partners, agents, contractors, subcontractors, guests, invitees, and their respective successors and assigns. Each assignee of this Agreement, or an interest therein, agrees to be liable for, exonerate, indemnify, defend and hold hamless 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.

* See Exhib	it "A" Attached fo	or Additional Provisio	ns
	/AU-Toha	150N	
	LESSEE Clay John	nson	
-:-::·	DATE: 10-6-9	78	
:	DAIL.		
STATE OF TEXAS		STATE OF TEXAS	
Andividually and a Toppetor the Sta	in al Tenny	BY:	he State of Texas
Philip J. Boschet	ti, Co-Trustee of	the Windi Phillips 1	983 Trust
W Dats: 9-22-98		Date:	Tax ID#75-631894
			2.2.2.1
STATE OF TEXAS		STATE OF TEXAS	Many .
/BY: claim		BY:	
John L. Marion, C	o-Trustee of the	Individually and as agent for the Windi Phillips 1983 T	he State of Texas rust
Date: 9-22-98	0 11 45000 01 0110 1	Date:	
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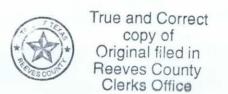
STATE OF	(CORPORATION ACKNOWLEDGMENT)
COUNTY OF	
BEFORE ME, the undersigned authority, on this day personally appe	eared
known to me to be the person whose name is subscribed to the foregoing instrun	ment, as of
	and acknowledged to me that he executed the same
for the purposes and coasideration therein expressed, in the capacity stated, and	as the act and deed of said corporation.
Given under my hand and seal of office this theday of	
	Notary Public in and for
STATE OF	(CORPORATION ACKNOWLEDGMENT)
COUNTY OF	
BEFORE ME, the undersigned authority, on this day personally appear	ared .
known to me to be the person whose name is subscribed to the foregoing instrum	
for the purposes and consideration therein expressed, in the capacity stated, and a	and acknowledged to me that he executed the same as the act and deed of said corporation.
Given under my hand and seal of office this theday of	. 19
	Notary Public in and for
STATE OF TEXAS	(INDIVIDUAL ACKNOWLEDGMENT)
COUNTY OF Sarrant	
Before me, the undersigned authority, on this day personally appeared	Philip J. Boschetti and John L.
Marion, as Co-Trustees of the Windi Pl	ument, and acknowledged to me that they executed the same for the purposes at
onsideration therein expressed.	÷ 1
Given under my hand and seal of office this the 22 rd di	ay of September 1998.
JUDITH REMINGTON	3 Gudith Kemington
Notary Public, State of Texas My Commission Expires 3-1-99	Notary Public in and for Alxan
•••••	
TATE OF LEXAS	(INDIVIDUAL ACKNOWLEDGMENT)
OUNTY OF Midland	00 - 1
Before me, the undersigned authority, on this day personally appeared	Clay Johnson
nown to me to be the persons whose names are subscribed to the foregoing instru	. 0 0
onsideration therein expressed.	iment, and acknowledged to me that they executed the same for the purposes a
Given under my hand and seal of office this theda	ay of October 1998
	Monic-Marlone
MONICA MARLOWE	Narray Bublis is and for TENAD
NOTARY PUBLIC State of Texas	Notary Public in and for [SCACO]
Comm. Exp. 10-30-99	

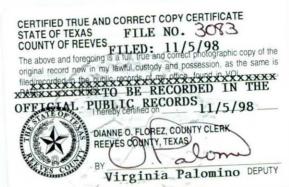


"EXHIBIT A"

Attached to and made a part of Oil and Gas Lease dated August 19, 1998 by and between Windi Phillips 1983 Trust, Philip J. Boschetti and John L. Marion, Co-Trustees, as the owner of the soil, and Clay Johnson, as Lessee.

- Lessee is granted the right to use existing roads on the leased premises for ingress and egress, and agrees to maintain, restore and keep roads in usable condition so long as this lease is in force and effect.
- Lessee shall notify the owner of the soil a minimum of 24 hours before cutting any new road, if necessary, into or on the leased premises.
- Lessee shall install and maintain cattle guards at every fence crossing, said cattle guards to remain upon premises as property of the owner of the soil at the expiration of this lease.
- It is further understood and agreed that Lessee will bury and maintain all pipelines and electrical transmission lines 18 inches
 deep below the surface of the ground.
- Lessee may use no more of the surface of the leased premises than is reasonably necessary to use for the purpose of which this lease is granted, and it shall exercise all rights granted to it herein with due regard for the rights of the owners of the surface.
- It is further agreed that Lessee, its successors and assigns, shall not erect any buildings or houses on the leased premises and that
 only those structures which are reasonably necessary for production facilities or tank batteries shall be erected on the surface of
 the leased premises.
- 7. Notwithstanding any other provisions of this lease to the contrary, it is expressly understood and agreed that Lessee will not pollute any water aquifers or fresh water in, upon or under the leased premises, and Lessee agrees to notify the owner of the soil in writing if fresh water is encountered during drilling, or if a fresh water formation is penetrated.
- See See further agrees to maintain all drill sites and other portions of the surface used or occupied by Lessee, its successors or assigns, free and clear of weeds and noxious vegetation and will maintain the same in a reasonable manner to prevent additional damage to the owner of the soil's other land and crops.
- 9. Upon written demand by the owner of the soil, Lessee shall build and maintain fences around its slush, sump and drainage pits
 and tank batteries to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells,
 ... Lessee shall fill and level off all slush pits and cellars and completely clean up the drill site of all rubbish thereon.
- 10. Lessee further agrees that in the event of a dry hole or production from a well which production ceases and the abandonment of such well, or upon the abandonment of any well location, drillsite, tank battery site or roadway, the premises will be restored as nearly as reasonably possible to its former condition at the cost and expense of the Lessee, it being the intention of the parties hereto that the Lessee shall restore the surface to as nearly the state that it is in at the time of execution of this lease.
- 11. If all or any part of this lease is assigned, released, pooled or unitized, Lessee agrees to furnish the owner of the soil with a copy of any such document.





File No. M. - 1002 48

Date Filod: 11/10/98

By Dayld Downurth Commissioner

....



General Land Office Relinquishmnt Act Lease Form Revised, September 1997

OIL AND GAS LEASE

	of	
P. O.	Box 27284, Austin, TX 78755-2284	said agent
	(Give Permanent Address)	
n referred to	as the owner of the soil (whether one or more), and Clay Johnson	
	203 W. Wall, Suite 800	01
	Midland, TX 79701	
	(Give Permanent Address)	
inafter called	Lessee.	
I. GI	CANTING CLAUSE. For and in consideration of the amounts stated below and of the covenants and agreements to be p	paid, kept and performed
e under this	s lease, the State of Texas acting by and through the owner of the soil, hereby grants, leases and lets unto Lessee, for the	sole and only purpose of
ecting and	drilling for and producing oil and gas, laying pipe lines, building tanks, storing oil and building power stations, telephon	e lines and other structur
	ice, save, take care of, treat and transport said products of the lease, the following lands situated in Reeves	
xas, to-wit:		
	*	
	Block 58, Public School Land Survey	
	Section 14: E/2 (2.8125 net acres)	
	Section 14: SW/4 (1.25 net acres)	
	occordi 11. Dily 1. (1.25 fiet acres)	
		1
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uning	acres, more or less. The bonus consideration paid for this lease is as follows:	
uining	actos, more of less. The bonds consideration paid for any lesse is as follows:	. 1.
uining	To the State of Texas: One Hundred One and 56/100	. .
nining	actos, more of less. The bonds consideration paid for any lesse is as follows:	
nining	To the State of Texas: One Hundred One and 56/100 Dollars (\$ 101.56	
uning	To the State of Texas: One Hundred One and 56/100 Dollars (\$ 101.56) To the owner of the soil: One Hundred One and 56/100	
tining	To the State of Texas: One Hundred One and 56/100 Dollars (\$ 101.56	
uning	To the State of Texas: One Hundred One and 56/100 Dollars (\$ 101.56) To the owner of the soil: One Hundred One and 56/100 Dollars (\$ 101.56)	
uning	To the State of Texas: One Hundred One and 56/100 Dollars (\$ 101.56) To the owner of the soil: One Hundred One and 56/100 Dollars (\$ 101.56) Total bonus consideration: Two Hundred Three and 12/100	
uning	To the State of Texas: One Hundred One and 56/100 Dollars (\$ 101.56) To the owner of the soil: One Hundred One and 56/100 Dollars (\$ 101.56)	
	To the State of Texas: One Hundred One and 56/100 Dollars (\$ 101.56) To the owner of the soil: One Hundred One and 56/100 Dollars (\$ 101.56) Total bonus consideration: Two Hundred Three and 12/100 Dollars (\$ 203.12)	
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	To the State of Texas: One Hundred One and 56/100 Dollars (\$ 101.56) To the owner of the soil: One Hundred One and 56/100 Dollars (\$ 101.56) Total bonus consideration: Two Hundred Three and 12/100 Dollars (\$ 203.12) Consideration paid represents a bonus of Fifty and 00/100 Dollars (\$ 50.00) per acre, on xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx	0625 net acr
	To the State of Texas: One Hundred One and 56/100 Dollars (\$ 101.56) To the owner of the soil: One Hundred One and 56/100 Dollars (\$ 101.56) Total bonus consideration: Two Hundred Three and 12/100 Dollars (\$ 203.12) Consideration paid represents a bonus of Fifty and 00/100 Dollars (\$ 50.00) per acre, on xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx	0625 net acr
ctal bonus c	To the State of Texas: One Hundred One and 56/100 Dollars (\$ 101.56) To the owner of the soil: One Hundred One and 56/100 Dollars (\$ 101.56) Total bonus consideration: Two Hundred Three and 12/100 Dollars (\$ 203.12) consideration paid represents a bonus of Fifty and 00/100	0625 net acr

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, ½ 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 continue 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



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	
(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	

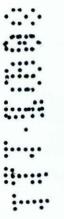
(D) OTHER PRODUCTS. Royalty on carbon black, sulphur or any other products produced or manufactured from gas (excepting liquid hydrocarbons) whether said gas be "casinghead," "dry," or any other gas, by fractionating, burning or any other processing shall be 3/16 part of the gross production of such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

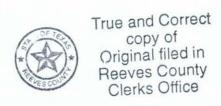
the highest percent accruing to a third party processing gas through such plant under a processing agreement negotiated at arm's length (or if there is no such third party, the highest percent then being specified in processing agreements or contracts in the industry), whichever is the greater. The respective royalties on residue gas and on liquid hydrocarbons shall be determined by 1) the highest market price paid or offered for any gas (or liquid hydrocarbons) of comparable quality in the general area, or 2) the gross price paid or offered for such residue gas (or the weighted average gross selling price for the respective grades of liquid hydrocarbons), whichever is the greater. In no event, however, shall the royalties payable under this paragraph be less than the royalties which would have been due had the gas not

been processed.

- 5. MINIMUM ROYALTY. During any year after the expiration of the primary-term of this lease, if this lease is maintained by production, the 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 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 campletion of said dry hole or cessation of production Lessee commences additional drilling or reworking operations thereon, or pays or tenders the next around datay 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 unable to 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 accerdance 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 Lesses 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. HF Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre. To be effective, each initial shut-in oil or gas royalty



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

- 15. COMPENSATORY ROYALTIES. If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is sold and delivered in paying quantities from a well located within one thousand (1,000) feet of the leased premises and completed in the same producing reservoir, or in any case in which drainage is occurring, the right to continue to maintain the lease by paying the shut-in oil or gas royalty shall cease, but the lease shall remain effective for the remainder of the year for which the royalty has been paid. The Lessee may maintain the lease for four more successive years by Lessee paying compensatory royalty at the royalty rate provided in the lease of the market value of production from the well causing the drainage or which is completed in the same producing reservoir and within one thousand (1,000) feet of the leased premises. The compensatory royalty is to be paid monthly, one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil, beginning on or before the last day of the month following the month in which the oil or gas is produced from the well causing the drainage or that is completed in the same producing reservoir and located within one thousand (1,000) feet of the leased premises. If the compensatory royalty paid in any 12-month period is in an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within thirty (30) days from the end of the 12-month period. Compensatory royalty payments which are not timely paid will accrue penalty and interest in accordance with Paragraph 9 of this lease. None of these provisions will relieve Lessee of the obligation of reasonable development nor the obligation to drill offset wells as provided in Texas Natural Resources Code 52.173; however, at the determination of the Commissioner, and with the Commissioner's written approval, the payment of compensatory royalties can satisfy the obligation to drill offset
- 16. RETAINED ACREAGE. Notwithstanding any provision of this lease to the contrary, after a well producing or capable of producing oil or gas has been completed on the leased premises, Lessee shall exercise the diligence of a reasonably prudent operator in drilling such additional well or wells as may be reasonably necessary for the proper development of the leased premises and in marketing the production thereon.
- (A) VERTICAL. In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall then terminate as to all of the leased premises, EXCEPT (1) 40 acres surrounding each oil well capable of producing in paying quantities and 320 acres surrounding each gas well capable of producing in paying quantities (including a shut-in oil or gas well as provided in Paragraph 14 hereof), or a well upon which Lessee is then engaged in continuous drilling or reworking operations, or (2) the number of acres included in a 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 ("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, "thiess 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 for example the following the filling 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 starutory parameters satisfy the obligation to drill an offset well or wells required under this paragraph.
- 18. FORCE MAJEURE. If, after a good faith effort, Lessee is prevented from complying with any express or implied covenant of this lease, from conducting drilling operations on the leased premises, or from producing oil or gas from the leased premises by reason of war, rebellion, riots, strikes, acts of God, or any valid order, rule or regulation of government authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended and Lessee shall not be liable for damages for failure to comply with such covenants; additionally, this lease shall be extended while Lessee is prevented, by any such cause, from conducting drilling and reworking operations or from producing oil or gas from the leased premises. However, nothing in this paragraph shall suspend the payment of delay rentals in order to maintain this lease in effect during the primary term in the absence of such drilling or reworking operations or production of oil or gas.



- 19. WARRANTY CLAUSE. The owner of the soil warrants and agrees to defend title to the leased premises. If the owner of the soil defaults in payments owed on the leased premises, then Lessee may redeem the rights of the owner of the soil in the leased premises by paying any mortgage, taxes or other liens on the leased premises. If Lessee makes payments on behalf of the owner of the soil under this paragraph, Lessee may recover the cost of these payments from the rental and royalties due the owner of the soil.
- 20. (A) PROPORTIONATE REDUCTION CLAUSE. If the owner of the soil owns less than the entire undivided surface estate in the above described land, whether or not Lessee's interest is specified herein, then the royalties and rental herein provided to be paid to the owner of the soil shall be paid to him in the proportion which his interest bears to the entire undivided surface estate and the royalties and rental herein provided to be paid to the Commissioner of the General Land Office of the State of Texas shall be likewise proportionately reduced. However, before Lessee adjusts the royalty or rental due to the Commissioner of the General Land Office, Lessee or his authorized representative must submit to the Commissioner of the General Land Office a written statement which explains the discrepancy between the interest purportedly leased under this lease and the actual interest owned by the owner of the soil. The Commissioner of the General Land Office shall be paid the value of the whole production allocable to any undivided interest not covered by a lease, less the proportionate development and production cost allocable to such undivided interest. However, in no event shall the Commissioner of the General Land Office receive as a royalty on the gross production allocable to the undivided interest not leased an amount less than the value of one-sixteenth (1/16) of such gross-production.
- (B) REDUCTION OF PAYMENTS. If, during the primary term, a portion of the land covered by this lease is included within the boundaries of a pooled unit that has been approved by the School Land Board and the owner of the soil in accordance with Natural Resources Code Sections 52.151-52.154, or if, at any time after the expiration of the primary term or the extended term, this lease covers a lesser number of acres than the total amount described herein, payments that are made on a per acre basis hereunder shall be reduced according to the number of acres pooled, released, surrendered, or otherwise severed, so that payments determined on a per acre basis under the terms of this lease during the primary term shall be calculated based upon the number of acres outside the boundaries of a pooled unit, or, if after the expiration of the primary term, the number of acres actually retained and covered by this lease.
- 21. USE OF WATER. Lessee shall have the right to use water produced on said land necessary for operations under this lease except water from wells or tanks of the owner of the soil; provided, however, Lessee shall not use potable water or water suitable for livestock or irrigation purposes for waterflood operations without the prior consent of the owner of the soil.
- 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 sepage 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 tree 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.
- 6. REMOVAL OF EQUIPMENT. Subject to limitations in this paragraph, Lessee shall have the right to remove machinery and fixtures placed by Lessee on the leased premises, including the right to draw and remove easing, within one hundred twenty (120) days after the expiration or the termination of this lease unless the owner of the soil grants Lessee an extension of this 120-day period. However, Lessee may not remove easing from any well capable of producing oil and gas in paying quantities. Additionally, Lessee may not draw and remove easing until after thirty (30) days written notice to the Commissioner of the General Land Office and to the owner of the soil. The owner of the soil shall become the owner of any machinery, fixtures, or easing which are not timely removed by Lessee under the terms of this paragraph.
- 27. (A) ASSIGNMENTS. Under the conditions contained in this paragraph and Paragraph 29 of this lease, the rights and estates of either party to this lease shall extend to and be binding upon their heirs, devisees, legal representatives, successors and assigns. However, a change or division in ownership of the land, rentals, or royalties will not enlarge the obligations of Lessee, diminish the rights, privileges and estates of Lessee, impair the effectiveness of any payment made by Lessee or impair the effectiveness of any act performed by Lessee. And no change or division in ownership of the land, rentals, or royalties shall bind Lessee for any purpose until thirty (30) days after the owner of the soil (or his heirs, devisees, legal representatives or assigns) furnishes the Lessee with satisfactory written evidence of the change in ownership, including the original recorded muniments of title (or a certified copy of such original) when the ownership changed because of a conveyance. A total or partial assignment of this lease shall, to the extent of the interest assigned, relieve and discharge Lessee of all subsequent obligations under this lease. If this lease is assigned in its entirety as to only part of the acreage, the right and option to pay rentals shall be apportioned as between the several owners ratably, according to the area of each, and failure by one or more of them to pay his share of the rental shall not affect this lease on the part of the land upon which pro rata rentals are timely paid or tendered; however, if the assignor or assignee does not file a certified copy of such assignment in the General Land Office before the next rental paying date, the entire lease shall terminate for failure to pay the entire rental due under Paragraph 3. Every assignee shall succeed to all rights and be subject to all obligations, liabilities, and penalties owed to the State by the original lessee or any prior assignee of the lease, including any liabilities to the State for unpaid royalties.
- (B) ASSIGNMENT LIMITATION. Notwithstanding any provision in Paragraph 27(a), if the owner of the soil acquires this lease in whole or in part by assignment without the prior written approval of the Commissioner of the General Land Office, this lease is void as of the time of assignment and the agency power of the owner may be forfeited by the Commissioner. An assignment will be treated as if it were made to the owner of the soil if the assignee is:
 - (1) a nominee of the owner of the soil;
 - (2) a corporation or subsidiary in which the owner of the soil is a principal stockholder or is an employee of such a corporation or subsidiary;
 - (3) a partnership in which the owner of the soil is a partner or is an employee of such a partnership:
 - (4) a principal stockholder or employee of the corporation which is the owner of the soil;
 - (5) a partner or employee in a partnership which is the owner of the soil;



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

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

- 28. RELEASES. Under the conditions contained in this paragraph and Paragraph 29, Lessee may at any time execute and deliver to the owner of the soil and place of record a release or releases covering any portion or portions of the leased premises, and thereby surrender this lease as to such portion or portions, and be relieved of all subsequent obligations as to acreage surrendered. If any part of this lease is properly surrendered, the delay rental due under this lease shall be reduced by the proportion that the surrendered acreage bears to the acreage which was covered by this lease immediately prior to such surrender, however, such release will not relieve Lessee of any liabilities which may have accrued under this lease prior to the surrender of such acreage.
- 29. FILING OF ASSIGNMENTS AND RELEASES. If all or any part of this lease is assigned or released, such assignment or release must be recorded in the county where the land is situated, and the recorded instrument, or a copy of the recorded instrument certified by the County Clerk of the county in which the instrument is recorded, must be filed in the General Land Office within 90 days of the last execution date accompanied by the prescribed filing fee. If any such assignment is not so filed, the rights acquired under this lease shall be subject to forfeiture at the option of the Commissioner of the General Land Office.
- 30. DISCLOSURE CLAUSE. All provisions pertaining to the lease of the above-described land have been included in this instrument, including the statement of the true consideration to be paid for the execution of this lease and the rights and duties of the parties. Any collateral agreements concerning the development of oil and gas from the leased premises which are not contained in this lease render this lease invalid.
- 31. FIDUCIARY DUTY. The owner of the soil owes the State a fiduciary duty and must fully disclose any facts affecting the State's interest in the leased premises. When the interests of the owner of the soil conflict with those of the State, the owner of the soil is obligated to put the State's interests before his personal interests.
- 32. FORFEITURE. If Lessee shall fail or refuse to make the payment of any sum within thirty days after it becomes due, or if Lessee or an authorized agent should knowingly make any false return or false report concerning production or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith as required by law and the rules and regulations adopted by the Commissioner of the General Land Office, or if Lessee should fail to file reports in the manner required by law or fail to comply with rules and regulations promulgated by the General Land Office, the School Land Board, or the Railroad Commission, or if Lessee should refuse the proper authority access to the records pertaining to operations, or if Lessee or an authorized agent should knowingly fail or refuse to give correct information to the proper authority, or knowingly fail or refuse to furnish the General Land Office a correct log of any well, or if Lessee shall knowingly violate any of the material provisions of this lease, or if this lease is assigned and the assignment is not filed in the General Land Office as required by law, the rights acquired under this lease shall be subject to forfeiture by the 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 as 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.
- 13. 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 use 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 forestosed, 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, artach 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. Mould the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this lease forfeited as provided
- 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 Both and the Commissioner of the General Land Office for the pooling or unitizing of the interest of the State under this lease pursuant to Texas Natural Resources Code 52.151-52.153. The owner of the soil agrees that the inclusion of this provision in this lease satisfies the execution requirements stated in Texas Natural Resources Code 52.152.
- 35. INDEMNITY. Lessee hereby releases and discharges the State of Texas aEd the owner of the soil, their officers, employees, partners, agents, contractors, subcontractors, guests, invitees, and their respective successors and assigns, of and from all and any actions and causes of action of every nature, or other harm, including environmental harm, for which recovery of damages is sought, including, but not limited to, all losses and expenses which are caused by the activities of Lessee, its officers, employees, and agents arising out of, incidental to, or resulting from, the operations of or for Lessee on the leased premises hereunder, or that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Agreement, or by any other negligent or strictly liable act or omission of Lessee. Further, Lessee hereby agrees to be liable for, exonerate, indemnify, defend and hold harmless the State of Texas and the owner of the soil, their officers, employees and agents, their successors or assigns, against any and all claims, liabilities, losses, damages, actions, personal injury (including death), costs and expenses, or other harm for which recovery of damages is sought, under any theory including tort, contract, or strict liability, including attorneys' fees and other legal expenses, including those related to environmental hazards, on the leased premises or in any way related to Lessee's failure to comply with any and all environmental laws; those arising from or in any way related to Lessee's operations or any other of Lessee's activities on the leased premises; those arising from Lessee's use of the surface of the leased premises; and those that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Agreement or any other act or omission of Lessee, its directors, officers, employees, partners, agents, contractors, subcontractors, guests, invitees, and their respective successors and assigns. Each assignee of this Agreement, or an interest therein, agrees to be liable for, exonerate, indemnify, defend and hold harmless the State of Texas and the owner of the soil, their officers, employees, and agents in the same manner provided above in connection with the activities of Lessee, its officers. employees, and agents as described above. EXCEPT AS OTHERWISE EXPRESSLY LIMITED HEREIN, ALL OF THE INDEMNITY OBLIGATIONS AND/OR LIABILITIES ASSUMED UNDER THE TERMS OF THIS AGREEMENT SHALL BE WITHOUT LIMITS AND WITHOUT REGARD TO THE CAUSE OR CAUSES THEREOF (EXCLUDING PRE-EXISTING CONDITIONS), STRICT LIABILITY, OR THE NEGLIGENCE OF ANY PARTY OR PARTIES (INCLUDING THE NEGLIGENCE OF THE INDEMNIFIED PARTY), WHETHER SUCH NEGLIGENCE BE SOLE, JOINT, CONCURRENT, ACTIVE, OR PASSIVE.

- 36. ENVIRONMENTAL HAZARDS. Lessee shall use the highest degree of care and all reasonable safeguards to prevent contamination or pollution of 30. ENVIRONMENTAL HAZARDS. Lessee shall use the highest degree of care and all reasonable salegated of any other environmental medium, including soil, surface waters, groundwater, sediments, and surface or subsurface strata, ambient air or any other environmental medium any 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 premised 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.

**** * See Exhibit "A"	Attached for Addi	tional Provisi	ons
-:::::	LAY JOANSON		
BY			
23	TE: 9-28-98		
STATE OF TEXAS		STATE OF TEXAS	6-2
Individually and as agoni for the State of Texts H. S. Manerals and Realty, Lt	noted	BY:	or the State of Texas
Date: President 9-73-98	de, by he star b.b.e.	Date: Tax ID#	Fed. Tax ID
STATE OF TEXAS		STATE OF TEXAS	
BY:		BY:	
Individually and as agent for the State of Texas		Individually and as agent for	or the State of Texas
Date:		Date:	





NOTARY PUBLIC State of Texas Comm. Exp. 10-30-99

Given under my hand and seal of office this the

Notary Public in and for



"EXHIBIT A"

Attached to and made a part of Oil and Gas Lease dated August 19, 1998 by and between H-S Minerals and Realty, Ltd., as the owner of the soil, and Clay Johnson, as Lessee.

- Lessee is granted the right to use existing roads on the leased premises for ingress and egress, and agrees to maintain, restore and keep roads in usable condition so long as this lease is in force and effect.
- Lessee shall notify the owner of the soil a minimum of 24 hours before cutting any new road, if necessary, into or on the leased premises.
- Lessee shall install and maintain cattle guards at every fence crossing, said cattle guards to remain upon premises as property of the owner of the soil at the expiration of this lease.
- It is further understood and agreed that Lessee will bury and maintain all pipelines and electrical transmission lines 18 inches
 deep below the surface of the ground.
- 5. Lessee may use no more of the surface of the leased premises than is reasonably necessary to use for the purpose of which this lease is granted, and it shall exercise all rights granted to it herein with due regard for the rights of the owners of the surface.
- It is further agreed that Lessee, its successors and assigns, shall not erect any buildings or houses on the leased premises and that
 only those structures which are reasonably necessary for production facilities or tank batteries shall be erected on the surface of
 the leased premises.
- 7. Notwithstanding any other provisions of this lease to the contrary, it is expressly understood and agreed that Lessee will not hollute any water aquifers or fresh water in, upon or under the leased premises, and Lessee agrees to notify the owner of the soil in writing if fresh water is encountered during drilling, or if a fresh water formation is penetrated.
- 8. Lessee further agrees to maintain all drill sites and other portions of the surface used or occupied by Lessee, its successors or assigns, free and clear of weeds and noxious vegetation and will maintain the same in a reasonable manner to prevent additional damage to the owner of the soil's other land and crops.
- 9. Upon written demand by the owner of the soil, Lessee shall build and maintain fences around its slush, sump and drainage pits and tank batteries to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, see shall fill and level off all slush pits and cellars and completely clean up the drill site of all rubbish thereon.
- *CO.*12 ssee further agrees that in the event of a dry hole or production from a well which production ceases and the abandonment of such well, or upon the abandonment of any well location, drillsite, tank battery site or roadway, the premises will be restored as nearly as reasonably possible to its former condition at the cost and expense of the Lessee, it being the intention of the parties hereto that the Lessee shall restore the surface to as nearly the state that it is in at the time of execution of this lease.
- 11. If all or any part of this lease is assigned, released, pooled or unitized, Lessee agrees to furnish the owner of the soil with a copy of any such document.





File No. MY 1002 48

Date Filed: 11/0/98

By David Dewhurt, Commissioner

General Land Office Relinquishmnt Act Lease Form Revised, September 1997

OIL AND GAS LEASE

	of	
P	.O. Box 1568, Cedar Park, Texas 78613	said agent
	(Give Permanent Address)	
serein 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)	
ereinafter call		
	FRANTING CLAUSE. For and in consideration of the amounts stated below and of the covenants and agreements to be paid, k	
	is lease, the State of Texas acting by and through the owner of the soil, hereby grants, leases and lets unto Lessee, for the sole a	
become to an	d drilling for and producing oil and gas, laying pipe lines, building tanks, storing oil and building power stations, telephone lines	
of Texas, to-wi	duce, save, take care of, treat and transport said products of the lease, the following lands situated in Reeves	County, State
it reas, w-w		
	Block 58, Public School Land Survey	
	Section 14: E/2 (2.8125 net acres)	
	Section 14: SW/4 (1.25 net acres)	
		1
containing	480 acres, more or less. The bonus consideration paid for this lease is as follows:	
- Citamining		
	To the State of Texas: One Hundred One and 56/100	
	Dollars (\$ 101.56)	
	To the owner of the soil: One Hundred One and 56/100	
	Dollars (S 101.56	
	Total bonus consideration: Two Hundred Three and 12/100	
• • • • •	Total bonus consideration: Two Hundred Three and 12/100 Dollars (\$ 203.12)	
••••		
The sceal benus	consideration paid represents a bonus of Fifty and No/100	_
•		5 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.	
	ease, the term "produced in paying quantities" means that the receipts from the sale or other authorized commercial use of the s	ubstance(s) covered
exceed out of p	ocket operational expenses for the six months last past.	
	-18	
3. D	lay Rentals: If oil or gas in paying quantities is not being produced from the premises on the first anniversary date of this Lease an	d there are then no drill
and a like and	ing conducted on the premises, then this lease shall terminate unless, on or before such anniversary date, Lessee shall pay, 1/2 direct conditions of the CONDITION OF THE CENTER AT LAND OFFICE OF THE STATE OF THE CONDITION OF T	tly to the owner of the
the amount or	ount paid or tendered to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATE OF TEXAS, AT AUSTIN	TEXAS, a delay renta
the amount sp	ecified in the following schedule multiplied by the number of acres then covered by this lease, which payment, when timely made,	shall continue this lease

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 continue for successive one-

Delay Rental per Acre

\$ 1.00

\$ 1.00

\$ 16.67

\$ 16.67

year periods during the primary term of this lease provided that payment is made on or before the anniversary date. Anniversary Date

First

Second

Third

Fourth

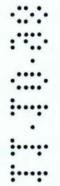


4. PRODUCTIO provided for in this lease to the Com the soil:	N ROYALTIES. Upon production of oil and/or gas, Lessee agrees to pay or cause to be paid one-half (1/2) of the royalty missioner of the General Land Office of the State of Texas, at Austin, Texas, and one-half (1/2) of such royalty to the owner of
3/16 General Land Office, such value to b hydrocarbons, respectively, of a like general area where produced and wh leased premises is sold, used or procuother equipment at least as efficient,	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 dhydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, shall be part of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the electermined by 1) the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid type and gravity in the general area where produced and when run, or 2) the highest market price thereof offered or paid in the run, or 3) the gross proceeds of the sale thereof, whichever is the greater. Lessee agrees that before any gas produced from the essed 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 so that all liquid hydrocarbons recoverable from the gas by such means will be recovered. The requirement that such gas be run and the waived in writing by the royalty owners upon such terms and conditions as they prescribe.
as oil in subparagraph (A) above, progasoline, liquid hydrocarbons or othe owner of the soil or the Commissione the general area where produced and in measuring the gas under this lease degrees Fahrenheit, correction to be re-	SED GAS. Royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substances not defined duced from any well on said land (except as provided herein with respect to gas processed in a plant for the extraction of r products) shall be 3/16 part of the gross production or the market value thereof, at the option of the r of the General Land Office, such value to be based on the highest market price paid or offered for gas of comparable quality in when run, or the gross price paid or offered to the producer, whichever is the greater, provided that the maximum pressure base shall not at any time exceed 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) nade for pressure according to Boyle's Law, and for specific gravity according to tests made by the Balance Method or by the gused by the industry at the time of testing.
shall be 3/16 owner of the soil or the Commissione production of residue gas attributable total plant production of liquid hydro in a plant in which Lessee (or its pare the highest percent accruing to a third party, the highest percent then being s and on liquid hydrocarbons shall be d general area, or 2) the gross price paid	part of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the rof the General Land Office. All royalties due herein shall be based on one hundred percent (100%) of the total plant to gas produced from this lease, and on fifty percent (50%), or that percent accruing to Lessee, whichever is the greater, of the carbons attributable to the gas produced from this lease; provided that if liquid hydrocarbons are recovered from gas processed in, subsidiary or affiliate) owns an interest, then the percentage applicable to liquid hydrocarbons shall be fifty percent (50%) or party processing gas through such plant under a processing agreement negotiated at arm's length (or if there is no such third pecified in processing agreements or contracts in the industry), whichever is the greater. The respective royalties on residue gas etermined by 1) the highest market price paid or offered for any gas (or liquid hydrocarbons) of comparable quality in the lor offered for such residue gas (or the weighted average gross selling price for the respective grades of liquid hydrocarbons), however, shall the royalties payable under this paragraph be less than the royalties which would have been due had the gas not
whether said gas be "casinghead," "dr gross production of such products, or	Royalty on carbon black, sulphur or any other products produced or manufactured from gas (excepting liquid hydrocarbons) y," or any other gas, by fractionating, burning or any other processing shall be

dollar (61.00) 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 stratum of 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 525.00, whichever is greater. A royalty payment which is over thirty (30) days late shall accrue a penalty of 10% of the royalty due or 525.00 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 sirry (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 poyalty in dispute as to fair market value.

- 10. (A) RESERVES, CONTRACTS AND OTHER RECORDS. Lessee shall annually furnish the Commissioner of the General Land Office with its best possible estimate of oil and gas reserves underlying this lease or allocable to this lease and shall furnish said Commissioner with copies of all contracts under which gas is sold or processed and all subsequent agreements and amendments to such contracts within thirty (30) days after entering into or making such contracts, agreements or amendments. Such contracts and agreements when received by the General Land Office shall be held in confidence by the General Land Office unless otherwise authorized by Lessee. All other contracts and records pertaining to the production, transportation, sale and marketing of the oil and gas produced on said premises, including the books and accounts, receipts and discharges of all wells, tanks, pools, meters, and pipelines shall at all times be subject to inspection and examination by the Commissioner of the General Land Office, the Attorney General, the Governor, or the representative of any of them.
- (B) PERMITS, DRILLING RECORDS. Written notice of all operations on this lease shall be submitted to the Commissioner of the General Land Office by Lessee or operator five (5) days before spud date, workover, re-entry, temporary abandonment or plug and abandonment of any well or wells. Such written notice to the General Land Office shall include copies of Railroad Commission forms for application to drill. Copies of well tests, completion reports and plugging reports shall be supplied to the General Land Office at the time they are filed with the Texas Railroad Commission. All applications, permits, reports or other filings that reference this lease or any specific well on the leased premises and that are submitted to the Texas Railroad Commission or any other governmental agency shall include the word "State" in the title. Additionally, in accordance with Railroad Commission rules, any signage on the leased premises for the purpose of identifying wells, tank batteries or other associated improvements to the land must also include the word "State." Lessee shall supply the General Land Office with any records, memoranda, accounts, reports, cuttings and cores, or other information relative to the operation of the above-described premises, which may be requested by the General Land Office, in addition to those herein expressly provided for. Lessee shall have an electrical and/or radioactivity survey made on the bore-hole section, from the base of the surface easing to the total depth of well, of all wells drilled on the above described premises and shall transmit a true copy of the log of each survey on each well to the General Land Office within fifteen (15) days after the making of said survey.
- (C) PENALTIES. Lessee shall incur a penalty whenever reports, documents or other materials are not filed in the General Land Office when due. The penalty for late filing shall be set by the General Land Office administrative rule which is effective on the date when the materials were due in the General Land Office.
- 11. DRY HOLE/CESSATION OF PRODUCTION DURING PRIMARY TERM. If, during the primary term hereof and prior to discovery and production of oil or gas on said land, Lessee should drill a dry hole or holes thereon, or if during the primary term hereof and after the discovery and actual production of oil or gas from the leased premises such production thereof should cease from any cause, this lease shall not terminate if on or before the expiration of sixty (60) days from date of completion of said dry hole or cessation of production Lessee commences additional drilling or reworking operations thereon, or pays or tenders the next annual delay rental in the same manner as provided in this lease. If, during the last year of the primary term or within sixty (60) days prior thereto, a dry hole be completed and abandoned, or the production of oil or gas should cease for any cause, Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term; and if Lessee has not resumed production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking operations pursuant to Paragraph 13, using the expiration of the primary term as the date of cessation of production under Paragraph 13. Should the first well or any subsequent well drilled on the above described land be completed as a shut-in oil or gas well within the primary term hereof, Lessee may resume payment of the annual rental in the same manner as provided herein on or before the rental paying date following the expiration of sixty (60) days from the date of completion of such shut-in oil or gas well and upon the failure to make such payment, this lease shall ipso facto terminate. If at the expiration of the primary term or any time thereafter a shut-in oil or gas well is located on the leased premises, payments may be made in accordance with the shut-in provisions hereof.
- 12. DRILLING AND REWORKING AT EXPIRATION OF PRIMARY TERM. If, at the expiration of the primary term, neither oil nor gas is being produced on said land, but Lessee is then engaged in drilling or reworking operations thereon, this lease shall remain in force so long as operations on said well or for drafting 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 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 tental amount, then for the purposes of this paragraph, the delay rental amount shall be one dollar (\$1.00) per acre. To be effective, each initial shut-in oil or gas royalty



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

- 15. COMPENSATORY ROYALTIES. If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is sold and delivered in paying quantities from a well located within one thousand (1,000) feet of the leased premises and completed in the same producing reservoir, or in any case in which drainage is occurring, the right to continue to maintain the lease by paying the shut-in oil or gas royalty shall cease, but the lease shall remain effective for the remainder of the year for which the royalty has been paid. The Lessee may maintain the lease for four more successive years by Lessee paying compensatory royalty at the royalty rate provided in the lease of the market value of production from the well causing the drainage or which is completed in the same producing reservoir and within one thousand (1,000) feet of the leased premises. The compensatory royalty is to be paid monthly, one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil, beginning on or before the last day of the month following the month in which the oil or gas is produced from the well causing the drainage or that is completed in the same producing reservoir and located within one thousand (1,000) feet of the leased premises. If the compensatory royalty paid in any 12-month period is 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 (included 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 is 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 remined 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 irilled (hereinafter "deeper depths") in each well located on acreage retained in Paragraph 16 (A) above, empless 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 hereoft). If such amount is paid, this lease shall be in force and effect as to such deeper depths, and said termalaxion 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 depth repretained 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 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 country or counties where the lease is located and in the official records of the General Land Office and such designation shall be binding upon Lessee for all purposes.
- 17. CFFSET 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 starture 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 starture parameters satisfy the obligation to drill an offset well or wells required under this paragraph.
- 18. FCRCE 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, rebeilion, riots, strikes, acts of God, or any valid order, rule or regulation of government authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended and Lessee shall not be liable for damages for failure to comply with such covenants; additionally, this lease shall be extended while Lessee is prevented, by any such cause, from conducting drilling and reworking operations or from producing oil or gas from the leased premises. However, nothing in this paragraph shall suspend the payment of delay rentals in order to maintain this lease in effect during the primary term in the absence of such drilling or reworking operations or production of oil or gas.



- 19. WARRANTY CLAUSE. The owner of the soil warrants and agrees to defend title to the leased premises. If the owner of the soil defaults in payments owed on the leased premises, then Lessee may redeem the rights of the owner of the soil in the leased premises by paying any mortgage, taxes or other liens on the leased premises. If Lessee makes payments on behalf of the owner of the soil under this paragraph, Lessee may recover the cost of these payments from the rental and royalties due the owner of the soil.
- 20. (A) PROPORTIONATE REDUCTION CLAUSE. If the owner of the soil owns less than the entire undivided surface estate in the above described land, whether or not Lessee's interest is specified herein, then the royalties and rental herein provided to be paid to the owner of the soil shall be paid to him in the proportion which his interest bears to the entire undivided surface estate and the royalties and rental herein provided to be paid to the Commissioner of the General Land Office of the State of Texas shall be likewise proportionately reduced. However, before Lessee adjusts the royalty or rental due to the Commissioner of the General Land Office, Lessee or his authorized representative must submit to the Commissioner of the General Land Office a written statement which explains the discrepancy between the interest purportedly leased under this lease and the actual interest owned by the owner of the soil. The Commissioner of the General Land Office shall be paid the value of the whole production allocable to any undivided interest not covered by a lease, less the proportionate development and production cost allocable to such undivided interest. However, in no event shall the Commissioner of the General Land Office receive as a royalty on the gross production allocable to the undivided interest not leased an amount less than the value of one-sixteenth (1/16) of such gross-production.
- (B) REDUCTION OF PAYMENTS. If, during the primary term, a portion of the land covered by this lease is included within the boundaries of a pooled unit that has been approved by the School Land Board and the owner of the soil in accordance with Natural Resources Code Sections 52.151-52.154, or if, at any time after the expiration of the primary term or the extended term, this lease covers a lesser number of acres than the total amount described herein, payments that are made on a per acre basis hereunder shall be reduced according to the number of acres pooled, released, surrendered, or otherwise severed, so that payments determined on a per acre basis under the terms of this lease during the primary term shall be calculated based upon the number of acres outside the boundaries of a pooled unit, or, if after the expiration of the primary term, the number of acres actually retained and covered by this lease.
- 21. USE OF WATER. Lessee shall have the right to use water produced on said land necessary for operations under this lease except water from wells or tanks of the owner of the soil; provided, however, Lessee shall not use potable water or water suitable for livestock or irrigation purposes for waterflood operations without the prior consent of the owner of the soil.
- 22. AUTHORIZED DAMAGES. Lessee shall pay the owner of the soil for damages caused by its operations to all personal property, improvements, livestock and crops on said land.
 - 23. PIPELINE DEPTH. When requested by the owner of the soil, Lessee shall bury its pipelines below plow depth.
- 24. WELL LOCATION LIMIT. No well shall be drilled nearer than two hundred (200) feet to any house or barn now on said premises without the written consent of the owner of the soil.
- 25. POLLUTION. In developing this area, Lessee shall use the highest degree of care and all proper safeguards to prevent pollution. Without limiting the foregoing, pollution of coastal wetlands, natural waterways, rivers and impounded water shall be prevented by the use of containment facilities sufficient to prevent spillage, scepage 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 coadiaten 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 of the leased premises, including the right to draw and remove easing, within one hundred twenty (120) days after the expiration or the termination of this lease unless the owner of the soil grants Lessee an extension of this 120-day period. However, Lessee may not remove easing from any well capable of producing oil and gas in paying quantities. Additionally, Lessee may not draw and remove easing until after thirty (30) days written notice to the Commissioner of the General Land Office and to the owner of the soil. The owner of the soil shall become the owner of any machinery, fixtures, or easing which are not timely removed by Lessee under the terms of this paragraph.
- 27. (A) ASSIGNMENTS. Under the conditions contained in this paragraph and Paragraph 29 of this lease, the rights and estates of either party to this lease may be assigned, in whole or in part, and the provisions of this lease shall extend to and be binding upon their heirs, devisees, legal representatives, successors and assigns. However, a change or division in ownership of the land, rentals, or royalties will not enlarge the obligations of Lessee, diminish the rights, privileges and estates of Lessee, impair the effectiveness of any payment made by Lessee or impair the effectiveness of any act performed by Lessee. And no change or division in ownership of the land, rentals, or royalties shall bind Lessee for any purpose until thirty (30) days after the owner of the soil (or his heirs, devisees, legal representatives or assigns) furnishes the Lessee with satisfactory written evidence of the change in ownership, including the original recorded muniments of title (or a certified copy of such original) when the ownership changed because of a conveyance. A total or partial assignment of this lease shall, to the extent of the interest assigned, relieve and discharge Lessee of all subsequent obligations under this lease. If this lease is assigned in its entirety as to only part of the acreage, the right and option to pay rentals shall be apportioned as between the several owners ratably, according to the area of each, and failure by one or more of them to pay his share of the rental shall not affect this lease on the part of the land upon which pro rata rentals are timely paid or tendered; however, if the assignment on 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 royal
- (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 assignment is:
 - (1) a nominee of the owner of the soil;
 - (2) a corporation or subsidiary in which the owner of the soil is a principal stockholder or is an employee of such a corporation or subsidiary;
 - (3) a partnership in which the owner of the soil is a partner or is an employee of such a partnership;
 - (4) a principal stockholder or employee of the corporation which is the owner of the soil;
 - (5) a partner or employee in a partnership which is the owner of the soil;



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

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

- 23. RELEASES. Under the conditions contained in this paragraph and Paragraph 29, Lessee may at any time execute and deliver to the owner of the soil 28. RELEASES. Under the conditions contained in this paragraph and rangraph 27, beste may and thereby surrender this lease as to such portion or portions, 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 and place of record a release or releases covering any portion of portions of the lease is properly surrendered, the delay rental due under this lease shall be reduced 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 ratisfactory 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 forestiosed 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 Confine Signer 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 heroin.
- e34. 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.

36. ENVIRONMENTAL HAZARDS. Lessee shall use the highest degree of care and all reasonable safeguards to prevent contamination or pollution of 36. ENVIRONMENTAL HAZARDS. Lessee shall use the nignest negree of care and all reasonable sales are any other environmental pollution of any environmental medium, including soil, surface waters, groundwater, sediments, and surface or subsurface strata, ambient air or any other environmental medium any 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 on, or under, the leased premises, by any waste, pollutant, or contaminant. Lease shall not bring or perint to tell accordances (as the term "Hazardous 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 CERCIA 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 LESSÉE 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 country 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 Country 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 premised 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.

* See Exhibit "A	" Attached for Addi	tional Provisions
	LESSEE BY: Clay Johnson	51/
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	TITLE:	
••	DATE: 9-28-98	
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Date:		Date:



STATE OF	(CORPORATION ACKNOWLEDGMENT)
COUNTY OF	
BEFORE ME, the undersigned authority, on this day personally appeare	d/ / .
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CONNIE MONTGOMERY MY COMMISSION EXPIRES February 12, 2000 Before me, the undersigned authority, on this day personally appeared_ own to me to be the persons whose names are subscribed to the foregoing instrume	Notary Public in and for Wallaugh Tx (INDIVIDUAL ACKNOWLEDGMENT) Clay Johnson It, and acknowledged to me that they executed the same for the purposes

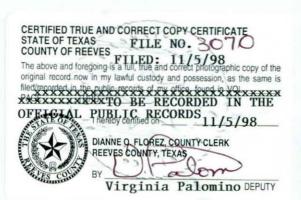


"EXHIBIT A"

Attached to and made a part of Oil and Gas Lease dated August 19, 1998 by and between Hill Investments, Ltd., as the owner of the soil, and Clay Johnson, as Lessee.

- Lessee is granted the right to use existing roads on the leased premises for ingress and egress, and agrees to maintain, restore and keep roads in usable condition so long as this lease is in force and effect.
- Lessee shall notify the owner of the soil a minimum of 24 hours before cutting any new road, if necessary, into or on the leased premises.
- Lessee shall install and maintain cattle guards at every fence crossing, said cattle guards to remain upon premises as property of the owner of the soil at the expiration of this lease.
- It is further understood and agreed that Lessee will bury and maintain all pipelines and electrical transmission lines 18 inches
 deep below the surface of the ground.
- Lessee may use no more of the surface of the leased premises than is reasonably necessary to use for the purpose of which this lease is granted, and it shall exercise all rights granted to it herein with due regard for the rights of the owners of the surface.
- It is further agreed that Lessee, its successors and assigns, shall not erect any buildings or houses on the leased premises and that
 only those structures which are reasonably necessary for production facilities or tank batteries shall be erected on the surface of
 the leased premises.
- 7. Notwithstanding any other provisions of this lease to the contrary, it is expressly understood and agreed that Lessee will not pollute any water aquifers or fresh water in, upon or under the leased premises, and Lessee agrees to notify the owner of the soil in writing if fresh water is encountered during drilling, or if a fresh water formation is penetrated.
- 8. Lessee further agrees to maintain all drill sites and other portions of the surface used or occupied by Lessee, its successors or assigns, free and clear of weeds and noxious vegetation and will maintain the same in a reasonable manner to prevent additional danage to the owner of the soil's other land and crops.
- Upon written demand by the owner of the soil, Lessee shall build and maintain fences around its slush, sump and drainage pits
 and tank batteries to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells,
 Lossee shall fill and level off all slush pits and cellars and completely clean up the drill site of all rubbish thereon.
- 10. Lessee further agrees that in the event of a dry hole or production from a well which production ceases and the abandonment of such well, or upon the abandonment of any well location, drillsite, tank battery site or roadway, the premises will be restored as nearly as reasonably possible to its former condition at the cost and expense of the Lessee, it being the intention of the parties hereto that the Lessee shall restore the surface to as nearly the state that it is in at the time of execution of this lease.
- 11. If all or any part of this lease is assigned, released, pooled or unitized, Lessee agrees to furnish the owner of the soil with a copy of any such document.





File No. M. 100 7 48

Date Filed: M. 1098

David Dewitured, Spannisstoner

11/3/98

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PARAGON #299:Lease Bonus

Payment in full of 1/2 - ease Bonus Consideration due the State of Texas for Dil & Gas Lease dated 08/19/98 from the State of Texas by Agent Virginia Glenn Hill Lattimore, James Robert Hill & John A. Styrsky, Co-Trustees of the Houston & Emma Hill Trust Estate; Virginia Glenn Hill Lattimore, Individually; & James Robert Hill, Individually, Lessor, in favor of Clay Johnson, Lessee, covering the E/2 & SW/4 of Section 14, Block 58, PSL Survey, Reeves County, Texas.

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PARAGON #299:Lease Bonus

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COMMISSIONER OF THE GENERAL LAND OFFICE

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PARAGON #299:Lease Bonus

Payment in full of 1/2 Lease Bonus Consideration due the State of Texas for Oil & Gas Lease dated 08/19/98 from the State of Texas by Agent Julian Wade Meeker, Daniel Hill Meeker & Lawrence Hill Meeker, Trustees UWO J.R. Meeker for the lifetime benefit of L.H. Meeker, Lessor, in favor of Clay Johnson, Lessee, covering the E/2 & the SW/4 of Section 14, Block 58, PSL Survey, Reeves County, Texas.

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PARAGON #299:Lease Bonus

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PARAGON #299:Lease Bonus

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Payment in full of 1/2 Lease Bonus Consideration due the State of Texas for Oil & Gas Lease dated 08/19/98 from the State of Texas by Agent Meeker Investments, Inc., by Robert W. Debolt, President, & J.J. Meeker, Individually, Lessor, in favor of Clay Johnson, Lessee, covering the E/2 & SW/4 of Section 14, Block 58, PSL Survey, Reeves County, Texas.

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Payment in full of 1/2 Lease Bonus Consideration due the State of Texas for Oil & Gas Lease dated 08/19/98 from the State of Texas by Agent Meeker Investments, Inc., by Robert W. Debolt, President, & J.J. Meeker, Individually, Lessor, in favor of Clay Johnson, Lessee, covering the E/2 & SW/4 of Section 14, Block 58, PSL Survey, Reeves County, Texas.

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PARAGON #299:Lease Bonus

Payment in full of 1/2 Lease Bonus Consideration due the State of Texas for Oil & Gas Lease daied 08/19/98 from the State of Texas by Agent Dorothy Jean Keenom, Individually & as Trustee of the Thomas Hill Puff Trust & the Nancy Puff Jones Trust, Lessor, in favor of Clay Johnson, Lessee covering the E/2 & SW/4 of Section 14, Block 58, PSL Survey, Reeves County, Texas.

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PARAGON #299:Lease Bonus

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PARAGON #299:Lease Bonus

Payment in full of 1/2 Lease Bonus Consideration due the State of Texas for Oil & Gas Lease dated 08/19/98 from the State of Texas by Agent KPW Revocable Trust; MSW Revocable Trust; & MLH Revocable Trust, Lessor, in favor of Clay Johnson, Lessee, covering the E/2 & SW/4 of Section 14, Block 58, PSL Survey, Reeves County, Texas.

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PARAGON #299:Lease Bonus

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PARAGON #299:Lease Bonus

Payment in full of 1/2 Lease Bonus Consideration due the State of Texas for Oil & Gas Lease dated 08/19/98 from the State of Texas by Agent Windi Phillips 1983 Trust, Philip J. Boschetti & John L. Marion, Trustees, Lessor, in favor of Clay Johnson, Lessee, covering The E/2 & SW/4 of Section 14, Block 58, PSL Survey, Reeves County, Texas.

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PARAGON #299:Lease Bonus

Payment in full of 1/2 Lease Bonus Consideration due the State of Texas for Oil & Gas Lease dated 08/19/98 from the State of Texas by Agent Windi Phillips 1983 Trust, Philip J. Boschetti & John L. Marion, Trustees, Lessor, in favor of Clay Johnson, Lessee, covering The E/2 & SW/4 of Section 14, Block 58, PSL Survey, Reeves County, Texas.

631.75

Checking

Lease Bonus

631.75

3215V

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

11/3/98

PARAGON #299:Lease Bonus

Payment in full of 1/2 Lease Bonus Consideration due the State of Texas for Oil &-Gas Lease dated 08/19/98 from the State of Texas by Agent H-S Minerals & Realty, Ltd., Lessor, in favor of Clay Johnson, Lessee, covering the E/2 & SW/4 of Section 14, Block 58, PSL Survey, Reeves County, Texas.

99014113

Checking

Lease Bonus

101.56

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

11/3/98

002849

101.56

PARAGON #299:Lease Bonus

Payment in full of 1/2 Lease Bonus Consideration due the State of Texas for Oil & Gas Lease dated 08/19/98 from the State of Texas by Agent H-S Minerals & Realty, Ltd., Lessor, in favor of Clay Johnson, Lessee, covering the E/2 & SW/4 of Section 14, Block 58, PSL Survey, Reeves County, Texas.



Checking

Lease Bonus

3216

101.56

11/3/98

002836

PARAGON #299:Lease Bonus

Payment in full of 1/2 Lease Bonus Consideration due the State of Texas for Oil & Gas Lease dated 08/19/93 from the State of Texas by Agent Hill Investments, Ltd., Lessor, in favor of Clay Johnson, Lessee, covering the E/2 & SW/4 of Section 14, Block 58, PSL Survey, Reeves County, Texas.

99014100

170

Checking

Lease Bonus

101.56

TITAN RESOURCES, L.P.

ACQUISITION CHECKING OF THE GENERAL LAND OFFICE

11/3/98

002836

PARAGON #299:Lease Bonus

Payment in full of 1/2 Lease Bonus Consideration due the State of Texas for Oil & Gas Lease dated 08/19/98 from the State of Texas by Agent Hill Investments, Ltd., Lessor, in favor of Clay Johnson, Lessee, covering the E/2 & SW/4 of Section 14, Block 58, PSL Survey, Reeves County, Texas.

101.56

Checking

Lease Bonus

32111 N

101.56

File No. MFOOS 48

Date Filted:

Date Filted:

By

Commissioner

By

Texas General Land Office



David Dewhurst Commissioner August 11, 1999

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

Re: RELINQUISHMENT ACT LEASE NO. M-100248

E/2, SW/4 of Sec. 14, Blk. 58, PSL Sur. 480 gross ac. 321.354 net ac.

Reeves County

Dear Mr. Ready:

The certified copy of the Relinquishment Act Lease covering the above referenced tract has been approved and filed in our records under mineral file number M-100248. Please refer to this number in all future correspondence concerning the lease.

Your remittance of \$9,033.87, has been applied as the state's portion of the bonus, the processing fee and the filing fee. Please let me know if you should have any questions.

Sincerely,

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

DR:MS:mrg

Stephen F. Austin Building

1700 North Congress Avenue

Austin, Texas 78701-1495

512-463-5001

File No. M. F. 100348

Date Filed: Strong Secumisatoner

By

By

11.

Property Id / MMS	Eff. Date	Recording Inf	ormation	State	County/Parish
TX299-389-271-001-00 M-100248	08/19/1998	11/09/98 BK 596 PG 710 ENTR	RY 003083	TEXAS	, Reeves
		Property N	ame / Lessor		
State of Texas, acting by and	d through its age	ent, Windi Phillips 1983 Trust, Ph	nilip J. Boschetti and J	ohn L. Marion, Co-Tr	ustees
		Property Leg	gal Description		
Block 58, Public School Land					
Section 14: E/2 (17.5 net Section 14: SW/4 (7.77 net				00 613	96
				χ	12.64
State of Texas, acting by an	1 through the	Payee Name & Address		Χ	SSN/T X Id Number
Commissioner of the Genera		Payee Name & Address		χ	
Commissioner of the Genera 1700 N. Congress Avenue		Payee Name & Address		Χ	SSN/T Id Number Federal Tax Withheld 0.00
Commissioner of the Genera 1700 N. Congress Avenue		Payee Name & Address		X	Federal Tax Withheld
State of Texas, acting by and Commissioner of the Genera 1700 N. Congress Avenue Austin, TX 78701		Payee Name & Address		X	Federal Tax Withheld 0.00 Account Number
Commissioner of the Genera 1700 N. Congress Avenue		Payee Name & Address		X	Federal Tax Withheld
Commissioner of the Genera 1700 N. Congress Avenue		ent Amount	Bank Service Charges	Property Sub-Type	Federal Tax Withheld 0.00 Account Number Total Bank Charges
Commissioner of the Genera 1700 N. Congress Avenue Austin, TX 78701 Payment Period Oue-Date (in months) 08/19/2000 12	Land Office	ent Amount otion Due	Charges		Federal Tax Withheld 0.00 Account Number Total Bank Charges 0.00 Property
Commissioner of the General 1700 N. Congress Avenue Austin, TX 78701 Payment Due Date (in months)	Land Office Paym Descrip	ent Amount otion Due	Charges		Federal Tax Withheld 0.00 Account Number Total Bank Charges 0.00 Property

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 101302 101302 Rental Payment

Date Fire

Date F

	y Id / MMS	Eff. Date	Recording Information State				County/Parish
	9-271-002-00 100248	08/19/1998	11/09/98 BK 596 PG 602 ENTRY 003071 TEXAS				Reeves
SHARE			Property Nar	me / Lessor			
State of Texa	s, acting by and	through its age	ent, KPW Revocable Trust; MSW R		MLH Revocable Tru	ıst	
			Provedu Long	I Description			
Block 58 Pul	olic School Land	Survey	Property Lega	Description			
	E/2 (30.93 net SW/4 (13.75 ne			00	61403	32.5	34
In our makes		Name of Street, or	Payee Name & Address		/		/Tax Id Number
	s, acting by and		•			7	Tux zu Humber
Commissione	r of the General					71	ral Tax Withheld
Commissione 1700 N. Con	r of the General gress Avenue		×			Fede	ral Tax Withheld
Commissione 1700 N. Con	r of the General gress Avenue					Fede	ral Tax Withheld
Commissione 1700 N. Con	r of the General gress Avenue		,			Fede	ral Tax Withheld 0.00 count Number
Commissione 1700 N. Con	r of the General gress Avenue		*			Fede	ral Tax Withheld 0.00 count Number al Bank Charges
Commissione 1700 N. Con Austin, TX 7	r of the General gress Avenue	Land Öffice	ent Amount	Bank Service	Property	Fede Ac	ral Tax Withheld 0.00 count Number al Bank Charges 0.00
Commissione 1700 N. Con Austin, TX 7 Payment Due Date	r of the General gress Avenue 8701			Bank Service Charges	Property Sub-Type	Fede Ac	ral Tax Withheld 0.00 count Number al Bank Charges
Commissione 1700 N. Con Austin, TX 7 Payment Due Date 08/19/2000	r of the General gress Avenue 8701	Land Office	otion Due			Fede Ac	ral Tax Withheld 0.00 count Number al Bank Charges 0.00 Property
Commissione 1700 N. Con Austin, TX 7 Payment Due Date 08/19/2000	r of the General gress Avenue 8701 Period (in months)	Land Öffice Paym Descrip	otion Due	Charges		Fede Ac	ral Tax Withheld 0.00 count Number al Bank Charges 0.00 Property
Commissione 1700 N. Con Austin, TX 7 Payment Due Date 08/19/2000	r of the General gress Avenue 8701 Period (in months)	Land Öffice Paym Descrip	otion Due ental 22.34	Charges 0.00		Fede Ac	ral Tax Withheld 0.00 count Number al Bank Charges 0.00 Property
Commissione 1700 N. Con Austin, TX 7 Payment Due Date 08/19/2000	r of the General gress Avenue 8701 Period (in months)	Land Öffice Paym Descrip	otion Due	Charges		Fede Ac	ral Tax Withheld 0.00 count Number al Bank Charges 0.00 Property
Commissione 1700 N. Con Austin, TX 7 Payment Due Date 08/19/2000	r of the General gress Avenue 8701 Period (in months)	Land Öffice Paym Descrip	otion Due ental 22.34	Charges 0.00		Fede Ac	ral Tax Withheld 0.00 count Number al Bank Charges 0.00 Property
Commissione 1700 N. Con Austin, TX 7 Payment Due Date 08/19/2000	r of the General gress Avenue 8701 Period (in months)	Land Öffice Paym Descrip	otion Due ental 22.34	Charges 0.00		Fede Ac	ral Tax Withheld 0.00 count Number al Bank Charges 0.00 Property
Commissione 1700 N. Con Austin, TX 7 Payment Due Date 08/19/2000	r of the General gress Avenue 8701 Period (in months)	Land Öffice Paym Descrip	ental Due 22.34	0.00 0.00		Fede Ac	ral Tax Withheld 0.00 count Number al Bank Charges 0.00 Property
Payment Due Date 08/19/2000	r of the General gress Avenue 8701 Period (in months)	Land Öffice Paym Descrip	Due	0.00 0.00 0.00		Fede Ac	ral Tax Withheld 0.00 count Number al Bank Charges 0.00 Property
Commissione 1700 N. Con Austin, TX 7 Payment Due Date 08/19/2000	r of the General gress Avenue 8701 Period (in months)	Land Öffice Paym Descrip	ental Due 22.34	0.00 0.00		Fede Ac	ral Tax Withheld 0.00 count Number al Bank Charges 0.00 Property
Payment Due Date 08/19/2000	r of the General gress Avenue 8701 Period (in months)	Land Öffice Paym Descrip	Due	0.00 0.00 0.00		Fede Ac	ral Tax Withheld 0.00 count Number al Bank Charges 0.00 Property

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 101304

File No. MY MORY S

Rental Payment

Date File S

By

Check #101306

Property Id / MMS	Eff. Date	Recording Information	State	County/Parish
X299-389-271-003-00 M-100248	08/19/1998	11/09/98 BK 596 PG 373 ENTRY 003046	TEXAS	Reeves

Property Name / Lessor

State of Texas, acting by and through its agent, Julian Wade Meeker, Daniel Hill Meeker and Lawrence Hill Meeker, Trustees UWO J. R. Meeker for Lifetime Benefit of L. H. Meeker

Property Legal Description

Block 58, Public School Land Survey Section 14: E/2 (35 net acres) Section 14: SW/4 (15.55 net acres)

00 61393.

×2512

Payee Name & Address

State of Texas, acting by and through the Commissioner of the General Land Office

1700 N. Congress Avenue

Austin, TX 78701

SSN/Tax Id Number

Federal Tax Withheld

0.00
Account Number

Total Bank Charges

0.00

0.00						
Property Sub-Id	Property Sub-Type	Bank Service Charges	Amount Due	Payment Description	Period (in months)	Payment Due Date
		0.00	25.28	Delay Rental	12	08/19/2000
•						
		0.00	0.00			11
:						
		0.00	0.00			11
•:::						
		0.00	0.00			11
••••						
		0.00	0.00			11

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 101306

Rental Payment

Date W Street Street

Page 19 Street Street

Page 19

Check #101308

Property Id / MMS	Eff. Date	Recording Information	State	County/Parish
TX299-389-271-004-00 M-100248	08/19/1998	11/09/98 BK 597 PG 78 ENTRY 003121	TEXAS	Reeves

Property Name / Lessor

State of Texas, acting by and through its agent, Meeker Investments, Inc., by Robert W. Debolt, President and J. J. Meeker, Individually

Property Legal Description

Block 58, Public School Land Survey Section 14: E/2 (35 net acres) Section 14: SW/4 (15.55 net acres)

00 61392

Payee Name & Address State of Texas, acting by and through the

Commissioner of the General Land Office

1700 N. Congress Avenue Austin, TX 78701

SSN/Tax Id Number

Federal Tax Withheld 0.00

Account Number

Total Bank Charges

0.00

						0.00
Payment Due Date	Period (in months)	Payment Description	Amount Due	Bank Service Charges	Property Sub-Type	Property Sub-Id
08/19/2000	12	Delay Rental	25.28	0.00		
	,					•::•
//			0.00	0.00		•
						•:
11			0.00	0.00		•••
			0.00	0.00		•
//			0.00	0.00		
11			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 0

Rental Payment

Date of Manual Payment

Date of Manual Payment

Check #101310

Property Id / MMS	Eff. Date	Recording Information	State	County/Parish
TX299-389-271-005-00 M-100248	08/19/1998	11/09/98 BK 596 PG 458 ENTRY 003055	TEXAS	Reeves
	THE PARTY OF THE	Property Name / Lessor		

State of Texas, acting by and through its agent, Dorothy Jean Keenom, Individually and as Trustee of the Thomas Hill Puff Trust and as Trustee of the Nancy Puff Jones Trust

Payee Name & Address

Property Legal Description

Block 58, Public School Land Survey Section 14: E/2 (30.93 net acres) Section 14: SW/4 (13.75 net acres)

State of Texas, acting by and through the Commissioner of the General Land Office

00 61402

X 22.34

SSN/Tax Id Number

Federal Tax Withheld

1700 N. Congress Avenue 0.00 Austin, TX 78701 Account Number **Total Bank Charges** 0.00 Payment. Payment Period Amount **Bank Service** Property Property Due Date (in months) Description Due Charges Sub-Type Sub-Id 08/19/2000 12 Delay Rental 22.34 0.00 0.00 0.00 0.00 0.00 1.1 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 101 310

Rental Payment

Date File No. MTF (80248)

Date File Act (100 Const.)

·:::· !---: Check #101312

77/200 20	y Id / MMS	Eff. Date		rding Infor		Stat		County/P	arish
	9-271-006-00 100248	08/19/1998	11/09/98 BK 596 PG 593 ENTRY 003070 TEXA:		S	Reeve	S		
		The Paris of State	Pr	operty Nan	ne / Lessor				
State of Texa	s, acting by and	through its age	ent, Hill Investments, L	_td.					
215191919			Pro	perty Legal	Description				
	olic School Land								
	E/2 (2.8125 net SW/4 (1.25 net					00	\(2. \) 614	09	
tate of Toya	s, acting by and	through the	Payee Name & Ad	dress		STATE OF THE STATE OF	S	SN/Tax Id Nu	nber
	r of the General								
		Land Office					Fe	deral Tax Wit	held
1700 N. Cong	gress Avenue	Land Office					Fe	deral Tax Wit 0.00	nheld
1700 N. Cong	gress Avenue	Land Office							
1700 N. Cong Austin, TX 78	gress Avenue	Land Office					No.	0.00 Account Num	oer
700 N. Cong	gress Avenue	Land Office					No.	0.00	oer
Payment Due Date	Period (in months)	Paym Descrip	otion	mount Due	Bank Service Charges	Property Sub-Type	No.	0.00 Account Num otal Bank Cha	oer
700 N. Cong austin, TX 78 Payment Due Date	gress Avenue 8701 Period	Paym	otion	Section 1997			No.	0.00 Account Num otal Bank Cha 0.00 Property	oer
700 N. Cong ustin, TX 78 Payment Due Date	Period (in months)	Paym Descrip	otion	Due	Charges		No.	0.00 Account Num otal Bank Cha 0.00 Property	oer
700 N. Cong ustin, TX 78 Payment Due Date	Period (in months)	Paym Descrip	otion	Due	Charges		No.	0.00 Account Num otal Bank Cha 0.00 Property	rges
700 N. Congustin, TX 78 Payment Due Date 8/19/2000	Period (in months)	Paym Descrip	otion	Due 2.04	Charges 0.00	Sub-Type	No.	0.00 Account Num otal Bank Cha 0.00 Property	rges
Payment Due Date 18/19/2000	Period (in months)	Paym Descrip	otion	Due 2.04	0.00 0.00	Sub-Type	No.	0.00 Account Num otal Bank Cha 0.00 Property	rges
Payment Due Date 18/19/2000	Period (in months)	Paym Descrip	otion	2.04 0.00	Charges 0.00	Sub-Type	No.	0.00 Account Num otal Bank Cha 0.00 Property	rges
Payment Due Date 08/19/2000	Period (in months)	Paym Descrip	otion	0.00 0.00	0.00 0.00 0.00	Sub-Type	No.	0.00 Account Num otal Bank Cha 0.00 Property	rges
Payment Due Date 18/19/2000	Period (in months)	Paym Descrip	otion	2.04 0.00	0.00 0.00	Sub-Type	No.	0.00 Account Num otal Bank Cha 0.00 Property	rges
Payment Due Date 08/19/2000	Period (in months)	Paym Descrip	otion	0.00 0.00	0.00 0.00 0.00	Sub-Type	No.	0.00 Account Num otal Bank Cha 0.00 Property	rges

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 101312



P. operty	Id / MMS	Eff. Date	Recording Info	rmation	State	County/Parish
TX299-389	-271-007-00 00248	08/19/1998			TEXAS	
MACHINE TO SERVICE TO S			Property Na	me / Lessor	STATE OF STA	
			nt, Virginia Glenn Hill Lattimore, I		* * * * * * * * * * * * * * * * * * * *	o-Trustees of the Houston and
Emma Hill Tru	st Estate; Virgi	nia Glenn Hill La	ttimore, Individually; and James I	Robert Hill, Individua	ally	
SA (1) 1 2 200	Addison	TOTAL DE	Property Lega	I Description		
	ic School Land					N.
	/2 (67.5 net a					
section 14: S	W/4 (30 net a	cres)			00	1
					00 6738	
					On 2	1110 77
						XYX
						16.
	Shirt		Payee Name & Address			SSN/Tax Id Number
	, acting by and					
Lommissioner 1700 N. Congr	of the General ress Avenue	Land Office				Federal Tax Withheld
Austin, TX 78						Account Number
						7,000
						Total Bank Charges
						0.00
Payment Due Date	Period (in months)	Payme Descrip		Bank Service Charges	Property Sub-Type	Property Sub-Id
08/19/2000	12	Delay Re	ental 48.75	0.00		
·····						
•••••			0.00	0.00		
<i> • •/• •</i>			0.00	0.00		
7/			0.00	0.00		
•:•			•			
•			0.00	0.00		
			0.00	1 (1(1))		

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 10 1314 101314

0.00

0.00

File No. MF 100 A 48

Rental Payment

Date File No. M. Co.



Check # 101316

Property Id / MMS	Eff. Date	Recording Information	State	County/Parish
TX299-389-271-008-00 M-100248	08/19/1998	11/09/98 BK 596 PG 728 ENTRY 003085	TEXAS	Reeves
		Property Name / Lessor		
State of Texas, acting by and	through its age	nt, H-S Minerals and Realty, Ltd.		
Server and a service of	A STATE OF THE PARTY OF THE PAR	Property Legal Description		
Block 58, Public School Land Section 14: E/2 (2.8125 ne Section 14: SW/4 (1.25 net	t acres)		x 2.	n4
			// 0	0 1
		Payee Name & Address		SSN/Tax Id Number
		Payee Name & Address	7 0	•
Commissioner of the General		Payee Name & Address	7 0	Federal Tax Withheld
State of Texas, acting by and Commissioner of the General 1700 N. Congress Avenue Austin, TX 78701		Payee Name & Address	\ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \	Federal Tax Withheld 0.00
Commissioner of the General 1700 N. Congress Avenue		Payee Name & Address		Federal Tax Withheld

0.00

						0.00
Payment Due Date	Period (in months)	Payment Description	Amount Due	Bank Service Charges	Property Sub-Type	Property Sub-Id
08/19/2000	12	Delay Rental	2.04	0.00		
••••						
7 /			0.00	0.00		
l. /			0.00	0.00		
•:•::•						
//			0.00	0.00		00 01
/ /			0.00	0.00		00 61775

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 101316

Rental Payment

Date File Strong

Date File Strong

No. 100 St





July 19, 2002

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

> Re: Certified Copies of Release of Oil and Gas Leases

> > Reeves Couny, Texas

Paragon Prospect #299

Dear Mr. Reid:

Enclosed for your files and further handling please find certified copies of twelve Releases of Oil and Gas Lease dated June 17, 2002. These instruments are releasing Oil and Gas Leases dated August 19, 1998, by and between the State of Texas, Lessor, and Clay Johnson, Lessee. Each instrument has been duly recorded in Reeves County as further described below:

Recorded in Volume 651, Page 451, Official Records	Mineral No. 100201
Recorded in Volume 651, Page 446, Official Records	Mineral No. 100201
Recorded in Volume 651, Page 449, Official Records	Mineral No. 100202
Recorded in Volume 651, Page 444, Official Records	Mineral No. 100202
Recorded in Volume 651, Page 452, Official Records	Mineral No. 100203
Recorded in Volume 651, Page 447, Official Records	Mineral No. 100203
Recorded in Volume 651, Page 450, Official Records	Mineral No. 100205
Recorded in Volume 651, Page 445, Official Records	Mineral No. 100205
Recorded in Volume 651, Page 442, Official Records	Mineral No. 100246
Recorded in Volume 651, Page 443, Official Records	Mineral No. 100246
Recorded in Volume 651, Page 448, Official Records	Mineral No. 100248
Recorded in Volume 651, Page 453, Official Records	Mineral No. 100248

Also, enclosed is Pure Resources, L.P. check number 8414 payable to the Commissioner of the General Land Office in the amount of \$300.00, representing payment of the required filing fee for handling this matter.

If you have any questions or need additional information, please let me know. Thank you for your assistance in this matter.

Sincerely,

Brenda Land

Brenda Land

Land Administration

Sincerely,

198-243-3

191001

Enclosures

008414 OTTE TIEUUUTIUEU, E.T. **ACQUISITION CHECKING** COMMISSIONER OF THE GENERAL LAND OFFICE 07/19/2002

RAGON PROS. #299: Filing and Recording Fee Payment in full for filing fees as set out in letter dated July 19, 2002.

300.00

the Drew Reid

X 300.00 121 020AA675

Checking

Filing and Recording Fees

300.00

PURE RESOURCES, L.P. ACQUISITION CHECKING

COMMISSIONER OF THE GENERAL LAND OFFICE

PARAGON PROS. #299: Filing and Recording Fee Payment in full for filing fees as set out in letter dated July 19, 2002.

07/19/2002

008414

300.00



File Noll 1 1003 48 Company Commissioner By

Release of Oil and Gas Lease

State:

Texas

County:

Reeves

Lessor:

The State of Texas acting by and through its agent,

Hill Investments, Ltd. P. O. Box 1568

Cedar Park, Texas 78613

Coda Farin, Forms

Lessee:

Clay Johnson

Lease Date:

August 19, 1998

Recorded:

Official Public Records Vol. 596, Page 557 on 11-9-98 in Reeves County, Texas

PURE RESOURCES, L.P. hereby releases, surrenders, and forever quitclaims unto the Lessors named above and their successors in interest any and all rights whatsoever acquired or held under that certain Oil, Gas and Mineral Lease described above.

EXECUTED on the date of the acknowledgement below, to be effective as of the expiration of the primary term of said lease.

PURE RESOURCES, L.P.
By and Through Its General Partner,
PURE RESOURCES I., INC.

By

Ohn Lodge Attorney-in-Fact

JRR

THE STATE OF TEXAS

COUNTY OF MIDLAND

BEFORE ME, the undersigned authority, on this day personally appeared John Lodge, known to me to be the person whose name is subscribed to the foregoing instrument as Attorney-in-Fact for PURE RESOURCES, I, INC. and acknowledged to me that he executed the same

for the purposes and consideration therein expressed in the capacity stated and as the act and deed of said corporation.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 17th day

f Lune , 2002.

SATE OF TOUS STREET

Notary Public in and for the

State of Texas

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

TX299-389-277-003-00

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. 1334

20TH DAY OF JUNE

A.D. 2002 AT 4:44 P. M

DULY RECORDED ON THE

FILED FOR RECORD ON THE

DAY OF J

A.D. 2002 AT 9:30 A. M.

X: JOSU TOUS DEPUTY

24TH

DIANNE O. FLOREZ, COUNTY CLERK REEVES COUNTY, TEXAS

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 651

PAGE 451, THRU - - OFFICIAL PUBLIC RECORDS

I hereby certified on JULY 5, 2002

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS
BY Stells Change DEPUTY
ESTELLA ANAYA

Release of Oil and Gas Lease

State:

Texas

County:

Reeves

Lessor:

The State of Texas acting by and through its agent,

Virginia Glenn Hill Lattimore, James Robert Hill and John A. Styrsky, Co-Trustees of Houston and Emma Hill Trust Estate, Virginia Glenn Hill Lattimore,

Individually and James Robert Hill, Individually

500 Throckmorton, Suite 2803 Fort Worth, Texas 76102

Lessee:

Clay Johnson

Lease Date:

August 19, 1998

Recorded:

Official Public Records Vol. 596, Page 512 on 11-9-98 in Reeves County, Texas

PURE RESOURCES, L.P. hereby releases, surrenders, and forever quitclaims unto the Lessors named above and their successors in interest any and all rights whatsoever acquired or held under that certain Oil, Gas and Mineral Lease described above.

EXECUTED on the date of the acknowledgement below, to be effective as of the expiration of the primary term of said lease.

PURE RESOURCES, L.P.
By and Through Its General Partner,
PURE RESOURCES I., INC.

Ву:

John Lodge (Attorney-in-Fact

JRR

THE STATE OF TEXAS

§ §

COUNTY OF MIDLAND

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

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 17th day

Frene, 2002

ATE OF TAS

Notary Public in and for the State of Texas

TX299-389-277-004-00

Clerks Office

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. 1329

FILED FOR RECORD ON THE

20TH

DAY OF

JUNE

A.D. 2002 AT 4:44 P. M

DULY RECORDED ON THE

24TH

DAY OF JUNE

A.D. 2002 AT 9:30 A. M

BY: JOSE JOYEN, DEPUTY

DIANNE O. FLOREZ, COUNTY CLERK BEEVES COUNTY, TEXAS



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. 651.

PAGE 446 THRU OFFICIAL PUBLIC RECORDS

Thereby certified on JULY 5, 2002



_DEPUTY

Release of Oil and Gas Lease

State:

Texas

County:

Reeves

Lessor:

The State of Texas acting by and through its agent,

Hill Investments, Ltd. P. O. Box 1568

Cedar Park, Texas 78613

Lessee:

Clay Johnson

Lease Date:

August 19, 1998

Recorded:

Official Public Records Vol. 596, Page 566 on 11-9-98 in Reeves County, Texas

PURE RESOURCES, L.P. hereby releases, surrenders, and forever quitclaims unto the Lessors named above and their successors in interest any and all rights whatsoever acquired or held under that certain Oil, Gas and Mineral Lease described above.

EXECUTED on the date of the acknowledgement below, to be effective as of the expiration of the primary term of said lease.

PURE RESOURCES, L.P.
By and Through Its General Partner,
PURE RESOURCES I., INC.

By

Attorney-in-Fact

JRR

THE STATE OF TEXAS

COUNTY OF MIDLAND

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

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 174 day 2002.

f Juse, 2002.



Notary Public in and for the State of Texas



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

TX299-389-275-003-00

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

FILE NO. 1332

FILED FOR RECORD ON THE 20TH

DAY OF

A.D. 2002 AT 4:44 P.

DULY RECORDED ON THE 24TH

TH DAY OF

DEPUTY

JUNE

A.D. 2002 AT 9:30 A. M

DIANNE O. FLOREZ, COUNTY CLERK REEVES COUNTY, TEXAS

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. 651, PAGE 449. THRU OFFICIAL PUBLIC RECORDS



Release of Oil and Gas Lease

State:

Texas

County:

Reeves

Lessor:

The State of Texas acting by and through its agent,

Virginia Glenn Hill Lattimore, James Robert Hill and John A. Styrsky, Co-Trustees of Houston and Emma Hill Trust Estate, Virginia Glenn Hill Lattimore,

Individually and James Robert Hill, Individually

500 Throckmorton, Suite 2803 Fort Worth, Texas 76102

Lessee:

Clay Johnson

Lease Date:

August 19, 1998

Recorded:

Official Public Records Vol. 596, Page 503 on 11-9-98 in Reeves County, Texas

PURE RESOURCES, L.P. hereby releases, surrenders, and forever quitclaims unto the Lessors named above and their successors in interest any and all rights whatsoever acquired or held under that certain Oil, Gas and Mineral Lease described above.

EXECUTED on the date of the acknowledgement below, to be effective as of the expiration of the primary term of said lease.

> PURE RESOURCES, L.P. By and Through Its General Partner, PURE RESOURCES I., INC.

John Lodge Attorney-in-Fact

THE STATE OF TEXAS

COUNTY OF MIDLAND

BEFORE ME, the undersigned authority, on this day personally appeared John Lodge, known to me to be the person whose name is subscribed to the foregoing instrument as Attorneyin-Fact for PURE RESOURCES, I, INC. and acknowledged to me that he executed the same for the purposes and consideration therein expressed in the capacity stated and as the act and

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 17th

Notary Public in and for the

State of Texas

TX299-389-275-004-00



rue and Correct iginal filed

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

FILE NO. 1327

FILED FOR RECORD ON THE

20TH

JUNE

DAY OF

A.D. 2002 AT 4:44 P.

DULY RECORDED ON THE

JUNE DAY OF

A.D. 2002 AT 9:30 A.

DEPUTY

DIANNE O. FLOREZ, COUNTY CLERK REEVES COUNTY, TEXAS

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. 651.

PAGE 444, THRU ———. OFFICIAL PUBLIC RECORDS

I hereby certified on JULY 5, 2002

DIANNE O. FLOREZ, COUNTY CLERK
REEVES CQUNTY, TEXAS
BY STELLA ANAYA

DEPUTY

FILE# 1335

Release of Oil and Gas Lease

State:

Texas

County:

Reeves

Lessor:

The State of Texas acting by and through its agent,

Hill Investments, Ltd.

P. O. Box 1568

Cedar Park, Texas 78613

Lessee:

Clay Johnson

Lease Date:

August 19, 1998

Recorded:

Official Public Records Vol. 596, Page 548 on 11-9-98 in Reeves County, Texas

PURE RESOURCES, L.P. hereby releases, surrenders, and forever quitclaims unto the Lessors named above and their successors in interest any and all rights whatsoever acquired or held under that certain Oil, Gas and Mineral Lease described above.

EXECUTED on the date of the acknowledgement below, to be effective as of the expiration of the primary term of said lease.

PURE RESOURCES, L.P.
By and Through Its General Partner,
PURE RESOURCES I., INC.

Bv:

Attorney-in-Fact

JRR

THE STATE OF TEXAS

COUNTY OF MIDLAND

§

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

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 17th day

June . 2002

Notary Public in and for the

State of Texas

TX299-389-276-003-00

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. 1335

FILED FOR RECORD ON THE 20TH

DAY

JUNE

A.D. 2002 AT 4:44 P.

DULY RECORDED ON THE

24TH

DAY OF JUNE

A.D. 2002 AT 9:30 A. M

Y: DIL JOIN, DEPUTY

DIANNE O. FLOREZ, COUNTY CLERK REEVES COUNTY, TEXAS

M100203

SA STATE

True and Correct copy of Original filed in Reeves County

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 VO 151 PAGE 452, THRU OFFICIAL PUBLIC RECORDS

I hereby certified on JULY 5, 2002

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

BY Stella Way DEPUTY
ESTELLA ANAYA

Release of Oil and Gas Lease

State:

Texas

County:

Reeves

Lessor:

The State of Texas acting by and through its agent,

Virginia Glenn Hill Lattimore, James Robert Hill and John A. Styrsky, Co-Trustees of Houston and Emma Hill Trust Estate, Virginia Glenn Hill Lattimore,

Individually and James Robert Hill, Individually

500 Throckmorton, Suite 2803 Fort Worth, Texas 76102

Lessee:

Clay Johnson

Lease Date:

August 19, 1998

Recorded:

Official Public Records Vol. 596, Page 521 on 11-9-98 in Reeves County, Texas

PURE RESOURCES, L.P. hereby releases, surrenders, and forever quitclaims unto the Lessors named above and their successors in interest any and all rights whatsoever acquired or held under that certain Oil, Gas and Mineral Lease described above.

EXECUTED on the date of the acknowledgement below, to be effective as of the expiration of the primary term of said lease.

> PURE RESOURCES, L.P. By and Through Its General Partner, PURE RESOURCES I., INC.

John Long Attorney-in-Fact

JRR

THE STATE OF TEXAS

COUNTY OF MIDLAND

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

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 17th day

§

Notary Public in and for the

State of Texas

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

TX299-389-276-004-00

ANY PROVISION HEREIN WHICH RESTRICTS THE SA OR USE OF THE DESCRIBED REAL PROPERTY BECAL

FILE NO. 1330

FILED FOR RECORD ON THE

20TH DAY OF JUNE

A.D. 2002 AT 4:44 P. M.

DULY RECORDED ON THE

24TH

DAY OF

JUNE

A.D. 2002 AT 9:30 A. M.

DEPUTY

DIANNE O. FLOREZ, COUNTY CLERK REEVES COUNTY, TEXAS

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. 651. PAGE 447, THRU OFFICIAL PUBLIC RECORDS

I hereby certified on JULY 5, 2002

_DEPUTY



FILE# 1333

Release of Oil and Gas Lease

State:

Texas

County:

Reeves

Lessor:

The State of Texas acting by and through its agent,

Hill Investments, Ltd.

P. O. Box 1568

Cedar Park, Texas 78613

Lessee:

Clay Johnson

Lease Date:

August 19, 1998

Recorded:

Official Public Records Vol. 596, Page 575 on 11-9-98 in Reeves County, Texas

PURE RESOURCES, L.P. hereby releases, surrenders, and forever quitclaims unto the Lessors named above and their successors in interest any and all rights whatsoever acquired or held under that certain Oil, Gas and Mineral Lease described above.

EXECUTED on the date of the acknowledgement below, to be effective as of the expiration of the primary term of said lease.

PURE RESOURCES, L.P.
By and Through Its General Partner,
PURE RESOURCES I., INC.

Bv:

ohn Lodge
Attorney-in-Fact

JRR

THE STATE OF TEXAS

COUNTY OF MIDLAND

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

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 174 day

Eine, 2002.

A J. KEFF

Notary Public in and for the State of Texas

TX299-389-274-003-00

copy of
Original filed in
Reeves County
Clerks Office

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. 1333

FILED FOR RECORD ON THE

20TH

DAY OF____

DAY OF

A.D. 2002 AT 4:44 P.

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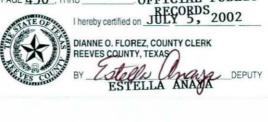
24TH

JUNE

JUNE

A.D. 2002 AT 9:30 A. M.

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 651 PAGE 450, THRU OFFICTAL PUBLIC RECORDS 1 hereby certified on JULY 5, 2002



Release of Oil and Gas Lease

State:

Texas

County:

Reeves

Lessor:

The State of Texas acting by and through its agent,

Virginia Glenn Hill Lattimore, James Robert Hill and John A. Styrsky, Co-Trustees of Houston and Emma Hill Trust Estate, Virginia Glenn Hill Lattimore,

Individually and James Robert Hill, Individually

500 Throckmorton, Suite 2803 Fort Worth, Texas 76102

Lessee:

Clay Johnson

Lease Date:

August 19, 1998

Recorded:

Official Public Records Vol. 596, Page 494 on 11-9-98 in Reeves County, Texas

PURE RESOURCES, L.P. hereby releases, surrenders, and forever quitclaims unto the Lessors named above and their successors in interest any and all rights whatsoever acquired or held under that certain Oil, Gas and Mineral Lease described above.

EXECUTED on the date of the acknowledgement below, to be effective as of the expiration of the primary term of said lease.

PURE RESOURCES, L.P.
By and Through Its General Partner,
PURE RESOURCES I., INC.

Bv:

Attorney-in-Fact

JRR

THE STATE OF TEXAS

999

COUNTY OF MIDLAND

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

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 17th day

of June, 2002.



Notary Public in and for the

State of Texas

Clerks Office

FILE NO. 1328

FILED FOR RECORD ON THE

TX299-389-274-004-00

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

JUNE

A.D. 2002 AT 4:44 P.

DULY RECORDED ON THE 24TH

20TH

Thes, DEPUTY

DAY OF JUNE

DAY OF

A.D. 2002 AT 9:30 A. M.

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS

BY STELLA ANAYA

DEPUTY

Release of Oil and Gas Lease

State:

Texas

County:

Reeves

Lessor:

The State of Texas acting by and through its agent,

Hill Investments, Ltd. P. O. Box 1568

Cedar Point, Texas 78613

Lessee:

Clay Johnson

Lease Date:

August 19, 1998

Recorded:

Official Public Records Vol. 596, Page 584 on 11-9-98 in Reeves County, Texas

PURE RESOURCES, L.P. hereby releases, surrenders, and forever quitclaims unto the Lessors named above and their successors in interest any and all rights whatsoever acquired or held under that certain Oil, Gas and Mineral Lease described above.

EXECUTED on the date of the acknowledgement below, to be effective as of the expiration of the primary term of said lease.

> PURE RESOURCES, L.P. By and Through Its General Partner, PURE RESOURCES I., INC.

Attorney-in-Fact

THE STATE OF TEXAS

COUNTY OF MIDLAND

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

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 17th day of June , 2002.



Notary Public in and for the

State of Texas

TX299-389-270-006-00

AMY 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

FILE	NO	1325
FILE	NO.	1323

DULY RECORDED ON THE

FILED FOR RECORD ON THE

20TH 24TH

DAY OF

DAY OF

JUNE

JUNE

A.D. 2002 AT 4:44 P. M.

A.D. 2002 AT 9:30 A.

, DEPUTY

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 651 PAGE 442, THRU - OFFICIAL PUBLIC RECORDS

I hereby certified on JULY 5, 2002



DEPUTY

Release of Oil and Gas Lease

State:

Texas

County:

Reeves

Lessor:

The State of Texas acting by and through its agent,

Virginia Glenn Hill Lattimore, James Robert Hill and John A. Styrsky, Co-Trustees of Houston and Emma Hill Trust Estate, Virginia Glenn Hill Lattimore,

Individually and James Robert Hill, Individually

500 Throckmorton, Suite 2803 Fort Worth, Texas 76102

Lessee:

Clay Johnson

Lease Date:

August 19, 1998

Recorded:

Official Public Records Vol. 596, Page 485 on 11-9-98 in Reeves County, Texas

PURE RESOURCES, L.P. hereby releases, surrenders, and forever quitclaims unto the Lessors named above and their successors in interest any and all rights whatsoever acquired or held under that certain Oil, Gas and Mineral Lease described above.

EXECUTED on the date of the acknowledgement below, to be effective as of the expiration of the primary term of said lease.

PURE RESOURCES, L.P.
By and Through Its General Partner,
PURE RESOURCES I., INC.

Ву:

John Loage
Attorney-in-Fact

JRR

THE STATE OF TEXAS

COUNTY OF MIDLAND

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

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 17th day

f June, 2002

A J. KEE-MANA J. K

Notary Public in and for the State of Texas

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

TX299-389-270-007-00

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. 1326

FILED FOR RECORD ON THE

20TH DAY OF

JUNE

A.D. 2002 AT 4:44 P.

DULY RECORDED ON THE

24TH

DAY OF JUNE

A.D. 2002 AT 9:30 A. P

BF: JOSE TOLS, DEPUTY



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. 651.

PAGE 443, THRU — OFFICIAL PUBLIC RECORDS

I hereby certified on JULY 5, 2002



DEPUTY

FILE# 1331

Release of Oil and Gas Lease

State:

Texas

County:

Reeves

Lessor:

The State of Texas acting by and through its agent,

Virginia Glenn Hill Lattimore, James Robert Hill and John A. Styrsky, Co-Trustees of Houston and Emma Hill Trust Estate, Virginia Glenn Hill Lattimore,

Individually and James Robert Hill, Individually

500 Throckmorton, Suite 2803 Fort Worth, Texas 76102

Lessee:

Clay Johnson

Lease Date:

August 19, 1998

Recorded:

Official Public Records Vol. 596, Page 476 on 11-9-98 in Reeves County, Texas

PURE RESOURCES, L.P. hereby releases, surrenders, and forever quitclaims unto the Lessors named above and their successors in interest any and all rights whatsoever acquired or held under that certain Oil, Gas and Mineral Lease described above.

EXECUTED on the date of the acknowledgement below, to be effective as of the expiration of the primary term of said lease.

> PURE RESOURCES, L.P. By and Through Its General Partner, PURE RESOURCES I., INC.

John Lodge Attorney-in-Fact

JRR

THE STATE OF TEXAS

COUNTY OF MIDLAND

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

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 17th day



Notary Public in and for the

State of Texas

TX299-389-271-004-00



Reeves County Clerks Office Original filed rue and Correc

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

FILE NO. 1331

FILED FOR RECORD ON THE

20TH

W, DEPUTY

DAY OF

A.D. 2002 AT 4:44 P. M.

DULY RECORDED ON THE

24TH DAY OF JUNE

JUNE

A.D. 2002 AT 9:30 A.

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. 651

PAGE 448, THRU - OFFICIAL PUBLIC RECORDS

Thereby certified on JULY 5, 2002



DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS
BY Stella Charge DEPUTY
ESTELLA ANAVA

FILE# 1336

W.100344

Release of Oil and Gas Lease

State:

Texas

Reeves

County:

Lessor:

The State of Texas acting by and through its agent,

Hill Investments, Ltd. P. O. Box 1568

Cedar Park, Texas 78613

Lessee:

Clay Johnson

Lease Date:

August 19, 1998

Recorded:

Official Public Records Vol. 596, Page 593 on 11-9-98 in Reeves County, Texas

PURE RESOURCES, L.P. hereby releases, surrenders, and forever quitclaims unto the Lessors named above and their successors in interest any and all rights whatsoever acquired or held under that certain Oil, Gas and Mineral Lease described above.

EXECUTED on the date of the acknowledgement below, to be effective as of the expiration of the primary term of said lease.

PURE RESOURCES, L.P.
By and Through Its General Partner,
PURE RESOURCES I., INC.

Rv

John Lodge Attorney-in-Fact

IRR

THE STATE OF TEXAS

COUNTY OF MIDLAND

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

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 17th day

_, 2002.

SATE OF TELES

Notary Public in and for the

State of Texas

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

TX299-389-271-006-00

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. 1336

FILED FOR RECORD ON THE

DAY OF

DAY OF

JUNE

A.D. 2002 AT 4:44 P. M

DULY RECORDED ON THE

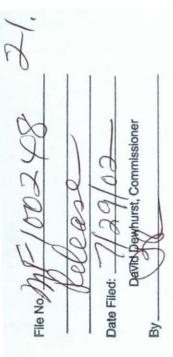
4TH

20TH

JUNE

A.D. 2002 AT 9:30 A. M

BY: April Thes DEPUTY



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. PAGE 453, THRU

RECORDS

I hereby certified on JULY 5, 2002

DEPUTY



Texas General Land Office



David Dewhurst Commissioner

August 8, 2002

Attn: Brenda Land Pure Resources, L.P. 500 West Illinois Midland, Texas 79701

Release of Twelve State Oil & Gas Leases -Re:

> MF-100201, MF-100202, MF-100203, MF-100205, MF-100246, MF-100248, Reeves County, Texas

Dear Ms. Land:

The General Land Office received the following instrument on July 29, 2002, filed them in the mineral files as stated above.

Releases, dated August 19, 2002, recorded in Reeves County, Texas.

Your remittance of \$300.00 has been applied as the state's portion of the filing fees.

Sincerely,

Mary Helen Silva Lease Administration **Energy Resources**

512:475-1532

MHS/mhs

Mailing

Post Office Box 12873 Austin, Texas 78711-2873

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

> 512.463.5001 1.800.998.4GLO www.glo.state.tx.us

File No. METODAY 8

Date Filed: St. Commissioner

By David Devil Commissioner