350/387

387

11723

Form 14

OIL AND GAS LEASE

(Chap. 282, 41st Leg., R.S. 1929; Chap. 174, 42d Leg., R.S. 1931; Chap. 148, 45th Leg., R.S. 1937; Chap. 179, 54th Leg., R.S. 1955; and Chaps. 94 and 245, 55th Leg., R.S. 1957)

08670

61437

This lease, made and entered into in duplicate on this 5th day of October, A.D. 1967, by and between the State of Texas, acting by and through JERRY SADLER, the Commissioner of the General Land Office, designated as Lessor, under authority and by virtue of the provisions of Chapter 282 of the General Laws of the State of Texas, passed by the Forty-first Legislature at its Regular Session, as amended, codified as Article 2603a, Vernon's Civil Statutes, and in pursuance of the award made by the Board for Lease of University Lands on the 5th day of October, A.D., 1967, to

LONE STAR PRODUCING CO.,

of 301 S. Harwood Street, Dallas, Texas, designated as Lessee,

WITNESSETH:

1. The Lessor, in consideration of the payment by Lessee of the sum of $ 4,250.00, the receipt whereof is acknowledged, and of the royalties, covenants, stipulations, and conditions contained, and hereby agreed to be paid, observed, and performed by the Lessee, does hereby demise, grant, lease, and let unto the Lessee the land described below, for five years from the date hereof, said period being the primary term of the lease, and as long thereafter as oil or gas is produced in paying quantities thereunder, subject to such conditions as are hereinafter set out, for the sole and only purpose of prospecting and drilling for, and producing oil and/or gas that may be found and produced from said lands, comprising a part of the Permanent University Fund, to wit:

Tract 7

Part	Section	Block	Grantee	Acres	County
NW/4	36	4	University	159.975	Andrews

2. If at the expiration of the primary term oil or gas in paying quantities shall not have been produced from the premises, this lease shall terminate; provided, however, the term or life of this lease may be extended under one or more of the following conditions:

(a) If the cessation production of oil or gas on the leased premises, after once obtained, shall cease for any cause within sixty (60) days before the expiration of the primary term of this lease or at any time or times thereafter, this lease shall not terminate if the Lessee commences additional drilling or reworking operations within sixty (60) days after such cessation, and this lease shall remain in full force and effect so long as such operations continue in good faith and in workmanlike manner, without interruptions totaling more than sixty (60) days during any one such operation; and if such drilling or reworking operations result in the production of oil or gas, this lease shall remain in full force and effect so long as oil or gas is produced in paying quantities or payment of shut-in gas well royalties or compensatory royalties is made as hereinafter provided.

(b) If at the expiration of the primary term or at any time thereafter, there is located on the leased premises a well or wells capable of producing gas in paying quantities and such gas is not produced for lack of a suitable market and this lease is not being otherwise maintained in force and effect, the Lessee may pay as royalty Twelve Hundred Dollars ($1,200) per annum for each well on this lease capable of producing gas in paying quantities, such payment to be made to the Commissioner of the General Land Office at Austin, Texas, prior to the expiration of the primary term of the lease, or if the primary term has expired, within sixty (60) days after the Lessee ceases to produce gas from such well or wells; and if such payment is made, this lease shall be considered to be a producing lease and such shut-in gas well royalty payment shall extend the term of this lease for a period of one (1) year from the end of the primary term or from the first day of the month next succeeding the month in which production ceased; and thereafter if no suitable market for such gas exists, the Lessee may extend this lease for two (2) additional and successive periods of one (1) year each by the payment of a like sum of money each year on or before the expiration of the extended term. Provided, however, that if, while this lease is being maintained in force and effect by payment of such shut-in gas well royalty, gas should be sold and delivered in paying quantities from a well situated within one thousand (1,000) feet of the leased premises and completed in the same producing reservoir or in any case where drainage is occurring, the right to further extend this lease by such shut-in gas well royalty payments shall cease, but this lease shall remain in force and effect for the remainder of the current one (1) year period for which the shut-in gas well royalty has been paid, and for an additional period not to exceed a combined total of three (3) years from the expiration of the primary term or from the first day of the month next succeeding the month in which production ceased by payment by the Lessee of compensatory royalty, at the royalty rate provided for in this University lease as would be due on an equivalent amount of like quality gas produced and delivered from the well completed in the same producing reservoir from which gas is being sold and delivered and which is situated within one thousand (1,000) feet of, or draining, the leased premises on which shut-in gas well is situated, such compensatory royalty to be paid monthly to the Commissioner of the General Land Office at Austin, Texas, beginning on or before the 20th day of the month next succeeding the month in which such gas is sold and delivered from the well situated within one thousand (1,000) feet of, or draining, the leased premises and completed in the same producing reservoir; provided, further, that in the event such compensatory royalties paid in any twelve (12) month period are in a sum less than the annual shut-in gas well royalties provided for in this section, the Lessee shall pay an additional sum of money equal to the difference within thirty (30) days from the end of such twelve (12) month period; provided, further, that nothing herein shall relieve the Lessee of the obligation of reasonable development, or of the obligation to drill offset wells as required by Section 12 of Article 2603a, V.C.S.

(c) If, at the expiration of the primary term, production of oil and/or gas has not been obtained in paying quantities on the leased premises but drilling operations are being conducted thereon in good faith and in good and workmanlike manner, the Lessee may, on or before the expiration of the primary term, file in the General Land Office, written application to the Commissioner for a thirty (30) day extension of this lease, such application to be accompanied by a payment of Seven and 50/100 Dollars ($7.50) per acre for each acre in the lease, and the Commissioner shall in writing extend this lease for a thirty (30) day period from and after the expiration of the primary term and so long thereafter as oil or gas is produced in paying quantities from the premises; provided, that the Lessee may, so long as such drilling operations are being conducted in good faith, make like application and payment during any thirty (30) day extended period for an additional extension of thirty (30) days not to exceed a combined total of one hundred eighty (180) days; provided, however, Lessee may, so long as such drilling operations are being conducted in good faith, make written application to the Commissioner, on or before the expiration of the initial extended period of one hundred eighty (180) days for an additional extension of one hundred eighty (180) days, such application to be accompanied by a payment of Fifty Dollars ($50.00) per acre for each acre in the lease, and the Commissioner shall, in writing, extend this lease for an additional one hundred eighty (180) day period from and after the expiration of the initial extended period of one hundred eighty (180) days, and so long thereafter as oil or gas is produced in paying quantities from the premises; provided, further, that this lease shall not be extended for more than a total of three hundred sixty (360) days from and after the expiration of the primary term unless production in paying quantities has been obtained.

3. Lessee agrees to pay or cause to be paid during the term hereof:

(a) As a royalty on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well and also all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, 1/6th part of the value of the gross production. Said value shall be based on 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, or the prevailing market price thereof in the general area, or the proceeds of the sale thereof, whichever is the greatest. Lessee agrees that before any gas produced from the land hereby leased, containing liquid hydrocarbons, recoverable in commercial quantities by separator on the lease, is sold, used or processed in a plant, it will be run through an adequate oil and gas separator of conventional type or other equipment at least as efficient to the end that all liquid hydrocarbons recoverable from the gas by such means will be recovered. Upon written consent of Lessor the requirement that such gas be run through such a separator or other equipment may be waived upon such terms and conditions as prescribed by Lessor.

(b) As royalty on any gas, which is defined as all hydrocarbons and gaseous substances not defined as oil in subparagraph (a) above, produced from any well and sold by Lessee, or used by Lessee for purposes which are not exempted from royalty payments (except as provided herein with respect to gas processed in a plant on a percentage basis for the extraction of gasoline, liquid hydrocarbons or other products), 1/6th of the value of the gross production, but in no event shall the royalty be based on a price of less than the highest market price paid or offered for gas in the general area, or the price paid or offered to the producer, whichever is the greater; provided that the maximum base pressure in measuring the gas under this lease contract shall not at any time exceed 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to test made by the Balance Method.

(c) As royalty on any gas, as herein defined, processed for the recovery of gasoline or other liquid hydrocarbons, 1/6th of the value of the gas processed. Lessee agrees that the value of such processed gas shall be the value of the liquid hydrocarbons recovered therefrom, plus one hundred per cent (100%) of the value of this lease's proportionate share (being that portion returnable to this lease) of the residue sold from the plant. The State's royalty shall be paid on the basis of the average selling price of residue gas and the respective grades of liquid hydrocarbons, F.O.B. at the plant in which said gas is used for the same month in which the gas was delivered, provided that the price shall not be less than the average of prices quoted in one or more of the leading periodicals of the industry for similar grades of liquid hydrocarbons and residue gas in the territory, or the price accruing to the Lessee, whichever is the greater. The value of all liquid hydrocarbons shall be determined as follows:

(1) On the basis of 50% of the value of the liquid hydrocarbon content of the gas as determined at the wellhead by the split-stream method of testing or the most approved method of testing being used by the industry at the time of testing, or

(2) That per cent of the value of liquid hydrocarbon content of the gas which accrues to the Lessee, or

(3) 50% of the value of liquid hydrocarbons actually recovered, or

(4) That per cent of the value of the liquid hydrocarbons actually recovered which accrues to the Lessee;

whichever is the greatest.

(d) As a royalty on carbon black, sulphur or any other products produced or manufactured from gas (excepting liquid hydrocarbons) whether said gas be "casinghead," "dry" or any other gas, by fractionating, burning or any other processing, the value of 1/6th part of the production used or disposed of by sale or otherwise by Lessee, the value to be determined as follows:

(1) On the basis of the average sale price of the product, F.O.B. at the plant for the same month in which the production is secured, or

(2) On the basis of the average price received by the seller for any of the by-products at the point of delivery, or

(3) On the basis of the average of prices quoted in one or more of the leading periodicals of the industry for similar grades of said products in the territory;

whichever is the greatest.

(e) No royalty shall be payable on gas used by Lessee for operations on the leased premises. No royalty shall be payable on any gas as may represent Lessee's proportionate share of any fuel used in compressing such gas or as fuel in any processing plant or other facility. Subject to the consent in writing of the Chairman of the Board for Lease of University Lands, Lessee may inject gas into any oil or gas producing formation underlying the leased premises after the liquid hydrocarbons contained in the gas have been removed, and no royalties shall be payable on the gas so injected until such time as the same may thereafter be produced and sold or used by Lessee in such manner as to entitle Lessor to a royalty thereon under the royalty provisions of this lease.

(f) Lessee agrees to use reasonable diligence to prevent the underground or above ground waste of oil or gas and, to avoid the physical waste of gas produced from the leased premises, Lessee shall either market said gas or use same beneficially in operations on the leased premises. Commencing six months from the date of initial production hereunder, if waste of gas occurs by blowing, flaring, release, venting, escape or otherwise, Lessee shall pay Lessor a royalty of 1/6th of the market value thereof, or in the event that there may not be a market for such gas, the royalty shall be based on the market value of gas of a comparable quality in the closest vicinity where there is a market for such gas, but in no event shall such value be less than 14 ¢ per M.C.F.

4. One year from the date of this lease, and on the same date of each of the following years during the life of this lease, the Lessee shall pay to the Commissioner of the General Land Office, Austin, Texas, an annual rental of $ 1.00 per acre, payable each year in advance, unless the royalties paid to and received in the General Land Office from this lease during the preceding year shall equal or exceed the amount of the annual rental payment; in which latter event, no annual rental will be due on the rental date immediately following such royalty payments.

5. All royalties shall be paid to the Commissioner of the General Land Office at Austin, Texas, during the life of this lease, on or before the 20th day of each succeeding month, for the month in which the oil and/or gas was produced, and shall be accompanied by a sworn statement of the owner, manager, or other authorized agent, showing the gross amount of oil produced since the last report, and the amount of all dry gas, residue gas, casinghead gas, and other products produced therefrom, sold, or used for the manufacture of gasoline, and the market value of the oil, dry gas, residue gas, casinghead gas, and other products produced therefrom, together with a copy of all daily gauges of tanks, meter readings, pipe-line receipts, gas-line receipts, and other checks and memoranda of the amounts produced and put into pipe lines, tanks, or pools, and gas lines or gas storage. In all cases the authority of a manager or agent to act for the Lessee herein must be filed at the General Land Office for the Board for Lease of University Lands.

6. The books and accounts, receipts, and discharges of all wells, tanks, pools, meters, pipe lines, and all contracts and other records pertaining to the production, transportation, sale, and marketing of the oil and gas produced on said premises shall at all times be subject to inspection and examination by the Commissioner of the General Land Office, the Attorney General, the Governor, any member of the Board of Regents of The University of Texas, or the representative of any of them.

7. 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 therefrom.

8. The Lessee shall adequately protect the oil and gas under the above-described land from drainage from adjacent lands or leases, including non-University lands or University lands leased at a lesser royalty. The Lessee shall drill as many wells as the facts justify, and to the depth or depths necessary for effective protection against drainage from such adjacent lands or leases. Neither the bonus, annual rentals, nor royalties paid or to be paid hereunder shall relieve Lessee from the obligations herein expressed.

9. If this lease shall be forfeited or terminated for any cause, the Lessee shall not, in any event, be permitted to remove the casing or any part of the equipment from any producing, dry, or abandoned well or wells without the written consent of the Board for Lease of University Lands or its authorized representative; nor shall Lessee, without the written consent of said Board or its authorized representative, remove from the leased premises the casing or any other equipment, material, machinery, appliances or property owned by the Lessee and used by the Lessee in the development and production of oil or gas therefrom, until all dry or abandoned wells have been plugged to the satisfaction of the Railroad Commission of Texas and until all slush or refuse pits have been properly filled and all broken or discarded lumber, machinery, or debris shall have been removed from the premises to the satisfaction of said Board or its authorized representative.

10. Whenever the Lessee commences the drilling of any well or wells upon the above-described premises, written notice thereof shall be filed at the General Land Office for the Board for Lease of University Lands, accompanied by a plat of said premises showing the location of such well or wells. Lessee shall file at the General Land Office for the Board for Lease of University Lands, the logs of all wells drilled upon the above-described premises, within thirty (30) days after completion in the case of producing wells, and within thirty (30) days after abandonment in the case of dry holes.

(a) Lessee shall file at the field office of The University of Texas at Midland, Texas, or such other office as the Board for Lease may designate in writing to the Lessee, carbon copies of all forms and other information filed with the Texas Railroad Commission which pertain to operations of this lease within five (5) days after said filing with the Commission.

(b) Lessee shall have an electric or radioactivity survey made of 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 to the field office of The University of Texas at Midland, Texas, or such other office as Board for Lease may designate in writing to the Lessee, within fifteen (15) days after the making of said survey. If the above-described premises are located in Loving, Ward or Winkler Counties, the Lessee shall have a radioactivity survey made of the bore-hole section from the base of the surface pipe to the total depth of the well of the first well drilled in the above-described premises, and on such other wells on the same premises, as the Lessor shall direct, and shall transmit a true copy of the log of such survey to the office hereinbefore in this section designated within fifteen (15) days after making of such survey.

(c) The Lessee herein agrees, insofar as possible, to supply said Board with any records, memoranda, accounts, reports, cuttings and cores, or other information relative to the operation of the above-described premises, that such Board may request, in addition to those herein expressly provided for.

11. In drilling wells all water-bearing strata shall be noted by Lessee in the log and the Lessor reserves the right to require that all or any part of the casing shall be left in any nonproductive well when Lessor deems it necessary to preserve or maintain said well or wells for water. For such casing left in wells, the Lessor shall pay to the Lessee the reasonably estimated salvage value thereof.

12. (a) Lessee shall have the right to use as much of the surface of the land as shall be reasonably necessary for the full exercise and enjoyment of the oil and gas rights and interests hereby granted in said land, including the right to use free of cost water found and produced or impounded by Lessee on said land for its own operations thereon, except water from wells or tanks of Lessor or its surface lessees; also the right to lay and maintain gathering lines, erect and maintain telephone and telegraph lines on this lease, pull rods, and other appliances and equipment necessary for the operation of wells thereon; also the right of ingress and egress and the right of way to any point of operations under conditions of least injury and inconvenience to the occupant of the surface. All easements not pertaining solely to this lease may be issued by the Board of Regents of The University of Texas.

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

13. The State shall have a first lien upon all oil and gas produced upon the above premises, and upon all rigs, tanks, pipe lines, telephone lines, and machinery and appliances owned by Lessee used in the production and handling of oil and gas produced therefrom, to secure any amount due from the Lessee herein and to secure the performance of any of the provisions contained in this lease contract.

14. If Lessee shall fail or refuse to make the payment of any sum due by the provisions of this lease, either as rental or royalty on the production, within thirty (30) days after same shall become due, or if the Lessee or his authorized agent should make any false report or false return concerning production, royalty, or drilling, or if Lessee shall fail or refuse to drill any offset well or wells in good faith, as required herein, or if the Lessee or his agent should refuse the proper authority access to the records and other data pertaining to the operations under the aforesaid Act, or if the Lessee, or his authorized agent, should fail or refuse to give correct information to the proper authorities, or fail or refuse to furnish the cuttings or cores of any well upon demand, or fail or refuse to furnish the log of any well within thirty (30) days after production is found in paying quantities therein or the well is abandoned, or if any of the material terms of this lease shall be violated, this lease shall be subject to forfeiture by the Board for Lease of University Lands by an order entered upon the minutes of the Board reciting the facts constituting the default and declaring the forfeiture. The Board may, if it so determines, have suit instituted for forfeiture through the Attorney General of the State. Upon proper showing by the Lessee, within thirty (30) days after the declaration of forfeiture, this lease may, at the discretion of the Board and upon such terms as it may prescribe, be reinstated. In case of violations by the Lessee of the provisions of this lease, the remedy of the State by forfeiture shall not be the exclusive remedy, but a suit for damages or specific performance, or both, may be instituted.

15. The assignment of the rights acquired under this lease shall be governed by the provisions of existing law providing that all rights acquired may be assigned in quantities of not less than forty acres, unless there be less than forty acres remaining in any survey, in which case such lesser area may be assigned. All assignments shall be filed in the county or counties in which the area is situated and a certified copy of the assignment shall be filed in the General Land Office within one hundred (100) days after the date of the first acknowledgment thereof, accompanied by ten cents (10¢) per acre transfer fee for the gross acres assigned and the required statutory filing fee of the General Land Office. If not so filed and payments so made, the assignment shall be ineffective.

16. All rights to any whole lease and to any assigned portion thereof may be relinquished to the State at any time by having an instrument of relinquishment recorded in the county or counties in which the land is situated and a certified copy of the relinquishment filed in the General Land Office, accompanied by a One Dollar ($1.00) relinquishment fee for each area relinquished and any additional statutory filing fee required by the General Land Office. Such assignment or relinquishment shall not relieve the lease owner of any past due obligations theretofore accrued thereon, or impair the Lessor's lien herein provided for.

17. The covenants, conditions, and agreements contained herein shall extend to and be binding upon the heirs, executors, administrators, successors, or assigns of the Lessee herein.

IN TESTIMONY WHEREOF, witness the signature of the Commissioner of the General Land Office this 5th day of October, A.D., 19 67.

JERRY SADLER, Commissioner, General Land Office of Texas

F-9,10,11 3-68
Form 14

Approved
Audit
Legal
Engineering
Geology
Executive

FILED for record on the 19 day of Dec. 1967 10:15 o'clock A. M.

RECORDED on the 20 day of Dec. 1967 8:30 o'clock A. M.

Return to: Lone Star Producing Co.
501 Lincoln
Dallas, Texas

JAMES GRADDICK, County Clerk
By Claudene Bales Deputy