

OIL AND GAS LEASE #96951

This lease, made and entered into in duplicate to be effective November 14, 1995, by and between the State of Texas and the Board for Lease of University Lands, acting by and through Garry Mauro, the Commissioner of the General Land Office, designated as Lessor, under authority and by virtue of the provisions of Subchapter D, Chapter 66, Texas Education Code, as amended, and subject to such rules and regulations as may be adopted by the Board for Lease of University Lands and pursuant to the award made on November 14, 1995, to Riverhill Energy Corporation, P. O. Box 2726, Midland, Texas 79702-2726, designated as Lessee.

WITNESSETH:

1. **PRIMARY TERM:** The Lessor, in consideration of the payment by Lessee of the sum of \$13,400.00, 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 (5) 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:

Part/Section	Block	Grantee	Acres	County
NE/4 of Section 45	6	University	160.000	Andrews & Martin

2. **CONTINUATION OF TERM:** 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) **CESSATION, DRILLING AND REWORKING:** In the event 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 royalties or compensatory royalties is made as hereinafter provided.

(b) **SHUT-IN ROYALTIES AND COMPENSATORY ROYALTIES:** 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 oil or gas in paying quantities and such oil or gas is not produced for lack of suitable production facilities or 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 oil or gas in paying quantities, such payment to be made to the Board of Regents of The University of Texas System, c/o University Lands Accounting Office, Box 579, Austin, Texas, 78767. Any shut-in oil or gas royalty payment must be paid on or before: (1) the expiration of the primary term of the lease, or (2) sixty (60) days after Lessee ceases to produce oil or gas from the leased premises, or (3) sixty (60) days after Lessee completes a drilling and reworking operation in accordance with the lease provisions, whichever date is latest. If such payment is made, the lease shall be considered to be a producing lease and such shut-in royalty payment shall respectively extend the term of the lease for a period of one (1) year from the end of the primary term, or (2) from the first day of the month next succeeding the month in which production ceased, or (3) from the first day of the month next succeeding the month in which the drilling and reworking operation has been completed. Thereafter, if no suitable production facilities or suitable market for such oil or gas exists, the Lessee may extend the lease for four additional and successive periods of one 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 such lease is being maintained in force and effect by payment of such shut-in royalty, oil or gas should be sold and delivered in paying quantities from a well situated within one thousand (1,000) feet of the lease 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 royalty payments shall cease, but such lease shall remain in force and effect for the remainder of the current one year period for which the shut-in royalty has been paid, and for four additional and successive periods of one year each by the payment by the Lessee of compensatory royalty, at the royalty rate provided for in this University lease of the value at the well of production from the well which is causing the drainage or which is completed in the same producing reservoir and within one thousand (1,000) feet of the leased premises; such compensatory royalty to be paid monthly to the Board of Regents of The University of Texas System, c/o University Lands Accounting Office, Box 579, Austin, Texas, 78767, beginning on or before the last day of the month next succeeding the month in which such oil or 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 oil or gas well royalties provided for in this section, the Lessee shall pay an additional sum 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, nor of the obligation to drill offset wells required by the provisions of the *Texas Education Code*.

(c) **EXTENSIONS:** 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 workmanlike manner, the Lessee may, on or before the expiration of the primary term, file with the Board of Regents of The University of Texas System, c/o University Lands Accounting Office, Box 579, Austin, Texas, 78767, written application 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 Chairman of the Board of Regents of The University of Texas System, or a designee appointed by the Chairman, 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 Board of Regents of The University of Texas System, c/o University Lands Accounting Office, Box 579, Austin, Texas, 78767, 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 Chairman of the Board of Regents of The University of Texas System, or a designee appointed by the Chairman, shall in writing, extend this lease for an additional

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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. The timely filing of a written application for an extension of the primary term of this lease as required above and the submittal of the applicable extension payment together with a required Ten Dollars (\$10) per acre advance rental payment for the 6th year shall satisfy the drilling and other obligations required in this paragraph.

3. PRODUCTION ROYALTIES: Subject to the provisions for royalty reduction set out in Subparagraph (c) of this Paragraph 3, Lessee agrees to pay or cause to be paid during the term hereof:

(a) OIL: As a royalty on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well, save and except casinghead gas, and also all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, one-fourth (1/4) 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 similar gravity and type in the general area, or the prevailing market price thereof in the general area, or the proceeds of the sale thereof, whichever is the greater. 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) GAS: As royalty on any and all gas, including casinghead gas and flared or vented gas, which is defined as all hydrocarbons and gaseous substances not defined as oil in subparagraph (a) above, produced from any well by Lessee, one-fourth (1/4) part of the value of the gross production, such value to be determined on the basis of the highest price paid for gas of a similar quality in the general area or the amount accruing to the producer from all hydrocarbons or other products produced from said gas, whichever is greater; however, in no event shall the royalty on flared or vented gas be determined on a value of less than One Dollar (\$1.00) per MCF. Where gas is run through such separator or other equipment, as provided in Subparagraph (a) above, its value, after having been run through such separator or other equipment, shall be determined as specified herein.

(c) ROYALTY REDUCTION:

(1) Required Operations for Royalty Reduction: The royalty obligation provided in Paragraphs 3(a) and (b) above may be reduced to 20% or 22.5% by the operations described below:

- 20% Royalty - drill and obtain oil or gas production in paying quantities on the leased premises within the initial 18-month period of this lease; or
22.5% Royalty - drill and obtain oil or gas production in paying quantities on the leased premises within the 19th through 36th month period of this lease.

(2) Extensions of Early Development Periods. In the event one or more dry holes are drilled during one of the above time periods, a 90-day extension may be obtained by commencing the drilling of a well or wells prior to the expiration of the respective time period set out above and by giving written notice to the Manager of University Lands--Oil, Gas and Mineral Interests, P. O. Drawer 553, Midland, Texas 79702. The applicable reduced royalty rate shall become effective if production of oil and gas in paying quantities is obtained on the leased premises within the 90-day extension.

(3) Reduction of Royalty: A REDUCED ROYALTY RATE, ONCE ESTABLISHED, SHALL BE EFFECTIVE FOR THE ENTIRE LEASE SO LONG AS THE LEASE AGREEMENT IS IN EFFECT.

(d) KEEP WHOLE: In the event any such gas is processed for the extraction of liquefiable hydrocarbons or other marketable substances, the value of the extracted products and the remaining residue gas attributable thereto shall for royalty payment purposes never be less than if such gas had not been processed.

(e) RECYCLED GAS: 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) CONSERVATION: Lessee agrees to use reasonable diligence to prevent the underground or above ground waste of oil or gas and to avoid the physical waste and flaring or venting of gas produced from the leased premises. Lessee shall pay a royalty on such oil or gas as specified herein.

(g) NO DEDUCTIONS: Royalties payable under this lease shall be made 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.

(h) ROYALTY IN KIND: Lessor shall have the option to require that payment of any royalty as stipulated in this lease be made in kind, which option shall be exercisable at the discretion of the Board from time to time giving Lessee six (6) months' written notice.

(i) ROYALTY ON CONTRACT SETTLEMENTS: Lessee agrees to pay to Lessor the applicable royalty on any monetary settlement received by Lessee from any breach of Lessee's gas contract by its gas purchaser involving the marketing, pricing or taking of gas from this lease.

4. ANNUAL RENTALS AND MINIMUM PAYMENTS:

(a) ANNUAL RENTAL: One (1) year from the date of this lease, and on the same date of each of the following years during the primary term of this lease, the Lessee shall pay to the Board of Regents of The University of Texas System, c/o University Lands Accounting Office, Box 579, Austin, Texas 78767, an annual rental of Five Dollars (\$5.00) per acre, payable each year in advance, except at the end of the third and fourth years, the rental shall be Ten Dollars (\$10.00) per acre.

(b) MINIMUM PAYMENT AFTER PRODUCTION: If this lease is maintained by production, the rental will be excused in any given year if the royalties paid and received shall equal or exceed Five Dollars (\$5.00) per acre; otherwise, there shall be due and payable on or before the anniversary date of this lease a sum equal to Five Dollars (\$5.00) per acre less the amount of royalties paid and received during the preceding year. In the event of cessation of production after once obtained, the annual rental due shall be as prescribed in Paragraph 4(a).

5. **ROYALTY PAYMENTS, REPORTS AND DOCUMENTS:** All royalties not taken in kind shall be paid to the Board of Regents of The University of Texas System, c/o University Lands Accounting Office, Box 579, Austin, Texas, 78767, as follows: Royalty on oil shall be due and payable on or before the 5th day of the second month succeeding the month of production, and royalty on gas shall be due and payable 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 Board of Regents of The University of Texas System 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 Board of Regents of The University of Texas System 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 with the Board of Regents of The University of Texas System, c/o University Lands Accounting Office, Box 579, Austin, Texas, 78767. Each royalty payment shall be accompanied by a check stub, schedule, summary or other remittance advice showing by the assigned University (State) lease number the amount of royalty being paid on each lease. Royalty payments shall be in one of the following forms: in cash; by a bank draft drawn on a state or national bank in Texas; by a post-office or express money order; or in any other form the law may provide for making payments to the State Treasury, and are payable to the Board of Regents of The University of Texas System. A royalty payment is timely made if, before the applicable due date, the payment is deposited in a postpaid, properly addressed wrapper, with a post office or official depository under the care and custody of the United State Postal Service.

(a) **DELINQUENT ROYALTY:** Pursuant to Section 66.74, Texas Education Code, the following cumulative penalties will be imposed upon any royalty not paid when due: To any royalty not paid when due, a penalty of one percent (1%) shall be added to the unpaid amount due; to any royalty not paid within seven (7) days after the due date, an additional penalty of four percent (4%) shall be added to the unpaid amount due; to any royalty not paid within thirty (30) days after the due date, an additional penalty of five percent (5%) shall be added to the unpaid amount due; provided, however, the minimum penalty imposed under this subparagraph shall not be less than Twenty-Five Dollars (\$25.00).

An interest rate of twelve percent (12%) per annum shall accrue on delinquent royalties beginning sixty (60) days after the due date in addition to other delinquency penalties; however, the Board of Regents of The University of Texas System shall impose an additional penalty of twenty-five percent (25%) to any delinquent royalties if the delinquency is due to fraud or intent to evade payment of sums due under Paragraph 3.

(b) **DELINQUENT REPORTS AND DOCUMENTS:** A penalty in the amount of Ten Dollars (\$10.00) per document (or a higher amount to be established by the Board of Regents of The University of Texas System) for each thirty (30) day period of delinquency or fractional part thereof shall be assessed for any late report, affidavit, supporting document or any other instrument required to be filed under this Paragraph 5 and Paragraph 6.

Collection of penalty and interest charges under (a) and (b) of this paragraph are in addition to any rights, including forfeiture, that the Board of Regents of The University of Texas System may exercise for failure to pay royalty or submit a report or other instruments when due.

6. **CONTRACTS, RESERVES AND OTHER RECORDS:** Lessee shall furnish the Board of Regents of The University of Texas System 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. All gas contracts, agreements, and amendments to such contracts shall be sent to the Board of Regents of The University of Texas System, c/o University Lands Accounting Office, Box 579, Austin, Texas, 78767. Such contracts, when received by the University Lands Accounting Office, shall be held in confidence by the University Lands Accounting Office, unless otherwise authorized by the Lessee. The books and accounts, receipts, and discharges of all wells, tanks, pools, meters, pipelines, and all contracts and other records pertaining to the production, transportation, sale, and marketing of the oil and gas produced on said premises shall be at all times 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 System or the representative of any of them. Lessee shall, upon request, furnish the Board of Regents of The University of Texas System with its best possible estimate of oil and gas reserves underlying this lease or allocable to this lease. All such reserve information, when received, shall be held in confidence by the Board of Regents of The University of Texas System.

7. **DEVELOPMENT:** 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. In the event this lease is in force and effect eight (8) years after the effective date of the lease, it shall then terminate as to all of the leased premises for all depths below one hundred feet (100') below the deepest depth drilled by Lessee on the leased premises during the term of this lease and, as to all other depths, as to all of the leased premises EXCEPT:

- (a) forty (40) acres surrounding each producing oil well and three hundred twenty (320) acres surrounding each producing gas well (including a shut-in gas well as provided in Paragraph 2(b) hereof), or that acreage to be assigned to a well or wells upon which Lessee is then, in good faith, engaged in continuous drilling or reworking operations, or
- (b) the number of acres included in a producing pooled unit pursuant to *Natural Resources Code*, Sections 52.151-52.153, or
- (c) 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.

"Producing" as used herein means producing in paying quantities. The 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 Board for Lease of University Lands. Lessee shall execute and record a release or releases containing a satisfactory description of the acreage and depths not retained hereunder and the recorded release, or a certified copy of same, shall be filed with the Board of Regents of The University of Texas System, c/o University Lands Accounting Office, Box 579, Austin, Texas, 78767, accompanied by the prescribed fee of Six Dollars (\$6.00), as provided in Paragraph 16 of this lease.

Upon the termination of this lease pursuant to this paragraph as to a part, but not all of the leased premises, Lessee shall have a continuing non-exclusive easement across the surface of the leased premises for access to that portion of the leased premises with respect to which this lease is not terminated, and, Lessor shall have, and expressly reserves, an easement over, across and through the retained leased premises, including all of the retained depths and formations, to enable exploration for, and production and development of, oil, gas and/or minerals from any depths and lands which are not thereafter subject to this lease. Lessor, its agent or assignee, shall not have the right to use any wellbores drilled by Lessee or any equipment installed by Lessee in connection with any such drilling or production operations without the written consent of Lessee. The easement reserved herein by Lessor shall be fully assignable by Lessor to any party, including any oil, gas and mineral lessee of depths or lands no longer subject to this lease,

and in the event Lessor assigns such easement to any third party, Lessee shall look only to such third party, and not to Lessor, for any claims, costs, expenses or damages occasioned by such third party's use of the easement herein reserved, specifically including, but not limited to, any claims that such third party's activities interfered with or damaged Lessee's well(s), reserves, equipment, operations, or other rights hereunder.

8. OFFSET WELLS: The Lessee shall adequately protect the oil and gas under the above-described land from drainage from adjacent lands or leases, including non-University land or University lands leased at a lesser royalty. If oil and/or gas should be produced in commercial quantities in a well on non-University land or on University lands leased at a lesser royalty, which well is within one thousand (1,000) feet of the area included herein, the Lessee shall, within sixty (60) days after notice by Lessor of such production on such land, begin in good faith and pursue diligently operations leading to the drilling of an offset well on this area, and such offset well shall be drilled to such depth as may be necessary to prevent the undue drainage of this area, and the Lessee, manager, or driller shall use all means necessary in a good faith effort to make such offset well produce oil and/or gas in commercial quantities. Neither the bonus, annual rentals, nor royalties paid or to be paid hereunder shall relieve Lessee from the obligations herein expressed.

9. REMOVAL OF EQUIPMENT: 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. WELL LOCATION: Prior to the Lessee commencing the drilling of any well or wells upon the above-described premises, written notice thereof shall be filed at the Office of University Lands--Oil, Gas and Mineral Interests, P.O. Drawer 553, Midland, Texas, 79702, accompanied by a plat of said premises showing the location of such well or wells. Lessee shall also obtain written consent from Lessor before commencing any surface preparation in connection with a drill site or the construction of a road to its drill site. All easements not pertaining solely to this lease may be issued by the Board of Regents of The University of Texas System.

(a) **RAILROAD COMMISSION FORMS:** Copies of all forms and other information filed with the Texas Railroad Commission which pertain to operations of this lease shall be filed simultaneously by Lessee at the Office of University Lands--Oil, Gas and Mineral Interests, P.O. Drawer 553, Midland, Texas 79702, or such other office as the Board for Lease may designate in writing to the Lessee.

(b) **LOGS:** Lessee shall have an electric or radioactivity survey made of the bore-hole section, from the surface of the ground to the total depth of the well, of all wells drilled on the above-described premises and shall transmit a copy of each and every log of each required survey, along with copies of logs of all other bore-hole surveys, to the Office of University Lands--Oil, Gas and Mineral Interests, P.O. Drawer 553, Midland, Texas, 79702, or such other office as the Board for Lease may designate in writing to the Lessee, within fifteen (15) days after the making of said surveys.

(c) **FAILURE TO LOG:** At the option of Lessor, upon failure of Lessee to have an electric or radioactivity survey made of the bore-hole section from the surface of the ground to the total depth of the well, and upon failure to furnish Lessor with a copy of the required logs, Lessee shall be required to re-enter any well and run the required surveys and furnish a copy of the logs to the Office of University Lands--Oil, Gas and Mineral Interests, or the Lessee shall be required to pay the Lessor the sum of Fifteen Thousand Dollars (\$15,000) which shall be considered liquidated damages for Lessee's failure to furnish said log to Lessor as required hereby.

(d) **DRILLING RECORDS:** The Lessee herein agrees to supply said Office of University Lands--Oil, Gas and Mineral Interests with all records, memoranda, accounts, reports, cuttings and cores, or other information relative to the operation of the above-described premises, that such Lessor may request, in addition to those herein expressly provided for.

11. POLLUTION AND USE OF SURFACE:

(a) **POLLUTION:** Lessee will be responsible for, and indemnify and hold Lessor harmless against, any and all claims, damages, liabilities, fines, penalties, and costs (including without limitation reasonable attorneys' fees) arising from pollution or contamination on the leased premises caused in whole or in part by Lessee or the activities of Lessee, Lessee's contractors, employees, agents, guests or invitees. Lessee will comply in full with all rules, regulations and statutory requirements of appropriate governmental agencies and will indemnify and hold Lessor harmless from any and all claims, demands, losses, fines and penalties arising out of Lessee's violation of such rules, regulations or statutes.

(b) **DAMAGE PAYMENTS:** 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. Lessee shall have the right to lay and maintain gathering lines, erect and maintain telephone and telegraph lines on the lease, pull rods, and other appliances and equipment necessary for the operation of wells thereon; also the right of ingress and egress and right of way to any point of operations under conditions of least injury and inconvenience to the occupant of the surface. However, all operations conducted on this lease shall be subject to the payments as set out in the current University of Texas Lands Damage Schedule. Lessee shall pay for damages caused by its operations to all personal property, improvements, livestock, and crops on said land.

(c) **MAINTENANCE OF WELL SITES AND IDENTIFICATION MARKERS:** Lessee shall build and maintain fences around its slush, sump, and drainage pits, pump jacks, Christmas trees and tank batteries if requested by Lessor, and Lessee will take all necessary care and precaution 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 drilling sites of all rubbish thereon. When requested by Lessor, Lessee shall bury its pipe lines below plow depth. Lessee shall also 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.

12. USE OF WATER:

(a) **SURFACE WATER:** Lessee shall have no right to use any surface water found on Lessor's property or any water from Lessor's, or Lessor's surface Lessee's, water wells or stock tanks.

(b) **SUBSURFACE WATER:** Lessee shall have the right to use, free of cost, subsurface water found and produced or impounded by Lessee on the above-described premises for any initial drilling operations in connection with primary production. The use of such water for any enhanced recovery operations is prohibited. All rights to the use of water as permitted herein are subject to Lessee's compliance with and performance of the requirements and procedures as stated below.

(c) **WATER WELL OPERATIONS AND REPORTS:** Prior to Lessee's commencing any water well drilling, reentry or water production operations, written notice shall be filed at the Office of University Lands--Oil, Gas and Mineral Interests, P.O. Drawer 553, Midland, Texas 79702. Furthermore, Lessee shall submit to said office, within fifteen (15) days after completion of said water well operations, or as otherwise requested, the following information: (1) a plat showing the location of each water well; (2) all information that may be requested pertaining to sample logs, downhole equipment and casing, static water levels, producing capacity, chemical analyses, and any other information requested by Lessor; and (3) copies of all forms, applications, permits, correspondence, etc. sent to or received from all local, state or federal regulatory agencies concerned with water operations or water well borehole maintenance operations. Upon cessation of use of any water well herein permitted, Lessee shall cap or plug said water well(s) in whatever manner the Manager of University Lands--Oil, Gas and Mineral Interests may require, provided, however, that said Manager shall have fifteen (15) days in which to ascertain whether the well(s) shall be capped or plugged. Such capping or plugging will be at the expense of Lessee.

13. **LIEN:** The State shall have a first lien upon all oil and gas produced upon the above premises, and upon all rigs, tanks, pipelines, 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. **FORFEITURE:** 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 Code, or if the Lessee, or his authorized agent, shall 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 survey of any well, as required herein, after thirty (30) days' written notice given by Lessor, 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 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. **ASSIGNMENTS:** The assignment of the rights acquired under this lease shall be governed by the provisions of existing law providing that any rights acquired may be assigned. In order for an assignment to be valid and effective, all assignments shall be filed in the county or counties in which the area is situated, and a legible copy of the recorded assignment must be filed with the Board of Regents of The University of Texas System, c/o University Lands Accounting Office, Box 579, Austin, Texas, 78767, accompanied by a filing fee of \$30.00 for each lease involved in the assignment. If the copy of the recorded assignment is filed with the Board of Regents of The University of Texas System after the 90th day after the date on which the assignment is recorded, the copy must be accompanied by the filing fee set by the Board and by a late fee equal to the amount of the filing fee.

16. **RELEASE:** Any rights to any 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 an original certified copy of the relinquishment filed with the Board of Regents of The University of Texas System, c/o University Lands Accounting Office, Box 579, Austin, Texas, 78767, accompanied by One Dollar (\$1.00) for each area relinquished and a filing fee of Five Dollars (\$5.00) for each lease involved in the relinquishment. 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.

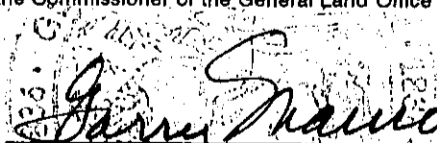
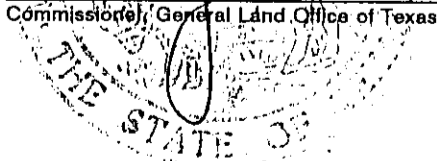
17. **RAILROAD COMMISSION HEARINGS ON GAS:** No natural gas or casinghead gas, including both associated and nonassociated gas, produced from the mineral estate of this lease may be sold or contracted for sale to any person for ultimate use outside the State of Texas until the Lessee has complied with Subchapter H, Chapter 52, Title 2 of the Natural Resources Code.

18. **ANTIQUITIES CODE:** Lessee shall comply with the Antiquities Code of Texas (Texas Natural Resources Code, Chapter 191) and applicable rules promulgated thereunder by the Antiquities Committee, or its successor. Lessee shall undertake its activities on the premises in a manner consistent with public policy relating to the location and preservation of archeological sites and other cultural resources in, on, or under public lands, including University Lands. Lessee shall use the highest degree of care and all reasonable safeguards to prevent the taking, alteration, damage, destruction, salvage, or excavation of cultural resources and/or landmarks on University Lands. Upon discovery of an archeological site, Lessee shall immediately give written notice of such discovery to Lessor and to the Texas Antiquities Committee, as set out in the Committee's rules. Lessee, its contractors and employees, shall have no right, title, or interest in or to any archaeological articles, objects, or artifacts, or other cultural resources located or discovered on University Lands.

19. **SUCCESSORS AND ASSIGNS:** 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.

20. **CAPTIONS:** The captions of the several paragraphs of this lease are for reference purposes only and shall not affect the meaning or interpretation of this lease.

IN TESTIMONY WHEREOF, witness the signature of the Commissioner of the General Land Office under the Seal thereof on November 14, 1995.


 Commissioner, General Land Office of Texas


NO. 116

OGL

GENERAL LAND OFFICE OF TEXAS

TO

RIVERHILL ENERGY CORPORATION

DATED: 11-14-95

FILED Feb 3 1996
At 11:15 o'clock A M
SUSIE HULL
County Clerk Martin Co., Texas
By Martha Parker Deputy

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Return to:
RIVERHILL ENERGY CORP

\$ 5.00 RETP Fee PD
\$ 11.00 Recording Fee PD
\$ 1.00 CHS Fee PD

Entered	<input checked="" type="checkbox"/>
Direct	<input checked="" type="checkbox"/>
Revised	<input checked="" type="checkbox"/>
Compared	<input checked="" type="checkbox"/>

063695

APR 5 1996

RECEIVED

ULAO

STATE OF TEXAS
COUNTY OF MARTIN
I hereby certify that this instrument was FILED on the date
and at the time stamped hereon by me and was duly
RECORDED in the Volume and Page of the official public
RECORDS of Martin County, Texas, as stamped hereon by me.



Susie Hull
County Clerk, Martin County, Texas

RECORDED February 9, 1996
OFFICIAL PUBLIC RECORDS VOL. 61 PAGE 726