

MF095709

<i>State Lease</i>	<i>Control</i>	<i>Base File</i>	<i>County</i>
MF095709	56-030239		GLASSCOCK
MF095709	56-031229		STERLING

*Survey* HIGHWAYS & PUBLIC TRANSPORTATION DE

*Block*

*Block Name*

*Township*

*Section/Tract*

*Land Part*

*Part Description* HIGHWAY RIGHT-OF-WAY

*Acres* 9.891

<i>Depth Below</i>	<i>Depth Above</i>	<i>Depth Other</i>
0	0	

*Name* LACY, JR., J.W.

*Lease Date* 1/4/1994

*Primary Term* 3 yrs

*Bonus (\$)* \$989.10

*Rental (\$)* \$0.00

*Lease Royalty* 0.2000

*Leasing:* \_\_\_\_\_

*Analyst:* \_\_\_\_\_

*Maps:* \_\_\_\_\_

*GIS:* \_\_\_\_\_

-M-  
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LACY, JR., J.W.

STATE LEASE - HROW

M-95709

**EXPIRED**

*Full*

COUNTY (CODE)	STERLING (216) & GLASSCOCK (87)
SURVEY	T & P R.R. CO.
BLOCK	32
TOWNSHIP	T-5-S
SECTION(S)/TRACT(S)	1 & 2
PART	STATE HWY 158
ACRES	9.891
DEPTH LIMITS	N/A
BASE FILE (S)	N/A
CONTROL NO. (S)	56-03122-9 / 56-03023-9
CONTROL NO. (S)	N/A

LESSEE	J.W. LACY, JR.
DATE	1-4-94
PRIMARY TERM	THREE (3) YEARS
BONUS (\$)	989.10
ROYALTY (FULL)	1/5
RENTAL (\$)	PAID-UP
VARIABLE ROYALTY	N/A

RENTALS	<i>M.S.</i>
LEASE ADMIN.	<i>DR</i>
MINERAL MAPS	
GIS	



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# The State of Texas



Austin, Texas

PAID-UP

OIL AND GAS LEASE NO. M-95709  
GENERAL LAND OFFICE  
AUSTIN, TEXAS

THIS AGREEMENT made and entered into by and between the Commissioner of the General Land Office of the State of Texas, whose address is Stephen F. Austin Building, 1700 North Congress, Austin, Texas, 78701, hereinafter called "Lessor", hereunto authorized by the School Land Board, pursuant to the provisions of Chapters 32, 34 and 52 of the Natural Resources Code (hereinafter called N.R.C.), and amendments thereto, and all applicable rules promulgated by the School Land Board, and J.W. Lacy, Jr., whose address is P.O. Box 3266, Midland, Texas 79702, hereinafter called "Lessee".

1. Lessor, in consideration of Nine Hundred Eighty Nine and 10/100 Dollars (\$989.10), receipt of which is hereby acknowledged, and of the covenants and agreements of Lessee hereinafter contained, does hereby grant, lease, and let unto Lessee the land covered hereby for the purposes and with the exclusive right of exploring, drilling, mining and operating for, producing and owning oil, gas, and all other hydrocarbons, produced from the land covered hereby. The land covered hereby, herein called "said land" is located in the County of Sterling and Glasscock, State of Texas, and is described as follows:

9.891 acres of land, more or less, situated in said Sterling and Glasscock County, Texas, more particularly

described in Exhibit "A" attached hereto and made a part hereof together with a plat, attached hereto as Exhibit "B", depicting said right-of-way and surrounding area for purposes of illustration only.

For the purpose of determining the amount of any bonus or other payment hereunder, said land shall be deemed to contain 9.891 acres, whether actually containing more or less, and the above recital of acreage shall be deemed to be the true acreage thereof. Lessor accepts the bonus as lump sum consideration for this lease and all rights and options hereunder.

2. PRIMARY TERM: This lease, which is a "paid up" lease requiring no rentals, shall remain in force for a term of three (3) years from January 4, 1994, hereinafter called "primary term", and as long thereafter as operations, as hereinafter defined, are conducted upon said land with no cessation for more than ninety (90) consecutive days.

3. ROYALTIES: As royalty Lessee covenants and agrees:

(a) To deliver to the credit of Lessor, in the pipe line to which Lessee may connect its well, the equal one fifth (1/5) part of all oil produced and saved by Lessee from said land, or from time to time, at the option of Lessee, to pay Lessor the average posted market price of such one fifth (1/5) part of such oil at the wells as of the day it is run to the pipe line or storage tanks, Lessor's interest, in either case, to bear none of the cost of treating oil to render it marketable pipe line oil;

(b) To pay Lessor on gas and casinghead gas produced from said land (1) when sold by lessee, one fifth (1/5) of the amount realized by Lessee, computed at the mouth of the well, or (2) when used by Lessee off said land or in the manufacture of gasoline or other products, the market value, at the mouth of the well, of one fifth (1/5) of such gas and casinghead gas.

(c) If, at the expiration of the primary term or at any time or times thereafter, there is any well on said land or on lands with which said land or any portion thereof has been pooled, capable of producing oil or gas, and all such wells are shut-in, this lease shall, nevertheless, continue in force as though operations were being conducted on said land for so long as said wells are shut-in, and thereafter this lease may be continued in force as if no shut-in had occurred.

(d) Lessee covenants and agrees to use reasonable diligence to produce, utilize, or market the minerals capable of being produced from said wells, but in the exercise of such diligence, Lessee shall not be obligated to install or furnish facilities other than well facilities and ordinary lease facilities of flow lines, separator, and lease tank, and shall not be required to settle

labor trouble or to market gas upon terms unacceptable to Lessee.

(e) If at any time or times after the expiration of the primary term, all such wells are shut-in for a period of ninety consecutive days, and during such time there are no operations on said land, then at or before the expiration of said ninety day period, lessee shall pay or tender, by check of lessee, as royalty, the sum of \$10.00. Lessee shall make like payments or tenders at or before the end of each anniversary of the expiration of said ninety day period if upon such anniversary this lease is being continued in force solely by reason of the provisions of this paragraph. Each such payment or tender shall be made to the parties who at the time of payment would be entitled to receive the royalties which would be paid under this lease if the wells were producing. Nothing herein shall impair lessee's right to release as provided in paragraph 5 hereof. In the event of assignment of this lease in whole or in part, liability for payment hereunder shall rest exclusively on the then owner or owners of this lease, severally as to acreage owned by each.

(f) All royalties not taken in kind shall be paid to the Commissioner of the General Land Office at Austin, Texas, in the following manner:

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, the 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. The State shall have first lien upon all oil and gas produced from the area covered by this lease to secure the payment of all unpaid royalty and other sums of money that may become due to the State hereunder.

4. POOLING: (a) Lessee is hereby granted the right, at its option, to pool or unitize any land covered by this lease with any other land covered by this lease, and/or with any other land, lease, or leases, as to any or all minerals or horizons. Units pooled for oil hereunder shall not exceed 160 acres each in area, and units pooled for gas hereunder shall not exceed in area 640 acres each plus a tolerance of ten percent (10%) thereof, unless oil or gas units of a greater size are allowed under or prescribed by rules of the Railroad Commission of Texas. A unit established hereunder shall be valid and effective for all purposes of this lease even though there may be mineral, royalty, or leasehold interests in lands within the unit which are not effectively pooled or unitized. Any operations conducted on any part of such unitized land shall be considered, for all purposes, except the payment of royalty, as operations conducted upon said land under this lease. There shall be allocated to the land covered by this lease within each such unit (or to each separate tract within the unit if this lease covers separate tracts within the unit) the proportion of the total production of unitized minerals from the unit, after deducting any used in lease or unit operations, which the number of surface acres in such land (or in each such separate tract) covered by this lease within the unit bears to the total number of surface acres in the unit, and the production so allocated shall be considered for all purposes, including payment or delivery of royalty, overriding royalty and any other payments out of production, to be the entire production of unitized minerals from the land to which allocated in the same manner as though produced therefrom under the terms of this lease. The owner of the reversionary estate of any term royalty or mineral estate agrees that the accrual of royalties pursuant to this paragraph or of shut-in royalties from a well on the unit shall satisfy any limitation of term requiring production of oil or gas. The formation of any unit hereunder which includes land not covered by this lease shall not have the effect of exchanging or transferring any interest under this lease (including, without limitation, any shut-in royalty which may become payable under this lease) between

parties owning interests in land covered by this lease and parties owning interests in land not covered by this lease. Neither shall it impair the right of Lessee to release as provided in paragraph 5 hereof, except that Lessee may not so release as to lands within a unit while there are operations thereon for unitized minerals unless all pooled leases are released as to lands within the unit. At any time while this lease is in force Lessee may dissolve any unit established hereunder by filing for record in the public office where this lease is recorded a declaration to that effect, if at that time no operations are being conducted thereon for unitized minerals. Subject to the provisions of this paragraph 4, a unit once established hereunder shall remain in force for so long as any lease subject thereto shall remain in force. If this lease now or hereafter covers separate tracts, no pooling or unitization of royalty interests as between any such separate tracts is intended or shall be implied or result merely from the inclusion of such separate tracts within this lease but Lessee shall nevertheless have the right to pool or unitize as provided in this paragraph 4 with consequent allocation of production as herein provided. As used in this paragraph 4, the words "separate tract" mean any tract with royalty ownership differing, now or hereafter, either as to parties or amounts, from that as to any other part of the leased premises.

(b) Neither unit production of oil or gas, nor unit operations, nor payment of shut-in royalties from a unit gas well, shall serve to hold the lease in force as to any area outside the unit, regardless of whether the production, maintenance of a shut-in gas well, or operations are actually located on the State tract or not.

(c) Lessee agrees to file with the General Land Office a copy of any unit designation which this lease is included within ninety (90) days of such designation.

5. RELEASE: Lessee may relinquish the rights granted hereunder to the State at any time by recording the relinquishment in the county where this area is situated and filing the recorded relinquishment or certified copy of same in the General Land Office within ninety (90) days after its execution accompanied by the prescribed filing fee. Such relinquishment will not have the effect of releasing Lessee from any liability theretofore accrued in favor of the State.

6. REWORK: If at any time or times during the primary term operations are conducted on said land and if all operations are discontinued, this lease shall thereafter terminate at the end of the primary term or on the ninetieth day after discontinuance of all operations, whichever is the later date, unless on such later date either (1) Lessee is conducting operations or (2) the shut-in well provisions of paragraph 3 or the provisions of paragraph 9 are applicable. Whenever used in this lease the word "operations" shall mean operations for and any of the following: drilling,

testing, completing, reworking, recompleting, deepening, plugging back or repairing of a well in search for or in an endeavor to obtain production of oil or gas, or production of oil or gas in paying quantities.

7. MINERAL USE: Lessee shall have the use, free from royalty, of oil and gas produced from said land in all operations hereunder.

8. NOTICE: In the event Lessor considers that Lessee has not complied with all its obligations hereunder, both express and implied, Lessor shall notify Lessee in writing, setting out specifically in what respects Lessee has breached this contract. Lessee shall then have sixty (60) days after receipt of said notice within which to meet or commence to meet all or any part of the breaches alleged by Lessor. The service of said notice shall be precedent to the bringing of any action by Lessor on said lease for any cause, and no such action shall be brought until the lapse of sixty (60) days after service of such notice on Lessee. Neither the service of said notice nor the doing of any acts by Lessee aimed to meet all or any of the alleged breaches shall be deemed an admission or presumption that Lessee has failed to perform all its obligations hereunder. If this lease is canceled for any cause, it shall nevertheless remain in force and effect as to (1) sufficient acreage around each well as to which there are operations to constitute a drilling or maximum allowable unit under applicable governmental regulations, (but in no event less than forty acres), such acreage to be designated by Lessee as nearly as practicable in the form of a square centered at the well, or in such shape as then existing spacing rules require; and (2) any part of said land included in a pooled unit on which there are operations.

9. FORCE MAJEURE: If, while this lease is in force, at, or after the expiration of the primary term hereof, it is not being continued in force by reason of the shut-in well provisions of paragraph 3 hereof, and Lessee is not conducting operations on said land by reason of (1) any law, order, rule or regulation, (whether or not subsequently determined to be invalid) or (2) any other cause, whether similar or dissimilar, (except financial) beyond the reasonable control of Lessee, the primary term shall be extended until the first anniversary date hereof occurring ninety (90) or more days following the removal of such delaying cause, and this lease may be extended thereafter by operations as if such delay had not occurred.

10. LESSER ESTATE, CLAUSE: If this lease covers a less interest in the oil or gas in all or any part of said land than the entire and undivided fee simple estate (whether lessors interest is herein specified or not), or no interest therein, then the royalties, and other monies accruing from any part as to which this lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease bears to the whole and undivided fee simple estate therein.

11. ASSIGNMENTS: This lease may be transferred at any time. All transfers must reference the lease by file number and must be recorded in the county where the land covered hereby is located, and the recorded transfer or a copy certified to by the County Clerk of the county where the transfer is recorded must be filed in the General Land Office within ninety (90) days of the execution date, as provided by N.R.C. Section 52.026, accompanied by the prescribed filing fee. Every transferee 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 transferee of the lease, including any liabilities to the State for unpaid royalties.

12. WELL INFORMATION: Lessee agrees to forthwith furnish Lessor, upon written request, with copies of all drilling logs, electrical logs, cores and core records and other information pertaining to all wells drilled by lessee either on the leased premises or acreage pooled therewith, when requested to do so. Said information shall remain confidential as required by statute.

13. SURFACE: Notwithstanding anything herein to the contrary, it is agreed that Lessee will not conduct any exploration or drilling on the surface of the leased premises or use the surface in the exercise of any rights herein granted. Any development of said land shall be by means of a directional well located off the leased premises, or by pooling of said land with other land, lease or leases as hereinabove provided.

14. COMPENSATORY ROYALTY: Lessee shall pay a compensatory royalty if this lease is not being held by production on the leased premises, by production from a pooled unit, or by payment of shut-in royalties in accordance with the terms of this lease, and if oil or gas is sold or delivered in paying quantities from a well located within 2500 feet of the leased premises and completed in a producible reservoir underlying the area leased hereunder or in any case in which drainage is occurring. Such compensatory royalty shall be paid at the royalty rate provided in this lease based on the value of production from the well as provided in the lease on which such well is located. The compensatory royalty shall be paid in the same proportion that the acreage of this lease has to the acreage of the proration unit surrounding the draining well plus the acreage of this lease. The compensatory royalty shall be paid monthly to the Commissioner of the General Land Office on or before the last day of the month after the month in which the oil or gas is sold and delivered from the well causing the drainage or from the well located within 2500 feet of the leased premises and completed in a producible reservoir under this lease. Notwithstanding anything herein to the contrary, compensatory royalty payable hereunder shall be no less than an amount equal to \$20.00, and shall maintain this lease in effect for so long as such payments are made as provided herein.

15. FORFEITURE: If Lessee shall fail or refuse to make payment of any sum within thirty (30) 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, or 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 this lease is pooled or assigned and the unit designation or 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. However, nothing herein shall be construed as waiving the automatic termination of this lease by operations 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.

16. RAILROAD COMMISSION: No natural gas or casinghead gas, including both associated and non-associated gas, produced from the mineral estate subject to this lease may be sold or contracted for sale to any person for ultimate use outside the State unless the Railroad Commission of Texas, after notice and hearing as provided in Title 3 of the N.R.C., finds that:

(a) the person, agency, or entity that executed the lease in question does not require the natural gas or casinghead gas to meet its own existing needs for fuel;

(b) no private or public hospital, nursing home, or other similar health-care facility in this state requires the natural gas or casinghead gas to meet its existing needs for fuel;

(c) no public or private school in this state that provides elementary, secondary, or higher education requires the natural gas or casinghead gas to meet its existing needs for fuel;

(d) no facility of the State or of any county, municipality, or other political subdivision in this state requires the natural gas or casinghead gas to meet its existing needs for fuel;

(e) no producer of food and fiber requires the natural gas or casinghead gas necessary to meet the existing needs of irrigation pumps and other machinery directly related to this

production; and

(f) no person who resides in this state and who relies on natural gas or casinghead gas to provide in whole or part his existing needs for fuel or raw material requires the natural gas or casinghead gas to meet those needs; provided, however, after notice and hearing as provided in Title 3 of the N.R.C., the Railroad Commission of Texas may grant exceptions to these provisions of Subchapter H of Chapter 52 of the N.R.C. if it finds and determines that enforcement of such provisions:

(1) would cause physical waste as defined in Title 3 of the N.R.C.; or

(2) would unreasonably deny to the Lessee an opportunity to produce economically hydrocarbons from the land subject to this lease.

IN TESTIMONY WHEREOF, witness the signature of the Commissioner of the General Land Office, under the seal of the General Land Office, effective as of January 4, 1994.



GARRY MAURO  
COMMISSIONER OF THE GENERAL LAND OFFICE  
OF THE STATE OF TEXAS

Approved:

Energy: RH

Legal (Form): DM

Executive: JS

Sterling County  
Glasscock County  
CSJ 405-2-3  
CSJ 405-1-1  
S.H. 158  
No. 429R

Exhibit "A"

Being 9.891 acres of land, more or less, situated in the T. and P. R.R. Co. Survey, Block 32, Township 5 - South, Sections 1 and 2 of Sterling and Glasscock Counties, Texas. Said 9.891 acres being a portion of the same land conveyed to the State in the following listed Deeds:

<u>GRANTOR</u>	<u>VOLUME</u>	<u>PAGE</u>	<u>COUNTY</u>
J. L. Glass, et ux	36	288	Sterling
J. L. Glass, et ux	52	23	Glasscock
Bankers Life Company	52	25	Glasscock

Said 9.891 acres being a strip of land 120.00 feet in width, 60.00 on either side of the highway centerline which is more particularly described as follows, to wit;

Beginning at a point on the centerline of S.H. 158 at Engineer's Centerline Station Number 718+23.70. Said point being located on a 01° 00' curve to the left. Said point also being in Glasscock County.

Thence, along the said centerline, around said curve, a distance of 200.00 feet to a point of intersection with the Glasscock- Sterling County Line at Engineer's Centerline Station Number 720+23.70 = Glasscock County and 786+90.50 Sterling County and continuing on for a total distance of 781.20 feet to the P.C. of said curve at Engineer's Centerline Station Number 781+09.30 in Sterling County;

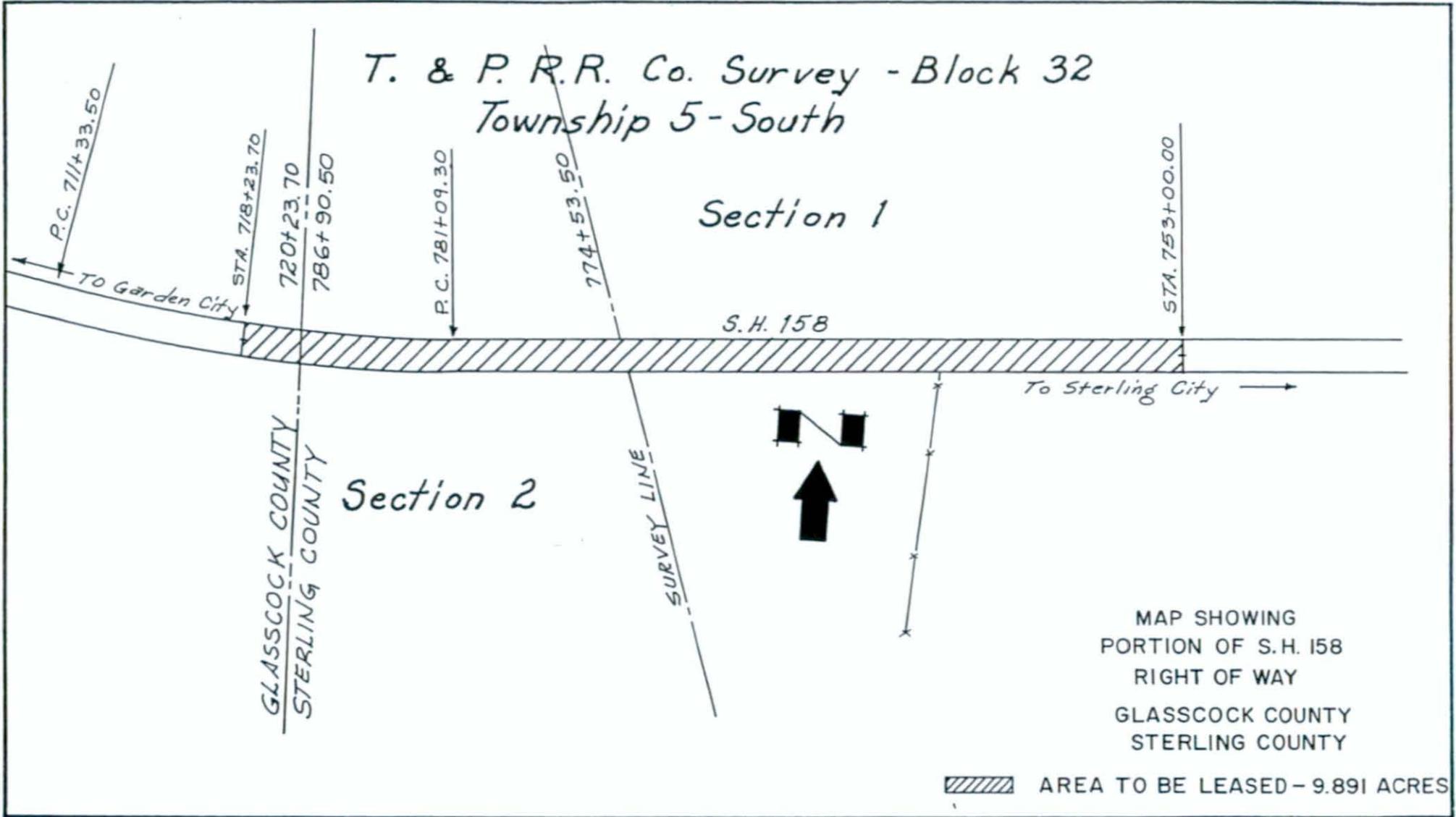
Thence N 88° 04' 00" E along the centerline of S.H. 158, a distance of 2,809.30 feet to a point being the end of the centerline herein described. Said point being at Engineer's Centerline Station Number 753+00.00.

The above described tract of land contains 9.891 acres and being as indicated on the official right of way map which is on file with the Texas Department of Transportation and identified under Control Numbers 405-1-1 in Glasscock County, and 405-2-3 in Sterling County.

# T. & P. R.R. Co. Survey - Block 32 Township 5-South

## Section 1

## Section 2



To Sterling City →

S.H. 158

SURVEY LINE

GLASSCOCK COUNTY  
STERLING COUNTY

MAP SHOWING  
PORTION OF S.H. 158  
RIGHT OF WAY  
GLASSCOCK COUNTY  
STERLING COUNTY

▨ AREA TO BE LEASED - 9.891 ACRES

①

M.95709

lense

1.4.94

GENERAL LAND OFFICE

GARRY MAURO  
COMMISSIONER

MEMORANDUM

DATE: October 27, 1993

TO: School Land Board

FROM: Robert Hatter / Energy Resources

SUBJECT: Application To Lease Right-of-Way

APPLICANT: J. W. Lacy, Jr.

REFERENCE: Being <sup>9891</sup>~~40.26~~ acres, more or less, of State Highway 158 situated in the T. & P. RR. Co. Svy., Secs. 1 and 2, Blk. 32, T. 5-S, Sterling County, Texas

The following terms were provide for in the adjacent leases: <sup>GLASSCOCK CO.</sup>

	<u>High</u>	<u>Low</u>
Bonus/Acre:	\$100.00	\$ 10.00
Royalty:	1/5	1/8
Delay Rental:	Paid-up	None
Primary Term:	3 year	10 year

The application has been reviewed by the Lease Administration Department and approved by the Department of Transportation. Subchapter F, Chapter 32 of the Texas Natural Resources Code requires the approval of the application to the lease with the following terms:

Bonus/Acre:	\$100.00 per acre	989.10		
Royalty:	1/5 royalty	14.84	1003.94	(23.94)
Delay Rental:	Paid-up - <u>NONE</u>			<u>owe</u>
Primary Term:	3 year			<u>HAVE 980.00</u>

J. W. Lacy, Jr. holds the mineral interest in the leases adjoining the above referenced right-of-way. Therefore, the applicant is entitled to a lease of the entire 18.26 acres. The applicant has submitted a title opinion showing that the state owns the entire mineral estate in the right-of-way and has submitted all other pertinent information required by the School Land Board rules.



# Texas Department of Transportation

P.O. BOX 5075 • AUSTIN, TEXAS 78763-5075 • (512) 416-2901

October 25, 1993

Contact: ROW

Mr. Garry Mauro  
Commissioner  
General Land Office  
Petroleum and Mineral Division  
1700 North Congress Avenue  
Austin, Texas

Dear Commissioner Mauro:

We have reviewed the proposed oil and gas lease applications and the following request for preferential leases are considered sufficiently documented to be presented to the Public School Land Board for approval:

<u>County</u>	<u>Nominator</u>	<u>Bonus</u>	<u>Royalty</u>	<u>Primary Term</u>	<u>Delay Rental</u>
Frio	Union Pacific Resources Co.	\$150.00	1/4	2 Years	\$25.00
Sterling	J.W. Lacy, Jr	\$100.00	1/5	3 Years	None
Jackson	Alyana Energy, Corp.	\$200.00	1/4	2 Years	\$20.00
Lee	Arrow Exploration Company	\$100.00	1/5	2 Years	None

Attached is one copy each of the field notes and sketch for the proposed leases. If additional information is needed, please contact Jimmy Perry at (512) 416-2874.

Sincerely,



Gary Bernethy, P.E.  
Director of Right of Way

Sterling County  
Glasscock County  
CSJ 405-2-3  
CSJ 405-1-1  
S.H. 158  
No. 429R

Exhibit "A"

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Bankers Life Company	52	25	Glasscock

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Thence, along the said centerline, around said curve, a distance of 200.00 feet to a point of intersection with the Glasscock- Sterling County Line at Engineer's Centerline Station Number 720+23.70 = Glasscock County and 786+90.50 Sterling County and continuing on for a total distance of 781.20 feet to the P.C. of said curve at Engineer's Centerline Station Number 781+09.30 in Sterling County;

Thence N 88° 04' 00" E along the centerline of S.H. 158, a distance of 2,809.30 feet to a point being the end of the centerline herein described. Said point being at Engineer's Centerline Station Number 753+00.00.

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# T. & P. R.R. Co. Survey - Block 32 Township 5-South

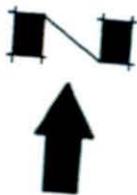
## Section 1

S. H. 158

## Section 2

GLASSCOCK COUNTY  
STERLING COUNTY

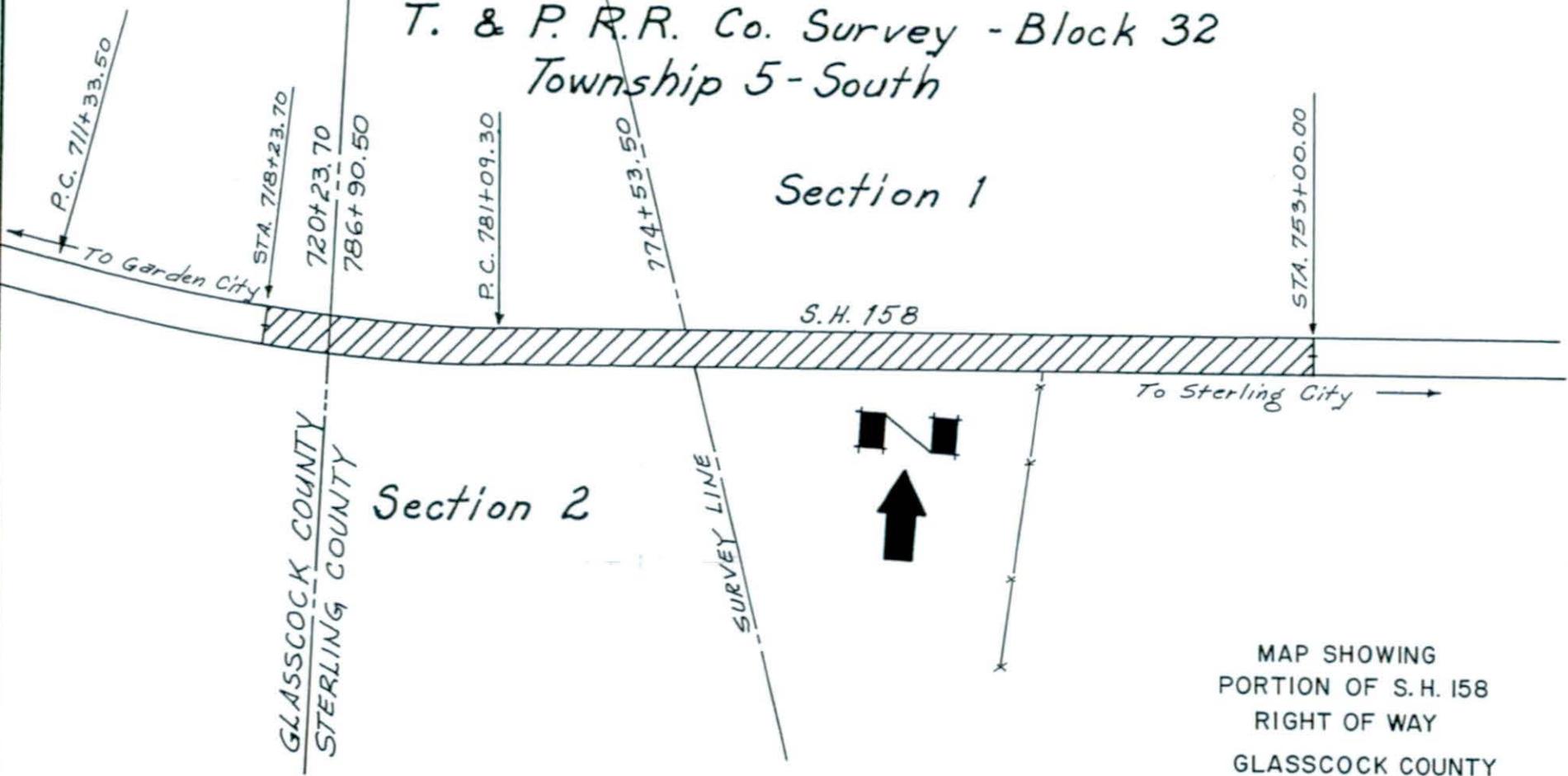
SURVEY LINE



To Sterling City →

MAP SHOWING  
PORTION OF S. H. 158  
RIGHT OF WAY  
GLASSCOCK COUNTY  
STERLING COUNTY

 AREA TO BE LEASED - 9.891 ACRES



②

M.95709

Memo

10.27.93

# J.W. LACY, JR.

OIL & GAS PRODUCER

August 18, 1993

Mr. Robert Hatter  
Texas General Land Office  
1700 North Congress Avenue  
Austin, TX 78701

170

re: Right of Way Lease Proposal  
SW/4 of Section 1, SE/4 of Section 2, Block 32, T5S, T&P RR  
Glasscock and Sterling Counties, Texas

Dear Mr. Hatter:

X 100.00

93076238

I do hereby propose to lease that portion of the Highway 158 right-of-way under the above described lands located outside of the 2500' production radius requirement. The terms of this proposal are \$100.00 per acre for a 3 year paid up 1/5 royalty lease.

170

Transmitted herewith are those items required under the Highway Lease Application check list. Since I am the sole adjacent mineral owner I waive my right of statutory notice. I look forward to your reply.

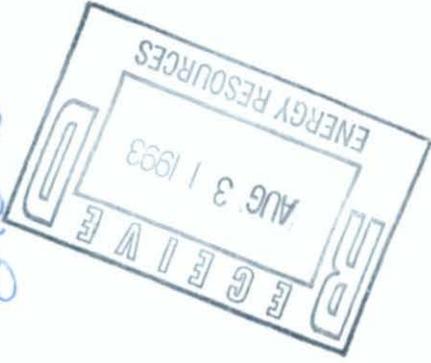
Sincerely,

  
J.W. Lacy, Jr.

③

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LTR  
818.93



# J.W. LACY, JR.

OIL & GAS PRODUCER

September 10, 1993

Texas General Land Office  
Stephen F. Austin Bldg.  
1700 North Congress Av.  
Austin, Tx. 78701-1495  
Attn: Drew Reid

Re: Letter dated Sept. 9, 1993  
9.8 ac. Hwy 158 ROW Lease  
Sec. 1&2, Blk. 32, T-5-S  
Glasscock & Sterling Co., Tx.

X 980.00

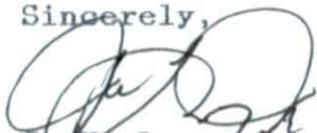
94002700

Dear Mr. Reid,

I have enclosed a check for \$ 980.00 per your request to cover the bonus money under the subject lease. Upon final approval by the School Land Board, the total amount may increase or decrease.

If you have any questions feel free to call at 915-683-5542.  
Thanks.

Sincerely,

  
J. W. Lacy, Jr. ✓

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/jl.  
Encl.

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LHR & Monkey

RECEIVED  
SEP - 4 1993  
ENERGY RESOURCES

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M-93709

Flat

AFFIDAVIT OF PRODUCTION

STATE OF TEXAS

COUNTY OF STERLING AND GLASSCOCK

KNOW ALL MEN BY THESE PRESENTS:

BEFORE ME, the undersigned, a Notary Public in and for the State of Texas, on this day personally appeared Maner B. Shaw, to me well known to be a credible person, and who after being by me duly sworn, on his oath did state:

That I, Maner B. Shaw, am a resident of Midland County, Texas and have familiarized myself with the production history of those wells located on the following described tracts of land through examining scout tickets, maps, and the Railroad Commission's production records:

All of Section 1 and All of Section 2, Block 32, Township 5 South, T&P RR co. Survey, Sterling and Glasscock Counties, Texas.

That as of January 1, 1985 it appears, through examining the above referenced records, that there was no well capable of producing in paying quantities within a 2500' radius of that portion of the right of way for Highway 158 which passes through the SE/4 of Section 2. That the L.E. Foster Glass #1 well, which is located 2173' FSL and 1840 FEL of Section 1, was producing in paying quantities as of January 1, 1985 and would represent the closest well located within a 2500' radius of that portion of the Highway 158 right of way which passes through the SW/4 of Section 1. That it would appear that approximately 2.5 acres of that portion of the right of way which passes through the SW/4 of Section 1 would lie outside of a 2,500' radius of any well capable of producing in paying quantities as of January 1, 1985.

Further Affiant sayeth not.

*Maner B. Shaw*  
Maner B. Shaw

Subscribed and sworn to before me this 18TH day of AUGUST, 1993.

My Commission Expires  
10-30-96

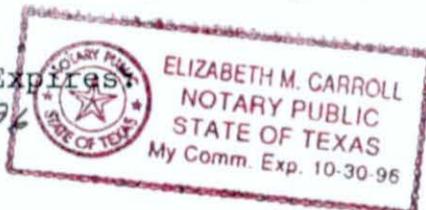


*Elizabeth M. Carroll*  
Notary Public in and for the State of Texas

State of Texas

This instrument was acknowledged before me on the 18TH day of AUGUST, 1993 by Maner B. Shaw.

My Commission Expires  
10-30-96



*Elizabeth M. Carroll*  
Notary Public in and for the State of Texas

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H. J. C. reduction

8.18.93

AFFIDAVIT OF CONSIDERATION

STATE OF TEXAS

COUNTY OF STERLING AND GLASSCOCK

KNOW ALL MEN BY THESE PRESENTS:

BEFORE ME, the undersigned, a Notary Public in and for the State of Texas, on this day personally appeared Maner B. Shaw, to me well known to be a credible person, and who after being by me duly sworn, on his oath did state:

That I, Maner B. Shaw, am a resident of Midland County, Texas and am familiar with the following described leases:

Lease 1: That certain Oil and Gas Lease dated June 11, 1993 between David Lawrence Glass, et al, as Lessor, and J.W. Lacy, Jr., as Lessee, recorded in Volume 168, Page 117 of the Deed Records of Sterling County, Texas, covering the West Half of the Southeast Quarter of Section 1, Block 32, Township 5 South, T&P RR Co. Survey, Sterling County, Texas as to all rights below a depth of 3,000 feet from the surface; and the Southeast Quarter of Section 2, Block 32, Township 5 South, T&P RR Co. Survey, Sterling and Glasscock Counties, Texas, Save and Except 7.3 acres, more or less, conveyed by J.L. Glass and wife, Mattie Glass to the State of Texas on August 12, 1942, recorded in Volume 36, Page 288 of the Deed Records of Sterling County, Texas.

Lease 2: That certain Oil, Gas and Mineral Lease dated January 31, 1961 between James D. Glass, one and the same person as David Glass, and his wife Willie Glass, as Lessor, and Jones & Lyons, as Lessee, recorded in Volume 69, Page 293, covering the W/2 of Section 1, Block 32, Township 5 South, T&P RR Co. Survey,

That the bonus paid by J.W. Lacy, Jr. for Lease 1 was \$100.00 per acre for a 3 year paid-up, 1/5 royalty lease. That the bonus paid by Jones & Lyons for Lease 2 is unknown.

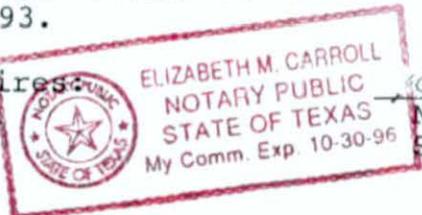
Further Affiant sayeth not.

*Maner B. Shaw*  
Maner B. Shaw

Subscribed and sworn to before me this 18TH day of AUGUST, 1993.

My Commission Expires:

10-30-96



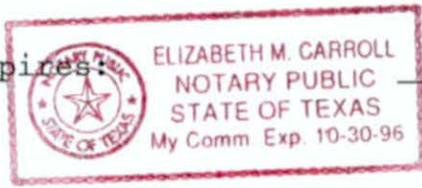
*Elizabeth M. Carroll*  
Notary Public in and for the State of Texas

State of Texas

This instrument was acknowledged before me on the 18TH day of AUGUST, 1993 by Maner B. Shaw.

My Commission Expires:

10-30-96



*Elizabeth M. Carroll*  
Notary Public in and for the State of Texas

M. 95709 (7)

Appl. A Condensation  
8-18-93

## BATES & CUNNINGHAM

Attorneys at Law  
3100 North "A" Street  
Building B; Suite 125  
Midland, Texas 79705  
(915) 686-9811

John P. Bates, Jr.  
J. Michael Cunningham

P.O. Box 50972  
Midland, Texas 79710  
Fax: (915) 686-9931

July 8, 1993

DRILLING TITLE OPINION - Covering the following described lands:

- Tract 1: The West Half of the South East Quarter (W/2 SE/4) of Section 1, Block 32, T-5-S, T&P Ry. Co. Survey, Sterling County, Texas, covering all rights below a depth of 3,000 feet subsurface.
- Tract 2: The South East Quarter (SE/4) of Section 2, Block 32, T-5-S, T&P Ry. Co. Survey, Sterling and Glasscock Counties, Texas, SAVE AND EXCEPT 7.3 acres, more or less, conveyed by J.L. Glass and wife, Mattie Glass, to the State of Texas, by Deed dated August 12, 1942, recorded in Volume 36, Page 288, Deed Records of Sterling County, Texas.
- Tract 3: The South West Quarter (SW/4) of Section 1, Block 32, T-5-S, T&P Ry. Co. Survey, Sterling County, Texas, save and except that portion of State Highway 158 as more fully described in Deed dated 8/12/42, recorded in Volume 36, Page 288, Deed Records of Sterling County, Texas, which lies outside of a 2,500' radius of any well capable of producing oil and/or gas as of 1/1/85, said excepted acreage estimated to comprise 2.5 acres of land, more or less, leaving 162.05 acres of land, more or less.

---

J. W. Lacy  
P.O. Box 3266  
Midland, Texas 79702

Gentlemen:

We have examined the following materials, to-wit:

1. Abstract of Title, No. 1392, prepared by the Durham Abstract Company, covering all of Section 1 from sovereignty to January 19, 1925 at 6:00 p.m.
2. Supplemental Abstract of Title, unnumbered, prepared by the Durham Abstract Company, covering the captioned lands from January 19, 1925 at 6:00 p.m. to March 14, 1938 at 6:00 p.m.
3. Supplemental Abstract of Title, unnumbered, prepared by the Durham Abstract Company, covering Section 1 from March 14, 1938 at 6:00 p.m. to March 27, 1946 at 6:00 p.m.
4. Supplemental Abstract of Title, unnumbered, prepared by the Durham Abstract Company, covering Section 1 from March 27, 1946 at 6:00 p.m. to May 11, 1948 at 6:00 p.m.
5. Supplemental Abstract of Title, unnumbered, prepared by the Durham Abstract Company, covering Section 1 from March 14, 1938 at 6:00 p.m. to August 8, 1952 at 6:00 p.m.

6. Supplemental Abstract of Title, unnumbered, prepared by the Durham Abstract Company, covering Section 1 from August 8, 1952 at 6:00 p.m. to February 6, 1958 at 6:00 p.m.
7. Supplemental Abstract of Title, unnumbered, prepared by the Durham Abstract Company, covering Section 1 from February 6, 1958 at 6:00 p.m. to June 11, 1959 at 6:00 p.m.
8. Supplemental Abstract of Title, unnumbered, prepared by the Durham Abstract Company, covering Section 1 from June 11, 1959 at 6:00 p.m. to February 13, 1961 at 6:00 p.m.
9. Supplemental Abstract of Title, unnumbered, prepared by the Durham Abstract Company, covering Section 1 from February 13, 1961 at 6:00 p.m. to June 29, 1966 at 6:00 p.m.
10. Supplemental Abstract of Title, unnumbered, prepared by the Durham Abstract Company, covering Section 1 from June 29, 1966 at 6:00 p.m. to April 29, 1974 at 6:00 p.m.
11. Supplemental Abstract of Title, unnumbered, prepared by the Durham Abstract Company, covering Section 1 from April 29, 1974 at 6:00 p.m. to November 29, 1978 at 6:00 p.m.
12. Abstract of Title, unnumbered, prepared by Joe C. Calverly, covering Section 2 from sovereignty to June 18, 1920 at 9:00 a.m. and to May 26, 1924 at 8:00 a.m.
13. Abstract of Title, unnumbered, prepared by the Durham Abstract Company, covering Section 2 from sovereignty to September 23, 1924 at 6:00 p.m.
14. Supplemental Abstract of Title, unnumbered, prepared by the Durham Abstract Company, covering Section 2 from September 23, 1924 at 6:00 p.m. to March 14, 1938 at 6:00 p.m.
15. Supplemental Abstract of Title, unnumbered, prepared by Joe C. Calverly, covering Section 2 from May 26, 1924 at 8:00 a.m. to April 17, 1928.
16. Supplemental Abstract of Title, unnumbered, prepared by Joe C. Calverly, covering Section 2 from April 17, 1928 to August 28, 1928.
17. Supplemental Abstract of Title, unnumbered, prepared by the Durham Abstract Company, covering Section 2 from March 14, 1938 at 6:00 p.m. to March 27, 1946 at 6:00 p.m.
18. Supplemental Abstract of Title, No. 3218, prepared by the Elliott & Waldron Abstract Company, covering all of Section 2 from August 28, 1928 at 7:00 a.m. to May 14, 1929 at 7:00 a.m., and from May 19, 1938 at 7:00 a.m. to March 22, 1946 at 7:00 a.m.
19. Supplemental Abstract of Title, unnumbered, prepared by the Durham Abstract Company, covering Section 2 from March 27, 1946 at 6:00 p.m. to February 6, 1958 at 6:00 p.m.
20. Supplemental Abstract of Title, unnumbered, prepared by the Durham Abstract Company, covering Section 2 from February 6, 1958 at 6:00 p.m. to August 29, 1960 at 6:00 p.m.
21. Supplemental Abstract of Title, unnumbered, prepared by the Durham Abstract Company, covering Section 2 from August 29, 1960 at 6:00 p.m. to June 29, 1966 at 6:00 p.m.

22. Supplemental Abstract of Title, unnumbered, prepared by the Durham Abstract Company, covering Section 2 from June 29, 1966 at 6:00 p.m. to June 25, 1974 at 6:00 p.m.

23. Supplemental Abstract of Title, unnumbered, prepared by the Durham Abstract Company, covering Section 2 from June 25, 1974 at 6:00 p.m. to September 6, 1976 at 6:00 p.m.

24. Abstractor's Run Sheet, prepared Elliott & Waldron Abstract Company of Garden City, Texas, covering the SE/4 of Section 2 from September 6, 1976 at 6:00 p.m. to June 7, 1993 at 7:00 a.m.

25. Applicable Deed Records, Deed of Trust Records, and Release Records of Glasscock County, Texas.

26. Direct and Indirect Indices of Sterling County, Texas, from November 29, 1978 to the last instrument shown of record on July 7, 1993.

27. Applicable Deed Records, Deed of Trust Records, and Release Records of Sterling County, Texas.

28. Copy of Oil and Gas Lease dated July \_\_, 1993, by and between David Lawrence Glass, James Lynn Glass, Individually and as Guardian of the Estate of Jamie Ruth Glass, James Wesley Glass, Alice E. Glass, and Willene Glass Boger, as Lessors, and J.W. Lacy, as Lessee.

29. Copy of correspondence from Conoco, Inc. to Maner Shaw dated June 22, 1993, with attached Term Assignment.

Based upon our examination of the foregoing and subject to the requirements and comments below, we find title to the captioned lands to be vested as follows:

SURFACE ESTATE

As to Tract 1 and Tract 3:

James David Glass and wife, Willie  
Key Glass ..... All

As to Tract 2:

David Lawrence Glass, Lynn Glass,  
and Willene Glass Boger ..... All

MINERAL ESTATE

Including Executive Rights, Delay Rentals, Bonus and Royalty

As to Tract 1:

David Lawrence Glass ..... 1/3  
James Lynn Glass ..... 1/3  
Willene Glass Boger ..... 1/3

As to Tract 2:

Larry Glass ..... 1/3  
Willene Glass Boger ..... 1/3  
Alice E. Glass ..... 1/9  
James W. Glass ..... 1/9  
James Lynn Glass as Guardian of the Estate  
of Jamie Ruth Glass ..... 1/9

As to Tract 3:

James David Glass and wife, Willie  
Key Glass ..... All

OVERRIDING ROYALTY INTERESTS

As to Tract 3, only:

Conoco, Inc. .... all of 7.5% of 8/8\*

OIL AND GAS LEASEHOLD ESTATE

J.W. Lacy ..... All\*  
(entitled to a 4/5 or 80% N.R.I.)

\*NOTE: This is assuming that the examined Oil and Gas Lease, which is unrecorded, as well as the examined Term Assignment from Conoco, Inc., which is unexecuted and unrecorded, are properly placed of record in Sterling and Glasscock Counties, Texas.

OIL AND GAS LEASES

See Exhibit "A" attached hereto and incorporated herein by reference for our compilation of the Oil and Gas Leases covering the captioned lands.

PATENT INFORMATION

All of Section 1 was patented to the Texas & Pacific Ry. Co. by Patent dated June 10, 1884, recorded in Book 1, Page 431, Patent Records of Tom Green County, Texas.

All of Section 2 was patented to J.L. Glass on February 16, 1929, as containing 640 acres of land, as recorded in Volume 2, Page 371, Patent Records of Sterling County, Texas.

### RIGHTS-OF-WAY

Kenyon Pipeline Company owns several rights-of-way to construct and maintain pipelines across the captioned lands.

Lantern Petroleum Company owns a pipeline right-of-way across Section 1.

American Telephone and Telegraph Company owns a right-of-way across Section 1 to construct and maintain telephone and telegraph lines.

Phillips Petroleum Company owns a right-of-way across Section 2 to construct and maintain an oil and/or gas pipeline.

American Telephone and Telegraph Company owns a right-of-way across Section 2 to construct and maintain a communications system or systems.

### ENCUMBRANCES

None appear of record which would affect the mineral estate.

### TAXES

Taxes due regarding that portion of Section 2 which are located in Glasscock County, Texas, have been paid for 1979 thru 1993 by virtue of Tax Certificate dated June 4, 1993, by Royce Pruitt, Tax Collector, for the State of Texas, County of Glasscock, Glasscock County Water District, Howard County CED, and the Glasscock County Independent School District.

Other than the above, no materials have been submitted regarding ad valorem taxes due on the captioned lands. You should submit for our examination or otherwise satisfy yourselves that all ad valorem taxes due on the captioned lands have been paid for 1992 and all prior years and are not currently delinquent for 1993.

### REQUIREMENTS

1.

No materials have been submitted regarding ad valorem taxes due regarding the captioned lands. You should obtain Tax Certificates, or otherwise satisfy yourselves, that all ad valorem taxes due regarding the captioned lands have been paid for 1992 and all prior years and are not currently delinquent for 1993.

2.

Several Oil and Gas Leases appear of record affecting the captioned lands which have not been released, although all are past their respective terms. You should otherwise satisfy yourselves and obtain and submit a reliable Affidavit of Non-Production and Non-Development stating facts sufficient to

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reflect that the captioned lands have not produced oil, gas or other minerals (with the obvious exception of the W/2 SE/4 of Section 1 down to 3,000' subsurface), were not pooled or unitized with other lands that produced such minerals and that all such unreleased Leases of record have terminated by their own terms. You should likewise satisfy yourselves that Lease No. 2 examined herein has been held by production sufficient and continuous under the terms of the Lease to still be in full force and effect, said production apparently being obtained from the NW/4 of Section 1.

3.

The materials examined do not indicate actual possession of the captioned lands. Should a tenant occupy any portion of the captioned lands, you should secure your usual Tenant's Consent Agreement.

4.

Your attention is directed to the interest we have credited James Lynn Glass as Temporary Guardian of the Estate of Jamie Ruth Glass, who is also one of your Lessors under Lease No. 1.

We have examined the probate file, No. 297, in the County Court of Glasscock County, Texas, regarding Jamie Ruth Glass, a Minor, and the appointment of James Lynn Glass as a Temporary Guardian. The Order appears to give James Lynn Glass, as Guardian, the power to execute oil and gas leases and is dated May 28, 1993. A copy of said Order should be properly placed of record in Sterling County, Texas.

A telephone consultation with Robert Herring, Attorney at Law in Sterling City, Texas, who was the attorney who prepared the temporary guardianship, has orally advised me that in his opinion the appointment of the Temporary Guardian and subsequent execution of the Oil and Gas Lease is proper, valid, and that you are therefore protected and have obtained a valid Lease. In the event of production, you should obtain a Ratification of the Oil and Gas Lease from Jamie Ruth Glass, who will turn 18 on March 20, 1994, as well as consider having her execute the Division Order directing payment.

5.

Your attention is directed to the interest we have credited the Mineral Estate, as well as the Surface Estate, regarding the captioned lands.

By instrument titled Right-of-Way Deed, dated August 12, 1942, recorded in Volume 36, Page 288, Deed Records of Sterling County, Texas, J.L. Glass and wife, Mattie Glass, who owned, among other lands, the captioned lands, executed a Deed that appears to be a fee deed to the State of Texas, acting by and through the State Highway Commission, covering a strip of land 125 feet wide, same strip of land being what is now known as State Highway 158 and runs through parts of Section 1 and Section 2. Portions of these lands outside of a 2,500 foot radius of any well producing or capable of producing oil and/or gas on January 1, 1985 should be properly leased from the General Land Office. We have estimated that this Deed and subsequent ownership of the surface and mineral estate by the

9.8

State covers 7.3 acres in Tract No. 2 and 2.5 acres in Tract No. 3.

As we have discussed, these leases are offered for lease by the Commissioner of the General Land Office of Texas and the Board of Lease of the State Department of Highways of Public Transportation, executed by the General Land Office, which you are familiar with. Should you desire our further comments, please advise. However, this acreage is unleased at this time.

6. SATISFIED

Your attention is directed to the correspondence to Maner Shaw from Conoco, Inc., dated June 22, 1993, to which is attached a form Term Assignment to be executed and delivered in favor of J.W. Lacy, Jr. The Exhibit "A" attached thereto references the State Highway 158 lands as being granted in Deed dated August 12, 1992. Prior to execution, this should be amended to read that the Deed was dated August 12, 1942.

7.

You have submitted certain materials regarding the estate of Mattie Milburn Glass Grisby, being Cause No. 386 in the County Court of Terrell County, Texas. Ms. Grisby died in October of 1991 in Terrell County, Texas and left a written Will which subsequently gave rise to a Mineral Distribution Deed and a Surface Distribution Deed by her Executors on April 1, 1993. These probate materials should be properly placed of record in Sterling and Glasscock Counties, Texas.

Additionally, our determination regarding the ownership of the Oil and Gas Leasehold Estate and Overriding Royalty Interests are based upon the execution and recording of the Oil and Gas Lease No. 1 examined herein, as well as the Term Assignment from Conoco, Inc. These materials should be properly executed and recorded in Sterling and Glasscock Counties, Texas, and at such time you should check to determine that no instruments have been filed which would adversely affect title as reflected herein.

#### COMMENTS

1.

The materials examined herein include an Abstractor's Run Sheet prepared by the Elliott & Waldron Abstract Company of Garden City, Texas, the accuracy and sufficiency of which you must be willing to accept and our opinions as expressed herein are qualified accordingly. Additionally, we have examined several old Abstracts containing instruments that were briefed by the Abstractor. Although briefed abstracts are generally unacceptable for title examination purposes, these were in the early chain of title, were matters that did not appear to affect fee ownership, and subsequent instruments of record appear to verify title as we have reflected herein.

2.

The accreditation of interest in and to the captioned property herein is limited to the oil and gas mineral estate. Specifically excluded in this Opinion is a accreditation of ownership in and to uranium, coal, lignite and other hard materials.

3.

First sales, if any, of natural gas produced from the captioned property, either in interstate or intrastate commerce, may be subject to price regulation under the Natural Gas Policy Act of 1978 ("NGPA") as administered by the Federal Energy Regulatory Commission ("FERC"). In addition, if natural gas produced from the captioned property already has been dedicated to interstate commerce, and no certificate of abandonment has been issued, it may be subject to other non-pricing regulation by the FERC under both the NGPA and the Natural Gas Act ("NGA"). Such non-pricing regulation in some cases would require continued commitment or dedication to interstate commerce and natural gas produced from the captioned property, although the natural gas production occurs under a different lease granted to a different lessee.

This Opinion does not cover any matter pertaining to the FERC's jurisdiction under the NGPA and the NGA. You are advised that under the terms and provisions of the NGPA, in some cases the seller of natural gas is required to take certain affirmative action in order to obtain the most favorable first sales category.

4.

We do not cover herein questions of boundary, excesses, area, conflicts with adjacent tracts or surveys, rights of persons, if any, in possession, unpaid bills for labor or materials that may ripen into mechanic's or materialman's liens, operator's liens not of record, statutory liens securing payment of proceeds of production from the captioned property, the depth or location of any well or wells, nor production in sufficient quantities to maintain an oil or gas lease in effect, enforcement of regulations or orders by any governmental authority having jurisdiction over the captioned land, capacity or competency of parties, fraud, delivery and alteration after delivery, or any other matters not covered by the materials examined.

We assume that prior to commencing developmental operations you will have the captioned land and any locations thereon carefully surveyed by a certified surveyor or engineer.

This Opinion does not cover the question of potential liability for environmental contamination caused by past spills, leaks, operation or disposal of hazardous waste. State and federal statutes may impose liability for such occurrences on past, present and subsequent owners of real property, without evidence of culpability or actual contribution to the contamination. Conducting an environmental audit prior to taking possession of the property may serve to limit or eliminate potential liability.

Materials examined are returned herewith.

Yours very truly,

BATES & CUNNINGHAM  
P.O. Box 50972  
Midland, Texas 79710  
(915) 686-9811

Original Signed By  
JOHN P. BATES, JR.

By: JOHN P. BATES, Jr.

JPBjr/pk  
(01123)

EXHIBIT "A"  
to that certain Drilling Title Opinion dated  
July 8, 1993, to J.W. Lacy covering 3 Tracts  
of land in Sterling and Glasscock Counties, Texas

Lease No. 1:

Dated: July \_\_\_, 1993.

Lessors: David Lawrence Glass; James Lynn Glass, Individually and as Guardian of the Estate of Jamie Ruth Glass; James Wesley Glass; Alice E. Glass; and Willene Glass Boger.

Lessee: J. W. Lacy.

Covers: A full mineral interest in Tracts 1 and 2.

Primary Term: Three (3) years.

Royalty: 1/5 on oil, gas and associated hydrocarbons; shut-in royalties payable as per the shut-in gas clause of the lease.

Delay Rentals: None, this is a paid-up lease.

Recording Data: Unrecorded.

Special Provisions:

1. Simultaneously with the execution of this Lease, the parties have or will execute an agreement providing for the payment of surface damages for operations performed thereunder, being a Road Use and Surface Damage Agreement, which is attached to the Lease.
2. The Lease provides several provisions providing for gates, fences, the fencing of wellheads, and other matters which should be closely noted by you.
3. The Lease provides for the payment of interest if royalty is not paid within 3 months after production is sold.
4. The Lease provides for a continuous drilling obligation of 120 days between the completion of one well as a producer or the abandonment of it as a dry hole of a preceding well and the commencement of operations for the drilling of the next well at the end of the primary term.

5. This Lease contains numerous provisions not found in a "standard" oil and gas lease form, all of which should be closely noted by you and complied with.

Lease No. 2:

Dated: January 31, 1961.

Lessors: James D. Glass and wife, Willie Glass.

Lessee: Jones & Lyons.

Covers: The W/2 of Section 1, Block 32, T-5-S, Sterling County, Texas.

Primary Term: Ten (10) years.

Royalty: 1/8 on oil, gas and associated hydrocarbons; shut-in royalties payable as per the shut-in gas clause of the lease.

Delay Rentals: No longer applicable.

Assignment: This Lease was assigned to Continental Oil Company on February 6, 1961, as recorded in Volume 69, Page 551, Deed Records of Sterling County, Texas.

Continental Oil Company assigned the Lease to Lynn E. Foster by Assignment dated April 7, 1964, as recorded in Volume 77, Page 178, Deed Records of Sterling County, Texas, and contained depth limitations and reassignment provisions.

L. E. Foster reassigned the SW/4 of Section 1 to Continental Oil Company, pursuant to reassignment obligations, by Assignment dated February 10, 1965, as recorded in Volume 79, Page 314, Deed Records of Sterling County, Texas.

Term Assignment:

We have been submitted an unexecuted and unrecorded Term Assignment from Conoco, Inc. to J.W. Lacy covering Tract No. 3 and this Lease. Therein Conoco, Inc. reserves a difference, as an overriding royalty, between 20% and any lease burdens of 8/8, has provisions regarding insurance, operations, notices, and other materials of which you are familiar and should be closely noted by you and complied with.

(OIL23)

M.95709 (8)

title opinion

7.8.93

RIGHT OF WAY DEED

J. L. Glass and wife

to

The State of Texas

State of Texas )

County of Sterling )

Know All Men By These Presents:

That we, J. L. Glass and wife, Mattie Glass, of the County of Sterling, State of Texas, for and in consideration of the sum of Three Hundred Twenty-Six & No/100 (\$326.00) Dollars, to us in hand paid by the State of Texas, acting by and through the State Highway Commission, receipt of which is hereby acknowledged, have this day sold, and do by these presents grant, bargain, sell and convey unto the State of Texas, all that certain tract or parcel of land, situated in the County of Sterling, State of Texas, and being a part of T. & P. Ry. Co., Block 32, Township 5-South, Section 1, conveyed by W. C. Hall to J. L. Glass by deed dated the 25th day of May, 1899 and recorded in Vol. 3, Page 253 of the Deed Records of Sterling County, Texas; and being a part of T. & P. Ry. Co., Block 32, Township 5-South, Section 2, under his application filed with the General Land Office on the 24th day of February, 1896 and patented to him the 16th day of February, 1929 by Pat. 91, Vol. 42-A; said tract or parcel of land herein conveyed being more particularly described as follows, to-wit:

Being a strip of land 120 feet wide, 60 feet at right angles each side of the located center line of State Highway No. 158 from Station 720/62 to Station 786/90.5 excepting therefrom that strip of land approximately 60 feet wide which is now a part of the right of way of the present travelled road.

The located center line of State Highway No. 158 is described as follows:

Beginning at a point where the located center line of State Highway No. 158 intersects the east line of T. & P. Ry. Co., Block 32, Township 5-South, Section 1;

Thence South 81 deg. 46 min. West 1754.8 feet to the beginning of a 1 deg. curve to the right whose radius is 5730 feet and whose central angle is 6 deg. 18 min.;

Thence around said 1 deg. curve to the right a distance of 630 feet to its end;

Thence South 88 deg. 04 min. West 3662.5 feet to the beginning of a 1 deg. curve to the right whose radius is 5730 feet and whose central angle is 14 deg. 43 min.;

Thence around said 1 deg. curve to the right a distance of 581.2 feet to a point where the located center line of State Highway No. 158 intersects the Sterling-Glasscock County Line, said point being Station 786/90.5 and being 1429.3 feet North of the 20 mile stone on the Sterling-Glasscock County Line.

The tract of land herein conveyed contains 13.04 acres.

It is the intention of this deed together with other tracts of land to provide an unobstructed right of way 120 feet in width, 60 feet at right angles each side of the located center line, for State Highway No. 158.

Reference is hereby made to the Right of Way Map of State Highway No. 158 recorded



9

MS-105

How Raw Deal



4881

PAID UP  
OIL AND GAS LEASE

THIS AGREEMENT made this 11th day of June, 1993 between DAVID LAWRENCE GLASS, JAMES LYNN GLASS individually and as Guardian of the Estate of JAMIE RUTH GLASS, JAMES WESLEY GLASS, ALICE E. GLASS and WILLENE GLASS BOGER, herein called Lessor (whether one or more), and J.W. LACY, Jr. whose address is P.O. Box 3266, Midland, Texas 79702, Lessee:

1. Lessor, in consideration of the sum of TEN AND 00/100 DOLLARS (\$10.00) in hand paid, receipt of which is hereby acknowledged, the royalties herein provided, and of the agreements of the Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling, mining and operating for and producing oil, gas and all other minerals, laying pipe line, storing oil, building tanks, and other structures and things thereon to produce, process, store and transport said minerals and other products manufactured therefrom, the following described land in Sterling County and Glasscock County, Texas, to-wit:

TRACT ONE;

The west half of the SE/4 of Section 1, Block 32, Township 5 South, as to all rights below a depth of 3,000 feet from the surface, containing 82.28 acres, more or less.

TRACT TWO;

The SE/4 of Section 2, Block 32, Township 5 South, T&P Ry. Co. Survey, containing 163.57, more or less, Save and Except 7.3 acres, more or less, conveyed by J. L. Glass and wife, Mattie Glass to the State of Texas on August 12, 1942 as described in that certain Right of Way Deed recorded in Vol. 36, Page 288 of the Deed Records of Sterling County, Texas.

Each tract is deemed to comprise the number of acres described above, whether they actually comprise more or less.

Notwithstanding anything to the contrary, this is a lease for oil and gas only, and no other mineral. For the purposes of this lease, "oil and gas" shall be deemed to include oil, gas, casinghead gas, and byproducts thereof, other hydrocarbons, sulfur and other substances that are products necessary with and incidental to the production of oil or gas from wells on the leased premises. This lease does not include the right and privilege of Lessee to erect and maintain refining facilities or any other extraction or treating facilities not directly related to the production, treatment, and recovery of oil and gas from this lease only, and all such facilities shall be only those necessary for production, treatment, and recovery of such oil and gas from this lease.

2. Subject to the other provisions herein contained, this lease shall remain in force for a term of three (3) years from this date (called "primary term"), and as long thereafter as oil, gas, or other mineral is produced in paying quantities from said land or in the event pooling is permitted, land with which said land is pooled hereunder, or as long as this lease is continued in effect as otherwise herein provided.

3. This lease is a paid up lease and shall continue in full force and effect for the entire primary term, regardless of whether operations are conducted or ceased, or production is obtained or ceases during the primary term.

4. The royalties to be paid by lessee are:

(a) On oil, and on other liquid hydrocarbons saved at the well, 1/5th of that produced and saved from said land, same to be delivered at the wells or to the credit of Lessor in the pipe line to which the wells may be connected;

(b) On gas, including casinghead gas and all gaseous substances, produced from said land and sold or used off the premises or in the manufacture of gasoline or other products therefrom, the market value at the mouth of the well of 1/5th of the gas so sold or used, provided that on gas sold at the wells the royalty shall be 1/5th of the amount realized from such sale;

(c) On all other minerals mined and marketed, 1/5th either in kind or value at the well or mine, at Lessee's election; and

(d) At any time, after the expiration of the primary term of this lease, if there is a gas well or wells on the above land (and for the purposes of this clause (d) the term "gas well" shall include wells capable of producing natural gas, condensate, distillate or any gaseous substance and wells classified as gas wells by any governmental authority) and all such well or wells are shut in before or after production therefrom, this lease shall continue in force for a period of either: (1) ninety (90) days from the date such well or wells are shut-in; (2) ninety (90) days from the effective date for inclusion of said land or a portion thereof within a unit on which is located a shut-in gas well; or (3) ninety (90) days from the date this lease ceases to be otherwise maintained as provided herein, whichever is the later date, and before the expiration of any such period Lessee or any assignee hereunder may pay or tender an advance annual royalty of one (\$100) dollar per acre for the acreage then held under this lease by the party making such payment or tender to the owners of royalty hereunder or to their credit in THE FIRST NATIONAL BANK OF STERLING CITY, Sterling City, Texas. If such payment or tender is made, this lease shall continue in force and it shall be considered that gas is being produced from said land in paying quantities within the meaning of Paragraph 2 hereof for one (1) year from the

date of such payment, and in like manner subsequent advance annual royalty payments may be made or tendered and this lease shall continue in force and it will be considered that gas is being produced from said land in paying quantities within the meaning of said Paragraph 2 during any annual period for which such royalty is so paid or tendered. Notwithstanding anything herein to the contrary however, Lessee may not pay a shut-in royalty in order to maintain this lease in force for a period or periods of more than two consecutive years.

The payment or tender of advance annual royalty may be made by check or draft of Lessee, mailed or delivered to said bank or royalty owner or owners if more than one, on or before the due date, and the payment or tender will be deemed made when the check or draft is so delivered or mailed. THE FIRST NATIONAL BANK OF STERLING CITY, Sterling City, Texas, or any successor thereof, shall continue to be the agent for the Lessor and Lessor's heirs, representatives, successors and assigns; if such bank (or any successor bank) shall fail, liquidate, or be succeeded by another bank, or for any reason fail or refuse to accept royalty, Lessee shall not be held in default until thirty (30) days after Lessor shall deliver to Lessee a recordable instrument making provision for another method of payment or tender. If Lessee shall, on or before the advance annual royalty payment date, make a bona fide attempt to pay or deposit an advance annual royalty payment to a royalty owner entitled thereto under this lease according to Lessee's records at the time of such payment, and if such payment or deposit shall be erroneous in any regard, Lessee shall be obligated to pay to such royalty owner the advance annual royalty payment properly payable for the period involved, but this lease shall be maintained in the same manner as if such erroneous payment or deposit had been properly made, provided that Lessee shall correct such erroneous payment within thirty (30) days following receipt by Lessee of written notice from such royalty owner of the error accompanied by any documents and other evidence necessary to enable Lessee to make proper payment.

5. If, prior to discovery of oil, gas, or other minerals on said land, Lessee should drill and abandon a dry hole or holes thereon, or if, after discovery of oil, gas, or other minerals, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences reworking or additional drilling operations on the same well or another well within sixty (60) days thereafter. If, at the expiration of the primary term, oil, gas, or other mineral is not being produced on said land but Lessee is then engaged in operations for drilling, mining, or reworking of any well or mine thereon, this lease shall remain in force so long as drilling, mining, or reworking operations are prosecuted (whether on the same or different wells) with no cessation of more than sixty (60) consecutive days, and if they result in production, so long thereafter as oil, gas, or other minerals are produced from said land.

6. Lessee shall have free use of oil, gas and water from said land, except water from Lessor's wells and tanks, for all operations hereunder and the royalty shall be computed after deducting any so used. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and draining the leased premises, Lessee agrees to drill such offset wells as a reasonably prudent operator would drill under the same or similar circumstances.

7. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, executors, administrators, successors, and assigns, but no change or division in ownership of the land, or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee. No such change or division in the ownership of the land, or royalties shall be binding upon Lessee for any purpose until such person acquiring any interest has furnished Lessee with the instrument or instruments or certified copies thereof, constituting his chain of title from the original Lessor. In the event of an assignment of this lease as to a segregated portion of said land, the royalties payable hereunder shall be apportioned as between the several leasehold owners ratably according to the surface area of each, and default in royalty payment by one shall not affect the rights of other leasehold owners hereunder. If Lessee assigns this lease, in whole or in part, (1) assignee must assume all of Lessee's obligations hereunder, and (2) the assignment shall not relieve Lessee from (a) any of Lessee's obligations occurring prior to the date of the assignment, or (b) any cause of action for damages arising from Lessee's acts or omissions prior to the date of the assignment. Lessee hereby agrees to furnish Lessor with copies of assignments which convey operations under this lease.

8. Lessee shall not be liable for delays or defaults in its performance of any agreement or covenant hereunder due to force majeure. The term "force majeure" as employed herein shall mean: any act of God including but not limited to storms, floods, washouts, landslides, and lightning; acts of the public enemy; wars, blockades, insurrections or riots; strikes or lockouts; epidemics or quarantine regulations; laws, acts, orders or requests of federal, state, municipal or other governments or governmental officers or agents under color of authority; freight embargoes or failures; exhaustion or unavailability or delays in delivery of any product, labor, service, or material. If Lessee is required, ordered or directed by any federal, state or municipal law, executive order, rule, regulation or request enacted or promulgated under color of authority to cease drilling operations, reworking operations or producing operations, then until such time as such law, order, rule, regulation, request or force majeure is terminated and for a period of ninety (90) days after such termination each and every provision of this lease that might

operate to terminate it or the estate conveyed by it shall continue in full force. If any period of suspension occurs during the primary term, the time thereof shall be added to such term.

9. Lessor agrees that Lessee, at its option, may discharge any tax, mortgage, or other lien upon said land, and in the event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply royalties accruing hereunder toward satisfying same. If Lessor owns an interest in said land less than the entire fee simple estate, then the royalties to be paid Lessor shall be reduced proportionately; should anyone or more of the parties named above as Lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

10. Lessee, or its successors and assigns, shall have the right at any time to surrender this lease, in whole or in part, to Lessor or his heirs and assigns by delivering or mailing a release thereof to the Lessor, or by placing a release thereof of record in the county in which said land is situated; thereafter the shut in royalties payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

11. Notwithstanding anything herein contained to the contrary, it is here now agreed:

- (a) Simultaneously with the execution of this lease, the parties have executed an agreement providing for payment of damages for operations performed by Lessee hereunder.
- (b) Neither Lessee nor his employees, contractors, suppliers and agents shall bring any firearms on the leased premises.
- (c) In absence of an agreement of Lessor to the contrary, all flow lines and pipelines placed by Lessee on the leased premises shall follow the roads used by lessee, when practical.
- (d) Lessee shall consult with Lessor regarding location of all roads used by him, understanding that Lessor will be reasonable and practicable as to the location of any and all roads used by Lessee. Lessee further agrees to periodically water roads during periods of high concentration of motor vehicle traffic so as to prevent excessive dust and erosion on said roadway. All roads used by Lessee shall be and remain private roads for all purposes. At any point where Lessee enters the premises, Lessee shall construct a gate with cattleguards. The cattleguards will be a minimum of 14 feet wide and will be at least nine feet across. The cattleguards will be set off the ground two feet and will have a swing gate

across the cattleguard that must be kept closed at all times. When Lessee is not on the premises, the swing gate must be kept locked. The perimeter gates and fences constructed by Lessee including any swing gates across cattleguards, will be of # four or # six gage wire mesh panel fencing, or the same fencing material that is immediately adjacent to the newly constructed gates or fence, so as to prevent dogs or coyotes from crossing. Gates and fences must be braced with a minimum of four inch pipe buried four feet deep into the ground and with concrete poured around the base, and all brace posts must be with four inch pipe buried four feet deep into the ground with concrete poured around its base. Braces must be no more than nine feet apart and the H brace between fence posts must be two inch pipe or larger. Upon termination of this lease, all cattleguards, fences and other improvements remain the property of the Lessor and remain on the premises.

- (e) Lessee shall fence all producing wellheads, including pumpjacks, and slush pits or other pits which the Lessee may create, or cause to be located on such land, so that fluids or damaging substances shall be wholly unavailable to livestock. The fence shall be mesh wire with two barbed strands.
- (f) That portion of the drill site that will not be retained for producing operations shall be cleaned and leveled by the Lessee as soon as reasonably possible after the completion of each well and in such a manner that the land will be returned to its former condition as nearly as possible under the circumstances. Lessee further agrees that all slush pits shall be filled and closed with good top soil as promptly as reasonably possible. When the slush pits are filled, the plastic lining shall be at least 36 inches below the surface or as required by the Railroad Commission of Texas regulations or other government authority having jurisdiction. At all times, Lessee shall collect all trash and debris and dispose of it away from the premises and will keep the premises clear of trash and debris.
- (g) No salt water produced from wells drilled under this lease shall be disposed of on the leased premises or on lands owned by Lessor. Lessor will negotiate with Lessee for salt water disposal wells but in the event such negotiations take place one of the terms will require that Lessee shall drill fresh water test wells immediately adjacent to the salt water disposal wells and equip such fresh water wells with a pump.

- (h) In its operations, Lessee shall use every reasonable means to prevent the contamination of any and all waters in, on and under said land, whether in surface tanks or any other type of storage, in creek beds or river beds, and any and all surface and subsurface water bearing strata or formations, and Lessee shall use all reasonable means to prevent contamination of the surface of the above described lands from salt water or other contaminating substances flowing over or seeping onto such lands. If any contamination results from Lessee's operations, Lessee shall clean and restore the surface to its previous condition so far as practicable.
- (i) It is further understood and agreed that Lessee, his successors and assigns in any and all operations, working and actions taken hereunder will conduct such operations, working, and actions in such a manner as to prevent soil erosion and soil loss.
- (j) Lessee shall have a reasonable time, not to exceed six (6) months after the expiration of the primary term or cessation of production or any other fee determinable event, in which to remove all property and fixtures placed by Lessee on said land except as provided for herein.
- (k) Lessee, his heirs or assigns, shall line all pits used in connection with its operations hereunder with plastic to prevent contamination of any and all waters in, on and under said lands.
- (l) When this lease is abandoned by Lessee, Lessee or its successors and assigns, agree to plug all wells drilled on said premises in accordance with the rules and regulations promulgated by the Railroad Commission of Texas or any other regulatory agency having jurisdiction.
- (m) Lessee hereby agrees that with regard to all wells drilled on the leased premises, a sufficient amount of surface casing shall be set and cemented to properly protect all fresh water formations which are now, or may be, a source of water supply. Cementing shall be the pump and plug method and sufficient cement shall be used to fill the calculated annular space back of the casing to the surface of the ground.
- (n) Lessee obligates itself that all royalties accruing under this lease shall be without deduction for the cost of producing, storing, separating, treating, dehydrating, and otherwise making the oil, gas and other products produced hereunder marketable.

- (o) The terms of this lease may not be amended by any division order.
- (p) Lessee shall have the right after consulting with Lessor concerning location or locations to drill for fresh water to be used for drilling operations hereunder; provided, however, that such fresh water well or wells, considered to be fit for consumption by livestock or fit for use in irrigation purposes, shall be turned over to Lessor after Lessee has completed all operations on the leased premises with casing remaining, so that Lessors shall have full rights and title thereto. Lessee shall not use fresh water for secondary recovery.
- (q) Nothing expressed or implied in this lease shall relieve lessee of any otherwise existing duty of exploration, development, operations, marketing or production, except to the extent of direct conflict with such express obligation, and all such express obligations shall be construed as providing minimum standards only.
- (r) In the event of Lessee's assignment of its leasehold estate in whole or in part, Lessee shall notify Lessor in writing of the assignment and of the name and address of the assignee within thirty (30) days after execution and delivery of the instrument of assignment.
- (s) If Lessor shall not be paid any sum due by the provisions of this lease as royalty on the production from this lease within three (3) months after the production giving rise to same shall be sold, regardless of from whom such sum shall be due, Lessee shall pay interest to Lessor on Lessor's portions of royalties payable hereunder beginning at the expiration of the time limits established herein at the lower of (a) the highest rate allowed by law, or (b) three percent (3%) plus the rate charged on loans to depository institutions by the New York Federal Reserve Bank unless one of the following events occur: (1) a dispute concerning title which would affect distribution of payments; (2) a reasonable doubt that the payee does not have clear title to the interest in the proceeds of production; or (3) a requirement in a title opinion that places in issue that title, identity, or whereabouts of the payee and that has not been satisfied by the payee after a reasonable request for curative documents.
- (t) All notices provided for in this lease shall be in writing and shall be served by personal service upon one of Lessee's officers or agents, or personally upon Lessor, or the same may be mailed to the party to whom the same is directed in first class mail, at the address

for such party set forth herein, and notice by mailing shall be deemed complete three (3) days after deposit thereof in any United States Post Office.

- (u) In consideration hereof, it is further specifically understood and agreed that said Lessee, its successors and assigns, in any and all operations, workings and actions taken hereunder will re-establish or cause to be re-established, the grass sod or cover to those surface areas affected by its operations, workings and actions, and in all cases conduct its operations, workings and actions, in such a manner as to prevent soil erosion and soil loss.
- (v) Lessee agrees to provide Lessor upon Lessor's request, with one of all geological, well or formation surveys, logs or tests run on the leased property, or on property pooled with it within six (6) months after such surveys, logs or tests are run, which information shall be kept confidential until otherwise available to the public.
- (w) Whenever used in this Lease, the words "drilling operation" or "operations" shall mean operations for and any of the following: pad construction, drilling, testing, completing, reworking, recompleting, deepening, side tracting, plugging back or repairing of a well in search for or in a endeavor to obtain production of oil or gas.

After the expiration of the primary term hereof, this Lease shall remain in force and effect as to all the lands covered thereby so long and only so long as Lessee shall conduct continuous drilling operations on the Leased premises as hereinafter provided. Continuous drilling operations shall mean that not more than one hundred and twenty (120) days shall expire between the completion as a producer or the abandonment as a dry hole of a preceding well and the commencement of operations for the drilling of the next succeeding well to the development of the Leased premises to the density of maximum allowable production.

If Lessee fails to conduct continuous drilling operations on the Leased premises, this Lease shall thereupon terminate as to all of the Leased premises, except:

- (1) Surrounding each well theretofore completed and then producing only oil or oil and casinghead gas in paying quantities or classified by any governmental authority authorized to so classify such well for proration purposes as an oil well, that number of acres prescribed or permitted by such governmental authority to be allocated to such

well to entitle such well to receive the maximum allowable production, and to a depth of 100 feet below the deepest of all wells drilled and then capable of producing in paying quantities under the provisions of this lease.

- (2) Surrounding each well theretofore completed and then producing gas (excluding casinghead gas) or classified by such governmental authority as a gas well, that number of acres prescribed or permitted by such governmental authority to be allocated to such well to entitle such well to receive the maximum allowable production, and to a depth of 100 feet below the deepest of all wells drilled and then capable of producing in paying quantities under the provisions of this lease.
- (3) Such rights-of-way and easements across the remainder of the Lease premises for such pipelines and roads as may be necessary for the maintenance of the above tracts.

Lessee shall designate and file for record (with the County Clerk where land is located) the area to be maintained and right-of-way within 30 days of the expiration of said 120-day time period or Lessor may designate same. The designated areas to be maintained around each well shall be of such shape and have such boundary lines as to comply with applicable rules and regulations of the governmental authority having jurisdiction.

- (x) Lessor neither warrants nor agrees to defend title to the leased premises, and Lessee accepts this lease without warranties implied or otherwise, however, in consideration for the execution of this lease Lessee is paying Lessor a bonus based upon 82.28 net mineral acres in Tract one and 163.57 net mineral acres in Tract two. If lessor owns more or less net mineral acres in either Tract, then Lessee shall pay to Lessor a greater or lesser bonus based upon the same dollar per acre bonus paid upon the execution of this lease multiplied by the number of acres actually owned.
- (y) Lessee agrees to purchase certified grass seed and to cause the same to be applied to the entire abandoned location created hereunder at the specified rate and of the specified type recommended by the Soil Conservation Service of the United States Government, which services the area where said abandoned location is located so as to bring the location back to its original condition.

- (z) It is agreed that the property described shall be based on the Rawls survey and all wells drilled on the leased premises shall be located using the Rawls survey.

12. Before entering the premises, Lessee shall require Lessee's officers, employees, agents, contractors, subcontractors, assigns or permittees or any others entering on Lessee's behalf or at Lessee's request to wash or steam clean, including the undercarriage, all seismic vehicles and pulling units to completely remove all noxious plants or seeds, including bitterweed and grass burrs. Lessee will clear and rid the property of any grass burrs or bitterweed that occurs after the date of this lease within 50 foot along any of the roads used by Lessee or any of Lessee's locations, including wells, tank batteries, or compressor station locations, under this lease.

David Lawrence Glass  
DAVID LAWRENCE GLASS

James Lynn Glass  
JAMES LYNN GLASS, individually  
and as Guardian of the Estate  
of JAMIE RUTH GLASS

James Wesley Glass  
JAMES WESLEY GLASS

Alice E. Glass  
ALICE E. GLASS

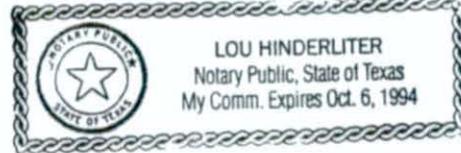
Willene Glass Boger  
WILLENE GLASS BOGER

STATE OF TEXAS )  
 )  
COUNTY OF STERLING )

This instrument was acknowledged before me on this the 12<sup>th</sup>  
day of June, 1993, by DAVID LAWRENCE GLASS.

10-6-94  
My Commission Expires:

Lou Hinderliter  
Notary Public, State of Texas

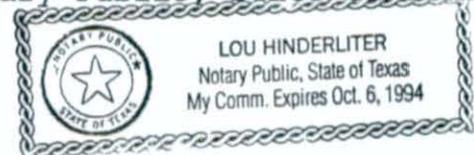


STATE OF TEXAS )  
 )  
COUNTY OF STERLING )

This instrument was acknowledged before me on this the 11<sup>th</sup>  
day of June, 1993, by JAMES LYNN GLASS, individually  
and as Guardian of the Estate of JAMIE RUTH GLASS.

10-6-94  
My Commission Expires:

Lou Hinderliter  
Notary Public, State of Texas

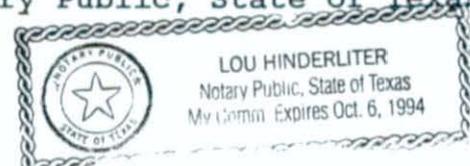


STATE OF TEXAS )  
 )  
COUNTY OF STERLING )

This instrument was acknowledged before me on this the 11<sup>th</sup>  
day of June, 1993, by JAMES WESLEY GLASS.

10-6-94  
My Commission Expires:

Lou Hinderliter  
Notary Public, State of Texas

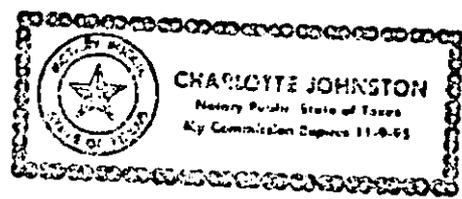


STATE OF TEXAS )  
COUNTY OF STERLING )

This instrument was acknowledged before me on this the 15<sup>th</sup>  
day of June, 1993, by ALICE E. GLASS.

11-9-95  
My Commission Expires:

Charlotte Johnston  
Notary Public, State of Texas

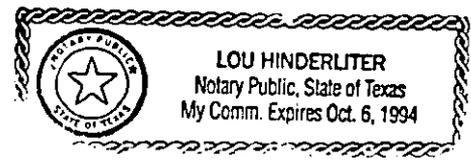


STATE OF TEXAS )  
COUNTY OF STERLING )

This instrument was acknowledged before me on this the 12<sup>th</sup>  
day of June, 1993, by WILLENE GLASS BOGER.

10-6-94  
My Commission Expires:

Lou Hinderliter  
Notary Public, State of Texas



THE STATE OF TEXAS )  
COUNTY OF STERLING ) I HEREBY CERTIFY THAT  
THIS INSTRUMENT WAS FILED ON THE DATE AND TIME  
STAMPED HEREON BY ME AND WAS DULY RECORDED ON  
THE 28<sup>th</sup> DAY OF July, A.D. 19 93 IN VOL.  
168 PAGE 117 OF THE Deed  
RECORDS OF STERLING COUNTY, TEXAS.  
DIANE A. HAAR, COUNTY CLERK  
BY Dawn Lygott STERLING COUNTY, TEXAS  
DEPUTY

4581.

FILED July 22 19 93  
At 2:20 o'clock P.M  
DIANE A. HAAR  
County Clerk, Sterling County, Texas  
By Diane A Haar Deputy  
2700 300

\*\*\*\*\*

OIL, GAS AND MINERAL LEASE

JAMES D. GLASS, ET UX

TO

JONES & LYONS

THIS AGREEMENT made this 31st., day of January 1961, between James D. Glass, one and the same person as David Glass, and his wife Willie Glass of Sterling City, Texas Lessor (whether one or more), and Jones & Lyons, a corporation of San Angelo, Texas. Lessee, WITNESSETH:

1. Lessor in consideration of Ten & NO/100 Dollars (\$10.00) in hand paid, of the royalties herein provided, and of the agreements of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing oil, gas and all other minerals, laying pipe lines, building tanks, power stations, telephone lines and other structures thereon to produce, save, take care of, treat, transport, and own said products, and housing its employees, the following described land in Sterling County, Texas, to-wit:

All of the West One-Half (W/2) Section 1 (one) Block 32  
(Thirty-Two) TWP 5 (Five) South T. & F. Ry. Co. Survey;

and containing 329.1 acres, more or less. In the event a resurvey of said lands shall reveal the existence of excess and/or vacant lands lying adjacent to the lands above described and the lessor, his heirs, or assigns, shall, by virtue of his ownership of the lands above described, have preference right to acquire said excess and/or vacant lands, then in that event this lease shall cover and include all such excess and/or vacant lands which the lessor, his heirs, or assigns, shall have the preference right to acquire by virtue of his ownership of the lands above described as and when acquired by the lessor; and the lessee shall pay the lessor for such excess and/or vacant lands at the same rate per acre as the cash consideration paid for the acreage hereinabove mentioned.

2. Subject to the other provisions herein contained, this lease shall be for a term of ten years from this date (called "primary term") and as

long thereafter as oil, gas or other mineral is produced from said land hereunder.

3. The Royalties to be paid Lessor are: (a) on oil, one-eighth of that produced and saved from said land, the same to be delivered at the wells or to the credit of Lessor into the pipe line to which the wells may be connected; Lessee may from time to time purchase any royalty oil in its possession, paying the market price therefor prevailing for the field where produced on the date of purchase; (b) on gas, including casinghead gas or other gaseous substance, produced from said land and sold or used off the premises or in the manufacture of gasoline or other product therefrom, the market value at the well of one-eighth of the gas so sold or used, provided that on gas sold at the wells the royalty shall be one-eighth of the amount realized from such sale; where gas from a well producing gas or gas and condensate only is not sold or used, Lessee may pay or tender as royalty, by check or draft of Lessee, to the owner of such royalty, or to their credit in the depository bank named in the lease, on or before ninety days after the date on which said well is shut in and annually thereafter, a sum equal to the amount of annual rental payable in lieu of drilling operations during the primary term of this lease on the number of acres subject to this lease at the time such payment is made, and if such payment is made it will be considered that gas is being produced within the meaning of Paragraph 2 hereof; and (c) all other minerals mined and marketed, one-tenth either in kind or value at the well or mine, at Lessee's election except that on sulphur the royalty shall be fifty cents (50¢) per long ton. Lessee shall have free use of oil, gas, coal, wood and water from said land, except water from Lessor's wells, for all operations hereunder, and the royalty on oil, gas and coal shall be computed after deducting any so used. Lessor shall have the privilege at his risk and expense of using gas from any gas well on said land for stoves and inside lights in the principal dwelling thereon out of any surplus gas not needed for operations hereunder.

4. If operations for drilling are not commenced on said land on or before one year from this date the lease shall then terminate as to both parties unless on or before such anniversary date Lessee shall pay or tender to Lessor or to the credit of Lessor in The First National Bank at Sterling City, Texas (which bank and its successors are Lessor's agent and shall continue as the depository for all rentals payable hereunder regardless of changes in ownership of said land or the rentals) the sum of Three Hundred Twenty-Nine & 10/100 Dollars (\$329.10), (herein called rental), which

shall cover the privilege of deferring commencement of drilling operations for a period of twelve (12) months. In like manner and upon like payments or tenders annually the commencement of drilling operations may be further deferred for successive periods of twelve (12) months each during the primary term. The payment or tender of rental may be made by the check or draft of Lessee mailed or delivered to said bank on or before such date of payment. If such bank (or any successor bank) should fail, liquidate or be succeeded by another bank, or for any reason fail or refuse to accept rental, Lessee shall not be held in default for failure to make such payment or tender of rental until thirty (30) days after Lessor shall deliver to Lessee a proper recordable instrument, naming another bank as agent to receive such payments or tenders. The down cash payment is consideration for this lease according to its terms and shall not be allocated as mere rental for a period. Lessee may at any time execute and deliver to Lessor or to the depository above named or place of record a release or releases covering any portion or portions of the above described premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered, and thereafter the rentals payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases. In this connection the above described premises shall be treated as comprising 329.1 acres, whether there be more or less.

b. If prior to discovery of oil or gas on said land Lessee should drill a dry hole or holes thereon, or if after discovery of oil or gas the production thereof should cease from any cause, this lease shall not terminate if Lessee commences additional drilling or re-working operations within sixty (60) days thereafter or (if it be within the primary term) commences or resumes the payment or tender of rentals on or before the rental paying date next ensuing after the expiration of three months from date of completion of dry hole or cessation of production. If at the expiration of the primary term oil, gas or other mineral is not being produced on said land but Lessee is then engaged in drilling or re-working operations thereon, the lease shall remain in force so long as operations are prosecuted with no cessation of more than thirty (30) consecutive days, and if they result in the production of oil, gas or other minerals so long thereafter as oil, gas or other mineral is produced from said land. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and draining the leased premises, Lessee agrees to drill such offset wells as a reasonably prudent operator would drill under the same or similar circumstances.

6. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all pipe lines below ordinary plow depth, and no well shall be drilled within two hundred (200) feet of any residence or barn now on said land without Lessor's consent.

7. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, successors and assigns, but no change or divisions in ownership of the land, rentals, or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee. No sale or assignment by Lessor shall be binding on Lessee until Lessee shall be furnished with a certified copy of recorded instrument evidencing same. In event of assignment of this lease as to a segregated portion of said land, the rentals payable hereunder shall be apportionable as between the several leasehold owners ratably according to the surface area of each and default in rental payment by one shall not affect the rights of other leasehold owners hereunder. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.

8. The breach by Lessee of any obligation arising hereunder shall not work a forfeiture or termination of this lease nor cause a termination or reversion of the estate created hereby nor be grounds for cancellation hereof in whole or in part save as herein expressly provided. If the obligation for reasonable development should require the drilling of a well or wells, Lessee shall have ninety (90) days after ultimate judicial ascertainment of the existence of such obligation within which to begin the drilling of a well, and the only penalty for failure to do so shall be the termination of this lease save as to forty (40) acres for each well being worked on and/or being drilled and/or producing oil or gas to be selected by Lessee so that each 40-acre tract will embrace one such well.

9. Lessor hereby warrants and agrees to defend the title to said land and agrees that Lessee at its option may discharge any tax, mortgage, or other lien upon said land and in event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply rentals and royalties accruing hereunder toward satisfying same. Without impairment of

Lessee's rights under the warranty in event of failure of title, it is agreed that if Lessor owns an interest in said land less than the entire fee simple estate, then the royalties and rentals to be paid Lessor shall be reduced proportionately.

10. If any operation permitted or required hereunder, or the performance by Lessee of any covenant, agreement or requirement hereof is delayed or interrupted directly or indirectly by any past or future acts, orders, regulations or requirements of the Government of the United States or of any state or other governmental body, or any agency, officer, representative or authority of any of them, or because of delay or inability to get materials, labor, equipment or supplies, or on account of any other similar or dissimilar cause beyond the control of Lessee, the period of such delay or interruption shall not be counted against the Lessee, and the primary term of this lease shall automatically be extended after the expiration of the primary term set forth in Section 2 above, so long as the cause or causes for such delays or interruptions continue and for a period of six (6) months thereafter; and such extended term shall constitute and shall be considered for the purposes of this lease as a part of the primary term hereof. The provisions of Section 4 hereof, relating to the payment of delay rentals shall in all things be applicable to the primary term as extended hereby just as if such extended term were a part of the original primary term fixed in Section 2 hereof. The Lessee shall not be liable to Lessor in damages for failure to perform any operation permitted or required hereunder or to comply with any covenant, agreement or requirement hereof during the time Lessee is relieved from the obligations to comply with such covenants, agreements or requirements.

IN WITNESS WHEREOF, this instrument is executed on the date first above written.

(No U. S. Internal Revenue  
Stamps Shown on Instrument)

James D. Glass  
Willie Glass

THE STATE OF TEXAS, |  
COUNTY OF STERLING. |

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this day personally appeared James D. Glass and Willie Glass, his wife, both known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they each executed the same for the purposes and consideration therein expressed, and the said Willie

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Glass, wife of the said James D. Glass having been examined by me privily and apart from her husband, and having the same fully explained to her, she, the said Willie Glass acknowledged such instrument to be her act and deed, and she declared that she had willingly signed the same for the purposes and consideration therein expressed, and that she did not wish to retract it.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, this the 31st., day of January  
A. D. 1961.

(Notarial Seal)

Worth B. Durham  
Notary Public in and for  
Sterling County, Texas.

Filed for record the 17th day of March, A. D. 1961, at 9:00 o'clock A. M.  
Recorded on this the 1th day of April, A. D. 1961, at 1:30 o'clock P. M.

W B Durham  
COUNTY CLERK, STERLING COUNTY, TEXAS.

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C E R T I F I C A T E

THE STATE OF TEXAS |  
COUNTY OF STERLING |

I, Diane A. Haar, County Clerk in and for Sterling County, Texas, do hereby certify that the above and foregoing instrument is a true and correct copy of Oil, Gas and Mineral Lease

as placed on file in my office on March 17, 1961  
and of record in Vol. 69, page 293 of the Deed Records of Sterling County, Texas.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, this the 30th  
day of August, A.D. 1993.

Diane A Haar  
Diane A. Haar, County Clerk,  
Sterling County, Texas

By \_\_\_\_\_  
Deputy



SEPARATE ACKNOWLEDGMENT

THE STATE OF TEXAS,  
COUNTY OF

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this day personally appeared known to me to be the person whose name subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the \_\_\_\_\_ day of \_\_\_\_\_ A. D. 19\_\_\_\_  
(L.S.)

Notary Public in and for \_\_\_\_\_ County, Texas

WIFE'S SEPARATE ACKNOWLEDGMENT

THE STATE OF TEXAS,  
COUNTY OF

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this day personally appeared \_\_\_\_\_, wife of \_\_\_\_\_, known to me to be the person whose name is subscribed to the foregoing instrument, and having been examined by me privily and apart from her husband, and having the same fully explained to her, she, the said \_\_\_\_\_, acknowledged such instrument to be her act and deed, and she declared that she had willingly signed the same for the purposes and consideration therein expressed, and that she did not wish to retract it.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the \_\_\_\_\_ day of \_\_\_\_\_ A. D. 19\_\_\_\_  
(L.S.)

Notary Public in and for \_\_\_\_\_ County, Texas

JOINT ACKNOWLEDGMENT

THE STATE OF TEXAS,  
COUNTY OF Sterling.

BEFORE ME, the undersigned, a Notary Public in and for said County and State, on this day personally appeared James D. Glass and Willie Glass, his wife, both 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, and the said \_\_\_\_\_

wife of the said James D. Glass, acknowledged such instrument to be her act and deed, and she declared that she had willingly signed the same for the purposes and consideration therein expressed, and that she did not

GIVEN UNDER MY HAND AND SEAL OF OFFICE, this the 31st., day of January A. D. 19 61

Notary Public in and for Sterling County, Texas.

This copy furnished by Conoco Inc.  
Anyone relying on the contents hereof  
does so at his own risk and without re-  
course on Conoco Inc.



FROM	TO	County, Texas	This instrument was filed for record on the _____ day of _____, 19____ at _____ M., and duly recorded in Book _____ Page _____ records of this office.	County Clerk	County, Texas	Deputy
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M. 95709

Adj. Cases

