

Please note that the front page of the lease showing that Trafalgar House Oil and Gas Inc. has been granted the right to explore, drill and operate for and produce oil, liquid hydrocarbons and gas, along with the signature page of the lease, was included in the Plan of Operations for the Dunn-McCampbell, Et Al No. 1 already submitted to the Padre Island National Seashore. Due to the complexity of the lease agreement and that the final negotiated form was somewhat expensive to generate, Trafalgar House Oil and Gas and Dunn-McCampbell Royalty Interest, Inc. have elected not to make it public record. Therefore, it will not be made a part of the Plan of Operations, but will instead supply the Padre Island National Seashore with a copy for their confidential review.

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OIL AND GAS LEASE

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THIS AGREEMENT is made and entered into this 8th day of October, 1987, between DUNN-MCCAMPBELL ROYALTY INTEREST, INC., a Texas corporation, whose address is P. O. Box 3841, Corpus Christi, Texas 78404-0841, DUNN PADRE CORPORATION, a Texas corporation whose address is c/o Edwin Singer, 2000 First City Bank Tower, Corpus Christi, Texas 78477 and M. HARVEY WEIL, both Individually and as Trustee whose address is 1200 MBank Center North, Corpus Christi, Texas 78471 (herein called "Lessor"), and TRAFALGAR HOUSE OIL AND GAS INC., whose address is 8584 Katy Freeway, Suite 222, Houston, TX 77024 (herein called "Lessee", whether one or more),

1. For value received, Lessor hereby GRANTS, LEASES and LETS exclusively unto Lessee the land described in Exhibit "A" hereto and situated in Kleberg ~~xxxx~~ ~~xxxxxxxxxxxxxxxxxxxx~~ County, Texas (herein called the "leased premises"), for the sole purpose of (a) exploring, drilling, operating for and producing oil, liquid hydrocarbons, gas, and their respective constituent products, and any other minerals produced in conjunction with oil and gas, or either of them, (all such substances are defined for the purpose of this Lease collectively as "oil and gas") and (b) laying pipelines, storing oil, building tanks (but not tank farms), and constructing and laying power stations, telephone lines, roads and other structures to the extent necessary to produce and save oil and gas attributable to the leased premises. For purposes of calculating any delay rental or shut-in gas well royalty payments herein provided for, Lessor and Lessee stipulate that the leased premises shall be deemed to contain 3,247 ^{CHW} acres, whether they actually contain more or less; however, this stipulation shall not be

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~~effective as to or binding upon Lessor or Lessee for any~~
other purpose.

2. Subject to the further terms hereof, this lease shall be for a term of three (3) years from this date (the "primary term") and as long thereafter as oil and gas, or either of them, is produced in paying quantities from the leased premises; or as long as this lease is continued in effect as otherwise provided herein.

3. The royalties to be paid Lessor are:

(a) On oil and other liquid hydrocarbons, the royalties shall be one-fourth (1/4) of that produced and saved from the leased premises, the same to be delivered at the wells or to the credit of Lessor, free of all costs of production or delivery, into the pipeline to which the wells may be connected; provided, however, that Lessee may from time to time purchase any royalty oil or other liquid hydrocarbons in Lessee's possession and allocated to Lessor's royalty, paying the market price therefor prevailing for the field where produced on the date same is produced and run to the pipeline or storage tank therefor (or if there is no market price prevailing for such field on such date, then the market price prevailing in the nearest field in which there is a market price on such date for oil or liquid hydrocarbons, such price to be appropriately adjusted for any differences in grade, gravity and quality).

(b) On gas, including casinghead gas or other gaseous substances, produced from the leased premises and sold off such premises, or used off the premises (other than for processing at a plant as described in paragraph 3(d) hereof), the royalties shall be the market value at the well of one-fourth (1/4) of the gas so sold or so used (or if there be no market value at the well then the market value at the well in the nearest field where there is a market value at the well for gas, appropriately adjusted for any difference in quality), but in no event shall the royalty be based on an amount less than the gross proceeds received from any sale of such gas. In any event, Lessee shall not sell or contract for sale of gas for less than the market value at the well of such gas determined as of the date such gas is produced and delivered; for the purposes hereof any contract entered into by Lessee for the sale of such gas shall be deemed to be a sale of the gas at the market value at the well if (but only if) the contract has been approved by Lessor by a written instrument designated specifically as a "Ratification of Gas Contract" (Lessor's execution of any division order or transfer order describing or referring to any gas sale contract shall in no event be deemed or construed to be an approval of

the contract); provided, however, that with respect to sales of gas at any time by Lessee to any individual, corporation, joint venture, partnership or other entity or organization controlling, controlled by or under common control with Lessee (the concept of control meaning the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of another, whether through ownership of voting securities, by contract or otherwise), the value basis for computing the royalty interest hereunder shall be the market value at the well of the gas sold, whether or not Lessor previously has approved the applicable gas sales contract.

(c) if the gas produced from any well situated on the leased premises shall contain in suspension condensate, gasoline or other natural gas liquid hydrocarbons that economically can be separated from the gas and liquified by the installation by Lessee of traps, separators or other mechanical devices ordinarily used in the industry for such purpose, then Lessee shall install such devices on the leased premises, and Lessor shall receive the royalty specified in paragraph 3(a) on the condensate, gasoline or other natural gas liquid hydrocarbons so recovered, together with the royalty specified in paragraph 3(b) on the residue gas, determined as provided in paragraph 3(b).

(d) If gas or casinghead gas or separated gas resulting from field separation produced from the leased premises is processed by or for the account of Lessee, or by or for the account of any individual, corporation, joint venture, partnership or other entity or organization controlling, controlled by or under common control with Lessee (the concept of control meaning the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of another, whether through ownership of voting securities, by contract or otherwise) for the recovery of liquid hydrocarbons therefrom in a gas processing, absorption, stripping or similar plant, then in lieu of royalties on gas provided in paragraph 3(b) or 3(c), (i) the royalties shall be one-fourth (1/4) of the market value at the plant of all liquid hydrocarbons recovered and saved in such plant and attributable to gas produced from the leased premises, less one-fourth (1/4) of the reasonable, direct costs (excluding amortization and depreciation on pipeline and plant investment and direct overhead associated therewith) of processing such gas in the plant for the recovery of such liquid hydrocarbons, and (ii) the royalties on the residue gas resulting from such plant operation attributable to gas produced from the leased premises shall be in an amount and determined as provided in paragraph 3(b).

(e) For so long as any natural gas produced from the leased premises is subject to a maximum ceiling price under the Natural Gas Policy Act of 1978 ("Act"), then, anything in paragraph 3(b) to the contrary notwithstanding, "market value at the well" for such gas shall mean the highest ceiling

price on the date produced for which the gas can qualify under the Act. Lessee shall conduct all drilling and producing activities on the leased premises as a reasonable and prudent operator and in a manner which, after due investigation and consideration of all relevant facts and circumstances relating to the qualification of all gas production under the Act, will qualify all gas so produced for the maximum applicable ceiling price specified in Sections 102(b), 107 or 108 of the Act, or alternatively and only if the latter is, in Lessee's judgment exercised in good faith, not reasonably possible in view of Lessee's geological prospect on the leased premises, Lessee shall conduct drilling and producing activities on the leased premises so that any gas produced will qualify for the maximum ceiling price at the date produced in Section 103 of the Act. Lessee shall not, without the prior written consent of Lessor, permit or conduct any drilling and producing activities on the leased premises that would result in any gas so produced qualifying for a maximum ceiling price under the Act other than a maximum ceiling priced specified in Sections 102(b), 103, 107 or 108 of the Act. If during the term of this lease additional or supplemental legislation or administrative regulation is adopted that modifies substantially the regulatory scheme contemplated by the Act, or that contemplates a different method or means for regulation of prices for which gas produced hereunder may be sold, Lessee shall at all times use such care as a reasonable and prudent operator would use under the same or similar circumstances in conducting drilling and producing activities relating to the leased premises in order to assure to the extent reasonably possible that all gas produced from such premises either (i) is not subject to price regulation, or (ii) alternatively, and only if the latter is not reasonably possible, that all such gas is qualified for the maximum applicable ceiling (or other regulated) price, determined at the date such gas is produced, taking into consideration all relevant facts and circumstances as the same relate to legislation and administrative regulation then existing.

(f) The royalties provided in this paragraph 3 shall be determined and delivered to Lessor free of any development, production, compression, processing, treating, transportation, delivery or like costs (other than as provided in paragraph 3(d) hereof); however, such royalties shall bear taxes applicable to Lessor's share of production that are paid by Lessee.

(g) Lessee agrees to pay Lessor a reasonable royalty on any mineral produced in conjunction with oil and gas.

(h) If at any time, whether before or after the expiration of the primary term, Lessee shall have completed on the leased premises a well that is capable of producing gas in paying quantities but is shut-in due to the lack of a ready and available market, with the result that gas is not produced and sold, or used, Lessee shall pay as royalty to Lessor for each shut-in gas well on or

before the expiration of ninety (90) days after (i) the date of completion of such gas well as evidenced by the well completion report filed with the state regulatory agency with jurisdiction, or (ii) the date such gas ceases to be sold or used, as the case may be, an amount equal to Ten Dollars (\$10.00) per acre multiplied by the number of acres of the leased premises included in the producing unit upon which the well is located. Upon making such payment it will be considered that such well is producing gas in paying quantities within the meaning of this lease for a period of one (1) year after the expiration of such ninety (90) day period. In like manner and upon like payments being made, it will be considered that the well is producing gas in paying quantities for an additional period of one (1) year. Lessee may not maintain this lease by virtue of the provisions of this paragraph (g) for more than an aggregate of 36 months.

(i) Accounting and payment to Lessor of royalties from the production of oil and gas shall commence no later than ninety (90) days after the date of first production from each completed well, whether or not Lessor has executed a division order or similar document. Thereafter, unless otherwise specifically provided herein, all accountings and payments of royalties shall be made on or before the last day of the second calendar month following the calendar month in which the production occurred. Any royalties or other payments to Lessor provided for in this lease that are not paid for whatever reason within the time period specified therefor shall accrue interest at the rate of six percent (6%) in excess of the prime interest rate of MBank Corpus Christi, N.A., Corpus Christi, Texas per annum from due date until paid, provided that such interest rate shall be reduced automatically to the legal maximum rate in the event same ever exceeds such maximum rate. Acceptance by Lessor, its successors, agents, or assigns, of royalties that are past due shall not act as a waiver or estoppel of its right to receive or recover interest due thereon under the provisions hereof. No tender or payment to Lessor of a sum less than the total amount due to Lessor shall be deemed a full settlement, whether by accord or satisfaction or otherwise, notwithstanding a check in tender of payment may contain language of settlement or accord printed or otherwise inserted thereon unless made and received in accordance with a separate written agreement executed by Lessor and Lessee.

(j) Notwithstanding the provisions of paragraph 3(h), Lessor and Lessee agree that the payment to Lessor of all royalties then due from the production of oil and gas on or before the last day of the second calendar month following the calendar month in which the production occurred shall be deemed a condition of this lease. Should this condition be breached, Lessor shall have the right at the election of Lessor to give written notice to Lessee and Lessee shall have twenty-one (21) days in which to cure the

breach by the payment of all royalties then owing plus the interest provided for in paragraph 3(h). If Lessee fails to cure the breach within said twenty-one (21) day period then this lease shall terminate. This condition shall not be deemed breached if failure to pay royalties to Lessor is caused by or is a result of one of the following: (1) a good faith dispute between Lessor and Lessee regarding Lessor's title; or (2) a force majeure event as defined in paragraph 11.

(k) Notwithstanding the provisions of this paragraph 3 to the contrary, Lessor shall have the right and option, but not the obligation, to take in kind Lessor's royalty share of all oil and/or gas produced under the terms of this Lease and to separately market such gas for Lessor's own account. Lessor's option may be exercised at any time and from time to time by Lessor giving Lessee not less than thirty (30) days advance written notice. Lessee agrees that all gas contracts and any contracts for the transmission and/or delivery of gas executed by Lessee and covering any gas produced under the terms of this lease shall include a provision whereby the Lessor has the right to take in kind and separately market Lessor's royalty share of gas production and Lessee shall expressly provide in the contracts that the gas transmission carrier shall be obligated by contract to carry the Lessor's royalty share of gas on the same terms, conditions and at the same price as the Lessee's gas. In the event Lessor elects to take in kind and separately market Lessor's royalty gas, Lessee agrees to deliver such gas to Lessor at the wellhead after separation and dehydration has been completed (resulting in "sweet pipeline quality" gas), and at a pressure sufficient to enter a gas transmission line, but in all events not to exceed one thousand (1,000) pounds psi, unless approved in writing by Lessor. In the event that compression is required to deliver gas to a pipeline purchaser selected by Lessor, Lessee shall be responsible for such compression costs if Lessee installs compression facilities to compress Lessee's share of the gas production. All other costs and expenses attributable to Lessor's election to separately market Lessor's royalty share of oil and/or gas production shall be borne by Lessor. Should Lessor elect not to take in kind its royalty portion of any oil, gas, or other minerals produced hereunder after having done so, Lessor shall notify Lessee of Lessor's desire to no longer take said royalty in kind and it shall be Lessee's obligation to market said production for Lessor and to pay Lessor's royalty according to the other terms of this Lease.

(l) Lessee agrees to prepare, execute, and file all reports, certifications, elections, and any and all other filings and materials required to be filed by an oil and gas operator in connection with the Crude Oil Windfall Profits Tax of 1980, the Natural Gas Policy Act of 1978, all rules and regulations of the United States Department of Energy, the Internal Revenue Service, or of the Texas Railroad Commission, or any other

statutes, rules, regulations, or orders of any court or other governmental authority affecting the production and/or marketing of oil and/or gas from the leased premises. Lessee agrees to reimburse Lessor for any and all losses, damages, injuries, or amounts expended as a result of claims and causes of action arising out of, incident to, resulting directly or indirectly, from Lessee's failure to make any filings required pursuant to the terms of this paragraph, or which result directly or indirectly from Lessee's negligent interpretation or negligent application of laws, regulations, rules, or orders of any government authority having jurisdiction over the subject matter of the contract or the oil and/or gas produced from the property covered by the terms of this Lease including, but not limited to, those laws, regulations, rules or orders arising under the Natural Gas Policy Act of 1978 or the Crude Oil Windfall Profits Tax of 1980. Lessee additionally agrees to reimburse Lessor for any amounts that Lessor may be required to refund, rebate, or pay as a result of any such incorrect interpretation or application by Lessee, together with interest and penalties thereon owing by Lessor as a result of any such incorrect interpretation or application by Lessee. Lessee agrees to reimburse Lessor for such amounts as lessor could have collected or been entitled to collection but did not collect or was not entitled to due to any failure of Lessee to make any filings required by the terms of this paragraph as referenced herein together with interest on such amounts from the date due until actually received by Lessor hereunder. Lessee further agrees to indemnify and hold harmless Lessor for any refunds, rebates or penalties which Lessor may be required to pay as a result of any such incorrect interpretation or application by Lessee.

4. If actual drilling operations are not commenced on the leased premises on or before twelve (12) months after the date of this lease, the lease then shall terminate unless on or before such anniversary date Lessee shall pay or tender to Lessor's account at MBank Corpus Christi, N.A., P. O. Box 900, Corpus Christi, Texas 78403 the sum of Ten Dollars (\$10.00) per acre, for an aggregate of \$ 32,470.00 (being \$ 10.00 per acre times the number of acres in the leased premises) (herein called "delay 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, operations may be further deferred for like periods of twelve (12) months each

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during the primary term. The payment or tender of delay ~~shall be made by the check or draft of Lessee~~ mailed or delivered on or before the due date for such payment to Lessor at the address designated above or to such other address hereafter specified in written notice from Lessor to Lessee, said written notice to be delivered to Lessee at least forty-five days prior to any particular anniversary date. Lessee may at any time execute, file in the proper public records and deliver to Lessor a release or releases covering any portion or portions of the leased premises and thereby surrender this lease as to such portion or portions and be relieved of all obligations not theretofore accrued as to the acreage surrendered, and thereafter the delay rental payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by such release or releases. Any bonus or other payment or consideration paid by Lessee to Lessor for this lease shall not be credited, allocated or prorated to or against the delay rentals provided for in this paragraph.

5. Notwithstanding anything in this lease to the contrary, references herein to the "base of the miocene" shall mean the base of the miocene formation, as encountered at a depth of 6,855 feet (6,833 feet below sea level) in the Standard Oil Company of Texas No. 1 Dunn-McCampbell Well located 900 feet south and 200 feet East of the east corner of State Tract 185, Balli Survey A-10, Kleberg Co., Texas, as reflected in Schlumberger Dual Induction Electrical Log dated January 14, 1965.

6. (a) In the event Lessee at any time drills a dry hole on the leased premises and no oil or gas is then being produced hereunder, or in the event all production of oil or gas from the leased premises should at any time cease for any cause, this lease shall continue in effect for a period

of ninety (90) days from abandonment of such dry hole or cessation of production and may be continued thereafter under the following conditions:

- (i) If Lessee commences drilling operations on the leased premises within such 90-day period, this lease shall continue in effect, subject to the provisions of subparagraph (c) hereof, as long as drilling operations are prosecuted with due diligence and thereafter as long as oil or gas is produced hereunder; for all purposes of this lease, drilling operations shall be deemed to be prosecuted with due diligence when prosecuted without cessation of more than thirty (30) consecutive days on the same well or when no more than ninety (90) consecutive days elapse between the completion of all (or substantially all) operations at one well or location and the commencement of drilling operations at another well or location, or
- (ii) During the primary term, Lessee may defer commencement of drilling operations and resume the payment of delay rentals and the first such rental payment period shall begin ninety (90) days after abandonment of dry hole or cessation of production and shall run to the next anniversary date of this lease and the amount of delay rental payable for such period shall be such portion of the annual delay rental payable for the

surface acreage then held by this lease as the number of days in such period bears to 365; and thereafter delay rental shall be payable annually on the anniversary date of this lease as provided in Paragraph 4; provided, that if delay rental has been paid for the aforesaid period, no delay rental shall be payable until such next anniversary date of this lease; provided, further, that Lessee shall not be in default and this lease shall not terminate so long as Lessee resumes the payment of delay rental within ninety (90) days after abandonment of dry hole or cessation of production.

(b) If no oil or gas is being produced from the leased premises at the expiration of the primary term but Lessee is then engaged in drilling operations, or if within the ninety (90) day period specified in subparagraph (a) above Lessee commences drilling operations, this lease shall continue in effect in the manner and for the time specified in subparagraph (c) hereof.

(c) Anything in this lease to the contrary notwithstanding, after the expiration of the primary term this lease shall continue in force as to all of the leased premises only so long as Lessee is engaged in continuous drilling operations on the leased premises or until the requirements hereof for continuous drilling have been completed and production in quantities continues. Drilling operations shall be deemed continuous if not more than ninety (90) days (commencing on the day next following expiration of the primary term) elapse between the

completion or abandonment of operations on one well and the commencement of operations on another well. Upon Lessee's failure to maintain continuous operations, this lease shall terminate except as follows:

- (i) If Lessee has completed a well on the leased premises that is producing oil in paying quantities, then this lease shall continue in effect as to and only as to the interval from the surface to the base of the deepest producing oil stratum insofar as such interval pertains to a tract of forty (40) surface acres around each such well, without regard to the depth from which such oil production is obtained;
- (ii) If Lessee has completed a well on the leased premises that is producing, or capable of producing, gas in paying quantities, then this lease shall continue as to and only as to the interval from the surface to the base of the deepest producing gas stratum insofar as such interval pertains to (y) a tract of 160 surface acres around each such well, for production from depths of less than the base of the miocene formation, and (z) as to a tract of 320 acres around each such well, for production from depths of greater than the base of the miocene formation.

The respective surface acres and strata thereunder perpetuated as prescribed above shall be referred to herein as "Production Units". In the event any Federal or state law,

or any order, rule or regulation of the Texas Railroad Commission or other governmental authority prescribes a spacing pattern for the development of the field, or allocates a producing allowable in whole or in part based on surface acreage per well, then with the written approval of Lessor any Production Unit retained hereunder may include as much additional surface acreage as may be so prescribed or as may be used in such allocation or allowable. Each Production Unit shall, as nearly as practicable, be in the form of a square with the well by virtue of which same is held located in the center thereof. However, as overriding considerations, Lessee shall form each Production Unit so as to best utilize all available acreage covered by this Lease and so as not to leave acreage outside of a Production Unit which cannot be utilized or included in subsequently created Production Units. Within ninety (90) days after the expiration of the primary term or after the cessation of continuous drilling operations, whichever occurs later, Lessee shall designate Production Units to Lessor in writing with the producing stratum or strata defined with particularity by reference to Lessee's well logs. Lessor shall have thirty (30) days from receipt of such notice, or from receipt of the information specified in Paragraph 12(a) hereof (whichever is the later), to object to such designations. If Lessor notifies Lessee of any objections within such time, the parties agree to negotiate in good faith to resolve any disputes within thirty (30) days of Lessor's notice to Lessee. Lessee shall file in the proper county records a memorandum and/or release describing the Production Unit or Units and releasing this lease as to the acreage and strata not contained therein. Each Production Unit shall constitute a separate lease with the terms of this lease, and neither production from nor operations on

any other Production Unit or any other portion of the leased premises shall maintain this lease in force as to any other Production Unit.

7. In the event a well or wells producing oil or gas in paying quantities should be brought in on land adjacent to and draining the leased premises, Lessee agrees to drill such offset wells as a reasonable and prudent operator would under the same or similar circumstances, but in no event shall the conduct of drilling operations violate the terms of paragraph 6 above.

8. Lessor does not own the surface of the leased premises. Lessee shall deal with the surface owner of the leased premises as to all matters concerning use of and damages to the surface.

9. This lease does not include and there is hereby excepted and reserved to Lessor all minerals except "oil and gas" as defined in Paragraph 1, including but not limited to sulphur, coal, lignite, uranium and other fissionable materials, geothermal energy (including entrained methane, hydrostatic pressure and thermal energy), base and precious metals and other mineral substances presently owned by Lessor in, under or upon the leased premises, together with the rights of ingress and egress and use of the leased premises by Lessor and its mineral lessees, for purposes of exploration for and production of the minerals reserved herein to Lessor. Lessor and Lessee each shall conduct their respective operations on the leased premises so as not unreasonably to interfere with the operations or activities of the other.

10. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the respective heirs, executors, administrators, successors and assigns of the parties hereto; provided,

however that any such assignment by Lessee shall require the prior consent of Lessor, which consent shall not be withheld unreasonably. If any assignment is made of this lease, or any portion thereof, Lessee shall within ten (10) days after the date of such assignment notify Lessor in writing of the name and current address of the assignee(s), which notice shall also identify the lease and property involved and the interest assigned. After receipt of such notice, Lessor shall have ten (10) days in which to object to any assignment by notifying Lessee in writing. If Lessor fails to object within the ten (10) day period, its objection shall be waived and its consent deemed given. No change or division in ownership of the land, rentals or royalties however accomplished shall operate to enlarge the obligations or diminish the rights of Lessee, nor shall any such change or division be effective for any purpose until the person acquiring any interest has furnished Lessee with the instrument or instruments, or certified copies thereof, constituting the chain of title from Lessor. In the event of an assignment of this lease by Lessee or his successors or assigns as to a segregated portion of the leased premises, the delay rentals payable hereunder shall be apportioned as between the several leasehold owners ratably according to the fee simple mineral interest owned by each.

11. (a) Lessee shall not be liable for delays or defaults in its performance of any agreement or covenant hereunder (other than any covenant or agreement which relates to the payment of money) due to force majeure. The term "force majeure" as used herein shall mean any act of God, including but not limited to storms, floods, washouts, landslides, and lightning. This lease is expressly made subject to, and Lessee in its operations hereunder shall comply with, applicable requirements of all Federal and

state laws, rules and regulations of any governmental authority, state or Federal, having jurisdiction in the leased premises. If Lessee is required, ordered or directed by any Federal or state law, or any order, rule or regulation of governmental authority to cease drilling, reworking ~~operations on the leased premises~~, or if Lessee by force majeure is prevented from conducting such operations, then until such time as such law, order, rule, regulation or force majeure is terminated and for a period of sixty (60) days after such termination each and every provision of this lease or implied covenant arising thereunder that might operate to terminate this lease or the estate conveyed by it shall be suspended and inoperative and this lease shall continue in full force and effect. If any period of suspension exists or occurs during the last twelve (12) months of the primary term, the time thereof shall be added to such term; provided, however, that in no event shall the term hereof be so extended for a period of more than six (6) months solely by reason of this paragraph.

(b) Notwithstanding the provisions of this paragraph 11 to the contrary, Lessor and Lessee agree that restrictions placed on oil and gas operations relative to Padre Island, Texas by departments or branches of the Federal government during the annual migration periods of the peregrine falcon (thought to be March 15 through May 15 and September 15 through November 15) shall not be considered force majeure events.

12. The provisions of this Paragraph 12 shall be operative as to (1) the leased premises, and (2) any other lands which Lessee owns an interest in, either beneficial or legal, and which lands are within one mile of the boundaries of the leased premises (the "Area"). Lessee shall notify Lessor in writing of the location and objective depth of all

wells to be drilled upon the Area, or on any land pooled therewith, not later than ten (10) days prior to commencement of operations, and shall advise Lessor in writing of the date of completion and/or abandonment of each such well within twenty-four (24) hours after completion or abandonment. Lessee shall notify Lessor, orally or in writing, at least forty-eight (48) hours prior to commencement of operations to test or log any well or wells. Lessee agrees to furnish Lessor, or to its authorized representatives, full and complete information (including daily drilling reports) within twenty-four (24) hours after same has been

~~shall be furnished~~ with respect to:

(a) all operations on the Area and the production of oil and gas therefrom, including but not limited to samples of all cores and cuttings, results of drill stem tests and electrical and other logs [two (2) field copies and two (2) final copies], and all other information of every kind and character bearing on formations in the Area or the potential productivity thereof including but not limited to, seismic data and Lessee's interpretation of such data, and

(b) information regarding the sale of oil, liquid hydrocarbons, gas and their respective constituent products produced hereunder, including but not limited to tank tables, daily gauge and run tickets and reports of stock on hand, which information listed in this Paragraph 12(b) shall be furnished within a reasonable time, to be not later than ten days of Lessee's receipt of such information.

During the term of this lease Lessor and its authorized representatives shall at all times have full right of

ingress and egress to the Area and lands pooled therewith for the purpose of inspecting drilling or producing operations and for any and all other purposes. Lessor and its representatives shall also have the right at Lessee's offices during regular business hours to inspect, examine and make copies of and extracts from such of Lessee's books, records, accounts, contracts, commitments and agreements as relate to the Area, operations thereon or production therefrom (including, without limitation, the information referred to in clauses (a) and (b) above), except Lessee shall not be required to disclose its contracts or agreements with other working interest owners in any well in the area.

13. In the event Lessee decides to abandon as a dry hole any well drilled on the leased premises, Lessee shall notify Lessor of such decision and Lessor shall have twenty-four (24) hours after receipt of such notice in which to elect to take the well over and attempt completion, provided that Lessor shall have received the information called for by paragraph 12 above; if such information has not been received by Lessor, Lessor shall have twenty-four (24) hours after receipt of same in which to make a takeover election. If Lessor attempts completion, it shall be at Lessor's sole cost, risk and expense. Upon Lessor's take over of a well in accordance with the terms of this paragraph, this lease shall terminate as to the entirety of the acreage included in the proration unit allocated to such well (the parties promptly after takeover shall execute and file a recordable designation and release of same in the appropriate county records) and Lessee shall relinquish and assign to Lessor the materials, fixtures and equipment, limited to casing which is cemented in the well-bore and all well-head equipment, used in connection with such well at no cost to Lessor. Lessor shall become liable for rig time costs upon

and after takeover, but not prior thereto, together with all obligations regarding plugging, abandonment, and surface restoration. In the event of such a well take-over by Lessor, Lessee hereby grants to Lessor if necessary the right of reasonable ingress and egress to and from such well over surrounding land as to which this lease is in effect for purposes of drilling operations on and obtaining production from such a well.

14. If Lessor's interest in the minerals covered by this lease is less than the entire undivided fee simple estate, then the delay rentals and royalties provided in this lease shall be paid to lessor in the proportion that Lessor's interest bears to the entire and undivided fee simple estate. Lessee at its option may discharge any tax lien upon Lessor's interest in the leased premises (unless such tax lien is being contested in good faith by Lessor by appropriate proceedings instituted for such purpose) and, in the event Lessee does so, Lessee shall have the right to apply royalties hereunder to reimburse such payment after notice thereof to Lessor.

15. Neither this lease nor any terms or provisions herein shall be altered, amended, extended or ratified by any division order or transfer order executed by Lessor, its successors, agents or assigns, but any division orders or transfer orders shall be for the sole purpose of confirming the extent of Lessor's interest in production of oil and gas from the leased premises. Any amendment, alteration, extension or ratification of this lease or of any term or provisions hereof shall be made by a recordable instrument titled "Oil and Gas Lease Amendment" executed by Lessor and Lessee, and any purported amendment, alteration, extension or ratification not so drafted and executed shall be of no force or effect.

16. If Lessee shall have completed a well that Lessee deems capable of producing gas in paying quantities and Lessee has tendered to Lessor payment as a shut-in payment under paragraph 3(g), then Lessor, after giving written notice to Lessee, may require, at Lessor's sole cost and expense, Lessee to test such well to determine that the well is capable of producing gas in paying quantities.

17. Any reference in this lease or any other instrument executed by or on behalf of Lessor referring to the 1941 J. S. Boyles Survey of Padre Island, Texas shall not be deemed an adoption or ratification of that survey by Lessor.

18. (a) Any notice or other communication permitted or required under the terms hereof shall be in writing and, unless otherwise specified, be deemed properly given on the date personally delivered or on the date postmarked if mailed, registered or certified, by postage prepaid United States mail, addressed to Lessor or Lessee at the address set forth at the commencement of this lease, or to such other address as may hereafter be designated by either party to the other by notice. Notice given in other manner shall be effective only if and when received.

(b) Notwithstanding the provisions of this paragraph 18 to the contrary, Lessor and Lessee agree that notice of a takeover election by Lessor, as required under paragraph 13, shall be deemed properly given only if personally delivered to Lessee or Lessee's designated representative.

19. Upon expiration or termination of this lease for any reason as to all or any portion of the leased premises, Lessee at its expense promptly shall prepare, execute and file in the public records in the county or counties in which the leased premises are located an appropriate release

instrument covering all or such portion of such land, and shall forward a copy of same as recorded to Lessor.

20. Whenever used in this lease the term "drilling operations" shall mean actual operations for drilling a well (spud-in with equipment capable of drilling to Lessee's object depth); reworking operations, including fracturing and acidizing; and reconditioning, deepening, plugging back, cleaning out, repairing or testing of a well.

21. Lessor and Lessee have executed a Memorandum of Lease of even date herewith, to be recorded in the county or counties in which the leased premises are located, to afford notice of this lease. This lease shall not be recorded without the prior written consent of Lessor.

22. Lessor agrees to maintain as confidential all geological and geophysical information furnished to Lessor by Lessee, but only so long as this lease remains in force and effect as to all lands covered hereby. Upon release of any portion of lands covered by this Lease, information pertaining to the released portion shall no longer be deemed confidential.

23. This lease may be executed in multiple counterparts, each of which shall be deemed an original for all purposes.

IN WITNESS WHEREOF, the parties have executed this
lease effective as of the date first above written.

LESSOR

DUNN-MCCAMPBELL ROYALTY
INTEREST, INC.

By: Caroline Davis Weber
Title: President

DUNN PADRE CORPORATION

By: Ernie Lujan
Title: Vice President

M. HARVEY WEIL, Individually
and as Trustee

By: M. Harvey Weil
Title: _____

LESSEE
TRAFALGAR HOUSE OIL AND GAS INC.

By: Alvin L. Thomas
Title: ALVIN L. THOMAS
VICE PRESIDENT

STATE OF TEXAS §
 §
COUNTY OF NUECES §

This instrument was acknowledged before me on this
8 day of October, 1987, by
Caroline Davis Weber, on behalf of DUNN-MCCAMPBELL ROYALTY
INTEREST, INC., as Lessor.

Geneva Tschoepe
Notary Public in and for the
State of Texas

GENEVA TSCHOEPE
Notary Public, State of Texas
My Commission Expires August 6, 88

Printed Name of Notary and
Expiration Date of Commission

STATE OF TEXAS §
 §
COUNTY OF NUECES §

This instrument was acknowledged before me on this
8 day of October, 1987, by
E. J. Singer, on behalf of DUNN PADRE CORPORATION,
as lessor.

Geneva Tschoepe
Notary Public in and for the
State of Texas

GENEVA TSCHOEPE
Notary Public, State of Texas
My Commission Expires August 6, 88

Printed Name of Notary and
Expiration Date of Commission

STATE OF TEXAS §
 §
COUNTY OF NUECES §

This instrument was acknowledged before me on this
8 day of October, 1987, by
M. Harvey Weil, on behalf of M. HARVEY WEIL,
Individually and as Trustee.

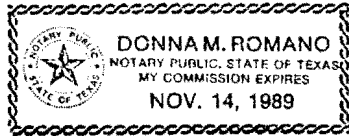
Linda Tschoepe
Notary Public in and for the
State of Texas

LINDA TSCHOEPE
Notary Public, State of Texas

Printed Name of Notary and
Expiration Date of Commission 10-9-89

STATE OF TEXAS §
 §
COUNTY OF Harris §

This instrument was acknowledged before me on this
13th day of October, 1987, by
Alvin J. Thomas on behalf of TRAFALGAR HOUSE OIL AND GAS INC.
as Lessee.



Donna M. Romano
Notary Public in and for the
State of Texas

Printed Name of Notary and
Expiration Date of Commission

EXHIBIT "A"

Description of 3247.00 acres, more or less, located in the Boyles and Tovar Sections of Padre Island in Kleberg County, Texas, and more particularly described as follows:

Beginning at the southeast corner of Tovar Section 14 on the east shore of Padre Island, coordinates X = 2,398,083.97 and Y = 660,676.39, being the northeast corner of the herein described tract;

Thence: Along said east shore, South 23° 00' 17.83" West, 1,791.77 feet to a point for corner;

Thence: Continuing along said east shore, South 21° 24' 17.83" West, at 958.81 feet pass the southeast corner of Tovar Section 15, at 3736.39 feet pass the southeast corner of Tovar Section 16, continue in all 4168.10 feet to a point for corner;

Thence: Continuing along said east shore, South 22° 31' 17.83" West, at 2345.87 feet pass the southeast corner of Tovar Section 17, at 5123.45 feet pass the southeast corner of Tovar Section 18, continue in all 5557.46 feet to a point for corner;

Thence: Continuing along said east shore, South 20° 31' 17.83" West, at 2343.57 feet pass the southeast corner of Tovar Section 19, continue in all 3334.48 feet to a point for corner;

Thence: Continuing along said east shore, South 20° 51' 17.83" West, at 1786.67 feet pass the southeast corner of Tovar Section 20;

Thence: Continuing along said east shore, South 20° 51' 17.84" West 2777.58 feet to the southeast corner of Tovar Section 21, being the southeast corner of the herein described tract;

Thence: North 38° 00' 00" West - 11,650 feet to a point on the west shore of Padre Island, said point being on the west line of Tovar Section 18;

Thence: Continuing along said west shore:
North 9° 05' 10.73" East - 700.00 feet and
North 18° 28' 10.73" East - 490.67 feet to the southwest corner of Tovar Section 17, a corner hereof;

Thence: Continuing along said west shore:
North 18° 28' 10.73" East - 757.14 feet,
North 23° 40' 10.73" East - 610.04 feet,
North 17° 14' 10.73" East - 831.88 feet and
North 28° 47' 10.73" East - 567.07 feet to the southwest corner of Tovar Section 16, a corner hereof;

Thence: Continuing along said west shore:
North 28° 47' 10.73" East - 403.46 feet,
North 37° 05' 10.73" East - 2103.53 feet,
North 52° 38' 10.73" East - 582.31 feet and
North 26° 38' 10.73" East - 236.37 feet to the southwest corner of Tovar Section 15, a corner hereof;

Thence: Continuing along said west shore:
North 26° 38' 10.73" East - 872.80 feet,
North 5° 38' 10.73" East - 1109.17 feet and
North 26° 38' 10.73" East - 761.42 feet to the southwest corner of Tovar Section 14, being the northeast corner of the herein described tract.

Thence: Along the south line of said Tovar Section 14, North 89° 25' 08.97" East - 10,193.00 feet to the place of beginning, and containing 3247.000 acres, more or less.