



Amoco Production Company
Post Office Box 351
Alvin, Texas 77611

K. W. Walrond
District Manager

January 18, 1988

File: RWC-993-2977

Plan of Operations
South Sprint Fieldwide Gas Unit
L3025

Mr. M. E. Hancock
Acting Superintendent
Padre Island National Seashore
9405 South Padre Island Drive
Corpus Christi, Texas 78418

Dear Mr. Hancock:

The following steps are being taken to comply with the six conditions set forth in your letter of December 23, 1987.

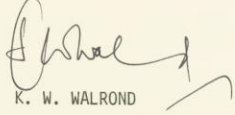
1. A copy of the lease for Well No. 1, State Tract 980-S is attached.
2. Our Region office in Houston is in the process of providing a reclamation bond satisfactory to the National Park Service. This bond will be sent to your office within the next week.
3. Amoco will file an amended plan in the event Well No. 3 becomes active again.
4. We have awarded a bid for the construction of a fence around our facilities and we anticipate this work will start no later than February 1, 1988.
5. Amoco personnel to be contacted in case of an emergency are:

	<u>Name</u>	<u>Work Number</u>	<u>Home Number</u>
1.	Bennie Gwinn	(512) 358-4731	(512) 358-9472
2.	Billy Marcum	(512) 358-4731	(512) 358-6359
3.	Carroll Mayfield	(512) 358-4731	(512) 358-9472
4.	Lou Faszholz	(713) 482-7581	(713) 723-1671

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6. We have noted your additions to our plan concerning fauna.

Thanks again for your cooperation and assistance in this matter.



K. W. WALROND

L4/PDG/1rd/0

The State of Texas General Land Office



Austin, Texas

OIL AND GAS LEASE

No. 61874

WHEREAS, Pursuant to Chapter 271, Acts of the 42nd Legislature, 1931, as amended by House Bill No. 9, Acts of the 46th Legislature, 1939, Chapter 82, Acts of the 50th Legislature, 1947, and other applicable laws, the following area, to-wit:

Tract 980-S, Gulf of Mexico, Kleberg County, containing 710 $\frac{1}{2}$ acres, as shown on the official map of the Gulf of Mexico now on file in the General Land Office,



was, after being duly advertised, offered for lease on the 7 day of November, 1967, at 10:00 o'clock A.M., by the Commissioner of the General Land Office of the State of Texas and the School Land Board of the State of Texas, for the sole and only purpose of prospecting and drilling for, and producing oil and/or gas that may be found and produced from the above described area.

WHEREAS, After all bids and remittances which were received up to said time have been duly considered by the Commissioner of the General Land Office and the School Land Board at a regular meeting thereof in the General Land Office, on the 7 day of November, 1967, and it was found and determined that _____

PAN AMERICAN PETROLEUM CORPORATION

whose address is P. O. Box 3092, Houston, Texas 77001, had offered the highest and best bid for a lease of the area above described and is, therefore, entitled to receive a lease thereon.

NOW, THEREFORE, I, JERRY SADLER, Commissioner of the General Land Office of the State of Texas, by virtue of the authority vested in me and in consideration of the payment by the hereinafter designated Lessee, the sum of _____

Nineteen Thousand Eighty-Four and 80/100----- dollars (\$ 19,084.80), receipt of which is hereby acknowledged and of the royalties, covenants, stipulations and conditions contained

and hereby agreed to be paid, observed and performed by Lessee, do hereby demise, grant, lease and let unto _____

Pan American Petroleum Corporation

the exclusive right to prospect for, produce and take oil and/or gas from the aforesaid area for a period of FIVE (5) YEARS and as long thereafter as oil and/or gas is produced therefrom in commercial quantities, upon the following terms and conditions, to-wit:

1. Subject to the other provisions hereof, this lease shall be for a primary term of FIVE (5) YEARS and as long thereafter as oil or gas is produced in paying quantities.

2. If no well be commenced on the land hereby leased on or before the 7 day of November

1968, this lease shall terminate as to both parties unless the Lessee on or before said date shall pay or tender to the Commissioner of the General Land Office of the State of Texas at Austin, Texas, the sum of _____

Five and No/100----- dollars (\$ 5.00), per acre, which shall operate as a rental and cover the privilege of deferring the commencement of a well for twelve (12) months from said date. In like manner and upon like payments or tenders the commencement of a well may be further deferred for like periods of the same number of months successively during the primary term hereof.

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3. When production of oil and/or gas is secured, the Lessee agrees to pay or cause to be paid to the Commissioner of the General Land Office at Austin, Texas, for the use and benefit of the State of Texas, during the term hereof:

(A) As a royalty on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well and also all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, one-sixth (1/6)

of the value of the gross production. Said value shall be based on the highest posted price, plus premium, if any, offered or paid for oil, condensate, distillate, or other liquid hydrocarbons, respectively, of a like type and gravity in the general area, or the prevailing market price thereof in the general area, or the proceeds of the sale thereof, whichever is the greatest. Lessee agrees that before any gas produced from the land hereby leased is sold, used or processed in a plant, it will be run through an adequate oil and gas separator on the lease of conventional type or other equipment at least as efficient to the end that all liquid hydrocarbons recoverable from the gas by such means will be recovered. Upon written consent of Lessor, the requirement that such gas be run through such a separator or other equipment may be waived upon such terms and conditions as prescribed by Lessor.

(B) As royalty on any gas, which is defined as all hydrocarbons and gaseous substances not defined as oil in subparagraph (A) above, produced from any well and sold by Lessee, or used by Lessee for purposes which are not exempted from royalty payments (except as provided herein with respect to gas processed in a plant on a percentage basis for the extraction of gasoline,

liquid hydrocarbons or other products) one-sixth (1/6) of the value of the gross production, but in no event shall the royalty be based on a price of less than the highest market price paid or offered for gas in the general area, or the price paid or offered to the producer, whichever is the greater; provided that the maximum base pressure in measuring the gas under this lease contract shall not at any time exceed 14.65 pounds per square inch absolute, and the standard base temperature shall be sixty (60) degrees Fahrenheit, correction to be made for pressure according to Boyle's Law, and for specific gravity according to test made by the Balance Method.

(C) As royalty on any gas processed for the recovery of gasoline or other liquid hydrocarbons, _____

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

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

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

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

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

(D) As a royalty on carbon black, sulphur or any other products produced or manufactured from gas (excepting liquid hydrocarbons) whether said gas be "casinghead," "dry" or any other gas, by fractionating, burning or any other processing, the value of

one-sixth (1/6) of the production used or disposed of by sale or otherwise by Lessee, the value to be determined as follows:

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

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

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

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

(F) Lessee agrees to use reasonable diligence to prevent the underground or above ground waste of oil or gas, and to avoid the physical waste of gas produced from the leased premises, Lessee shall either market said gas or use same beneficially in operations on the leased premises. Commencing ninety (90) days from the date of initial production hereunder, if waste of gas occurs

by blowing, flaring, release, venting, escape or otherwise, Lessee shall pay Lessor a royalty of _____

one-sixth (1/6) of the market value thereof, or in the event that there may not be a market for such gas, the royalty shall be based on the market value of gas of comparable quality in the closest vicinity where there is a market for such gas, but in no event shall such value be less than ten cents (10c) per M.C.F.

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

5. The books and accounts, receipts and discharges of all wells, tanks, pools, meters, pipelines and all contracts and other records pertaining to the production, transportation, sale and marketing of the oil and gas produced on said premises shall at all times be subject to inspection and examination by the Commissioner of the General Land Office, the Attorney General, the Governor, or the representative of any of them. The State shall have a first lien upon all oil and/or 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 under this lease.

6. Notwithstanding any provision of this lease to the contrary, after a well producing or capable of producing, oil or gas has been completed on the leased premises, Lessee shall exercise the diligence of a reasonably prudent operator in drilling such additional well or wells as may be reasonably necessary for the proper development of the leased premises and in marketing the production therefrom.

7. If oil and/or gas should be produced in commercial quantities in a well on land privately owned or on State land leased at a lesser royalty, which well is within one thousand (1,000) feet of the area included herein, the Lessee shall, within sixty (60) days after such initial production on such land, begin in good faith and prosecute diligently the drilling of an offset well on this area, and such offset well shall be drilled to such depth as may be necessary to prevent the undue drainage of this area, and the Lessee, manager or driller shall use all means necessary in a good faith effort to make such offset well produce oil and/or gas in commercial quantities.

8. Should the first well or subsequent successive wells drilled on the above described land be a dry hole or dry holes, this lease shall terminate as to both parties, unless, on or before the rental paying date next ensuing after sixty (60) days from the date of completion of such dry hole the Lessee commences the drilling of another well or resumes payment of annual delay rental in the same manner as provided in Paragraph Number 2 in this lease; provided further that should the first well or any subsequent well drilled on the above described land be completed as a shut-in gas well within the primary term hereof the Lessee shall resume payment of annual rental in the same manner as provided in Paragraph Number 2 in this lease on or before the rental paying date next ensuing from the date of completion of such shut-in gas well and the failure to make such annual rental payment shall subject the lease to forfeiture under the provisions of Paragraph Number 14 hereof. If at the expiration of the primary term or at any time thereafter a shut-in gas well is located on the leased premises payments shall be made in accordance with the provisions of Paragraph Number 17 hereof.

9. Whenever the Lessee commences the drilling of any well or wells upon the above described premises, written notice thereof shall be filed in the General Land Office within five (5) days after spudding in such well, accompanied by a plat of said premises showing the location of such well or wells.

(A) Upon the request of the Commissioner of the General Land Office or his authorized representative, Lessee shall file in the General Land Office carbon copies of all forms and other information filed with the Texas Railroad Commission which pertain to operations on this lease within five (5) days after said filing with the Commission.

(B) Lessee shall have an electrical and/or radioactivity survey made of the bore-hole section, from the base of the surface casing to the total depth of well, of all wells drilled on the above described premises and shall transmit a true copy of the log of each survey on each well to the General Land Office within fifteen (15) days after the making of said survey.

(C) The Lessee herein agrees, insofar as possible, to supply the General Land Office with any records, memoranda, accounts, reports, cuttings and cores, or other information relative to the operation of the above described premises, that may be requested by the General Land Office, in addition to those herein expressly provided for.

10. Lessee shall have the right to use such water that may be on the premises, necessary for drilling and operating wells, and shall have the right to use so much of the surface of the land that may be necessary for drilling and operating wells and transporting and marketing the production therefrom, such use to be conducted under conditions of least injury to the surface of the land.

11. In developing this area, the Lessee shall use the highest degree of care and all proper safeguards to prevent the pollution of water. Lessee shall build and maintain fences around its slush, sump, and drainage pits and tank batteries so as to protect livestock against loss, damage or injury; and upon completion or abandonment of any well or wells, Lessee shall fill and level off all slush pits and cellars and completely clean up the drilling site of all rubbish thereon. Lessee also shall erect, at a distance not to exceed 25 feet from each well on the premises covered by this lease, a legible sign on which shall be stated the name of operator, the lease designation and the well number. Where two or more wells on the same lease or where wells on two or more leases are connected to the same tank battery, whether by individual flow line connections direct to the tank or tanks or by use of a multiple header system, each line between each well and such tank or header shall be legibly identified at all times, either by a firmly attached tag or plate or an identification properly painted on such line at a distance not to exceed three (3) feet from such tank or header connection. Said signs, tags, plates or other identification markers shall be maintained in a legible condition throughout the term of this lease.

12. The lease may be transferred at any time. All transfers must be recorded in the county where the area 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, accompanied by a filing fee of Three Dollars (\$3.00).

13. The 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 a filing fee of Three Dollars (\$3.00). Such relinquishment will not have the effect of releasing the Lessee from any liability theretofore accrued in favor of the State.

14. If the Lessee should fail or refuse to make payment of any sum due for royalty on the production, within thirty (30) days after it shall become due, or if the Lessee or his authorized agent should knowingly make any false return or false report concerning production, royalty, or drilling or if the Lessee should 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 the Lessee or his agent should refuse the proper authority access to the records pertaining to operations under this lease, or if the Lessee or his authorized agent should knowingly fail or refuse to furnish the log of any well as provided herein, or if Lessee shall knowingly violate any of the material provisions of this lease, this lease shall be subject to forfeiture by the Commissioner of the General Land Office, and when forfeited the area shall again be subject to lease to the highest bidder, under the same regulations controlling the original sale of leases.

15. 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 thereto.

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

17. If, at the expiration of the primary term or at any time thereafter, there is located on the leased premises a well or wells capable of producing gas in paying quantities and such gas is not otherwise produced for lack of a suitable market and this lease is not otherwise being maintained in force and effect, the Lessee may pay as royalty a sum of money equal to double the annual rental provided for in this lease but in no event to be less than \$1,200.00 per annum for each well capable of producing gas in paying quantities; such payment shall be made prior to the expiration of the primary term of this lease or if the primary term

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has expired within sixty (60) days after the Lessee shuts in such well or ceases to produce gas therefrom or within sixty (60) days after this lease ceases to be otherwise maintained in force and effect; and if such payment is made, this lease shall be considered to be a producing lease and such shut-in gas well royalty payment shall extend the term of this lease for a period of one (1) year from the end of the primary term or, if after the primary term, from the first day of the month next succeeding the month in which such well was shut in or production ceased or this lease ceased to be otherwise maintained in force and effect; and thereafter, if no suitable market for such gas exists, the Lessee may extend this lease for four (4) additional and successive periods of one (1) year each by the payment of a like sum of money each year as above provided, on or before the expiration of the extended term. Provided, however, that if, while this lease is being maintained in force and effect by payment of such shut-in gas well royalty, gas should be sold and delivered in paying quantities from a well situated within 1,000 feet of the leased premises and completed in the same producing reservoir, or in any case where drainage is occurring, the right to further extend this lease by such shut-in gas well royalty payments shall cease and this lease shall remain in force and effect for the remainder of the current one-year period for which the shut-in gas well royalty has been paid and for an additional period not to exceed five (5) years from the expiration of the primary term by payment by the Lessee of compensatory royalty at the royalty rate provided for herein, of the value at the well of production from the well completed in the same producing reservoir from which gas is being sold and delivered and which is situated within 1,000 feet of or draining the leased premises on which such shut-in gas well is situated, such compensatory royalty to be paid monthly to the Commissioner of the General Land Office beginning on or before the 20th day of the month next succeeding the month in which such gas is sold and delivered from the well situated within 1,000 feet of or draining the leased premises and completed in the same producing reservoir, provided further that in the event such compensatory royalties paid in any twelve-month period are in an amount less than the annual shut-in gas well royalties provided for herein, Lessee shall pay an additional sum of money equal to the difference between such compensatory royalties paid and such shut-in gas well royalties within thirty (30) days from the end of such twelve-month period; provided further that nothing herein shall relieve the Lessee of the obligation of reasonable development, nor of the obligation to drill offset wells as required by law.

18. If, at the expiration of the primary term of this lease, production of oil or gas has not been obtained on the leased premises but drilling operations are being conducted thereon in good faith and in a good and workmanlike manner, the Lessee may, on or before the expiration of the primary term, file in the General Land Office written application to the Commissioner of the General Land Office for a thirty (30) day extension of this lease, accompanied by payment of Three Thousand Dollars (\$3,000.00) if this lease covers six hundred forty (640) acres or less and Six Thousand Dollars (\$6,000.00) if this lease covers more than six hundred forty (640) acres and the Commissioner shall, in writing, extend this lease for a thirty (30) day period from and after the expiration of the primary term and so long thereafter as oil or gas is produced in paying quantities; provided further, that Lessee may, so long as such drilling operations are being conducted, make like application and payment during any thirty (30) day extended period for an additional extension of thirty (30) days and, upon receipt of such application and payment, the Commissioner shall, in writing, again extend this lease so that same shall remain in force for such additional thirty (30) day period and so long thereafter as oil or gas is produced in paying quantities, provided, however, that this lease shall not be extended for more than a total of one hundred eighty (180) days from and after the expiration of the primary term unless production in paying quantities has been obtained.

19. In the event this lease covers a riverbed, Lessee is hereby specifically granted the right of eminent domain and condemnation as provided for in Chapter 40, Acts of the Second Called Session of the 42nd Legislature, and amendments thereto, as a part of the consideration moving to Lessor for the covenants herein made by Lessee.

20. In the event this lease covers land leased under the provisions of Chapter 498, Acts of the 47th Legislature, 1941, no surface location on this area may be closer than six hundred sixty (660) feet from the center of any navigable ship channel, and special permission from the Commissioner of the General Land Office will be necessary to make any surface location between six hundred sixty (660) feet and two thousand one hundred sixty (2,160) feet from the center of any such navigable ship channel. Also in such event this lease shall be subject to all rules and regulations promulgated by the Commissioner of the General Land Office, pursuant to Article 5366 V.C.S. and amendments thereto, governing drilling and producing operations in coastal waters.

21. Upon the termination of this lease, for any cause, the Lessee shall not, in any event, be permitted to remove the casing or any part of the equipment from any producing, dry, or abandoned well or wells without the written consent of the Commissioner of the General Land Office or his authorized representative; nor shall Lessee, without the written consent of said Commissioner or his authorized representative, remove from the leased premises the casing or any other equipment, material, machinery, appliances or property owned by the Lessee and used by the Lessee in the development and production of oil or gas therefrom until all dry or abandoned wells have been plugged and until all slush or refuse pits have been properly filled and all broken or discarded lumber, machinery, or debris shall have been removed from the premises to the satisfaction of the said Commissioner or his authorized representative.

22. Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling operations thereon, or from producing oil and/or gas therefrom, after effort made in good faith, by reason of war, rebellion, riots, strikes, acts of God, or any order, rule or regulation of governmental authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended and Lessee shall not be liable for damages for failure to comply therewith; and this lease shall be extended while and so long as Lessee is prevented, by any such cause, from drilling, reworking operations or producing oil and/or gas from the lease premises, provided, however, that nothing herein shall be construed to suspend the payment of rentals during the primary or extended term.

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

IN TESTIMONY WHEREOF, Witness the signature of the Commissioner of the General Land Office, under the seal thereof, of this 7 day of November, 1967

Approved
Audit
Legal
Engineering
Geology
Execution

JERRY SADLER
COMMISSIONER OF THE GENERAL LAND OFFICE

