



Austin, Texas

OIL AND GAS LEASE

No. 83819

WHEREAS, pursuant to Chapter 32 and Subchapters A-E, G and H of Chapter 32 of the Natural Resources Code (hereinafter called N.R.C.), and subject to all rules and regulations promulgated by the Commissioner of the General Land Office and/or the School Land Board pursuant thereto, and all other applicable statutes and amendments to said N.R.C., the following area, to-wit:

486 acres out of Tract 984-S, Gulf of Mexico, Kleberg County, Texas, as shown on the official map of the Gulf of Mexico now on file in the General Land Office in Austin, Texas, being all of Tract 984-S lying outside of the surface boundaries of the South Sprint Gas Unit No. 2 which unit was created by Pooling Agreement between The State of Texas and Amoco Production Company, executed on April 26, 1971 and April 23, 1971, respectively, a copy of which instrument is in lease file M-59481 to which reference is here made,

was, after being duly advertised, offered for lease on the 7th day of October, 19 80, 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; and

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 7th day of October, 19 80, and it was found and determined that

AMOCO PRODUCTION COMPANY

whose address is P. O. Box 3092, Houston, Texas 77001, has 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, BOB ARMSTRONG, Commissioner of the General Land Office of the State of Texas, hereinafter sometimes referred to as "Lessor", whose address is Austin, Texas, by virtue of the authority vested in me and in consideration of the payment by the hereinafter designated Lessee, the sum of One Hundred Fifty-seven Thousand Three Hundred Thirty-seven and 64/100 Dollars

(\$ 157,337.64), 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

Amoco Production Company

the exclusive right to prospect for, produce and take oil and/or gas from the aforesaid area upon the following terms and conditions, to-wit:

1. TERM: Subject to the other provisions hereof, this lease shall be for a term of five years from this date (herein called "primary term") and as long thereafter as oil or gas is produced in paying quantities from said area.

2. DELAY RENTALS: If no well be commenced on the land hereby leased on or before the 7th day of October, 19 81, 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 TEN AND NO/100 Dollars

(\$ 10.00), per acre, which shall operate as 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.

3. PRODUCTION ROYALTIES: 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 in Austin, Texas, for the use and benefit of the State of Texas, during the term hereof:

(A) OIL: As a royalty on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well and also all

completion reports and plugging records. Lessee shall 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, which may be required by the General Land Office, in addition to those herein expressly provided for. Lessee shall have an electrical and/or radioactivity survey made on 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.

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

7. **OFFSET WELLS:** 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. **DRY HOLE CLAUSE:** If, during the primary term hereof and prior to discovery and production of oil or gas on said land, Lessee should drill a dry hole or holes thereon, or if after discovery and production of oil or gas the production thereof should cease from any cause, this lease shall not terminate if on or before the rental paying date next ensuing after the expiration of sixty (60) days from date of completion of said dry hole or cessation of production Lessee commences additional drilling or reworking operations thereon, or commences or resumes the payment of annual delay rental in the same manner as provided in Paragraph Number 2 of this lease. If a dry hole be completed and abandoned during the last year of the primary term, Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term. 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, 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 after sixty (60) days 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 17 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 10 hereof.

9. **CESSATION, DRILLING, AND REWORKING:** 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 hereof or at any time or times thereafter, this lease shall not terminate if 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 hereinafter provided or as provided elsewhere in the statutes of the State of Texas. Lessee shall give written notice to the General Land Office within five (5) days of any cessation of production.

10. **SHUT-IN ROYALTIES:** If, at the expiration of the primary term or at any time thereafter, there is located on the leased premises a well or wells capable of producing 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, 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 has expired within sixty (60) days after 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, 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 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 last 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 Lessee of the obligation of reasonable development, nor of the obligation to drill offset wells as required by law.

11. **EXTENSIONS:** 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, 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 three hundred ninety (390) days from and after the expiration of the primary term unless production in paying quantities has been obtained.

12. **USE OF WATER; SURFACE:** Lessee shall have the right to use water produced on said land necessary for operations hereunder and solely upon the leased premises; provided, however, Lessee shall not use potable water or water suitable for livestock or irrigation purposes for water flood operations without the prior written consent of Lessor. Lessee shall have the right to use so much of the surface of the land that may be reasonably 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.

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 required by Section 52.026, N.R.C., accompanied by a filing fee of Five Dollars (\$5.00).

16. **RELEASES:** 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 Five Dollars (\$5.00). Such relinquishment will not have the effect of releasing Lessee from any liability therefore accrued in favor of the State.

17. **FORFEITURE:** (A) If Lessee shall fail or refuse to make the payment of any sum within thirty 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 the School Land Board, 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 Lessee shall knowingly violate any of the material provisions of this lease, or if this lease is assigned and the 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 to the highest bidder, under the same regulations controlling the original sale of leases.

(B) 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.

18. **RIVERBED TRACTS:** In the event this lease covers a riverbed, Lessee is hereby specifically granted the right of eminent domain and condemnation as provided for in Sections 52.092-52.093, N.R.C., as a part of the consideration moving to Lessor for the covenants herein made by Lessee.

19. **DRILLING RESTRICTIONS:** In the event this lease covers land leased under the provisions of Subchapter B, Chapter 52, N.R.C., 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, and amendments thereto, governing drilling and producing operations on permanent free school lands.

20. **REMOVAL OF EQUIPMENT:** Upon the termination of this lease for any cause, 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 Lessee and used by 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.

21. **FORCE MAJEURE:** 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 upon proper and satisfactory proof presented to the School Land Board in support of Lessee's contention and Lessee shall not be liable for damages for failure to comply therewith (except in the event of lease operations suspended as provided in the rules and regulations adopted by the School Land Board); 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 leased premises, provided, however, that nothing herein shall be construed to suspend the payment of rentals during the primary or extended term.

22. **RAILROAD COMMISSION HEARINGS ON GAS:** No natural gas or casinghead gas, including both associated and nonassociated 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 of Texas 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, the Railroad Commission of Texas may grant exceptions to these provisions as set forth in Section 52.296 of the N.R.C.

23. **SUCCESSORS AND ASSIGNS:** The covenants, conditions and agreements contained herein shall extend to and be binding upon the heirs, executors, administrators, successors or assigns of Lessee herein.

IN TESTIMONY WHEREOF, Witness the signature of the Commissioner of the General Land Office, under the seal of the General Land Office, this 7th day of October, 1980


COMMISSIONER OF THE GENERAL LAND OFFICE

Approved
