

at 10:35 A.M.
MAR 26 2004

Producers H-88-RL (1988)

**PAID UP
OIL AND GAS LEASE**CHARLES COLE
CLERK OF COURT
HEMPHILL COUNTY, TEXAS
P. Walker Deputy

THIS AGREEMENT, entered into this 22nd day of December, 2003, between Diane King Rudy Mycoskie, whose address is 805 Portofino Drive, Arlington, Texas 76012, hereinafter called lessor, (whether one or more), and William P. Harris, whose address is P O Box 47, Amarillo, Texas 79105, hereinafter called lessee.

1. GRANTING: Lessor, for Ten Dollars (\$10.00) and other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, hereby grants, leases and lets exclusively unto lessee, its successors and assigns, for the purpose of exploring, drilling, mining and operating for and producing oil, gas and associated hydrocarbons, laying pipelines, conducting secondary and subsequent recovery operations, conducting seismic operations and geological or geophysical surveys, building roads, tanks, compressors, power stations, and other structures thereon, to produce, save, store, take care of, treat, transport and own said substances, the following described land in Hemphill County, Texas:

SOUTHWEST QUARTER (SW/4) OF SECTION 12, BLOCK 1, I&GN RR CO. SURVEY LYING SOUTH & EAST OF THE BNSF RR ROW

For the purpose of calculating the rental and royalty payments hereinafter provided for, said land shall be treated as comprising 79.10 acres, whether it actually comprises more or less.

2. TERM: Subject to other provisions hereof, this lease shall be for a primary term of Two (2) years from this date and as long thereafter as oil, gas or associated hydrocarbons are produced from said land or from land pooled or unitized with all or any part of said land.

3. ROYALTY: As royalty on oil, including condensate and distillate, lessee shall deliver at the wells to lessor, or for lessor's account to any pipeline to which the wells may be connected, three-sixteenths (3/16) of all oil produced and saved from said land; or lessee may from time to time purchase any royalty oil in its possession, paying therefore the market price prevailing at the wells for oil of like grade and gravity on the date of purchase. As royalty on gas, including casinghead gas or other gaseous substance, produced and saved from said land lessee shall pay monthly to lessor three-sixteenths (3/16) of the market value at the well for gas used by lessee or three-sixteenths (3/16) of the amount received by lessee for gas sold on or off the premises. If such oil or gas must be treated, gathered, transported, dehydrated or compressed by lessee to market such oil or gas, lessor's royalty shall bear its proportionate share of such costs.

4. SHUT-IN ROYALTY: If there is a well or wells on said land or land pooled therewith capable of producing gas, whether or not such wells may also be capable of producing oil distillate, or other products, and no gas from all such wells is sold or used for any reason during or after the primary term and this lease is not maintained in effect by any production, drilling, reworking operations or otherwise, lessee shall pay or tender as shut-in royalties to the party or parties shown by lessee's records to be entitled to receive royalties on actual production of gas at the time such payment or tender is made, or to the credit of such party or parties on or before the end of each twelve-month period during which such gas is not sold or used and this lease is not maintained in force by any production, drilling, reworking operations or otherwise, and if such shut-in royalty is so paid or tendered and while lessee's right to pay or tender same is accruing, it shall be so paid or tendered, whether any such well is located on said land or on land pooled with all or any part of said land. During any period while lessee's right to pay or tender any shut-in royalty is accruing, lessee may commence or resume operations or production and this lease shall remain in force as though shut-in royalty had been duly paid down to such commencement or resumption. During any period in which this lease or lands pooled therewith is being held by drilling or reworking operations only, the shut-in payment due date shall be one year after the date this lease ceases to be maintained by such drilling or reworking operations. The intermittent production of gas, the temporary sale of gas or the use of gas for drilling fuel, testing or other temporary purposes shall not interrupt any twelve-month period for which shut-in royalties have been or may be paid or cause a new or separate annual shut-in period to begin. If oil or gas shall be discovered on the leased premises and if, in the judgment of lessee, it shall become unprofitable or uneconomical to produce the same due to the low price obtainable for such products or due to the restricted allowable production under the laws of the state in which the land is situated, under any federal law, or under the orders or regulations of the appropriate governing bodies, and, if, in the judgment of lessee, such unprofitable or uneconomical conditions are temporary, then lessee may shut in and cease producing during the existence of such unprofitable or uneconomical conditions, for a period not in excess of two (2) years, during which time it shall be deemed that oil or gas is being produced, and this lease shall continue in effect, if lessee shall pay shut-in royalties to lessor annually during such period. Nothing herein contained shall be construed to require the payment of shut-in royalties covering the same period for which rentals are paid under the provisions of Paragraph 5.

5. DELAY RENTAL: If operations for drilling on said land, or on land pooled with all or any part of said land, are not commenced on or before one year from date of this lease, then this lease shall terminate unless lessee shall, on or before the end of such year, pay or tender to lessor, or to lessor's credit in the **PAY LESSOR DIRECT** or its successors, which bank and its successors are lessor's agent and shall continue as the depository of all rental and shut-in royalty payable under this lease, regardless of changes of ownership in said land or in oil, gas and other minerals, or in the rentals or royalties to accrue hereunder, the sum of seventy-nine and 10/100 (79.10), which shall operate as rental and cover the privilege of deferring commencement of such operations for a period of one year. In like manner and upon like payments or tenders, the commencement of such operations may be further deferred for like successive annual periods during the primary term. All payments or tenders of rental or shut-in royalty may be made by the mailing or delivering of lessee's check or draft on or before the due date. Notwithstanding any change in ownership or the death of lessor, or any successor in interest, payment or tender of rental or shut-in royalty in the manner provided above shall bind the successors, assigns, heirs, devisees, executors and administrators of such person. If two or more parties are or become entitled to rental or shut-in royalty hereunder, lessee may tender the total amount payable to their joint credit in the depository bank. If lessee should surrender this lease in whole or part, the amount of any rental or shut-in royalty payable hereunder shall be reduced in the proportion that the land covered hereby is reduced by such release. If said bank, or any successor bank, should fail, liquidate or be succeeded by another bank, or for any other reason fail or refuse to receive or accept any payment tendered to it, lessee shall not be held in default and this lease shall not terminate for failure to make any such payment or tender unless lessee has been in receipt of a recordable instrument naming another bank as agent to receive such payments or tenders under all of the provisions of this lease for at least forty-five (45) days. If lessee shall, on or before any anniversary date, make a bonafide attempt to pay or deposit rental to a lessor entitled thereto according to lessee's records or to a lessor who, prior to such attempted payment or deposit, has given lessee notice, in accordance with subsequent provision of this lease, of his right to receive rental, and if such payment or deposit shall be ineffective or erroneous in any regard, lessee shall be unconditionally obligated to pay to such lessor the rental properly payable for the rental period involved, and this lease shall not terminate but shall be maintained in the same manner as if such erroneous or ineffective rental payment or deposit had been properly made, provided that the erroneous or ineffective rental payment or deposit be corrected within thirty (30) days after receipt by lessee of written notice from such lessor of such error accompanied by such instruments as are necessary to enable lessee to make proper payment.

6. PROPORTIONATE ADJUSTMENT: If lessor owns a less interest (even though shown herein to be less) in said land than the entire and undivided fee simple estate, then the royalty, shut-in royalty and rental herein provided for shall be paid lessor only in the proportion which lessor's interest bears to the whole and undivided fee estate, and any outstanding royalties shall be deducted from the royalties reserved by lessor herein. If while this lease is in force lessor's interest in said land is increased in any manner (including, without limitation, reversion of any interest or estate), such increased interest shall also be covered hereby; and lessee may proportionately increase subsequent rental or shut-in royalty payments commencing with the rental or shut-in royalty paying date next following sixty days after receipt by lessee of written notice from lessor of such increase, but lessee's failure so to increase any such rental or shut-in royalty payment shall not affect the validity of this lease as to any part of lessor's interest for which rental or shut-in royalty may be paid. If any such increase in lessor's interest occurs during, after or within sixty days preceding commencement of the last year of the primary term hereof, this lease shall cover same but no increased rental shall be payable.

7. POOLING UNITIZATION: Lessee is hereby granted the right to pool or unitize, as to any one or more formations, the land covered by this lease or any part thereof with any other land, lease, leases, mineral estates or parts thereof for the production of oil, gas and associated hydrocarbons and their respective constituent products. Units pooled for oil hereunder shall not exceed eighty (80) acres plus a tolerance of ten percent (10%) thereof, and units pooled for gas hereunder shall not exceed six hundred forty (640) acres plus a tolerance of ten percent (10%) thereof, provided that if any federal or state law, executive order, rule or regulation shall prescribe a spacing pattern for the development of the field or allocate a producing allowable on acreage per well, then any such units may embrace as much additional acreage as may be so prescribed or as may be used in such allocation or allowable. Lessee shall file written unit designations in the county in which the premises are located. Such units may be designated either before or after the completion of wells, and lessee may reduce, enlarge, reform, modify or dissolve such units at any time before or after the discovery of oil or gas on the pooled acreage by filing a written declaration to such effect in the same county. A unit shall be effective on the date set forth in said declaration or if said declaration provides no effective date, then it shall be effective upon recordation of the declaration. Lessee may dissolve any unit established hereunder by filing a written declaration to that effect in the same county. Drilling operations and production on any part of the pooled acreage shall be treated as if such drilling operations were upon or such production was from the land described in this lease whether or not the well or wells are located on the land covered by this lease. The entire lease acreage shall be treated for all purposes, except the payment of royalties on production from the pooled unit, as if it were included in such unit. In lieu of the royalties herein provided, lessor shall receive on production from a unit so pooled only such portion of the royalty stipulated herein as the amount of lessor's acreage placed in the unit or lessor's royalty interest therein on an

acreage basis bears to the total acreage pooled in the particular unit involved and all royalty due under this lease (whether or not owned by lessor) shall be paid out of the royalty herein provided. Formation of one or more units shall not exhaust lessee's right to form additional units, and any subsequently formed units need not conform in size, shape, area or stratum, with any earlier unit.

8. REWORKING: If prior to discovery and production of oil, gas or associated hydrocarbons on said land or on acreage pooled therewith lessee should drill a dry hole or holes thereon, or if after discovery and production of oil, gas or associated hydrocarbons whether during or after the primary term hereof, all production thereof should cease from any cause, this lease shall not terminate if lessee commences operations for drilling or reworking within ninety (90) days thereafter, however, if it be within the primary term, commences or resumes the payment or tender of rentals or commences operations for drilling or reworking on or before the rental paying date next ensuing after the expiration of ninety (90) days from date of completion of a dry hole or cessation of production. If at any time subsequent to ninety (90) days prior to the beginning of the last year of the primary term and prior to the discovery of oil, gas or associated hydrocarbons on said land, or on acreage pooled therewith, lessee should drill a dry hole thereon, no rental payment or operations are necessary in order to keep the lease in force during the remainder of the primary term. If at the expiration of the primary term oil, gas or associated hydrocarbons is not being produced on said land or on acreage pooled therewith but lessee is then engaged in drilling or reworking operations thereon, or shall have completed a dry hole thereon within ninety (90) days prior to the end of the primary term or shall after the expiration of the primary term complete a well on land other than land covered by this lease and which other land and all or a portion of the land covered by this lease has been pooled therewith prior to the expiration of the primary term of this lease, this lease shall remain in force so long as operations on said well or drilling or reworking operations on any other well on the land covered by this lease or acreage pooled therewith are prosecuted with no cessation of more than ninety (90) consecutive days and if they result in the production of oil, gas or associated hydrocarbons so long thereafter as oil, gas and associated hydrocarbons are produced from the land covered by this lease or acreage pooled therewith.

9. ASSIGNMENT: The estate of either party hereto may be assigned in whole or in part, but no change of ownership in said land, rental, royalty and shut-in royalty, however accomplished, shall enlarge the obligations or diminish the rights of lessee. No such change shall be binding on lessee until thirty (30) days after lessee has been furnished with the original or a certified copy of the recorded instrument or instruments, or with certified copies of completed and final probate, administration, heirship or other court proceedings necessary to evidence such change. If this lease is assigned as to a part or parts of said land, all rental royalty and shut-in royalty payable hereunder shall be apportioned between and thereafter payable by the several leasehold owners in the proportion that the acreage by each bears to the entire leased acreage, and default in rental payment by anyone shall not defeat or affect the rights of any other leasehold owner.

10. OPERATIONS: Lessee may use free of royalty any gas, oil and water found on said land for operations hereunder, except water from lessor's wells. When required by lessor, lessee shall bury pipelines below plow depth. No well shall be drilled nearer than 200 feet to any house or barn now on said land with written consent of lessor. Lessee shall have the right at any time during or after expiration of this lease to remove all equipment machinery, fixtures, buildings, pipelines and other structures placed by lessee on said land, including the right to draw and remove all casing. Lessee shall have no obligation to offset wells on separate tracts into which said land may be divided, or to furnish separate measuring or receiving tanks. Lessee may dispose of saltwater produced from said land or land pooled therewith into any non-productive well located on said land and property converted by lessee for such use. Lessee shall pay for all damages caused by its operations to growing crops on said land.

11. WARRANTY: Lessor warrants and agrees to defend title to said land. Lessor agrees that lessee, at its option, may pay and discharge any taxes, mortgages or other lien existing, levied or assessed against said land; and if such option is exercised lessee shall be subrogated to the rights of any holder or holders thereof and may reimburse itself by applying to the discharge of any such mortgage, tax or other lien, any royalty, shut-in royalty or rental accruing hereunder.

12. SURRENDER: Lessee may at any time, and from time to time, execute and deliver to lessor or place of record a release covering all or any portion of said land, and thereupon shall be relieved of all obligations as to the land surrendered. After a release of this lease as to only part of the land, the shut-ins and rentals payable hereunder may be reduced in the proportion that the land covered hereby is reduced by each such release.

13. NOTICE OF NONCOMPLIANCE: If during or after the primary term lessor considers that lessee has failed to comply with any obligation hereunder, express or implied, lessor shall notify lessee in writing specifying in what respects lessor claims lessee has breached this lease. The service of such notice and the lapse of ninety (90) days without lessee's meeting or commencing to meet the alleged breach shall be a condition precedent to any action by lessor for any cause. If within ninety (90) days after receipt of such notice lessee shall meet or commence to meet the breaches alleged by lessor, lessee shall not be deemed in default hereunder. The breach by lessee of any obligation hereunder shall not work a forfeiture or termination, in whole or in part, of this lease.

14. FORCE MAJEURE: Should lessee be prevented from complying with an express or implied covenant of this lease, from conducting drilling or reworking operations or from producing oil or gas under this lease by reason of scarcity of pipeline or market demand, or inability to obtain or use transportation, equipment or material, or by reason of any Federal or state law or any order, rule or regulation of governmental authority asserting jurisdiction by acts of third parties, or otherwise by operations of force majeure (which term includes any other similar or dissimilar cause, occurrence or circumstance not within the reasonable control of lessee), then while so prevented lessee's obligation to comply with any such covenant shall be suspended and lessee's need to conduct drilling or reworking operations or to produce oil or gas shall be suspended and this lease shall remain in force so long as lessee is so prevented; and the time while lessee is so prevented shall not be counted against lessee, regardless of anything in this lease to the contrary.

15. HEADINGS: All headings contained in this lease are for identification purposes only. This lease and all its terms, conditions and stipulations shall be binding upon each party executing the same, regardless of whether or not executed by all owners of the above described land or by all persons named above as lessor. This lease and all its terms, conditions and stipulations shall extend to and be binding on the heirs, representatives, successors and assigns of lessor and lessee.

16. This is a paid-up lease; all rentals due under paragraph #5 above have been paid in full and in advance.

IN WITNESS WHEREOF, this instrument is executed this ____ day of November, 2003, but is effective on the day and year first above written.

LESSORS:

Diane King Rudy Mycoskie
Diane King Rudy Mycoskie

Texas Royalty Brokers

INDIVIDUAL ACKNOWLEDGMENT

STATE OF TEXAS }

COUNTY OF Tarrant }

The foregoing instrument was acknowledged before me this 16 day of January, 2004, by Diane King Rudy Mycoskie.

WITNESS my hand and official seal.

My Commission Expires: 6-27-2004



Stephanie Stafford
Notary Public

I, the State of Texas }
County of Hempill }
do hereby certify that the foregoing instrument with the
Certificate of authorization was filed for record in my office
the 26th day of MAR 2004
at 10:35 o'clock A. M. and duly recorded in the
Official Public Record of said County in Vol. 570
Page 481. Witness my hand and Seal of office of said
County in office in Canadian, Texas, the day and year as
above written.

Charles Cole
Charles Cole
Clark County Court, Hempill County, Texas