

PAID-LIP

OIL, GAS AND MINERAL LEASE

THIS AGREEMENT made and entered into this 2nd day of July 2001 by and between:

Howard J. Kleinecke
120 Oak Ridge, Victoria, Texas 77905

H. L. Brown Operating, L. L. C.

P. O. Box 2237 Midland, Texas 79702

WITNESSETH: That, for and in consideration of the sum of **Ten and no/100**

Dollars (\$ 10.00

[illegible]

The land hereby leased is situated within the County of Reeves County State of Texas and is described as follows:

All of Section 18, Block C-1, Public School Land Survey

Notwithstanding anything contained herein to the contrary, wherever the fraction "1/8" appears, it is hereby amended to read "1/5"

The lease covers all of the land described above, including any interests therein that any signatory hereof has the right or power to lease, and in addition it covers, and there is hereby granted, leased and let, upon the same terms and conditions as set forth, all lands now or hereafter owned or claimed by Lessor, adjacent, contiguous, or a part of the tract or tracts described above, whether such additional lands be owned or claimed by deed, limitation, or otherwise, or are fenced or unfenced, and whether such lands are made or outside of the boundaries of the lands described above as shown in the map in the named survey, or other survey or surveys. The bonus money paid for this lease is in gross, and not by the acre, and shall be effective to cover all such land irrespective of the number of acres.

contained therein, but the land included within this lease is estimated to comprise 640 acres, whether actually more or less, and such land is hereinafter referred to as the "Massacre Premises."

TO HAVE AND TO HOLD the leased premises for a term of 3 years from the date hereof, hereinafter called "primary term", and as long thereafter as oil, gas or other hydrocarbons, or other minerals or leased substances, or either or any of them, are produced from the leased premises or from land with which the leased premises are pooled or unitized, or in consideration of the premises, if it be found

1. Royalty On Oil. Lessee shall deliver to Lessor, at the well or to the credit of Lessor in the pipeline to which the well may be connected, 1/8 of all oil and other liquid hydrocarbons produced and saved from the leased premises, or Lessee, at its option, may buy or sell such 1/8 and pay Lessor the market price for oil or liquid hydrocarbons of like grade and gravity prevailing in the light oil or dry gas market at the time of sale.

2. **Royalty On Gas.** Lessee shall pay to Lessor a royalty on gas, including casinghead gas or other gaseous substances produced from the well, based on the net proceeds of the net received from the sale thereof, provided that on gas used off the premises or by Lessee in the manufacture of gasoline or other products, the market value at the well of 1/8 of the gas so used; as to all gas sold by Lessee under a written contract, the price received by Lessee for such gas shall be conclusively determined by the prevailing market price for such gas at the time of sale.

3. Royalty On Other Substances. Lessee shall pay to Lessor, as royalty on any substances conveyed by this lease other than oil and gas and the products thereof which Lessee may elect to produce, save and market from the lesser premises, 1/8 of the proceeds received by Lessee from the sale thereof after deducting the cost of processing, treating, compressing and transporting the gas.

4. **Shut-In Gas Royalty.** If at any time, or from time to time, either before or after the expiration of the primary term of this lease, there is any gas well on the leased premises or on lands with which the leased premises are pooled or unitized and which is capable of producing in paying quantities, but which is shut in before or after production therefrom, such well shall be considered under all the provisions of this lease as a well producing gas in paying quantities and this lease shall remain in force in the same manner as if such well were producing gas in paying quantities.

Six hundred forty and no/100

640.00

Dollars (\$ 040.00), per annum for the period commencing on the date such well is actually shut in, unless this lease is being maintained in force and effect by some other provision hereof; in which event, such period shall commence on the date this lease ceases to be maintained in full force and effect by some other provision hereof. Payment or tender shall be made to Lessor, or deposited to the credit of Lessor in the depository bank named in this lease. The first payment shall be due and payable on or before ninety (90) days after the date such well is shut in, or ninety (90) days after the date this lease ceases to be maintained in force by some other provision hereof. Unless gas from such well is produced and sold or used prior thereto, except temporary sales, or used for lease operations, subsequent payments shall be due and payable thereafter on the anniversary date of the period for which such prior payment was made. No additional payments shall be required if there is more than one shut-in gas well on the leased premises.

that one shut-in gas well on the leased premises or on lands with which the leased premises are pooled or unitized are not commenced or before the date of this lease, as set forth above, the lease shall terminate as to both parties unless on or before one (1) year from the date of this lease, Lessee shall pay or tender to the lessor the shut-in royalty for shut-in gas wells on the leased premises or on lands with which the leased premises are pooled or unitized, as set forth above.

the rental of _____ Dollars (\$ _____), which shall cover the privilege of deferring commencement of such drilling or mining operation for a period of twelve (12) months from the expiration of said one (1) year period, in like manner and upon like payments or tenders annually, the commencement of such operations may be deferred for successive periods of the same number of months, during the primary term. Payments or tenders may be made to the Lessor

or to the Lessor's credit in the _____ Bank at _____, which bank or any successor thereof shall continue to be a party for the Lessor and the Lessor's successors and assigns. If such bank or any successor thereof shall fail, liquidate, or be succeeded by another bank, or for any reason fail or refuse to accept rental, the rental paying date for any year shall be extended until the expiration of thirty (30) days after Lessor shall have received a written notice from the Lessor's successors or assigns, or until the expiration of thirty (30) days after the date of the failure, liquidation, or succession of the bank. If the bank or any successor thereof shall fail to make any payment of rental or to deliver any other thing or document required by the Lessor, the rental paying date shall be the date of the failure, liquidation, or succession of the bank, or the date of the failure to make any payment or to deliver any other thing or document required by the Lessor. The payment or tender of the rental shall be deemed to have been made on the date of the failure, liquidation, or succession of the bank, or the date of the failure to make any payment or to deliver any other thing or document required by the Lessor.

[illegible][illegible]

8. Use Of Oil, Gas, Caliche And Water For Operation. Lessee shall have the free use of oil, gas, caliche and water from the leased premises, except water from Lessor's wells and tanks, for all operations hereafter, and the royalty on oil and gas shall be computed after deducting the amount so used. In the event of pooling, water from any one or more of the pooled leases may be used for all operations in the unit.

9. **Removal Of Equipment.** Lessee shall have the right at any time during or after the expiration of this lease, to remove all property and fixtures placed on the leased premises by Lessee, including the right to withdraw and remove all casing.

10. **Assignment Or Change Of Ownership.** The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, executors, administrators, successors, and assigns, but no change or division in ownership of the land, tenents or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee. No change or division in the ownership of the tenents, tenents or royalties, however accomplished, shall be binding upon Lessee for any purpose and shall not impair the

§ 1.7. If there is no extinguishment of the lease, rentals or royalties, however accomplished, shall be binding upon Lessee for any purpose and shall not impair the

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effectiveness of any payment thereunder made by Lessee (irrespective of whether Lessee has either actual or constructive knowledge thereof) until sixty (60) days after such person acquiring any interest has furnished Lessee with the instrument, or instruments, or certified copies thereof, constituting his chain of title from the original Lessor. In the event of an assignment of this lease as to a segregated portion of the land covered by this lease, the royalty payable hereunder shall be apportioned as between the several leasehold owners, ratably, according to the surface area of each, and a default in rental payment by one Lessee shall not effect the rights of other leasehold owners hereunder who make due payments of rentals. An assignment of this lease, in whole or in part, shall, to the extent of such assignment, release and discharge Lessee of all obligations hereunder.

11. Force Majeure. Lessee shall not be liable for any delay in its performance of any covenant or condition hereunder, express or implied, or for total or partial nonperformance thereof, due to force majeure. The term "force majeure," as used herein, shall mean any circumstances or any condition beyond the control of Lessee, including but not limited to acts of God and actions of the elements; acts of the public enemy; strikes, lockouts, academic laws, acts, rules, regulations and orders of federal, state or municipal governments, or officers or agents thereof; failure of transportation; or the exhaustion, unavailability, or delays in delivery, of any product, labor, service or material. If Lessee is required to cause drilling or reworking or producing operations on the leased premises by force majeure, then until such time as such force majeure is terminated and for a period of ninety (90) days after such termination, each and every provision of this lease that might operate to terminate it shall be suspended and this lease shall continue in full force and effect during such suspension period. If any period of suspension occurs during the primary term, the time thereof shall be added to such term.

12. Lessor Interest Clause. If Lessor does not own, or have the right to lease, the entire mineral interest in the land described above, then the royalties, rentals, and any other sums payable hereunder, shall be reduced and payable only in the proportion that the interest covered by this lease bears to the entire mineral interest in the above described land. If the mineral interest covered hereby is subject to an outstanding non-participating royalty, such royalty shall be deducted from the royalties payable to Lessor hereunder.

13. Warranty. Lessee hereby warrants and agrees to defend the title to the land herein described and agrees that the Lessee shall have the right, at any time, to redeem for the Lessor, by payment, any mortgage, taxes or other liens on the leased premises in the event of default of payment by Lessor, and be subrogated to the rights of the holder thereof, and such payments may be deducted from any rental or royalties that may be payable to Lessor hereunder.

14. Surrender. Lessee, its successors and assigns, shall have the right at any time, to surrender this lease, in whole or in part, by delivering or making a release to the Lessor or by placing a release of record in the county, or counties, in which the leased premises are situated, and thereupon, Lessee shall be relieved from all obligations, expressed or implied, of this lease as to the acreage so surrendered.

15. Parties Bound. This lease and all of the rights, obligations and conditions hereof shall be binding upon each party executing this instrument and its heirs, devisees, successors and assigns. Should any party named above as Lessor fail to execute this lease, or should any party execute this lease who is not named above as a Lessor, it shall nevertheless be binding upon the party or parties executing the same.

16. Judicial Determination. In the event Lessor considers that Lessee has not complied with all its obligations hereunder, both express and implied, Lessor shall notify Lessee in writing, setting out specifically in what respects Lessee has breached this contract. Lessee shall then have sixty (60) days after receipt of said notice within which to meet or commence to meet all or any part of the breaches alleged by Lessor. The service of said notice shall be precedent to the bringing of any action by Lessor on said lease for any cause, and no such action shall be brought until the lapse of sixty (60) days after service of said notice on Lessee. Neither the service of said notice nor the doing of any acts by Lessee named to meet all or any of the alleged breaches shall be deemed an admission or presumption that Lessee has failed to perform all its obligations hereunder. If this lease is canceled for any cause, it shall nevertheless remain in force and effect as to (1) identified acreage around each well as to which there are operations to constitute a drilling or maximum allowable unit under applicable governmental regulations, (but in no event less than forty (40) acres); such acreage to be designated by Lessee as early as practicable in the form of a square centered at the well, or in such shape as then existing spacing rules require; and (2) any part of said land included in a pooled unit on which there are operations. Lessee shall also have such easements on said land as are necessary to operate on the acreage so retained.

17. ~~Lessee Successors~~ Lessee or its successors or assigns may by the payment of the additional sum of \$10,000 per acre extend the term of this lease for an additional term of _____ year period, which payment shall be paid or tendered on or before the expiration of the initial _____ year primary term and shall be made in the manner and under the provisions of Paragraph 5 pertaining to delay rentals. Upon the expiration of the primary term, it is understood and agreed that Lessee may extend this lease as to all the acreage covered hereby, or only a portion of such acreage, as the wellhead is situated as to only a portion covered hereby Lessee shall release of record the remaining acreage. If Lessee extends this lease by payment of additional sums in the manner provided herein, no drilling operations or delay rentals will be necessary to maintain this lease during the first year of the extended term.

18. **Headings For Convenience.** The paragraph headings herein are for convenience only and shall not be considered or construed to limit the subject matter of any paragraph.

IN WITNESS WHEREOF, this instrument is executed the day and year first above written.

Howard J. Kleinecke

Howard J. Kleinecke

SS # 450-06-8668

THE STATE OF Texas

TEXAS ACKNOWLEDGEMENT

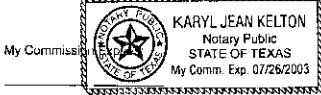
COUNTY OF Victoria

Howard J. Kleinecke

Before me, the undersigned authority, on this day personally appeared

known to me to be the identical person _____ whose name _____ is subscribed to the foregoing instrument, and acknowledged to me that _____ he X _____ executed the same for the purposes and consideration therein expressed.

Given under my hand and seal of office this 27th day of July, A.D. 2001



Karyl J. Kelton
Notary Public in and for Victoria
County, Texas

THE STATE OF

NEW MEXICO ACKNOWLEDGEMENT

COUNTY OF

The foregoing instrument was acknowledged before me this _____ day of _____, 20____ by _____

My Commission Expires:

Notary Public in and for _____
County, _____

OIL, GAS AND MINERAL LEASE

TO

Filed for Record this day of _____ A.D. 20____ at _____ o'clock _____ M

County Clerk

By _____

Recorded _____ A.D. 20____ at _____ County _____

Book _____ Page _____

County Clerk

By _____

ANY PROVISION HEREIN WHICH RESTRICTS THE SALE, RENTAL, OR USE OF THE DESCRIBED REAL PROPERTY BECAUSE OF COLOR OR RACE IS INVALID AND UNENFORCEABLE UNDER FEDERAL LAW

FILE NO. 2743

FILED FOR RECORD ON THE 4TH DAY OF OCTOBER A.D. 2001 AT 4:10 P. M.

DULY RECORDED ON THE 8TH DAY OF OCTOBER A.D. 2001 AT 2:00 P. M.

BY: *Esterline Dwyer* DEPUTY

DIANNE O. FLOREZ, COUNTY CLERK
REEVES COUNTY, TEXAS