

The State of Texas



Austin, Texas

Paid-up
OIL AND GAS LEASE

THIS AGREEMENT is made and entered into this 9th day of September, 2008, between the State of Texas, acting by and through its agent, G. B. G. RANCH, LTD.

of 1019 Chihuahua, Laredo, Texas 78040

(Give Permanent Address)

said agent herein referred to as the owner of the soil (whether one or more), and LAREDO ENERGY IV, LP

of 13430 Northwest Freeway, Ste. 1000, Houston, Texas 77040

hereinafter called Lessee.

(Give Permanent Address)

1. GRANTING CLAUSE. For and in consideration of the amounts stated below and of the covenants and agreements to be paid, kept and performed by Lessee under this lease, the State of Texas acting by and through the owner of the soil, hereby grants, leases and lets unto Lessee, for the sole and only purpose of prospecting and drilling for and producing oil and gas, laying pipe lines, building tanks, storing oil and building power stations, telephone lines and other structures thereon, to produce, save, take care of, treat and transport said products of the lease, the following lands situated in Webb County, State of Texas, to-wit:

1,724.21 acres, more or less, in Webb County, Texas, more particularly described as being the following three (3) mineral classified tracts:

Tract 1:

620.56 acres, more or less, being all of Survey No. Four Hundred Thirty (430), Certificate No. 1/327, Abstract 3199, Original Grantee B. S. & F. Ry., containing 640.0 acres, LESS AND EXCEPT 19.44 acres, more or less, located west of Highway 83, and being the same tract of land described as the Fourth Tract in that certain deed dated June 19, 1944, from Manuel Benavides Volpe to N. D. Hachar, recorded in Volume 180, Page 609, Deed Records, Webb County, Texas.

Tract 2:

618.77 acres, more or less, being all of Survey No. Four Hundred Twenty Eight (428), Certificate No. 1/328, Abstract 3192, Original Grantee B. S. & F. Ry., containing 640.0 acres, LESS AND EXCEPT 21.23 acres, more or less, being the same tract of land described as the Third Tract in that certain deed dated June 19, 1944, from Manuel Benavides Volpe to N. D. Hachar, recorded in Volume 180, Page 609, Deed Records, Webb County, Texas.

Tract 3:

484.88 acres, more or less, being all of Survey No. Seven Hundred Thirty Eight (738), Certificate No. 86, Abstract 3197, Original Grantee R. T. Ry. Co., containing 640.0 acres, LESS AND EXCEPT 155.12 acres, more or less, being the same tract of land described as the Second Tract in that certain deed dated

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June 19, 1944, from Manuel Benavides Volpe to N. D. Hachar, recorded in Volume 180, Page 609, Deed Records, Webb County, Texas.

containing 1,724.21 acres, more or less. The bonus consideration paid for this lease is as follows:

To the State of Texas: Two Hundred fifty-eight thousand six hundred thirty-one and 50/100 Dollars
(\$258,631.50)

To the owner of the soil: Two Hundred fifty-eight thousand six hundred thirty-one and 50/100 Dollars
(\$258,631.50)

Total bonus consideration: Five Hundred seventeen thousand two hundred sixty-three and 0/100 Dollars
(\$517,263.00)

The total bonus consideration paid represents a bonus of Three Hundred and 0/100 Dollars
(\$300.00) per acre, on 1,724.21 net acres

2. TERM. Subject to the other provisions in this lease, this lease shall be for a term of three (3) years from this date (herein called "primary term") and as long thereafter as oil and gas, or either of them, is produced in paying quantities from said land. As used in this lease, the term "produced in paying quantities" means that the receipts from the sale or other authorized commercial use of the substance(s) covered exceed out of pocket operational expenses for the six months last past.

~~**3. DELAY RENTALS.** If no well is commenced on the leased premises on or before one (1) year from this date, this lease shall terminate unless on or before such anniversary date Lessee shall pay or tender to the owner of the soil or to his credit in the _____~~

~~_____ Bank, at _____
or its successors (which shall continue as the depository regardless of changes in the ownership of said land), the amount specified below; in addition Lessee shall pay or tender to the COMMISSIONER OF THE GENERAL LAND OFFICE OF THE STATE OF TEXAS, AT AUSTIN, TEXAS, a like sum on or before said date. Payments under this paragraph shall operate as a rental and shall cover the privilege of deferring the commencement of a well for one (1) year from said date. Payments under this paragraph shall be in the following amounts:~~

~~To the owner of the soil: _____
Dollars (\$ _____)
To the State of Texas: _____
Dollars (\$ _____)
Total Delay Rental: _____
Dollars (\$ _____)~~

~~In a like manner and upon like payments or tenders annually, the commencement of a well may be further deferred for successive periods of one (1) year each during the primary term. All payments or tenders of rental to the owner of the soil may be made by check or sight draft of Lessee, or any assignee of this lease, and may be delivered on or before the rental paying date. If the bank designated in this paragraph (or its successor bank) should cease to exist, suspend business, liquidate, fail or be succeeded by another bank, or for any reason fail or refuse to accept rental, Lessee shall not be held in default for failure to make such payments or tenders of rental until thirty (30) days after the owner of the soil shall deliver to Lessee a proper recordable instrument naming another bank as agent to receive such payments or tenders.~~

4. PRODUCTION ROYALTIES. Upon production of oil and/or gas, Lessee agrees to pay or cause to be paid one-half (1/2) of the royalty provided for in this lease to the Commissioner of the General Land Office of the State of Texas, at Austin, Texas, and one-half (1/2) of such royalty to the owner of the soil:

(A) OIL. Royalty payable on oil, which is defined as including all hydrocarbons produced in a liquid form at the mouth of the well and also as all condensate, distillate, and other liquid hydrocarbons recovered from oil or gas run through a separator or other equipment, as hereinafter provided, shall be twenty-four percent (24%) of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be determined by 1) 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 where produced and when run, or 2) the highest market price thereof offered or paid in the general area where produced and when run, or 3) the gross proceeds of the sale thereof, whichever is the greater. Lessee agrees that before any gas produced from the leased premises is sold, used or processed in a plant, it will be run free of cost to the royalty owners through an adequate oil and gas separator of conventional type, or other equipment at least as efficient, so that all liquid hydrocarbons recoverable from the gas by such means will be recovered. The requirement that such gas be run through a separator or other equipment may be waived, in writing, by the royalty owners upon such terms and conditions as they prescribe.

(B) NON PROCESSED GAS. Royalty on any gas (including flared gas), which is defined as all hydrocarbons and gaseous substances not defined as oil in subparagraph (A) above, produced from any well on said land (except as provided herein with respect to gas processed in a plant for the extraction of gasoline, liquid hydrocarbons or other products) shall be twenty-four percent (24%) of the gross production or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such value to be based on the highest market price paid or offered for gas of comparable quality in the general area where produced and when run, or the gross price paid or offered to the producer, whichever is the

I, Margie Ramirez Ibarra, County Clerk,
Webb County, Texas, do hereby certify
that this is a true and correct copy as the
same appears of record in my office.
Witness my hand and Seal of Office on
Margie Ramirez Ibarra, County Clerk

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greater; provided that the maximum pressure base in measuring the gas under this lease 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 tests made by the Balance Method or by the most approved method of testing being used by the industry at the time of testing.

(C) PROCESSED GAS. Royalty on any gas processed in a gasoline plant or other plant for the recovery of gasoline or other liquid hydrocarbons shall be twenty-four percent (24%) of the residue gas and the liquid hydrocarbons extracted or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office. All royalties due herein shall be based on one hundred percent (100%) of the total plant production of residue gas attributable to gas produced from this lease, and on fifty percent (50%), or that percent accruing to Lessee, whichever is the greater, of the total plant production of liquid hydrocarbons attributable to the gas produced from this lease; provided that if liquid hydrocarbons are recovered from gas processed in a plant in which Lessee (or its parent, subsidiary or affiliate) owns an interest, then the percentage applicable to liquid hydrocarbons shall be fifty percent (50%) or the highest percent accruing to a third party processing gas through such plant under a processing agreement negotiated at arm's length (or if there is no such third party, the highest percent then being specified in processing agreements or contracts in the industry), whichever is the greater. The respective royalties on residue gas and on liquid hydrocarbons shall be determined by 1) the highest market price paid or offered for any gas (or liquid hydrocarbons) of comparable quality in the general area, or 2) the gross price paid or offered for such residue gas (or the weighted average gross selling price for the respective grades of liquid hydrocarbons), whichever is the greater. In no event, however, shall the royalties payable under this paragraph be less than the royalties which would have been due had the gas not been processed.

(D) OTHER PRODUCTS. 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 shall be twenty-four percent (24%) of the gross production of such products, or the market value thereof, at the option of the owner of the soil or the Commissioner of the General Land Office, such market value to be determined as follows: 1) on the basis of the highest market price of each product for the same month in which such product is produced, or 2) on the basis of the average gross sale price of each product for the same month in which such products are produced; whichever is the greater.

5. MINIMUM ROYALTY. During any year after the expiration of the primary term of this lease, if this lease is maintained by production, the royalties paid under this lease in no event shall be less than an amount equal to the total annual delay rental herein provided; otherwise, there shall be due and payable on or before the last day of the month succeeding the anniversary date of this lease a sum equal to the total annual rental less the amount of royalties paid during the preceding year. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be twenty-five dollars (\$25.00) per acre.

6. ROYALTY IN KIND. Notwithstanding any other provision in this lease, at any time or from time to time, the owner of the soil or the Commissioner of the General Land Office may, at the option of either, upon not less than sixty (60) days notice to the holder of the lease, require that the payment of any royalties accruing to such royalty owner under this lease be made in kind. The owner of the soil's or the Commissioner of the General Land Office's right to take its royalty in kind shall not diminish or negate the owner of the soil's or the Commissioner of the General Land Office's rights or Lessee's obligations, whether express or implied, under this lease.

7. NO DEDUCTIONS. Lessee agrees that all royalties accruing under this lease (including those paid in kind) shall be without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting, and otherwise making the oil, gas and other products hereunder ready for sale or use. Lessee agrees to compute and pay royalties on the gross value received, including any reimbursements for severance taxes and production related costs.

8. PLANT FUEL AND RECYCLED GAS. No royalty shall be payable on any gas as may represent this lease's proportionate share of any fuel used to process gas produced hereunder in any processing plant. Notwithstanding any other provision of this lease, and subject to the written consent of the owner of the soil and the Commissioner of the General Land Office, Lessee may recycle gas for gas lift purposes on the leased premises or for injection into any oil or gas producing formation underlying the leased premises after the liquid hydrocarbons contained in the gas have been removed; no royalties shall be payable on the recycled gas until it is produced and sold or used by Lessee in a manner which entitles the royalty owners to a royalty under this lease.

9. ROYALTY PAYMENTS AND REPORTS. All royalties not taken in kind shall be paid to the Commissioner of the General Land Office at Austin, Texas, in the following manner:

Payment of royalty on production of oil and gas shall be as provided in the rules set forth in the Texas Register. Rules currently provide that royalty on oil is due and must be received in the General Land Office on or before the 5th day of the second month succeeding the month of production, and royalty on gas is due and must be received in the General Land Office on or before the 15th day of the second month succeeding the month of production, accompanied by the affidavit of the owner, manager or other authorized agent, completed in the form and manner prescribed by the General Land Office and showing the gross amount and disposition of all oil and gas produced and the market value of the oil and gas, together with a copy of all documents, records or reports confirming the gross production, disposition and market value including gas meter readings, pipeline receipts, gas line receipts and other checks or memoranda of amount produced and put into pipelines, tanks, or pools and gas lines or gas storage, and any other reports or records which the General Land Office may require to verify the gross production, disposition and market value. In all cases the authority of a manager or agent to act for the Lessee herein must be filed in the General Land Office. Each royalty payment shall be accompanied by a check stub, schedule, summary or other remittance advice showing by the assigned General Land Office lease number the amount of royalty being paid on each lease. If Lessee pays his royalty on or before thirty (30) days after the royalty payment was due, then Lessee owes a penalty of 5% on the royalty or \$25.00, whichever is greater. A royalty payment which is over thirty (30) days late shall accrue a penalty of 10% of the royalty due or \$25.00 whichever is greater. In addition to a penalty, royalties shall accrue interest at a rate of 12% per year; such interest will begin to accrue when the royalty is sixty (60) days overdue. Affidavits and supporting documents which are not filed when due shall incur a penalty in an amount set by the General Land Office administrative rule which is effective on the date when the affidavits or supporting documents were due. The Lessee shall bear all responsibility for paying or causing royalties to be paid as prescribed by the due date provided herein. Payment of the delinquency penalty shall in no way operate to prohibit the State's right of forfeiture as provided by law nor act to postpone the date on which royalties were originally due. The above penalty provisions shall not apply in cases of title dispute as to the State's portion of the royalty or to that portion of the royalty in dispute as to fair market value.

10. (A) RESERVES, CONTRACTS AND OTHER RECORDS. Lessee shall annually furnish the Commissioner of the General Land Office

I, Margie Ramirez Herra, County Clerk,
Webb County, Texas, do hereby certify
that this is a true and correct copy as the
same appears of record in my office.
Witness my hand and Seal of Office on
Margie Ramirez Herra County Clerk

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with its best possible estimate of oil and gas reserves underlying this lease or allocable to this lease and shall furnish said Commissioner with copies of all contracts under which gas is sold or processed and all subsequent agreements and amendments to such contracts within thirty (30) days after entering into or making such contracts, agreements or amendments. Such contracts and agreements when received by the General Land Office shall be held in confidence by the General Land Office unless otherwise authorized by Lessee. All other contracts and records pertaining to the production, transportation, sale and marketing of the oil and gas produced on said premises, including the books and accounts, receipts and discharges of all wells, tanks, pools, meters and pipelines 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.

(B) PERMITS, DRILLING RECORDS. Written notice of all operations on this lease shall be submitted to the Commissioner of the General Land Office by Lessee or operator five (5) days before spud date, workover, re-entry, temporary abandonment or plug and abandonment of any well or wells. Such written notice to the General Land Office shall include copies of Railroad Commission forms for application to drill. Copies of well tests, completion reports and plugging reports shall be supplied to the General Land Office at the time they are filed with the Texas Railroad Commission. All applications, permits, reports or other filings that reference this lease or any specific well on the leased premises and that are submitted to the Texas Railroad Commission or any other governmental agency shall include the word "State" in the title. Additionally, in accordance with Railroad Commission rules, any signage on the leased premises for the purpose of identifying wells, tank batteries or other associated improvements to the land must also include the word "State." 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 requested 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.

(C) PENALTIES. Lessee shall incur a penalty whenever reports, documents or other materials are not filed in the General Land Office when due. The penalty for late filing shall be set by the General Land Office administrative rule which is effective on the date when the materials were due in the General Land Office.

11. DRY HOLE/CESSATION OF PRODUCTION DURING PRIMARY TERM. 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 during the primary term hereof and after the discovery and actual production of oil or gas from the leased premises such production thereof should cease from any cause, this lease shall not terminate if on or before 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 pays or tenders the next annual delay rental in the same manner as provided in this lease. If, during the last year of the primary term or within sixty (60) days prior thereto, a dry hole be completed and abandoned, or the production of oil or gas should cease for any cause, Lessee's rights shall remain in full force and effect without further operations until the expiration of the primary term; and if Lessee has not resumed production in paying quantities at the expiration of the primary term, Lessee may maintain this lease by conducting additional drilling or reworking operations pursuant to Paragraph 13, using the expiration of the primary term as the date of cessation of production under Paragraph 13. Should the first well or any subsequent well drilled on the above described land be completed as a shut-in oil or gas well within the primary term hereof, Lessee may resume payment of the annual rental in the same manner as provided herein on or before the rental paying date following the expiration of sixty (60) days from the date of completion of such shut-in oil or gas well and upon the failure to make such payment, this lease shall ipso facto terminate. If at the expiration of the primary term or any time thereafter a shut-in oil or gas well is located on the leased premises, payments may be made in accordance with the shut-in provisions hereof.

12. DRILLING AND REWORKING AT EXPIRATION OF PRIMARY TERM. If, at the expiration of the primary term, neither oil nor gas is being produced on said land, but Lessee is then engaged in drilling or reworking operations thereon, this lease shall remain in force so long as operations on said well or for drilling or reworking of any additional wells are prosecuted in good faith and in workmanlike manner without interruptions totaling more than sixty (60) days during any one such operation, and if they result in the production of oil and/or gas, so long thereafter as oil and/or gas is produced in paying quantities from said land, or payment of shut-in oil or gas well royalties or compensatory royalties is made as provided in this lease.

13. CESSATION, DRILLING, AND REWORKING. If, after the expiration of the primary term, production of oil or gas from the leased premises, after once obtained, should cease from any cause, this lease shall not terminate if Lessee commences additional drilling or reworking operations within sixty (60) days after such cessation, and this lease shall remain in full force and effect for so long as such operations continue in good faith and in workmanlike manner without interruptions totaling more than sixty (60) days. If such drilling or reworking operations result in the production of oil or gas, the lease shall remain in full force and effect for so long as oil or gas is produced from the leased premises in paying quantities or payment of shut-in oil or gas well royalties or payment of compensatory royalties is made as provided herein or as provided by law. If the drilling or reworking operations result in the completion of a well as a dry hole, the lease will not terminate if the Lessee commences additional drilling or reworking operations within sixty (60) days after the completion of the well as a dry hole, and this lease shall remain in effect so long as Lessee continues drilling or reworking operations in good faith and in a workmanlike manner without interruptions totaling more than sixty (60) days. Lessee shall give written notice to the General Land Office within thirty (30) days of any cessation of production.

14. SHUT-IN ROYALTIES. For purposes of this paragraph, "well" means any well that has been assigned a well number by the state agency having jurisdiction over the production of oil and gas. If, at any time after the expiration of the primary term of a lease that, until being shut in, was being maintained in force and effect, a well capable of producing oil or gas in paying quantities is located on the leased premises, but oil or gas is not being produced for lack of suitable production facilities or lack of a suitable market, then Lessee may pay as a shut-in oil or gas royalty an amount equal to double the annual rental provided in the lease, but not less than \$1,200 a year for each well capable of producing oil or gas in paying quantities. If Paragraph 3 of this lease does not specify a delay rental amount, then for the purposes of this paragraph, the delay rental amount shall be twelve and 50/100 dollars (\$12.50) per acre. To be effective, each initial shut-in oil or gas royalty must be paid on or before: (1) the expiration of the primary term, (2) 60 days after the Lessee ceases to produce oil or gas from the leased premises, or (3) 60 days after Lessee completes a drilling or reworking operation in accordance with the lease provisions; whichever date is latest. Such payment shall be made one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil. If the shut-in oil or gas royalty is paid, the lease shall be considered to be a producing lease and the payment shall extend the term of the lease for a period of one year from the end of the primary term, or from the first day of the month following the month in which production ceased, and, after that, if no suitable production facilities or suitable market for the oil or gas exists, Lessee may extend the lease for four more successive periods of one (1) year by paying the same amount each year on or before the expiration of each shut-in year.

15. COMPENSATORY ROYALTIES. If, during the period the lease is kept in effect by payment of the shut-in oil or gas royalty, oil or gas is

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Webb County, Texas, do hereby certify
that this is a true and correct copy as the
same appears of record in my office.
Witness my hand and Seal of Office on
Margie Ramirez Ibarra, County Clerk

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sold and delivered in paying quantities from a well located within one thousand (1,000) feet of the leased premises and completed in the same producing reservoir, or in any case in which drainage is occurring, the right to continue to maintain the lease by paying the shut-in oil or gas royalty shall cease, but the lease shall remain effective for the remainder of the year for which the royalty has been paid. The Lessee may maintain the lease for four more successive years by Lessee paying compensatory royalty at the royalty rate provided in the lease of the market value of production from the well causing the drainage or which is completed in the same producing reservoir and within one thousand (1,000) feet of the leased premises. The compensatory royalty is to be paid monthly, one-half (1/2) to the Commissioner of the General Land Office and one-half (1/2) to the owner of the soil, beginning on or before the last day of the month following the month in which the oil or gas is produced from the well causing the drainage or that is completed in the same producing reservoir and located within one thousand (1,000) feet of the leased premises. If the compensatory royalty paid in any 12-month period is an amount less than the annual shut-in oil or gas royalty, Lessee shall pay an amount equal to the difference within thirty (30) days from the end of the 12-month period. Compensatory royalty payments which are not timely paid will accrue penalty and interest in accordance with Paragraph 9 of this lease. None of these provisions will relieve Lessee of the obligation of reasonable development nor the obligation to drill offset wells as provided in Texas Natural Resources Code 52.173; however, at the determination of the Commissioner, and with the Commissioner's written approval, the payment of compensatory royalties can satisfy the obligation to drill offset wells.

16. RETAINED ACREAGE. 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 thereon.

(A) VERTICAL. In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall then terminate as to all of the leased premises, EXCEPT (1) 40 acres surrounding each oil well capable of producing in paying quantities and 320 acres surrounding each gas well capable of producing in paying quantities (including a shut-in oil or gas well as provided in Paragraph 14 hereof), or a well upon which Lessee is then engaged in continuous drilling or reworking operations, or (2) the number of acres included in a producing pooled unit pursuant to Texas Natural Resources Code 52.151-52.154, or (3) such greater or lesser number of acres as may then be allocated for production purposes to a proration unit for each such producing well under the rules and regulations of the Railroad Commission of Texas, or any successor agency, or other governmental authority having jurisdiction. If at any time after the effective date of the partial termination provisions hereof, the applicable field rules are changed or the well or wells located thereon are reclassified so that less acreage is thereafter allocated to said well or wells for production purposes, this lease shall thereupon terminate as to all acreage not thereafter allocated to said well or wells for production purposes. Notwithstanding the termination of this lease as to a portion of the lands covered hereby, Lessee shall nevertheless continue to have the right of ingress to and egress from the lands still subject to this lease for all purposes described in Paragraph 1 hereof, together with easements and rights-of-way for existing roads, existing pipelines and other existing facilities on, over and across all the lands described in Paragraph 1 hereof ("the retained lands"), for access to and from the retained lands and for the gathering or transportation of oil, gas and other minerals produced from the retained lands.

(B) HORIZONTAL. In the event this lease is in force and effect two (2) years after the expiration date of the primary or extended term it shall further terminate as to all depths below 100 feet below the total depth drilled (hereinafter "deeper depths") in each well located on acreage retained in Paragraph 16 (A) above, unless on or before two (2) years after the primary or extended term Lessee pays an amount equal to one-half (1/2) of the bonus originally paid as consideration for this lease (as specified on page 1 hereof). If such amount is paid, this lease shall be in force and effect as to such deeper depths, and said termination shall be delayed for an additional period of two (2) years and so long thereafter as oil or gas is produced in paying quantities from such deeper depths covered by this lease.

(C) IDENTIFICATION AND FILING. The surface acreage retained hereunder as to each well shall, as nearly as practical, be in the form of a square with the well located in the center thereof, or such other shape as may be approved by the Commissioner of the General Land Office. Within thirty (30) days after partial termination of this lease as provided herein, Lessee shall execute and record a release or releases containing a satisfactory legal description of the acreage and/or depths not retained hereunder. The recorded release, or a certified copy of same, shall be filed in the General Land Office, accompanied by the filing fee prescribed by the General Land Office rules in effect on the date the release is filed. If Lessee fails or refuses to execute and record such release or releases within ninety (90) days after being requested to do so by the General Land Office, then the Commissioner at his sole discretion may designate by written instrument the acreage and/or depths to be released hereunder and record such instrument at Lessee's expense in the county or counties where the lease is located and in the official records of the General Land Office and such designation shall be binding upon Lessee for all purposes.

17. OFFSET WELLS. Neither the bonus, delay rentals, nor royalties paid, or to be paid, under this lease shall relieve Lessee of his obligation to protect the oil and gas under the above-described land from being drained. Lessee, sublessee, receiver or other agent in control of the leased premises shall drill as many wells as the facts may justify and shall use appropriate means and drill to a depth necessary to prevent undue drainage of oil and gas from the leased premises. In addition, if oil and/or gas should be produced in commercial quantities within 1,000 feet of the leased premises, or in any case where the leased premises is being drained by production of oil or gas, the Lessee, sublessee, receiver or other agent in control of the leased premises shall in good faith begin the drilling of a well or wells upon the leased premises within 100 days after the draining well or wells or the well or wells completed within 1,000 feet of the leased premises start producing in commercial quantities and shall prosecute such drilling with diligence. Failure to satisfy the statutory offset obligation may subject this lease and the owner of the soil's agency rights to forfeiture. Only upon the determination of the Commissioner of the General Land Office and with his written approval may the payment of compensatory royalty under applicable statutory parameters satisfy the obligation to drill an offset well or wells required under this paragraph.

18. FORCE MAJEURE. If, after a good faith effort, Lessee is prevented from complying with any express or implied covenant of this lease, from conducting drilling operations on the leased premises, or from producing oil or gas from the leased premises by reason of war, rebellion, riot, strikes, acts of God, or any valid order, rule or regulation of government 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 with such covenants; additionally, this lease shall be extended while Lessee is prevented, by any such cause, from conducting drilling and reworking operations or from producing oil or gas from the leased premises. However, nothing in this paragraph shall suspend the payment of delay rentals in order to maintain this lease in effect during the primary term, in the absence of such drilling or reworking operations or production of oil or gas.

19. WARRANTY CLAUSE. The owner of the soil warrants and agrees to defend title to the leased premises. If the owner of the soil defaults in payments owed on the leased premises, then Lessee may redeem the rights of the owner of the soil in the leased premises by paying any mortgage, taxes or other liens on the leased premises. If Lessee makes payments on behalf of the owner of the soil under this paragraph, Lessee may recover the cost of these payments from the rental and royalties due the owner of the soil.

I, Margie Ramirez Ibarra, County Clerk,
Webb County, Texas, do hereby certify
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same appears of record in my office.
Witness my hand and Seal of Office on
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20. (A) PROPORTIONATE REDUCTION CLAUSE. If the owner of the soil owns less than the entire undivided surface estate in the above described land, whether or not Lessee's interest is specified herein, then the royalties and rental herein provided to be paid to the owner of the soil shall be paid to him in the proportion which his interest bears to the entire undivided surface estate and the royalties and rental herein provided to be paid to the Commissioner of the General Land Office of the State of Texas shall be likewise proportionately reduced. However, before Lessee adjusts the royalty or rental due to the Commissioner of the General Land Office, Lessee or his authorized representative must submit to the Commissioner of the General Land Office a written statement which explains the discrepancy between the interest purportedly leased under this lease and the actual interest owned by the owner of the soil. The Commissioner of the General Land Office shall be paid the value of the whole production allocable to any undivided interest not covered by a lease, less the proportionate development and production cost allocable to such undivided interest. However, in no event shall the Commissioner of the General Land Office receive as a royalty on the gross production allocable to the undivided interest not leased an amount less than the value of one-sixteenth (1/16) of such gross production.

(B) REDUCTION OF PAYMENTS. If, during the primary term, a portion of the land covered by this lease is included within the boundaries of a pooled unit that has been approved by the School Land Board and the owner of the soil in accordance with Natural Resources Code Sections 52.151-52.154, or if, at any time after the expiration of the primary term or the extended term, this lease covers a lesser number of acres than the total amount described herein, payments that are made on a per acre basis hereunder shall be reduced according to the number of acres pooled, released, surrendered, or otherwise severed, so that payments determined on a per acre basis under the terms of this lease during the primary term shall be calculated based upon the number of acres outside the boundaries of a pooled unit, or, if after the expiration of the primary term, the number of acres actually retained and covered by this lease.

21. USE OF WATER. Lessee shall have the right to use water produced on said land necessary for operations under this lease except water from wells or tanks of the owner of the soil; provided, however, Lessee shall not use potable water or water suitable for livestock or irrigation purposes for waterflood operations without the prior consent of the owner of the soil.

22. AUTHORIZED DAMAGES. Lessee shall pay the owner of the soil for damages caused by its operations to all personal property, improvements, livestock and crops on said land.

23. PIPELINE DEPTH. When requested by the owner of the soil, Lessee shall bury its pipelines below plow depth.

24. WELL LOCATION LIMIT. No well shall be drilled nearer than two hundred (200) feet to any house or barn now on said premises without the written consent of the owner of the soil.

25. POLLUTION. In developing this area, Lessee shall use the highest degree of care and all proper safeguards to prevent pollution. Without limiting the foregoing, pollution of coastal wetlands, natural waterways, rivers and impounded water shall be prevented by the use of containment facilities sufficient to prevent spillage, seepage or ground water contamination. In the event of pollution, Lessee shall use all means at its disposal to recapture all escaped hydrocarbons or other pollutant and shall be responsible for all damage to public and private properties. 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 all slush pits and cellars and completely clean up the drilling site of all rubbish thereon. Lessee shall, while conducting operations on the leased premises, keep said premises free of all rubbish, cans, bottles, paper cups or garbage, and upon completion of operations shall restore the surface of the land to as near its original condition and contours as is practicable. Tanks and equipment will be kept painted and presentable.

26. REMOVAL OF EQUIPMENT. Subject to limitations in this paragraph, Lessee shall have the right to remove machinery and fixtures placed by Lessee on the leased premises, including the right to draw and remove casing, within one hundred twenty (120) days after the expiration or the termination of this lease unless the owner of the soil grants Lessee an extension of this 120-day period. However, Lessee may not remove casing from any well capable of producing oil and gas in paying quantities. Additionally, Lessee may not draw and remove casing until after thirty (30) days written notice to the Commissioner of the General Land Office and to the owner of the soil. The owner of the soil shall become the owner of any machinery, fixtures, or casing which are not timely removed by Lessee under the terms of this paragraph.

27. (A) ASSIGNMENTS. Under the conditions contained in this paragraph and Paragraph 29 of this lease, the rights and estates of either party to this lease may be assigned, in whole or in part, and the provisions of this lease shall extend to and be binding upon their heirs, devisees, legal representatives, successors and assigns. However, a change or division in ownership of the land, rentals, or royalties will not enlarge the obligations of Lessee, diminish the rights, privileges and estates of Lessee, impair the effectiveness of any payment made by Lessee or impair the effectiveness of any act performed by Lessee. And no change or division in ownership of the land, rentals, or royalties shall bind Lessee for any purpose until thirty (30) days after the owner of the soil (or his heirs, devisees, legal representatives or assigns) furnishes the Lessee with satisfactory written evidence of the change in ownership, including the original recorded muniments of title (or a certified copy of such original) when the ownership changed because of a conveyance. A total or partial assignment of this lease shall, to the extent of the interest assigned, relieve and discharge Lessee of all subsequent obligations under this lease. If this lease is assigned in its entirety as to only part of the acreage, the right and option to pay rentals shall be apportioned as between the several owners ratably, according to the area of each, and failure by one or more of them to pay his share of the rental shall not affect this lease on the part of the land upon which pro rata rentals are timely paid or tendered; however, if the assignor or assignee does not file a certified copy of such assignment in the General Land Office before the next rental paying date, the entire lease shall terminate for failure to pay the entire rental due under Paragraph 3. Every assignee shall succeed to all rights and be subject to all obligations, liabilities, and penalties owed to the State by the original lessee or any prior assignee of the lease, including any liabilities to the State for unpaid royalties.

(B) ASSIGNMENT LIMITATION. Notwithstanding any provision in Paragraph 27(a), if the owner of the soil acquires this lease in whole or in part by assignment without the prior written approval of the Commissioner of the General Land Office, this lease is void as of the time of assignment and the agency power of the owner may be forfeited by the Commissioner. An assignment will be treated as if it were made to the owner of the soil if the assignee is:

- (1) a nominee of the owner of the soil;
- (2) a corporation or subsidiary in which the owner of the soil is a principal stockholder or is an employee of such a corporation or subsidiary;

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Webb County, Texas, do hereby certify
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- (3) a partnership in which the owner of the soil is a partner or is an employee of such a partnership;
- (4) a principal stockholder or employee of the corporation which is the owner of the soil;
- (5) a partner or employee in a partnership which is the owner of the soil;
- (6) a fiduciary for the owner of the soil; including but not limited to a guardian, trustee, executor, administrator, receiver, or conservator for the owner of the soil; or
- (7) a family member of the owner of the soil or related to the owner of the soil by marriage, blood, or adoption.

28. RELEASES. Under the conditions contained in this paragraph and Paragraph 29, Lessee may at any time execute and deliver to the owner of the soil and place of record 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 subsequent obligations as to acreage surrendered. If any part of this lease is properly surrendered, the delay rental due under this lease shall be reduced by the proportion that the surrendered acreage bears to the acreage which was covered by this lease immediately prior to such surrender; however, such release will not relieve Lessee of any liabilities which may have accrued under this lease prior to the surrender of such acreage.

29. FILING OF ASSIGNMENTS AND RELEASES. If all or any part of this lease is assigned or released, such assignment or release must be recorded in the county where the land is situated, and the recorded instrument, or a copy of the recorded instrument certified by the County Clerk of the county in which the instrument is recorded, must be filed in the General Land Office within 90 days of the last execution date accompanied by the prescribed filing fee. If any such assignment is not so filed, the rights acquired under this lease shall be subject to forfeiture at the option of the Commissioner of the General Land Office.

30. DISCLOSURE CLAUSE. All provisions pertaining to the lease of the above-described land have been included in this instrument, including the statement of the true consideration to be paid for the execution of this lease and the rights and duties of the parties. Any collateral agreements concerning the development of oil and gas from the leased premises which are not contained in this lease render this lease invalid.

31. FIDUCIARY DUTY. The owner of the soil owes the State a fiduciary duty and must fully disclose any facts affecting the State's interest in the leased premises. When the interests of the owner of the soil conflict with those of the State, the owner of the soil is obligated to put the State's interests before his personal interests.

32. FORFEITURE. 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, the School Land Board, or the Railroad Commission, or if Lessee should 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 under the terms of the Relinquishment Act. However, nothing herein shall be construed as waiving the automatic termination of this lease by operation of law or by reason of any special limitation arising hereunder. 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 hereto.

33. LIEN. In accordance with Texas Natural Resources Code 52.136, the State shall have a first lien upon all oil and gas produced from the area covered by this lease to secure payment of all unpaid royalty and other sums of money that may become due under this lease. By acceptance of this lease, Lessee grants the State, in addition to the lien provided by Texas Natural Resources Code 52.136 and any other applicable statutory lien, an express contractual lien on and security interest in all leased minerals in and extracted from the leased premises, all proceeds which may accrue to Lessee from the sale of such leased minerals, whether such proceeds are held by Lessee or by a third party, and all fixtures on and improvements to the leased premises used in connection with the production or processing of such leased minerals in order to secure the payment of all royalties or other amounts due or to become due under this lease and to secure payment of any damages or loss that Lessor may suffer by reason of Lessee's breach of any covenant or condition of this lease, whether express or implied. This lien and security interest may be foreclosed with or without court proceedings in the manner provided in the Title 1, Chap. 9 of the Texas Business and Commerce Code. Lessee agrees that the Commissioner may require Lessee to execute and record such instruments as may be reasonably necessary to acknowledge, attach or perfect this lien. Lessee hereby represents that there are no prior or superior liens arising from and relating to Lessee's activities upon the above-described property or from Lessee's acquisition of this lease. Should the Commissioner at any time determine that this representation is not true, then the Commissioner may declare this lease forfeited as provided herein.

34. POOLING. Lessee is hereby granted the right to pool or unitize the royalty interest of the owner of the soil under this lease with any other leasehold or mineral interest for the exploration, development and production of oil or gas or either of them upon the same terms as shall be approved by the School Land Board and the Commissioner of the General Land Office for the pooling or unitizing of the interest of the State under this lease pursuant to Texas Natural Resources Code 52.151-52.154. The owner of the soil agrees that the inclusion of this provision in this lease satisfies the execution requirements stated in Texas Natural Resources Code 52.152.

35. INDEMNITY. Lessee hereby releases and discharges the State of Texas and the owner of the soil, their officers, employees, partners, agents, contractors, subcontractors, guests, invitees, and their respective successors and assigns, of and from all and any actions and causes of action of every nature, or other harm, including environmental harm, for which recovery of damages is sought, including, but not limited to, all losses and expenses which are caused by the activities of Lessee, its officers, employees, and agents arising out of, incidental to, or resulting from, the operations of or for Lessee on the leased premises hereunder, or that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Agreement, or by any other negligent or strictly liable act or omission of Lessee. Further, Lessee hereby agrees to be liable for, exonerate, indemnify, defend and hold harmless the State of Texas and the owner of the soil, their officers, employees and agents, their successors or assigns, against any and all claims, liabilities, losses, damages, actions, personal injury (including death), costs and expenses, or other harm for which recovery of damages is sought, under any theory including tort, contract, or strict liability, including attorneys' fees and other legal expenses, including those related to environmental hazards, on the leased premises or in any way related to Lessee's failure to comply with any and all environmental laws; those arising

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from or in any way related to Lessee's operations or any other of Lessee's activities on the leased premises; those arising from Lessee's use of the surface of the leased premises; and those that may arise out of or be occasioned by Lessee's breach of any of the terms or provisions of this Agreement or any other act or omission of Lessee, its directors, officers, employees, partners, agents, contractors, subcontractors, guests, invitees, and their respective successors and assigns. Each assignee of this Agreement, or an interest therein, agrees to be liable for, exonerate, indemnify, defend and hold harmless the State of Texas and the owner of the soil, their officers, employees, and agents in the same manner provided above in connection with the activities of Lessee, its officers, employees, and agents as described above. **EXCEPT AS OTHERWISE EXPRESSLY LIMITED HEREIN, ALL OF THE INDEMNITY OBLIGATIONS AND/OR LIABILITIES ASSUMED UNDER THE TERMS OF THIS AGREEMENT SHALL BE WITHOUT LIMITS AND WITHOUT REGARD TO THE CAUSE OR CAUSES THEREOF (EXCLUDING PRE-EXISTING CONDITIONS), STRICT LIABILITY, OR THE NEGLIGENCE OF ANY PARTY OR PARTIES (INCLUDING THE NEGLIGENCE OF THE INDEMNIFIED PARTY), WHETHER SUCH NEGLIGENCE BE SOLE, JOINT, CONCURRENT, ACTIVE, OR PASSIVE.**

36. ENVIRONMENTAL HAZARDS. Lessee shall use the highest degree of care and all reasonable safeguards to prevent contamination or pollution of any environmental medium, including soil, surface waters, groundwater, sediments, and surface or subsurface strata, ambient air or any other environmental medium in, on, or under, the leased premises, by any waste, pollutant, or contaminant. Lessee shall not bring or permit to remain on the leased premises any asbestos containing materials, explosives, toxic materials, or substances regulated as hazardous wastes, hazardous materials, hazardous substances (as the term "Hazardous Substance" is defined in the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), 42 U.S.C. Sections 9601, et seq.), or toxic substances under any federal, state, or local law or regulation ("Hazardous Materials"), except ordinary products commonly used in connection with oil and gas exploration and development operations and stored in the usual manner and quantities. **LESSEE'S VIOLATION OF THE FOREGOING PROHIBITION SHALL CONSTITUTE A MATERIAL BREACH AND DEFAULT HEREUNDER AND LESSEE SHALL INDEMNIFY, HOLD HARMLESS AND DEFEND THE STATE OF TEXAS AND THE OWNER OF THE SOIL FROM AND AGAINST ANY CLAIMS, DAMAGES, JUDGMENTS, PENALTIES, LIABILITIES, AND COSTS (INCLUDING REASONABLE ATTORNEYS' FEES AND COURT COSTS) CAUSED BY OR ARISING OUT OF (1) A VIOLATION OF THE FOREGOING PROHIBITION OR (2) THE PRESENCE, RELEASE, OR DISPOSAL OF ANY HAZARDOUS MATERIALS ON, UNDER, OR ABOUT THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OR CONTROL OF THE LEASED PREMISES. LESSEE SHALL CLEAN UP, REMOVE, REMEDY AND REPAIR ANY SOIL OR GROUND WATER CONTAMINATION AND DAMAGE CAUSED BY THE PRESENCE OR RELEASE OF ANY HAZARDOUS MATERIALS IN, ON, UNDER, OR ABOUT THE LEASED PREMISES DURING LESSEE'S OCCUPANCY OF THE LEASED PREMISES IN CONFORMANCE WITH THE REQUIREMENTS OF APPLICABLE LAW. THIS INDEMNIFICATION AND ASSUMPTION SHALL APPLY, BUT IS NOT LIMITED TO, LIABILITY FOR RESPONSE ACTIONS UNDERTAKEN PURSUANT TO CERCLA OR ANY OTHER ENVIRONMENTAL LAW OR REGULATION. LESSEE SHALL IMMEDIATELY GIVE THE STATE OF TEXAS AND THE OWNER OF THE SOIL WRITTEN NOTICE OF ANY BREACH OR SUSPECTED BREACH OF THIS PARAGRAPH, UPON LEARNING OF THE PRESENCE OF ANY HAZARDOUS MATERIALS, OR UPON RECEIVING A NOTICE FROM ANY GOVERNMENTAL AGENCY PERTAINING TO HAZARDOUS MATERIALS WHICH MAY AFFECT THE LEASED PREMISES. THE OBLIGATIONS OF LESSEE HEREUNDER SHALL SURVIVE THE EXPIRATION OR EARLIER TERMINATION, FOR ANY REASON, OF THIS AGREEMENT.**

37. APPLICABLE LAW. This lease is issued under the provisions of Texas Natural Resources Code 52.171 through 52.190, commonly known as the Relinquishment Act, and other applicable statutes and amendments thereto, and if any provision in this lease does not conform to these statutes, the statutes will prevail over any nonconforming lease provisions.

38. EXECUTION. This oil and gas lease must be signed and acknowledged by the Lessee before it is filed of record in the county records and in the General Land Office of the State of Texas. Once the filing requirements found in Paragraph 39 of this lease have been satisfied, the effective date of this lease shall be the date found on Page 1.

39. LEASE FILING. Pursuant to Chapter 9 of the Texas Business and Commerce Code, this lease must be filed of record in the office of the County Clerk in any county in which all or any part of the leased premises is located, and certified copies thereof must be filed in the General Land Office. This lease is not effective until a certified copy of this lease (which is made and certified by the County Clerk from his records) is filed in the General Land Office in accordance with Texas Natural Resources Code 52.183. Additionally, this lease shall not be binding upon the State unless it recites the actual and true consideration paid or promised for execution of this lease. The bonus due the State and the prescribed filing fee shall accompany such certified copy to the General Land Office.

40. WELL-TRACT DESIGNATION AND RELEASE CLAUSE:

40.1 Notwithstanding any of the provisions above, at the expiration of the primary term of this Lease or at the end of the extended period provided below, this Lease shall terminate **SAVE AND EXCEPT** for (1) forty (40) acres of land surrounding each oil well; (2) eighty (80) acres of land surrounding each gas well producing or capable of producing gas in paying or commercial quantities from the surface to 8,000 feet subsurface; (3) one hundred sixty (160) acres of land around each gas well producing or capable of producing gas in paying or commercial quantities from below 8,000 feet subsurface; and (4) all lands included in a pooled unit created under any authority that may be granted in Paragraph 34 above, (the point of production for purposes of determining the amount of acreage which Lessee may allocate to each well shall be the deepest producing or producible perforation); and further **SAVE AND EXCEPT** the rights granted by this Lease in and to the oil and gas and constituent hydrocarbons in and under each such retained tract from the surface of the ground to a depth of 100 feet below the stratigraphic equivalent of the deepest zone or horizon which reasonably appears to be productive of oil or gas from the well as depicted on the electric log of such well, on a well-by-well basis; however, at the expiration of two (2) years after the expiration of the primary term or two (2) years after the extended period provided below, Lessee may only retain rights under each such retained tract from the surface to 100' below the stratigraphic equivalent of the then deepest producing perforation, together with acreage around such wellbore that corresponds with the formula set forth above. On each occasion that a well is (a) recompleted at different depths and/or (b) recompleted as an oil well after previously completed as a gas well, the acreage and depths which may be retained around such well shall vary and be adjusted according to the formula set forth above. At the expiration of three (3) years after the expiration of the primary term, or three (3) years after the extended period provided below, this Lease shall terminate **SAVE AND EXCEPT** for (1) as to each retained tract holding an excess of eighty (80) acres, 80 acres or the area being drained around each well producing in paying quantities, whichever is greater; and (2) as to each retained tract holding an excess of forty (40) acres, 40 acres or the area being drained around each well producing in paying quantities, whichever is greater. In the event the Railroad Commission of Texas (or other governmental authority having jurisdiction) by special field rules requires, as opposed to permits, the allocation of larger or smaller tracts of land or units to any such producing well in order to obtain the maximum production allowable, then this Lease shall continue in force and effect as to the amount of acreage surrounding each well required to obtain such full allocation. If after the primary term, Lessee has perpetuated this Lease or part thereof with a well or wells producing or shut-in on proration units required by Railroad Commission and the size of such proration unit(s) around wells are reduced by Railroad Commission or other regulatory rule, then Lessee shall have one hundred twenty (120) days after receipt of notice of such Railroad Commission rule within which to commence drilling or recompletion operations on any of the then retained tracts which were being held by the prior and larger proration units and if such well is timely commenced and operations are prosecuted on

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such well or for the drilling of additional wells on such prior and larger proration unit without cessation of more than ninety (90) consecutive days, the acreage held within any of the then retained tracts prior and larger proration units shall be perpetuated during such operations and for ninety (90) consecutive days thereafter but upon cessation of drilling operations for more than ninety (90) consecutive days, then this Lease shall terminate except for the acreage allocated around each then producing or shut-in well in accordance with the smaller proration units prescribed or required by the Railroad Commission or other regulatory authority. In the event Lessee conducts recompletion operations rather than drilling operations then Lessee shall have sixty (60) days after completion of such recompletion operations rather than ninety (90) days within which to obtain production or commence drilling operations or recompletion operations in another zone or commence drilling operations on a new well. Each such tract shall be in the form of a square with the well located thereon being in as near the center as practical and a sufficient distance from the boundary lines of such retained tract as to comply with the rules and regulations of the Railroad Commission of Texas and shall conform, as near as practicable, with the lease lines but if, because of the lease boundaries, it is impossible or impractical to designate a square around such well then Lessee may designate a rectangle which length shall not exceed twice its width. In the event Lessor and Lessee cannot agree on the area being drained by a well or the configuration or depths to be covered by a retained tract, then Lessor and Lessee agree be bound by the decision of a disinterested arbitrator (petroleum engineer) knowledgeable in this area and selected by both parties, but if Lessor and Lessee cannot agree on an arbitrator then such arbitrator shall be selected by the Judge of one of the District Courts of Webb County, Texas. Lessor shall select the District Judge who shall select the arbitrator. Such arbitrator shall make his ruling within fifteen (15) days after his or her appointment and his or her decision is final.

40.2 If, on the dates the partial termination called for herein becomes effective, Lessee is then engaged in drilling operations for a new well in search of oil or gas on the land covered hereby or lands pooled herewith or has drilled a new well thereon within a period of one hundred twenty (120) days prior to the expiration of such period, then the provisions of this Paragraph 40 shall not be applicable until such time as the Lessee allows a period of one hundred twenty (120) consecutive days to elapse between the completion of drilling operations on a new well and the commencement of drilling operations (as defined under DEFINITIONS above) on subsequent new wells on the lands covered hereby or lands pooled herewith. Notwithstanding anything to the contrary herein contained, the completion of a new well drilled to a total depth of 5,000 feet or less shall only postpone the releases provided for in Paragraph 11 for 60 days instead of 120 days. Reworking, recompletion or any other operations that Lessee may conduct on the Leased Premises shall not be the basis for postponing any partial release otherwise required under Paragraph 40.

40.3 If, in the conduct of drilling operations hereunder after the expiration of the primary term, Lessee shall commence drilling operations on the next succeeding well before the expiration of the time interval specified for same in Paragraph 40.2 above and thus accelerates the interval between wells, Lessee may have credit in time for such accelerated drilling operations and Lessee may take advantage of such credit in time on a cumulative basis and thus draw against such credit to extend the time for the commencement of the actual drilling operations on any subsequent well or wells required to be drilled under the terms of this Paragraph 40. Within forty-five (45) days after drilling operations end, Lessee shall notify the owner of the soil and the State of Texas in writing of the date of commencement and completion of drilling operations on each well and the credit for drilling time claimed by Lessee, if any, in connection with each succeeding well. If Lessee shall fail to so notify the owner of the soil and the State of Texas as above provided, Lessee shall not be entitled to any credit for time otherwise earned by the drilling of the unreported well. In the event Lessee undertakes the drilling operations for two or more wells simultaneously, allowance or credit for time will be made for the drilling of each said well to the end that Lessee shall receive credit for time accumulated for each well drilled with like effect as if each of said wells had been drilled consecutively. Neither reworking or recompletion operations nor drilling operations for a well to a depth above 5,000 feet shall entitle Lessee to any credits for the accelerated drilling of such well.

40.4 At such time as a partial termination of this Lease occurs under the provisions of this paragraph, each retained tract shall be considered as a separately leased tract, in the same manner as if the parties hereto had executed separate and distinct leases covering each such retained tract. Lessee shall not be obligated to protect against drainage, if any, between and among "separately leased tracts". Notwithstanding a partial termination of this Lease under the above provisions, it is agreed that Lessee may continue to use the same ingress and egress over those lands partially released so as to enable Lessee to develop and operate the retained tracts as if the retained tracts were collectively one tract for surface purposes only. Further, it shall not be necessary for Lessee to remove or relocate any pipelines, tank batteries or other surface equipment or installations from any portions of this Lease which have terminated for so long as same continue to be used for the development of and operations on such retained tracts.

40.5 The formula set forth in Paragraph 40.1 above for retaining tracts shall not be construed as an agreement or stipulation on the part of the soil or the State of Texas that such drilling constitutes reasonable development of the Leased Premises. Lessee agrees to drill such additional well or wells on each retained tract, (or such portion or portions thereof as may be in force and effect from time to time) as may be necessary to reasonably develop the same for the production of oil and/or gas.

41. Royalties payable to the owner of the soil on oil or gas produced from the premises in the manner hereinabove provided for are due and payable to owner of the soil within the period provided for in Paragraph 9 above. Thereafter, such payments to the owner of the soil shall be delinquent and will bear interest in the same manner as is due the State of Texas. The payment of any delinquent royalties or interest by Lessee to the State of Texas shall trigger an obligation to pay the same amount of royalties and/or interest to the owner of the Soil. In the event such royalties are not paid and become delinquent, owner of the soil shall, in addition to the other rights granted to it in this lease, be entitled, without other notice than this paragraph, to file suit in the District Court of Webb County, Texas, for recovery of such delinquent royalties, together with such interest thereon and expenses of collection thereof, including court costs and reasonable attorney's fees.

42. SURFACE/SUBSURFACE PROTECTION CLAUSES: The owner of the Soil shall sometimes be referred to herein as "Surface Owner". Further, this oil and gas lease is subject to the following terms and provisions:

42.1 ROADS AND GATES: Lessee agrees to use existing gates and roadways as designated by the Surface Owner to enter and leave the premises, where available. Further, Lessee shall obtain Surface Owner's consent as to the location of any road constructed by Lessee. All roads constructed by Lessee shall be "all-weather" roads with drain pipes, low water crossings, culverts and/or diversion terraces as may be necessary to prevent soil erosion. As to any existing roads used by Lessee, Lessee shall upgrade said roads to "all-weather" conditions by adding and maintaining such drain pipes, low water crossings, culverts and/or diversion terraces as may be necessary to prevent soil erosion. Roads shall be constructed, or improved, if applicable, prior to commencing drilling operations. Lessee and all persons entering or leaving said lands in connection with Lessee's operations hereunder shall keep all outside and interior gates along the route or routes designated for such use securely closed except immediately before and immediately after each such separate use. If livestock are on the premises, Lessee agrees to maintain a watchman at the opening until the gate or cattle guard has been installed (as provided hereinbelow) to prevent livestock from separate pastures from mixing or to prevent livestock from escaping. Lessee must, during the term of this Lease place separate locks on any perimeter access gate. Such locks shall be a lock acceptable to Surface Owner. Lessee shall not leave keys on or around the locked gates. If requested by Surface Owner, Lessee shall change its locks or re-key same as to prevent unauthorized entries through its gates. Lessee shall place a 24 hour security guard at the entrance of the leased premises during seismic, pipeline, drilling, completion and/or re-working operations. Such guard(s)

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and Surface Owner shall have the right to stop and search vehicles on the premises, as well as any building, trailers, or containers on the lease. Surface Owner will provide the name or names of security guard companies allowed on the leased premises and retain the right to approve or disapprove any security personnel so hired. In further regard to fence crossing to be used by Lessee for its operations during the term of this lease, Lessee shall construct a heavy duty cattle guard at such crossing with an adjacent gate. On boundary fence crossings, Lessee shall construct an all pipe approach in accordance with Surface Owner's instructions and shall also erect a gate on top of the cattle guard in addition to the gate adjacent thereto. At the Surface Owner's option, any or all such gates and cattle guards shall be painted by Lessee as directed by the Surface Owner. Any cattle guard required in this Lease Agreement shall be of heavy duty construction using heavy duty railroad rails, spaced at 5-1/2" apart, at least 8' x 16' with wings and concrete beams. Any gate required in this Lease Agreement shall be at least 16' wide and constructed of heavy 2-3/8" pipe. All such cattle guards and gates shall become the property of the Surface Owner. At such time as the gate and cattle guard are no longer needed, Lessee shall notify Surface Owner that same is no longer needed and will remove same and restore the fence to its original condition or leave the gate and cattle guard in place at Surface Owner's option.

In the event that interior or exterior gates are left open by Lessee's employees or agents or lessee fails to adequately maintain cattle guards and the grazing tenant or Surface Owner's cattle or livestock get out of the pasture or field where such livestock was located by virtue of such open gate or inadequately maintained cattle guard, Lessee shall be responsible to reimburse Surface Owner or tenant for all costs and expenses of returning such livestock to their prior location. Further, it is understood that Surface Owner is engaged in a selective cattle breeding program and it is critical to said program to keep certain livestock in separate pastures of enclosures.

42.2 MAINTENANCE AND REPAIRS: Lessee will maintain approaches, gates, fences, cattle guards, ranch roadways and other improvements used or damaged in connection with Lessee's operations in a good state of repair and will promptly cause to be repaired and restored any damage to the surface or improvements of the Leased Premises occasioned by or resulting from Lessee's operations. In regard to maintenance of roads used by Lessee or its employees, contractors and invitees, Lessee shall repair damaged or deteriorating portions of roads within a reasonable time not to exceed thirty (30) days after notice by Surface Owner of the need for such repair. Materials used to repair road damage shall be either caliche, gravel or other materials except dirt fill.

42.3 SPEED LIMIT: All times that Lessee's, or Lessee's agent's, contractor's or representative's vehicles are on the Leased Premises, such vehicles shall not exceed a speed of twenty (20) miles per hour. Any agent, employee or other person entering the premises on behalf of Lessee exceeding the limit, except in bona fide dire emergency circumstances, shall be prohibited from entry upon any lands owned by Surface Owners.

42.4 FENCES: Lessee shall consult with surface owner prior to cutting any fence. If Lessee desires to cut a boundary fence, Lessee must obtain permission from the adjoining landowner prior to cutting any fence. Should it be necessary to cut any fence or fences on the Leased Premises for the purposes of passage and Lessee obtains permission from surface owner (and as to boundary fences, from the adjoining landowner) then in such event, Lessee is permitted to cut such fence provided that prior to cutting such fences there shall be installed six (6) 10-foot posts with not less than 8-inch tops, each buried five (5) feet into the ground with three (3) posts on each side of the proposed cut. The posts are to be properly braced with horizontal braces and wired so that when the fence is cut, there will be no slackening of the wires. After any fences are cut, a metal gate shall immediately be placed in the fence which, if requested by Surface Owner, shall be locked with a key to be furnished to Surface Owner.

42.5 DRILLSITE LOCATIONS: In regard to the construction of drillsite locations, first Lessee agrees to remove and stack to one side of the location, the first 8 inches of top soil from the location. No drilling operation, pipeline construction, seismic lines or operations of any nature shall be conducted within 1,000 feet of any houses, barns, water wells or permanent improvements, without prior written consent from Surface Owner. Lessee shall immediately fence all reserve pits, including but not limited to reserve pits containing water and/or oil based muds or petroleum waste materials, with King Ranch Fence. In order to avoid injury to livestock or damage to Lessee's equipment, Lessee agrees that as to tanks, separators, treaters, compressors and any and all other pertinent well and lease equipment above the surface, Lessee shall enclose same with a minimum four (4) gauge cattle panel fence capable of turning livestock, and such fence shall be maintained by Lessee for so long as such equipment remains on leased premises. Each fence built shall be in a good and workmanship like manner with the wire stretched and secured in accordance with Soil Conservation Service technical specifications. Lessee is prohibited from land farming reserve pit materials including drilling mud residue and debris without Surface Owner's consent. At Surface Owner's option, Lessee shall (1) restore said pits according to Texas Railroad Commission standards; or (2) spread the mud thinly and blend same into the soil, and when the pits(s) has dried sufficiently (but in no event to be later than six (6) months from the completion of the well) so that it can be filled with dirt and not remain boggy, Lessee shall fill said pit with dirt. Lessee shall fill all pits, level all dumps, remove all related debris, and put the surface of the land in substantially the same condition as it was before the commencement of Lessee's operations, including: a.) root plowing, fertilizing and neutralizing and planting said land with six (6) pounds per acre of certified pure live Buffel seed, Klein seed, Willman Lovegrass seed, Bristle grass seed or another seed which may be selected by Surface Owner (not to exceed in price \$15.00 lb.); and b.) stockpiling caliche from the drillsite for the Surface Owner's use. Compensatory payments made to the Surface Owner estate shall not relieve the Lessee of such obligation.

42.6 DRILLSITE RESTORATION: Within three (3) months after completion or abandonment of any well drilled on said lands, Lessee will remove all caliche from the drillsite except a minimum amount around the wellbore of a commercial well necessary for maintaining and operating such well; return the top soil, which was previously removed and stacked, uniformly over the drillsite location and will clean up the well site and remove from said lands any and all oil and/or gas waste materials, oil spills, junk materials, pieces of iron, pipes, steel and other debris and foreign materials and will level all mounds, fill all pits and other excavations and will remove all deleterious materials and substances that might cause injury to person or livestock and generally restore such location to its original condition, except for the minimum amount of surface needed to service a commercial well. If requested by surface owner, Lessee agrees to fertilize and neutralize the disturbed surface and plant the disturbed area with the type, quantity and quality of the grass set forth in Paragraph 42.5 above.

42.7 SURFACE RESTORATION: Lessee will restore the surface of said lands used by Lessee or its agents, contractors and employees, to as near the condition it was in just prior to any operations as is reasonably practicable after the completion of each operation conducted hereunder including the removal of all caliche except the minimum amount necessary for operations and root plow and seed such areas with the quantity and quality of the grass set forth in Paragraph 42.5 above and further agrees to fertilize and neutralize the affected areas. In addition, within ninety (90) days after a well ceases to produce in paying quantities, such well not being timely reworked, Lessee shall complete any remaining cleanup work stated above, filling all pits, leveling all dumps and removing all debris as above stated, and put the surface of the land, including the drill site in substantially the same condition as it was before the commencement of Lessee's operations, including root plowing, fertilizing and neutralizing the area, and planting same with the quantity and quality of the grass set forth in paragraph 42.5 above and stockpiling caliche from the drillsite for the Surface Owner's use.

I, Margie Ramirez Ibarra County Clerk,
Webb County, Texas, do hereby certify
that this is a true and correct copy as the
same appears of record in my office.
Witness my hand and Seal of Office on
Margie Ramirez Ibarra County Clerk

OCT 16 2008



BY -

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Deputy

42.8 TRASH AND DEBRIS: Lessee will use every effort to prevent fires on said lands and will use every effort to prevent papers, boxes, sacks and containers and waste materials of any kind from coming on said lands and littering the premises. Damages from fires will be calculated at a minimum of \$1,000.00 per acre or fraction thereof that is affected. Under no circumstances will Lessee be allowed to bury any trash, debris or foreign material of any nature on any of Surface Owner's lands. Further, Lessee shall, during the term of this lease and upon the termination thereof, in part or in whole, maintain the premises in a good ecological condition, removing all unused equipment, unused electric lines and poles, cables, structures, including concrete foundations, parts thereof and debris, however seemingly insignificant. Should it be or become necessary for the Surface Owner to so do, Lessee shall promptly reimburse said owner for each and every item of cost or expense incurred. Lessee shall be liable only for the ecological situations caused by Lessee, its agents, licensees, subcontractors, or any persons or entities on the premises as the result of this lease for business or personal purposes of, for or with Lessee

42.9 SURFACE FACILITIES: Prior to erecting any storage tanks, pipelines, compressor stations or other usual lease facilities which may be needed by Lessee for producing oil and gas and operating this Lease, Lessee shall advise Surface Owner of Lessee's intentions. Surface Owner and Lessee will then mutually select the site or sites for locating such equipment and pipelines, taking into consideration the operations of Surface Owner and Lessee's needs in conducting its operations under the terms of this Lease in a reasonable manner. All production facilities shall be maintained in a slightly manner, painted in earth tone colors as designated by Surface Owner, and kept free of weeds and trash. Lessee is prohibited from constructing an oil or gas refinery or a plant for cleaning up gas or removing H2S on the Leased Premises without first obtaining a separate written lease agreement with Surface Owner. Separators, dehydrators and compressors shall not be considered as refinery or plant facilities.

42.10 HUNTING AND FISHING PROHIBITED: A condition to the granting of this lease and its continuation, is that no employee, representative or contractor of Lessee or any other person allowed to come upon Surface Owner's land by Lessee, shall be permitted to consume alcoholic beverages, illegal drugs, hunt, fish, swim, camp or picnic on any Surface Owner's lands and no dog, gun, firearm, fishing equipment, cameras (unless necessary to photograph accidents or where necessary to satisfy OSHA requirements), game-calling instruments, night hunting paraphernalia, bows and arrows, motorcycles (3 or 4 wheeler) will be permitted on Surface Owner's lands. Flashlights required for entering and leaving premises and in the area of drilling operations and in connection with drilling operations are permitted but not otherwise. Neither Lessee nor its agents, employees, contractors or invitees shall hunt for or remove artifacts, arrowheads, petrified rocks, stones, gems or like matters from Leased Premises. If any of Lessee's representatives, contractors or employees violate this provision, Surface Owner may give notice thereof to Lessee and, if Lessee does not voluntarily remove or exclude such party, Surface Owner shall have the right to eject such party from Surface Owner's lands and thereafter prohibit such party from entering upon Surface Owner's lands. Surface Owner shall never require an offender to be fired from employment, but if any offender is terminated from employment because of a breach of this provision, Lessee will hold Surface Owner harmless from any liability resulting from such termination. Further, Surface Owner and Surface Owner's duly authorized representative or any Game Warden of Texas shall have the right, at all reasonable times and at its own expense to inspect all vehicles, including motor homes, portable offices, tool houses, storage buildings and equipment and equipment rooms located upon the Leased Premises, for the purpose of enforcing the provisions of this paragraph. Lessee agrees to remove from Surface Owner's lands any employee or any employee of any contractor or subcontractor who is unsatisfactory to Surface Owner. Lessee further agrees that it will not keep or bring horses, cattle or livestock on Surface Owner's lands and that it will not permit its agents or employees to do so. Except for drilling and reworking operations, or emergency or other compelling reasons, Lessee, its agents, contractor and employees will refrain from entry onto the leased premises after sunset and until thirty (30) minutes before sunrise and will notify Surface Owner by phone that they are entering the ranch. Lessee shall deliver to each of its employees, contractors, guests, agents, or representatives that enter the leasehold written notice of the contents of this paragraph.

Any violation of this provision may be evidenced by (i) the testimony or an affidavit signed by the guard referenced herein, such testimony or affidavit being considered as sufficient evidence by itself to support the imposition of the remedies set forth herein or (ii) evidence which would lead any prudent person to ascertain that a violation of this provision has occurred. Surface owners shall have and retain the right to converse directly with such security personnel concerning any breach of the provisions of this Paragraph 42.10, and such security personnel shall be instructed to report any breaches of this paragraph to Surface Owner.

42.11 REMOVAL OF EQUIPMENT: All rig waste shall be removed from the leased premises. The drilling rig shall be removed from the leased premises within seven (7) days from the date drilling operations are completed, unless the rig is actually used to drill another well on the leased premises. Workover rigs shall be removed from the leased premises within three (3) days from the date a workover or completion operations is completed. Further, except as otherwise provided for herein, Lessee shall have the right, at any time within sixty (60) days after abandonment or cessation of use, but not thereafter unless directed by Surface Owner, to remove any property and fixtures placed on said lands and if Lessee fails to remove such property and fixtures within said sixty (60) days, such property and fixtures shall be deemed to have been abandoned by Lessee and Surface Owner may, but is not required to, take possession thereof and dispose of the same as Surface Owner sees fit; provided, however, Lessee shall not be relieved of its liability to plug any well so abandoned. If Lessee fails to remove such property or equipment and Surface Owner elects to do so, Lessee shall reimburse Surface Owner for the actual cost of such removal and disposition. Notwithstanding this paragraph, it is the paramount intention of Surface Owner that the leasehold be thoroughly cleaned of all debris and waste caused by its operations and in no wise shall this provision provide Lessee any excuse not to comply with the terms of this Agreement regarding same.

42.12 CONTAMINATION: Lessee will use every effort to prevent the escape of saltwater or other noxious materials and will not permit the same to run into any surface water tank, water well, creek, ravine, or upon or over the premises, nor to penetrate, seep, flow or be injected into any subsurface fresh water stratum, but will be contained and disposed of in keeping with applicable governmental rules and regulations. Should Lessee's pipeline, tanks, pits, or well develop a leak on Surface Owner's property, Lessee shall immediately proceed to effect repairs and mitigate any and all damages resulting therefrom. Such mitigation shall include all emergency measure necessary to minimize the spread of the product into the soil and ground water. Any soil contaminated by such leakage shall be removed and replaced by fresh uncontaminated topsoil hauled in from other sources. If applicable law does not permit the removal of such contaminated soil from the premises, same shall be stockpiled on the ranch at a location designated by Surface Owner. Further, drilling rigs and pulling rigs shall not be painted, steam cleaned or cleaned with solvents while on the leased premises.

42.13 WATER WELLS: Lessee shall have no right to drill water wells on the leased premises without Surface Owners written consent. Any water used by Lessee in its operations from water wells drilled on Surface Owner's lands shall be non-potable water, except that potable water may be used in drilling operations. If consent is granted, Surface Owner will determine the location of such water well. Each water well drilled on the leased premises by Lessee together with all equipment in or on said well owned by Lessee shall become the property of Surface Owner upon the full development of this Lease or upon release of undeveloped acreage as called for in paragraph 40 above, whichever happens sooner, and Surface Owner shall have the right to use water therefrom during the term of this Lease, so long as such use does not interfere with Lessee's operations.

I, Margie Ramirez Ibarra, County Clerk,
Webb County, Texas, do hereby certify
that this is a true and correct copy as the
same appears of record in my office.
Witness my hand and Seal of Office on
Margie Ramirez Ibarra, County Clerk

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42.14 DAMAGE TO PROPERTY: Lessee agrees pay the Surface Owner for actual damages resulting to the improvements on said lands, ranch roadways used by Lessee, fences, gates, cattle guards, houses, barns, windmills, tanks and other structures, trees, grass, crops, cattle and livestock caused by Lessee's operations or occasioned by reason of such operations or such damages as Surface Owner may incur by reason of Lessee's failure to comply with the terms of this Lease. Except as otherwise provided herein, compensation for all damages to property shall be based on the market value thereof or the prevailing rates for similar damages in the area at the time, whichever is greater.

42.15 COMPENSATION TO SURFACE OWNER: In regard to damages occurring during operations relating to surface sites, new roads, seismic surveys and pipelines, in addition to Lessee's obligation to restore the disturbed area, Lessee shall pay to Surface Owner compensation for loss of surface use at the rate then prevailing the area of the leased premises for similar construction, but no less than:

- (i) \$7,500.00 for each drillsite and \$1,000.00 per acre or fraction there of which exceeds 2.5 acres;
- (ii) \$2,500.00 for each separator, dehydrator and compressor site (if off drill site);
- (iii) \$2,500.00 for each tank battery site (if off drill site);
- (iv) \$3.50 per foot for flowline operations. The foregoing compensation shall include the damages to the surface that may result from Lessee maintaining, replacing or changing the size of the flowline.
- (v) Lessee shall be required to compensate Surface Owner for each road based on the prevailing priced being paid for new roads in the area at the time of construction of same. Lessee shall not be allowed more surface for roads and/or drillsites than is necessary, taking into consideration the nature and depth of drilling contemplated. Except as above provided, actual damage to the surface for road construction shall be based on the rate prevailing for similar damages in the area at the time, but not less than \$1,500.00 per mile, with a one mile minimum
- (vi) \$40.00 per acre for seismic survey damages;

Payment of the amounts referenced herein in no way shall excuse Lessee from compliance with any terms of this Lease. Except as specifically compensated as set forth above, or as repaired or restored by Lessee in accordance with this paragraph, Lessee agrees to pay to Surface Owner in Webb County, Texas, for the actual damages, if any, resulting to the surface of said lands, existing ranch roadways used and/or constructed by Surface Owner, fences, gates, cattle guards, houses, barns, windmills, tanks and other structures, trees, native or improved grasses, brush, crops, wildlife, cattle and livestock caused by Lessee's operations or occasioned by reason of such operations or such damages as Surface Owner may incur by reason of Lessee's failure to comply with the terms of this lease. Further, Lessee shall pay in Webb County, Texas for the actual damages, if any, incurred by Surface Owner resulting from Lessee's operations. Any such damages are due Surface Owner within forty-five (45) days from the date the event-giving rise to same occurs.

Surface Owner shall be paid in advance the estimated compensation for any seismic survey or pipeline to be constructed and upon completion of such operations, such compensation will be adjusted to account for any variations thereto. Seismic permit agreements must be prepared and presented to Surface Owner along with estimated compensation therefor, prior to commencement of such operations. Surface Owner shall be entitled to all compensation for seismic permits and Surface Owner shall decide what portion of such payment shall be given to surface owner to compensate it for actual damages to the surface caused by seismic operations. All compensation for pipeline construction shall be paid to the Surface Owner. To the extent that payments under this Paragraph 42.15 apply only to damages to the soil and not to the property described in Paragraph 42.14 above, then to such extent one-half (1/2) of such payments shall be made to the State of Texas.

42.16 PIPELINE CONSTRUCTION: In the event a flow lines or lines to gather and transport leased substances are laid on the Leased Premises, Lessee expressly covenants and agrees:

42.16.1 to bury any pipeline so that the top thereof will be at least thirty-six (36") inches below the existing ground level contour; except and provided that, where said line crosses any drainage ditch, creek, slough or other waterway, the same shall be buried at the place of such crossing at least forty-eight (48) inches below the bottom of such drainage ditch, creek, slough, or other waterway; and further provided, that none of the facilities, valves or equipment installed or constructed in connection with such pipeline shall extend above the surface of the ground, except that Lessee shall be permitted to build riser systems above ground and place line posts or markets where said pipeline crosses Surface Owner's fence lines. Surface Owner reserves the right to impound water over any pipeline.

42.16.2 during the period of construction of said pipeline and during the period of any subsequent altering, repairing, replacing or removing thereof, Lessee shall immediately cover all trenches and shall leave or arrange for reasonable crossings over and across said cleared area for any vehicles, equipment, cattle and/or livestock of surface Owner, his tenants, lessees, successors or assigns. Upon completion of construction of said pipeline, Lessee agrees to provide a caliche base road crossing to accommodate vehicles and equipment at all locations where the pipeline crosses existing roads.

42.16.3 to stack all trees and brush which are cut from the cleared area at the time any necessary clearing is performed, so as to leave the cleared area free of all trees, stumps, brush and debris, except for the stacked vegetation. All brush and other material which is stacked on the right-of-way shall be free of dirt so as to be capable of being burned completely and that no mounds of dirt or debris shall be left on or adjacent to the cleared right-of-way. Any trees, brush or other growth damaged outside the cleared area shall be removed.

42.16.4 during any construction, repair, removal or other operations by Lessee within the cleared area, all ditching or trenching shall be done in such a manner so that the top soil will be separated from the balance of the dirt removed in making the ditch or trench and so that any caliche or other rock will be separated from any dirt so removed. In backfilling after any such operation, the top soil first removed shall be used as cover soil in such a manner as to result in it being returned to the top of the ditch as top soil and Lessee agrees to leave the right-of-way area free of any unearthed rock larger than three (3) inches in diameter.

42.16.5 following any such construction, repair, removal or other operations, to backfill (in the manner aforesaid), pack

I, Margie Ramirez Ibarra, County Clerk,
Webb County, Texas, do hereby certify
that this is a true and correct copy as the
same appears of record in my office.
Witness my hand and Seal of Office on
Margie Ramirez Ibarra County Clerk

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and level any such ditch or trench opened and fill, grade and restore the surface of the cleared area as near as practicable to its original level and contour as when entered upon and in such a manner that surface or rain water may pass and flow undisturbed and unimpeded from one side of the cleared area to the other side of the cleared area.

42.16.6 to level and restore all ruts, mounds, ridges and depressions caused by any operations upon Surface Owner's lands and property and to return at any time and from time to time, upon request by Surface Owner, to correct, level and restore to the original ground level, any further settlement of the soil that shall occur following the previous filling or leveling of the same. Terraces shall be constructed at such locations on the cleared area after completion of construction designated by Surface Owner to prevent or minimize erosion.

42.16.7 that, if requested by Surface Owner, for so long as the pipeline is used on the Leased Premises, to keep the total cleared area free of brush by causing the area as originally cleared to be mowed or shredded on a yearly basis beginning the year immediately following completion of the original pipeline.

42.16.8 to remove all stakes, posts, welding rods and parts thereof, pipe coating material, paper, rubbish and other material used in the construction, repair and removal of the pipeline, so as to leave the entire cleared area free of deleterious material.

42.16.9 to limit the natural gas transported through such pipeline to natural gas produced under the terms of this Lease and from the Leased Premises.

42.16.10 at the option of the Surface Owner, to (1) remove any pipelines not in use; (2) purge and render said pipelines harmless and leave in place; or (3) remove pipelines and stack same at a location designated by Surface Owner at which point said pipes shall be deemed abandoned by Lessee and owned by Surface Owner.

42.17 ABANDONMENT OF WELLS: At Lessee's cost, Lessee agrees to conduct a gamma-ray neutron log survey from the surface to the bottom of the surface casing of any one well drilled or re-entered on the leased premises in order to assist Surface Owner in determining whether water sands have been encountered to such depths. Lessee shall provide surface owner with a copy of such log of any abandoned well along with Lessee's opinion, without warranty, as to where there are waterbearing sands at shallow depths on said lands. Prior to abandoning a well and subject to approval of state regulatory authority, Lessee agrees to give Surface Owner prior notice of such intended plugging and Surface Owner shall have five (5) days after notice within which to elect to take over such well for completion as a water well. If Surface Owner elects to take over same and the appropriate regulatory authority has approved of same, Lessee shall plug such well to the depth designated by Surface Owner and thereafter Surface Owner shall own such well together with the obligation to plug the remaining, unplugged portion of such well when surface owner abandons same. Surface Owner agrees to execute the appropriate forms required by the Railroad Commission of Texas and other regulatory authority in order to transfer operations and ownership of, as well as liability for, such well to Surface Owner. In the event Surface Owner declines to take over such well, then Lessee shall promptly plug same.

42.18 PREFERENTIAL RIGHT TO SELL: As part of the consideration for this Lease, Lessee covenants and agrees that the Surface Owner shall have a first preferential right to sell to Lessee or its contractors or assignees, at the prevailing rates in the area (but not less than \$2.00 per yard of sand, gravel or caliche), any water, sand, gravel or caliche or any one of them, which Lessee or any of its successors, assigns, agents or independent contractors might need incidental to any exploration or development operations on Leased Premises. Provided, however, as to the sale of water the source of said water must be of sufficient volumes necessary to satisfy Lessee's requirements for the operation being conducted by Lessee.

42.19 PLACE OF PAYMENT: All payments, compensation and damages which may be due and payable to Surface Owner shall be payable to Surface Owner in the county wherein the Leased Premises or largest portion of the Leased Premises are located.

42.20 COMPLETION OF REPAIRS: In regard to surface use and damages, it is contemplated that Lessee will timely commence and complete any surface operations. Lessee agrees to give Surface Owner a reasonable completion date for drillsites, pipelines, new roads and surface sites and if Lessee fails to complete construction within such projected completion date and such delay is not due to weather or act of God, then Surface Owner shall give Lessee notice of Lessee's breach of such agreed completion date and Lessee shall give Surface Owner a new reasonable completion date. If such construction is not completed by such new completion date, barring inclement weather, then Lessee shall thereafter pay the surface owner \$100.00 per day for each day that Lessee fails to complete such operations until such construction is completed. If, after Lessor and Lessee agree to the location and type of construction of pipelines or roads or drillsites, Lessee breaches such agreements, Lessee shall pay for any damages caused by such breach using the compensation agreed to above. Any payments made pursuant to the terms of this Paragraph 42.20 shall be paid ½ to the State of Texas and ½ to the owner of the soil.

42.21 CORRELATIVE SURFACE RIGHTS: Surface Owner and Lessee recognize (1) the rights herein granted to Lessee to reasonable use and access over, across and upon the surface estate to explore for, develop and produce the leased minerals and (2) the concurrent and correlative rights of the surface owner to the use, enjoyment and benefits of the surface estate. In exercising the rights herein granted, Lessee is limited to such use or usage as is reasonably necessary and which will be conducted with due regard for the concurrent rights of the surface owner and which does not interfere with the surface owner's use of the surface.

42.22 CULTIVATION OR IMPROVEMENT OF SURFACE: In the event that Surface Owner desires to cultivate, subdivide, and/or develop all or a portion of the surface estate subject to this Lease, Lessee and Surface Owner agree to enter into such agreement or agreements that will facilitate the intended cultivation, sale or development of such tract by surface owner or the proposed purchaser, as the case may be, but which will also allow Lessee reasonable access to and use of the surface to such surface tracts to be sold, subdivided, developed or cultivated.

42.23 HERBACIDE: If unwanted or noxious weeds or grasses grow on or along the roads built or used by Lessee, Lessee's wells sites, pipelines or production facilities, or seismic senders, Lessee agrees to pay for the application of an approved herbicide to the affected areas. Surface Owner shall submit two (2) third party bids to Lessee for the application of such herbicide and Lessee shall pay Surface Owner based upon one (1) of said bids. Should Lessee dispute the necessity of such application of herbicide, Surface Owner and Lessee agree to be bound by the recommendations of the Webb County Natural Resource Conservation Service.

42.24 PORTABLE TOILETS: Lessee or its Contractors shall provide its employees with portable toilet facilities during drilling, completion, reworking, pipeline construction and seismic survey operations.

VOLUME 2004-4

I, Margie Ramirez Ibarra, County Clerk,
Webb County, Texas, do hereby certify
that this is a true and correct copy as the
same appears of record in my office.
Witness my hand and Seal of Office on
Margie Ramirez Ibarra, County Clerk

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42.25 SECURITY DEPOSIT: In the event Lessee fails or refuses to pay Surface Owner, as the case may be, for undisputed claims, surface use, damages, or any other payments owed to Surface Owner as required under this lease, within 30 days after same are due, then Lessee shall be required to provide Surface Owner with security in the form of cash in the sum of \$10,000.00 (\$5,000.00 payable to the surface owner and \$5,000.00 payable to the State of Texas) which sum may thereafter be applied toward Lessee's obligations for past unpaid, as well as future compensation for payments covered hereby and on each occasion that Surface Owner applies all or a part of said security deposit toward unpaid payments covered hereby, Lessee agrees to restore such security deposit to \$10,000.00. If Lessee fails to make such \$10,000.00 security deposit and/or maintain same, within 30 days after Lessee has received written notice from Surface Owner to tender same, then this lease shall terminate save and except the rights which may then have been earned by Lessee under the provisions of Paragraph 40 above and, as to those rights retained, Surface Owner shall have a first lien against the leasehold interest of Lessee therein to secure Surface Owner in the payment of all sums of money which may then or thereafter be owed Surface Owner under the terms of this lease and further this lease shall constitute a Security Agreement sufficient to satisfy the Uniform Commercial Code of Texas to establish a security interest in this leasehold estate for the benefit of Surface Owner to secure them in the event of default by Surface Owner. Until such time as Lessee breaches its obligation to timely perform under this lease, Surface Owner agrees that all production and revenue attributable to the working interest hereunder shall be temporarily exempt from this lien. Upon notice from Surface Owner to Lessee of Lessee's breach of this or any other provision of this lease, which breach constitutes an accrued but unpaid claim owed by Lessee to Surface Owner, then said temporary exemption shall be lifted and this security interest and lien shall thereafter attach to all production and revenue attributable to the working interest under this lease. This provision is waived as to Laredo Energy, IV, L.P. and its related or affiliated entities but not otherwise. However, all payments under this Oil and Gas Lease are subject to any applicable statutory lien held by the State of Texas.

42.26 NOTICES: Lessee agrees to designate in writing the name of the person or persons to be present from time to time on said premises as current operations are being conducted, with whom the affected surface owner may resolve any claim for use, injury and damage to livestock, surface area or improvements on said premises occasioned by or arising from Lessee's operations or other activity on the said premises. In regard to notice of surface use, the surface owner affected by such operations shall be entitled to prior notice of such operations. Either party hereto may from time to time designate in writing a different address or agent. The following persons are designated as each party's initial agent:

TO SURFACE OWNER:

G.B.G., Ltd.
Attn: Guillermo R. Benavides
1019 Chihuahua
Laredo, Texas 78040
Phone: (956) 206-1295
Fax (956) 723-1976
e-mail: g.r.benavides@hotmail.com

TO LESSEE:

Laredo Energy, IV, LP
13430 Northwest Freeway, Ste. 1000
Houston, Texas 77040
Phone: (713) (713) 600-6008
Fax (713) (713) 854-2212
Attn: Kenneth A. Cravens - CPL

42.27 INSURANCE: During drilling operations, reworking operations and production of oil or gas from the Premises, Lessee shall carry a minimum of (a) comprehensive general public liability insurance coverage of at least \$1,000,000.00, such insurance shall provide coverage for premises operations, explosion and collapse hazard, underground hazard, products/completed operations hazard, contractual insurance, broad form property damage, independent contractors and personal injury coverage including coverage for construction, operation and maintenance of pipelines for gathering, transporting or storing natural gas, including but not limited to, loss or injury resulting from Hydrogen Sulfide Gas (H₂S or "Sour Gas"); (b) Operator's Extra Expense Indemnity Insurance, with a combined single limit of at least \$2,000,000.00 including coverage for control of well, clean-up, seepage, pollution, underground blowouts and groundwater blowouts; and (c) excess Umbrella Liability Policy of at least \$10,000,000.00, which coverage and exclusions shall follow form to the language of the primary coverage under (a) above. The surface owner shall be furnished proof of such coverage before commencement of operations hereunder and Lessee shall furnish surface owner a certificate of insurance providing for 30 days prior coverage to the surface owner of cancellation of, or change in, coverage. To the extent allowed by law, Lessee shall name the surface owner as additional insured under all insurance policies, which policies shall include specific endorsements providing Waiver of Subrogation in favor of the surface owner.

43. Owner of the soil at its own cost and expense, may install and maintain a check meter on any gas well upon such leased premises in order to satisfy itself of the amount of production from any such well, so long as same is installed under supervision of an engineer and after due notice to Lessee. In this connection, Lessee shall have the right to make such installation itself of said check meter in order that such installation does not interfere with Lessee's operations, provided such installation is performed by Lessee within a reasonable time, not exceeding thirty (30) days following written request of owner of the soil. Calibration of such meter, its maintenance, its charts and computation of production, shall be performed by owner of the soil at its sole cost and expense. In this connection, if requested by Lessee, owner of the soil shall calibrate such meter in the presence of Lessee.

44. The owner of the soil may have in the past and may, during the term of this lease, enter into and execute other leases including leases which may affect the surface, such as grazing, hunting and mining leases, as well as leases and agreements with third parties which may affect subsurface rights such as leases covering non-leased minerals and materials, or which may cover rights released from this lease. Therefore, the owner of the soil reserves the right to use the surface of said premises and all underlying depths for the purpose of grazing livestock, (whether owned by owner of the soil or third parties), investigating, exploring, prospecting, drilling, mining for and producing any and all minerals and other substances not leased herein to Lessee, or which may hereafter be released, laying pipelines, roads, tanks, power stations, telephone lines and other structures thereon necessary to mine, explore for, develop, produce, market, save, take care of, treat, transport and own non-leased minerals and other non-leased

I, Margie Ramirez Ibarra, County Clerk,
Webb County, Texas, do hereby certify
that this is a true and correct copy as the
same appears of record in my office.
Witness my hand and Seal of Office on
Margie Ramirez Ibarra County Clerk

OCT 16 2008



BY -

UP

Deputy

substances or substances subsequently released herefrom; provided however, the owner of the soil may not use the surface in any manner that will interfere with any of Lessee's operations hereunder. In terms of priority for surface access and use, the leasehold estate of Lessee herein shall be considered dominant over the leasehold estate of any subsequent lessee of said lands.

45. The terms "commences", "commence" and "commenced" or similar terms used herein in regard to when operations for drilling or reworking begin, shall mean the date on which the drilling bit enters the earth for the drilling of a well or the date the workover rig moves over the bore hole. A well shall be deemed "completed" under all provisions of this lease on (1) the day when it is finally plugged as a dry hole; or (2) thirty (30) days after the drilling rig is removed from over the bore hole, whichever happens sooner.

46. This lease is expressly subject to any and all valid easements and rights-of-way affecting the premises as reflected in the records of the Office of the County Clerk of Webb County, Texas, and reference is here made to said public records. Nothing contained in this paragraph shall be construed as diminishing the rights of the State of Texas.

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

G. B.G. LAND, LTD.

By: Guillermo Benavides Garza Investment
Company, General Partner

By: Guillermo R. Benavides
Guillermo R. Benavides, President

"OWNER OF THE SOIL"

LAREDO ENERGY IV, LP

By: Kenneth A. Cravens

Title: VP-Land

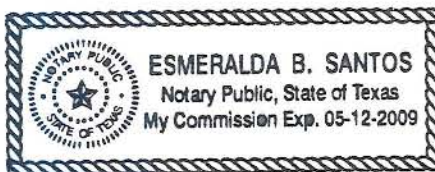
"LESSEE"

STATE OF TEXAS

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COUNTY OF WEBB

This instrument was acknowledged before me on 9th day of September, 2008, by Guillermo R. Benavides, President of Guillermo Benavides Garza Investment Company, General Partner of G.B.G Minerals, Ltd., (formerly Guillermo Benavides Garza Land and Cattle Company, Ltd.), a Texas Limited Partnership.



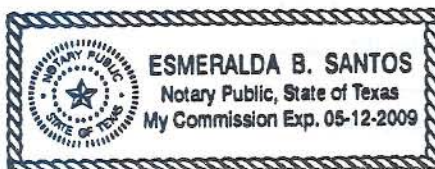
Esmeralda B. Santos
NOTARY PUBLIC, In and for
The State of Texas
My Commission expires 05-12-2009

THE STATE OF TEXAS

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§

COUNTY OF Webb

This instrument was acknowledged before me on the 9th day of September, 2008, by Kenneth A. Cravens, VP-Land of LAREDO ENERGY, IV, L.P., a Texas Limited Partnership, on behalf of said limited partnership.



Esmeralda B. Santos
NOTARY PUBLIC, In and for
The State of Texas
My Commission expires 05-12-2009