## Producer's 88-(Producer's Revised 1994) New Mexico . 342P, Paid-up

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OIL & GAS LEASE

1. Leasur, is consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is hereby acknowledged, and of the royalise herein provided and of the agreements of the Leasee herein contained, hereby grants, leases and lets exclusively usto Leasee for the purpose of investigating, exploring, prospecting, drilling, and operating for and producing oil and gas, injecting gas, waters, other fluids, and is into subsurface extrals laying picyclines, storing oil, building subor codways, technique lines, and other structures and things thereon to produce, save take eare of, treat, process, store and transport said minerals, the following described land in EDDY COUNTY, NEW MEXICO, to-wit:

# TOWNSHIP 22 SOUTH, RANGE 30 EAST

### SECTION 24: SW/4 NW/4

Said land is estimated to comprise 40.00 acres, whether it actually comprises more or loss.

- Subject to the other provisions herein contained, this lesse shall remain in force for a term of three (3) years from this date (called "primary term") end as long thereafter as oil or gas in produced from said land or from land with which said land is pooled.
- 3. The royalnies to be paid by Lessee are: (a) on oil, and other hould hydrocarbons seved at the well, 3/16° of that produced and seved from said land, same to be delivered at the wells or to the credit of Lessor in the pipeline to which the wells may be connected; (b) on gas, including castinglend gas or other gaseous substance produced from said land, of the premises or used in the manufacture of gasoline or other products, the market value at the well of 3/16° of the gas used, provided that on gas sold on or off the premises, the royalines shall be 3/16° of the gas used, provided that on gas sold on or off the premises, the royalines have been according to the production of the production of the premises of the production of the producti
- 4. This is a paid-up lease and Leasee shall not be obligated during the primary term hereof to commence or continue any operations of whatsoever character or to make any payments the production order to maintain this lease in force during the primary term, however, this provision is not intended to relieve Leasee of the obligation to pay royalties on actual production pursues to the provisions or generating 3 hereof.
- 5. Lessee is hereby granted the right and power, from time to time, to pool or combine this lease, the land covered by it or any pert or horizon thereof with any other land, mineral estates or parts thereof for the production of oil or gas. Units pooled bereunder shall not exceed the stendard proration suit fixed by law or by the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which said land is situated, plus a tolerance to ten percent. Lessee shall fite written said designated from time to time and citaber before or after the completion of wells. Drilling operations on or production from sny part of say such unit shall be considered for all purposes, except the payment of reviews conducted upon a production from the land covered by this lesse included in the unit best production of pooled minorals from wells in the unit, after deducting any used in lease or unit operations, which the not oil or gas screage in the land covered by this lesse included in the unit bears to the total surface across in the unit. The production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production of pooled minerals from the portion of said land covered berelby and beninded in said unit in the same manner as though produced from said land to were the land is situated at any time after the completion of a dry hole or the cessation of production on said unit.
- 6. If at the expiration of the primary term there is no well upon said land capable of producing oil or gas, but Lessee has commenced operations for drilling or reworking thereon, this lease shall remain in force so long as operations are prosecuted with no casuation of more than 60 consecutive days, whether such operation be on the same well or on a different or additional well or wells, and if they result in the production of oil or gas, to long thereafter as oil or gas is produced from said hand. If, after the expiration of the primary term, all wells upon said hand should become incapable of producing for any cause, this lesses thall not terminate if lessee commences operations for additional drilling or for evorking within 60 days thereafter. If any drilling, additional drilling, or reworking operations, hereunder result in production, then this lesses shall remain in full force so long thereafter as oil or gas is produced hereunder.
- 7. Leasee shall have free use of oil, gas and water from mid land, except water from Lessor's wells and tanks, for all operations hereunder, and the royalty shall be computed after deducting any so used. Lessee shall have the right or any time during or after the expiration of this lesse to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all easing. When required by Lessee, Lessee will bury all pipelines on cultivated lands below ordinary plow depth, and no well shall be drilled within two bundred feet (200 ft.) of any residence or been now on said land without Lessor's consense. Lessor shall have the privilege, at his risk and expense, of using gas from any gas well on said land für stoves and inside lights in the principal dwelling thereon, out of any surplus gas not needed for operations bereunder.
- The rights of either party heraunder may be assigned in whole or in part and the provisions hereof shall extend to their heirs, executors, administrators, successors and assigned, but no change in the ownership of the land or in the ownership of, or rights to receive, royalnies or shad-in royalnies, however accomplished shall operate to enlarge the obligations or diminish the rights of Lessee: and so such change or division shall be binding upon lessue for any purpose until 30 days after Lessee has been furnished by certified mail at Lessee's principal place of Dusiness with acceptable insurments or certified copies thereof constituting the chain of this from the original seasor. If any such change in ownership occurs through the death of the owner, Lessee may, at its option, pay or tender any royalnies or shu-in royalnies in the name of the deceased or to his estate or to his beins, executor or administrator until such time as Lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sum. An assignment of this lesse in whole or in part shall, to the extent of such assignment, relieve and discharge Lessee of any obligations between such if Lessee or assignees of part or parts hereof shall find or make default in the psyment of the proportionates part of royalty or studie-in royalty due from such Lessee or assignee or fail to comply with any of the provisions of this lesse, such default shall not affect this lesse insofar as it covers a part of said lands upon which Lessee or any assignae thereof shall properly comply or make such payments.
- 9. Should Lessee be prevented from complying with any express or implied coverant of this lesse, or from conducting drilling or reworking operations bereunder, or from producing oil or gas hereunder by reason of scarcity or inability to obtain or use equipment or material, or by upcration of force majoure, or by any Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, Lessee's druy shall be suspended, and lessee shall not be hable for failure to comply therewith; and this lesse shall be extended while and so long as Lessee is prevented by any state cause from conducting drilling or reworking operations or from producing oil or gas hereunder, and the time while Lessee is so prevented shall not be counted against Lessee, snything in this lesse to the countary notwithstanding.
- 10. Lessor hereby warrants and agrees to defend title to said land and agrees that lessee at its option may discharge any tata, mortgage or other lien upon said land, and in the event lessee does so it shall be subrousted to such lien with the right to enforce same and to apply royalties and shut-in royalties payable hereunder toward satisfying same. Without impairment of Lessee's rights under the warranty, if this lesse covers a less interest in the oil or gas in all or any part of said land than the entire and undivided for simple estate (whether Lessor's inserest is hereis specified or only then the royalties, shut-in royalty, and other payments, if any, accruing from any part at to which this lease covers less than such full interest, shall be paid only in the proportion which the interest thereis, if any, covered by this lesse, bears so the whole and undivided fee simple estate thereis. Should any one or more of the parties assend above as Lessors field to execute this lease, it shall nevertheless be binding upon the party or parties assend.
- 11. Lesses, its or his successors, heirs and essigns, shell have the right at any time to surrender this lease, is whole or in part, to Lessor or his heirs, successors and assigns by delivering or mailing a release thereof to the Lessor, or by placing a release thereof of record in the county in which said land is situated; thereupon Lessee shall be relieved from all obligations, expressed or implied, of this agreement as to acreage so surrendered, and thereafter the shut-in royally payable bereunder shall be reduced in the proportion that the acreage covered horeby is reduced by significant, expressed.

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BEFORE THE OIL CONSERVATION COMMISSION

Santa Fe, New Mexico Case Nos. <u>13368/13372</u> Exhibit No. 3

Submitted by:
Devon Energy Production Company, L.P.

Hearing Date: June 5, 2006

# INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

STATE OF NEW MEXICO		
COUNTY OF Blanchillo		
The foregoing instrument was acknowledged before me this	asy or Dovembe	2003, by GEORGIA L
My Commission Expires ALLO, J. J. O.D. 7	Noticy Public, Sugit of New Mendeo	
NOTARY	Prinsed Name ( . 54	dille
STATE OF NEW MEXICO	individual acknowledgn	IENT (New Mexico Short Form)
COUNTY OF		
The foregoing instrument was acknowledged before me this	day of	2003, by
My Commission Expires	Notary Public, State of New Mexico	
	Printed Name	

RECEPTION NO: 0315624 STATE OF NEW MEXICO, COUNTY OF EDDY RECORDED 12/22/2003 8:27 AM BOOK 0534 PAGE 0112 JEAN BLENDEN, COUNTY CLERK



# OIL & GAS LEASE

THIS AGREEMENT made this 2<sup>th</sup> day of October, 2003, between WILLIAM JEFF GLENN AND LORA NELL GLENN, AS TRUSTEES OF THE WILLIAM JEFF GLENN AND LORA NELL SMITH GLENN REVOCABLE TRUST DATED FEBRUARY 13, 1992, of 375 Ridge Road, Silver City, NM 88061, horoin called "Lessor" (whether one or more) and T. Verne DWYER, 500 West Well, Seite 316, Midland, Texas 79701, "Lessor":

1. Lessor, in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is hereby acknowledged, and of the royalties borein provided and of the agreements of the Lesses berein contamined, hereby grams, lesses and lets suchsively auto Lesses for the purpose of is vestigating, exploring, prospecting, drilling, and operating for and producing off and gas, injecting gas, waters, other fluids, and air into substraface strats laying pictiness, storing oil, building tanks, rusdways, telephone tines, and other structures and things thereon to produce, save take care of, treat, process, store and transport said minerals, the following described land in EDDY COUNTY, NEW MEXICO, to-wite:

# TOWNSHIP 22 SOUTH, RANGE 30 EAST

SECTION 24: SW/4 NW/4

Said land is estimated to comprise 40.00 acres, whether it autually comprises more or less.

- 2. Subject to the other provisions herein contained, this lease thall remain in force for a term of there (3) years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or from land with which said land is pooled.
- 3. The royalities to be paid by Lessee are: (a) on oil, and other liquid hydrocarbons saved at the well, 3/16th of that produced and saved from said land, same to be delivered at the wells or to the credit of Lessor in the pipeline to which the wells may be connected; (b) on gas, including casinghead gas or other gaseous substance produced from said land, as an extensive of the amount resilized from such sale; (c) and at any time when this lesse is not validated by other provisions hereof and there is a gas and/or condensate well on said land, or land pooled therewith, but gas or condensate is not being so sold or used and such well is sharine, either before or after production therefron, then on or before 90 days after said wall is sharine, and thereafter at annual increase, Lessee may pay or tender an advance than-in royalty ogails of 31.00 per not acree of Lessor's gas the said under this lesse by the pany making such payment or tender, and solving as said shari-in royalty is paid or tendered, this lesse shall not terminate sud if shall be considered under all clauses hereof that gas is being produced from the lessed premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lesse if he well were in make proper payment, but which is erroscous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this lesse in the same manner at though a proper payment, but which is erroscous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this lesse in the same manner at though a proper payment had been made if Lessee shall correct such sorror within 30 days after lessee has received written notice thereof by certified mall from the sale of gas on or off the premises shall be the price established by the gas sales contracted entered into in good faith by Lessee and gas purcha
- 4. This is a paid-up lease and Lease shall not be obligated during the primary term hereof to commence or continue any operations of whatever character or to make any payments the resulter in order to maintain this lease in force during the primary term; however, this provision is not insended to relieve Lessee of the obligation to pay royalists on actual production pursuant to the provisions or pursuants 3 bereaf.
- 3. Leases is hereby granted the right and power, from time to time, to pool or combine this lease, the land covered by it or easy part or horizon thereof with any other lead, mineral estates or parts thereof for the production of oil or gas. Units pooled bereunder shall not exceed the standard promition unit fixed by law or by the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which said lend is situated, plus a tolerance to ten percent. Lesses shall file written such designations in the country in which the premises are located and such units may be designated from the the offer or after the completion of wells. Drilling operations on or production from any part of any such unit shall be considered for all purposes, except the payment of royalty, as operations conducted upon or production from the land described in this lease. There shall be allocated to the land covered by this lease included in my such mit that portion of the local minerals from wells in the unit, after deducting any used in lease or unit operations, which the net oil or gas acreage in the land covered by this lease included in the unit bears to the total number of surface acres in the unit. The production or allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the curie production of pooled minerals from the portion of said land covered hereby and included in said unit in file as a though produced from asid land under the terms of this lease. Any pooled unit designated by Lessee, as provided herein, may be dissolved by Lesses by secording an appropriate instrument in the county where the land is sinssted at any time after the completion of a dry hole or the essention of production or soil and.
- 6. If at the expiration of the primary term there is no well upon said land capable of producing oil or gas, but Lessee has commenced operations for drilling or reworking thereon, this lesses shall remain in force so long as operations are prosecuted with no cessation of more than 60 consecutive days, whether such operations be on the same well or on a different or additional well or veells, and if they result in the production of oil or gas, so long threatful as oil or gas is produced from said land. If, after the expiration of the primary serm, all wells upon said land should become incapable of producing for any cause, this lesses shall not serminate if Lesses commences operations for additional drilling or for reworking within 60 days thereafter. If any drilling, additional drilling, or reworking operations hereunder result in production, then this lesses shall remain in full force so long thereafter as oil or gas is produced hereunder.
- 7. Lessee shall have free use of oil, gas and water from said land, except water from Lessor's wells and tanks, for all operations hereunder, and the toyalty shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and firmnes placed by Lessee on said land, including the right to draw are remove all casing. When required by Lesser, Lessee will buy all pipetines on osabit vased lands below ordinary plow depth, and no well shall be drilled within two hundred feet (200 ft.) of any residence or barn now on said land without Lessor's consent. Lessor shall have the privilege, at his risk and expense, of using gas from any gas well on said land for stoves and inside lights in the principal dwelling thereon, out of any surplus gas not needed for operations hereunder.
- 4. The rights of either pury horsunder may be assigned in whole or in part and the provisions hereof shall extend to their helts, exacusum, administrators, successors and assignst, but no change in the ownership of the land or in the ownership of, or rights to receive, royalites or shut-in royalites, however accomplished shall operate to enlarge the obligations or diminish the rights of Lessee: and no such change or division shall be binding upon lessee for any purpose until 30 days after Lessee has been furnished by corrided mail at Lessee's principal place of business with acceptable instruments or certified copies thereof constituting the chain of title from the original lesser. If fare such change in ownership occurs through the death of the owner, Lease may, a its option, pay or tender any royalities or shut-in royalities in the name of the doceased or to his estates or to his heirs, executor or administrator until such time as Leasee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. An assignment of this lease in whole or in part shall, to the extent of such assignment, relieve and discharge Lessee or obligations hereunder and, if Leasee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of royalty or shat-in royalty due from such Lessee or assignee or fail to comply with any of the provisions of this lesse, such default shall not affect this lesse insofar as it covers a part of said lands upont which Lessee or any assignee thereof shall properly comply or make such payments.
- 9. Should Lesset be prevented from complying with any express or implied covenant of this leave, or from conducting drilling or reworking operations hereunder, or from producing oil or gas hereunder by reason of scarcity or inability to obtain or use equipment or nuterial, or by operation of force majours, or by any Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, Lesses's druy shall be suspended, and lesser shall not be liable for failure to comply therewish; and this lesses shall be extended while and so long as Lesses is prevented by any such causes from conducting drilling or reworking operations or from producing oil or gas hereunder, and the time while Lesses is so prevented shall not be counted against Lesses, snything in this lesse to the contrary potwithstanding.
- 10. Lessor hereby warrants and agrees to defend title to said land and agrees that lessee at its option may discharge any tax, mortgage or other lies upon said land, and in the event Lessoe does so it shall be subrogated to such lies with the right to enforce same and to apply royalties and shat-in royalties payable horsunder soward setiafying same. Without impairment of Lessoe's rights under the warranty, if this lesse covers a less interest in the oil or gas in all or any part of said land than the entire and undivided for simple estate (whether Lesson's interest is berein specified or not) then the royalties, shat-in royalty, and other payments, if any, accreting from any part as to which this lesse covers less than such full interest, shall be paid only in the proportion which the interest therein, fany, covered by this lesse, bears to the whole and undivided for simple estate therein. Should any one or more of the parties named above as Lessons full to execuse this lesse, it shall nevertheless be binding upon the party or parties execuring the same.
- 11. Lessec, its or his successors, beins and assigns, shall have the right at any time to surrender this lease, in whole or in part, to Lessor or his heirs, successors and assigns by delivering or making a release thereof to the Lessor, or by placing a release thereof of recurd in the county in which said land is situated; thereupon Lessec shall be relieved from all obligations, suppressed or implied, of this agreement as to acroage so surrendered, and thereafter the shut-in royalty payable hercunder shall be reduced in the proportion that the acroage covered hereby is reduced by said release or releases.

THE WILLIAM JEFF GLENN AND LORA NELL SMITH GLENN REVOCABLE TO	RUST DATED FEBRUARY 13, 1992
William Jey Glina!  BY: WILLIAM JEY GLINN, TRUSTEE	BY: LORA NELL GLENN, TRUSTEE
Tax LD. No.:	TVERRY DINGER SOOW WALL SEEN MIDLE TE
	7/31/1.37

# INDIVIDUAL ACKNOWLEDGMENT (New Mexico Short Form)

STATE OF NEW MEXICO  COUNTY OF  The foregoing instrument was acknowledged before me this  GLENN AND LORA NELL GLENN, in the capacity hereis stated.	1/2 (day of Ortolica) 2003, by WILLIAM JEF
My Commission Empires 2-20-01	Noticy Public, State of New Mexico  Printed Name Barbara Brice:
AUBLIC OF THEM	

RECEPTION NO: 0314331 STATE OF NEW MEXICG, COUNTY OF EDDY RECORDED 11/17/2003 10:13 AM BOOK 0530 PAGE 0728 B. Mound JEAN BLENDEN, COUNTY CLERK



#### 42P, Paid-up

# **OIL & GAS LEASE**

de this 20° day of Occoberr, 2003, between KENNETH MARK SMITH A/K/A KENNETH M. SMITH, AND WIFE, PATSY LOUSMITH, of 267 Smith Ranch Road, Hobbs, NM 88248, herein called "Lessor" (whether one or more) and T. VERNE DWYER, 500 West Wall, Suite 310, Mid-

or in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is hereby as iged, and of the roys the Lesser herein contained, hereby grants, lesses and lets exclusively unto Lesser for the purpose of investigating, exploring, prospecting, drilling, and operating for and producing old and gas, injecting gas, waters, other fluids, and air into subsurface strats bying pipelines, soring oil, building talks, roadways, telephone lines, and other structures and things thereon to produce, save tabe care of, treat, process, store and transport axid minerals, the following described land in EDDY COUNTY, NEW MEXICO, to-wit:

## **TOWNSHIP 22 SOUTH, RANGE 30 EAST**

### SECTION 24: SW/4 NW/4

Said land is estimated to comprise 48,00 acres, whether it actually comprises more or loss.

- Subject to the other privisions herein contained, this lease shall remain in force for a term of three (3) years from this date (called "primary term") and as long thereafter as oil oduced from said land or from land with which and land is pooled.
- 3. The royalties to be paid by Lessee are: (a) on oil, and other liquid hydrocarbous saved at the well, 3/16<sup>th</sup> of that produced and saved from said land, same to be delivered at the wells or to the credit of Lesser in the pipeline to which the wells may be connected; (b) on gas, including cassingheed gas or other gaseous substance produced from said land and used off the premises or used in the manufacture of gasobine or other products, the marks value as the well of 3/16<sup>th</sup> of the gas used, provided that on gas sold on or off the premises, the evolutions shall be 3/16<sup>th</sup> of the amount realized from such sale; (c) and at any time when this lesse is not validated by other provisions between far diversity, the gas or condensates is not being so sold or used and such well is shall-in, either before or after production therefrom, then on or before 90 days after said well is shal in, and thereafter annual intervels, Lessee may pay or tender an advance shall-in royalty equal to \$1.00 per net serve of Lesser's gas acreage then held under this lesses by the party making such payment or tender, and so long as said shall-in royalty is paid or tendered, this lesses shall not terminate and it shall be considered under all clauses between this lense by the party making such payment or tender, and so long as said shall-in royalty is paid or tendered to the party or parties who at the time of such party or tender this lense by the party making such payment or tender of materials and the said or tendered to the party or parties who at the time of such party or tender this lense by the party making such payment or tender of materials and the said or tendered to the party or parties who at the time of such party or parties of the party or parties who at the time of such party or parties or death of the party or parties who at the time of such party or parties to death of the party or parties who at the time of such party or parties or death of the party or parties or shall be an expert to party and the party or tender of to
- 4. This is a paid-up lease and Lessee shall not be obligated during the primary term hereof to commence or continue any operations of whatsoever character or to make any payments hereunder in order to maintain this lease in force during the primary term; however, this provision is not intended to relieve Lessee of the obligation to pay royalties on schall production pursuent to the provisions or paragraph 3 hereof.
- 5. Lesses is hereby granted the right and power, from time to time, to pool or combine this lesse, the land covered by it or any part or horizon thereof with any other land, mineral estates or parts thereof for the production of oil or gas. Units pooled hereunder shall not exceed the standard proration unit fixed by law or by the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which said land is situated, plus a tolerance to ten percent. Lesses shall file written unit designations in the county in which the premises are located and such units may be designated from the time to time and either before or after the completion of wells. Drilling operations on or production from any part of any such unit shall be considered for all purposes, except the payment of royalty, as operations conducted upon or production from the land described in this lesses. There shall be allocated to the land covered by this lesse included in any such unit that protection of the total or metals in the unit, after deducting any used in lesse or unit operations, which the net oil or gas acreage in the land covered by this lesse included in the unit bears to the total number of surface acres in the unit. The production or allocated considered for all purposes, including the payment or delivery of royalty, to be the source production of pooled minerals from the portion of said land doovered hereby and included in said unit in the same transer as though produced from said land ownered hereby and included in said unit in the same transer as though produced from said land ownered hereby and included in said unit in the same transer as though produced from said land ownered hereby and included in said unit in the same transer as though produced from said land ownered hereby and included in said unit in the same transer as though produced from said land ownered hereby and included in said unit in the county where the land is situated at any time
- 6. If at the expiration of the primary term there is no well upon said land capable of producing oil or gas, but Lessee has commenced operations for drilling or reworking thereon, this lesses shall romain in force so long as operations are prosecuted with no cessetion of more than 60 consecutive days, whether such operation be on the same well or on a different or additional well or wells, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said hand. If, after the expiration of the primary term, all wells upon said land should become incurable of producing for sory cause, this lesses shall not terminate if Lesses commencess operations for additional drilling or for reworking within 60 days thereafter. If any drilling, additional drilling, or reworking operations become descended.
- 7. Lessee shall have five use of oil, gas and water from said land, except water from Lessee's wells and tanks, for all operations bereunder, and the royalty shall be compused after deducting any so used. Lessee shall have the right at any time during or after the expiration of this lesse to remove all property and fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessee, Lessee will bury all pipelines on cultivated lands below ordinary plow depth, and no well shall be drilled within two bundred fee (200 ft.) of any residence or barn now on said land without Lessee's consent. Lessy c
- 8. The rights of either party betwender may be assigned in whole or in part and the provisions hereof shall extend to their beirs, associators, administrators, successors and assigner, but no change in the ownership of the land or in the ownership of, or rights to receive, royalties or shut-in royalties, however accomplished shall operate to enlarge the obligations or diminish the rights of Lessee: and to such change or division shall be binding upon lessee for any purpose until 30 days after Lessee has been furnished by certified mail at Lessee's principal place of business with acceptable instruments or certified copies thereof constituting the chain of title from the original lessor. If any such change is nownership occurs through the death of the owner, Lessee may, at its option, pay or tender any royalties or thus-in royalties in the name of the deceased or to his estate or to his being, executor or administrator until such time as Lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. An assignment of this lesse in whole or in part shall, to the extent of such assignment, relieve and discharge Lessee or any obligations hermader and, if Lessee or assignee of part or part bereof shall fail or make default in the payment of the proportionate part of royalty or shall-in royalty due from such Lessee or assignee or fall to comply with any of the provisions of this lesse, such default shall not affect this lesse insofar as it covers a part of said lands upon which Lessee or any assignee thereof shall properly comply or make such payments.
- 9. Should Lessee be prevented from complying with any express or implied covenant of this lesse, or from conducting drilling or reworking operations bereunder, or from producing oil or gas hereunder by reason of sourcity or inability to obtain or use equipment or material, or by operation of force majoure, or by any Federal or state law or any order, rule or regulation of governmental authority, then while so prevented that has a subject of and lessee thalf not be liable for failure to comply therewith; and this lesses that has been said to long as Lessee is prevented by any such cause from conducting offiling or reworking operations or from producing oil or gas hereunder, and the time while Lessee is so prevented shall not be cruated against Lessee, anything in this lesse to the convery notwithstanding.
- Lessor hereby warrants and agrees to defend title to said land and agrees that lessee at its option may discharge any tax, mortgage or other lien upon saud land, and to the event Lessoe does so it shall be subrogated to such lien with the right to enforce same and to apply royables and shur-in royables payable hercunder roward satisfying same. Without impairment of Lessoe's rights under the warranty, if this lesse covers a loss interest in the oil or gas in all or any part of said hand than the entire and undivided fee simple estate (whether Lessor's interest is herein specified on not) then the royables, shut-in royably, and other payments, if any, scorning from any part as to which this lesse covers less than such full interest, shull be paid only in the proportion which the interest therein, if any, covered by this lesse, bears to the whole and undivided fee sample estate therein. Should any one or more of the parties named above as Lessors fail to execute this lesse, in shall nevertheless be binding upon the party or parties executing the same.
- 11. Lessee, its or his successors, beirs and assigns, shall have the right at any time to surrender this lesse, in whole or in part, to Lessor or his heirs, successors and assigns by delivering or mailing a release thereof to the Lessor, or by placing a release thereof of record in the county in which said land is situated; thereupon Lessee shall be relieved from all obligations, expressed or implied, of this agreement as to acreage so surrendered, and thereafter the sharful royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby in reduced by said release or releases.

KENNETH MARK SMITH

Social Security No.:

Patey Low Smith TVerne Dwyer SOOWWall Ste 310 Midland TX 79701

Social Security No.:

STATE OF NEW MEXICO COUNTY OF E 18  The foregoing instrument was acknowledged before me this 6 SMITH.  Ny Commission Expires 5-7-2446	day of November 2003, by KENNETH MARK  Laura And Allen  Individual Acknowledgment (New Medico Short Form)
The foregoing instrument was acknowledged before me this 6+2  SMITH.  My Commission Expires 5-7-2046	day of November 2003, by PATSY LOU  Laura Member 2003, by PATSY LOU  Printed Name LAURA ANNALLE D  O1767  ON  WITH
RECEPTION NO: 0314596 STATE OF NEW MEXICO, COUNTY OF EDDY RECORDED 11/24/2003 10:35 AM BOOK 0531 PAGE 0472	

# **OIL & GAS LEASE**

THIS AGREEMENT made this 2th day of October, 2003, between WILLIAM C. SMITH A/K/A WILLIAM CREED SMITH, AND WIFE, NANCY SMITH, of P.O. Box 727, Lovington, NM 88269, herein called "Lessor" (whether one or more) and T. VERNE DWYER, 500 West Wall, Soits 310, Midland, Texas 79701, "Last

Lessor, in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is hereby acknowledged, and of the royalists hereis provided and of the agreements of the Lessoe herein contained, hereby grants, lesses and less exclusively unto Lesses for the purpose of investigating, exploring, prospecting, drilling, and operating for sud producing oil and gas, injecting gas, waters, other fluids, and air isto subsurface strats laying pipelines, string oil, building tanks, roadways, telephone lines, and other structures and things thereon to produce, save take care of, treat, process, store and transport said minorals, the following described land in EDDY COUNTY, NEW MEXICO, to-writ:

### TOWNSHIP 22 SOUTH, RANGE 30 EAST

SECTION 24: SW/4 NW/4

Said land is estimated to comprise 40.90 acres, whether it actually comprises more or less.

- Subject to the other provisions herein contained, this lesse shall remain in force for a tens of three (3) years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or from land with which said land is pooled.
- at the wells or to the credit of Leasor in the pipeline to which the wells may be connected; (b) on gas, including casinghead gas or other gaseous substance produced from said land, same to be delivered at the wells or to the credit of Leasor in the pipeline to which the wells may be connected; (b) on gas, including casinghead gas or other gaseous substance produced from said land and used off the premises or used in the manifecture of gas solid on or off the premises, the reyesties, the reyesties and thereoffer at manual intervals, Lessee may pay or tender an advance shall not reministe and it shall be considered under all clauses thereof that gas is being produced from the leased primities in paying quantities. Each such popularly in paid or tendered, this lease shall not terminate and it shall be considered under all clauses hereof that gas is being produced from the leased primities in paying quantities. Each such popularly in paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royality which is made in a bona flot attempts to make proper payment, but which is erroneous in whole or in part as to parties or associate, shall nevertheless be sufficient to prevent termination of this lesse in the same manner as though a proper payment had been made if clauses shall converted such errors such errors such errors such errors within 30 days after lessee and gas to permise shall be the price established by the gas sales contracted entered into in good fish by Lessee and gas purchaser for such term and under such conditions as are constoners; in the industry. This shall mean the retainment of the payment of adults the proper payment and under such conditi The royalties to be paid by Lessee are: (a) on oil, and other liquid hydrocarbons saved at the well, 3/16th of that produced and saved from said land, same to be delivered
- 4. This is a paid-up lease and Lessee shall not be obligated during the primary term hereof to commence or continue any operations of whenoever character or to make any payments order to maintain this lease in force during the primary term; however, this provision is not intended to relieve Lesses of the obligation to pay royalties on actual production pursuant to reunder in order to mai the provisions or paragraph 3 horself.
- 5. Lessee is hereby gramed the right and power, from time to time, to pool or combine this lease, the land covered by it or any part or horizon thereof with any other hand, mineral enteres or parts thereof for the production of oil or gas. Units pooled hereunder shall not exceed the standard promation unit fixed by law or by the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which said land is sinusted, plus a tolerance to ten percent. Lessee shall file written unit designations in the county is which the premises are located and such units may be designated from time to hime and either before or after the completion of wells. Drilling operations on er production from the land described in this lease. There shall be considered for all purposes, except the payment of or oyalty, as operations conducted upon or production from the land described in the lease or unit operations, which the net oil or gas acreage in the land covered by this lease included in the unit bean to the total production of pooled minerals from wells in the unit, after deducting any used in lease or unit operations, which the net oil or gas acreage is the land covered by this lease included in the unit bean to the total number of surface acrea in the unit. The production so ellocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production of pooled minerals from the portion of said land covered berely and included in and unit in the same manner as though produced from said land of under the terms of this lease. Any pooled unit designated by Lessee, as provided herein, may be dissolved by Lessee by recording an appropriate instrument in the county where the land is situated at any time after the completion of a dry hele or the oessettion of production on said unit.
- 6. If at the expiration of the princery tenn there is no well upon said land expable of producing oil or gas, but Leaser has commenced operations for drilling or reworking thereon, this lease shall remain in force to long as operations are prosecuted with no cessation of more than 60 consecutive days, whether such operation be on the same well or on a different or additional well or wells, and if they result in the production of oil or gas, so long thereafter as oil or gas as produced from said land. If, after the expiration of the prinary term, all wells upon said land should become incapable of producing for any cause, this leases that I cause commence operations for additional drilling or for reworking within 60 days thereafter. If any drilling, additional drilling, or reworking operations herounder result in production, then this lease shall remain is full force so long thereafter as oil or gas is produced hereunder.
- 7. Lessee shall have free use of oil, gas and water from said land, except water from Lesser's wells and tanks, for all operations hereunder, and the royalty shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this lesse to remove all property and finances placed by Lesses on said hard, including the right to draw and remove aff easing. When required by Lesser, Lessee will bury all pipelines on cubivated lands below ordinary plow depth, and no well shall be drilled within two bugdred feet (200 ft.) of say residence or bern now on said land without Lessor's consens. Lessor shall have the privilege, at his risk and expense, of using gas from any gas well on said land for stowes and inside lights in the principal dwelling thereon, out of any surplus gas not needed for operations hereunder.
- 8. The rights of either party hereunder may be assigned in whole or in port and the provisions bereaf shall extend to their heirs, executors, administrators, successors and assigned, but no change in the ownership of the land or in the ownership of, or rights to receive, royalties or shus-in royalties, however accomplished shall operate to enlarge the obligations or diminish the rights of Lessee in also such change or division shall be binding upon lesses for any purpose until 30 days after Lessee has been furnished by cours the through the detail received in a secondary at its option, pay or render any royalties or shus-in royalties in the name of the deceased or to his estate or to his heirs, executor or administrator until such time as Lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. An assignment of the sleens in whole or in part shall, to the extent of such assignment, relieve and discharge Lessee of any obligations bereated and, if Lessee or assignee or far or parts hereof shall find or make default in appropriat of the proportionshe part of royalty or shall anythy due from such Lessee or assignee or fall to comply with any of the provisions of this lesse, such default shall not affect this lesse insofar as it covers a part of and lands upon which Lessee or any assignee thereof shall properly comply or make such payments.
- 9. Should Lessee be prevented from complying with any express or implied covenant of this lesse, or from conducting drilling or reworking operations bereunder, or from producing oil or gas hereunder by reson of scircity or inability to obtain or use equipment or material, or by operation of force majours, or by any Federal or state law or any order, rules or regulation of governmental authority, then while so prevented, Lessee's duty shall be suspended, and lessee shall not be liable for failure to comply therewish; and this lesse shall be extended while and so long as Lessee is prevented by any such cause from conducting drilling or reworking operations or from producing oil or gas hereunder, and the time while Lessee is no prevented shall not be counted anniant Lessee, snything in this lesse to the countery potentianding. oe, anything in this lease to the cont
- 10. Lessor hereby warrants and agrees to defend title to said hand and agrees that lessee at its option may discharge any tax, mortgage or other lies upon said hand, and in the event Lessee does so it shall be subrogated as such lies a shift to exforce sance and to apply royalities and shar-in cryatries payable be sunder soward seriallying same. Without importment of Lessee's rights under the warranty, if this lesse covers a less interest in the oil or gas in all or any part of soid lend than the entire and undivided fee simple estate (whether Lessor's interest is herein as precised or not) then the troyalts, and other payments, if any, accruing from any part as to which this lesse covers less than such fall interest, shall be paid only in the proportion which the interest therein, if any, covered by this lesse, bears to the whole and undivided fee simple estate therein. Should any one or more of the parties named above as Lessors fall to execute this lesse, it shall nevertheless be binding upon the party or parties executing the same.
- 11. Lesser, its or his successors, heirs and assigns, shall have the right at any time to surrender this lease, in whole or in part, to Lessor or his heirs, successors and assign by delivering or mailing a release thereof to the Lessor, or by placing a release thereof of record in the county in which said land is shuated; thereupon Lossee shall be relieved from all obligate expressed or implied, of this agreement as to acreage so surrendered, and thereufter the stud-in royalty payable hereunder shall be reduced in the proportion that the acreage covered here reduced by said release or releases.

William C. Smith

Hancy Smith

Social Security No.: TVPRAN FOR (1965)

Social Security No.: (1965)

TVPRAN FOR (1965)

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Social Security No.

STATE OF NEW MEXICO		
COUNTY OF IFA		
The foregoing instrument was acknowledged before me the SMITH.  My Congression Expres DECEMBER 11, 2005	nis 14th day of OCTOBER  Notary Public, Siste of New Mexico	2003, by WILLIAM C
PUBLIC CO	Printed Name MVRA VO	
	INDIVIDUAL ACKNOWLED	GMENT (New Mexico Short Form)
STATE OF NEW MEXICO		
COUNTY OF LEA		
The foregoing instrument was acknowledged before me this	14th day of OCTOBER	2003, by NANCY SMITH.
My Complete Bearing DECTABER 11m 2005	Mistery Public, State of New Migness	aunq
C-0-D	Printed Name MYPA YOUNG	<u> </u>
PUBLIC CO		

RECEPTION NO: 0314330 STATE OF NEW MEXICO, COUNTY OF EDDY RECORDED 11/17/2003 10:11 AM BOOK 0530 PAGE 0726 AM JEAN BLENDEN, COUNTY CLERK

