

STM 20070417

CARBON DIOXIDE LEASE

THIS AGREEMENT made this 28th day of March, 2007, between **LIBBY MINERALS LLC**, Lessor, whose address is 250 Bravo Dome Hwy., Bueyeros, New Mexico 88415, and **RELIANT EXPLORATION AND PRODUCTION LLC**, Lessee, whose address is 3700 Kermit Hwy., Odessa, Texas 79764, Lessee, WITNESSETH:

1. Land Covered. Lessor in consideration of Ten Dollars (\$10.00), in hand paid, of the royalties herein provided, and of the agreements and covenants of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling and mining for and producing only carbon dioxide ("gas" herein means carbon dioxide) on, under and across lands owned by Lessor in Harding County, New Mexico, described in Exhibit "A" attached hereto.
2. Primary Term. This lease, subject to the other terms and provisions herein contained, shall be for a term of five (5) years from this date (called "primary term") and as long thereafter as carbon dioxide is produced from said land or land with which said land is pooled.
3. Royalty. As royalty the Lessee shall pay the Lessor 20% of the value of the carbon dioxide saved from the leased premises.

The value of the carbon dioxide for purposes of royalty payment shall be free of any and all production and post-production expenses, and Lessee shall pay Lessor for all volumes of carbon dioxide saved by Lessee on the basis of:

\$0.90 per Mcf (the "Initial Royalty Amount")

Beginning January 1, 2008 and annually thereafter, the royalty payable hereunder shall be adjusted by the same percentage as the percentage annual change in such year in the U.S. Producer Price Index - Commodities maintained by the United States Department of Labor, Bureau of Labor Statistics on the base of January 1, 2007. In the event such index ceases to be maintained, a comparable index will be used to adjust the royalty payment hereunder. In no event shall the basis for royalty payments be less than the Initial Royalty Amount.

4. Rentals. If operations for drilling are not commenced on said land as provided herein, on or before one (1) year from the date of this lease, the lease shall then terminate as to both parties, unless on or before such anniversary date, Lessee shall pay or tender to Lessor or to the credit of Lessor, the sum of \$2.00 per acre of land covered by this lease, (herein called "Rental") less such acreage then included within a state agency

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Before the Oil Conservation Division
Case No. 14688
Hearing July 21, 2011
Reliant Exploration & Production LLC
EXHIBIT NO. 3

specified spacing unit for a well capable of producing in paying quantities, which shall cover the privilege of the Lessee deferring commencement of operations for drilling for a period of twelve (12) months. In the same manner and upon like payments or tenders annually, the commencement of operations for drilling may be further deferred for successive periods of twelve (12) months during the primary term. If Lessee shall, on or before any Rental date, make a bona fide attempt to pay Rental to Lessor and if such payment shall be erroneous in any regard, Lessee shall be unconditionally obligated to pay such Lessor the Rental payable for the Rental period involved, but this lease shall be maintained in the same manner as if such erroneous Rental payment had been properly made, provided that the erroneous Rental payment be corrected within thirty (30) days after receipt by Lessee of written notice from Lessor of such error. For Rental payment purposes, the land included within this lease shall be deemed to contain 31,960 acres, whether it actually comprises more or less.

Lessee may at any time execute and deliver to Lessor and place of record in Harding County a release or releases covering any portion or portions of the above described lands and thereby surrender this lease as to such portion or portions and be relieved of all obligations as to the acreage surrendered, and thereafter the Rental payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by the release or releases.

5. Shut-in Royalty.

(a) Until to the sooner to occur of the expiration of the first year of this lease or such time as electricity becomes available at the Lessee's dehydration and compression plant to be built, there shall be no shut-in royalty due under this lease.

(b) If, at any time or times after the sooner of one year from the date of this lease or such time as electricity becomes so available, there is a well or wells capable of producing carbon dioxide gas in paying quantities located upon some part of the lands embraced herein, or upon lands pooled or communitized herewith, where such well is shut-in for a period of ninety days due to the inability of the Lessee to obtain a pipeline connection or to market the gas therefrom, and if the Lessee timely pays a quarterly shut-in royalty on the royalty paying date next ensuing after the expiration of ninety days from the date said well was shut-in and quarterly thereafter, the lease shall not expire for such well unit or units. The payment of such royalty shall be considered for all purposes the same as if gas were being produced in paying quantities and upon the

commencement of production of gas from said well or wells the standard royalty shall be payable.

The amount of quarterly shut-in royalty under this section shall equal \$2.00 times the amount of acreage under this lease that is dedicated to the spacing unit for each subject shut-in well. Notwithstanding the provisions of this paragraph 5, this lease shall not be continued after three years from the expiration of the primary term by the payment of said annual, shut-in royalty, unless the Lessor in its sole discretion agrees to a continuation in writing. Failure to pay shut-in royalty as specified in this paragraph 5 shall constitute a breach in accordance with paragraph 10.

6. Payments to Lessor. Lessee agrees to make full settlement for all production royalties due the Lessor within forty-five (45) days following the last day of the month during which gas production occurred. Annual Rental specified in Section 4 shall be payable in advance to the Lessor on the successive anniversary dates of this lease. Payments to the Lessor payable by the Lessee shall be made by the Lessee by wire transfer to the account of the Lessor, on or before the due date, to the Lessor's bank, Bank of the Rio Grande in Las Cruces, New Mexico.

7. Pooling. Lessee, at its option, is hereby given the right and power to pool or communitize the acreage covered by this lease or any portion thereof as to carbon dioxide, with any other adjacent land, lease or leases in the immediate vicinity thereof when in Lessee's judgment it is necessary or advisable to do so in order to properly explore, or to develop and operate said leased premises in compliance with the spacing rules of the New Mexico Oil Conservation Division, or other lawful authority, or when to do so would, in the judgment of Lessee, promote the conservation of carbon dioxide in and under and that may be produced from said premises. Spacing units pooled for carbon dioxide hereunder shall not substantially exceed in area 160 acres, each plus a tolerance of ten percent (10%) thereof, provided that should governmental authority having jurisdiction prescribe or permit the creation of spacing units larger or smaller than those specified, for the drilling or operation of a carbon dioxide well at a regular location, units thereafter created may conform substantially in size with those prescribed or permitted by governmental regulations. Lessee shall file for record in the appropriate records of the county in which the leased premises are situated, an instrument describing and designating the pooled acreage as a pooled unit. As to each such unit so created by Lessee, there shall be allocated to the acreage covered by this lease, and included in the pooled unit, such portion of the production from said unit as the number of acres out of this lease placed in any such unit, bears to the total number of acres included in such unit and Lessor agrees to accept and shall receive the royalties elsewhere specified in this lease,

based upon the production so allocated to this lease. The commencement, drilling, completion, or reworking of a well or production from a well on any portion of the unit created hereunder shall have the same effect upon the terms of this lease as if a well were commenced, drilled, completed, reworked or producing on the pooled land embraced by this lease.

8. **Assignment.** The rights of either party hereunder may be assigned in whole or in part, and the provisions hereof shall extend to their heirs, successors and assigns provided: (a) If change or division in ownership of the minerals or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee, no change or division in such ownership shall be binding on Lessee until thirty (30) days after Lessee shall have been furnished by registered U.S. Mail at Lessee's principal place of business with a certified copy of recorded instrument or instruments evidencing same. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all. (b) Without the prior written consent of Lessor, Lessee shall not assign an undivided working interest in the lease or in any part thereof nor make an assignment in less than a legal subdivision. Upon approval in writing by the Lessor of an assignment, the assignor shall stand relieved from all obligations to the Lessor with respect to the lands embraced in the assignment and the Lessor shall likewise be relieved from all obligations to the assignor as to such tracts, and the assignee shall succeed to all of the rights and privileges of the assignor with respect to such tracts and shall be held to have assumed all of the duties and obligations of the assignor to the Lessor as to such tracts.
9. **Protection From Drainage.** In the event a well or wells producing carbon dioxide in paying quantities should be brought in on adjacent land which is draining the leased premises, Lessee shall drill such offset well or wells as a reasonably prudent operator would drill under the same or similar circumstances, provided that no such offset well shall be required if compensatory royalties are paid pursuant to an agreement between the Lessor and the Lessee.
10. **Breach.** Upon failure or default of the Lessee to comply with any of the provisions or covenants hereof, the Lessor is hereby authorized to cancel this lease and such cancellation shall extend to and include all rights hereunder as to the whole of the tract so claimed, or possessed by the Lessee, but shall not extend to, nor affect the rights of Lessee or any other Lessee or assignee claiming any portion of the lands upon which no default has been made. Before any such cancellation shall be made, the

Lessor shall mail to the Lessee, so defaulting, a notice of intention of cancellation specifying the default for which cancellation is to be made, and if within thirty days from the date of mailing said notice the said lessee shall remedy the default specified in said notice, cancellation shall not be made.

11. Rework. If at the expiration of the primary term, carbon dioxide is not being produced from a well in any well spacing unit or from the land pooled therewith, but Lessee is then engaged in drilling or reworking operations thereon, or shall have completed a dry hole thereon within 60 days prior to the end of the primary term, the lease shall remain in force as to that acreage so long as operations on said well or for drilling or reworking of any additional well are prosecuted with no cessation of more than 30 consecutive days, and if the work results in the production of carbon dioxide so long thereafter as carbon dioxide is produced from land in that spacing unit, or from the land pooled therewith. If, after the expiration of the primary term of this lease and after carbon dioxide is produced from land within a well spacing unit, or from land pooled therewith, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within 60 days after the cessation of such production, but shall remain in force and effect so long as such operations are prosecuted with no cessation of more than 30 consecutive days, and if they result in the production of carbon dioxide so long thereafter as carbon dioxide is produced from said land, or from land pooled therewith.
12. Water Wells. In drilling wells, all water-bearing strata shall be noted by Lessee in the log and provided to Lessor and the Lessor reserves the right to require that all or any part of the casing shall be left in any nonproductive well when Lessor deems it to the interest of the beneficiaries of the lands granted hereunder to maintain said well or wells for water. For such casing so left in wells the Lessor shall pay to the Lessee the reasonable salvage value thereof.
13. Development. The Lessee agrees to diligently drill and complete wells on all lease acreage, excepting lands released under Section 4 above, so that the carbon dioxide resource is well and fully developed and royalties accrue to the Lessor. Notwithstanding any provision hereof to the contrary, it is understood and agreed that at the end of the primary term, the land described herein in each numerical survey section of each Township and Range shall be considered as a separate lease. At the expiration of the primary term of this lease, this lease shall expire as to all acreage not dedicated to a governmentally prescribed or permitted proration units for each well capable of producing in paying quantities.

14. Preferential Right to Lease. At the end of the primary term of this lease, Lessee has the right to obtain a new carbon dioxide lease from Lessor covering any acreage originally covered by this lease but which expired at the end of the primary term of this lease. To exercise such right Lessee must notify Lessor in writing of its election on or before ninety (90) before the end of the primary term. In making such election, Lessee must identify the acreage it desires to lease and must tender the sum of fifty dollars (\$50.00) per acre in exchange for such lease. The new lease shall adopt the same royalty provision and substantially the same applicable terms, excluding paragraphs 5(a) and 14, as this lease.
15. Law and Regulation. Lessee, including heirs, assigns, agents and contractors shall at their own expense fully comply with all laws, regulations, rules, ordinances and requirements of the county, state, federal authorities and agencies, in all matters and things affecting the premises and operations thereon which may be enacted or promulgated under the governmental police powers pertaining to public health safety and welfare, including but not limited to conservation, sanitation, aesthetics, pollution, cultural properties, fire and ecology. This clause is enforceable by the Lessor in any manner provided in this lease or by law or in equity.
16. Surface Use. The Lessee agrees to notify the Lessor of the location of each well before commencing drilling thereon, to keep a complete and accurate log of each well drilled and to furnish a copy thereof, verified by some person having actual knowledge of the facts, to the Lessor upon the completion of any well, and to furnish the log of any unfinished well at any time when requested to do so by the Lessor.

The Lessee agrees to fully and promptly perform all stipulations, covenants and conditions of the Surface Use and Compensation Agreement of even date entered into between the Lessor and the multiple owners of the surface estate overlying the acreage hereby leased. The terms of that Surface Use and Compensation Agreement are hereby adopted by reference and the Lessee shall be liable for and agrees to pay damages caused by operations on the surface pursuant to such Agreement.

17. Fixtures. The Lessee shall not remove any production equipment, gathering lines or other fixtures placed on said premises, and shall not draw the casing from any well unless and until all payments and obligations due the Lessor under the terms of this agreement shall have been paid or satisfied and such removal is to be performed as approved by the Lessor. The Lessee's right to remove the casing is subject to the provision of Section 12 above.

- 18. **Binding Effect.** All terms of this lease agreement shall extend to and bind the heirs, executors, administrators, successors and assigns of the parties hereto.

- 19. **Proportionate Reduction.** It is agreed that if Lessor's ownership covers a less interest in all or any part of the lands on Exhibit A, than the entire and undivided mineral estate (whether Lessor's interest is herein specified or not), or no interest therein, then the royalties, and other monies accruing from any part as to which this lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease, bears to the whole and its undivided mineral estate therein. All royalty interests covered by this lease (whether or not owned by Lessor) shall be paid their proportionate share out of the royalty herein provided.

- 20. **Force Majeure.** Should Lessee be prevented from complying with any express or implied covenant of this lease, from conducting drilling or reworking operations thereon or from producing carbon dioxide therefrom by reason of force majeure, or Federal or state law or any order, rule or regulation of governmental authority, then while so prevented, Lessee's obligation to comply with such covenant shall be suspended, and Lessee shall not be liable in damages for failure to comply therewith; and this lease shall be extended while and so long as Lessee is prevented by any such cause from conducting drilling or reworking operations on or from producing carbon dioxide from the lease premises; and the time while Lessee is so prevented shall not be counted against Lessee, anything in this lease to the contrary notwithstanding.

IN WITNESS WHEREOF this instrument is executed as of the date first written above.

LESSOR:

LESSEE:

Libby Minerals, LLC

Reliant Exploration and Production LLC

By Mary Libby Campbell
Title Manager

By Sam Vachinsky
Title Manager

ACKNOWLEDGEMENTS

STATE OF NEW MEXICO)
COUNTY OF Harding)

This instrument was acknowledged before me on the 28th day of March, 2007, by Mary Libby Campbell of Libby Minerals LLC, a New Mexico limited liability company, on behalf of said company.



Carrie Archuleta
Notary Public, State of New Mexico
Notary's name (printed): Carrie Archuleta
Notary's commission expires: 4-1-07

STATE OF TEXAS)
COUNTY OF)

This instrument was acknowledged before me on the 5 day of April, 2007, by Scott Vanderburg Manager of Reliant Exploration and Production LLC, a Texas limited liability company, on behalf of said limited liability company.



Brenda Woosley
Notary Public, State of Texas
Notary's name (printed): Brenda Woosley
Notary's commission expires: 4-29-2010

EXHIBIT A

Attached to and made a part of the Carbon Dioxide Lease of March 28, 2007 between Libby Minerals LLC, Lessor, and Reliant Exploration and Production LLC, Lessee

**LIBBY MINERALS LLC, HARDING COUNTY, NEW MEXICO
31,960 AC. MORE OR LESS**

Township 17 North, Range 31 East

Section 4: NW/4
Section 5: E/2
Section 8: E/2

Township 18 North, Range 29 East

Section 30: E/2NW/4; SW/4NE/4; NW/4SE/4

Township 18 North, Range 30 East

Section 13: NW/4NW/4
Section 14: N/2N/2; SW/4NW/4; W/2SW/4
Section 23: E/2W/2
Section 26: E/2NW/4; N/2SW/4; SW/4NE/4; NW/4SE/4

Township 18 North, Range 31 East

Section 1: SW/4SW/4
Section 2: SE/4SW/4; S/2SE/4
Section 3: S/2; S/2NE/4; W/2NW/4
Section 4: E/2; NE/4NW/4; SE/4SW/4
Section 5: S/2S/2
Section 6: SE/4
Section 7: E/2SE/4; SE/4NE/4
Section 8: SW/4SW/4
Section 9: NE/4; N/2SE/4; SE/4SE/4
Section 10: N/2N/2; SW/4NW/4; NW/4SW/4
Section 11: N/2NW/4
Section 14: N/2
Section 15: W/2SW/4; SE/4SW/4; SW/4SE/4
Section 17: N/2; SE/4; NW/4SW/4
Section 18: N/2NE/4; SW/4NE/4; NW/4SE/4
Section 20: N/2NE/4; NE/4NW/4

Township 18 North, Range 31 East

Section 27: N/2S/2
Section 28: E/2E/2; NW/4NE/4; NE/4NW/4; SW/4SE/4

Township 19 North, Range 30 East
Section 14: S/2SE/4

Township 19 North, Range 31 East
Section 7: W/2W/2; SE/4SW/4; E/2SE/4
Section 18: N/2; SE/4
Section 21: E/2; SE/4NW/4; SW/4
Section 22: All
Section 23: W/2; W/2E/2; SE/4NE/4; NE/4SE/4
Section 24: NW/4
Section 26: W/2E/2; NW/4NW/4
Section 27: All
Section 28: N/2; SE/4
Section 32: W/2; SE/4; W/2NE/4; SE/4NE/4
Section 33: N/2N/2; SE/4NE/4; SE/4; S/2SW/4
Section 34: NW/4NW/4; SW/4SW/4

Township 19 North, Range 32 East
Section 31: N/2NW/4

Township 20 North, Range 30 East
Section 10: NW/4NW/4
Section 13: S/2NW/4; S/2NE/4; W/2SE/4; E/4SE/4; E/2SW/4
Section 14: SE/4; N/2SW/4
Section 23: NW/4; W/2NE/4
Section 24: SE/4; E/2SW/4
Section 25: N/2NE/4; SW/4NE/4; W/2SE/4; SE/4SE/4

Township 20 North, Range 31 East
Section 1: S/2SE/4; SE/4SW/4
Section 9: W/2W/2; E/2SW/4; S/2SE/4
Section 10: SE/4; S/2SW/4
Section 11: S/2NE/4; N/2SE/4
Section 12: N/2NE/4; SE/4NE/4; E/2NW/4; SW/4NW/4
Section 17: W/2NE/4; E/2NW/4; SW/4NW/4; W/2SW/4
Section 18: All
Section 19: All
Section 20: S/2; S/2NW/4
Section 25: E/2SE/4; SW/4SE/4; SE/4SW/4
Section 33: SW/4SW/4

Township 20 North, Range 32 East
Section 5: SW/4
Section 6: S/2; S/2NE/4; SE/4NW/4
Section 7: W/2; W/2E/2; E/2SE/4

Section 8: SE/4; S/2NE/4; W/2SW/4; N/2NW/4; SE/4NW/4
Section 9: S/2; S/2NW/4
Section 10: All
Section 11: NW/4; N/2SW/4; SW/4SW/4; N/2SE/4; S/2NE/4; N-W/4NE/4
Section 12: S/2; S/2N/2; N/2NE/4; NW/4NW/4
Section 13: N/2; W/2SW/4
Section 14: NW/4NW/4
Section 15: S/2; N/2NE/4; NE/4NW/4
Section 18: N/2N/2
Section 22: SE/4; E/2SW/4; SW/4NE/4; SE/4NW/4; N/2N/2
Section 23: SW/4; N/2; E/2SE/4
Section 24: SW/4; W/2SE/4
Section 25: S/2
Section 26: NW/4SE/4
Section 27: NE/4
Section 28: SW/4; S/2NW/4
Section 30: W/2SW/4; NE/4SW/4; NW/4SE/4
Section 33: W/2NW/4
Section 35: NE/4; E/2SE/4

Township 21 North, Range 31 East

Section 23: SE/4NE/4; E/2SE/4
Section 24: SW/4SW/4
Section 33: S/2SE/4
Section 34: S/2NW/4

Township 21 North, Range 32 East

Section 27: W/2NW/4
Section 31: E/2W/2

Township 19 North, Range 31 East

Section 1 : NW/4
Section 2: E/2SW/4; SE/4NW/4
Section 3: E/2E/2
Section 4: E/2E/2
Section 5: W/2;W/2E/2
Section 6: N/2;N/2S/2; SW/4SW/4
Section 8: All
Section 9: S/2; S/2NW/4
Section 10: S/2; NE/4; N/2NW/4; SW/4NW/4
Section 11: SW/4; E/2NW/4; W/2SE/4; SE/4SE/4; SW/4NE/4
Section 12: W/2W/2; NE/4SW/4; SW/4NE/4; NW/4SE/4
Section 14: W/2; N/2SE/4; SW/4SE/4; NW/4NE/4
Section 15: All
Section 16: All

Township 19 North, Range 31 East

Section 29: N/2; SW/4; W/2SE/4

Section 30: E/2; N/2NW/4; SW/4NW/4; W/2SW/4; SE/4SW/4

Section 31: E/2; N/2NW/4; SW/4NW/4; N/2SW/4; SW/4SW/4

Township 20 North, Range 31 East

Section 6: SW/4

Section 7: W/2NW/4; SE/4NW/4; S/2SE/4

Section 8: All

Township 20 North, Range 31 East

Section 20: S/2NE/4

Section 23: W/2SE/4

Section 24: E/2NW/4; W/2NE/4

Section 25: W/2NW/4

Section 26: NE/4

Township 21 North, Range 32 East

Section 27: NE/4SE/4