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

OIL & GAS LEASE

1. Leasor, in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is hereby acknowledged, and of the royalties herein provided and of the agreements of the Leasee herein contained, hereby grants, leases and lets exclusively unto Leasee for the purpose of investigating, exploring, prospecting, drilling, and operating for and producing oil and gas, injecting gas, waters, other fluids, and air into subsurface strate laying pipelines, storing oil, building taken coadways, telephone lines, 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, 10-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 less.

- 2. Subject to the other provisions 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 or gas is produced from said land or from land with which said land is pooled.
- 3. The royalties to be paid by Lessee are: (a) on oil, and other liquid hydrocarbons saved at the well, 3716° of that produced and saved from said land, same to be delivered at the wells of Lesson in the pipeline to which the wells may be connected; (b) on gas, including examileration of other gaseous mistance produceds, the market value at the well of 3716° of the gas used, provided that on gas sold on or off the promises, the royalties shall be 3716° of the amount realized from such safe; (c) and at any time when this lease is not validated by other provisions bursof 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 shut-in, either before or after producions therefor, then on or before 20 days after said well is shut in, and thereafter at annual intervals, Lessee may pay or tender an advance shut-in toyalty equal to \$1.00 per net acre of Lesson's gas acreage then held under this lesse by the party making such prymeum or tender, and so long as said shut-in royalty is 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 premises in peying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment under the results which would be paid under this lease if the well were in fact producing. The payment or tender of royalties or shut-in royalties may be made by check or draft. Any timely payment or tender of shut-in royalty which is trade in a bona fide attempt to make proper payment, but which is ermonous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment, had been made if Lesses shall correct such error within 30 days after lessee has received written notice thereof by certified mail from the party or parties smited to receive payment together with such written instr
- 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 herounder 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 actual production pursuant to the provisions or paragraph 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 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 aros in which said land is situated, plus a tolerance to ten percent. Lessee shall file written unit designations in the county in which the premises are located and such units may be designated from time to time and either before or after the completion of wells. Drilling operations on or production from mry part of say such unit shall be considered for all purposes; except the payment of revolves on conducted upon a production from the land described in this lease. There shall be allocated to the land covered by this lease included in any such unit that portion of the total production of pooled minorals 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 rotal number of surface acres 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 hereby and included in said unit the same manner as though produced from said land under the serms 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 hole or the cessation of production on asid 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 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 is produced from said land. If, after the expiration of the primary term, all wells upon said land should become incapable of producing for any cause, this lease shall not terminate if leases 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 lease shall remain in full force so long thereafter as oil or gas is produced bereunder.
- 7. Lessec 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. Lessec shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by Lessec on said land, including the right to draw and remove all easing. When required by Lessor, Lessec 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 burn 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 dwelting thereou, out of any surplus gas not needed for operations bereunder.
- 8. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to their heirs, executors, administrators, auccessors and assignet, 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 divatinish the rights of Lessee: and an osuch change or division shall be binding upon lessee for my, purpose until 30 days after Lessee has been furnished by certified mail at Lessee's principal place of business with acceptable instruments or certified opicies thereof constituting the chain of title from the original lesson. If any such change in ownership occurs through the death of the owner, Lessee may, as its option, pay or tender any royalties or shut-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 this lesse; in whole or in part shall, to the extent of such assignment, relieve and discharge Lessee of any obstitutions hereunder and, if Lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of royalty or shut-in royalty due from such Lessee 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 gry assignee thereof shall property 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 scarcity or inability to obtain or use equipment or material, or by operation of force majeure, or by any Federal or state law or any order, rule 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 controled while and so long as a 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 so prevented shall not be counted against Lessee, anything in this lesse to the contrary notwithstanding.
- 10. Lestor bereby warrants and agrees to defend this to said land and agrees that lessee at its option may discharge any tax, mortgage or other liem upon said land, and in the event lessee does so it shall be subrogated to such liem with the right to enforce same and to apply royalties and shut-in royalties payable hereunder toward satisfying same. Without impriment 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 fee simple estate (whether Lessoe's interest is herein specified or not) then the royalties, shut-in royalty, and other payments, if any, according 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, 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 fail to excount this lesse, it shall nevertheless be binding upon the party or parties executing the same.
- 11. Lessee, 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, auccessors 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 royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

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	OI	& GAS INVESTMENTS
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PROPERTY			

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PRINTED NAME: GEORGIA L. BERGSTEN

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico

Case Nos. 13368/13369/13372 Exhibit No. 3

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

Hearing Date: December 2, 2004

COUNTY OF Besnellla		
The foregoing instrument was acknowledged before me this	day or Dovember	, 2003, by GEORGIA L
My Commission Expires ALD J. 3007	Notary Public, State of New Mexico Printed Name	E) Uke
OF NEW MEXICO	individual acknowledgment ((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 ECOK 0534 PAGE 0112 JEAN BLENDEN, COUNTY CLERK



Producer's 8F (Producer's Revised 1994) New Mexico I

OIL & GAS LEASE

THIS AGREEMENT made this 2" 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, boroin called more) and T. VERNE DWYER, 500 West Wall, Suite 310, Midland, Texas 79701 . "Lessee"

Lessor, in consideration of TEN AND OTHER DOLLARS in listif paid, receipt of which is hereby acknowledged, and of the royalties berein provided and of the agreements of the Lessee herein contained, bereby grams, leases and less exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling, and operating for and producing oil and gas, injecting gas, waters, other fluids, and air into subsurface strata laying pipelines, storing oil, building tanks, roadways, telephone lines, and other structures and things thereon to produce, nove take ears 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 scres, whether it actually comprises more or less.

- 2. Subject to the other provisions berein contained, this lease shall remain in force for a term of three (3) years from this date (called "primary term") and as long thereafter on oil or gas is produced from said land or from land with which said land to pooled.
- The royalties to be paid by Lessee are: (a) on oil, and other liquid hydrocarbous saved at the well, 3/16th of that produced and saved from said band, 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 easingheed gas or other gaseous substance produced from said land and used off 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 royalties shall be 3/16° 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 royalties shall be 3/16% of the amount realized from such sale; (c) and at any time when this lease 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 to sold or used and such well is shart, in, either before or eafter produced and there is a gas and/or condensate well out said land, or land pooled therewith, but gas or condensate is not being to sold out used and such well is shart, in, either before or eafter produced not not before 90 days after said well is shart and intervals. Lessee may pay or tender an advance shart-in royalty equal to \$1.00 per not acre of Lessor's gas acreage then held under this lease by the party making such payment or tender, and so long as said shart-in royalty is paid or tendered in the party or parties when all the shart in the party or the party making such payment and the paid on tendered of to the party or parties who at the since of such payment and the paid on tendered to the party or parties who at the since of such payment the making proper payment, but which is erroneous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this lesse in the same manner as though a proper payment, but which is erroneous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this lesse in the same manner as though a proper payment and been made if Lessee shall comment such careful to receive payment on the party or parties entitled to receive payment or received and the payment that the payment that does not not in the payment that the payment
- 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 reunder in 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 royables on actual production pursuant to the provisious or paragraph 3 beroof.
- 5. Leases is hereby granted 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 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 primates are located and such units may be designated from time to time and either before or after the completion of wells. Drilling operations on or production from the part described in his lease. There shall be allocated to the laud covered by this lease included in any such unit that portion of the total production for pooled 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 of all purposes, including the partment or delivery of royalty, to be the craite production of pooled minerals from the portion of said land covered hereby and included in adm with the same manner as though produced from said land to the terms of this lesse. 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 hole or the cassation 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 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 is produced from said land. If, after the expiration of the primary term, all wells upon said land should become incapable of producing for any cause, this lease this lesse storm concessorerations for additional drilling of for reworking within 60 days thereafter. If any drilling, additional drilling, or reworking operations hereunder result in production, then this lesse shall termain 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 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 lesse to remove all property and fixtures piaced by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all pipelines on cultivated 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 hereus
- 8. The rights of either party hereunder 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, royalties or shur-in royalties, 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 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 in ownership occurs through the death of the owner, Lessee may, at its option, pay or tender any royalties or shur-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 its option, pay or remove any royantes or sine-in royantes or our manner of the operation of this lease in which or in part shall, to the extent of such assignment, relieve and discharge Lessee of any obligations hereunder and, if Lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of royalty or thin-in royalty due from such Lessee or assignee or fail to comply with any of the provisions of this lesse, such default shall not aftern this lesse insofer as it covers a part of said lands upon which Lessee or any assignee thereof shall
- 9. Should Lessee be prevented from complying with any express or implied covenant of this lease, or from conducting drilling or reworking operations hereunder, or from producing oil or gas hereunder by reason of scercity or inability to obtain or use equipment or naterial, or by operation of force majeure, or by any Federal or state law or any order, rule 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 therewith, and this lease shall be excluded while d so long as Lessee is prevented by any such cause from conducting drilling or reworking operations or from producing oil or gas bereunder, and the time while Lessee is so prevented shall not be under the contract of the contract to the c ed against Lessee, snything in this lease to the contrary notwiths
- 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 lien upon said land, and in the event Lessee does so it shall be subrogated to such tien with the right to enforce same and to apply royalties and shut-in royalties payable bereunder soward 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 Lessoe's interest is berein specified or not) then the royalties, shut-in-royalty, and other payments, if any, accruing from any part as which this lesses covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, 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 Lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties execuring the same.
- 1). Lessee, its or his successors, bein 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 mading 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 refleved from all obligations, expressed or implied, of this agreement as to acroage so surrendered, and thereafter the shut-in royalty payable hereunder shall be reduced in the proportion that the acroage covered hereby is

William Hey Glyan, THUSTEE BY: WILLIAM JET GLYAN, THUSTEE Tax LD. No.: 500 LUNCH JE	THE WILLIAM JEFF GLENN AND LORA NELL SMITH GLENN REVOCABL	LE TRUST DATED FEBRUARY 13, 1992
Tax 1.D. No.: 500 (1) 100 (1)	Welliam Fery Glena By: William Jery Glynn, TRUSTEE	
Midla d TX	Tax 1.D. No.:	500 wall drag

STATE OF NEW MEXICO	
COUNTY OF XIIIA	1/2 day of actabas 2003, by WILLIAM JEFF
The foregoing instrument was acknowledged before me this	day of ACTOLOGY 2003, by WILLIAM JER
My Commission Empires 2-30-04	Noticy Public, State of New Mexico
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OF DELL	

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



Producer's 88-(Producer's Revised 1994) New Mexico F

17P Paider

OIL & GAS LEASE

THIS AGREEMENT made this 20th day of Octoberr, 2003, between KENNETH MARK SMITH AJK/A KENNETH M. SMITH, AND WIFE, PATSY LOU SMITH, of 267 Smith Rauch Road, Hobbs, NM 88248, herein called "Lessor" (whether one or more) and T. VERNE DWYER, 500 West Wall, Saite 310, Midhand, Texas 79701 "Lessoe".

1. Lessor, in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is hereby acknowledged, and of the royalties herein provided and of the agreements of the Lessee herein contained, hereby grants, lesses and lette seclassively unto Lessee for the purpose of investigating, exploring, prospecting, drilling, and operating for and producing oil and gas, injecting gas, wasers, other Buids, and air into subsurface strats laying pipelines, storing oil, building tanks, roadways, telephone lines, and other structures and things thereon to produce, save take care of, treat, process, store and transport said uniserals, 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 less.

- Subject to the other provisions herein contained, this lease shall remain in force for a term of three (3) years from this date (called "primary term") and as long there it gas is produced from said land or from land with which said land it pooled.
- 3. The royalties to be paid by Lessee are: (a) on oil, and other liquid hydrocarbous saved at the well, 3/16° 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 and used off the premises or used in the manufacture of gasoline or other products, the inarket value at the well of 3/16° of the gas used, provided that on gas sold on or off the premises, the royalties shall be at the wells or to the credit of Lessor in the pipeline to which the wells may be connected; (b) on gas, including casingheed gas or other gaseous substance product from said hand and used off the premises or used in the manufacture of gasodite or offer products, the market value is the well of 3/16* of the gas used, provided that on gas sold on or off the premises, the troyalines shall be 3/16* of the amount realized from such sale; (c) and at any time when this lease is not validated by other provisions hereof and there is a gas and/or condensate well on said land, or hand pooled therewith, but gas or condensate is not being so sold or used and such well is shu-in, either before or after production therefrom, then on or before 90 days after said well is shut in, and thereafter at annual intervals, Lessee may pay or tender an advance shut-in royale yeals to 51.00 per net sore of Lessors' gas a creage then held under this lease by the garty making such payment or tender, and so long as said shu-in royale; is paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalnies which would be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalnies which would be paid under this lease if the well-were in fact producing. The payment or tender of toyalnies or shut-in royalies may be made by check or draft. Any timely payment or tender of shu-in royally which is reade in a bone fide attempt to make proper payment, but which is erroucous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this lesse in the same manner as though a proper payment had been made if Lessee shall correct such error which in 30 days after lessee has recover devirent notice thereof by certified mail from the party or parties emitted to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable lessee to make proper payment. The amoun
- 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 actual production pursuant to the provisions or paragraph 3 bereof.
- 5. Lessee 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 essees or parts thereof for the production of uil or gas. Units pooled hereunder shall not exceed the standard proration unit fixed by law or by the Oil Conservation Division of the Energy mineral essates or parts thereof for the production of oil or gas. Units pooled hereunder shall not exceed the standard proration unit fixed by law on by the Qil Conservation Division of the Emergy and Minerals Department of the State of New Mexics or by sup yother law which authority for the pool or area in which said land is situated, pitus a tolerance to tem percent. Lesses shall file written unit designations in the county in which the premises are located and such units may be designated from time to time and either before or after the completion of wells. Drilling operations can 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 lesses included in any such multi that portion of the total production of pooled minerals from wells in the unit, after deducting any used in lesses or unit operations, which the net oil or gas acreage in the land covered by this lesses included in the unit bears to the total number of surface acres in the unit. The production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the enture production of pooled minerals from the portion of said land covered hereby and included in said unit to the same unanness as though produced flow said land under the terms of this lesses. Any poulded unit designated by Lessee, as powided lawein, any bullsorled flow said substitution of a dry hole or the cessation of production on asid unit.
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- 7. Lessee shall have free use of oil, gas and water from said land, except water from Lessor's wells and tunks, for all operations bereunder, and the royalty shall be computed after deducting any so used. Lessee shall have the right at any time during on after the expiration of this lease to remove all property and fatures placed by Lessee, on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all pripelines on cultivated lands below ordinary plow depth, and no well shall be drilled within two hundred feet (200 %), 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 stower and inside lights in the principal dwelling thereon, out of any surplus gas not needed for operations hereunder.
- 8. The rights of either party bereunder may be assigned in whole or in part and the provisions bereof shall extend to their heirs, executors, administrators, successors and assigns; but no change in the ownership of the land or in the ownership of, or rights to receive, royalties or shut-in royahies, 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 certified mail at Lessee's principal place of baniness with acceptable instruments or certified opposite thereof constituting the chain of title from the original lessor. If largy such change in ownership occurs through the death of the owner. Lessee may, at its option, pay or tender any toyalties or shu-in royalties in the name of the deceased or to his easier 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 this lesse in whole or in part shall, to the extent of such assignment, relieve and discharge Lessee of any obligations hereunder and, if Lessee or assignee of part or parts hereof shall fail or make default shall not affect this lesse insofar as it covers a part of said lands upon which Lessee or any assignee thereof shall
- 9. Should Lessee be prevented from complying with any express or implied covenant of this lease, or from conducting drilling or reworking operations hereunder, or from producing oil or gas bereunder by reason of scaucity or inability to obtain or use equipment or material, or by operation of force majeure, or by any Federal or state law or any order, rule 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 lease 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 bereunder, and the time while Lessee is so prevented shall not be counted against Lessee, anything in this lease to the contrary not vithstanding.
- Lessor hereby warrants and agrees to defend trife to said land and agrees that lessee at its option may discharge any tax, mortgage or other lien upon said land, and in the event Lessee does so it shall be subrogated to such lien with the right to enforce same and to apply royalties and shur-in royalties payable hereunder toward satisfying same. Without impairment of Lessee's rights under the warranty, if this lease covers a less interest in the oil or gas in all or any part of said land than the entire and undivided fee simple estate (whether Lessor's interest is herein specified or not) then the royalnes, shut-in royalny, and other payments, if any, according 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 undivided fee sample estate therein. Should any one or more of the parties named above as Lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.
- 11. Lessoe, its or his successors, bein 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 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 Lessoe shall be releved from all obligations, expressed or implied, of this agreement as to accept so surrendered, and thereafter the shut-in royalty payable hereunder shall be reduced in the proportion that the accept covered hereby is reduced by said releases or releases.

Count Mark Smith

Later Low Smith

Social Security No.:

TVerne Dwyer SOOWWall Ste 310 Midland TX 79701

Social Security No.:

COUNTY OF Eddy The foregoing instrument was acknowledged before me this 5** SMITH.	day of NOJO MER 2003, by KENNETH MARK
My Commission Expires 5.7-2006	Land Wew Mexico
	Printed Name LAURA ANN ALLEN
	INDIVIDUAL ACKNOWLEDGMENT (New Merico Stort Form)
COUNTY OF Eddy The foregoing instrument was acknowledged before me this 6+1	day of November 2003, by PATSY LOU
SMITH. My Commission Expires 5-7-2016	Laura a Allen
	Printed Name LAURA ANNALLEN
	2070 P

RECEPTION NO: 0314596 STATE OF NEW MEXICO, COUNTY OF EDDI RECORDED 11/24/2003 10:35 AM BOOK 0531 PACE 0472 JEAN BLENDEN, COUNTY CLERK



OIL & GAS LEASE

THIS AGREEMENT made this 2nd 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 88260, herein called "Lessor" (whether one or more) and T. VERNE DWYER, 500 West Wall, Suite 310, Midhand, Texas 79701, "Lessoe":

eration of TEN AND OTHER DOLLARS in hand paid, receipt of which is hereby acknowledged, and of the roya the Lessee herein contained, hereby grants, lesses and less exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling, and operating for and producing oil and gas, injecting gas, waters, other fluids, and air into subsurface strats laying pipelines, storing oil, building tanks, roadways, telephone lines, 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-wit:

TOWNSHIP 22 SOUTH, RANGE 30 EAST

SECTION 24: SW/4 NW/4

asted to comprise 40.00 acres, whether it actually comprises more or less.

- 2. Subject to the other provisions berein 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 or gas is produced from said land or from land with which said land is pooled.
- 3. The royalties to be paid by Lessee are: (a) on oil, and other liquid hydrocarbous saved at the wells, 3/16° 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 easinghead gas or other gaseous substance produced from said land and used off the premises or used in the manufacture of gasoobie 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 royalties what had been a substance produced from said land, or had pooled therewish, but gas or condensate is not being so sold or used and such well is shut-in, either before or after production therefrom, then on or before 90 days after said well is shut in, and thereafter at mustal intervals, Lessee may pay or tender an advance shut-in royalty equal to \$1.00 per net acre of Lessor's gas acreage then held under this lesse by the party making such payment or tender. Each such payment output that the paid or tendered, this lesse shall not terminate and it shall be considered moderall clauses hereof that gas is being produced from the lesseed premises in paying quantities. Each such payment output that the entitle to receive the toyalties which would be paid under this lesse it well were in fact producing. The payment or tender of royalties or shut-in royalties may be made by check or draft. Any timely payment or tender of shut-in royalty which is made in a bone fide attempt to make proper payment, but which is erroneous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this lesse in the same manner as though a purpour payment, but which is erroneous in whole or in part as to parties or manunts, shall nevertheless be sufficient to prevent termination of this lesse in the same manner as though a purpour payment had been made if Lessees shall correct such error within 30 days after lessee to make proper payment. The amou ralties to be paid by Lessee are: (a) on oil, and other liquid hydrocarbous saved at the well, 3/16 of that produced and saved from said land, same to be del such price a reasonable charge for each of such functi
- 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, ereunder 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 actual production pursuant to the provisions or paragraph 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 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 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 fand 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 their before or after the completion of wells. Drilling operations on or production from any part of any such unit in shall be considered for all purposes, except the payment of royalty, as operations conducted upon or production from the land described in this lesse. There shall be allocated to the land covered by this lease under the production of pooled minerals from wells 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 lesses included in the unit bears to the total number of surface acres 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 bereby and included in said unit in the same tunnary as through produced from said land under the terms of this lesses. Any pooled unit designated by Lessee, any 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 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 Leasee has commenced operations for drilling or reworking thereon, this lease shall remain in force so 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 is produced from said land. If, after the expiration of the primary term, all wells upon said land should become incapable of producing for say cause, this leases that long the content in a different content in the content in the content in the producing of the primary term, all wells upon said drilling, or reworking operations because of the producing the producing of the pro
- ve free use of oil, gas and water from said land, except water from Lessor's wells and tanks, for all operations here 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 fixtures placed by Lessee on said land, including the right to draw and remove all casing. When required by Lessor, Lessee will bury all pipelines on cultivated lands below ordinary plow depth, and no well shall be drilted within two hundred feet (200 ft.) of any residence or barn now on said land without Lessor's consent. Lessor stall 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
- 8. The rights of either party hereunder may be assigned in whole or in port and the provisions hereof shall extend to their heirs, executors, administrators, successors and assignes, 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 so 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 in ownership occurs through the death of the owner, Lessee may, at its option, pay or tender any royalties or shut-in royalties in the name of the deceased or to his sense, 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 this lesse in whole or in part shall, to the extent of such assignment, relieve and discharge Lessee of may obligations hereunder and, if Lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of royalty or shut-in royalty due from such Lessee 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 assignee thereof shall properly comply or make such payments.
- be be prevented from complying with any express or implied covenant of this lease, or from conducting drilling or reworking operations hereunder, or from producing oil or gas hereunder by reason of searcity 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, Lessee's duty shall be suspended, and lessee shall not be liable for failure to comply therewith; 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 ainst Lessee, anything in this lease to the contrary notwit
- 10. Lessor hereby warrants and agrees to defend title to soid land and agrees that lessee at its option may discharge any tax, mortgage or other lien upon said land, and in the event Lessee does so it shall be subrogated to such lien with the right to enforce same are to supply royalties and share in royalties payable hereunden toward satisfying same. Without inspairment 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 fee simple estate (whether Lessor's interest is herein specified or not) then the royalties, shut-in royalty, and other payments, if any, accruing from any part at to which this lesse covers less than such full 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 fail to execute this lesse, it shall nevertheless be binding upon the party or parties executing the same.
- 11. Lessee, 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 assis by delivering or mailing a release thereof of the Lessor, or by placing a release thereof of record in the county in which said lend is situated; thereupon Lessee shall be relieved from all oblig expressed or implied, of this agreement as to acreage so surrendered, and thereafter the slust-in royalty payable hereunder shall be reduced in the proportion that the acreage covered here

William C. Smith

Mancy Smith

TYPHEN HORYSTE Sound mand 310 proplice A in 25.77

COUNTY OF LEA		
The foregoing instrument was acknowledged before me this 14th	day of OCTOBER	, 2003, by WILLIAM C.
My Computing Expires DECEMBER 11, 2005	Norary Public, State of New Mexico Printed Name, MYRA VOI	joung
	INDIVIDUAL ACKNOWLEDO	GMENT (New Mexko Short Form)
STATE OF NEW MEXICO COUNTY OF LEA #		
The foregoing instrument was acknowledged before me this <u>14th</u>	day of OCTOBER	, 2003, by NANCY SMITTL
My Complete Expline DECEMBER 11m 2005 OTAR BUBLIC CE NEW	Notary Public, State of New Memory Printed Name MYPRA YOUNG	rung

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

STATE OF NEW MEXICO

