

## T-4 CATTLE COMPANY LLC OIL AND GAS LEASE

THIS AGREEMENT made this \_\_\_\_\_ day of \_\_\_\_\_, 2006 by and between T-4 Cattle Company LLC, a New Mexico limited liability company (hereinafter referred to as "Lessor," whether one or more) and Tucumcari Exploration, LLC (hereinafter referred to as "Lessee"):

1. Lessor, in consideration of TEN AND OTHER DOLLARS in hand paid, receipt of which is here acknowledged, and of the royalties herein provided and of the agreements of the Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling, and operating for and producing oil and gas (however, the term "gas" includes hydrocarbon gases such as casing head gas, coalbed methane gas, coalbed gas, and methane gas, including helium gas, but does not include carbon dioxide gas and other commercial gases), 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, save, take care of, treat process, store and transport such oil or gas, the following described land in Quay County, New Mexico, to-wit:

See Legal Description attached hereto, marked Exhibit "A" and made a part hereof by reference (hereinafter referred to as "said land").

2. Subject to the other provisions herein contained, this lease shall remain in force for a term of 3 (three) years from this date (called "primary term") and as long thereafter as oil or gas is produced in paying quantities from said land or from land with which said land is pooled.

3. a. The royalties to be paid by Lessee are:

(i) on oil, and other liquid hydrocarbons saved at the well, three-sixteenths (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;

(ii) on gas, including casinghead gas or other hydrocarbon gases 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 three-sixteenths (3/16) of the gas used, provided that on gas sold on or off the premises, the royalties shall be three-sixteenths (3/16) of the amount realized from such sale;

(iii) 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 so sold or used and such well is shut in, after production therefrom, then on or before ninety (90) days after said well is shut in, and thereafter at annual intervals, Lessee may pay or tender an advance shut-in royalty equal to Ten Dollars (\$10.00) per net acre of Lessor's gas

acreage then held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered, this lease shall not terminate; provided, however, it is understood and agreed that this Lease cannot be extended after the primary term by payments of shut-in gas royalty for more than five (5) years consecutive and during such an extension it shall be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. The above-noted shut-in royalty shall increase by the amount of inflation set forth in the Consumer Price Index beginning the first year following such shut-in royalty payment. The base shut-in royalty shall remain unchanged through the first year the shut-in royalty is paid. Thereafter, the base shut-in royalty shall be adjusted by an amount equal to that percentage increase of the base shut-in royalty, which is equal to the percentage increase in the cost of living as of the first day of the first month of the first year of the shut-in royalty, to the cost of living as reflected by the "Consumer Price Index, all Urban Consumers, U.S. City Average, all Items," published by the U.S. Department of Labor, Bureau of Labor Statistics, or its successor index. The adjusted shut-in royalty shall become the new shut-in royalty for the next annual period. A similar adjustment shall occur annually thereafter. In no event shall the shut-in royalty be less than the base shut-in royalty.

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 lease if the well were in fact producing. The payment or tender of royalties and shut-in royalties shall be made by bank certified or cashier's check or such other arrangement as is agreed upon by the parties. The amount realized from the sale of gas on or off the premises shall be the price established by the gas sales contract entered into in good faith by Lessee and gas purchaser for such term and under such conditions as are customary in the industry. "Price" shall mean the net amount received by Lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. In the event Lessee compresses, treats, purifies, or dehydrates such gas (whether on or off the leased premises) or transports gas off the leased premises, Lessee in computing royalty hereunder shall not deduct from such price a charge for each of such functions performed. In the event Lessee transports and treats oil to make it marketable as crude, Lessee in computing royalty hereunder shall not deduct from such price a charge for each of such functions performed.

If this lease covers a less interest in the oil and gas in all or any part of said land 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 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 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 executing the same.

b. Notwithstanding the forgoing provisions of Subparagraph (a) above to the contrary, for each well developed and produced under this Lease, commencing the first day of the calendar month following the calendar month in which Lessee has recovered the costs of drilling, completing and equipping such well from the production thereof, the royalties to be paid by Lessee for such wells shall be one-fourth (1/4) substituted in lieu of three-sixteenths (3/16) in each place

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reflected in Subparagraph (a) above. The Lessee shall receive credit for payout of Three Hundred Thousand Dollars (\$300,000.00) for each existing well to be credited separately, on a total of seven (7) existing wells which were drilled by CKG Energy, Inc. The payout of Three Hundred Thousand Dollars (\$300,000.00) per well will be recouped on a per well basis, only if that particular well produces sufficient gas to offset such cost.

4. If operations for drilling wells are not commenced on said land or on land pooled therewith on or before one (1) year from this date, this lease shall terminate as to both parties, unless on or before one (1) year from this date Lessee shall pay or tender to Lessor a rental of Ten Dollars (\$10.00) per acre which shall cover the privilege of deferring commencement of such operations for a period of twelve (12) months. In like manner and upon like payments or tenders, annually, the commencement of said operations may be further deferred for successive periods of twelve (12) months each during the primary term.

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, leases, 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 of 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 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 any such unit that portion of 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 in the land covered by this lease 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 hereby and included in said unit in the same manner as though produced from said land 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 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

point in time when the entirety of the leased premises has been included in a well unit, or units as prescribed and permitted by the applicable rules and regulations of the State of New Mexico or other governmental authority having jurisdiction. Completion as defined herein shall be the date total depth of the well bore is attained. Upon expiration or termination of this Lease as provided above, Lessee shall execute an appropriate release(s) and shall cause same to be properly recorded in the Records of the Clerk of Quay County, New Mexico.

14. At the expiration of the primary term of three (3) years hereof, or after cessation of the continuous drilling program as set out above (whichever occurs later), this Lease shall automatically terminate as to all horizons and formations located below the base of the deepest formation from which there is then production in paying quantities of oil and/or gas from any well drilled on the leased premises, or acreage pooled therewith, pursuant to the terms of this Lease.

15. Lessee shall require of any successor or assignee to whom Lessee may assign or transfer all or any parts of the lease or lands embraced therein to assume and agree to perform the obligations required of Lessee under the terms of this lease as same now exists, or as same may be amended, modified or supplemented from time to time hereafter; provided, however, that such assumption and agreement to perform by any such successor or assignee shall not relieve Lessee from Lessee's responsibility for performance of the obligations and duties herein while Lessee owns interest in this lease. Notwithstanding anything contained herein to the contrary, if Lessee should determine it will assign or transfer all of its interest in this lease or lands embraced therein so that upon completion of same it will no longer own an interest therein, Lessee shall not make such assignment or transfer without the prior written consent of Lessor, provided Lessor will not unreasonably withhold its consent to any such assignment or transfer.

16. Except as provided in Paragraph 21 below, if any payment required of Lessee under the terms and provisions of this lease is not timely paid or if Lessee is in material breach of any of the other terms and provisions thereof, Lessor after providing thirty (30) days written notice to Lessee specifying such failure or default, shall be entitled to declare Lessee's rights hereunder terminated if such breach is not corrected within said thirty (30) day period, unless Lessee shows actual progress during said thirty (30) days that such breach is being corrected and that good faith efforts are ongoing and will continue so that correction of such breach will be accomplished forthwith. Upon such termination, Lessor shall be entitled to pursue all remedies available to it in law and in equity, including but not limited to, recovery of attorney's fees, court costs and expenses in connection therewith; provided, however that such recovery shall be available if Lessor prevails. In the event the Lessor shall wrongfully terminate the Leases or any part thereof, during such period the Lessee's duties and obligations hereunder, excepting payment of royalties, shall be suspended, and the Lessee shall be entitled to pursue all remedies available to it in law and in equity, including but not limited to recovery of damages, attorney's fees, court costs and expenses in connection therewith; provided that such recovery shall be available if Lessee prevails.

17. Any litigation arising out of or as a result of this lease, directly or indirectly, will be filed only in the State or Federal Courts of the State of New Mexico including New Mexico Bankruptcy Court for bankruptcy proceedings. Filing such litigation by Lessee outside of the State

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of New Mexico or removing such litigation from the State of New Mexico shall constitute a default or breach of the terms of this lease for which this lease is subject to termination regardless of whether other law, including *ipso facto* provisions of United States Bankruptcy law, may supercede the provisions of this Paragraph 17 of this Lease.

18. This lease shall be construed and enforced under and in accordance with and shall be governed by the laws of the State of New Mexico.

19. All notices under this lease shall be in writing and shall be deemed to have been duly given upon receipt by first class mail, registered mail, return receipt requested, postage prepaid, via e-mail or via facsimile as follows:

If to Lessor: T-4 Cattle Company, LLC  
Attention: Phil Bidegain  
5859 QR BK  
Tucumari NM 88401-9541  
Facsimile: (505) 868-9615  
E-Mail: pandlb@hotmail.com

If to Lessee: Tucumcari Exploration, LLC  
c/o Kenneth E. Davison  
Goodall & Davison PC  
1250 S Capital of Texas Hwy Ste III601  
Austin TX 78746-4452  
Telephone: (512) 327-3400  
Facsimile: (512) 306-8903  
E-Mail: kdavison@goddalldavison.com

Address of all Notices provided herein may be changed upon the party whose address is to be changed providing ten (10) days written notice providing the new address for all future notices to the other party, delivered by certified return receipt requested United States Mail. Ten (10) days after the mailing of the notice of change of address, the new address shall be the address for all future notices pursuant to this Lease.

For all notices mailed pursuant to the terms hereof, the date appearing on the return receipt shall be conclusive evidence as to the date notice was received for purposes of this lease. For

20. Recordation of this lease or a memorandum or notice thereof in the records of Quay County, New Mexico, shall be deemed acceptance by Lessee of all terms and provisions of this lease and its agreement to comply with same.

21. This lease shall terminate after notice of thirty (30) days specifying the failure of Lessee to meet any of the following progress deadlines without curing such breach, unless Lessee shows actual progress during said thirty (30) days that such breach is being corrected and that good faith efforts are ongoing and will continue so that correction of such breach will be accomplished forthwith. These progress deadlines include the following:

a. Within one (1) year, removal and properly dispose of contaminated soil; pit liners, if any; trash and debris; and completion of cleanup and remediation of contaminated areas at each of seven existing well sites all consistent with the terms and provisions of the Inter-American Oil and Gas Lease dated July 31, 2002, Recorded in Book 25, Pages 847-852, Records of Quay County, New Mexico.

b. Achieve gas production in paying quantities from this land in a manner consistent with this Lease.

22. For any other commercial gases which are on the property, Lessee shall have the right of first refusal to match any other bona fide lease offer within ten (10) days of written notice of same by Lessor. If no other offer exists, Lessor and Lessee shall in good faith negotiate mutually acceptable lease term and royalty to be paid to Lessor for same. In the event any other commercial gases are discovered on the Property, the parties shall negotiate in good faith to agree a form of lease relating to such gases and the consideration for the grant of such lease shall include an industry standard bonus. Pending agreement and exchange of any relevant lease, the Lessee shall be entitled to sell all commercial gases and royalties shall be payable on such gases pursuant to the terms of this Lease.

23. Upon Lessee having complied with the requirements or any one of the requirements set forth herein, Lessor shall deliver upon written request an instrument evidencing that Lessee has complied with such requirements and that the lease is still in full force and effect. This document shall be in recordable form and mutually acceptable.

24. Lessor does hereby relinquish unto Lessee any and all right, title, interest and claims in and to the oil and gas production equipment and transportation equipment and improvements presently on the leased premises known as the original seven wells, to include without limitations, the well bore, well casing, production units, pipelines and similar equipment so long as this lease is in force and effect.

25. The rights, duties and obligations created herein shall be binding upon and shall extend to the heirs, legal representatives, successors and assigns of the respective parties hereto.

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## LEGAL DESCRIPTION

### T-10-N, R-27-E, N.M.P.M.

Section 16: W2SE; Section 17: A 72 acre triangular shaped tract of land lying South of the Railroad located in the S2 of said section; Section 19: E2, SW, SENW; Section 20: All; Section 21: All; Section 28: All; Section 29: All; Section 30: N2, SE, S2SW, NESW; Section 31: All; Section 32: All; Section 33: All

### T-9-N, R-27-E, N.M.P.M.

Section 4: Lots 1(39.63), 2 (39.67), 3(39.73), 4(39.77), S2N2, S2; Section 5: Lots 1 (39.82), 2(39.88), 3 (39.92), 4 (39.98), S2N2, S2; Section 6: Lots 1 (37.08), 2(37.20), 3(37.32), 4(37.44), S2N2, SE; Section 7:N2, NESW, NWSE; Section 8: N2, SE, E2SW; Section 9: N2N2, S2NW, NWSW, NENE, W2E2, SESE; Section 10: N2SW; Section 17: NW, NWSE, NESW

Said land is estimated to comprise 9,299.44 acres, whether it actually comprises more or less.