

OIL AND GAS LEASE

THIS AGREEMENT was made the 14th day of August, 2007, by and between

Nancy Tonkin Cutter and Allen M. Tonkin, Jr. as Co-Trustees
of the Nancy P. Tonkin Revocable Trust Agreement dated 12-12-91
1524 Park Avenue SW
Albuquerque, NM. 87104
hereinafter referred to as "Lessor"

and

Peregrine Production, LLC
P.O. Box 1844
Midland, Tx. 79702
hereinafter referred to as "Lessee"

1. In consideration of the bonus in hand paid, of the royalties herein provided, and of the agreements of Lessee herein contained, Lessor hereby grants, leases, and lets unto Lessee for the sole and only purpose of exploring, drilling and operating for and producing oil and gas and of laying pipelines, storing oil and building tanks, roads and structures thereon to produce, save, care for, treat and transport said substances produced from the land leased hereunder only, the following described land situated in Lea County, NM., to-wit:

Township 25 South, Range 33 East, NMPM
Section 34: NE, W2SE

Township 26 South, Range 33 East, NMPM
Section 3: W2NE

and containing 320.00 acres, more or less, sometimes called herein the "Leased Premises."

2. Subject to the other provisions hereof, this lease shall be for a term of **three (3) years** from this dated (called "Primary Term") and as long thereafter as oil and gas, or either of them, is produced in paying quantities from the Leased Premises as specified more particularly herein.

3. Lessee shall pay the following royalties to Lessor:

- (a) OIL: On all oil and liquid hydrocarbons, including all condensate, distillate and other liquid hydrocarbons recovered or separated from oil or gas by separator or other equipment at the Lease Premises, the royalty shall be **twenty (20%) percent** of that produced and saved from the Leased Premises, the same to be sold with Lessee's oil and liquid hydrocarbons at a price no less than the current market value at the time of production in the field where produced (however, but in no event shall such price ever be less than the actual price realized by Lessee or its affiliates) or, at Lessor's option, to be delivered in-kind to Lessor free of cost into the storage tanks or into the pipeline to which the wells may be connected. To exercise the option to take in-kind (which may be done by Lessor from time to time), Lessor shall give sixty (60) days written notice to Lessee.
- (b) GAS: On all gas produced from the Leased Premises, including casinghead gas and residue gas at the tailgate of any plant through which gas is processed, the royalty shall be **twenty (20%) percent** of the current market value at the time of production at the place of sale or use (however, but in no event shall such value ever be less than the actual value realized by Lessee or its affiliates). The value of the gas shall be inclusive of all proceeds or credit for all natural gas liquids entrained in the gas and saved and sold as the result of extraction processes.

- (c) **SHUT-IN:** While there is a gas well on the Leased Premises capable of producing gas in paying quantities but gas is not being sold, Lessee may pay, as royalty, commencing on or before sixty (60) days after the date on which (i) the gas well is shut-in or (ii) this lease is no longer maintained by other provisions hereof, whichever is the later date, a sum of \$25.00 yearly for each of Lessor's net acres ascribed to such gas well pursuant to Paragraph 7 hereof; provided, however, in no event shall the amount of such royalty be less than One Hundred Dollars (\$100.00) after applying the proportionate reduction provision contained herein. If such payment is made or tendered in accordance with the terms hereof, this lease shall continue in full force for one (1) year after such payment, subject to the provisions of Paragraph 7, and it will be considered that gas is being produced from the Leased Premises in paying quantities within the meaning of each pertinent provision of this lease; in no event shall shut-in well payments maintain this lease in force for a cumulative period exceeding two (2) years. Lessee shall not be entitled to recover any shut-in royalty payments from the later sale of gas. Should shut-in royalty not be paid in a timely manner as provided in this paragraph, it will be considered for all purposes that there is no production of gas from the shut-in well in question and, unless there is then in effect some provision of this lease directing otherwise, this lease shall terminate.
- (d) **Post Production Expenses:** All royalties payable to Lessor shall be free, clear and without deduction for any volume reduction and any costs of marketing, gathering, transporting, separating, processing, dehydrating, compressing or other costs in making the oil and gas available and marketable at the place of sale or use; provided, however, Lessee shall have free use of oil and gas for lease operations conducted on the Leased Premises under the terms of this lease (but in no event shall such free use of oil and gas extend to fuel gas used in plant operations).
- (e) **ABSOLUTE OBLIGATION:** Lessee is unconditionally obligated to Lessor to make the payment of royalties hereunder, irrespective of the failure or bankruptcy of any third party oil or gas purchaser and without the necessity of Lessor executing a division order or transfer order. Further, Lessee shall bear full responsibility for payment of all royalties hereunder, irrespective of any split-stream marketing of production. Accounting and payments to Lessor of royalties from the production of oil and gas from any well shall commence and thereafter be paid in full compliance with the applicable provisions of the laws of New Mexico or codes of a governmental authority having jurisdiction, and failure to so comply shall entitle Lessor to the remedies therein provided. If Lessee at any time fails to make required royalty payments, Lessor may, at Lessor's option, cancel this lease by giving Lessee thirty (30) days advance written notice of such cancellation. Lessee may avoid such cancellation by paying Lessor all sums (including interest) then owed by Lessee prior to the expiration of said thirty (30) day period. Acceptance by Lessor of royalties which are past due shall not act as a waiver or estoppel of Lessor's right to receive or recover any and all interest due thereon under the provisions hereof, unless a written acknowledgment executed by Lessor expressly so provides. Lessee shall pay all costs of litigation, including reasonable attorney's fees, expert witness and consultation fees, incurred by Lessor in connection with any lawsuit in which Lessor prevails in recovering any royalties or interest attributable to Lessee's failure to pay royalties as required herein.

4. This is a paid-up lease, so that Lessee is not obligated during the Primary Term to commence or continue any development operations. Lessee has the right to surrender this lease in its entirety prior to termination, by delivering to Lessor a release of the lease suitable for recordation in the county in which the Leased Premises is situated.

5. Lessee has the right to act reasonably to pool or communitize all or a portion of the Leased Premises with other leases, mineral estates or parts thereof to form one or more well spacing units for the production of oil or gas. Spacing units so formed shall not exceed standard proration units established by the Oil Conservation Division of New Mexico.

6. If prior to discovery and production of oil or gas on the Leased Premises Lessee should drill a dry hole or dry holes thereon, or if after discovery and production of oil or gas the production thereof should cease from any cause (within or after the Primary Term), this lease shall not terminate if Lessee commences drilling or reworking operations within sixty (60) days thereafter. If at the expiration of the Primary Term oil or gas is not being produced from the Leased Premises but Lessee is then engaged in drilling or reworking operations thereon or shall have completed a dry hole thereon within sixty (60) days prior to the expiration of the primary term, then this lease shall remain in force so long as such operations on such well or drilling or reworking operations on any additional well are prosecuted in good faith and in a workmanlike manner with no cessation of more than sixty (60) consecutive days, and if such operations result in production of oil or gas, so long thereafter as oil or gas is produced in paying quantities from the Leased Premises, subject to the other provisions hereof.

7. Notwithstanding anything herein to the contrary, in order to maintain this lease in force and effect after the expiration of the Primary Term as to the portion of the Leased Premises not then dedicated to a spacing unit for a producing well or shut-in well, Lessee shall be required to continuously drill wells on the Leased Premises after the expiration of the primary term so that there is no cessation of more than **one hundred twenty (120)** consecutive days between the completion of one well and the commencement of a subsequent well, thereby providing a continuous drilling schedule after the expiration of the Primary Term. Commencement of the first well in such continuous drilling program shall occur (i) within the Primary Term or (ii) ninety (90) days after the completion of the last well drilled on said lands within the Primary Term. If at any time after the expiration of the Primary Term Lessee fails to maintain said continuous drilling schedule, then this lease shall automatically terminate as to all of the Leased Premises, **SAVE AND EXCEPT** the interval from the surface down to 100 feet below the stratigraphic equivalent of the deepest producing perforation for acreage dedicated to a spacing unit for (a) each well producing from said lands in paying quantities, and (b) each non-producing well but which is capable of producing gas in paying quantities with all shut-in royalty payments then due having been paid thereon. **UPON THE TERMINATION OF THIS LEASE EXCEPT AS TO EACH OIL WELL AND EACH GAS WELL AND THE NUMBER OF ACRES HEREINABOVE DEDICATED TO EACH SUCH WELL, EACH SEPARATE TRACT AROUND AN OIL WELL AND EACH SEPARATE TRACT AROUND A GAS WELL SHALL BE TREATED AS A SEPARATE LEASE THAT IS SUBJECT TO THE PROVISIONS HEREOF.** In such event, the continuation of this lease as to each such separate lease shall be determined by the application of the provisions hereof to each particular separate lease. Within sixty (60) days after the termination of this lease as to any portion of the Leased Premises, Lessee shall designate and file of record a plat and legal description of the particular acreage dedicated to the spacing unit for each well, furnishing Lessor a copy of such instrument.

8. Operations for drilling shall be deemed here to be "commenced" on the date the drill bit enters the earth for the drilling of a validly permitted well. A well shall be deemed to be "completed" on the date that is (i) ten (10) days after the well reaches total depth in the event no attempt is made to complete the well as a producer of oil or gas by the running of production casing (a "dry hole") or (ii) thirty (30) days after the date production casing is cemented in the well (as reflected by the report required to be filed with the governmental authority having jurisdiction) in the event an attempt is made to complete the well as a producer of oil or gas.

9. In the event (i) a well productive of oil or gas should be brought in on land offsetting the Leased Premises and (ii) such well is within 660 feet from the Leased Premises, then Lessee agrees to commence the drilling of an offset well within one hundred twenty (120) days or release that portion of the Leased Premises that would be dedicated to a spacing unit for offset well pursuant to Paragraph 7. If oil or gas is discovered on any portion of the land covered by this lease, Lessee agrees to further develop all lands covered by this lease and to protect the Leased Premises' reserves from drainage as a reasonably prudent operator under the same or similar circumstances.

10. The rights of either party hereto may be assigned in whole or in part (except that oil rights shall never be severed from gas rights). The provisions hereof shall extend to the heirs, successors and assigns of the parties hereto, but no change or division in ownership of land or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee. It is provided, however, that Lessee may not assign this lease, or any portion thereof, without the prior written consent by Lessor, which consent shall not be unreasonably withheld. No change or division in the ownership of land or royalties shall be binding upon Lessee for any purpose until Lessee shall have been furnished with the instrument or instruments, or certified copies thereof, evidencing such change or division.

11. When any of the operations contemplated by this lease are delayed or interrupted by operation of force majeure, the time of such delay or interruption shall not be counted against Lessee. The term "force majeure", as used herein, shall mean storms, floods, washouts, landslides, lightning or other acts of God. If Lessee is required, ordered or directed by any federal, state or municipal law, executive order, rule or regulation to cease drilling operations, reworking operations or producing operations, then the period of such cessation shall not be counted against Lessee; provided, however, that in no event will the Primary Term be extended unless Lessee has begun drilling operations prior to the date of the expiration of the Primary Term. Before the provisions of this Paragraph may be relied upon, Lessee must furnish written notice to Lessor within a reasonable time after the first day the provisions hereof are relied upon, said notice to specify the preventing event and the first date thereof and the Lessee shall notify Lessor within fifteen (15) days after the preventing event ceases.

12. This lease is executed without warranty by Lessor, either expressed or implied. If Lessor owns an interest in said lands less than the entire mineral estate therein, then the royalties shall be paid to Lessor in the proportion which Lessor's interest bears to the entire mineral estate. Lessee, at its option and after giving thirty (30) days written notice to Lessor, may discharge any tax, mortgage or other lien upon the interest of Lessor; in the event Lessee does so, Lessee shall have the right to apply royalties accruing hereunder toward the reimbursement of such payment.

13. Should Lessee have title to the Leased Premises, or any portion thereof, examined and have one or more title opinions rendered, Lessee shall furnish to Lessor a copy of each such title opinion and any supplements thereto. A copy of each such opinion rendered shall be mailed to Lessor within thirty (30) days after the date thereof.

14. It is expressly understood and agreed that this lease covers oil and gas only, along with the products and by-products thereof. This lease does not cover any other minerals of any type, including uranium, thorium and other fissionable materials, copper, coal, lignite, or any other minerals of any type.

15. In the event this lease terminates for any reason as to all or any portion of the Leased Premises, Lessee shall promptly prepare and execute a recordable release covering all of the land to which this lease has terminated and shall promptly forward same to Lessor.

16. Upon Lessor's request, Lessee shall furnish to Lessor timely all information concerning the drilling, deepening, plugging back, coring, testing, logging and completing or recompleting of any and all wells and all information concerning the production and marketing of oil and gas from the Leased Premises.

17. Lessee shall install and maintain all equipment and conduct all operations in an environmentally sound manner, in accordance with all applicable regulations of governmental authorities having jurisdiction. Lessee shall not use, store or dispose of any hazardous materials on the Leased Premises, except to the extent such substances are contemporaneously required for actual oil or gas operations thereon, and any such substances shall be used, removed and disposed in a safe manner and in compliance with all applicable governmental regulations. Lessee shall insure that all contractors of Lessee comply with the terms of this Paragraph. In the event Lessee is notified of any environmentally harmful or dangerous conditions on the Leased Premises resulting from Lessee's operations, Lessee shall promptly take all action required to remediate and correct such dangerous or harmful conditions, in accordance with applicable laws, regulations and sound engineering practices. Lessor shall have no responsibility to inspect or oversee Lessee's operations or to identify or correct any potentially harmful, dangerous or damaging conditions, and Lessor shall have no right to control any details of Lessee's operations, nor to designate or control Lessee's contractors. LESSEE SHALL INDEMNIFY, DEFEND AND HOLD LESSOR HARMLESS FROM AND AGAINST ANY AND ALL LIABILITY ARISING OUT OF LESSEE'S USE OF THE LEASED PREMISES WHICH CAUSES OR MAY CAUSE CONTAMINATION OF THE GROUNDWATER OR SOIL WITHIN THE LEASED PREMISES OR SURROUNDING AREA ADJACENT THERETO AND FOR ANY AND ALL LIABILITY INCURRED BY-LESSOR BECAUSE OF LESSEE'S USE OF THE LEASED PREMISES AND ARISING OUT OF OR INCURRED PURSUANT TO ANY STATE, FEDERAL OR MUNICIPAL LAWS, RULES AND REGULATIONS.

18. "Favored Nations." Lessor and Lessee agree that if, (a) at any time during a period of one (1) year before or after the date of this lease, that Lessee, Lessee's agents, transferees, successors or assigns, extend or grant more favorable terms, including, but not limited to, bonus payments, rent/royalty, minimum royalty, or any modification or enlargement of the provisions contained in the lease, to any other owner or owners within the herein described lands, and such other owner or owners grants and options and/or lease to Lessee, its agents, successors and assigns, then (b) Lessee obligates itself to grant those same favorable terms to Lessor within thirty (30) calendar days from the date of the option or lease containing the more favorable terms. The granting of these additional favorable terms to Lessor, if any, shall be deemed an amendment to this lease.

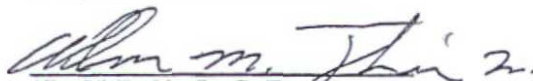
19. Lessee is hereby given the option to extend the primary term of this lease for an additional two (2) years from the expiration of the original primary term hereof. This option may be exercised by Lessee at any time during the original primary term by paying the sum of One Hundred and fifty No/100 Dollars (\$ 150.00) per net mineral acre direct to Lessor at the above address. This payment shall be based upon the number of net mineral acres then covered by this lease and not at such time being maintained by other provisions hereof. This payment may be made by the check or draft of Lessee mailed or delivered to Lessor or to said bank at any time during the original primary term hereof. If such bank (or any successor bank) should fail, liquidate or be succeeded by another bank, or for any reason fail or refuse to accept payment, Lessee shall not be held in default for failure to make such payment until thirty (30) days after Lessor's delivery to Lessee of a proper recordable instrument naming another bank as agent to receive such payment. If, at the time this payment is made, various parties are entitled to specific amounts according to Lessee's records, this payment may be divided between said parties and paid in the same proportion. Should this option be exercised as herein provided, it shall be considered for all purposes as though this lease originally provided for a primary term of five (5) years.

Executed the day of year first above written.

LESSOR

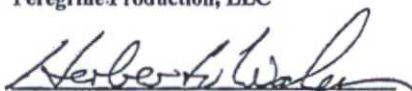
Nancy P. Tonkin Revocable Trust Agreement dated 12-12-91


Nancy Tonkin Cutter, Co-Trustee


Allen M. Tonkin, Jr., Co-Trustee

LESSEE

Peregrine Production, LLC

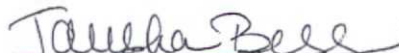

By: Herbert V. Wales
Its: Registered Agent

ACKNOWLEDGEMENT

STATE OF New Mexico §
COUNTY OF Bernalillo §

This instrument was acknowledged before me on the 5 day of September 2007, by Nancy Tonkin Cutter, Co-Trustee of the Nancy P. Tonkin Revocable Trust Agreement dated 12-12-91.

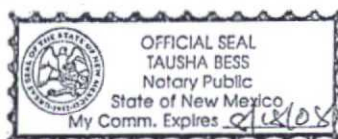




Notary Public

ACKNOWLEDGEMENT

STATE OF New Mexico §
COUNTY OF Bernalillo §

This instrument was acknowledged before me on the 5 day of September 2007, by Allen M. Tonkin, Jr., Co-Trustee of the Nancy P. Tonkin Revocable Trust Agreement dated 12-12-91.

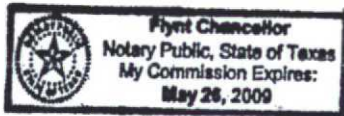



Notary Public

ACKNOWLEDGEMENT

STATE OF Texas §
COUNTY OF Midland §

This instrument was acknowledged before me on the 11th day of September, 2007, by **Herbert V. Wales**, as **Registered Agent for Peregrine Production, LLC.**, on behalf of said company.



Fynt Chancellor
Notary Public

STATE OF NEW MEXICO
COUNTY OF LEA
FILED

SEP 13 2007
at 10:42 o'clock A M
and recorded in Book 1535
Page 857
Melinda Hughes, Lea County Clerk
By DJ Deputy



44557