

1457

Form No. 2042-Rev. 4/84 FCB-112-Rev. 10-87

FICB #18508
PMM 92370

THIS LEASE PREPARED BY JULIE A. MAYOR
FEDERAL INTERMEDIATE CREDIT BANK OF JACKSON
POST OFFICE BOX 12468
JACKSON, MISSISSIPPI 39236-2468
OIL AND GAS LEASE

THIS AGREEMENT made this 26TH day of SEPTEMBER 1989, between

the FEDERAL INTERMEDIATE CREDIT BANK OF JACKSON, Lessor, herein represented by the undersigned officer, duly authorized, and ARKLA EXPLORATION COMPANY

Lessee, WITNESSETH:

I

Lessor in consideration of TEN DOLLARS AND OTHER VALUABLE CONSIDERATIONS, in hand paid, the royalties provided, and the agreements of the Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of investigating, exploring, prospecting, drilling, and mining for and producing oil, gas, and all other minerals derived from oil and gas, together with such rights as the Lessor may own to enter and use the lands herein described for the purpose of dredging and maintaining canals, constructing roads and bridges, laying pipe lines, building tanks, power stations, telephone lines, and other structures thereon to produce, save, take care of, treat, transport, and own said products, and building houses for its employees, and in general for all appliances, structures, equipment, servitudes and privileges which may be necessary, useful, or convenient to or in connection with any such operations for complete development and production of any or all of such minerals conducted by Lessee thereon the following described land in SHELBY

County of XXXXX, State of ALABAMA to-wit:

An undivided one-half interest in and to all oil, gas and all other minerals derived from oil and gas in and under the following described property, to-wit:

Southwest Quarter of Southeast Quarter, Section 22;
twenty-seven acres on the East side of Northeast Quarter of
Northwest Quarter, Section 27; West one-half of Northeast
Quarter, Section 27, all in Township 18 South, Range 2 East.

As a further and additional consideration for this lease and in addition to the royalty provided in paragraph III, the lessee agrees to pay to lessor an over-riding royalty equal to 1/32 of all of the oil, gas, and other minerals produced from the undivided 1/2 interest leased herein, or 1/64 of all production from the entire mineral interest, free and clear of all costs, in the same manner and under the same conditions as are provided for the payment and delivery of the 1/8 royalty as set out in paragraph III hereinbelow.

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STATE OF MISSISSIPPI
COUNTY OF MADISON

Before me, the undersigned authority in and for the jurisdiction aforesaid, this day personally appeared _____

_____, who is known to me and who acknowledged that his name as _____

_____ of the FEDERAL INTERMEDIATE CREDIT BANK OF JACKSON, a corporation, is signed to the foregoing instrument, and that, being informed of the contents of this instrument, he, as such officer and with full authority, signed, executed, sealed and delivered the same voluntarily as the act and deed of said corporation for the uses and purposes therein stated.

Given under my hand and official seal of office this _____ day of _____, 19____.

My commission expires _____

Notary Public

ALABAMA CORPORATE ACKNOWLEDGMENT

STATE OF MISSISSIPPI
COUNTY OF MADISON

I, the undersigned, Notary Public in and for said County in said State, hereby certify that RONALD P. RODRIGUEZ

whose name as VICE PRESIDENT of the FEDERAL INTERMEDIATE CREDIT BANK OF JACKSON, a corporation, is signed to the foregoing conveyance, and who is known to me, acknowledged before me on this day that, being informed of the contents of the conveyance he, as such officer and with full authority, executed the same voluntarily for and as the act of said corporation.

Given under my hand this 16TH day of JANUARY, 19 90.

My commission expires October 21, 1990.

Connie Regina Clark
Notary Public

OIL AND GAS LEASE

FROM

TO

WHEN RECORDED RETURN TO:
ARKLA EXPLORATION COMPANY
LEASE RECORDS, ROOM 1618-A
P. O. BOX 21734
SHREVEPORT, LA 71151

For rental paying purposes the above described land shall be treated as comprising 147.00 acres, whether there be more or less.

II

Subject to the other provisions herein contained, this lease shall be for a term of FIVE years ~~XXXXXXXXXXXX~~ from this date (called primary term) and as long thereafter as oil, gas, or any other mineral derived from oil or gas is produced from said land in paying quantities, or as long as any payment is made or any conditions exists which, as hereinafter provided, continues this lease in force.

III

In consideration of the premises, and as royalties hereunder, Lessee covenants and agrees:

1. To deliver to the credit of Lessor, free of cost, in the pipe line or lines to which it may connect the well or wells producing hereunder, or in the containers of such other carrier as may be used in transporting the oil from the leased premises, the equal one-eighth part of all oil produced and saved from said land, such oil to be marketable crude when so delivered; provided, however, that in the event of the storage of oil by Lessee, such storage shall be at the expense of the Lessee without charge to Lessor.

2. To pay the Lessor royalty for gas produced from said land, including wet gas, casinghead gas and other vaporous or gaseous substances used for the extraction of gasoline, distillate, condensate, or other petroleum products as follows:

(a) If such gas is sufficiently impregnated with liquid hydro-carbons that paying quantities of such products can be separated therefrom and liquefied as a practical lease operation by means of traps, separators, or other devices used in the industry for such purpose, Lessee will install such traps, separators, or other devices and separate so much of said liquid hydro-carbons, whether gasoline, distillate, condensate, or other liquid petroleum products as can be separated from such gas by such devices, and Lessor shall receive one-eighth of the gasoline, condensate, distillate, or other liquid petroleum products recovered in such manner, same to be delivered free of cost to credit of Lessor in the same manner as hereinabove provided for oil royalty, and one-eighth of the market value of the gas there sold or used off the leased premises.

(b) When the gas that remains after such operation on the leased premises is not sold or used off the leased premises but is taken to an extraction plant for further processing Lessee shall also deliver to credit of Lessor at such plant one-eighth of the gasoline, condensate, distillate, or other petroleum products extracted therefrom less the reasonable cost of extraction, provided, however, such costs shall not exceed 50% of the market value of the products so extracted, and pay to Lessor one-eighth of the market value at the outlet side of the plant of all residue gas remaining after such plant operation if such residue gas is sold or used off the premises.

(c) If such gas is not sufficiently impregnated with liquid hydro-carbons that paying quantities of such products can be separated therefrom and liquefied as a practical lease operation by means of traps, separators, or other devices used in the industry for such purpose before taking the gas to an extraction plant, Lessee will, at the plant, deliver to the credit of Lessor one-eighth of all gasoline, condensate, distillate, or other petroleum products extracted therefrom subject to a reasonable charge for the cost of such extraction, provided, however, such costs shall not exceed 50% of the market value of the products so extracted, and pay to Lessor one-eighth of the market value at the outlet side of the plant of all residue gas remaining after such plant operation, if such residue gas is sold or used off the premises.

(d) On dry natural gas to pay Lessor one-eighth of the market value at the well of such gas sold or used off the leased premises.

(e) Where there is on the leased premises or any unit including the same or part thereof a well or wells capable of producing gas, and gas is not being used off the premises or said unit or marketed therefrom and this lease is not then being maintained by other production or operations, this lease shall nevertheless remain in full force and effect for a period of 90 days after cessation of production or operations or the shutting in of said well if on or before the expiration of said 90-day period, Lessee pays or tenders to Lessor a sum equal to one-half the annual rental per acre hereinafter set forth for the number of acres then covered by this lease, or One Hundred Dollars (\$100.00) per well depending upon which sum is greater. Such payment shall maintain this lease in full force and effect for a period of six (6) months from the expiration of said 90-day period, and it will be considered that gas is being produced hereunder, and such payments or tender shall have the same effect as the production of gas, for all purposes hereof. Thereafter, semi-annually in like manner, upon like payments or tender this lease will continue in force and effect for successive periods of six (6) months each, so long as such payments are made, but not, however exceeding six (6) such successive periods beyond the primary term of said lease. It is understood that the above provision or shut-in clause shall also apply to any well where gas-oil ratio is such that the Lessee is not permitted to operate such well without the use or sale of gas.

3. To pay the Lessor for all other minerals derived from oil and gas which are produced and marketed one-eighth in kind or value at Lessor's option at the well or mine.

4. Lessee shall have free use of oil, gas and water from said land except water from the Lessor's wells for all operations hereunder and the royalty on oil and gas shall be computed after deducting any so used.

IV

If a well is not actually spudded in on said land in diligent search of oil or gas, on or before one year from above date, the lease shall then automatically terminate as to both parties unless on or before such date Lessee shall pay or tender to Lessor, the FEDERAL INTERMEDIATE CREDIT BANK OF JACKSON at Jackson, Mississippi, its successors or assigns (or to such depository as may hereafter be designated in writing by Lessor or assigns) the

sum of \$73.50 Dollars (herein called rental) which shall cover the privilege of deferring such drilling operations (spudding in of such a well) for a period of twelve (12) months. In like manner and upon like payment or tender annually such drilling operations may be further deferred for successive periods of twelve (12) months each during the primary term. The payment or tender of rental may be made by mailing or delivering to Lessor or depository on or before such date of payment the check or draft of the Lessee if said check or draft is honored upon presentment. If such Lessor or depository should fail, liquidate, or be succeeded by another, or for any reason fail or refuse to accept rental, Lessee shall not be held in default for failure to make such payment or tender of rental until thirty (30) days after Lessor, its successors or assigns, shall deliver to Lessee a proper recordable instrument, naming another depository to receive such payment or tender. Lessee, or any assignee hereunder may at any time and from time to time execute and deliver to Lessor, or to the depository named a release or releases covering all or any portion or portions of the leased premises, and thereby surrender this lease as to such portion or portions and be relieved of all obligations in connection therewith, and thereafter the rentals payable by Lessee shall be reduced in the proportion that the acreage covered hereunder is reduced by such release or releases. The down cash payment is consideration for this lease according to its terms and shall not be allocated as a mere rental for a period.

V

Lessee, at its option, is hereby given the right and power to pool or combine the acreage covered by this lease or any portion thereof with other land, lease or leases in the immediate vicinity thereof, when in Lessee's judgment it is necessary or advisable to do so in order properly to develop and operate said premises in compliance with any lawful spacing rules which may be prescribed for the field in which this lease is situated by any duly authorized authority, or when to do so would, in the judgment of Lessee, promote the conservation of the oil and gas in and under and that may be produced from said premises. Lessee shall execute in writing an instrument identifying and describing the pooled acreage. In lieu of the royalties elsewhere herein specified, Lessor shall receive on production from a unit so pooled only such portion of the royalty stipulated herein as the amount of his acreage placed in the unit or his royalty interest therein on an acreage basis bears to the total acreage so pooled in the particular unit involved.

VI

Notwithstanding anything to the contrary herein contained, it is understood and agreed that in the event during the primary term a portion or portions of the land covered by this lease are included with other lands in a unit or units established under the provisions of this lease, or adopted by any duly authorized authority having jurisdiction thereof or otherwise, then operations on or production from a well situated on lands embraced in such unit, shall serve to maintain this lease in force as to that portion of the leased premises embraced in such a unit, but shall not so maintain the lease on the remainder of the leased premises not embraced in such a unit and not otherwise maintained under the terms hereof beyond the next rental paying date, unless on or before such rental date Lessee shall pay or tender to Lessor, or to Lessor's credit in the manner provided in this lease, the amount of rental provided herein to be paid upon the area then covered hereby, reduced in the proportion that the acreage covered by this lease and contained in such unit or units bears to the total acreage then covered by this lease and further reduced by the amount of any shut-in gas well royalty payments made by Lessee during the rental period or portion thereof immediately preceding such rental payment date on that portion of the leased premises not embraced in such a unit. By similar tender or payments on each succeeding annual rental date this lease may be so maintained in force during the remainder of the primary term as to the portion thereof not included in such unit or units.

VII

Production in paying quantities on a portion of the leased premises or lands unitized therewith will extend this lease only to such portion of the leased premises beyond the primary term as may be then included in a producing unit or units, the size and conformity of which have been approved by any duly authorized authority having jurisdiction thereof. However, this lease shall not terminate if actual drilling operations on any portion of the leased premises, or on lands with which a portion of the leased premises may be unitized, (such unit having been approved on size and conformity with any duly authorized authority having jurisdiction thereof) are being conducted at the end of the primary term. Such operations shall continue to maintain this lease in force and effect beyond the primary term for so long as actual drilling operations are being conducted with no cessation of more than one hundred twenty (120) consecutive days from the date of the running of the final induction electrical survey of one well and the actual drilling operations of another well; any well commenced and drilled pursuant hereto after the primary term shall be drilled to a depth sufficient to test the producing horizon in the nearest producing well unless production in paying quantities is encountered at a lesser depth. If operations taking place at or after the expiration of the primary term are discontinued for longer than one hundred twenty (120) consecutive days, then this lease shall remain in force and effect only as to the leased premises then included within production unit or units.

VIII

Lessee shall have the right at any time during, or within three (3) months after the expiration of this lease to remove all property and fixtures placed by Lessee on said lands, including the right to draw and remove all casings. When required by Lessor, Lessee will bury all pipe lines below ordinary plow depth and no well shall be drilled within 200 feet of any residence or barn now on said land without Lessor's written consent. Lessee agrees to protect Lessor from any claim for damages against Lessor resulting from operations of Lessee hereunder and Lessee agrees to pay for all damages to growing crops on the land covered hereby caused by its operation hereunder.

IX

The rights of either party hereunder may be assigned in whole or in part, and the provisions and obligations hereof shall extend to the heirs, successors, and assigns of the parties hereto, but no change or division in ownership of the land, rentals, or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of the Lessee; and no such change in ownership shall be binding on Lessee nor impair the effectiveness of any payments made hereunder until Lessee shall have been furnished by registered United States mail, forty-five (45) days before payment is due, a certified copy of the recorded instrument evidencing any such transfer, inheritance, sale, or other change in ownership. In the event of assignment or sublease hereof in whole or in part liability for breach of any obligation hereunder shall rest exclusively upon the owner of this lease or of a portion thereof or of an interest therein who commits such breach. In the event of assignment or sublease of this lease as to a segregated portion of said land the rentals payable hereunder shall be apportionable among the several leasehold owners (including sublessees) ratably according to the surface area of each, and default in rental payment by one shall not affect the rights of the other leasehold owners (including sublessees).

X

In the event of cancellation or termination of this lease for any cause, Lessee shall have the right to designate and retain under the terms hereof forty (40) acres of land around each well producing oil, being worked on or drilling for oil hereunder, and one hundred sixty (160) acres, plus an acreage tolerance not to exceed ten per cent (10%) of one hundred sixty (160) acres of land around each well producing gas, being worked on or drilling for gas hereunder, unless by governmental spacing order or, in the absence of such order, under the well spacing in the area, a larger or smaller tract has been allotted to each well, in which case, Lessee may retain around each such well the tract so allotted to such well; provided that the acreage that Lessee may retain hereunder around any such well which is a part of a pooled unit is that portion of the land covered hereby which is included in such pooled unit.

XI

Lessor warrants title to the interest herein conveyed, but it is agreed that said warranty and Lessee's recourse against Lessor in the event of failure of title shall not extend beyond the return to the Lessee of such of the rentals, royalties, and bonuses, without interest, as accrued and were received by Lessor from the acreage to which title failed. Lessee at his option may discharge any taxes, mortgages, or other such liens upon Lessor's interest in above lands and in the event Lessee does so, Lessee shall be subrogated to such liens with the right to enforce same and may apply rentals and royalties accruing hereunder towards satisfying same. Without impairment of Lessee's right under the above warranty in the event of failure of title it is agreed that if Lessor owns an interest less than as herein represented, then the rentals and royalties herein provided for to be paid Lessor shall be reduced proportionately.

All expressed and implied obligations of this lease shall be subject to all valid Federal and State Laws, Executive orders, rules and regulations and this lease shall not be terminated, in whole or in part, nor Lessee be held liable in damages for failure to comply with such obligations, if compliance is prevented by any such law, order, rule or regulation. If from any such cause Lessee is prevented from conducting drilling or reworking operations on, or producing oil or gas from the leased premises, the time while Lessee is so prevented shall not be counted against Lessee, and this lease shall be extended for a period of time equal to that during which such Lessee is so prevented from conducting drilling or reworking operations on, or producing oil or gas from such leased premises, notwithstanding any other provision hereof; provided, that the provisions of this paragraph are not to be construed as relieving Lessee from the payment of delay rentals for the maintenance of this lease during the primary term or any extended term as herein provided.

In witness whereof this instrument is executed on the day first above written.

STATE OF ALA. SHELBY CO.
I CERTIFY THIS
INSTRUMENT WAS FILED

ON MAR 23 AM 9:25

1. Deed Tax \$ 50.00
2. Mfg Tax 7.35
3. Recording Fee 30.00
4. Indexing Fee 1.00

FEDERAL INTERMEDIATE CREDIT BANK OF JACKSON

By: Romana P. Rodriguez
VICE PRESIDENT