

JAMES BAIDEN HUFFMASTER  
MORGAN COUNTY  
**OIL AND GAS LEASE**

THIS AGREEMENT made this 5th day of March 1993, between

Isaac C. Jackson and Mary E. Jackson, husband and wife  
of Route 1, Box 84B; Oliver Springs, TN 37840, hereinafter called Lessor (whether one or more), and  
Daniel F. Potts  
Box 247, Settler's Lane, Friendsville, TN 37737, hereinafter called Lessee:

1. Lessor, in consideration of Ten and no/100s----- Dollars (\$ 10.00----- ) 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, leases and lets exclusively unto Lessee the land covered hereby for the purposes of investigating, exploring, prospecting, drilling and operating for and producing oil and all other liquid hydrocarbons, gas, casinghead gas, condensate and all other gaseous substances, sulphur and all associated substances, whether similar or dissimilar to those mentioned and whether or not produced in conjunction with those mentioned, (hereinafter sometimes referred to as "Leased Substances"). Lessor further grants, leases and lets exclusively unto Lessee Said Land for the purposes of injecting gas, waters, other fluids, air and any other substances into subsurface strata, conducting all types of recovery operations, establishing and utilizing facilities for the disposition of salt water and other waste materials, laying pipelines, storing Leased Substances, building roads, bridges, tanks, power lines, telephone lines and any other structures and things thereon to produce, save, take care of, treat, process, store and transport said Leased Substances and other products manufactured therefrom, and housing and otherwise caring for its employees, together with such rights and easements in Said Land necessary or useful in Lessee's oil and gas operations on Said Land and with the right to cross any adjacent or contiguous lands of Lessor (hereinafter referred to as "Other Lands") by use of existing roads or otherwise in order to have ingress and egress to and from Said Land to carry out such purposes. The land covered hereby, including but not limited to, all of Lessor's present, future, remainder and reversionary rights therein (herein sometimes called "Said Land"), is located in Morgan County, State of Tennessee

and is described as follows:

Bounded substantially by lands now or formerly owned by:

On the North: C. Hill; N. Riter; D. Hill; C. Sturup; S. Jackson  
On the East: Poplar Creek Coal & Iron Co.  
On the South: Roane-Morgan County Line  
On the West: D. Wright; Wm. Cheek; R. Bailey

And being Parcel 45, Map 150 of the Assessor's Office of Morgan County, Tennessee

**\*\*This is a paid-up lease, delay rentals are noted for shut-in royalty payment calculation only.\*\***

and includes not only the land specifically described above but also all land, if any, contiguous to or adjoining Said Land and owned or claimed by Lessor by limitation, prescription, possession, reversion or unrecorded instrument or as to which Lessor has a preference right of acquisition. For the purpose of calculating the rental payments hereinafter provided for, Said Land is estimated to comprise 337.0 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 eighteen (18) months hereof (hereinafter called "Primary Term") and as long thereafter as oil, gas, sulphur or any of the Leased Substances is produced from Said Land or 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, one-eighth 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. Lessor's interest in either case shall bear its proportion of any expenses for treating oil to make it marketable as crude. Lessee may, at its option, from time to time purchase any royalty oil or liquid hydrocarbons, paying the market price therefor prevailing for the field where produced for oil or liquid hydrocarbons of like kind and quality on the date of purchase and Lessee may sell any royalty oil or liquid hydrocarbons in its possession and pay Lessor the price received by Lessee for such oil and/or liquid hydrocarbons computed at the well;

(b) on gas, including casinghead gas, condensate and other gaseous substances produced from said land:

(1) when sold or used by Lessee for the extraction of gasoline or other products therefrom, one-eighth of the market value at the well of the gas so sold or used, provided that the market value shall not exceed the net amount realized by Lessee from the sale of gas and any extracted products, including gasoline and residue gas ("net amount realized" being defined as proceeds received by Lessee from the sale less all cost and expenses incurred by Lessee from the mouth of the well through sale, excluding normal field separation expense which Lessee alone shall bear). In the event the gas is processed in a plant in which Lessee owns an interest, Lessee may include as expense amortization of its investment in pipelines, the plant and its facilities plus a reasonable rate of return thereon. The use by Lessee of all or any part of the extracted products, including gasoline and residue gas, for its own account shall for the purposes hereof be deemed a sale at the market price prevailing at the plant at the time of use by Lessee, provided, however, if the price of any product, gasoline or gas is regulated by any governmental agency, market price of such product, gasoline or gas for the purposes of computing royalty on such product, gasoline or gas used by Lessee shall not be in excess of the price permitted by such regulations. If a refund of a portion of the proceeds derived from the sale of gas may be required under any order, rule or regulation of any governmental agency having jurisdiction thereof, net amount realized shall be calculated on the basis of the unsuspended and/or unconditional certificated price for such gas which Lessee receives. Lessee may hold without interest the portion of any proceeds subject to possible refund until the amount of refund, if any, is determined by final unappealable order of the governmental agency;

(2) when sold or used by Lessee for any purpose other than the extraction of gasoline or other products therefrom and those permitted by numbered paragraph 7, one-eighth of the market value at the mouth of the well of such gas or casinghead gas; provided that the market value shall not exceed the net amount realized by Lessee from the sale of gas and any extracted products, including gasoline and residue gas ("net amount realized" being defined as proceeds received by Lessee from the sale less all cost and expenses incurred by Lessee from the mouth of the well through sale, excluding normal field separation expense which Lessee alone shall bear). If the price of gas or casinghead gas is regulated by any governmental agency, the market value for the purposes of computing royalty hereunder shall not be in excess of the price permitted by such regulations;

For Assignment - See Oil & Gas 13R. 39 pg. 711 James W. Jones et al  
8-11-94  
James W. Jones et al  
Register 1998

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(c) on sulphur produced and marketed one dollar (\$1.00) per long ton;

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(d) if Lessee drills a well on Said Land or on land pooled therewith, which well is capable of producing gas in paying quantities but such well is not being produced and this lease is not being maintained otherwise as provided herein, this lease shall not terminate, whether it be during or after the Primary Term (unless released by Lessee), and it shall nevertheless be considered that gas in paying quantities is being produced from Said Land. When the lease is continued in force in this manner, Lessee shall pay or tender to the parties who at the time of such payment would be entitled to receive royalty hereunder if the well were producing or deposit to their credit in the depository bank as hereinafter provided a sum equal to one-twelfth of the amount of the annual Rental payable in lieu of drilling operations during the Primary Term on the number of acres subject to this lease at the time such payment is made for each calendar month, or portion thereof, during which said well is situated on Said Land, or on land pooled therewith, and this lease is not otherwise maintained, or this lease is not released by Lessee as to the land on which or the horizon, zone, or formation in which the well is completed. The first payment of such sum shall be made on or before the first day of the calendar month after expiration of ninety (90) days from the date the lease is not otherwise maintained for all accruals to such date and thereafter on or before the first day of each third calendar month for all accruals to each such date. Lessee's failure to pay or tender or to properly or timely pay or tender any such sum shall render Lessee liable for the amount due but it shall not operate to terminate this lease.

4. Lessee has paid Lessor Rental in full hereunder for the first one (1) year of the Primary Term hereof. If operations for drilling are not commenced on Said Land or on land pooled therewith on or before the expiration of the paid up first year period, this lease shall terminate as to both parties unless on or before such date Lessee shall pay or tender, or make a bona fide attempt to pay or tender, to Lessor or to the credit of Lessor in Pay direct to Lessor

Bank at Route 1, Box 84B; Oliver Springs, TN 37840  
the sum of Three Hundred Thirty-seven and no/100s Dollars  
(\$ 337.00) (herein called "Rental"), which shall cover the privilege of deferring commencement of

drilling operations for a period of twelve (12) months. In like manner and upon like payment or tender annually, the commencement of drilling operations may be further deferred for successive periods of twelve (12) months each during the Primary Term. The payment or tender of Rental under this paragraph and of the payment provided for under Paragraph 3 on any well which is not being produced (hereinafter referred to as "Shut-In Royalty") may be made by check or draft of Lessee mailed or delivered to the parties entitled thereto or to said bank on or before the date of payment. Such bank and its successors are Lessor's agent and shall continue as depository for all Rental and Shut-In Royalty payable hereunder regardless of changes in ownership of Said Land, Rental or Shut-In Royalty. 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 Rental or Shut-In Royalty, Lessee shall not be held in default for failure to make such payment or tender of Rental or Shut-In Royalty until thirty (30) days after the party or parties entitled thereto shall deliver to Lessee a proper recordable instrument naming another bank as agent to receive such payment or tender. If Lessee shall make a bona fide attempt on or before any payment date to pay or deposit Rental or Shut-In Royalty to a party or parties entitled thereto, according to Lessee's records, or to a party or parties who, prior to such attempted payment or deposit, have given Lessee notice in accordance with subsequent provisions of this lease of their right to receive Rental or Shut-In Royalty, and if such payment or deposit shall be ineffective or erroneous in any regard, this lease shall not terminate but shall be maintained in the same manner as if such erroneous or ineffective Rental or Shut-In Royalty payment or deposit had been properly made, provided that the erroneous or ineffective Rental or Shut-In Royalty payment or deposit be corrected within thirty (30) days after receipt by Lessee of written notice by such party or parties of such error accompanied by such instruments as are necessary to enable Lessee to make proper payment. Failure to make proper payment or deposit of delay Rental or Shut-In Royalty as to any interest in Said Land shall not affect this lease as to any interest therein as to which proper payment or deposit is made.

5. Lessee is hereby granted the right and power at any time, and from time to time, to pool or unitize this lease, the land covered by it or any part thereof with any other land, lease, leases, mineral estates or parts thereof for the production of oil, gas, or any other Leased Substances. The unit may include either oil or gas (including condensate) or any other Leased Substances and may be limited to one or more subsurface strata. Units pooled for oil hereunder shall not exceed one hundred sixty (160) acres in surface area plus a tolerance of ten percent (10%) thereof and units pooled for gas (including condensate) hereunder shall not exceed six hundred forty (640) acres in surface area plus a tolerance of ten percent (10%) thereof, provided that if any Federal or State law, Executive order, rule or regulation shall prescribe or permit a spacing pattern for the development of the field or allocate a producing allowable on acreage per well, then any such units may embrace as much additional acreage as may be so prescribed, permitted or as may be used in such allocation or allowable. Lessee shall file a written declaration of unit in the county in which the premises are located. The unit shall become effective on the date provided in the declaration or, if the declaration makes no such provision, it shall become effective upon the date it is filed for record. A unit established hereunder shall be valid and effective for all purposes of this lease even though there may be mineral, royalty or leasehold interests in lands within the unit which are not effectively pooled or unitized. Such units may be designated at any time either before or after the completion of a well or wells or production therefrom and Lessee may reduce, enlarge, modify or dissolve such unit or units at any time prior to the discovery of oil, gas or other Leased Substances on the pooled acreage, or, after discovery of same, at any time subsequent to the cessation of production thereof, by filing a written declaration to such effect in the same county. Drilling operations and production on any part of the pooled acreage shall be treated as if such drilling operations were upon or such production was from the Said Land whether the well or wells be located on the Said Land or not. The entire acreage pooled into a unit shall be treated for all purposes, except the payment of royalties on production from the pooled units, as if it were included in this lease. In lieu of the royalties herein provided, Lessor shall receive on production from a unit so pooled or unitized only such portion of the royalty stipulated herein as the amount of the Said Land placed in the unit or the royalty interest therein on an acreage basis bears to the total acreage so pooled or unitized in the particular unit involved.

6. If, prior to discovery of oil, gas or other Leased Substances on Said Land or land pooled therewith, Lessee should drill and abandon a dry hole or holes thereon, or if, after discovery of oil, gas or other Leased Substances, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences reworking or additional drilling operations within ninety (90) days thereafter, or if it be within the Primary Term, commences or resumes the payment or tender of Rentals or commences operations for drilling, or reworking on or before the Rental paying date next ensuing after the expiration of ninety (90) days from date of completion and abandonment of said dry hole or holes or the cessation of production. If a dry hole is completed and abandoned at any time during the final thirteen (13) months of the Primary Term and prior to discovery of oil, gas or other Leased Substances on Said Land or land pooled therewith, no Rental payment or operations are necessary in order to keep the lease in force during the remainder of the Primary Term. If, at the expiration of the Primary Term, oil, gas or any of the Leased Substances is not being produced on Said Land or land pooled or unitized therewith but Lessee is then engaged in operations for drilling or reworking any well thereon, this lease shall remain in force so long as drilling or reworking operations are prosecuted (whether on the same or different wells) with no cessation of more than ninety (90) consecutive days and, if they result in production, so long thereafter as oil, gas or any of the Leased Substances is produced from Said Land or land pooled or unitized therewith. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within three hundred thirty (330) feet of and draining Said Land, Lessee agrees to drill such offset wells as a reasonably prudent operator would drill under the same or similar circumstances. The judgment of the Lessee, when not fraudulently exercised, in carrying out the purposes of this lease shall be conclusive.



Lessor shall have free gas for a principle dwelling house,  
to be installed at his expense and risk OPLCT  
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7. Lessee shall have free use of oil, gas, other Leased Substances and water from Said Land (except water from Lessor's wells and tanks) for all operations hereunder, including, but not limited to, repressuring, pressure maintenance, cycling, secondary, tertiary and any other type recovery operations, and, in connection with such operations, Lessee shall be permitted to deduct the amount of such substances supplied from this lease used in such operations, and to recoup the quantity of all substantially like substances injected for the above operations, when off lease substances (the use of which is hereby authorized) are used, from the actual production for the purposes of determining royalty payment hereunder. 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. Unless otherwise expressly provided herein, the only limitations on Lessee's use of the surface (including subsurface, air space and any materials constituting a part of the surface estate) of Said Land for any operations required or permitted under this lease are: (1) Lessee shall conduct such operations in a non-negligent manner, (2) Lessee shall not use more of the surface than is reasonably necessary in connection therewith, and (3) Lessee shall pay for damages caused by its operations to growing crops on Said Land. The right to use facilities or improvements in or under Said Land for or in connection with operations on or production from Other Lands shall survive termination of this lease for so long a period of time as Lessee has any need for them. Any additions to, changes or relocations of Lessee's facilities made at Lessor's request shall be at Lessor's cost and expense. No well shall be drilled within two hundred feet (200 ft.) of any residence or building now on Said Land without Lessor's consent.

8. The rights of either party hereunder may be assigned in whole or in part as to Said Land or any Leased Substances or subsurface interval or any depth thereunder and the provisions hereof shall extend to the heirs, executors, administrators, successors and assigns, but no change or division in ownership of the Said Land, Rentals or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of the Lessee. No such change or division in the ownership of the Said Land, Rentals or royalties shall be binding upon Lessee for any purpose until such person acquiring any interest has furnished Lessee with the recorded instrument or instruments, or certified copies thereof, constituting his chain of title from the original Lessor. In the event of an assignment of this lease as to a segregated portion of Said Land, the Rentals or Shut-In Royalty payments payable hereunder shall be apportioned as between the several leasehold owners ratably according to the surface area of each and default in payment by one shall not affect the rights of other leasehold owners hereunder. Any assignment 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 payment of the proportionate part of the Rentals or Shut-In Royalty payments due from such Lessee or assignee or fail to comply with any other provision of the lease, such default shall not affect this lease insofar as it covers a part of Said Lands upon which Lessee or any assignee thereof shall make payment of said Rentals or Shut-In Royalty payments. If six or more parties become entitled to royalty hereunder, Lessee may withhold payment thereof unless and until furnished with a recordable instrument executed by all such parties designating an agent to receive payment for all.

9. Lessee shall not be liable for delays or defaults in its performance of any agreement or covenant hereunder due to force majeure. The term "force majeure" as employed herein shall mean: any act of God including but not limited to storms, floods, washouts, landslides and lightning; acts of the public enemy; wars, blockades, insurrections or riots; strikes or lockouts; epidemics or quarantine regulations; laws, acts, orders or requests of federal, state, municipal or other governments or governmental officers or agents acting under color of authority; freight embargoes or failures; exhaustion or unavailability or delays of any product, labor, service or material. If Lessee is prevented from or required to cease drilling, reworking or producing operations by any order, decree, direction, inaction or denial of a permit by any federal, state or municipal law, executive order, rule, regulation or request enacted or promulgated under color of authority, on the land covered by this lease, or if Lessee by force majeure is prevented from conducting drilling operations, reworking operations or producing operations, then until such time as such law, order, rule, regulation, request or force majeure is terminated or the permit is issued and for a period of ninety (90) days after such termination or issuance, each and every provision of this lease that might operate to terminate it or the estate conveyed by it shall be suspended and inoperative and this lease shall continue in full force. If any period of suspension occurs during the Primary Term, the time thereof shall be added to such term.

10. Lessor hereby warrants and agrees to defend the 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 lien with the right to enforce same and apply Rentals and royalties accruing hereunder toward satisfying same. Without impairment of Lessee's rights under the warranty in the event of failure of title, it is agreed that if Lessor owns an interest in Said Land less than the entire fee simple estate, then the royalties and Rentals to be paid Lessor shall be reduced proportionately. Any one or more of the parties named above as Lessor may become a party to this lease by executing the original or a counterpart thereof. The execution of such original or counterpart shall have the same effect as if all parties had executed the same instrument; 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. Lessee its/his successors and assigns may at any time, and from time to time, execute and deliver to Lessor or file for record a release or releases of this lease, as to any part or all of Said Land or any of the Leased Substances or subsurface interval or any depths thereunder and thereby be relieved of all obligations as to the released land, horizon, zone or formation. If this lease is released as to all Leased Substances, horizons, zones and formations under a portion of Said Land, the delay Rental, Shut-In Royalty and other payments computed in accordance therewith shall thereupon be reduced in the proportion that the acreage released bears to the acreage which was covered by this lease immediately prior to such release.

IN WITNESS WHEREOF, we have executed this instrument effective as of the day and year first above written.

WITNESSES

LESSOR  
*Isaac C. Jackson*  
Isaac C. Jackson

*Mary E. Jackson*  
Mary E. Jackson

This lease was prepared by A.P. Jackson whose address is 1409 Kenton Way; Knoxville, TN.  
37922



INDIVIDUAL ACKNOWLEDGMENT

STATE OF Tennessee )  
COUNTY OF Morgan ) SS.  
On this 18th day of March, in the year 1993, before me A. Paul Jackson,  
a Notary Public, personally appeared Isaac C. Jackson and Mary E. Jackson, husband and wife, known to me  
to be the person(s) whose name is subscribed to the within instrument and acknowledged to me that they executed the same.  
In witness whereof I have hereunto set my hand and affixed my official seal the day and year of this certificate first above written.  
My Commission Expires:  
February 27, 1996

A.P. Jackson  
Notary Public A.P. Jackson

INDIVIDUAL ACKNOWLEDGMENT

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) SS.  
On this \_\_\_\_\_ day of \_\_\_\_\_, in the year \_\_\_\_\_, before me \_\_\_\_\_,  
a Notary Public, personally appeared \_\_\_\_\_, known to me  
to be the person(s) whose name is subscribed to the within instrument and acknowledged to me that \_\_\_\_\_ he \_\_\_\_\_ executed the same.  
In witness whereof I have hereunto set my hand and affixed my official seal the day and year of this certificate first above written.  
My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
Notary Public

INDIVIDUAL ACKNOWLEDGMENT

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) SS.  
On this \_\_\_\_\_ day of \_\_\_\_\_, in the year \_\_\_\_\_, before me \_\_\_\_\_,  
a Notary Public, personally appeared \_\_\_\_\_, known to me  
to be the person(s) whose name is subscribed to the within instrument and acknowledged to me that \_\_\_\_\_ he \_\_\_\_\_ executed the same.  
In witness whereof I have hereunto set my hand and affixed my official seal the day and year of this certificate first above written.  
My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
Notary Public

CORPORATE ACKNOWLEDGEMENT

STATE OF \_\_\_\_\_ )  
COUNTY OF \_\_\_\_\_ ) SS.  
On this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_, before me, \_\_\_\_\_,  
the undersigned officer, personally appeared \_\_\_\_\_, who acknowledged himself to  
be the \_\_\_\_\_ of \_\_\_\_\_, a corporation,  
and that he, as such \_\_\_\_\_, being authorized so to do, executed the foregoing instrument  
for the purposes therein contained, by signing the name of the corporation by himself as \_\_\_\_\_.  
In witness whereof I have hereunto set my hand and affixed my official seal the day and year of this certificate first above written.  
My Commission Expires: \_\_\_\_\_

\_\_\_\_\_  
Notary Public

Producers 88 Rev MOC-80

No. _____	Oil and Gas Lease	FROM	TO	Dated _____ 19____	No. Acres _____	County _____	Term _____	This instrument was filed for record on the <u>5th</u> day of <u>April</u> , 19 <u>93</u> at <u>3:40</u> o'clock <u>P</u> . M., and duly recorded in Book <u>12-38</u> Page <u>198</u> of the _____ records of this office.	By <u>James W. Jones</u> <u>County Clerk</u> Register	By <u>Sandy Dalton</u> Deputy	When recorded return to <u>Box # 60677 17.00</u>
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