

Lease #

Oil And Gas Lease

AGREEMENT, made and entered into this 2nd day of October 1986 by and between Lloyd W Hughes and wife Mary H. Hughes Rt 12, Box 217 Mechanicsville, Virginia 23111

party of the first part, hereinafter called Lessor (whether one or more), and CATAWA ENERGY, INCORPORATED, Rt. 1, Box 603, Catawba, Virginia 24070 party of the second part, hereinafter called Lessee, WITNESSETH:

1. That the Lessor, in consideration of the sum of One Dollar, the receipt of which is hereby acknowledged, and the covenants and agreements hereinafter contained, does hereby grant unto the Lessee all of the oil and gas and all of the constituents of either in and under the land hereinafter described, together with the exclusive right to drill for, produce and market oil and gas and their constituents and of storing gas of any kind in any formation underlying the land, and also the exclusive right to enter thereon at all times for the purpose of drilling and operating for oil, gas and water, laying pipe lines, erecting tanks, machinery, powers and structures, and to possess, use, and occupy so much of said premises as is necessary and convenient for said purposes and to convey the above named products therefrom or thereto by pipe lines or otherwise.

said land being situated in Reedy Church District, Caroline County of Caroline State of Virginia and described as follows, to-wit: Bounded on NORTH by lands of Virginia Brown EAST by lands of Virginia Brown and Rt. 752 SOUTH by lands of Rt. 684 WEST by lands of R. F. & P Railroad

Containing 28.5 acres, more or less, and being the same land or a portion thereof conveyed to lessor by deed from Bessie M. Jones dated October 18, 1985 and recorded in said county records in Book No. 295 Page 543 together with all additional land owned or claimed by lessor which adjoins the land above described, whether situated in the same or another township or district.

2. It is agreed that this lease shall remain in force for a primary term of ten years from this date and as long thereafter as operations for oil or gas are being conducted on the premises, or oil or gas is found in paying quantities thereon, or any formation underlying the herein leased land is used for storage of gas as provided under paragraph 6 hereof.

3. The Lessee shall deliver to the credit of the Lessor free of cost, in the pipe line to which he may connect his wells, the equal one-eighth (1/8) part of all oil produced and saved from the leased premises, and shall pay Lessor one-eighth (1/8) of the proceeds for all gas and casing head gas produced and sold from the premises, payable monthly; provided Lessee shall pay Lessor a royalty at the rate of Fifty Dollars per year on each gas well while, through lack of market, gas therefrom is not sold or used off the premises, and while said royalty is so paid said well shall be held to be a paying well under paragraph 2 hereof.

4. The Lessee shall commence operations for a well on the premises on or before Oct. 2, 1987, unless Lessee pays thereafter a rental of \$28.50 for each 12 months that operations are delayed from the time above mentioned. The consideration first recited herein, the down payment, shall cover not only the privilege granted to the date when first said rental is payable as aforesaid, but also the Lessee's option of extending that period as aforesaid, and any and all other rights conferred. The drilling of a non-productive well shall be accepted by the Lessor in lieu of delay rental for a period of one year after its completion, and following the exhaustion or abandonment of all wells the Lessee shall have the right for a period of one year to resume the payment of delay rental or commence operations for another well. Upon the resumption of payment of rentals the provisions hereof governing such payment and the effect thereof shall continue in force as though they had not been interrupted.

5. All moneys coming due hereunder shall be paid or tendered to Lessor direct, or by check payable to his (or her) order mailed to United Virginia Bank, Old Rt. 360, Mechanicsville, Va. 23111 and no default shall be declared against the Lessee by the Lessor for failure of the Lessee to make any payment or perform any conditions provided for herein unless the Lessee shall refuse or neglect to pay or perform the same for ninety days after having received written notice by registered mail from the Lessor of his intention to declare such default.

6. Lessee shall have the right to use any formation underlying the leased premises for the storage of gas and shall have all rights and rights-of-way necessary to store and produce such stored gas. As full payment for such storage rights, the Lessee shall pay to the Lessor a rental at the rate of Two Dollars (\$2.00) per acre per year, while the premises are so used, and so long as the storage payment is made, all provisions of this lease shall remain in full effect.

7. Lessee is hereby granted the right to pool and unitize any stratum or strata under all or any part of the land described above with any other lease or leases, land or lands, mineral estates, or any of them whether owned by the Lessee or others, so as to create one or more drilling or production units. Such drilling or production units shall conform to the rules and regulations of any lawful governmental authority having jurisdiction in the premises and with good drilling or production practice in the area in which the land is located. In the event of the unitization of the whole or any part of the land covered by this lease, Lessee shall before or after the completion of a well, record a copy of its unit operation designation in the County wherein the leased premises are located, and mail a copy thereof to the Lessor. Such unit operation designation shall identify and describe the land included in the unit. In order to give effect to known limits of the oil and gas pool, as such limits may be determined from available geological or scientific information or drilling operations, Lessee may at any time increase or decrease that portion of the acreage covered by this lease which is included in any drilling or production unit designated by the Lessee, the Lessor agrees to accept and shall receive out of the production or the proceeds from the production from such unit, such proportion of the royalties specified herein, as the number of acres out of the land covered by this lease which may be included from time to time in any such unit, bears to the total number of acres included in such unit. The commencement of drilling, completion of or production from a well, whether drilled before or after unitization, or any portion of the unit created under the terms of this paragraph shall have the same effect upon the terms of this lease, except as to the payment of royalties, as if a well were commenced, drilling, completed or producing on the land described herein.

8. If said Lessor owns a less interest in the above described land than the undivided fee simple estate therein, then the royalties and rentals herein provided shall be paid the Lessor only in the proportion which his interest bears to the whole and undivided fee.

9. No well may be drilled nearer than 200 feet to the house or barn now on said premises without the written consent of Lessor. Lessee shall have and enjoy all rights and privileges necessary and convenient for the proper use and development of this lease, and shall have the right to use, free of cost, gas, oil and water produced on said land for its operations thereon, except water from wells of Lessor. Lessee shall also have the right at any time to remove all or any part of the machinery, fixtures or structures placed on said premises, including the right to draw and remove casing. Lessee shall pay for damages caused by its operations to growing crops on said lands, and, when requested by Lessor, shall bury its pipe lines below plow depth.

10. The interest or estate of either party hereto may be assigned, the privilege of assigning in whole or in part being expressly allowed. In the event this lease shall be assigned as to any part or parts of the above described land and the assignee or assignees of such part or parts shall fail or make default in the payment of the proportionate part of the rents due from him or them, such default shall not operate to defeat or affect this lease insofar as it covers a part or parts of said land upon which the said Lessee

11. At any time, Lessee, its successors or assigns, shall have the right to surrender this lease or any part thereof for cancellation, after which all payments and liabilities hereunder thereafter shall cease and determine, and if the whole is surrendered, then this lease shall become absolutely null and void. This surrender may be made to the Lessor, or if more than one Lessor, then to any one of them, or to the heirs or assigns of any one of them by delivery of a duly executed surrender thereof in person or by mail addressed to the post office address of such person, or by recording a duly executed surrender thereof in the Recorder's office of the County in which the land is located.

12. Lessor hereby warrants and agrees to defend the title to the land herein described and agrees that the Lessee at its option may pay, discharge or redeem any taxes, mortgages, or other liens existing, levied, or assessed on or against the above described lands, and in the event it exercises such option, it shall be subrogated to the rights of any holder or holders thereof and may reimburse itself by applying any royalty or rentals accruing hereunder to the discharge of any such taxes, mortgages or other liens.

13. Lessee shall have the exclusive right to lay pipe lines, install drips and other equipment necessary and convenient for the purpose of transporting gas, oil or other products produced from wells on the leased premises or from wells on adjacent or nearby lands and Lessor covenants that it will not grant similar rights to any person or firm other than Lessee.

14. Lessor further covenants that it will not grant a lease or similar right for oil or gas covering the above land or any portion thereof to any other person or firm during the term of this lease or within one year after the termination of this lease, Lessee being granted an exclusive option for an oil and gas lease covering the described premises for a period of one (1) year after the termination of this lease, provided that such new lease shall be on such terms and provisions just as favorable to Lessor as those of any bonafide offer which Lessor may receive during said one year and prior to Lessee exercising its option.

15. If prior to discovery of oil or gas on said land or on acreage pooled therewith Lessee shall drill a dry hole or holes thereon, or if after discovery of oil or gas, the production thereof should cease from any cause, this lease shall not terminate if Lessee commences operations for drilling or reworking within ninety 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 days from date of completion of dry hole or cessation of production. If at any time subsequent to ninety days prior to the beginning of the last year of the primary term and prior to discovery of oil and gas on said land, or on acreage pooled therewith, Lessee should drill a dry hole thereon, 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 or gas is not being produced on said land, or on acreage pooled therewith, but Lessee is then engaged in drilling or reworking operations thereon or shall have completed a dry hole thereon within ninety days prior to the end of the primary term, the lease shall remain in force so long as operations on said well or for drilling or reworking of any additional well are prosecuted with no cessation of more than ninety consecutive days, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land or acreage pooled therewith. Any pooled unit designated by Lessee in accordance with the terms hereof may be dissolved by Lessee by instrument filed for record in the appropriate records of the county in which the leased premises are situated at any time after the completion of a dry hole or the cessation of production on said unit. 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 and thirty (330) feet of and draining the leased premises, or acreage pooled therewith, Lessee agrees to drill such offset wells as a reasonably prudent operator would drill under the same or similar circumstances.

16. This lease may be executed in any number of counterparts and shall be binding upon all owners of interests in the leased premises executing the same or a counterpart hereof, and upon their respective heirs, successors and assigns, whether or not named herein as one of the Lessors, and whether or not other owners of interests in the leased premises have executed other counterparts or have not entered into this lease.

17. This lease embodies the entire contract and agreement between Lessor and Lessee, and no warranties, representations, promises or inducements not herein expressed have been made or relied upon by either party. The terms, conditions and stipulations hereof shall extend to the respective heirs, executors, administrators, successors and assigns of the parties hereto.

In witness whereof this lease is executed the day and year first above written.

LESSEE: CATAWBA ENERGY, INC.

John C. Kroppman (SEAL)
President

WITNESS: W. A. Quick, Jr.

Lloyd W. Hughes (SEAL)
Lloyd W. Hughes

SS# 226-20-1174
Mary H. Hughes (SEAL)
Mary H. Hughes

SS# 229-387420

STATE OF Virginia
City ~~COUNTY~~ OF Fredericksburg

On this 3rd day of October, 19 86, before me personally came W. A. Quick, Jr., the subscribing witness to the foregoing Instrument, with whom I am personally acquainted, who being by me duly sworn, did depose and say that he resides at 2728 Colonial Ave., SW Roanoke, Va. 24014, and that he knows Lloyd W. Hughes and Mary H. Hughes, to be the individuals described in, and who executed the foregoing Instrument, that he, said subscribing witness, was present and saw them execute the same; and that he, said witness, at the same time, subscribed his name as witness thereto.