

8-K - 2011-11-23

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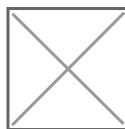
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) November 18, 2011



Lucas Energy, Inc.

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of incorporation)

001-32508
(Commission File
Number)

98-0417780
(I.R.S. Employer Identification No.)

3555 Timmons Lane,
Suite 1550, Houston, Texas
(Address of principal executive offices)

77027
(Zip Code)

Registrant's telephone number, including area code (713) 528-1881

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- .. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- .. Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 1.01 ENTRY INTO A MATERIAL DEFINITIVE AGREEMENT.

On October 13, 2011, Lucas Energy, Inc. ("Lucas" or the "Company") entered into a purchase and sale agreement with Nordic Oil USA I, LP ("Nordic 1"), whereby effective July 1, 2011, the Company purchased all of Nordic 1's right, title and interest in certain oil, gas and mineral leases located in Gonzales, Karnes and Wilson Counties, Texas. The property interests acquired represent all of Nordic 1's interests in the LEI 2009 II and III Capital Programs. Pursuant to the agreement, the closing of the Nordic 1 transaction was deferred until the transaction was ratified by Nordic 1's shareholders. Lucas was informed by Nordic 1 that its shareholders had ratified the transaction and the transaction officially closed on November 18, 2011.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.

<u>Exhibit No.</u>	<u>Description</u>
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3.1(1)	Certificate of Designations of Series A Preferred Stock
10.1*	Purchase and Sale Agreement – Lucas Energy, Inc. and Nordic Oil USA 1, LLLP (October 13, 2011)
10.2*	Promissory Note – Lucas Energy, Inc. and Nordic Oil USA 1, LLLP
10.3*	Deed of Trust, Security Agreement, Financing Statement and Assignment of Production
10.4*	Purchase Agreement

* Filed herewith.

(1) Filed as an Exhibit to the Company's Quarterly Report on Form 10-Q, filed with the Commission on November 14, 2011, and incorporated herein by reference.

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

LUCAS ENERGY, INC.

By: /s/ K. Andrew Lai

Name: K. Andrew Lai

Title: Chief Financial Officer

Date: November 23, 2011

PURCHASE AND SALE AGREEMENT

Dated October 13, 2011

Effective as of August 1, 2011

by and between

Nordic Oil USA 1, LLLP, as Seller,

and

Lucas Energy, Inc., as Buyer

PURCHASE AND SALE AGREEMENT

This Purchase and Sale Agreement (the “**Agreement**”) is made this 13th day of October, 2011, to be effective the 1st day of August, 2011, by and between Nordic Oil USA 1, LLLP, a Delaware limited partnership, having its principal address at 3887 Pacific Street, Las Vegas, Nevada 89121 (“**Seller**”) and Lucas Energy, Inc., a Nevada corporation, having its principal address at 3555 Timmons Lane, Suite 1550, Houston, Texas 77027 and (“**Buyer**”). Buyer and Seller may be referred to herein collectively as the “Parties” and individually as a “Party.”

RECITALS:

A. WHEREAS, Seller owns certain undivided interests in and to the oil, gas and mineral leases described on Exhibit “A” attached hereto and made a part hereof for all purposes, together with related rights, interests and assets, which leases, rights, interests and assets are located in the Counties of Gonzales, Karnes and Wilson, State of Texas;

B. WHEREAS, Seller desires to sell, assign and convey all of its right, title and interest in and to the herein-described oil, gas and mineral leases, rights, interests and assets subject to the terms and conditions set forth herein; and

C. WHEREAS, Buyer desires to purchase the entirety of Seller’s right, title and interest in and to the herein-described oil, gas and mineral leases, rights, interests and assets subject to the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of their mutual promises contained herein, Buyer and Seller agree to the purchase and sale of the working interest in and to the herein-described oil, gas and mineral leases, rights, interests and assets described below, in accordance with the following terms and conditions:

AGREEMENT:

1. Purchase and Sale.

a. **Property Being Sold.** Subject to the terms and conditions of this Agreement, Seller agrees to sell and convey, and Buyer agrees to purchase and accept, the Subject Property for the Purchase Price as hereinafter set forth. Except as set forth in **Section 1(b)** below, the term “**Subject Property**” shall mean:

i) **Leaseholds.** All of Seller’s right, title and interest in and to all oil and gas leaseholds and working interests, in and to the oil, gas and mineral leases which are described in **Exhibit “A”** attached hereto and made a part hereof for all purposes (the “**Leases**”);

ii) **Units**. All of Seller's right, title and interest in pooled, communitized or unitized acreage which includes all or any part of any Lease or includes any Well (the "**Units**");

iii) **Rights in Production**. All of Seller's right, title and interest in and to all reversionary interests, backin interests, overriding royalties, production payments, net profits interests, mineral and royalty interests in production of oil, gas or other minerals relating to the Leases;

iv) **Wells**. All of Seller's right, title and interest in and to producing, non-producing, shut-in oil and gas wells and any and all injection or disposal wells located on the Leases (the "**Wells**");

v) **Contract Rights**. All of Seller's right, title and interest (if any) in or derived from any unit agreements, orders and decisions of regulatory authorities establishing or relating to units, unit operating agreements, drilling units, spacing units, operating agreements, gas purchase agreements, oil purchase agreements, gathering agreements, transportation agreements, compression agreements, processing or treating agreements, seismic agreements, geophysical agreements, exploration agreements, area of mutual interest agreements and any other agreements that relate to any of the Leases or Wells to the extent such contracts are assignable (the "**Contracts**");

vi) **Easements**. All of Seller's right, title and interest (if any) in and to all rights-of-way, easements, licenses, and servitudes appurtenant to or used in connection with the Leases and Wells (the "**Easements**");

vii) **Permits**. All of Seller's right, title and interest in and to all permits and licenses of any nature owned, held or operated in connection with operations for the exploration and production of oil, gas or other minerals (if any) to the extent the same are used or obtained in connection with any of the Leases, Contracts, Easements or Wells (the "**Permits**");

viii) **Equipment**. All of Seller's right, title and interest in and to all personal property, fixtures, surface equipment, storage tanks, down-hole equipment, casing, tubing other tubulars, pumps, pumpjacks, compressors, metering facilities, pipelines, valves, drips, separators, dehydration equipment, treatment facilities, electrical equipment and any other devices used in connection with the Leases, Wells, Easements or Permits (the "**Equipment**");

ix) **Hydrocarbons**. All oil, gas, casinghead gas, condensate, distillate, liquid hydrocarbons, gaseous hydrocarbons and all other products refined or extracted therefrom, together with all minerals produced in association with these substances (collectively, the "**Hydrocarbons**") in and under and which may be produced and saved from, or attributable to, the Leases or Wells from and after the Effective Date attributable to Seller's interest(s) therein, and all rents, issues, profits, proceeds, products, revenues and other income from or attributable thereto attributable to Seller's interest(s) therein; and

x) **Data**. All papers and records (whether in written or other form) of any kind presently in or in the future coming into the care, custody, or control of the Seller relating to the Subject Properties including, but not limited to, the following (if any): land records, property title documents and records, division orders, operations and production-related records and reports, well information; provided, however, Buyer is not acquiring, and Seller is not obligated to transfer to Buyer, (A) any proprietary or confidential financial accounting or tax accounting records of Seller; or (B) any files or records which are proprietary or confidential to Seller (the "**Data**").

b. **Property Not Being Sold.** The term “**Subject Property**” or, as the context requires, “**Subject Properties**,” shall not include any and all accounts receivable and accounts payable relating to production and activities occurring on or relating to the Subject Properties for all periods prior to the Effective Date.

2.Purchase Price. Buyer agrees to pay to Seller for the Subject Property the sum of **Twenty-Two Million Dollars (USD) (\$22,000,000.00)** (the “**Purchase Price**”), which may be adjusted in accordance with the terms of this Agreement. The Purchase Price shall be paid by the issuance and delivery by Buyer to Seller of a promissory note in the original principal amount of Twenty-Two Million (USD) (\$22,000,000.00) containing the terms as set forth in the form attached hereto as Exhibit “E” and made a part hereof for all purposes (the “Note”). The Note shall be secured by a recordable first priority Deed of Trust, Security Agreement, Financing Statement and Assignment of Production executed by Buyer, as mortgagee, in favor of Michael King, Trustee, (the “Mortgage”), in the form attached hereto as Exhibit “F” and made a part hereof for all purposes. The Note shall contain provisions which provide that, in the event of default, the owner and holder of the Note shall have no recourse against Buyer, with the only recourse available to the owner and holder of the Note being to the Assets in accordance with the terms and provisions of the Note and the Mortgage.

3.Effective Date and Closing. Seller’s conveyance of the Subject Property to Buyer shall be effective as of **August 1, 2011**, at 7:00 a.m. where the Subject Properties are located (the “**Effective Date**”), but title thereof shall be delivered at the “**Closing**,” which shall take place on or before **October 13, 2011** (the “**Closing Date**”) unless extended by agreement of the Parties.

4.Representations and Warranties of Seller. Seller hereby represents and warrants to Buyer with respect to Seller's interests in the Subject Property as of the date hereof and as of the Closing, as follows:

a. **Organization and Standing.** Seller is a limited partnership which is duly organized, validly existing and in good standing under the laws of Delaware, its state of organization, and in such other jurisdictions necessary for the consummation of this Agreement. The general partner of Seller is Princeton Research, Inc., a Corporation duly organized and in good standing under the laws of the State of Delaware, is duly qualified to carry on its business, and has all requisite power and authority to enter into this Agreement.

b. **Valid Agreement.** Seller has the authority to enter into and perform this Agreement and to consummate the transaction contemplated by this Agreement. This Agreement constitutes the legal, valid and binding Agreement of Seller. At the Closing, all instruments required hereunder to be executed and delivered by Seller shall be duly executed and delivered to Buyer and shall constitute legal, valid and binding obligations of Seller. The execution and delivery by Seller of this Agreement, the consummation of the transactions set forth herein and the performance by Seller of Seller's obligations hereunder have been duly and validly authorized and will not violate, conflict with or result in any violation or breach of any provision of (i) any agreement, contract, mortgage, lease, license or other instrument to which Seller or the Subject Property is a party, or by which Seller or the Subject Property is bound; (ii) any governmental franchise, license, permit or authorization or any judgment or order of judicial or governmental body applicable to Seller or Subject Property, or (iii) to the knowledge of Seller, any law, statute, decree, rule or regulation of any jurisdiction in the United States to which Seller or the Subject Property is subject.

c. **Authorization.** This Agreement has been duly authorized, executed and delivered by Seller. All instruments required to be delivered by Seller at the Closing shall be duly authorized, executed and delivered by Seller. This Agreement and all documents executed by Seller in connection with this Agreement shall constitute legal, valid and binding obligations of Seller, enforceable against Seller in accordance with their terms, subject to the effects of bankruptcy, insolvency, reorganization, moratorium and similar laws from time to time in effect, as well as general principles of equity.

d. **Brokers.** Seller has incurred no obligation or liability, contingent or otherwise, for broker's or finder's fees with respect to this transaction for which Seller shall have any obligation or liability.

e.Liens. On the Closing Date, Seller shall deliver the Subject Property free and clear of any and all liens, mortgages, deeds of trusts or other encumbrances created by, through or under Seller, other than Permitted Encumbrances.

f.Suits, Claims and Compliance. No suit, action, claim or other proceeding is now pending or, to Seller's knowledge, threatened before any court, governmental agency against the Subject Property, and Seller shall promptly notify Buyer of any such proceeding which arises or is threatened prior to the Closing. Seller has complied with, and Seller's operations in and on the Subject Property, are and have been in compliance with all applicable laws, statutes, ordinances, rules and regulations.

g.Access. To the same extent Seller has such right, at all times prior to the Closing, Buyer and the employees and agents of Buyer shall have access to the Subject Property at Buyer's sole risk, cost and expense during normal business hours and subject to reasonable advanced notice to Seller and the operator of the Subject Property.

h.Environmental Matters. To Seller's knowledge, Seller is not in violation of any Environmental Laws [as such term is defined in **Section 7(e)**] applicable to the Subject Properties, or any material limitations, restrictions, conditions, standards, obligations or timetables contained in any Environmental Laws that would subject Seller, on or after the Effective Date, to costs, expenses, fines, penalties, fees or other liability in excess of ten thousand dollars (\$10,000). No notice or action alleging such violation is pending or, to Seller's knowledge, threatened against the Subject Property.

i. No Third Party Options. There are no agreements, options, or commitments with, of or to any person to acquire the Subject Property that were created during Seller's period of ownership. To Seller's knowledge, there are no agreements, options or commitments with, of or to any person to acquire the Subject Property that were created prior to Seller's period of ownership that would continue to be in effect on or after the Effective Date.

j. Preferential Rights. The Subject Properties are not subject to any preferential rights to purchase that were created during Seller's period of ownership. To Seller's knowledge, the Subject Properties are not subject to any preferential rights to purchase that were created prior to Seller's period of ownership that would continue to be in effect on or after the Effective Date.

k. Contracts. **Exhibit "C"** sets forth each Contract relating to the Subject Properties. With respect to each Contract, to the knowledge of Seller, (i) such Contract is in full force and effect, (ii) there are no material violations or breaches thereof and (iii), there are no other Contracts relating to the Subject Property other than the Contracts identified on **Exhibit "C"** attached hereto and made a part hereof for all purposes.

1. Disclaimers. THE EXPRESS REPRESENTATIONS AND WARRANTIES OF SELLER CONTAINED IN SECTION 4 ABOVE ARE EXCLUSIVE AND ARE IN LIEU OF ALL OTHER REPRESENTATIONS AND WARRANTIES, EXPRESS, IMPLIED, STATUTORY OR OTHERWISE. SELLER EXPRESSLY DISCLAIMS ANY AND ALL OTHER REPRESENTATIONS AND WARRANTIES. WITHOUT LIMITATION OF THE FOREGOING OR ANYTHING ELSE IN THIS AGREEMENT, THE PROPERTIES SHALL BE CONVEYED PURSUANT HERETO WITHOUT ANY WARRANTY OR REPRESENTATION WHETHER EXPRESS, IMPLIED, STATUTORY OR OTHERWISE, RELATING TO TITLE TO THE SUBJECT PROPERTIES OR RELATING TO THE CONDITION, QUANTITY, QUALITY, FITNESS FOR A PARTICULAR PURPOSE, CONFORMITY TO THE MODELS OR SAMPLES OF MATERIALS OR MERCHANTABILITY OF ANY EQUIPMENT OR ITS FITNESS FOR ANY PURPOSE. EXCEPT AS OTHERWISE PROVIDED HEREIN, BUYER SHALL HAVE INSPECTED, OR WAIVED (AND UPON CLOSING SHALL BE DEEMED TO HAVE WAIVED) ITS RIGHT TO INSPECT, THE PROPERTIES FOR ALL PURPOSES AND SATISFIED ITSELF AS TO THEIR PHYSICAL AND ENVIRONMENTAL CONDITION, BOTH SURFACE AND SUBSURFACE, INCLUDING BUT NOT LIMITED TO CONDITIONS SPECIFICALLY RELATED TO THE PRESENCE, RELEASE OR DISPOSAL OF HAZARDOUS SUBSTANCES, SOLID WASTES, ASBESTOS AND OTHER MAN MADE FIBERS, OR NATURALLY OCCURRING RADIOACTIVE MATERIALS ("NORM"). BUYER IS RELYING SOLELY UPON ITS OWN INSPECTION OF THE PROPERTIES, AND EXCEPT AS OTHERWISE PROVIDED HEREIN, BUYER SHALL ACCEPT ALL OF THE SAME IN THEIR "AS IS", "WHERE IS" CONDITION WITH ALL FAULTS. ALSO WITHOUT LIMITATION OF THE FOREGOING, SELLER MAKES NO WARRANTY OR REPRESENTATION, EXPRESS, IMPLIED, STATUTORY OR OTHERWISE, AS TO THE ACCURACY OR COMPLETENESS OF ANY DATA, REPORTS, RECORDS, PROJECTIONS, INFORMATION OR MATERIALS NOW, HERETOFORE OR HEREAFTER FURNISHED OR MADE AVAILABLE TO BUYER IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER MATTERS CONTAINED IN ANY MATERIALS FURNISHED OR MADE AVAILABLE TO BUYER BY SELLER OR BY SELLER'S AGENTS OR REPRESENTATIVES. ANY AND ALL SUCH DATA, RECORDS, REPORTS, PROJECTIONS, INFORMATION AND OTHER MATERIALS (WRITTEN OR ORAL) FURNISHED BY SELLER OR OTHERWISE MADE AVAILABLE OR DISCLOSED TO BUYER ARE PROVIDED BUYER AS A CONVENIENCE AND SHALL NOT CREATE OR GIVE RISE TO ANY LIABILITY OF OR AGAINST SELLER AND ANY RELIANCE ON OR USE OF THE SAME SHALL BE AT BUYER'S SOLE RISK TO THE MAXIMUM EXTENT PERMITTED BY LAW. ANY PROVISION CONTAINED IN THIS SECTION 4. OR ELSEWHERE IN THIS AGREEMENT TO THE CONTRARY NOTWITHSTANDING, SELLER SHALL WARRANT ITS TITLE TO THE SUBJECT PROPERTIES BY SPECIAL WARRANTY OF TITLE.

m. Any representation “to Seller’s knowledge” is limited to matters within the actual conscious awareness of Michael King, the President of the General Partner of Seller.

5. Representations and Warranties of Buyer. Buyer represents and warrants to Seller as of the date hereof and will represent and warrant at the Closing, as follows:

a. **Corporate Authority.** Buyer is a corporation organized and in good standing under the laws of the State of Nevada, is duly qualified and in good standing to carry on its business in the state where the Subject Property is located and has all the requisite power and authority to enter into and perform this Agreement and carry out the transactions contemplated under this Agreement.

b. **Valid Agreement.** This Agreement constitutes the legal, valid and binding Agreement of Buyer. At the Closing, all instruments required hereunder to be executed and delivered by Buyer shall be duly executed and delivered to Buyer and shall constitute legal, valid and binding obligations of Buyer. The execution and delivery by Buyer of this Agreement, the consummation of the transactions set forth herein and the performance by Buyer of Buyer's obligations hereunder have been duly and validly authorized by all requisite corporate action on the part of Buyer and will not conflict with or result in any violation of any provision of (i) any agreement, contract, mortgage, lease, license or other instrument to which Buyer is a party or by which Buyer is bound; (ii) any governmental franchise, license, permit or authorization or any judgment or order of judicial or governmental body applicable to Buyer, or (iii) any law, statute, decree, rule or regulation of any jurisdiction in the United States to which Buyer is subject.

c. **Governmental Approvals.** Buyer shall obtain all required local, state, federal governmental and/or agency permissions, approvals, permits, bonds and consents, as may be required to assume Seller’s obligations and responsibilities attributable to the Subject Property.

d. **Independent Evaluation.** Buyer is experienced and knowledgeable in the oil and gas business. Buyer has been advised by and has relied solely on its own expertise and legal, tax, accounting, marketing, land, engineering, environmental and other professional counsel concerning this transaction, the Subject Property and value thereof.

e. **Brokers.** Buyer has incurred no obligation or liability, contingent or otherwise, for brokers’ or finders’ fees with respect to this transaction for which Buyer shall have any obligation or liability.

6. Title Matters.

a. **Examination of Files and Records.** Upon execution of and pursuant to the terms of this Agreement, Buyer shall have the right to conduct an investigation of the status of title to the Subject Properties. Seller will make available to Buyer all of Seller's Data. Existing abstracts and title opinions, to the extent such exist and are in the possession of Seller, will not be updated by Seller. Upon reasonable, advance notice from Buyer, all such Data shall be made available at Seller's offices during normal working hours. Seller will also permit Buyer to examine and copy, at Buyer's expense, such Data. If Closing does not occur, Buyer shall promptly return all such Data and other materials provided by Seller to Buyer hereunder.

b. **Notice of Title Defect.** Buyer may review title to the Subject Property prior to Closing and may notify Seller in writing of any Title Defect (defined below) it discovers as soon as reasonably practicable after its discovery, but in any event no later than four (4) business days prior to the Closing Date (not including the Closing Date). Any notice provided hereunder shall include appropriate evidence to substantiate the Buyer's position, including a description of the Title Defect, the basis for the Title Defect, the portion of any Lease or Leases or other part of the Subject Property affected by the Title Defect, the amount by which Buyer believes the value of the Subject Property has been reduced because of the Title Defect and the computations and information upon which Buyer's belief is based. Buyer will be deemed to have conclusively waived any Title Defect about which it fails to notify Seller in writing within the applicable period specified above.

c. **Procedure.** If Buyer properly notifies Seller of a Title Defect, Buyer and Seller shall promptly meet and, in good faith, negotiate in an effort to agree upon the validity of each claimed Title Defect and the resolution of such claimed Title Defects. Absent an agreement on the claimed Title Defect, Buyer shall have the option to either (i) waive the Title Defect and proceed to Closing, or (ii) request that Seller cure the Title Defect, but Seller shall have no obligation to cure any Title Defect. If Seller elects not to cure a Title Defect, Seller may, at its sole option, either (i) reduce the Purchase Price in an agreed upon amount to account for such Title Defect [which amount shall not exceed the Allocated Value (as defined below) of the affected portion of the Subject Property] and convey such affected Subject Property to Buyer or (ii) retain title to the affected Subject Property and reduce the Purchase Price by the Allocated Value (defined below) of the affected Subject Property. In the absence of an agreement on the amount to account for a Title Defect, the amount shall be the Allocated Value. If Seller elects to attempt to cure the Title Defect and such Title Defect is not cured at Closing, Buyer shall deposit the Allocated Value of the affected Subject Property into the Holding Account and Seller will convey the affected Subject Property to Buyer. Seller will have ninety (90) days following the Closing Date to attempt to cure the Title Defect. With respect to a Title Defect that Seller is unable to cure within such ninety (90) day period following the Closing Date, Buyer shall re-convey the affected Subject Property to Seller and, upon such re-conveyance, Buyer shall be entitled to the Allocated Value placed in the Holding Account for the affected Subject Property together with any interest accrued thereon. With respect to a Title Defect that Seller cures within such ninety (90) day period following the Closing Date, Seller shall be entitled to the Allocated Value placed in the Holding Account for such affected Subject Property together with any interest accrued thereon. Notwithstanding the foregoing, if, at the end of the ninety (90) day period following Closing the sum of all uncured Title Defects and Environmental Defects equals or exceeds five percent (5%) of the Purchase Price, Buyer may, in its sole discretion, elect to rescind the transaction by written notice to Seller given within seven (7) business days following the end of the ninety (90) day period. In such event, Buyer shall reconvey the Subject Properties to Seller without a warranty of title by, through and under Buyer, but not otherwise, and Seller shall refund the Purchase Price in immediately available funds less the net income derived by Buyer during the period from the Effective Date to the reconveyance date, which amount shall be provided to Seller by Buyer in a reconveyance settlement statement. The Holding Account shall be established jointly by Seller and Buyer at **[name and location of Bank]** requiring the signature of Seller and Buyer to disburse funds therefrom.

d. **Right to Terminate Agreement.** Notwithstanding anything in this **Section 6** or **Section 7** that follows, in the event the sum of the Title Defects and Environmental Defects (defined below) equals or exceeds five percent (5%) of the Purchase Price and Seller elects not to cure such Title Defects or Environmental Defects, either Party may elect to terminate this Agreement without liability as to either Party.

e. **Definition of Title Defect.** For purposes of this Agreement, the term “**Title Defect**” shall mean any matter in excess of Ten Thousand Dollars (\$10,000.00) per defect, positive or negative, that would cause the title to the Subject Property to fail to qualify as Good and Defensible Title (defined below) or which would otherwise reduce the net revenue interest to be conveyed by Seller to Buyer as set forth in **Exhibit “B”** attached hereto and made a part hereof for all purposes.

f. **Good and Defensible Title.** As used herein, the term “**Good and Defensible Title**” shall mean, as to each of the Subject Properties, title to the Subject Properties by virtue of which Seller can successfully defend against a claim to the contrary made by a third party, based upon industry standards in the acquisition of oil and gas properties, and in the exercise of reasonable judgment and in good faith, such that (i) Seller (and upon Closing, Buyer), by virtue of its ownership interest in the Leases described in **Exhibit “A”**, are entitled to receive a fractional decimal interest of not less than Seller’s interests shown on Exhibit “B” without reduction, increase, suspension, or termination throughout the productive life of each such Subject Property (the “**Net Revenue Interest**”), (ii) Seller is obligated to bear (and after Closing shall obligate Buyer to bear) a fractional decimal interest of not more than Seller’s interests shown on Exhibit “B” without reduction, increase, suspensions, or termination throughout the productive life of each such Subject Property, of the costs and expenses related to the maintenance, development, drilling, equipping, testing, completing, sidetracking, reworking and operation of each Subject Property without increase throughout the productive life of each Subject Property (the “**Working Interest**”); and (ii) the Subject Properties are subject to no liens, encumbrances, obligations or defects except those that are Permitted Encumbrances.

g. As used herein, the term “**Permitted Encumbrances**” shall mean:

i) Lessors’ royalties, overriding royalties, payments out of production, and other burdens affecting Seller’s Net Revenue Interest if the net cumulative effect of such burdens does not operate to (i) reduce the Net Revenue Interest of Seller in any Subject Property to less than the Net Revenue Interest for such property as set forth on Exhibit “B”, or (ii) increase the Working Interest of Seller in any such Subject Property to greater than the Working Interest therefore as set forth herein (unless Seller’s Net Revenue Interest therein is increased in the same proportion);

ii) Preferential rights to purchase and required third party consents to assignments and similar agreements with respect to which (i) waivers or consents are obtained from the appropriate parties; or (ii) the appropriate time for asserting such rights has expired without an exercise of such rights;

iii) All rights to consent by, required notices to, filings with, or other actions by governmental entities in connection with the sale or conveyance of oil and gas leases or interests therein if the same are customarily obtained subsequent to such sale or conveyance;

iv) Easements, rights-of-way, servitudes, permits, surface leases and other rights in respect of surface operations which do not interfere with or detract from the operations, value or use of the Subject Properties by Buyer;

v) Such Title Defects as Buyer has waived or released or is deemed to have waived pursuant to the terms of this Agreement;

vi) The terms and conditions of all Leases and contracts, provided the same do not result in a decrease in the Net Revenue Interest or an increase of the Working Interest in any of the Properties (unless Seller’s Net Revenue Interest therein is increased in the same proportion) or that do not interfere with or detract from the operations, value or use of the Subject Properties by Buyer;

vii) Rights of reassignment, to the extent any exist as of the date of this Agreement, upon the surrender or expiration of any Lease;

viii) Liens for taxes or assessments not yet due or not yet delinquent, and mechanic's or materialmen's liens (or other similar lien), or a lien under an operating agreement or similar agreement, to the extent the same relates to expenses incurred which are not yet delinquent;

ix) Liens, if any, to be released at Closing in a form acceptable to Buyer;

x) Defects or irregularities that have been cured or remedied by the passage of time, including, without limitation, applicable statutes of limitation or statutes for prescription;

xi) Defects or irregularities in the chain of title consisting of the failure to recite marital status in documents or omissions of heirship proceedings; and

xii) Conventional rights of reassignment normally actuated by an intent to abandon or release a lease and requiring notice to the holders of such rights and any defect or irregularity as would normally be waived by persons engaged in the oil and gas business when purchasing producing properties.

h. Definition of **“Allocated Value”**. The term **“Allocated Value”** shall be the value agreed upon the Subject Property as set forth on Exhibit “B” hereto.

i. **NRI Variance/Proportionate Price Reductions**. If the Title Defect is a defect described in **Section 6(f)(i)** affecting the Net Revenue Interest or which otherwise affects a portion of Seller’s interest in a Lease listed on **Exhibit “A”**, the price adjustment for such defect shall be calculated as follows: a downward adjustment equal to the amount determined by multiplying the Allocated Value set forth for such Lease on **Exhibit “A”** by a fraction (i) the numerator of which is an amount equal to the “Net Revenue Interest” shown on Exhibit “B” for such Lease less the decimal share to which Seller would be entitled to as a result of its ownership interest in such Lease which is unaffected by such Defect value allocated to such Lease shown on Exhibit “B” for such Lease and (ii) the denominator of which is the “Net Revenue Interest” shown for such property on Exhibit “B” hereto.

7.Environmental Matters.

a. **Inspection**. Prior to Closing and upon reasonable, prior written notice to Seller and the operator of the Subject Properties, Buyer, to the same extent Seller has such right, will have access to and the opportunity to inspect the Subject Property for the purposes of conducting a Phase I Inspection only, including without limitation, for the purposes of undertaking an independent investigation for detecting the presence of hazardous or toxic substances, pollutants or other contaminants (including petroleum), environmental hazards, naturally occurring radioactive materials (NORM), produced water, air emissions, contamination of the surface and subsurface and any other Environmental Defect (defined below).

b. **Notice of Environmental Defect.** Buyer may notify Seller in writing of any Environmental Defect (defined below) it discovers as soon as reasonably practicable after its discovery, but in any event no later than five (5) business days prior to the Closing Date (not including the Closing Date). Any notice provided hereunder shall include appropriate evidence to substantiate the Buyer's position, including a description of the Environmental Defect, the Environmental Law applicable to the Environmental Defect and Buyer's basis for believing that Seller is in violation of such Environmental Law, the portion of the Lease or other part of the Subject Property affected by the Environmental Defect, the amount by which Buyer believes the value of the Subject Property has been reduced because of the Environmental Defect and the evidence, computations and information upon which Buyer's belief is based. Buyer will be deemed to have conclusively waived any Environmental Defect about which it fails to notify Seller in writing within the applicable period specified above.

c. **Procedure.** If Buyer properly and timely notifies Seller of an Environmental Defect, Buyer shall have the option to either (i) waive the Environmental Defect and proceed to Closing, or (ii) request that Seller correct the Environmental Defect, but Seller shall have no obligation to correct any Environmental Defect. If Seller elects not to correct an Environmental Defect, then Seller may elect to either (i) reduce the Purchase Price to account for such Environmental Defect in an agreed amount and Seller will then convey such affected Subject Property to Buyer or (ii) allow Seller to retain title to the affected Subject Property and reduce the Purchase Price by the Allocated Value (defined above) of the affected Subject Property. If Seller elects to attempt to correct the Environmental Defect, at Closing, Buyer shall deposit the Allocated Value of the affected Subject Property into the Holding Account created by the Parties and Seller will have ninety (90) days following the Closing Date to attempt to correct the Environmental Defect. With respect to a Environmental Defect that Seller is unable to correct within such ninety (90) day period following the Closing Date, upon agreement of the Parties, (i) Seller may convey title to the affected Subject Property to Buyer for an agreed amount not to exceed the Allocated Value of the affected Subject Property, or (ii) Seller will retain title to such affected Subject Property and Buyer shall be entitled to the amount placed in the Holding Account for such affected Subject Property together with all interest accrued thereon. Notwithstanding the foregoing, Buyer reserves the right to rescind the transaction in the event the sum of the uncured Title Defects and Environmental Defects at the end of the ninety (90) day period exceeds five percent (5%) of the Purchase Price in accordance with the procedure set forth in **Section 6(c)**.

d. **Definition of Environmental Defect.** As used herein, an “**Environmental Defect**” shall mean a condition affecting a Subject Property that is a violation of Environmental Law and which would cost, on an individual defect basis, in excess of ten thousand dollars (\$10,000) to remediate.

e. **Definition of Environmental Laws.** As used herein, the term “**Environmental Laws**” shall mean any and all federal, state and local statutes, regulations, rules, orders, ordinances or permits of any governmental authority pertaining to health, the environment, and wildlife in effect in any and all jurisdictions in which the Subject Property is located, including without limitation, the Clean Air Act, as amended, and the Federal Water Pollution Control Act, as amended, the Oil Pollution Act of 1990 (“**OPA90**”), as amended, the Rivers and Harbors Act of 1899, as amended, the Safe Drinking Water Act, as amended, the Comprehensive Environmental Response, Compensation and Liability Act (“**CERCLA**”), as amended, the Superfund Amendments and Reauthorization Act of 1986 (“**SARA**”), as amended, the Resource Conservation and Recovery Act (“**RCRA**”), as amended, the Hazardous and Solid Waste Amendments Act of 1984, as amended, the Toxic Substances Control Act, as amended, the Occupational Safety and Health Act, as amended (“**OSHA**”), the Hazardous Materials Transportation Act, as amended, and the statutes and regulations of the Texas Railroad Commission.

8.Covenants.

a. **Seller’s Negative Covenants.** Until Closing, Seller shall not do any of the following with regard to the Subject Property without first obtaining the prior, written consent of Buyer:

i) Release all or any portion of a Lease, Contract or Easement; provided, however, that a Lease may expire by its own terms, with no obligation on Seller to renew or extend the Lease;

ii) Create a lien, security interest or other encumbrance on the Subject Property other than a Permitted Encumbrance;

iii) Amend a Lease, Contract or Easement or enter into any new contracts which affect the Subject Property;
or

iv) Waive, comprise or settle any claim that would materially affect ownership, operation or value of any of the Subject Property.

b. **Maintain Leases in Effect.** Seller will use its commercially reasonable efforts in the ordinary course of business to take all action necessary to keep the Leases in force and effect until the Closing; provided, however, (i) Seller is not the operator of the Leases and has minimal ability to cause any action to occur which would affect the Leases, and (ii) that Seller shall not be required to make capital expenditures to keep the Leases in effect until Closing.

9. Closing Conditions

a. **Seller's Closing Conditions.** The obligation of Seller to consummate the transactions contemplated hereby is subject, at the option of Seller, to the satisfaction on or prior to the Closing Date of all of the following conditions:

i) **Representations, Warranties and Covenants.** The (A) representations and warranties of Buyer contained in this Agreement shall be true and correct in all material respects on and as of the Closing Date and (B) covenants and agreements of Buyer to be performed on or before the Closing Date in accordance with this Agreement shall have been duly performed in all material respects.

ii) **Payment of Purchase Price.** Buyer shall have paid Seller the Purchase Price in immediately available funds in accordance with **Section 2** and the adjustments set forth in **Section 10**.

iii) **No Action.** On the Closing Date, no suit, action or other proceeding (excluding any such matter initiated by Seller or any affiliate) shall be pending or threatened against Buyer before any governmental authority of competent jurisdiction seeking to enjoin or restrain the consummation of this Agreement or recover damages from Seller resulting therefrom.

b. **Buyer's Closing Conditions.** The obligation of Buyer to consummate the transactions contemplated hereby is subject, at the option of Buyer, to the satisfaction on or prior to the Closing Date of all of the following conditions:

i) **Representations, Warranties and Covenants.** The (A) representations and warranties of Seller contained in this Agreement shall be true and correct in all material respects on and as of the Closing Date and (B) covenants and agreements of Seller to be performed on or before the Closing Date in accordance with this Agreement shall have been duly performed in all material respects.

ii) **Conveyance.** Seller shall have executed and delivered the Assignment and Bill of Sale, the form of which is attached as **Exhibit "D"**, prior to or on the Closing Date.

iii) **No Action.** On the Closing Date, no suit, action or other proceeding (excluding any such matter initiated by Buyer or any of its affiliates) shall be pending or threatened against Seller or the Subject Property before any governmental authority of competent jurisdiction seeking to enjoin or restrain the consummation of this Agreement or recover damages from Buyer resulting therefrom.

iv) **Casualty or Condemnation.** Buyer shall not have elected to terminate this Agreement pursuant to **Section 12.**

v) **No Material Adverse Change.** From the date of this Agreement to the Closing Date, there shall not have been any material adverse change of the Subject Property equal to five percent (5%) of the value, when taken as a whole.

c. **Right to Terminate.** Seller shall have the right to terminate this Agreement, without liability to Buyer, if the conditions to Closing set forth in **Section 9(a)** are not satisfied. Likewise, Buyer shall have the right to terminate this Agreement, without liability to Seller, if the conditions to Closing set forth in **Section 9(b)** are not satisfied.

10. Closing. The Closing shall be held at the offices of Seller or such other place or method as the Parties shall mutually agree. Seller shall provide Buyer a draft “**Closing Settlement Statement**” three (3) business days prior to Closing respecting adjustments to the Purchase Price. At the Closing, the following shall occur:

a. **Closing Settlement Statement.** Buyer and Seller shall agree upon a “**Closing Settlement Statement**” that shall include adjustments to the Purchase Price that are known as of the Closing Date, as follows:

i) **Oil in Storage.** The Purchase Price shall be increased by the amount of the estimated amount to be received by Buyer for Seller’s interests in the quantity of saleable oil in storage on the Effective Date (if any), net of all applicable taxes and net of any charges attributable to such oil that are deducted under the contract between NOGI and the oil purchaser before remitting payment, which estimated amount shall be corrected to the actual amount received in the Final Settlement Statement (defined below);

ii) **Operating Expenses.** The Purchase Price shall be increased by the amount of all operating expenses (including COPAS) and non-discretionary capital expenditures by the Seller attributable to the Subject Properties for the period from the Effective Date to the Closing Date;

iii) **Sales Revenue from Effective Date to Closing Date.** The Purchase Price shall be decreased by the amount received by Seller for the sale or other disposition of produced natural gas and crude oil, net of all taxes for which Seller was not reimbursed, for the period from the Effective Date to the Closing Date;

iv) **Taxes.** The Purchase Price shall be adjusted downward for estimated production, ad valorem or property taxes for production periods prior to the Effective Date on a pro-rata basis determined for Seller and Buyer by the length of ownership during the production taxing period divided by the production taxing period. Upon such adjustment, Buyer shall assume and be responsible for all such tax periods and shall indemnify and hold Seller harmless from any claims, losses, expenses and damages arising from same. Should Seller receive a tax statement for the Subject Properties following the Closing Date that relates to production periods prior to the Effective Date, Seller shall forward any such statements to Buyer and Buyer shall pay and advise the taxing authority of the change in ownership to Buyer.

v) **Adjustments for Title and/or Environmental Defects.** The Purchase Price shall be adjusted for any Title or Environmental Defect adjustments agreed upon by the Parties in accordance with **Sections 6 or 7** hereof.

b. **Execution and Delivery of Documents and Instruments.** The Parties shall execute, acknowledge and deliver the following:

i) Seller shall execute and deliver to Buyer the Assignment, Conveyance and Bill of Sale in the form attached hereto as **Exhibit “D”** that shall expressly contain a special warranty of title to be given by Seller (the **“Assignment”**);

ii) Buyer shall execute and deliver to Seller the Note and Mortgage; and

iii) Seller shall execute and deliver to Buyer letters-in-lieu of transfer orders, and other instruments reflecting Seller’s conveyance of title to the Subject Property and the production therefrom to Buyer.

c. **Delivery of Data.** Seller shall deliver the Data (as defined above) to Buyer at Closing or within a reasonable time thereafter, due consideration being given for the time to copy and deliver such Data. To the extent transferable, the Seller shall transfer possession of all Data (as located by Seller) to the Buyer on the Closing Date.

d. **Delivery of Possession.** Seller shall deliver exclusive possession of the Subject Property to Buyer.

e. **Recording.** Buyer shall record and file the Assignment and other instruments at its cost. Any sales, use or transfer tax relative to such recording shall be the responsibility of Seller.

11. Post-Closing Covenants.

a. **Costs and Revenues After Effective Date.** Except as otherwise provided herein, Seller shall be responsible for the payment of all costs, liabilities and expenses incurred in the ownership and operation of the Subject Property prior to the Effective Date and not yet paid or satisfied. Except as otherwise provided herein, Buyer shall be responsible for payment (at Closing or thereafter if not reflected on the Preliminary Closing Settlement Statement) of all costs, liabilities and expenses incurred in the ownership and operation of the Subject Property after the Effective Date to the Closing Date. Such costs, liabilities and expenses shall include any necessary and reasonable expenses incurred by Seller in the operation, protection or maintenance of the Subject Property. All Hydrocarbons produced from the Subject Property prior to the Effective Date, all oil stock balances held in the tanks as of the Effective Date, and all proceeds from the sale thereof shall be the property of Seller. All Hydrocarbons produced after the Effective Date shall be the property of Buyer. Seller shall remit production proceeds, if any, received by Seller from the sale of Hydrocarbons belonging to Buyer, less expenses which Buyer is responsible for paying pursuant to this section, to Buyer promptly upon receipt. To the extent possible, adjustments shall be made to the Purchase Price to account for such costs and revenues in the Preliminary Settlement Closing Statement or if not liquidated by such date, they shall be addressed in the Final Settlement Statement.

b. **Final Settlement Statement.** Not more than ninety (90) days after the Closing, Seller shall prepare and deliver to Buyer, in accordance with this Agreement, a Final Settlement Statement setting forth each adjustment or payment which was not finally determined as of the Closing and showing the calculation of such adjustments. As soon as practicable after receipt of the Final Settlement Statement, Buyer shall deliver to Seller a written report containing any changes which Buyer proposes be made to the Final Settlement Statement. The Parties shall agree with respect to the amounts due pursuant to such post-Closing adjustments no later than one hundred twenty (120) days after the Closing. The date upon which such agreement is reached or upon which the Final Purchase Price is established shall be called the "**Final Settlement Date**". In the event that (1) the Final Purchase Price is more than the amount paid to Seller at Closing, Buyer shall pay to Seller in immediately available funds the amount of such difference, or (2) the Final Purchase Price is less than the amount paid to Seller at Closing, Seller shall pay to Buyer in immediately available funds the amount of such difference. Payment by Buyer or Seller shall be made within five (5) business days of the Final Settlement Date. Notwithstanding anything to the contrary in **Section 11(a), (b) or (c)**, in no event shall Seller be responsible for paying any Losses for which Buyer is obligated to indemnify Seller under **Section 11(e)** and in no event shall any reduction be made to the Purchase Price for any Losses for which Buyer is obligated to indemnify Seller under **Section 11(e)**.

c. **Additional Payments Received.** After the Final Settlement Date, each Party covenants and agrees that it will hold and promptly transfer and deliver to the rightful Party, from time to time as and when received by it, any cash, checks with appropriate endorsements (using its reasonable efforts not to convert such checks into cash), or other property that it may receive which properly belongs to the other Party, and will account to the other Party for all such receipts.

d. **Assumption of Obligations.** The Buyer understands and agrees that the Subject Property is subject to all existing Contracts relating to the Subject Property. Except as otherwise provided herein, the Buyer shall assume and be responsible for any obligations arising from ownership and operation of the Subject Properties on and after the Effective Date; except as otherwise provided herein, the Seller shall retain and be responsible for any obligations arising from ownership or operation of the Subject Properties prior to the Effective Date. From and after the Effective Date, Buyer assumes, will be bound by, and agrees to perform all express and implied covenants and obligations of Seller relating to the Subject Property, whether arising under (i) the Leases, prior assignments of the Leases, the Contracts, the Easements, the Permits or any other contractually-binding arrangements to which the Subject Property (or any component thereof) may be subject and which will be binding on Buyer and/or the Subject Property (or any component thereof) after the Closing or (ii) any applicable laws, ordinances, rules and regulations of any governmental or quasi-governmental authority having jurisdiction over the Subject Property. Buyer also assumes Seller's proportionate share of the expenses and costs of plugging and abandoning the Wells and restoration of operation sites, all in accordance with the applicable laws, regulations and contractual provisions. Buyer shall assume the risk of any change in the condition of the Subject Property from the Effective Date to the Closing.

e. **Indemnification.**

(i) **Indemnification by Buyer.** Buyer shall defend, indemnify and save Seller and, as applicable, its directors, officers, partners, members, employees and agents harmless from and against any and all claims, liabilities, damages, losses, assessments, costs and expenses, including reasonable attorneys' fees and expenses and costs of suit (collectively, "**Losses**") arising out of (A) the breach of any representation or warranty contained in **Section 5** hereof, (B) the breach of any covenant contained in this Agreement, or (C) the ownership or operation of the Subject Property after the Effective Date including, without limitation, the adequate and timely payment of royalties, overriding royalties and other burdens measured by production, payment of taxes and noncompliance with any Environmental Laws, or (D) any matter which could constitute or relate to an Environmental Defect (regardless of cost, on an individual or any other basis, to remediate) whether the claim is for Losses suffered by Buyer or regardless of whether the same accrued or otherwise arose before or after the Closing.

(ii) **Indemnification by Seller.** Seller shall defend, indemnify and save Buyer and, as applicable, its directors, officers, employees and agents, harmless from and against any and all Losses arising out of (A) the failure by Seller to pay any expenses relating to the Subject Property which relate to periods prior to the Effective Date, (B) the failure by Seller to pay any taxes relating to the Subject Property or production therefrom which relate in any way to periods prior to the Effective Date and (C) the adequate and timely payment of royalties, overriding royalties and other burdens measured by production relating to periods prior to the Effective Date; provided, however, that the obligation to indemnify Buyer under subpart (C) hereof shall terminate six (6) months following the Closing Date.

(iii) THE INDEMNIFICATION PROVIDED FOR IN THIS **SECTION 11(e)** SHALL BE APPLICABLE WHETHER OR NOT THE CLAIMS, LOSSES, COSTS, EXPENSES, AND DAMAGES IN QUESTION AROSE SOLELY OR IN PART FROM (A) THE ACTIVE, PASSIVE OR CONCURRENT NEGLIGENCE, OR OTHER FAULT OF ANY INDEMNIFIED PARTY OR (B) ANY ACTION THAT SUBJECTS THE INDEMNIFIED PARTY TO CLAIMS PREMISED IN WHOLE OR IN PART IN STRICT LIABILITY.

12.Casualty Loss. If, prior to the Closing Date, any portion of the Subject Property shall be destroyed by fire or other casualty, Buyer shall have the right to treat such affected property as a Title Defect under **Section 6** above. Should the portion of Subject Property affected be material in Buyer's reasonable opinion, Buyer shall have the right to exclude the affected Subject Property from this Agreement by giving notice thereof to Seller, in which event both parties shall negotiate in good faith any adjustment to the Purchase Price to account for the casualty loss. In the event the casualty loss occurs after the notice deadline for Title Defects provided in **Section 6(b)** but before the Closing Date and the total value of such casualty losses exceeds twenty percent (20%) of the Purchase Price, either Party may elect to terminate this Agreement without liability to the other Party, in which case Buyer shall be entitled to a refund of the Performance Deposit.

13. Shareholder Ratification. Any provision contained in this Agreement to the contrary notwithstanding, should the approval by ratification of the shareholders of either or both of Buyer or Seller be applicable to the transaction contemplated hereby, the Closing described in Section 3. hereof shall be deferred until any such ratification shall have occurred.

14. General Provisions.

a. **Further Assurances.** Seller agrees to execute any documents which it has the authority to execute, whether before or after the Closing, to aid Buyer in clearing or perfecting title and ownership to the Subject Property and to facilitate the receipt of the proceeds of the sale of the production therefrom and attributable thereto. Buyer shall make any request for execution of such document in writing and shall provide Seller with a copy of the document.

b. **Entire Agreement.** This Agreement together with the Exhibits attached hereto, shall constitute the complete agreement between the Parties hereto and shall supersede all prior agreements, whether written or oral, and any representations or conversations with respect to the Subject Property.

c. **Confidentiality.** If the Closing does not occur, Buyer will keep all the information furnished by Seller to Buyer hereunder, or in contemplation hereof, strictly confidential including without limit the Purchase Price and other terms of this Agreement, and will not use any of such information to Buyer's advantage or in competition with Seller, except to the extent such information (i) was already in the public domain, not as a result of disclosure by Buyer, (ii) was already known to Buyer, (iii) is developed by Buyer independently from the information supplied by Seller, or (iv) is furnished to Buyer by a third party independently of Buyer's investigation pursuant to the transaction contemplated by this agreement.

d. **Assumption of Plugging and Abandoning Existing Wells.** Buyer understands that there are numerous wells located on the Leases, and that governmental authorities, lessors, and the operator(s) of the Leases, may demand/require that various of those wells be plugged and abandoned, and that the wellsites for such wells be cleared, cleaned up and returned to as near such wellsites' surface condition as is reasonably practicable. Buyer agrees that it is purchasing the Subject Property with knowledge of the above-described plugging, abandonment and surface restoration obligations.

e. **Notices.** All communications required or permitted under this Agreement shall be in writing and may be sent by e-mail and/or facsimile. Such communication shall be deemed made when actually received, or if mailed by registered or certified mail, postage prepaid, addressed as set forth below, shall be deemed made three (3) days after such mailing. Faxes and e-mails will be deemed to be received when reflected in the fax confirmation sheet or by e-mail confirmation obtained by the sender. Either Party may, by written notice to the other, change the address for mailing such notices.

Notices to Seller: Nordic Oil USA 1, LLLP
3887 Pacific Street
Las Vegas, Nevada 89121
Attn: Mr. Michael King
Fax No. (702) 697-8944
E-Mail: mike@princetonresearch.com

Notices to Buyer: Lucas Energy, Inc.
3555 Timmons Lane, Suite 1550
Houston, Texas 77027
Attn: Mr. William A. Sawyer
Fax No. (713) 337-1510
E-Mail: wsawyer@lucasenergy.com

f. **Binding Effect.** This Agreement shall be binding upon and shall inure to the benefit of the Parties hereto, and their successors and assigns; provided, no assignment or delegation by either Party shall be made without the express consent of the other Party and if such consent is granted, no assignment or delegation shall relieve such Party of any of its obligations hereunder.

g. **Law Applicable.** This Agreement shall be governed by, and construed in accordance with, the laws of the State of Texas, and for the purposes of any disputes between the Parties and enforcement of the terms and provisions hereof, the jurisdiction and venue shall be in a competent court of the State of Texas or Federal District Court in the State of Texas.

h. **Incorporation of Exhibits.** All exhibits and schedules referred to herein are attached hereto and are made a part hereof by this reference.

i. **Expiration of Representations and Warranties.** None of the representations and warranties contained in **Sections 4 and 5** or the covenants in **Section 8** shall survive Closing, provided, however, that the representations and warranties contained in **Sections 4(a), (b), (c), and (d); and 5(a), (b), (c), (d) and (e)** shall survive the Closing for a period of two (2) years. Except as provided above and for any covenant or agreement which by its terms expressly terminates as of a specific date, the covenants and agreements of the parties hereto contained in this Agreement shall survive the Closing without contractual limitation.

j. **Headings.** The headings of the articles and sections of this Agreement are for guidance and convenience of reference only and shall not limit or otherwise affect any of the terms and provisions of this Agreement.

k. **Attorneys' Fees.** The prevailing Party in any dispute hereunder shall be entitled to recover its reasonable attorneys' fees and costs.

l. **Expenses.** All fees, costs and expenses incurred by the Parties in negotiating this Agreement and in consummating the transactions contemplated by this Agreement shall be paid by the Party that incurred such fees, costs and expenses.

m. **Amendment and Waiver.** This Agreement may be altered, amended or waived only by a written agreement executed by the Party to be charged. No waiver of any provision of this Agreement shall be construed as a continuing waiver of the provision.

n. **Announcements.** Buyer may, at its sole discretion, publicly disclose the execution of this Agreement and the transactions contemplated hereby. If Seller is required by law to make an announcement concerning this Agreement, the Buyer shall be provided the opportunity to review and comment upon such announcement prior to the release of such announcement.

o. **Third-Party Beneficiaries.** Unless expressly stated to the contrary, no third party is intended to have any rights, benefits or remedies under this Agreement.

p. **Severance.** If any provision of this Agreement is found to be illegal or unenforceable, the other terms of this Agreement shall remain in effect and this Agreement shall be construed as if the illegal or unenforceable provision had not been included.

q. **Counterparts.** This Agreement may be signed in any number of counterparts and each such counterpart shall be considered any original and an enforceable agreement.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed below by their duly authorized representatives.

SELLER

BUYER

**NORDIC OIL USA 1, LLLP, by and through its General Partner, LUCAS ENERGY, INC.
Princeton Research, Inc.**

By: /s/ Michael King
Name: Michael King
Title: President
Date:

By: /s/ William A. Sawyer
Name: William A. Sawyer
Title: President & CEO
Date:

LIST OF EXHIBITS

<u>Exhibit</u>	<u>Description</u>
"A"	Leases
"B"	Working Interests, Net Revenue Interests and Allocated Values
"C"	Contracts
"D"	Form of Assignment, Conveyance and Bill of Sale
"E"	Form of Promissory Note
"F"	Form of Deed of Trust, Security Agreement, Financing Statement and Assignment of Production

EX-10.2

EX-10.2 3 ex10-2.htm PROMISSORY NOTE

Exhibit 10.2

PROMISSORY NOTE

(this "Note")

\$22,000,000.00

Houston, Texas

Effective November 18, 2011

On the date set forth above, for value received, LUCAS ENERGY, INC., a Nevada corporation ("Borrower") unconditionally promises to pay to the order of NORDIC OIL USA 1, LLLP, a Delaware limited liability partnership, ("Lender") as provided for in that certain Purchase and Sale Agreement dated the 13th day of October, 2011, between Borrower and Lender (the "Agreement"), (i) the principal amount of TWENTY-TWO MILLION AND NO/100 DOLLARS (\$22,000,000.00) and (ii) interest on the principal balance remaining unpaid from the date of this Note until maturity at a rate of interest equal to six percent (6%). All past due principal hereof and interest thereon shall bear interest from the maturity as such principal and interest at the rate of six percent (6%) per annum until paid. All payments of both principal and interest shall be payable to Lender in Las Vegas, Nevada, or such other place as Lender may designate in writing.

The principal of this Note and all accrued interest is payable on, or before, November 17, 2012. Any such payment shall be applied first to accrued interest and the balance to principal.

Borrower may prepay at any time in whole, or from time to time in part, and without any premium or penalty therefore, principal amount hereof then remaining unpaid together with all accrued interest payable thereon and from the date of such payment interest shall cease to run on such part or all of the principal amount hereof as shall be so prepaid. Any such prepayment hereunder shall be applied first to accrued interest and the balance to principal, but no part prepayment shall, until this Note is fully paid and satisfied, affect the obligations to continue to pay the regular installments required hereunder until the entire indebtedness has been paid.

This Note is secured by the Mortgage, as defined in the Purchase and Sale Agreement. This Note has been executed and delivered in accordance with the terms and provisions of the Purchase and Sale Agreement.

Should Borrower fail to pay this Note, or any installment hereof, whether principal or interest, when due or shall fail to fully perform and carry out all of Borrower's agreements and undertakings as set forth in the Mortgage securing payment hereof, or in any other instrument executed by Borrower relating to this Note, then the owner and holder hereof may, without demand, notice or presentment, all of which are hereby severally waived by Borrower, and by any and all sureties, guarantors and endorsors of this Note, accelerate the maturity of this Note in which event the entire unpaid balance of the principal hereof, together with all accrued but unpaid interest thereon, shall be at once due and payable.

Payments of both principal and interest are to be made in lawful money of the United States of America in immediately available funds.

It is expressly agreed and understood that time is of the essence of this agreement. If default shall be made in the payment of principal or interest on this Note, as the same becomes due and payable, or if there is a default in any of the terms, covenants, agreements, conditions or provisions set forth in any instrument or document given to secure this Note or relating to this Note, or should Borrower become insolvent or commit an act of bankruptcy or make an assignment for the benefit of creditors or authorize the filing of a voluntary petition in bankruptcy or should a receiver any of the property of Borrower be appointed, or should involuntary bankruptcy proceedings be filed or threatened against Borrower, then in any of such events, Lender or any other holder hereof may, at its option, and without notice, declare the entirety of this Note and any other note or notes executed by Borrower and held by Lender or any other holder hereof, together with all accrued but unpaid interest hereof and thereon, immediately due and payable and to foreclose all liens securing payment of same. Failure to exercise this option shall not constitute a waiver on the part of Lender or any other holder hereof of the right to exercise said option at any other time. In the event of any default by Borrower which is not timely cured, Lender's sole recourse under this Note shall be against the Mortgaged Property in accordance with the herein-described Deed of Trust.

If this Note is not paid at maturity, however such maturity may be brought about, and same is placed in the hands of an attorney for collection, or if collected by suit or through bankruptcy, probate, receivership or other legal or judicial proceedings, the Borrower hereof agrees to pay an additional amount of ten percent (10%) upon the principal and interest hereof then owing as costs of collection and attorney's fees, or such greater amount as may be reasonable.

Without being limited thereto or hereby, this Note is secured by a Deed of Trust, Security Agreement, Financing Statement and Assignment of Production of even date herewith executed in favor of the Trustee named therein for the use and benefit of Lender (the "Deed of Trust"), conveying unto said Trustee certain interests in and to the oil, gas and other minerals produced from certain lands situated in Gonzales, Karnes and Wilson Counties, State of Texas (the "Mortgaged Property"). The Deed of Trust contains provisions which allows partial releases of the liens and security interests created by the Deed of Trust on oil, gas and mineral leases and the premises covered thereby described in the Purchase and Sale Agreement of even date herewith by and between Nordic Oil USA 1, LLLP, as seller, and Lucas Energy, Inc., as buyer, wherein the value of the Leases and Lands (as defined therein) is set forth.

Executed effective on the date first set forth above.

LUCAS ENERGY, INC.

By: /s/ William A. Sawyer
William A. Sawyer,
President & CEO

EX-10.3

EX-10.3 4 ex10-3.htm DEED OF TRUST, SECURITY AGREEMENT, FINANCING STATEMENT AND ASSIGNMENT OF PRODUCTION

Exhibit 10.3

DEED OF TRUST, SECURITY AGREEMENT, FINANCING
STATEMENT AND ASSIGNMENT OF PRODUCTION

(THIS INSTRUMENT GRANTS A SECURITY INTEREST BY A UTILITY)

FROM

LUCAS ENERGY, INC.
(Mortgagor and Debtor)

TO

Michael King, Trustee
for the benefit of

NORDIC OIL USA 1, LLLP
(Mortgagee and Secured Party)

The 13th day of October, 2011

For purposes of filing this Deed of Trust is a financing statement pursuant to TEX. BUS. & COM. CODE ANN. §9.402 (Tex. UCC) (Vernon Supp. 1988), the mailing address of Mortgagor is 3555 Timmons Lane, Suite 1550, Houston, Texas 77027; the mailing address of Mortgagee is 3887 Pacific Street, Las Vegas, Nevada 89121.

ATTENTION OF RECORDING OFFICER: This instrument is a mortgage of both real and personal property and is, among other things, a Security Agreement and Financing Statement under the Uniform Commercial Code. This instrument creates a lien on rights in or relating to lands of Mortgagor which are described in Exhibit "A" hereto.

RECORDED DOCUMENT SHOULD BE RETURNED TO:

Nordic Oil USA 1, LLLP
3887 Pacific Street
Las Vegas, Nevada 90121
Attention: Mr. Michael King

DEED OF TRUST, SECURITY AGREEMENT, FINANCING STATEMENT
AND ASSIGNMENT OF PRODUCTION

(THIS INSTRUMENT GRANTS A SECURITY INTEREST BY A UTILITY)

KNOW ALL MEN BY THESE PRESENTS: That the undersigned LUCAS ENERGY, INC., a Nevada corporation, acting herein by and through its proper officers who have heretofore been duly authorized, and with its principal office located at 3555 Timmons Lane, Suite 1550, Houston, Texas 77027, ("Mortgagor"), and NORDIC OIL USA 1, LLLP, a Delaware limited liability partnership, whose principal office located at 3887 Pacific Street, Las Vegas, Nevada 89121 ("Mortgagee"), hereby agree as follows:

ARTICLE I.

GRANT

A. Lien. Mortgagor, for valuable consideration, the receipt of which is hereby acknowledged, and in consideration of the debt and trust hereinafter mentioned, has granted, bargained, sold, conveyed, transferred and assigned, and by these presents does grant, bargain, sell, convey, transfer and assign to Michael King, Trustee, whose address is 3887 Pacific Street, Las Vegas, Nevada 89121, and his successors and substitutes in trust, as hereinafter provided, (the "Trustee"), for the benefit of Mortgagee, the following described property:

Certain interests in oil, gas and mineral leases (the "Leases") and oil, gas and mineral estates in the premises covered by the Leases and lands pooled therewith (the "Lands") which Leases and Lands are more particularly described in the schedule attached hereto, marked Exhibit "A" for identification, incorporated herein and made a part hereof for all purposes.

B. Security Interest. For the same consideration, Mortgagor hereby grants to Mortgagee, proportionate to Mortgagor's interest in the Leases and Lands described on Exhibit "A" hereto, a continuing security interest in the improvements and the personal property of any kind or character defined in and subject to the provisions of the Uniform Commercial Code, including the proceeds and products from the improvements and personal property, now owned and existing, and situated on any of the Leases and the Lands, including, but not limited to, pipe, casing, tubing, rods, storage tanks, boilers, loading racks, pumps, foundations, warehouses, and all other personal property and equipment of every kind and character upon, incident, appurtenant or belonging to and used in connection with Mortgagor's interest in the Leases and the Lands, including all oil, gas and other minerals produced or to be produced to the account of Mortgagor from the Leases and the Lands and the accounts receivable, general intangibles and contract rights of Mortgagor in connection with the Lands or the Leases, hereinafter defined, and all proceeds, products, substitutions and exchanges thereof (the Lands, the Leases, hereinafter defined, and real and personal property interests hereinabove described being the "Mortgaged Property").

C. Assignment of Security. For the same consideration, Mortgagor hereby grants to Mortgagee any and all rights of Mortgagor to liens and security interests securing payment of proceeds from the sale of production from the Mortgaged Property, including, but not limited to, those liens and security interests provided for in TEX. BUS. & COM. CODE ANN. §9.319 (Tex. UCC) (Vernon Supp. 1988).

D. Habendum. TO HAVE AND TO HOLD all and singular the Mortgaged Property and all other property which, by the terms hereof, has become subject to the lien and/or security interest of this Deed of Trust, Security Agreement, Financing Statement and Assignment of Production (this "Deed of Trust"), together with all rights, hereditaments and appurtenances in anywise belonging to the Trustee or assigns forever.

ARTICLE II.

WARRANTIES

A. Warranty of Title. Mortgagor hereby binds itself, its successors and assigns, to warrant and forever defend all and singular the above described property, rights and interests constituting the Mortgaged Property to the Trustee and to his assigns forever, against every person whomsoever lawfully claiming or to claim the same or any part thereof.

B. Additional Warranties. For the same consideration, Mortgagor, for itself, its successors and assigns, covenants, represents and warrants that:

(1) Authority and Enforceability. The incurring by Mortgagor of the indebtedness secured by this Deed of Trust and the execution and delivery by Mortgagor of the evidences of such indebtedness and this Deed of Trust and the performance and observance by Mortgagor of the terms and provisions of such evidence of indebtedness and this Deed of Trust have been duly authorized by any necessary corporate proceedings and will not contravene any requirement of law or any provision of Mortgagor's charter or by-laws or result in the breach or termination of, or constitute a default under, any indenture or other agreement or instrument to which Mortgagor is a party or by which it or any of its property may be bound or affected.

(2) Additional Authority. Mortgagor is the lawful owner of the Mortgage Property and has good right and authority to pledge, mortgage, assign, sell and convey the same.

(3) Interests in Mortgaged Property. Mortgagor's interests in the Mortgaged Property, as set forth in Exhibit "A" hereto, are true and correct.

(4) Leases in Effect. All of the leases constituting all or part of the Mortgaged Property (the "Leases") are in full force and effect and all covenants, express or implied, in respect thereof, or of any assignment thereof which may affect the validity of any of the Leases, have been performed insofar as the Leases pertain to the Land. The Leases are described on Exhibit "A" hereto.

(5) Interests Free of Liens. Mortgagor's interest in the Leases is free and clear of all liens, mortgages, oil payments, or other burdens or encumbrances and all gross production taxes and other taxes as to which non-payment could result in a lien against any of the Mortgaged Property have been paid, except as specifically set forth in Exhibit "A" hereto.

(6) Compliance with Laws. Mortgagor and the Mortgaged Property are in compliance with all applicable laws and regulations, including, without limitation, those relating to any flammables, explosives, radioactive materials, hazardous wastes, friable asbestos or any material containing asbestos, toxic substances or related materials, including, without limitation, substances defined as "hazardous substances", "hazardous materials" or "toxic substances" in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. Sec. 9601, et. seq.; the Hazardous Materials Transportation Act, 49 U.S.C. Sec. 1801, et. seq. or the Resource Conservation and Recovery Act, 42 U.S.C. Sec. 6901, et. seq. ("Hazardous Materials").

(7) Gas Contracts. Except as set forth under the heading for this provision in the schedule attached hereto, marked Exhibit "B" for identification, incorporated herein and made a part hereof for all purposes, Mortgagor (i) is not obligated in any material respect by virtue of any prepayment made under any contract containing a "take or pay" or "prepayment" provision, or under any similar agreement to deliver hydrocarbons produced from or allocated to any of the Mortgaged Property at some future date without receiving full payment therefor at the time of delivery and (ii) has not produced gas, in any material amount, subject to, and neither Mortgagor nor any of the Mortgaged Property is subject to, balancing rights of third parties or subject to balancing duties under governmental requirements, except a to such matters for which Mortgagor has established monetary reserves adequate in amount to satisfy such obligations, and has segregated such reserves from other accounts.

(8) Refunds. Except as set forth under the heading for this provision in the schedule attached hereto, marked Exhibit "B" for identification, incorporated herein and made a part hereof for all purposes, there exist no orders of, or proceedings pending before, or other governmental requirements of, the Federal Energy Regulatory Commission, the Texas Railroad Commission or any other similar state or federal regulatory body or governmental authority which could result in Mortgagor being required to refund any material portion of the proceeds received or to be received from the sale of hydrocarbons constituting part of the Mortgaged Property.

ARTICLE III.

INDEBTEDNESS SECURED

This conveyance is made, IN TRUST, HOWEVER, to secure and enforce the payment of the following indebtedness, obligations and liabilities:

A. Specific Obligation. The promissory note dated of even date herewith executed by Mortgagor to the order of Mortgagee in the principal sum of TWENTY-TWO MILLION AND NO/100 (USD) DOLLARS (\$22,000,000.00) bearing interest and payable as therein provided, with the final payment thereof due on or before October 12, 2012, and containing the usual provisions in notes of this character.

B. "Indebtedness". The word "Indebtedness" wherever used in this Deed of Trust shall refer to all present and future debts, obligations and liabilities described or referred to in this Article III or otherwise in this Deed of Trust.

ARTICLE IV

COVENANTS OF MORTGAGOR

In consideration of the Indebtedness hereinabove described, Mortgagor, for itself, its successors and assigns, covenants and agrees as follows:

A. Title Curative. Mortgagor will proceed with reasonable diligence to correct any defect in the title to the Mortgaged Property should any such defect be found to exist after the execution and delivery of this Deed of Trust; and in this connection, should it be found, after the execution and delivery of this Deed of Trust, that there exists upon the Mortgaged Property any lien or encumbrance equal or superior in rank to the liens and security interests created by this Deed of Trust, or should any such lien or encumbrance hereafter arise, Mortgagor will promptly discharge and remove the same from the Mortgaged Property.

B. Further Assurances. Upon request of Mortgagee, Mortgagor will promptly correct any defect which may be discovered after the execution and delivery of this Deed of Trust in any other documents executed in connection herewith, in the execution or acknowledgment hereof or thereof, or in the description of the Mortgaged Property, and will execute, acknowledge, and deliver such division orders, transfer orders and other assurances and instruments as shall, in the opinion of Mortgagee, be necessary or proper to convey and assign to the Trustee all of the Mortgaged Property herein conveyed or assigned, or intended to be so.

C. Notification of Loss. Mortgagor will notify Mortgagee of the destruction, loss, termination or acquisition of any Mortgaged Property within ten (10) business days thereof.

D. Payment of Liable Claims. Mortgagor will pay all taxes now or hereafter to accrue against any of the Mortgaged Property and all other taxes or assessments, general or special, lawfully levied against it on such Mortgaged Property which might become a lien thereon before such taxes become delinquent; and it will during the life of this Deed of Trust keep the Mortgaged Property, and each and every part thereof, free, clear and discharged from all liens, charges, encumbrances, or assessments that might become superior, coordinate or subordinate to the liens or security interests of this Deed of Trust.

E. Mortgagee's Payment of Lienable Claims. In the event Mortgagor shall fail or neglect to pay any taxes, general or special, or shall fail or neglect to relieve the Mortgaged Property from any lien which might become superior or equal to the lien of this Deed of Trust, the Trustee, at his option, or Mortgagee, at its option, may pay such taxes, liens, charges or encumbrances, or any part thereof, and Mortgagor will promptly reimburse Trustee or Mortgagee, as the case may be, therefore; and any and all such sums so paid hereunder shall be paid by Mortgagor upon demand at Mortgagee's principal offices, and shall constitute a part of the Indebtedness.

F. Operation of Mortgaged Property. Mortgagor will operate or, to the extent that the right of operation is vested in others, will exercise its best efforts to require the operator to operate the Mortgaged Property and all wells drilled thereon and that may hereafter be drilled thereon, continuously and in good workmanlike manner in accordance with the best usage of the field and in accordance with all laws of the State in which the Mortgaged Property is situated and the United States of America, as well as all rules, regulations, and laws of any governmental agency having jurisdiction to regulate the manner in which the operation of the Mortgaged Property shall be carried on, and will comply with all terms and conditions of the Leases it now holds, or any assignment or contract obligating Mortgagor in any way with respect to the Mortgaged Property; but nothing herein shall be construed to empower Mortgagor to bind the Trustee or Mortgagee to any contract obligation, or render the Trustee or Mortgagee in any way responsible or liable for bills or obligations incurred by Mortgagor.

G. Maintenance of Liability and Casualty Insurance. Mortgagor will carry with standard insurance companies satisfactory to Mortgagee or holder of the Indebtedness, public liability and property damage insurance, as well as insurance against loss or damage to the Mortgaged Property by fire, lightning, tornado and explosion, all in amounts satisfactory to Mortgagee; all such policies shall be payable to Mortgagee, and the policies evidencing the same or acceptable certificates thereof shall be held by Mortgagee. Mortgagee shall have the right to collect, and Mortgagor hereby assigns to Mortgagee, any and all monies that may become payable under any policies of insurance by reason of damage, loss or destruction of the Mortgaged Property or any part thereof and Mortgagee shall apply all such sums or any part thereof, at its election, toward the payment of the Indebtedness, whether the same be then due or not, application to be made first to interest and then to principal, and shall deliver to Mortgagor the balance, if any, after any application has been made.

H. Compliance with Operating Agreements. Mortgagor agrees to promptly pay all bills for labor and materials incurred in the operation of the Mortgaged Property and will promptly pay its share of all costs and expenses incurred under any joint operating agreement affecting the Mortgaged Property or any portion thereof; will not take any action to incur any liability or lien thereunder. To the extent that Mortgagor is unable to consent to any proposed operation with respect to any of the Mortgaged Property, prior to electing not to participate in the proposed operation, Mortgagor will utilize its best efforts, to the extent practicable once it is determined that it cannot so participate, and to the extent allowed to do so under the relevant operating agreement or other applicable contract, attempt to farmout to others acceptable to Mortgagee, on the best terms obtainable, which terms shall be acceptable to Mortgagee, the interest or relevant portion of the interest of Mortgagor in the proposed operation.

I. Access to Mortgaged Property. Mortgagor will permit Mortgagee and its accredited agents, representatives, attorneys and employees at all times to go upon, examine, inspect and remain on the Mortgaged Property, and to go upon the derrick floor of any well at any time drilled or being drilled thereon, and will furnish Mortgagee, upon request, all pertinent information regarding the development and operation of the Mortgaged Property.

J. Evidence of Title. Promptly upon receipt of a request from Mortgagee, Mortgagor will furnish and deliver, at the election of Mortgagee, either (a) complete or supplemental abstracts of title, as the case may be, prepared by competent abstractors or (b) title opinions prepared by competent legal counsel and, in either event, covering title to the real property herein mortgaged from the sovereignty of the soil to the latest practicable date, when taken together with abstracts and/or title opinions previously furnished to Mortgagee by Mortgagor. Should Mortgagor fail to furnish such abstracts upon such request, Mortgagee may obtain such abstracts, and any and all costs incurred thereby shall be payable by Mortgagor to Mortgagee upon demand at Mortgagee's principal offices. The abstracts shall be and constitute a part of the Mortgaged Property as defined above.

K. Notification of Legal Proceedings. Mortgagor will promptly notify Mortgagee or other holder or holders of the Indebtedness, in writing, of the commencement of any legal proceedings affecting the Mortgaged Property or any part thereof, and will take such action as may be necessary to preserve its and Mortgagee's rights affected thereby; and should Mortgagor fail or refuse to take any such action, Mortgagee may at its election take such action on behalf and in the name of Mortgagor and at Mortgagor's cost and expense.

L. Maintenance of Existence. If Mortgagor, is a corporation, it will maintain its corporate existence and will maintain and procure all necessary corporate franchise and permits to the end that Mortgagor shall be and continue to be a corporation in good standing in the state of its incorporation and in the state wherein the Mortgaged Property is located, with full power and authority to own and operate all of the Mortgaged Property as contemplated herein until this Deed of Trust shall have been fully satisfied.

M. Sales of Assets or Reorganization. While the Indebtedness, or any portion thereof, remains unpaid, Mortgagor will not sell, lease transfer or otherwise dispose of all or substantially all of the Mortgaged Property, or, if Mortgagor is a corporation, consolidate or merge into any other corporation, or permit another corporation to merge into it without the prior written consent of Mortgagee.

N. Compliance with Laws. Mortgagor will comply at all times with all federal, state and local laws, regulations, and ordinances applicable to the Mortgaged Property, including, without limitation, all environmental protection and hazardous waste requirements, and in this regard:

(1) Natural or Environmental Resources Compliance. Mortgagor will comply with and all applicable local, state and federal laws, ordinances, rules, regulations and orders (a) related to any natural or environmental resource or media located on, above, within, in the vicinity of, related to or affected by the Mortgaged Property, any property in which Mortgagee has a mortgage, security or other interest or any other property of Mortgagor, or (b) required for the performance or conduct of its operations.

(2) Notification of Hazardous Materials Inquiries. Mortgagor will forthwith notify Mortgagee in writing of any request from any governmental agency or other entity for information on releases of Hazardous Materials from, affecting or related to the Mortgaged Property, any property in which Mortgagee has a mortgage, security or other interest or any other property of Mortgagor; notify Mortgagee of any actual, proposed or threatened testing or other investigation by any governmental agency or other entity concerning the environmental condition of or related to such property; provide to Mortgagee such information as Mortgagee shall request concerning the generation, storage, disposal, transportation or other management, if any, of any Hazardous Materials.

(3) Hazardous Materials Compliance and Indemnification. Mortgagor will at all times comply fully and in a timely manner with, and will cause all employees, agents, contractors, sub-contractors and future lessees (pursuant to appropriate lease provisions) of Mortgagor, while such persons are acting within the scope of their relationship with Mortgagor, to so comply with, all applicable federal, state and local laws, regulations, guidelines, codes and ordinances applicable to the use, generation, handling, storage, treatment, transport and disposal of any Hazardous Materials now or hereafter located or present on or under the Mortgaged Property, and Mortgagor indemnifies and holds Mortgagee harmless from and against any and all claims, losses, damages, liabilities, fines, penalties, charges, administrative and judicial proceedings and orders, judgments, remedial actions, requirements and enforcement actions of any kind, and all costs and expenses incurred in connection therewith (including, without limitation, attorneys' fees and expenses), arising directly or indirectly, in whole or in part, out of (a) the presence of any Hazardous Materials on, under or from the Mortgaged Property, whether prior to or during the term hereof, or (b) any activity carried on or undertaken on or off the Mortgaged Property, whether prior to or during the term hereof, and whether by Mortgagor or any predecessor in title or any employees, agents, contractors or subcontractors of Mortgagor or any predecessor in title, or any third persons at any time occupying or present on the Mortgaged Property, in connection with the handling, treatment, removal, storage, decontamination, cleanup, transport or disposal of any Hazardous Materials at any time located or present on or under the Mortgaged Property, including, without limitation, any of the foregoing arising, in whole or in part, from negligence on the part of Mortgagee, (the foregoing indemnity being the "Hazardous Materials Indemnity"). The Hazardous Materials Indemnity shall further apply to any residual contamination on or under the Mortgaged Property, or affecting any natural resources, and to any contamination of any property or natural resources arising in connection with the generation, use, handling, storage, transport or disposal of any Hazardous Materials, irrespective of whether any of such activities were or will be undertaken in accordance with applicable laws, regulations, codes and ordinances; and

(4) Survival of Indemnification. The Hazardous Materials Indemnity shall survive repayment of the indebtedness, provided that the claims and other actions of any kind against Mortgagee which give rise to the hazardous Materials Indemnity are not barred by the applicable statute of limitations at the time such claims or actions are instituted.

O. Performance of Gas Contracts. Mortgagor will perform and observe in all material respects each of the provisions of the contracts relating to the sale of gas produced from or attributable to the Mortgaged Property to which Mortgagor is a party on its part to be performed or observed prior to the termination thereof and will give Mortgagee prior written notice of any change, modification or amendment to or waiver of any of the terms or provisions of any of such contracts or any action which will release any party from its obligations or liabilities under any of such contracts, none of which shall be done except in good faith and as the result of arm's length negotiations.

ARTICLE V.

DEFEASANCE, FORECLOSURE AND OTHER REMEDIES

A. Defeasance. Should Mortgagor make due and punctual payment of the Indebtedness, as the same becomes due and payable, and duly observe and perform all of the covenants, conditions and agreements herein provided to be observed and performed by it, then the conveyance of the Mortgaged Property shall become of no further force and effect, and the lien and security interest thereof shall be released at the cost and expense of Mortgagor; otherwise, it shall remain in full force and effect.

B. Default Events, Acceleration and Exercise of Power of Sale. In case any one or more of the following events of default shall happen:

(1) Payment of Indebtedness. Default be made by Mortgagor in the due and punctual payment of the Indebtedness, or any part thereof, principal or interest, as the same becomes due and payable, whether by acceleration or otherwise, or

(2) Covenants and Warranties. Default be made by Mortgagor in the due observance or performance of any of the covenants, conditions or agreements herein provided to be observed or performed by Mortgagor or any warranty of Mortgagor herein made prove to be untrue or inaccurate in any material respect; or

(3) Failure of Title. Mortgagor's title to the Mortgaged Property, or any substantial part thereof, become the subject of actual or threatened litigation which would or might, in Mortgagee's opinion, on final determination result in substantial impairment or loss of the security provided for herein; or

(4) Sale or Encumbrance. Mortgagor, without the prior written consent of Mortgagee shall not sell, assign, lease, transfer, mortgage, pledge, hypothecate or otherwise dispose of or encumber all or any portion of the Mortgaged Property or enter into any contractual arrangement to do so, irrespective of whether or not the transfer, conveyance or encumbrance would or might (i) diminish the value of any security for the Indebtedness, (ii) increase the risk of default under this Deed of Trust, (iii) increase the likelihood of Mortgagee's having to resort to any security for the Indebtedness after default or (iv) add or remove the liability of any person or entity for payment or performance of the Indebtedness or any covenant or obligation under this Deed of Trust; provided, however, the foregoing shall not apply to hydrocarbons produced and sold in the ordinary course of business; or

(5) Involuntary Insolvency. An order, judgment or decree be entered against Mortgagor by any court of competent jurisdiction or by any other duly authorized authority, on the petition of a creditor or otherwise, granting relief under Title 11 of the United States Code or under any bankruptcy, insolvency, debtor's relief or other similar law of the United States or any state approving a petition seeking reorganization or an arrangement of Mortgagor's debts or appointing a receiver, trustee, conservator, custodian or liquidator of mortgagor or all or any substantial part of Mortgagor's assets; or

(6) Voluntary Insolvency. Mortgagor (i) discontinue its usual business, or (ii) apply for or consent to the appointment of a receiver, trustee or liquidator of Mortgagor or all or a substantial part of its assets, or (iii) file a voluntary petition commencing a case under Title 11 of the United States Code, seeking liquidation, reorganization or rearrangement, or taking advantage of any bankruptcy, insolvency, debtor's relief or other similar law of the United States or any state, or (iv) make a general assignment for the benefit of creditors, or (v) be unable, or admit in writing its inability, to pay its debts generally as they become due, or (vi) file an answer admitting the material allegations of a petition filed against it in any case commence under Title 11 of the United States Code or any reorganization, insolvency, conservatorship or similar proceeding under any bankruptcy, insolvency, debtor's relief or other similar law of the United States or any state, or apply for relief under any state or federal act for the relief of debtors; or

(7) Contracts Relating to Indebtedness. Default be made by Mortgagor in the due observance or performance of any of the covenants, conditions or agreements provided to be observed or performed by Mortgagor in any loan agreement or other contract or agreement relating to any Indebtedness; or

(8) Fraudulent Actions or Preference of Creditor. Mortgagor conceal, remove, or permit to be concealed or removed, any part of its property, with intent to hinder, delay or defraud its creditors or any of them; or make or suffer a transfer of any of its property which may be fraudulent under any bankruptcy, fraudulent conveyance or similar law; or make any transfer of its property to or for the benefit of a creditor at a time when other creditors similarly situated have not been paid amounts owing; or take any other action in the nature of a fraud upon its creditors, or any of them; then, and in any such event, the whole of the principal of the Indebtedness remaining unpaid, together with all interest accrued thereon, may, at the option of the holder thereof, without notice (including, but not limited to, notice of intention to accelerate maturity and notice of acceleration of maturity) or demand, which are, to the full extent permitted by applicable law, waived by Mortgagor for purposes of any provision of this Deed of Trust or of the evidences of the Indebtedness, be declared immediately due and payable; and thereupon, or at any time thereafter while the Indebtedness or any part thereof remains unpaid, it shall be the duty of the Trustee, on request of the holder of the Indebtedness (which request is hereby presumed), to enforce this Trust; and after advertising the time and place of the sale for at least 21 days prior to the day of sale, by posting or causing to be posted a written or printed notice thereof at the courthouse door and by filing a copy of such notice in the office of the county clerk of each county in which the Land or any part thereof may be situated, and serving written notice of the proposed sale on each debtor obligated to pay the Indebtedness according to the records of the holder of the Indebtedness, by postage prepaid, certified United States mail, at the most recent address for such debtor as shown by the records of the holder of the Indebtedness, at least 21 days prior to the day of sale, to sell the Mortgaged Property, either as a whole or in parcels, as the Trustee may deem proper, at public venue at the courthouse of the county in which the Mortgaged Property or any part thereof may be situated (and being the county designated in the notice of sale) on the first Tuesday of any month between the hours of 10:00 A.M. and 4:00 P.M., to the highest bidder for cash, and after such sale to make the purchaser or purchaser good and sufficient deeds and assignments in the name of Mortgagor herein, conveying such property so sold to the purchaser or purchasers with general warranty of title. The Trustee, or his successor or substitute, is hereby authorized and empowered to appoint any one or more persons as his attorney(s)-in-fact to act as Trustee under him and in his name, place and stead, such appointment to be evidenced by a written instrument executed by the Trustee, or his successor or substitute, to perform any one or more act or acts necessary or incident to any sale and the execution and delivery of any instruments conveying the Mortgaged Property as a result of the sale, but in the name and on behalf of the Trustee, or his successor or substitute; and all acts done or performed by such attorney(s)-in-fact shall be valid, lawful and binding as if done or performed by the Trustee, or his successor or substitute. No single sale or series of sales by the Trustee shall extinguish the lien or exhaust the power of sales by the Trustee shall extinguish the lien or exhaust the power of sale hereunder except with respect to the times of property sold, but such lien and power shall exist for so long as and may be exercised in any manner by law or as herein provided as often as the circumstances require to give Mortgagee full relief hereunder. The purchaser at any such sale shall not assume, nor shall his or its heirs, legal representatives, successors or assigns, be deemed to have assumed, by reason of the acquisition of property or rights mortgaged hereunder, any liability or obligation of any lessee or operator of the Mortgaged Property, or any part thereof, arising by reason of any occurrence taking place prior to such sale. It shall not be necessary to have present, or to exhibit at any such sale, any of the personal property subject to the lien or security interest hereof.

C. Rights as Secured Party. Upon the happening of any of the above-enumerated events of default, Mortgagee shall be entitled to all of the rights, powers and remedies afforded a secured party by the Uniform Commercial Code with reference to the personal property and fixtures in which Mortgagee has been granted a security interest hereby, or Mortgagee may proceed as to both the real and personal property covered hereby.

D. Application of Proceeds of Sale. The Trustee is authorized to receive the proceeds of sale or sales and apply the same as follows:

FIRST: to the payment of all necessary costs and expenses incident to the execution of this Deed of Trust, including, but not limited to, a fee to the Trustee of 2% to be estimated upon the amount realized at the sale;

SECOND: to any and all Indebtedness then hereby secured, application to be made in such order and in such manner as the holder of said Indebtedness may, in its discretion, elect;

THIRD: the balance, if any, to Mortgagor or its successors or assigns.

E. Substitute Trustee. In the event of the death of the Trustee, or his removal from the state of Texas, or his failure, refusal, or inability for any reason to make any such sale or to perform any of the trusts herein declared, or at any time, whether with or without cause, then the holder of the Indebtedness may appoint, in writing, a substitute trustee who shall thereupon succeed to all the estates, rights, powers, and trusts herein granted to and vested in the Trustee. In the same events as first above stated, and in the same manner, successive substitute Trustees may thereafter be appointed.

F. Statements by Trustee. It is agreed that in any deed or deeds given by any Trustee any and all statements of fact or other recitals therein made as to the identity of the holder or holders of the Indebtedness, or as to default in the payments thereof or any part thereof, or as to the breach of any covenants herein contained, or as to the request to sell, notice of sale, time, place, terms and manner of sale, and receipt, application, and distribution of the money realized there from, or as to the due and proper appointment of a substitute trustee, and, without being limited by the foregoing, as to any other or additional act or thing having been done by Mortgagee or by any other holder of the Indebtedness or by the Trustee, shall be taken by all courts of law and equity as prima facie evidence that the statements or recitals state facts and are without further question to be so accepted; and Mortgagor does hereby ratify and confirm any and all acts that the Trustee may lawfully do in the premises by virtue of the terms and conditions of this instrument.

G. Suit to Collect and Foreclose. The holder of the Indebtedness may, at its election, or the Trustee may, upon written request of the holder of the Indebtedness, proceed may suit or suits, at law or inequity, to enforce the payment of the Indebtedness in accordance with the terms hereof and of the note, notes or guaranties evidencing it, and to foreclose the lien and/or security interest of this Deed of Trust as against all or any portion of the Mortgaged Property and to have such property sold under the judgment or decree of a court of competent jurisdiction.

H. Mortgagee as Purchaser. It is expressly understood that the holder of the Indebtedness, or the Trustee, may be a purchaser of the Mortgaged Property, or of any part thereof, at any sale thereof, whether such sale be under the power of sale hereinabove vested in the Trustee or upon any other foreclosure of the lien and/or security interest hereof, or otherwise; and the holder of the Indebtedness or the Trustee so purchasing shall, upon any such purchase, acquire good title to the Mortgaged Property so purchased, free of the lien and/or security interest of this Deed of Trust and free of all rights of redemption in Mortgagor.

I. Remedies Cumulative and Non-Exclusive. The rights of entry, sale, or suit, as hereinabove or hereinafter conferred, are cumulative of all other rights and remedies herein or by law or in equity provided, and shall not be deemed to deprive the holder of the Indebtedness or Trustee of any such other legal or equitable rights or remedies, by judicial proceedings or otherwise, appropriate to enforce the conditions, covenants and terms of this Deed of Trust and of any note or guaranty reflecting the Indebtedness, and the employment of any remedy hereunder, or otherwise, shall not prevent the concurrent or subsequent employment of any other appropriate remedy or remedies.

ARTICLE VI.

ASSIGNMENT OF PRODUCTION

A. Contingent Assignment. In addition to the conveyance to the Trustee herein made, in the event of a default by Mortgagor (as described herein), Mortgagor shall transfer, assign, deliver and convey unto Mortgagee, its successors and assigns, all of the oil, gas and other minerals produced, saved or sold from the Mortgaged Property and attributable to the interest of Mortgagor therein, together with the proceeds of any sale thereof; and in such event, Mortgagor shall direct any purchaser taking any production from the Mortgaged Property to pay to Mortgagee such proceeds derived from the sale thereof, and to continue to make payments directly to Mortgagee until notified in writing by Mortgagee to discontinue the same; and the purchaser of any such production shall not be required to see to the application of the proceeds thereof by Mortgagee and payment made to Mortgagee shall be binding and conclusive as between such purchaser and to execute all such further assignments, transfer and division orders, and other instruments as may be required or desired by Mortgagee or any other party to have such proceeds and revenues so paid to Mortgagee.

B. Application of Proceeds. In the event that Mortgagee takes possession of all of the oil, gas and other minerals produced saved or sold from the Mortgaged Property in accordance with A. immediately above, Mortgagor authorizes and empowers Mortgagee to receive, hold and collect all sums of money paid to Mortgagee in accordance with the Contingent Assignment, and to apply the same as hereinafter provided, all without any liability or responsibility on the part of Mortgagee, save and except as to good faith and proper business practices in so receiving and applying such sums. All payments provided for in the Contingent Assignment shall be paid promptly to Mortgagee, and any provisions contained in any note or notes evidencing the Indebtedness or any part thereof to the contrary notwithstanding, Mortgagee may apply the same or so much thereof as it elects to the payment of the Indebtedness, application to be made in such manner as it may elect, regardless of whether the application so made shall exceed the payments of principal and interest then due as provided in the note or notes evidencing the Indebtedness. After such application has been so made by Mortgagee, the balance of any such payment or payments remaining shall be paid to Mortgagor.

C. No Postponement of Installments on Indebtedness. It is understood and agreed that should such payments provided for by the Contingent Assignment be less than the sum or sums then due on the Indebtedness, such sum or sums then due shall nevertheless be paid by Mortgagor in accordance with the provisions of the note, notes, guaranty agreements or other instrument or instruments evidencing the Indebtedness, and neither the Contingent Assignment nor any provisions and provisions of such note, notes, guaranty agreements or other instrument or instruments evidencing the Indebtedness. Likewise, neither the Contingent Assignment nor any provisions hereof shall in any manner be construed to affect the liens, rights, title and remedies herein granted securing the Indebtedness or Mortgagor's liability therefore. The rights under the Contingent Assignment are cumulative of all other rights, remedies, and powers granted under this Deed of Trust, and are cumulative of any other security which Mortgagee now holds or may hereafter hold to secure the payment of the Indebtedness.

D. Turnover to Mortgagee. Should Mortgagor receive any of the proceeds of any sale of oil, gas or other minerals produced, saved or sold from the Mortgaged Property, which under the terms of this Article VI. should have been remitted to Mortgagee, Mortgagor will immediately remit same in full to Mortgagee.

E. Release of Proceeds Upon Payment of Indebtedness. Upon payment in full of all Indebtedness, the remainder of such proceeds held by Mortgagee, if any, shall be paid over to Mortgagor upon demand, and a release of the interest hereby assigned will be made by Mortgagee to Mortgagor at its request and its expense.

F. Duty of Mortgagee. Mortgagee shall not be liable for any failure to collect, or for any failure to exercise diligence in collecting, any funds assigned hereunder. Mortgagee shall be accountable only for funds actually received.

ARTICLE VII.

ADDITIONAL REMEDIES

A. Mortgagee's Remedying of Mortgagor's Failure to Comply. If Mortgagor should fail to comply with any of the covenants or obligations of Mortgagor hereunder, then Mortgagee or the Trustee may perform the same for the account and at the expense of mortgagor but shall not be obligated so to do, and any and all expenses incurred or paid in so doing shall be payable by Mortgagor to Mortgagee, with interest at the greater of (i) the rate of 10% per annum or (ii) the rate agreed upon in any other document or instrument relating to the Indebtedness or any part thereof from the date when same was so incurred or paid, and the amount thereof shall be payable on demand and shall be secured by and under this time when paid shall be fully established by the affidavit of Mortgagee or any officer or agent thereof, or by the affidavit of any Trustee acting hereunder; provided, however, that the exercise considered or constitute a waiver of the right of Mortgagee upon the happening of an event of default hereunder to declare the Indebtedness at once due and payable but shall be cumulative of such right and all other rights herein given.

B. Entry and Operation. In case any one or more of the events of default shall happen, then in each and every such case the Trustee or Mortgagee or any holder of the Indebtedness or any part hereof, whether or not the Indebtedness shall have been declared due and payable, in addition to the other rights and remedies hereunder, may exercise the following additional remedy, but shall not be obligated so to do: the Trustee, Mortgagee or possession of all or any part of the Mortgaged Property and each and every part thereof and may exclude Mortgagor, its agents and servants wholly there from and have, hold, use, operate, manage and control the Mortgaged Property and each and every part thereof and produce the oil, gas and other minerals there from and market the same, all at the sole risk and expense of Mortgagor and at the expense of the Mortgaged Property, applying the net proceeds so derived, first, to the cost of maintenance and operation of such Mortgaged Property; second, to the payment of all Indebtedness secured hereby, principal and interest, application to be made first to interest and then to principal; and the balance thereof, if any, shall be paid to Mortgagor. Upon such payment of all such costs and Indebtedness, the Mortgaged Property shall be returned to Mortgagor in its then condition and such Trustee, Mortgagee or holder of the Indebtedness shall not be liable to Mortgagor for any damage or injury to the Mortgaged Property except such as may be caused through his, its or their fraud or willful misconduct.

C. Power of Attorney to Mortgagee. Mortgagor does hereby designate Mortgagee as Mortgagor's agent to act in the name, place and stead of Mortgagor in the exercise of each and every remedy set forth herein and in conducting any and all operations and taking any and all action reasonably necessary to do so, recognizing such agency in favor of Mortgagee to be coupled with the interests of Mortgagee under this Deed of Trust and, this, irrevocable.

ARTICLE VIII.

MISCELLANEOUS

A. Interest. Any provision in any document that may be executed in connection herewith to the contrary notwithstanding, the holder of the Indebtedness shall in no event be entitle to receive or collect, nor shall any amounts received hereunder be credited so that the holder of the Indebtedness shall be paid as interest, a sum greater than that authorized by law. If any possible construction of this Deed of Trust or any instrument evidencing the Indebtedness, or any or all other notes, guaranties or papers relating to the Indebtedness, seems to indicate any possibility of a different power given to the holder of the Indebtedness, or any authority to ask for, demand, or receive any larger rate of interest, such as a mistake in calculation or wording, this clause shall override and control, and proper adjustments shall be made accordingly.

B. Agreement as Entirety. This Deed of Trust, for convenience only, has been divided into Articles and paragraphs, and it is understood that the rights, powers, privileges, duties and other legal relations of Mortgagor, the Trustee, and Mortgagee or any holder of the Indebtedness, shall be determined from this instrument as an entirety and without regard to the aforesaid division into Articles and paragraphs and without regard to headings prefixed to such Articles.

C. Number and Gender. The terms used to designate any of the parties herein shall be deemed to include the heirs, successors and assigns of such parties; the term "successor" shall include the heirs, trustees and legal representatives; and the term "Mortgagee" shall also include any lawful owner, holder or pledgee of any Indebtedness. Whenever the context requires, reference herein made to the single number shall be understood to include the plural and the plural shall likewise be understood to include the singular. Words denoting sex shall be construed to include the masculine, feminine, and neuter when such construction is appropriate, and specific enumeration shall not exclude the general, but shall be construed as cumulative.

D. Rights and Remedies Cumulative. Every right and remedy provided for herein shall be cumulative of each and every other right or remedy of Mortgagee, whether herein or otherwise conferred, and may be enforced concurrently therewith, and the unenforceability or invalidity of any one or more provisions, clauses, sentences or paragraphs of this instrument shall not render any other provision, clause, sentence or paragraph unenforceable or invalid. No security theretofore, herewith or subsequently taken by Mortgagee shall in any manner impair or affect the security given by this instrument or any security by endorsement or otherwise presently or previously given, and all security given by this instrument or any security by endorsement or otherwise presently or previously given, and all security shall be taken, considered and held as cumulative.

E. Parties in Interest. This Deed of Trust shall be binding upon the parties, their respective successors and assigns, and shall inure to the benefit of the holder of the Indebtedness, and the covenants and agreements herein contained shall constitute covenants running with the Land.

F. Counterparts. This instrument is simultaneously executed in a number of identical counterparts, each of which for all purposes shall be deemed an original and shall be deemed, and may be enforced from time to time, as a chattel mortgage, real estate mortgage, deed of trust, security agreement, assignment or contract, or as one or more thereof.

G. Fixtures, Minerals and Accounts. Without in any manner limiting the generality of any of the foregoing hereof, some portions of the personal property described hereinabove are or are to become fixtures on the land described herein or to which reference is made herein. In addition, the security interest created hereby under applicable provisions of the Uniform Commercial Code attaches to minerals, including oil and gas, or accounts resulting from the sale thereof, at the wellhead or mine head located on the land describe or to which reference is made herein.

H. Financing Statement and Utility Security Instrument Filings. This Deed of Trust may file as provided in TEX. BUS. & COM. CODE ANN. Ch. 35 (Vernon 1987) relating to the granting of a security interest by utilities, and may also be filed as provided in TEX. BUS. & COM. CODE ANN. Ch. 9 (Tex. UCC) (Vernon Supp. 1988) relating to the granting of security interests by nonutilities to assure that the security interests granted by this Deed of Trust are perfected under Texas law. In this connection, this instrument will be presented to a filing officer under the Uniform Commercial Code to be filed in the real estate records as a Financing Statement covering minerals and fixtures, pursuant to TEX. BUS. & COM. CODE ANN. §§9.402(e) and 9.402(f) (Tex UCC) (Vernon Supp. 1988). The filing of this Deed of Trust under the provisions of TEX. BUS. & COM. CODE ANN. Ch. 35 (Vernon 1987) shall not constitute an admission by Mortgagor that it is a utility for purposes of TEX. BUS. & COM. CODE ANN. Ch. 35 (Vernon 1987) or any other statute or rule or regulation of any governmental authority or agency.

I. Addresses. For purposes of filing this Deed of Trust as a financing statement, the addresses for Mortgagor, as the debtor, and Mortgagee, as the secured party, are as set forth hereinabove.

J. Recording Counterparts. For the convenience of the parties, this instrument may be executed in multiple counterparts. For recording purposes, various counterparts have been executed and there may be attached to each such counterpart an Exhibit "A" containing only the description of the Mortgaged Property, or portions thereof, which relates to the county or state in which the particular counterpart is to be recorded. A complete, original counterpart of this instrument with a complete Exhibit "A" may be obtained from Mortgagee. Each of the counterparts hereof so executed shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

K. No Waiver by Mortgagee. The failure or delay of Mortgagee to file or give any notice as to this instrument, or to exercise any right, remedy or option to declare the maturity of the principal debt, or any other sums hereby secured, or the payment by Mortgagee of any taxes, liens, charges or assessments, shall not be taken or deemed a waiver of any rights to exercise such right or option or to declare any such maturity as to any past or subsequent violations of any of such covenants or stipulations, and shall not waive or prejudice any right or lien hereunder. Any election or failure by Mortgagee to exercise any rights, remedies or options hereunder shall not constitute a waiver or prejudice the exercise of other rights or remedies existing hereunder. All rights, powers, immunities, remedies and liens of Mortgagee existing and to exist hereunder or under any other instruments, and all other or additional security, and Mortgagee's rights at law and in equity, shall be cumulative and not exclusive, each of the other; and Mortgagee shall in addition to the remedies herein expressly provided, be entitled to such other remedies as may now or hereafter exist at law or in equity for securing and collecting the Indebtedness, for enforcing the covenants herein, and for foreclosing the liens hereof. Resort by Mortgagee to any remedy provided for hereunder or at law or in equity shall not prevent concurrent or subsequent resort to the same or any other remedy or remedies.

L. Partial Releases. On even date herewith, Mortgagor, as buyer, and Mortgagee, as seller, entered into that certain Purchase and Sale Agreement (the "PSA") whereby the Leases and Lands (together with other property rights and interests) were sold and conveyed including properties and interests described in the PSA as the "Subject Properties" (and individually, as a "Subject Property"). Exhibit "B" to the PSA contains, among other provisions, specific allocation of values for each Subject Property. Any provision in this Deed of Trust to the contrary notwithstanding, should there exist no outstanding Event of Default at the time when Mortgagor makes any prepayment(s) (as provided by the terms of the herein-described promissory note), from time to time while the Deed of Trust is in force and effect Mortgagor may designate in writing to Mortgagee a Subject Property or Subject Properties to be released from the lien and security interest created hereby. Any prepayment made by Mortgagor shall be applied, in accordance with the terms of the promissory note, first to accrued and outstanding unpaid interest, and the remainder to payment of principal. In the event of any prepayment made by Mortgagor, in an amount or amounts which are in excess of all then-outstanding and accrued interest (an "Excess Principal Payment"), such Excess Principal Payment may be utilized by Mortgagor to secure the release of a Subject Property or Subject Properties, by applying an Excess Principal Payment toward the allocated value(s) of a Subject Property or Subject Properties. Any Subject Property whose allocated value has been paid by Mortgagor utilizing an Excess Principal Payment, shall be released from the lien and security interest created hereby. Mortgagor shall prepare any Partial Releases of a Subject Property or Subject Properties to be released in accordance with the terms of this paragraph L. and provide a copy of same to Mortgagee for its execution and delivery to Mortgagor. Mortgagor shall file for record any such Partial Release and pay the filing fees for recordation of any such Partial Release.

EXECUTED on this the 13th day of October, 2011.

MORTGAGEE:

LUCAS ENERGY, INC.

By: /s/ William A. Sawyer

Printed Name: William A. Sawyer

Title: President and Chief Executive Officer

EX-10.4

EX-10.4 5 ex10-4.htm PURCHASE AGREEMENT

Exhibit 10.4

PURCHASE AGREEMENT

THIS PURCHASE AGREEMENT is made as of the 13th day of October 2011 (the “**Agreement**”), by and between Lucas Energy, Inc., a Nevada corporation, with offices at 3555 Timmons Lane, Suite 1550, Houston, Texas 77027 (“**LEI**”) and XXXX XXXX, an individual, whose address is XXXXXX XXXX (“**XXXX**”).

RECITALS:

WHEREAS, LEI has entered into a Purchase and Sale Agreement with Nordic Oil USA I, LP (“**Nordic**”), pursuant to which LEI, has agreed to purchase certain undivided oil, gas and mineral leasehold interests in properties situated in the Counties of Gonzales, Karnes and Wilson, in the State of Texas (the “**Texas Interests**” and the “**Nordic/LEI Transaction**”) from Nordic; and

WHEREAS, XXXX owns certain property interests in the Texas Interests all of which LEI desires to acquire (the “**Property Interest**”); and

WHEREAS, LEI agrees to purchase from XXXX and XXXX agrees to sell LEI his Property Interest pursuant to the terms and conditions of this Agreement as provided below.

NOW THEREFORE, for and in consideration of the foregoing premises, the receipt and sufficiency of which are hereby acknowledged, LEI and XXXX hereby agree as follows:

1. Upon the closing of the Nordic/LEI Transaction, LEI shall pay, or cause to be paid, shares of convertible preferred stock to XXXX (the “XXXX Fee”). The XXXX Fee shall be paid to XXXX by way of:

(a) The issuance to XXXX by LEI of 2,000 shares of LEI Series A Convertible Preferred Stock (to be approved and designated by the Board of Directors of LEI) which are convertible into an aggregate of 2,000,000 shares of LEI common stock (the “Shares”). The issuance of the Shares shall in all cases be subject to the approval of this Agreement and the transactions contemplated herein by the NYSE Amex and the listing of such Shares on the NYSE AMEX as well as the closing of the Nordic/LEI Transaction which requires the approval of the shareholders of Nordic. The preferred stock designation evidencing the Series A Convertible Preferred Stock shall contain a provision that limits the amount of shares of common stock that XXXX can own at any time upon conversion of such Series A Preferred Stock to an aggregate of 4.99% of the Company’s then issued and outstanding shares of common stock.

2. In consideration of the payment to XXXX of the XXXX Fee by LEI, XXXX hereby transfers and assigns all rights and other interests in the Property Interest to LEI. For the sake of clarity and in an abundance of caution, XXXX further releases, relinquishes and waives any and all rights, interests and properties of whatever type or nature including, but not limited to, working interests, net revenue interests, carried interests, reversionary interests, net profit interests, overriding royalty interests, contingent interests or otherwise in and to the Texas Interests or any other properties, rights, interests or considerations in connection with the Nordic/LEI Transaction and upon his receipt of the Shares.

3. XXXX (the “**Seller**”) hereby represents, confirms, warrants and acknowledges the following to LEI (the “**Buyer**”) in connection with the issuance to Seller by Buyer of the Shares:

(a) Seller recognizes that the Shares have not been registered under the Securities Act of 1933, as amended (the “**Act**” or the “**1933 Act**”), nor under the securities laws of any state and, therefore, cannot be resold unless the resale of the Shares is registered under the 1933 Act or unless an exemption from registration is available. Seller may not sell the Shares without registering them under the 1933 Act and any applicable state securities laws unless exemptions from such registration requirements are available with respect to any such sale. The Buyer is under no obligation to register such Shares under the 1933 Act or under any state “**Blue Sky**” laws prior to or subsequent to their issuance;

(b) Seller acknowledges that he is a “**sophisticated investor**” (i.e., has experience and knowledge in and with investments in companies similar to the Buyer) and that the Seller has, in making Seller’s investment decision in connection with the Shares received, had an opportunity to review (A) the Buyer’s Annual Report on Form 10-K for the year ended March 31, 2011; and (B) the Buyer’s quarterly report on Form 10-Q for the quarter ended June 30, 2011, each as filed on the SEC’s EDGAR website, including the audited and unaudited financial statements, description of business, risk factors, results of operations, certain transactions and related business disclosures described therein; has read, reviewed, and relied solely on the documents described in (A) and (B) above (collectively referred to as the “**Disclosure Documents**”), and an independent investigation made by Seller and Seller’s representatives, if any; (C) has, prior to the date of this Agreement, been given an opportunity to review material contracts and documents of the Buyer and has had an opportunity to ask questions of and receive answers from the Buyer’s officers and directors and has no pending questions as of the date of this Agreement; and (D) is not relying on any oral representation of the Buyer or any other person, nor any written representation or assurance from the Buyer other than those contained in the Disclosure Documents or incorporated therein; in connection with such Seller’s acceptance of the Shares and investment decision in connection therewith. The Seller acknowledges that due to Seller’s receipt of and review of the information described above, Seller received similar information as would be included in a Registration Statement filed under the Act;

(c) Seller has such knowledge and experience in financial and business matters such that Seller is capable of evaluating the merits and risks of an investment in the Shares and of making an informed investment decision, and does not require a representative in evaluating the merits and risks of an investment in the Shares;

(d) Seller recognizes that an investment in the Buyer is a speculative venture and that the total amount of consideration tendered in connection with the Shares is placed at the risk of the business and may be completely lost. The ownership of the Shares as an investment involves special risks;

(e) Seller realizes that the Shares cannot readily be sold as they will be restricted securities and therefore the Shares must not be accepted unless Seller has liquid assets sufficient to insure that Seller can provide for current needs and possible personal contingencies;

(f) Seller confirms and represents that he is able (i) to bear the economic risk of the Shares, (ii) to hold the Shares for an indefinite period of time, and (iii) to afford a complete loss of the Shares. Seller also represents that he has (i) adequate means of providing for his current needs and possible personal contingencies, and (ii) has no need for liquidity in the Shares;

(g) All information which Seller has provided to the Buyer concerning Seller's financial position and knowledge of financial and business matters is correct and complete as of the date hereof;

(h) Seller has carefully considered and has, to the extent he believes such discussion necessary, discussed with his professional, legal, tax and financial advisors, the suitability of an investment in the Shares for his particular tax and financial situation and his advisers, if such advisers were deemed necessary, have determined that the Shares are a suitable investment for him;

(i) Seller has not become aware of and has not been offered the Shares by any form of general solicitation or advertising, including, but not limited to, advertisements, articles, notices or other communications published in any newspaper, magazine, or other similar media or television or radio broadcast or any seminar or meeting where, to the Seller's knowledge, those individuals that have attended have been invited by any such or similar means of general solicitation or advertising;

(j) Seller understands that the Shares are being offered to him in reliance on specific exemptions from or non-application of the registration requirements of federal and state securities laws and that the Buyer is relying upon the truth and accuracy of the representations, warranties, agreements, acknowledgments and understandings of Seller set forth herein in order to determine the applicability of such exemptions and the suitability of Seller to acquire the Shares. All information which Seller has provided to the Buyer concerning the undersigned's financial position and knowledge of financial and business matters is correct and complete as of the date hereof, and if there should be any material change in such information prior to acceptance of this Agreement by the Buyer, Seller will immediately provide the Buyer with such information;

(k) the Buyer is under no obligation to register or seek an exemption under any federal and/or state securities acts for any sale or transfer of the Shares by Seller, and Seller is solely responsible for determining the status, in his hands, of the Shares acquired in connection herewith and the availability, if required, of exemptions from registration for purposes of sale or transfer of the Shares;

(l) No federal or state agency has made any finding or determination as to the fairness of the Shares for investment or any recommendation or endorsement of the Shares. The Shares have not been registered under the 1933 Act or the securities laws of any State and are being offered and sold in reliance on exemptions from the registration requirements of the 1933 Act and such state laws;

(m) The Seller is acquiring the Shares for his own account for long-term investment and not with a view toward resale, fractionalization or division, or distribution thereof, and he does not presently have any reason to anticipate any change in his circumstances, financial or otherwise, or particular occasion or event which would necessitate or require his sale or distribution of the Shares. No one other than the Seller has any beneficial interest in said securities. The Seller is receiving the Shares for his account for the purpose of investment and not with a view to, or for sale in connection with, any distribution thereof; and

(n) Seller understands and agrees that a legend has been or will be placed on any certificate(s) or other document(s) evidencing the Shares in substantially the following form:

"THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED OR ANY STATE SECURITIES ACT. THE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND MAY NOT BE SOLD, TRANSFERRED, PLEDGED OR HYPOTHECATED UNLESS (I) THEY SHALL HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED AND ANY APPLICABLE STATE SECURITIES ACT, OR (II) THE CORPORATION SHALL HAVE BEEN FURNISHED WITH AN OPINION OF COUNSEL, SATISFACTORY TO COUNSEL FOR THE CORPORATION, THAT REGISTRATION IS NOT REQUIRED UNDER ANY SUCH ACTS."

4. LEI and XXXX agree to keep confidential, and not to disclose to any third party, the nature, terms and details of their relationship and contractual arrangement relative to the Texas Interests. It is acknowledged and understood that this Agreement will be provided to the NYSE AMEX and may be filed as an exhibit to an LEI Securities and Exchange Commission filing.

5. This Agreement shall be construed in accordance with, and governed for all purposes by, the laws of the State of Texas.

6. This Agreement constitutes the entire agreement and understanding of LEI and XXXX with respect to the subject matter hereof, and no addition, modification or amendment to or of the terms hereof shall be binding upon either LEI or XXXX unless made in writing and executed by each of LEI and XXXX.

7. The terms and provisions of this Agreement shall be binding upon, and inure to the benefit of LEI and XXXX, and their respective heirs, successors and assigns.

8. This Agreement may be executed in several counterparts, each of which is an original. It shall not be necessary in making proof of this Agreement or any counterpart hereof to produce or account for any of the other counterparts. A copy of this Agreement signed by one party and faxed to another party shall be deemed to have been executed and delivered by the signing party as though an original. A photocopy of this Agreement shall be effective as an original for all purposes.

EXECUTED on the date set forth above by LEI and XXXX.

LUCAS ENERGY, INC.

/s/ K. Andrew Lai
By: K. Andrew Lai
Title: CFO

XXXXXX XXXX
XXXXXX XXXX

