

STATE OF NEW MEXICO
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES
OIL CONSERVATION DIVISION

APPLICATION OF STRATA PRODUCTION
COMPANY FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.

CASE NO: 12,011

**STRATA PRODUCTION COMPANY'S
RESPONSE TO MOTION TO DISMISS APPLICATION,
OR IN THE ALTERNATIVE, MOTION TO DISMISS**

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OIL CONSERVATION DIV.

Pursuant to the Continuous Drilling Provision of a Lease Operating Agreement between Exxon Corporation ("Exxon") and Strata Production Company ("Strata"), Strata is required to commence the drilling of a well on the contract lands by September 25, 1998 or its rights under this agreement terminate. With this motion, Exxon now attempts to force Strata to either forfeit its rights under this Agreement or to extend the time within which Exxon has to make an election to join in the proposed well until after it has been drilled. To support its motion, Exxon misstates the facts, ignores the purpose of the pooling statutes and inaccurately summarizes the provisions of the Oil and Gas Act. Exxon's motion must be denied.

FACTS:

1. Strata owns a leasehold interest in the W/2 of Section 22, Township 22 South, Range 32 East, NMPM, Lea County, New Mexico which is covered by a Lease Operating Agreement ("the Agreement") between it and Exxon. This Agreement contains a Continuous

Drilling Provision which requires Strata to drill a well every 180 days or forfeit its rights under the Agreement. *See*, Affidavit of Jo McNerney and Attachments 1, 2 and 3 thereto attached to this Response as Exhibit 1.

2. Pursuant to the Agreement, Strata unsuccessfully drilled its Cercion Federal Well No. 8 Well in March 1998. The well was plugged on March 25, 1998. Strata must commence an additional well on the lease acreage by September 25, 1998 or Strata's rights under the Agreement terminate and all rights to undrilled lands covered by the Agreement will revert to Exxon. *See*, Affidavit of Jo McNerney, paragraph 6, attached to this response as Exhibit 1.

3. In breach its obligations under the Agreement, Exxon is now attempting to use the compulsory pooling provisions of the Oil and Gas Act to prevent Strata from combining the lands necessary to form a spacing unit for a well which Strata is prepared to drill prior to September 25, 1998.

EXXON MISSTATES THE FACTS:

4. In support of its contention that there has been insufficient time for the parties to negotiate a voluntary agreement for the development of this acreage, Exxon only references a June 12, 1998 letter from Strata and Strata's application for compulsory pooling which as filed on June 30, 1998. The following facts were not mentioned by Exxon.

A. Exxon failed to mention that on May 26, 1998, Jo McNerney, landman for

**STRATA'S PRODUCTION COMPANY'S RESPONSE TO MOTION TO DISMISS APPLICATION,
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Strata, contacted Bob Matthews at Exxon in Houston and advised him that Strata planned to drill a well to test the Morrow formation in the W/2 of Section 22, Township 22 South, Range 32 East, NMPM, Lea County, New Mexico to satisfy Strata's drilling obligation under the Agreement. *See*, Affidavit of Jo McInerney, paragraph 7, attached to this Response as Exhibit 1.

- B. Exxon failed to mention that on May 26, 1998 Mr Matthews requested a proposal from Strata covering rights which Exxon had reserved in this spacing unit under a prior Farmout Agreement. *See*, Affidavit of Jo McInerney, paragraph 8 and Attachment No. 4 thereto, attached to this Response as Exhibit 1.
- C. Exxon failed to mention that on May 27, 1998, Strata transmitted by Federal Express an offer to Exxon concerning the Exxon interest in the subject spacing unit and asked Exxon to advise if it was interested in participating in a Morrow test in the W/2 of Section 22 and, if not, would it be interested in including the additional Exxon lands in the W/2 of Section 22 under the Lease Operating Agreement. *See*, Affidavit of Jo McInerney, paragraph 9, and Attachment No. 5 thereto, attached to this Response as Exhibit 1.
- D. Exxon failed to mention that on June 2, 1998, Bob Matthews of Exxon advised

Strata that Exxon had reviewed the Strata proposal and would not be interested in participating in a Morrow test and was not interested in including other Exxon interests under the Lease Operating Agreement. *See*, Affidavit of Jo McInerney, paragraph 10, attached to this Response as Exhibit 1.

- E. Exxon failed to mention that after receiving the Exxon Response, on June 2, 1998, Strata transmitted a proposal to Exxon in which Strata offered to purchase the Exxon interest in the W/2 of Section 22 for \$250 per acre for a one year Term Assignment with a 5% overriding royalty. *See*, Affidavit of Jo McInerney, paragraph 11, and Attachment No. 6 thereto, attached to this Response as Exhibit 1.
- F. Exxon failed to mention that on June 12, 1998, Bob Matthews advised Strata that the monetary consideration proposed by Strata was acceptable but that Exxon would only deliver a 75% net revenue interest under 80 acres in lieu of the 82.5% net revenue interest Strata requested. Mr. Matthews advised that these terms were non-negotiable. *See*, Affidavit of Jo McInerney, paragraph 12, attached hereto as Exhibit 1.
- G. Exxon failed to mention that on June 12, 1998, Strata transmitted its rejection of Exxon's counter proposal and simultaneously transmitted the AFE for the drilling of the Under the Hill Federal Well No. 1 Well and requested Exxon's

election to participate in the well. *See*, Affidavit of Jo McInerney, paragraph 13 and Attachment No. 7 thereto, attached to this Response as Exhibit 1.

- H. Exxon failed to mention that on June 17, 1998, Bob Matthews contacted Strata and advised there was a typographical error in the Strata's correspondence of June 12, 1998 where the well location was erroneously identified as being located 1980 feet from the West and East lines of Section 22. Mr. Matthews was advised that the correct location was 1980 feet from the West and South lines of Section 22. Mr. Matthews then requested that Strata send Exxon a Joint Operating Agreement for the Under the Hill Federal Well No. 1. *See*, Affidavit of Jo McInerney, paragraph 14, attached to this Response as Exhibit 1.
- I. Exxon failed to mention that on June 29, 1998, Strata transmitted a Joint Operating Agreement to Exxon by Federal Express covering the Under the Hill Federal Well No. 1. *See*, Affidavit of Jo McInerney, paragraph 15, attached to this Response as Exhibit 1.
- J. Exxon failed to mention that its only responses to the Joint Operating Agreement transmitted to them by Strata on June 29, 1998 are Exxon's requests to continue the hearing and its Motion to dismiss Strata's application.

EXXON MISSTATES THE LAW:

**STRATA'S PRODUCTION COMPANY'S RESPONSE TO MOTION TO DISMISS APPLICATION,
OR IN THE ALTERNATIVE, MOTION TO DISMISS,**

In support of its Motion Exxon asserts that since only two weeks lapsed between the June 12, 1998 well proposal and the June 30, 1998 filing of a pooling application there had been insufficient time for the parties to negotiate in good faith for the development of this acreage. Accordingly, Exxon asserts that the statutory requirement for good faith negotiations has not been satisfied.

The requirement that an owner must engage in good faith negotiations for the voluntary development of a spacing unit prior to seeking a compulsory pooling order is found in the following section of the Oil and Gas Act:

When two or more separately owned tracts of land are embraced within a spacing or proration unit, or where there are owners of royalty interests or undivided interests in oil and gas minerals which are separately owned or any combination thereof, embraced within such spacing or proration unit, **the owner or owners thereof may validly pool their interests and develop their lands as a unit.** Where, however, such owner or owners have not agreed to pool their interests, and where one such separate owner, or owners, who has the right to drill has drilled or proposes to drill a well on said unit to a common source of supply, the division to avoid the drilling of unnecessary wells or to protect correlative rights, or to prevent waste, shall pool all or any part of such lands or interests or both in the spacing or proration unit as a unit. NMSA 1978 Sections 70-2-17, 18.

This provision requires good faith negotiations prior to filing a compulsory pooling application. What constitutes good faith is dependant on the facts of the particular case. This good faith requirement is not arbitrarily tied to the submission of a written well proposal or

**STRATA'S PRODUCTION COMPANY'S RESPONSE TO MOTION TO DISMISS APPLICATION,
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any other particular act. All that must be shown by a party to a compulsory pooling order is that it has made a good faith effort to voluntarily combine the interests it is seeking to pool.

In this case, Strata proposed a well in the W/2 of Section 22 on May 26, 1998. After this date, and prior to the filing of its compulsory pooling application, Strata and Exxon engaged in constant negotiations as fully set out in paragraph 4 of this Response. Strata proposed that Exxon (1) join in the well, (2) commit its interest in the existing Lease Operating Agreement, or (3) sell its interest to Strata. Thereafter, as part of its efforts to obtain a voluntary agreement for the drilling of this well, Strata proposed the well and, at Exxon's request, provided Exxon with a Joint Operating Agreement. Having failed to reach any agreement with Exxon for the development of this acreage and obligated by its agreement with Exxon to drill a well on the lease acreage prior to September 15, 1998, Strata filed its compulsory pooling application.

Strata's efforts to reach a voluntary agreement with Exxon are more than sufficient to meet the statutory requirement that parties make a good faith effort to reach a voluntary agreement for the development of a spacing unit prior to invoking the compulsory pooling provisions of the Oil and Gas Act.

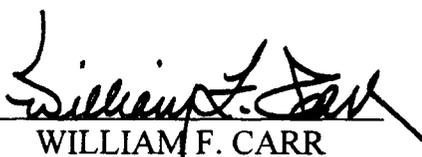
If this application is dismissed or continued for a month as Exxon requests, valuable time will be lost and Strata will either have to (1) forgo the drilling of this well and lose its right to drill on this acreage or, (2) proceed with drilling knowing that Exxon will have date

on the well prior to the time when it must elect whether or not to participate in the well under a Division pooling order.

Strata Production Company requests that the Motion to Dismiss or in the Alternative for a Continuance be denied and that its application for compulsory pooling of the W/2 of Section 22, Township 22 South, Range 32 East, NMPM, be heard by a Division Examiner on the July 23, 1998.

Respectfully submitted,

CAMPBELL, CARR, BERGE &
SHERIDAN, P.A.

By: 

WILLIAM F. CARR

Post Office Box 2208

Santa Fe, New Mexico 87504-2208

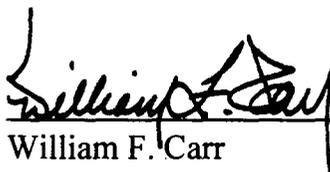
ATTORNEYS FOR STRATA PRODUCTION
COMPANY

CERTIFICATE OF SERVICE

I hereby certify that I have caused a true and correct copy of Strata Production Company's Response to Motion to Dismiss Application, or in the Alternative, Motion to Dismiss, to be hand-delivered on this 21st day of July, 1998 to the following counsel of record:

James Bruce, Esq.
612 Old Santa Fe Trail
Suite B
Santa Fe, New Mexico 87501

Rand Carroll, Esq.
Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505



William F. Carr

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE HEARING CALLED BY
THE OIL CONSERVATION DIVISION FOR THE
PURPOSE OF CONSIDERING:**

CASE NO. 12011

**APPLICATION OF STRATA PRODUCTION
COMPANY FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.**

AFFIDAVIT OF JO MC INERNEY

BEFORE ME, the undersigned authority, on this day personally appeared Jo McInerney who, being by me first duly sworn, upon her oath, stated as follows:

1. My name is Jo McInerney. I am over 21 years of age, of sound mind, capable of making this Affidavit, and have personal knowledge of the facts stated in it.

2. I am a Contract Landman for Strata Production Company. I have been a Landman for 23 years. I worked for Louisiana Land and Exploration Company (LL&E) in Denver, Colorado from 1976 to 1978 when I left LL&E to work as a Landman with Glen Aaron & Associates, Inc. in Denver, Colorado. In 1981 I became a Contract Landman working for numerous companies until 1984 when I moved to Roswell, New Mexico. I was the Land Manager for Murphy Operating Corporation (Murphy) from 1984 until 1991. In 1991 I left Murphy to become Land Manager for Centaur Royalty Corporation (Centaur) until mid 1992. In 1992, I left Centaur to become a Contract Landman and have been a Contract Landman to the present time. I have tested and fully complied with the CPL program (Certified Professional Landman) as administered by the American Association of Professional Landmen. I was awarded my certification under Certificate No. 4861. I have been working with Strata Production Company for the last 6 years and state that I am familiar with all of the contracts mentioned hereinbelow.

3. On October 5, 1992, effective September 25, 1992, Exxon Corporation executed and delivered a Lease Operating Agreement (Attachment #1) to Meridian Oil Company covering the following lands, located in Lea County, New Mexico. Exxon received approximately \$3,000.00 per acre with a 5% overriding royalty interest and gave Meridian a term of five (5) years.

Township 22 South, Range 32 East, NMPM

Section 14: SW/4, W/2SE/4

Section 21: NE/4NE/4, SW/4NE/4, SE/4

Section 22: NE/4NW/4, SW/4NW/4, SW/4

The Lease Operating Agreement contains a Continuous Drilling Provision which requires that wells be drilled periodically in order to perpetuate the Lease Operating Agreement.

4. On February 17, 1993, effective January 15, 1993, Meridian executed and delivered an Assignment (Attachment #2) to Strata Production Company ("Strata") to convey Fifty Percent (50%) of the leasehold interest and operating rights in and to the lands described below. The Assignment was made subject to the terms of the Lease Operating Agreement with Exxon Corporation. Strata reimbursed Meridian for its share of the consideration Meridian paid to Exxon.

Township 22 South, Range 32 East, NMPM

Section 21: NE/4NE/4, SW/4NE/4, SE/4

Section 22: NE/4NW/4, SW/4NW/4, SW/4

5. On June 3, 1997 Strata mailed a letter to Exxon for concurrence to the termination date under the Lease Operating Agreement. On June 6, 1997, Exxon returned the verification letter where they agreed that the termination date of the Lease Operating Agreement would be March 24, 1998 (Attachment #3), subject to Strata's right to perpetuate the Lease Operating Agreement by drilling additional wells under the Continuous Drilling Provision.

6. On March 3, 1997, Strata spudded the Cercion Federal #8 Well located in Township 22 South, Range 32 East, NMPM, Section 22: SW/4NW/4 which lands are located under the Lease Operating Agreement with Exxon. The well was plugged and abandoned on March 25, 1998. On March 24, 1998, the Lease Operating Agreement terminated. Under the terms of the Lease Operating Agreement, upon termination, Strata would be subject to the provisions of the Continuous Drilling Provision of the Agreement. The provision states that Strata must commence operations 180 days between the completion or plugging and abandoning of one well and commencement of operations on the next succeeding well. Therefore, if Strata does not commence its next well on or before September 21, 1998, the Lease Operating Agreement will terminate and the rights to all undrilled lands covering under the Agreement will revert back to Exxon.

7. On May 26, 1998 I contacted Bob Matthew at Exxon in Houston, Texas and advised that the Cercion Federal Well #8 had been plugged on March 25, 1998. I advised that Strata would now be subject to the Continuous Drilling Provisions under the Lease Operating Agreement with Exxon. At this time, I also advised that we planned to drill a Morrow test at a location in the W/2 of Section 22 Township 22 South, Range 32 East, NMPM, Lea County, New Mexico to satisfy our next drilling obligation with Exxon.

8. Under a Farmout Agreement with Exxon dated July 9, 1991, (Attachment #4) Strata (as successor to KHL, Inc., farmee), drilled two wells known as the Cercion Federal #2 Well in the NW/4NW/4 of Section 22 and the Cercion Federal Well #4 in the SE/4NW/4 of Section 22. Strata earned rights covering the leasehold acreage from the surface to 8,637 feet and surface to 8,641 feet respectively. On May 26, 1998, I advised Mr. Matthew that in order to conform to the 320.0 acre spacing requirement for Morrow production, Strata needed to work out some type of agreement covering the rights Exxon reserved under the Farmout Agreement under the wells and lands described herein. Mr. Matthew asked me to transmit a proposal to Exxon.

9. On May 27, 1998 I transmitted an offer to Exxon by federal express (Attachment #5) and asked Exxon to review the area and advise if they would be interested in participating in a Morrow test with Strata covering the W/2 of Section 22, Township 22 South, Range 32 East. I further advised that if Exxon was not interested in participating that we would request that the deep rights Exxon held under the NW/4NW/4 and SE/4NW/4 of Section 22 be included under our current Lease Operating Agreement covering the balance of the lands in the W/2 of Section 22.

10. On June 2, 1998, Bob Matthew advised that Exxon had reviewed our proposal and would not be interested in participating in a Morrow test and was not interested in including the 80 acres under the current Lease Operating Agreement. He then asked me to transmit a proposal with monetary consideration for the 80 acre leasehold interest.

11. On June 2, 1998, I transmitted a proposal to Exxon (Attachment #6) and offered \$250.00 per acre for a one year Term Assignment with a 5% overriding royalty.

12. On June 12, 1998, Bob Matthew advised that the monetary consideration was acceptable, but Exxon would only deliver a 75% net revenue interest under the 80 acres in lieu of the 82.5% net revenue interest Strata requested Mr Matthew also advised that these terms were non-negotiable.

13. On June 12, 1998 Strata transmitted its rejection of Exxon's counter proposal and simultaneously transmitted the AFE for the drilling of the Under the Hill Federal #1 Well and requested Exxon's election to participate or not (Attachment #7).

14. On June 17, 1998, Bob Matthew contacted me and advised that there was a typo in my correspondence of June 12, 1998 where I had set out the well location as 1980' FWL and 1980' FEL. I advised Mr. Matthew that the correct location would be 1980' FWL and 1980' FSL. He then requested that Strata transmit a Joint Operating Agreement for the Under the Hill Federal #1 well.

15. On June 29, 1998, Strata transmitted a correspondence (Attachment #8) with the Joint Operating Agreement dated June 1, 1998 to Exxon by Federal Express for their review covering the Under the Hill Federal #1 Well.

LEASE OPERATING AGREEMENT

ATTACHED TO AND MADE A PART OF THAT CERTAIN "TRANSFER OF OPERATING RIGHTS (SUBLEASE) IN A LEASE FOR OIL AND GAS" BETWEEN EXXON CORPORATION, ASSIGNOR, AND MERIDIAN OIL INC., ASSIGNEE, COVERING THE LAND AND LEASE DESCRIBED HEREIN

THIS LEASE OPERATING AGREEMENT is made and entered into by and between EXXON CORPORATION, P. O. Box 2305, Houston, Texas 77252, hereinafter called "Assignor", and MERIDIAN OIL INC., P. O. Box 51810, Midland, Texas 79710-1810, hereinafter called "Assignee".

WHEREAS, Assignor owns 100 percent of the operating rights in the following oil and gas lease:

<u>Exxon Lease No. 0680877:</u>	Dated:	September 1, 1988
Serial No. NM-77058	Lessor:	United States of America
	Lessee:	Exxon Corporation

WHEREAS, the parties hereto are now desirous of entering into an agreement covering a part of the above-described lease upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, for and in consideration of the premises, it is mutually agreed as follows:

RIGHTS GRANTED AND RESERVED: Assignor hereby transfers and assigns to Assignee all of Assignor's interest in the exclusive right and privilege of operating, testing and developing the above-described lease for oil, gas and other hydrocarbon substances INsofar AS, AND ONLY INsofar AS, said lease covers and includes the following described lands, to-wit:

The SW/4 and W/2 SE/4 of Section 14, Township 22 South, Range 32 East, NMPM, Lea County, New Mexico, and

NE/4 NE/4 and SW/4 NE/4 and SE/4 of Section 21, Township 22 South, Range 32 East, NMPM, Lea County, New Mexico

NE/4 NW/4 and SW/4 NW/4 and SW/4 of Section 22, Township 22 South, Range 32 East, NMPM, Lea County, New Mexico,

hereinafter referred to as "Assigned Premises".

Subject to the other provisions herein contained, this assignment shall be for a term of five (5) years from the effective date hereof (called "primary term") and as long thereafter as oil and gas, or either of them is produced from said land hereunder.

At the later of (i) 180 days following the end of the primary term of this assignment, or (ii) the conclusion of a Continuous Development Program (as hereinafter defined) this assignment shall terminate as to all lands set forth herein, not included as a proration unit (as hereinafter defined) which is capable of producing oil gas, sulphur, or other minerals. The proration unit shall consist of an area not to exceed 40 acres for each oil well, plus a tolerance of 10% thereof, or ~~640~~ acres for each gas well, plus a tolerance of 10% thereof, provided that, if the governmental authority having jurisdiction prescribes or permits the creation of drilling or proration units having a larger area than above specified for proration units, then said proration units shall conform substantially in size with said drilling or proration units prescribed or permitted by governmental regulations.

A "Continuous Development Program" for purposes of this paragraph shall consist of a period during which Assignee conducts operations for the drilling of a well on the Assigned Premises, or lands pooled therewith, with no lapse of more than 180 days between the completion or plugging and abandoning of one well and commencement of operations on the next succeeding well, and with operations for drilling on each well being conducted with no cessation of more than sixty (60) consecutive days. For the purposes of this paragraph, "completion" of a well shall be deemed the date on which Form C-105 is filed by Assignee in conformance with the requirements of Rule 117 (Well Log and Completion Report) of the Rules and Regulations of the New Mexico Oil Conservation Commission.

Notwithstanding the termination of this lease as to a portion of the lands covered hereby, Assignee shall nevertheless continue to have the right of ingress to and

egress from the lands still subject to this assignment for all purposes described herein, together with easements and rights-of way for roads, pipelines and other facilities on, over and across all the lands described herein, for access to and from the lands still subject to this assignment and for the gathering or transportation of oil, gas and other minerals produced from the Assigned Premises. This provision affects the secondary term of this assignment as set forth in the habendum clause, but it shall not alter the effect of any of the other provisions of this assignment which relate to lease maintenance, either before or after a contraction of the Assigned Premises under the terms of this paragraph, including, without limitation, the shut-in provisions, the savings clause and the force majeure clause.

After the expiration of the primary term and/or the continuous development program hereof, production from the Assigned Premises shall maintain this assignment in force only to strata above a depth of 100 feet below the stratigraphic equivalent of the deepest formation penetrated and producing in paying quantities on the Assigned Premises.

Within sixty (60) days after this assignment terminates as to any acreage, Assignee shall provide to Assignor a reassignment of such acreage in recordable form.

Assignee agrees to provide Assignor with copies of any forms filed with either the New Mexico Conservation Commission or the Bureau of Land Management, or any successor thereof, pertaining to operations on and/or production from the acreage covered hereby and/or any acreage with which such acreage is pooled or unitized.

OVERRIDING ROYALTIES: Assignor hereby reserves overriding royalties:

- (a) On oil, 5% of 8/8ths of that produced and saved from said Assigned Premises, the same to be delivered at the well, or to the credit of Assignor into the pipeline or pipelines to which the well may be connected or otherwise as Assignor may from time to time direct.
- (b) On gas, including casinghead gas or other gaseous substances and liquid constituents of said gas produced from and sold or used off the Assigned Premises, or for the extraction of gasoline or other products therefrom, the market value at the well shall be 5% of 8/8ths of the gas so sold or used provided that on gas so sold by Assignee in an arms-length transaction to a non-affiliated purchaser the market value shall not exceed the amount received by Assignee for such gas computed at the mouth of the well, and on gas so sold at the well the royalty shall be 5% of 8/8ths of the amount realized by Assignee from such sale. Assignor may elect in lieu of the gas royalties herein described to take its proportionate share of the production in kind at any time or from time to time.

Payment of overriding royalties, payments out of production herein or heretofore reserved, and of all royalties due on Assignee's production from the Assigned Premises must be made by Assignee beginning with the date of first production and at all times thereafter on the basis of 100% of the well's production (reduced to that percentage of such production that is attributable to the operating rights herein assigned) and such payment must be made regardless of whether Assignee is or is not selling all or any part of its share of the total production, or is banking or storing gas pursuant to the provisions of an agreement so permitting.

Said overriding royalties shall be delivered to Assignor free of all cost and expense of developing and operating the Assigned Premises and free and clear of all taxes except gross production, and severance taxes applicable thereto. Such payments shall be made on or before the twentieth (20th) day of each calendar month for the overriding royalties which have accrued for the preceding month.

If the operating rights herein assigned are less than the full operating rights in the Assigned Premises, then the overriding royalties herein reserved shall be reduced in the proportion that the rights assigned herein bear to the full operating rights; provided, however, that the overriding royalties herein reserved are exclusive of and in addition to any royalties, overriding royalties or payments out of production affecting said lease existing on the effective date hereof.

RENEWAL OR EXTENSION OF LEASE: If Assignee shall secure a renewal or extension of any lease covering all or any part of the land described herein, then the

overriding royalties and all other rights, titles and interests of Assignor in said land reserved herein or excepted herefrom shall apply to such renewed or extended lease. A "renewal" or "extension" of lease as these terms are used in this paragraph shall mean any lease or leases covering all or a part of the Assigned Premises executed within one (1) year from the termination of the lease herein described.

INGRESS AND EGRESS: Assignor reserves the right of ingress and egress to the land covered by this assignment for the purpose of receiving and transporting its portion of the royalty oil and gas, for gauging or witnessing the gauging of all production, for the exploration for and development of oil and gas as to any depths not assigned hereby, for the exploration for and development of minerals other than oil and gas and for the enjoyment of any other right or privilege reserved or excepted in this assignment provided that neither the Assignor nor the Assignee shall unreasonably interfere with the enjoyment by the other of its respective rights.

SHUT-IN WELL PAYMENTS: Any shut-in gas well payments which in Assignor's sole opinion are required to maintain in force the lease assigned hereby shall be made by Assignor. In regard to shut-in gas well payments only, Assignee shall: (1) with respect to wells expected to be shut-in after completion and before being placed on production, give Assignor notice of such expectation prior to the actual date of the shutting in of any such well or wells; and (2) with respect to wells that are shut-in after production has been obtained therefrom, give Assignor notice of such shutting in prior to such event if possible, or within 48 hours after shutting in if such event could not have been reasonably anticipated in advance.

Assignee shall reimburse Assignor for the full amount of such payments within thirty (30) days of billing therefor, provided that if any shut-in gas well payment shall serve to maintain said lease as to lands not included in this assignment, then Assignee's reimbursement shall be proportionately reduced on an acreage basis; however, no reduction shall be made by reason of any depth limitation herein.

Assignor shall use due diligence to ensure that all shut-in gas payments which are necessary to maintain in force the lease covering the Assigned Premises are properly made, but there shall be no liability for any inadvertent error or failure with respect to such payments.

LEASE MAINTENANCE COVENANT AND RIGHT TO REASSIGNMENT OF OPERATING RIGHTS PRIOR TO ABANDONMENT: Assignee specifically covenants to use its best efforts to maintain in force the lease on the Assigned Premises either by production in paying quantities therefrom or by drilling or reworking operations thereon.

Without limitation upon the foregoing, if, at any time, Assignee shall decide to surrender or abandon the Assigned Premises, or any portion thereof, Assignee shall give Assignor at least forty-five (45) days prior written notice thereof. Assignor shall thereafter have the option for thirty (30) days to require Assignee to make a reassignment of the Assigned Premises or that portion thereof which Assignee wishes to surrender or abandon. Any such reassignment shall be free and clear of all liens and encumbrances and free and clear of any overriding royalties or payments out of production in excess of those presently applicable to the Assigned Premises.

Assignor agrees to furnish Assignee copies of all notices or demands received by it from the United States of America (except preliminary rental notices) in respect to any default or non-performance as to the Assigned Premises, and if the same be the official notice by the United States of America of intention to cancel said oil and gas lease as to all or any part of said Assigned Premises, then Assignor shall immediately furnish Assignee with a copy of said notice by certified mail or prepaid telegram; provided, however, Assignor shall only be liable to Assignee for bad faith or gross negligence in failing to furnish said notices to Assignee.

OPTION TO PURCHASE OIL:

- a) **Nature of Right.** For so long as any of the interests created by this instrument remain extant, Assignor reserves and shall have the right to purchase from time to time all or any portion of the oil, distillate, condensate, drip gasoline, or other liquid hydrocarbons (hereinafter referred to as "oil") which may be produced and saved from or allocated to the interest in the Assigned Premises, except for that oil which is used for operations upon, and for the sole benefit of, the Assigned Premises.

- b) Notice and Election. Whenever it appears that Assignee will complete a well capable of producing oil in paying quantities and all or a portion of such well's production will be from or allocated to the Assigned Premises, and at any time thereafter within thirty (30) days of having been requested by Assignor to do so, the number and frequency of such requests to be at Assignor's sole discretion, Assignee will notify Assignor in writing of the production status of the interests covered hereby, which writing shall be sent, postage prepaid and addressed to the Supply Department, Exxon Company, U.S.A., P. O. Box 2180, Midland, Texas 77252-2180, or as Assignor may otherwise direct.

Assignor shall have 30 days after receipt of such notice from Assignee in which to notify Assignee if Assignor elects to purchase all or part of such oil; failure to respond shall be deemed declination and an affirmative election shall be effective 30 days from its mailing. Assignor shall also give notice of termination of such purchases at least 30 days in advance.

Should Assignor on any one or more occasions elect not to purchase, such election shall not constitute a waiver of its right to do so at any later time and from time to time. Anything to the contrary notwithstanding, except to the extent of any election by Assignor hereunder to purchase, Assignor shall have no obligation to purchase or to furnish a market for the whole or any part of such production.

- c) Purchase Price. For all purchases made by Assignor hereunder during the 21-year period commencing with the effective date, the purchase price shall be the price posted by Assignor applicable to such oil in effect at the time of delivery of the oil to Assignor; if there is no such posting by Assignor, then any such purchase shall be at the average of the two highest prices posted by other purchasers in the immediate field, as determined by Assignor, for the grade and quality of such oil produced in effect at the time of delivery. If there are no such applicable postings, then any such purchase shall be at the price posted by Assignor (or if none, at the average of the two highest prices posted by other purchasers, as determined by Assignor) in effect at the time of delivery in the oil producing area which produces the same kind and quality of crude oil nearest to such field, as same shall be determined by Assignor.

After the 21-year period aforesaid, the notices required by Assignee to be sent to Assignor shall include, in addition to production status, the terms of the third party bona fide purchase offer for such oil, then in effect, which Assignee desires to accept. Should Assignor elect to purchase such oil, or any part thereof, the purchase price shall be that price stipulated in such bona fide offer and shall remain at such price until such time as notification by Assignor of termination of such purchases becomes effective pursuant to the paragraph hereof entitled "Notice and Election" or until Assignee shall notify Assignor of a new such bona fide offer, whichever may be the sooner; provided that should Assignee so notify Assignor, Assignor shall have the right to elect to purchase such oil, or any part thereof, at such new price by notifying Assignee within the aforementioned 30-day period described in the paragraph hereof entitled "Notice and Election" and the price of said oil shall remain unchanged until the effective date of such election.

~~PREFERENTIAL RIGHT TO PURCHASE GAS: Assignor shall have the continuing right and option for a period of 21 years from the effective date to purchase all gas which may be produced from or allocated to the interest in the lands assigned hereunder; except that no such right or option shall be applicable to gas used for operating purposes or gas subject to existing gas contracts (including only those renewals or extensions which are required to be granted by Assignee under the terms and conditions of said contracts) for so long as said gas may be subject to such existing contracts.~~

- a) Notification. If Assignee elects to produce such gas and receives a bona fide offer acceptable to Assignee to purchase all or any part of said production, Assignee shall promptly furnish Assignor written notice thereof, and a copy of such offer together with all data on wells, flow rates, and reserves which Assignee furnished to the prospective purchaser. Assignor shall have thirty (30) days after receipt of said notice and data addressed to Exxon Company, U.S.A., P. O. Box 2180, Houston, Texas 77001, Attention: Natural Gas Department, to elect to enter into a contract to purchase such gas on the same terms and conditions as were contained in the aforesaid offer.

~~b) Election Not to Purchase. If Assignor fails to notify Assignee within said thirty (30) day period that it wishes to exercise its right and option to so purchase said gas production, then Assignor shall have no right to purchase such gas during the original contract term (or any renewals or extensions of same which actually occur and which Assignee is required to grant under the terms and conditions of said contracts).~~

~~If Assignor fails to exercise its right and option and, for any reason, Assignee does not thereafter accept said offer and enter into a legally binding contract, or if such contract expires or is terminated or cancelled within the 21-year period aforesaid, then, in such event, Assignor's right and option to purchase gas shall continue in full force and effect and said right and option shall apply with respect to any new offer for such production within the aforementioned period all as more particularly described above.~~

~~c) Sale of Gas. Notwithstanding anything herein to the contrary, any sale by Assignee of gas produced or allocable to the Assigned Premises hereinabove described, without regard to Assignor's exercise or nonexercise of its right and option hereunder to purchase Assignee's gas production, shall be made subject to Assignor's reserved right and election to take its reserved royalties in kind (and any right Assignor may have to convert its reserved royalties to a leasehold interest) and any such royalties taken in kind shall be owned and controlled by Assignor free and clear of any commitment to or obligation under such sale.~~

ASSIGNMENT: Anything contained in this Assignment to the contrary notwithstanding, Assignor shall have the right, in its sole discretion, to assign to any affiliate or subsidiary of Assignor or to any third party, from time to time and in whole or in part, its rights hereunder, including, but not limited to, its right and option to purchase the oil and gas as herein set forth. No assignment shall affect the price at which oil and gas may be purchased hereunder and such price shall continue to be governed by the provisions of this Assignment relating thereto.

SEVERABILITY: It is the intent of the parties that the provisions contained in this Assignment entitled "Option to Purchase Oil" and "Preferential Right to Purchase Gas" shall be severable. Should the whole or any portion of those provisions be held void or invalid, as a matter of law, such holding shall not affect other portions of this Assignment which can be given effect without the invalid or void portion.

ACCESS TO RIG, GEOLOGIC PROGRAM, OTHER INFORMATION Assignor's representatives shall at all times at their own risk and expense have free access to the well and derrick floor of any well drilled pursuant to this agreement. As to each well drilled pursuant to the terms hereof, Assignee shall provide copies of all forms and reports filed with any governmental agency, and shall, at Assignee's sole cost, risk and expense (except as agreed to by the parties), timely furnish to Assignor all samples, cores, cuttings, depths, logs and other data specified in said geological program and any other information obtained from said well or wells, whether specifically set forth herein.

LIABILITY, INDEMNITY, INSURANCE

a) Any well drilled hereunder is to be drilled and completed as a producer or plugged and abandoned, as the case may be, at Assignee's sole expense, cost, risk and liability. Assignee will relieve Assignor from any costs and/or liability in connection with Assignee's operations pursuant to this Assignment and Assignee shall defend, indemnify and hold Assignor harmless from any claims, causes of action, or lawsuits which may arise as a result of Assignee's operations, and Assignee shall keep the premises, the well and all permanently installed equipment used in connection with Assignee's operations free of liens and encumbrances.

b) Immediately upon execution of this Assignment by both parties, you shall have the right prior to commencing operations for drilling at Assignee's own risk and expense, to conduct or have conducted an environmental assessment of the Assigned Premises subject to this Assignment.

Assignor will provide Assignee (or Assignee's contractor) with reasonable access to the Assigned Premises to conduct the environmental assessment. Assignor may require Assignee (or Assignee's contractor) to comply with Assignor's safety and industrial hygiene procedures and to execute an Environmental Testing and Confidentiality Agreement prior to performing any

such test. Assignee shall release and indemnify and hold Assignor harmless against any liability or damage to persons or property arising out of such environmental assessment. Assignee shall advise Assignor of its findings from any environmental assessments performed on the Assigned Premises, and provide Assignor with three (3) signed copies thereof. If, at any time within thirty (30) days after Assignee's acceptance of this Assignment, Assignee's assessment of the property discloses unacceptable environmental conditions, Assignee shall have the right to terminate this Assignment and reassign the Assigned Premises to Assignor.

- c) Except as expressly provided herein or expressly agreed upon in writing by the parties hereto, Assignee waives any right to recover from Assignor and forever releases and discharges Assignor from any and all damages, claims, losses, liabilities, penalties, fines, liens, judgments, costs, or expenses whatsoever, (including, without limitation, attorney's fees and costs), caused by Assignee's acts, those of Assignee's employees, representatives, or agents with regard to Assignee's use of the Assigned Premises, whether direct or indirect, known or unknown, foreseen or unforeseen, that may arise on account of or in any way be connected with the physical condition of the Assigned Premises or any law or regulation applicable thereto, including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 U.S.C. Section 9601 et seq.), the Resource Conservation and Recovery Act of 1976 (42 U.S.C. Section 6901 et seq.) the Clean Water Act (33 U.S.C. Section 1251 et seq.), the Safe Drinking Water Act (14 U.S.C. Sections 1401-1450), the Hazardous Materials Transportation Act (49 U.S.C. Section 1801 et seq.), the Toxic Substance Control Act (15 U.S.C. Section 2601 et seq.).

Assignee shall dispose of or discharge any waste from the Assigned Premises (including, but not limited to, produced water, drilling fluids, and other associated wastes) in accordance with applicable local, state and federal laws and regulations. Assignee shall keep records of the types, amounts, and locations of wastes which are disposed of onsite and offsite. Assignee shall take whatever remedial action on the Assigned Premises necessary to meet any local, state, or federal requirements directed at protecting human health and the environment in effect at that time.

Assignee, its successors, and assigns, hereby agree to indemnify, hold harmless, and defend Assignor, its successors, and assigns, from and against all claims, demands, and causes of action, including any civil fines, penalties, costs of clean-up, or plugging liabilities (without limitation) Assignee's and Assignor's employees, agents, or representatives, and also including (without limitation) private citizens, persons, organizations, and any agency, branch, or representative of federal, state, or local government, on account of any personal injury or death, or damage, or destruction, or loss of property, or contamination of natural resource (including soil, surface water, or ground water) resulting from or arising out of any liability caused by or connected with the presence, disposal, or release of any material of any kind in, on, or under that land subject to this Assignment, caused by Assignee's acts, those of Assignee's employees, representatives, or agents with regard to Assignee's use of the Assigned Premises. This indemnification shall be in addition to any other indemnity provisions contained in this Assignment, and it is expressly understood and agreed that any terms of the paragraph shall control over any conflicting or contradicting terms or provisions in this Assignment.

- d) While conducting any operations hereunder, Assignee shall carry insurance in not less than the following amounts, and furnish Assignor with certificates evidencing same, to-wit:

General Liability

Property Damage:	\$100,000.00 each accident
Bodily Injury:	\$100,000.00 each person \$300,000.00 each accident

Automobile Liability

(which shall include non-owners liability and hired automobile coverage):

Property Damage:	\$100,000.00 each accident
Bodily Injury:	\$100,000.00 each person \$300,000.00 each accident

Worker's Compensation

Statutory Amount, including, if necessary, the following endorsements:

- 1) U. S. Longshoremen's and Harbor Workers Compensation Act.
- 2) Coverage "B" including Maritime.
- 3) Coverage "C" Voluntary Compensation.

The minimum insurance requirements as set forth above shall not limit or diminish in any way the respective rights and obligations of the parties under this Assignment.

COMPLIANCE WITH LEASE TERMS AND COVENANTS: Insofar as the operating rights herein assigned allow, Assignee assumes all the burdens and obligations of the lessee in the lease herein described insofar as it covers and includes the Assigned Premises. Assignee shall further comply with all the expressed and implied covenants of the lessee, including, without limitation, the covenants of reasonable development and protection against drainage insofar as said covenants may apply to the Assigned Premises.

COMPLIANCE WITH LAWS AND REGULATIONS: Assignee covenants and agrees that in the development and operation of the Assigned Premises, Assignee will comply with all valid laws, rules and regulations of the state regulatory body and all other governmental agencies having jurisdiction or supervision of the field in which the Assigned Premises are located, including, without limitation, the spacing regulations fixed by such body or agency.

SUCCESSORS AND ASSIGNS: The rights, titles and interests herein conveyed, reserved, excepted or retained shall inure to the benefit of the respective parties, its, his or their heirs, devisees, legal representatives, successors and assigns.

The covenants, obligations and agreements contained herein shall be construed as covenants running with the land.

Wherever the term "Assignor" or "Assignee" is used herein, such term shall be deemed to include its, his or their heirs, devisees, legal representatives, successors and assigns.

NO WARRANTY: This assignment is made by Assignor and accepted by Assignee without warranty of title, express or implied.

EXECUTED this 5th day of October, 1992, but effective as of September 25 1992.

EXXON CORPORATION

TRADE OK JT
LAW SIL

By: Doug Laufer
Doug Laufer
Attorney in Fact
BLM #066100

ASSIGNOR

MERIDIAN OIL INC.

By: Dennis Gledge
Dennis Gledge

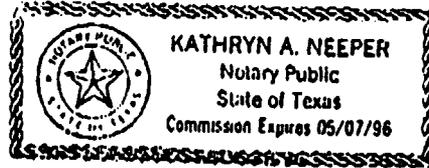
ASSIGNEE

THE STATE OF TEXAS |
COUNTY OF MIDLAND |

The foregoing instrument was acknowledged before me this 15th day of October, 1992, by DOUG LAUFER, Attorney in Fact for EXXON CORPORATION, a New Jersey corporation, on behalf of said corporation.

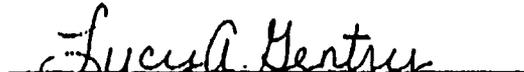

Notary Public, State of Texas

My Commission Expires:
5-7-96

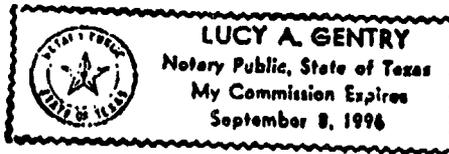


THE STATE OF TEXAS |
COUNTY OF MIDLAND |

The foregoing instrument was acknowledged before me this 2nd day of November, 1992, by Dennis Sledge Attorney-in-Fact for MERIDIAN OIL INC., on behalf of said company.


Notary Public, State of Texas

My Commission Expires:
9-8-96



Form 1000-3a
(November 1990)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

FORM APPROVED
OMB NO. 1004-0034
Expires: July 31, 1992

**TRANSFER OF OPERATING RIGHTS (SUB LEASE) IN A
LEASE FOR OIL AND GAS OR GEOTHERMAL RESOURCES**

Mineral Leasing Act of 1920 (30 U.S.C. 181 et seq.)
Act for Acquired Lands of 1947 (30 U.S.C. 351-359)
Geothermal Steam Act of 1970 (30 U.S.C. 1001-1025)
Department of the Interior Appropriations Act, Fiscal Year 1981 (42 U.S.C. 6508)

Lease Serial No.

NM-77058

JUN 10 1993

Type or print plainly in ink and sign in ink.

PART A: TRANSFER

Transferee (Sublessee)* STRATA PRODUCTION COMPANY
Street P. O. Drawer 1030
City, State, ZIP Code Roswell, New Mexico 88202-1030

*If more than one transferee, check here and list the name(s) and address(es) of all additional transferees on the reverse of this form or on a separate attached sheet of paper.

This transfer is for: (Check one) Oil and Gas Lease, or Geothermal Lease

Interest conveyed: (Check one or both, as appropriate) Operating Rights (sublease), Overriding Royalty, payment out of production or other similar interest or payments.

This transfer (sublease) conveys the following interest:

Land Description <small>Additional space on reverse, if needed. Do not submit documents or agreements other than this form: such documents or agreements shall only be referenced herein.</small>	Percent of Interest			Percent of Overriding Royalty or Similar Interests	
	Owned	Conveyed	Retained	Reserved	Previously reserved or conveyed
	b	c	d	e	f
T-22-S, R-32-E, NMPM Section 21: NE/4 NE/4; SW/4 NE/4; SE/4 Section 22: NE/4 NW/4; SW/4 NW/4; SW/4 Lea County, New Mexico	100%	50%	50%	0	7.0%

SEE ADDENDUM ATTACHED

**BLM RECOGNIZES ONLY THE ASSIGNMENT
OF INTEREST, NOT THE CONDITIONS OF
THE AGREEMENT.**

FOR BLM USE ONLY- DO NOT WRITE BELOW THIS LINE

UNITED STATES OF AMERICA

This transfer is approved solely for administrative purposes. Approval does not warrant that either party to this transfer holds legal or equitable title to this lease.

Transfer approved effective APR -1 1993

[Signature]
(Authorized Officer)

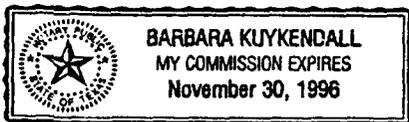
Christ, Lester MAY 25 1993
(Title) (Date)

STATE OF TEXAS §
 §
COUNTY OF MIDLAND §

This instrument was acknowledged before me this 17th day of February, 1993, by Dennis Sledge, Attorney-in-Fact for Meridian Oil Inc., a Delaware corporation, on behalf of said corporation.

Barbara Kuykendall
Notary Public

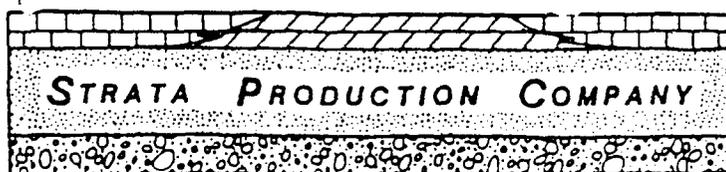
My commission expires:
11-30-96



ADDENDUM ATTACHED TO AND MADE A PART OF
THAT CERTAIN TRANSFER OF OPERATING RIGHTS (SUB LEASE)
IN A LEASE FOR OIL AND GAS OR GEOTHERMAL RESOURCES
by and between MERIDIAN OIL INC., Transferor, and
STRATA PRODUCTION COMPANY, Transferee,
effective January 15, 1993

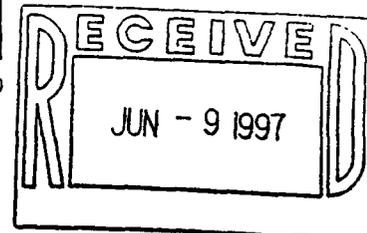
1. This TRANSFER OF OPERATING RIGHTS (SUB LEASE) IN A LEASE FOR OIL AND GAS OR GEOTHERMAL RESOURCES is subject to all the terms and conditions contained in that certain LEASE OPERATING AGREEMENT effective September 25, 1992, by and between Exxon Corporation, Assignor, and Meridian Oil Inc., Assignee, recorded in Book 563, Page 472 of the Miscellaneous Records of Lea County, New Mexico.
2. This Transfer or Assignment is made by Transferor and accepted by Transferee without warranty of title of any kind, express or implied.

POST OFFICE DRAWER 1030
ROSWELL, NM 88202-1030



200 WEST FIRST STREET, ROSWELL PETROLEUM BUILDING, SUITE 700
ROSWELL, NEW MEXICO 88201

TELEPHONE (505) 622-1127
FACSIMILE (505) 623-3533



June 3, 1997

Exxon Company, USA
Attention: Mr. Steve Deffenbaugh
Post Office Box 1600
Midland, Texas 79702-1600

RE: LEASE OPERATING AGREEMENT
EAST LIVINGSTON RIDGE
Federal Oil & Gas Lease #NM-77058
Township 22 South, Range 32 East, NMPM
Section 14: SW/4, W/4SE/4
Section 21: NE/4NE/4, SW/4NE/4, SE/4
Section 22: NE/4NW/4, SW/4NW/4, SW/4
Lea County, New Mexico

Gentlemen:

On February 17, 1993, Meridian Oil, Inc. ("Meridian") assigned one-half (1/2) of the operating rights under the lands described in Section 21 and 22 above to Strata Production Company ("Strata"). The conveyance is subject to a Lease Operating Agreement (the "Agreement") between Exxon Corporation, Assignor (Exxon) and Meridian, Assignee, effective September 25, 1992 (see attached). The Agreement conveyed all of Exxon's interest in and to the subject lands to Meridian for a term of five (5) years from the effective date (the "primary term").

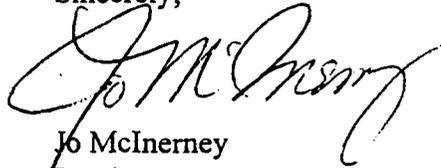
Under the terms of the Agreement, the Agreement would terminate as to the lands described above and which are not included in a proration unit under an existing well ("undeveloped lands"), at the later of (i) 180 days following the end of the primary term of the Agreement or (ii) the conclusion of a Continuous Development Program.

Therefore, in the event a Continuous Development Program is not in progress as more fully defined under the terms of the Agreement, Strata has determined that the Agreement shall terminate as to the undeveloped lands on March 24, 1998.

We hereby request that Exxon acknowledge that, in the event a Continuous Development Program is not commenced on or before March 24, 1998, the Agreement will terminate on that date as to the undeveloped lands. If this is your understanding of the Agreement, please have an authorized representative at Exxon execute in the space provided below and return one copy of this letter to Strata for its files.

We sincerely appreciate your review of the Agreements and the response to our request and if you have any questions or if we can furnish additional information, please contact the undersigned.

Sincerely,



Jo McInerney
Landman

AGREED TO THIS 4 DAY OF
June, 1997

EXXON CORPORATION

By:  _____

EXXON COMPANY, U.S.A.

POST OFFICE BOX 1600 · MIDLAND, TEXAS 79702-1600

July 9, 1991

PRODUCTION DEPARTMENT
SOUTHWESTERN DIVISION

Trade AB-91-0029(A) CAS#101011
Red Tank
Lea County, New Mexico
Exxon Lease Number 680877

KHL, Inc.
P. O. Drawer 14668
Albuquerque, New Mexico 87191

Gentlemen:

This will evidence the agreement of Exxon Corporation (hereinafter "Exxon") to assign to you down to the depth of 100 feet below the deepest producing perforation established for production in the well provided for in Condition I herein, but not below the base of the Delaware formation, subject to the limitations and reservations herein contained, all of its present right, title and interest to its oil and gas leasehold estate in and under the following described lands:

Township 22 South, Range 32 East
Section 21: NE/4
Section 22: NW/4

LEA COUNTY, NEW MEXICO,

it being understood that the location of the well required in Condition I hereof will establish a 40 acre "checkerboard pattern" of the acreage that can be earned and that each 40 acre unit is to be earned separately by the completion thereon of a well capable of producing oil and/or gas in commercial quantities, subject to the following numbered paragraphs which are sometimes herein referred to as Conditions, and which it is agreed shall govern and determine the rights and obligations of the parties and the conduct of your operations hereunder, both as to the well required to be drilled herein and as to any additional well or wells which may be drilled under the terms of this agreement or which may be drilled on the above described land after an assignment has been earned.

1. TEST WELL. It is understood and agreed that you shall commence operations for the drilling of a well, on or before **October 16, 1991**, time being of the essence, at a regular location from 1980' FNL x 660' FEL of Section 21, T22S, R32E, Lea County, New Mexico and

that you shall drill with due diligence to a depth of 8,800 feet or a depth to sufficiently test the Delaware formation, whichever is the lesser depth. This well is to be drilled and completed by you in a workmanlike manner and in a bona fide effort to obtain production of oil and/or gas, and free of any cost or liability to Exxon, whether completed as a well capable of producing oil and/or gas in commercial quantities, or found to be dry and plugged and abandoned, as the case may be.

2. ACCESS TO RIG AND GEOLOGIC PROGRAM. Exxon's representatives shall at all times at their own risk and expense have free access to the well and derrick floor of any well drilled pursuant to this agreement. As to each well drilled pursuant to the terms hereof, you shall conduct the geological program specified in Exhibit "A" attached hereto and shall, at your sole cost, risk and expense (except as otherwise specified in said Exhibit "A"), timely furnish to Exxon all samples, cores, cuttings, depths, logs and other data specified in said Exhibit "A" and any other information obtained from said well or wells, whether or not specifically set forth herein.
3. ASSIGNMENT OF INTEREST: RESERVATIONS AND COVENANTS. If you shall drill and complete a well capable of producing oil and/or gas in commercial quantities in accordance with all the terms and provisions herein set forth and furnish to Exxon satisfactory evidence thereof, and only in such event, Exxon shall make and execute an assignment to you of the above described lease(s) insofar as it (they) cover(s) the oil and gas in and under the land earned by such well, subject to the depth limitations herein set forth. Exxon's assignment to you shall be subject to the reservations, covenants, conditions and agreements herein set forth, which reservations, covenants, conditions and agreements shall, unless otherwise clearly indicated by the context, be fully binding and effective while this agreement is in effect, whether or not you earn an assignment or assignments as herein provided. In the assignment or assignments:
 - a. RESERVATION OF OVERRIDE. Exxon shall reserve overriding royalties of $1/8$ of $8/8$ which at Exxon's option may be taken in kind, of all oil, gas, casinghead gas and liquid constituents, free of all costs of development and operation and free of all taxes except applicable gross production and severance taxes. Said overriding royalties shall be subject to proportionate reduction but shall be exclusive of and in addition to all presently existing lease burdens, overrides and payments out of production.
 - b. LEASE RENEWALS AND EXTENSIONS. Exxon's overriding royalties and other reserved and retained interests shall apply to any renewals, extensions or modifications of any lease or leases herein committed, or any new leases covering leasehold

interests committed hereto, which you may secure within one (1) year from the expiration thereof.

- c. INGRESS AND EGRESS. Exxon shall have and reserves the right of ingress and egress to the land committed to this agreement for the enjoyment of any rights reserved or retained by Exxon.
- d. DELAY RENTALS AND SHUT-IN PAYMENTS. While the lease(s) herein described is (are) committed to this agreement and after the assignment thereof, if an assignment is earned, Exxon shall make delay rental and shut-in gas well payments at the times and in the amounts which, in Exxon's opinion, are necessary to maintain said lease(s) in force; however, Exxon shall not be liable to you in damages or otherwise for any inadvertent error or failure with respect to such payments.

Exxon shall be entitled to a reimbursement from you, without reduction by reason of any depth limitation, for the full amount of delay rentals and shut-in gas well payments, provided that, your reimbursement obligation shall be limited to the amount applicable to the land committed to this agreement on a surface acre basis.

Exxon shall be relieved of the obligation to make such delay rental and/or shut-in gas well payments at any time after giving you adequate advance written notice, whereupon you shall become responsible for making such payment.

If it appears that you will complete a well capable of producing gas and shut it in, or, if having established gas production, you should contemplate shutting in such well, then you shall give immediate notice to Exxon of your intentions prior to such shutting in.

- e. REASSIGNMENT OF LEASES. If you earn an assignment pursuant to the terms hereof, you shall covenant to use your best efforts to maintain the assigned lease(s) in force by production in paying quantities or drilling or reworking operations and Exxon shall reserve an optional right to a reassignment in the event you decide to surrender or abandon the lease(s) assigned. If at any time you shall decide to surrender the assigned premises, or any portion thereof, or if you decide to plug and abandon any well which is the last producing well on any assigned lease, you shall give Exxon at least forty-five (45) days prior written notice thereof. Exxon shall thereafter have the option for thirty (30) days to require you to make a reassignment of the assigned premises or that portion thereof which you wish to surrender or abandon. In the event you shut-in any well drilled hereunder, Exxon shall likewise be entitled to a reassignment if you fail to use best efforts to establish a market or otherwise remove the circumstances

causing the shut-in as quickly as is reasonably possible. Such reassignment shall be due thirty (30) days after prior written notice by Exxon. Any reassignment given pursuant to this paragraph shall be free and clear of all lease burdens, overrides and payments out of production in excess of or in addition to those presently existing.

- f. **RIGHT TO PURCHASE OIL.** For so long as any of the interests created by this instrument remain extant, Exxon reserves and shall have the right to purchase from time to time all or any portion of the oil, distillate, condensate, drip gasoline, or other liquid hydrocarbons (hereinafter referred to as "oil") which may be produced and saved from or allocated to the interest in the lands to be assigned by Exxon hereunder, except for oil which is used for operations upon, and for the sole benefit of, the assigned land.

Priority Exxon of First Production Pursuant to 3.f. Saved from Exxon + Le assigned (Comm. 41) Production in excess of 1000 bbl/d

Notice and Election: Whenever it appears that you will complete a well capable of producing oil in paying quantities and all or a portion of such well's production will be from or allocated to the lands assigned hereunder, and at any time thereafter within 30 days of having been requested by Exxon to do so, the number and frequency of such requests to be at Exxon's sole discretion, you will notify Exxon in writing of the production status of the interests covered hereby, which writing shall be sent, postage prepaid and addressed to Mr. Joe Brininstool, Exxon Company, U.S.A., P. O. Box 1600, Midland, Texas 79702-1600, or as Exxon may otherwise direct.

Exxon shall have 30 days after receipt of such notice from you in which to notify you if Exxon elects to purchase all or part of such oil; failure to respond shall be deemed declination and an affirmative election shall be effective 30 days from its mailing. Exxon shall also give notice of termination of such purchases at least 30 days in advance.

Should Exxon on any one or more occasions elect not to purchase, such election shall not constitute a waiver of its right to do so at any later time and from time to time. Anything to the contrary notwithstanding, except to the extent of any election by Exxon hereunder to purchase, Exxon shall have no obligation to purchase or to furnish a market for the whole or any part of such production.

Purchase Price: For all purchases made by Exxon hereunder during the 21-year period commencing with the date of this Agreement, the purchase price shall be the price posted by Exxon applicable to such oil in effect at the time of delivery of the oil to Exxon; if there is no such posting by Exxon, then any such purchase shall be at the average of the two highest prices posted by other purchasers in the immediate field, as

determined by Exxon, for the grade and quality of such oil produced in effect at the time of delivery. If there are no such applicable postings, then any such purchase shall be at the price posted by Exxon (or if none, at the average of the two highest prices posted by other purchasers, as determined by Exxon) in effect at the time of delivery in the oil producing area which produces the same kind and quality of crude oil nearest to such field, as same shall be determined by Exxon.

After the 21-year period aforesaid, the notices required by you to be sent to Exxon shall include, in addition to production status, the terms of the third party bona fide purchase offer for such oil, then in effect, which you desire to accept. Should Exxon elect to purchase such oil, or any part thereof, the purchase price shall be that price stipulated in such bona fide offer and shall remain at such price until such time as notification by Exxon of termination of such purchases becomes effective pursuant to the paragraph hereof entitled "Notice and Election" or until you shall notify Exxon of a new such bona fide offer, whichever may be the sooner; provided that should you so notify Exxon, Exxon shall have the right to elect to purchase such oil, or any part thereof, at such new price by notifying you within the aforementioned 30-day period described in the paragraph hereof entitled "Notice and Election" and the price of said oil shall remain unchanged until the effective date of such election.

- g. RIGHT TO PURCHASE GAS. Exxon shall have the continuing right and option for a period of 21 years from the date hereof, to purchase all gas which may be produced from or allocated to the interest in the lands assigned by Exxon hereunder; except that no such right or option shall be applicable to gas used for operating purposes or gas subject to existing gas contracts (including only those renewals or extensions which are required to be granted by you under the terms and conditions of said contracts) for so long as said gas may be subject to such existing gas contracts.

Notification: If you elect to produce such gas and receive a bona fide offer acceptable to you to purchase all or any part of said production, you shall promptly furnish Exxon written notice thereof, and a copy of such offer together with all data on wells, flow rates, and reserves which you furnished to the prospective purchaser. Exxon shall have thirty days after receipt of said notice and data addressed to Exxon Company, U.S.A.; P. O. Box 1244, Houston, Texas 77251, Attention: Natural Gas Department; Gas Purchases, Transportation and Exchange Manager, to elect to enter into a contract to purchase such gas on the same terms and conditions as were contained in the aforesaid offer.

Election Not to Purchase: If Exxon fails to notify you within said thirty-day period that it wishes to exercise its right and option to so purchase said gas production, then Exxon shall have no right to purchase such gas during the original contract term (or any renewals or extensions of same which actually occur and which you were required to grant under the terms and conditions of said contracts).

If Exxon fails to exercise its right and option and, for any reason, you do not thereafter accept said offer and enter into a legally binding contract, or if such contract expires or is terminated or cancelled within the 21-year period aforesaid, then, in such event, Exxon's right and option to purchase gas shall continue in full force and effect and said right and option shall apply with respect to any new offer for such production within the aforementioned period all as more particularly described above.

Sale of Gas: Notwithstanding anything herein to the contrary, any sale by you of gas produced or allocable to the acreage hereinabove described, without regard to Exxon's exercise or nonexercise of its right and option hereunder to purchase your gas production, shall be made subject to Exxon's reserved right and election to take its reserved royalties in kind (and any right Exxon may have to convert its reserved royalties to a leasehold interest) and any such royalties taken in kind shall be owned and controlled by Exxon free and clear of any commitment to or obligation under such sale.

- h. **SEVERABILITY.** It is the intent of the parties that the provisions contained in Conditions 3.f. and 3.g. above shall be severable. Should the whole or any portion of Conditions 3.f. and 3.g. be held void or invalid, as a matter of law, such holding shall not affect other portions thereof which can be given effect without the invalid or void portion.
- i. **COMPLIANCE WITH LEASE TERMS AND COVENANTS.** You shall assume all the burdens and obligations of the lessee in the lease(s) committed hereto and you shall comply with all the expressed and implied covenants thereof to the extent they are applicable to the lands and depths committed.
- j. **COMPLIANCE WITH LAWS AND REGULATIONS.** You shall comply with all valid laws, rules and regulations in your operations upon the lands and lease(s) committed. Furthermore, you shall not commence operations on the lease premises until after you have given Exxon evidence of Operator's bond coverage for not less than the amount required by the Department of the Interior or other governing regulatory commission for operating on Federal, State, Private, or Indian oil and gas leases.
- k. **AD VALOREM TAXES.** If you earn an assignment pursuant to the terms hereof, you shall pay all ad valorem taxes assessed against the assigned premises and such taxes shall be prorated for the year in which the assignment is effective.

- l. NO WARRANTY. If you earn an assignment pursuant to the terms hereof, the assignment shall be without warranty of title, express or implied.
 - m. PAYMENTS OF ROYALTY OR PRODUCTION. Payment by you of the overriding royalties or payments out of production herein or heretofore reserved and of all royalties due the owners thereof under the lease or leases herein assigned must be made from the date of first production and at all times thereafter on the basis of 100% of the well's production (reduced to that percentage of such production that is attributable to the lease or leases herein assigned) and such payment must be made regardless of whether you are or are not banking or storing gas pursuant to the provisions of an agreement so permitting; regardless of whether you are or are not selling all or any part of your share of the total production; and, regardless of the identity of the purchaser or purchasers of such gas if you are selling all or any part of the total gas produced. Upon written notice to you, Exxon may audit your books and records relating to overriding royalty payments anytime while such payments are due and for twenty-four (24) months after notice by you that production has ceased and no more such payments will be forthcoming.
 - n. POOLED UNITS. No voluntary or declared unit shall be established comprising any lands assigned hereunder without the prior written consent of Exxon. You shall seek to establish voluntary, declared, or regulatory units where necessary to maintain or comply with the provisions of any leases committed hereto. In the event the assignment earned hereunder is limited to the governmental proration unit established for the test well, evidence of the establishment of such regulatory unit shall be furnished to Exxon as a prerequisite for such assignment, unless otherwise agreed to by Exxon.
4. INCREASE OF OVERRIDING ROYALTY AT PAYOUT. The overriding royalties reserved by Exxon shall automatically increase to 17.5% of 8/8 at such time as the net proceeds, as hereinafter defined, from the sale of all production of the oil and/or gas produced from the well, or credited to the well, either by reason of transferred allowable, unit allocation or any other means, attributable to the interest assigned to you hereunder, equals one hundred percent (100%) of the cost and expense, both tangible and intangible, of drilling, equipping (an oil well through the oil storage tanks and a gas well through the Christmas tree), testing and completing said well for production, and of operating the said well to the point of said one hundred percent (100%) of such costs attributable to the interest to be assigned to you hereunder, less the salvage value of any equipment used in the well. The net proceeds are defined as the total proceeds received from or credited or allocated to production, less severance, production and other taxes payable on production

therefrom, together with all royalties, shut-in gas royalties, overriding royalties and payments out of production presently in effect, if any.

The period during which the net proceeds referred to above are to be applied against the costs as above provided shall be known as the "payout period". Charges and expenditures to be made by operator shall be made in accordance with and accounted for as set forth in the Accounting Procedure attached hereto and marked Exhibit "B", which is incorporated herein and made a part hereof for the purposes of accounting during the payout period. During this payout period, nothing contained herein shall be construed as constituting joint operations, the said Accounting Procedure being intended only to govern the accounting for costs and expenditures incurred during the payout period. It is further agreed that upon completion of said well as a commercial producer of oil and/or gas and as soon thereafter as the information may be obtained, you as operator, agree to furnish Exxon at P. O. Box 1700, Midland, Texas 79702, Attention: Southwestern Division, Joint Interest Accounting, the cumulative costs of drilling, completing and equipping said well as a producer. Each calendar month thereafter and until payout as aforementioned, you will furnish to Exxon at the above address a report, in duplicate, showing the cumulative current month's costs to operate the well. This report shall also include the total volume of all substances produced, the value received for your share of such production, and the values credited to that portion of the lease or leases assigned hereunder and included in the proration unit around the well. Further, you shall notify Exxon, in writing, promptly of payout as above set forth. Exxon's increased overriding royalty shall become effective as of 7:00 A.M., local time where the well is situated, on the first day next following the day during which the above mentioned recoupment shall have occurred. After payout, at Exxon's request, you shall make and execute a recordable instrument evidencing that payout has occurred and that Exxon's overriding royalties have increased as herein provided.

As used in this paragraph, the term "operator" shall refer to the actual party charged with the responsibility of operating the well or wells, whether that party is you or any of your assignees, and if more than one party owns a portion of any interest assigned to you by Exxon under the terms of this letter, the notice to Exxon required at payout shall be made by the actual operator.

Notwithstanding anything herein to the contrary, any additional well(s), if any, on lands earned by you shall be drilled subject to all of the terms of this agreement, including but not limited to Condition 3.a. and Condition 4, and each well is to be on an individual well basis.

5. NOTICE OF FIRST SALE. In the event any well drilled hereunder is completed as a producer, you shall give Exxon notice of the first

Handwritten note:
 Note to Mark
 Note Purchaser
 Has this address
 and time-line

sale of any product as promptly as possible. Furthermore, you shall prepare and transmit to Exxon at your earliest opportunity a division order prepared in accordance with the terms hereof. Your failure to comply with the requirements of this paragraph shall give Exxon the right, following reasonable notice, to demand and receive a reassignment of any interests conveyed previously hereunder. Division orders shall be addressed to **Royalty Owner Relations - Property Ownership, Exxon Company, U.S.A., P. O. Box 2024, Houston, TX 77252-2024**, or as Exxon may otherwise direct.

6. **RIGHT TO TAKE OVER WELL.** After having tested the objective, you shall, by written notice, advise Exxon at casing point if you desire to abandon the well provided in Condition 1 or any other well or wells you drill hereunder as a dry hole, and Exxon shall have two (2) full office working days, commencing on the morning following the date of receipt of such notice and receipt of copies of all electrical logs and other technical data, in which to elect to take over such well, free of any costs to Exxon, solely or in conjunction with other contributors and/or participants, for the purpose of attempting completion or for drilling to any greater depth. If Exxon elects to so take over the well, it is agreed as follows:
- a. You shall not be entitled to an assignment of the acreage such well may have earned.
 - b. Exxon shall reimburse you for that part of the reasonable salvage value of material in and on the hole which is proportionate to your interest in the well and shall be responsible for the proper plugging and abandonment of the well.
 - c. Any notice to Exxon given pursuant to the provisions of this paragraph shall be addressed to Jon M. Hassinger, Exxon Company, U.S.A., P. O. Box 3116, Midland, TX 79702, or as Exxon may otherwise direct. The requirement for such written notice may not be waived unless Exxon gives you notice of such waiver in writing.
7. **RESTORATION AND INDEMNITY.** All of your operations hereunder shall be conducted as a reasonably prudent operator, and you shall clean up the premises and make a proper restoration of the surface of any land damaged by your operations. In the event any well drilled hereunder is found to be dry or ceases to produce, subject to all requirements hereunder relative to notice and takeover, you shall plug and abandon such well at your sole cost, risk, and expense and provide evidence thereof to Exxon's representatives. You shall have the responsibility for settling or otherwise disposing of any claim or cause of action by third parties arising out of your operations, and you shall indemnify and hold Exxon harmless from and against any such claim or cause of action. During the life of this agreement,

you shall keep the lands subject hereto free and clear from all liens applicable to Exxon's reserved or retained interests.

8. **FAILURE TO PERFORM.** In the event of your failure or default in the commencement and drilling of the well provided for in Condition 1 or the additional well or wells in the time and manner herein provided, or in the event of your failure or default in the making of reports and/or in the furnishing of information, logs, surveys or other data required, or in the event of your failure or default in any of the other requirements, conditions or obligations as herein set forth, then Exxon shall be relieved of the obligation to make any assignment of lease(s) and then Exxon may, at its option, terminate this agreement by written notice to you and upon the giving of such notice, all your rights, title and interests under this agreement shall thereupon cease, except as to that acreage previously assigned or earned hereunder. Exxon shall not exercise its right to terminate this agreement without first giving you thirty (30) days written notice and the opportunity within such period to cure the circumstances giving rise to the failure or default. No such written notice of termination shall be necessary in the event you fail to earn the leasehold interest above described. Exxon's right of termination as herein set forth shall be in addition and without prejudice to any other rights or causes of action which we may have either at law or in equity arising out of your failure or default hereunder.
9. **LIMITATION OF RIGHTS.** This agreement is intended to commit to you only the rights as are herein specifically described and it is understood that Exxon does not by reason hereof agree to commit or assign to you any properties, rights, installations, plants or appurtenances of any nature except as expressly herein set forth.
10. **USE OF LEASE ROADS.** If, in any of your operations hereunder, you shall use any of Exxon's lease roads, you shall bear your proportionate part on a per well basis, of the expense of maintaining such roads. If you shall cause substantial damage to any such jointly-used lease road because of excessive or unusual use thereof, you shall be solely responsible for restoring such road to its prior condition.
11. **EXTENSIONS AND RENEWALS.** This agreement, including Exxon's reserved and retained interests, shall apply in all respects to any extension(s) of the lease(s) committed hereto and/or any renewal(s) or modifications thereof, or any new leases covering leasehold interests committed hereto, which you may secure within one year of the expiration of a prior lease.
12. **RELATIONSHIP OF PARTIES.** In any operations conducted hereunder, you shall be an independent contractor and shall not be an agent or representative of Exxon. The rights, duties, obligations and liabilities of the parties hereto shall be several and not joint or

collective. Each party hereto shall be responsible for its obligations as herein set out and shall be liable only for its share of the cost and expense as herein provided; it being the express purpose and intention of the parties that their interest in this Agreement and the rights and property acquired in connection herewith shall be held by them as tenants in common. Except for the tax election which the parties may have made, it is not the purpose or intention of this Agreement to create any mining partnership, commercial partnership or other partnership.

13. **NOTICES.** Notices hereunder shall be deemed effective upon receipt. If an address for notice is specified in this agreement, then notice shall not be deemed effective unless properly addressed to and received at such specified address. If not otherwise specified herein, any notices given for purposes of this agreement shall be addressed to:

Exxon Company, U.S.A.
Attn: Land Supervisor
P. O. Box 1600
Midland, TX 79702-1600

KHL, Inc.
P. O. Drawer 14668
Albuquerque, NM 87191

14. **ASSIGNMENTS SUBJECT TO CONTRACT.** The terms and conditions hereof shall extend to and be binding upon all parties hereto, their respective heirs, successors, legal representatives and assigns, provided however, that neither this agreement nor any rights hereunder shall be assigned by you to a third party without Exxon's written consent.

In the event you contemplate an assignment of rights to another party or parties, you shall give prompt notice to Exxon of such proposed assignment. If Exxon consents to such assignment, it shall not be effective until Exxon has received, in writing, an instrument or letter executed by you and your assignee evidencing that such assignment has occurred and that your assignee has assumed all the obligations of this agreement.

15. **ASSIGNMENT BY EXXON.** Anything contained in this Agreement to the contrary notwithstanding, Exxon shall have the right, in its sole discretion, to assign to any affiliate or subsidiary of Exxon Corporation or to any third party, from time to time and in whole or in part, its rights hereunder. This right shall include, but not be limited to Exxon's right and option to purchase the oil or gas as aforesaid. No assignment shall affect the price at which oil may be purchased hereunder and such price shall continue to be governed by the provisions of this agreement relating thereto.
16. **GAS COMPLIANCE.** The parties understand and intend that the sale of gas hereunder is deregulated pursuant to the Natural Gas Wellhead Decontrol Act of 1989 ("NGWDA"). Therefore, the parties agree to

enter into any amendments, agreements, or notices as may be needed to make the gas sold hereunder deregulated pursuant to NGWDA.

17. DESCRIPTION OF CHECKERBOARD PATTERN AND OPTION TO DRILL ADDITIONAL WELL(S). As used herein, "checkerboard pattern" means that wells may be drilled on cornering, but not adjoining, 40 acre units. Units consisting of 40 acres shall be in the form of a square. The boundary of the unit shall extend to the boundary of the lease when feasible. You shall have the option to drill an additional well or wells, at regular locations of your choice within any such 40 acre unit you may earn under the same terms and conditions as the well described in Condition One, page 1 hereof, allowing not more than 120 days between the completion of drilling on one well and commencement of drilling operations on the next well, until there has been drilled one well for each unit. As used in this paragraph, completion of drilling means the actual completion and termination of drilling, and does not contemplate testing and completion processes thereafter undertaken, nor the ultimate and final completion of the well. As previously provided in this agreement, all of the provisions for depth, for drilling, testing, logging, reporting, completing and all related provisions as required of you in the drilling of the well described in Condition One, Page 2 above, together with all other pertinent provisions and Conditions of this agreement, shall apply and be furnished and complied with in like manner upon your drilling an additional well or wells on the acreage as herein provided. An assignment of each 40 acre unit will be earned separately upon completion of a commercial oil and/or gas well located thereon, said assignment or assignments to include the same reservations and provisions as were included in the first assignment to be made under this letter agreement. Exxon may refuse to assign any acreage to you where the unit you form around any producing well would inhibit Exxon from forming like units satisfactory to Exxon on acreage which is reserved hereunder. It is the intent of this agreement that you and Exxon will have an equal opportunity to exploit any reserves discovered. 180
KLJ

The maximum amount of acreage you can earn under this Trade is 160 gross acres or four units, whichever is first occurring.

18. NO WAIVER OF RIGHTS. The failure of either party hereto to exercise any right granted hereunder shall not be deemed as a waiver of such party's privilege to exercise such right at any subsequent time or times.
19. RIGHT TO AUDIT RECORDS. In addition to the audit rights provided in the accounting procedure of the operating agreement attached hereto, we shall have the right to audit records of all proceeds, operating expenses and expenditures including the costs of drilling, completing and equipping the well within two years after the end of the calendar year in which payout occurs.

- 20. PARAGRAPH HEADINGS. The underlined headings in this agreement are used for convenience and shall not be used in construing this agreement.
- 21. ASSIGNMENT EQUALS CONVEYANCE OF OPERATING RIGHTS. Wherever the words "assign", "assigned", or "assignment" of leases or interest appear in this agreement, they shall have those respective meanings or shall mean "convey", "conveyed", or "conveyance" of operating rights, whichever is applicable, according to the category of leasehold involved.
- 22. CONFLICTS. This agreement shall control and take precedence over the terms of any joint operating agreement attached to or incorporated herein to the extent of any conflict.
- 23. ENTIRE AGREEMENT. This agreement constitutes the entire Agreement and understanding between the parties and supersedes any and all prior agreements, understandings, and negotiations, written or oral, relating to the subject matter hereof, unless references are incorporated herein. This agreement may be modified and amended only by written instrument executed by the parties hereto.
- 24. EFFECTIVE DATE. This agreement shall be effective as of the year and the day first above written. Time is of the essence in this agreement and all of its parts.

If the foregoing paragraphs correctly set forth your understanding of our agreement, please evidence your acceptance by returning within ten (10) days from the date hereof two (2) copies of this agreement properly executed by you or on your behalf by your duly authorized officer in the space provided. If Exxon fails to receive such accepted copies within ten (10) days, it may, at its option, terminate the offer or grant you additional time in which to accept.

Very truly yours,

EXXON CORPORATION

By: Douglas R. Laufer
 Douglas R. Laufer
 Production Land Supervisor
 Prod. Dept, Exxon Company, U.S.A.
 (a division of Exxon Corporation) DRL

DRL/JBT:kn

ACCEPTED this 15th day of
July, 1991.

KHL, INC.

By: K. P. P. P.

EXHIBIT "A"

GEOLOGICAL REQUIREMENTS

Attached to Farmout Agreement AB-91-0029(A) between KHL, Inc., and Exxon Corporation dated July 9, 1991.

1. ADDRESSES AND CONTACTS:

Material or information furnished to Exxon pursuant to the terms hereof shall reference Farmout Agreement AB-91-0029(A), CAS #101011 and, unless you are otherwise directed, be mailed or delivered to its representatives as designated at the addresses as follows:

- a. Geological Representative: Exxon Company, U.S. A.
P. O. Box 3116
Midland, Texas 79702
Attn: Jim W. Kwolek
Business Phone: 915/688-6763
Residence Phone: 915/699-5810
Alternate: Jon M. Hassinger
Business Phone: 915/688-6745
Fax Number: 915/688-6723

- b. Land Representative: Exxon Company, U.S.A.
P. O. Box 1600
Midland, Texas 79702-1600
Attn: Joe B. Thomas
Business Phone: 915/688-7162
Alternate: Douglas R. Laufer
Business Phone: 915/688-7970
Fax Number: 915/688-7154

- c. Scouting Representative: Exxon Company, U.S.A.
205 NW 63rd
Oklahoma City, Oklahoma 73106
Attn: Robert W. Redd
Business Phone: 405/848-9574
Fax Number: 405/848-9906

2. NOTIFICATION PRIOR TO COMMENCEMENT OF ANY OPERATIONS:

- a. You shall forward to Exxon's Land all forms required by any governmental regulatory agency, which shall include but not be limited to those pertaining to the permit for drilling, deepening or plugging back, completion or recompletion, potentials or plugging, on all wells drilled or operated hereunder.

- b. You shall forward to Exxon's Land Representative a plat of the location of each well required or permitted hereunder. The plat shall be prepared with the service of a licensed practicing surveyor.

- c. You shall give Exxon's Geologic and Scouting Representatives at least twenty-four (24) hours notice prior to commencement for drilling.

3. DURING THE PROCESS OF DRILLING, YOU SHALL:

- a. Give Exxon's authorized representatives access at all times to the derrick floor, wellsite grounds, to all cores, cuttings, depths, logs and other information of whatever nature obtained in the drilling of any well hereunder, including but not limited to such as hereinafter specifically set forth.
- b. Furnish Exxon's Geologic Representative daily phoned-in or telecopy drilling reports and one (1) weekly written drilling report which shall include such information as drilling depths, lithologies, hydrocarbon shows, lost circulation zones, formation tops, mud weights, and deviation surveys.
- c. Deliver complete set of cuttings, samples and cores to Exxon Company, U.S.A., Southwestern Division Attn: (GEOLOGICAL REPRESENTATIVE), 503 S. Marienfeld, Midland, Texas 79701, upon completion of drilling operations, unless you are requested otherwise.
- d. Samples, properly labelled, and drilling time, are to be taken at depths and intervals of not greater than the following:

<u>Depth</u>	<u>Interval</u>
1) Samples and time from base of surface casing to base of first intermediate casing	30 feet
Samples and time from base of first intermediate casing to total depth, <u>OR</u>	Ten feet
2) Samples and time from base of surface casing to total depth in the event intermediate casing is not planned for the well	Ten feet

Exxon reserves the right to slab any cores. If Exxon does not choose to slab the cores, then you will furnish Exxon with core chips taken at every one-foot interval from all cores cut.

- e. Deliver promptly and expeditiously (in no event shall more than twenty-four (24) hours expire from completion of drilling operations) to Exxon's Geologic Representative:
 1. drilling time taken at the intervals set forth in III.d. hereinabove;
 2. one (1) Field Mudlogger report and two (2) final Mudlogger reports, if used;
 3. two (2) copies of any fluid (hydrocarbon or water) analyses;

4. two (2) copies of any core analyses (PC diskette, ascii format, if available); and
 5. two (2) copies of any drill stem test data and any service company analyses.
 - f. Drill, sample and test in a good faith effort to ensure adequate evaluation of all oil and gas shows encountered.
 - g. Notify in sufficient time to allow Exxon's Geologic Representative to witness drillstem tests, coring, running electric logs, reworking, deepening, plugging back and recompleting.
4. BEFORE COMPLETING OR PLUGGING AND ABANDONING ANY WELL, YOU SHALL:

- a. Cause to be made and furnish Exxon's Geologic Representative two field prints, two final prints (and digital tapes [LIS format], if available) of the following logs:

<u>Depth</u>	<u>Logs</u>
From base of surface casing to total depth	Dual Induction Electric Survey or Laterolog
From base of surface casing to total depth	Sonic Log with Caliper and/or Density Neutron Log with Caliper

- b. All logs, oil and/or gas show information, formation testing information and related data as provided for in this agreement shall be delivered promptly and expeditiously to Exxon, but in no event shall more than twenty-four (24) hours expire from completion of final logging run.
- c. If a velocity survey or a dipmeter survey is run, it is understood that it is not intended that same be furnished free to Exxon. Exxon, however, shall have the right to receive any velocity survey or dipmeter survey that might be made of the hole, together with a computer printout of the data, by paying its prorata share of the costs based upon the number of parties who participate in the survey. If you elect not to run a velocity survey or dipmeter survey, Exxon shall have the right to run such surveys at its sole risk and expense and shall be entitled exclusively to the information obtained.
- d. Should you plan to plug and abandon the well as a dry hole, you shall notify Exxon's Geologic and Land Representatives, allowing such representatives, after receipt by Exxon of copies of all final logs and surveys from said well, plus proper drilling time and samples to total depth, at least twenty-four (24) hours thereafter, exclusive of Saturdays, Sundays and holidays, to ascertain and advise whether you have complied with the obligations under the terms of the Letter Agreement.

- e. In the event the well is indicated to be a producer, you shall contact Exxon's Geologic Representative and such representative shall have the right to witness and shall be notified twenty-four (24) hours in advance of any well capability test (i.e., 4-point capability gas test, completion test or initial potential test).
- f. Regardless of whether the well is completed as a producer or plugged and abandoned, you shall forward to Exxon's Land Representative a copy of the completion report filed with the governmental regulatory agency and the API number assigned to the well(s) drilled under the trade agreement.

Exhibit "B"

Attached to Farmout Agreement, dated July 9, 1991, by and between Exxon Corporation and KHL, Inc.

Accounting Procedure, COPAS 1984, with the following changes and options:

Section I, General Provisions:

Paragraph 3.B., Advances and Payments by Non-Operator - Change "fifteen (15) days" in first sentence to "thirty (30) days."

Section II, Direct Charges:

Paragraph 8.A., Equipment and Facilities Furnished by Operator: Fill in the blank on Line 4 with "twelve percent (12%)".

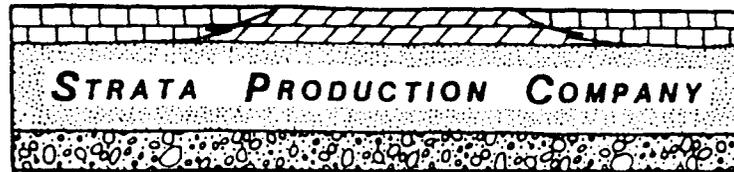
Section III, Overhead:

The following changes shall be made and options selected:

- A. Sub-Section 1.i - Select "(X) Fixed Rate Basis, Paragraph 1A".
- B. Sub-Section 1.ii - Select "shall not (X) be covered by the Overhead rates."
- C. Sub-Section 1.iii - Select "shall (X) be covered by the Overhead rates."
- D. Sub-Section 1.A. - Shall contain the following rates:
 1. Overhead - Fixed Rate Basis
 - a. Operator shall charge the Joint Account at the following rates per well per month:

Drilling Well Rate \$5,500.00
Producing Well Rate \$ 550.00
- E. Paragraph 2. - Overhead - Major Construction - shall be completed as follows:
 1. Line 4 - "of \$25,000.00".
 2.
 - a. 5% of first \$100,000.00 or total cost if less; plus
 - b. 3% of costs in excess of \$100,000.00 but less than \$1,000,000.00; plus
 - c. 2% of costs in excess of \$1,000,000.00.

POST OFFICE DRAWER 1030
ROSWELL, NM 88202-1030



TELEPHONE (505) 622-1127
FACSIMILE (505) 623-3533

200 WEST FIRST STREET, ROSWELL PETROLEUM BUILDING, SUITE 700
ROSWELL, NEW MEXICO 88201

May 27, 1998

VIA - FEDERAL EXPRESS

Mr. Bob Matthew
Exxon Company, USA
Post Office Box 4697
Houston, Texas 77210-4697

RE: EXXON AGMT #AB-91-0029
Cercion Federal Wells
Township 22 South, Range 32 East, NMPM
Section 21: E/2
Section 22: W/2
Lea County, New Mexico

Dear Bob:

Strata Production Company ("Strata") recently drilled the Cercion Federal #8 Well in Section 22: SW/4NW/4, Township 22 South, Range 32 East, NMPM, Lea County, New Mexico under the terms of the Lease Operating Agreement with Exxon Corporation effective September 25, 1992 ("Agreement"). The well was drilled to 8,900' and showed potential in the Delaware formation. However, with current oil prices, it was uneconomic to complete. Therefore, the well was plugged and abandoned on March 25, 1998.

The original five year term of the Agreement has terminated and Strata will now be subject to the provisions of the Agreement under the Continuous Development Program. Therefore, to keep the Agreement in force, we must commence operations for drilling our next well on or before September 25, 1998.

Strata plans to commence drilling operations in the W/2 of Section 22 on or before September 25, 1998 to test the Morrow formation at approximately 15,000'. Since the proration unit for Morrow production is 320.0 acres, we would like to work out an agreement with Exxon covering rights below the Delaware formation under the Cercion Federal Well #2 in the NW/4NW/4 and the Cercion Federal Well #4 in SE/4NW/4 of Section 22 which were drilled under the terms of our Farmout Agreement with Exxon dated July 9, 1991. Strata received assignments from Exxon covering these two wells from the surface to 8,637 feet and the surface to 8,641 feet respectively.

Since Exxon retained the deeper horizons under the Cercion Federal #2 and #4 Wells, we would like to ask Exxon to review this proposed well location at this time and advise whether it would be interested in participating with Strata in a Morrow test.

If Exxon is not interested in participating, Strata would propose that Exxon amend the current Agreement to include the deep rights Exxon retained under the 80 acres.

Further, if the Morrow test is successful in the W/2 of Section 22, Strata may be interested in drilling another Morrow test in the E/2 of Section 22.

We have recently completed a leasehold check of this acreage in Lea County and located a Lease Operating Agreement between Exxon Corporation and POGO Producing Company effective June 1, 1992. According to the well information, POGO completed the last well under its Lease Operating Agreement with Exxon in February, 1997. Therefore, if this information is correct and no extensions or other contracts have been entered into between the parties, the undrilled acreage in the NE/4 and W/2SE/4 has reverted to Exxon.

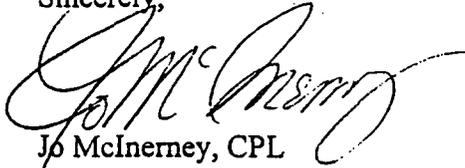
If this is the case, and Exxon is interested in further development of its leasehold, Strata would like to obtain an Option Farmout from Exxon covering the balance of the acreage that was not earned by POGO. Strata would propose the following terms for Exxon's consideration:

- 1) Within one hundred and eighty (180) days from the drilling of a Morrow test in the W/2 of Section 22, Township 22 South, Range 32 East, Strata will have the right, but not the obligation, to drill a second Morrow test at a legal location of its choice in the E/2 of Section 22.
- 2) If the well is capable of producing in paying quantities, Strata would earn rights from the surface to 100' below the deepest producing interval drilled.
- 3) Exxon will reserve as an overriding royalty, the difference between existing lease burdens and 20% to deliver an 80.0% net revenue interest lease..
- 4) If Strata exercises its option and a well is drilled in the E/2 of Section 22 ("Option Well"), Strata will have satisfied its drilling obligation for its next well as set out under the terms of the Continuous Development Program of the Lease Operating Agreement ("Agreement") effective September 25, 1992. However, it is understood that any subsequent well to be commenced after the Option Well shall be drilled in accordance with the terms of the Agreement covering the remaining undrilled acreage located in Township 22 South, Range 32 East, Section 21: E/2 and Section 22: W/2, Lea County, New Mexico.

Since time is of the essence, we would sincerely appreciate Exxon's response to Strata's proposals at its earliest convenience. We have enclosed a map of the area for reference purposes, together with copies of the Lease Operating Agreements (Strata and POGO) and Farmout Agreement dated July 9, 1991 for your further information.

Your attention and cooperation is appreciated and if you have any questions or additional information is needed, please contact the undersigned.

Sincerely,



Jo McInerney, CPL
Landman

Enc. Stated

FedEx USA Airbill

Tracking Number **4035734695**

Sender's Copy
960307 00050/00200

1 From (please print)

Date 5/27/98 Sender's FedEx Account Number 1400-0415-4

Sender's Name To McInerney Phone (505) 623-1957
Dept./Floor/Suite/Room

Comp. TRATA PRODUCTION COMPANY

Address 200 W FIRST ST STE 700

City ROSWELL State NM Zip 88201

2 Your Internal Billing Reference Information Red Tank Morrow
(Optional) (First 24 characters will appear on invoice)

3 To (please print)

Recipient's Name Mr. Bob Matthew Phone (281) 431-1029
Dept./Floor/Suite/Room

Company Exxon Company, USA Land

Address 233 Benmar, Suite 160
(To 'HOLD' at FedEx location, print FedEx address here) (We Cannot Deliver to P.O. Boxes or P.O. Zip Codes)

City Houston State Tx Zip 77060

For HOLD at FedEx Location check here
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 Hold Saturday (Not available at all locations) (Not available with FedEx First Overnight or FedEx Standard Overnight)

For Saturday Delivery check here
 (Extra Charge Not available to all locations) (Not available with FedEx First Overnight or FedEx Standard Overnight)

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actual loss in a timely manner. Your right to recover from us for any loss includes intrinsic value of the package, loss of sales, interest, profit, attorney's fees, costs, and other forms of damage, whether direct, incidental, consequential, or special, and is limited to the greater of \$100 or the declared value but cannot exceed actual documented loss. The maximum declared value for any FedEx Letter and FedEx Pak is \$500. Federal Express may, upon your request, and with some limitations, refund all transportation charges paid. See the FedEx Service Guide for further details.

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4a Express Package Service Packages under 150 lbs. Delivery commitment may be later in some areas.

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NFWFedEx First Overnight (Earliest next business morning delivery to select locations) (Higher rates apply) * FedEx Letter Rate not available. Minimum charge One pound FedEx 2Day rate.

4b Express Freight Service Packages over 150 lbs. Delivery commitment may be later in some areas.

FedEx Overnight Freight (Next business-day service for any distance) FedEx 2Day Freight (Second business-day service for any distance) FedEx Express Saver Freight (Up to 3 business-day service based upon distance)

(Call for delivery schedule. See back for detailed descriptions of freight products.)

5 Packaging FedEx Letter FedEx PakSM (Declared value limit \$500) FedEx Box FedEx Tube Other Pkg.

6 Special Handling

Does this shipment contain dangerous goods? Yes (As per attached Shipper's Declaration) Yes (Shipper's Declaration not required)

Dry Ice (Dry Ice, 9 UN 1845 III, x kg, 904 (Dangerous Goods Shipper's Declaration not required)) CA Cargo Aircraft Only

7 Payment

Bill to: Sender (Account no. in section 1 will be billed) Recipient (Enter FedEx account no. or Credit Card no. below) Third Party Credit Card Cash/Check

FedEx Account No. _____ Exp. Date _____
Credit Card No. _____

Total Packages	Total Weight	Total Declared Value*	Total Charges
1	1 lb	\$ 100.00	\$ 100

*When declaring a value higher than \$100 per shipment, you pay an additional charge. See SERVICE CONDITIONS, DECLARED VALUE AND LIMIT OF LIABILITY section for further information.

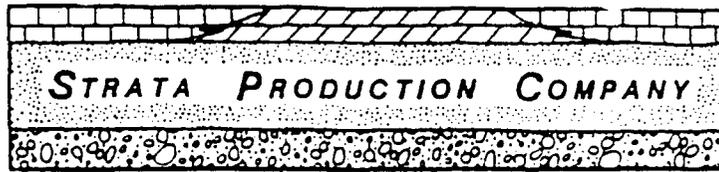
8 Release Signature Sign to authorize delivery without obtaining signature

Your signature authorizes Federal Express to deliver this shipment without obtaining a signature and agrees to indemnify and hold harmless Federal Express from any resulting claims.

272

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ROSWELL, NM 88202-1030



TELEPHONE (505) 622-1127
FACSIMILE (505) 623-3533

200 WEST FIRST STREET, ROSWELL PETROLEUM BUILDING, SUITE 700
ROSWELL, NEW MEXICO 88201

June 2, 1998

VIA - FAX #713-431-1475/U.S. MAIL

Mr. Bob Matthew
Exxon Company, USA
Post Office Box 4697
Houston, Texas 77210-4697

RE: REQUEST FOR TERM ASSIGNMENT
Township 22 South, Range 32 East, NMPM
Section 22: NW/4NW/4, SE/4NW/4
Containing 80.0 acres m/l
Lea County, New Mexico

Dear Bob:

In accordance with our conversation regarding Strata's correspondence of May 27, 1998, you have advised that the Term Assignment with POGO Producing Company covering Exxon's acreage in Township 22 South, Range 32 East, Section 22: E/2 has been extended for one year. Therefore, Strata's request for an Option Farmout was not possible. However, you did advise that the deep rights Exxon holds in the NW/4NW/4 and SE/4NW/4 of Section 22 may be available to Strata through a Term Assignment or Farmout Agreement.

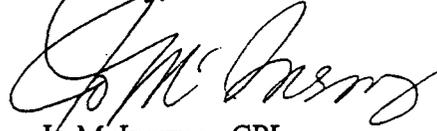
Since Strata plans to drill its next obligation well under its Term Assignment with Exxon covering the SW/4, NE/4NE/4 and SW/4NW/4 of Section 22 we would request a one year Term Assignment from Exxon covering the NW/4NW/4 and SE/4NW/4 of Section 22. Since we are planning a Morrow test and Exxon has elected not to participate, this will give us the spacing necessary for Morrow production.

In this regard, Strata hereby submits the following proposal for Exxon's consideration:

- 1) \$250.00 per acre for rights below the Base of the Delaware formation under Section 22: NW/4NW/4 and SE/4NW/4 for a term of one year.
- 2) Exxon would reserve a 5.0% overriding royalty interest which is the same overriding royalty covering the balance of the lands in the W/2 of Section 22 under the Term Assignment dated September 25, 1992 between Exxon and Strata.

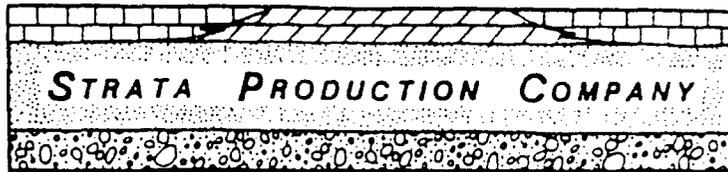
Exxon's consideration of our proposal is appreciated and if you have any questions, or if additional information is needed, please contact us.

Sincerely,

A handwritten signature in black ink, appearing to read "Jo McInerney". The signature is fluid and cursive, with the first name "Jo" being particularly prominent.

Jo McInerney, CPL
Landman

POST OFFICE DRAWER 1030
ROSWELL, NM 88202-1030



TELEPHONE (505) 622-1127
FACSIMILE (505) 623-3533

200 WEST FIRST STREET, ROSWELL PETROLEUM BUILDING, SUITE 700
ROSWELL, NEW MEXICO 88201

June 12, 1998

VIA - CERTIFIED MAIL-RETURN RECEIPT REQUESTED

Mr. Bob Matthew
Exxon Company, USA
Post Office Box 4697
Houston, Texas 77210-4697

RE: REQUEST FOR TERM ASSIGNMENT
Township 22 South, Range 32 East, NMPM
Section 22: NW/4NW/4, SE/4NW/4
Below the base of the Delaware formation
Containing 80.0 acres m/l
Lea County, New Mexico

Dear Bob:

In accordance with our conversation regarding Strata's offer to Exxon of June 2, 1998 you advised that although the \$250.00 per acre Strata offered for a one year term assignment was agreeable to Exxon, the 5% overriding royalty interest was unacceptable.

You further advised that Exxon would only deliver a 75% NRI to Strata for a one year assignment. Since Strata is drilling a deep Morrow test, this NRI is not acceptable to Strata. In addition, Strata has already earned the upper zones from the surface to the Base of the Delaware under its Farmout Agreement with Exxon. Therefore, Strata cannot realize any additional pay in the upper formations to make this low NRI workable. Due to these facts Strata cannot accept less than the 82.5% NRI as originally proposed.

Strata hereby proposes the drilling of the Under the Hill Federal #1 well at a location 1980' FWL and 1980' FSL of Section 22, Township 22 South, Range 32 East, NMPM, Lea County, New Mexico. *\ CORRECTED FROM "FEL"*

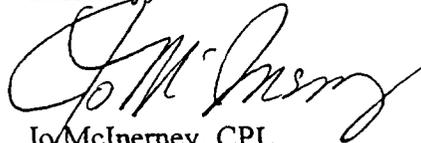
Strata estimates the total cost to drill and complete this well to be \$1,479,485.00 as shown on the enclosed Authority for Expenditure ("AFE") #UTHF-22-32-22.

Given that standard proration units in this area are 320.0 acres for wells to this depth, Exxon will hold 25% working interest and Strata will hold 75% working interest.

Please review the enclosed AFE and if Exxon approves same and elects to participate, please execute one copy of the AFE where indicated and return to Strata with your share of dry hole costs as set out on the attached invoice.

Thank you for your attention and if you have any questions, please contact the undersigned.

Sincerely,



Jo McInerney, CPL
Landman

Is your RETURN ADDRESS completed on the reverse side?

SENDER: ■ Complete items 1 and/or 2 for additional services. ■ Complete items 3, 4a, and 4b. ■ Print your name and address on the reverse of this form so that we can return this card to you. ■ Attach this form to the front of the mailpiece, or on the back if space does not permit. ■ Write "Return Receipt Requested" on the mailpiece below the article number. ■ The Return Receipt will show to whom the article was delivered and the date delivered.		I also wish to receive the following services (for an extra fee): 1. <input type="checkbox"/> Addressee's Address 2. <input type="checkbox"/> Restricted Delivery Consult postmaster for fee.	
3. Article Addressed to: Mr. Bob Matthew Exxon Company, USA P. O. Box 4697 Houston, Tx. 77210-4697		4a. Article Number Z 263 896 956	
		4b. Service Type <input type="checkbox"/> Registered <input checked="" type="checkbox"/> Certified <input type="checkbox"/> Express Mail <input type="checkbox"/> Insured <input checked="" type="checkbox"/> Return Receipt for Merchandise <input type="checkbox"/> COD	
		7. Date of Delivery JUN 16 1998	
5. Received By: (Print Name)		8. Addressee's Address (Only if requested and fee is paid)	
6. Signature: (Addressee or Agent) X <i>G. M.</i>			

Thank you for using Return Receipt Service.

PS Form 3811, December 1994

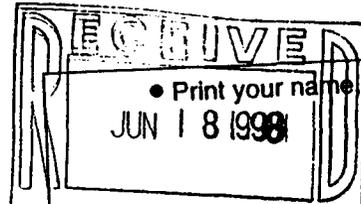
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State Production Company
 P.O. Box 1030
 Roswell, New Mexico 88202-1030



STRATA PRODUCTION COM. ANY

P.O. BOX 1030
ROSWELL, NEW MEXICO 88202

A.F.E. NUMBER: UT11F-22-32-22
DATE: 5-12-98

AUTHORIZATION FOR EXPENDITURE

LEASE/WELL NAME: UNDER THE INLL FEDERAL #1
FIELD NAME: WEST BOOTLER RIDGE
LEGAL DESCRIPTION: W/2 SECTION 22-T22S-R32E
DESCRIPTION OF WORK: DRILL A WELL TO TEST ATOKA AND MORROW PRODUCTION

DEPTH: 15,000 FT.
OBJECTIVE: MORROW
COUNTY/STATE: LEA, N.M.

ACCOUNT CODE	DESCRIPTION	DRILLING	COMPLETION	TOTAL
INTANGIBLE DRILLING COSTS				
530-002	SURVEYING	800		
530-005	LOCATION, ROAD & DAMAGES	25,000		
530-010	DRILLING - FOOTAGE RATE	15,000 FT. @ \$22.00/FT.	349,800	
530-015	DRILLING - DAYWORK	6 DAYS @ \$7500/DAY	47,700	
530-130	CEMENT & SERVICES: SURFACE CASING	700 SX	10,500	
530-132	10 3/4" INTERMEDIATE CASING	2000 SX.	30,000	
530-132	7 5/8" INTERMEDIATE CASING	2500 SX	37,500	
530-023	SUPERVISION	60 DAYS @ \$450	28,620	
530-050	GEOLOGIST	4 DAYS @ \$450	1,908	
530-046	MUD MATERIALS & SPECIAL EQUIPMENT		40,000	
530-045	WATER	30,000 BBL.S.	37,500	
530-090	HAULING AND TRANSPORTATION		4,000	
530-070	MUDLOGGING	\$450/DAY 45 DAYS	21,465	
530-075	LOGGING		47,700	
530-126	PIT LINING AND FENCING		5,800	
530-020	ADMINISTRATIVE OVERHEAD		14,000	
530-102	LEGAL		10,000	
530-055	DRILL STEM TESTS	1 TEST	15,700	
530-125	MISCELLANEOUS		25,000	
INTANGIBLE COMPLETION COSTS				
532-003	COMPLETION UNIT	10 DAYS @ \$130/HR.	16,536	
532-002	REVERSE UNIT AND EQUIPMENT		5,300	
532-046	WATER	3000 BBL.S.	3,657	
532-015	CEMENTING SERVICES PRODUCTION LINER		25,000	
532-025	PERFORATING, CORRELATION AND BOND LOG		26,500	
532-035	STIMULATION:	2000 GAL. ACID TREATMENT	10,600	
532-086	WELDING		2,120	
532-060	SUPERVISION	15 DAYS @ \$450/DAY	3,600	
532-090	TRANSPORTATION, INSTALLATION & LABOR		4,770	
532-010	EQUIPMENT RENTAL:	2- FRAC TANKS	1,229	
532-045		7 5/8" PACKER	3,500	
532-100		MISCELLANEOUS	5,000	
532-095	LABOR, ROUSTABOUTS	6 DAYS @ \$650/DAY	3,900	
532-056	CASING CREWS:	PRODUCTION LINER	3,180	
532-021	ADMINISTRATIVE OVERHEAD		7,000	
532-125	MISCELLANEOUS		10,000	
TOTAL INTANGIBLE COSTS		752,993	131,892	884,885
TANGIBLE COMPLETION COSTS				
134-002	WELL HEAD	25,000	25,000	
134-003	SURFACE CASING	13 3/8" - 760 FT.	14,501	
134-005	INTERMEDIATE CASING	10 3/4" - 4750 FT.	80,759	
134-005	INTERMEDIATE CASING	7 5/8" - 12,200 FT.	201,739	
134-007	PRODUCTION LINER	5" - 3,200 FT.		36,125
134-010	TUBING	2 7/8" - 15,000 FT.		130,380
134-032	ANCHORS			1,696
134-020	LINER HANGER			15,000
134-035	FLOWLINES VALVES & FITTINGS			7,500
134-002	SPECIAL EQUIPMENT-PACKER, ON-OFF TOOL, PROFILES, ETC.			15,900
134-045	TANKS	2 - 500 BBL. STEEL & 1 - 250 BBL. P.G.		16,000
134-055	3 PHASE I.P. GAS UNIT			25,000
134-125	MIC. WELL EQUIPMENT			5,000
TOTAL TANGIBLE COSTS		321,999	272,601	594,600
TOTAL WELL COST		1,074,992	404,493	1,479,485

COMPLETE MORROW WITH TUBING CONVEYED PERFORATING SYSTEM

PREPARED BY: BRUCE A. STUBBS TITLE: PETROLEUM ENGINEER DATE: 5-12-98

STRATA PRODUCTION COMPANY

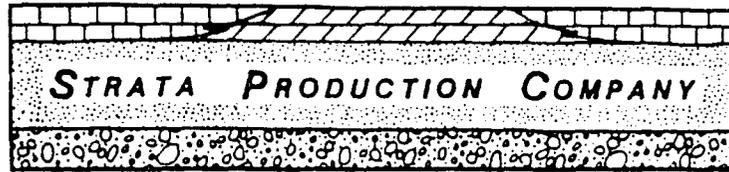
APPROVED BY: MARK J. MURPHY TITLE: PRESIDENT DATE: 6/10/98

APPROVED BY: _____ TITLE: _____ DATE: _____

COMPANY: _____ %W.I.: _____

IF IT IS RECOGNIZED THAT THE AMOUNTS HEREIN ARE ESTIMATES ONLY AND APPROVAL OF THIS A.F.E. SHALL EXTEND TO THE ACTUAL COSTS INCURRED IN THE OPERATION SPECIFIED ABOVE, WHETHER MORE OR LESS THAN SET OUT HEREIN.

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ROSWELL, NM 88202-1030



TELEPHONE (505) 622-1127
FACSIMILE (505) 623-3533

200 WEST FIRST STREET, ROSWELL PETROLEUM BUILDING, SUITE 700
ROSWELL, NEW MEXICO 88201

June 29, 1998

VIA - FEDERAL EXPRESS

Mr. Bob Matthew
Exxon Company, USA
233 Benmar, Suite 160
Houston, Texas 77060

RE: **JOINT OPERATING AGREEMENT**
Township 22 South, Range 32 East, NMPM
Section 22: W/2
Containing 320.0 acres m/l
Lea County, New Mexico

Dear Bob:

In accordance with our conversation, attached is the Joint Operating Agreement ("JOA") dated June 1, 1998 covering the subject lands which has been prepared by Strata Production Company, Operator. Please review same and contact me with regard to the participation of Exxon Company, USA ("Exxon") in the well Strata is proposing 1980' FWL and 1980' FSL of Section 22 to test the Morrow formation. As we discussed, we plan to commence drilling operations on or before September 21, 1998.

We contemplate Exxon's working interest in the well to be 25% with a 25% net revenue interest, less existing burdens if Exxon elects to participate. Upon approval of the enclosed JOA, please execute and return the attached signature pages with one copy of the Recording Supplement signed and acknowledged by Exxon for filing in the Lea County records. We also request that one copy of the AFE we previously transmitted, be returned to Strata with Exxon's share of dry hole costs for the drilling of the well.

If you have any questions, please contact the undersigned.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jo McInerney', is written over the typed name and title.

Jo McInerney, CPL
Landman

Enc.

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802530937437

Form I.D. No.

0200

SLA12
Sender's Copy

1 From (please print and press hard)

Date 6/29/98 Sender's FedEx Account Number 1400-0415-4

Sender's Name Jo McInerney Phone (505) 622-1127

Company STRATA PRODUCTION COMPANY

Address 200 W 1ST ST STE 700 Dept./Floor/Suite/Room

City ROSWELL State NM ZIP 88201

2 Your Internal Billing Reference Information Joint Operating Agreement
(Optional) (First 24 characters will appear on invoice)

3 To (please print and press hard)

Recipient's Name Mr. Bob Matthew Phone (713) 431-1029

Company Exxon Company, USA

Address 233 Benmar, Suite 160 Dept./Floor/Suite/Room
(To "HOLD" at FedEx location, print FedEx address here) (We Cannot Deliver to PO Boxes or PO ZIP Codes) (Extra charge applies for FedEx Express Saver)

City Houston State TX ZIP 77060

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actual loss in a timely manner. Your right to recover from us for any loss includes intrinsic value of the package, loss of sales, interest, profit, attorney's fees, costs, and other forms of damage, whether direct, incidental, consequential, or special, and is limited to the greater of \$100 or the declared value but cannot exceed actual documented loss. The maximum declared value for any FedEx Letter and FedEx Pak is \$500. Federal Express may, upon your request, and with some limitations, refund all transportation charges paid. See the FedEx Service Guide for further details.

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 FedEx First Overnight FedEx Express Saver
(Earliest next business morning delivery to select locations) (Higher rates apply) (Second business day) (Third business day)
FedEx Letter Rate not available. Minimum charge: One pound rate

4b Express Freight Service Packages over 150 lbs. Delivery commitment may be later in some areas.

FedEx Overnight Freight FedEx 2Day Freight FedEx Express Saver Freight
(Next business day) (Second business day) (Up to 3 business days)
(Call for delivery schedule. See back for detailed descriptions of freight services.)

5 Packaging FedEx Letter FedEx Pak FedEx Box FedEx Tube Pkg.
Declared value limit \$500.

6 Special Handling (One box must be checked)

Does this shipment contain dangerous goods? No Yes Yes Yes
(As per attached Shipper's Declaration) (Shopper's Declaration not required)
 Dry Ice CA Cargo Aircraft Only
Dry Ice: 9, UN 1845 kg. *Dangerous Goods cannot be shipped in FedEx packaging.

7 Payment

Bill to: Sender Recipient Third Party Credit Card Cash/Check
(Account no. in section 1 will be billed) (Enter FedEx account no. or Credit Card no. below)

FedEx Account No. _____ Exp. Date _____
Credit Card No. _____

Total Packages	Total Weight	Total Declared Value*	Total Charges
		\$.00	\$

*When declaring a value higher than \$100 per shipment, you pay an additional charge. See SERVICE CONDITIONS, DECLARED VALUE, AND LIMIT OF LIABILITY section for further information

8 Release Signature Sign to authorize delivery without obtaining signature.

Your signature authorizes Federal Express to deliver this shipment without obtaining a signature and agrees to indemnify and hold harmless Federal Express from any resulting claims.

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