



ANDREWS ROYALTY, INC.

FAX TRANSMITTAL MEMO

Date: 12/30/96
To: BLAINE HESS
Company: _____
Fax Number: 505-623-4916
From: Kathy Conaway

Fax Number: (214) 691-3428

Phone Number: (214) 692-7052

No. of Pages (including this page): 2

MESSAGE:

Would you BE AGREEABLE in using your NEW MEXICO LEASE form with
this Exhibit "A" for the acreage in Sec 29- T22S- R26E.
Let me know.

Kathy

Talked to Kathy Conway 1/3/97
Told her we want 180 days -
AND all lands and depths in Section

EXHIBIT "A"

ATTACHED TO AND MADE A PART OF THAT CERTAIN OIL, GAS AND MINERAL LEASE DATED _____ 1996, BY AND BETWEEN ANDREWS ROYALTY, INC., AS LESSOR AND _____, AS LESSEE.

120

Notwithstanding anything contained herein to the contrary, it is specifically understood and agreed that if the primary term of this lease is perpetuated either by production or by drilling or reworking operations in progress at the end of such term which is result in production or a dry hole, then not later than 120 days following the date of expiration of the primary term if such term is perpetuated by production or 120 days following the date of completion of the well being drilled or reworked as of the end of the primary term, whichever is the later date, Lessee shall commence continuous development of the above described land, with not more than 120 days elapsing between the completion of a given well and the commencement of drilling operations on the next until said land has been drilled to the density necessary to obtain the maximum production allowable per well under the rules and regulations of the New Mexico Oil Conservation Commission or other governmental authority having jurisdiction. Upon cessation of such continuous development or failure to commence such continuous development, this lease shall ipso facto terminate as to all of the above land except that embraced in each productive proration unit and as to each productive unit, this lease shall ipso facto terminate as to all depths 100 feet below the deepest horizon capable of producing oil or gas in commercial quantities in any well. The date of completion of a given well shall be, if a dry hole, thirty days after such well shall have reached total depth and, if a producing well, the date the New Mexico Oil Conservation Commission potential is made.

Anything contained herein to the contrary notwithstanding, this lease cannot be held in force solely by the payment of shut-in gas royalty payments after the expiration of the primary term of this lease for a period longer than three (3) years or in shorter periods of time not to exceed three (3) years in the aggregate. It is agreed that all shut-in royalty payments shall be paid at the rate of \$25.00 per net acre.

Lessor's royalty shall not be charged for any portion of Lessee's construction of, investment in or cost of operating and maintaining any plant, machinery, equipment, facilities, processing unit or any other implement used by Lessee in the production, separation, treatment, processing, manufacturing or otherwise handling any oil, gas or associated hydrocarbons or other products which may be produced therewith or therefrom. No gathering, dehydration, compression, marketing, transportation or other charges of any kind, except for taxes, shall be assessed against the royalty interest of Lessor resulting from the sale or use of oil, gas or related hydrocarbons produced therewith.

It is understood and agreed that this lease is limited to oil, gas and other hydrocarbons and substances normally associated with the production of oil, and gas. Minerals specifically excluded from this include, but are not limited to, sand, clay, gravel, iron, ore, coal, lignite and uranium.

Lessee shall conduct all of its operations on the leased premises in a good and workmanlike manner as would a reasonable and prudent operator under the same or similar circumstances in the area. Lessee shall also conduct all of its operations in accordance with all federal, state and local laws, rules, regulations and ordinances. Lessee further agrees to indemnify and hold harmless Lessor, its heirs, legal representatives and assigns, from and against all damages, claims, liabilities and assessments or costs of whatsoever nature (including attorney's fees, court costs, expert witness fees, costs and expenses incurred investigating the same and costs incurred in defending the same) arising out of or relating to Lessee's operations in, on or upon the leased premises.

Within thirty (30) days after the recording of any unit designation, or any amendment, release or other instrument affecting the same. Lessee shall furnish Lessor with a recorded copy of such instrument and all exhibits thereto.

Lessee will promptly furnish Lessor, upon written request, a copy of any survey(s) of the leased premises, including location plats, made by or for Lessee, as well as copies of any forms filed with a regulatory agency and any daily drilling and completion reports in connection with this lease. Lessee agrees that Lessor, acting by or through any agent or representative authorized by Lessor, at Lessor's sole risk, will have the right at all times to inspect any machinery, equipment, well or operation of Lessee upon the leased premises.

by: _____
Loyd W. Powell, Jr.
President

Blaine Hess
Oil Properties
Post Office Box 326
Roswell, NM 88202-0326

FACSIMILE COVER SHEET

TO NAME *Rusty Waters*
COMPANY *BLAINE HESS* FAX # *(405) 749-6662*
FROM
DATE/TIME *12/31/96*
NUMBER OF PAGES (INCLUDING THIS COVER SHEET) *3*

MESSAGE: *I am sending proposed Exhibit "A" to the Andrews*
Royalty lease. Let me know what you think

Blaine

FAX #: 505/623-4916
PHONE #: 505/623-5400

