

ENERQUEST

EnerQuest Resources, LLC

Telephone (915) 687-2892
Fax (915) 687-4804

P.O. Box 11150
508 W. Wall, Suite 444
Midland, Texas 79702

May 12, 1997

Doyle Hartman
3811 Turtle Creek Blvd.
Suite 200
Dallas, Texas 75219

Re: NE/4 SW/4; SE/4 NW/4 and
SW/4 NW/4 Section 18-20S-39E
Lea County, New Mexico

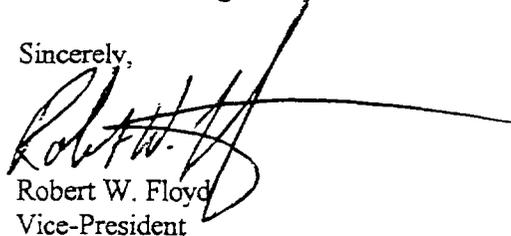
Dear Mr. Hartman:

To follow up our telephone conversation earlier this morning, please accept this letter as an offer to purchase an oil and gas lease covering your undivided 12.954 net mineral acres in the above referenced lands under the following terms:

1. 2 year primary term
2. 22.5% royalty
3. \$150.00 per net acre

As discussed, these are the same terms that we recently received when leasing the interest of Buddy Davidson, however, we did use Buddy's lease rider which I have attached for your review. If you are in agreement with the terms set out herein, please so indicate by executing and returning one copy of this letter to my attention via fax (915)687-4804. Upon receipt of an executed letter agreement, I will prepare and forward an oil and gas lease along with a bank draft. If you have any questions or need any additional information concerning this matter, please advise. In any event, I look forward to hearing from you in the near future.

Sincerely,



Robert W. Floyd
Vice-President

AGREED to and ACCEPTED this
_____ day of _____, 1997.

Doyle Hartman
ogt-oh

NEW MEXICO
OIL CONSERVATION DIVISION

EXHIBIT 1
CASE NO. 11932
HEARING DATE: 6/2/97

ENERQUEST RESOURCES, LLC
508 W WALL NO 444 P O BOX 11150
MIDLAND, TX 79702

TEXAS COMMERCE BANK
MIDLAND, TX 79701
32-115/1110

CHECK 1323

7/10/97
DATE

AMOUNT
\$1,943.10

One Thousand Nine Hundred Forty Three & 10/100 Dollars

PAY
TO THE
ORDER
OF

Doyle Hartman
3811 Turtle Creek Blvd., Suite 200
Dallas, TX 75219

TWO SIGNATURES REQUIRED OVER \$10,000.00

AUTHORIZED SIGNATURE

⑆ 11001150⑆ ⑈05101035245⑈

SECURITY FEATURES INCLUDED. DETAILS ON BACK.

ENERQUEST RESOURCES, LLC

Doyle Hartman

\$1,943.10

Lease Bonus - Lea County, New Mexico

OIL & GAS LEASE

THIS AGREEMENT made this 5th day of July, 1997 between Doyle Hartman and wife, Margaret Hartman
of 3811 Turtle Creek Blvd., Suite 200, Dallas, Texas 75219

herein called lessor (whether one or more) and **ENERQUEST RESOURCES, LLC**, P.O. Box 11150, Midland, Texas 79702, lessee:

1. Lessor, in consideration of **TEN AND OTHER DOLLARS** in hand paid, receipt of which is here acknowledged, and of the royalties herein provided and of the agreements of the lessee herein contained, hereby grants, leases and lets exclusively unto lessee for the purpose of investigating, exploring, prospecting, drilling, and operating for and producing oil and gas, injecting gas, waters, other fluids, and air into subsurface strata laying pipelines, storing oil, building tanks, roadways, telephone lines, and other structures and things thereon to produce, save, take care of, treat, process, store and transport said minerals, the following described land in Lea County, New Mexico, to-wit:

S/2 NW/4 and NE/4 SW/4 Section 18, T-20-S, R-39-E

Said land is estimated to comprise 120.0 acres, whether it actually comprises more or less.

2. Subject to the other provisions herein contained, this lease shall remain in force for a term of three (3) years from this date (called "primary term") and as long thereafter as oil or gas is produced from said land or from land with which said land is pooled.

3. The royalties to be paid by lessee are: (a) on oil, and other liquid hydrocarbons saved at the well, 22.5% of that produced and saved from said land, same to be delivered at the wells or to the credit of lessor in the pipeline to which the wells may be connected; (b) on gas, including casinghead gas or other gaseous substance produced from said land and used off the premises or used in the manufacture of gasoline or other products, the market value at the well of 22.5% of the gas used, provided that on gas sold on or off the premises, the royalties shall be 22.5% of the amount realized from such sale; (c) and at any time when this lease is not validated by other provisions hereof and there is a gas and/or condensate well on said land, or land pooled therewith, but gas or condensate is not being so sold or used and such well is shut in, either before or after production therefrom, then on or before 90 days after said well is shut-in, and thereafter at annual intervals, lessee may pay or tender an advance shut in royalty equal to \$1.00 per net acre of lessor's gas acreage than held under this lease by the party making such payment or tender, and so long as said shut-in royalty is paid or tendered, this lease shall not terminate and it shall be considered under all clauses hereof that gas is being produced from the leased premises in paying quantities. Each such payment shall be paid or tendered to the party or parties who at the time of such payment would be entitled to receive the royalties which would be paid under this lease if the well were in fact producing. The payment or tender of royalties and shut-in royalties may be made by check or draft. Any timely payment or tender of shut-in royalty which is made in a bona fide attempt to make proper payment, but which is erroneous in whole or in part as to parties or amounts, shall nevertheless be sufficient to prevent termination of this lease in the same manner as though a proper payment had been made if lessee shall correct such error within 30 days after lessee has received written notice thereof by certified mail from the party or parties entitled to receive payment together with such written instruments (or certified copies thereof) as are necessary to enable lessee to make proper payment. The amount realized from the sale of gas on or off the premises shall be the price established by the gas sales contract entered into in good faith by lessee and gas purchaser for such term and under such conditions as are customary in the industry. "Price" shall mean the net amount received by lessee after giving effect to applicable regulatory orders and after application of any applicable price adjustments specified in such contract or regulatory orders. In the event lessee compresses, treats, purifies, or dehydrates such gas (whether on or off the leased premises) or transports gas off the leased premises, lessee in computing royalty hereunder may deduct from such price a reasonable charge for each of such functions performed.

4. This is a paid-up lease and lessee shall not be obligated during the primary term hereof to commence or continue any operations of whatsoever character or to make any payments hereunder in order to maintain this lease in force during the primary term; however, this provision is not intended to relieve lessee of the obligation to pay royalties on actual production pursuant to the provisions or paragraph 3 hereof.

5. Lessee is hereby granted the right and power, from time to time, to pool or combine this lease, the land covered by it or any part or horizon thereof with any other land, leases, mineral estates or parts thereof for the production of oil or gas. Units pooled hereunder shall not exceed the standard proration unit fixed by law or by the Oil Conservation Division of the Energy and Minerals Department of the State of New Mexico or by any other lawful authority for the pool or area in which said land is situated, plus a tolerance of ten percent. Lessee shall file written unit designations in the county in which the premises are located and such units may be designated from time to time and either before or after the completion of the wells. Drilling operations on or production from any part of any such unit shall be considered for all purposes, except the payment of royalty, as operations conducted upon or production from the land described in this lease. There shall be allocated to the land covered by this lease included in any such unit that portion of the total production of pooled minerals from wells in the unit, after deducting any used in lease or unit operations, which the net oil or gas acreage in the land covered by this lease included in the unit bears to the total number of surface acres in the unit. The production so allocated shall be considered for all purposes, including the payment or delivery of royalty, to be the entire production of pooled minerals from the portion of said land covered hereby and included in said unit in the same manner as though produced from said land under the terms of this lease. Any pooled unit designated by lessee, as provided herein, may be dissolved by lessee by recording an appropriate instrument in the County where the land is situated at any time after the completion of a dry hole or the cessation of production on said unit.

6. If at the expiration of the primary term there is no well upon said land capable of producing oil or gas, but lessee has commenced operations for drilling or reworking thereon, this lease shall remain in force so long as operations are prosecuted with no cessation of more than 60 consecutive days, whether such operations be on the same well or on a different or additional well or wells, and if they result in the production of oil or gas, so long thereafter as oil or gas is produced from said land. If, after the expiration of the primary term, all wells upon said land shall become incapable of producing for any cause, this lease shall not terminate if lessee commences operations for additional drilling or for reworking within 60 days thereafter. If any drilling, additional drilling, or reworking operations hereunder result in production, then this lease shall remain in full force so long thereafter as oil or gas is produced hereunder.

7. Lessee shall have free use of oil, gas, and water from said land, except water from lessor's wells and tanks, for all operations hereunder, and the royalty shall be computed after deducting any so used. Lessee shall have the right at any time during or after the expiration of this lease to remove all property and fixtures placed by lessee on said land, including the right to draw and remove all casing. When required by lessor, lessee will bury all pipelines on cultivated lands below ordinary plow depth, and no well shall be drilled within two hundred feet (200 ft.) of any residence or barn now on said land without lessor's consent. Lessor shall have the privilege, at his risk and expense, of using gas from any gas well on said land for stoves and inside lights in the principal dwelling thereon, out of any surplus gas not needed for operations hereunder.

8. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to their heirs, executors, administrators, successors and assigns; but no change in the ownership of the land or in the ownership of, or rights to receive, royalties or shut-in royalties, however accomplished shall operate to enlarge the obligations or diminish the right of lessee; and no such change or division shall be binding upon lessee for any purpose until 30 days after lessee has been furnished by certified mail at lessee's principal place of business with acceptable instruments or certified copies thereof constituting the chain of title from the original lessor. If any such change in ownership occurs through the death of the owner, lessee may, at its option, pay or tender any royalties or shut-in royalties in the name of the deceased or to his estate or to his heirs, executor or administrator until such time as lessee has been furnished with evidence satisfactory to lessee as to the persons entitled to such sums. An assignment of this lease in whole or in part shall, to the extent of such assignment, relieve and discharge lessee of any obligations hereunder and, if lessee or assignee of part or parts hereof shall fail or make default in the payment of the proportionate part of royalty or shut-in royalty due from such lessee or assignee or fail to comply with any of the provisions of this lease, such default shall not affect this lease insofar as it covers a part of said lands upon which lessee or any assignee thereof shall properly comply or make such payments.

9. Should lessee be prevented from complying with any express or implied covenant of this lease, or from conducting drilling or reworking operations hereunder, or from producing oil or gas hereunder by reason of scarcity or inability to obtain or use equipment or material, or by operation of force majeure, or by any Federal or state law or any order, rule, or regulation of governmental authority, then while so prevented, lessee's duty shall be suspended, and lessee shall not be liable for failure to comply therewith; and this lease shall be extended while and so long as lessee is prevented by any such cause from conducting drilling or reworking operations or from producing oil or gas hereunder; and the time while lessee is so prevented shall not be counted against lessee, anything in this lease to the contrary notwithstanding.

10. Lessor hereby warrants and agrees to defend the title to said land and agrees that lessee at its option may discharge any tax, mortgage or any other lien upon said land, and in the event lessee does so it shall be subrogated to such lien with the right to enforce same and to apply royalties and shut-in royalties payable hereunder toward satisfying same. Without impairment of lessee's rights under the warranty, if this lease covers a less interest in the oil or gas in all or any part of said land than the entire and undivided fee simple estate (whether lessor's interest is herein specified or not) then the royalties, shut-in royalty, and other payments, if any, accruing from any part as to which this lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease, bears to the whole and undivided fee simple estate therein. Should any one or more of the parties named above as lessors fail to execute this lease, it shall nevertheless be binding upon the party or parties executing the same.

11. Lessee, its or his successors, heirs and assigns, shall have the right at any time to surrender the lease, in whole or in part, to lessor or his heirs, successors and assigns by delivering or mailing a release thereof to the lessor, or by placing a release thereof of record in the county in which said land is situated; thereupon lessee shall be relieved from all obligations, expressed or implied, of this agreement as to acreage so surrendered, and thereafter the shut-in royalty payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases.

Executed the day and year first above written.

STATE OF TEXAS

COUNTY OF DALLAS

This instrument was acknowledged before me on this _____ day of _____, 1997 by Doyle Hartman and Margaret Hartman.

Notary Public State of Texas

My Commission Expires _____

Attached to and made a part of that certain Oil & Gas Lease dated July 5, 1997
from Doyle Hartman, et ux, Lessor and EnerQuest Resources, LLC, Lessee.

Notwithstanding anything stated herein to the contrary, it is understood and agreed as follows:

12. This lease shall terminate at the end of the primary term, subject to being extended by Lessee complying with the provisions of Paragraph 2 hereof, as to any part of the above described land that is not included in a "producing well spacing unit" as prescribed by the New Mexico Oil Conservation Division. In addition, this lease shall terminate at the end of the primary term as to such producing well spacing units as to all rights in each such unit 100 feet below the deepest producing perforation. Lessor or Lessee may file an instrument reflecting such termination.
13. Lessor shall have the option of selling his net part of all production to the same purchasers and under the same terms as agreed to by Lessee. Lessee shall promptly give all information relative to such proposed sales to Lessor (including copies of all contracts) and Lessor shall have 90 days in which to agree to such terms or make other arrangements for the sale of his net part of all production. If necessary in making such arrangements, Lessee shall furnish to Lessor free of cost all well data including, but not limited to, copies of all logs.
14. No part of this lease shall be maintained in force solely by the payment of shut-in gas royalty for a period in excess of 2 years past the expiration of the primary term (as the same may be extended under paragraph 12 above).

M. CRAIG CLARK

Certified Professional Landman, ESA

500 W. TEXAS AVE • SUITE 1175 • MIDLAND, TX 79701 • (915) 684-3811

CERTIFIED MAIL

January 9, 1998

Mr. Doyle Hartman
3811 Turtle Creek Blvd.
Suite 200
Dallas, Texas 75219

Re: **McCasland 18 Fee**
NE/4 SW/4 Section 18
T-20-S, R-39-E
Lea County, New Mexico

Dear Mr. Hartman:

Pioneer Natural Resources USA, Inc. and EnerQuest Resources, LLC hereby propose the drilling of an 8,000' Abo test at a legal location on the above captioned lands. I have enclosed for your approval an Authority For Expenditure in the amount of \$483,755, with \$281,355 being for dry hole costs and \$202,400 for completion costs. According to the county records, you own an undivided 87.335556% of 2545/21600 interest or 10.29%.

Please execute the AFE in the space provided for and return one copy to me at the letterhead address. In the event you do not wish to participate in the drilling of the well we request that you lease your interest as proposed in EnerQuest's letter of May 12, 1997, a copy of which is enclosed. I have also included copies of the lease and check previously furnished you.

Pioneer anticipates spudding this well in the first quarter of this year, therefore your prompt attention to this matter would be greatly appreciated. Should you have any questions, please do not hesitate to contact me.

Very truly yours,

M. Craig Clark

MCC/s
Enclosure
cc: Mr. Steve Hartman

ORIGINAL SUPPLEMENTAL REVISION BUDGETED NOT BUDGETED

DEVELOPMENT WELL EXPLORATORY WELL SERVICE WELL EXPENSE WORKOVER

CAPITAL WORKOVER PLUG & ABANDONMENT FACILITIES & PRODUCTION SUPPORT EQUIPMENT

LEASE: McCasland 18 Fee WELL NO. 11 DATE: 12/16/97
 LOCATION: NE/4 SW/4 Section 18, T20S, R39E
 COUNTY: Lea STATE: New Mexico PROSPECT: Outhouse
 FIELD: Wildcat FORMATION: Abo PTD: 8,000 ft
 PROPOSAL: Drill and complete flowing Abo well and install production battery and equipment.
Secondary Objectives: Blinery, Tubb, and Drinkard Formations.

DIRECTIONS:
 Well Type: Oil Foreman: Curtis Lindsey Pumper: Denton McNew

SUB ACCT	DESCRIPTION	BCP COST	ACP COST	COMPLETED WELL COST
INTANGIBLES				
301	Location: Land, Survey, Plats, Damages, ROW, Permits, Land Services	3,500	2,000	5,500
302	Dirtwork: Road, Location, Pits	25,000		25,000
303	Contract Drilling-Footage / Turnkey NA ft NA \$/ft			
304	Contract Drilling-Daywork 18Days @ \$6,200/Day + \$25,000 rig move	138,600		138,600
305	Fuel and Power			
306	Water	10,000	2,000	12,000
307	Mud & Chemicals	8,000		8,000
308	Drill Bits	12,000	400	12,400
309	Cementing & Services	11,600	9,900	21,500
310	Drill Stem Tests, Coring & Analysis			
311	Geological Services 2 loggers & trailer for 10 Days @ \$500/Day	5,000		5,000
312	Rental Equipment BOP's, Frac Tanks, Misc.		3,500	3,500
313	Well Servicing 6 Days of WO rig @ \$1,400/Day		8,400	8,400
314	Wireline Services Open hole logs and (1) perforated interval	15,000	4,000	19,000
315	Well Stimulation 8,000 gals acid job		12,000	12,000
316	Non-Controllable Materials	2,000	1,000	3,000
317	Waste Disposal & Restoration	2,500	1,500	4,000
318	Labor & Transportation	9,900	7,000	16,900
319	Supervision Drill - (21 Days @ \$600/Day) Comp - (6 Days @ 250/Day)	12,600	1,500	14,100
320	Overhead Drill - (22 Days) & Com - (8 Days) @ \$5,500/Mth	4,000	1,500	5,500
321	Miscellaneous Pipe inspections & misc.	8,000	3,000	9,000
TOTAL INTANGIBLE COST		262,800	57,700	320,500
TANGIBLES				
328	Surface Casing 24# K-55 \$8.70 \$/ft 1,650 ft 8 5/8" s	14,355		14,355
327	Intermediate Casing			
328	Production Casing 158 17# K55 & Neo \$8.30 \$/ft 8,000 ft 5 1/2" s		48,000	48,000
329	Tubing 6.5# J-55 \$3.00 \$/ft 7,800 ft 2 7/8" s		23,400	23,400
330	Float Equip., Shoes, Centralizers	1,200	800	2,000
331	Wellhead Equipment 5K # Wellhead with Tree	3,000	13,000	16,000
332	Artificial Lift & Accessory Equip. Abo Formation should Flow			
333	Engine / Motor & Accessories Abo Formation should Flow			
334	Rods Abo Formation should Flow			
335	Bottom Hole Pump Abo Formation should Flow			
336	Packers, Anchors, Hangers, Etc. Packer		4,500	4,500
337	Tank Battery (2)500 bbl ST & (1)210 bbl FG tanks		18,000	18,000
338	Line Pipe, Valves & Fittings		7,500	7,500
339	Heater Treater / Separators Separator & Heater Treater		9,500	9,500
340	Other Surface Equipment		3,500	3,500
341	Electrical System		3,000	3,000
342	Dehydration			
318	Labor & Transportation Reoustabout & casing crew		8,500	8,500
316	Non-Controllable Materials		5,000	5,000
TOTAL TANGIBLE COST		18,555	144,700	163,255
TOTAL WELL COST		281,355	202,400	483,755

** PLACE A "*" NEXT TO MATERIAL ON HAND

DRYHOLE COSTS :

INTANGIBLES 262,800
 TANGIBLES 18,555
TOTAL 281,355

Contingency _____
 Leasehold Costs _____
 Total Previous Estimate(s) _____
GRAND TOTAL \$483,755

PIONEER NATURAL RESOURCES USA, INC.

Prepared By: Scott H. Lackey
 Division Approval: _____ Initials: _____
 Title: _____ Date: _____
 Corporate Approval: Buddy J Knight
 Title: V.P. Permian Division
 Approved: _____ Date: _____
 Share of Cost 92.0000% % \$445,055

WORKING INTEREST OWNER APPROVAL :

Company: _____
 Approved By: _____
 Title: _____ Date: _____
 Share of Cost _____ % \$ _____

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. Addressee's Address
- 2. Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

Mr. Doyle Hartman
3811 Turtle Creek Suite 200
Dallas, TX 75219

4a. Article Number

Z 740 402 749

4b. Service Type

- Registered Certified
- Express Mail Insured
- Return Receipt for Merchandise COD

7. Date of Delivery

JAN 14 1998

5. Received By: (Print Name)

Rebecca P. Hartman

6. Signature: (Addressee or Agent)

X

8. Addressee's Address (Only if requested and fee is paid)

Thank you for using Return Receipt Service.

M. CRAIG CLARK

Certified Professional Landman, ESA

500 W. TEXAS AVE • SUITE 1175 • MIDLAND, TX 79701 • (915) 684-3811

February 12, 1998

Mr. Doyle Hartman
3811 Turtle Creek, Suite 200
Dallas, Texas 75219

Re: McCasland 18 Fee #11
NE/4 SW/4 Section 18
T-20-S, R-39-E
Lea County, New Mexico

Dear Mr. Hartman:

Pursuant to my letter dated January 9, 1998 concerning the drilling of the above captioned well, enclosed for your review and approval is a Joint Operating Agreement covering the above captioned lands.

Please review the agreement and if everything appears correct, sign it in the space provided and return one copy of the extra signature page, along with an executed copy of the AFE previously furnished you.

Again, as stated in my previous letter, in the event you do not wish to participate in the drilling of the well with your mineral interest, we would be happy to lease your interest as stated in EnerQuest's letter of May 12, 1997. As you are probably aware, we have scheduled a force pooling hearing in early march, however, we would like to resolve this matter prior to the hearing date.

Should you require any additional information, please let me know.

Very truly yours,


M. Craig Clark

MCC/s
Enclosure