

DOYLE HARTMAN
Oil Operator
3811 TURTLE CREEK BLVD., SUITE 200
DALLAS, TEXAS 75219

(214) 520-1800
(214) 520-0811 FAX

Case
11932

Via Facsimile (915) 571-5063 and FedEd

April 6, 1998

Pioneer Natural Resources USA, Inc.
303 W. Wall, Suite 101
P.O. Box 3178
Midland, TX 79702-3178

Attn: Richard C. Winchester

Re: McCasland 18 Fee No. 11 Well
NE/4SW/4 Section 18, T-20-S, R-39-E, N.M.P.M.
Lea County, New Mexico

Gentlemen:

Reference is made to Pioneer's letter of April 6, 1998, pertaining to its proposed 40-acre McCasland 18 Fee No. 11 Abo well to be drilled in I-18-20S-39E, Lea County, New Mexico, and to the executed 40-acre 25%-royalty lease that we tendered to Pioneer dated April 1, 1998 corresponding to the pooling of our 10.29% mineral interest as to the subject 40-acre well.

Regarding your April 6, 1998 letter, we would first like to point out that Pioneer has proposed to dedicate **only** the 40-acre tract consisting of NE/4SW/4 Section 18, T-20-S, R-39-E to its McCasland 18 Fee No. 11 well and not the 120-acre tract consisting of the S/2NW/4 and NE/4SW/4 Section 18, T-20-S, R-39-E. Therefore, at this time, we are agreeable **only** to committing our 10.29% interest under the initial 40-acre drill site by granting a lease to Pioneer covering the 40 acres consisting of the NE/4SW/4 Section 18, which 40-acre lease is the **same size** of lease taken by EnerQuest Resources (under the McCasland 18 Fee prospect) from Muirfield Resources on December 26, 1996. A copy of the 40-acre 18-month EnerQuest-Muirfield lease of December 26, 1996 is enclosed herewith.

As to our granted lease terms of 6 months and a royalty of 25%, both of these lease terms are in line with terms previously given by EnerQuest and Pioneer to other mineral owners under the McCasland 18 Fee prospect. For example, by lease dated December 1, 1996, between Burlington Resources and

Pioneer Natural Resources USA, Inc.

April 6, 1998

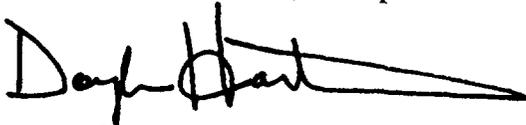
Page 2

Parker & Parsley (copy enclosed), Burlington Resources was provided with a 25% royalty, with the lease from Burlington Resources having an expiration date of June 1, 1998 (18 months from December 1, 1996). Although the lease that we tendered to Pioneer on April 1, 1998, also provides for a 25% royalty, it does not expire until October 1, 1998 (6 months from April 1, 1998).

If Pioneer truly wishes to protect expiring leases such as the 18-month December 1, 1996 Burlington lease, it needs to promptly drill its McCasland 18 Fee No. 11 well under the terms of our executed lease to Pioneer of April 1, 1998, which terms are in line with lease terms taken by Pioneer from other lessors under the McCasland 18 Fee prospect. Therefore, we suggest that Pioneer promptly proceed to drill instead of trying to achieve, through the force-pooling process, lease terms that are outside of the scope of 70-2-17 and 70-2-18, NMSA.

Very truly yours,

DOYLE HARTMAN, Oil Operator



Doyle Hartman

enclosures (3)

rjr
wpdocs/mcland.wpd

cc: M. Craig Clark
500 W. Texas, Suite 1175
Midland, TX 79701
Via Facsimile (915) 682-6773 and FedEx

Calder Ezell
Hinkle, Cox, Eaton, Coffield & Hensley, L.L.P.
218 Montezuma (87501)
P.O. Box 2068
Santa Fe, NM 87504
Via Facsimile (505) 982-8623 and FedEx

Michael E. Stogner, Chief Hearing Officer
New Mexico Oil Conservation Division
2040 S. Pacheco
Santa Fe, NM 87505
Via Facsimile (505) 827-8177 and FedEx

Pioneer Natural Resources USA, Inc.

April 6, 1998

Page 3

Robert W. Floyd
EnerQuest Resources, LLC
505 W. Wall, Suite 444 (79701)
P.O. Box 11150
Midland, TX 79702
Via Facsimile (915) 687-4804 and FedEx

J.E. Gallegos
Gallegos Law Firm
460 St. Michaels Drive, Bldg. 300
Santa Fe, NM 87505
Via Facsimile (505) 986-0741 and FedEx

DOYLE HARTMAN, Oil Operator, Midland



PIONEER
NATURAL RESOURCES USA, INC.

April 6, 1998

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

Via Facsimile
(214) 520-0811

**Re: Proposed Lease Terms
S/2 NW/4 and NE/4 SW/4 of Section 18,
T-20-S, R-39-E, N.M.P.M., Lea County, New Mexico
McCasland 18 Fee No. 11 Well**

Gentlemen:

Pioneer Natural Resources USA, Inc., is in receipt of your original executed lease dated April 1, 1998, covering the NE/4 SW/4 of Section 18, T-20-S, R-39-E, N.M.P.M., Lea County, New Mexico. The terms of the lease executed by Mr. Hartman, and the changes made to the lease form are unacceptable to Pioneer. However, Pioneer would accept a lease from Mr. Hartman incorporating the following terms:

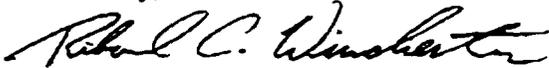
1. The lease shall cover the S/2 NW/4 and NE/4 SW/4 of Section 18, T-20-S, R-39-E, N.M.P.M., Lea County, New Mexico.
2. Mr. Hartman may reserve a 1/4th royalty interest.
3. The lease shall provide for a primary term of one (1) year, with the option of maintaining the lease through a 180 day continuous development program. Pioneer will offer \$100 per net acre as bonus consideration.
4. The language deleted in Line 3 - Paragraph 1 of your lease form providing for enhanced recovery operations must be reinstated.
5. On Page 2 of Exhibit "A" to the lease, the word "leasee's" should be "Lessee's". Also, in the second paragraph from the bottom of Page 2, Lessor should provide Lessee with reasonable notice of its intent to conduct additional tests.

Should these terms be acceptable, please make the necessary changes to the lease form and forward an executed original lease at your earliest convenience. Also, should Mr. Hartman elect to participate in drilling operations for the McCasland 18 Fee No. 11 Well, please execute and return the AFE and

Operating Agreement previously forwarded to your office. Pioneer's lease offer shall expire on Friday, April 10, 1998, at 4:00 P.M., unless earlier rescinded.

Please call me at (915) 571-1476 should wish to discuss this matter.

Sincerely,



Richard C. Winchester
Senior Landman

cc: M. Craig Clark
500 W. Texas, Suite 1175
Midland, Texas 79701

T. Calder Ezzell, Jr.
Hinkle Law Firm
P.O. Box 10
Roswell, New Mexico 88202
Via Facsimile (505) 623-9332

Doyle Hartman
P.O. Box 10426
Midland, Texas 79702
Via Facsimile (915) 682-7616

J.E. Gallegos
Gallegos Law Firm
460 St. Michaels Drive, Building 300
Santa Fe, New Mexico 87505

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OIL AND GAS LEASE
(PAM 119)

AGREEMENT, Made and entered into this 26 day of December, 1996, by and between **Muirfield Resources Company**, P. O. Box 52586, Tulsa, OK 74152, Party of the first part, hereinafter called lessor (whether one or more), and **EnerQuest Resources, LLC**, P.O. Box 11150, Midland, Texas 79702, Party of the second part, hereinafter called lessee.

WITNESSETH, That the said lessor, for and in consideration of Ten and Other Valuable Consideration (\$10.00), casing in hand paid, receipt of which is hereby acknowledged and of the covenants and agreements hereinafter contained on the part of the lessee to be paid, kept and performed, has granted, demised, leased and let and by these presents does grant, demise, lease and let unto the said lessee, for the sole and only purpose of exploring by geophysical and other methods, mining and operating for oil (including but not limited to distillate and condensate), gas (including casinghead gas and helium and all other constituents), and for laying pipelines and building tanks, power stations and structures thereon, to produce, save and take care of said products, all that certain tract of land, together with any reversionary rights therein, situated in the County of Lea, State of New Mexico, described as follows, to-wit:

SW/4NW/4

of Section 18, Township 20 South, Range 39 East, and containing 40.00 acres, more or less.

It is agreed that this lease shall remain in force for a term of eighteen (18) months from the date (herein called primary term) and as long thereafter as oil or gas, or either of them is produced from said land by the lessee.

In consideration of the premises the said lessee covenants and agrees:

1. To deliver to the credit of lessor free of cost, in the pipe line to which it may connect its wells, the 1/5th part of all oil (including but not limited to condensate and distillate, produced and saved from the leased premises.

2. To pay lessor for gas of whatsoever nature or kind (with all of its constituents) produced and sold or used off the leased premises, or used in the manufacture of products therefrom, 1/5th of the gross proceeds received from the gas sold, used off the premises, or in the manufacture of products therefrom, but in no event more than 1/5th of the actual amount received by the lessee, said payments to be made monthly. During any period (whether before or after expiration of the primary term hereof) when gas is not being so sold or used and the well or wells are shut in and there is no current production of oil or operations on said leased premises sufficient to keep this lease in force, lessee shall pay or tender a royalty of One Dollar (\$1.00) per year per net acre retained hereunder, such payment or tender to be made, on or before the anniversary date of this lease next ensuing after the expiration of ninety (90) days from the date such well is shut in and thereafter on the anniversary date of this lease during the period such well is shut in, to the royalty owners. When such payment or tender is made it will be considered that gas is being produced within the meaning of the entire lease. The above shut in provision is limited to a period not to exceed two (2) consecutive years without actual production of gas and /or condensate in paying quantities for a minimum of 90 days between any successive two (2) year period, unless the Lessee is prevented by forces beyond Lessee's control from marketing said gas and/or condensate.

3. To pay lessor for gas produced from any oil well and used off the premises, or for the manufacture of casing-head gasoline or dry commercial gas, 1/5th of the gross proceeds, at the mouth of the well, received by lessee for the gas during the time such gas shall be used, said payments to be made monthly.

If the lessee shall commence to drill a well or commence reworking operations on an existing well within the term of this lease or any extension thereof, or on acreage pooled therewith, the lessee shall have the right to drill such well to completion or complete reworking operations with reasonable diligence and dispatch, and if oil or gas, or either of them, be found in paying quantities, this lease shall continue and be in force with like effect as if such well had been completed within the term of years first mentioned.

Lessee is hereby granted the right at any time and from time to time to unitize the leased premises or any portion or portions thereof, as to all strata or any stratum or strata, with any other lands as to all strata or any stratum or strata, for the production primarily of oil or primarily of gas with or without distillate. However, no unit for the production primarily of oil shall embrace more than 40 acres, or for the production primarily of gas with or without distillate more than 640 acres; provided that if any governmental regulation shall prescribe a spacing pattern for the development of the field or allocate a producing allowable based on acreage per well, then any such unit may embrace as much additional acreage as may be so prescribed or may be used in such allocation of allowable. Lessee shall file written unit designations in the county in which the leased premises are located. Operations upon and production from the unit shall be treated as if such operations were upon or such production were from the leased premises whether or not the well or wells are located thereon. The entire acreage within a unit shall be treated for all purposes as if it were covered by and included in this lease except that the royalty on production from the unit shall be as below provided, and except that in calculating the amount of any shut in gas royalties, only the part of the acreage originally leased and then actually embraced by this lease shall be counted. In respect to production from the unit, Lessee shall pay Lessor, in lieu of other royalties thereon, only such proportion of the royalties stipulated herein as the amount of his acreage placed in the unit, or his royalty interest therein on any acreage basis bears to the total acreage in the unit.

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

Lessee shall have the right to use, free of cost, gas, oil and water produced on said land for its operations thereon, except water from wells of lessor.

When requested by the lessor, lessee shall bury his pipe lines below plow depth.

No well shall be drilled nearer than 200 feet to the house or barn now on said premises, without the written consent of the lessor.

Lessee shall pay for all damages caused by its operations to growing crops on said land.

Lessee shall have the right at any time to remove all machinery and fixtures placed on said premises, including the right to draw and remove casing.

If the estate of either party hereto is assigned, and the privilege of assigning in whole or in part is expressly allowed, the covenants hereof shall extend to their heirs, executors, administrators, successors or assigns. However, no change or division in ownership of the land or royalties shall enlarge the obligations or diminish the rights of Lessee. No change in the ownership of the land or royalties shall be binding on the lessee until after the lessee has been furnished with a written transfer or assignment or a true copy thereof. In case lessee assigns this lease, in whole or in part, lessee shall be relieved of all obligations with respect to the assigned portion or portions arising subsequent to the date of assignment.

All express or implied covenants of this lease shall be subject to all Federal and State Laws, Executive Orders, Rules and Regulations, and this lease shall not be terminated, in whole or in part, nor lessee held liable in damages, for failure to comply therewith, if compliance is prevented by, or such failure is the result of any such Law, Order, Rule or Regulation.

This lease shall be effective as to the lessor on execution hereof as to its interest and shall be binding of those signing. The word "Lessor" as used in this lease means the party or parties who execute this lease as Lessor.

Lessee may at any time and from time to time surrender this lease as to any part or parts of the leased premises by placing a release of record in the proper County.

Lessor hereby warrants and agrees to defend the title to the lands herein described, and agrees that the lessee shall have the right at any time to redeem for lessor by payment any mortgages, taxes or other liens on the above described lands, in the event of default of payments by lessor, and be subrogated to the rights of the holder thereof.

Exhibit "A" is attached hereto and made a part hereof.

IN TESTIMONY WHEREOF, we sign this the 26 day of December, 1996.

ATTEST:

Notary seal for Juanita P. Hale, Not. Secretary, Tulsa, Oklahoma, Tax ID # 73-1280183

MUIRFIELD RESOURCES COMPANY

Signature of John W. Pilkington, Jr., President

STATE OF OKLAHOMA

COUNTY OF TULSA

(Corporate Acknowledgment)

Before me, the undersigned, a Notary Public, in and for said County and State on this 26th day of December, 1996, personally appeared John W. Pilkington, Jr. to me known to be the identical person who subscribed the name of the maker hereof to the foregoing as President of MUIRFIELD RESOURCES COMPANY and acknowledged to me that he executed the same as his free and voluntary act and deed and as the free and voluntary act and deed of such corporation, for the uses and purposes therein set forth.

Given under my hand and seal the day and year last above written.

My commission expires 6/3/98

Signature of Donna J. Davis, Notary Public

ROC FILE 4057

Exhibit "A"

Attached to and made a part of that certain Oil and Gas Lease dated December 26, 1996, between Muirfield Resources Company and EnerQuest Resources, LLC.

1) This lease shall be limited to only cover rights from the surface to 100 feet below the base of the deepest formation penetrated by any well commenced prior to the expiration of the primary term hereof and located on the lease premises or lands pooled or unitized therewith.

2) This lease shall automatically terminate one (1) year after the expiration of the primary term hereof as to 1) all formations 50 feet below the deepest producing formation and 2) all lands not included in a drilling and spacing unit as same is or would be established under the laws of the State of New Mexico.

3) Upon request by Lessor, Lessee agrees to furnish Lessor the following:

(a) DAILY DRILLING REPORTS on the progress of the well which shall include drilling depth, information on all tests including character, thickness, name of any formation penetrated, shows of oil, gas or water, and detailed reports on all drill stem tests.

(b) 1 Certified Copy of all forms furnished to any governmental authority.

(c) 1 Copy of all electrical logging surveys.

(d) 1 Certified Copy of the well log upon completion

(e) 1 Certified Copy of the plugging record, if any

(f) Samples of all cores and cuttings, if so requested.

(h) Muirfield representatives will have full drilling rig access.

NOTIFICATION SHALL BE GIVEN TO:

Name: Muirfield Resources Company
Address: 2627 E. 21st Street, Tulsa, OK 74114
Fax No.: (918) 744-8715
Telephone No.: (918) 744-5604

SIGNED FOR IDENTIFICATION PURPOSES THIS 26th DAY OF DECEMBER, 1996.

MUIRFIELD RESOURCES COMPANY



John W. Pilkington, Jr. President



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STATE OF NEW MEXICO
COUNTY OF LEA
FILED

FEB 3 1997

at 118 o'clock P M

and recorded in Book _____

Page _____

Per _____, Lea County Clerk

By _____ Deputy

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OIL AND GAS LEASE

THIS AGREEMENT entered into the 1st day of December, 1996, between BURLINGTON RESOURCES OIL & GAS COMPANY, a Delaware corporation, with offices at P. O. Box 51810, Midland, Texas 79710-1810, hereinafter called "Lessor", and PARKER & PARSLEY DEVELOPMENT L.P. whose address is 303 W. Wall, Suite 101, Midland, Texas 79701, hereinafter called "Lessee":

WITNESSETH:

ARTICLE I

Lessor, in consideration of One Hundred Dollars, (\$100.00), cash to it in hand paid by Lessee, and of the covenants and agreements of Lessee contained herein, does hereby demise, lease, and let unto Lessee for exploring, drilling, mining, and operating for oil, gas and other liquid or gaseous hydrocarbon minerals of like nature, and engaging in any activity reasonably necessary to produce, save, and take care of said products, that tract or those tracts of land, sometimes hereinafter referred to as "leased premises", situated in Lea County, New Mexico, described as follows, to-wit:

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

For the purposes hereof, the land described above is estimated to be 120 acres, more or less.

ARTICLE II

Subject to the provisions herein, this lease shall remain in force for a period of eighteen (18) months from the date hereof (hereinafter called ("Primary Term"), and as long thereafter as this lease is maintained by the provisions hereof.

ARTICLE III

1. At the end of the primary term hereof, this lease shall terminate as to all acreage not assigned to or included in a governmental proration unit for a well producing or capable of producing oil or gas, in commercial quantities, and shall also terminate as to all zones, formations, and horizons which are below the deepest depth drilled in any such well which is producing or upon completion if then being drilled, provided however, that at that time, if Lessee is then engaged in drilling a well or wells on the leased premises in search of oil or gas, or either or both of them, this lease shall remain in force and effect so long as drilling or reworking operations are prosecuted with no cessation of more than one hundred eighty (180) days between the first and second wells, and one hundred eighty (180) days thereafter, and upon cessation of drilling or reworking operations for more than the allotted time, if there is a well or wells producing or capable of producing oil or gas, or either or both of them, in commercial quantities on the leased premises, to which a proration unit has not been assigned, Lessee shall have sixty (60) days after the completion of the last of such wells within which to obtain or assign a proration unit to said well or wells. As used herein "proration unit" or "governmental proration unit" shall mean the maximum acreage allowed by the governmental agency having jurisdiction over such matters to be assigned to any well for spacing, allocation or proration purposes and "completion" of any well shall be deemed to be the date the final potential test on the well is filed with the governmental agency then having jurisdiction over such matters, or sixty (60) days after the well has reached its total depth, whichever time is the earliest. Upon the actual termination of this lease as to any part of the leased premises as provided for in this paragraph, Lessee agrees to immediately notify Lessor and shall furnish Lessor a recordable release covering the lands which are no longer subject herein.

ARTICLE IV

1. After discovery and production of oil, gas or other liquid or gaseous hydrocarbon minerals of like nature in paying quantities from the leased premises, the rights granted herein may be maintained in effect so long as such products are being produced in paying quantities. If the production from a spacing unit shall cease or if such production shall fail to be in paying quantities for three (3) consecutive months, this lease shall terminate as to the leased premises in such unit unless Lessee within sixty (60) days thereafter resumes or restores such production or commences additional actual drilling or actual reworking operations, and continues such operations without the lapse of more than sixty (60) days between the abandonment of one well and commencement of actual reworking operations, resumption of production or commencement of actual drilling of another well.

2. Should Lessee, during the primary term hereof, complete a well on the leased premises capable of producing gas in paying quantities, but which Lessee is unable to produce because of lack of market or governmental restriction, then Lessee's rights here under shall continue to remain in full force and effect for the period that the well is shut-in, however, in no event shall

Lessee's rights be so extended by the shut-in well for a period more than two (2) years from the date such well is completed or shut-in.

ARTICLE V

1. Lessee shall drill such wells as a prudent operator would drill in order to prevent drainage of oil, gas or other liquid hydrocarbon minerals of like nature from the leased premises by a well on property not covered by this lease.

2. In addition to the obligation to protect the leased premises from drainage, Lessee agrees that if a well producing oil, gas or other liquid or gaseous hydrocarbon minerals of like nature in paying quantities is brought in on property not covered by this lease and is within six hundred sixty (660) feet of the leased premises in the case of an oil well, or within thirteen hundred twenty (1320) feet in the case of a gas or condensate well, or within any unit or units which adjoin the leased premises, then Lessee shall commence actual drilling, within one hundred twenty (120) days after commencement of actual production from each well, of an offset well thereto on the leased premises, and shall diligently prosecute the drilling thereof. Any such offset well drilled by Lessee shall be completed in the same producing zone or zones, where practicable, as the well to be offset, and thereafter shall be operated in such manner as to provide proper protection from drainage of the leased premises.

3. Lessee may be relieved of the obligation of this article by filing in the office of the county clerk of the county where the leased premises are located, within such one hundred twenty (120) day period, a release of all land covered by this lease except for (40) acres around each well producing, drilling or being reworked, or when a governmental spacing order exists, Lessor's acreage allotted to such a producing unit or unit in which a well is being drilled.

ARTICLE VI

Anything in this lease to the contrary notwithstanding, actual drilling on or production from any unit or units formed by any state or federal governmental authority embracing both land herein leased and other land not included in this lease, shall maintain this lease in force only as to that portion of Lessor's land included in such unit or units, whether or not said drilling or production is on or from the leased premises. This lease may be maintained in force as to the remainder of the leased premises in any manner specified in this lease.

ARTICLE VII

If the estate or interest of either party hereto is assigned and the privilege of assigning in whole or in part is expressly allowed, the covenants and agreements hereof shall extend to their heirs, executors, administrators, successors or assigns, but no change in the ownership of the land shall be binding on the Lessee until after the Lessee has been furnished a written transfer or assignment or a certified copy thereof.

ARTICLE VIII

Lessee shall pay to Lessor, as royalty:

1. One-Fourth (1/4th) of all oil, including distillate or condensate and other liquid hydrocarbons, produced and saved from the leased premises, which shall be delivered to Lessor's credit into any pipe line which the well or wells, or any of Lessee's tanks, may be connected, all free of cost of production and delivery. All oil and condensate shall be measured in tanks situated on the leased premises and such tanks shall not adjoin other tanks measuring oil or condensate in which Lessor has no interest or has a different interest. No liquid meters shall be used without Lessor's consent. Until further notice from Lessor, Lessee may purchase any royalty oil in Lessee's possession, paying the market price prevailing in the field where produced on the date same is run or sold; or, if there is no posted price in the field, the posted average price for oil of like grade and gravity prevailing in the general area in which the leased premises are located.

2. One-Fourth (1/4th) of the value of all gas produced and saved or sold from the leased premises, delivered free of cost of production and delivery. Delivery is defined as made when the gas has been received by the first purchaser thereof. Value shall not be less than the market price then current for gas of like character and quality delivered to any other purchaser in that field.

3. One-Fourth (1/4th) of the value of all plant products, including residue gas, free of extraction and plant or other process costs, where gas from the leased premises is processed by Lessee or through an affiliated company, or by any other party in a plant or process in or adjacent to the field in which the leased premises are located, or through arrangement on a royalty basis by Lessee with any other party in a plant or process not in or adjacent to the field wherein the leased premises are located. In this last event Lessor shall be paid only its proportionate share of said royalty paid to Lessee.

4. In the situations covered by the preceding Paragraph 3, Lessor shall receive not less than One-Fourth (1/4th) of the value of all residue gas at a price not less than the then current market price for residue gas of like character and quality delivered to any other purchaser in or adjacent to the field where produced.

5. The provisions of Paragraphs 2, 3 and 4 above are subject to Lessor's unconditional right and option at any time to take said gas royalty in kind and to make Lessor's separate contracts for the sale and marketing thereof, provided only that adequate notice of the exercise of such right and option shall be given and Lessor at Lessor's expense shall make adequate arrangements for the separate sale and delivery. In addition, prior to entering into any contract for the sale of gas hereunder, Lessee shall give Lessor sixty (60) days' written notice of the terms which Lessee proposes to accept. Should Lessor object to such terms, Lessee agrees to meet with Lessor to endeavor in good faith to arrive at a mutually satisfactory solution. If an agreeable solution is not arrived at, then Lessor may exercise its option to take its gas royalty in kind and separately market it. Or, if Lessor fails to exercise such right and option to take the gas in kind by giving notice of that fact within sixty (60) days of such meeting, Lessee may market the royalty gas and pay for same as above set out until such time as Lessor decides to exercise its option to take the royalty gas in kind as herein set out.

6. In the measurement of oil or other liquid hydrocarbons, 100% tank tables shall be used. Field tests, measurements, and corrections of crude oil shall be in keeping with the currently approved A.P.I. Code of Measuring, Sampling and Testing Crude Oil.

7. On or before the 25th day of each month, Lessee shall mail or deliver to Lessor an itemized statement (duly signed by an authorized representative of Lessee) showing the production during the preceding calendar month.

8. Furthermore, for and in consideration of the sum of Ten and No/100 Dollars (\$10.00) and other good and valuable consideration, Lessor does hereby grant, bargain, sell and convey unto PRIORITY LAND MANAGEMENT, INC., a Texas Corporation, whose address is P. O. Box 10866, Midland, Texas 79702, an undivided 15% interest out of the above royalty interest retained and payable to Lessor, proportionately reduced by Lessor's interest, to be effective for the duration of this Oil and Gas Lease.

ARTICLE IX

In the event Lessor considers that Lessee has failed to comply with any obligation, express or implied, Lessor shall give written notice to Lessee, and Lessee shall have sixty (60) days to comply with its obligations under this lease. Failure of Lessor to give such notice is not a prerequisite for damages or cancellation.

ARTICLE X

1. Lessee may deliver to Lessor a recordable instrument surrendering all or any portion of the leased premises at any time this lease is in effect, and thereby be relieved of all obligations thereafter accruing under this lease as to the portion surrendered.

2. If Lessee desires to plug and abandon any well upon the leased premises, the Lessor shall have the right and option to take it over prior to abandonment. Lessee shall give Lessor forty-five (45) days written notice prior to abandonment, however, if a drilling rig is on the well waiting on orders then Lessor's response time to elect to take over the well shall be 24 hours from receipt of written or fax notification.

3. No such surrender, abandonment or take-over shall relieve Lessee of any obligations or liabilities accruing prior to such surrender, including but not limited to obligations and liabilities relating to environmental matters (surface and subsurface).

ARTICLE XI

1. Within ninety (90) days after the termination of this lease for any cause, as to all or any portion of the leased premises, Lessee shall remove from that portion of the leased premises upon which this lease has terminated any and all surface equipment which Lessee may have placed thereon and shall restore the leased premises as near as possible to the condition existing on the date of this lease.

2. All wells shall be plugged and abandoned in accordance with the rules and regulations of the governmental regulatory body having jurisdiction thereof.

ARTICLE XII

1. This lease is made without warranty of title, express or implied.

2. It is a material consideration to the continued existence of this lease that Lessee has not, to the knowledge of Lessee, previous to the execution hereof, acquired, nor subsequent to the execution hereof, will acquire, an oil, gas or mineral lease covering the property herein leased from any person or persons or firm claiming an interest therein adverse to Lessor.
3. Lessee shall pay and discharge before delinquency all taxes (including net proceeds taxes), assessments and other governmental charges upon or referable to any operations or acts of Lessee or on its behalf on the leased premises, including, but not limited to, the drilling or operation of any well or wells, the production, extraction, severance or removal of any hydrocarbon, the processing, refining, storage or use thereof, the sale of any such hydrocarbon or of any products manufactured therefrom or therewith, or the transportation thereof away from the leased premises.
4. Lessee may discharge any tax, mortgage or lien upon this land, and thereby become subrogated to such claim with the right to satisfy same out of royalties due under this lease.
5. If Lessor is shown to own less than the entire fee simple estate in the leased premises, either by admission or by judgment of competent court, then the royalties, and any amounts due Lessor under this lease shall be reduced proportionately. Lessee, however, shall not be entitled to claim or recover any monies already paid Lessor as bonus, rent, royalty or for any other reason.

ARTICLE XIII

1. Lessor may, at Lessor's own expense, have a representative on the leased premises during operations at all times, who shall be entitled to examine all cores, electrical logs, and other well data, and who may witness the checking or measuring of all hydrocarbons or minerals produced from the leased premises.
2. Lessee shall furnish Lessor with complete information concerning any and all wells drilled on the leased premises or on premises with which the leased premises may be unitized, including but not limited to copies of all logs of wells, bottom-hole location surveys, core data, completion data, bottom-hole pressure data, and all other geologic or reservoir data obtained by Lessee from such wells. Lessee shall also furnish Lessor with copies of all governmental filings. See Exhibit "A" attached hereto and made a part hereof for further requirements.
3. In the event Lessee or its assigns applies to any state or federal regulatory body for the formation of production and proration unit or units, or well spacing affecting the interest herein leased, it is essential to the continued existence of this lease that notice of same shall be given to Lessor at least fifteen (15) days before such application is made, and that there shall be given to Lessor at that same time a copy of such proposed application with all accompanying plats and supporting data.

ARTICLE XIV

1. Lessor reserves the right to develop the leased premises for uses or purposes other than those for which it is herein leased, provided such does not unreasonably interfere with the rights herein granted to Lessee.
2. Lessor reserves and retains unto itself the right of joint use of any agreements assumed by Lessee hereunder where needed for the exploration, development, and operation of any rights or acreage (either horizontally or vertically) retained herein by Lessor or where needed in order to exercise ancillary rights in, or for access to, adjoining or nearby properties owned by Lessor.

ARTICLE XV

Lessee assumes all responsibility for any damage resulting from its operations under this lease, and shall pay any and all increase in taxes that may be brought about by buildings or other improvements constructed by Lessee or its assigns on the leased premises during the life of this lease.

ARTICLE XVI

Lessee shall have the right to use, free of cost, gas, oil and water produced by Lessee on leased premises for all operations hereunder. When requested by Lessor, Lessee shall bury pipe lines at least thirty-six inches (36") below deep plow depth. No well shall be drilled nearer than 200 feet to any residence or barn now on the leased premises without the written consent of Lessor. Lessee shall pay for damages to growing crops caused by operations on the leased premises. Lessee shall have the right at any time to remove all machinery and fixtures placed on the leased premises, including the right to draw and remove casing.

ARTICLE XVII

1. Lessee represents, warrants and covenants that, at all times during its possession of the leased premises that Lessee and the leased premises, respectively, are and will continue to be in full compliance with any and all existing or future laws, statutes, rules, regulations, and judicial interpretations thereof of the United States, of any state in which the leased premises, or any portion thereof, is located, and of any other governmental or quasi-governmental authority having jurisdiction, that relate to the prevention, abatement, and/or elimination of pollution and/or protection of the environment, including, but not limited to, the federal Comprehensive Environmental Response, Compensation and Liability Act, the Resource Conservation and Recovery Act, the Clean Water Act, the Safe Drinking Water Act, the Toxic Substances Control Act, the Clean Air Act and the Hazardous Materials Transportation Act, together with all state statutes serving any similar or related purpose.

2. Without limitation of the foregoing, Lessee agrees to assume and perform any and all of the obligations and liabilities, or alleged or threatened liabilities and obligations, of Lessor for environmental claims, losses, damages, costs, expenses, diminutions in value, suits, causes of action of any kind or character, with respect to the leased premises from the effective date hereof. Lessee agrees to indemnify and save Lessor harmless from any and all costs, expenses, claims, and liabilities of whatsoever kind, character or nature (including costs of investigation and attorneys' fees) that may arise out of Lessee's assumption of any obligation or liability contained in this lease.

ARTICLE XVIII

1. In performing its obligations hereunder, Lessee shall be an independent contractor, and not the agent of Lessor. Nothing herein shall be construed as creating a partnership or otherwise establishing joint or collective liability.

2. Lessee shall indemnify and hold harmless Lessor and its employees and agents from all claims, costs, expenses, demands, losses, causes of action, liabilities and damages of every kind and character arising out of or related in any way, directly or indirectly, to (i) this lease, (ii) the leased premises, (iii) operations of or for Lessee, its affiliates, and/or production purchasers, (iv) Lessee's performance or failure to perform hereunder and (v) the acts or failure to act by Lessee's employees, agents, contractors and subcontractors.

ARTICLE XIX

Before commencing operations hereunder, Lessee shall obtain and maintain and whenever practical, shall require each of its contractors here under to obtain and maintain, the following insurance from financially sound, Best rated B+ Class VI or above reliable insurance companies authorized to do business in the state in which the leased premises are located:

(a) Insurance, written to cover the employees of Lessee and its contractors in compliance with the state having jurisdiction over each employee, with the following limits:

Coverages	Limits
Worker's Compensation	Statutory Limits
Employers Liability	Combined Single Limit per Occurrence of \$ 1,000,000.00

(b) Comprehensive General Liability Insurance, written to include the following endorsements and limits:

<u>Endorsements</u>	<u>Limits</u>
Personal Injury	Combined Single Limit per Occurrence of \$ 2,000,000.00
Operation Liability	
Contractual Liability	
Premises/Operations	
Products Liability	
Owners and Contractors Protective Liability	

(c) Comprehensive Automobile Liability Insurance, written to include the following endorsements and limits:

<u>Endorsements</u>	<u>Limits</u>
Owned Vehicles	Combined Single Limit per Occurrence of \$ 2,000,000.00
Non-owned Vehicles	
Hired Vehicles	

(d) If water craft are used in Lessee's or its contractor's operations, additional insurance is required.

(e) If aircraft, including helicopters, are used in Lessee's or its contractor's operations, Aircraft Liability, Passenger Liability, and Property Damage Liability Insurance, written to include endorsements covering owned aircraft, non-owned aircraft and hired aircraft, with combined single limit per occurrence of \$1,000,000.00.

(f) Control of well, including clean up, containment, seepage, pollution, contamination and redrilling expense (to be maintained while drilling from spudding to completion) with limit per occurrence of \$ 1,000,000.00.

(g) In the event the primary coverage in (b) and (c) above is less than \$ 2,000,000.00 each, Lessee will maintain Excess Umbrella Insurance in an amount equal to the difference between the actual coverage and \$ 2,000,000.00.

(h) Lessor and its affiliates shall be designated as an additional insured in the above required insurance policies (except Worker's Compensation), insofar as such insurance policies apply to this lease and operations on the leased premises by Lessee and its contractors, and such policies shall contain waivers of subrogation of any rights or claims which Lessee or Lessee's contractors might have against Lessor and its affiliates, their officers, directors, employees, or agents of any of them, and shall cover all contractual liability assumed by Lessee hereunder.

(i) All policies in which the Lessor and its affiliates are named as an additional insured shall include the following "Other Insurance" Endorsement or similar "Other Insurance" Endorsement:

"Underwriters acknowledge the existence of liability and property damage insurance carried by [Lessor], its parent and affiliated companies, and it is understood and agreed that the provision relating to other insurance in this policy, if any, shall not be applicable to [Lessor]. It is further understood that the insurance provided by this policy shall be primary insurance for all assureds, and such other insurance carried by [Lessor], its parent and affiliated companies, shall not be called upon by these insurers for contributing, deficiency, concurrent or double insurance or otherwise."

(j) Any "Sue or Labor" provisions in the required policies in which lessor is named as an additional insured shall not apply to said Lessor or its parent or any of its affiliates or subsidiary companies.

(k) Upon execution of this lease, Lessee shall furnish, to Lessor's satisfaction, evidence of insurance. Said evidence shall be forwarded to Lessor at

Burlington Resources Oil & Gas Company
801 Cherry Street, Suite 700
Fort Worth, Texas 76102
Attention: Sharon Spencer

(l) Lessor will not be held responsible for any unpaid premium or any breach of warranty by the Lessee or its contractors.

(m) The foregoing insurance requirements set forth the amount and types of insurance considered minimal by Lessor. Such requirements do not constitute limitations on the amount or type of insurance Lessee may wish to carry and in no event shall any insurance coverage of any type or any amount whatsoever be considered a limitation on any obligation hereunder of Lessee, including without limitation Lessee's indemnity obligations.

ARTICLE XX

1. In case of default by Lessee in the performance of any obligation hereunder, the mention herein of any right or remedy of Lessor with respect thereto shall not preclude Lessor from exercising any other right or remedy to which Lessor might otherwise be entitled with respect to that or any other obligation of Lessee.

2. When drilling or other operations are delayed or interrupted by storm, flood, or other act of God, fire, war, rebellion, insurrection, riot, strikes, or as a result of some order, requisition or necessity of the government, the time of such delay or interruption shall not be counted against Lessee, anything in this lease to the contrary notwithstanding, provided that such delay shall in no event extend for a period longer than ninety (90) days without the consent of Lessor, which consent shall not be unreasonably withheld. All express or implied covenants of this lease shall be subject to all federal and state laws, executive orders, rules and regulations and this lease shall not be terminated, in whole or in part, nor Lessee held liable in damages for failure to comply

therewith if compliance is prevented by, or if such failure is the result of, any such law, order, rule or regulation.

3. Any and all notices, information or data required to be given by Lessee to Lessor shall be given by mailing same postpaid registered mail, addressed to BURLINGTON RESOURCES OIL & GAS COMPANY, P. O. Box 51810, Midland, Texas 79710-1810, unless and until notice of change of address is given by Lessor to Lessee in writing. Any notice required to be given by Lessor to Lessee shall be given by mailing same postpaid registered mail, addressed to PARKER & PARSLEY DEVELOPMENT L.P., 303 W. Wall, Suite 101, Midland, Texas 79701 unless and until notice of change of address is given by Lessee to Lessor in writing.

4. The rights hereby granted to Lessee shall not be assignable, in whole or in part, without the prior written consent of Lessor, which consent shall not be unreasonably withheld. Lessor's consent to any assignment shall not constitute consent to any other assignment. Any assignment made without Lessor's consent shall be void and shall constitute a material breach of this lease. Assignment of this lease or any part thereof shall not relieve Lessee, its assignees or any subassignees of any obligations hereunder theretofore accrued or to accrue in the future; and any assignee of Lessee shall, by acceptance of such assignment, be bound by all terms and provisions hereof. The term "assignment," as used herein, shall include, without limitation, any sublease, farmout, operating agreement, assignment, or any other agreement by which any share of the operating rights granted by this lease are assigned or conveyed, or agreed to be assigned or conveyed, to any other party.

5. Lessee shall promptly file this lease of record in the county where the leased premises are located and immediately provide both Burlington Resources Oil & Gas Company and Priority Land Management, Inc. a recorded copy of same.

6. The provisions hereof shall extend to the benefit of and be binding upon the heirs, executors, administrators, successors, and assigns of the respective parties hereto.

IN WITNESS WHEREOF, this instrument is executed this 24th day of January, 1997, effective December 1, 1996.

LESSOR:
BURLINGTON RESOURCES
OIL & GAS COMPANY

DD
By: Dennis Sledge
Dennis Sledge, Attorney-in-Fact

STATE OF TEXAS |

COUNTY OF MIDLAND |

The foregoing instrument was acknowledged before me this 24th day of January, 1997, by Dennis Sledge, Attorney-in-Fact of BURLINGTON RESOURCES OIL & GAS COMPANY, a Delaware corporation, on behalf of said corporation.

Barbara M^cCown
Notary Public in and for the State of Texas



EXHIBIT "A"

Attached to and made a part of that certain Oil & Gas Lease between BURLINGTON RESOURCES OIL & GAS COMPANY as Lessor and PARKER & PARSLBY DEVELOPMENT L.P., as Lessee, dated effective December 1, 1996.

BURLINGTON RESOURCES OIL & GAS COMPANY, P. O. Box 51810, Midland, Texas 79710-1810, has the following requirements concerning the drilling and completion of the well(s) covered by the captioned Agreement.

I. NOTIFICATION:

- A. Daily notification of drilling activity and/or operations by fax to Markus Thomerson at (915) 688-6010 before 2 pm CST. If problem, call Markus Thomerson at (915) 688-6989.
- B. Information and decisions relating to testing, coring, logging, plugging, please notify: Markus Thomerson at (915) 688-6989 or (915) 699-6165 (residence) in sufficient time to allow a company representative to witness the operation.
- C. A 24-hour notification, exclusive of weekends and holidays, of intent to plug and abandon a well is required.

II. FURNISH FOLLOWING ITEMS TO Markus Thomerson AT THE ABOVE ADDRESS

- A. One (1) copy of all forms filed with RRC and/or NMCC, including a location plat.
- B. Two (2) copies of field and final prints of all wireline surveys, including digital data (IIS format).

A Gamma Ray curve must be run from surface to bottom of hole. A Gamma Ray log must be a companion to any other logging curve Operator desires.

A porosity measuring log from base of surface casing to bottom of hole - neutron and density.

A resistivity measuring log of a type compatible with mud system from base of surface casing to bottom of hole, run in open hole:

Additional logs required: _____ plus

Any other logs Operator elects to run.

NOTE: Field or preliminary prints of all logs run, including dip-meter monitor, must be delivered within 24 hours after all logging at a given depth is completed. Verbal approval by Burlington representative, named in ARTICLE I, PARAGRAPH B, hereof, for delay of delivery until Monday is usual for weekend logging if no immediate decision is anticipated using log information.

- C. One copy of daily mud logging report and final report. Digital data in a Burlington approved format will be supplied when available. For questions call Markus Thomerson at (915) 688-6989.

Drilling Time:

1. Rate of penetration tabulation (1 copy) in no greater than 10' increments, and,
2. If a geograph or other such penetration rate or drilling monitoring device is used during drilling, copies of accumulated charts shall be delivered or sent weekly.
3. A set of samples for Burlington is/is not required.
- D. One copy of preliminary and final core analyses including digital data in a Burlington approved format.
- E. Paleo reports.
- F. One copy of all DST reports, including digital data in a Burlington approved format.

- G. Representative samples of fluid recovered on formation test including water samples whether obtained on a drillstem test or by swabbing tests.
- H. One copy of daily or weekly drilling activity/operations report.
- I. Final copy of well history report; and
- J. Dry samples of at least every 10 feet from surface to TD of hole shall not be provided in cloth bags and delivered ~~weekly~~ to International Sample Library.

III. VELOCITY SURVEY:

Lessee agrees that if a velocity survey is run in a well that Burlington may, at its election, purchase a copy of said survey at 1/8 of the cost of such survey. If Lessee elects not to run each survey, Lessee will give Burlington thirty (30) days notice of same and Burlington shall be permitted, at its election and at its sole risk and expense, to run a velocity survey in said well.

IV. ACCESS TO WELL AND INFORMATION:

The representatives of Burlington shall have full and free access to said well and to the derrick floor, and full and complete information which shall include, but not be limited to, the right to examine samples, cores and the right to observe all tests and producing operations of said well.

V. CORES AND/OR TESTS:

Lessee will core and/or test (by drillstem or other customary method) to the satisfaction of Burlington all formations indicative of possible oil and/or gas production and at other points reasonably designated by Burlington.

VI. Notwithstanding anything contained herein to the contrary, Lessee shall only be required to provide or run the above well requirements for Lessor when same is run or obtained by Lessee.



STATE OF NEW MEXICO
COUNTY OF LEA
FILED

FEB 3 1997

at 1:18 o'clock P M
and returned to Book _____
By _____
County Clerk
Deputy

1522