

**CHI ENERGY, INC.**

P.O. BOX 1799  
MIDLAND, TEXAS 79702

March 5, 1998

Frank P. Atha  
16612 Pequeno Place  
Pacific Palisades, CA 90272

**Re: AFE  
Pardue Farms 21 No. 1  
T-24S-R-28E-Sec. 21  
Eddy County, New Mexico**

Dear Mr. Atha:

Chi Operating, Inc. will be starting the Re-entry of the Pardue Farms 21 No. 1 within the next 30 days.

Enclosed please find an AFE reflecting the cost of the project along with an invoice for your proportionate share of the costs. Please sign and date the approval page should you desire to participate and return to me at the above address.

Thanks and please call should you have any questions.

Sincerely,



John W. Qualls

JWQ/fh

Afe Estimate Summary  
CHI OPERATING, INC  
Report Date: 03/03/98

Afe Id: 1 PARDUE FARMS 21 #1  
Property Id: 971515-2 PARDUE FARMS 21 #1  
Location: NWNE SEC. 21: 24S-28E  
Operator: CHI OPERATING INC.

Field:  
St/County: NM/EDDY

Sub-Category	Estimate Cost
=====	
Intangible Drilling	
SURVEYING & PERMIT	250.00
DAMAGES	1,750.00
ROADS & LOCATIONS	2,500.00
DRILLING - DAYWORK	15,000.00
CEMENTING	10,000.00
DRILLING FLUIDS	2,000.00
WATER	2,000.00
BITS & REAMERS	4,000.00
ENGINEERING	4,000.00
LOGGING & PERFORATE	7,000.00
EQUIPMENT RENTAL	12,000.00
TRUCKING	2,000.00
LABOR & TRUCKING	1,000.00
LEGAL	8,000.00
OVERHEAD & EXPENSES	3,000.00
MISCELLANEOUS INTANGIBLES	1,000.00
	-----
Sub-Total Intangible Drilling	75,500.00
Tangible Drilling	
WELLHEAD EQUIPMENT	3,000.00
TUBING	16,000.00
VALVES & FITTINGS	6,000.00
MISCELLANEOUS TANGIBLES	6,000.00
	-----
Sub-Total Tangible Drilling	31,000.00
Total All Drilling	106,500.00
Intangible Completion	
LOCATIONS	1,000.00
COMPLETION UNIT	7,000.00
ACIDIZING	3,000.00
FRACTURING	65,000.00
ENGINEERING	2,000.00
EQUIPMENT RENTAL	4,000.00
TRUCKING	1,000.00
LABOR	7,000.00
LEGAL	1,000.00
OVERHEAD & EXPENSES	1,000.00
MISCELLANEOUS INTANGIBLES	3,000.00
	-----
Sub-Total Intangible Completion	95,000.00

Afe Estimate Summary  
CHI OPERATING, INC  
Report Date: 03/03/98

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Afe Id: 1 PARDUE FARMS 21 #1  
Property Id: 971515-2 PARDUE FARMS 21 #1  
Location: NWNE SEC. 21: 24S-28E  
Operator: CHI OPERATING INC.

Field:  
St/County: NM/EDDY

Sub-Category	Estimate Cost
=====	
Tangible Completion	
TREATER	7,000.00
SEPARATOR	3,000.00
TANKS - PRODUCTION & WATER	10,000.00
FLOWLINES	2,000.00
MISCELLANEOUS TANGIBLES	4,000.00
	-----
Sub-Total Tangible Completion	26,000.00
Total All Completion	121,000.00
	=====
Total AFE	227,500.00

Afe Estimate Summary  
CHI OPERATING, INC  
Report Date: 03/03/98

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Afe Id: 1 PARDUE FARMS 21 #1  
Property Id: 971515-2 PARDUE FARMS 21 #1  
Location: NWE SEC. 21: 24S-28E  
Operator: CHI OPERATING INC.

Field:  
St/County: NM/EDDY

Sub-Category

Estimate Cost

\*\*\* Owner Approval \*\*\*

Owner ID: 0005660 Owner Name: FRANK P. ATHA

	AFE Estimate	-----Your Share----- %	\$
Drilling	106,500.00	0.06250000	6,656.25
Completion	121,000.00	0.06250000	7,562.50
	----- 227,500.00		----- 14,218.75

Approved By: \_\_\_\_\_

Date: \_\_\_\_\_

Tax ID:

FRANK P. ATHA  
16612 PEQUENO PLACE  
PACIFIC PALISADES CA 90272

CHI ENERGY, INC.

P.O. BOX 1799  
MIDLAND, TEXAS 79702

March 5, 1998

Frank P. Atha  
16612 Pequeno Place  
Pacific Palisades, CA 90272

Re: AFE  
Pardue Farms 21 No. 1  
T-24S-R-28E-Sec. 21  
Eddy County, New Mexico

Ph. 310-454-4767  
called 2.5 Jan 15, 1998  
called - March 1, 1998  
Hung up

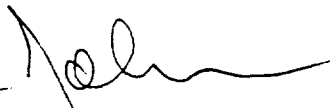
Dear Mr. Atha:

Chi Operating, Inc. will be starting the Re-entry of the Pardue Farms 21 No. 1 within the next 30 days.

Enclosed please find an AFE reflecting the cost of the project along with an invoice for your proportionate share of the costs. Please sign and date the approval page should you desire to participate and return to me at the above address.

Thanks and please call should you have any questions.

Sincerely,

  
John W. Qualls

JWQ/fh

Sent Regular mail. 3-5-98  
No response.

Y, INC.  
799  
02-1799



**RETURN RECEIPT  
REQUESTED**

**RETURNED TO  
SENDER**

**REFUSED**

Frank P. Atha  
16612 Pequeno Place  
Pacific Palisades, CA 90272



\$2.77

00056971-02

NL = 10-10-97  
Name = Frank P. Atha  
1st Notice 1023  
2nd Notice \_\_\_\_\_

Return Refused

Is your RETURN ADDRESS completed on the reverse side?

**SENDER:**

- Complete items 1 and/or 2 for additional services.
- Complete items 3, and 4a & b.
- 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:

FRANK P. ATHA  
16612 PEQUENO PLACE  
PACIFIC PALISADES, CA 90272

4a. Article Number

P 322 144 867

4b. Service Type

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

7. Date of Delivery

5. Signature (Addressee)

6. Signature (Agent)

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

Thank you for using Return Receipt Service.

**CHI ENERGY, INC.**

P.O. BOX 1799  
MIDLAND, TEXAS 79702

October 7, 1997

Frank P. Atha  
16612 Pequeno Place  
Pacific Palisades, CA 90272

**Re: Oil and Gas Lease**  
**Sec. 21: W/2 NW/4 NW/4 NE/4**  
**T-24-S R-28-E**  
**Tract 870**  
**Eddy County, NM**

Dear Ms. Auck,

Enclosed is an Oil & Gas Lease along with a bank draft. Please sign in the space provided on the back of the lease and have your signature notarized. Endorse the draft on the back and deposit the draft and lease in your bank as a **"Collection Item"**.

Thank you for your attention to this important matter and please do not hesitate to call should you have any questions.

Thank you,

A handwritten signature in cursive script, reading "Dana L. Wright". The signature is written in dark ink and is positioned above the printed name.

Dana L. Wright

**CUSTOMER'S DRAFT**  
**WITH THE PRIVILEGE TO RE-DRAFT**

Upon payor's acceptance, on or before 30 days  
after sight and subject to approval of title.

No. \_\_\_\_\_

OCTOBER 7, 19 97

DATE

**P**AY TO THE

ORDER OF FRANK P. ATHA \$ 252.50

TWO HUNDRED FIFTY-TWO AND 50/100 **DOLLARS**

*The payee herein agrees to accept the money in case draft is paid at any time before same is ordered returned by the forwarding bank. This draft is consideration for oil and gas lease, or assignment of oil and gas lease, covering all of payee's interest in and to the following-described land:*

SEC. 21: W/2 NW/4 NW/4 NE/4

T-24-S R-28-E TRACT 870

EDDY COUNTY, NEW MEXICO

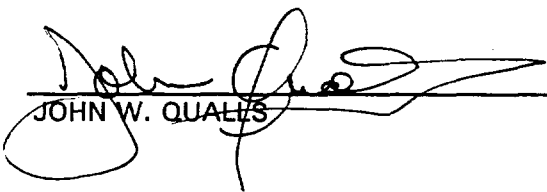
To CHI ENERGY, INC. (915) 685-5001

P. O. BOX 1799, MIDLAND, TEXAS 79702

**NOT A CASH ITEM**

**Western National Bank**

P. O. Box 61250, Midland, Texas 79711

  
\_\_\_\_\_  
JOHN W. QUALIS



OIL, GAS AND MINERAL LEASE

THIS AGREEMENT made and entered into this 7th day of October, 1997, by and between Frank P. Atha, dealing in his sole and separate property, 16612 Pequeno Place, Pacific Palisades, CA 90272 hereinafter called "Lessor", whether one or more, and Chi Energy, Inc., P. O. Box 1799, Midland, Texas 79702, hereinafter called "Lessee".

WITNESSETH; That, for and in consideration of the sum of Ten and more Dollars (\$ 10.00), receipt of which is hereby acknowledged and of the royalties herein provided and the agreements of Lessee herein contained Lessor does hereby grant, lease and let exclusively unto Lessee, its successors and assigns, all of the land hereinafter described, together with any reversionary rights therein, for the purpose of exploring by geological, geophysical and all other methods, and of drilling, producing and operating wells or mines for the recovery of oil, gas and other hydrocarbons, and all other minerals or substances, whether similar or dissimilar, that may be produced from any well or mine on the leased premises, including primary, secondary, tertiary, cycling, pressure maintenance methods of recovery and all other methods, whether now known or unknown, with all incidental rights thereto, and to establish and utilize facilities for surface and subsurface disposal of salt water, and to construct, maintain and remove roadways, tanks, pipelines, electric power and telephone lines, power stations, machinery and structures thereon, to produce, store, transport, treat and remove all substances described above, and the products therefrom, together with the right of ingress and egress to and from said land. The land hereby leased is situated in the County of Eddy, State of New Mexico, and is described as follows:

**Section 21: T-24-SR-28-E  
W/2 NW/4 NW/4 NE/4 Tract 870.**

~~Notwithstanding anything herein contained to the contrary, wherever the fraction one eighth (1/8th) appears, herein, same shall be deemed to be three sixteenths (3/16). The terms of this lease are limited to 100' below greatest depth drilled.~~

This lease covers all of the land described above, including any interests therein that any signatory hereto has the right or power to lease, and in addition it covers, and there is hereby granted, leased and let, upon the same terms and conditions as herein set forth, all lands now or hereafter owned or claimed by Lessor, adjacent, contiguous, or a part of the tract or tracts described above, whether such additional lands be owned or claimed by deed, limitation, or otherwise, or are fenced or unfenced, and whether such lands are inside or outside of the metes and bounds description set forth above, or are in the names survey, or other survey or surveys. The bonus money paid for this lease is in gross, and not by the acre, and shall be effective to cover all such land irrespective of the number of acres contained therein, but the land included within this lease is estimated to comprise 5.00 acres, whether actually more or less, and such land is hereinafter referred to as the "leased premises".

TO HAVE AND TO HOLD the leased premises for a term of Three (3) years from the date hereof, hereinafter called "primary term", and as long thereafter as oil, gas or other hydrocarbons, or other minerals or leased substances, or either or any of them, are produced from the leased premises or from lands with which the leased premises are pooled or unitized.

In consideration of the premises, it is hereby agreed as follows:

1. *Royalty On Oil.* Lessee shall deliver to lessor, at the well or to the credit of Lessor in the pipeline to which the well may be connected, 1/8th of all oil and other liquid hydrocarbons produced and saved from the leased premises, or Lessee, at its option, may buy or sell such 1/8th royalty and pay Lessor the market price for oil or liquid hydrocarbons of like grade and gravity prevailing in the field on the day such oil is run into pipelines or into storage tanks. Lessor's royalty interest in either case shall bear its proportion of any expenses for transporting and treating oil to make it marketable as crude.

2. *Royalty On Gas.* Lessee shall pay to Lessor as royalty on gas, including casinghead gas or other gaseous substances produced from said land and sold on or off the premises, 1/8th of the net proceeds at the well received from the sale thereof, provided that on gas used off the premises or by Lessee in the manufacture of gasoline or other products therefrom, the royalty shall be the market value at the well of 1/8th of the gas so used; as to all gas sold by Lessee under a written contract, the price received by Lessee for such gas shall be conclusively presumed to be the net proceeds at the well or the market value at the well for the gas so sold.

3. *Royalty On Other Substances.* Lessee shall pay to Lessor, as royalty on any substances covered by this lease other than oil and gas and the products thereof which Lessee may elect to produce, save and market from the leased premises, 1/8th of the proceeds received by Lessee from the sale thereof after deducting the processing costs.

4. *Shut - In Gas Royalty.* If at any time, or from time to time, either before or after the expiration of the primary term of this lease, there is any gas well on the leased premises or on lands with which the leased premises are pooled or unitized and which is capable of producing in paying quantities, but which is shut in before or after production therefrom, such well shall be considered under all provisions of this lease as a well producing gas in paying quantities and this lease shall remain in force in like manner as though gas therefrom was actually being sold or used. In such event, Lessee covenants and agrees to pay Lessor, as royalty, the sum of One dollar per net mineral acre Dollars (\$ 1.00) per annum for the period commencing on the date such well is actually shut in, unless this lease is being maintained in force and effect by some other provision hereof, in which event, such period shall commence on the date this lease ceases to be maintained in full force and effect by some other provision hereof. Payment or tender shall be made to Lessor, or deposited to the credit of Lessor in the depository bank named in this lease. The first payment shall be due and payable on or before ninety (90) days after the date such well is shut in, or ninety (90) days from the date this lease ceases to be maintained in force by some other provision hereof. Unless gas from such well is produced and sold or used prior thereto, except temporary sales, or use for lease operations, subsequent payments shall be due annually thereafter on the anniversary date of the period for which such prior payment was made. No additional payments shall be required if there is more than one shut-in gas well on the leased premises or on lands with which the leased premises are pooled or unitized. The term "gas well" shall include wells capable of producing natural gas, condensate, or any gaseous substance, and wells classified as gas wells by any governmental authority having jurisdiction.

~~5. *Delay Rental.* If operations for drilling or mining on the leased premises, or on lands with which the leased premises are pooled or unitized, are not commenced on or before one (1) year from the date of this lease, as set forth above, this lease shall terminate as to both parties unless on or before one (1) year from the date of this lease, Lessee shall pay or tender to the Lessor a rental of \_\_\_\_\_ Dollars (\$ \_\_\_\_\_), which shall cover the privilege of deferring commencement of such drilling or mining operation for a period of twelve (12) months from the expiration of said one (1) year period. In like manner and upon like payments or tenders annually, the commencement of such operations may be deferred for successive periods of the same number of months, during the primary term. Payments or tenders may be made to the Lessor or to the Lessor's credit in the \_\_\_\_\_ Bank at \_\_\_\_\_, which bank or any successor thereof shall continue to be the agent for the Lessor and the Lessor's successors and assigns. If such bank or any successor thereof shall fail, liquidate, or be succeeded by another bank, or for any reason fail or refuse to accept rental, the rental paying date for any year shall be extended until the expiration of thirty (30) days after Lessor shall have delivered to Lessee a recordable instrument making provision for another method of payment or tender and any depository charge shall be the liability of the Lessor. The payment or tender of rental may be made by check or draft of Lessee, mailed or delivered to said bank or Lessor, or to any Lessor if more than one, on or before the rental paying date. Mailing of rental on or before the rental paying date shall be deemed a timely tender thereof and shall preclude the termination of this lease.~~

6. *Drilling Operations.* If Lessee should drill and abandon as a dry hole a well on the leased premises, or if after the discovery of oil, gas or other minerals, the production thereof should cease from any cause, and, in either event, there are no other producing wells on the leased premises or on lands with which they are pooled or unitized, or drilling or reworking operations are not being conducted thereon, this lease shall not terminate if Lessee commences reworking or additional drilling operations on the leased premises within sixty (60) days thereafter or, if it be within the primary term, Lessee commences or resumes the payment or tender of rentals or commences operations for drilling or reworking on or before the rental paying date next ensuing after the expiration of ninety (90) days from the date of such abandonment or cessation of production. If such abandonment or cessation of production occurs at any time during the last fifteen (15) months of the primary term, no rental payment or drilling operations are necessary to keep the lease in force during the remainder of the primary term. If, at the expiration of the primary term, oil, gas or other minerals are not being produced from the leased premises or from lands with which the leased premises are pooled or unitized, but Lessee is then engaged in operations for drilling or reworking of any well, this lease shall remain in force so long as such drilling or reworking operations are prosecuted, or reworking operations on any well or additional drilling operations are conducted on the leased premises, or on lands pooled or unitized therewith, with no cessation of more than sixty (60) consecutive days, and if any such operations result in production then as long thereafter as such production continues.

7. *Pooling.* Lessee is hereby granted the right, at any time and from time to time, whether before or after production, to pool this lease for the production of oil, gas or condensate, or any or either of them, as to the land covered hereby, or any zone or portion thereof, or as to any mineral or royalty interest therein, with any other lease covering the above described land, or lands adjacent, contiguous, adjoining, or in the immediate vicinity thereof, or as to any zone or portion of said lease or any mineral or royalty interest therein. Such pooling shall be into a unit or units not exceeding forty (40) acres plus an acreage tolerance of ten percent (10%) thereof for oil, and units not exceeding six hundred forty (640) acres each plus an acreage tolerance of ten percent (10%) thereof for gas, provided that, should governmental authority having jurisdiction prescribe or permit the creation of any drilling, spacing or proration units larger than those specified above, such units may be created or enlarged to conform in size to the drilling or spacing units so prescribed or permitted or to the proration units as may be authorized for obtaining the maximum allowable production from one well. Lessee may pool the acreage or interests above described, or any portion thereof, as above provided, as to oil or gas in any one or more zones, and units so formed need not conform in size or area with the unit or units into which the lease is pooled, or combined as to any other zone, and oil units need not conform as to area with gas units. Such pooling shall be effected by the filing by Lessee of a written designation, in the county, or counties, in which the premises are located, identifying and describing the pooled unit. The production of oil, gas or condensate from any zone or portion of the land so pooled and the development and operation on such land, including the commencement, drilling, completion and operation of a well thereon, or the existence thereon of a shut-in gas well, shall be considered and construed and shall have the same effect, except for the payment of royalty, as production, development and operation, or the existence of a shut-in gas well on the leased premises, regardless of the location of the well on the unit. Production from any unit well producing oil, gas or condensate shall be allocated to the leased premises in the proportion that the acreage of the leased premises included within the units bears to the total acreage in the unit, and the royalty provided for herein shall be calculated on the portion of the production so allocated. The royalty so payable on allocated production shall be in lieu of any other royalty that would accrue to Lessor from the production of oil, gas or condensate from any zone or portion of the leased premises included within the unit. Shut-in gas royalty, with respect to unit shut-in gas wells, shall be payable in accordance with the provisions and in the amount set forth in this lease. In the event any unit well shall fail to produce oil, gas or condensate in paying quantities, or in the event the production from any such well shall cease, Lessee may terminate the unit by filing for record, in the county, or counties where the land is situated, a written declaration of such termination.

8. *Use Of Oil, Gas And Water For Operations.* Lessee shall have the free use of oil, gas and water from the leased premises, except water from Lessor's wells and tanks, for all operations hereunder, and the royalty on oil and gas shall be computed after deducting the amount so used.

9. *Removal Of Equipment.* Lessee shall have the right, at any time during or after the expiration of this lease, to remove all property and fixtures placed on the leased premises by Lessee, including the right to withdraw and remove all casing.

10. *Assignment Or Change Of Ownership.* The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, executors, administrators, successors, and assigns, but no change or division in ownership of the land, rentals or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee. No change or division in the ownership of the land, rentals or royalties, however accomplished, shall be binding upon Lessee for any purpose and shall not impair the effectiveness of any payment theretofore made by Lessee (irrespective of whether Lessee has either actual or constructive knowledge thereof) until sixty (60) days after such person acquiring any interest has furnished Lessee with the instrument or instruments, or certified copies thereof, constituting his chain of title from the original Lessor. In the event of an assignment of this lease as to a segregated portion of the land covered by this lease, the rentals payable hereunder shall be apportioned as between the several leasehold owners, ratably, according to the surface area of each, and a default in rental payment by one Lessee shall not affect the rights of other leasehold owners hereunder who make due payments of rentals. An assignment of this lease in whole or in part, shall, to the extent of such assignment, relieve and discharge Lessee of all obligations hereunder.

11. *Force Majeure.* Lessee shall not be liable for any delays in its performance of any covenant or condition hereunder, express or implied, or for total or partial nonperformance thereof, due to force majeure. The term "force majeure", as used herein, shall mean any circumstance or any condition beyond the control of Lessee, including but not limited to acts of God and actions of the elements; acts of the public enemy; strikes; lockouts; accidents; laws, acts, rules, regulations and orders of federal, state or municipal governments, or officers or agents thereof; failure of transportation; or the exhaustion, unavailability, or delays in delivery, of any product, labor, service or material. If Lessee is required to cease drilling or reworking or producing operations on the leased premises by force majeure, then until such time as such force majeure is terminated and for a period of ninety (90) days after such termination, each and every provision of this lease that might operate to terminate it shall be suspended and this lease shall continue in full force and effect during such suspension period. If any period of suspension occurs during the primary term, the time thereof shall be added to such term.

12. *Lessor Interest Clause.* If Lessor does not own, or have the right to lease, the entire mineral interest in the land described above, then the royalties, rentals, and any other sums payable hereunder, shall be reduced and payable only in the proportion that the interest covered by this lease bears to the entire mineral interest in the above described land. If the mineral interest covered hereby is subject to an outstanding, nonparticipating royalty, such royalty shall be deducted from the royalties payable to Lessor hereunder.

13. *Warranty.* Lessor hereby warrants and agrees to defend the title to the lands herein described and agrees that the interest covered by this lease shall be deducted from the royalties payable to Lessor hereunder.

14. *Surrender.* Lessee, its successors and assigns, shall have the right at any time, to surrender this lease, in whole or in part, by delivering or mailing a release to the Lessor or by placing a release of record in the county, or counties, in which the leased premises are situated, and thereupon, Lessee shall be relieved from all obligations, expressed or implied, of this lease as to the acreage so surrendered.

15. *Parties Bound.* This lease and all of the rights, obligations and conditions hereof shall be binding upon each party executing this instrument and his heirs, devisees, successors, and assigns. Should any party named above as Lessor fail to execute this lease, or should any party execute this lease who is not named above as Lessor, it shall nevertheless be binding upon the party or parties executing the same.

16. *Headings For Convenience.* The paragraph headings herein are for convenience only and shall not be considered or construed to limit the subject matter of any paragraph.

IN WITNESS WHEREOF, this instrument is executed the day and year first above written.

Frank P. Atha, dealing in his sole and separate property

Tax ID #

THE STATE OF \_\_\_\_\_

COUNTY OF \_\_\_\_\_

Before me, the undersigned authority, on this day personally appeared Frank P. Atha, dealing in his sole and separate property, known to me

to be the identical person(s) whose name(s) are/is subscribed to the foregoing instrument, and acknowledged to me that \_\_\_\_\_ he(they) executed the same for the

purposes and consideration therein expressed.

Given under my hand and seal of office this the \_\_\_\_\_ day of \_\_\_\_\_, A.D. 19\_\_\_\_\_.

Notary Public in and for

NEW MEXICO ACKNOWLEDGMENT

THE STATE OF \_\_\_\_\_

COUNTY OF \_\_\_\_\_

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_\_, by \_\_\_\_\_

Notary Public in and for

No. \_\_\_\_\_

OIL, GAS AND MINERAL LEASE

TO

Filed for Record this the \_\_\_\_\_ day of \_\_\_\_\_ A.D. 19\_\_\_\_\_ at \_\_\_\_\_ o'clock \_\_\_\_\_ M.

County Clerk.

Deputy.

Recorded \_\_\_\_\_ A.D. 19\_\_\_\_\_ in \_\_\_\_\_ County, Record of \_\_\_\_\_ Book \_\_\_\_\_

Page \_\_\_\_\_

County Clerk.

Deputy.