
BLAINE HESS OIL PROPERTIES

FACSIMILE TRANSMITTAL SHEET

TO	Ms. Sarah Williams	FROM	Chris Anderson
COMPANY	Sempra Oil and Gas	PHONE NUMBER	(505) 623-5400
FAX NUMBER	(214) 706-0415	FAX NUMBER	(505) 623-4916
PHONE NUMBER: ²	(214) 706-0410	DATE	8/27/2002
RE:	Mineral Interest in Section 23: NW/4 of T-14-S, R-37-E, N.M.P.M.	TOTAL NO. OF PAGES INCLUDING COVER:	1

URGENT FOR REVIEW PLEASE COMMENT PLEASE REPLY PLEASE RECYCLE

NOTES/COMMENTS:

Ms. Williams:

We wish to extend you a lease offer on the above minerals in Lea County, New Mexico. Our records indicate Sempra owns approximately 32.4 net mineral acres, or 20.26% of 160.00 acres in the NW/4 of Section 23. We are offering \$75/acre on a paid-up lease with a three-year term. The royalty is 3/16ths. Should you accept our offer, please contact me at the above telephone number or by fax and I will prepare the lease on a NM-342 paid-up lease form and forward it to you for your signature. Thank you.

Sincerely,

Chris Anderson

OIL CONSERVATION DIVISION

CASE NUMBER _____

_____ EXHIBIT _____

SA

30

POST OFFICE BOX 326
ROSWELL, NEW MEXICO 88202-0326
TELEPHONE (505) 623-5400

Blaine Hess
Oil Properties
Post Office Box 326
Roswell, New Mexico 88202-0326
(505) 623-5400
(505) 623-4916 *facsimile*

October 21, 2002

Ms. Sarah Williams
Sempra Energy Production Company
8235 Douglas Avenue, Suite 525
Dallas, Texas 75225

Re: W/2 of Section 23, T-14-S, R-37-E, N.M.P.M.,
Denton Area, Tatum Basin Project
Lea County, New Mexico

Dear Ms. Williams:

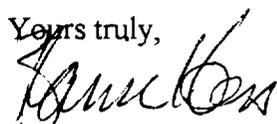
Ocean Energy, Inc. hereby proposes the drilling of the Denton Canyon 23-1 Well in the W/2 of Section 23, T-14-S, R-37-E, N.M.P.M., Lea County, New Mexico. The well will be drilled to a depth of approximately 12,700 feet to test the Atoka formation.

You have previously been extended an opportunity to lease your mineral rights and, having not reached a lease agreement with you, we now request your participation in the above described well. Your election to participate shall be evidenced by your execution of an Authority for Expenditure and Joint Operating Agreement, naming Ocean Energy, Inc. as operator, and payment of your proportionate share of the drilling cost.

We would appreciate your notifying us as to your election on or before November 1, 2002, as we anticipate commencing the well in December 2002. Should you respond affirmatively, Ocean Energy, Inc. will provide a Joint Operating Agreement along with an invoice for your drilling cost.

Thank you for attention to this matter. Should you have any questions, please feel free to contact me.

Yours truly,



Blaine Hess

Bh/arh

Enclosure: AFE dated August 12, 2002
cc: Mr. Derold Maney, Ocean Energy, Inc.

OCEAN ENERGY, INC

EXPLORATION DRILL (DHC only)

REGION: Permian	AFE DATE: 8/12/2002	AFE NO: 0
FIELD: Horton	LEASE/WELL: Denton Canyon	EST. START DATE 10/01/02
PROSPECT: Horton	WORK TYPE: Exploration	ORIG. DEPT: Drilling
COUNTY/STATE: Lea Co., New Mexico	SURFACE LOC: 660' FSL & 1,980' FWL	DEPTH: 12700' MD 12700' TVD
PROPERTY NO.: NA	BTM HOLE LOC: Same	COORDINATOR: R.G. Trueheart
OPERATOR: Ocean Energy Inc.	GEOLOGIC OBJECTIVE: Wolfcamp, Atoka, Austin	
LEGAL DESCRIPTION: Sec. 23, T14S R37E		

Drill the Denton Canyon 23-1as an exploration well to 12,700' MD/TVD. The plan call for drilling a 17-1/2" surface hole to 450' and setting 13-3/8" casing. Then drilling a 11" intermediate hole to 5,000' and setting 8-5/8" Casing. Then drilling a 7-7/8" production hole to 12,700'. The well will be evaluated by mud logs, DST's, and wiring logs, and if successful 5-1/2 casing will be set and the well completed conventionally with a packer and 2-3/8 tubing after stimulation. Chlorides to be above 20.000ppm for wireline logs.

ESTIMATED INTANGIBLE EXPENSES

ACCOUNT	DESCRIPTION	DRILL	Supplement	COMPLETE	Supplement	TOTAL
221 / 222 - 010	LOCATION COSTS	\$39,500	\$0	\$0	\$0	\$39,500
221 / 222 - 020	RIG COSTS	\$300,000	\$0	\$15,000	\$0	\$315,000
221 / 222 - 025	MOB / DEMOB RIG COSTS	\$80,000	\$0	\$0	\$0	\$80,000
221-027	TURNKEY	\$0	\$0			\$0
221 / 222 - 030	SHOREBASE SERVICES	\$0	\$0	\$0	\$0	\$0
221 / 222 - 040	FUEL / LUBE / POWER / WTR	\$60,000	\$0	\$3,000	\$0	\$63,000
221-050	DIRECTIONAL SERVICES	\$0	\$0			\$0
222 - 060	DOWNHOLE COMPLETION SERVICES			\$0	\$0	\$0
221 / 222 - 070	FISHING	\$0	\$0	\$0	\$0	\$0
221 / 222 - 080	CEMENT AND SERVICES	\$29,500	\$0	\$35,000	\$0	\$64,500
222 / 222 - 090	FORMATION EVALUATION	\$46,500	\$0	\$0	\$0	\$46,500
221 - 093	OPEN HOLE LOG / LWD	\$50,000	\$0			\$50,000
221 / 222 - 097	CASED HOLE LOG / MECH WIRELINE	\$0	\$0	\$0	\$0	\$0
221 / 222 - 100	TRANSPORTATION - LAND	\$15,000	\$0	\$10,000	\$0	\$15,000
221-103/222-105	TRANSPORTATION - AIR	\$0	\$0	\$0	\$0	\$0
221-105/222-095	TRANSPORTATION - MARINE	\$0	\$0	\$0	\$0	\$0
221 / 222 - 110	BITS, REAMERS AND STABILIZERS	\$72,000	\$0	\$0	\$0	\$72,000
221 / 222 - 120	EQUIPMENT RENTAL	\$75,000	\$0	\$2,800	\$0	\$77,800
221 / 222 - 130	MUD / FLUIDS / CHEMICALS	\$125,000	\$0	\$0	\$0	\$125,000
221 / 222 - 140	CONTRACT LABOR	\$56,000	\$0	\$11,000	\$0	\$67,000
221 / 222 - 160	COMMUNICATIONS	\$6,000	\$0	\$300	\$0	\$6,300
221 / 222 - 170	OVERHEAD	\$24,000	\$0	\$1,200	\$0	\$25,200
221 / 222 - 180	INSURANCE	\$7,100	\$0	\$0	\$0	\$7,100
221 / 222 - 185	CASING / TUBING / HMR / EQ & SERVICE	\$12,500	\$0	\$12,000	\$0	\$24,500
221 / 222 - 200	MISCELLANEOUS	\$2,000	\$0	\$0	\$0	\$2,000
221 - 210	P&A EXPENSE	\$0	\$0			\$0
221 / 222 - 220	COMPANY LABOR	\$0	\$0	\$0	\$0	\$0
221 / 222 - 230	ENVIRONMENTAL	\$20,000	\$0	\$0	\$0	\$20,000
221 - 240	DRILL SITE G&G	\$4,000	\$0	\$0	\$0	\$4,000
221 / 222 - 250	WEATHER DELAY	\$0	\$0	\$0	\$0	\$0
	SUB-TOTAL INTANGIBLE	\$1,024,100	\$0	\$90,300	\$0	\$1,114,400
5100995	CONTINGENCIES 10% (D) 5% (S)	\$102,410	\$0	\$9,030	\$0	\$111,440
TOTAL INTANGIBLES:		\$1,126,510	\$0	\$99,330	\$0	\$1,225,840

ESTIMATED TANGIBLE EXPENSES

TUBULARS			DRILL	Supplement	COMPLETE	Supplement	TOTAL
SIZE	DEPTH	FOOTAGE					
	Caisson		\$0	\$0	\$0	\$0	
0.000	0	0	\$0	\$0			
20.000	60	60	\$2,100	\$0			
0.000	0	0	\$0	\$0			
13.375	450	450	\$6,700	\$0			
8.625	5000	5000	\$68,000	\$0			
0.000	0	0	\$0	\$0			
0.000	0	0	\$0	\$0			
226 - 010	TUBULARS - DRILLING		\$76,800	\$0			\$76,800
0.000	0	0			\$0	\$0	
5.500	12700	12700			\$105,700	\$0	
0.000	0	0			\$0	\$0	
227 - 010	TUBULARS - COMPLETION				\$105,700	\$0	\$105,700
226 / 227 - 020	WELLHEAD EQUIPMENT		\$20,000	\$0	\$20,500	\$0	\$40,500
226 / 227 - 030	DOWNHOLE EQUIPMENT		\$3,000	\$0	\$3,000	\$0	\$6,000
227 - 050	LEASE SURFACE EQUIPMENT				\$0	\$0	\$0
227 - 080	VALVES, PIPES AND FITTINGS				\$0	\$0	\$0
227 - 100	ARTIFICIAL LIFT				\$0	\$0	\$0
227 - 200	MISCELLANEOUS				\$0	\$0	\$0
227 - 210	RECOMPLETION TANGIBLES				\$0	\$0	\$0
TOTAL TANGIBLES:			\$99,800	\$0	\$129,200	\$0	\$229,000

DRY HOLE AND COMPLETION COSTS \$1,226,310 \$0 \$228,530 \$0 \$1,454,840

TIME AND COST TO P&A: 1 days \$50,000 <=== P&A time and cost not included in DHC estimate above

ESTIMATED DRILLING DAYS 40 COST/DAY \$30,658 COST/FT \$97

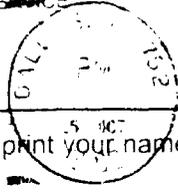
ESTIMATED COMPLETION DAYS 2 COST/DAY \$114,265 COST/FT \$17.99

For Non-Operator only:
I ELECT TO PARTICIPATE AND ACCEPT THE WELL CONTROL INSURANCE COVERAGE.

Approval _____ Company Name or Individual (PLEASE PRINT) _____ Date _____

I ELECT TO PARTICIPATE AND DO NOT ACCEPT THE WELL CONTROL INSURANCE COVERAGE.

Approval _____ Company Name or Individual (PLEASE PRINT) _____ Date _____



First-Class Mail
Postage & Fees Paid
EPCS
Permit No. 1011

• Sender: Please print your name, address, and ZIP+4 in this box •

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

03



SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:
 Ms. Sarah Williams
 Sempra Energy Production Company
 8235 Douglas Avenue, Suite 525
 Dallas, TX 75225

2. Article Number (Copy from service label)
 7000 0520 0025 2611 0360

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly) S. McGehee B. Date of Delivery 10/24/02

C. Signature S. McGehee Agent
 Addressee

D. Is delivery address different from item 1? Yes
 If YES, enter delivery address below: No

3. Service Type
 Certified Mail Express Mail
 Registered Return Receipt for Merchandise
 Insured Mail C.O.D.

4. Restricted Delivery? (Extra Fee) Yes

PS Form 3811, July 1999

Domestic Return Receipt

102595-00-M-0952

**U.S. Postal Service
 CERTIFIED MAIL RECEIPT
 (Domestic Mail Only; No Insurance Coverage Provided)**

DALLAS, TX 75225

0960 1192 2611 0360
0005 0520 0025 2611 0360

Postage	\$	0.37
Certified Fee		2.30
Return Receipt Fee (Endorsement Required)		1.75
Restricted Delivery Fee (Endorsement Required)		
Total Postage & Fees	\$	4.42



Recipient's Name (Please Print Clearly) (To be completed by mailer)
 Ms. Sarah Williams; Sempra Energy
 Street, Apt. No., or PO Box No.
 8235 Douglas Avenue; Suite 525
 City, State, ZIP+4
 Dallas, TX 75225

Blaine Hess
Oil Properties
Post Office Box 326
Roswell, New Mexico 88202-0326
(505) 623-5400
(505) 623-4916 *facsimile*

October 25, 2002

Ms. Sarah Williams
Sempra Energy Production Company
8235 Douglas Avenue, Suite 525
Dallas, Texas 75225

Re: W/2 of Section 23, T-14-S, R-37-E, N.M.P.M.,
Denton Area, Tatum Basin Project
Lea County, New Mexico

Dear Ms. Williams:

In my letter of October 21, 2002, I said that "Ocean Energy, Inc. hereby proposes the drilling of the Denton Canyon 23-1 Well in the W/2 of Section 23, T-14-S, R-37-E, N.M.P.M., Lea County, New Mexico. The well will be drilled to a depth of approximately 12,700 feet to test the Atoka formation."

I want to clarify that the well be drilled to a depth of approximately 12,700 feet to test the Austin or the top of the Mississippian Lime formation.

Should you have any questions, please feel free to contact me.

Yours truly,



Blaine Hess

Bh/arh

cc: Mr. Derold Maney, Ocean Energy, Inc.

BLAINE HESS OIL PROPERTIES

FACSIMILE TRANSMITTAL SHEET

TO: Ms. Sarah Williams	FROM: Blaine Hess
COMPANY: Sempra Energy Production Company	PHONE NUMBER: (505) 623-5400
FAX NUMBER: (214) 706-0415	FAX NUMBER: (505) 623-4916
PHONE NUMBER:	DATE 11/01/02
RE:	TOTAL NO. OF PAGES INCLUDING COVER:

URGENT FOR REVIEW PLEASE COMMENT PLEASE REPLY PLEASE RECYCLE

NOTES/COMMENTS:

PLEASE DELIVER UPON RECEIPT

Dear Sarah:

I am sending your lease form that includes changes that I have made. Please review the form and call me to discuss any of the changes that we made.

Also, on behalf of Ocean Energy, Inc., we extend an offer of \$125.00 per net mineral acre for a 1 year term Oil and Gas Lease that provides for a 3/16ths royalty.

I look forward to hearing from you.

Blaine Hess

**POST OFFICE BOX 326
ROSWELL, NEW MEXICO 88202-0326
TELEPHONE (505) 623-5400**

6/8

2011-766-0420

21.08 11/1/11 2-1100-1100

100/100/100 - with Polaris

11842

100/100/100 - with Polaris
Polaris Production Corp. 100/100/100
Polaris Production Corp. 100/100/100

OIL AND GAS LEASE

21722-A1

1st

11/1/11

THIS OIL AND GAS LEASE (this "Lease") is made and entered into effective as of the 25th day of July, 2001 (the "Effective Date"), and is by and between Sempra Energy Production Company (formerly known as Pacific Enterprises ABC Corporation), 8235 Douglas Avenue, Suite 525, Dallas, Texas 75225, hereinafter called Lessor and Polaris Production Corp., P.O. Box 1749, 415 West Wall Street, Suite 1124, Midland, Texas 79702 hereinafter called Lessee.

Sempra Energy, Inc. 1001 FANNIN, Suite 1600, Houston, TX 77002-6744

1. Grant of Lease. Lessor, for and in consideration of \$10.00 and other good and valuable consideration, the receipt of which is hereby acknowledged, and of the covenants and agreements of Lessee hereinafter contained, does hereby lease, let and demise unto Lessee, its successors and assigns, without representations, warranties or covenants of title of any kind or nature, or any other warranties or representations, the following:

a. Lands Leased. The lands described as follows (the "Lands") for the purposes and with the right of exploring, investigating, drilling for and operating for, producing, treating, storing and transporting oil and gas, subject to the further provisions of this paragraph 1; for the purposes of determining payments due hereunder, unless a survey made by Lessee should otherwise determine, the Lands shall be deemed to contain 160 acres, whether actually containing more or less are located in the County of Lea, State of New Mexico, and described as follows, to wit:

The Northwest Quarter (NW/4) of Section 23, Township 14 South, Range 37 East, N.M.P.M.

b. Geological Surveys. To the extent that Lessor has the right to do so, the exclusive right to conduct geological and geophysical surveys, by seismograph, gravity or magnetic methods or any other method developed in the future; and

c. Easements and Other Rights. To the extent that Lessor has the right to do so, the right to lay pipelines, to construct roads, to dig canals, to build tanks, power stations and telephone lines, to the extent any of such activities are necessary or useful in Lessee's operations in exploring, investigating, drilling for, producing, treating, storing and transporting oil and gas produced from the land covered hereby, together with all easements, rights of ingress and egress and all other rights incidental or necessary for the full enjoyment of the estate herein granted.

2. Term. Subject to other provisions contained in this Lease, this Lease shall remain in force for a term commencing on the Effective Date and expiring at midnight local time one (1) year after the Effective Date (the "Expiration Date"), which term is referred to in this Lease as the "Primary Term", and for so long thereafter as oil and gas or either of them is being produced in paying quantities from the Lands or lands with which the Lands or any part thereof may be pooled as permitted herein and the royalties are paid thereon as herein provided.

ALSO, Lessor and Lessee agree that Lessee shall have the option at the expiration of Said Lease to obtain a new lease from Lessor for the same terms, provisions and bonus consideration as Said Lease. Lessee must notify Lessor of its election to exercise said option in writing 30 days prior to the expiration of Said Lease.

3. Royalty Share. For the purposes of this Lease, the term "Royalty Share" shall mean a fraction equal to (3/16th) three-sixteenths.

4. Royalties. In respect of oil and gas which may be produced from the Lands or lands with which the Lands or any part thereof may be pooled or unitized as permitted herein, as royalty, Lessee covenants and agrees that Lessee shall comply with each of the following provisions:

a. Oil Royalty. In respect of oil (for the purposes of this Lease, the term "oil" shall also include other liquid hydrocarbons, other than as provided in Paragraph 4.c), Lessee shall deliver to the credit of Lessor, as royalty, in the pipeline to which Lessee may connect Lessee's wells, the Royalty Share of all oil produced and saved by Lessee from the Lands or lands with which the Lands or any part thereof may be pooled as permitted herein; the delivery of such oil shall be made ~~free and clear of costs and expenses~~ to the credit of Lessor into the storage tanks or the pipeline to which the well or wells on the Lands may be connected. [Strike]

b. Gas Royalty. In respect of gas (for the purposes of this Lease, term "gas" shall mean and include natural gas, casinghead gas and all other gaseous or vaporous substances which are hydrocarbons as the same may exist at the surface under normal atmospheric pressures and at normal ambient temperatures) produced, saved and sold from the Lands or lands with which the Lands or any part thereof may be pooled as permitted herein, Lessee shall pay Lessor, a royalty equal to the Royalty Share of the amount realized by Lessee therefrom, computed at the mouth of the well, ~~free of all costs (excluding applicable severance taxes) including, without limitation, costs incurred for transporting, dehydration, compressing, processing, treating or otherwise marketing the production or rendering the production capable of being marketed~~ but in no event less than the Royalty Share of the price prevailing for gas of similar quality in the field in which the Lands are located ~~or if there are no gas sales occurring in said field, then the prevailing price in the county in which such Lands are located.~~ Except as provided in Paragraph 4.d, when any gas is produced and used off of the Lands or lands with which the Lands may be pooled as permitted herein, Lessee shall

[Strike]

pay Lessor, as royalty, the Royalty Share of the "Market Value" (as hereinafter defined) of such gas. If any gas is sold or otherwise disposed of to any affiliate, subsidiary or parent of Lessee, such gas shall be sold or otherwise disposed of at a price not less than the "Market Value" thereof, which for the purpose of this Lease shall mean a price equal to the average of the three highest prices being paid for gas to any party in the county identified in the lands leased or, if there are no gas sales occurring in said county, then such price shall be equal to or greater than the average of the three highest prices being paid for gas in the counties in the State identified in the lands leased which are contiguous to said county.

c. Plant Products Royalty. If gas is produced from Lands and is thereafter processed in an absorption, extraction, casinghead, stripping or other plant or plants, whether such plants are listed in the foregoing list or not (a "processing plant"), then, in lieu of the royalties provided for in the immediately preceding Paragraph 4.b, Lessee shall pay, as royalty, ~~and the Lessor shall receive, free and clear of all costs,~~ the Royalty Share of the proceeds realized by Lessee from the sale of all plant products extracted, separated, absorbed or saved from such gas before the addition of treating or blending agents or substances not derived from such gas and, in addition, Lessor shall be paid, as royalty, the Royalty Share of the amount realized by Lessee from the sale of the residue gas remaining after the extraction of the plant products therefrom; provided, however, that if such residue gas is sold or otherwise disposed of to any affiliate, subsidiary or parent of Lessee, the computation of the royalty thereon shall be based upon the Market Value thereof. No royalty shall be paid on Lessor's proportionate share of residue gas used, for no compensation to Lessee, for fuel in a processing plant where such residue gas is processed for the extraction or removal of liquid hydrocarbons, and Lessee may inject gas into any oil or gas producing formation underlying the Lands after such gas has been processed for the extraction or removal of the liquid hydrocarbons therein contained, and no royalty shall be paid on gas so injected; provided, however, that royalty shall be due on said gas if said gas is injected in any well off of the Lands. If any gas is produced from the Lands and is processed in a processing plant or plants owned by Lessee or any affiliate, subsidiary or parent of Lessee, the royalties due on such plant products and gas shall be based upon the Market Value of such gas and plant products.

d. Shut In Royalty. If at any time, whether before or after the Expiration Date, Lessee shall have completed a well or wells on the Lands (or on land with which the Lands or any part thereof may be pooled) which well or wells are capable of producing gas in paying quantities but are shut-in with the result that gas is not produced, sold or used, ~~for 90 days due to government restrictions, lack of market or similar reasons, Lessee shall first promptly notify Lessor of the date such well is shut-in, and thereafter, Lessee may pay as shut-in royalty to Lessor for each such shut-in well, on or before the later of (i) the Expiration Date or (ii) the 90th day after the date such gas ceases to be sold or used, an amount equal to the greater of: (A) the product of \$2.00 times the total acreage (reducing the same by reason of any proportionate reduction as contemplated in paragraph 12) then covered by this Lease or (B) \$100.00, and upon the making of the greater payment specified in this Paragraph 4.d, it will be considered that each such well or wells are producing gas in paying quantities within the meaning of this Lease for a period of one year after such well is shut-in. In like manner and upon like payments being made annually on or before the expiration of the last preceding year for which such shut-in royalty payment has been made, it will be considered that said well or wells are producing gas in paying quantities for successive periods of one year; provided, however, that the proper payment of shut-in royalties under this Paragraph 4.d shall not perpetuate this Lease (i) for more than a total period of five years in the aggregate, or (ii) for a continuous shut-in period in excess of two (2) years. Shut in payments and notices shall be mailed to Lessor at the address set forth in the first paragraph of the lease.~~ ⁹⁰

If gas production is begun or resumed during the year following the payment of a shut-in royalty and the well is subsequently shut-in with the result that gas is not then being produced, the second annual shut-in payment shall be due and payable on the first annual anniversary date of the first payment (the "First Anniversary Date"). If there is production on the First Anniversary Date and the well is subsequently shut-in with the result that gas is not then being produced, then the second shut-in payment shall be made on or before ⁹⁰ 90 days after such new shut-in date or the Lease shall terminate. Such second shut-in royalty payment shall perpetuate this Lease only until the second annual anniversary date of the first shut-in royalty payment. The Lease shall likewise terminate prior to one year after the payment of a shut-in payment if the Lessee fails to timely pay shut-in royalty payments on each additional well which is shut-in. Should any shut-in royalty payment not be made in a timely manner as this Paragraph 4.d provides, then, in that event, it shall be considered for all purposes that there is no production from any such well or wells and except to the extent that this Lease is then being perpetuated under other provisions of this Lease, this Lease shall terminate at midnight on the last day provided for the payment of such shut-in royalties, and Lessee shall thereupon furnish to Lessor a release of all of Lessee's interest in and to this Lease.

e. Place and Time of Payment of Production Royalties.

(1) Except as specifically provided above, all royalties due under the provisions of Paragraphs 4.a, 4.b or 4.c shall be paid to Lessor, ~~free and clear of all costs and expenses of making such oil or gas merchantable or otherwise treating the same,~~ shall indicate the mineral number applicable thereto (the mineral number is located on the upper right hand corner of page 1 of this lease), and shall be paid at the address specified below:

Sempra Energy Production Company, P.O. Box 513929,

Any notices or correspondence mailed to Lessor shall be mailed to the address as set forth in the first paragraph of this Lease.

(2) Lessee shall tender first royalty payments to Lessor on or before 120 days after the month of first sale of production. Thereafter Lessee shall tender royalty payments to Lessor within 60 days of the date oil is produced and sold within 90 days of the date gas is produced and sold. It is expressly agreed that if Lessee fails to pay royalties within the aforementioned timeframe, Lessor may thereafter notify Lessee in writing of such failure and Lessee shall then have 30 days from receipt of such notice to make such payments, ~~and if Lessee then fails to pay such royalties, Lessor may terminate this Lease at any time thereafter and evidence such termination by a written instrument filed for record in the official records in the county and state referred to hereinabove. Lessee will also be required to pay interest at a rate 2% above the rate charged on loans to depository institutions by the New York Federal Reserve Bank on royalty payments not paid within the above time frames.~~ ^{STRIKE} In the event any dispute or question arises concerning the title to Lessor's interest, Lessee may withhold royalty payment accruing to the interest or interests affected, without consequence to the hereinabove stated termination penalty, until such dispute or question of title has been corrected. ^{LEASE IN} Payments may be remitted to Lessor annually for the aggregate of up to twelve months' accumulation of proceeds if the total amount owing is \$15,000.00 or less.

f. Division Orders. The execution of a division order shall not be required as a condition or prerequisite for royalty payments to be due and payable under this Lease.

5. Pooling and Unitization. Lessee, at its option, is hereby given the right and power to pool or combine the land covered by this Lease, or any portion thereof, as to oil and gas, or either of them, with any other land, lease or leases when in Lessee's judgment it is necessary or advisable to do so in order to properly develop and operate said leased premises, such pooling to be into a well unit or units not exceeding forty (40) acres, plus an acreage tolerance of ten percent (10%) of forty (40) acres for oil, and not exceeding six hundred forty (640) acres, plus an acreage tolerance of ten percent (10%) of six hundred forty (640) acres for gas. Larger units may, however, be created to conform to any spacing or well unit pattern that may be prescribed by governmental authorities having jurisdiction. Lessee may pool or combine acreage covered by this Lease, or any portion thereof, as above provided, as to oil or gas in any one or more strata, 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 stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this Lease or portions thereof into other units. Lessee shall execute in writing and place of record in the county wherein the above described lands are located, an instrument or instruments identifying and describing the pooled acreage, a copy of which shall be provided to Lessor.

The entire acreage so pooled into a unit shall be treated, for all purposes except the payment of royalties, as if it were included in this Lease, and drilling or reworking operations thereon or production of oil or gas therefrom, or the completion thereof of a well as a shut-in gas well, shall be considered, for all purposes except the payment of royalties, as if such operations were on or such production were from or such completion were on lands covered by this Lease, whether or not the well or wells shall be located on the premises covered by this Lease. In lieu of the royalties elsewhere herein specified, Lessor shall receive from a unit so formed only such portion of the royalty stipulated herein as the amount of this acreage placed in the unit or his royalty interest therein bears to the total acreage so pooled in the particular unit involved.

Should any unit as originally created hereunder contain less than the maximum number of acres herein above specified, Lessee may at any time thereafter, whether before or after production is obtained on the unit, enlarge such unit by adding additional acreage thereto, but the enlarged unit shall in no event exceed the spacing or well unit pattern that may be prescribed by governmental authorities having jurisdiction. In the event an existing unit is so enlarged, Lessee shall execute and place of record, and provide Lessor a copy of, a supplemental declaration of unitization identifying and describing the land added to the existing unit, ~~provided that if such supplemental declaration of unitization is not filed until after production is obtained on the unit as originally created, then and in such event the supplemental declaration of unitization shall not become effective until the first day of the calendar month following the filing thereof.~~ In the absence of production, Lessee shall terminate any unitized area by filing a notice of termination of record in the county wherein the above described lands are located. A copy of such notice shall be provided to Lessor.

Notwithstanding any other provision contained in this lease to the contrary, operations on or production from lands pooled or unitized shall only maintain this lease in effect with respect to that portion of the Lands included within the geographical boundaries of such pooled acreage or unit. The portion of the Lands located outside the boundaries thereof may be maintained as otherwise provided in this Lease.

6. Protection From Adjacent Units. In the event a well or wells producing oil or gas in paying quantities should be drilled on adjacent land and should such well or wells be draining the leased premises, Lessee agrees to drill such offset wells as a reasonable and prudent operator would drill under the same or similar circumstances. If oil and/or gas are discovered on the land covered by this Lease or on lands pooled therewith, Lessee agrees to further develop said land covered by this Lease as a reasonable and prudent operator would under the same or similar circumstances.

7. No Delay Rentals. This Lease is a "paid-up" lease, and no delay rentals shall be required to be paid by Lessee.

8. Option to Release. Lessee may at any time and from time to time execute and deliver to Lessor or file for record a release or releases of this Lease as to any part or all of the Lands or of any horizon thereunder, and thereby be relieved of all obligations as to the released acreage or interest. If this Lease is released as to a portion of the Lands, any payments computed in accordance therewith shall thereupon be reduced in the proportion that the acreage released bears to the acreage which was covered by this Lease immediately prior to such release.

9. Operations; Retained Wellsite Tracts. If oil or gas is not being produced in paying quantities from the Lands on or before the Expiration Date and the Lessee is not then conducting Operations on the Lands, this Lease shall immediately terminate. If oil or gas is not being produced in paying quantities from the Lands on or before the Expiration Date, but Lessee is then conducting Operations on the Lands, this Lease shall remain in force and effect as to the Lands so long, and only so long, as Lessee shall conduct Continuous Drilling Operations on the Lands. For the purposes of this Lease the term "Operations" shall mean operations for and any of the following: actual drilling, testing, completing, reworking, recompleting, deepening, plugging back or repairing of a well in search for or in an endeavor to obtain production of oil or gas, or actual production of oil or gas. For the purposes of this Lease, the term "Continuous Drilling Operations" shall mean that not more than 60 days shall expire between the date of completion of a well or the abandonment as a dry hole of a well (such date to be deemed the earlier of (i) the filing of a Well Completion Report with any agency having jurisdiction in the premises (the "Agency") or (ii) the date of which the rig is removed from the well site) and the commencement of Actual Drilling Operations for the drilling of the next succeeding well to the development of the Lands to the density of maximum allowable production. For the purposes of this lease, the commencement of "Actual Drilling Operation" shall mean that the first operation conducted after the conductor casing has been driven, spudding operations have been completed and the kelly has been raised and the first joint of drill pipe has been secured on the drill stem. If Lessee commences Actual Drilling Operations on a well within 60 days after the date of completion or abandonment of the previous well, the difference shall NOT be credited towards the next period of time for the commencement of the next well nor carried forward or cumulated in any manner.

If Lessee fails to conduct Continuous Drilling Operations on the Lands at any time after the Expiration Date, this Lease shall thereupon terminate as to all Lands save and except (i) those tracts around wells then producing oil or gas in paying quantities (the "Retained Wellsite Tracts"), limited to the rights from the surface to the base of the deepest horizon then producing in any well(s) drilled on such Retained Wellsite Tract and (ii) such rights-of-way and easements across the remainder to the Lands for such pipelines and roads as may be necessary for production and operations on the Retained Wellsite Tracts.

The Retained Wellsite Tracts shall be designated in strict compliance with the following:

a. Shape of Retained Wellsite Tract. Each Retained Wellsite Tract shall be in as nearly the form of a square as possible, with the sides parallel to the sides of the Lands, with one side coinciding with one side of the Lands, if possible, and with the well thereon located at a legally spaced location or proration unit within such area as allowed by the governmental authority having jurisdiction in the area.

b. Size of Retained Wellsite Tract. The Retained Wellsite Tract shall for each well then producing oil or gas consist of not more than the number of surface acres of contiguous land around each such well which is the smallest size then prescribed or permitted by the Agency as the minimum proration unit for obtaining the maximum allowable production of oil or gas from such well.

It is provided, however, ^{that} if Lands are pooled or unitized with other acreage pursuant to the terms of Section 5 hereof, that the size and shape of the Retained Wellsite Tract shall conform to the portion of the Lands included in the pooled or unitized acreage on which production is then being derived.

If, at any time after the Expiration Date, production in paying quantities ceases or all Operations then being conducted are discontinued on such Retained Wellsite Tract, this Lease shall terminate with respect to such Retained Wellsite Tract on the 60th day following such cessation or discontinuance unless on or before such date either (i) Lessee commences production or resumes Operations on such Retained Wellsite Tract or (ii) the shut-in well provisions of Paragraph 4.d are applicable to such Retained Wellsite Tract. If at any time after the Expiration Date, production ceases from the deepest horizon then producing (a "Formerly Producing Depth") from a well located on a Retained Wellsite, but continues from a lesser depth (the "Producing Depth"), this Lease shall terminate as to all depths below the base of the Producing Depth on the 60th day after the cessation of production from the Formerly Producing Depth, unless on or before such date Lessee either restores production from the Formerly Producing Depth or commences Operations are continued with reasonable diligence until production is restored from such Formerly Producing Depth.

Lessee agrees to furnish Lessor, no later than thirty (30) days after the expiration of the primary term (or any other time at which there has been a termination of the rights under this Lease, whether partial or complete), a copy of the instrument evidencing the release of the leased premises resulting from the terms of this paragraph. If Lessee is then engaged in drilling or reworking operations on the above lands, or lands pooled therewith, then Lessee shall have the right to either drill such well to total depth or complete its reworking operations with reasonable diligence and dispatch, and the provisions of this paragraph shall

become effective at completion of said operations. A well upon which shut-in royalty payments are being paid as provided in Paragraph 4.d shall be deemed as producing gas in paying quantities.

10. Removal of Equipment. Lessee shall have the right at any time while this lease is in force and effect or within one hundred eighty (180) days after the termination hereof to remove all machinery and fixtures placed on the Lands by Lessee, including the right to draw and remove casing.

11. Assignments. The rights and estate of Lessee hereunder may not be assigned without the prior written consent of Lessor, which shall not be unreasonably withheld.

12. Proportionate Reduction. If this Lease covers an interest in the oil or gas in all or any part of the Lands less than the entire and undivided fee simple estate (whether Lessor's interest is herein specified or not), then the royalties to be paid to Lessor hereunder as to the Lands provided for in Paragraph 4.a 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. The provisions of this Paragraph 12 shall not apply to the consideration given Lessor for the granting of this Lease.

13. Substances Covered. This Lease covers oil, gas, casinghead gas, other gaseous substances and associated hydrocarbons in either a liquid or gaseous phase or state and such minerals as may be produced in association with the production of oil, gas, casinghead gas, other gaseous substances and associated hydrocarbons; provided, however, that nothing in this Lease shall be deemed to authorize the gasification or in situ combustion of uranium, coal or lignite, and this Lease shall not be deemed to cover either uranium, coal or lignite. The classification of a well as either a gas well or oil well by the Agency shall be conclusive in respect of its classification under the terms of this Lease.

14. Information Required. Lessee agrees to furnish, free of cost to Lessor, transmitted by the U.S. Mail to Sempra Energy Production Company, 8235 Douglas Avenue, Suite 525, Dallas, Texas 75225, the following materials as soon as the well information is available to Lessee but in no event later than thirty (30) days from completion:

- (a) Notice of intent to drill
- (b) one Field print and Final print of all electrical and other surveys run, including a copy of all daily drilling reports, for any and all wells drilled on the Lands or lands pooled or unitized therewith;
- (c) All logging surveys, wireline tests, drillstem test charts, core analyses or other third party information as may be run or prepared in the drilling of such wells;
- (d) a copy of all state completion and plugging reports filed;
- (e) Any title information Lessee obtains with respect to the Lands; and
- (f) upon receipt of a request from Lessor, all other information on any wells drilled on the above described acreage or acreage pooled therewith.

[Handwritten: "Failure"]
In the event the above well information is not provided to Lessor, lessor will send a written request by certified mail to Lessee. ^{LESSEE} Failure to provide the requested well information within 30 days from receipt of said written request ~~will, at Lessor's option, result in the cancellation of this Lease.~~

15. Force Majeure. Lessee shall not be liable for any delays in Lessee's performance of any covenant or condition hereunder, express or implied, or for total or partial non-performance thereof, for so long as, and only so long as, Lessee is prevented from performing the same due to force majeure. The term "force majeure", as used herein, shall mean any circumstance or any condition wholly beyond the control of Lessee, including acts of God and actions of the elements, acts of the public enemy, strikes, lockouts, accidents, laws, rules, regulations and order of federal, state or municipal government, or officers of agents thereof. If Lessee is required to cease drilling or reworking or producing operations on the Lands (or lands properly pooled under the provisions of this Lease) by force majeure, then until such time as such force majeure is terminated, and for a period of 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 before the Expiration Date, the term thereof shall be added to such Primary Term. The provision of this Paragraph 15 shall not be applicable in respect of any payments required to be made under any provision of this Lease, it being expressly understood and agreed that the provisions of this paragraph 15 shall not override or modify any requirement of such payments.

16. Notice. All communications, notices and information required hereunder shall be in writing and shall be deemed to have been properly served when sent by mail, telegraph or telecopy to the addresses set forth on the signature page hereto.

17. Implied Covenants. None of the covenants contained in this Lease shall negate or in any way limit or serve in lieu of any implied covenant available to Lessor, including, without limitation, the implied covenants to further develop, to market and to protect against drainage.

18. Compliance with Laws. Lessee shall comply with all applicable laws, and regulations of governmental authorities in the conduct of all drilling and producing operations on the Lands, including, without limitation, those applicable to the protection of health and/or the environment. Lessee agrees that (i) no toxic or hazardous chemicals or wastes regulations shall be stored or disposed of on the Lands and (ii) all wells which may be located on the Lands which are no longer capable of producing in paying quantities shall be plugged and abandoned in accordance with all applicable laws and regulations of governmental authorities. Lessee shall indemnify and hold Lessor harmless from any loss or damage Lessor may suffer as a result of any environmental damage or pollution resulting from the operations conducted by Lessee or otherwise resulting from or relating to a breach by Lessee of the covenants contained in this paragraph 18 or otherwise contained in this Lease.

19. Indemnification. Lessee agrees to indemnify and hold harmless Lessor from and against any and all claims resulting from or arising out of or in connection with operations of or for Lessee hereunder, and from and against all costs and expenses incurred by Lessor from and against any and all claims. Each assignee claiming hereunder agrees to indemnify and hold harmless Lessor from and against any and all claims resulting from or arising out of or in connection with operations of or for such assignee hereunder, and from and against all costs and expenses incurred by Lessor by reason of such claim or claims.

20. ~~Additional Consideration Prior to such Commencement~~ ^{Mineral owner} If at any time prior to the commencement of initial drilling operations on the Lands, Lessee pays a third party a greater consideration for an Oil and Gas Lease containing an equal royalty provision, on a per acre basis, covering land located within the Lands ^{the present lease} or in the eight (8) adjacent offset units, then Lessee agrees to pay Lessor the difference between the consideration paid Lessor, per net mineral acre, and the consideration paid to a third party.

21. Lessor executes this lease without warranty of title, expressed and implied.

IN WITNESS WHEREOF, this Lease is executed on the date of the acknowledgments attached hereto but shall be effective as of the Effective Date recited above.

SEMPRA ENERGY PRODUCTION COMPANY (formerly known as PACIFIC ENTERPRISES ABC CORPORATION)

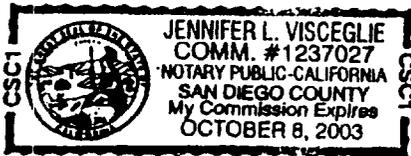
By: [Signature]
Michael J. Walker
Vice President

Tax ID No.: 95-4390494

STATE OF CALIFORNIA)
COUNTY OF SAN DIEGO)

On July 24, 2001, before me, Jennifer L. Visceglie, a Notary Public, personally appeared MICHAEL J. WALKER personally known to me to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person or the entities upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.



Jennifer L. Visceglie
Notary Public
Jennifer L. Visceglie
Printed Name

STATE OF NEW MEXICO
COUNTY OF LEA
FILED



11842

SEP 26 2001
10:46 A M
and recorded in Book _____
Page _____
Melinda Hutto, Lea County Clerk
By DJ Deputy

SEMPRA ENERGY PRODUCTION COMPANY
8235 DOUGLAS AVE., SUITE 525
DALLAS, TEXAS 75225
214.706.0420 Fax 214.706.0415

**Sempra Energy
Production Company**

Fax

To: Blaine Hess From: Sara Williams
Fax: 505-623-4916 Date: 11/5/02
Phone: _____ Pages: _____
Re: _____ CC: _____

Urgent For Review Please Comment Please Reply Please Recycle

Comments:

attached is our lease w/ most of the
changes you requested - let me know if
it looks OK + I'll send it to CA to be
signed.

Thanks!

Sara

OIL CONSERVATION DIVISION

CASE NUMBER _____

EXHIBIT _____

THIS OIL AND GAS LEASE (this "Lease") is made and entered into effective as of the 11th day of November, 2002 (the "Effective Date"), and is by and between Sempra Energy Production Company (formerly known as Pacific Enterprises ABC Corporation), 8235 Douglas Avenue, Suite 525, Dallas, Texas 75225, hereinafter called Lessor and Ocean Energy, Inc., 1001 Fannin, Suite 1600, Houston, Texas 77002-6794 hereinafter called Lessee.

1. Grant of Lease Lessor, for and in consideration of \$10.00 and other good and valuable consideration, the receipt of which is hereby acknowledged, and of the covenants and agreements of Lessee hereinafter contained, does hereby lease, let and demise unto Lessee, its successors and assigns, without representations warranties or covenants of title of any kind or nature, or any other warranties or representations, the following:

a. Lands Leased. The lands described as follows (the "Lands") for the purposes and with the right of exploring, investigating, drilling for and operating for, producing, treating, storing and transporting oil and gas, subject to the further provisions of this paragraph 1; for the purposes of determining payments due hereunder, unless a survey made by Lessee should otherwise determine, the Lands shall be deemed to contain 160 acres, whether actually containing more or less are located in the County of Lea, State of New Mexico, and described as follows, to wit:

The Northwest Quarter (NW/4) of Section 23, Township 14 South, Range 37 East, N.M.P.M.

b. Geological Surveys. To the extent that Lessor has the right to do so, the exclusive right to conduct geological and geophysical surveys, by seismograph, gravity or magnetic methods or any other method developed in the future; and

c. Easements and Other Rights. To the extent that Lessor has the right to do so, the right to lay pipelines, to construct roads, to dig canals, to build tanks, power stations and telephone lines, to the extent any of such activities are necessary or useful in Lessee's operations in exploring, investigating, drilling for, producing, treating, storing and transporting oil and gas produced from the land covered hereby, together with all easements, rights of ingress and egress and all other rights incidental or necessary for the full enjoyment of the estate herein granted.

2. Term. Subject to other provisions contained in this Lease, this Lease shall remain in force for a term commencing on the Effective Date and expiring at midnight local time one (1) year after the Effective Date (the "Expiration Date"), which term is referred to in this Lease as the "Primary Term", and for so long thereafter as oil and gas or either of them is being produced in paying quantities from the Lands or lands with which the Lands or any part thereof may be pooled as permitted herein and the royalties are paid thereon as herein provided.

ALSO, Lessor and Lessee agree that Lessee shall have the option at the expiration of Said Lease to obtain a new lease from Lessor for the same terms, provisions and bonus consideration as Said Lease. Lessee must notify Lessor of its election to exercise said option in writing 30 days prior to the expiration of Said Lease.

3. Royalty Share. For the purposes of this Lease, the term "Royalty Share" shall mean a fraction equal to (3/16ths) three-sixteenths.

4. Royalties. In respect of oil and gas which may be produced from the Lands or lands with which the Lands or any part thereof may be pooled or unitized as permitted herein, as royalty, Lessee covenants and agrees that Lessee shall comply with each of the following provisions:

a. Oil Royalty. In respect of oil (for the purposes of this Lease, the term "oil" shall also include other liquid hydrocarbons, other than as provided in Paragraph 4 c), Lessee shall deliver to the credit of Lessor, as royalty, in the pipeline to which Lessee's operations connect Lessee's wells, the Royalty Share of all oil produced and saved by Lessee from the Lands or lands with which the Lands or any part thereof may be pooled as permitted herein; the delivery of such oil shall be made to the credit of Lessor into the storage tanks or the pipeline to which the well or wells on the Lands may be connected.

b. Gas Royalty. In respect of gas (for the purposes of this Lease, term "gas" shall mean and include natural gas, casinghead gas and all other gaseous or vaporous substances which are hydrocarbons as the same may exist at the surface under normal atmospheric pressures and at normal ambient temperatures) produced, saved and sold from the Lands or lands with which the

and when, but in no event less than the Royalty Share of the price prevailing for gas of similar quality in the field in which the Lands are located. Except as provided in Paragraph 4.d, when any gas is produced and used off of the Lands or lands with which the Lands may be pooled as permitted herein, Lessee shall pay Lessor, as royalty, the Royalty Share of the "Market Value" (as hereinafter defined) of such gas. If any gas is sold or otherwise disposed of to any affiliate, subsidiary or parent of Lessee, such gas shall be sold or otherwise disposed of at a price not less than the "Market

Value" thereof, which for the purpose of this Lease shall mean a price equal to the average of the three highest prices being paid for gas to any party in the county identified in the lands leased or, if there are no gas sales occurring in said county, then such price shall be equal to or greater than the average of the three highest prices being paid for gas in the counties in the State identified in the lands leased which are contiguous to said county.

c. Plant Products Royalty. If gas is produced from Lands and is thereafter processed in an absorption, extraction, casinghead, stripping or other plant or plants, whether such plants are listed in the foregoing list or not (a "processing plant"), then, in lieu of the royalties provided for in the immediately preceding Paragraph 4.b, Lessee shall pay, as royalty, the Royalty Share of the proceeds realized by Lessee from the sale of all plant products extracted, separated, absorbed or saved from such gas before the addition of treating or blending agents or substances not derived from such gas and, in addition, Lessor shall be paid, as royalty, the Royalty Share of the amount realized by Lessee from the sale of the residue gas remaining after the extraction of the plant products therefrom; provided, however, that if such residue gas is sold or otherwise disposed of to any affiliate, subsidiary or parent of Lessee, the computation of the royalty thereon shall be based upon the Market Value thereof. No royalty shall be paid on Lessor's proportionate share of residue gas used, for no compensation to Lessee, for fuel in a processing plant where such residue gas is processed for the extraction or removal of liquid hydrocarbons, and Lessee may inject gas into any oil or gas producing formation underlying the Lands after such gas has been processed for the extraction or removal of the liquid hydrocarbons therein contained, and no royalty shall be paid on gas so injected; provided, however, that royalty shall be due on said gas if said gas is injected in any well off of the Lands. If any gas is produced from the Lands and is processed in a processing plant or plants owned by Lessee or any affiliate, subsidiary or parent of Lessee, the royalties due on such plant products and gas shall be based upon the Market Value of such gas and plant products.

d. Shut In Royalty. If at any time, whether before or after the Expiration Date, Lessee shall have completed a well or wells on the Lands (or on land with which the Lands or any part thereof may be pooled) which well or wells are capable of producing gas in paying quantities but are shut-in with the result that gas is not produced, sold or used. Lessee may pay as shut-in royalty to Lessor for each such shut-in well, on or before the later of (i) the Expiration Date or (ii) the 90th day after the date such gas ceases to be sold or used, an amount equal to the greater of: (A) the product of \$2.00 times the total acreage (reducing the same by reason of any proportionate reduction as contemplated in paragraph 12) then covered by this Lease or (B) \$100.00, and upon the making of the greater payment specified in this Paragraph 4.d, it will be considered that each such well or wells are producing gas in paying quantities within the meaning of this Lease for a period of one year after such well is shut-in. In like manner and upon like payments being made annually on or before the expiration of the last preceding year for which such shut-in royalty payment has been made, it will be considered that said well or wells are producing gas in paying quantities for successive periods of one year, provided, however, that the proper payment of shut-in royalties under this Paragraph 4.c shall not perpetuate this Lease (i) for more than a total period of five years in the aggregate, or (ii) for a continuous shut-in period in excess of two (2) years. Shut in payments and notices shall be mailed to Lessor at the address set forth in the first paragraph of the lease.

If gas production is begun or resumed during the year following the payment of a shut-in royalty and the well is subsequently shut-in with the result that gas is not then being produced, the second annual shut-in payment shall be due and payable on the first annual anniversary date of the first payment (the "First Anniversary Date"). If there is production on the First Anniversary Date and the well is subsequently shut-in with the result that gas is not then being produced, then the second shut-in payment shall be made on or before 90 days after such new shut-in date or the Lease shall terminate. Such second shut-in royalty payment shall perpetuate this Lease only until the second annual anniversary date of the first shut-in royalty payment. The Lease shall likewise terminate prior to one year after the payment of a shut-in payment if the Lessee fails to timely pay shut-in royalty payments on each additional well which is shut-in. Should any shut-in royalty payment not be made in a timely manner as this Paragraph 4.d provides, then, in that event, it shall be considered for all purposes that there is no production from any such well or wells and except to the extent that this Lease is then being perpetuated under other provisions of this Lease, this Lease shall terminate at midnight on the last day provided for the payment of such shut-in royalties, and Lessee shall thereupon furnish to Lessor a release of all of Lessee's interest in and to this Lease.

e. Place and Time of Payment of Production Royalties.

(1) Except as specifically provided above, all royalties due under the provisions of Paragraphs 4.a, 4.b or 4.c shall be paid to Lessor shall indicate the mineral number applicable thereto (the mineral number is located on the upper right hand corner of page 1 of this lease), and shall be paid at the address specified below:

Any notices or correspondence mailed to Lessor shall be mailed to the address as set forth in the first paragraph of this Lease.

(2) Lessee shall tender first royalty payments to Lessor on or before 120 days after the month of first sale of production. Thereafter Lessee shall tender royalty payments

to Lessor within 60 days of the date oil is produced and sold within 90 days of the date gas is produced and sold. It is expressly agreed that if Lessee fails to pay royalties within the aforementioned timeframe, Lessor may thereafter notify Lessee in writing of such failure and Lessee shall then have 30 days from receipt of such notice to make such payments, and if Lessee then fails to pay such royalties, Lessee will also be required to pay interest at a rate 2% above the rate charged on loans to depository institutions by the New York Federal Reserve Bank on royalty payments not paid within the above time frames. In the event any dispute or question arises concerning the title to Lessor's interest, Lessee may withhold royalty payment accruing to the interest or interests affected, without consequence to the hereinabove stated termination penalty, until such dispute or question of title has been corrected. Payments may be remitted to Lessor annually for the aggregate of up to twelve months accumulation of proceeds if the total amount owed is \$100 or less.

f. Division Orders. The execution of a division order shall not be required as a condition or prerequisite for royalty payments to be due and payable under this Lease.

5. Pooling and Unitization. Lessee, at its option, is hereby given the right and power to pool or combine the land covered by this Lease, or any portion thereof, as to oil and gas, or either of them, with any other land, lease or leases when in Lessee's judgment it is necessary or advisable to do so in order to properly develop and operate said leased premises, such pooling to be into a well unit or units not exceeding forty (40) acres, plus an acreage tolerance of ten percent (10%) of forty (40) acres for oil, and not exceeding six hundred forty (640) acres, plus an acreage tolerance of ten percent (10%) of six hundred forty (640) acres for gas. Larger units may, however, be created to conform to any spacing or well unit pattern that may be prescribed by governmental authorities having jurisdiction. Lessee may pool or combine acreage covered by this Lease, or any portion thereof, as above provided, as to oil or gas in any one or more strata, 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 stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee hereunder to pool this Lease or portions thereof into other units. Lessee shall execute in writing and place of record in the county wherein the above described lands are located, an instrument or instruments identifying and describing the pooled acreage, a copy of which shall be provided to Lessor.

The entire acreage so pooled into a unit shall be treated, for all purposes except the payment of royalties, as if it were included in this Lease, and drilling or reworking operations thereon or production of oil or gas therefrom, or the completion thereof of a well as a shut-in gas well, shall be considered, for all purposes except the payment of royalties, as if such operations were on or such production were from or such completion were on lands covered by this Lease, whether or not the well or wells shall be located on the premises covered by this Lease. In lieu of the royalties elsewhere herein specified, Lessor shall receive from a unit so formed only such portion of the royalty stipulated herein as the amount of this acreage placed in the unit or his royalty interest therein bears to the total acreage so pooled in the particular unit involved.

Should any unit as originally created hereunder contain less than the maximum number of acres herein above specified, Lessee may at any time thereafter, whether before or after production is obtained on the unit, enlarge such unit by adding additional acreage thereto, but the enlarged unit shall in no event exceed the spacing or well unit pattern that may be prescribed by governmental authorities having jurisdiction. In the event an existing unit is so enlarged, Lessee shall execute and place of record, and provide Lessor a copy of, a supplemental declaration of unitization identifying and describing the land added to the existing unit. In the absence of production, Lessee shall terminate any unitized area by filing a notice of termination of record in the county wherein the above described lands are located. A copy of such notice shall be provided to Lessor.

Notwithstanding any other provision contained in this lease to the contrary, operations on or production from lands pooled or unitized shall only maintain this lease in effect with respect to that portion of the Lands included within the geographical boundaries of such pooled acreage or unit. The portion of the Lands located outside the boundaries thereof may be maintained as otherwise provided in this Lease.

6. Protection For Adjacent Units. In the event a well is drilled producing oil or gas in paying quantities should be drilled on adjacent land and should such well or wells be draining the leased premises, Lessee agrees to drill such offset wells as a reasonable and prudent operator would drill under the same or similar circumstances. If oil and/or gas are discovered on the land covered by this Lease or on lands pooled therewith, Lessee agrees to further develop said land covered by this Lease as a reasonable and prudent operator would under the same or similar circumstances.

7. No Delay Rentals. This Lease is a "paid-up" lease and no delay rentals shall be required to be paid by Lessee.

whereunder, and thereby be relieved of all obligations as to the released acreage or interest in the Lands released as to a portion of the Lands, any payments computed in accordance therewith shall thereupon be reduced in the proportion that the acreage released bears to the acreage which was covered by this Lease immediately prior to such release.

9. Operations; Retained Wellsite Tracts. If oil or gas is not being produced in paying quantities from the Lands on or before the Expiration Date and the Lessee is not then conducting Operations on the Lands, this Lease shall immediately terminate. If oil or gas is not being produced in paying quantities from the Lands on or before the Expiration Date, but Lessee is then conducting Operations on the Lands, this Lease shall remain in force and effect as to the Lands so long, and only so long, as Lessee shall conduct Continuous Drilling Operations on the Lands. For the purposes of this Lease the term "Operations" shall mean operations for and any of the following: actual drilling, testing, completing, reworking, recompleting, deepening, plugging back or repairing of a well in search for or in an endeavor to obtain production of oil or gas or actual production of oil or gas. For the purposes of this Lease, the term "Continuous Drilling Operations" shall mean that not more than 180 days shall expire between the date of completion of a well or the abandonment as a dry hole of a well (such date to be deemed the earlier of (i) the filing of a Well Completion Report with any agency having jurisdiction in the premises (the "Agency"); or (ii) the date of which the rig is removed from the well site) and the commencement of Actual Drilling Operations for the drilling of the next succeeding well to the development of the Lands to the density of maximum allowable production. For the purposes of this lease, the commencement of "Actual Drilling Operation" shall mean that the first operation conducted after the conductor casing has been driven, spudding operations have been completed and the kelly has been raised and the first joint of drill pipe has been secured on the drill stem. If Lessee commences Actual Drilling Operations on a well within 180 days after the date of completion or abandonment of the previous well, the difference shall NOT be credited towards the next period of time for the commencement of the next well nor carried forward or cumulated in any manner.

If Lessee fails to conduct Continuous Drilling Operations on the Lands at any time after the Expiration Date, this Lease shall thereupon terminate as to all Lands save and except (i) those tracts around wells then producing oil or gas in paying quantities (the "Retained Wellsite Tracts"), limited to the rights from the surface to the base of the deepest horizon then producing in any well(s) drilled on such Retained Wellsite Tract and (ii) such rights-of-way and easements across the remainder to the Lands for such pipelines and roads as may be necessary for production and operations on the Retained Wellsite Tracts.

The Retained Wellsite Tracts shall be designated in strict compliance with the following:

a. Shape of Retained Wellsite Tract. Each Retained Wellsite Tract shall be in as nearly the form of a square as possible, with the sides parallel to the sides of the Lands, with one side coinciding with one side of the Lands, if possible, and with the well thereon located at a legally spaced location or proration unit within such area as allowed by the governmental authority having jurisdiction in the area.

b. Size of Retained Wellsite Tract. The Retained Wellsite Tract shall for each well then producing oil or gas consist of not more than the number of surface acres of contiguous land around each such well which is the smallest size then prescribed or permitted by the Agency as the minimum proration unit for obtaining the maximum allowable production of oil or gas from such well.

It is provided, however, that if Lands are pooled or unitized with other acreage pursuant to the terms of Section 5 hereof, that the size and shape of the Retained Wellsite Tract shall conform to the portion of the Lands included in the pooled or unitized acreage on which production is then being derived.

If, at any time after the Expiration Date, production in paying quantities ceases or all Operations then being conducted are discontinued on such Retained Wellsite Tract, this Lease shall terminate with respect to such Retained Wellsite Tract on the 60th day following such cessation or discontinuance unless on or before such date either (i) Lessee commences production or resumes Operations on such Retained Wellsite Tract or (ii) the shut-in well provisions of Paragraph 4.d are applicable to such Retained Wellsite Tract. If at any time after the Expiration Date production ceases from the deepest horizon then producing (a "Formerly Producing Depth") from a well located on a Retained Wellsite, but continues from a lesser depth (the "Producing Depth"), this Lease shall terminate as to all depths below the base of the Producing Depth on the 60th day after the cessation of production from the Formerly Producing Depth, unless on or before such date Lessee either restores production from the Formerly Producing Depth or commences Operations are continued with reasonable diligence until production is restored from such Formerly Producing Depth.

Lessee agrees to furnish, on or no later than thirty (30) days after the expiration of the primary term for any other time at which there has been a termination of the rights under this Lease, whether partial or complete, a copy of the instrument evidencing the release of the leased premises resulting from the terms of this paragraph. If Lessee is then engaged in drilling or reworking operations on the above lands, or lands pooled therewith, then Lessee shall have the right to either drill such well to total depth or complete its reworking operations with reasonable diligence and dispatch, and the provisions of this paragraph shall become effective at completion of said operations. A well upon which shut-in royalty payments are being paid as provided in Paragraph 4.d shall be deemed as producing gas in paying quantities.

10. Removal of Equipment: Lessee shall have the right at any time while this lease is in force to remove all machinery and equipment used in the operations hereunder, and after the term set forth herein to remove all machinery and

11. Assignments. The rights and estate of Lessee hereunder may not be assigned without the prior written consent of Lessor, which shall not be unreasonably withheld.

12. Proportionate Reduction. If this Lease covers an interest in the oil or gas in all or any part of the Lands less than the entire and undivided fee simple estate (whether Lessor's interest is herein specified

or not), then the royalties to be paid to Lessor hereunder as to the Lands provided for in Paragraph 4.a 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. The provisions of this Paragraph 12 shall not apply to the consideration given Lessor for the granting of this Lease.

13. Substances Covered. This Lease covers oil, gas, casinghead gas, other gaseous substances and associated hydrocarbons in either a liquid or gaseous phase or state and such minerals as may be produced in association with the production of oil, gas, casinghead gas, other gaseous substances and associated hydrocarbons; provided, however, that nothing in this Lease shall be deemed to authorize the gasification or in situ combustion of uranium, coal or lignite and this Lease shall not be deemed to cover either uranium, coal or lignite. The classification of a well as either a gas well, or oil well by the Agency shall be conclusive in respect of its classification under the terms of this Lease.

14. Information Required. Lessee agrees to furnish, free of cost to Lessor, transmitted by the U.S. Mail to Sempra Energy Production Company, 6235 Douglas Avenue, Suite 525, Dallas, Texas 75225 the following materials as soon as the well information is available to Lessee but in no event later than thirty (30) days from completion.

- (a) Notice of intent to drill
- (b) one Field print and Final print of all electrical and other surveys run, including a copy of all daily drilling reports for any and all wells drilled on the Lands or lands pooled or unitized therewith;
- (c) All logging surveys, wireline tests, drillstem test charts, core analyses or other third party information as may be run or prepared in the drilling of such wells;
- (d) a copy of all state completion and plugging reports filed;
- (e) Any title information Lessee obtains with respect to the Lands; and
- (f) upon receipt of a request from Lessor, all other information on any wells drilled on the above described acreage or acreage pooled therewith

In the event the above well information is not provided to Lessor, lessor will send a written request by certified mail to Lessee. Lessee to provide the requested well information within 30 days from receipt of said written request.

15. Force Majeure. Lessee shall not be liable for any delays in Lessee's performance of any covenant or condition hereunder, express or implied, or for total or partial non-performance thereof, for so long as, and only so long as, Lessee is prevented from performing the same due to force majeure. The term "force majeure", as used herein, shall mean any circumstance or any condition wholly beyond the control of Lessee, including acts of God and actions of the elements, acts of the public enemy, strikes, lockouts, accidents, laws, acts, rules, regulations and order of federal, state or municipal government, or officers or agents thereof. If Lessee is required to cease drilling or reworking or producing operations on the Lands (or lands properly pooled under the provisions of this Lease) by force majeure, then until such time as such force majeure is terminated, and for a period of 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 before the Expiration Date, the term thereof shall be added to such Primary Term. The provision of this Paragraph 15 shall not be applicable in respect of any payments required to be made under any provision of this Lease, it being expressly understood and agreed that the provisions of this paragraph 15 shall not override or modify any requirement of such payments.

16. Notice. All communications, notices and information required hereunder shall be in writing and shall be deemed to have been properly served when sent by mail, teletype or teletext to the addresses set forth on the signature page hereto.

17. Implied Covenants. None of the covenants contained in this Lease shall negate, modify or in any way limit or serve in lieu of any implied covenant available to Lessor, including, without limitation, the implied covenants to further develop, to market and to protect against drainage

18. Compliance with Laws. Lessee shall comply with all applicable laws, and regulations of governmental authorities in the conduct of all drilling and producing operations on the Lands, including, without limitation, those applicable to the protection of health and/or the environment. Lessee agrees that (i) no toxic or hazardous chemicals or wastes regulations shall be stored or disposed of on the Lands and (ii) all wells which may be located on the Lands which are no longer capable of producing in paying quantities shall be plugged and abandoned in accordance with all applicable laws and regulations of governmental

otherwise resulting from or relating to a breach by Lessee of the covenants contained in this paragraph 18 or otherwise contained in this Lease

19. Indemnification. Lessee agrees to indemnify and hold harmless Lessor from and against any and all claims resulting from or arising out of or in connection with operations of or for Lessee hereunder,

and from and against all costs and expenses incurred by Lessor from and against any and all claims. Each assignee claiming hereunder agrees to indemnify and hold harmless Lessor from and against any and all claims resulting from or arising out of or in connection with operations of or for such assignee hereunder, and from and against all costs and expenses incurred by Lessor by reason of such claim or claims.

20. Additional Consideration Prior to such Commencement. If at any time prior to the commencement of initial drilling operations on the Lands, Lessee pays a mineral owner a greater consideration for an Oil and Gas Lease containing an equal royalty provision, on a per acre basis, covering land located within the Lands, then Lessee agrees to pay Lessor the difference between the consideration paid Lessor, per net mineral acre, and the consideration paid to a third party.

21. Lessor executes this lease without warranty of title, expressed and implied.

IN WITNESS WHEREOF, this Lease is executed on the date of the acknowledgments attached hereto but shall be effective as of the Effective Date recited above.

SEMPRA ENERGY PRODUCTION COMPANY (formerly known as PACIFIC ENTERPRISES ABC CORPORATION)

By: _____
Michael J. Walker
Vice President

Tax ID No.: 95-4390494

STATE OF CALIFORNIA)
)
COUNTY OF SAN DIEGO)

On _____, 2002, before me, _____, a Notary Public, personally appeared MICHAEL J. WALKER personally known to me to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person or the entities upon behalf of which the person acted executed the instrument.

WITNESS my hand and official seal.

Notary Public

Printed Name

SEMPRA ENERGY PRODUCTION COMPANY
8235 Douglas Avenue, Suite 525
Dallas, Texas 75225
214.706.0420
214.706.0415 (Facsimile)

Blaine Hess
Oil Properties
Post Office Box 326
Roswell, New Mexico 88202-0326
(505) 623-5400
(505) 623-4916 *facsimile*

November 5, 2002

Ms. Sarah Williams
Sempra Energy Production Company
8235 Douglas Avenue, Suite 525
Dallas, Texas 75225

Re: W/2 of Section 23, T-14-S, R-37-E, N.M.P.M.,
Denton Area, Tatum Basin Project
Lea County, New Mexico

Dear Ms. Williams:

I just wanted to inform you that we have changed the name of Denton Canyon 23-1 Well to the Brickyard 23-1 Well.

Also, there is the possibility we may move the location of the Well due to the original location being in the way of an irrigation system. If this is the case, the new location will be 330 feet FSL and 2,310 feet FWL of Section 23, T-14-S, R-37-E, N.M.P.M., Lea County, New Mexico. If the location is moved we will have to directional drill the well resulting in the estimated cost to drill the well increasing approximately \$75,000.00.

Should you have any questions, please feel free to contact me.

Yours truly,



Blaine Hess

Bh/arh

cc: Mr. Derold Maney, Ocean Energy, Inc.

CONSERVATION DIVISION
CASE NUMBER _____
EXHIBIT _____