



William F. Chatham, CPL
Landman

October 1, 2002

VIA CERTIFIED MAIL 7002 0510 0002 3411 6378

Mr. William Moyers, Esq., Assistant General Counsel
Department of Transportation and Highways
State of New Mexico
P.O. Box 1149
Santa Fe, NM 87504-1149



Re: Will Fee "7A" #1 Well
Section 7, T23S-R28E, NMPM,
Eddy County, New Mexico

Dear Mr. Moyers:

Chesapeake Exploration Limited Partnership, as successor in title to Devon Energy Production Company, L.P. ("Devon") acting by and through its agent, Chesapeake Operating, Inc. ("Chesapeake"), hereby proposes the drilling of the Will Fee "7A" # 1 well to an approximate depth of 12,550 feet or to a depth sufficient to test the Morrow formation. The surface location is a standard location at 725' FNL and 1063' FEL, Section 7, T23S-R28E, NMPM, Eddy County, New Mexico.

Subject to title verification, our records reflect that the Department of Transportation and Highways may own the minerals under 2.0775 net mineral acres (0.6524% Gross Working Interest) in the unit being the N/2 of said section. We respectfully request that you select one of the following options for your interest with respect to this well proposal:

1. Lease your leasehold for \$250.00 per acre delivering an 87.50% net revenue interest.
2. Lease your leasehold for \$200.00 per acre delivering an 81.25% net revenue interest.
3. Commit to participate with your interest by paying your proportionate share of actual well costs. Our estimated dry hole costs are \$1,022,000.00 and estimated completed well costs are \$1,297,000.00. Our AFE is enclosed for your review.

Please indicate below the option of your choice, sign and return one (1) copy of this letter to the undersigned. If your election is to participate in drilling the proposed well, please sign and return one copy of the enclosed AFE as well. Your election is due within thirty (30) days from receipt of this proposal. You may return a fax copy of your election to the undersigned at (405) 879-9535 followed by a hard copy.

NM Department of Transportation and Highways
Will Fee "7A" #1
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Your early attention and response to this proposal will be greatly appreciated. Should you have any questions, please contact me at (405) 879-9189.

Sincerely,

Chesapeake Exploration Limited Partnership

William F. Chatham

William F. Chatham

Enclosure

- ☐ Lease your minerals for \$250.00 per acre delivering an 87.50% net revenue interest.
- ☐ Lease your minerals for \$200.00 per acre delivering an 81.25% net revenue interest.
- ☐ Elect to participate in the drilling of the Will Fee "7-A" #1 well.

NEW MEXICO DEPARTMENT OF TRANSPORTATION AND HIGHWAYS

BY: _____

DATE: _____

CHESAPEAKE OPERATING, INC.

AUTHORIZATION FOR EXPENDITURE					County, State	Eddy, New Mexico
Project Area: Permian					Date:	05/30/02
Well Name: Well Faw 7-1					Total Depth:	12,552'
Operator: Chesapeake Operating, Inc.					Formation:	Marlow
AFE #: 131044					Property #:	810421
Spading Unit: N/2 Section 7-23S-20E						
CODE	INTANGIBLE COSTS	WORK DESCRIPTION			DRY HOLE	PRODUCER
233400	Location:	Roads, Locating, Hrs			\$20,000.00	\$20,000.00
233401		Damages			\$20,000.00	\$20,000.00
233402		Governmental Filings			\$2,000.00	\$2,000.00
233403		Title/Curative			\$10,000.00	\$10,000.00
233404		Seismic Costs			\$0.00	\$0.00
233405		Reclamation			\$10,000.00	\$10,000.00
233406	Drilling:	Top Drive			\$0.00	\$0.00
233408		Pipeline Construction			\$0.00	\$0.00
233409		Fuel			\$28,000.00	\$31,000.00
233410		Drilling Contractor 34 x 35 days @ \$8,000 per day			\$272,000.00	\$304,000.00
233411		Directional Services			\$0.00	\$0.00
233413		Rig Mobilization/Demobilization			\$40,000.00	\$40,000.00
233414		Contract Labor			\$20,000.00	\$25,000.00
233415		Bits			\$60,000.00	\$60,000.00
233416		Supplies and Utilities			\$3,000.00	\$4,000.00
233426		Cement Conductor			\$8,000.00	\$8,000.00
233417		Cement Surface Casing			\$10,000.00	\$10,000.00
233420		Cement Intermediate Casing			\$15,000.00	\$15,000.00
233424		Cement Production Casing			\$0.00	\$0.00
233425		Cement Drilling Liner			\$0.00	\$0.00
233452		Cement Production Liner			\$0.00	\$15,000.00
233418		Mud Logging			\$8,000.00	\$8,000.00
233419		Drilling Fluids, Mud, Chem			\$10,000.00	\$15,000.00
233421		Drill String Inspection			\$0.00	\$0.00
233423		Open Hole Logging			\$30,000.00	\$30,000.00
233427		Fishing			\$0.00	\$0.00
233428		Downhole Rental Equipment			\$34,000.00	\$36,000.00
233430	Completion:	Completion Unit			\$0.00	\$20,000.00
233431		Cased Hole Logging/Perforating			\$0.00	\$15,000.00
233433		Jetting			\$0.00	\$0.00
233434		Formation Stimulation			\$0.00	\$10,000.00
233437	General:	Surface Equipment Rental			\$34,000.00	\$34,000.00
233438		Transportation			\$10,000.00	\$12,000.00
233441		Flow Fluid Manual			\$0.00	\$0.00
233442		Blowout Emergencies			\$0.00	\$0.00
233443		Company Supervision/Engineering			\$38,000.00	\$42,000.00
233444		Consultants			\$23,000.00	\$25,000.00
233446		Company Overhead			\$12,000.00	\$14,000.00
233447		Insurance			\$22,000.00	\$22,000.00
233449		Major Construction Overhead			\$0.00	\$1,000.00
233450		Plug to Abandon			\$0.00	\$0.00
		10% Contingency			\$77,000.00	\$80,000.00
TOTAL	INTANGIBLES	Total Intangible Costs			\$846,000.00	\$981,000.00
CODE	TANGIBLE COSTS	WORK DESCRIPTION				
230103	Tubulars:	Conductor 13-5/8" 400'			\$7,000.00	\$7,000.00
230100		Surface Casing 8-5/8" 2,450'			\$21,000.00	\$21,000.00
230101		Intermediate Casing 7" 9,500'			\$110,000.00	\$110,000.00
230102		Production Casing			\$0.00	\$0.00
230103		Drilling Liner			\$0.00	\$0.00
230108		Production Liner 4-1/2" 3,700'			\$0.00	\$40,000.00
230104		Flow Equipment			\$8,000.00	\$8,000.00
230105		Tubing 2-3/8" 12,550'			\$0.00	\$34,000.00
230106	Lease Equipment:	Wellhead Equipment			\$8,000.00	\$20,000.00
230107		Downhole Equipment			\$0.00	\$17,000.00
230111		Artificial Lift Pumping Unit			\$0.00	\$0.00
230113		Production Equipment			\$0.00	\$20,000.00
230115		Compressor/Compression			\$0.00	\$0.00
230116		Pipeline Equipment			\$0.00	\$0.00
230120		Non-Controllable Equipment			\$0.00	\$0.00
		10% Contingency			\$16,000.00	\$23,000.00
TOTAL	TANGIBLES	Total Tangible Costs			\$178,000.00	\$316,000.00
		Total Costs			\$1,022,000.00	\$1,297,000.00

Prepared by: RAJ

Approved by: LMB

OPERATOR'S APPROVAL

Operations/Geology

DATE: 6-11-02

OPERATOR'S APPROVAL

Lead Accounting

DATE: 6/10/02

NON-OPERATOR'S APPROVAL

DATE:

The costs on this AFE are estimates only and may not be construed as ceilings on any specific item or the total cost of the project. In executing this AFE, the participant agrees to pay its proportionate share of actual costs incurred, including legal, curative, regulatory, brokerage and well costs under the terms of the applicable joint operating agreement, regulatory order or other agreement covering this well. The operator may contract with an affiliated entity to drill the well at prevailing rates in the area. Participant shall be covered by and billed proportionately for Operator's well control and general liability insurance unless participant provides operator a certificate evidencing its own insurance in amounts acceptable to the operator by the date of spud.

COTTON, BLEDSOE, TIGHE & DAWSON

A PROFESSIONAL CORPORATION
ATTORNEYS AT LAW

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SUITE 2100
HOUSTON, TEXAS 77002-7351
TELEPHONE (713) 759-9281
FAX (713) 759-0458

July 20, 2001

Mr. William Moyers
General Counsel's Office
New Mexico State Highway & Transportation Department
P. O. Box 1149
Santa Fe, New Mexico 87504-1149

Re: Condemnation Suit



Dear Mr. Moyers:

I am writing you this letter to supplement our prior telephone conversations. This firm represents Devon Energy Corporation. I previously rendered an original drilling title opinion covering the N/2 of Section 7, Township 23 South, Range 28 East, N.M.P.M., Eddy County, New Mexico for Devon. In connection with such opinion I examined that certain Judgment rendered in Cause No. 24439 on January 5, 1968 in the District Court of the Fifth Judicial District, Eddy County, New Mexico, in that certain suit styled *State of New Mexico, ex rel State Highway Commission of New Mexico v. Martin Villa, et al, Defendants*. A certified copy of the Judgment is recorded in Volume 58, Page 923 of the Miscellaneous Records of Eddy County, New Mexico. I am enclosing a copy of the original petition and the judgment rendered in said suit for your convenience. Pursuant to said judgment, the State of New Mexico was awarded title to the lands described in the judgment. The original petition filed in said suit appears to indicate that the condemnation action would not cover oil, gas and other minerals. However, the judgment itself did not except oil, gas and other minerals but instead adjudged the State of New Mexico to be the owner in fee simple of the property described therein. At the time of the judgment, Martin Villa, et ux Cruz H. Villa, only owned a 1/4 mineral interest in said land. However, said judgment purported to vest fee simple title in the lands described therein in the State of New Mexico. It does not appear that the owners of the other 3/4 mineral interest in said land received notice of said suit, other than notice by publication.

RECEIVED

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LAND DEPARTMENT

Mr. William Moyers
General Counsel's Office
New Mexico State Highway & Transportation Department
July 20, 2001
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We believe that it is most likely that it was not intended for the judgment to include oil, gas and other minerals in and under the land condemned. We assume that the New Mexico State Highway Commission only intended to condemn the surface of such land.

We believe that the easiest way to fix this "title defect" is for the New Mexico State Highway Commission to execute a deed in favor of the current mineral owners whereby the New Mexico State Highway Commission conveys to such parties all of its record interest, if any, in oil, gas and other minerals in and under the lands described in the judgment. If you believe that the parties intended for the New Mexico State Highway Commission to own the minerals in the lands covered by the judgment, then please advise me the process under which Devon Energy Corporation could obtain an oil and gas lease from the New Mexico State Highway Commission.

We appreciate your assistance in this matter. I will be out of the office the week of July 23 through 27. I will try to contact you the week of July 30 to discuss this matter. Thanks again for your help.

Very truly yours,

COTTON, BLEDSOE, TIGHE & DAWSON, P.C.

By: 
Albert E. Sherman

AES/kk

Enclosures

c: Mr. Ken Gray
Devon Energy Corporation
20 N. Broadway, Suite 1500
Oklahoma City, Oklahoma 73102

Oct 26 01 12:09p

Shaw Interest Inc

9156851343

p.4

SHAW INTERESTS, INC.**OIL & GAS PROPERTIES**

P.O. BOX 9612

MIDLAND, TEXAS 79708

(915) 685-1404

October 26, 2001

Mr. William Moyers
General Counsel's Office
New Mexico State Highway & Transportation Dept
P.O. Box 1149
Santa Fe, NM 87504-1149

Re: Oil and Gas Lease or Quit Claim
N/2 of Section 7, T23S - R28E
Eddy County, NM

1.6775 net acres

Dear Mr. Moyers:

On July 20, 2001, Mr. Albert E. Sherman of Cotton, Bledsoe, Tighe & Dawson wrote to you regarding a 1/4 mineral interest under the above described lands which, by virtue of a condemnation suit, is vested in the State of New Mexico. Since that date our firm has been in the process and has now satisfied all pre-drilling title issues set forth in Mr. Sherman's Drilling Title Opinion except for the issue which he wrote to you about.

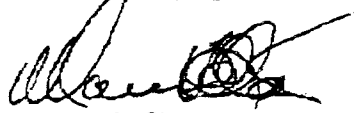
In order that Devon Energy Production Company, L.P. may proceed with the drilling of an exploratory well on the N/2 of Section 7 we need to obtain either a Quit Claim Deed or an Oil and Gas Lease from the State of New Mexico covering these minerals, both of which are transmitted herewith. The terms of the Oil and Gas Lease are \$200.00 per net mineral acre bonus consideration (\$335.50), 3 year paid up primary term and a 3/16 royalty.

When executing either of these documents they will need to be signed in the presence of a Notary Public and thereafter returned to me at the above address. Upon receipt, if you elect to lease, we will forward the State of New Mexico a check in the amount of \$335.50.

Your prompt attention to this matter will be greatly appreciated as time is of the essence.

Sincerely,

SHAW INTERESTS


Maner B. Shaw

cc: Mr. Ken Gray
Devon Energy Production Company, L.P.



QUIT CLAIM DEED

STATE OF NEW MEXICO

COUNTY OF EDDY

KNOW ALL MEN BY THESE PRESENTS:

That the State of New Mexico, for and in consideration of the sum of Ten and No/100 Dollars in its hand paid by Juan H. Villa and Ignacia DeLaRosa Villa, as joint tenants with full right of survivorship, the receipt of which is hereby acknowledged, does by these presents BARGAIN, SELL, RELEASE, AND FOREVER QUIT CLAIM unto the said Juan H. Villa and Ignacia DeLaRosa Villa, as joint tenants with full right of survivorship, of 2593 Pecos Highway, Carlsbad, NM 88220, their heirs and assigns, all its right, title and interest in and to the MINERAL ESTATE ONLY in the following described tracts of land lying in the County of Eddy, State of New Mexico, described as follows, to-wit:

All of that portion of the N/2 of Section 7, Township 25 South, Range 28 East, as described in that certain Judgement filed in Cause No. 24439 in the District Court of the Fifth Judicial District of Eddy County, New Mexico styled State of New Mexico, ex rel. State Highway Commission of New Mexico v. Martin Villa, et al., a certified copy of which is recorded in Volume 58, Page 923 of the Miscellaneous Records of Eddy County, New Mexico.

TO HAVE AND TO HOLD THE said premises, together with all and singular the rights, privileges and appurtenances thereto in any manner belonging unto the said State of New Mexico, its heirs and assigns forever, so that neither the said State of New Mexico nor its heirs, nor any person or persons claiming under them shall, at any time hereafter, have, claim, or demand any right or title in and to the aforesaid premises or appurtenances, or any part thereof.

Executed this the _____ day of _____, 2001.

State of New Mexico

by:

STATE OF NEW MEXICO

COUNTY OF

This instrument was acknowledged before me on the _____ day of _____, 2001 by _____
as _____ on behalf of the State of New Mexico

Notary Public, State of New Mexico

Notary's Printed Name

Notary's Commission Expires: