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June 30, 1986

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Marathon Oil Company
Post Office Box 552
Midland, Texas 79702

Attention: Mr. Steve Daniels
Landman

RE: Andrus-Gregory Leases
S/2 of NE/4 & S/2 of Sec. 14,
T-16-S, R-38-E
Lea County, New Mexico

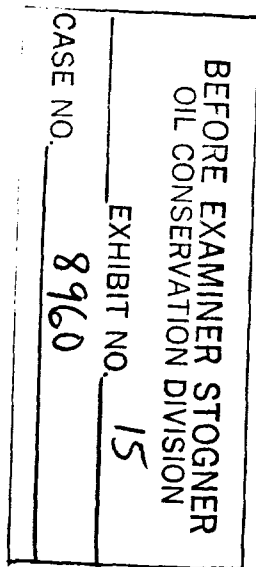
Marathon Proposed Benson Well #1

Gentlemen:

Reference is made to your recent correspondence regarding the drilling of a proposed 13,500' Silurian test in the SE/4 of Section 14, T-16-S, R-28-E. I do not wish to participate in the drilling of this well or farmout under the terms in your letter of May 23, 1986.

However, I am agreeable to any one of the following alternatives regarding my approximate 152.5 net acres of leases located in the above described 400 acre tract with my earliest expiration being February 22, 1989:

1. Marathon to pay Davidson \$1,000.00 per acre and be assigned a 75% net revenue interest (lease royalty and Davidson override to equal 25%) with Marathon to have the right to develop the lease any way it sees fit up to 90 days prior to the expiration of each of my leases.



- (a) At the beginning of each 90 day period prior to expiration of each lease which is not held by production, Marathon to reassign all rights with the net revenue interest reassigned to be the same as previously assigned to Marathon. In the event that each lease is held by production at the end of the primary term, then Marathon to reassign to Davidson without further encumbrances all acreage that is not included in a New Mexico Oil Conservation Division approved spacing unit as well as all non-productive rights in each New Mexico Oil Conservation Division approved spacing unit.
- (b) As to each lease that becomes productive during the above noted period of time, Davidson shall have the option of selling his net part of all production to the same purchaser and under the same terms as agreed to by Marathon. Marathon shall promptly give all information relative to such proposed sales to Davidson including copies of all contracts and Davidson shall have 90 days in which to agree to such terms or make other arrangements to sell his part of all production.
- (c) As to each well that might be drilled on Davidson's leases, Marathon shall furnish to Davidson notification of intent to drill, a daily drilling report, copies of all logs and other surveys that are run, and all other data normally required by Marathon to be furnished to it under a typical farmout letter.

2. All terms and conditions as set out under number 1 (a) through (c) to apply with the following exceptions:

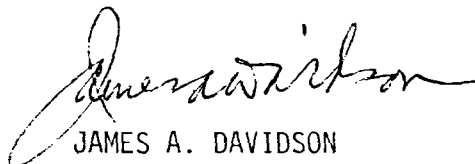
- (a) Marathon is to pay Davidson \$500.00 per acre.
- (b) At payout of each well completed by Marathon as a producer in paying quantities of oil and/or gas, Davidson to have the option of converting a net 1/16 override (being 1/2 of the Davidson 1/8 override) to a 50% working interest in each well. "Payout" shall be defined as such time as Marathon recoups all costs of drilling, completing, equipping and operating each well including recoupment of the Davidson override. At the date of payout of each well, Marathon shall furnish Davidson all available well data and he shall have 90 days in which to elect to either keep the override or make this conversion as outlined above. All interests subject to proportionate reduction.

3. Davidson and Marathon to exchange leases as follows:

- (a) Davidson to assign to Marathon all interest in all his above noted leases retaining 1/8 of 8/8 override (Marathon to be assigned a 75% net revenue interest) without any development obligation whatsoever and subject only to Marathon reassigning to Davidson each lease that is not either held by production or held by drilling operations 90 days prior to the expiration thereof.
- (b) Marathon to assign to Davidson the following acreage and limited depth rights in such acreage with Marathon to retain 1/8 of 8/8 override (so that Davidson will be assigned a 75% net revenue interest):
 - NW/4 NE/4, E/2 NW/4, N/2 SW/4, & SW/4 SW/4 Section 16, T-22-S, R-36-E with rights assigned to be limited from surface to the base of the Eunice South interval.
 - NE/4 NE/4 & W/2 NE/4 Section 16, T-20-S, R-37-E with rights assigned to be limited from surface to the base of the Eumont Gas Pool interval.
- (c) This exchange of acreage subject to my review and approval of the present status of Marathon's gas contracts covering the acreage and intervals to be assigned to me.

Please let me hear from you in this regard as soon as possible and I will be glad to discuss with you in detail any part of this proposal.

Very truly yours,



JAMES A. DAVIDSON