

Marjorie W. Iverson,
et al

v.

W.A. & E.R. Hudson,
Inc., et al

BEFORE EXAMINER CATANACH
OIL CONSERVATION DIVISION
Ard, et al.
EXHIBIT NO. 1
CASE NO. _____

STATE OF NEW MEXICO
COUNTY OF EDDY
FIFTH JUDICIAL DISTRICT COURT

FIFTH JUDICIAL DISTRICT
EDDY COUNTY NM
FILED IN MY OFFICE
27 JUN -2 AM 10:01
ELENA ASWAGIN
DISTRICT COURT CLERK

MARJORIE W. IVERSON, as Trustee
of the Marjorie W. Iverson 1990 Manage-
ment Trust; NATIONSBANK OF TEXAS,
N.A., as Trustee of the S.J. Iverson
Trust #01-2981; RICHARD SULLIVAN,
as Trustee of the Jewel D. Iverson
Revocable Inter Vivos Trust; IVERSON
III, INC.; P.A.I. INCORPORATED;
MOORE & SHELTON COMPANY, LTD.;
MARY T. ARD, Individually and as
Trustee of the Edward R. Hudson Trust
No. 4; and PETER C. IVERSON and
ALVIN M. IVERSON, as Personal
Representative of the Estate of Dorothy
Iverson Monroe,

Plaintiffs,

v.

W.A. & E.R. HUDSON, INC.; EDWARD
R. HUDSON, JR.; WILLIAM A.
HUDSON II; E. RANDALL HUDSON III;
FRANCIS HILL HUDSON;
DELMAR H. LEWIS; and JOHN DOE,

Defendants.

Cause No. CV 97-233-Jw.

COMPLAINT FOR DAMAGES

COME NOW Marjorie W. Iverson, Trustee of the Marjorie W. Iverson 1990 Management Trust, NationsBank of Texas, N.A., as Trustee of the S.J. Iverson Trust #01-2581, Richard Sullivan, as Trustee of the Jewel D. Iverson Revocable Inter Vivos Trust, Iverson III, Inc., P.A.I., Incorporated, and Moore & Shelton Company, Ltd., Mary T. Ard, Individually and as Trustee of the Edward R. Hudson Trust No. 4, and Peter C. Iverson and Alvin M. Iverson, as Personal

Representatives of the Estate of Dorothy C. Monroe (hereinafter referred to as "Plaintiffs") and for their Complaint against Defendants state:

PARTIES

1. Plaintiff Marjorie W. Iverson, Trustee of the Marjorie W. Iverson 1990 Management Trust is a resident of Midland County, Texas.

2. Plaintiff NationsBank of Texas, N.A., Trustee of the S. J. Iverson Trust #01-2981 is a resident of Dallas, County, Texas.

3. Plaintiff Richard R. Sullivan, as Trustee of the Jewel D. Iverson Revocable Inter Vivos Trust, is a resident of Tulsa County, Oklahoma.

4. Plaintiff Iverson III, Inc. is an Oklahoma corporation with its principal place of business in Newport Beach, California.

5. P.A.I. Incorporated, an Oklahoma corporation, is a resident of Tulsa County, Oklahoma.

6. Plaintiff Moore & Shelton Company, Ltd., a Texas Limited Partnership, is a resident of Galveston County, Texas.

7. Plaintiff Mary T. Ard, Individually and as Trustee of the Edward R. Hudson Trust No. 4, is a resident of Tarrant County, Texas.

8. Plaintiffs Peter C. Iverson and Alvin M. Iverson, as Personal Representatives of the Estate of Dorothy Iverson Monroe, are residents of Eufaula and Spavinaw, Oklahoma.

9. Defendant W.A. and E.R. Hudson, Inc. is a Texas corporation not qualified to do business in the State of New Mexico. Its agent for service of process is the Secretary of State

of New Mexico.

10. Defendant Edward R. Hudson, Jr. is a resident of Tarrant County, Texas.

11. Defendant William A. Hudson II is a resident of Tarrant County, Texas.

12. Defendant E. Randall Hudson III is a resident of Tarrant County, Texas.

13. Defendant Francis Hill Hudson is a resident of Tarrant County, Texas.

14. Defendant Delmar Lewis is a resident of Tarrant County, Texas.

15. The Defendants listed in Paragraphs 9-14 upon information and belief, assumed the express and implied duties of operator on the properties in question upon the death of E.R. Hudson and W.A. Hudson, and are liable for any damages resulting from the acts and omissions of those individuals in the conduct of said operations.

16. Each Defendant John Doe (whether one or more) is a predecessor in interest of the Defendants listed in Paragraphs 9-14 or otherwise liable for all or a portion of the amounts due to Plaintiffs. When used hereafter, unless the context requires another construction, the term Defendants includes those Defendants listed in Paragraphs 9-14 and Defendant John Doe in the event and to the extent the former disclaims liability for amounts owing to any of the Plaintiffs.

JURISDICTION AND VENUE

17. Defendant W.A. & E.R. Hudson, Inc. is a foreign corporation not qualified to do business in the State of New Mexico. By virtue of 38-1-6.B, N.M.S.A. 1978, said corporation is subject to jurisdiction of this Court by service of process on the Secretary of State of New Mexico.

18. Defendants listed in Paragraphs 10-14 are subject to jurisdiction of this Court

pursuant to 38-1-16(A)(1), N.M.S.A. 1978, as a result of transacting business within the State of New Mexico in connection with the operation of the properties which are the subject matter of the present lawsuit. This Court has jurisdiction over the parties and subject matter.

19. Venue is proper in Eddy County, New Mexico in accordance with 1978 N.M.S.A. 38-3-1(A) (Cum. Supp. 1996). The claims asserted herein arise, in part, out of certain written Operating Agreements for the operation of oil and gas wells located in Eddy County, New Mexico. As such, the Agreements are contracts that are to be performed in Eddy County, New Mexico. In addition, these claims arise out of conduct occurring in Eddy County, New Mexico. These are transitory actions for which venue is proper before this Court.

GENERAL ALLEGATIONS

20. Plaintiffs are the owners of separate, undivided, nonoperating working interests in the Puckett "A" and Puckett "B" oil and gas leases, designated as serial #LC029415A and LC029415B respectively, covering among other lands, Sections 13, 24, and 25, Township 17S, Range 31E, Eddy County, New Mexico. Said interests were subject to that certain operating agreement dated November 27, 1963 by and between Plaintiffs S.J. Iverson and Marjorie W. Iverson and Defendants' predecessor-in-interest, W.A. Hudson and E.R. Hudson. A copy of the 1963 Operating Agreement is attached as Exhibit "A" to this Complaint and incorporated herein by reference. Subsequently, Plaintiffs and the Defendant W.A. & E.R. Hudson, Inc. executed that certain operating agreement dated August 1, 1983. The Defendant W.A. & E.R. Hudson, Inc. is the designated operator in said 1983 operating agreement, and upon information and belief, all Defendants have served as operator of the properties at all times material hereto. A

copy of the 1983 Operating Agreement is attached as Exhibit "B" to this Complaint and incorporated herein by reference.

21. Prior to 1983, the Defendants as operator implemented secondary water flood operations which, at least to some limited extent, have continued to date hereof.

22. On or about May 26, 1993, the Defendants as operator retained the firm of Cawley, Gillespie & Associates, Inc. of Fort Worth, Texas to conduct a detailed engineering analysis of the properties, which included a review of historical oil and water production data, the water injection procedures which had been followed to date, and a review of wire line logs and sample logs to determine probable production zones, oil in place, and possible areas of the leases which had not been impacted by the water flood project. Copies of this report were furnished to Plaintiffs or their predecessors in interest on or about June 4, 1993, (referred to as the "Cawley, Gillespie Report").

23. Notwithstanding gross oil production in the Puckett "A" lease in the amount of 3,667,000 barrels of oil from 24 wells and 3,124,000 barrels from 33 wells on the Puckett "B" lease through 1992, the report identified two significant problems in the operation of the Puckett "A" and "B" leases to wit: a) injection pressures and rates were too low which caused low productivity and b) mechanical problems on several wells prevented either injection or production. The report also indicated that the failure to utilize proper injection pressures on the Puckett "A" and "B" leases resulted in the loss of 2,200,000 barrels of oil. Plaintiffs had no knowledge of the amount of production which should have previously been recovered until they received a copy of said engineering report on or about June 4, 1993.

24. Subsequent to the receipt of the Cawley-Gillespie report, Plaintiff Marjorie W. Iverson began an investigation of the past operations of Defendants with regard to approximately 60 wells on the Puckett "A" and "B" leases and determined that a substantial number of the wells were being operated at a loss. In addition, Plaintiff Marjorie W. Iverson discovered that some of the wells which the Defendants represented as either producing or injection wells were not operational, notwithstanding monthly billings being made regarding such operations. In addition, Plaintiff Marjorie W. Iverson discovered other inconsistencies with regard to operating reports and accounting practices. As a result of this investigation, a series of communications occurred between and on behalf of Plaintiff Iverson and Defendants in an effort to resolve the disputes, which ultimately were unsuccessful.

25. Thereafter, Plaintiffs instituted an audit under the joint operating agreement for the time period January 1, 1993 through December 31, 1995. The audit report indicated numerous exceptions, discrepancies, and overcharges resulting from the operations of the leases, including *inter alia* pumper salary allocations, employee benefits limitations, administrative expenses, fuel use, overhead and coding errors. A copy of the audit report is attached hereto as Exhibit "C".

26. Upon information and belief, Plaintiffs allege that the improper practices and overcharges discovered in the audit predated the beginning point of the audit but that Plaintiffs were without knowledge of such practices and procedures until the audit was completed and through exercise of reasonable care and diligence could not have discovered such discrepancies.

27. Said audit report was forwarded to Defendants on June 18, 1996 with a request to credit the Plaintiffs' account with the amount of overcharges indicated in the report.

28. In response, Defendants credited Plaintiffs' nonoperating working interest accounts in the amount of \$84,708.12 plus a credit for a coding error in the amount of \$501.44. However, numerous overcharges remain uncredited to Plaintiffs' accounts. In addition, Defendants requested that Plaintiffs execute a "Compromise Settlement Agreement" purporting to release any and all liability. Plaintiffs refused to execute said agreement. Further efforts to resolve and settle the disputes raised by the audit findings were unsuccessful.

29. The Defendant W.A. & E.R. Hudson, Inc. is a corporation incorporated under the laws of the State of Texas on January 12, 1983. Upon information and belief, at all times material from the date of incorporation until the present time, Defendant W.A. & E.R. Hudson, Inc. has been organized and operated as a mere sham and the alter ego of the individual defendants Edward R. Hudson, Jr., William A. Hudson II, E. Randall Hudson III, and Francis Hill Hudson for their personal benefit and advantage in that the individual defendants have exercised total dominion and control over the corporate defendant, and have conducted, managed, and controlled the affairs of the corporation since its incorporation, as though it were the individual defendants' own business. In addition, defendant corporation has failed to observe corporate formalities and has no assets or liabilities and has lacked the financial resources to carry on its duties as Operator. Moreover, the individual defendants have used defendant corporation for the purpose of defrauding plaintiffs as set forth below and plaintiffs have been damaged as a result.

COUNT I--BREACH OF CONTRACT

30. Plaintiffs incorporate by reference each and all of the allegations contained in

paragraphs 1 through 29 hereinabove set forth the same as if herein repeated and fully set forth herein.

31. Under the terms of the Operating Agreement, Defendants have at all times material hereto had certain material obligations, both express and implied, including a contractual responsibility to discharge its duties as operator in a good and workmanlike manner, to conduct operations as a reasonably prudent operator, and to discharge all contractual obligations and standards to Plaintiffs in good faith and fair dealing. In addition, Defendants as operator were in a special relationship of trust and confidence with the Plaintiffs over a long period of time thereby giving rise to a fiduciary duty between Defendants and each of the Plaintiffs.

32. Defendants have breached their express and implied contractual obligations to Plaintiffs by failing to operate the Puckett "A" and Puckett "B" leases in a good and workmanlike manner and as a reasonably prudent operator by operating non-producing wells at a loss and improperly conducting water flood operations resulting in a substantial loss of oil production from the leases, which conduct constitutes an express and substantial breach of contract. In addition, Defendants have breached the implied duty of good faith and fair dealing owed to each of the Plaintiffs.

33. Plaintiffs have suffered and continue to suffer serious damages as a result of Defendants' breach of contractual obligations in that the Plaintiffs have received working interest payments in amounts substantially less than those to which they are entitled, and have been billed for improper operating expenses in the past which have been paid. In addition, proper credits for all audit exceptions have not been made by Defendants.

34. Upon information and belief, the Defendants knew of the improper practices and overcharges, as well as the improper conducting of waterflood operations. Defendants utilized fraudulent means to conceal their improper conduct by making misrepresentations to Plaintiffs, upon which misrepresentations Plaintiffs reasonably relied. Defendants thereby successfully concealed their improper conduct from Plaintiffs. Plaintiffs did not know and by exercise of reasonable diligence could not have known of the cause of action alleged herein.

35. Defendants intentionally failed to perform their contractual obligations, breaching the terms of their contractual obligations with willful, wanton, and reckless disregard of the rights of Plaintiffs. As such, Plaintiffs are entitled to an award of punitive damages against Defendants.

36. As a consequence of Defendants' breach, Plaintiffs are entitled to recover their damages, actual and punitive, in an amount to be determined at trial, prejudgment and post-judgment interest at the maximum lawful rate, costs and such other and further relief as the Court deems appropriate.

COUNT II--FRAUD AND MISREPRESENTATION

37. Plaintiffs incorporate by reference each and all of the allegations contained in paragraphs 1 through 36 hereinabove set forth the same as if herein repeated and fully set forth herein.

38. Defendants had contractual and statutory duties to Plaintiffs to disclose and allocate the amount of production from each producing well on the Puckett "A" and "B" leases.

39. Upon information and belief, for many years Defendants as operator made express misrepresentations to Plaintiffs concerning the well counts used for joint interest billing purposes and in addition made representations concerning production and injection sources in order that operating expenses could be billed to Plaintiffs. Furthermore, Plaintiffs are informed and believe that the same direct, non-allocated costs which the audit determined were improper were similarly charged for many years prior to the audit. Until the audit and investigation set forth herein were conducted, Plaintiffs had no knowledge of these illegal and improper practices and accordingly paid the joint interest billings without protest, and could not have discovered such practices through the exercise of ordinary diligence.

40. Upon information and belief, the misrepresentations by Defendants to Plaintiffs were intentional and willful and were made with the intent to mislead and deceive Plaintiffs as to the true and proper well counts production sources and operating costs and expenses. Plaintiffs relied on Defendants' misrepresentations to their detriment.

41. Plaintiffs relied on the misrepresentations, and were damaged as a result of the intentional, false, and fraudulent misrepresentations of Defendants.

42. Plaintiffs are entitled to recover actual and punitive damages from Defendants, plus prejudgment and post-judgment interest at the maximum lawful rate.

COUNT III--UNFAIR TRADE PRACTICES ACT

43. Plaintiffs incorporate by reference each and all of the allegations contained in paragraphs 1 through 42 hereinabove set forth the same as if herein repeated and fully set forth herein.

44. As a consequence of Defendants' continued operations of wells at a loss with knowledge that such wells were non-producing wells or inactive water injection wells, while representing to Plaintiffs that said wells were operational as shown through monthly billings presented to Plaintiffs regarding such operations, and the improper performance of water flood operations resulting in a substantial loss of oil production from the leases, Defendants negligently, intentionally or willfully engaged in unfair or unconscionable trade practices, as those terms are defined under Section 57-12-1 N.M.S.A. 1978, *et seq.*

45. Plaintiffs are entitled to recover three times their actual damages occasioned by Defendants' unfair or unconscionable trade practices.

46. Pursuant to Section 57-12-10 N.M.S.A. 1978, Plaintiffs are also entitled to recover costs and reasonable attorneys' fees.

COUNT IV--ACCOUNTING

47. Plaintiffs incorporate by reference each and all of the allegations contained in paragraphs 1 through 46 hereinabove set forth the same as if herein repeated and fully set forth herein.

48. As a consequence of Defendants' breach of contract and misrepresentations as hereinabove stated, resulting in its failure to pay to Plaintiff all amounts due and owing, the exact size of the Defendants' overcharges to Plaintiffs is currently not known to the Plaintiffs. Calculation of the overcharges requires an accounting of Defendants' books and records. Consequently, Defendants have the duty to account to Plaintiffs for all production of oil, gas and other hydrocarbons and products from said leases. and the amount and nature of all costs and

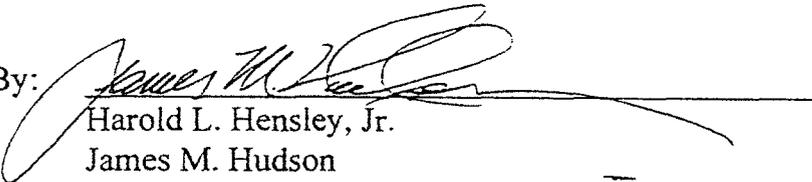
charges charged against Plaintiffs' accounts.

49. Plaintiffs hereby assert their contractual and/or equitable right to an accounting by Defendants, and further seek judgment against Defendants for all amounts due and owing to Plaintiffs as may be established by such accounting.

WHEREFORE, Plaintiffs respectfully request that the Court order judgment in favor of Plaintiffs and against Defendants for actual damages for breach of express and implied contractual duties, fraud and punitive damages, and treble damages for a violation of the Unfair Trade Practices Act. In addition, Plaintiff prays for a full and complete accounting, prejudgment interest, post-judgment interest, attorneys' fees, and any other relief to which Plaintiffs are justly entitled.

HINKLE, COX, EATON, COFFIELD & HENSLEY, L.L.P.

By:



Harold L. Hensley, Jr.

James M. Hudson

Timothy R. Brown

Post Office Box 10

Roswell, NM 88202

505/622-6510

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Attorneys for Plaintiffs

Settlement Agreement

In

Marjorie W. Iverson,

et al

v.

W.A. & E.R. Hudson,

Inc., et al

SETTLEMENT AGREEMENT

THIS SETTLEMENT AGREEMENT ("Agreement") is made and entered into as of the 10th day of December, 1997, between:

- (1) Marjorie W. Iverson, as Trustee of the Marjorie W. Iverson 1990 Management Trust, NationsBank of Texas, N.A., as Trustee of the S.J. Iverson Trust #01-2581, Richard Sullivan, as Trustee of the Jewel D. Iverson Revocable Inter Vivos Trust, Iverson III, Inc., an Oklahoma corporation, P.A.I., Incorporated, an Oklahoma corporation, Moore & Shelton Company, Ltd., A Texas Limited Partnership, Mary T. Ard, Individually and as Trustee of the Edward R. Hudson Trust No. 4 created under the Last Will and Testament of Edward R. Hudson, Deceased, and Peter C. Iverson and Alvin M. Iverson, as Personal Representatives of the Estate of Dorothy C. Monroe (collectively referred to as "Plaintiffs"), and
- (2) W.A. and E.R. Hudson, Inc., a Texas corporation, Edward R. Hudson, Jr., Individually and as Trustee of the Edward R. Hudson Trust Nos. 1,2 and 3 created under the Last Will and Testament of Edward R. Hudson, Deceased, William A. Hudson II, Individually and as Trustee of the Edward R. Hudson Trust Nos. 1,2 and 3 created under the Last Will and Testament of Edward R. Hudson, Deceased, E. Randall Hudson III, Francis Hill Hudson, and Delmar Lewis (collectively referred to as "Defendants").

Plaintiffs and Defendants are sometimes collectively referred to as "the Parties."

RECITALS

A. Plaintiffs and Defendants, except for W.A. and E.R. Hudson, Inc. are the owners of separate, undivided, working interests in the Puckett "A" and Puckett "B" oil and gas leases, designated as serial #LC029415A and LC029415B respectively, covering Sections 12, 13, 24, and 25, Township 17S, Range 31E, Eddy County, New Mexico (collectively the "Puckett Leases"). Said interests were previously subject to that certain operating agreement dated November 27, 1963 by and between Plaintiffs S.J. Iverson and Marjorie W. Iverson and Defendants' predecessors-in-interest, W.A. Hudson and E.R. Hudson. Subsequently, Plaintiffs and Defendants executed that certain Joint Operating Agreement dated August 1, 1983 (the "Operating Agreement") covering the Puckett Leases which designated W.A. and E.R. Hudson, Inc. as the operator of the Puckett Leases.

B. Plaintiffs and Defendants, except for W.A. and E.R. Hudson, Inc. are the owners of separate, undivided surface interests in the E½ of Section 11, Township 17 South, Range 32 East, N.M.P.M., Lea County, New Mexico (the "Trimble Fee");

C. Disputes arose between the Plaintiffs and Defendants relating to the Puckett

Leases, and on or about June 2, 1997, Plaintiffs filed their Complaint For Damages in Cause No. CV97-233-JWF, in the Fifth Judicial District Court Of the State of New Mexico in Eddy County, in the matter captioned *Marjorie W. Iverson, Trustee, et al. v. W.A. & E.R. Hudson, Inc., et al.* (the "Lawsuit"). Defendants have each filed Answers in the Lawsuit in which they have asserted claims for affirmative relief, attorneys' fees and costs;

D. The Plaintiffs and Defendants have agreed upon a compromise and settlement of the disputed issues between them in the Lawsuit and wish to herein set forth in writing their agreement for the settlement and resolution of the Lawsuit.

AGREEMENT

FOR AND IN CONSIDERATION OF THE MUTUAL COVENANTS AND AGREEMENTS HEREIN CONTAINED, THE PARTIES HERETO AGREE AS FOLLOWS:

1. **Sale of Property.** Plaintiffs agree to sell, and William A. Hudson II agrees to purchase a portion of Plaintiffs' interests in the Puckett Leases and the Plaintiffs' interests in the Trimble Fee on the following terms and conditions:

A. **Working Interests in Puckett Leases:** Subject to the reserved overriding royalty interests described below, Plaintiffs will convey to William A. Hudson, II the following working interests in the Puckett Leases, limited to a depth from the surface of the ground to the stratigraphic equivalent of the base of the San Andres Formation under the Puckett Leases, identified at a depth of 4,230 feet on the Compensated Neutron / Lithodensity log dated October 9, 1988 for the BTA Oil Producers 8809 JV-P Puckett #1 well; such well being located at 1,880 FNL and 1,880 FEL of Section 25, Township 17 South, Range 31 East, N.M.P.M., Eddy County, New Mexico (the "Base Of The San Andres Formation"):

Moore & Shelton Company, Ltd.11119000
Peter C. Iverson and Alvin M. Iverson, Personal Representatives of the Estate of Dorothy Iverson Monroe02984360
NationsBank of Texas, N.A., as Trustee of the S.J. Iverson Trust #01-258108953130
Richard Sullivan, as Trustee of the Jewel D. Iverson Revocable Inter Vivos Trust02984370
P.A.I. Incorporated00994790
Iverson III, Inc.00994790
Marjorie W. Iverson, as Trustee of the	

Marjorie W. Iverson 1990
Management Trust05968760

Mary T. Ard, Individually and as
Trustee of the Edward R. Hudson Trust 408209080

Such conveyances shall be pursuant to the Assignment of Record Title and Transfer of Operating Rights, and Assignment forms attached hereto as Exhibits A, B, C, and D, respectively, and shall convey title to Plaintiffs' respective interests, with special warranty covenants, save and except the following:

- (i) Royalty due the U.S. as lessor;
- (ii) Previously reserved overriding royalty of 7.5% of 8/8ths on the Puckett "A" Lease; and
- (iii) The overriding royalty reserved to Plaintiffs, as provided in this Agreement.

Plaintiffs will each pay and discharge, prior to or at closing, any and all liens, claims or encumbrances made by such Plaintiff which may exist against the respective Plaintiffs' title, or Hudsons may withhold from the respective Plaintiffs' payment at closing such sums as may be necessary to pay and discharge the same.

- B. **Reserved Rights.** Plaintiffs specifically reserve the following rights and interests in the Puckett Leases:
 - a. Plaintiffs reserve all rights, title and interests in and to the Puckett Leases below a depth of the Base Of The San Andres Formation under the Puckett Leases;
 - b. Plaintiffs reserve a two and one half percent (2½%) of 8/8ths overriding royalty interest, proportionately reduced to their working interest, in the Puckett "A" Lease for all depths from the surface to the Base Of The San Andres Formation; and
 - c. Plaintiffs reserve a seven and one half percent (7½%) of 8/8ths overriding royalty interest, proportionately reduced to their working interest, in the Puckett "B" Lease for all depths from the surface to the Base Of The San Andres Formation.
- C. **Trimble Fee:** Plaintiffs will convey to the Hudsons, without warranty of title, either express or implied, all of their right, title and interest in and to the Trimble Fee;
- D. **Purchase Price:** Upon Closing, as defined below, the Hudsons will pay to each named Plaintiff a sum of money equal to their working interest proportion of Three Million and no/100 Dollars (\$3,000,000.00).
- E. **Title Matters.** William A. Hudson, II may obtain abstracts of title and title opinions, and/or take other steps which he may in his discretion deem appropriate to determine that each of the Plaintiffs hold title to the working interests in the Puckett Leases which Plaintiffs will convey at Closing. On or before December 19, 1997, William A. Hudson, II shall give written notice to such Plaintiffs whose title may be at issue of any defect that (i) impairs the value of such Plaintiff's

interest or would cause a prudent purchaser experienced in the acquisition of oil and gas properties to refuse to accept the same, (ii) does not similarly affect the title of the Defendants, and (iii) is not subject to any matters that result in a breach of any warranty given by such Plaintiff. Upon receipt of such notice, the affected Plaintiff shall use their best efforts to take such actions as may be reasonably necessary to cure or remove the identified defect prior to Closing. If such defect is not cured at or prior to Closing, then William A. Hudson may, in his sole discretion, (i) postpone Closing with respect to all Plaintiffs' interests until such time as the identified defect(s) are cured or removed, or (ii) waive all or any of the identified defect(s) and proceed with Closing as to Plaintiffs' interest not subject to unwaived defects and postpone Closing with respect to Plaintiffs' interest still subject to unwaived defects, if any. Provided, however, if any unwaived defect with respect to non-closed interests are not cured or removed, or are not subsequently waived by William A. Hudson, II, within six (6) months following January 15, 1998, this Settlement Agreement shall become null and void as to all Defendants and all Plaintiffs holding interests which have not been conveyed to William A. Hudson, II. In the event that William A. Hudson, II postpones Closing as to all or any of the Plaintiffs' interests, then the Plaintiffs, or any of them, upon written notice to the Defendants, shall have the right to terminate this Agreement thirty (30) days after such notice is given if William A. Hudson, II fails to proceed with Closing with such non-closing Plaintiffs within such thirty (30) day period. If such notice is given and Closing does not occur within thirty (30) days, then this Settlement Agreement shall become null and void as to all Defendants and all Plaintiffs holding interests which have not been conveyed to William A. Hudson, II.

- F. **Closing.** Closing on the purchase and sale described above will take place between January 2, 1998 and January 15, 1998, at a time, place and in a manner agreed on by the Parties ("Closing") the conveyances of title, however, shall be effective as of January 1, 1998 at 7:00 a.m.; provided, however, that if Closing is postponed by William A. Hudson, II, as to any of the Plaintiffs' interests then the conveyances of title with respect to such interests shall be effective at 7:00 a.m. on the first day of the month in which Closing does occur with respect to such interests. At Closing, (i) the Hudsons will deliver to Plaintiffs by certified check, wire transfer or other means of immediately available funds as may be agreed by the Parties, the payments of the purchase price described above, (ii) upon receipt of said payments, Plaintiffs will deliver to William A. Hudson, II such instruments fully executed by them necessary to convey the interests described above to William A. Hudson, II; (iii) the Parties will execute or deliver executed signature pages of the Amendment of Joint Operating Agreement and the Memorandum of Amendment to Joint Operating Agreement described in Paragraph 5, below; and (iv) the Hudson family parties will execute or deliver executed signature pages of the Partial Family Settlement Agreement described in Paragraph 9, below.

2. **Condition Precedent To Settlement.** Unless waived in writing by all Parties, the obligations of the Parties as set forth in this Agreement and the provisions hereof, including the release and indemnifications provisions set forth below, are subject to and conditioned upon the Hudsons obtaining a financing commitment to close the purchase described in Paragraph 1, above (the "Condition Precedent"). The Hudsons shall have thirty (30) days from the date hereof in which to obtain such financing commitment, provided that the Parties may agree in writing to extend that time period. Upon obtaining said commitment, the Hudsons shall provide notice to all other Parties that the Condition Precedent has been satisfied. If the Condition Precedent is not satisfied, and the Parties do not agree in writing to waive the Condition Precedent, then this Agreement shall immediately terminate and shall be of no force and effect, and no party shall have any obligation hereunder. Upon termination of the Agreement, the Lawsuit will continue as if the Parties had not entered into this Agreement, and nothing in this Agreement shall be admissible in the Lawsuit nor shall it constitute an admission by any party to this Agreement.

3. **Indemnity.** Provided that the sale contemplated by this Agreement closes, W.A. AND E.R. HUDSON, INC., EDWARD R. HUDSON, JR., INDIVIDUALLY AND AS TRUSTEE OF THE EDWARD R. HUDSON TRUST NOS. 1,2 AND 3, WILLIAM A. HUDSON II, INDIVIDUALLY AND AS TRUSTEE OF THE EDWARD R. HUDSON TRUST NOS. 1,2 AND 3, AND E. RANDALL HUDSON III, AND EACH OF THEM, IN THEIR INDIVIDUAL AND REPRESENTATIVE CAPACITIES, AGREE TO INDEMNIFY, DEFEND WITH COUNSEL OF PLAINTIFFS' CHOICE, SAVE AND HOLD HARMLESS PLAINTIFFS, AND EACH OF THEM, FROM ANY CLAIMS, DEMANDS OR ACTIONS MADE OR ASSERTED BY ANY GOVERNMENT AGENCY OR THIRD PARTY RELATING IN ANY WAY TO THE PLAINTIFFS' OWNERSHIP OF THE INTERESTS CONVEYED IN THE PUCKETT LEASES AND THE TRIMBLE FEE OR THE ACTS OR OMISSIONS OF DEFENDANTS OR THEIR AGENTS, EMPLOYEES OR REPRESENTATIVES, INCLUDING, WITHOUT LIMITATION, CLAIMS, DEMANDS OR ACTIONS RELATING TO OPERATIONS, REGULATORY REQUIREMENTS, OR DISCLOSURE AND FILING MANDATES EXCLUDING, HOWEVER, ANY SUCH CLAIMS, DEMANDS OR ACTIONS ARISING SOLELY FROM THE NEGLIGENCE OR WILLFUL ACT OF THE PLAINTIFFS OR ANY OF THEM. THESE INDEMNITIES WILL EXTEND TO AND INCLUDE ATTORNEY'S FEES, COURT COSTS, AND ALL EXPENSES OR OTHER AMOUNTS INCURRED IN DEFENDING ANY SUCH CLAIMS, DEMANDS OR ACTIONS OR SATISFYING ANY SUCH CLAIMS, DEMANDS OR ACTIONS. THESE INDEMNITIES SHALL SURVIVE CLOSING.

4. **Release and Covenant Not To Sue:** Notwithstanding the foregoing agreement to indemnify, and without waiver thereof, Plaintiffs and W.A. and E.R. Hudson, Inc., Edward R. Hudson, Jr., William A. Hudson II, and E. Randall Hudson III, all in their individual and representative capacities, do hereby mutually release, covenant not to sue, and forever discharge each other and one another, individually and in their representative capacities, and their respective predecessors, successors, heirs, officers, directors, employees, representatives, assigns, agents, and attorneys from any and all claims, demands, damages and/or causes of action of any type or kind whatsoever whether presently known or unknown, asserted or unasserted, which may exist as of the date hereof which were or could have been asserted in the Lawsuit and that

relate in any way to the Lawsuit or the Puckett Leases. It is the intent of the Parties that the foregoing release shall be given a broad interpretation to effectuate compromise and settlement and shall be construed as a general release of claims relating to the Puckett Leases. This release and covenant shall survive Closing.

5. **Amendment of Joint Operating Agreement.** The Parties will execute an Amendment of Joint Operating Agreement to sever and exclude from the Operating Agreement all depths below the Base Of The San Andres Formation from the current Joint Operating Agreement. The Parties acknowledge and agree that the deep rights reserved by Plaintiffs will thereby be specifically excluded from the Operating Agreement, and will not be subject to any existing Joint Operating Agreement. The Parties further agree that they will execute a Memorandum of Amendment of Operating Agreement reflecting the amendment of the Operating Agreement to exclude the deep rights.

6. **Dismissal of Lawsuit.** Within ten (10) business days of the Closing described in Paragraph 1, above, Plaintiffs and Defendants will cause the Lawsuit to be dismissed as follows:

- A. Between Plaintiffs and W.A. and E.R. Hudson, Inc., Edward R. Hudson, Jr., William A. Hudson II, and E. Randall Hudson III, the Lawsuit will be dismissed with prejudice, with each party bearing its own costs and attorneys fees incurred therein; and
- B. Between Plaintiffs and Francis Hill Hudson and Delmar Lewis the Lawsuit will be dismissed without prejudice, with each party bearing its own costs and attorneys fees incurred therein.

7. **Seismic Data.** Defendants warrant and represent that they do not currently have or have any agreement or right to acquire any seismic data relating in any part to the Puckett Leases, including raw and processed data, or any reports or interpretations thereof.

8. **Operations Pending Closing.** Until Closing, operations of the Puckett Leases shall be conducted in the ordinary course. Except for fixed expenses, any additional expense incurred in operations, including without limitation costs or expenses associated of reworking, repairing, drilling, equipping, or re-completing any well, shall be solely for the account of the Defendants, and no such additional cost or expense shall be charged to the account of any of the Plaintiffs.

9. **Partial Family Settlement Agreement.** Prior to Closing, the Hudson family parties will enter into a separate Partial Family Settlement Agreement that provides that the parties thereto, and their successors or assigns, agree that they will not assert the Lawsuit in any respect in an attempt or as a basis to deny, reduce or otherwise challenge any inheritance or right of inheritance of Mary T. Ard which she may otherwise be entitled to.

10. **Representations.** Plaintiffs and Defendants each represent and warrant that the person signing this Agreement:

- A. Is legally competent and duly authorized to execute this Agreement in the capacity stated;

- B. Does so of their own free will and accord, acting upon their own volition, and upon their own independent evaluation of the Puckett Leases, and relying upon the full and independent advice from their legal counsel, advisors, and petroleum engineers hired independently by Plaintiffs and Defendants;
- C. Is signing this Agreement without reservation as to the actual fair market value of their respective interests in the Puckett Leases or Trimble Fee and irrespective of any documentation or information in the possession of any other party that may affect such values and which may or may not have been disclosed to any other party.
- D. Has read and understands this Agreement;
- E. Has not assigned or transferred to any third party any interest in any claim or cause of action which is being released in this Agreement; and
- F. Is not relying on any facts, promises, undertakings or representations made by any other party or attorney, or upon any fiduciary duty of any person or entity to disclose any fact, data, or information pertaining to the Puckett Leases or the Trimble Fee, in the execution of this Agreement except those stated herein.

11. **Notice.** Any notice required or provided for in this Agreement shall be sent to the Parties as follows:

For the Plaintiffs:

Mr. James M. Hudson
P. O. Box 10
Roswell, New Mexico 88202
(505) 622-6510
FAX: (505) 623-9332

**For W.A. and E.R. Hudson, Inc., Edward R. Hudson, Jr.,
William A. Hudson II, and E. Randall Hudson III,**

Mr. H. Carter Burdette
Cantey & Hanger, L.L.P.
2100 Burnett Plaza
801 Cherry Street
Ft. Worth, Texas 76102
817-877-2834
FAX: 817-877-2807

For Francis Hill Hudson and Delmar Lewis

Mr. Ernest L. Carroll
Losee, Carson, Haas & Carroll
P. O. Box 1720
Artesia, New Mexico 88211-1720
505-746-3505
FAX: 505-746-6316

12. **Entire Agreement, Modification, Waiver.** This Agreement is intended to be the total integration of the agreement of the Parties hereto with respect to the subject matter and constitute a merger of all discussions and negotiations which have preceded the date of execution. There are no oral agreements or representations concerning the subject matter of this agreement which are not expressly set forth in the referenced documents. No supplement, modification, or amendment of this Agreement shall be binding unless executed in writing by all the Parties. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision, whether or not similar, nor shall any waiver constitute a continuing waiver. No waiver shall be binding unless executed in writing by the party making the waiver.

13. **Attorneys' Fees, Costs and Expenses.** Each of the Parties shall be solely responsible for its own attorneys' fees and other costs incurred in connection with the matters resolved pursuant to this Agreement or any actions required by this Agreement. If any suit is brought to enforce any of the terms or covenants of this Agreement or if any term or covenants of this Agreement provides a basis for its defense to any claim brought by any party to this Agreement, the Court shall award to the prevailing party his or her reasonable attorneys' fees, costs and expenses incurred in the suit or on the claim.

14. **Successors and Assigns.** Upon execution by the Parties hereto, this Agreement shall be binding upon and shall inure to the benefit of the Parties hereto and their respective successors, heirs and assigns.

15. **Time of the Essence.** Time is of the essence in the performance of this Agreement.

16. **Further Documents.** The Parties agree to execute such other and further documents as may be reasonable and necessary to carry out the terms of this Agreement.

17. **Headings.** The section headings in this Agreement are for convenience only and shall not be used to aid in the interpretation or construction of this Agreement.

18. **Drafting.** The Parties agree that this Agreement is the product of joint draftsmanship and negotiation and that should any of the terms be determined by a court, or in any type of quasi-judicial or other proceeding, to be vague, ambiguous and/or unintelligible, that the same sentences, phrases, clauses or other wordage or language of any kind shall not be construed against the drafting party.

19. **Survival.** This Agreement is intended in part to evidence the continuing rights, duties, and obligations of the parties and all of the representations, warranties, and covenants herein contained are hereby expressly made to survive closing of the settlement contemplated by this Agreement and dismissal of the Lawsuit.

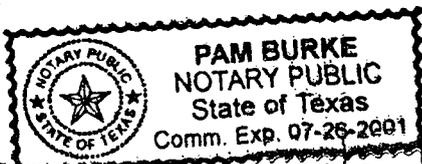
20. **Counterpart Signature.** This Agreement will be executed in multiple counterparts of equal dignity, provided however, this Agreement shall not be binding upon any

party until it has been fully executed by all parties. Due to the number of signatures required, the Parties agree that this Agreement will be executed by providing a copy of this Agreement to each party together with three original signature pages. Each party shall execute and return to their respective attorneys the original signature pages. Three originals of this Agreement will be compiled, one for each attorney for the parties. Each party shall be entitled to a fully executed copy of this Agreement.

Marjorie W. Iverson, Jr.
Marjorie W. Iverson, as Trustee of the
Marjorie W. Iverson 1990 Management
Trust

THE STATE OF TEXAS §
 §
COUNTY OF MIDLAND §

This instrument was acknowledged before me this 10th day of December, 1997 by Marjorie W. Iverson, as Trustee of the Marjorie W. Iverson 1990 Management Trust.



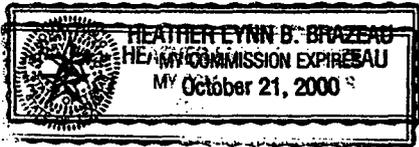
Pam Burke
Notary Public
in and for the State of Texas

My Commission expires: 7/26/2001

Mary T. Ard
Mary T. Ard, individually and as Trustee of
the Edward R. Hudson Trust No. 4

THE STATE OF TEXAS §
 §
COUNTY OF Tarrant §

This instrument was acknowledged before me this 18th day of December,
1997 by Mary T. Ard, individually and as Trustee of the Edward R. Hudson Trust No. 4.



Heather Lynn B. Brazee
Notary Public
in and for the State of Texas

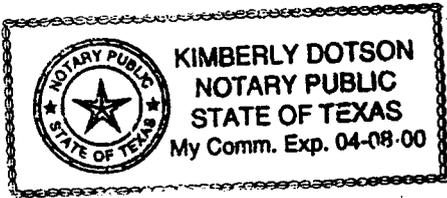
My Commission expires: 10-21-2000

NATIONSBANK OF TEXAS, N.A., AS
TRUSTEE OF THE S. J. IVERSON
TRUST #01-2981

By: Jerry Bridgens
Jerry Bridgens
Assistant Vice President

THE STATE OF TEXAS §
 §
COUNTY OF Dallas §

This instrument was acknowledged before me this 15th day of December,
1997 by Jerry Bridgens, Assistant Vice President of NationsBank Of Texas, N.A., on behalf of
said bank.



Kimberly Dotson
Notary Public
in and for the State of Texas

My Commission expires: 4-8-00

Richard R. Sullivan

Richard Sullivan, as Trustee of the Jewel D.
Iverson Revocable Inter Vivos Trust

THE STATE OF OKLAHOMA §
 §
COUNTY OF Julesa §

This instrument was acknowledged before me this 10 day of December,
1997 by Richard Sullivan, as Trustee of the Jewel D. Iverson Revocable Inter Vivos Trust.

Susan J.

Notary Public
in and for the State of Oklahoma

My Commission expires: May 29, 2000

IVERSON III, INC.

By: *Steven Iverson*
Steven Iverson
President

THE STATE OF OKLAHOMA §
 §
COUNTY OF Tulsa §

This instrument was acknowledged before me this 10th day of December,
1997 by Steven Iverson, President of Iverson III, Inc., an Oklahoma corporation, on behalf of
said corporation.

Alice Mauldin
Notary Public
in and for the State of Oklahoma

My Commission expires: February 14, 1998

P.A.I. INCORPORATED

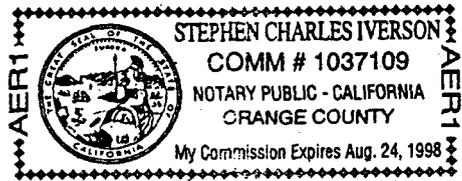
By: Paul D. Iverson
Paul D. Iverson
President

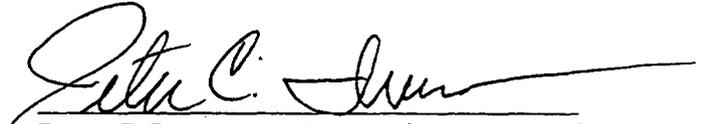
THE STATE OF CALIFORNIA §
 §
COUNTY OF Orange §

This instrument was acknowledged before me this 10th day of December, 1997 by Paul D. Iverson, President of P.A.I. Incorporated, an Oklahoma corporation, on behalf of said corporation.

Stephen Charles Iverson
Notary Public
in and for the State of ~~Texas~~ California

My Commission expires: Aug 24 1998





Peter C. Iverson, as Personal Representative
of the Estate of Dorothy Iverson Monroe

THE STATE OF OKLAHOMA §

COUNTY OF McAllister §
§

This instrument was acknowledged before me this 10th day of December,
1997 by Peter C. Iverson, as Personal Representative of the Estate of Dorothy Iverson Monroe.



Notary Public
in and for the State of Oklahoma

My Commission expires: 11-30-99

Alvin M. Iverson

Alvin M. Iverson, as Personal
Representative of the Estate of Dorothy
Iverson Monroe

THE STATE OF OKLAHOMA §

COUNTY OF Mayes §
§

This instrument was acknowledged before me this 12 day of Dec,
1997 by Alvin M. Iverson, as Personal Representative of the Estate of Dorothy Iverson Monroe.

Betha J. Schaefer

Notary Public
in and for the State of Oklahoma

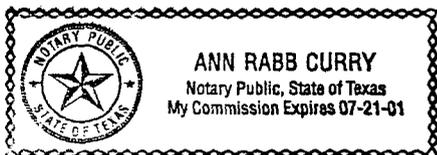
My Commission expires: 5-17-2001

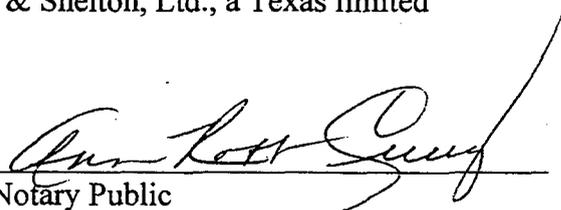
MOORE AND SHELTON, LTD.

By: 
Donald B. Moore
General Partner

THE STATE OF TEXAS §
 §
COUNTY OF Ft. Bend §

This instrument was acknowledged before me this 11th day of December, 1997 by Donald B. Moore, General Partner of Moore & Shelton, Ltd., a Texas limited partnership, on behalf of said limited partnership.




Notary Public
in and for the State of Texas

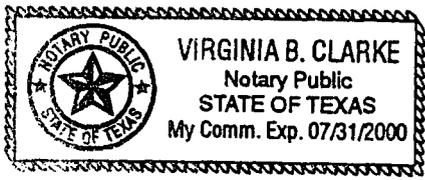
My Commission expires: 7-21-01

W.A. AND E.R. HUDSON, INC.

By: *W.A. Hudson II*
Name: W A HUDSON II
Title: PRESIDENT

THE STATE OF TEXAS §
 §
COUNTY OF TARRANT §

This instrument was acknowledged before me this 11 day of December, 1997 by [NAME] W. A. Hudson II, [TITLE] President of W.A. and E.R. Hudson, Inc., a Texas corporation, on behalf of said corporation.



Virginia B. Clarke
Notary Public
in and for the State of Texas

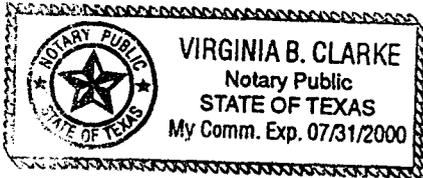
My Commission expires: 7/31/2000

E. R. Hudson, Jr.

Edward R. Hudson, Jr., individually and as
Trustee of the Edward R. Hudson
Trust Nos. 1, 2, and 3

THE STATE OF TEXAS §
 §
COUNTY OF TARRANT §

This instrument was acknowledged before me this 11 day of December,
1997 by Edward R. Hudson, Jr., individually and as Trustee of the Edward R. Hudson
Trust Nos. 1, 2, and 3.



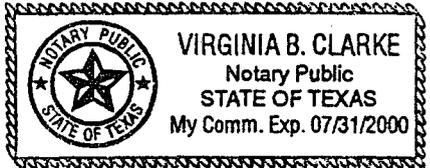
Virginia B. Clarke
Notary Public
in and for the State of Texas

My Commission expires: 7/31/2000


William A. Hudson II, individually and as
Trustee of the Edward R. Hudson
Trust Nos. 1, 2, and 3

THE STATE OF TEXAS §
 §
COUNTY OF TARRANT §

This instrument was acknowledged before me this 11 day of December,
1997 by William A. Hudson II, individually and as Trustee of the Edward R. Hudson Trust
Nos. 1, 2, and 3.



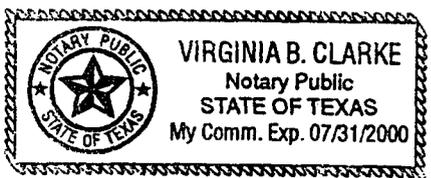

Notary Public
in and for the State of Texas

My Commission expires: 7/31/2000

E. Randall Hudson III
E. Randall Hudson III

THE STATE OF TEXAS §
 §
COUNTY OF TARRANT §

This instrument was acknowledged before me this 11 day of December,
1997 by E. Randall Hudson III.



Virginia B. Clarke
Notary Public
in and for the State of Texas

My Commission expires: 7/31/2000

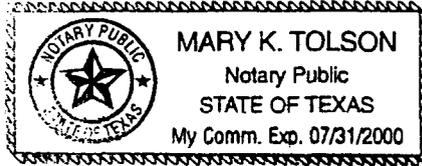
Francis Hill Hudson
Francis Hill Hudson

THE STATE OF TEXAS §
 §
COUNTY OF Tarrant §

This instrument was acknowledged before me this 17th day of December, 1997 by Francis Hill Hudson.

Mary K Tolson
Notary Public
in and for the State of Texas

My Commission expires: _____



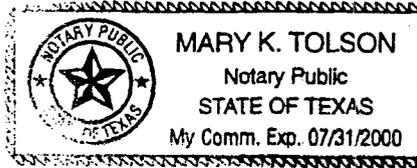
Delmar Lewis
Delmar Lewis

THE STATE OF TEXAS §
 §
COUNTY OF Tarrant §

This instrument was acknowledged before me this 17th day of December 1997 by Delmar Lewis.

Mary K Tolson
Notary Public
in and for the State of Texas

My Commission expires: _____



IVERSONSETTLE10

EXHIBIT "A"
To Settlement Agreement
Dated December 10, 1997

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

FORM APPROVED
OMB NO. 1004-0034
Expires: September 30, 1998

ASSIGNMENT OF RECORD TITLE INTEREST IN A
LEASE FOR OIL AND GAS OR GEOTHERMAL RESOURCES

Mineral Leasing Act of 1920 (30 U.S.C. 181 et seq.)
Act for Acquired Lands of 1947 (30 U.S.C. 351-359)
Geothermal Steam Act of 1970 (30 U.S.C. 1001-1025)
Department of the Interior Appropriations Act, Fiscal Year 1981 (42 U.S.C. 6508)

Lease Serial No. _____
Lease Effective Date
(Anniversary Date) _____
New Serial No. _____

Type or print plainly in ink and sign in ink.

PART A: ASSIGNMENT

1. Assignee* William A. Hudson, II
Street _____
City, State, ZIP Code _____

*If more than one assignee, check here and list the name(s) and address(es) of all additional assignees on the reverse of this form or on a separate attached sheet of paper.

This record title assignment is for: (Check one) Oil and Gas Lease, or Geothermal Lease

Interest conveyed: (Check one or both, as appropriate) Record Title, Overriding Royalty, payment out of production or other similar interests or payments

2. This assignment conveys the following interest:

Land Description <small>Additional space on reverse, if needed. Do not submit documents or agreements other than this form; such documents or agreements shall only be referenced herein.</small>	Percent of Interest			Percent of Overriding Royalty or Similar Interests	
	Owned <small>b</small>	Conveyed <small>c</small>	Retained <small>d</small>	Reserved <small>e</small>	Previously reserved or conveyed <small>f</small>
Township 17 South, Range 31 East, N.M.P.M. Section ____ : _____ Section ____ : _____ Section ____ : _____					

THIS ASSIGNMENT ASSIGNS RECORD TITLE ONLY AND NOT OPERATING RIGHTS

FOR BLM USE ONLY—DO NOT WRITE BELOW THIS LINE
UNITED STATES OF AMERICA

This assignment is approved solely for administrative purposes. Approval does not warrant that either party to this assignment holds legal or equitable title to this lease.

Assignment approved for above described lands:

Assignment approved for attached land description

Assignment approved effective _____

Assignment approved for land description indicated on reverse of this form.

By _____

(Authorized Officer)

(Title)

(Date)

PART C: GENERAL INSTRUCTIONS

- Assignor/Assignee(s) must complete Parts A1 and A2 and Part B. All parties to assignment must sign as follows: The assignor(s) must manually sign 3 original copies and the assignee(s) must manually sign at least 1 of the 3 original copies. File three (3) completed copies of this form in the proper BLM office for each assignment of record title. For a transfer of overriding royalty interest, payment out of production or other similar interest or payment, file one (1) manually signed copy of this form. The required filing fee (nonrefundable) must accompany the assignment. File assignment within ninety (90) days after date of execution of assignor.
- Separate form must be used for each lease being affected by this assignment and for each type of interest conveyed.
- In Item No. 2 of Part A, describe lands affected (See 43 CFR 3106, 3135, or 3241). For columns b, c, d, and e, enter the interest expressed as a percentage of total interest in the lease; e.g., if assignor assigns one quarter of a 20% interest, enter 20% in column b, 5% in column c, and 15% in column d.
- If assignment is to more than one assignee, enter each assignee's name across columns d, e, and f next to the respective interest being conveyed. Also list names and addresses of any additional assignee(s) on reverse of this form or on a separate attached sheet of paper.

- If any payment out of production or similar interests, arrangements or payments have previously been created out of the interest being assigned, or if any such payments or interests are reserved under this assignment, include a statement giving full details as to amount, method of payment, and other pertinent terms as provided under 43 CFR 3106, 3135, or 3241.
- The lease account must be in good standing before this assignment can be approved as provided under 43 CFR 3106 and 3241.
- Assignment, if approved, takes effect on the first day of the month following the date of filing in the proper BLM office. If a bond is necessary, it must be furnished prior to approval of the assignment.
- Approval of assignment of record title to 100% of a portion of the leased lands creates separate leases of the retained and the assigned portions, but does not change the terms and conditions of the lease anniversary date for purposes of payment of annual rental.
- Overriding royalty, payment out of production or other similar types of transfers must be filed with BLM, but will be accepted for record purposes only. No official approval will be given.

PAPERWORK REDUCTION ACT STATEMENT

- 1. This information is being collected pursuant to the law.
- 2. This information will be used to create and maintain a record of oil and gas/geothermal lease activity.
- 3. Response to this request is required to obtain benefit.

NOTICE

The Privacy Act of 1974 and the regulation in 43 CFR 2.48(d) provide that you be furnished the following information in connection with information required by this oil and gas/geothermal lease record title assignment application.

AUTHORITY: 30 U.S.C. 181 et seq; 30 U.S.C. 1001-1025; 42 U.S.C. 6508

PRINCIPAL PURPOSE—The information is to be used to process record title assignments for oil and gas/geothermal resources leases.

ROUTINE USES:

- (1) The adjudication of the assignee's rights to the land or resources.
- (2) Documentation for public information in support of notations made on land status records for the management, disposal, and use of public lands and resources.
- (3) Transfer to appropriate Federal agencies when concurrence is required prior to granting a right in public lands or resources.
- (4)(5) Information from the record and/or the record will be transferred to appropriate Federal, State, local or foreign agencies, when relevant to civil, criminal or regulatory investigations or prosecutions.

EFFECT OF NOT PROVIDING INFORMATION—If all requested information is not provided, the assignment may not be approved. See regulations at 43 CFR Groups 3100 and 3200.

Year _____ Year _____ Year _____

Part A (Continued): ADDITIONAL SPACE for Names and addresses of additional assignees in Item No. 1, if needed, or for 1 and Description in Item No. 2, if needed.

PART B: CERTIFICATION AND REQUEST FOR APPROVAL

- 1. The Assignor certifies as owner of an interest in the above designated lease that he/she hereby assigns to the above assignee(s) the rights specified above.
- 2. Assignee certifies as follows: (a) Assignee is a citizen of the United States; an association of such citizens; a municipality; or a corporation organized under the laws of the United States or of any State or territory thereof. For the assignment of NPR-A leases, assignee is a citizen, national, or resident alien of the United States or association of such citizens, nationals, resident aliens or private, public or municipal corporations; (b) Assignee is not considered a minor under the laws of the State in which the lands covered by this assignment are located; (c) Assignee's chargeable interests, direct and indirect, in each public domain and acquired lands separately in the same State, do not exceed 246,080 acres in oil and gas leases (of which up to 200,000 acres may be in oil and gas options), or 300,000 acres in leases in each leasing District in Alaska of which up to 200,000 acres may be in options, if this is an oil and gas lease issued in accordance with the Mineral Leasing Act of 1920, or 51,200 acres in any one State if this is a geothermal lease; (d) All parties holding an interest in the assignment are otherwise in compliance with the regulations (43 CFR Group 3100 or 3200) and the authorizing Acts; (e) Assignee is in compliance with reclamation requirements for all Federal oil and gas lease holdings as required by sec. 17(g) of the Mineral Leasing Act, and (f) Assignee is not in violation of sec. 41 of the Mineral Leasing Act.
- 3. Assignee's signature to this assignment constitutes acceptance of all applicable terms, conditions, stipulations and restrictions pertaining to the lease described herein.

For geothermal assignments, an overriding royalty may not be less than one-fourth (1/4) of one percent of the value of output, not greater than 50 percent of the rate of royalty due to the United States when this assignment is added to all previously created overriding royalties (43 CFR 3211).

I certify that the statements made herein by me are true, complete, and correct to the best of my knowledge and belief and are made in good faith.

Executed this _____ day of _____, 19 _____

Executed this _____ day of _____, 19 _____

Name of Assignor as shown on current lease _____
Please type or print

Assignor _____
or _____
Attorney-in-fact _____
(Signature) (Signature) (Signature)

Assignee _____
or _____
Attorney-in-fact _____
(Signature) (Signature) (Signature)

(Assignor's Address)

(City) (State) (Zip Code)

Public reporting burden for this form is estimated to average 30 minutes per response including the time for reviewing instructions, gathering and maintaining data, and completing and reviewing the form. Direct comments regarding the burden estimate or any other aspect of this form to U.S. Department of the Interior, Bureau of Land Management, Bureau Clearance Officer (109-110), Denver Federal Center, Building 40, P.O. Box 25047, Denver, CO 80225-0047 and the Office of Management and Budget, Paperwork Reduction Project (1004-0014), Washington, D.C. 20503.

Title 18 U.S.C. Sec. 1001 makes it a crime for any person knowingly and willfully to make to any Department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

EXHIBIT "B"
To Settlement Agreement
Dated December 10, 1997

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

FORM APPROVED
OMHS (10) 1004-0034
Expires: July 31, 1995

TRANSFER OF OPERATING RIGHTS (SUBLEASE) IN A
LEASE FOR OIL AND GAS OR GEOTHERMAL RESOURCES

Mineral Leasing Act of 1920 (30 U.S.C. 181 et seq.)
Act for Acquired Lands of 1947 (30 U.S.C. 351-359)
Geothermal Steam Act of 1970 (30 U.S.C. 1001-1025)
Department of the Interior Appropriations Act, Fiscal Year 1981 (42 U.S.C. 6508)

Lease Serial No. _____

Type or print plainly in ink and sign in ink.

PART A: TRANSFER

1. Transferee (Sublessee)* William A. Hudson, II
Street _____
City, State, ZIP Code _____

*If more than one transferee, check here and list the name(s) and address(es) of all additional transferees on the reverse of this form or on a separate attached sheet of paper.

This transfer is for: (Check one) Oil and Gas Lease, or Geothermal Lease

Interest conveyed: (Check one or both, as appropriate) Operating Rights (sublease) Overriding Royalty, payment out of production or other similar interests or payments

2. This transfer (sublease) conveys the following interest:

Land Description	Percent of Interest			Percent of Overriding Royalty or Similar Interests	
	Owned	Conveyed	Retained	Reserved	Previously reserved or conveyed
	b	c	d	e	f
Additional space on reverse, if needed. Do not submit documents or agreements other than this form; such documents or agreements shall only be referenced herein. Township 17 South, Range 31 East, N.M.P.M. Section _____ : _____ Section _____ : _____ Section _____ : _____ for all depths from the surface of the earth to the stratigraphic equivalent of the base of the San Andres Formation, identified at a depth of 4,230 feet on the Compensated Neutron/Lithodensity log dated October 9, 1988 for the BTA Oil Producers 8809 JV-P Puckett #1 well; such well being located at 1,880 FNL and 1,880 FEL of Section 25, Township 17 South, Range 31 East, N.M.P.M., Eddy County, New Mexico.					

FOR BLM USE ONLY—DO NOT WRITE BELOW THIS LINE

THE UNITED STATES OF AMERICA

This transfer is approved solely for administrative purposes. Approval does not warrant that either party to this transfer holds legal or equitable title to this lease.

Transfer approved effective _____

By _____
(Authorized Officer) (Title) (Date)

PART C: GENERAL INSTRUCTIONS

1. Transferor/transferees must complete Parts A1 and A2 and Part B. All parties to transfer must sign as follows: The transferor(s) must manually sign 3 original copies, and the transferee(s) must manually sign at least 1 of the 3 original copies. File three (3) completed copies of this form in the proper BLM office for each transfer of operating rights (sublease). For a transfer of overriding royalty interest, payment out of production or other similar interest or payment, file one (1) manually signed copy of this form. The required filing fee (nonrefundable) must accompany the transfer, payment out of production or other similar interests or payments. File transfer within ninety (90) days after date of execution by transferee.
2. Separate forms must be used for each lease being affected by this transfer and for each type of interest conveyed.
3. In Item No. 2 of Part A, describe lands affected (See 43 CFR 310b, 3135, or 3241). For columns b, c, d, and e, enter the interest expressed as a percentage of total interest in the lease; e.g., if transferor transfers one quarter of a 20% interest, enter 20% in column b, 5% in column c, and 15% in column d.
4. If any payments out of production or similar interests, arrangements or payments have previously been created out of the interest being transferred, or if any such payments of interests are reserved under this transfer include a statement giving full details as to amount, method of payment, and other pertinent terms as provided under 43 CFR 310b, 3135, or 3241.
5. The lease account must be in good standing before this transfer (sublease) can be approved (43 CFR 310b and 3241.)
6. Transfer, if approved, takes effect on the first day of the month following date of filing in the proper BLM office. If a bond is necessary, it must be furnished prior to approval of the transfer.
7. Overriding royalty and payment out of production or other similar types of transfers must be filed with BLM, but will be accepted for record purposes only. No official approval will be given.
8. Upon approval of a transfer of operating rights (sublease), the sublessee is responsible for all lease obligations under the lease rights transferred to the sublessee.

PAPERWORK REDUCTION ACT STATEMENT

- 1. This information is being collected pursuant to the law.
- 2. This information will be used to create and maintain a record of oil and gas/geothermal lease activity.
- 3. Response to this request is required to obtain benefit.

NOTICE

The Privacy Act of 1974 and the regulation in 43 CFR 2.48(b) provide that you be furnished the following information in connection with information required by this oil and gas/geothermal lease transfer application.

AUTHORITY: 30 U.S.C. 181 et seq; 30 U.S.C. 1001-1025; 42 U.S.C. 6508

PRINCIPAL PURPOSE: The information is to be used to process transfers of operating rights (subleases) for oil and gas/geothermal resources leases.

ROUTINE USES:

- (1) The approval of transferee's rights to the land or resources.
- (2) Documentation for public information in support of notations made on land status records for the management, disposal, and use of public lands and resources.
- (3) Transfer to appropriate Federal agencies when concurrence is required prior to granting a right in public lands or resources.
- (4) Information from the record and/or the record will be transferred to appropriate Federal, State, local or foreign agencies, when relevant to civil, criminal or regulatory investigations or prosecutions.

EFFECT OF NOT PROVIDING INFORMATION—If all requested information is not provided, the transfer may not be approved. See regulations at 43 CFR Groups 3100 and 3200.

Part A (Continued): ADDITIONAL SPACE for Names and addresses of additional transferees in item No. 1, if needed, or for Land Description in item No. 2 if needed.

PART B: CERTIFICATION AND REQUEST FOR APPROVAL

- 1. The transferor certifies as owner of an interest in the above designated lease that he/she hereby transfers to the above transferee(s) the rights specified above.
- 2. Transferee certifies as follows: (a) Transferee is a citizen of the United States; an association of such citizens, a municipality, or a corporation organized under the laws of the United States or of any State or territory thereof; (b) For the transfer of NPR A leases, transferee is a citizen, national, or resident alien of the United States or association of such citizens, national, resident aliens or private, public or municipal corporations; (c) Transferee is not considered a minor under the laws of the State in which the land covered by the transfer are located; (d) Transferee's chargeable interests, direct and indirect, in each public domain and acquired lands separately in the same State, do not exceed 240,000 acres in oil and gas leases (of which up to 200,000 acres may be in oil and gas options), or 400,000 acres in leases in each leasing District in Alaska of which up to 200,000 acres may be in options; if this is an oil and gas lease issued in accordance with the Mineral Leasing Act of 1920 or 51,200 acres in any one State if this is a geothermal lease; and (e) All parties holding an interest in the transfer are otherwise in compliance with the regulations (43 CFR Group 3100 or 3200) and the authorizing Acts; (c) Transferee is in compliance with reclamation requirements for all Federal oil and gas lease holdings as required by sec. 17(g) of the Mineral Leasing Act; and (d) Transferee is not in violation of sec. 41 of the Mineral Leasing Act.
- 3. Transferee's signature to this assignment constitutes acceptance of all applicable terms, conditions, stipulations and restrictions pertaining to the lease described herein. Applicable terms and conditions include, but are not limited to: an obligation to conduct all operations on the leasehold in accordance with the terms and conditions of the lease; to condition all wells for proper abandonment; to restore the leased lands upon completion of any operations as described in the lease; and to furnish and maintain such bond as may be required by the lessor pursuant to regulations 43 CFR 3104, 3134, or 3206.

For geothermal transfers, an overriding royalty may not be less than one fourth (1/4) of one percent of the value of output, nor greater than 50 percent of the rate of royalty due to the United States when this transfer is added to all previously created overriding royalties (43 CFR 3241).

I certify that the statements made herein by me are true, complete, and correct to the best of my knowledge and belief and are made in good faith.

Executed this _____ day of _____, 19____

Executed this _____ day of _____, 19____

Name of Transferor _____
Please type or print

Transferee _____
(Signature)

Transferee _____
(Signature)

or _____
Attorney-in-fact (Signature)

or _____
Attorney-in-fact (Signature)

(Transferor's Address) _____
(City) (State) (Zip Code)

BURDEN HOURS STATEMENT

Public reporting burden for this form is estimated to average 30 minutes per response, including the time for reviewing instructions, gathering and maintaining data, and completing and reviewing the form. Direct comments regarding the burden estimate or any other aspect of this form to U.S. Department of the Interior, Bureau of Land Management (Alternate) Bureau Clearance Officer, (WO-771), D and C Streets, N.W., Washington, D.C. 20240, and the Office of Management and Budget, Paperwork Reduction Project (1004-0034), Washington, D.C. 20503.

Title 43 U.S.C. Sec. 1001 makes it a crime for any person knowingly and willfully to make to any Department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

EXHIBIT "C"
To Settlement Agreement
Dated December 10, 1997

PARTIAL ASSIGNMENT

THIS PARTIAL ASSIGNMENT between _____, (hereinafter referred to as "Assignor") and WILLIAM A. HUDSON, II, _____, Ft. Worth, Texas _____, (hereinafter referred to as "Assignee"),

W I T N E S S E T H:

1. Assignor, for valuable consideration paid to it by Assignee, the receipt and sufficiency of which are hereby acknowledged, with statutory special warranty covenants only and no other warranties of title, either express or implied, does hereby GRANT, BARGAIN, SELL, CONVEY AND ASSIGN, SET OVER AND DELIVER, effective January 1, 1998 at 7:00 a.m. unto Assignee, and Assignees heirs, successors and assigns, the following:

a) The interests in the oil and gas lease and operating rights which are specifically described in Exhibit "A" attached hereto and made a part hereof, subject to the restrictions, exceptions, reservations, conditions, limitations, existing royalties, overriding royalties, production payment interests, burdens on production, and other matters, heretofore created and validly shown of record (hereinafter referred to as the "assigned interest"), SPECIFICALLY RESERVING TO ASSIGNOR an additional overriding royalty of ___% of 8/8ths of oil, gas and other liquid and gaseous hydrocarbons produced and saved from said assigned interest, including any extensions or renewals of said lease. Said reserved overriding royalty shall be subject to proportionate reduction in the event that Assignor owns less than 100% of the operating rights in the lease described in Exhibit "A." Said overriding royalty shall be computed and paid in the same fashion and in the same manner as the royalty payable to the United States of America is computed and paid if not taken in kind, and Assignor shall be responsible for its proportionate part of all taxes and assessments levied upon or against or measured by the production of oil, gas and other liquid and gaseous hydrocarbons therefrom. At the Option of Assignor, said fractional part of such oil, gas and other liquid and gaseous hydrocarbons produced and saved shall be delivered in kind. If Assignor elects to take the overriding royalty in kind, Assignor shall be responsible for all additional costs which may be incurred to achieve delivery of such royalty in kind.

If Assignee secures any extension or renewal of any lease subject hereto prior to the termination of the lease or within one (1) year thereafter, or if Assignee secures a new lease covering any or all of the lands described in said leases prior to termination or within one (1) year thereafter, then the overriding royalty reserved herein by Assignor shall attach to such extension, renewal or new lease, and Assignee shall execute a recordable instrument to evidence the overriding royalty of Assignor.

b) All of Assignor's right title and interest in, to and under, or derived from:

(i) All of the presently existing and valid unitization agreements and unit operating agreements and the properties and interests credited thereby;

(ii) All of the presently existing and valid oil, casinghead gas and gas sales and purchase agreements:
and

(iii) All contracts, agreements, and instruments which relate to any of the properties and interests specifically described in Exhibit "A" (or properties unitized therewith), or the production of oil, gas, and other hydrocarbon substances from or attributable to said interests;

c) All personal property, improvements, easements, permits licenses, servitudes and rights-of-way situated upon or used or useful or held for future use in connection with the exploration, development or operation of the assigned interest, or the production, treating, storing, and transportation of oil gas or other hydrocarbon substances, including but not limited to wells, casing, tubing, derricks, pumps, flow lines, gas lines, water lines, salt water disposal facilities, tanks, separators, buildings, machinery, equipment, roads and other appurtenances situated on the assigned interest or lands unitized therewith or which are used in connection with hydrocarbon operations relating to the assigned interest. SUCH PERSONAL PROPERTY IS NOT NEW, AND HAS BEEN SUBJECT TO WEAR AND TEAR. AS TO SUCH PERSONAL PROPERTY, ASSIGNOR EXPRESSLY DISCLAIMS ALL WARRANTIES EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION, ALL WARRANTIES OF TITLE, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, AND ASSIGNEE AGREES

TO ACCEPT ALL SUCH PERSONAL PROPERTY "AS IS AND IN THEIR PRESENT STATE AND CONDITION.

2. Assignor and Assignee acknowledge that Assignor has not performed any environmental audits on the leases as to the lands described in Exhibit "A" and the Assignor has made no representations concerning the environmental quality of said lease. Assignor transfers said leases "AS IS" AND DISCLAIMS AS TO ASSIGNEE ALL WARRANTIES, EXPRESS OR IMPLIED, CONCERNING (i) THE ENVIRONMENTAL QUALITY AND CONDITION OF SAID LEASE, SURROUNDING PROPERTY AND GROUND WATER; (ii) THE EXISTENCE OF ANY DISCHARGE OF HAZARDOUS SUBSTANCES OR OTHER POLLUTANTS UPON OR FROM SAID LEASE; AND (iii) THE STATUS OF COMPLIANCE OF SAID LEASE WITH FEDERAL, STATE OR LOCAL LAWS OR REGULATIONS, PERTAINING TO HEALTH, SAFETY OR ENVIRONMENTAL PROTECTION.

ASSIGNEE ACKNOWLEDGES THAT SOME PRODUCTION EQUIPMENT MAY CONTAIN ASBESTOS AND/OR NATURALLY OCCURRING RADIOACTIVE MATERIAL ("NORM"). IN THIS REGARD, ASSIGNEE EXPRESSLY UNDERSTANDS THAT NORM MAY AFFIX OR ATTACH ITSELF TO THE INSIDE OF WELLS, MATERIALS AND EQUIPMENT AS SCALE, OR IN OTHER FORMS; THAT THE WELLS AND EQUIPMENT ON THE LEASE AND ADDITIONAL LANDS MAY CONTAIN NORM; AND THAT NORM CONTAINING MATERIAL MAY BE BURIED OR OTHERWISE DISPOSED OF ON THE LEASE. ASSIGNEE EXPRESSLY UNDERSTANDS THAT SPECIAL PROCEDURES MAY BE REQUIRED FOR THE REMOVAL AND DISPOSAL OF ASBESTOS AND NORM FROM THE WELLS, MATERIALS, EQUIPMENT AND LANDS WHERE IT MAY BE FOUND.

3. With respect to the oil and gas lease, or interest therein which are conveyed herein, from the United State of America, separate assignments on approved forms will be executed by the Assignor to the Assignee in sufficient counterparts to fulfill applicable statutory and regulatory requirements. Said assignments, although unqualified in form and not specifically containing all of the terms and provisions hereof, shall nevertheless be deemed to contain all of the terms, provisions, remedies, powers, and privileges set forth in this Partial Assignment as fully to all intents and purposes as though the same were set forth in such separate assignments.

4. Assignor shall execute and deliver all such other notices, division or transfer orders and transfers of record title and operating rights on Bureau of Land Management forms, and will do all such other acts and things as may be necessary to more fully assure Assignee's enjoyment of all of the respective rights, titles, interests and estates assigned herein, and hereby granted, bargained, sold, conveyed, assigned and delivered or intended to so be.

5. Assignee accepts the assigned interest subject to all of the express or implied covenants and obligations of said oil and gas lease, including without limitation, all obligations relating to the plugging and abandonment of any wells previously or hereafter drilled, insofar as they relate to the assigned interest. Assignee shall observe and comply with all covenants, terms and provisions, express or implied, contained in the lease, agreements, easements and all other contracts pertaining to the Assignor's interests assigned hereby which appear of record in the records of Eddy County, New Mexico as of the effective date of this Partial Assignment. Assignee indemnifies and agrees to respond to, defend and save Assignor harmless from and against any and all claims for damages or forfeiture made by any person, partnership, corporation, government agency, or other legal entity that is based on any failure of Assignee to comply with the express or implied obligations of the lease as to the assigned interest after 7:00 a.m. January 1, 1998. Assignee further agrees to respond to, defend and save Assignor harmless from and against any and all loss, cost, expense or claims for damages of every kind and character to persons or property arising out of or in connection with the operations by Assignee, and by Assignee's contractors or subcontractors, their heirs, personal representatives, successors and assigns, upon any of said assigned interest after 7:00 a.m. January 1, 1998.

6. This Partial Assignment and all rights, reservations and covenants in connection herewith shall be considered covenants running with the lands and shall inure to and be binding upon the parties hereto, their heirs, personal representatives, successors and assigns.

TO HAVE AND TO HOLD said assigned interest unto Assignee, Assignee's heirs, personal representatives, successors and assigns, subject to all of the express and implied covenants and obligations of said lease and this Partial Assignment.

EXHIBIT "A"

Attached to that certain Partial Assignment
between _____ and William A. Hudson, II

Eddy County, New Mexico:

All of Assignor's right, title and interest in United States of America Lease designated as serial Number _____, insofar as it covers the following described lands and depths:

Township 17 South, Range 31 East, N.M.P.M.

Section __: _____

Section __: _____

Section __: _____

Section __: _____

for all depths from the surface of the earth to the stratigraphic equivalent of the base of the San Andres Formation, identified at a depth of 4,230 feet on the Compensated Neutron / Lithodensity log dated October 9, 1988 for the BTA Oil Producers 8809 JV-P Puckett #1 well; such well being located at 1,880 FNL and 1,880 FEL of Section 25, Township 17 South, Range 31 East, N.M.P.M., Eddy County, New Mexico.

EXHIBIT "D"
To Settlement Agreement
Dated December 10, 1997

DEED

THIS DEED between _____, (hereinafter referred to as "Grantor") and **WILLIAM A. HUDSON, II**, _____, Ft. Worth, Texas _____, (hereinafter referred to as "Grantee"),

W I T N E S S E T H:

1. Grantor, for valuable consideration paid to it by Grantee, the receipt and sufficiency of which are hereby acknowledged, without warranty of title, express or implied, does hereby GRANT, BARGAIN, SELL, CONVEY AND ASSIGN, SET OVER AND DELIVER, effective January 1, 1998 at 7:00 a.m. unto Grantee, and Grantees heirs, successors and assigns all Grantor's right, title and interest in and to the following described the following property in Lea County, New Mexico:

The East Half (E/2) of Township 17 South, Range 32 East, N.M.P.M.

(It is hereby understood and agreed by the parties hereto that W.B. Trimble and wife, Elizabeth Trimble, have heretofore reserved unto themselves all of the oil, gas and other minerals that they owned at the time of the conveyance from themselves to Emperor Oil Company in and under said land herein conveyed, and also reserved unto themselves and their heirs and assigns the right of ingress and egress at all times to explore and develop, mine and save the minerals from said premises.)

(It being the intention of this instrument to convey surface title only)

2. Grantor and Grantee acknowledge that Grantor has not performed any environmental audits on the leases as to the lands described in Exhibit "A" and the Grantor has made no representations concerning the environmental quality of said lease. Grantor transfers said leases "AS IS" and DISCLAIMS AS TO GRANTEE ALL WARRANTIES, EXPRESS OR IMPLIED, CONCERNING (i) THE ENVIRONMENTAL QUALITY AND CONDITION OF SAID LEASE, SURROUNDING PROPERTY AND GROUND WATER; (ii) THE EXISTENCE OF ANY DISCHARGE OF HAZARDOUS SUBSTANCES OR OTHER POLLUTANTS UPON OR FROM SAID LEASE; AND (iii) THE STATUS OF COMPLIANCE WITH FEDERAL, STATE OR LOCAL LAWS OR REGULATIONS, PERTAINING TO HEALTH, SAFETY OR ENVIRONMENTAL PROTECTION.

3. This Deed and all rights, reservations and covenants in connection herewith shall be considered covenants running with the lands and shall inure to and be binding upon the parties hereto, their heirs, personal representatives, successors and assigns.

TO HAVE AND TO HOLD said assigned interest unto Grantee, Grantee's heirs, personal representatives, successors and assigns, subject to all of the express and implied covenants and obligations of this Assignment.

IN WITNESS WHEREOF, Grantor and Grantee have caused this Deed to be executed this ___ day of _____, 199__, but effective the day and year herein above written.

GRANTOR:

GRANTEE:

PARTIAL GIFT ASSIGNMENT

THIS PARTIAL GIFT ASSIGNMENT between MARJORIE W. IVERSON, AS TRUSTEE OF THE MARJORIE W. IVERSON 1990 MANAGEMENT TRUST, (hereinafter referred to as "Assignor") and

WENDELL W. IVERSON, TRUSTEE OF THE S. J. I. 1990 TRUST,
P. O. Box 10508
Midland, Texas 79702

WENDELL W. IVERSON, TRUSTEE OF THE P.L.P. 1990 TRUST,
P. O. Box 10508
Midland, Texas 79702

WENDELL W. IVERSON, TRUSTEE OF THE W. W. I. 1990 TRUST,
P. O. Box 10508
Midland, Texas 79702

(hereinafter referred to as "Assignees"),

WITNESSETH:

1. Assignor, as a gift, without warranties of title, either express or implied, does hereby GRANT, BARGAIN, SELL, CONVEY AND ASSIGN, SET OVER AND DELIVER, effective January 31, 1998 at 7:00 a.m. unto Assignees, in equal proportions, and Assignees hereby accept, the interests in the oil and gas leases and operating rights which are specifically described in Exhibit "A" attached hereto and made a part hereof, subject to the restrictions, exceptions, reservations, conditions, limitations, existing royalties, overriding royalties, production payment interests, burdens on production, and other matters, heretofore created and validly shown of record.
2. With respect to the oil and gas lease, or interest therein which are conveyed herein, from the United State of America, separate assignments on approved forms will be executed by the Assignor to the Assignees in sufficient counterparts to fulfill applicable statutory and regulatory requirements. Said assignments, although unqualified in form and not specifically containing all of the terms and provisions hereof, shall nevertheless be deemed to contain all of the terms, provisions, remedies, powers, and privileges set forth in this Partial Assignment as fully to all intents and purposes as though the same were set forth in such separate assignments.
3. Assignor shall execute and deliver all such other notices, division or transfer orders and transfers of record title and operating rights on Bureau of Land Management forms, and will do all such other acts and things as may be necessary to more fully assure Assignees' enjoyment of all of the respective rights, titles, interests and estates assigned herein, and hereby granted, bargained, sold, conveyed, assigned and delivered or intended to so be.
4. The overriding royalty interests described in Exhibit "A" and conveyed to Assignees in this Partial Gift Assignment are intended to be the overriding royalty interests that are to be reserved by Assignor in that certain Partial Assignment to William A. Hudson, II, dated February 1, 1998, although that Partial Assignment has not yet been made. To the extent that the percentage interest described in Exhibit "A" may differ from the overriding royalty interest to be reserved in the Partial Assignment to William A. Hudson, II, this Partial Gift Assignment shall be deemed to have conveyed that entire reserved overriding royalty interest, and no more or less. Said overriding royalty shall be computed and paid in the same fashion and in the same manner as the royalty payable to the United States of America is computed and paid if not taken in kind, and each Assignee shall be responsible for its proportionate part of all taxes and assessments levied upon or against or measured by the production of oil, gas and other liquid and gaseous hydrocarbons therefrom. At the option of Assignees, or each of them, said fractional part of such oil, gas and other liquid and gaseous hydrocarbons produced and saved shall be delivered in kind. If Assignees, or any of them, elect to take the overriding royalty in kind, said Assignee shall be responsible for all additional costs which may be incurred to achieve delivery of such royalty in kind. Furthermore, this Partial Gift Assignment is not intended to convey, and shall specifically exclude any Record Title interest in the oil and gas leases described in Exhibit "A" for purposes of the maintenance of records of the Bureau of Land Management.
5. This Partial Assignment and all rights, reservations and covenants in connection herewith shall be considered covenants running with the lands and shall inure to and be binding upon the parties hereto, their heirs,

Page 1

RECEPTION
982260

HINKLE LAW FIRM
PO BOX 10
ROSWELL NM 88202-0010

EXHIBIT "A"

Attached to that certain Partial Assignment between
 Marjorie W. Iverson, as Trustee of the Marjorie W. Iverson 1990 Management Trust
 and Wendell W. Iverson, as Trustee of the S.J.L. Jr. 1990 Trust, the P.L.P. 1990 Trust and the W.W.I. 1990 Trust

Tract 1:

Eddy County, New Mexico:

All of Assignor's right, title and interest in United States of America Lease designated as Serial Number NMLC-029415 A, insofar as it covers the following described lands and depths:

Township 17 South, Range 31 East, N.M.P.M.
 Section 13: S/2 S/2
 Section 24: N/2, N/2 S/2

for all depths below the stratigraphic equivalent of the base of the San Andres Formation, identified at a depth of 4,230 feet on the Compensated Neutron / Lithodensity log dated October 9, 1988 for the BTA Oil Producers 8809 JV-P Puckett #1 well; such well being located at 1,880 FNL and 1,880 FEL of Section 25, Township 17 South, Range 31 East, N.M.P.M., Eddy County, New Mexico (hereinafter referred to in this Exhibit "A" as the "Base Of The San Andres Formation").

Containing 640 acres, more or less.

Tract 2:

Eddy County, New Mexico:

An overriding royalty interest of .14921875% of 8/8ths of oil, gas and other liquid and gaseous hydrocarbons produced and saved from United States of America Lease designated as Serial Number NMLC-029415 A, including any extensions or renewals of said lease, insofar as it covers the following described lands and depths:

Township 17 South, Range 31 East, N.M.P.M.
 Section 13: S/2 S/2
 Section 24: N/2, N/2 S/2

for all depths from the surface of the earth to the stratigraphic equivalent of the Base Of The San Andres Formation.

Containing 640 acres, more or less.

Tract 3:

Eddy County, New Mexico:

All of Assignor's right, title and interest in United States of America Lease designated as Serial Number NMLC-029415 B, insofar as it covers the following described lands and depths:

Township 17 South, Range 31 East, N.M.P.M.
 Section 12: All
 Section 13: N/2, N/2 S/2
 Section 24: S/2 S/2
 Section 25: All

for all depths below the stratigraphic equivalent of the Base Of The San Andres Formation.

Containing 1,920 acres, more or less.

Tract 4:

Eddy County, New Mexico:

An overriding royalty interest of .44765625% of 8/8ths of oil, gas and other liquid and gaseous hydrocarbons produced and saved from United States of America Lease designated as Serial Number NMLC-029415 B, including any extensions or renewals of said lease, insofar as it covers the following described lands and depths:

Township 17 South, Range 31 East, N.M.P.M.

- Section 12: All
- Section 13: N/2, N/2 S/2
- Section 24: S/2 S/2
- Section 25: All

for all depths from the surface of the earth to the stratigraphic equivalent of the Base Of The San Andres Formation.

Containing 1,920 acres, more or less.

IVERSON Trust-Assign

STATE OF NEW MEXICO)
County of Eddy) ss.

FILED FEB 24 1998 FOR RECORD

at 1:36 o'clock P.M. and was duly
recorded in BOOK 308 PAGE 725
of the Records of Eddy County
Karen Davis, County Clerk
By: *Galva C. [Signature]* Deputy



PARTIAL ASSIGNMENT

THIS PARTIAL ASSIGNMENT between MARY T. ARD, INDIVIDUALLY AND AS TRUSTEE OF THE EDWARD R. HUDSON TRUST NO. 4, (hereinafter referred to as "Assignor") and WILLIAM A. HUDSON, II, 616 Texas Street, Ft. Worth, Texas 76102, (hereinafter referred to as "Assignee"),

WITNESSETH:

1. Assignor, for valuable consideration paid to it by Assignee, the receipt and sufficiency of which are hereby acknowledged, with statutory special warranty covenants only and no other warranties of title, either express or implied, does hereby GRANT, BARGAIN, SELL, CONVEY AND ASSIGN, SET OVER AND DELIVER, effective February 1, 1998 at 7:00 a.m. unto Assignee, and Assignees heirs, successors and assigns, the following:

a) The interests in the oil and gas lease and operating rights which are specifically described in Exhibit "A" attached hereto and made a part hereof, subject to the restrictions, exceptions, reservations, conditions, limitations, existing royalties, overriding royalties, production payment interests, burdens on production, and other matters, heretofore created and validly shown of record (hereinafter referred to as the "assigned interest"), SPECIFICALLY RESERVING TO ASSIGNOR an additional overriding royalty of $7\frac{1}{2}\%$ of $\frac{8}{8}$ ths of oil, gas and other liquid and gaseous hydrocarbons produced and saved from said assigned interest, including any extensions or renewals of said lease. Said reserved overriding royalty shall be subject to proportionate reduction in the event that Assignor owns less than 100% of the operating rights in the lease described in Exhibit "A." Said overriding royalty shall be computed and paid in the same fashion and in the same manner as the royalty payable to the United States of America is computed and paid if not taken in kind, and Assignor shall be responsible for its proportionate part of all taxes and assessments levied upon or against or measured by the production of oil, gas and other liquid and gaseous hydrocarbons therefrom. At the Option of Assignor, said fractional part of such oil, gas and other liquid and gaseous hydrocarbons produced and saved shall be delivered in kind. If Assignor elects to take the overriding royalty in kind, Assignor shall be responsible for all additional costs which may be incurred to achieve delivery of such royalty in kind.

If Assignee secures any extension or renewal of any lease subject hereto prior to the termination of the lease or within one (1) year thereafter, or if Assignee secures a new lease covering any or all of the lands described in said leases prior to termination or within one (1) year thereafter, then the overriding royalty reserved herein by Assignor shall attach to such extension, renewal or new lease, and Assignee shall execute a recordable instrument to evidence the overriding royalty of Assignor.

b) All of Assignor's right title and interest in, to and under, or derived from:

- (i) All of the presently existing and valid unitization agreements and unit operating agreements and the properties and interests credited thereby;
- (ii) All of the presently existing and valid oil, casinghead gas and gas sales and purchase agreements: and
- (iii) All contracts, agreements, and instruments which relate to any of the properties and interests specifically described in Exhibit "A" (or properties unitized therewith), or the production of oil, gas, and other hydrocarbon substances from or attributable to said interests;

c) All personal property, improvements, easements, permits licenses, servitudes and rights-of-way situated upon or used or useful or held for future use in connection with the exploration, development or operation of the assigned interest, or the production, treating, storing, and transportation of oil gas or other hydrocarbon substances, including but not limited to wells, casing, tubing, derricks, pumps, flow lines, gas lines, water lines, salt water disposal facilities, tanks, separators, buildings, machinery, equipment, roads and other appurtenances situated on the assigned interest or lands unitized therewith or which are used in connection with hydrocarbon operations relating to the assigned interest. SUCH PERSONAL PROPERTY IS NOT NEW, AND HAS BEEN SUBJECT TO WEAR AND TEAR. AS TO SUCH PERSONAL PROPERTY, ASSIGNOR EXPRESSLY DISCLAIMS ALL WARRANTIES EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION, ALL WARRANTIES OF TITLE, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, AND ASSIGNEE AGREES

RECEPTION
982428

VANDIVER & BOWMAN PC
611 W MAHONE STE E
ARTESIA NM 88210-2075

TO ACCEPT ALL SUCH PERSONAL PROPERTY "AS IS AND IN THEIR PRESENT STATE AND CONDITION.

2. Assignor and Assignee acknowledge that Assignor has not performed any environmental audits on the leases as to the lands described in Exhibit "A" and the Assignor has made no representations concerning the environmental quality of said lease. Assignor transfers said leases "AS IS" AND DISCLAIMS AS TO ASSIGNEE ALL WARRANTIES, EXPRESS OR IMPLIED, CONCERNING (i) THE ENVIRONMENTAL QUALITY AND CONDITION OF SAID LEASE, SURROUNDING PROPERTY AND GROUND WATER; (ii) THE EXISTENCE OF ANY DISCHARGE OF HAZARDOUS SUBSTANCES OR OTHER POLLUTANTS UPON OR FROM SAID LEASE; AND (iii) THE STATUS OF COMPLIANCE OF SAID LEASE WITH FEDERAL, STATE OR LOCAL LAWS OR REGULATIONS, PERTAINING TO HEALTH, SAFETY OR ENVIRONMENTAL PROTECTION.

ASSIGNEE ACKNOWLEDGES THAT SOME PRODUCTION EQUIPMENT MAY CONTAIN ASBESTOS AND/OR NATURALLY OCCURRING RADIOACTIVE MATERIAL ("NORM"). IN THIS REGARD, ASSIGNEE EXPRESSLY UNDERSTANDS THAT NORM MAY AFFIX OR ATTACH ITSELF TO THE INSIDE OF WELLS, MATERIALS AND EQUIPMENT AS SCALE, OR IN OTHER FORMS; THAT THE WELLS AND EQUIPMENT ON THE LEASE AND ADDITIONAL LANDS MAY CONTAIN NORM; AND THAT NORM CONTAINING MATERIAL MAY BE BURIED OR OTHERWISE DISPOSED OF ON THE LEASE. ASSIGNEE EXPRESSLY UNDERSTANDS THAT SPECIAL PROCEDURES MAY BE REQUIRED FOR THE REMOVAL AND DISPOSAL OF ASBESTOS AND NORM FROM THE WELLS, MATERIALS, EQUIPMENT AND LANDS WHERE IT MAY BE FOUND.

3. With respect to the oil and gas lease, or interest therein which are conveyed herein, from the United State of America, separate assignments on approved forms will be executed by the Assignor to the Assignee in sufficient counterparts to fulfill applicable statutory and regulatory requirements. Said assignments, although unqualified in form and not specifically containing all of the terms and provisions hereof, shall nevertheless be deemed to contain all of the terms, provisions, remedies, powers, and privileges set forth in this Partial Assignment as fully to all intents and purposes as though the same were set forth in such separate assignments.

4. Assignor shall execute and deliver all such other notices, division or transfer orders and transfers of record title and operating rights on Bureau of Land Management forms, and will do all such other acts and things as may be necessary to more fully assure Assignee's enjoyment of all of the respective rights, titles, interests and estates assigned herein, and hereby granted, bargained, sold, conveyed, assigned and delivered or intended to so be.

5. Assignee accepts the assigned interest subject to all of the express or implied covenants and obligations of said oil and gas lease, including without limitation, all obligations relating to the plugging and abandonment of any wells previously or hereafter drilled, insofar as they relate to the assigned interest. Assignee shall observe and comply with all covenants, terms and provisions, express or implied, contained in the lease, agreements, easements and all other contracts pertaining to the Assignor's interests assigned hereby which appear of record in the records of Eddy County, New Mexico as of the effective date of this Partial Assignment. Assignee indemnifies and agrees to respond to, defend and save Assignor harmless from and against any and all claims for damages or forfeiture made by any person, partnership, corporation, government agency, or other legal entity that is based on any failure of Assignee to comply with the express or implied obligations of the lease as to the assigned interest after 7:00 a.m. February 1, 1998. Assignee further agrees to respond to, defend and save Assignor harmless from and against any and all loss, cost, expense or claims for damages of every kind and character to persons or property arising out of or in connection with the operations by Assignee, and by Assignee's contractors or subcontractors, their heirs, personal representatives, successors and assigns, upon any of said assigned interest after 7:00 a.m. February 1, 1998.

6. This Partial Assignment and all rights, reservations and covenants in connection herewith shall be considered covenants running with the lands and shall inure to and be binding upon the parties hereto, their heirs, personal representatives, successors and assigns.

7. Julian Ard, the husband of Mary T. Ard, is signing this conveyance *pro forma*, and acknowledges that to the extent that this conveyance affects property of Mary T. Ard in her individual capacity, that such property is her sole and separate property.

TO HAVE AND TO HOLD said assigned interest unto Assignee, Assignee's heirs, personal representatives,

successors and assigns, subject to all of the express and implied covenants and obligations of said lease and this Partial Assignment.

IN WITNESS WHEREOF, Assignor and Assignee have caused this Partial Assignment to be executed this 1st day of February, 1998, and effective the day and year herein above written.

ASSIGNOR:

Mary T. Ard
Mary T. Ard, individually and as Trustee of the Edward R. Hudson Trust No. 4

Julian Ard
Julian Ard

ASSIGNEE:

William A. Hudson, II
William A. Hudson, II

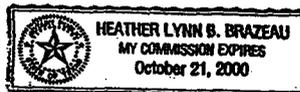
THE STATE OF Texas §
COUNTY OF Tarrant §

This instrument was acknowledged before me this 17 day of February, 1998 by Mary T. Ard, individually and as Trustee of the Edward R. Hudson Trust No. 4, and by Julian Ard.

Heather Lynn B. Brazeau
Notary Public

My Commission expires: 10-21-2000

JEK RILEE N. §
THE STATE OF New Mexico §
NOTARY PUBLIC §
COUNTY OF EDDY §
STATE OF NEW MEXICO
Hudson, II



This instrument was acknowledged before me this 19th day of February, 1998 by William A. Hudson, II

Jessie A. Cowan
Notary Public

My Commission expires: Aug 14, 1998

EXHIBIT "A"

Attached to that certain Partial Assignment between
Mary T. Ard, individually and as Trustee of the Edward R. Hudson Trust No. 4 and William A. Hudson, II

Eddy County, New Mexico:

All of Assignor's right, title and interest in United States of America Lease designated as Serial Number
NMLC-029415 B, insofar as it covers the following described lands and depths:

Township 17 South, Range 31 East, N.M.P.M.

Section 12: All

Section 13: N/2, N/2 S/2

Section 24: S/2 S/2

Section 25: All

for all depths from the surface of the earth to the stratigraphic equivalent of the base of the San
Andres Formation, identified at a depth of 4,230 feet on the Compensated Neutron / Lithodensity
log dated October 9, 1988 for the BTA Oil Producers 8809 JV-P Puckett #1 well; such well being
located at 1,880 FNL and 1,880 FEL of Section 25, Township 17 South, Range 31 East,
N.M.P.M., Eddy County, New Mexico.

Containing 1,920 acres, more or less.

IVERNARD-B

STATE OF NEW MEXICO }
County of Eddy } ss.

FILED FEB 26 1998 FOR
4:22 P. RECORD
at _____ P. _____
recorded in BOOK 309 PAGE 65
of the Records of Eddy County
Karen Davis, County Clerk
By _____ Deputy



PARTIAL ASSIGNMENT

THIS PARTIAL ASSIGNMENT between MARY T. ARD, INDIVIDUALLY AND AS TRUSTEE OF THE EDWARD R. HUDSON TRUST NO. 4, (hereinafter referred to as "Assignor") and WILLIAM A. HUDSON, II, 616 Texas Street, Ft. Worth, Texas 76102, (hereinafter referred to as "Assignee"),

WITNESSETH:

1. Assignor, for valuable consideration paid to it by Assignee, the receipt and sufficiency of which are hereby acknowledged, with statutory special warranty covenants only and no other warranties of title, either express or implied, does hereby GRANT, BARGAIN, SELL, CONVEY AND ASSIGN, SET OVER AND DELIVER, effective February 1, 1998 at 7:00 a.m. unto Assignee, and Assignees heirs, successors and assigns, the following:

a) The interests in the oil and gas lease and operating rights which are specifically described in Exhibit "A" attached hereto and made a part hereof, subject to the restrictions, exceptions, reservations, conditions, limitations, existing royalties, overriding royalties, production payment interests, burdens on production, and other matters, heretofore created and validly shown of record (hereinafter referred to as the "assigned interest"), SPECIFICALLY RESERVING TO ASSIGNOR an additional overriding royalty of 2 1/4% of 8/8ths of oil, gas and other liquid and gaseous hydrocarbons produced and saved from said assigned interest, including any extensions or renewals of said lease. Said reserved overriding royalty shall be subject to proportionate reduction in the event that Assignor owns less than 100% of the operating rights in the lease described in Exhibit "A." Said overriding royalty shall be computed and paid in the same fashion and in the same manner as the royalty payable to the United States of America is computed and paid if not taken in kind, and Assignor shall be responsible for its proportionate part of all taxes and assessments levied upon or against or measured by the production of oil, gas and other liquid and gaseous hydrocarbons therefrom. At the Option of Assignor, said fractional part of such oil, gas and other liquid and gaseous hydrocarbons produced and saved shall be delivered in kind. If Assignor elects to take the overriding royalty in kind, Assignor shall be responsible for all additional costs which may be incurred to achieve delivery of such royalty in kind.

If Assignee secures any extension or renewal of any lease subject hereto prior to the termination of the lease or within one (1) year thereafter, or if Assignee secures a new lease covering any or all of the lands described in said leases prior to termination or within one (1) year thereafter, then the overriding royalty reserved herein by Assignor shall attach to such extension, renewal or new lease, and Assignee shall execute a recordable instrument to evidence the overriding royalty of Assignor.

b) All of Assignor's right title and interest in, to and under, or derived from:

- (i) All of the presently existing and valid unitization agreements and unit operating agreements and the properties and interests credited thereby;
- (ii) All of the presently existing and valid oil, casinghead gas and gas sales and purchase agreements: and
- (iii) All contracts, agreements, and instruments which relate to any of the properties and interests specifically described in Exhibit "A" (or properties unitized therewith), or the production of oil, gas, and other hydrocarbon substances from or attributable to said interests;

c) All personal property, improvements, easements, permits licenses, servitudes and rights-of-way situated upon or used or useful or held for future use in connection with the exploration, development or operation of the assigned interest, or the production, treating, storing, and transportation of oil gas or other hydrocarbon substances, including but not limited to wells, casing, tubing, derricks, pumps, flow lines, gas lines, water lines, salt water disposal facilities, tanks, separators, buildings, machinery, equipment, roads and other appurtenances situated on the assigned interest or lands unitized therewith or which are used in connection with hydrocarbon operations relating to the assigned interest. SUCH PERSONAL PROPERTY IS NOT NEW, AND HAS BEEN SUBJECT TO WEAR AND TEAR. AS TO SUCH PERSONAL PROPERTY, ASSIGNOR EXPRESSLY DISCLAIMS ALL WARRANTIES EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION, ALL WARRANTIES OF TITLE, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, AND ASSIGNEE AGREES

RECEPTION
982420

VANDIVER & BOWMAN PC
611 W MAHONE STE E
ARTESIA NM 88210-2075

Page 1

TO ACCEPT ALL SUCH PERSONAL PROPERTY "AS IS AND IN THEIR PRESENT STATE AND CONDITION.

2. Assignor and Assignee acknowledge that Assignor has not performed any environmental audits on the leases as to the lands described in Exhibit "A" and the Assignor has made no representations concerning the environmental quality of said lease. Assignor transfers said leases "AS IS" AND DISCLAIMS AS TO ASSIGNEE ALL WARRANTIES, EXPRESS OR IMPLIED, CONCERNING (i) THE ENVIRONMENTAL QUALITY AND CONDITION OF SAID LEASE, SURROUNDING PROPERTY AND GROUND WATER; (ii) THE EXISTENCE OF ANY DISCHARGE OF HAZARDOUS SUBSTANCES OR OTHER POLLUTANTS UPON OR FROM SAID LEASE; AND (iii) THE STATUS OF COMPLIANCE OF SAID LEASE WITH FEDERAL, STATE OR LOCAL LAWS OR REGULATIONS, PERTAINING TO HEALTH, SAFETY OR ENVIRONMENTAL PROTECTION.

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for all depths from the surface of the earth to the stratigraphic equivalent of the base of the San
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located at 1,880 FNL and 1,880 FEL of Section 25, Township 17 South, Range 31 East,
N.M.P.M., Eddy County, New Mexico.

Containing 640 acres, more or less.

IVERSONARD-A

STATE OF NEW MEXICO }
County of Eddy } ss.

FILED FEB 26 1998 FOR
at 4:11 P. RECORD
O'Clock, and was duly
recorded in BOOK 309 PAGE 36
of the Records of Eddy County
Karen Davis, County Clerk
By *[Signature]* Deputy

